

IURC
PETITIONER'S
EXHIBIT NO. 14
3-13-82 AT
DATE REPORTER

VERIFIED DIRECT TESTIMONY OF JENNIFER HARDING

OFFICIAL
EXHIBITS

1 Q1. Please state your name, business address and title.

2 A1. My name is Jennifer Harding. My business address is 290 W. Nationwide
3 Blvd., Columbus, Ohio 43215. I am the Director of Income Tax Operations
4 for NiSource Corporate Services Company ("NCSC"), a subsidiary of
5 NiSource Inc. ("NiSource")

6 Q2. On whose behalf are you submitting this direct testimony?

7 A2. I am submitting this testimony on behalf of Northern Indiana Public
8 Service Company LLC ("NIPSCO" or "Company").

9 Q3. Please describe your educational and employment background.

10 A3. I received a Bachelor in Business Administration with a concentration in
11 Accounting in 2007 from the Notre Dame of Maryland University in
12 Baltimore, Maryland. I began my career with KPMG LLP as a Senior
13 Associate in the tax department in Baltimore, Maryland in 2005. In 2009, I
14 joined Constellation Energy as a Tax Manager responsible for all aspects of
15 income tax and non-income tax for the generation segment and managed

1 A4. As Director of Tax Planning and Controversy, I am responsible for the
2 operational income tax activities for NiSource and its subsidiaries, including
3 NIPSCO. My responsibilities include oversight and review of the
4 preparation of income tax accrual and deferred tax entries, forecasting
5 income taxes, preparation and filing income tax returns, technical income
6 tax research and preparation of income tax data and related testimony for
7 rate proceedings.

8 **Q5. Have you previously testified before the Indiana Utility Regulatory**
9 **Commission (the "Commission") or any other regulatory agency?**

10 A5. I have not previously testified before the Commission. I have submitted
11 testimony with the Pennsylvania Public Utility Commission for Columbia
12 Gas of Pennsylvania's application to increase rates in 2021 and 2022, with
13 the Public Service Commission of Maryland for Columbia Gas of
14 Maryland's application to increase rates in 2021 and 2022, and with the
15 Public Service Commission of the Commonwealth of Kentucky for
16 Columbia Gas of Kentucky's application to increase rates in 2022.

17 **Q6. Are you sponsoring any attachments to your direct testimony in this**
18 **Cause?**

1 A6. Yes. I am sponsoring Attachments 14-A through 14-C, all of which were
2 prepared by me or under my direction and supervision. I also sponsor a
3 portion of the workpapers included in Petitioner's Confidential Exhibit
4 No. 19-X (S1, S2).

5 **Q7. Have you reviewed the attachments of NIPSCO Witness Newcomb to**
6 **the extent they include expense adjustments for federal and state taxes?**

7 A7. Yes.

8 **Q8. Did you participate in the quantification of those adjustments?**

9 A8. Yes.

10 **Q9. What is the purpose of your direct testimony in this proceeding?**

11 A9. The purpose of my direct testimony is to present and support NIPSCO's
12 federal and state income tax expense and taxes other than income tax
13 expense adjustments for the Forward Test Year (the period beginning
14 January 1, 2022 and ending December 31, 2022) at present and proposed
15 rates as shown in Petitioner's Exhibit No. 3, Attachment 3-A-S2 (Column
16 E). I also present and support NIPSCO's Accumulated Deferred Income
17 Taxes ("ADIT") and Post 1970 Investment Tax Credit ("ITC") balances
18 and related pro forma adjustments, which are included as components of

1 NIPSCO's Capital Structure as shown in Petitioner's Exhibit No. 3,
2 Attachment 3-A-S2. I also present the Company's proposal for capturing
3 future tax rate changes.

4 **Description of Attachments**

5 **Q10. Please describe Attachment 14-A.**

6 A10. Schedule 1 of Attachment 14-A shows the derivation of the Company's
7 federal and state income tax expense on a pro forma basis during the
8 Forward Test Year at present rates, reflecting each of the adjustments
9 described in my testimony. Schedule 2 of Attachment 14-A shows the
10 calculation of the effect on the Company's tax expense of the adjustments
11 for excess and deferred taxes, the limitation on the deductibility of meals,
12 entertainment, and parking expenses, the investment tax credit
13 amortization, and the Indiana Utility Receipts Tax ("URT"). Schedule ETR
14 of Attachment 14-A shows the calculation of the effective income tax rate.

15 **Q11. Please describe Attachment 14-B.**

16 A11. Attachment 14-B shows the same information as Attachment 14-A, but at
17 proposed rates.

18 **Q12. Please describe Attachment 14-C.**

1 A12. Attachment 14-C provides support for the calculation of Adjustment OTX-
2 1 shown on Petitioner's Exhibit No. 3, Attachment 3-B-S2, relating to real
3 and personal property taxes.

4 **Federal Income Tax Expense**

5 **Q13. Please explain under what basic premise the income tax calculations**
6 **were made.**

7 A13. The income tax calculations were made under the provisions of the
8 Internal Revenue Code ("IRC") of 1986, as amended, including by the Tax
9 Cuts and Jobs Act of 2017 ("TCJA") and any other tax legislation enacted
10 since that time, and the Indiana Administrative Code.

11 **Q14. Please describe the basic components of federal income tax expense**
12 **reflected in NIPSCO Witness Newcomb's accounting attachments.**

13 A14. The quantification of federal income tax expense begins with the
14 application of the 21% federal income tax rate applied to pro forma net
15 operating income before income taxes less interest expense. This amount
16 was adjusted to account for the following four items:

17 1. Adjustments to reflect the various impacts for the differences
18 between the use of accelerated depreciation for income tax return

1 purposes and straight line depreciation in determining tax expense
2 for book purposes, various tax rate changes including Excess
3 Accumulated Deferred Income Tax ("EDIT") from the TCJA and
4 Allowance for Funds Used During Construction ("AFUDC");

5 2. Adjustment to reflect certain limitations on the amount of the
6 federal income tax deduction that may be taken on certain
7 categories of expense;

8 3. Reduction in tax expense for Amortization of Investment Tax
9 Credits ("ITC"); and

10 4. Reduction in tax expense for allocation of parent company
11 (NiSource) interest expense.

12 **Q15. Please explain the implication arising from the use of accelerated**
13 **depreciation for federal income tax purposes.**

14 A15. On the federal income tax return, depreciation expense is deducted using
15 accelerated rates provided in the IRC. For book purposes, the
16 depreciation expense deduction is calculated on a straight line basis over
17 the life of the property using depreciation rates approved by the
18 Commission. The difference between accelerated tax depreciation and
19 book depreciation is a temporary difference giving rise to deferred tax

liabilities on NIPSCO's balance sheet. NIPSCO flowed-through the benefits of accelerated depreciation for vintage years prior to 1981. For the Forward Test Year, NIPSCO will have little in terms of tax depreciation remaining on those pre-1981 assets.

Q16. Are there other differences between what is depreciated for income tax purposes and for book purposes?

A16. Yes. For book purposes, the Company records AFUDC to reflect a return on the equity portion of capital while an asset is under construction and before it is placed in service ("AFUDC Equity"). These amounts are capitalized to the cost of the asset and depreciation expense is recorded for book purposes on the total cost. AFUDC Equity is not recognized for tax purposes and therefore there is no depreciation expense of AFUDC Equity for tax purposes. Thus, income tax expense for ratemaking purposes must be adjusted to reflect that this AFUDC Equity will never be recognized for income tax purposes. As shown on Attachments 14-A and 14-B, the adjustment for AFUDC Equity for the Forward Test Year is an increase in income tax expense of \$155,396.

1 **Q17. Are there other adjustments that need to be made to account for changes**
2 **in the federal income tax rate?**

3 A17. Yes. NIPSCO has EDIT that was originally computed at a 48% federal tax
4 rate for 1971-1978 vintages and a 46% federal tax rate for 1979-1986
5 vintages that are being refunded in rates under the Average Rate
6 Assumption Method ("ARAM"). The protected EDIT resulting from the
7 difference between the 48% and 46% rates and the current 21% rate are
8 being returned to the customer over the remaining life of the assets giving
9 rise to the tax rate difference under ARAM. As I explain below, the
10 Company is also returning unprotected EDIT due to the decrease of the
11 federal income tax rate to 21% as a result of the TCJA. An adjustment to
12 the Forward Test Year in the amount of \$7,560,419 as a reduction to
13 income tax expense for the flow back of the EDIT is reflected in
14 Attachments 14-A and 14-B.

15 **Q18. Has the EDIT balances been modified since NIPSCO's last gas rate case**
16 **in Cause No. 44988 (the "44988 rate case")?**

17 A18. Yes. The EDIT balances for protected property and unprotected property
18 reported in the 44988 rate case have since been updated in the Company's

books and records. The total amount of EDIT is unchanged, however, the protected property balance increased by approximately \$29 million and the unprotected property balance decreased by the same amount. This is because the 44988 Settlement case was entered so soon after the effective date of the TCJA and before the exact split could be precisely determined.¹ Protected property represents the book/tax cumulative difference between straight-line book depreciation and accelerated tax depreciation (MACRS and bonus depreciation under IRC Section 168). Unprotected property primarily represents the book/tax cumulative difference between straight-line book depreciation and tax deductions that were expensed for tax repairs and mixed service cost deductions.

Q19. How has the Company amortized protected property since the 44988 rate case?

A19. Protected property was amortized using the ARAM. The EDIT amortization that has been realized under the terms of the 44988

¹ Stipulation and Settlement Agreement between NIPSCO, the Indiana Office of Utility Consumer Counselor, the NIPSCO Industrial Group, the NIPSCO Supplier Group, Steel Dynamics, Inc., EDF Energy Services, LLC, and Direct Energy Business Marketing, LLC, approved in the Commission's September 19, 2018 Order in Cause No. 44988 (the "44988 Settlement").

1 Settlement was (\$624,921) per year. The ARAM amount for protected
2 EDIT was based on estimated straight-line amortization of ~45.8 years,
3 which was the ARAM estimate at the time (again, due to the short amount
4 of time between enactment of the TCJA and the 44988 Settlement).

5 **Q20. How does the Company propose to amortize protected EDIT going**
6 **forward?**

7 A20. The Company is proposing to amortize protected EDIT using ARAM,
8 which is (\$1,513,116) for the Forward Test Year.

9 **Q21. How does the Company propose to amortize unprotected EDIT going**
10 **forward?**

11 A21. The Company is proposing to continue to amortize unprotected EDIT
12 using the amount agreed to in the 44988 Settlement of \$6,120,309.
13 However, due to the decrease in the unprotected excess ADIT balance,
14 unprotected ADIT will be fully amortized in 7.26 years instead of the
15 agreed upon 12 years. While this period is beyond the presently
16 anticipated life of the rates that will be approved in this Cause, we would
17 request authority to file a new tariff to update the rates to reflect the

1 removal of this amortization of the unprotected EDIT at the conclusion of
2 the amortization period.

3 **Q22. Have any other adjustments been made for expenses that are not**
4 **deductible for income tax purposes?**

5 A22. Yes. The Company is not permitted to deduct certain business expenses.
6 As shown on Attachments 14-A and 14-B, the Company has increased its
7 Forward Test Year federal income tax expense by \$39,903 to reflect the
8 non-deductibility of these expenses.

9 **Q23. Please explain the adjustment relating to the amortization of Investment**
10 **Tax Credits that is included as a reduction to federal income tax**
11 **expense.**

12 A23. The Company is amortizing Investment Tax Credits that it reflected on
13 federal tax returns prior to 1989 over the service life of the property that
14 generated the credits. The investment tax credit was repealed as part of
15 the Tax Reform Act of 1986, with transition rules that permitted certain
16 projects to qualify post-1986. A gas investment tax credit balance remains
17 deferred as of December 31, 2021. As shown in Attachments 14-A and 14-
18 B, for the 12 months ended December 31, 2022, NIPSCO will amortize

1 \$316,008 of previously deferred credits. This results in a decrease to
2 income tax expense and a corresponding decrease to the gas portion of the
3 Post 1970 Investment Tax Credit Liability that is included in NIPSCO's
4 capital structure.

5 **Q24. What adjustment have you made for parent company interest expense?**

6 A24. NIPSCO's parent company, NiSource, has additional interest expense
7 obligations relating to the ongoing utility operations of NiSource's public
8 utility subsidiaries. I have allocated a portion of the tax benefit on this
9 interest expense to NIPSCO. This allocation was based on NiSource's
10 equity investment in NIPSCO compared to its equity investment in all
11 subsidiaries. As shown on Attachments 14-A and 14-B, the amount of the
12 adjustment is a decrease to Forward Test Year income tax expense of
13 \$30,412. This adjustment is consistent with what is frequently referred to
14 as the "Muncie Remand Method" and described in the Commission's
15 Order dated September 16, 1981 in Cause No. 34571. It is also consistent
16 with the Company's treatment of parent company interest expense in
17 several recent gas and electric rate cases.

1 **State Income Tax Expense**

2 **Q25. What level of income tax expense is included for state income taxes?**

3 A25. The tax calculations include Indiana Adjusted Gross Income taxes
4 calculated at 4.9%, as adjusted for the following three reconciling items:

- 5 1. The non-deductibility of the URT;
- 6 2. The excess deferred taxes resulting from the decrease in the state
7 tax rate from 5.875% to 4.9%; and
- 8 3. The non-deductibility of certain expenses.

9 **Q26. Please explain the adjustment for non-deductibility of the URT.**

10 A26. Under Indiana Code § 6-3-1-3.5(b)(3), the Company is not permitted to
11 deduct its URT on its Indiana Adjusted Gross Income tax return as shown
12 on Petitioner's Exhibit No. 3, Attachment 3-B-S2, OTX Module.

13 **Q27. Please explain the adjustment for the excess state deferred taxes.**

14 A27. The Indiana General Assembly has made a few changes to the Adjusted
15 Gross Income tax rates over the past several years, as follows:

16 2002: Increased rate from 4.5% to 8.5%

17 2011: Periodic decrease in rate from 8.5% to 6.5% by 2022

2014: Periodic decrease in rate from 6.5% to 4.9% by 2022

The 2014 decrease in the Adjusted Gross Income tax rate was phased in over 7 years. The tax rate decreases each year on July 1. The deferred tax requirement changed in 2011 when the rate decreased from 8.5% to 6.5% and again in 2014 when the rate was reduced from 6.5% to 4.9%. These combined decreases in the tax rate resulted in excess state deferred taxes. An adjustment to the Forward Test Year in the amount of \$305,737 as a reduction to income tax expense for the flow back of the deferred tax excess is reflected in Attachments 14-A and 14-B.

Q28. Please explain the adjustment for non-deductibility of certain expenses.

A28. The State of Indiana follows federal law on non-deductible expenses. The Company has increased Forward Test Year state income tax expense by \$9,311 as shown on Attachments 14-A and 14-B, to reflect the non-deductibility of certain expenses.

Taxes Other Than Income

Q29. Please explain the Company's proposal to reflect \$16,820,000 in real and personal property taxes and explain Adjustment OTX-1 shown on Petitioner's Exhibit No. 3, Attachment 3-C-S2, OTX 1.

1 A29. NIPSCO is subject to real and personal property taxes in numerous
2 counties in Indiana. As shown in Attachment 3-C-S2, OTX 1, Adjustment
3 OTX 1-21 is a Budget Adjustment for 2021 to increase property tax
4 expense by \$1,190,553. Adjustment OTX 1-22 is a Budget Adjustment for
5 2022 to increase property tax expense by \$1,355,324. Adjustment OTX 1-
6 22R is a Ratemaking Adjustment for 2022 to decrease property tax expense
7 by \$480,519 to reflect the amortization of TDSIC and FMCA deferred
8 property tax not included in base rates that will continue to be collected
9 through the respective trackers. This results in pro forma adjusted
10 property tax expense of \$16,820,000 for the Forward Test Year.
11 Attachment 14-C supports this adjustment. These pro forma property tax
12 adjustments are required to account for planned property additions
13 between the Historic Base Period and Forward Test Year.

14 **Q30. Please explain the Company's proposal to reflect \$6,495,741 in URT and**
15 **explain Adjustment OTX-4 shown on Petitioner's Exhibit No. 3,**
16 **Attachment 3-C-S2, OTX 4.**

17 A30. NIPSCO is subject to a 1.4% URT (which increases to 1.46% beginning
18 January 1, 2022) on all receipts, except sales for resale and sales to federal

1 government agencies. Adjustment OTX 4-21 is a Budget Adjustment for
2 2021 to decrease URT expense by \$699,101. Adjustment OTX 4-22 is a
3 Budget Adjustment for 2022 to increase URT expense by \$703,480.
4 Adjustment OTX 4-22R is a Ratemaking Adjustment for 2022 to decrease
5 URT expense by \$3,450,056 to reflect URT on revenue at present rates and
6 the removal of URT associated with gas cost recovery that will be
7 collected through the Gas Cost Adjustment mechanism. This results in
8 pro forma adjusted URT of \$6,495,741 at present rates for the Forward Test
9 Year. These pro forma URT adjustments are required to account for
10 planned URT between the Historic Base Period and Forward Test Year.

11 **Federal and State Income Taxes**

12 **Q31. Please explain the Company's proposal to reflect \$31,997,376 in federal**
13 **and state income taxes and explain Adjustment ITX 1-22R shown on**
14 **Petitioner's Exhibit No. 3, Attachment 3-C-S2, ITX 1-22.**

15 A31. As shown in Attachment 3-C-S2, ITX 1, Adjustment ITX 1-22R is the
16 combination of the adjustments I have previously described that are set
17 forth in Attachments 14-A and 14-B. These adjustments are made to pro
18 forma Test Year results at present rates. Adjustment PF-5 is the

adjustment to federal and state income taxes to reflect the requested increase in pro forma operating revenues at proposed rates. The total federal and state income taxes at proposed rates equals \$31,997,376 as set forth in Attachment 14-B.

Components of Capital Structure

Q32. Please explain Adjustment CS 4-20 and CS 4-22R shown on Petitioner's Exhibit No. 3, Attachment 3-C-S2.

A32. Adjustments CS 4-20 is a Budget Adjustment for 2021 to decrease deferred income taxes by \$16,951,361. Adjustment CS 4-22R is a Ratemaking Adjustment for 2022 to decrease deferred income taxes by \$7,666,845. The deferred income tax balances are forecasted by using a combination of pre-tax income and changes in balance sheet accounts. NIPSCO utilizes Accounting Standards Codification ("ASC") 740 and 980 to account for income taxes in order to reflect its after-tax financial position in its balance sheet.

Q33. Please explain Adjustment CS 7-21 and CS 7-22 shown on Petitioner's Exhibit No. 3, Attachment 3-C-S2.

1 A33. Adjustments CS 7-21 in the amount of \$368,712 and CS 7-22 in the amount
2 of \$317,052 decrease Post 1970-ITC for the period ending December 31,
3 2021 and December 31, 2022. The Company is amortizing Investment Tax
4 Credits over the service life of the property that generated the credits.

5 **Q34. Are the tax expense adjustments reflected in NIPSCO Witness**
6 **Newcomb's attachments correct and consistent with the matters**
7 **described above?**

8 A34. Yes.

9 **Q35. Are you sponsoring any other tax matters?**

10 A35. Yes. I am also sponsoring the Company's proposal for capturing future
11 tax rate changes. Based on the Biden Administration's proposal to
12 increase the federal corporate income tax rate and the Indiana Department
13 of Revenue's Information Bulletin #201 that states the URT rate will be
14 adjusted annually, the Company is proposing to take a proactive
15 approach to account for the impact of future tax rate changes that affect
16 the gross revenue conversion factor.

17 **Q36. Please describe the Company's proposal for capturing future tax rate**
18 **changes.**

1 A36. In the event of future changes to Federal or state income tax rates, URT
2 rates, or Public Utility Fee ("PUF") rates, the Company requests the
3 authority to modify all then-effective rates to incorporate any such change
4 through compliance filings to timely adjust its rates for utility service to
5 reflect the new tax rates. The adjusted rates would reflect the new tax,
6 URT and/or PUF rate and would function much like the first phase for the
7 TCJA in Cause No. 45032. Just as directed in the Commission's February
8 16, 2018 Order in that Cause, the Company would submit as a compliance
9 filing in this Cause a new tariff to adjust all of the rates and charges to
10 reflect "the difference between (1) the amount of federal [or state] taxes [or
11 URT or PUF] that the given Rate or Charge was designed to recover based
12 on the tax rate in effect at the time the Rate or Charge was approved and
13 (2) the amount of federal taxes [or URT or PUF] that would have been
14 embedded in the given Rate or Charge had the new tax rate applicable to
15 [NIPSCO] . . . been in effect at the time of approval." *Cause No. 45032*
16 (IURC 2/16/2018), p. 2. The Company also requests immediate deferral
17 treatment to capture any timing differences between the effective date of
18 the tax rate change and the start of recovery. The Company will request

1 appropriate recovery of any regulatory assets and liabilities as a result of
2 future tax rate changes in the ensuing general rate case.

3 **Q37. Why is the Company requesting this authority?**

4 A37. The TCJA and the resulting investigation taught NIPSCO that tax rate
5 changes can be very material, they can take effect abruptly and therefore
6 be volatile, and they are completely outside of the Company's control.
7 Accordingly, being prepared for future changes in the tax rates is a
8 "lesson learned" from the enactment of the TCJA and the ensuing
9 investigation. As the Commission explained in rejecting one utility's
10 objection to lowering its rates in one of the sub-dockets during the TCJA
11 investigation: "Because taxes are a pass-through expense, a change in the
12 federal income tax rate should have no substantive bearing on whether a
13 utility is or is not earning its authorized return. We also note that the
14 nature of the income tax component of the revenue requirement makes it
15 different than many other types of expenses because the rate of the burden
16 is defined in statute rather than dependent on the management actions of
17 the utility." Cause No. 45032-S3 (IURC 10/9/2018) (Sycamore Gas), p. 6.

1 **Q38. How long does the Company propose that this tax rate change authority**
2 **remain in place?**

3 A38. The Company requests that this authority be perpetual, which would
4 allow NIPSCO to adjust its rates each time there is a tax rate change. This
5 authority will allow the Company to effectuate the timely recovery or pass
6 back of any increase or decrease in tax to its customers.

7 **Q39. How does the Company propose to handle any changes in ADIT**
8 **resulting from a change in income tax rates?**

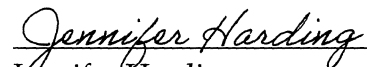
9 A39. Any change in Federal or state income tax rates would also require the
10 Company to re-measure its ADIT balance currently included in rate base
11 at the newly enacted rate. The Company would request the authority to
12 defer any changes in ADIT resulting from such re-measurement for the
13 period from the effective date of the change until the approval of rates and
14 charges in NIPSCO's ensuing base rate case.

15 **Q40. Does this conclude your prefiled direct testimony?**

16 A40. Yes.

VERIFICATION

I, Jennifer Harding, Director of Income Tax Operations for NiSource Corporate Services, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Jennifer Harding

Date: January 12, 2022

Schedule ETR

Northern Indiana Public Service Company

**Effective Tax Rate Calculation - Gas
Proforma at Current Rates**

Line No.	Description	Pro Forma At Test Year Base Rates	%
1	Book Income / (Loss) Before Income Taxes	\$ 50,863,017	
2	Tax Expense at Statutory Federal Income Tax Rate	\$ 10,681,234	21.00%
3	Increases (Reductions) in Taxes Resulting From:		
4	- State Income Taxes, Net of Federal Income Tax Benefit	\$ 1,948,516	3.83%
5	- Regulatory Treatment of Property Differences	\$ (7,484,299)	-14.71%
6	- Amortization of Deferred Investment Tax Credits	\$ (316,008)	-0.62%
7	- Nondeductible Expenses	\$ 49,214	0.10%
8	- Other, net	\$ 287,878	0.57%
9	Total Income Tax Expense - Gas	\$ 5,166,535	10.16%

Schedule 1

Northern Indiana Public Service Company
Income Tax Expense Included In Pro Forma Income
At Current Rates

<u>Description</u>	<u>Amount</u>
Net Operating Income - Gas Segment	\$ 45,696,482
Plus: Income Taxes Included in Net Operating Income	\$ 5,166,535
Net Operating Income Before Taxes	\$ 50,863,017
Interest Synchronization Deduction	\$ -
Federal Taxable Income Before State Tax Deduction	\$ 50,863,017
Less: State Income Taxes at 4.9%	\$ 2,492,288
Federal Taxable Income	\$ 48,370,729
Federal Income Taxes at 21%	\$ 10,157,853
<u>Other Components of Operating Income Tax Expense</u>	
<u>Federal Income Taxes</u>	
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$ (7,560,419)
Flow Through for Method, Basis and Life Differences	\$ 151,229
Flow Through of AFUDC Equity	\$ 155,396
Permanent Differences:Nondeductibles	\$ 39,903
Amortization of Investment Tax Credit	\$ (316,008)
Parent Company Tax Benefit of Interest Expense	\$ (30,412)
Federal Benefit of State Adj and Misc	\$ (20,391)
Subtotal	\$ (7,580,702)
<u>State Income Taxes</u>	
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	\$ (305,737)
Flow Through for Method, Basis and Life Differences	\$ 37,105
Flow Through of AFUDC Equity	\$ 38,127
Permanent Differences:Nondeductibles	\$ 9,311
BTR, Adjustments and Rate Change	\$ -
Miscellaneous	\$ -
Permanent Differences: Utility Receipts Tax	\$ 318,290
Subtotal	\$ 97,096
<u>Summary:</u>	
Federal Income Taxes	\$ 2,577,151
State Income Taxes	\$ 2,589,384
Total Income Taxes Included In Test Period Actuals	\$ 5,166,535

Revised 01/14/2022

Schedule 2

Northern Indiana Public Service Company
Proforma Adjustments to Income Tax Allowance
At Current Rates

Description	Pro Forma Adj for Test Per		
<u>Excess & Deficient Deferred Taxes</u>			
<u>Federal</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$	(7,560,419)	
Flow Through for Method, Basis and Life Differences	\$	151,229	
Flow Through of AFUDC Equity	\$	155,396	
<u>State</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$	(305,737)	
Flow Through for Method, Basis and Life Differences	\$	37,105	
Flow Through of AFUDC Equity	\$	38,127	
Total	\$	(7,484,299)	
	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Per
<u>Permanent Differences</u>			
Various Perm Differences	\$ 190,016	21.000%	\$ 39,903
Various Perm Differences	\$ 190,016	4.900%	\$ 9,311
Federal Benefit			\$ (1,955)
Total			\$ 47,259
	Amount for Test Per		Pro Forma Adj for Test Per
<u>Amortization of ITC</u>	\$ (316,008)		\$ (316,008)
	Projected Allocation		Tax Allowance
<u>Parent Company Tax Benefit of Interest Expense</u>			
Interest Expense on Parent	1,236,430		
Percent Allocated to NIPSCO Based on Investment	48.4200%		
Subtotal	598,679		
Gas Percentage	24.1900%		
Tax Loss Allocated to Gas	144,820		
Tax Rate	21%		
Tax	(30,412)		(30,412)
	Nondeductible Expenses	Tax Rate	Tax Allowance
<u>State Income Tax Allowance for URT</u>	\$ 6,495,741	4.900%	\$ 318,290
Proforma Utility Receipts Tax Expense			\$ (66,841)
Federal Benefit			\$ 251,449
Tax Allowance			
			Pro Forma Current Rates
Total Federal and State Tax Adjustments to Statutory Rate			\$ (7,532,011)

Schedule ETR

Northern Indiana Public Service CompanyEffective Tax Rate Calculation - Gas
Proforma at Proposed Rates

Line No.	Description	Pro Forma At Test Year Base Rates	%
1	Book Income / (Loss) Before Income Taxes	\$ 158,493,773	
2	Tax Expense at Statutory Federal Income Tax Rate	\$ 33,283,692	21.00%
3	Increases (Reductions) in Taxes Resulting From:		
4	- State Income Taxes, Net of Federal Income Tax Benefit	\$ 6,098,425	3.85%
5	- Regulatory Treatment of Property Differences	\$ (7,484,299)	-4.72%
6	- Amortization of Deferred Investment Tax Credits	\$ (316,008)	-0.20%
7	- Nondeductible Expenses	\$ 49,214	0.03%
8	- Other, net	\$ 366,352	0.23%
9	Total Income Tax Expense - Gas	\$ 31,997,376	20.19%

Schedule 1

Northern Indiana Public Service Company
Income Tax Expense Included In Pro Forma Income
At Proposed Rates

<u>Description</u>	<u>Amount</u>
Net Operating Income - Gas Segment	\$ 126,496,397
Plus: Income Taxes Included in Net Operating Income	\$ 31,997,376
Net Operating Income Before Taxes	\$ 158,493,773
Interest Synchronization Deduction	\$ -
Federal Taxable Income Before State Tax Deduction	\$ 158,493,773
Less: State Income Taxes at 4.9%	\$ 7,766,195
Federal Taxable Income	\$ 150,727,578
Federal Income Taxes at 21%	\$ 31,652,791
<u>Other Components of Operating Income Tax Expense</u>	
<u>Federal Income Taxes</u>	
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$ (7,560,419)
Flow Through for Method, Basis and Life Differences	\$ 151,229
Flow Through of AFUDC Equity	\$ 155,396
Permanent Differences:Nondeductibles	\$ 39,903
Amortization of Investment Tax Credit	\$ (316,008)
Parent Company Tax Benefit of Interest Expense	\$ (30,412)
Federal Benefit of State Adj and Misc	\$ (36,869)
Subtotal	\$ (7,597,180)
<u>State Income Taxes</u>	
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	\$ (305,737)
Flow Through for Method, Basis and Life Differences	\$ 37,105
Flow Through of AFUDC Equity	\$ 38,127
Permanent Differences:Nondeductibles	\$ 9,311
BTR, Adjustments and Rate Change	\$ -
Miscellaneous	\$ -
Permanent Differences: Utility Receipts Tax	\$ 396,764
Subtotal	\$ 175,570
<u>Summary:</u>	
Federal Income Taxes	\$ 24,055,611
State Income Taxes	\$ 7,941,765
Total Income Taxes Included In Test Period Actuals	\$ 31,997,376

Schedule 2

Northern Indiana Public Service Company
Proforma Adjustments to Income Tax Allowance
At Proposed Rates

Description			Pro Forma Adj for Test Per
<u>Excess & Deficient Deferred Taxes</u>			
<u>Federal</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (7,560,419)
Flow Through for Method, Basis and Life Differences			\$ 151,229
Flow Through of AFUDC Equity			\$ 155,396
<u>State</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (305,737)
Flow Through for Method, Basis and Life Differences			\$ 37,105
Flow Through of AFUDC Equity			\$ 38,127
Total			\$ (7,484,299)
<u>Permanent Differences</u>			
Various Perm Differences	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Per
Various Perm Differences	\$ 190,016	21.000%	\$ 39,903
Federal Benefit	\$ 190,016	4.900%	\$ 9,311
			\$ (1,955)
Total			\$ 47,259
<u>Amortization of ITC</u>			
	Amount for Test Per		Pro Forma Adj for Test Per
	\$ (316,008)		\$ (316,008)
<u>Parent Company Tax Benefit of Interest Expense</u>			
Interest Expense on Parent	Projected Allocation		Tax Allowance
Percent Allocated to NIPSCO Based on Investment	1,236,430		
Subtotal	48.4200%		
Gas Percentage	598,679		
Tax Loss Allocated to Gas	24.1900%		
Tax Rate	144,820		
Tax	21%		
	(30,412)		(30,412)
<u>State Income Tax Allowance for URT</u>			
Proforma Utility Receipts Tax Expense	Nondeductible Expenses	Tax Rate	Tax Allowance
Federal Benefit	8,097,244	4.900%	\$ 396,764
Tax Allowance			\$ (83,320)
			\$ 313,444
<u>Pro Forma Current Rates</u>			
Total Federal and State Tax Adjustments to Statutory Rate			\$ (7,470,016)

Northern Indiana Public Service Company LLC
Pro forma Adjustment to Taxes Other Than Income
Twelve Months Ending December 31, 2022

This pro forma adjusts the twelve months ended December 31, 2020 taxes other than income expense to reflect budgeted and ratemaking changes in property tax costs for the twelve months ending December 31, 2021 and December 31, 2022.

Line No.	Description	Adjustment	Amount	Page Reference
	A	B	C	D
1	2020 Property Tax Expense		\$ 14,865,435	[.2]
2	<u>Normalization Adjustment</u>			
3	Reclass from Property Tax Expense to Amortization Expense - AMTZ 3	OTX 1-20	\$ (110,793)	
4	Total Normalization Adjustments		\$ (110,793)	
5	2020 Normalized Property Tax Expense		<u>\$ 14,754,642</u>	
6	2021 Budgeted Property Tax Expense			
7	Increase/(Decrease) in Normalized Historical Base Period 2020 to Forward 2021 Period	OTX 1-21	<u>1,190,553</u>	
8	Property Tax Expense - Budgeted Jan-Dec 2021		<u>\$ 15,945,195</u>	[.3]
9	2022 Budgeted Property Tax Expense			
10	Increase/(Decrease) in Forward 2021 Period to Forward 2022 Test Year	OTX 1-22	<u>1,355,324</u>	
11	Property Tax Expense - Budgeted Jan-Dec 2022		<u>\$ 17,300,519</u>	[.3]
12	2022 Ratemaking Property Tax Expense			
13	<u>Ratemaking Adjustments</u>			
14	2022 Ratemaking Increase/(Decrease)	OTX 1-22R	<u>(480,519)</u>	
15	2022 Ratemaking Increase/(Decrease)		\$ (480,519)	
16	2022 Ratemaking Property Tax Expense		<u>\$ 16,820,000</u>	[.3]

Northern Indiana Public Service Company LLC
Account 40813200 - Tax Exp-Property
Twelve Months Ended December 31, 2020

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Line No.	Segment	Activity	2020												Twelve Months Ended December 31, 2020
			January	February	March	April	May	June	July	August	September	October	November	December	
1	G	Y2020 - Year 2020	\$ 1,275,588	\$ 1,275,588	\$ 1,275,588	\$ 1,275,588	\$ 1,275,588	\$ 1,287,901	\$ 1,277,640	\$ 1,277,640	\$ 1,277,640	\$ 1,277,640	\$ 1,277,640	\$ 1,277,640	\$ 15,331,881
2	G	Y2019 - Year 2019	-	-	-	-	-	(787,400)	-	-	-	-	-	(162,240)	(949,640)
3	G	Y2018 - Year 2018	(6,991)	2,852	-	-	-	-	-	-	-	-	-	-	(4,139)
4	G	CE 3300 - Amortization	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	110,793
5	G	TDSIC	26,871	30,134	22,000	15,542	9,048	5,167	-	(23,864)	-	-	-	-	84,898
6	G	FMCA	5,350	5,798	4,442	78,807	46,211	22,278	20,872	20,327	25,050	11,869	18,469	32,369	291,841
7		Grand Total	\$ 1,310,051	\$ 1,323,605	\$ 1,311,263	\$ 1,379,170	\$ 1,340,079	\$ 537,179	\$ 1,307,745	\$ 1,283,336	\$ 1,311,923	\$ 1,298,741	\$ 1,305,342	\$ 1,157,002	\$ 14,865,435 [1]

Northern Indiana Public Service Company LLC
Budget
Taxes Other Than Income: Gas Property Tax

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		Budget							
Line	Description	2020		2021		2022		2022R	
No.	A	B		C		D		E	
1	Property Tax	\$	14,865,435 [.2]	\$	15,945,195 [.1]	\$	17,300,519 [.1]	\$	16,820,000 [.1] [.4]

Northern Indiana Public Service Company LLC
Calculation of Property Tax
December 31, 2020, 2021 and 2022Workpaper OTX 1
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Line No.	Description	Type	Budget 2021 Pay 2022 Plan	Pro-Forma Adjustments	Pro-Forma 2021 Pay 2022 Agrees to Return	Pro-Forma 2022 Pay 2023 Plan
	A	B	D	E	F	G
1	Beginning Assessed Value	Utility Personal Property	\$ 619,949,140			\$ 635,667,327 [6]
2	Year Plant Additions - Gas		2021			2022
3	Gross Additions placed in Service (includes trackers, TDSIC & repairs)		270,580,755			338,765,222
4	Retirements (assume 10% of gross additions)		(31,170,797)			(53,605,299)
5	Intangibles (Software)		(8,187,578)			(14,578,112)
6	Trackers (pollution control investments exempt from property taxation)		-			-
7	Non-TDSIC Repairs (maintenance additions capitalized for book, expensed for tax)		(72,278,201)			(24,338,838)
8	263a Costs (labor capitalized for book, but expensed for tax)		(45,117,074)			(52,976,481)
9	TDSIC fully deductible repairs in year one - Gas		-			(7,031,004)
10	Net Taxable Additions		113,827,105			186,235,489
11	Net Taxable Additions @ 30% Floor		34,148,132			55,870,647
12	Decrease in Obsolescence to Assessed Value		-			
13	Increase in CWIP Assessed Value		186,808			4,619,888
14	Total Net Change		\$ 34,334,940			\$ 60,490,535
15	Personal Property Assessed Value Form UD 45, line 43	Utility Personal Property	\$ 654,284,100	\$ (18,616,773)	\$ 635,667,327 [6]	\$ 696,157,862
16	Real Estate Assessed Value from latest assessment	Real Property	\$ 78,644,487	\$ 834,505	\$ 79,478,992	\$ 84,915,131
17	Total Assessed Value Personal and Real Property		\$ 732,928,600	\$ (17,782,268)	\$ 715,146,300	\$ 781,072,993
18	Effective Tax Rate		2.1225% [5]		2.1481%	2.1534% [5]
19	Indiana Taxes on Personal and Real Property		15,556,070		15,361,727	16,819,813
20	Indiana Only		15,556,070	43,140	15,404,867	16,820,000
21	Other Payments - Other States		140,977	(94)	140,883	-
22	Total NIPSCO - All states		15,697,047		15,545,750	16,820,000
23	CWIP Adjustment - Capitalized Tax		(202,553)	137	(202,416)	-
24	Net Expense		15,494,494		15,343,334	16,820,000 [3]
		Budget	15,945,195			
		Difference	(389,125)			

Northern Indiana Public Service Company LLC
Gas Rate Case
Effective Tax Rate Analysis

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<u>Line</u> <u>No.</u>	<u>Calculation</u> <u>Date</u> A	<u>Tax</u> <u>B</u>	<u>Assessed</u> <u>Value</u> C	<u>Effective</u> <u>Tax Rate</u> D = B / C	<u>Change in</u> <u>Effective Tax Rate</u> E	<u>Inflation</u> <u>Rate %</u> F
1	2017 Actuals (final)	5/31/2018 \$	37,894,157 \$	1,782,499,500 2.1259%		
2	2018 Actuals (final)	5/31/2019 \$	37,978,254 \$	1,765,169,900 2.1515%	0.0256%	1.2059%
3	2019 Actuals (final)	5/31/2020 \$	35,697,592 \$	1,690,322,100 2.1119%	-0.0397%	-1.8431%
4	2020 Actuals (final)	5/31/2021 \$	37,070,000 \$	1,730,062,600 2.1427%	0.0308%	1.4592%
5	Budget 2021 Pay 2022 Plan	1/15/2021 \$	38,055,123 \$	1,771,609,400 2.1481% [-.4]	0.0054%	0.2500%
6	Pro-Forma 2022 Pay 2023 Plan	6/22/021 \$	38,743,500 \$	1,799,158,000 2.1534% [-.4]	0.0107%	0.4994%
7	Absolute change in ETR from 2019 to 2022			0.0415%		
8	Percentage Increase in ETR from 2019 to 2022			1.9671%		
9	Average Percent Increase in ETR			1.0%		

Northern Indiana Public Service Company LLC
Forecasting Gas
2020 Paid in 2021

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Part 1 - source of most current breakdown

ProForma of Form UD45, Schedule A, Pages 3-4 - Gas

Line No.	Description	2020
1	Utility Plant and Property in Service	2,311,832,502
2	Non-Utility Property	41,443
3	Plant Held For Future Use	52,132
4	Subtotal (Sum of Lines 1, 2 and 3)	2,311,926,078
	Less: Locally Assessed Real Property Included In: (Do not include R/O/W, easements, or towers)	
5	Utility Plant and Property in Service	114,911,029
6	Non-Utility Property	41,443
7	Plant Held For Future Use	
8	Subtotal - Locally Assessed Real Property (Sum of Lines 5, 6, and 7)	114,952,472
9	TOTAL COST OF PROPERTY IN SERVICE (Excluding Locally Assessed Real Property) (Line 4 less Line 8)	2,196,973,606
10	Organization Expense	98,958
11	Acquisition Adjustment	
12	ADJUSTED COST (Sum of Lines 9, 10 and 11)	2,197,072,564
	DEDUCTIONS AND EXEMPTIONS (at cost)	
13	Intangibles (Attach explanation) Software	94,823,001
14	Less: Intangibles For Locally Assessed Real Property	
15	Net Intangibles (Please provide supporting documentation)	94,823,001
16	Industrial Air Purification Equipment in Service (Schedule A-3)	0
17	Water Pollution Control Equipment in Service (Schedule A-4)	0
18	TOTAL DEDUCTIONS AND EXEMPTIONS (Sum of Lines 15, 16 and 17)	94,823,001
19	TOTAL ADJUSTED COST OF PROPERTY IN SERVICE (Line 12 less Line 18)	2,102,249,563
20	TOTAL ADJUSTED COST OF PROPERTY IN SERVICE (carry forward Line 19 of Page 3)	2,102,249,563
	DEPRECIATION, AMORTIZATION AND CREDIT FOR GROSS ADDITIONS	
21	Accumulated Depreciation (as computed for Federal Tax purposes)	
22	Accumulated Amortization Reserve	
23	Subtotal - Depreciation and Amortization (Line 21 plus Line 22)	
24	Less: Accumulated Depreciation Applicable to Locally Assessed Real Property	
25	Accumulated Depreciation and Amortization Applicable to Pollution Control Equipment	
26	Amortization Reserve for Locally Assessed Real Property	
27	Amortization Reserve for Intangibles Deducted on Line 15	
28	Subtotal - Net Depreciation and Amortization (Line 23 less Lines 24, 25, 26, and 27)	
29	Credit for Gross Additions (Schedule A-1)	
30	TOTAL DEPRECIATION, AMORTIZATION AND CREDITS (Sum Lines 28 and 29)	
31	TENTATIVE VALUE OF PROPERTY IN SERVICE (Line 20 minus Line 30)	
32	MINIMUM VALUE OF PROPERTY IN SERVICE [Thirty Percent (30%) of Line 20]	630,674,869
33	NET VALUE OF PLANT AND PROPERTY IN SERVICE (Greater of Lines 31 or 32)	630,674,869
	ADDITIONS: (report at True Tax Value from appropriate schedule)	
34	Construction in Process (Schedule A-1)	4,992,458
35	Leased Distributable Property (Schedule A-2, not included in Line 1)	
36	TOTAL ADDITIONS (Line 34 plus Line 35)	4,992,458
	OTHER SCHEDULES: (if applicable)	
37	REMC Schedule (Schedule A-5)	
38	Pipelines - Pipe Valuation (Schedule A-6)	
39	Pipelines - Other Property (Schedule A-7)	
40	Passenger Buses (Schedule A-8)	
41	Other	0
42	TOTAL (sum of Lines 33, 36, 37, 38, 39, 40, and 41)	635,667,327
43	ASSESSED VALUE (Line 42, rounded to nearest ten dollars)	635,667,327

[.4]