FILED
JUNE 14, 2018
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS SERVICE RATES THROUGH ITS TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE SCHEDULE; (2) AUTHORITY TO DEFER 20% OF THE APPROVED CAPITAL EXPENDITURES AND TDSIC COSTS FOR RECOVERY IN PETITIONER'S NEXT GENERAL RATE CASE; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44403-TDSIC-7, ALL PURSUANT TO IND. CODE CH. 8-1-39-9.	)	CAUSE NO. 44403 TDSIC 8

NIPSCO INDUSTRIAL GROUP'S EXCEPTIONS TO NIPSCO'S PROPOSED ORDER

Intervenor, NIPSCO Industrial Group, by counsel, submits its exceptions to NIPSCO's proposed order as outlined herein. The NIPSCO Industrial Group objects to the entirety of Section 5(A)(1) of NIPSCO's Proposed Order and submits in its place a new discussion section for that Sections as attached hereto as Exhibit "A".

In the attached Exhibit "B", the Industrial Group submits a redline version of NIPSCO's proposed order. If the Commission instructs NIPSCO to make changes to the projects eligible for TDSIC treatment and its Plan Update-8, NIPSCO should be instructed to revise all schedules consistent with the Commission's findings and file the revised schedules with the Commission prior to implementing the TDSIC-8 factors.

A Word version of Exhibit B in clean and redline will be provided to the Administrative Law Judge and counsel of record.

Respectfully submitted,

LEWIS & KAPPES, P.C.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing document have been served upon the following via electronic mail, this 14th day of June, 2018:

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EXHIBIT A

1. **<u>Cost Estimates</u>.** Under Section 10(b)(1) of the TDSIC Statute, a determination of the "best estimate" of the costs of eligible improvements is one of the criteria that must be satisfied in order for a 7-year plan to be approved by the Commission. Once a 7-year plan has been approved under Section 10, cost recovery through periodic rate adjustments is governed by Section 9. Recovery of 80% of eligible costs through the TDSIC rider is "automatic" pursuant to Section 9(a), but only for "approved" capital expenditures and TDSIC costs. Any costs in excess of the approved estimates are governed by Section 9(f), which provides that such increases may be reflected in rates only if the utility demonstrates "specific justification" and the Commission grants "specific approval."

The Commission previously explained the showing a utility must make in order to gain approval of cost increases:

> This does not mean that the utility may simply detail the reasons why the increase occurred. Rather, the utility must explain why the increase in best estimated costs (i.e., costs that were considered to be highly reliable) is reasonable or warranted under the circumstances presented. The requirement that a utility present a best estimate of costs, combined with a need for specific justification before excess costs may be recovered in rates, provides balance to the regulatory process, imposes a degree of rigor in the preapproval process, and protects ratepayers from unjustified cost overruns.

<u>See</u> TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 20. The Commission also confirmed that "specific justification" is required to support cost increases for projects that have not yet been completed, in addition to completed projects that are ripe for reflection in rates. "Whether the utility seeks to provide specific justification for approval of an increase in the best estimate at the time it seeks cost recovery or prior to incurring actual costs, the standard is the same." <u>See</u> TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 28. With regard specifically to increased estimates for future projects, "a utility may not simply detail the reasons for the increase in costs." <u>Id</u>.

Notwithstanding that framework, NIPSCO has approached its task of supporting proposed cost increases as a matter of "updating" its estimates in light of the most current information. NIPSCO's presentation has been oriented on demonstrating that the increases reflect the latest "best estimate" of the costs. The determination of "best estimate," however, occurs under Section 10(b)(1) of the TDSIC Statute at the time that the 7-year plan is presented for approval. Once the 7-year plan has been approved, the utility is entitled to rate adjustments under Section 9(a) reflecting only those "approved" capital expenditures and TDSIC costs, unless the "specific justification" and "specific approval" standard of Section 9(f) is satisfied. By the structure of the statute, "best estimate" is an issue for a Section 10 proceeding, and the governing standard for this Section 9 proceeding is "specific justification." The Commission therefore disagrees with NIPSCO's position that simply updating an estimate, without more, will suffice to establish specific justification supporting a cost increase.

The Commission has repeatedly explained that simply detailing the reasons for an increase does not constitute specific justification. <u>See</u> TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 20; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 28; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 19; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 18. If NIPSCO needed to do no more than update its estimates based on the latest information, then simply detailing the reasons for an increase *would* be sufficient, contrary to the standard as explained in prior Commission orders. The context is a preapproval statute where the planned projects are designated in the Section 10 proceeding based on a "best estimate" of the costs. A degree of cost accountability is important to prevent utilities from understating costs in order to gain preapproval, and to maintain cost discipline as the approved plan is being implemented. NIPSCO, accordingly, cannot treat each Section 9 update as if it were starting with a blank slate, seeking a fresh determination of the best estimates. NIPSCO has already secured preapproval based on prior determinations of the best estimates, and it is NIPSCO's burden to demonstrate specific justification for any proposed increases.

The history of NIPSCO's Gas TDSIC Plan reveals a consistent pattern of substantial cost increases. The original plan as approved in April 2014 involved a total of $593 million in estimated direct capital expenditures. See IG Adm. Not. 1, Tab 8, col. (I), l.15. In TDSIC-3, NIPSCO significantly reduced the scope of the Gas Plan by postponing all or most of three major projects beyond the 7-year period. Id. Tab 4 at 20, 44-45. Despite that removal of several major projects, the direct capital costs as of this proceeding have increased to $733 million, an increase of $140 million on a greatly reduced scope. See Plan Update-8, col. (I), l.17. NIPSCO has routinely sought approval for every single cost increase it has encountered.

a. Increases in direct capital. In this proceeding, NIPSCO seeks approval for a decrease in direct capital totaling $357,738. See Plan Update-8, col. (I), l.35. This decrease arises from actual costs below the approved estimates for all projects in the aggregate. However, above a threshold of materiality, NIPSCO described in its evidence the significant increases on a case-by-case basis for 6 individually identified line item projects. See Pet. Ex. 3 at 49-50, 52-53. In each instance, NIPSCO seeks approval for the entirety of all of the reported increases.

The explanations for cost increases in NIPSCO's evidence is to the effect that costs are turning out to be higher than previously expected. See, e.g., id. (TP1 costs higher due in part to implementation of grounding system and site restoration; IM24-DIM3 costs due to unexpected rectifier failures; SD14 land acquisition costs higher; RE1 costs higher due to unanticipated demand; TP2 costs higher due to unexpected delay; TP9 costs higher due to costs being higher than anticipated.) NIPSCO's evidence focuses on reciting the reasons for the increases and explaining why the new estimates reflect NIPSCO's current expectations. As explained above, that orientation is not sufficient to establish "specific justification" for purposes of Section 9(f).

In addition, the previously approved cost estimates already incorporate contingencies, in the form of percentage additions to the sum of the line item estimates for a given project, in order to account for known or unknown risks. The contingencies embedded in estimates have been as much as 20%. See TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 98; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 22-23; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 20, 28. Insofar as the purpose of the contingencies is to account for risks of potentially unknown circumstances that may result in increased costs, it is not apparent why cost increases, when they do occur, should not be limited to the amount that exceeds the contingencies already incorporated in the approved estimates. In this case, NIPSCO has failed to account for the existing contingencies included in approved estimates, has failed to quantify the extent of increases going beyond the contingency allowances in those estimates, and has failed to provide specific justification for proposed increases that continue to incorporate contingencies without regard to the existing cushion already present in estimates to account for the risk of cost increases.

NIPSCO has exhibited particular difficulty in managing costs within approved estimates in connection with "multiple unit projects." "Multiple unit projects" are categories within which particular projects were not identified at the time the 7-year plan was approved, and instead NIPSCO selects projects periodically using ascertainable planning criteria and identifies the selected projects in Section 9 updates. As NIPSCO's witness admitted, "some of these multiple-unit projects are difficult to estimate because of wide variability in specific sites and circumstances." See Pet. Ex. 3 at 20.

Generally, "multiple unit projects" fall in the Inspect & Mitigate, Storage, and System Deliverability designations. The total direct capital for those classifications when the 7-year plan was initially approved in 2014 was $94 million (see IG Adm. Not. 1, Tab 8, col. (I), ll. 4, 5, 9, 11, 13), but the corresponding estimates in this proceeding amount to $160 million (see Plan Update-8, col. (I), ll. 4, 5, 9, 11, 14), an increase of more than 70%.

The propriety of selecting projects periodically throughout the 7-year period under the terms of the TDSIC Statute is discussed in more detail below. With regard to the proposed cost increases, in any event, there is no special statutory accommodation for the "multiple unit project" categories. To the extent that the specifics of the ultimately selected projects were unknown at the time the plan was approved based on the best estimates provided by NIPSCO, the risk of cost overruns is appropriately borne by NIPSCO. Simply asserting that specific projects, once selected, turned out to be more expensive than the assumptions underlying the approved estimates does not constitute specific justification supporting rate recovery of increased costs under Section 9(f).

The Commission finds that NIPSCO has not sustained its burden of demonstrating specific justification to support the proposed increases in direct capital totaling for the projects identified in Pet. Ex. 3, pages 49-50, 52-53. NIPSCO is directed, in addition, to remove the increments of indirect capital and AFUDC associated with the disallowed direct capital increases.

b. Increases in indirect capital and AFUDC. Under the format of NIPSCO's 7-Year Gas Plan, indirect capital and AFUDC are not separately incorporated as components in each project-specific estimate. Instead, NIPSCO applies a specified percentage to the total direct capital for all projects in a given period to account for indirect capital and AFUDC. The percentages for indirect capital and AFUDC changed between Plan Update-7 and Plan Update-8. See Pet. Ex. 3 at 46. While the dollar amount for those indirect costs decreased slightly, AFUDC increased by $1,486,921. See Plan Update-8, col. (I), ll. 36, 37.

The TDSIC Statute does not provide for any special treatment of AFUDC, distinct from any other costs. At all points, NIPSCO has provided estimates for that element as part of the 7-year plan, and has reflected those costs along with direct capital in the computation of rate factors. In accordance with Section 9(f), NIPSCO has the burden to show specific justification in order to support the proposed $1,486,921 increase in AFUDC, under the same standard applicable to increases in direct capital estimates.

The appropriate treatment of indirect capital and AFUDC has been previously addressed in TDSIC-5, TDSIC-6, and TDSIC -7, all of which are currently on appeal. See TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 26-27; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 21; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 19. The outcome of the pending appeals in this regard is unknown at present, but the Commission retains authority in each successive proceeding to revisit questions raised in prior dockets and may properly alter a determination of ratemaking policy or change course in better conformance with applicable law, provided the reasons are adequately explained. See Northern Indiana Public Service Co. v. Office of Utility Consumer Counselor, 826 N.E.2d 112, 119-20 (Ind. App. 2005).

NIPSCO's evidence in this case generally describes indirect capital as costs typically incurred away from the job site that cannot be charged to specific projects but are required by accounting principles to be capitalized. See Pet. Ex. 2 at 7-9. According to NIPSCO, AFUDC is computed in accordance with the FERC Uniform System of Accounts. Id. at 9-10. Other than stating that the percentages for indirect capital and AFUDC changed between Plan Update-7 and the current filing, however, NIPSCO did not provide any specifics relating to the computation of the dollar amounts for those costs. See Pet. Ex. 3 at 45 (stating that the indirect cost and AFUDC percentages changed in Plan Update-8 with no further explanation). In particular, NIPSCO did not provide any evidence supporting the proposed increase of $1,486,921 in AFUDC.

Assurances that costs are being properly booked in accordance with accounting principles do not necessarily establish specific justification supporting rate recovery of increases. In that respect, indirect capital and AFUDC are properly treated in the same manner as direct capital expenditures. When direct capital costs in excess of approved estimates are incurred, NIPSCO properly records those costs in its books and records as a matter of sound accounting practice. But under Section 9(f), an additional showing of specific justification is needed in order to reflect the increase in regulated rates. When the increase instead relates to indirect capital or AFUDC, NIPSCO again is expected to follow accounting principles in booking those costs. But as with direct capital, correct accounting treatment in itself does not establish entitlement to rate recovery. NIPSCO must still demonstrate specific justification to support the increase for ratemaking purposes.

In connection with other tracking mechanisms pursuant to distinct statutes, the Commission has in the past authorized recovery of indirect capital at fluctuating levels. See Ind. Code chs. 8-1-8.4, 8-1-8.7. Past practice under other statutes, however, does not control ratemaking treatment for purposes of the TDSIC Statute. Chapter 8.7 does not include a "specific justification" requirement, instead providing for recovery of "necessary and prudent" costs not attributable to "fraud, concealment or gross mismanagement." See Ind. Code §§8-1-8.7-6, -7(d), -8. Chapter 8.4 does make reference to "specific justification," but only where costs exceed the approved levels by more than 25% and even then only for purposes of "the next general rate case filed by the energy utility." See Ind. Code §8-1-8.4-7(c)(3). The increase at issue here would not exceed the 25% threshold if governed by Chapter 8.4, and even if it did the disallowance would be reflected in the next rate case rather than in the tracker. The TDSIC Statute, by contrast, requires "specific justification" to support any and all increases above approved estimates for purposes of tracking between rate cases.

The proposed increase of $1,486,921for AFUDC reflects the change in AFUDC rates that was referenced but not supported. Accordingly, the Commission finds that NIPSCO has not demonstrated specific justification supporting the proposed $1,486,921increase in AFUDC.

2. Multiple Unit Projects. The handling of "multiple unit project" categories has been a continuing source of controversy in connection with NIPSCO's 7-Year Gas Plan. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 37-38; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 29-30; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 27-28; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 21-22; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 19-20; see also IG Adm. Not. 1, Tab 3 at 12-13 (disallowing portions of NIPSCO's 7-Year Electric Plan corresponding to "multiple unit projects"). On this point, the orders in TDSIC-4, TDSIC-5, TDSIC-6, and TDSIC-7 are all subject to pending appeals. Although the ultimate conclusion of the appeals on this issue is not yet known, the Commission may properly reconsider a prior determination of ratemaking policy where appropriate, and can and should revisit issues raised in prior cases to ensure compliance with controlling provisions of law. See NIPSCO, 826 N.E.2d at 119-20. See also TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 33 (reopening issue of eligibility in light of appellate interpretation of the TDSIC Statute).

The TDSIC Statute involves two distinct types of proceedings: first, a 7-year plan must be approved under Section 10, and then rate increases may be sought every six months under Section 9. Section 10(b) requires all eligible improvements to be designated at the time the 7-year plan is approved. See Ind. Code §8-1-39-10(b). Section 2 defines "eligible" improvements as projects that either were "designated" in the 7-year plan and "approved by the commission under section 10," or are targeted economic development projects subject to Section 11. See Ind. Code §8-1-39-2(3)(A). There are no targeted economic development projects at issue in this proceeding. See Pet. Ex. 1 at 8-10. By the Section 2 definition, then, the only eligible projects are those designated under Section 10 in the approved 7-year plan. As the Commission has recognized, "it is a function of a Section 10 proceeding, not a Section 9 proceeding, to designate eligible improvements." See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 35.

Section 9(a) calls for the utility to "update" its plan in each six-month rate proceeding, and states: "An update may include a petition for approval of a targeted economic development project under section 11 of this chapter." See Ind. Code §8-1-39-9(a). By expressly stating an update may include the addition of a targeted economic development project, the statute plainly prohibits the added designation of projects that are not targeted economic development projects. See Howard Regional Health System v. Gordan, 952 N.E.2d 182, 187 (Ind. 2011) ("When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode.") (quoting Estate of Cullop v. State, 821 N.E.2d 403, 409 (Ind. App. 2005)).

The original structure of both NIPSCO's 7-Year Electric Plan and its 7-Year Gas Plan involved project-specific detail only for the first year, with spending levels by project category for the other six years and an undertaking to identify particular improvements periodically in plan updates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 2-3, 32-33. The approval of the Electric Plan was reversed on appeal. See NIPSCO Industrial Group, 31 N.E.3d 1. The Court of Appeals held the eligible improvements for all seven years must be designated when the 7-year plan is submitted for approval, not postponed to later updates. Id. at 6-9. On remand from that decision, NIPSCO provided additional evidence regarding projects for all seven years, but about 40% of the total costs did not relate to specified projects and "instead flow from planned processes to identify specific eligible improvements at a later time." See Remand Order (IG Adm. Not. 1, Tab 3) at 12. The Commission disallowed those portions of the Electric Plan, finding those investments "are not defined to a level the Commission can approve as eligible improvements." Id. at 13.

With regard to the Gas Plan, NIPSCO undertook in TDSIC-3 to conform to the requirements explained in the appellate decision by providing additional evidence as to planned improvements for all seven years. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 32-33. The Commission concluded new projects cannot be added to a 7-year plan subsequent to plan approval, because "it is a function of a Section 10 proceeding, not a Section 9 proceeding, to designate eligible improvements." Id. at 35. "The purpose of plan approval under Section 10 is to define or preapprove the set of eligible improvements that are capital in nature and designated as eligible for TDSIC treatment under Section 9." Id. The Commission also, however, approved certain categories that NIPSCO described as "project groups" or later "multiple unit projects," which, like the portions of the Electric Plan that were disallowed in the Remand Order, involved processes to select specific improvements periodically and identify those projects in Section 9 updates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 37-38; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 29-30; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 27-28. The Commission found it sufficient that NIPSCO established "ascertainable planning criteria" for selecting particular improvements in the "multiple unit project" categories. Id.

The TDSIC-4 Order was affirmed in a split decision by the Court of Appeals. See NIPSCO Industrial Group v. Northern Indiana Public Service Co., 78 N.E.3d 730 (Ind. App. 2017), transfer pending. The majority opinion endorsed the conclusion that the use of ascertainable planning criteria for selecting projects within "multiple unit project" categories was sufficient to comply with the statute. Id. at 737-39. A dissenting opinion, however, concluded the "multiple unit project" categories were no different from the plan structure that was held to be in violation of the statute in the 2015 NIPSCO Industrial Group case. Id. at 740 (Barnes, J., dissenting). The dissent stated the TDSIC Statute requires projects to be designated when the 7-year plan is approved: "Allowing the utility to include broad categories of unspecified projects defeats the purpose of having a 'plan.'" Id. That case is currently before the Indiana Supreme Court on a pending petition to transfer.

In a case involving a different utility, the Court of Appeals affirmed a Commission order concluding that new projects cannot be added to an approved 7-year plan through a Section 9 update. See Indiana Gas Co. v. Indiana Utility Regulatory Commission, 75 N.E.3d 568 (Ind. App. 2017). The Court found "it is clear that the Legislature intended for utilities to recover some of their costs through general rate cases rather than TDSIC update petitions." Id. at 578. Citing the 2015 NIPSCO Industrial Group decision, the Court emphasized the distinct functions of Section 10 and Section 9 proceedings. Id. The Court construed Section 10 as the provision under which eligible improvements are designated, and the statutory definition in Section 2 as confirming eligible improvements must be designated in a 7-year plan approved under Section 10 (with the exception of targeted economic development projects under Section 11). Id. at 578-79. "This definition requires that the Commission approve eligible improvements under either Section 10 or Section 11, not Section 9." Id. at 579.

The process of selecting projects within the "multiple unit project" categories subsequent to plan approval through use of "ascertainable planning criteria" is not supported by the terms of the TDSIC Statute. Section 10 requires that the improvements must be "designated" when the 7-year plan is approved, and the Section 2 definition limits "eligible" projects to those designated when the plan was approved under Section 10. The statutory language does not include any exception for later-identified projects that may be selected using "ascertainable planning criteria." Such an exception could swallow the rule, as the utility can always be expected to apply some discernible criteria when selecting projects. The TDSIC Statute establishes a capital tracker based on preapproval of designated projects, not an expense tracker covering whatever system work comes up during the 7-year period. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 35. The mechanism cannot be applied so broadly that the terms of Section 10 and Section 2 requiring the threshold designation of eligible improvements lose their force and effect. See ESPN, Inc. v. University of Notre Dame Police Dept., 62 N.E.3d 1192, 1199 (Ind. 2016) (statute cannot be interpreted in a way that renders any part meaningless or superfluous).

NIPSCO, notably, is no longer identifying further System Deliverability projects that were not already specified in the approved plan. A determination that NIPSCO will no longer be allowed to select and identify additional improvements within "multiple unit project" categories through Section 9 updates does not inhibit the completion of needed system work, nor does it prevent NIPSCO from recovering appropriate investments through rates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 36 ("Therefore, to the extent an investment is deemed appropriate to provide safe and reliable service, NIPSCO is expected to proceed whether tracker recovery under the TDSIC Statute is available or not. Any investments not included among the designated eligible improvements in an approved plan remain subject to cost recovery as authorized by other applicable laws."). Inspect & Mitigate and Storage projects, furthermore, predominantly involve work that is required to comply with federal safety standards. NIPSCO, of course, can be expected to continue to comply with federal law, regardless of whether costs are recoverable through the TDSIC rider. See Indiana Gas, 75 N.E.3d at 578 ("the Legislature clearly did not intend this cost-recovery method to apply to all projects, or even to as many projects as possible"); NIPSCO Industrial Group, 78 N.E.3d at 740 (Barnes, J., dissenting) ("The TDSIC statute requires a specific plan, and it was not designed to deal with those unexpected issues. Rather, it was intended for planned projects.").

The Commission concludes, therefore, that eligible improvements within the System Deliverability, Inspect & Mitigate, and Storage categories of "multiple unit projects" shall be limited to those previously identified with particularity. Such projects that were identified for the first time in Plan Update-8 are disallowed, and further identification of such projects in future Section 9 proceedings will not be permitted. The approved expenditures for already identified projects shall remain at or below the levels approved in TDSIC-7, pending any further determinations as may arise from the pending appeals. Finally, NIPSCO shall remove from its 7-year plan all cost estimates associated with System Deliverability, Inspect & Mitigate, and Storage categories for which specific improvements have not yet been identified. NIPSCO shall further adjust its computation of indirect capital and AFUDC to reflect the disallowances herein.

EXHIBIT B

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS SERVICE RATES THROUGH ITS TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE SCHEDULE; (2) AUTHORITY TO DEFER 20% OF THE APPROVED CAPITAL EXPENDITURES AND TDSIC COSTS FOR RECOVERY IN PETITIONER'S NEXT GENERAL RATE CASE; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44403-TDSIC-7, ALL PURSUANT TO IND. CODE CH. 8-1-39-9.	)	**CAUSE NO. 44403- TDSIC-8** **APPROVED:**

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On February 27, 2018, Northern Indiana Public Service Company LLC ("Petitioner" or "NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in this Cause for approval of a new Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") pursuant to Indiana Code § 8-1-39-9. On the same day, NIPSCO filed its direct testimony. On that same day NIPSCO filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was granted on March 12, 2018.

NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on April 20, 2018, which was granted on April 27, 2018.[1]

On April 30, 2018, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits. On that same day, the Industrial Group filed a Motion for Administrative Notice, which was granted by Docket Entry on May 11, 2018.

[1] The members of the Industrial Group in this proceeding are ArcelorMittal USA, Cargill, Inc., Fiat Chrysler Automobiles, General Motors LLC, Praxair, Inc. and USG Corporation.

An evidentiary hearing was held on June 8, 2018, at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC and Industrial Group appeared and participated. At the hearing, the parties' prefiled evidence was offered and admitted into the record without objection. The Industrial Group's Admin. Notice 1[2] was also offered and admitted into the record. The witnesses were made available for cross-examination. No member of the public appeared or participated at the hearing.

Based on the applicable law and evidence presented, the Commission now finds:

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39 ("TDSIC Statute"), the Commission has jurisdiction over a public utility's petition to approve rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 E. 86th Avenue, Merrillville, Indiana 46410. Petitioner is engaged in rendering electric and gas public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public. Petitioner provides gas utility service to more than 821,000 residential, commercial and industrial gas customers in northern Indiana.

3. Background and Relief Requested. On April 30, 2014, the Commission issued an Order in Cause No. 44403 ("44403 Order") concerning Petitioner's request for approval of a 7-year plan for eligible transmission, distribution and storage system improvements ("7-Year Gas Plan" or "Plan"), pursuant to Ind. Code §§ 8-1-39-10 and 11. In the 44403 Order, the Commission held: (1) the projects contained in Year 1 of NIPSCO's 7-Year Gas Plan are eligible transmission, distribution, and storage system improvements ("eligible improvements") within the meaning of Indiana Code § 8-1-39-2; (2) the project categories contained in Years 2 through 7 of NIPSCO's 7-Year Gas Plan are presumed eligible improvements within the meaning of Indiana Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings; (3) the 7-Year Gas Plan is reasonable and approved subject to certain modifications; (4) NIPSCO's proposed definitions of key terms for purposes of interpreting and applying those terms to NIPSCO's 7-Year Gas Plan are approved; and (5) NIPSCO's proposed process for updating the 7-Year Gas Plan in future semi-annual adjustment proceedings is approved. Although an Appeal was filed, it was subsequently dismissed with prejudice.[3]

On January 28, 2015, the Commission issued an Order in Cause No. 44403-TDSIC-1 ("TDSIC-1 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-1"), with the exception of certain cost estimates for the 112th Street project and bare steel replacement

[2] Admin. Notice 1 included copies of the 14 documents referenced in the May 11, 2018 Docket Entry granting the Industrial Group's Motion for Administrative Notice.

[3] Order of the Indiana Court of Appeals in Cause No. 93A02-1405-EX-368 dated September 23, 2014.

projects, and designating the projects included in Year 2 as eligible improvements under Ind. Code § 8-1-39-2. The Commission approved NIPSCO's proposed methodology for calculating its TDSIC adjustment and authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2014. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On February 27, 2015, NIPSCO filed its petition and case-in-chief in Cause No. 44403-TDSIC-2 ("TDSIC-2"). Subsequently, on April 8, 2015, the Court of Appeals of Indiana issued a decision in the appeal of a Commission Order in Cause Nos. 44370 and 44371 (NIPSCO's Electric TDSIC cases), reversing in part, affirming in part, and remanding the case to the Commission. *NIPSCO Indus. Grp. v. Northern Ind. Pub. Serv. Co.*, 31 N.E.3d 1 (Ind. Ct. App. 2015) ("Appellate Order"). After discussion with the parties, NIPSCO ultimately moved to dismiss TDSIC-2 with the understanding that it would request to recover approved capital expenditures incurred through June 30, 2015 and TDSIC Costs for the period July 1, 2014 through June 30, 2015 in Cause No. 44403-TDSIC-3. On June 2, 2015, the Commission dismissed TDSIC-2 without prejudice.

On March 30, 2016, the Commission issued an Order in TDSIC-3 ("TDSIC-3 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-3"), with the exception of certain new and emergent projects that were not identified or approved in NIPSCO's 7-Year Gas Plan or Plan Update-1, and designating the projects included in the approved Plan Update-3 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission approved a new allocation of NIPSCO's approved capital expenditures and TDSIC costs to the various customer classes based on total revenue, including gas revenue, by removing the adjustment for transmission versus distribution considerations. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On June 22, 2016, the Commission issued an Order in Cause No. 44403-TDSIC-4 ("TDSIC-4 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-4"), with the exception of four projects, and designating the projects included in the approved Plan Update-4 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 31, 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-4 Order was appealed by the Industrial Group in Case No. 93A02-1607-EX-1644. On June 20, 2017, the Court of Appeals issued an order affirming the Commission's order. NIPSCO Industrial Group filed a Petition to Transfer, which is currently pending with the Indiana Supreme Court.

On December 28, 2016, the Commission issued an Order in Cause No. 44403-TDSIC-5 ("TDSIC-5 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-5") and designating the projects included in the approved Plan Update-5 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2016. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-5 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-177.

On June 28, 2017, the Commission issued an Order in Cause No. 44403-TDSIC-6 ("TDSIC-6 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-6") and designating the projects included in the approved Plan Update-6 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 31, 2016. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-6 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-1632.

On December 28, 2017, the Commission issued an Order in Cause No. 44403-TDSIC-7 ("TDSIC-7 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-7") and designating the projects included in the approved Plan Update-7 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2017. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-7 Order was appealed by the Industrial Group and is currently pending in Case No. 18A-EX-146.

In this proceeding, NIPSCO requests:

(a) Approval of the TDSIC factors set forth in Attachment 1, Schedule 8 to the Verified Petition to become effective for bills rendered by NIPSCO for the months of July through December 2018 or until replaced by different factors approved in a subsequent filing;

(b) Approval of Petitioner's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge set forth in Attachment 3 to the Verified Petition, which contains the TDSIC factors;

(c) Authority to defer, as a regulatory asset, 20% of the eligible and approved capital expenditures and TDSIC costs incurred in connection with its Plan Update-8 and record ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case;

(d) Authority to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project;

(e) Approval of Petitioner's updated 7-Year Gas Plan ("Plan Update-8"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-7; and

(f) Authority to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-8 through the TDSIC and authorizing Petitioner to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-8, for recovery in its next general rate case.

4. <u>Evidence Presented</u>.

A. <u>NIPSCO's Case-In-Chief</u>. NIPSCO presented the testimony and exhibits of Alison M. Becker, Manager of Regulatory Policy for NIPSCO; and James F. Racher, Director of Regulatory; Karima Hasan Bey, Director of Records Management, and Donald L. Bull, Director of Gas TDSIC Projects, for NiSource Corporate Services Company.

Ms. Becker testified that as required by Ind. Code § 8-1-39-9, NIPSCO's currently approved 7-Year Gas Plan (<u>Exhibit Gas Plan Update-7 (Redacted)</u>) and NIPSCO's proposed updated 7-Year Gas Plan (Plan Update-8) (<u>Exhibit Gas Plan Update-8 (Redacted)</u>) were attached to the Verified Petition initiating this Cause.

Ms. Becker testified all of the TDSIC projects included for recovery in this filing were or will be undertaken for the purpose of safety, reliability, system modernization or economic development as required by Ind. Code § 8-1-39-2 and the Rural Gas Extensions projects were undertaken for the purpose of extending gas service in rural areas. She testified that in conformance with Ind. Code § 8-1-39-2, none of the projects included for recovery in the proposed TDSIC-8 factors were included in NIPSCO's rate base in Cause No. 43894. Ms. Becker explained that pursuant to Ind. Code § 8-1-39-9, NIPSCO is requesting approval of all of the projects designated in Plan Update-8 that are included for recovery in the proposed TDSIC-8 factors. She testified that pursuant to Ind. Code § 8-1-39-9(e), NIPSCO intends to file a petition for the timely recovery of its TDSIC costs approximately once every six (6) months (March and September). Ms. Becker testified that pursuant to Ind. Code § 8-1-39-9(c), NIPSCO has not filed a petition within nine (9) months after the date on which the Commission issued an order changing its basic rates and charges. Ms. Becker testified that pursuant to Ind. Code § 8-1-39-9(d), NIPSCO intends to petition the Commission for review of its basic rates and charges before the expiration of its approved 7-Year Gas Plan.

Ms. Becker testified NIPSCO is requesting approval of Plan Update-8, including the actual capital expenditures incurred through December 31, 2017, as well as updated cost estimates for the projects designated in Plan Update-8, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-7.

Ms. Becker explained that to date NIPSCO has not undertaken any Targeted Economic Development Projects that are eligible for recovery through the Gas TDSIC. However, NIPSCO continues to work with interested parties on potential projects, and it will continue to keep TDSIC stakeholders informed to the extent the projects are developed enough to present to them prior to submitting in a TDSIC filing. Ms. Becker testified that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural customers in the updated estimate and to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extension projects.

Ms. Becker testified that NIPSCO met with the OUCC and interested stakeholders, including representatives of the Industrial Group and US Steel on January 31, 2018. During the

January 31 meeting, and, based upon the information known at that time, NIPSCO identified known changes to projects from Plan Update-8. She extended NIPSCO's appreciation of the time and attention of the OUCC and the stakeholders throughout the TDSIC process.

Ms. Becker testified that, as of the time of filing, NIPSCO was not aware of any unresolved issues, but recognized that the OUCC and the other stakeholders may continue to ask questions and reserve comment on any further issues that they may identify as a result of the filing. She stated that NIPSCO is not including any major change as part of this proceeding. Ms. Becker sponsored the presentation relating to its updates to the 7-Year Gas Plan that NIPSCO provided to the OUCC and its stakeholders during the January 31, 2018 meeting as Confidential Attachment 1-B.

Mr. Racher supported NIPSCO's proposed ratemaking treatment for TDSIC factors to be applicable and made effective for bills rendered by NIPSCO for the months of July through December 2018, or until replaced by different factors that are approved in a subsequent proceeding, to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements, as authorized by the Commission in its 44403 Order, TDSIC-1 Order, TDSIC-3 Order, TDSIC-4 Order, TDSIC-5 Order, TDSIC-6 Order and TDSIC-7 Order.

Mr. Racher testified that Attachment 1, Schedule 2 shows that the total cost of the eligible transmission, distribution, and storage system improvements ("Eligible TDSIC Assets"), which includes allowance for funds used during construction ("AFUDC"), other indirect costs, and is net of accumulated depreciation, incurred through December 31, 2017, upon which NIPSCO requests authority to earn a return is $405,150,049 (Attachment 1, Schedule 1, Page 4).

Mr. Racher testified that NIPSCO is only seeking approval to recover a return on its investment and the related depreciation expense, property taxes and carrying charges associated with $3,322,780 of the total direct capital costs incurred through December 31, 2015 for the 112th Street Project. He stated this amount represents NIPSCO's best estimate provided in Cause No. 44403 and is inclusive of the 20% contingency percentage. He testified that consistent with the TDSIC-1 Order, NIPSCO will defer for recovery in its base rates consistent with Ind. Code § 8-1-39-9(b) the depreciation expense and property taxes related to the difference between this amount and the actual amount of the 112th Street Project.[4] He testified Attachment 1, Schedule 11 shows the depreciation and property taxes NIPSCO plans to defer relating to this difference for the months of July through December 2017 is $141,627 and the total deferred balance is $739,018.

Mr. Racher provided an overview of the indirect capital costs. He stated that indirect capital costs are associated with capital projects and must be capitalized in order to comply with Generally Accepted Accounting Principles ("GAAP"). However, these often cannot be charged directly to a specific capital project work order as they cannot be directly linked to one particular project and tend to be incurred away from the job site. He stated that NIPSCO groups these indirect capital costs into three categories: (1) overheads, (2) stores, freight and handling, and (3) AFUDC. Mr. Racher stated that the overheads component of indirect capital includes items such as: (1)

[4] Mr. Bull sponsors Petitioner's Exhibit No. 3, Confidential Attachment 3-C, which shows the costs incurred to date related to this project.

portions of benefits such as vacation and holiday pay, (2) portions of charges incurred for outside services that support NIPSCO's capital project processes, and (3) portions of payroll for NIPSCO employees involved in supporting capital projects in either a project management function (i.e., project engineering, operations) or an administrative and general function (i.e., fixed asset accounting, financial planning). He stated that stores, freight, and handling charges are also indirect capital costs that must be capitalized for GAAP purposes. He explained that this component of indirect capital represents costs that NIPSCO incurs to procure materials and equipment. He stated that generally, this represents the payroll for NIPSCO's supply chain and procurement functions and includes labor costs and other warehousing expenses associated with NIPSCO's warehousing function for inventoried materials and supplies.

Mr. Racher testified the last component of NIPSCO's indirect capital is AFUDC. He stated that NIPSCO computes AFUDC amounts and relevant AFUDC rates for Eligible TDSIC projects in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and is also consistent with GAAP. He stated that NIPSCO also has a process to ensure that AFUDC is no longer recorded after such costs are given construction work in progress ("CWIP") ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first.

Mr. Racher stated that three of the indirect capital components must be capitalized in order to conform with GAAP for public utilities. He testified that NIPSCO has consistently followed this approach internally for both direct and indirect capital costs for years, including during the test year in its last general rate proceeding in Cause No. 43894.

Mr. Racher testified that NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first. He stated that, after the in-service date, NIPSCO will calculate and include for recovery post in-service carrying charges ("PISCC") on costs which have been placed into service and are not receiving ratemaking treatment until such costs receive CWIP ratemaking treatment, or are otherwise reflected in base gas rates.

Mr. Racher testified NIPSCO has calculated the depreciation expense related to TDSIC capital expenditures according to each asset's designated FERC account classification. Each asset, upon being placed in service, is depreciated by NIPSCO according to the associated FERC account composite remaining life approved by the Commission's November 4, 2010 Order in Cause No. 43894.

Mr. Racher explained that the calculation of NIPSCO's "return on" portion of the revenue requirement for costs of Eligible TDSIC Assets incurred through December 31, 2017 is shown on Attachment 1, Schedule 2. He stated that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted average cost of capital. The product of this calculation is then multiplied by 50% to calculate a semi-annual revenue requirement. He explained that this semi-annual amount is then multiplied by 20% to calculate the deferred amount. The 80% portion is then adjusted for taxes. He stated the semi-annual Return on Investment is shown on Attachment 1, Schedule 5, to be recovered for bills rendered during the months of July through December 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Mr. Racher testified that Attachment 1, Schedule 3 shows post-in-service carrying costs associated with Eligible TDSIC Assets that were placed into service prior to December 31, 2017. He stated the total PISCC by function is shown on Attachment 1, Schedule 3, which is multiplied by 20% to calculate the deferred amount. The 80% portion is then adjusted for taxes. He stated the semi-annual PISCC amount is then shown on Attachment 1, Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December 2018. He stated that in this filing, NIPSCO is proposing recovery of all eligible PISCC incurred for the period July through December 2017, as shown on Schedule 3, provided that the result does not exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period. He stated that in the TDSIC-1 Order, the Commission authorized NIPSCO to record and recover PISCC at the effective WACC over the respective PISCC time period. She explained that PISCC is calculated by multiplying the value of costs which have been placed in service and are not receiving CWIP ratemaking, by NIPSCO's effective WACC rate for the period in which the costs are in-service and that ongoing carrying charges on the PISCC are calculated until such balances are recovered through rates.

Mr. Racher stated that Attachment 2, Schedule 2 shows the computation of the revenue conversion factor used to compute the Company's pre-tax revenue requirement. He testified that the revenue conversion factor is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement as reflected on Attachment 1, Schedule 2 and Schedule 3. The state income tax rate used in this computation was determined in accordance with Ind. Code § 6-3-2-1.

Mr. Racher testified the federal income tax rate used in the computation of the Revenue Conversion Factor is the 21% corporate income tax rate that became effective January 1, 2018, as directed in the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017. He stated that as a result of the reduction in the corporate income tax rate, the revenue requirement reflecting the tax expense change in this proceeding was approximately $2.4 million lower than if the federal income tax rate remained at 35%.

Mr. Racher stated that Attachment 1, Schedule 4 includes depreciation expense, operations and maintenance ("O&M") and property taxes for the period July through December 2017. He stated the total depreciation expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column B represents actual depreciation expense incurred from July through December 2017. The total actual depreciation expense incurred is reduced by 20% to calculate the 80% revenue requirement and then adjusted for taxes, as shown on Attachment 1, Schedule 4. The 80% revenue requirement amount is then included on Attachment 1, Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December June 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Mr. Racher testified the total O&M expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column D represents actual O&M expense incurred from July through December 2017 related to the System Integrity Data Integration Project. He explained that the total actual O&M expense incurred is reduced by 20% to calculate the 80% revenue requirement and then adjusted for taxes as shown on Attachment 1, Schedule 4. The 80% revenue requirement amount is then included on Attachment 1, Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period. He explained that based on the allocators approved in the TDSIC-3 Order, NIPSCO will allocate 91.1% of O&M expenses related to the System Integrity Data Integration Project based on the distribution allocator and 8.9% based on the transmission allocator.

Mr. Racher stated that the property tax expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column C represents actual property tax expenses incurred for the period July through December 2017. He stated the total actual property tax expenses incurred is reduced by 20% to calculate the 80% revenue requirement and then adjusted for taxes as shown on Attachment 1, Schedule 4. The 80% revenue requirement amount is then included on Attachment 1, Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Mr. Racher testified the TDSIC-1 Order approved NIPSCO's proposal to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the Rural Extension projects. He stated these amounts are calculated on Attachment 2, Schedule 5 and are computed by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period July through December 2017.

Mr. Racher explained that the revenue requirement calculated in NIPSCO's TDSIC-6 filing is being reconciled against the actual revenues received from the customers from July through December 2017 as shown on Attachment 1, Schedule 6. He stated Attachment 1 Schedule 6 also shows the components of the total reconciliation of revenue by capital, expense, and function. He stated the resulting over recovery of $200,286 is shown on Attachment 1, Schedule 8, including the allocation by rate class.

Mr. Racher testified that Attachment 2, Schedule 4 provides the allocation factors as approved in the TDSIC-3 Order, which NIPSCO used to allocate the related transmission, distribution and storage revenue requirements in this filing as shown on Attachment 1, Schedule 7.

Mr. Racher testified Attachment 1, Schedule 8 shows the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirements. The amounts in Columns B, F, and J show the revenue requirement by function from Attachment 1, Schedule 7. Columns C, G, and K show the reconciliation of revenues by function from Attachment 1, Schedule 6. The amounts in Columns D, H, and L show the revenue requirement adjusted for prior period variances by function. He stated the amounts in Columns N, O, and P show the total of Transmission, Distribution, and Storage function revenue requirements. He stated the factors are calculated by dividing the Total Revenue Requirement in Column P by the estimated therm sales in Column Q to compute a billing factor in Column R for bills rendered by NIPSCO for the months of July through December 2018.

Mr. Racher testified Attachment 1, Schedule 9 shows there is no amount in excess of 2% of retail revenues for the past twelve (12) months. He testified NIPSCO has calculated the 2% cap by comparing the increase in TDSIC revenues in a given year with the total retail revenues for the past 12 months. He testified the retail revenues used in this calculation represent the revenues related to the 12 months ending December 31, 2017.

Mr. Racher sponsored Attachment 3, which is a clean and redlined version of NIPSCO's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge showing the TDSIC factors proposed to be applicable for bills rendered during the months of July through December 2018, or until replaced by different factors that are approved in a subsequent proceeding.

Mr. Racher sponsored Attachment 2, Schedule 6 (Page 1) identifying the projected effect of NIPSCO's Plan Update-7 on retail rates and charges. He also sponsored Attachment 2, Schedule 6 (Page 2) identifying the projected effect of NIPSCO's Plan Update-8 on retail rates and charges and the total estimated revenue requirement for each rate class from 2014 to 2020.

Mr. Racher stated the estimated average monthly bill impact for a typical residential customer using 72 therms per year is $4.14, which is a $2.51 increase from the factor currently in effect.

Mr. Racher testified NIPSCO proposes to defer and recover 80% of the post in service costs, including carrying costs and pretax returns, depreciation and taxes associated with its approved TDSIC projects, through the TDSIC adjustment factor. He stated NIPSCO proposes to defer such costs as a regulatory asset until such costs are recognized for ratemaking purposes through NIPSCO's proposed TDSIC adjustment factor or included for recovery in NIPSCO's base rates consistent with Ind. Code § 8-1-39-9(b).

Mr. Racher explained that Ind. Code § 8-1-39-9(b) provides that twenty percent (20%) of the approved capital expenditures and TDSIC costs, including depreciation, pretax returns, AFUDC, post in service carrying costs and property taxes shall be deferred and recovered by the public utility as part of the next general rate case filed by the public utility with the Commission. He testified that NIPSCO requests approval to defer, as a regulatory asset, 20% of such costs and requests to recover those costs as part of NIPSCO's base rates consistent with Ind. Code § 8-1-39-9(b). He stated NIPSCO also requests approval to record ongoing carrying charges based on NIPSCO's weighted cost of capital on these costs until the costs are included for recovery in NIPSCO's base rates consistent with Ind. Code § 8-1-39-9(b).

Mr. Racher noted that in the TDSIC-1 Order, the Commission authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with approved eligible transmission, distribution, and storage system improvements, including ongoing carrying charges based on the current overall WACC, and recover those deferred costs in its base rates consistent with Ind. Code § 8-1-39-9(b).

He stated that consistent with this authority, NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs as a result of the deferral of 20% of all TDSIC costs for recovery in its base rates consistent with Ind. Code § 8-1-39-9(b).

Mr. Bull sponsored NIPSCO's Plan Update-8 and Plan Update-7. He also sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 1 (Columns B through D and H through J), showing the actual capital expenditures incurred through December 31, 2017 relating to designated eligible improvements. Mr. Bull also sponsored Petitioner's Exhibit 3, Attachment 3-A (Summary the Gas System Deliverability, Gas System Integrity and Records Project categories) and Confidential Attachment 3-B (rural extensions projects), Confidential Attachment 3-C (summary of 112th Street Project) and Confidential Attachment 3-D (summary of Plan Project Variances (Moves & Costs).

Mr. Bull testified NIPSCO's project management processes and procedures were developed around the Project Management Institute's Project Management Body of Knowledge guidelines, designed to integrate project design and project planning, scope management, schedule and cost management, and risk management to provide a project life cycle plan and provide consistency in execution. Projects are monitored closely throughout the life cycle. During the design and planning phase, a gate process is followed with stakeholder involvement to assure required details are included in the design or construction plan. Prior to execution, formal schedule reviews are conducted for major projects to assure a comprehensive plan and appropriate controls are complete. A formal Project Management Plan and baseline schedule is issued by the Project Manager and Project Scheduler and approved by the Manager, Gas Major Projects for each of the major projects at the completion of the planning phase. During project execution, the Project Manager and Project Scheduler provide weekly schedule updates that include a number of project performance indicators. The Project Manager and Project Controls team provide a cost update and forecast twice each month. The TDSIC projects are of significant importance to NIPSCO's senior leadership, as well as the rest of the organization. Project updates which focus on the performance against the Project Management Plan are provided monthly. The updates include a review of the safety performance, environmental compliance, cost, and schedule as well as the status of any identified risks.

Mr. Bull described how NIPSCO manages the portfolio of projects included in the 7-Year Gas Plan. He explained that NIPSCO / NiSource utilizes one department to manage the 7-Year Plan project portfolio. The Engineering department developed the 7-Year Gas Plan and the initial cost estimates for the projects. The projects were then assigned to the appropriate departments (including Engineering and Gas Major Projects) for design and execution. He testified that the Project Manager and the Project Controls Team have the primary responsibility to verify that costs are accurately forecasted, accounted for and tracked for all TDSIC projects. It is also responsible for obtaining, tracking and paying invoices for the TDSIC projects as well as creating monthly forecasts and accruals.

Mr. Bull described NIPSCO's cost management process, which begins with initiating a new TDSIC work order. The Project Engineer/Manager submitting a Capital Initiative Form ("CIF") to the TDSIC Support Budget Analyst who does a preliminary check of the asset register to verify the work is a valid TDSIC project and initiates the work order and routes the form to the Plan Owner and the Project Execution/Engineering Team for two levels of review. The purpose of the first level of review is to verify that the project and costs are TDSIC eligible. The purpose of the second level of review is to approve the scope and cost of the project work. Both the review and approval are required before work is performed and project costs are incurred, except when a work order is needed for an emergency.

Mr. Bull stated that once a TDSIC work order is initiated, NIPSCO records charges to the work order in accordance with NIPSCO's internal controls. He explained that capital dollars are separated into direct capital and indirect capital. Mr. Bull testified that vendor related direct costs are procured through the use of a material requisition and that a purchase order is required to order goods or services.

Mr. Bull stated that in addition to those controls, the TDSIC Project Controls Team provides bi-weekly reports that show the year-to-date actual costs to each project and an estimate of the weekly actual costs for the current month. The TDSIC Project Controls Cost Engineers meet two times per month one-on-one with the Project Managers and Manager, Gas Major Projects to review actual costs, to estimate accruals, and to forecast the current year estimate at completion and full project estimate at completion for multi-year projects. The Project Managers also review all project costs to ensure that costs are properly recorded to the TDSIC work orders. This process includes the review of non-vendor payments such as internal labor and other direct costs. The Project Managers review the detailed project cost reports provided by the TDSIC Project Controls Team to ensure that all vendor payments are properly recorded, and internal labor charges are appropriate. He noted that any unusual charges are investigated and corrected if necessary.

Mr. Bull described NIPSCO's process for executing the projects included in its 7-Year Gas Plan. He stated that with the exception of Rural Extension projects that are better handled by the local operating area, Engineering and Gas Major Projects execute all of the projects in the 7-Year Gas Plan. The Engineering group, in partnership with Major Projects, develops the updates to the 7-Year Gas Plan and establishes the base scope of work associated with each updated Plan. Next, the Engineering group develops a more detailed scope (with internal NIPSCO stakeholders) and provides detailed estimates for the projects within the Plan for the next year. The Engineering group then conducts more detailed engineering prior to execution start, when possible and when appropriate. The TDSIC Execution group then executes TDSIC work. Mr. Bull stated the cost tracking of the work is managed by the Project Controls Team.

Mr. Bull provided an update on the potential risks associated with the completion of projects in light of actual experience that NIPSCO identified in previous stakeholder meetings, as follows:

- <u>Stateline to Highland Junction (TP1)</u>: During the TDSIC-7 Stakeholder Meeting, NIPSCO noted that there was a risk realized with an existing valve required for the tie-in procedure that would not fully close and did not completely stop the flow of gas. This required additional stopples to complete the tie-in. During the completion of this project, another unexpected and unpredictable risk was realized when cutting the existing steel pipeline during the tapping process took much longer than typical.

- <u>Aetna to LaPorte (TP2)</u>: During the TDSIC-7 Stakeholder Meeting, NIPSCO noted that there was a delay in the permitting for a section of planned installation. Although the permit was applied for in a reasonable timeframe and initial indications from the government entity were positive, additional federal review was required, which could neither have been foreseen nor controlled by NIPSCO. In addition, NIPSCO noted that there was an ongoing concern regarding the need for directional boring, environmental, corrosion mitigation and land costs and expects these risks to carry over into planned 2018 work.

- Gary Bare Steel and Balance of System Project (BSR11). In the TDSIC-7 stakeholder meeting, NIPSCO noted that this project did encounter an unexpected risk when environmental testing detected trace Poly Chlorinated Biphenyls (PCBs) and trace gasoline in some soil tests. This necessitated the use of carbon filtering during dewatering at multiple sites. NIPSCO also realized a risk that required additional pipe installation in order to keep customers in service because planned tie-in locations were not feasible once the exact locations of the pipe were known in the field and/or the poor condition of the existing pipe when a potential tie-in location was excavated.

Mr. Bull explained the estimation classes identified by the Association for the Advancement of Cost Engineering ("AACE"). He stated that AACE standards identify classes of estimates based on the use of the estimate and the level of detailed engineering required to produce inputs into the estimate. NIPSCO generally uses these AACE Classifications with respect to its estimates for TDSIC projects, but the process of managing costs involves more than specifying a specific class or range of estimate.

Mr. Bull provided an overview of NIPSCO's process for managing costs in its 7-Year Gas Plan. He stated that many of the projects are substantial projects that span more than a single year. In addition, multiple-unit projects continue to be estimated on a unit cost basis, with unit costs updated as actual experience is gained with repetitive tasks. He explained that some multiple-unit projects are difficult to estimate because of wide variability in specific sites and circumstances. The process of estimate refinement is a continuous process as the 7-Year Gas Plan progresses.

For projects more than two years out in the Plan, Mr. Bull stated that they have been estimated utilizing a unit cost methodology. The project scope is developed based on inputs from the risk model, engineering planning, operations and the application of NIPSCO's engineering standards. Historical costs of similar type projects are utilized to estimate the cost of the project with limited engineering being complete. These estimates are considered Class 4 and no detailed site visit has not been conducted.

For projects that are planned for construction within the next two years of the Plan, Mr. Bull stated NIPSCO utilizes a more detailed estimating process that includes a project scope review. Specific site details are then integrated into the estimate allowing risks that may result in the project cost decreasing or increasing based on the outcome of the site visit and input from all impacted parties. At this phase, estimates are refined and considered Class 3, with at least one site visit, and are based on additional engineering or analysis along with scope definition. After projects advance from this phase, detailed engineering begins, which continues to refine the project cost estimate. He explained that for most projects, this will now occur within 18-24 months of the start of construction, and detailed engineering will be complete. Detailed engineering includes generation of material lists, associated labor and technical drawings to be utilized during construction. Estimated labor hours are utilized to develop a resource plan which includes both internal and external labor resources. Detailed engineering documents are also used to bid external construction projects. A constructability review is also conducted to review the detailed engineering with project management and construction. Mr. Bull stated this typically takes place at the project site and is designed to identify associated project risks for integration into the cost estimate. At this phase, estimates are refined and considered Class 2. He testified that until construction begins, and until the project is complete, it is difficult to define all of the factors that influence a project's final cost. Factors that can influence project costs include weather, seasonal site conditions, emergencies, specific equipment needs or other situations not identified until the construction process has started.

Mr. Bull testified that NIPSCO has not updated the unit costs used to estimate costs shown in Confidential Appendix 3.

Mr. Bull explained the process NIPSCO uses to determine whether requested changes in cost estimates are eligible for TDSIC treatment. During the first half of the year, a formal reprioritization meeting is held once a month to review and approve project estimate changes. Because of increased requests, NIPSCO increases the meeting frequency to twice a month during the second half of the year. This reprioritization process starts when the need for a project estimate change is identified and the Project Management team completes a Project Change Request ("PCR") form. NIPSCO requires a PCR for estimate changes that are +/- $30,000 or 15%, whichever is greater, or any estimates changes that exceed $100,000 for any project even if it does not meet the 15% threshold in this filing. He stated the intent of the reprioritization process is for leadership to review and approve estimate changes before they occur.

Mr. Bull stated that the TDSIC Support team summarizes a list of requested project estimate decreases and increases from the PCRs for review at the reprioritization meeting. Each project estimate change is reviewed and approved or rejected by a level of leadership in accordance with NIPSCO's Capital Governance Policy. If the change is approved, then it is included in the next Plan update. If the change is not approved, it may be placed on a "hold" list for review at a future meeting, or it may be denied, but it will not be included in a Plan update until it is approved.

Mr. Bull testified that consistent with the TDSIC-1 Order, Plan Update-8 shows the originally approved cost estimate for the 112th Street Project. He sponsored Confidential Attachment 3-C showing the approved costs, actual costs as of December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017, total estimated costs and the amount of total estimated costs that exceed the approved amount related to the 112th Street Project. He testified the 112th Street Project was placed in service in December 2014 and is operational. NIPSCO did not perform any additional work related to 112th Street project in 2016 or 2017. As shown in Confidential Attachment 3-C, minimal capital costs associated with the final closeout of the project were booked in 2016 and 2017. He indicated that NIPSCO does not anticipate any additional capital costs for the 112th Street Project. He testified that consistent with the TDSIC-1 Order, NIPSCO requests approval to defer for recovery in its base rates consistent with Ind. Code § 8-1-39-9(b) the difference between the amount authorized in the TDSIC-1 Order for recovery and the actual cost of the project.

Mr. Bull noted that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural gas extensions, both those that qualify using the 20-year margin test under Ind.

Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy, and provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extensions projects. He testified that in determining the number of connections expected to be made annually, the New Business department forecasts the number of meters projected to be added each year. This is based on previous customer connections, planned marketing, and the anticipated availability of new main. Once the total number of new connections is determined, NIPSCO further refines the estimate into what is expected to be TDSIC-eligible. Mr. Bull explained the two primary methods NIPSCO uses to determine whether a new rural business project is eligible for TDSIC treatment. He testified the rural extensions projects included in Plan Update-8 are projected to pass the 20-year test identified in Ind. Code § 8-1-39-11.

Regarding the Records Project, Mr. Bull testified that to date, NIPSCO has successfully completed fourteen out of twenty-eight deliverables for the project, resulting in approximately 20,000 linens mined and 147 features added for placement into the Company's Geographic Information System. He testified that in Plan Update-8, NIPSCO is not proposing any changes to the approved cost estimates for the Records Project.

Ms. Hasan Bey testified that the Records Project was designed to enhance the quality of gas legacy record information to reduce pipeline safety risks, specifically addressing risk on NIPSCO's system – excavation damage. Additionally, the project addresses the need for improved quality through the digitization and addition of information from linen records into a "single source of truth" through the Company's Geographic Information System ("GIS"). When complete, the Company will be able to more proactively use this data for pipeline safety distribution integrity assessment and management of the Company's pipeline assets, reducing excavation damages due to poor records or locating errors providing increased safety and system reliability. She detailed the process originally followed for the Records Project, challenges experienced with that process, and changes made in the interest of expediting the accurate completion of the Records Project in line with the expectations of the Commission as expressed in its Orders in Cause Nos. 44790 and 44403 TDSIC-7. She stated that NIPSCO determined that the best course is to outsource mining of the remaining linens to a domestic vendor while making use of internal resources for QA/QC and GIS system entry. She indicated that this approach represents an appropriate balance between the need for speed and efficiency and the premium on accuracy and the leveraging of internal gas system expertise entry while also addressing the Commission's concerns as expressed in its Orders in Cause Nos. 44970 and 44403 TDSIC-7. She stated that during the interim period pending engagement of a contractor, NIPSCO will continue to use its internal resources for the mining of data from the remaining linens, but those resources will then be reassigned to work with NIPSCO's internal subject matter experts to expedite completion of QA/QC and GIS system integration once vendor work begins. evaluated other alternatives to accelerate its completion. She stated that NIPSCO estimates that the Records Project can be completed by the end of 2019 at an additional cost of approximately $3.1 Million and reiterated that NIPSCO will not seek additional TDSIC funding for the Records Project over and above the currently approved cost estimate of $12.2 Million.

Mr. Bull described the Plan update process approved in the Commission's 44403 Order and the contents of Plan Update-8. He stated that the Plan update process is important because information is continually gathered around asset condition and updated risk analysis data. Additionally, configuration of NIPSCO's system, load growth, deliverability to critical customers and other system events will serve to modify the consequence of failure driver in NIPSCO's aging infrastructure risk model. As NIPSCO's customer demands evolve, both from a location and utilization perspective, system deliverability requirements must evolve with them.

Mr. Bull testified as of December 31, 2017, the total gross direct capital expenditures associated with NIPSCO's designated eligible improvements is $357,077,305 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Lines 1-3, Column D)]; the total indirect capital expenditures is $43,581,780 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 4, Column D)]; and the total AFUDC for capital expenditures is $9,881,589 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 5, Column D)]. And, as of December 31, 2017, the total gross capital expenditures associated with NIPSCO's designated eligible improvements is $410,540,674 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 6, Column D)].

Mr. Bull stated that there are differences in the transmission and distribution subtotals when comparing Project Category to FERC account. He explained that some projects, such as inspect and mitigate projects, incur charges that are booked to both distribution and transmission FERC accounts. However because a majority of project costs related to specific projects are charged to either distribution or transmission FERC accounts, the project is classified into either a transmission or distribution project category on Plan Update-8 and related schedules.

Mr. Bull testified Plan Update-8 reflects current cost estimates for the completion of the projects in the 7-Year Gas Plan. The result is an overall decrease in direct capital costs of $357,738 or about -0.05 percent across the remainder of the 7-Year Gas Plan. When indirect capital costs and AFUDC projections are incorporated, the overall projected 7-Year Gas Plan cost increase is $1,084,049 or about 0.13 percent.

Mr. Bull testified Plan Update-8 does not include any new projects that were not previously included in the 7-Year Gas Plan. He showed the total projected capital spend, including indirect capital costs and AFUDC, for Plan Update-8 compared to Plan Update-7, as follows:

Table 1
Comparison of Total Capital Dollars (inclusive of indirect capital costs and AFUDC)

	2014	2015	2016	2017	2018	2019	2020	7-Year Total
Plan Update-7	$43,116,426	$103,200,473	$127,266,542	$137,463,039	$150,396,063	$141,277,057	$145,760,336	$848,479,936
Plan Update-8	$43,116,426	$103,200,473	$127,266,542	$136,957,233	$150,561,933	$142,610,907	$145,850,471	$849,563,985
Variance	$0	$0	$0	($505,806)	$165,870	$1,333,850	$90,135	$1,084,049

Mr. Bull testified the indirect cost percentage and AFUDC percentage used in Plan Update-8 changed from that used in Plan Update-7. Mr. Bull explained that as was experienced with the 2014, 2015 and 2016 projects, additional costs may be incurred in a subsequent calendar year for a prior year project for a variety of reasons, including restoration costs for work completed, vendor invoices, and labor costs incurred but not submitted. In addition, NIPSCO accruals are booked in December based on the best information known at the time including both known costs and estimates for work completed but not yet booked. When invoices are received in subsequent months, the actual cost is booked and the prior period accrual is reversed. This process can result in either an additional charge or credit booked to the work order in a subsequent year. There may also be late-issued vendor invoices related to work completed that were not known when the accruals were estimated and therefore not incorporated into those accruals. Projects may also be multi-year projects, or may start in one year and end the following year depending on the project start and end dates and project schedule.

Mr. Bull explained how NIPSCO reflects the costs incurred in a subsequent calendar year in the 7-Year Plan. He stated that in Plan Update-8, the Remaining Years Actual Costs (i.e., the amount of actual costs for the project year that may be incurred in a subsequent year) is $(230,594) for Project Year 2014, $225,458 for Project Year 2015, and $(42,579) for Project Year 2016, resulting in a Prior Year Reconciliation of $(187,761) in 2015, $273,136 in 2016, and ($133,091) in 2017.

Mr. Bull testified NIPSCO's 2017 actual direct capital costs were $120,703,310 compared to an estimate of $121,206,048 from Plan Update-7, a decrease of $502,738, or -0.41%. He stated that due to the normal work order close-out process, NIPSCO may continue to incur some charges associated with these in-service projects in 2018. He explained there was one (1) transmission project and one (1) storage project that were not fully completed in 2017 and carried over to 2018. He testified there is an overall decrease in direct costs in 2017 of $502,738 (cost efficiencies of $1,569,393 and net moves into 2017 of $1,066,655). He explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for two of the 2017 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2018 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2018 Project Detail (Page 18) shows the Approved Project Cost for the 2018 Projects was $131,886,604 (Column A), the Updated Project Cost for the 2018 Projects is $132,031,604 (Column B), resulting in a total increase of $145,000 (Column C). Mr. Bull explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for two of the 2018 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2019 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2019 Project Detail (Page 22) shows the Approved Project Cost for the 2019 Projects was $119,751,936 (Column A), the Updated Project Cost for the 2019 Projects is $119,751,936 (Column B), resulting in no variance (Column C). Mr. Bull testified there were no projects showing cost increases greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for the 2019 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2020 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2020 Project Detail (Page 26) shows the Approved Project Cost for the 2020 Projects was $124,514,300 (Column A), the Updated Project Cost for the 2020 Projects is $124,514,300 (Column B), resulting in no variance (Column C). Mr. Bull testified there were no projects showing cost increases greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for the 2020 Projects.

Mr. Bull testified Plan Update-8 shows actual costs for the 2014 Projects, 2015 Projects, 2016 Projects and 2017 Projects and updated cost estimates for the 2018-2020 Projects. He testified Plan Update-8 provides information to support NIPSCO's best estimate of the cost of investments included in the Plan. He stated that Plan Update-8 includes: project estimates for 2018, 2019 and 2020; summary of unit cost estimates; a multiple unit project list and supporting documentation; PCRs for 2017 and 2018 Projects; and a Risk Model (updated in TDSIC-7). Mr. Bull stated that the updated cost estimates provided for the 2017 Projects are based on actuals for the year. For 2018 Projects, the updated estimates are generally based on receiving contractor bids back or the completion of site specific engineering. For 2019 Projects, NIPSCO is expecting to have contractor bids or estimates on the larger projects that are currently showing no variance from the TDSIC-6 estimates and anticipates updating those costs in the TDSIC-9 filing. He stated the cost estimates for the remainder of the 2020 projects and multiple unit projects are generally unit costs based on historical experience or similar projects that were executed in earlier years. Mr. Mooney testified all of the cost estimates are the best estimate of costs based on the information available at this time.

Mr. Bull testified the eligible improvements included in Plan Update-8 will serve the public convenience and necessity by making investments for safety, reliability, system modernization and economic development consistent with public policy and the public interest. Mr. Bull testified NIPSCO has a statutory obligation to provide adequate retail service in its certificated gas service territory pursuant to Ind. Code § 8-1-2.3-4(a) and that NIPSCO performs this obligation for the public convenience and necessity.

Mr. Bull testified that the estimated costs of the eligible improvements included in the Plan Update-8 are justified by incremental benefits attributable to the Plan. He stated that Plan Update-8 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. He stated that the emphasis of most of the Plan's investments is to positively impact public safety. Safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion. Reliability drivers include the avoidance of gas outages driven from the inability to maintain gas system pressure during peak load events.

Mr. Bull testified that Plan Update-8 is intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investment in data and technology required for the System Integrity Data Integration program, and the extension of gas facilities into rural areas. He stated the Rural Extensions projects included in Plan Update-8 will continue to increase the number of rural customers served over the life of the Plan. Mr. Bull concluded that Plan Update-8 cost effectively addresses safety, reliability, system modernization, and the extension of gas service into rural areas, and provides incremental benefits to NIPSCO's customers.

B. <u>OUCC's Case-in-Chief</u>. The OUCC filed the testimony of Mark H. Grosskopf, a Senior Utility Analyst in the Natural Gas Division and Leon A. Golden, a Utility Analyst in the Resource Planning and Communications Division.

Mr. Grosskopf recommended approval of rate factor calculations as shown in Attachment 1, Schedule 8. He stated that the schedules and calculations included in attachments to the Verified

Petition in this Cause are consistent with the findings set forth in prior Commission Orders for Petitioner's previous TDSIC filings. Mr. Grosskopf testified Mr. Golden has not recommended any changes that affect Petitioner's calculations, schedules, or cost recovery in this TDSIC.

Mr. Grosskopf stated that he performed a comprehensive analysis of the calculations and data flow contained in NIPSCO's TDSIC rate schedules. He stated he tied specific data to source documentation provided by NIPSCO, verified calculations and compared the schedules to those schedules approved in NIPSCO's prior TDSIC filings. He stated he reviewed work order documentation to verify completed capital projects, inquired into the calculation and procedures for indirect costs and AFUDC, reviewed summary detail of O&M expenses, and verified customer counts and total terms billed with summary documentation. Mr. Grosskopf stated that he verified the calculation for the cost of long term debt and reconciled cost of capital balances shown on Attachment 2, Schedule 1 with NIPSCO's balance sheet. He also verified the public utility fee and tax rates indicated on Attachment 2, Schedule 2.

Mr. Grosskopf testified that consistent with the Tax Cuts and Jobs Act of 2017, NIPSCO applied a 21% federal income tax rate to the revenue requirement in this filing and that it is the OUCC's expectation that the amount associated with collecting the 35% federal income tax rate during the months of January through June 2018 for TDSIC-7 will be reconciled in NIPSCO's TDSIC-9 filing, which is consistent with the Settlement Agreement recently filed in NIPSCO's Cause No. 44988.

Mr. Grosskopf testified NIPSCO's allocation of revenue requirements is consistent with the allocation methodology approved by the Commission in its TDSIC-3 Order. Accordingly, the approval allocation percentages are reflected in NIPSCO's Attachment 2, Schedule 4. Mr. Grosskopf testified he reviewed and verified the resulting calculation of the TDSIC factors included on Attachment 1, Schedule 7.

Mr. Grosskopf testified NIPSCO's 2% Cap Test reflected in Attachment 1, Schedule 9 is calculated correctly. He stated he traced pertinent numbers to accompanying schedules and verified the calculations provided by NIPSCO. He stated NIPSCO's proposed revenue requirement does not exceed the 2% Retail Revenue Cap for the current 6-month TDSIC period.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 8 presents the calculation of Total Rate Adjustment Factors. He stated he reviewed the calculations and flow of inputs from other schedules. He testified Attachment 1, Schedule 8 accurately reflects the TDSIC rate factors for this Cause.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 6 shows the reconciliation of the approved TDSIC-6 revenue requirement with the actual revenue collected during the 6-month period of July through December 2017. He stated the result is an over-recovery in the amount of $200,286, which will be collected from customers through the TDSIC rate calculation in this Cause.

Mr. Grosskopf testified Petitioner's Attachment 3 accurately reflects the TDSIC calculations presented by Petitioner's Attachment 1. Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 10 reflects the cumulative total deferred revenue requirement broken out by return on capital, return of expense, and carrying charges as well as broken out into the transmission, distribution, and storage cost elements for each TDSIC filing. Mr. Grosskopf traced all data input in this schedule to the source schedules and verified the calculations. He stated it accurately tracks deferred capital expenditures and expenses, pending recovery in Petitioner's next base rate case.

Mr. Grosskopf testified that Petitioner removed from TDSIC recovery calculations the capital expenditures associated with the 112th Street Project that exceeded the estimate provided by NIPSCO in Cause No. 44403. Also, consistent with the TDSIC-1 Order, NIPSCO will defer, for recovery in its next base rate case, the depreciation and property tax expense related to the difference between the approved amount and the actual amount of the 112th Street Project. Mr. Grosskopf testified the deferred depreciation expense and property tax expense associated with the 112th Street Project is shown on Petitioner's Attachment 1, Schedule 11.

Mr. Grosskopf agreed with the rural extension margin credit calculated on Attachment 1, Schedule 5. He stated the margin credit balances the interests of the utility and the ratepayers and the OUCC continues to support NIPSCO's approved 80% margin credit for rural extensions for each TDSIC filing.

Mr. Grosskopf testified that Petitioner's TDSIC calculation schedules, Attachment 1, Schedules 1 through 11, and Attachment 2, Schedules 1 through 6, accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal. He recommended approval of the rate factor calculations performed in this Cause. He testified NIPSCO's TDSIC rate factors are accurately reflected on Petitioner's Attachment 3, Appendix F.

Mr. Golden discussed his analysis of transmission, distribution, and storage projects included in NIPSCO's Plan Update-8. He discussed seven specific projects that experienced increased costs, and why the OUCC does not object to the actual or estimated cost increase for the projects that he determined to have sufficient testimony or evidentiary support. Mr. Golden recommended the Commission approve NIPSCO's Plan Update-8.

With respect to transmission system projects, Mr. Golden testified there were six (6) projects with an increase of 20% or $100,000 over that approved in NIPSCO's Plan Update-7. He testified NIPSCO adequately explained the cost increases for all six projects and that the OUCC did not object to any of the updated cost estimates.

With respect to distribution system projects, Mr. Golden testified there was one (1) project with an increase of 20% or $100,000 over that approved in NIPSCO's Plan Update-7. He testified he did not identify any issues with the project.

With respect to storage system projects, Mr. Golden testified there were no projects with an increase of 20% or $100,000 over that approved in NIPSCO's Plan Update-7.

C. **NIPSCO Industrial Group Submission.** The NIPSCO Industrial Group submitted a motion for administrative notice that was granted by Docket Entry and marked at the hearing as IG Admin. Notice 1. The materials included in that submission include previous Commission orders relating to NIPSCO's TDSIC filings, as well as the initial summary page for each version of the 7-Year Gas Plan approved in prior proceedings.

5. **Commission Discussion and Findings.**

A. **Plan Update-8.** Ind. Code § 8-1-39-9(a) requires a utility to update its seven-year plan as a component of TDSIC periodic automatic adjustment filings. In this case, NIPSCO requests approval of Plan Update-8, which contains updates to eligible improvements and associated cost estimates for each year of the Plan. The TDSIC Statute is silent as to what may be included in a Section 9 update. We have previously found that plan updates should include a discussion of any changes in an eligible improvement's best estimate of cost, necessity, and associated incremental benefits upon which the Commission based its determination to approve NIPSCO proposed Plan as reasonable.

~~1. **Cost Estimates.** Ind. Code § 8-1-39-9(f) provides that actual capital expenditures and TDSIC costs in excess of approved amounts require specific justification by the utility for the increases and approval from the Commission before being authorized for recovery in rates. In prior TDSIC proceedings, we have recognized that a "best estimate" is developed at a point in time and based on information that was known or should have been known. TDSIC-3 Order at 40. We have also indicated that specific justification requires an explanation of why the increase in an approved best estimate is reasonable or warranted and cannot simply identify the reason for the increase. TDSIC-1 Order at 20. While we have also recognized that Ind. Code § 8-1-39-9(f) only requires specific justification when the utility seeks to recover the actual expenditures, we expressed our expectation that utilities would provide such justification for approval whenever the utility became aware of such increases. TDSIC-4 Order at 28.~~

~~In this proceeding, Mr. Bull testified Plan Update-8 shows actual costs for the 2014 Projects, 2015 Projects, 2016 Projects and 2017 Projects and updated cost estimates for the 2018-2020 Projects. He testified Plan Update-8 provides information to support NIPSCO's current best estimate of the cost of investments included in the Plan. Plan Update-8 includes: (1) confidential project estimates for 2018, 2019 and 2020 (Confidential Appendix 1); (2) confidential summary of unit cost estimates (Confidential Appendix 2); (3) confidential multiple unit project list and supporting documentation (Confidential Appendix 3); project change requests for 2017 and 2018 Projects (Confidential Appendix 4); and a Risk Model (updated in TDSIC-7) (Confidential Appendix 5). Petitioners Exhibit 1, Attachment 1-A, Exhibit Gas Plan Update-8.~~

~~Consistent with prior TDSIC cases and expectations, NIPSCO provided testimony addressing the reasons for variances greater than $100,000 or 20%, whichever is greater. The Commission's review of cost increases, however, is not limited to these more substantial increases. Rather, we review all project increases and the related documentation provided by NIPSCO.~~

~~Mr. Bull explained that for projects scheduled for completion in 2017, the costs are based on actual costs as of December 31, 2017. For projects scheduled for completion in 2018, the estimated costs are either based on further engineering or on a contractor bid or estimate. For projects scheduled for completion in 2019, the estimated costs are typically based on further engineering, updated unit costs, or are projects that NIPSCO expects to go out for bid in 2018 and will be updated in a subsequent tracker filing. For 2020, for projects not based on unit costs, NIPSCO has attempted to reflect its actual experience to date in its updated project cost estimates wherever feasible. Mr. Bull testified it is more difficult to anticipate cost changes for specific~~

~~projects the further in advance the estimate is made, so changes in non-unit costs have been made only where such changes have a basis in updated engineering analysis.~~

~~The OUCC did not object to any of the updated cost estimates and recommended the Commission approve NIPSCO's Plan Update 8.~~

~~Accordingly, we find that NIPSCO has provided a sufficient level of detail in support of its Plan Update 8, including explanations justifying the cost variances associated with projects through its exhibits as well as additional testimony for those projects exceeding the greater of $100,000 or 20%, and we approve these as best estimates of the costs in Plan Update 8.~~

~~2~~**21. Cost Estimates.** Under Section 10(b)(1) of the TDSIC Statute, a determination of the "best estimate" of the costs of eligible improvements is one of the criteria that must be satisfied in order for a 7-year plan to be approved by the Commission. Once a 7-year plan has been approved under Section 10, cost recovery through periodic rate adjustments is governed by Section 9. Recovery of 80% of eligible costs through the TDSIC rider is "automatic" pursuant to Section 9(a), but only for "approved" capital expenditures and TDSIC costs. Any costs in excess of the approved estimates are governed by Section 9(f), which provides that such increases may be reflected in rates only if the utility demonstrates "specific justification" and the Commission grants "specific approval."

The Commission previously explained the showing a utility must make in order to gain approval of cost increases:

> This does not mean that the utility may simply detail the reasons why the increase occurred. Rather, the utility must explain why the increase in best estimated costs (i.e., costs that were considered to be highly reliable) is reasonable or warranted under the circumstances presented. The requirement that a utility present a best estimate of costs, combined with a need for specific justification before excess costs may be recovered in rates, provides balance to the regulatory process, imposes a degree of rigor in the preapproval process, and protects ratepayers from unjustified cost overruns.

See TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 20. The Commission also confirmed that "specific justification" is required to support cost increases for projects that have not yet been completed, in addition to completed projects that are ripe for reflection in rates. "Whether the utility seeks to provide specific justification for approval of an increase in the best estimate at the time it seeks cost recovery or prior to incurring actual costs, the standard is the same." See TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 28. With regard specifically to increased estimates for future projects, "a utility may not simply detail the reasons for the increase in costs." Id.

Notwithstanding that framework, NIPSCO has approached its task of supporting proposed cost increases as a matter of "updating" its estimates in light of the most current information. NIPSCO's presentation has been oriented on demonstrating that the increases reflect the latest "best estimate" of the costs. The determination of "best estimate," however, occurs under Section 10(b)(1) of the TDSIC Statute at the time that the 7-year plan is presented for approval. Once the 7-year plan has been approved, the utility is entitled to rate adjustments under Section 9(a) reflecting only those "approved" capital expenditures and TDSIC costs, unless the "specific justification" and "specific approval" standard of Section 9(f) is satisfied. By the structure of the statute, "best estimate" is an issue for a Section 10 proceeding, and the governing standard for this Section 9 proceeding is "specific justification." The Commission therefore disagrees with NIPSCO's position that simply updating an estimate, without more, will suffice to establish specific justification supporting a cost increase.

The Commission has repeatedly explained that simply detailing the reasons for an increase does not constitute specific justification. See TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 20; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 28; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 19; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 18. If NIPSCO needed to do no more than update its estimates based on the latest information, then simply detailing the reasons for an increase *would* be sufficient, contrary to the standard as explained in prior Commission orders. The context is a preapproval statute where the planned projects are designated in the Section 10 proceeding based on a "best estimate" of the costs. A degree of cost accountability is important to prevent utilities from understating costs in order to gain preapproval, and to maintain cost discipline as the approved plan is being implemented. NIPSCO, accordingly, cannot treat each Section 9 update as if it were starting with a blank slate, seeking a fresh determination of the best estimates. NIPSCO has already secured preapproval based on prior determinations of the best estimates, and it is NIPSCO's burden to demonstrate specific justification for any proposed increases.

The history of NIPSCO's Gas TDSIC Plan reveals a consistent pattern of substantial cost increases. The original plan as approved in April 2014 involved a total of $593 million in estimated direct capital expenditures. See IG Adm. Not. 1, Tab 8, col. (I), l.15. In TDSIC-3, NIPSCO significantly reduced the scope of the Gas Plan by postponing all or most of three major projects beyond the 7-year period. Id. Tab 4 at 20, 44-45. Despite that removal of several major projects, the direct capital costs as of this proceeding have increased to $733 million, an increase of $140 million on a greatly reduced scope. See Plan Update-8, col. (I), l.17. NIPSCO has routinely sought approval for every single cost increase it has encountered.

a. **Increases in direct capital.** In this proceeding, NIPSCO seeks approval for a decrease in direct capital totaling $357,738. See Plan Update-8, col. (I), l.35. This decrease arises from actual costs below the approved estimates for all projects in the aggregate. However, above a threshold of materiality, NIPSCO described in its evidence the significant increases on a case-by-case basis for 6 individually identified line item projects. See Pet. Ex. 3 at 49-50, 52-53. In each instance, NIPSCO seeks approval for the entirety of all of the reported increases.

The explanations for cost increases in NIPSCO's evidence is to the effect that costs are turning out to be higher than previously expected. See, e.g., id. (TP1 costs higher due in part to implementation of grounding system and site restoration; IM24-DIM3 costs due to unexpected rectifier failures; SD14 land acquisition costs higher; RE1 costs higher due to unanticipated demand; TP2 costs higher due to unexpected delay; TP9 costs higher due to costs being higher than anticipated.) NIPSCO's evidence focuses on reciting the reasons for the increases and explaining why the new estimates reflect NIPSCO's current expectations. As explained above, that orientation is not sufficient to establish "specific justification" for purposes of Section 9(f).

In addition, the previously approved cost estimates already incorporate contingencies, in the form of percentage additions to the sum of the line item estimates for a given project, in order to account for known or unknown risks. The contingencies embedded in estimates have been as much as 20%. See TDSIC-1 Order (IG Adm. Not. 1, Tab 2) at 98; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 22-23; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 20, 28. Insofar as the purpose of the contingencies is to account for risks of potentially unknown circumstances that may result in increased costs, it is not apparent why cost increases, when they do occur, should not be limited to the amount that exceeds the contingencies already incorporated in the approved estimates. In this case, NIPSCO has failed to account for the existing contingencies included in approved estimates, has failed to quantify the extent of increases going beyond the contingency allowances in those estimates, and has failed to provide specific justification for proposed increases that continue to incorporate contingencies without regard to the existing cushion already present in estimates to account for the risk of cost increases.

NIPSCO has exhibited particular difficulty in managing costs within approved estimates in connection with "multiple unit projects." "Multiple unit projects" are categories within which particular projects were not identified at the time the 7-year plan was approved, and instead NIPSCO selects projects periodically using ascertainable planning criteria and identifies the selected projects in Section 9 updates. As NIPSCO's witness admitted, "some of these multiple-unit projects are difficult to estimate because of wide variability in specific sites and circumstances." See Pet. Ex. 3 at 20.

Generally, "multiple unit projects" fall in the Inspect & Mitigate, Storage, and System Deliverability designations. The total direct capital for those classifications when the 7-year plan was initially approved in 2014 was $94 million (see IG Adm. Not. 1, Tab 8, col. (I), ll. 4, 5, 9, 11, 13), but the corresponding estimates in this proceeding amount to $160 million (see Plan Update-8, col. (I), ll. 4, 5, 9, 11, 14), an increase of more than 70%.

The propriety of selecting projects periodically throughout the 7-year period under the terms of the TDSIC Statute is discussed in more detail below. With regard to the proposed cost increases, in any event, there is no special statutory accommodation for the "multiple unit project" categories. To the extent that the specifics of the ultimately selected projects were unknown at the time the plan was approved based on the best estimates provided by NIPSCO, the risk of cost overruns is appropriately borne by NIPSCO. Simply asserting that specific projects, once selected, turned out to be more expensive than the assumptions underlying the approved estimates does not constitute specific justification supporting rate recovery of increased costs under Section 9(f).

The Commission finds that NIPSCO has not sustained its burden of demonstrating specific justification to support the proposed increases in direct capital totaling for the projects identified in Pet. Ex. 3, pages 49-50, 52-53. NIPSCO is directed, in addition, to remove the increments of indirect capital and AFUDC associated with the disallowed direct capital increases.

b. Increases in indirect capital and AFUDC. Under the format of NIPSCO's 7-Year Gas Plan, indirect capital and AFUDC are not separately incorporated as components in each project-specific estimate. Instead, NIPSCO applies a specified percentage to the total direct capital for all projects in a given period to account for indirect capital and AFUDC. The percentages for indirect capital and AFUDC changed between Plan Update-7 and Plan Update-8. See Pet. Ex. 3 at 46. While the dollar amount for those indirect costs decreased slightly, AFUDC increased by $1,486,921. See Plan Update-8, col. (I), ll. 36, 37.

The TDSIC Statute does not provide for any special treatment of AFUDC, distinct from any other costs. At all points, NIPSCO has provided estimates for that element as part of the 7-year plan, and has reflected those costs along with direct capital in the computation of rate factors. In accordance with Section 9(f), NIPSCO has the burden to show specific justification in order to support the proposed $1,486,921 increase in AFUDC, under the same standard applicable to increases in direct capital estimates.

The appropriate treatment of indirect capital and AFUDC has been previously addressed in TDSIC-5, TDSIC-6, and TDSIC -7, all of which are currently on appeal. See TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 26-27; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 21; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 19. The outcome of the pending appeals in this regard is unknown at present, but the Commission retains authority in each successive proceeding to revisit questions raised in prior dockets and may properly alter a determination of ratemaking policy or change course in better conformance with applicable law, provided the reasons are adequately explained. See Northern Indiana Public Service Co. v. Office of Utility Consumer Counselor, 826 N.E.2d 112, 119-20 (Ind. App. 2005).

NIPSCO's evidence in this case generally describes indirect capital as costs typically incurred away from the job site that cannot be charged to specific projects but are required by accounting principles to be capitalized. See Pet. Ex. 2 at 7-9. According to NIPSCO, AFUDC is computed in accordance with the FERC Uniform System of Accounts. Id. at 9-10. Other than stating that the percentages for indirect capital and AFUDC changed between Plan Update-7 and the current filing, however, NIPSCO did not provide any specifics relating to the computation of the dollar amounts for those costs. See Pet. Ex. 3 at 45 (stating that the indirect cost and AFUDC percentages changed in Plan Update-8 with no further explanation). In particular, NIPSCO did not provide any evidence supporting the proposed increase of $1,486,921 in AFUDC.

Assurances that costs are being properly booked in accordance with accounting principles do not necessarily establish specific justification supporting rate recovery of increases. In that respect, indirect capital and AFUDC are properly treated in the same manner as direct capital expenditures. When direct capital costs in excess of approved estimates are incurred, NIPSCO properly records those costs in its books and records as a matter of sound accounting practice. But under Section 9(f), an additional showing of specific justification is needed in order to reflect the increase in regulated rates. When the increase instead relates to indirect capital or AFUDC, NIPSCO again is expected to follow accounting principles in booking those costs. But as with direct capital, correct accounting treatment in itself does not establish entitlement to rate recovery. NIPSCO must still demonstrate specific justification to support the increase for ratemaking purposes.

In connection with other tracking mechanisms pursuant to distinct statutes, the Commission has in the past authorized recovery of indirect capital at fluctuating levels. See Ind. Code chs. 8-1-8.4, 8-1-8.7. Past practice under other statutes, however, does not control ratemaking treatment for purposes of the TDSIC Statute. Chapter 8.7 does not include a "specific justification" requirement, instead providing for recovery of "necessary and prudent" costs not attributable to "fraud, concealment or gross mismanagement." See Ind. Code §§8-1-8.7-6, -7(d), -8. Chapter 8.4 does make reference to "specific justification," but only where costs exceed the approved levels by more than 25% and even then only for purposes of "the next general rate case filed by the energy utility." See Ind. Code §8-1-8.4-7(c)(3). The increase at issue here would not exceed the 25% threshold if governed by Chapter 8.4, and even if it did the disallowance would be reflected in the next rate case rather than in the tracker. The TDSIC Statute, by contrast, requires "specific justification" to support any and all increases above approved estimates for purposes of tracking between rate cases.

The proposed increase of $1,486,921for AFUDC reflects the change in AFUDC rates that was referenced but not supported. Accordingly, the Commission finds that NIPSCO has not demonstrated specific justification supporting the proposed $1,486,921increase in AFUDC.

2. Multiple Unit Projects. The handling of "multiple unit project" categories has been a continuing source of controversy in connection with NIPSCO's 7-Year Gas Plan. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 37-38; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 29-30; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 27-28; TDSIC-6 Order (IG Adm. Not. 1, Tab 7) at 21-22; TDSIC-7 Order (IG Adm. Not. 1, Tab 8) at 19-20; see also IG Adm. Not. 1, Tab 3 at 12-13 (disallowing portions of NIPSCO's 7-Year Electric Plan corresponding to "multiple unit projects"). On this point, the orders in TDSIC-4, TDSIC-5, TDSIC-6, and TDSIC-7 are all subject to pending appeals. Although the ultimate conclusion of the appeals on this issue is not yet known, the Commission may properly reconsider a prior determination of ratemaking policy where appropriate, and can and should revisit issues raised in prior cases to ensure compliance with controlling provisions of law. See NIPSCO, 826 N.E.2d at 119-20. See also TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 33 (reopening issue of eligibility in light of appellate interpretation of the TDSIC Statute).

The TDSIC Statute involves two distinct types of proceedings: first, a 7-year plan must be approved under Section 10, and then rate increases may be sought every six months under Section 9. Section 10(b) requires all eligible improvements to be designated at the time the 7-year plan is approved. See Ind. Code §8-1-39-10(b). Section 2 defines "eligible" improvements as projects that either were "designated" in the 7-year plan and "approved by the commission under section 10," or are targeted economic development projects subject to Section 11. See Ind. Code §8-1-39-2(3)(A). There are no targeted economic development projects at issue in this proceeding. See Pet. Ex. 1 at 8-10. By the Section 2 definition, then, the only eligible projects are those designated under Section 10 in the approved 7-year plan. As the Commission has recognized, "it is a function of a Section 10 proceeding, not a Section 9 proceeding, to designate eligible improvements." See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 35.

Section 9(a) calls for the utility to "update" its plan in each six-month rate proceeding, and states: "An update may include a petition for approval of a targeted economic development project under section 11 of this chapter." See Ind. Code §8-1-39-9(a). By expressly stating an update may include the addition of a targeted economic development project, the statute plainly prohibits the added designation of projects that are not targeted economic development projects. See Howard Regional Health System v. Gordan, 952 N.E.2d 182, 187 (Ind. 2011) ("When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode.") (quoting Estate of Cullop v. State, 821 N.E.2d 403, 409 (Ind. App. 2005)).

The original structure of both NIPSCO's 7-Year Electric Plan and its 7-Year Gas Plan involved project-specific detail only for the first year, with spending levels by project category for the other six years and an undertaking to identify particular improvements periodically in plan updates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 2-3, 32-33. The approval of the Electric Plan was reversed on appeal. See NIPSCO Industrial Group, 31 N.E.3d 1. The Court of Appeals held the eligible improvements for all seven years must be designated when the 7-year plan is submitted for approval, not postponed to later updates. Id. at 6-9. On remand from that decision, NIPSCO provided additional evidence regarding projects for all seven years, but about 40% of the total costs did not relate to specified projects and "instead flow from planned processes to identify specific eligible improvements at a later time." See Remand Order (IG Adm. Not. 1, Tab 3) at 12. The Commission disallowed those portions of the Electric Plan, finding those investments "are not defined to a level the Commission can approve as eligible improvements." Id. at 13.

With regard to the Gas Plan, NIPSCO undertook in TDSIC-3 to conform to the requirements explained in the appellate decision by providing additional evidence as to planned improvements for all seven years. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 32-33. The Commission concluded new projects cannot be added to a 7-year plan subsequent to plan approval, because "it is a function of a Section 10 proceeding, not a Section 9 proceeding, to designate eligible improvements." Id. at 35. "The purpose of plan approval under Section 10 is to define or preapprove the set of eligible improvements that are capital in nature and designated as eligible for TDSIC treatment under Section 9." Id. The Commission also, however, approved certain categories that NIPSCO described as "project groups" or later "multiple unit projects," which, like the portions of the Electric Plan that were disallowed in the Remand Order, involved processes to select specific improvements periodically and identify those projects in Section 9 updates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 37-38; TDSIC-4 Order (IG Adm. Not. 1, Tab 5) at 29-30; TDSIC-5 Order (IG Adm. Not. 1, Tab 6) at 27-28. The Commission found it sufficient that NIPSCO established "ascertainable planning criteria" for selecting particular improvements in the "multiple unit project" categories. Id.

The TDSIC-4 Order was affirmed in a split decision by the Court of Appeals. See NIPSCO Industrial Group v. Northern Indiana Public Service Co., 78 N.E.3d 730 (Ind. App. 2017), transfer pending. The majority opinion endorsed the conclusion that the use of ascertainable planning criteria for selecting projects within "multiple unit project" categories was sufficient to comply with the statute. Id. at 737-39. A dissenting opinion, however, concluded the "multiple unit project" categories were no different from the plan structure that was held to be in violation of the statute in the 2015 NIPSCO Industrial Group case. Id. at 740 (Barnes, J., dissenting). The dissent stated the TDSIC Statute requires projects to be designated when the 7-year plan is approved:

"Allowing the utility to include broad categories of unspecified projects defeats the purpose of having a 'plan.'" Id. That case is currently before the Indiana Supreme Court on a pending petition to transfer.

In a case involving a different utility, the Court of Appeals affirmed a Commission order concluding that new projects cannot be added to an approved 7-year plan through a Section 9 update. See Indiana Gas Co. v. Indiana Utility Regulatory Commission, 75 N.E.3d 568 (Ind. App. 2017). The Court found "it is clear that the Legislature intended for utilities to recover some of their costs through general rate cases rather than TDSIC update petitions." Id. at 578. Citing the 2015 NIPSCO Industrial Group decision, the Court emphasized the distinct functions of Section 10 and Section 9 proceedings. Id. The Court construed Section 10 as the provision under which eligible improvements are designated, and the statutory definition in Section 2 as confirming eligible improvements must be designated in a 7-year plan approved under Section 10 (with the exception of targeted economic development projects under Section 11). Id. at 578-79. "This definition requires that the Commission approve eligible improvements under either Section 10 or Section 11, not Section 9." Id. at 579.

The process of selecting projects within the "multiple unit project" categories subsequent to plan approval through use of "ascertainable planning criteria" is not supported by the terms of the TDSIC Statute. Section 10 requires that the improvements must be "designated" when the 7-year plan is approved, and the Section 2 definition limits "eligible" projects to those designated when the plan was approved under Section 10. The statutory language does not include any exception for later-identified projects that may be selected using "ascertainable planning criteria." Such an exception could swallow the rule, as the utility can always be expected to apply some discernible criteria when selecting projects. The TDSIC Statute establishes a capital tracker based on preapproval of designated projects, not an expense tracker covering whatever system work comes up during the 7-year period. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 35. The mechanism cannot be applied so broadly that the terms of Section 10 and Section 2 requiring the threshold designation of eligible improvements lose their force and effect. See ESPN, Inc. v. University of Notre Dame Police Dept., 62 N.E.3d 1192, 1199 (Ind. 2016) (statute cannot be interpreted in a way that renders any part meaningless or superfluous).

NIPSCO, notably, is no longer identifying further System Deliverability projects that were not already specified in the approved plan. A determination that NIPSCO will no longer be allowed to select and identify additional improvements within "multiple unit project" categories through Section 9 updates does not inhibit the completion of needed system work, nor does it prevent NIPSCO from recovering appropriate investments through rates. See TDSIC-3 Order (IG Adm. Not. 1, Tab 4) at 36 ("Therefore, to the extent an investment is deemed appropriate to provide safe and reliable service, NIPSCO is expected to proceed whether tracker recovery under the TDSIC Statute is available or not. Any investments not included among the designated eligible improvements in an approved plan remain subject to cost recovery as authorized by other applicable laws."). Inspect & Mitigate and Storage projects, furthermore, predominantly involve work that is required to comply with federal safety standards. NIPSCO, of course, can be expected to continue to comply with federal law, regardless of whether costs are recoverable through the TDSIC rider. See Indiana Gas, 75 N.E.3d at 578 ("the Legislature clearly did not intend this cost-recovery method to apply to all projects, or even to as many projects as possible"); NIPSCO Industrial Group, 78 N.E.3d at 740 (Barnes, J., dissenting) ("The TDSIC statute requires a specific plan, and it was not designed to deal with those unexpected issues. Rather, it was intended for planned projects.").

The Commission concludes, therefore, that eligible improvements within the System Deliverability, Inspect & Mitigate, and Storage categories of "multiple unit projects" shall be limited to those previously identified with particularity. Such projects that were identified for the first time in Plan Update-8 are disallowed, and further identification of such projects in future Section 9 proceedings will not be permitted. The approved expenditures for already identified projects shall remain at or below the levels approved in TDSIC-7, pending any further determinations as may arise from the pending appeals. Finally, NIPSCO shall remove from its 7-year plan all cost estimates associated with System Deliverability, Inspect & Mitigate, and Storage categories for which specific improvements have not yet been identified. NIPSCO shall further adjust its computation of indirect capital and AFUDC to reflect the disallowances herein.

3. **Public Convenience and Necessity.** Mr. Bull testified that consistent with NIPSCO's approved Plan, the eligible improvements included in Plan Update-8 will serve the public convenience and necessity. He explained that Plan Update-8 follows the requirements of the TDSIC Statute by making investments for the purposes of safety, reliability, system modernization and economic development consistent with public policy and the public interest. No evidence was presented in this Cause to contest the continued public convenience and necessity associated with the designated eligible improvements in the Plan.

NIPSCO has a statutory obligation to provide reasonably adequate retail service in its certificated gas service territory for the public convenience and necessity pursuant to Ind. Code §§ 8-1-2-4, -87 and -87.5. We find that NIPSCO has sufficiently supported that the eligible improvements as described in Plan Update-8, subject to the disallowances set forth in Findings 1 and 2 above, are reasonably necessary for it to continue to provide adequate retail service to its customers, and the public convenience and necessity continues to require or will require those eligible improvements.

~~3~~4. **Incremental Benefits Attributable to the Updated Plan.** Mr. Bull testified that consistent with the approved Plan, Plan Update-8 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. Plan Update-8 is also intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, the replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investments to enhance pipeline safety and reliability, and the extension of gas facilities into rural areas.

In the 44403 Order (at 23), we found that "NIPSCO's 7-Year Gas Plan contains solutions that will enhance customer and employee safety, avoid outages, preserve operational integrity, provide equipment protection, and meet evolving customer demands." Although the cost estimates for some projects have increased compared to those approved in Plan Update-7, and some projects have been delayed beyond the 7-Year Gas Plan timeframe, there is no evidence of a dispute that the eligible improvements provide incremental benefits to NIPSCO's customers.

Based upon the evidence presented in this proceeding and for the reasons set forth above, we find the estimated costs of the eligible improvements included in Plan Update-8 as approved herein, subject to the disallowances set forth in Findings 1 and 2 above, are justified by the incremental benefits attributable to the Plan.

~~4~~5. **Conclusion.** Subject to the disallowances set forth in Findings 1 and 2 above, Plan Update-8 includes sufficient evidence for us to determine the best estimate of the cost of the eligible improvements and the public convenience and necessity continues to require or will require the eligible improvements, and the estimated costs of the eligible improvements continue to be justified by the incremental benefits attributable to Plan Update-8. On that basis, NIPSCO's Plan Update-8 appropriately and reasonably addresses NIPSCO's aging infrastructure through projects intended to enhance, improve and replace system assets for the provision of safe and reliable natural gas service, as well as the extension of service into rural areas. Therefore, based on the evidence presented, we find that Plan Update-8 is reasonable and approve it as ~~submitted~~modified in Findings 1 and 2 above.

B. TDSIC-8 Factors. In the TDSIC-1 Order, the Commission approved NIPSCO's request for approval of a TDSIC Rate Schedule and accompanying changes to NIPSCO's gas service tariff to allow for timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs pursuant to Ind. Code § 8-1-39-9. Consistent with the ratemaking and accounting principles approved by the TDSIC-1 Order, NIPSCO requests approval of its TDSIC-8 factors to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs incurred through December 31, 2017.

Although we find that NIPSCO has satisfied the statutory methodology for calculating the TDSIC-8 factors, this Order reflects certain disallowances and modifications to the projects eligible for TDSIC treatment. Accordingly, NIPSCO shall revise its schedules consistent with the findings in this Order and submit the revised schedules under this Cause prior to implementing the TDSIC-8 factors.

1. Section 9 Requirements. Indiana Code § 8-1-39-9(a) provides:

> [s]ubject to subsection (c), a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. The petition must:
>
> (1) use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order;
> (2) include the public utility's seven (7) year plan for eligible transmission, distribution, and storage system improvements; and
> (3) identify projected effects of the plan described in subdivision (2) on retail rates and charges.

a. **NIPSCO's 7-Year Gas Plan**. As part of its direct testimony, NIPSCO attached its currently approved 7-Year Gas Plan as well as its proposed Plan Update-8. Therefore, NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a).

b. **Customer Class Revenue Allocation**. In our TDSIC-3 Order, we found that NIPSCO's approved capital expenditures and TDSIC costs should be allocated to the various customer classes based on total revenue, including gas cost revenue. Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order which NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 7.

Therefore, we find that NIPSCO's approved capital expenditures and TDSIC costs have been properly allocated to the various customer classes in accordance with Ind. Code §8-1-39-9(a)(1) and the TDSIC-3 Order.

c. **Projected Effect on Retail Rates and Charges**. Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 6, which identifies: (1) the projected effect of Plan Update-7 on retail rates and charges, and (2) the projected effect of Plan Update-8 on retail rates and charges. This exhibit also summarizes the total estimated revenue requirement for each rate class from 2014 to 2020. Finally, Mr. Racher testified the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $4.14 and represents a $2.51 increase from the factor approved in TDSIC-7. Based on our review of the evidence, we find that NIPSCO provided sufficient information regarding the projected effects of the Plan Update-7 and Plan Update-8 on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

2. **Reconciliation**. Mr. Racher testified that NIPSCO is including a reconciliation of revenues in this filing. The revenue requirement calculated in the TSDIC-6 filing is being reconciled against the actual revenues received from customers during July through December 2017. This under-/over-recovery analysis is performed as part of Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 6.

3. **Semi-Annual Revenue Requirement**.

a. **Capital**. In this proceeding, NIPSCO requests approval of a total adjusted semi-annual revenue requirement associated with a return on eligible improvements incurred through December 31, 2017 of $12,438,106 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 2, Line 4, Column M). The 80% recoverable adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $9,950,485 (*Id.* at Line 6). The 20% portion of the adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $2,487,621 (*Id.* at Line 5).

The total cost of the eligible improvements incurred through December 31, 2017, upon which NIPSCO requests authority to earn a return is $405,150,049 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 2, Line 1, Column M). Mr. Racher testified this total includes AFUDC, other indirect costs, and is net of accumulated depreciation. He testified the AFUDC related to TDSIC projects was calculated in accordance with the FERC Uniform System of Accounts, which is consistent with GAAP. He further testified that if the Commission approves the proposed ratemaking treatment for costs of the eligible improvements incurred through December 31, 2017, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first.

In accordance with our findings above relating to proposed recovery through the TDSIC tracker of costs in excess of the amounts previously approved, and subject to the disallowances set forth in ~~TDSIC-6~~this Order, we otherwise approve ~~$405,150,049 as~~ the ~~total~~reported cost of the eligible improvements incurred through December 31, 2017, upon which NIPSCO is authorized to earn a return.

In TDSIC-1, the Commission ordered NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return and provided that the WACC should be updated in each semi-annual TDSIC filing to reflect an updated capital structure and cost of debt. The calculation of NIPSCO's updated total WACC is shown on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 1. Mr. Racher explained that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted cost of capital. The product of this calculation is then multiplied by 50% in order to calculate a semi-annual revenue requirement. This semi-annual amount is then multiplied by 20% to calculate the deferred amount. The 80% portion is then adjusted for taxes. The semi-annual Return on Investment amount is then shown on Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5to be recovered for bills rendered for the months of July through December 2018.

Based on the evidence of record, ~~we find~~NIPSCO shall calculate the appropriate total semi-annual revenue requirement associated with the approved eligible improvements and approved costs as of December 31, ~~2017, to be $12,438,106 and~~2017, and the 80% recoverable semi-annual revenue requirement ~~of $9,950,485 to have been calculated~~ in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order~~, and the revenue requirement is approved~~.

b. Depreciation, O&M Expense and Property Tax Expenses. In this proceeding, NIPSCO requests approval of a total depreciation, O&M, and property expense through December 31, 2017 of $3,146,951 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 4, Column E, Total of Pages 1, 2, 3, Line 7). The 80% recoverable depreciation, O&M and property tax expense associated with eligible TDSIC projects is $2,517,561 (*Id.* at Line 9). The 20% portion of the depreciation, O&M and property tax expense associated with eligible TDSIC projects is $629,390 (*Id.* at Line 8).

Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 4, which shows the depreciation expense, O&M, and property taxes for the period July through December 2017, which was reduced by 20% to calculate the 80% revenue requirement and then adjusted for taxes as shown on Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 4. The 80% revenue requirement amount is then included on Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December 2018.

~~Based on the evidence of record, we find that~~The Commission approves NIPSCO's methodology for calculating total depreciation, O&M, and property tax expense associated with eligible TDSIC projects through December 31, 2017~~, is \$3,146,951~~; the 80% recoverable depreciation, O&M, and property tax expense associated with eligible TDSIC projects~~ is \$2,517,561~~; and the 20% portion of the depreciation, O&M, and property tax expense associated with eligible TDSIC projects~~ is \$629,390. These amounts have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order and are approved~~. NIPSCO shall update its schedules to reflect the approved eligible costs as determined in this proceeding.

c. Margin Credit for Rural Extensions. In the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include in its 7-Year Gas Plan all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy. The Commission also approved NIPSCO's proposal to provide a credit to the TDSIC tracker for 80% of actual margins received from all new customers added under the rural extensions policy. TDSIC-1 Order at 19, 25-26. In this proceeding, Mr. Racher testified these amounts are calculated on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 5 and are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period of July through December 2017.

Based on the evidence of record, we conclude that the rural extensions margin credit calculated on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 5 is computed in accordance with the TDSIC-1 Order, and it is approved.

4. Calculation of TDSIC Factors. Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 8, which shows the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirement adjusted for prior period variances of \$15,243,222 (at Line 28, Column P). He testified the factors are calculated by dividing the total revenue requirement by the estimated therm sales to compute a billing factor for bills rendered for the months of July through December 2018. Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 3 (Appendix F - Transmission, Distribution and Storage System Improvement Charge (Sixth Revised Sheet No. 157)) showing the TDSIC factors proposed to be applicable for bills rendered during the months of July through December 2018, or until replaced by different factors that are approved in a subsequent proceeding.

The OUCC indicated that NIPSCO's TDSIC calculation schedules contained in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedules 1 through 11, and Attachment 2, Schedules 1 through 6, effectively and accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal.

Based on the evidence and our consideration of the contested issues, and subject to revisions to schedules to reflect the determinations in this Order, we approve the proposed TDSIC factor calculation methodology set forth in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 8 to be applicable to bills rendered during the months of July through December 2018 or until replaced by new factors.

5. Billing Period. In this proceeding, NIPSCO requests approval of TDSIC factors to be applicable to bills rendered during the billing months of July through December 2018 to effectuate the timely recovery of 80% of TDSIC costs incurred in connection with NIPSCO's eligible improvements. Mr. Racher testified the TDSIC factors include TDSIC costs incurred through December 31, 2017.

C. Deferred TDSIC Costs. In the TDSIC-1 Order, we authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with the eligible transmission, distribution, and storage improvements as approved in this Order and recover those deferred costs in its next general rate case. TDSIC-1 Order at 30. NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred TDSIC costs until such costs are recovered in NIPSCO's base rates as a result of its next general rate case. *Id.* We also authorized NIPSCO to defer all approved TDSIC costs, including depreciation, pretax returns, AFUDC, post-in-service carrying costs, O&M, and property taxes on an interim basis until such costs are recognized for ratemaking purposes through Petitioner's proposed TDSIC mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. *Id.*

In this proceeding, Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 10, which serves as a record of the deferred TDSIC costs as well as the ongoing carrying charges on all deferred costs, excluding tax gross up. He testified NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs as a result of the deferral of 20% of all TDSIC costs for recover in its base rates consistent with Ind. Code § 8-1-39-9(b).

In the TDSIC-1 Order, we also ordered that with respect to the 112th Street Project, NIPSCO may recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with NIPSCO's best estimate in Cause No. 44403 and NIPSCO may defer for recovery in its next base rate case the difference between the amount authorized in Cause No. 44403 and the actual cost of the project. Consistent with the TDSIC-1 Order, NIPSCO proposes to defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between the amount approved in Cause No. 44403 and the actual amount of the project. Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 11, which shows the total depreciation and property taxes NIPSCO proposes to defer relating to this difference as of December 31, 2017.

~~Based on the record evidence and in accordance with our TDSIC-1 Order, we find that~~The Commission approves NIPSCO's methodology for calculating the total costs to be deferred and recovered in NIPSCO's base rates in its next general rate case ~~are $16,007,757~~ (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, ~~Schedule~~Schedules 10~~) and the depreciation and property tax expenses associated with the 112th Street Project to be deferred are $739,018 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule~~ and 11). NIPSCO shall update its schedules consistent with the determinations in this Order.

D. Average Aggregate Increase in Total Retail Revenues. Ind. Code § 8-1-39-14(a) states as follows:

> The commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than two percent (2%) in a twelve (12) month period. For purposes of this subsection, a public utility's total retail revenues do not include TDSIC revenues associated with a target economic development project.

Mr. Racher sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 9 (the revised TDSIC-8 revenue requirement calculation on Attachment 1, Schedule 5), which shows there is no amount in excess of 2% of retail revenues for the past 12 months. Mr. Racher testified that NIPSCO has calculated the 2% cap by comparing the increase in TDSIC revenues in a given year with the total retail revenues for the past 12 months. The retail revenues used in this calculation represent the revenues related to the 12 months ending December 31, 2017.

Based on the record evidence, we find that NIPSCO's proposed TDSIC-7 factors will not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

6. Records Project. In our TDSIC-7 Order, we found that,

> NIPSCO shall also include an update on the results of the time study referenced in NIPSCO's Docket Entry response and by Mr. Mooney at the hearing and a projection of the date for completion of the work remaining within the scope of the Records Project.

Id. at p. 27. In this proceeding, NIPSCO presented testimony from Ms. Hasan Bey that provided an update on the results of the time study and also provided additional information concerning progress on the Records Project and the projected timeline for completion. We recognize the challenges associated with the work involved with the Records Project, but also its importance. We encourage NIPSCO to continue its efforts to expedite completion of the Records Project and find that NIPSCO should include testimony in subsequent TDSIC filings as required to update the Commission on changes in the status of the Records Project or its timeline.

7. Confidential Information. NIPSCO filed a motion for protective order on February 27, 2018 which was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on March 12, 2018 finding such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. NIPSCO's Plan Update-8, as modified by the terms of this Order, is approved and the approved projects are designated as eligible transmission, distribution, and storage system improvements under Ind. Code § 8-1-39-2.

2. NIPSCO is authorized to defer, as a regulatory asset, and recover 80% of the approved capital expenditures and TDSIC costs, as approved herein, incurred in connection with its designated eligible improvements approved in its rates and charges for gas service in accordance with NIPSCO's TDSIC beginning with the month of July, 2018.

3. NIPSCO is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(g)(3)(c) pursuant to Ind. Code § 8-1-39-13(b).

4. NIPSCO is authorized to defer, as a regulatory asset, 20% of the TDSIC costs, as approved herein, incurred in connection with its designated eligible improvements and recover those deferred costs in its next general rate case, which is to be filed no later than April 30, 2021.

5. NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred capital expenditures and TDSIC costs, as approved herein, until such costs are recovered in NIPSCO's base rates as a result of its next general rate case.

6. NIPSCO is authorized to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project.

7. The TDSIC factors set forth in Attachment 1-A, Attachment 1, Schedule 8 to the Verified Petition, as modified in accordance with the determinations in this Order, are hereby approved to be effective for bills rendered by NIPSCO for the months of July through December 2018 or until replaced by different factors approved in a subsequent filing;

8. Prior to implementing the authorized TDSIC factors approved herein, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division showing all modifications required by this Order.

9. The information filed by Petitioner in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

10. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER AND ZIEGNER CONCUR:
APPROVED:

I hereby certify that the above is a true
and correct copy of the Order as approved.

Mary M. Becerra,
Secretary of the Commission