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April 25, 2022
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

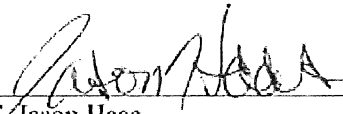
PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY LLC FOR APPROVAL OF A)
GAS COST ADJUSTMENT TO BE APPLICABLE IN) CAUSE NO. 43629 GCA-62
THE MONTHS OF JUNE, JULY, AND AUGUST)
2022, PURSUANT TO IND. CODE § 8-1-2-42(g).)

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S


PUBLIC'S EXHIBIT NO. 4 – PREPARED TESTIMONY OF
JEROME D. MIERZWA

April 25, 2022

Respectfully submitted,



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

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PUBLIC'S 4
EXHIBIT NO. _____
DATE 5-10-22 REPORTER 

OFFICIAL
EXHIBITS

**PUBLIC'S EXHIBIT NO. 4
PREPARED TESTIMONY OF JEROME D. MIERZWA**

CAUSE NO. 43629 GCA 62

NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

**NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC
CAUSE NO. 43629 GCA 62
PREPARED TESTIMONY OF JEROME D. MIERZWA**

I. INTRODUCTION

1
2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Jerome D. Mierzwa. I am a Principal and a Vice President of Exeter
4 Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
6 related consulting services.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
10 Science Degree in Marketing. In 1985, I received a Master's Degree in Business
11 Administration with a concentration in finance, also from Canisius College. In July
12 1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a
13 Management Trainee in the Research and Statistical Services Department ("RSS").
14 I was promoted to Supervisor RSS in January 1987. While employed with NFG
15 Distribution, I conducted various financial and statistical analyses related to the
16 company's market research activity and state regulatory affairs. In April 1987, as part
17 of a corporate reorganization, I was transferred to National Fuel Gas Supply
18 Corporation's ("NFG Supply") rate department where my responsibilities included
19 utility cost of service and rate design analysis, expense and revenue requirement
20 forecasting and activities related to federal regulation. I was also responsible for
21 preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase

1 Gas Adjustment (“PGA”) filings and developing interstate pipeline and spot market
2 supply gas price projections. These forecasts were utilized for internal planning
3 purposes as well as in NFG Distribution’s state purchased gas cost review proceedings.

4 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
5 December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996,
6 I became a principal of Exeter. Since joining Exeter, my assignments have included
7 evaluating the gas purchasing practices and policies of natural gas utilities, utility class
8 cost of service and rate design analysis, sales and rate forecasting, performance-based
9 incentive regulation, revenue requirement analysis, the unbundling of utility services
10 and the evaluation of customer choice natural gas transportation programs.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS**
12 **ON UTILITY RATES?**

13 A. Yes. I have provided testimony on approximately 400 occasions in proceedings before
14 the FERC, utility regulatory commissions in Arkansas, Delaware, Georgia, Illinois,
15 Louisiana, Maine, Maryland, Massachusetts, Montana, Nevada, New Hampshire, New
16 Jersey, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, and Virginia,
17 as well as before this Commission.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. Exeter has been retained by the Indiana Office of Utility Consumer Counselor
20 (“OUCC”) to assist in the review of the reasonableness of the actual gas costs of the
21 Northern Indiana Public Service Company LLC (“NIPSCO” or “the Company”)
22 reported for the period December 2021 through February 2022 in its filing at Cause
23 No. 43629 GCA 62 (“GCA-62 review period” or “review period”). My review focused
24 on evaluating the results of the Company’s Gas Cost Incentive Mechanism (“GCIM”)

1 under which NIPSCO operated during the GCA-62 review period. I also examined
2 whether NIPSCO's gas procurement practices and policies were reasonable and
3 consistent with least cost procurement standards during the review period. My
4 testimony presents the results of my review and my recommendations.

5 Also presenting testimony on behalf of the OUCC in this proceeding is Mark
6 H. Grosskopf. Mr. Grosskopf addresses whether NIPSCO has adequately documented
7 its actual gas costs and the accuracy of the calculations supporting the Company's
8 proposed GCA factors to be applied during the June through August 2022 billing
9 cycles.

10 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

11 A. My findings and recommendations concerning NIPSCO's GCIM, gas procurement
12 activities and related costs are as follows:

- 13 • NIPSCO reasonably administered the assignment of capacity to Choice
14 Suppliers and its Capacity Release Revenue Sharing Mechanism during the
15 GCA-62 review period;
- 16 • NIPSCO reasonably administered its GCIM and has been able to adequately
17 document the results of its GCIM during the review period; and
- 18 • The tagging procedures approved for exchange transactions under NIPSCO's
19 GCIM in Cause No. 41338-GCA-9 should be continued.

20 **II. CAPACITY ASSIGNMENT AND RELEASE ACTIVITIES**

21 **Q. PLEASE DESCRIBE NIPSCO'S CAPACITY ASSIGNMENT AND RELEASE**
22 **ACTIVITIES DURING THE REVIEW PERIOD.**

23 A. Under the settlement approved in Cause No. 43837, which became effective May 1,
24 2010 ("2010 Gas ARP Settlement"), NIPSCO adopted mandatory capacity assignment
25 for suppliers participating in its Choice Program ("Choice Supplier"). Mandatory
26 capacity assignment is a process through which NIPSCO allocates and releases a

1 pro-rata share of its interstate pipeline transportation and storage capacity to Choice
2 Suppliers. Choice Suppliers must either accept the assignment of their allocated
3 capacity and pay the costs associated with that capacity directly to the interstate
4 pipelines, or may elect to decline the assignment. If a Choice Supplier declines the
5 assignment, the Choice Supplier must reimburse NIPSCO for the costs associated with
6 their allocated share of interstate pipeline transportation and storage capacity
7 (“mitigated release revenues”).

8 In addition to assigning capacity to Choice Suppliers, NIPSCO may release
9 capacity to third parties. Under the 2010 Gas ARP Settlement, NIPSCO was permitted
10 to retain 15 percent of the revenues it was able to generate from releases to third parties
11 (“capacity release sharing mechanism”). This capacity release sharing mechanism was
12 continued under the settlement approved by the Commission in Cause No. 44081
13 (“2012 Gas ARP Settlement”). The 2012 Gas ARP Settlement also provided that for
14 each year ended March 31, capacity release revenues subject to sharing would be the
15 lower of \$1 million or the actual total revenues from the previous year, with NIPSCO
16 being required to credit the GCA for any revenue sharing deficiency.

17 The Stipulation and Settlement Agreement approved in Cause No. 43629 GCA
18 48 (“GCA-48 Settlement”) modified the capacity release sharing provisions in effect
19 beginning with the GCA-50 review period (September through November 2018). The
20 2012 Gas ARP Settlement provided that for each year ended March 31, capacity release
21 revenues subject to sharing would be the lower of \$1 million or the actual total revenues
22 from the previous year, with NIPSCO being required to credit the GCA for any revenue
23 sharing deficiency. The GCA-48 Settlement provided for the elimination of this
24 provision from the 2012 Gas ARP Settlement. In addition, the GCA-48 Settlement

1 provides that NIPSCO will be entitled to retain 25 percent of the revenues generated
2 by releasing interstate pipeline capacity not assigned to Choice Suppliers, and 75
3 percent would be credited to GCA customers. Under the 2012 Gas ARP Settlement,
4 NIPSCO was entitled to retain 15 percent of the revenues and 85 percent was credited
5 to GCA customers. NIPSCO did not realized any capacity release revenues which were
6 subject to sharing during the GCA-62 review period.

7 **Q. HAS NIPSCO REASONABLY ADMINISTERED THE ASSIGNMENT OF**
8 **CAPACITY TO CHOICE SUPPLIERS AND ITS CAPACITY RELEASE**
9 **REVENUE SHARING MECHANISM DURING THE GCA-62 REVIEW**
10 **PERIOD?**

11 A. Our audit revealed that NIPSCO reasonably administered the assignment of capacity
12 to Choice Suppliers and its capacity release sharing mechanism during the GCA-62
13 review period.

14 **III. GAS COST INCENTIVE MECHANISM**

15 **Q. PLEASE DESCRIBE NIPSCO'S GCIM.**

16 A. NIPSCO's GCIM is an incentive mechanism designed to reward the Company if it
17 acquires gas at less than market prices and penalize NIPSCO if it acquires gas at more
18 than market prices. Under the GCIM, the actual cost of each gas purchase made by
19 NIPSCO is compared to a benchmark which reflects the cost of the purchase had it
20 been made at a market price for the location, type of purchase, and time at which the
21 purchase was made. Index prices reported in gas industry publications serve as market
22 prices under the GCIM. On a monthly basis, NIPSCO's actual gas costs are compared
23 to the benchmark. If NIPSCO's actual gas costs are less than the benchmark, NIPSCO
24 is rewarded with 50 percent of the difference between actual costs and the benchmark.

1 If NIPSCO's actual gas costs exceed the benchmark, NIPSCO is penalized 50 percent
2 of the difference between actual costs and the benchmark.

3 The proceeds from structured deals and exchange transactions are reflected as
4 a reduction to NIPSCO's actual gas costs under the current GCIM procedures. These
5 arrangements are discussed later in my testimony.

6 **Q. PLEASE DESCRIBE THE GCIM BENCHMARKING PROCEDURES IN**
7 **GREATER DETAIL.**

8 A. NIPSCO purchases gas at a number of interstate pipeline receipt point trading locations.
9 These trading locations include the following:

10 **Alliance Pipeline**
11 • Alliance Chicago Exchange

12 **ANR Pipeline ("ANR")**
13 • Louisiana
14 • Oklahoma
15 • Rockies Express

16 **Natural Gas Pipeline Company of America ("NGPL")**
17 • Mid-Continent
18 • South Texas
19 • Texas/Oklahoma
20 • Rockies Express

21 **Panhandle Eastern Pipeline ("PEPL")**
22 • Texas/Oklahoma
23 • Rockies Express

24 **Texas Eastern Transmission ("Texas Eastern")**
25 • East Louisiana
26 • West Louisiana
27 • South Texas
28 • Rockies Express

29 **Trunkline Pipeline**
30 • East Louisiana
31 • West Louisiana
32 • Zone 1A

33 **Chicago Citygate**

1 NIPSCO's purchases can generally be categorized as either monthly base load
2 or daily swing purchases. Monthly base load purchases are generally arranged on a
3 monthly basis, and the same quantity of gas is delivered on each day during the month.
4 Monthly base load purchases are generally arranged several days prior to the month of
5 flow (during what is referred to as "Bidweek") and commence flowing on the first-of-
6 the-month ("FOM"). All other purchases made by NIPSCO are generally considered
7 daily purchases and, as the term implies, are typically made on a day-to-day basis.
8 NIPSCO will frequently make daily purchases which flow for several consecutive days.

9 Gas industry publications report index prices on a monthly basis for FOM
10 monthly base load purchases and on a daily basis for swing purchases for nearly all of
11 the locations NIPSCO purchases gas. Under the GCIM in effect during the GCA-61
12 review period, each NIPSCO gas purchase is benchmarked based on the type of
13 purchase (monthly base load or daily) and location. More specifically, monthly base
14 load purchases are benchmarked based on the average of FOM index prices reported in
15 *Inside FERC's Gas Market Report* ("*Inside FERC*") and the Natural Gas Intelligence
16 ("*NGI*") Bidweek Survey for the applicable month and location. Daily purchases are
17 benchmarked based on the average of prices reported in *Gas Daily* and the NGI Daily
18 Price Survey for the applicable day and location. These benchmarking procedures, as
19 well as the benchmarking procedures subsequently discussed for structured deals, were
20 generally approved in 2004 in Cause No. 41338 GCA-5.¹

21 **STRUCTURED DEALS**

22 **Q. PLEASE DESCRIBE THE STRUCTURED DEALS WHICH NIPSCO HAS**
23 **HISTORICALLY ARRANGED UNDER THE GCIM.**

¹ In Cause No. 44988, a tariff using the NGI Bidweek Survey was approved for benchmarking monthly base load purchases in lieu of Natural Gas Week Bidweek prices. NIPSCO, Original Volume No. 8, Original Sheet No. 43.

1 A. Structured deals under NIPSCO's GCIM have included recallable baseload purchases,
2 straddles, continuous extendables, and summer and winter period virtual storage Asset
3 Management Arrangements ("AMA"). Under a recallable baseload purchase, a
4 counter-party agrees to deliver a specified quantity of gas to NIPSCO (usually 10,000
5 Dth per day) at a specified receipt point on each day during a specific month, and
6 NIPSCO sells the counter-party a call option entitling the counter-party to discontinue,
7 or recall, delivery of that gas on any day during the month (call option deliveries).

8 A straddle is a recallable purchase that also gives the counter-party the option
9 to deliver an additional specified quantity of gas to NIPSCO (usually 10,000 Dth per
10 day) on any day during a specific month (put option deliveries). Deliveries to NIPSCO
11 by the counter-party under a recallable baseload purchase or straddle are priced at the
12 applicable FOM index price. Thus, if during the month the daily market price of gas
13 declines from the FOM index price, a counter-party would have the incentive to
14 continue call option deliveries under a recallable baseload purchase or straddle and,
15 under a straddle, to exercise the put option and deliver additional gas to NIPSCO. The
16 counter-party would maximize deliveries to NIPSCO under a recallable purchase or
17 straddle arrangement when prices decline because it could presumably buy gas at the
18 lower daily price and sell it to NIPSCO at the higher FOM index price. If the daily
19 price of gas increases above the FOM index price under a recallable purchase or
20 straddle, a counter-party would have the incentive to discontinue all deliveries. The
21 counter-party would do so because it could sell the gas being delivered to NIPSCO to
22 other markets at a higher price than it would receive from NIPSCO.

23 **Q. PLEASE DESCRIBE A CONTINUOUS EXTENDABLE.**

1 A. Under a continuous extendable, a counter-party is required to deliver gas at a specific
2 receipt point for a specified number of days commencing on the first day of the month.
3 Typically, the specified delivery period is seven days, and the delivered quantity is
4 10,000 Dth per day. The price paid by NIPSCO for the gas is initially set at an
5 applicable FOM index minus a discount. After the specified delivery period, the
6 purchase price is equal to the FOM index price flat, that is, with no discount, and the
7 counter-party has the option to discontinue delivering the gas. Under a continuous
8 extendable, as with a recallable purchase or straddle, a counter-party has the incentive
9 to discontinue delivering gas after seven days if the daily market price of gas increases
10 above the FOM index price, and continue delivering gas if the daily price declines
11 below the FOM price.

12 **Q. PLEASE EXPLAIN HOW RECALLABLE BASELOAD PURCHASES,**
13 **STRADDLES, AND CONTINUOUS EXTENDABLES ARE ACCOUNTED FOR**
14 **UNDER THE GCIM.**

15 A. NIPSCO is typically paid a fee for entering into a recallable baseload purchase or
16 straddle which is reflected as a credit to NIPSCO's actual gas costs under the GCIM.
17 Call option deliveries under a recallable baseload purchase or straddle are benchmarked
18 at the applicable FOM index price because the supplies are intended to be monthly
19 baseload purchases. Put option deliveries under a straddle are benchmarked at the
20 applicable daily index price. If a counter-party discontinues call option deliveries under
21 a recallable baseload purchase or straddle and a replacement supply is purchased by
22 NIPSCO, the same FOM index price is used to benchmark the replacement purchase.

23 The applicable FOM index price is also utilized for benchmarking supplies
24 delivered under a continuous extendable. If a counter-party discontinues deliveries and

1 the discontinued supplies are replaced, similar to a recallable baseload purchase or
2 straddle, the replacement purchase is benchmarked against the applicable FOM index
3 price.

4 **Q. HOW IS IT DETERMINED WHETHER A PURCHASE BY NIPSCO IS A**
5 **REPLACEMENT PURCHASE FOR DELIVERIES THAT HAVE BEEN**
6 **DISCONTINUED UNDER A RECALLABLE BASELOAD PURCHASE,**
7 **STRADDLE, OR CONTINUOUS EXTENDABLE?**

8 A. The GCA-48 Settlement established the GCIM benchmarking procedures that were in
9 place during the GCA-62 review period, and a purchase is considered a replacement
10 purchase if NIPSCO makes an incremental purchase on the same interstate pipeline
11 segment delivering to the same delivery point that the recallable baseload purchase,
12 straddle, or continuous extendable was being made prior to being discontinued.

13 **Q. PLEASE DESCRIBE NIPSCO'S SUMMER PERIOD VIRTUAL STORAGE**
14 **AMA STRUCTURED DEALS.**

15 A. A summer period virtual storage AMA is an arrangement wherein a counter-party
16 agrees to inject into one of NIPSCO's interstate pipeline storage arrangements on
17 NIPSCO's behalf a specified quantity of gas generally during the 7-month summer
18 injection period (April – October). During the 7-month summer injection period, the
19 counter-party is entitled to inject or withdraw varying quantities of gas on a daily basis
20 subject to agreed upon quantity limitations, subject to the requirement that the net
21 amount injected into storage by the end of summer injection period is equivalent to the
22 amount specified in the AMA. Under a summer period virtual storage AMA, NIPSCO
23 generally releases a portion of its interstate pipeline transportation and storage capacity

1 to a counter-party, who then utilizes the released transportation capacity to fill the
2 released storage capacity.

3 **Q. HOW ARE NIPSCO'S SUMMER PERIOD VIRTUAL STORAGE AMA**
4 **STRUCTURED DEALS ACCOUNTED FOR UNDER THE GCIM?**

5 A. NIPSCO typically purchases 1/7th of the specified amount of gas to be injected into
6 storage on its behalf by the counter-party during each month of the summer injection
7 period. The purchase price for this gas is at a discount to the applicable GCIM
8 benchmark price. This discount is shared with GCA customers pursuant to the GCIM
9 sharing procedures.

10 **Q. PLEASE DESCRIBE NIPSCO'S WINTER PERIOD VIRTUAL STORAGE**
11 **AMA STRUCTURED DEALS.**

12 A. Under a winter period virtual storage AMA, NIPSCO generally releases a portion of
13 its interstate pipeline storage capacity and inventory to a counter-party which is entitled
14 to use that storage when not needed by NIPSCO. NIPSCO maintains full use of its
15 daily storage injection and withdrawal rights released to the counter-party. In return
16 for providing the counter-party access to this storage, NIPSCO is entitled to purchase
17 a specified monthly baseload quantity of gas from the counter-party at a discount to the
18 applicable first-of-the-month index price. This discount is shared with GCA customers
19 under the GCIM.

20 **Q. HAS NIPSCO REASONABLY ADMINISTERED THE GCIM DURING THE**
21 **REVIEW PERIOD?**

22 A. Yes. The GCIM benchmarking procedures in place during the GCA-62 review period
23 were those approved as part of the Stipulation and Agreement in Cause No.
24 41338-GCA-5, as modified by the GCA-48 Settlement. In total, during the GCA-62

1 review period, NIPSCO experienced a gain of \$3,034,210 (including prior period
2 adjustments) under the GCIM which was shared 50 percent with GCA customers.

3 **EXCHANGE TRANSACTIONS**

4 **Q. PLEASE DESCRIBE NIPSCO'S EXCHANGE TRANSACTIONS.**

5 A. NIPSCO's exchange transactions include parks and loans. A park is a transaction
6 wherein a counter-party delivers gas to NIPSCO during one month and NIPSCO
7 returns that gas during a subsequent month. A loan is a transaction wherein NIPSCO
8 delivers gas to a counter-party during one month and the counter-party returns that gas
9 during a subsequent month. Park and loan deliveries are generally made ratably during
10 a month. That is, the same quantity of gas is delivered or received on each day (usually
11 10,000 Dth per day). NIPSCO receives a fee for its park and loan activities which are
12 credited against actual gas costs under the GCIM.

13 **Q. PLEASE DESCRIBE THE PROCEDURES APPROVED BY THE**
14 **COMMISSION FOR EXCHANGE TRANSACTIONS IN CAUSE NO. 41338**
15 **GCA-9.**

16 A. The settlement approved in Cause No. 41388-GCA-9 provided for the assignment, or
17 tagging, of a price to each end of a park or loan transaction. More specifically, when
18 gas is received from a counter-party under an exchange transaction, NIPSCO tags the
19 transaction with the highest of the following three monthly prices:

- 20 • FOM index price at the actual point of the exchange;
- 21 • Average of the daily *Gas Daily* index prices for the month at the actual point of
22 the exchange; or
- 23 • NIPSCO's average monthly cost of gas exclusive of price volatility mitigation
24 strategies.

1 When gas is delivered to a counter-party by NIPSCO, the transaction is tagged with the
2 lowest of the above three monthly prices. Tagging procedures for exchange
3 transactions were adopted to evaluate whether GCA customers were being adversely
4 affected by NIPSCO's exchange transactions. GCA customers could be adversely
5 affected by exchange transactions if NIPSCO was receiving gas from counter-parties
6 when gas prices were low and returning the gas when prices were higher.

7 **Q. SHOULD THE TAGGING PROCEDURES APPROVED IN CAUSE NO. 41338**
8 **GCA-9 BE CONTINUED?**

9 A. Yes. Since tagging procedures have been implemented, they have revealed that to date,
10 NIPSCO's exchange activities have not had an adverse impact on GCA costs.
11 Therefore, the tagging procedures should be continued at this time. I would note that
12 until recently, NIPSCO had not engaged in exchange activities for a number of years.
13 NIPSCO's recent exchange activities will be subject to review in Cause No. 43629
14 GCA 63.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

 A. Yes, it does.

VERIFICATION

STATE OF INDIANA)
)
) ss:
COUNTY OF MARION)

The undersigned, Jerome D. Mierzwa, under penalties of perjury and being first duly sworn on his oath, says that he is a Consultant for the Indiana Office of Utility Consumer Counselor; that he caused to be prepared and read the foregoing; that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

Jerome D. Mierzwa
By: Jerome D. Mierzwa
Indiana Office of
Utility Consumer Counselor

Subscribed and sworn to before me, a Notary Public, this 25 day of April 2022.

Deborah M Adams
Signature

Deborah M Adams
Printed Name

My Commission Expires: 2/2023

My County of Residence: Howard

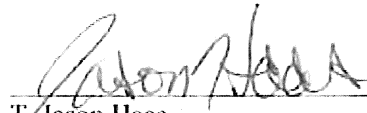
DEBORAH M ADAMS
Notary Public
State of Maryland
Howard County

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic service on April 25, 2022.

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