VERIFIED DIRECT TESTIMONY OF JONATHAN BASS

Introduction

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

A1. My name is Jonathan Bass. My business address is 290 W. Nationwide Blvd., Columbus, Ohio 43215. I am the Director of Income Tax Planning & Controversy for NiSource Corporate Services Company, a wholly owned subsidiary of NiSource Inc. ("NiSource").

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

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

Q3. Please describe your educational and employment background.

A3. I received a Bachelor of Arts in Economics from the College of William & Mary in 1998 and pursued post-baccalaureate studies in Accounting at Virginia Commonwealth University while working full-time in the accounting and tax departments at LandAmerica Financial Group, Inc. through 2005. In 2005 I joined Deloitte & Touche LLP as an Audit Senior and was promoted to Audit Manager in 2008. I joined Dominion Energy's

Tax Department in 2011 and held various roles in tax research and income tax compliance prior to being promoted to Financial Accounting Tax Strategic Advisor in 2017. In that role, I was responsible for the financial accounting and reporting for income taxes at Dominion Energy and its subsidiaries, including many state and FERC-regulated utilities. I am a licensed Certified Public Accountant in the Commonwealth of Virginia. In May 2023, I joined NiSource in my current position.

Q4. What are your responsibilities as Director of Income Tax Planning & Controversy?

A4. As Director of Tax Planning and Controversy, I am responsible for the review and implementation of tax reform and final guidance issued by the Internal Revenue Service ("IRS"), development of federal and state income tax planning strategies, and defense of those strategies through audit by taxing authorities for NiSource and its subsidiaries, including NIPSCO. My responsibilities include oversight and review of federal and state income tax audits, technical income tax research and preparation of income tax data and related testimony for rate proceedings.

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

A5. Yes. I previously testified before the Commission in NIPSCO's gas rate case in Cause No. 45967. I also supported NIPSCO's request for (1) a certificate of public convenience and necessity to purchase and acquire (indirectly through a joint venture structure) a solar project in Cause No. 45926, (2) modification of the Commission's Order in Cause No. 45462 in Cause No. 45936; (3) modification of the Commission's Order in Cause No. 45511 in Cause No. 46028, and (4) modification of the Commission's Order in Cause No. 45626 in Cause No. 46032.

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

A6. Yes. I am sponsoring Attachments 14-A through 14-C and Confidential Attachments 14-D and 14-E, all of which were prepared by me or under my direction and supervision. I also sponsor a portion of the workpapers included in Petitioner's Confidential Exhibit No. 18-XX (S1, S2).

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

A7. Yes.

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

A8. Yes.

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

A9. The purpose of my direct testimony is to present and support NIPSCO's federal and state income tax expense and taxes other than income tax expense adjustments for the Forward Test Year (the period beginning January 1, 2025 and ending December 31, 2025) at current and proposed rates as shown in Petitioner's Exhibit No. 3, Attachment 3-A-S2 (Column E and H, respectively). I also present and support NIPSCO's Accumulated Deferred Income Taxes ("ADIT") and Post 1970 Investment Tax Credit ("ITC") balances and related pro forma adjustments, which are included as components of NIPSCO's capital structure as shown in Petitioner's Exhibit No. 3, Attachment 3-A-S2 (Page 5). I discuss the derivation and pass back of renewable energy tax credits from NIPSCO's wholly owned solar projects. Finally, I discuss recent normalization private letter rulings ("PLR") and request deferral authority as needed.

Description of Attachments

Q10. Please explain Attachment 14-A.

A10. Schedule ETR of Attachment 14-A shows the calculation of the effective income tax rate at current rates. Schedule 1 of Attachment 14-A shows the derivation of the Company's federal and state income tax expense on a pro forma basis during the Forward Test Year at current rates, reflecting each of the adjustments described in my testimony. Schedule 2 of Attachment 14-A shows the calculation of the effect on the Company's tax expense of the adjustments for excess and deferred taxes, various permanent differences including the limitation on the deductibility of meals, entertainment, and parking expenses.

Q11. Please explain Attachment 14-B.

A11. Attachment 14-B depicts the same information for the Forward Test Year as Attachment 14-A, but at proposed rates.

Q12. Please describe Attachment 14-C.

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

Q13. Please describe Confidential Attachment 14-D.

A13. Confidential Attachment 14-D shows the annual value of Production Tax Credits ("PTCs") expected to be generated in the Forward Test Year, as further described below.

Q14. Please describe Confidential Attachment 14-E.

A14. Confidential Attachment 14-E shows the ITC projection, as further described below.

Federal Income Tax Expense

Q15. Please explain under what basic premise the federal income tax calculations were made.

A15. The federal income tax calculations were made under the provisions of the Internal Revenue Code ("IRC") of 1986, as amended, including by the Tax Cuts and Jobs Act of 2017 ("TCJA") and any other tax legislation enacted since that time, and the Indiana Administrative Code.

Q16. Please describe the basic components of federal income tax expense reflected in NIPSCO Witness Weatherford's schedules.

A16. The quantification of federal income tax expense begins with the application of the 21% federal income tax rate applied to pro forma net operating income before income taxes less interest expense. The Company then applied a non-jurisdictional factor to the permanent differences discussed below consistent with the normalization rules and the Commission's August 20, 2023 Order in Cause No. 45772. This adjustment is necessary to account for the jurisdictional amount of the following items:

1. Adjustments to reflect various tax rate changes including Excess Accumulated Deferred Income Tax ("EDIT") from the TCJA and the equity component of Allowance for Funds Used During Construction ("AFUDC Equity");
2. Adjustment to reflect certain limitations on the amount of the federal income tax deduction that may be taken on certain categories of expenses;
3. Reduction in tax expense for allocation of parent company (NiSource) interest expense.

Q17. Please explain the ratemaking implications of using accelerated depreciation for federal income tax purposes.

A17. As allowed under the IRC, NIPSCO claims accelerated depreciation deductions on its federal tax return. For book and regulatory purposes, depreciation expense is calculated on a straight-line basis over the life of the property using depreciation rates approved by the Commission. NIPSCO records a liability for the tax effect of the difference between accelerated tax depreciation claimed on its federal tax return and book depreciation. That amount is reflected as accumulated deferred income tax liabilities on NIPSCO's balance sheet and is reflected as zero-cost capital in the calculation of the weighted-average cost of capital. 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.

Q18. Are there other differences between what is depreciated for income tax purposes and for book purposes?

A18. Yes. For book purposes, the Company records AFUDC Equity to reflect a return on the equity portion of capital while an asset is under construction and before it is placed in service. During construction, AFUDC Equity is capitalized to the book cost of the asset and after the asset is in service, book depreciation expense is recorded on the total cost including AFUDC Equity. For income tax purposes, neither the AFUDC Equity capitalized for accounting purposes, nor the subsequent depreciation of that capitalized amount enters into the determination of taxable income. Thus, income tax expense for ratemaking purposes must be adjusted to capture the effects of non-deductible book depreciation attributable to capitalized AFUDC Equity. As shown on Schedule 2 of Attachments 14-A and 14-B, the adjustment for AFUDC Equity for the Forward Test Year is an increase in income tax expense of $398,824.[1]

Q19. Are there other adjustments that need to be made to account for changes in the federal income tax rate?

A19. Yes. NIPSCO has EDIT that was originally computed at a 48% federal tax rate for 1971-1978 vintages and a 46% federal tax rate for 1979-1986 vintages that is being returned to customers in rates using the Average Rate Assumption Method ("ARAM"). In addition, NIPSCO has EDIT arising from the TCJA where the 35% federal tax rate was reduced to 21% that is being returned to customers in rates. Under ARAM, protected EDIT from the TCJA is being returned to the customer at the weighted-average rate the accumulated deferred income taxes were built over the remaining book life of the assets giving rise to the EDIT. As I explain

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[1] The adjustment for AFUDC Equity is $336,750 (Schedule 2, Line 5) for federal plus $78,575 (Schedule 2, Line 9) for state less $16,501 for the federal benefit of state (21% federal income tax rate times $78,575) for a total of $398,824.

below, the Company is also returning unprotected EDIT arising from the TCJA. An adjustment to the Forward Test Year in the jurisdictional amount of $20,045,842 as a reduction to federal income tax expense for the flow back of the EDIT is reflected in Attachments 14-A and 14-B (Schedule 2, Line 3).[2]

Q20. How does the Company propose to amortize jurisdictional protected property EDIT and the 1986 Tax Reform Act EDIT going forward?

A20. The Company is proposing to continue amortizing jurisdictional protected property EDIT using ARAM and all of the EDIT resulting from the Tax Reform Act, which is ($9,678,953) and which is offset by 26-year straight-line amortization of the jurisdictional protected federal net operating loss which is $774,477 for the Forward Test Year.

Q21. How does the Company propose to amortize jurisdictional unprotected property EDIT resulting from the TCJA going forward?

A21. The Company is proposing to continue amortizing jurisdictional unprotected property EDIT resulting from the TCJA, of which the

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[2] Note $9,678,953 protected excess amortization less $774,477 net operating loss amortization from Question 20 plus $11,141,366 unprotected property amortization from Question 21 equals the $20,045,842 total excess amortization reflected on Schedule 1, Line 11 and Schedule 2, Line 3 of Attachments 14-A and 14-B.

jurisdictional amount is ($11,141,366). At this rate, unprotected ADIT will be fully amortized in approximately 4 years. While this period is beyond the presently anticipated life of the rates that will be approved in this Cause, NIPSCO requests to continue its authority to make a compliance filing to update the rates to reflect the removal of this amortization of the unprotected EDIT at the conclusion of the amortization period and, to the extent there is any delay between the completion of amortization and effective date of such new rates, authority to defer as a regulatory asset for later recovery.

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

A22. Yes. The Company is not permitted to deduct certain business expenses. As shown on Schedule 1, Line 14 in Attachments 14-A and 14-B, the Company has increased its jurisdictional Forward Test Year federal income tax expense by $163,801 to reflect the non-deductibility of these expenses.

Q23. Please explain the adjustment relating to the amortization of Post 1970 ITC that is included as a reduction to federal income tax expense.

A23. The Company is amortizing ITC that it reflected on federal tax returns prior to 1989 over the service life of the property that generated the credits. The ITC was repealed as part of the Tax Reform Act of 1986, with transition rules that permitted certain projects to qualify post-1986. An ITC balance remains deferred as of December 31, 2024, although this is attributable to the gas segment. The ITC associated with the electric segment of the business has been fully amortized. As shown on Schedule 1, Line 15 of <u>Attachments 14-A</u> and <u>14-B</u>, for the 12 months ended December 31, 2025, there is no ITC amortization attributable to the electric segment. For the gas segment, the amortization of the ITC will continue to decrease income tax expense attributable to the gas segment and decrease the gas portion of the Post 1970 ITC Liability that is included in NIPSCO's capital structure.

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

A24. NIPSCO's parent company, NiSource, has additional interest expense obligations relating to the ongoing utility operations of NiSource's public utility subsidiaries. I have allocated a portion of the tax benefit on this interest expense to NIPSCO, which is then further allocated between gas and electric. This allocation was based on NiSource's equity investment in

NIPSCO compared to its equity investment in all subsidiaries. As shown on Schedule 1, Line 16 of Attachments 14-A and 14-B, the amount of the adjustment is a decrease to jurisdictional Forward Test Year income tax expense of $471,508. This adjustment is derived from what is frequently referred to as the "Muncie Remand Method" and described in the Commission's Order dated September 16, 1981 in Cause No. 34571. It is also consistent with the Company's treatment of parent company interest expense in several recent gas and electric rate cases.

State Income Tax Expense

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

A25. The tax calculations include Indiana Adjusted Gross Income taxes calculated at 4.9%, as adjusted for the following reconciling items: (1) the excess deferred taxes resulting from the decrease in the state tax rate from 6.5% to 4.9%; and (2) the non-deductibility of certain expenses.

Q26. Please explain the adjustment for the excess state deferred taxes.

A26. The Indiana General Assembly implemented a gradual periodic decrease of the Indiana corporate income tax rates beginning in 2012, as follows:

July 2002 to June 2012: Increased rate from 3.4% to 8.5%

July 2012 to June 2016: Periodic decrease in rate from 8.5% to 6.5%

July 2016 to June 2021: Periodic decrease in rate from 6.5% to 4.9%

After the latest decrease in the Indiana corporate income tax rate was phased in, state deferred tax balances were remeasured to capture the decrease in the tax rate from 8.5% to the current 4.9% which resulted in excess state deferred taxes. NIPSCO has included an adjustment to the Forward Test Year in the amount of ($6,589,757) as a reduction to state income tax expense for the flow back of the deferred tax excess as reflected in Schedule 1, Line 20 of Attachments 14-A and 14-B.

Q27. Please explain the adjustment for non-deductibility of certain expenses.

A27. The State of Indiana follows federal law on non-deductible expenses. The Company has increased Forward Test Year state income tax expense by $38,220 as shown on Schedule 1, Line 23 of Attachments 14-A and 14-B, to reflect the non-deductibility of certain expenses.

Taxes Other Than Income

Q28. Please explain the Company's proposal to reflect $30,820,300 in real and personal property taxes and explain Adjustment OTX-1 shown on Petitioner's Exhibit No. 3, Attachment 3-C-S2, OTX 1.

A28. NIPSCO is subject to real and personal property taxes in numerous counties in Indiana. The Company calculated an effective property tax rate based on 2023 property tax expense as a portion of gross plant balances. That effective property tax rate was used to estimate property tax expenses through the Forward Test Year based on gross plant balances. As shown in Attachment 3-C-S2, OTX 1, Adjustment OTX 1-23 is an adjustment to decrease Historic Base Period property tax expense of $23,671,242 by $248,457 of amortization expense from a reclassification entry. Adjustment OTX 1-24 is a 2024 Forecast Period adjustment to increase property tax expense by $3,131,053. Adjustment OTX 1-25 is a 2025 Forecast Period Year adjustment to increase property tax expense by $5,488,346. These adjustments result in pro forma adjusted property tax expense of $32,042,183. Adjustment OTX-1-25R is a 2025 ratemaking adjustment to decrease property tax expense by $1,221,883 for non-jurisdictional property which results in a property tax expense of $30,820,300 for the Forward Test Year. These pro forma property tax adjustments are required to account for planned property additions between the Historic Base Period and Forward Test Year.

<u>Federal and State Income Taxes</u>

Q29. Please explain Adjustment ITX 1-24R shown on <u>Petitioner's Exhibit No. 3</u>, Attachment 3-C-S2, ITX 1.

A29. As shown in Attachment 3-C-S2, ITX 1, Adjustment ITX 1-24R is the combination of the adjustments I have previously described that are set forth in <u>Attachments 14-A</u> and <u>14-B</u>. These adjustments are made to pro forma Forward Test Year results at present rates. Adjustment PF-4 is the adjustment to federal and state income taxes to reflect the requested increase in pro forma operating revenues at proposed rates. The total jurisdictional federal and state income taxes at proposed rates equals $138,879,003 as set forth in <u>Attachment 14-B</u>.

<u>Components of Capital Structure</u>

Q30. Please explain Adjustment CS 4-24-S2 and CS 4-25-S2 shown on <u>Petitioner's Exhibit No. 3</u>, Attachment 3-C-S2.

A30. Adjustment CS 4-24-S2 is a 2024 Forecast Period adjustment to increase deferred income taxes by $102,173,432. Adjustment CS 4-25-S2 is a 2025 Forecast Period adjustment to increase deferred income taxes by $166,037,069. 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 Topics 740 and 980 to account for income taxes to reflect its after-tax financial position in its balance sheet.

Q31. Please explain Adjustments CS 7-24 and CS 7-25 shown on Petitioner's Exhibit No. 3, Attachment 3-C-S2.

A31. Adjustment CS 7-24 is a 2024 Forecast Period adjustment in the amount of $217,016 to decrease Post 1970-ITC for the period ending December 31, 2024. Adjustment CS 7-25 is a 2025 Forecast Period adjustment in the amount of $217,016 to decrease Post 1970-ITC for the period ending December 31, 2025. The Company is amortizing ITC over the service life of the property that generated the credits as of December 31, 2025.

Q32. Are the tax expense adjustments reflected in NIPSCO Witness Weatherford's attachments correct and consistent with the matters described above?

A32. Yes.

<u>**Tax Credits from Renewable Energy Projects**</u>

Q33. Please explain solar ITC and PTC.

A33. Solar projects are eligible for either an ITC or a PTC, both of which provide a dollar-for-dollar reduction in the federal income taxes that a company claiming the credit would otherwise pay. Alternatively, the Inflation Reduction Act of 2022 ("IRA") provides taxpayers a previously unavailable option of selling all or a portion of the ITCs or PTCs associated with a particular project to unrelated taxpayers for cash. The ITC base credit is 6% of the qualifying battery storage property, and if the wage and apprenticeship requirements are met, the credit is increased to 30% of the qualifying solar battery storage property. At NIPSCO, the ITC is based on the amount of investment in battery storage installations at the Cavalry and Dunns Bridge II projects.

In contrast, the PTC is based on the amount of energy produced and sold over a ten-year period commencing when the solar project is placed in service. The PTC rate is updated annually subject to an annual inflation adjustment factor and is multiplied by the energy produced and sold by the facility to calculate the available PTC. For example, the base 2024 PTC rate for projects placed in service after 2022 is $6.00/MWh, and if the wage and apprenticeship requirements are met, the credit is increased to $30.00/MWh. Under the PTC regime, the wage and apprenticeship requirements must be met each year of the ten-year credit period to qualify for the full credit. At NIPSCO, the PTC is based on the amount of production at the Cavalry, Dunns Bridge II, Gibson, and Fairbanks projects.

Q34. How does NIPSCO expect to utilize the ITCs and PTCs generated by the renewable generation projects?

A34. As noted above, the IRA provides taxpayers a previously unavailable option of selling all or a portion of the ITCs or PTCs associated with a particular project to unrelated taxpayers for cash. This option provides additional flexibility to accelerate the monetization of these credits. While NIPSCO has not decided whether to sell the credits or carry forward the credits to offset its future tax liability, the benefits of these credits will be passed to customers. To the extent that NIPSCO sells the credits, the cash proceeds it receives, that is the credit amount net of any market discount, will be passed to customers. The credit amounts used in my testimony below do not reflect a market discount since NIPSCO does not currently have any agreements in place to sell the ITC or PTC from these renewable facilities.

Q35. Has NIPSCO estimated the amount of ITC and PTC it expects the renewable generation projects will qualify for?

A35. Yes. As shown in Confidential <u>Attachment 14-D</u>, based on projected production provided by NIPSCO Witness Robles, the annual value of PTCs expected to be generated in the Forward Test Year are approximately $61.5 million. As shown in Confidential <u>Attachment 14-E</u>, the estimated ITC benefit to be passed to customers in 2026 is approximately $4.8 million which represents one tenth of the credit generated on the Cavalry and Dunn's Bridge II battery storage assets. This ITC benefit is passed to customers straight-line over a 10-year period beginning the year after the ITC eligible assets are placed in service consistent with the Commission's January 17, 2024 Order in Cause No. 45936 (the "45936 Order") and described further below.

Q36. How is NIPSCO passing the ITC and PTC benefit to customers?

A36. Consistent with the 45936 Order, NIPSCO is authorized to pass back the benefits of the ITC on battery storage over a 10-year period beginning the year after the facility is placed in service. NIPSCO is deferring the initial recognition of the ITC on the battery storage installations and amortizing the benefit as a reduction to income tax expense straight-line over a 10-year period beginning in 2025 or 2026 depending on when the assets are placed in service. Consistent with the 45936 Order, NIPSCO is authorized to pass back the PTCs generated by each facility to customers over the 10-year credit period, beginning the year after each respective facility is placed in service. This one-year lag allows NIPSCO to accurately compute the PTC based on energy produced and sold throughout the prior year to pass the benefit to customers. Like the ITC, NIPSCO is deferring the recognition of the PTC generated for that year and reflecting the benefit ratably throughout the four quarterly adjustment periods in NIPSCO's FAC proceeding (or successor mechanism), grossed up for taxes, the following year. In other words, and as an example, the PTC that is based upon production in 2024 is passed back to customers through the four quarterly FAC filings in 2025.

Q37. Is NIPSCO planning to pass back the entirety of the tax credit benefits through the FAC proceeding?

A37. No. NIPSCO is proposing to reduce base cost of fuel by a conservative estimate of ITC from the battery storage facilities at Cavalry and Dunn's Bridge II and a conservative estimate of PTC that will be generated in 2025 by the solar assets at Cavalry, Dunn's Bridge II, Gibson, and Fairbanks. Each year that these base rates remain in place, the FAC in the ensuing year will true up the difference between the base cost of fuel approved in this case (which will include the estimated tax credit benefits reflected in base rates) and the actual cost of fuel (which will reflect the residual tax credit benefits which are calculated as the total credits less the estimate included in base rates). As shown in <u>Confidential Attachment 14-E</u>, NIPSCO is proposing that approximately $33 million of tax credits be reflected in the base cost of fuel with the FAC serving this true-up purpose. This split of recovery between base rates and the FAC does not change the amount of the tax credit benefit passed to customers, only the mechanism by which the customers receive the benefit. NIPSCO Witness Lash provides more detail on this split.

Q38. If NIPSCO is estimating $61.5 million in PTCs to be generated in 2025 and $4.8 million of ITC amortization in 2025, why is only $33 million being reflected in base rates?

A38. Reflecting a conservative amount in base rates avoids potentially wide fluctuations in the FAC. During 2025 (the Forward Test Year), NIPSCO will be reflecting the PTCs that were generated in 2024 and one tenth of the ITC generated in 2024 as a credit in the FAC. At this point, the 2024 credits are expected to be much less than will be generated in 2025 as fewer generating facilities are online, but it will still be a credit and therefore a reduction to the FAC during 2025.

NIPSCO is attempting to project both the amount of 2025 production and the value of those PTCs. If those amounts are over-estimated, not only will the 2024 PTCs roll off in 2026, but a charge to true up what was over-estimated in 2025 would also need to be implemented. To avoid what could be potentially wide swings in the FAC factor, NIPSCO believes it more prudent to reflect a conservative estimate in base rates, which is approximately 50%.

<u>**Normalization**</u>

Q39. Please briefly discuss recent normalization guidance that could have a bearing on this Cause.

A39. At the end of June 2024, the IRS released three PLRs addressing the application of the normalization rules to ADIT and EDIT balances reflected at regulated utility subsidiaries of a consolidated group. One of these PLRs was issued to a regulated utility subsidiary that operates in the state of Indiana. These regulated utility subsidiaries had net operating loss carryforwards ("NOLCs") and received payments under a tax allocation arrangement ("TAA") as the benefit of the respective subsidiary NOLCs were used to reduce the consolidated group's income tax liability. For ratemaking and regulatory reporting purposes, the utility subsidiaries reduced and exhausted their respective NOLC-related deferred tax asset ("DTA") by the payments received under the TAA prior to the TCJA's enactment. Depending on the procedural rules of each jurisdiction, this DTA (together with deferred tax liabilities ("DTLs")) either was included in rate base or was treated as zero-cost capital in a weighted-average cost of capital applied to a rate base amount that does not reflect DTAs and DTLs. In the context of the measurement of the regulatory liability for TCJA EDIT, the DTAs (reduced by TAA payments for NOL utilization) increased the amounts refundable to customers and subjected to ARAM.

The IRS ruled that reducing the utility subsidiary's DTA and associated offset to EDIT by the TAA payments would violate the deferred tax normalization rules and, unless corrected, would result in the utility subsidiary losing its right to claim accelerated depreciation on all its public utility property. Furthermore, one of the rulings refers to the consistency requirement and references the prohibition against indirect normalization violations related to the treatment of the TAA payments.

As a result of these rulings, utilities must evaluate their TAAs, the accounting for TAA payments, and, to the extent applicable, recalculate NOLC-related DTAs that exist or would have existed on a separate company basis (assuming they were not part of a consolidated group), including any offsets to EDIT as applicable.

Q40. What steps has NIPSCO taken to evaluate these PLRs and the potential impact to the Cause?

A40. NiSource's tax sharing agreement has been amended several times over the years. For purposes of this analysis, NiSource Tax focused on the 2002, 2015 (as amended in 2016), and 2020 TAA. The 2015 and 2020 agreements do not provide a mechanism or means whereby the companies with NOLs being used in consolidation, that is in determining NiSource's tax liability, are compensated for those losses used in consolidation. The 2015 and 2020 agreements are helpful in terms of substantiating NIPSCO does not share the facts of the recent PLRs.

On the other hand, the 2002 agreement does provide that companies with NOLs will be compensated for their losses used in consolidation. NiSource and NIPSCO have NOL carryforwards originating prior to the 2015 TAA that were on its books prior to the TCJA enactment. In addition, there were some NOLs utilized prior to the TAA amendments that we are also investigating.

Q41. Has NIPSCO concluded whether it is impacted by these PLRs?

A41. Unfortunately, the pre-2015 periods coincide with the migration or conversion to PeopleSoft (general ledger system), limiting the availability of, or access to, historical records. More diligence and research are underway to confirm whether NIPSCO is impacted by these PLRs.

Q42. What does NIPSCO request as it continues to evaluate its facts against those in the PLRs?

A42. NIPSCO respectfully requests that if similar facts to the recent PLRs are discovered upon completion of its internal review, that the Company be allowed to calculate and establish a regulatory asset that would permit recovery of amounts that would undo any inconsistencies with the normalization rules as outlined in the PLRs.

Q43. Does this conclude your prefiled direct testimony?

A43. Yes.

VERIFICATION

I, Jonathan Bass, Director of Income Tax Planning & Controversy for 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.

Jonathan Bass

Date: September 12, 2024

Schedule ETR

Northern Indiana Public Service Company

Effective Tax Rate Calculation - Electric
Proforma at Current Rates

Line No.	Description		Pro Forma At Test Year Base Rates	%
1	Book Income / (Loss) Before Income Taxes	$	237,262,668	
2	Tax Expense at Statutory Federal Income Tax Rate	$	49,825,160	21.00%
3	Increases (Reductions) in Taxes Resulting From:			
4	- State Income Taxes, Net of Federal Income Tax Benefit	$	10,543,760	4.44%
5	- Regulatory Treatment of Property Differences	$	(26,220,275)	-11.05%
6	- Amortization of Deferred Investment Tax Credits	$	-	0.00%
7	- Nondeductible Expenses	$	202,021	0.09%
8	- Other, net	$	(471,508)	-0.20%
9	**Total Income Tax Expense - Electric**	$	33,879,159	14.28%

Schedule 1

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

Description	Amount	Non-Jurisdictional Factor	Non-Jurisdictional Adjustment	Forward Test Year At Proposed Rates
		(2)	(3)	(4)
Net Operating Income - Electric Segment	$ 417,244,030			$ 417,244,030
Plus: Income Taxes Included in Net Operating Income	$ 31,558,109		$ 2,321,050	$ 33,879,159
Net Operating Income Before Taxes	$ 237,262,668			$ 237,262,668
Interest Synchronization Deduction	$ -			$ -
Federal Taxable Income Before State Tax Deduction	$ 237,262,668			$ 237,262,668
Less: State Income Taxes at 4.9%	$ 11,625,871			$ 11,625,871
Federal Taxable Income	$ 225,636,797			$ 225,636,797
Federal Income Taxes at 21%	$ 47,383,727			$ 47,383,727
Other Components of Operating Income Tax Expense				
Federal Income Taxes				
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	$ (21,897,278)	8.46%	$ (1,851,436)	$ (20,045,842)
Flow Through for Method, Basis and Life Differences	$ -	8.46%	$ -	$ -
Flow Through of AFUDC Equity	$ 367,852	8.46%	$ 31,102	$ 336,750
Permanent Differences:Nondeductibles	$ 178,930	8.46%	$ 15,129	$ 163,801
Amortization of Investment Tax Credit	$ -	8.46%	$ -	$ -
Parent Company Tax Benefit of Interest Expense	$ (515,056)	8.46%	$ (43,548)	$ (471,508)
Federal Benefit of State Adj and Misc	$ 1,484,869	8.46%	$ 125,547	$ 1,359,322
Subtotal	$ (20,380,683)		$ (1,723,206)	$ (18,657,477)
State Income Taxes				
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	$ (7,198,388)	8.46%	$ (608,631)	$ (6,589,757)
Flow Through for Method, Basis and Life Differences	$ -	8.46%	$ -	$ -
Flow Through of AFUDC Equity	$ 85,832	8.46%	$ 7,257	$ 78,575
Permanent Differences:Nondeductibles	$ 41,750	8.46%	$ 3,530	$ 38,220
BTR, Adjustments and Rate Change	$ -	8.46%	$ -	$ -
Miscellaneous	$ -	8.46%	$ -	$ -
Permanent Differences: Utility Receipts Tax	$ -	8.46%	$ -	$ -
Subtotal	$ (7,070,806)		$ (597,843)	$ (6,472,962)
Summary:				
Federal Income Taxes	$ 27,003,044		$ (1,723,206)	$ 28,726,250
State Income Taxes	$ 4,555,065		$ (597,843)	$ 5,152,909
Total Income Taxes Included In Test Period Actuals	$ 31,558,109		$ (2,321,050)	$ 33,879,159

Schedule 2

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

Description			Pro Forma Adj for Test Period
Excess & Deficient Deferred Taxes			
Federal			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			$ (21,897,278)
Flow Through for Method, Basis and Life Differences			$ -
Flow Through of AFUDC Equity			$ 367,852
State			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			$ (7,198,388)
Flow Through for Method, Basis and Life Differences			$ -
Flow Through of AFUDC Equity			$ 85,832
Total			$ (28,641,982)

	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Period
Permanent Differences			
Various Perm Differences	$ 852,046	21.000%	$ 178,930
Various Perm Differences	$ 852,046	4.900%	$ 41,750
Federal Benefit			$ (8,768)
Total			$ 211,912

	Amount for Test Per	Pro Forma Adj for Test Period
Amortization of ITC	$ -	$ -

	Projected Allocation	Tax Allowance
Parent Company Tax Benefit of Interest Expense		
Interest Expense on Parent	8,281,021	
Percent Allocated to NIPSCO Based on Investment	39.0683%	
Subtotal	3,235,254	
Gas Percentage	75.8100%	
Tax Loss Allocated to Gas	2,452,646	
Tax Rate	21%	
Tax	(515,056)	(515,056)

State Income Tax Allowance for URT	Nondeductible Expenses	Tax Rate	Tax Allowance
Proforma Utility Receipts Tax Expense	$ -	4.900%	$ -
Federal Benefit			$ -
Tax Allowance			$ -
Total			

	Pro Forma Current Rates
Total Federal and State Tax Adjustments to Statutory Rate	$ (28,945,126)

Schedule ETR

Northern Indiana Public Service Company

Effective Tax Rate Calculation - Electric
Proforma at Proposed Rates

Line No.	Description		Pro Forma At Test Year Base Rates	%
1	Book Income / (Loss) Before Income Taxes	$	659,440,481	
2	Tax Expense at Statutory Federal Income Tax Rate	$	138,482,501	21.00%
3	Increases (Reductions) in Taxes Resulting From:			
4	- State Income Taxes, Net of Federal Income Tax Benefit	$	26,886,263	4.08%
5	- Regulatory Treatment of Property Differences	$	(26,220,275)	-3.98%
6	- Amortization of Deferred Investment Tax Credits	$	-	0.00%
7	- Nondeductible Expenses	$	202,021	0.03%
8	- Other, net	$	(471,508)	-0.07%
9	**Total Income Tax Expense - Electric**	$	138,879,003	21.06%

Schedule 1

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

Description	Amount	Non-Jurisdictional Factor (2)	Non-Jurisdictional Adjustment (3)	Forward Test Year At Proposed Rates (4)
Net Operating Income - Electric Segment	$ 839,421,843			$ 839,421,843
Plus: Income Taxes Included in Net Operating Income	$ 136,557,953		$ 2,321,050	$ 138,879,003
Net Operating Income Before Taxes	$ 659,440,481			$ 659,440,481
Interest Synchronization Deduction	$ -			$ -
Federal Taxable Income Before State Tax Deduction	$ 659,440,481			$ 659,440,481
Less: State Income Taxes at 4.9%	$ 32,312,584			$ 32,312,584
Federal Taxable Income	$ 627,127,897			$ 627,127,897
Federal Income Taxes at 21%	$ 131,696,858			$ 131,696,858
Other Components of Operating Income Tax Expense				
Federal Income Taxes				
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	$ (21,897,278)	8.46%	$ (1,851,436)	$ (20,045,842)
Flow Through for Method, Basis and Life Differences	$ -	8.46%	$ -	$ -
Flow Through of AFUDC Equity	$ 367,852	8.46%	$ 31,102	$ 336,750
Permanent Differences:Nondeductibles	$ 178,930	8.46%	$ 15,129	$ 163,801
Amortization of Investment Tax Credit	$ -	8.46%	$ -	$ -
Parent Company Tax Benefit of Interest Expense	$ (515,056)	8.46%	$ (43,548)	$ (471,508)
Federal Benefit of State Adj and Misc	$ 1,484,869	8.46%	$ 125,547	$ 1,359,322
Subtotal	$ (20,380,683)		$ (1,723,206)	$ (18,657,477)
State Income Taxes				
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	$ (7,198,388)	8.46%	$ (608,631)	$ (6,589,757)
Flow Through for Method, Basis and Life Differences	$ -	8.46%	$ -	$ -
Flow Through of AFUDC Equity	$ 85,832	8.46%	$ 7,257	$ 78,575
Permanent Differences:Nondeductibles	$ 41,750	8.46%	$ 3,530	$ 38,220
BTR, Adjustments and Rate Change	$ -	8.46%	$ -	$ -
Miscellaneous	$ -	8.46%	$ -	$ -
Permanent Differences: Utility Receipts Tax	$ -	8.46%	$ -	$ -
Subtotal	$ (7,070,806)		$ (597,843)	$ (6,472,962)
Summary:				
Federal Income Taxes	$ 111,316,175		$ (1,723,206)	$ 113,039,381
State Income Taxes	$ 25,241,778		$ (597,843)	$ 25,839,622
Total Income Taxes Included In Test Period Actuals	$ 136,557,953		$ (2,321,050)	$ 138,879,003

Schedule 2

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

Description			Pro Forma Adj for Test Period
Excess & Deficient Deferred Taxes			
Federal			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			$ (21,897,278)
Flow Through for Method, Basis and Life Differences			$ -
Flow Through of AFUDC Equity			$ 367,852
State			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			$ (7,198,388)
Flow Through for Method, Basis and Life Differences			$ -
Flow Through of AFUDC Equity			$ 85,832
Total			$ (28,641,982)

	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Period
Permanent Differences			
Various Perm Differences	$ 852,046	21.000%	$ 178,930
Various Perm Differences	$ 852,046	4.900%	$ 41,750
Federal Benefit			$ (8,768)
Total			$ 211,912

	Amount for Test Per		Pro Forma Adj for Test Period
Amortization of ITC	$ -		$ -

	Projected Allocation		Tax Allowance
Parent Company Tax Benefit of Interest Expense			
Interest Expense on Parent	8,281,021		
Percent Allocated to NIPSCO Based on Investment	39.0683%		
Subtotal	3,235,254		
Gas Percentage	75.8100%		
Tax Loss Allocated to Gas	2,452,646		
Tax Rate	21%		
Tax	(515,056)		(515,056)

State Income Tax Allowance for URT	Nondeductible Expenses	Tax Rate	Tax Allowance
Proforma Utility Receipts Tax Expense	-	4.900%	$ -
Federal Benefit			$ -
Tax Allowance			$ -

			Pro Forma Current Rates
Total Federal and State Tax Adjustments to Statutory Rate			$ (28,945,126)

Northern Indiana Public Service Company LLC **Workpaper OTX 1**
Calculation of Wholly Owned Solar Facilities Property Tax **Page [.5]**
December 31, 2024 and 2025

Line No.	Description	2024	2025	2025-R
1	Cavalry	$ 866,667	$ 866,667	$ 866,667
2	Dunn's Bridge II	$ -	$ 2,210,000	$ 2,210,000
3	Gibson	$ -	$ 400,000	$ 400,000
4	Fairbanks	$ -	$ 527,680	$ 1,291,743
5	**Grand Total Property Tax Payment Associated with Wholly Owned Solar Facilities**	$ 866,667	$ 4,004,347	$ 4,768,410
		[.4]	[.4]	[.4]