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**VERIFIED REBUTTAL TESTIMONY OF GUNNAR J. GODE**

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

2   A1.   My name is Gunnar J. Gode. My business address is 240 W Nationwide Blvd,  
3           Columbus, Ohio 43215. I am Vice President and Chief Accounting Officer for  
4           NiSource Corporate Services Company, a wholly-owned subsidiary of NiSource  
5           Inc.

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

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

9   **Q3.   Are you the same Gunnar J. Gode who prefiled direct testimony in this**  
10       **proceeding?**

11   A3.   Yes.

12   **Q4.   What is the purpose of your rebuttal testimony in this proceeding?**

13   A4.   The purpose of my rebuttal testimony is to respond to certain accounting concerns  
14           raised in the direct testimonies of Indiana Office of Utility Consumer Counselor  
15           ("OUCC") witnesses Brian Wright and Brian Latham and Citizens Action

1 Coalition of Indiana ("CAC") witness Ben Inskeep (collectively, the  
2 "Intervenors"). Specifically, I respond to the following:

- 3 • I respond to OUCC Witness Brian Latham's concerns regarding potential  
4 "double recovery" of indirect costs in NIPSCO's electric base rates and its  
5 proposed FMCA. I also explain why Mr. Latham's recommendation to  
6 implement detailed reporting requirements to avoid any double recovery  
7 of indirect costs and return on rate base is unnecessary.
- 8 • Regarding concerns raised about retroactive ratemaking, I explain that  
9 NIPSCO has not recorded any of these remediation costs as a regulatory  
10 asset and has followed the historical approach to recovery of costs of  
11 removal ("COR"). As such, these costs are not "unforeseen past losses" as  
12 was deemed the case in the Indiana Supreme Court decision involving  
13 Duke Energy Indiana. NIPSCO witness Alison Becker's rebuttal testimony  
14 addresses other aspects of the Intervenors' retroactive ratemaking  
15 arguments.
- 16 • I respond to Mr. Latham's proposal to credit ratepayers with carrying costs  
17 on NIPSCO's prior recovery of \$1.3 million of cost of removal associated

1           with the Schahfer Ash Pond Compliance Project, which Mr. Latham refers  
2           to as the customers' "loan" to NIPSCO. NIPSCO witness Kevin Blissmer  
3           responds to Mr. Latham's recommendation to waive post-in-service  
4           carrying costs or allow the amount to be based on the weighted average  
5           cost of debt. I also explain why Mr. Inskeep's recommendation to eliminate  
6           NIPSCO's return "on" the Schahfer Ash Pond Compliance Project is  
7           unreasonable.

- 8           •     Finally, given the OUCC's recommendation to deny FMCA recovery of  
9           Project costs in favor of addressing these costs in NIPSCO's pending base  
10          rate case, I reiterate why the FMCA mechanism is appropriate and  
11          consistent with NIPSCO's treatment of these costs in its last rate case, where  
12          it was proposed and accepted that the costs would not be included in the  
13          calculation of depreciation rates at that time and instead would be  
14          presented to the Commission for approval in a future case.

15          My rebuttal testimony is limited to a discussion of the issues set out below, and  
16          the failure to address each and every issue in each piece of testimony does not

1           imply agreement with the positions taken by any party with respect to other  
2           issues.<sup>1</sup>

3       **Intervenors' Assertions about Double Recovery are Misplaced**

4       **Q5.   What are the Intervenors' concerns about the prospects for double recovery?**

5       A5.   Mr. Latham states that NIPSCO's request in this Cause "creates a potential double  
6           recovery issue at the time of its next rate because its Accumulated Depreciation  
7           account must be adjusted to remove ash pond removal costs from rate and the  
8           depreciation rate calculations." (Latham Direct, p. 4.) He goes on to say that this  
9           could be avoided by "rolling the Compliance Project into NIPSCO's current rate  
10          case (Cause No. 45772)." CAC Witness Mr. Inskeep states that "NIPSCO has not  
11          demonstrated that these [indirect] costs are new, additional costs that it has not or  
12          will not separately recover from ratepayers through other rate mechanisms."  
13          (Inskeep Direct, p. 19.)

14       **Q6.   Do you agree with the Intervenors' concerns regarding double recovery of**  
15       **indirect costs?**

16       A6.   Respectfully, no, this assertion is unfounded. As the Commission knows, and as  
17       NIPSCO explained in Cause No. 45700, NIPSCO is required to track any capital

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<sup>1</sup>       The capitalized terms used herein are as defined in my direct testimony.

1 project individually (or in some specific cases, grouped similar projects) pursuant  
2 to FERC guidance:

3 (2) Labor includes the pay and expenses of employees of the utility  
4 engaged on construction work, and related workmen's  
5 compensation insurance, payroll taxes and similar items of expense.  
6 It does not include the pay and expenses of employees which are  
7 distributed to construction through clearing accounts nor the pay  
8 and expenses included in other items hereunder.

9 A. All overhead construction costs, such as engineering,  
10 supervision, general office salaries and expenses,  
11 construction engineering and supervision by others than the  
12 accounting utility, law expenses, insurance, injuries and  
13 damages, relief and pensions, taxes and interest, **shall be**  
14 **charged to particular jobs or units on the basis of the**  
15 **amounts of such overheads reasonably applicable thereto,**  
16 to the end that each job or unit shall bear its equitable  
17 proportion of such costs and that the entire cost of the unit,  
18 both direct and overhead, shall be deducted from the plant  
19 accounts at the time the property is retired.<sup>2</sup> (emphasis  
20 added)

21 This also applies to cost of removal projects to support future depreciation studies.

22 The Compliance Project is a discrete project that will be recorded and individually  
23 identified in NIPSCO's Fixed Assets subledger. As discussed in my rebuttal  
24 testimony in Cause No. 45700, NIPSCO's Major Projects department will be

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<sup>2</sup> 18 C.F.R pt. 101, Electric Plant Instructions, § 3(A)(2) (Component of Construction Costs) and § 4(A) (Overhead Construction Costs) (<https://www.ecfr.gov/current/title-18/chapter-I/subchapter-C/part-101>).

1 providing the internal resources related to the Compliance Project. The Major  
2 Projects team consistently capitalizes more than 80% of its time to specific capital  
3 projects. Accordingly, their labor and benefits has not been included in the cost of  
4 service requested in prior rate cases. Their time spent on the remediation effort  
5 will be recorded to the specific Compliance Project retirement work order and is  
6 not duplicative to costs being recovered through current or past rates. This is true  
7 for both direct labor charges as well as the indirect costs, such as vacation and  
8 holiday pay that follow the direct labor. When NIPSCO files its next rate case, the  
9 project costs associated with the Schahfer Ash Pond Compliance Project will be  
10 identified and all associated costs excluded from the base rate proceeding. Both of  
11 NIPSCO's current TDSIC plans (gas and electric) include an amount of capitalized  
12 indirect costs, which the Commission has found to be reasonable. (Cause No.  
13 45330, Final Order at 24 and Cause No. 45557, Final Order at 56, 58.)

14 **Q7. Is there any merit to the concern about double recovery of return on rate base**  
15 **associated with the Schahfer Ash Pond Compliance Project?**

16 A7. No. NIPSCO will record the Project costs to Account 108 (accumulated  
17 depreciation) as remediation costs are incurred. However, NIPSCO does not  
18 include retirement work in process in net original cost rate base. The Project costs

1 are included once the Project is completed. Therefore, NIPSCO has not included  
2 remediation costs sought in this Cause (or for those sought in Cause No. 45700) in  
3 the net original cost rate base forecasted in its pending base rate case. Remediation  
4 projects are recorded to specific work orders with a specific work order number,  
5 much like capital work in process projects.

6 NIPSCO has already planned for how to appropriately exclude any remediation  
7 cost spend from its rate base in Cause No. 45772. When filing for Step 1 and Step  
8 2 rates and in future rate case proceedings, NIPSCO will exclude the remediation  
9 cost spend from filed rate base. While this creates an additional step in rate case  
10 preparation, each project is tracked on a single work order, again with a specific  
11 identifier (i.e. work order number). NIPSCO makes many similar adjustments  
12 throughout the preparation of a rate case and has the appropriate processes and  
13 mechanisms to exclude these balances. Note that over time, as the Project costs  
14 enter the FMCA tracker, they will be moved from Account 108 (accumulated  
15 depreciation) to Account 182 (regulatory asset), further reducing the risk of  
16 inclusion in rate base.

17 **Q8. How do you respond to Mr. Latham's recommendation (p. 10) that the**  
18 **Commission require NIPSCO to "implement detailed reporting requirements**

1       to ensure double recovery does not occur regarding indirect costs and return on  
2       rate base”?

3    A8.   Mr. Latham’s recommendation is unnecessary. Consistent with my explanation  
4       above, as a matter of standard practice, NIPSCO’s systems maintain unique project  
5       IDs within its books and records. NIPSCO will do so for the Compliance Project  
6       in order to separately track costs for the FMCA mechanism. Adding a duplicative  
7       layer of reporting to the Commission is burdensome, particularly when any  
8       concern about double recovery of indirect costs is unfounded. There is similarly  
9       no need for a reporting requirement to avoid any double recovery of NIPSCO’s  
10      return “on” the Compliance Project. As described above, NIPSCO will be able to  
11      omit remediation costs related to the Project from rate base to ensure a return on  
12      is not earned twice. Similarly, in future rate cases, as the demolition study is  
13      prepared, NIPSCO will omit these costs from the demolition study. Again, while  
14      an extra step in rate case preparation, NIPSCO has already demonstrated its ability  
15      to make similar adjustments in previous general rate case proceedings.

16    **NIPSCO’s Request is Not Retroactive Ratemaking**

17    Q9.   OUCC Witness Wright and CAC Witness Inskeep both cite to *Indiana Off. Of*  
18       *Util. Cons. Couns. V. Duke Energy Indiana*, 183 N.E.3d 266 (Ind. 2022). Are the



1 costs NIPSCO is seeking recovery of in this proceeding the type of unforeseen  
2 past losses that were at issue in that proceeding?

3 A9. No. NIPSCO is aware of the recent Supreme Court decision involving Duke  
4 Energy Indiana and the Intervenor's arguments about its applicability to the  
5 present case. However, NIPSCO's facts and circumstances are quite different than  
6 that of the Duke Energy Indiana proceeding. As I described in my direct testimony  
7 (pp. 8 – 11), NIPSCO filed multiple depreciation studies that included the  
8 estimated cost of removal, both legal and non-legal, for all of its used and useful  
9 assets, including the then-current cost estimates for the RCRA coal ash ponds  
10 remediation based on existing requirements. These future costs were estimated  
11 during the course of each rate case, as with all estimated costs of removal.

12 NIPSCO excluded CCR costs from its proposed depreciation rates in Cause No.  
13 45159 without the objection of any other party. Because of this, there is no prior  
14 Commission order governing the CCR-related costs, nor did NIPSCO initiate any  
15 work related to this Compliance Project (or similar projects at other sites). NIPSCO  
16 did identify the upcoming CCR costs in Cause No. 45159 and noted it intended to  
17 seek recovery through a proceeding in the future.

18 The parties, having already accepted and benefited from the advantages of the

1 lower rates produced by NIPSCO's proposed treatment, now want to deny  
2 NIPSCO the opportunity to obtain approval of all Project costs even though  
3 everyone understood that this present case was the foundation of the proposal for  
4 lower depreciation rates adopted in Cause No. 45159. No party expressed the  
5 position, until now, that following through with this approach would somehow  
6 constitute retroactive ratemaking.

7 Further, the Company has not recorded any of these remediation costs as a  
8 regulatory asset and, instead, has followed the historical approach to NIPSCO's  
9 recovery of COR. Costs incurred for remediation will be recorded to accumulated  
10 depreciation Account 108, not to a regulatory asset. While NIPSCO is always  
11 updating cost of removal estimates and depreciation rates at each rate case, as the  
12 costs are inherently estimates being continually updated, NIPSCO would not need  
13 a specific order to allow recovery of these costs of removal.

14 **Q10. Does recovery of these costs represent retroactive ratemaking as the Intervenor**  
15 **allege?**

16 A10. No. By definition, depreciation rates are estimates and are updated with each base  
17 rate proceeding. To omit these costs would be akin to ignoring the long-standing  
18 application of how depreciation is calculated and is incorporated into utility

1       ratemaking. Updating prior estimates is not “retroactive” it serves to bring prior  
2       cost estimates into the present by updating for current market conditions and any  
3       changes to project scope. Not allowing a utility to recover its needed capital  
4       investments to comply with federal mandates would be inconsistent with the  
5       Federal Mandate Statute itself.

6       **NIPSCO's Proposed Ratemaking Treatment is Reasonable and Appropriate**

7       **Q11. CAC Witness Inskeep testifies (p. 15) that the Schahfer Ash Pond Compliance**  
8       **Project is not a capital project and therefore no return “on” should be applied.**

9       **Do you agree?**

10      A11. No. NIPSCO's proposal is consistent with how normal retirement accounting  
11      would similarly treat the recovery of these costs. In normal COR ratemaking,  
12      once a retirement project is complete, it is closed out to Account 108 (accumulated  
13      depreciation). The effect is an increase (a debit to plant) and therefore, has the  
14      effect of increasing total net book value of plant included in rate base.

15      The FMCA Tracker allows for a similar recovery. In each case, the project costs  
16      are subjected to the weighted average cost of capital, and, in each case, a return  
17      “on” is earned. Similarly, the return “of” is recovered through either the tracked  
18      amortization of project in the FMCA Tracker or depreciation recovery in a base

1 rate case proceeding. Further, as the costs are recovered, the net book value  
2 ("NBV") of the Project will decline so customers will receive the benefit of the  
3 decline in NBV more timely than waiting between rate cases.

4 **Q12. Your direct testimony states that NIPSCO collected an estimated \$1.3 million**  
5 **through depreciation related to this Project in previous rate cases; would it be**  
6 **appropriate, as Mr. Latham recommends (p. 9), to apply a carrying charge to that**  
7 **balance?**

8 A12. No. I have explained above, and in my direct testimony, that costs of removal are  
9 always an estimate. Cost of removal estimates the actual costs associated with an  
10 asset retirement, and while these estimates are updated with each depreciation  
11 study and ultimately with the final, actual incurred cost. Each successive  
12 demolition study reflects the accumulation of actual and estimated costs required  
13 to retire the company's assets. It is not unusual for NIPSCO (or any utility) to have  
14 incurred the cost to retire an asset well ahead of its planned retirement and thus  
15 "pre-funding" that retirement cost. The adequacy of the cost of removal reserve is  
16 an ongoing component of ratemaking in the depreciation study, not a "loan from  
17 ratepayers for the utility for future costs" as Mr. Latham alleges. Mr. Latham  
18 provides no support for his proposed recommendation and the Commission

1           should reject it.

2   **Despite OUCC's Recommendation, the FMCA Tracker is the Appropriate Mechanism**  
3   **for Recovery of Compliance Project Costs**

4   **Q13. Mr. Latham (p. 9) recommends addressing Schahfer's Compliance Project costs**  
5           **in NIPSCO's pending rate case. Why is the FMCA an appropriate mechanism to**  
6           **recover cost of removal costs?**

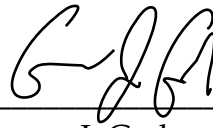
7   A13. To be clear, recovery through depreciation expense as part of a base rate case  
8       proceeding is one appropriate method of recovery of these kinds of cost of  
9       removal; however, it is not the only method that is appropriate. Because the  
10      activities and costs included within the Schahfer Ash Pond Compliance Project are  
11      all required under the CCR regulations, issued by the EPA, the Compliance Project  
12      meets every requirement of the Federal Mandate Statute. And as noted above,  
13      given the near-term retirement of NIPSCO's coal generation assets, the FMCA  
14      supports a balanced recovery of the required costs to be incurred by NIPSCO. As  
15      noted in NIPSCO witness' Kevin Blissmer's rebuttal testimony, if the recovery of  
16      the Compliance Project is not allowed through an FMCA tracker, then NIPSCO  
17      would seek full recovery as through revised depreciation expense included in its  
18      next base rate case.

1 Q14. Does this conclude your rebuttal testimony?

2 A14. Yes.

## VERIFICATION

I, Gunnar J. Gode, Vice President and Chief Accounting Officer of NiSource Corporate Services Company, 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 'GJG', is written over a horizontal line.

Gunnar J. Gode

Date: February 10, 2023