FILED
May 17, 2019
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC PURSUANT TO IND. CODE §§ 8-1-42.7,8-1-2-61 AND IND. CODE § 8-1-2.5-6 FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A PHASE IN OF RATES; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (3) APPROVAL OF REVISED COMMON AND ELECTRIC DEPRECIATION RATES APPLICABLE TO ITS ELECTRIC PLANT IN SERVICE; (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF; AND (5) APPROVAL OF A NEW SERVICE STRUCTURE FOR INDUSTRIAL RATES.	)	CAUSE NO. 45159

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

MICHAEL D. ECKERT - PUBLIC'S EXHIBIT NO. 1-S

MAY 17, 2019

Respectfully submitted,

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SETTLEMENT TESTIMONY OF OUCC WITNESS MICHAEL D. ECKERT
CAUSE NO. 45159
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

I. INTRODUCTION

Q: Please state your name, business address and employment capacity.

A: My name is Michael D. Eckert and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, IN, 46204. I am employed as an Assistant Director in the Electric Division for the Indiana Office of Utility Consumer Counselor ("OUCC").

Q: Are you the same Michael D. Eckert who previously submitted direct testimony in this Cause?

A: Yes.

Q: What is the purpose of your testimony?

A: I describe the OUCC's support for the Stipulation and Settlement Agreement on Less Than All the Issues ("Settlement Agreement"), filed by Northern Indiana Public Service Company LLC ("NIPSCO") on Friday, April 26, 2019, and entered into between NIPSCO, the OUCC, NIPSCO Industrial Group, NLMK Indiana, United States Steel Corporation; the Citizens Action Coalition of Indiana, Inc., Walmart Inc., Northern Indiana Commuter Transportation District, Sierra Club, and the Indiana Municipal Utilities Group[1] (collectively the "Settling Parties" and individually "Settling Party"). If approved, the Settlement Agreement will provide certainty regarding critical issues, including revenue requirements, authorized return, and other miscellaneous issues. The Settlement

[1] Cause No. 45159, Submission of Status Update, April 30, 2019.

Agreement does not resolve revenue allocation, Rate 831, and all rate design issues. However, the Settling Parties are continuing discussions regarding these issues in an attempt to resolve all remaining matters.

Q: Are the Settling Parties continuing to work to see if other Intervening Parties will join the Settlement Agreement?

A: Yes. For example, after the initial Settlement Agreement was filed, further negotiations led to the Indiana Municipal Utilities Group joining the Settling Parties.

Q: Does the Settlement Agreement balance the interests of NIPSCO and ratepayers?

A: Yes. The Settlement Agreement was a result of intense negotiations, with each party offering compromise to challenging issues. The nature of compromise includes assessing the litigation risk that the tribunal will find the other side's case more compelling. While the Settlement Agreement represents a balance of all interests, given the number of benefits provided to ratepayers as outlined in the Settlement Agreement and described below, the OUCC, as the statutory representative of all ratepayers, believes the Settlement Agreement is a fair resolution, supported by evidence, and should be approved.

II. RATEPAYER BENEFITS OF SETTLEMENT AGREEMENT

Q: As result of the Settlement Agreement, will NIPSCO's base rates reflect a lower revenue requirement than NIPSCO proposed in its case-in-chief filing?

A: Yes. The Settling Parties agreed to an annual basic rate revenue requirement increase of $46.608 million,[2] which is an approximate $63.648 million[3] reduction from NIPSCO's as-filed requested basic rates revenue requirement increase of

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[2] Cause No. 45159, Petitioner's Exhibit No. 4-S, Attachment 4-A-S2-S, Page [.1], Column I, Row 2.
[3] Cause No. 45159, Settlement Agreement, Page 6, Paragraph B.1.(a).

$111.386 million.[4] As a result of the Settlement Agreement, the system-wide revenue increase is approximately 3.25%[5] as compared to Petitioner's as-filed requested basic revenue requirement increase of approximately 7.77%.[6] The Settlement Agreement reduces the revenue increase impact for all NIPSCO's customers relative to NIPSCO's original proposal.

Q: Does the lower revenue requirement take into account adjustments made to NIPSCO's filing following the passage of the federal Tax Cuts and Jobs Act of 2017 ("TCJA")?

A: Yes. As discussed later in my testimony and by OUCC Witness Wes R. Blakley, the terms of the Settlement Agreement resolve the TCJA issues and account for the changes to the Company's revenue requirement necessary to address the TCJA and the Indiana Utility Regulatory Commission's ("Commission") Order in Cause No. 45032-S5.

Q: What ratepayer benefits are included in the Settlement Agreement?

A: The $63.648 million revenue requirement savings include numerous consumer benefits: 1) a $13.50 monthly residential customer charge - a $0.50 decrease from the current $14.00 charge and $3.50 less than NIPSCO's originally requested $17.00; 2) a 9.90 percent (%) authorized return on equity ("ROE") compared to NIPSCO's proposed increase to 10.80%; 3) resolving all issues regarding the TCJA; 4) NIPSCO's commitment to seek approval of a voluntary low income program and establish a collaborative process to work out the program details; 5) certain exceptions to the depreciation accrual rates recommended by NIPSCO in

[4] Cause No. 45159, Petitioner's Exhibit No. 4, Attachment 4-A-S2, Page 1, Column I, Line 2.
[5] Cause No. 45159, Petitioner's Exhibit No. 4-S, Attachment 4-A-S2-S, Page [.1], $46,608,036/$1,435,558,704.
[6] Cause No. 45159, Petitioner's Exhibit No. 4, Attachment 4-A-S2, Page 1, $111,385,739/$1,434,429,450.

this proceeding, resulting in a reduction to the revenue requirement; 6) adjustments to NIPSCO's proposed annual amortization expense, as explained later in my testimony; 7) an annual revenue credit mechanism reflecting the difference between the value of the Schahfer and Michigan City Generating Units in NIPSCO's rate base at the time a Final Order is issued in this proceeding, and the actual investment amount adjusted for depreciation, as outlined in OUCC Witness Mr. Blakley's direct testimony; 8) changes to Rates and Tariffs; and 9) additional benefits negotiated by the Settling Parties. The cost of the commitment in item 4 is not reflected in the agreed revenue deficiency in this Cause. Consumer benefits are provided in more detail in my testimony below.

III. RETURN ON EQUITY

Q: Please explain the ROE reduction component of the Settlement Agreement.

A: NIPSCO proposed a 10.80% ROE. The OUCC, Industrial Group, and other intervenors advocated for a considerably lower ROE applied to NIPSCO's original cost rate base. As a result of the negotiations, a compromise was reached, resulting in a 9.90% ROE and elimination of the fair value increment.

Q: Does the OUCC find the negotiated ROE reasonable and in the interest of ratepayers?

A: Yes. A lower ROE benefits ratepayers by reducing the return on rate base ultimately reducing the revenue requirement by approximately $23.8 million. The Settlement Agreement establishes a balanced plan that is in the interest of both ratepayers and shareholders.

IV. TAX REFORM

Q: Are there ratepayer benefits in the Settlement Agreement regarding the impacts of the TCJA?

A: Yes. The impacts of the TCJA lowered NIPSCO's annual revenue requirement by approximately $20.0 million,[7] as addressed in the Settlement Agreement.

1) Protected and Net operating Loss Excess ADIT balance of ($203,164,460) created by the TCJA will be amortized over the remaining life (estimated at the time of this Agreement) of the assets as required by statute using the average rate assumption method ("ARAM"). The amortization period will be on a straight-line basis over 26 years[8]. The annual amortization is estimated to be $7.81 million, which will reduce NIPSCO's test year revenue requirement.

2) Unprotected and Other Excess ADIT created by the TCJA will be amortized at $12,170,384 per year until NIPSCO's next rate case. At the time of its next rate case, the remaining balance shall be included in the revenue requirement and fully amortized by December 31, 2030. NIPSCO originally proposed to use ARAM to amortize unprotected Excess ADIT, which is estimated to be 26 years, a ten year amortization period returns unprotected Excess ADIT to customers faster.

3) The Settling Parties agree that as set forth in this Settlement Agreement, the TCJA issues are resolved.

Q: Does OUCC Witness Mr. Blakley provide further detail on this issue?

A: Yes.

V. OPERATING EXPENSE ADJUSTMENTS

Q: Are there ratepayer benefits in the Settlement Agreement associated with expense adjustments?

A: Yes. Settling Parties agreed to 1) a $2 million decrease to NIPSCO's proposed operating and maintenance ("O&M") expense; 2) a longer amortization period for

[7] Protected and Net operating Loss Excess ADIT amortized amount of $7.81 million per year plus the Unprotected and Other Excess ADIT amortized amount of $12,170,384 per year.

[8] "Normalized" ADIT is calculated on a utility's physical assets, and the amortization of the excess must be over the remaining life of assets.

certain regulatory assets; and 3) changes to the depreciation study.

Operation and Maintenance

Based on the direct testimonies of the Parties' Witnesses, the Settling Parties agreed to reduce test year O&M expense by $2 million.

Amortization Expense

The Settling Parties agreed to the adjust the annual amortization expense calculated by NIPSCO in this proceeding associated with regulatory assets for Transmission, Distribution, and Storage System Interconnection Charge ("TDSIC") Remand, TDSIC 7 Year Plan, Federally Mandated Cost Adjustment ("FMCA"), Mercury and Air Toxics Standards ("MATS"), Economic Development Rider ("EDR"), and Electric Rate Case Expense. As a result, the annual amortization expense shall be modified to reflect an amortization period of seven (7) years as opposed to NIPSCO's proposed four-year amortization period, resulting in a reduction to amortization expense in the amount of $7,789,765. When the expense is fully amortized, NIPSCO agrees to make a tariff filing that will reflect the reduction in amortization expense if not already addressed by an intervening base rate case order.

Depreciation Expense

The Settling Parties agreed NIPSCO's proposed depreciation accrual rates should be implemented with the following exceptions:

1) Amortization period for regulatory assets anticipated to result from retired coal-fired generating units as described in NIPSCO's case-in-chief shall conclude in 2032, which assumes the retirement of the R.M. Schahfer ("Schahfer") Generating Units in 2023 and the Michigan City Generating Unit in 2028; and

2) Annual depreciation expense shall be adjusted to reflect the removal of $26 Million in contingency expense included in demolition costs, as proposed by Industrial Group Witness Michael Gorman.

These exceptions reduce Petitioner's as filed pro-forma depreciation expense of $287,902,767[9] by $29 million down to $258,844,580[10].

VI. RIDERS

Q: What treatment for off-system sales ("OSS") margins was agreed to as part of the Settlement Agreement?

A: NIPSCO agreed to flow through its RTO Tracker 100% of all margins, including any net losses, from off-system sales, down to zero.

Q: What ratepayer benefits result from this type of off-system sales ("OSS") margin treatment?

A: Consistent with NIPSCO's original position, and unopposed by the OUCC in its case-in-chief, ratepayers will continue to receive 100% of the margins (profits) that result from OSS. However, NIPSCO will no longer embed an amount for OSS margins in base rates. From the OUCC's perspective, flowing through 100% of OSS margins is an offset to ratepayers who are paying NIPSCO's retail rates to support the operation and maintenance expenses and provide a return of and a return on the assets that support OSS. Ratepayers also pay rates that reflect the Midcontinent Independent System Operator ("MISO") administrative fees that provide for MISO to administer OSS of NIPSCO's excess generation. Additionally, 100% tracking of OSS margins will not only simplify the calculation of the OSS margin component of NIPSCO's proposed RTO Rider, but will also provide transparency in the flow through of OSS margins.

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[9] Cause No. 45159, Petitioner's Exhibit No. 4, Attachment 4-C-S1, Depr 1-S1.
[10] Cause No. 45159, Petitioner's Exhibit No. 4-S, Attachment 4-C-S1-S, Depr 1-S1-S.

Q: Did the Settling Parties agree to eliminate the Environmental Cost Recovery Mechanism ("ECRM") tracker and recover the regulatory asset over two years?

A: Yes.

Q: Did the Settling Parties agree to NIPSCO's Economic Development Rider (Rider 877) proposal, including the deferral mechanism?

A: Yes. The Settling Parties agree this rider will continue to bring economic benefits to NIPSCO, NIPSCO Ratepayers, and the NIPSCO region.

VII. <u>REVENUE CREDIT MECHANISM</u>

Q: Has NIPSCO agreed to implement a revenue credit mechanism to reflect the difference between the value of the Schahfer and Michigan City Generating Units reflected in NIPSCO's rate base at the time the Final Order is issued in this proceeding and the actual investment amount adjusted for depreciation?

A: Yes. OUCC Witness Mr. Blakley provides more detail on this issue, including the benefits to ratepayers.

VIII. <u>LOW INCOME PROGRAM COMMITMENT</u>

Q: Did NIPSCO commit to seek approval of certain customer programs?

A: Yes. NIPSCO committed to seek approval of a voluntary low income program within six months of a Final Order in this proceeding. The program details have not yet been established. However, the Settling Parties have agreed to meet in good faith through the collaborative process NIPSCO has already established with interested stakeholders. NIPSCO will file with the Commission a report on the program which includes number of participants, number of applicants denied, amounts awarded to participants, total amount of funds distributed, and other information to be determined by the collaborative process.

Q: Have the Settling Parties agreed to how the program will be funded?

A: No. The program funding will be discussed in the collaborative process. The program funding will be voluntary for all customers and will not impact NIPSCO's revenue requirement.

IX. COST OF SERVICE STUDY/RATE DESIGN

Q: Did the Settling Parties reach agreement regarding revenue allocation and Rate 831 rate design?

A: No. However, the Settling Parties did reach resolution on the following three rate design issues:

1) Residential Customer Charge: The Settling Parties agreed the Residential Customer Charge should be set at $13.50/month.

2) Rate 830: The Settling Parties agree that Rate 830 shall be split into Rates 832 and 833 which shall reflect the current structure of Rates 732 and 733, and provide for backup and maintenance provisions reflected in current Rider 776.

3) Rate 844: The Settling Parties agree that Rate 844 shall see no increase in its base rates.

Q: Please expand on the settled Residential Customer Charge.

A: In NIPSCO's case-in-chief, it proposed a 21% or $3.00 increase ($14.00 to $17.00) to the monthly residential customer charge. The proposed increase in the residential customer charge was a recurring theme of ratepayers testifying at the field hearings and in the submission of written comments. The issue was addressed in testimony of the OUCC and other intervenors in this Cause. The residential customer charge was the subject of intense negotiations. Through compromise, Settling Parties agreed to a residential customer charge of $13.50, which is a reduction from the current $14.00 residential customer charge, and savings to ratepayers, of $0.50 each month.

Q: Does the Settlement Agreement also include a modification to NIPSCO's proposed street lighting tariff?

A: Yes. There will be no increase to the Rate 850 lamp charge for TDSIC LED NIPSCO-owned streetlights, retrofitted before approval of the Final Order in this Cause.[11]

X. STEP RATES

Q: Did the Settling Parties agree to NIPSCO's proposed Two-Step rate increase?

A: Yes. The Settling parties agreed to a Two-Step rate increase. Step 1 rates will go into effect on December 1, 2019 assuming a Final Order is issued before the end of November and Step 2 rates will go into effect on March 1, 2020. The Step 1 and Step 2 revenue requirements reflects projected net utility plant in service, projected capital structure and the associated operations and maintenance, depreciation, and amortization expense as of June 30, 2019 and December 31, 2019, respectively.

XI. RECOMMENDATIONS

Q: What is the OUCC recommendation to the Commission?

A: The OUCC recommends the Commission find the Settlement Agreement on Less Than all the Issues to be in the public interest and approve it in its entirety.

Q: Does this conclude your testimony?

A: Yes.

[11] Cause No. 45159, Submission of Status Update, April 30, 2019.

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S SETTLEMENT TESTIMONY OF MICHAEL D. ECKERT - PUBLIC'S EXHIBIT NO. 1-S*** has been served upon the following parties of record in the captioned proceeding by electronic service on May 17, 2019.

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