

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NIPSCO GENERATION LLC FOR
CERTAIN DETERMINATIONS BY THE COMMISSION WITH
RESPECT TO ITS JURISDICTION OVER PETITIONER'S
ACTIVITIES AS A NON-RETAIL GENERATOR OF ELECTRIC
POWER.

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CAUSE NO. 46183

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Verified Direct Testimony of Michael P. Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

8 A NIPSCO Industrial Group ("Industrial Group").
9

10 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

11 A This information is included in Appendix A to my testimony.

12 **Q HAVE YOU BEEN INVOLVED WITH PRIOR PROCEEDINGS BEFORE THE**
13 **INDIANA UTILITY REGULATORY COMMISSION ("IURC" OR "COMMISSION")?**

14 A Yes. I have been involved in prior proceedings before this Commission and have
15 presented testimony in some of those proceedings.

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 A I will comment on NIPSCO's proposal to form an unregulated generation affiliate
3 referred to as NIPSCO GenCo ("NIPSCO GenCo," "GenCo" or "Petitioner"). Under
4 that proposal, NIPSCO GenCo will be used to provide generation and interconnection
5 agreements for megaload customers that will become retail customers of NIPSCO.
6 The Petitioner maintains that NIPSCO GenCo will exclusively be a wholesale power
7 market provider; will serve power to NIPSCO through a purchase power agreement
8 ("PPA") or a comparable agreement; and will predominately sell all of its capacity and
9 energy to NIPSCO and will only offer power to the wholesale markets in the event it
10 has excess generation.

11 The Petitioner asserts there is risk in serving megaload customers based on
12 their ability to pay for service, remain on the system long enough to pay for the
13 resources needed to serve the large loads, and protect current NIPSCO customers
14 from the risk that megaload customers will endeavor to reduce or terminate service
15 prior to the completion of the service contract. GenCo claims that formation of NIPSCO
16 GenCo will provide protections to current NIPSCO customers and allow
17 NIPSCO/GenCo to make investments in generation and transmission facilities needed
18 to serve new megaload customers.

19 More specifically, Petitioner's witness Erin Whitehead outlines the investments
20 needed to serve megaload customers, and the relationship between NIPSCO GenCo
21 and NIPSCO to provide service to these large customers.¹ This includes the following:

- 22 • NIPSCO GenCo will construct and operate electric generation and related
23 facilities that connect to NIPSCO's transmission system to allow NIPSCO
24 to serve customers, primarily megaload customers. She states that
25 NIPSCO GenCo does not currently anticipate owning transmission lines.

¹ Direct Testimony Erin Whitehead at 10-13.

- 1 • NIPSCO will be the retail electric provider to all megaload customers.
2 NIPSCO will maintain the obligation to serve the megaload customers
3 energy and capacity and will operate as a market participant in the
4 Midcontinent Independent System Operator (“MISO”) serving customers
5 and balancing load.

- 6 • NIPSCO GenCo will develop generation assets and be obligated pursuant
7 to a full requirements agreement (such as a PPA) with NIPSCO to supply
8 all energy and capacity to NIPSCO needed to serve the megaload
9 customer. NIPSCO GenCo will be obligated to satisfy its obligations to
10 NIPSCO based on a Commission-approved special contract or form of a
11 PPA.

- 12 • NIPSCO and the megaload customer will enter into a special contract that
13 will address the provisions of electric service to the megaload customer.
14 The special contract will include provisions and detail the customer’s rights
15 and obligations as well as NIPSCO’s obligation to provide service to the
16 megaload customer using generation resources supplied by NIPSCO
17 GenCo. NIPSCO will bill the megaload customer for service consistent with
18 the terms and conditions in the special contract.

- 19 • NIPSCO GenCo will not have any retail customers. NIPSCO will be the
20 retail electric service provider for all customers in the electric service
21 territory – including any new megaload customers when they locate in the
22 service territory.

- 23 • NIPSCO GenCo will have only one customer, NIPSCO. NIPSCO and
24 NIPSCO GenCo will enter into PPAs (or similar agreements) whereby all
25 energy and capacity from GenCo’s generating asset will be delivered and
26 sold to NIPSCO and utilized by NIPSCO to serve megaload customers.

- 27 • To the extent NIPSCO GenCo has more capacity or energy beyond that
28 needed by NIPSCO to serve its megaload customers, NIPSCO GenCo may
29 offer excess energy and/or capacity for sale into the wholesale market.

- 30 • NIPSCO GenCo is the key to NIPSCO’s approach to serving megaload
31 customers. NIPSCO GenCo will construct, own, and operate the generating
32 facilities and related assets needed to serve megaload customers.

- 33 • NIPSCO GenCo and NIPSCO will be separate companies although both
34 are wholly-owned subsidiaries of NIPSCO Holdings II, which in turn is
35 owned by NiSource, a publicly traded company. This separate corporate
36 approach will allow the production-related assets needed to serve
37 megaload customers to be separated from the assets owned and operated
38 by NIPSCO to serve its current retail customers.

1 **Q DID MS. WHITEHEAD ADDRESS HOW THE NIPSCO GENCO STRUCTURE WILL**
2 **SUPPORT NIPSCO'S FINANCIAL INTEGRITY?**

3 A Yes. Ms. Whitehead outlined her understanding that the proposed NIPSCO GenCo
4 structure was designed with the interest of maintaining NIPSCO's financial integrity and
5 ensuring its ability to continue to serve existing customers. She discusses NIPSCO's
6 financial integrity and its ability to serve its customers, stating that NIPSCO GenCo will
7 be a separate corporate entity and that NIPSCO would consider counterparty credit
8 risk of new megaload customers as they propose to contract for service from NIPSCO.

9 She states that based on the size of individual megaload customers, and the
10 potential number of megaload customers that may be interested in locating in
11 NIPSCO's service territory, the proposed NIPSCO GenCo structure will allow for speed
12 and quick response to the infrastructure investments needed to provide service to
13 megaload customers if they locate in NIPSCO's service territory.

14 She opines that NIPSCO's obligation to receive a Certificate of Public
15 Convenience and Necessity ("CPCN") is too slow to respond to the investment timing
16 requirements demanded by megaload customers. In the petition, NIPSCO GenCo
17 claims that the CPCN statute was intended to protect retail customers from the
18 development of excessive generation resources and to protect utilities' ability to recover
19 prudent investments. Petitioner maintains that the CPCN statute was not intended to
20 apply in the absence of an obligation to serve and an ability to recover cost through
21 regulated rates.²

22 Ms. Whitehead also explains how the proposed NIPSCO GenCo will provide
23 more reasonable protection to NIPSCO's existing retail customers. She states that
24 NIPSCO GenCo will own the production assets and related resources needed to serve

² Verified Petition at paragraph 7.

the megaload customers, which will diminish NIPSCO's risk of serving customers who could terminate their contract early and leave NIPSCO's service territory or discontinue operations (Direct at page 18).

Q DID THE COMPANY DESCRIBE ITS PROPOSAL RELATED TO HOW THE IURC WOULD DECLINE ITS JURISDICTION OVER NIPSCO GENCO?

A. Yes. NIPSCO GenCo requests the Commission exercise only limited jurisdiction over GenCo pursuant to the terms of Ind. Code 8-1-2.5-5(b). Attachment A to GenCo's Verified Petition lists each statute as to which NIPSCO GenCo seeks the Commission to decline its jurisdiction.

RESPONSE TO COMPANY'S PROPOSAL

Q PLEASE OUTLINE YOUR RESPONSE OF THE PROPOSAL FOR VERY LIMITED COMMISSION OVERSIGHT OF NIPSCO GENCO.

A The proposed structure should not be approved as proposed. Specifically, there needs to be clear separation between NIPSCO, megaload customers and NIPSCO GenCo, to reduce NIPSCO's risk. However, under the proposal, NIPSCO's risk is expanded because it faces the default risk of both NIPSCO GenCo and megaload customers. Hence, the proposal for an essentially unregulated GenCo affiliate actually increases NIPSCO's investment risk instead of reducing that risk.

Q DO YOU HAVE SPECIFIC CONCERNS WITH NIPSCO'S PROPOSAL TO DEVELOP AN UNREGULATED GENCO AFFILIATE TO SERVE MEGALOAD CUSTOMERS

A Yes.

1. The proposed ring-fenced separation between NIPSCO and NIPSCO GenCo is not well developed.

- 1 a) NIPSCO GenCo does not have a revenue stream absent a PPA with
2 NIPSCO. Hence, GenCo's ability to fund the development of the
3 generating resources needed to serve megaload customers will be
4 backed by NIPSCO's obligation to make payments to GenCo. Hence,
5 NIPSCO's credit rating and access to capital will be impacted by its
6 financial affiliation with GenCo.
- 7 b) The PPA agreements with GenCo will create a debt equivalent financial
8 obligation to NIPSCO. This debt equivalent obligation will impact
9 NIPSCO's leverage risk, credit rating and cost of capital. This financial
10 leverage risk will impact NIPSCO's cost of service to non-megaload
11 customers.
- 12 c) Petitioner proposes that NIPSCO will enter into special contracts with
13 megaload customers, and simultaneously enter into PPAs with NIPSCO
14 GenCo to procure the power NIPSCO will need to serve the new
15 megaload customers. If NIPSCO GenCo defaults on the PPA, NIPSCO
16 would still be liable to provide retail service under the special contract.
17 This could expose NIPSCO to contract default risk if the replacement
18 power costs needed to meet its obligation to serve the special contract
19 customer come at a higher price than the GenCo PPA or the retail
20 special contract price structure. In this event, NIPSCO would not be
21 able to fully recover its power supply costs to comply with the special
22 contract terms with the megaload customer. This risk could cause
23 financial harm to NIPSCO and impact its cost of service to other non-
24 megaload customers.
- 25 d) The asserted rationale for the proposed structure is that NIPSCO
26 GenCo will enable NIPSCO to serve megaload customers in a timely
27 manner, while mitigating financial risk to NIPSCO and insulating existing
28 NIPSCO customers from risk. The requested relief, however, involves
29 a declination of nearly all Commission authority over GenCo. There are
30 no proposed terms or conditions that would restrict GenCo's scope of
31 operations to the particular circumstances identified as the reason for
32 the proposed structure. Any grant of relief, accordingly, should be
33 expressly conditioned on defined limits tied directly to the statements of
34 intent presented in the Petition and supporting testimony.
- 35 e) While proposing the establishment of an essentially unregulated
36 generation affiliate, NIPSCO GenCo does not propose any Affiliate
37 Guidelines to govern its unregulated activities and dealings with
38 NIPSCO, its regulated public utility affiliate. Such safeguards are a
39 standard and necessary protection where regulated utilities conduct
40 business with unregulated affiliates.
- 41 f) NIPSCO GenCo proposes a waiver of the CPCN process for regulatory
42 certification of the construction or acquisition of generation resources.
43 That proposal is an extreme and unwarranted request where GenCo
44 anticipates building potentially gigawatts of new generation capacity.

1 The stated justification of supporting rapid deployment of resources
2 does not support the abdication of Commission oversight for massive
3 generation facilities being built in Indiana, where a CPCN proceeding
4 may be expedited and coordinated with the needed special contract
5 review to avoid regulatory delay.

6 g) Any grant of relief by the Commission should include additional process
7 protections. All PPAs between GenCo and NIPSCO should be reviewed
8 and approved by the Commission in a docketed proceeding. If the
9 generation resource used to support service to a new megload customer
10 is owned by a third party rather than NIPSCO GenCo, NIPSCO GenCo
11 should not be permitted to serve as a conduit at an excessive mark-up.
12 If NIPSCO seeks to establish a new megload rate schedule utilizing
13 the GenCo structure, it should not be permitted to force existing
14 customers to take service on the new rate. For any megload
15 customers seeking to deploy behind-the-fence generation resources,
16 GenCo should be required to compete with other potential suppliers if it
17 wishes to construct such a resource.

18 h) NIPSCO currently utilizes a NiSource affiliate to provide a range of
19 services under the terms of a Corporate Shared Services Agreement.
20 NIPSCO's charges for these services are based on an affiliate service
21 agreement and are recovered from its retail customers through base
22 rates. If NiSource's shared services affiliate provides service to
23 NIPSCO GenCo, the allocation methodology in the affiliate service
24 agreement should be changed in a manner that GenCo pays for all
25 services rendered based on the service company's cost of providing the
26 service. If GenCo defaults on payments for services, then NiSource
27 Corporate Shared Services should not be allowed to pass its
28 uncollectible unregulated affiliate cost on to NIPSCO or other regulated
29 entities.

30 **Q WHY WILL NIPSCO'S PPA'S WITH NIPSCO GENCO BE CONSIDERED IN ITS**
31 **CREDIT RATING?**

32 **A** Credit rating agencies assess the overall leverage risk and balance sheet strength for
33 utility companies by considering both recorded debt on the company's balance sheet
34 and debt-like contractual financial obligations such as Asset Retirement Obligations,
35 operating leases, and for electric utilities PPA. These debt like contractual financial
36 obligations are referred to as off-balance sheet debt equivalents and are included in
37 credit rating analysis credit rating financial metrics analyses that are used to gauge the
38 overall financial credit risk of the utility. The metric specifically measures the company's

1 cashflow and revenue strength to meet its obligation to pay debt service on all financial
2 obligations including off-balance sheet debt equivalents. S&P describes its including
3 of debt-like characteristics of a PPA as follows:

4 "Purchased power adjustment We may view long-term purchased power
5 agreements ("PPA") as creating fixed, debt-like financial obligations that
6 represent substitutes for debt-financed capital investments in generation
7 capacity."³

8 Moody's also recognizes both recorded balance sheet debt and off-balance sheet
9 contractual financial obligations including PPA's, in its credit rating financial metric
10 assessments of utilities.⁴ Moody's has characterized PPA debt in this manner:

11 "While we regard PPAs that reduce operating or financial risk as a credit
12 positive, some aspects of PPAs may negatively affect the credit of utilities.
13 The most conservative treatment would be to treat a PPA as a debt
14 obligation of the utility as, by paying the capacity charge, the utility is
15 effectively providing the funds to service the debt associated with the power
16 station."
17

18 **Q WHY IS NIPSCO EXPOSED TO DEFAULT RISK FROM BOTH GENCO AND**
19 **MEGALOAD CUSTOMERS?**

20 A Under the proposal, NIPSCO will enter a special contract to supply the megaload
21 customer at retail (Pet. Ex. 1 at 11). NIPSCO will also enter into a PPA with NIPSCO
22 GenCo to provide NIPSCO with the capacity and energy needed to serve the megaload
23 customer. NIPSCO will depend on GenCo to deliver the power needed to meet its
24 retail service obligation to megaload customers. Hence, NIPSCO faces default risk on
25 these obligations if either of the two parties default on their obligation in the supply
26 structure.

27 If a megaload customer stops paying for power, NIPSCO may have capacity or
28 minimum bill obligations under the PPA agreement with GenCo. If NIPSCO can't

³ S&P Global Ratings, Corporate Methodology: Ratios And Adjustments, April 1, 2019, at 32

⁴ Moody's, Investment Service Regulated Electric and Gas Utility Rating Methodology June 23, 2017, PPA's are discussed in Appendix E, page 42.

1 recover this power supply cost from other customers, then its financial strength could
2 be impaired which could impact its service to other customers.

3 In addition, if GenCo defaults by failing to on deliver power to NIPSCO, NIPSCO
4 will still have retail supply obligations to megaload customers. In that instance,
5 NIPSCO would need to seek a replacement source of power supply. If the replacement
6 supply cost is greater than the PPA price with GenCo, NIPSCO may not be able to
7 recover the cost differential from the megaload customers under the terms of the
8 special contracts. This would harm NIPSCO's financial strength and threaten its ability
9 to supply its other customers.

10 **Q IS THE RATIONALE PUT FORWARD IN THE PETITION, RELATING TO BUILDING**
11 **GENERATION FACILITIES TO SUPPORT SERVICE TO NEW MEGALOAD**
12 **CUSTOMERS WHILE INSULATING EXISTING NIPSCO CUSTOMERS FROM RISK,**
13 **TIED DIRECTLY TO THE REQUESTED RELIEF BEING SOUGHT IN THIS**
14 **PROCEEDING?**

15 **A** Not that I can see. The testimony by witness Whitehead emphasizes that the GenCo
16 proposal will enable NIPSCO to provide service to new megaload customers without
17 risk to NIPSCO's financial integrity or consequences to NIPSCO's existing customers.
18 The actual relief being sought, however, is a declination of almost all regulatory
19 jurisdiction over the new affiliate. The case is presented as an alternative regulatory
20 structure under Ind. Code 8-1-2.5, but the terms and conditions associated with the
21 proposed structure are not limited to or conditioned on the stated objectives that GenCo
22 is designed to achieve. If the proposed relief were granted in full as requested, there
23 would be an essentially unregulated generation affiliate empowered to build and
24 operate generation resources without Commission oversight, with no obligation to

1 restrict its activities to supporting service to new megaload customers. At the extreme,
2 this initiative could be the first step in completely deregulating the power production
3 function currently performed by NIPSCO.

4 **Q WHAT PROTECTIONS ARE NECESSARY AND APPROPRIATE TO LIMIT THE**
5 **SCOPE OF GENCO OPERATIONS TO THE CONTEXT PRESENTED BY THE**
6 **PETITIONER AS THE REASON FOR THE PROPOSED STRUCTURE?**

7 **A** At a minimum, the assurances and limits recited by witness Whitehead need to be
8 explicitly incorporated as binding terms and conditions for any grant of relief in this
9 case. In particular, GenCo's operations should be subject to at least the following:

- 10 1. GenCo should be the supplier of capacity and/or energy only for new
11 megaload customers, expressly excluding existing NIPSCO customers or
12 any expansion of operations or facilities by existing NIPSCO customers;
- 13 2. NIPSCO will be GenCo's only customer, and GenCo will not use its assets
14 or service arrangements with NIPSCO to support competitive services to
15 other customers in competitive markets;
- 16 3. NIPSCO will not transfer to GenCo any existing generation assets
17 supporting service to non-megaload customers, and GenCo will not bid on
18 or build any future or replacement capacity to serve non-megaload
19 customers; and
- 20 4. GenCo's assets will be limited to generation resources, and GenCo will not
21 own any substations, interconnection equipment to retail customers, or any
22 transmission facilities.

Q DO PETITIONER'S PETITION OR CASE-IN-CHIEF PROPOSE THE ESTABLISHMENT OF ANY AFFILIATE GUIDELINES GOVERNING DEALINGS BETWEEN NIPSCO AND GENCO?

A I did not see affiliate guidelines even being mentioned, much less proposed, in the filing. In the context of industry restructuring such as unbundling of public utility services, the establishment of guidelines governing dealings between regulated utilities and their unregulated affiliates has been a standard protection to prevent preferential treatment of unregulated operations. As reflected in Ind. Code §8-1-2-49, which specifically relates to dealings between regulated utilities and their affiliates, there is a recognized concern that absent suitable protections there may be incentive to extend favorable financial terms and other advantages for the benefit of unregulated operations, to enhance affiliate earnings.

Q HAS THE COMMISSION PREVIOUSLY APPROVED AFFILIATE GUIDELINES INVOLVING REGULATED UTILITIES AND THEIR UNREGULATED AFFILIATES?

A Yes. A notable example includes the Commission's July 24, 2002, Order in consolidated Cause Nos. 37394-GCA-50-S1 and 37399-GCA-50-S1, approving a settlement resolving concerns relating to the ProLiance joint venture between Indiana Gas and Citizens Gas. That settlement featured a full set of Affiliate Guidelines and Cost Allocation Guidelines for each of the regulated utilities.

Another example of protections associated with affiliate transactions that was specific to NIPSCO is the Commission's December 29, 1999, Order in Cause No. 41530, which involved a declination of jurisdiction relating to the proposed construction of Whiting Clean Energy, a cogeneration facility being built by a NIPSCO affiliate to provide steam service to a large NIPSCO customer with electric output to be sold in

1 the wholesale market. In that case, the Commission conditioned the grant of relief on
2 a requirement that NIPSCO must receive explicit Commission authorization for any
3 purchase by NIPSCO of power produced by the affiliate operation. See 41530 Order
4 at Ordering Paragraph 3. Indeed, the Commission later reviewed in a separate docket
5 a proposed sale of power from that facility to a NIPSCO marketing affiliate. See August
6 23, 2006, Order in Cause No. 42824.

7 **Q WHAT KIND OF AFFILIATE GUIDELINES DO YOU CONSIDER TO BE**
8 **APPROPRIATE IN THIS CONTEXT?**

9 A The Affiliate Guidelines and Cost Allocation Guidelines approved by the Commission
10 in 2002 in connection with the ProLiance arrangement are a good example of
11 reasonable and appropriate protections in this context. Copies of those guidelines
12 applicable to Indiana Gas and Citizens Gas are included in **Attachment 1** to my
13 testimony. Among other provisions, those guidelines prohibit cross-subsidies between
14 regulated and unregulated operations, shared employees between the utility and the
15 unregulated affiliate, any preferential access to utility assets or system resources, and
16 any preferential access to utility customer information, while requiring procurement on
17 competitive terms, separation of operations to the maximum extent practicable, and
18 affiliate payment for all shared corporate services provided on its behalf.

1 **Q BESIDES THE ESTABLISHMENT OF REASONABLE AFFILIATE GUIDELINES,**
2 **ARE THERE ANY ADDITIONAL PROTECTIONS THAT YOU CONSIDER**
3 **APPROPRIATE IN CONNECTION WITH DEALINGS BETWEEN NIPSCO AND**
4 **GENCO?**

5 **A**Yes. Witness Whitehead indicates that GenCo may market excess capacity or energy
6 from the resources it builds or holds. To the extent that those resources are dedicated
7 to supporting service by NIPSCO to retail customers and are paid for by megaload or
8 other retail customers, the proceeds of any such sales of excess capacity or energy
9 should flow back to NIPSCO and its customers and should not be retained by GenCo.
10 The risk is that GenCo may take advantage of those resources to obtain unregulated
11 revenue from sales in competitive markets and may even have incentive to overbuild
12 capacity to maximize such marketing opportunities.

13 In addition, my understanding is that under Ind. Code §8-1-2-49, an affiliate
14 contract must be filed by the regulated utility with the Commission but is effective upon
15 filing and may be disapproved by the Commission only after notice, hearing and order.
16 In this context, given the level of deregulation being proposed over an affiliate's role in
17 fulfilling a core utility function of maintaining sufficient generation resources to serve
18 customer demand reliably, I recommend that a higher level of scrutiny is appropriate
19 for any contracts between NIPSCO and GenCo. In particular, the 30-day filing
20 procedure under 170 Ind. Admin. Code 1-6 would be reasonable to provide better
21 notice of filings and opportunity for objections before an affiliate contract becomes
22 effective.

1 **Q WHAT PROCESS IS PETITIONER PROPOSING FOR CERTIFICATION OF THE**
2 **GENERATION FACILITIES THAT WILL BE BUILT BY GENCO TO SUPPORT**
3 **NIPSCO’S PROVISION OF RETAIL SERVICE TO MEGALOAD CUSTOMERS?**

4 **A**The material provisions of Ind. Code 8-1-8.5 are among the regulatory statutes for
5 which a declination of Commission jurisdiction is being requested. In other words, the
6 ordinary procedure for seeking and securing a certificate of public convenience and
7 necessity (“CPCN”) for the construction or acquisition of a power production resource
8 would, under the proposed structure, be waived entirely for generation facilities
9 constructed by GenCo. If that relief were granted, GenCo would be able to construct
10 generation resources to serve potentially gigawatts of new demand from megaload
11 customers, without any need to obtain a CPCN and with no certification process or
12 regulatory oversight by the Commission whatsoever.

13 **Q IS THAT PROPOSAL REASONABLE AND IN THE PUBLIC INTEREST?**

14 **A**No. These are resources that will be dedicated to support service by NIPSCO to retail
15 customers located in its service territory. As explained earlier in my testimony,
16 NIPSCO’s duty to provide reasonably adequate service to retail customers, including
17 megaload customers, presents a potential risk to NIPSCO’s financial integrity and its
18 other customers in the event of any default or failure by GenCo to fulfill its obligations
19 under the PPAs with NIPSCO. In addition, oversight of the siting, development and
20 maintenance of adequate generation resources in Indiana is a fundamental function of
21 the Commission. It is unreasonable and inappropriate to suggest that massive power
22 plants can or should be constructed in Indiana without any advance Commission review
23 of the proposed resource and a determination of reasonableness and necessity to meet
24 the identified need.

1 **Q UNDER THE PROPOSED STRUCTURE, WOULD GENCO RETAIN THE OPTION OF**
2 **EXERCISING EMINENT DOMAIN AUTHORITY IN CONNECTION WITH THE SITING**
3 **AND CONSTRUCTION OF THE ANTICIPATED GENERATION FACILITIES?**

4 A Apparently, yes. The petition at paragraph 2 states that GenCo is and will continue to
5 be a “public utility” under Indiana law. The statutory provisions relating to eminent
6 domain by public utilities are not included among the statutes listed in Attachment A of
7 the Petition as to which a declination of jurisdiction is being sought. I did not see any
8 indication in witness Whitehead’s testimony indicating that GenCo proposes to waive
9 eminent domain authority.

10
11 **Q IS IT REASONABLE AND APPROPRIATE FOR AN UNREGULATED GENERATION**
12 **BUSINESS WITH NO OBLIGATION TO SEEK OR SECURE A CPCN FROM THE**
13 **COMMISSION TO RETAIN THE ABILITY TO EXERCISE EMINENT DOMAIN IN**
14 **CONNECTION WITH THE SITING AND CONSTRUCTION OF GENERATION**
15 **FACILITIES?**

16 A Not in my view. In connection with the declination of jurisdiction over proposed projects
17 by independent power producers, my understanding is that the Commission typically
18 conditions that grant of relief on a waiver of eminent domain authority. A good example
19 is the Commission’s Order in Cause No. 41530, where the construction of a
20 cogeneration facility by a NIPSCO affiliate under a plan where electric output would be
21 sold in the wholesale market was subject to a condition that the affiliate would not
22 exercise the power of eminent domain or use public rights-of-way. See 41530 Order
23 at Ordering Paragraph 2.

1 **Q WHAT TYPE OF CERTIFICATION PROCESS WOULD BE REASONABLE AND**
2 **APPROPRIATE FOR THE CONSTRUCTION OR ACQUISITION OF GENERATION**
3 **FACILITIES BY GENCO?**

4 **A** According to witness Whitehead, the ordinary CPCN process would be cumbersome
5 and could inject delay in the deployment of new generation resources to meet the
6 demands of megaload customers, where speed to market is a material factor. See Pet.
7 Ex. 1 at 35-37. In light of that concern and to the extent that a given special contract
8 with a new megaload customer includes appropriate financial assurances that the
9 customer will cover the costs incurred in the development of the generation resource,
10 a more expedited CPCN proceeding may be in order. Because retail customers have
11 an interest in GenCo's ability to meet its own contractual obligations under the PPAs,
12 the process should be focused on: a demonstration that there is a defined need for the
13 capacity; a plan for any excess capacity which exceeds that required to serve the
14 customer and meet any reserve margin requirements; the inadequacy of GenCo's
15 current portfolio to meet the need; the accuracy of the construction cost; the
16 reasonableness of the proposed siting; and GenCo's ability to develop the capacity on
17 the timeline and budget required by the retail customer.

18 NIPSCO contemplates entering into special contracts with new megaload
19 customers, and such contracts will presumably be subject to Commission approval in
20 docketed proceedings. With reasonable coordination, a CPCN process for the
21 associated generation resource set on a 150-day timeline and conducted on a parallel
22 track with the special contract proceeding would not add regulatory delay to the needed
23 review and would still address NIPSCO's interest in timely meeting the needs of its
24 retail customers .

1 In any event, due to the massive level of construction being contemplated, a
2 complete waiver of Commission oversight as requested by NIPSCO GenCo is
3 unreasonable and should not be permitted. At the very least, then, Commission
4 approval should be required for the siting, sizing, and cost estimate for any new
5 generation resources to be constructed or acquired by GenCo.

6 **Q WHAT IS THE APPROPRIATE PROCESS FOR COMMISSION REVIEW OF PPA'S**
7 **ENTERED INTO BY GENCO?**

8 **A**PPAs between GenCo and NIPSCO associated with the provision of service to a
9 particular megaload customer should be presented in the anticipated special contract
10 review proceeding and should be subject to approval by the Commission. Any PPAs
11 between GenCo and NIPSCO involving generation assets owned and operated by
12 GenCo that are not earmarked for service to any specific megaload customer, such as
13 resources being added to GenCo's asset portfolio to support multiple customers or
14 expected needs for megaload customers in general, should be subject to regulatory
15 review and approval either in the expedited CPCN proceeding or in NIPSCO's periodic
16 resource adequacy ("RA") proceedings for Rider 574, insofar as such PPAs would
17 involve capacity purchases to support retail services provided by NIPSCO.

18 Finally, in the event that a new megaload customer is served using generation
19 resources not owned or operated by GenCo, and instead the capacity and/or energy is
20 acquired under a PPA with a third party owner of the resource, it is not obvious that
21 GenCo adds value or needs to be in the chain of title at all. Indeed, there is a significant
22 risk of anticompetitive conditions in that scenario if NIPSCO obligates its retail
23 customers to take service under PPAs between itself and NIPSCO GenCo.

1 Regardless, assuming, as NIPSCO GenCo represents in the Petition and
2 supporting testimony, that the new megaload customer will bear financial responsibility
3 for the selected generation resource under the terms of a Commission-approved
4 special contract, the terms and conditions of the special contract may be just as
5 sufficient to insulate existing NIPSCO customers from risk with or without GenCo's
6 participation in a transaction where the generation resource is owned by a third party.
7 In that situation, the Commission should carefully scrutinize any potential benefit that
8 would be achieved by GenCo entering into a PPA with the asset owner and using it to
9 support a PPA with NIPSCO, against the inefficiencies of including GenCo as a
10 middleman, especially in light of the magnitude of any mark-up by GenCo for assuming
11 such a role.

12 **Q IF AT SOME POINT, INSTEAD OF SERVING MEGALOAD CUSTOMERS UNDER**
13 **THE TERMS OF COMMISSION-APPROVED SPECIAL CONTRACTS AS**
14 **CURRENTLY ANTICIPATED, NIPSCO DECIDES TO PROPOSE THE**
15 **ESTABLISHMENT OF A TARIFF RATE SCHEDULE FOR THAT CLASS OF**
16 **CUSTOMERS, WHAT PROTECTIONS SHOULD BE MAINTAINED FOR CURRENT**
17 **CUSTOMERS SERVED BY NIPSCO?**

18 **A**Any proposed tariff rate for megaload customers served using generation resources
19 supplied by GenCo should be presented for approval only in a general rate case, where
20 the implications for NIPSCO's system, rate base and all customer classes can be
21 considered and addressed. Furthermore, any such proposed rate schedule should be
22 in addition to, and not instead of, NIPSCO's current rate structure for service to its
23 existing base of large customers. In no event should NIPSCO be allowed to force
24 existing industrial customers to take service under a new megaload rate schedule.

1 **Q FOR ANY NEW MEGALOAD CUSTOMERS THAT WISH TO UTILIZE BEHIND-THE-**
2 **FENCE GENERATION RESOURCES SUCH AS COGENERATION FACILITIES,**
3 **WHAT ROLE SHOULD GENCO HAVE IN THAT SCENARIO?**

4 A On-site resources such as Qualified Facilities under PURPA or Alternative Energy
5 Facilities under Ind. Code 8-1-2.4 are privately-owned assets dedicated primarily to
6 meeting the needs of the host operation. Since the output of such facilities falls outside
7 the scope of the retail services provided by NIPSCO, there is no basis to require the
8 customer to select GenCo to construct, own or operate any such facility. If GenCo
9 wishes to be involved in such projects, it must compete with other potential suppliers.

10 **Q WHAT PROTECTIONS ARE NEEDED TO ENSURE THAT NISOURCE SHARED**
11 **CORPORATE SERVICE CHARGES THAT ARE ALLOCATED AMONG NISOURCE**
12 **SUBSIDIARIES, ACCURATELY REFLECT THE COST OF PROVIDING SERVICE**
13 **TO AN ESSENTIALLY UNREGULATED AFFILIATE LIKE GENCO?**

14 A To the extent NiSource seeks to develop unregulated generation affiliates, the
15 Commission should ensure that NIPSCO is only being allocated reasonable costs of
16 the services actually being provided to NIPSCO itself. To accomplish this, overall cost
17 of shared services provided must be reasonably allocated to all NiSource companies
18 receiving services, including regulated utilities like NIPSCO as well as unregulated
19 affiliates like GenCo. A distinct risk associated with unregulated affiliates is that
20 disproportionate costs for shared corporate services may be allocated to rate-regulated
21 operations and the costs to unregulated affiliates will be subsidized by regulated
22 operations. The Commission should ensure that all affiliates, both regulated and
23 unregulated, are paying fair and accurate costs of services provided by the shared
24 corporate services company.

1 The concern is that the allocation methodology, if not updated, may under-
2 allocate costs of unregulated affiliates and over-allocate service costs to regulated
3 affiliates including NIPSCO.

4 **Q IN SUMMARY, IS THE PROPOSAL FOR THE IURC TO WAIVE NEARLY ALL OF**
5 **ITS REGULATORY LIMITED JURISDICTION OVER NIPSCO GENCO**
6 **REASONABLE?**

7 **A**No. The petition proposes extremely limited Commission oversight of GenCo. This
8 includes no obligation that NIPSCO GenCo make its books, records, and sources of
9 revenue available to the IURC for inspection and analysis. Because NIPSCO GenCo
10 will have PPAs or similar agreements with NIPSCO, and NIPSCO will rely on those
11 PPAs to comply with its special contract obligation with megaload customers, GenCo's
12 books and records must be subject to regulatory scrutiny so NIPSCO and affected
13 parties can assess GenCo's financial strength and ability to meet its PPA obligation to
14 NIPSCO. That is, NIPSCO GenCo needs to be able to prove it has sufficient PPA
15 counter-party credit standing and presents no more than an acceptable level of default
16 risk. If GenCo is at liberty to refuse to make its books and records available to NIPSCO,
17 the IURC and other parties, it will put NIPSCO at risk of default on meeting its special
18 contract service obligations, which can also threaten NIPSCO's ability to serve all retail
19 ratepayers at just and reasonable rates.

20 Further, entirely waiving the CPCN process for GenCo as proposed may well
21 place NIPSCO's financial position at risk. NIPSCO will have an obligation to serve
22 megaload customers under the terms of the Commission-approved special contract,
23 and NIPSCO will expect to be able to recover the cost of providing service under the
24 special contract from the applicable retail customers. Hence, GenCo's ability to meet

1 its generation supply PPA obligations is critical to NIPSCO, which in turn is also
2 important in protecting NIPSCO's ability to meet its service obligation to all retail
3 customers and thus to support the public interest.

4 **Q DOES THIS CONCLUDE YOUR VERIFIED DIRECT TESTIMONY?**

5 **A Yes, it does.**

Qualifications of Michael P. Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory
7 consultants.

8 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK**
9 **EXPERIENCE.**

10 A In 1983 I received a Bachelor of Science Degree in Electrical Engineering from
11 Southern Illinois University, and in 1986, I received a Master's Degree in Business
12 Administration with a concentration in Finance from the University of Illinois at
13 Springfield. I have also completed several graduate level economics courses.

14 In August of 1983, I accepted an analyst position with the Illinois Commerce
15 Commission ("ICC"). In this position, I performed a variety of analyses for both formal
16 and informal investigations before the ICC, including marginal cost of energy, central
17 dispatch, avoided cost of energy, annual system production costs, and working capital.
18 In October of 1986, I was promoted to the position of Senior Analyst. In this position, I
19 assumed the additional responsibilities of technical leader on projects, and my areas
20 of responsibility were expanded to include utility financial modeling and financial
21 analyses.

1 In 1987, I was promoted to Director of the Financial Analysis Department. In
2 this position, I was responsible for all financial analyses conducted by the Staff. Among
3 other things, I conducted analyses and sponsored testimony before the ICC on rate of
4 return, financial integrity, financial modeling and related issues. I also supervised the
5 development of all Staff analyses and testimony on these same issues. In addition, I
6 supervised the Staff's review and recommendations to the Commission concerning
7 utility plans to issue debt and equity securities.

8 In August of 1989, I accepted a position with Merrill-Lynch as a financial
9 consultant. After receiving all required securities licenses, I worked with individual
10 investors and small businesses in evaluating and selecting investments suitable to their
11 requirements.

12 In September of 1990, I accepted a position with Drazen-Brubaker &
13 Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was
14 formed. It includes most of the former DBA principals and Staff. Since 1990, I have
15 performed various analyses and sponsored testimony on cost of capital, cost/benefits
16 of utility mergers and acquisitions, utility reorganizations, level of operating expenses
17 and rate base, cost of service studies, and analyses relating to industrial jobs and
18 economic development. I also participated in a study used to revise the financial policy
19 for the municipal utility in Kansas City, Kansas.

20 At BAI, I also have extensive experience working with large energy users to
21 distribute and critically evaluate responses to requests for proposals ("RFPs") for
22 electric, steam, and gas energy supply from competitive energy suppliers. These
23 analyses include the evaluation of gas supply and delivery charges, generation and/or
24 combined cycle unit feasibility studies, and the evaluation of third-party asset/supply
25 management agreements. I have participated in rate cases on rate design and class

1 cost of service for electric, natural gas, water and wastewater utilities. I have also
2 analyzed commodity pricing indices and forward pricing methods for third party supply
3 agreements and have also conducted regional electric market price forecasts.

4 In addition to our main office in St. Louis, the firm also has branch offices in
5 Corpus Christi, Texas, Louisville, Kentucky and Phoenix, Arizona.

6 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

7 A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of
8 service and other issues before the Federal Energy Regulatory Commission and
9 numerous state regulatory commissions including: Alaska, Arkansas, Arizona,
10 California, Colorado, Delaware, the District of Columbia, Florida, Georgia, Idaho,
11 Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts,
12 Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New
13 Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma,
14 Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia,
15 Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory
16 boards in Alberta, Nova Scotia, and Quebec, Canada. I have also sponsored testimony
17 before the Board of Public Utilities in Kansas City, Kansas; presented rate setting
18 position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt
19 River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes
20 for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange,
21 Georgia district.

1 **Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR**
2 **ORGANIZATIONS TO WHICH YOU BELONG.**

3 **A** I earned the designation of Chartered Financial Analyst (“CFA”) from the CFA Institute.
4 The CFA charter was awarded after successfully completing three examinations which
5 covered the subject areas of financial accounting, economics, fixed income and equity
6 valuation and professional and ethical conduct. I am a member of the CFA Institute’s
7 Financial Analyst Society.

STATE OF INDIANA

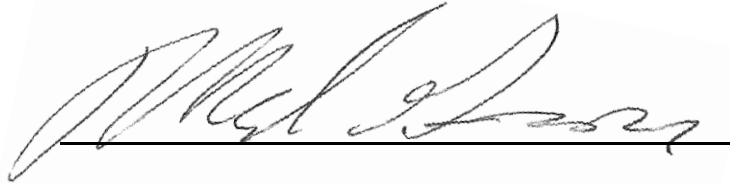
INDIANA UTILITY REGULATORY COMMISSION

**VERIFIED PETITION OF NIPSCO GENERATION LLC FOR
CERTAIN DETERMINATIONS BY THE COMMISSION WITH
RESPECT TO ITS JURISDICTION OVER PETITIONER'S
ACTIVITIES AS A NON-RETAIL GENERATOR OF ELECTRIC
POWER.**

CAUSE NO. 46183

Verification

I, Michael P. Gorman, a Managing Principal of Brubaker & Associates, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "Michael P. Gorman", is written over a horizontal line.

Michael P. Gorman

AFFILIATE GUIDELINES FOR CITIZENS GAS & COKE UTILITY

INTRODUCTION

The Indiana Office of the Utility Consumer Counselor ("OUCC") and the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, As Successor Trustee of a Public Charitable Trust, dba Citizens Gas & Coke Utility ("Utility") and others (collectively "Parties") have negotiated in connection with Cause No. 42233 and Cause Nos 37394GCA50S1 and 37399GCA50S1 ("GCA50S1") the following Affiliate Guidelines to govern the relationships between the Utility and its Affiliates. The Parties agree that these guidelines will be submitted to the Indiana Utility Regulatory Commission ("IURC") for its review and approval in GCA50S1. The Parties intend for the guidelines to be enforced by the IURC, and they shall become effective upon their approval by the IURC. The OUCC and Utility may, through negotiation and agreement, jointly petition the IURC for modifications to these Affiliate Guidelines, in which case they shall have the burden of jointly proving any proposed change is in the public interest considering all relevant factors, including, but not limited to, price of service and the impact on competition. If either the OUCC or Utility desires changes to these Affiliate Guidelines and is unable to obtain agreement from the other party for such changes, then that party may petition the IURC for the desired changes and individually bear the burden of proving that such changes are in the public interest; however, any such petition shall not be filed without the petitioner first attempting to obtain the agreement of the other party. Subject to the following sentence, anyone else seeking a change to these Affiliate Guidelines may also petition the IURC and would bear the burden of proving that the proposed changes are in the public interest. However, any such petition shall not be filed without the Utility and the OUCC first being notified and given a reasonable opportunity to consider the proposed change. The Commission may also make modifications to these Affiliate Guidelines on its own motion, after notice and a hearing.

Subject only to the Settlement Agreement and ARP approved in GCA50S1 and Cause No. 42233, the Affiliate Guidelines and the Cost Allocation Guidelines govern all current and future affiliate relationships between the Utility and its Affiliates. The Commission may approve an Affiliate contract that differs from these Affiliate Guidelines if the Utility files a petition requesting an exception from these Affiliate Guidelines and satisfies its burden in establishing such contract is in the public interest considering all relevant factors, including, but not limited to, price of service and the contract's impact on competition.

DEFINITIONS

“Affiliate” “Affiliate” means a Person that is an affiliated interest for purposes of I.C. 8-1-2-49 or that is otherwise found to be an “Affiliate” by the Commission or otherwise is an “Affiliate” under Indiana Law.

“Person” “Person” includes the following: (a) individual, (b) corporation, regardless of type or state or country of incorporation, (c) unincorporated association, (d) company, whether limited liability or otherwise, and (e) business trust, estate, partnership, trust, two (2) or more Persons having a joint or common economic interest, and any other entity.

“Commission” “Commission” means the Indiana Utility Regulatory Commission.

“IURC” “IURC” means the Indiana Utility Regulatory Commission.

“OUCC” “OUCC” means the Indiana Office of Utility Consumer Counselor.

“Competitive Terms” “Competitive Terms” means the best terms reasonably available in the competitive marketplace at that time (including the terms available from the Utility itself under efficient operation), giving due consideration to both price and non-price terms such as quality and reliability. If the Utility can provide the services at the lowest cost with comparable quality and reliability, then that cost shall be considered the “Competitive Terms.”

“Capital Costs” “Capital Costs” means the costs associated with obtaining the financial capital required to provide physical assets such as office buildings, computers or office equipment.

“Non-Regulated” “Non-Regulated” means not regulated by the IURC. “Non-Regulated” also applies to products or services over which the IURC has declined its jurisdiction.

“Shared Corporate Support Services” “Shared Corporate Support Services” means the following types of functions/services that the Utility may share with its own and its Affiliates’ non-regulated operations: (1) accounting and corporate treasury services; (2) human resources; (3) information technology and communications services; (4) directors and officers services; (5) legal services; (6) insurance and claims; (7) billing; (8) customer call center services; (9) facility and fleet management; and (10) environmental services.

“Similarly-Situated” “Similarly-Situated” means having general characteristics in common such as belonging to the same rate class or operating in the same or

GENERAL AFFILIATE GUIDELINES

- A. **No Cross-Subsidies.** The Utility shall not subsidize its Affiliates or its non-regulated operations.
- B. **Separation of Regulated and Non-Regulated Operations.** The separation of the Utility's regulated operations from its own and its Affiliates non-regulated operations is necessary to prevent potential cross-subsidies. To the maximum extent practicable, the Utility shall separate its regulated operations from its own, and its Affiliates non-regulated operations. Instances where such separation does not exist must otherwise be in compliance with these Affiliate Guidelines and the Cost Allocation Guidelines.
- C. **No Discrimination.** The Utility shall not discriminate in favor of or otherwise give preferential treatment to its Affiliates, its Affiliates' customers or the Utility's own non-regulated operations.
- D. **Comparability of Service.** The Utility shall provide comparable service to all Similarly-Situated marketers, customers or other entities, regardless of affiliation.
- E. **Procurement on Competitive Terms.** The procurement of goods, services, assets and other resources by the Utility shall be on Competitive Terms, consistent with the public interest and in compliance with these Affiliate Guidelines and the Cost Allocation Guidelines. The Utility may procure services from an Affiliate but such procurement must be done on Competitive Terms.

SPECIFIC AFFILIATE GUIDELINES

- 1. The Utility's Affiliates and its non-regulated operations shall be charged for all costs incurred on their behalf. These costs shall be appropriately and reasonably allocated by the Utility and shall include, but not be limited to, costs associated with shared facilities, general and administrative support services and other corporate overheads.
- 2. The Utility shall process all similar requests for service in the same manner and within the same reasonable time period for all Similarly-Situated customers, marketers, and other entities, regardless of affiliation.
- 3. The Utility shall not give preference to or discriminate in favor of its Affiliates, its Affiliates' customers or its own non-regulated operations in

Utility distribution facilities, storage on system, rights to storage off system, or in the sale of gas.

4. The Utility shall not condition or tie any agreement to provide Utility service to any agreement relating to a service to be provided by an Affiliate.
5. To the maximum extent practicable, Utility employees shall function separately and independently from employees of Affiliates and those engaged in non-regulated operations including, but not limited to, gas marketers, power marketers and other service providers.
6. The Utility may not, through tariff or otherwise, give any Affiliate or an Affiliate's customer or any non-regulated operation a preference or an advantage with respect to the transportation of gas including, but not limited to, the movement or delivery of gas on its distribution system, the administration of customer contracts, scheduling, nomination, balancing, metering, storage, backup service, curtailment priority, or billing/invoice disputes.
7. The Utility shall apply tariffs and their provisions and all other aspects of utility service on a consistent and non-discriminatory basis to all Similarly-Situated marketers, customers, and other entities regardless of affiliation.
8. Any discount or rebate for utility service offered by the Utility to an Affiliate or an Affiliate's customer shall be offered on a non-discriminatory basis to all Similarly-Situated marketers, customers or other entities, regardless of affiliation. If the Utility waives a penalty or fee related to utility service for an Affiliate or an Affiliate's customer, it shall waive such penalty or fee for Similarly-Situated Persons on a non-discriminatory basis.
9. The Utility shall not give preference to or discriminate in favor of its Affiliates or its Affiliate's customers in its provision of information. This includes, without limitation, information related to the sale or marketing of energy or energy services to existing or potential new customers and information related to the availability of transmission, distribution or storage capacity. Specific customer information shall be made available to affiliated or unaffiliated entities only upon consent of the customer or as otherwise provided by law or Commission rules or orders, except that customer name and address information may be provided to energy marketers or energy service providers.
10. The Utility's Affiliates and its non-regulated operations may share

communications services shall not be done in a manner that violates Specific Guideline 9 above regarding the non-discriminatory provision of information. The Utility shall take whatever steps are necessary to fulfill this requirement such as, for example, the implementation of electronic "firewalls" or other measures to control access to Utility information.

11. The Utility shall not speak on behalf of its Affiliates or give the appearance that it speaks on behalf of its Affiliates. The Utility's Affiliates shall not speak on behalf of the Utility or give the appearance that they speak on behalf of the Utility.
12. Customer call handling shall be performed on a non-discriminatory basis without respect to affiliations of the customer or affiliations of the customer's marketer or energy service provider. If a customer requests information about alternative sources of supply, the customer service representatives shall offer to provide a list of all alternative suppliers known to be serving customers in the same rate class as the customer making the inquiry, except those suppliers excluded by mutual agreement of the Utility and the OUCC. Such a list may include Utility Affiliates, but the Utility customer service representatives shall not promote or endorse services offered by an Affiliate. The IURC and OUCC will be able to monitor compliance with the Guidelines through the provisions of access to customer calls.
13. The Utility's Affiliates shall not trade upon, promote, or suggest that they receive preferential treatment as a result of affiliation with the Utility.
14. The Utility and its Affiliates shall not participate in joint advertising. An Affiliate may, however, reference the fact of its affiliation with the Utility. Any such public references by the Affiliate shall not: (a) make the Affiliate appear to be the same as the Utility, or (6) suggest that the Affiliate or the Affiliate's customers will have any advantage as a result of the affiliation.
15. If the Utility combines charges for regulated energy services with charges for non-regulated energy services into a single bill, such a combined bill format will be made available on a non-discriminatory basis to non-affiliated entities that provide energy services in the Utility's service territory.

17. The OUCC and its agents shall have access to officers and employees and access to the books and records of the Utility and its Affiliates as reasonably necessary to ensure compliance with these Affiliate Guidelines, the Cost Allocation Guidelines and Title 8 of the Indiana Code. If disputes arise regarding the reasonableness of the timing or scope of requested access to Affiliate and Utility books and records, if not resolved by the parties, then such disputes may be presented to the Commission through use of an alternative dispute resolution process as agreed upon by the OUCC and Utility. During this process, the OUCC shall bear the burden of demonstrating why it needs certain books and records and the Utility shall bear the burden of demonstrating the unreasonableness of the OUCC's request. In seeking a resolution of access disputes, the Parties agree that time is of the essence, and the intent of the Parties is that the Commission's review of such disputes will be facilitated by the Parties so that the review can be as expeditious as possible.
18. All complaints relating to these Affiliate Guidelines and the Cost Allocation Guidelines, whether written or verbal, shall be submitted to the Utility, attention: Director Budget and Rates or designated Utility counsel, who shall acknowledge to complainant by first class mail receipt of such complaint within five (5) working days of receipt. The Utility shall conduct a preliminary investigation of the complaint and prepare a written statement which shall contain the name of the complainant and a detailed factual report of the incident or incidents underlying the complaint, including all relevant dates, companies involved, employees involved, and the specific claim. A copy of the written statement shall be provided to the complainant. The Utility shall communicate the results of the preliminary investigation to the complainant in writing within twenty (20) days after the complaint was received, including a description of any course of action to be taken. In the event the Utility and the complainant are unable to resolve the complaint, the complainant may file a complaint with the Commission. Any complaint that is filed with the Commission before it has been submitted to the Utility under this section shall be held in abeyance while the procedures outlined here are followed. The Utility shall keep a log of all complaints for a period of not less than three (3) years and shall keep such log available for inspection by the IURC, OUCC and complainant.
19. All transactions between the Utility and its Affiliates shall be in accordance with a written contract filed with the IURC. The Utility shall maintain sufficient records of all such transactions for at least three (3) years so as to allow for a complete and thorough audit.

because it is a municipally owned utility; however, without waiving its jurisdictional position, the Utility will file affiliate contracts of the types covered by Ind. Code §8-1-2-49 with the Commission. The Utility also agrees to meet with the OUCC to review proposed new Affiliate contracts. Upon filing of Affiliate contracts with the IURC, copies of such contracts will be delivered to the OUCC. Affiliate contracts shall be governed by Indiana law and these Affiliate Guidelines and the Cost Allocation Guidelines. To the extent the Affiliate Guidelines contain provisions or commitments that go beyond what would otherwise be required of the Utility under Indiana law, the Guidelines shall control. The OUCC may challenge such contracts, but if the OUCC makes such a challenge it shall have the burden of establishing that the contract or any provision thereof is not in the public interest.

PROCEDURES FOR FILING AFFILIATE CONTRACTS

All Affiliate contracts shall be filed with the IURC and be in conformance with the Affiliate Guidelines, the Cost Allocation Guidelines and Indiana law. Such contracts shall be available for public inspection, except to the extent that information is protected from public disclosure under Indiana law. Except to the extent set forth herein, these Affiliate Guidelines in no way affect, or expand, the IURC's duties and/or authority under Indiana law to *inter alia* investigate such contracts, hold public hearings related to such contracts and/or approve or disapprove such contracts.

ANNUAL INFORMATIONAL FILING

The Utility shall file annually with the Commission, and provide a copy to the OUCC, the following information concerning the Utility's Affiliates and its non-regulated operations.

1. The names and business addresses of the officers and directors of each Affiliate that has transacted any business with the Utility during the previous twelve (12) months. For each such Affiliate, the Utility shall also provide the following in its annual informational filing:
 - a. The Affiliate's name and a description of the Affiliate's primary line(s) of business and a description of the nature of the Affiliate's business with other non-affiliated entities
 - b. A schedule detailing and summarizing the nature and dollar amounts of the transfers of assets, goods and services between the Utility and the Affiliate that took place during the applicable twelve-month period.

contract became effective and the contract's expiration date.

3. A corporate organization chart, which shows the Utility, its Affiliates, and their relationships to one another.
4. A description of the method(s) used to identify, value, and record transfers of assets, goods and services between the Utility and its Affiliates.
5. A description of sharing of personnel between the Utility and its Affiliates during the twelve-month period.
6. A log of complaints maintained by the Utility under Specific Guideline 18.
7. A listing and description of all non-regulated operations engaged in by the Utility, including the amount of revenues and expenses generated by each such non-regulated operation.

These annual informational filings shall commence ninety (90) days after entry of the Commission's Order approving these Affiliate Guidelines, and shall repeat thereafter on or before April 30 of each year, as part of the Utility's Annual Report filing with the

APPENDIX B

COST ALLOCATION GUIDELINES FOR CITIZENS GAS & COKE UTILITY

INTRODUCTION

The OUCC and Citizens Gas & Coke Utility. ("Utility") and others (collectively "Parties") have negotiated in connection with Cause No. 42233 and GCA50S1 the following Cost Allocation Guidelines to govern the allocation of costs between the Utility and its Affiliates. The OUCC retains all of its rights and authority to dispute the reasonableness of and/or recovery of all Utility costs, including those to which these Cost Allocation Guidelines may be applicable. Mere allocation of costs under these guidelines does not predetermine the reasonableness of rate recovery of such costs. The Parties agree that these guidelines are intended to be enforced by the IURC, and they shall become effective upon their approval by the IURC. The OUCC and Utility may, through negotiation and agreement, jointly petition the IURC for modifications to these Cost Allocation Guidelines, in which case they shall have the burden of jointly proving any proposed change is in the public interest considering all relevant factors, including, but not limited to, price of service and the impact on competition. If either the OUCC or Utility desires changes to these Cost Allocation Guidelines and is unable to obtain agreement from the other party for such changes, then that party may petition the IURC for the desired changes and bear the burden of proving that such changes are in the public interest; however, any such petition shall not be filed without the petitioner first attempting to obtain the agreement of the other party. Subject to the following sentence, anyone else seeking a change to these Cost Allocation Guidelines may also petition the IURC and would bear the burden of proving that the proposed changes are in the public interest. However, any such petition shall not be filed without the Utility and the OUCC first being notified and given a reasonable opportunity to consider the proposed change. The Commission may also make modifications to these Cost Allocation Guidelines on its own motion, after notice and hearing.

These Cost Allocation Guidelines should be read in conjunction with the "Affiliate Guidelines" developed by the OUCC and Utility and also approved by the Commission in Cause No. 42233 and GCA50S1. Subject only to the Settlement Agreement and ARP approved in GCA50 and Cause No. 42233, the Affiliate Guidelines and the Cost Allocation Guidelines govern all current and future affiliate relationships between the Utility and its Affiliates, with the limited exception that the

DEFINITIONS

See the definitions section of the Affiliate Guidelines for the definitions of certain terms used in the Affiliate Guidelines and the Cost Allocation Guidelines.

GUIDELINES

1. No Cross-Subsidies. The Utility shall not subsidize its Affiliates or its non-regulated operations.
2. The Utility shall maintain and utilize an accounting system and records that identify and appropriately allocate costs between the Utility and its Affiliates.
3. The Utility's costs for rate purposes shall reflect only those reasonable costs attributable to providing adequate and reliable service to its customers.
4. The Utility and all Affiliates that share corporate support and administrative services shall maintain documentation, such as organizational charts, accounting bulletins, procedure and work order manuals or other related documents, which describe how costs are allocated between regulated and non-regulated services or products.
5. Affiliates shall be charged an appropriate and reasonable allocation of all Shared Corporate Support Services costs incurred on their behalf. These costs include, but are not limited to, those associated with shared facilities and other corporate overheads.
6. To the maximum extent practicable, Shared Corporate Support Services costs should be accumulated and classified on a direct cost basis for each asset, service or product provided.
7. The Shared Corporate Support Services that cannot be directly assigned per item (6) above, should to the maximum extent possible be allocated to the Utility and its Affiliates and to the services or products to which they relate using relevant allocators which best reflect or consider the cost causative characteristics of the product/service being provided.
8. Where allocation/assignment pursuant to (6) and (7) is not practical, general allocation factors shall be utilized to allocate all remaining costs between the Utility and its Affiliates and between services and product lines ultimately provided by the Utility and its Affiliates.

(incurred in the provision of Shared Corporate Support Services) shall be based on the following:

- a. The cost of capital used for such allocations shall equal the Utility's current, weighted average cost of capital.
- b. Depreciation shall be charged on a straight-line basis. Depreciation rates used for such allocations shall be consistent with the expected useful life of the asset(s) and in accordance with generally accepted accounting principles and regulatory accounting requirements, as applicable.

10. The Utility and its Affiliates shall maintain separate books and records, which shall be available for Commission inspection consistent with Indiana Law.
11. The OUCC and its agents shall have access to officers and employees and access to the books and records of the Utility and its Affiliates as reasonably necessary to ensure compliance with the Affiliate Guidelines, the Cost Allocation Guidelines and Title 8 of the Indiana Code. If disputes arise regarding the reasonableness of the timing or scope of requested access to Affiliate and Utility books and records, if not resolved by the parties, then such disputes may be presented to the Commission through use of an alternative dispute resolution process as agreed upon by the OUCC and Utility. During this process, the OUCC shall bear the burden of demonstrating why it needs certain books and records and the Utility shall bear the burden of demonstrating the unreasonableness of the OUCC's request. In seeking a resolution of access disputes, the parties agree that time is of the essence, and the intent of the parties is that the Commission's review of such disputes will be facilitated by the parties so that the review can be as expeditious as possible.
12. The cost assignment/allocation methodologies discussed herein are applicable to Shared Corporate Support Services. The Utility's procurement of all other goods, services, assets or other resources shall be on competitive terms, consistent with the public interest and in compliance with the Affiliate Guidelines and the Cost Allocation Guidelines.

AUDIT REQUIREMENTS

By December 31 of each year, the OUCC may select an independent auditor to perform a review and audit to ensure that the Utility has complied

procurement practices. OUCC staff members may assist the auditor. Any alleged violations of the Cost Allocation Guidelines shall be noted and explained in the auditor's report, a copy of which shall be provided to the Utility and the OUCC. The Utility shall have thirty (30) days following receipt of the auditor's report within which to respond to any alleged violations. The Utility agrees to make a contribution toward the auditor's costs/fees which shall not exceed \$25,000 in any twelve-month period.

AFFILIATE AND COST ALLOCATION GUIDELINES FOR INDIANA GAS COMPANY, INC. AND SOUTHERN INDIANA GAS AND ELECTRIC COMPANY**INTRODUCTION**

The OUCC and Indiana Gas Company, Inc. and/or Southern Indiana Gas and Electric Company ("Utility") (collectively "Parties") have negotiated in connection with Cause No. 41465 the following Affiliate Guidelines to govern the relationships between the Utility and its Affiliates. By agreement, the Guidelines have been modified in connection with Cause No. 37394GCA50S1 ("GCA50"). The Parties agree that these guidelines are intended to be enforced by the IURC, and they shall become effective upon their approval by the IURC. The OUCC and Utility may, through negotiation and agreement, jointly petition the IURC for modifications to these Affiliate Guidelines, in which case they would have the burden of proving any proposed change is in the public interest considering all relevant factors, including, but not limited to, price of service and the impact on competition. If either the OUCC or Utility desires changes to these Affiliate Guidelines and is unable to obtain agreement from the other party for such changes, then the party desiring changes may petition the IURC for the desired changes and bear the burden of proving that such changes are in the public interest. However, such petitions shall not be filed without first attempting to obtain the agreement of the other party. Subject to the following sentence, anyone else seeking a change to these Guidelines may also petition the IURC and would bear the burden of proving that the proposed changes are in the public interest. However, any such petition shall not be filed without the Utility and the OUCC first being notified and given a reasonable opportunity to consider the proposed change. The Commission may also make modifications to these Affiliate Guidelines on its own motion, after notice and hearing.

These Affiliate Guidelines should be read in conjunction with the "Cost Allocation Guidelines" developed by the OUCC and Utility and also approved by the Commission in Cause No. 41465. Subject through March 31, 2007 to the Settlement Agreement and ARP approved in GCA50 and Cause No. 42233, the Affiliate Guidelines and the Cost Allocation Guidelines govern all current and future affiliate relationships between the Utility and its Affiliates, with the limited exception that the Commission may approve an Affiliate contract that differs from these Guidelines if the Utility files a petition requesting an exception from the Guidelines and satisfies its burden to demonstrate that such contract is in the public interest considering all relevant factors, including, but not limited to, price of service and the impact on competition.

One purpose of these Affiliate Guidelines is to establish standards for procurement on competitive terms to govern the Utility's procurement of goods, services, assets and other utility resources. Such procurement "on competitive terms" (as defined herein) shall be done with the objective of obtaining the best terms available for the Utility and its customers. The only exception to these procurement standards is the provision of "shared corporate support and administrative services" such as corporate treasury services and human resources. These services may be shared with other companies/affiliates within the Vectren organization. The pricing of those services to the Utility shall be based on cost and be in accordance with the

DEFINITIONS

The definitions below apply to terms used in the Affiliate Guidelines and the Cost Allocation Guidelines.

“Affiliate” “Affiliate” means a person that is an affiliated interest for purposes of I.C. 8-1-2-49 or that is otherwise found to be an “Affiliate” by the Commission or otherwise is an “Affiliate” under Indiana Law.

“Person” “Person” includes the following: (a) individual, (b) corporation, regardless of type or state or country of incorporation, (c) unincorporated association, (d) company, whether limited liability or otherwise, and (e) business trust, estate, partnership, trust, two (2) or more persons having a joint or common economic interest, and any other entity.

“Commission” “Commission” means the Indiana Utility Regulatory Commission.

“IURC” “IURC” means the Indiana Utility Regulatory Commission.

“OUCC” “OUCC” means the Indiana Office of Utility Consumer Counselor.

“Holding Company” “Holding Company” means the parent company, Vectren Corporation, or its successor in interest of Indiana Gas Company and/or Southern Indiana Gas and Electric Company.

“Competitive Terms” “Competitive Terms” means the best terms reasonably available in the competitive marketplace at that time (including the terms available from the Utility itself under efficient operation) giving due consideration to both price and non-price terms such as quality and reliability. If the Utility itself can provide the services at the lowest cost with comparable quality and reliability, then that cost shall be considered the “competitive terms.”

“Shared Corporate Support and Administrative Services” - means the following types of functions/services that the Utility may share with other companies/affiliates within the Vectren organization: (1) accounting and corporate treasury services; (2) human resources; (3) information technology and communications services; (4) corporate directors and officers services; (5) legal services; (6) insurance and claims; (7) billing; (8) customer call center services; (9) facility and fleet management; and (10) environmental services. (See Specific Affiliate Guidelines 10, 12, and 15 related to “Shared Corporate Support and Administrative Services.”)

“Capital Costs” “Capital Costs” means the costs associated with obtaining the financial capital required to provide physical assets such as office buildings, computers or office equipment.

“Non-Regulated” “Non-Regulated” means not regulated by the Indiana Utility Regulatory Commission (IURC). “Non-Regulated” also applies to products or services over which the IURC has declined its jurisdiction.

“Similarly Situated” “Similarly Situated” means having general characteristics in common such as belonging to the same rate class or operating in the same or similar industries. A utility affiliated gas or power marketer would, for example, be considered similarly situated to other non-affiliated gas or power marketers.

GENERAL AFFILIATE GUIDELINES

- A. **No Cross-Subsidies.** The Utility shall not subsidize Affiliates or non-regulated activities.
- B. **Separation of Regulated and Non-Regulated Operations.** The separation of the Utility's regulated operations from the Holding Company's non-regulated business operations and Affiliates is necessary to prevent potential cross-subsidies. To the maximum extent practicable, the Utility shall separate its regulated operations from its own, its Affiliates and its Holding Company's non-regulated operations. Instances where such separation does not exist must otherwise be in compliance with the Affiliate Guidelines and the Cost Allocation Guidelines.
- C. **No Discrimination.** The Utility shall not discriminate in favor of or otherwise give preferential treatment to its Affiliates, its Affiliates' customers or the Utility's own non-regulated activities
- D. **Comparability of Service.** The Utility shall provide comparable service to all similarly situated marketers, customers or other entities, regardless of affiliation.
- E. **Procurement on Competitive Terms.** With the exception of "shared corporate support and administrative services" (defined above) the procurement of goods, services, assets and other resources by the Utility shall be on competitive terms, consistent with the public interest and in compliance with these Affiliate Guidelines and the Cost Allocation Guidelines. The Utility may procure services from an Affiliate but such procurement must be done on competitive terms (defined above). The Utility's procurement process shall also comply with General Guideline C above (i.e., No Discrimination). The pricing of "shared corporate support and administrative services" to the Utility shall be based on cost and be in accordance with the Cost Allocation Guidelines.

SPECIFIC AFFILIATE GUIDELINES

- 1. Affiliates shall be charged for all costs incurred on their behalf. These costs shall be appropriately and reasonably allocated and shall include, but not be limited to, those associated with shared facilities, general and administrative support services and other corporate overheads.
- 2. The Utility shall process all similar requests for service in the same manner and within the same reasonable time period for all similarly situated customers, marketers and other entities, regardless of affiliation.
- 3. The Utility shall not give preference to or discriminate in favor of its Affiliates, its Affiliates' customers or its own non-regulated activities in matters including, but not limited to, the allocation, assignment, release, or transfer of rights to intrastate

or interstate capacity, use of Utility distribution facilities, storage on system, rights to storage off system, or in the sale of gas.

4. The Utility shall not condition or tie any agreement to provide Utility service to any agreement relating to a service to be provided by an Affiliate.
5. To the maximum extent practicable, Utility employees shall function separately and independently from employees of Affiliates and those engaged in non-regulated activities including, but not limited to, gas marketers, power marketers and other service providers.
6. The Utility may not, through tariff or otherwise, give any Affiliate or an Affiliate's customer or any non-regulated activity a preference or an advantage with respect to the transportation of gas including, but not limited to, the movement or delivery of gas on its distribution system, the administration of customer contracts, scheduling, nomination, balancing, metering, storage, standby service, curtailment policy, or billing/invoice disputes.
7. The Utility shall apply tariffs and their provisions and all other aspects of Utility service on a consistent and non-discriminatory basis to all similarly situated marketers, customers, and other entities regardless of affiliation.
8. Any discount or rebate for utility service offered by the Utility to an Affiliate or an Affiliate's customer shall be offered on a non-discriminatory basis to all similarly situated marketers, customers or other entities, regardless of affiliations. If the Utility waives a penalty or fee related to Utility service for an Affiliate or an Affiliate's customer, it shall waive such penalty or fee for similarly situated others on a non-discriminatory basis.
9. The Utility shall not give preference to or discriminate in favor of its Affiliates or its Affiliate's customers in its provision of information. This includes, without limitation, information related to the sale or marketing of energy or energy services to existing or potential new customers and information related to the availability of transmission, distribution or storage capacity. Specific customer information shall be made available to affiliated or unaffiliated entities only upon consent of the customer or as otherwise provided by law or commission rules or orders, except that customer name and address information may be provided to energy marketers or energy service providers.
10. The Utility may share information technology and communications services with other companies/affiliates within the Vectren organization. However, such sharing of information technology and communications services shall not be done in a manner that violates Specific Guideline 9 above regarding the non-discriminatory provision of information. The utility shall take whatever steps are necessary to fulfill this requirement such as, for example, the implementation of electronic "firewalls" or other measures to control access to Utility information.

11. The Utility shall not speak on behalf of its Affiliates or give the appearance that it speaks on behalf of its Affiliates. The Utility's Affiliates shall not speak on behalf of the Utility or give the appearance that they speak on behalf of the Utility.
12. Customer call handling shall be performed on a non-discriminatory basis without respect to affiliations of the customer or affiliations of the customer's marketer or energy service provider. If a customer requests information about alternative sources of supply, the customer service representatives shall offer to provide a list of all alternative suppliers known to be serving customers in the same rate class as the customer making the inquiry, except those suppliers excluded by mutual agreement of the Utility and the OUCC. Such a list may include utility affiliates, but the utility customer service representatives shall not promote or endorse services offered by an affiliate. To ensure compliance with Specific Guidelines 9, 10, 11 and 12, the guidelines for handling of customer calls and information have been set out in writing and attached as Appendix A-1.
13. The Utility's Affiliates shall not trade upon, promote, or suggest that they receive preferential treatment as a result of affiliation with the Utility.
14. The Utility and its Affiliates shall not participate in joint advertising. An Affiliate may, however, reference the fact of its affiliation with the holding company. Such public references shall not: (a) make the Affiliate appear to be part of the Utility, or (b) suggest that the Affiliate or the Affiliate's customers will have any advantage as a result of the affiliation.
15. If the charges for Utility services are combined with charges for non-regulated energy services into a single bill, such a combined bill format will be made available on a non-discriminatory basis to non-affiliated entities that provide energy services in the Utility's service territory.
16. The Utility and its Affiliates shall maintain separate books and records, which shall be available for Commission inspection consistent with Indiana law.
17. The OUCC and its agents shall have access to officers and employees and access to the books and records of the Utility and its Affiliates as reasonably necessary to ensure compliance with these Affiliate Guidelines, the Cost Allocation Guidelines and Title 8 of the Indiana Code. If disputes arise between the OUCC and Utility regarding the reasonableness of the timing or scope of requested access to Affiliate and Utility books and records, if not resolved by the parties, then such disputes may be presented to the Commission through use of an alternative dispute resolution process as agreed upon by the OUCC and Utility. During this process, Utility shall bear the burden of demonstrating the unreasonableness of the OUCC's request. In seeking a resolution of access disputes, the parties agree

that time is of the essence, and the intent of the parties is that the Commission's review of such disputes will be facilitated by the parties so that the review can be as expeditious as possible.

18. All complaints relating to these Affiliate Guidelines and the Cost Allocation Guidelines, whether written or verbal, shall be submitted to the general counsel of the Utility or the Utility's highest ranking legal employee ("general counsel"). The general counsel shall acknowledge to complainant such complaint within five (5) working days of receipt. The general counsel shall conduct a preliminary investigation and prepare a written statement of the complaint which shall contain the name of the complainant and a detailed factual report of the incident or incidents underlying the complaint, including all relevant dates, companies involved, employees involved, and the specific claim. The general counsel shall provide a copy of the written statement to the complainant. The general counsel shall communicate the results of the preliminary investigation to the complainant in writing within twenty (20) days after the complaint was received including a description of any course of action to be taken. In the event the Utility and the complainant are unable to resolve the complaint, the complainant may file a complaint with the Commission. Any complaint filed with the Commission before same was filed with the Utility under this section shall be held in abeyance while the procedures outlined here are followed. The general counsel shall keep a log of all complaints for a period of not less than three (3) years and shall keep such log available for inspection by the IURC, OUCC and complainant.
19. All transactions between the Utility and its Affiliates shall be in accordance with a written contract filed with the IURC pursuant to I.C. 8-1-2-49. The Utility shall maintain sufficient records of all such transactions for at least three (3) years so as to allow for a complete and thorough audit.
20. The Utility shall meet with the OUCC to review all proposed Affiliate contracts. Upon filing of Affiliate contracts with the IURC, copies of such contracts will be delivered to the OUCC. Affiliate contracts shall be governed by Indiana law and these Affiliate Guidelines and the Cost Allocation Guidelines. To the extent the Guidelines contain provisions or commitments that go beyond what would otherwise be required under Indiana law, the Guidelines shall control. The OUCC reserves its rights to challenge such contracts at any time.

PROCEDURES FOR FILING AFFILIATE CONTRACTS

All Affiliate contracts shall be filed with the IURC and be in conformance with these Guidelines, the Cost Allocation Guidelines and Indiana law. Such contracts shall be available for public inspection, except to the extent that information is protected from public disclosure under Indiana law. These Affiliate Guidelines in no way affect the IURC's duties and/or authority under Indiana law to *inter alia* investigate such contracts, hold public hearings related

to such contracts and/or disapprove such contracts. These Affiliate Guidelines also in no way affect the OUCC's rights to *inter alia* initiate investigations of such contracts.

ANNUAL INFORMATIONAL FILING

The Utility shall file annually with the Commission and provide copies to the OUCC the following information concerning the Utility's Affiliates and its non-regulated activities.

1. The names and business addresses of the officers and directors of each Affiliate that has transacted any business with the Utility during the previous twelve (12) months. For each such Affiliate, the Utility shall also provide the following in its annual informational filing:
 - a. The Affiliate's name and a description of the Affiliate's primary line(s) of business and a description of the nature of the Affiliate's business with other non-affiliated entities.
 - b. A schedule detailing and summarizing the nature and dollar amounts of the transfers of assets, goods and services between the Utility and the Affiliate that took place during the applicable twelve-month period.
2. A listing of all contracts currently in effect between the Utility and Affiliate(s) indicating the nature of the transactions, the date the contract became effective and the contract's expiration date.
3. A corporate organization chart, which shows the parent holding company, the Utility, its Affiliates, and their relationships to one another.
4. A description of the method(s) used to identify, value, and record transfers of assets, goods and services between the Utility and its Affiliates.
5. A description of the method(s) used to allocate federal and state income tax expense, payments and refunds to the Utility and its Affiliates.
6. A description of sharing of personnel between the Utility and its Affiliates during the twelve-month period.
7. A log of complaints maintained by the Utility under section 18 of Specific Affiliate Guidelines.
8. A listing and description of all non-regulated activities engaged in by the Utility, including the amount of revenues and expenses generated by each such non-regulated activity.

These annual informational filings shall commence on the date thirty (30) days after the effective date of the Commission's approval of these Affiliate Guidelines, and shall repeat

thereafter at the end of the Utility's fiscal year. These annual informational filings shall not serve or be interpreted as a pre-approval process.

COST ALLOCATION GUIDELINES FOR INDIANA GAS AND SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

INTRODUCTION

The OUCC and Indiana Gas Company, Inc. and Southern Indiana Gas and Electric Company ("Utility") (collectively "Parties") have negotiated in connection with Cause No. 41465 the following Cost Allocation Guidelines to govern the allocation of costs between the Utility and its Affiliates. By agreement, the Guidelines have been modified in connection with Cause No. 37394 GCA 50S1 ("GCA50"). The OUCC retains all of its rights and authority to dispute the reasonableness of and/or recovery of all Utility costs, including those to which these Cost Allocation Guidelines may be applicable. Mere allocation of costs under these guidelines does not predetermine the reasonableness of rate recovery of such costs. The Parties agree that these guidelines are intended to be enforced by the IURC, and they shall become effective upon their approval by the IURC. The OUCC and Utility may, through negotiation and agreement, jointly petition the IURC for modifications to these Cost Allocation Guidelines, in which case they would have the burden of proving any proposed change is in the public interest considering all relevant factors, including, but not limited to, price of service and the impact on competition. If either the OUCC or Utility desires changes to these Cost Allocation Guidelines and is unable to obtain agreement from the other party for such changes, then the party desiring changes may petition the IURC for the desired changes and bear the burden of proving that such changes are in the public interest. However, such petitions shall not be filed without first attempting to obtain the agreement of the other party. Subject to the following sentence, anyone else seeking a change to these Cost Allocation Guidelines may also petition the IURC and would bear the burden of proving that the proposed changes are in the public interest. However, any such petition shall not be filed without the Utility and the OUCC first being notified and given a reasonable opportunity to consider the proposed change. The Commission may also make modifications to these Cost Allocation Guidelines on its own motion, after notice and hearing.

These Cost Allocation Guidelines should be read in conjunction with the "Affiliate Guidelines" developed by the OUCC and Utility and also approved by the Commission in Cause No. 41465. Subject through March 31, 2007 to the Settlement Agreement and ARP approved in GCA50 and Cause No. 42233, the Affiliate Guidelines and the Cost Allocation Guidelines govern all current and future affiliate relationships between the Utility and its Affiliates, with the limited exception that the Commission may approve an Affiliate contract that differs from these Guidelines if the Utility files a petition requesting an exception from the Guidelines and satisfies its burden to ~~demonstrate that such contract is in the public interest considering all relevant factors~~, including, but not limited to, price of service and the impact on competition.

The following Cost Allocation Guidelines govern the allocation of costs associated with "shared corporate support and administrative services" which have been defined in the definition section of the Affiliate Guidelines and which may be shared with other companies/affiliates within the

that are shared and not separate. The allocation methods should apply to those Utility Affiliates who share corporate support and administrative functions in order to prevent subsidization from the regulated Utility and ensure equitable cost sharing among the regulated Utility and its Affiliates. The pricing of "shared corporate support and administrative services" to the Utility shall be based on cost and be in accordance with these Cost Allocation Guidelines.

DEFINITIONS

See the definitions section of the Affiliate Guidelines for the definitions of terms used in the Affiliate Guidelines and the Cost Allocation Guidelines.

GUIDELINES

1. No Cross-Subsidies. The Utility shall not subsidize Affiliates or non-regulated activities.
2. The Utility shall maintain and utilize an accounting system and records that identify and appropriately allocate costs between the Utility and its Affiliates.
3. The Utility's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
4. The Utility and all Affiliates that share corporate support and administrative services shall maintain documentation including organizational charts, accounting bulletins, procedure and work order manuals or other related documents, which describe how costs are allocated between regulated and non-regulated services or products.
5. Affiliates shall be charged an appropriate and reasonable allocation of all shared corporate support and administrative costs incurred on their behalf. These costs include, but are not limited to, those associated with shared facilities and other corporate overheads.
6. To the maximum extent practicable, shared corporate support and administrative costs should be accumulated and classified on a direct cost basis for each asset, service or product provided.
7. The shared corporate support and administrative costs that cannot be directly assigned per item (6) above, should to the maximum extent possible be allocated to the Utility and its Affiliates and to the services or products to which they relate using relevant allocators which best reflect or consider the cost causative characteristics of the product/service being provided.
8. Where allocation/assignment pursuant to (6) and (7) is not practical, general allocation factors shall be utilized to allocate all remaining costs between the

Utility and its Affiliates and between service and product lines ultimately provided by the Utility and its Affiliates.

9. The allocation of capital costs between the Utility and its Affiliates (incurred in the provision of “shared corporate support and administrative” services) shall be based on the following:
 - a. The cost of capital used for such allocations shall equal the Utility’s weighted average cost of capital as last found by the Commission.
 - b. Depreciation shall be charged on a straight-line basis. Depreciation rates used for such allocations shall be consistent with the expected useful life of the asset(s) and in accordance with generally accepted accounting principles and regulatory accounting requirements, as applicable.
10. The Utility and its Affiliates shall maintain separate books and records, which shall be available for Commission inspection consistent with Indiana Law.
11. The OUCC and its agents shall have access to officers and employees and access to the books and records of the Utility and its Affiliates as reasonably necessary to ensure compliance with the Affiliate Guidelines, the Cost Allocation Guidelines and Title 8 of the Indiana Code. If disputes arise regarding the reasonableness of the timing or scope of requested access to Affiliate and Utility books and records, if not resolved by the parties, then such disputes may be presented to the Commission through use of an alternative dispute resolution process as agreed upon by the OUCC and Utility. During this process, Utility shall bear the burden of demonstrating the unreasonableness of the OUCC’s request. In seeking a resolution of access disputes, the parties agree that time is of the essence, and the intent of the parties is that the Commission’s review of such disputes will be facilitated by the parties so that the review can be as expeditious as possible.
12. The cost assignment/allocation methodologies discussed herein are applicable to shared corporate support and administrative services. The Utility’s procurement of all other goods, services, assets or other resources shall be on competitive terms, consistent with the public interest and in compliance with the Affiliate Guidelines and the Cost Allocation Guidelines.

AUDIT REQUIREMENTS

Each year an independent auditor appointed by the OUCC shall do an audit. OUCC staff members may assist the auditor. The purpose of the audit shall be to ensure that the Utility complies with these Cost Allocation Guidelines. Any violations of the Cost Allocation Guidelines shall be noted and explained in the auditor’s report, a copy of which shall be provided to the Utility, the Commission and the OUCC. Vectren shall annually contribute up to \$50,000 toward the auditor’s costs/fees.