

Northern Indiana Public Service Company LLC

Cause No. 45967

FILED
October 25, 2023
INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED DIRECT TESTIMONY OF JONATHAN BASS

1 **Introduction**

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

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

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

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

10 **Q3. Please describe your educational and employment background.**

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

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

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

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

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

3 A5. Yes. I previously testified before the Commission supporting NIPSCO's
4 request for (1) a certificate of public convenience and necessity to purchase
5 and acquire (indirectly through a joint venture structure) a solar project
6 currently pending in Cause No. 45926, and (2) modification of the
7 Commission's Order in Cause No. 45462 currently pending in Cause No.
8 45936.

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

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

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

17 A7. Yes.

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

1 A8. Yes.

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

3 A9. The purpose of my direct testimony is to present and support NIPSCO's
4 federal and state income tax expense and taxes other than income tax
5 expense adjustments for the Forward Test Year (the period beginning
6 January 1, 2024 and ending December 31, 2024) at present and proposed
7 rates as shown in Petitioner's Exhibit No. 3, Attachment 3-A-S2 (Column E
8 and H, respectively). I also present and support NIPSCO's Accumulated
9 Deferred Income Taxes ("ADIT") and Post 1970 Investment Tax Credit
10 ("ITC") balances and related pro forma adjustments, which are included
11 as components of NIPSCO's capital structure as shown in Petitioner's
12 Exhibit No. 3, Attachment 3-A-S2 (Page 5).

13 **Description of Attachments**

14 **Q10. Please explain Attachment 14-A.**

15 A10. Schedule ETR of Attachment 14-A shows the calculation of the effective
16 income tax rate at present rates. Schedule 1 of Attachment 14-A shows the
17 derivation of the Company's federal and state income tax expense on a
18 pro forma basis during the Forward Test Year at present rates, reflecting
19 each of the adjustments described in my testimony. Schedule 2 of

1 Attachment 14-A shows the calculation of the effect on the Company's tax
2 expense of the adjustments for excess and deferred taxes, various
3 permanent differences including the limitation on the deductibility of
4 meals, entertainment, and parking expenses, and ITC amortization.

5 **Q11. Please explain Attachment 14-B.**

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

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

9 A12. Attachment 14-C provides support for the calculation of Adjustment OTX-
10 1 shown on Petitioner's Exhibit No. 3, Attachment 3-B-S2 (OTX Module),
11 relating to real and personal property taxes.

12 **Federal Income Tax Expense**

13 **Q13. Please explain under what basic premise the income tax calculations**
14 **were made.**

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

1 **Q14. Please describe the basic components of federal income tax expense**
2 **reflected in NIPSCO Witness Weatherford's accounting attachments.**

3 A14. The quantification of federal income tax expense begins with the
4 application of the 21% federal income tax rate applied to pro forma net
5 operating income before income taxes less interest expense. This amount
6 was adjusted to account for the jurisdictional amount of the following
7 items:

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

18 **Q15. Please explain the ratemaking implications of using accelerated**
19 **depreciation for federal income tax purposes.**

1 A15. As allowed under the IRC, NIPSCO claims accelerated depreciation
2 deductions on its federal tax return. For book and regulatory purposes,
3 depreciation expense is calculated on a straight-line basis over the life of
4 the property using depreciation rates approved by the Commission.
5 NIPSCO records a liability for the tax effect of the difference between
6 accelerated tax depreciation claimed on its federal tax return and book
7 depreciation. That amount is reflected as accumulated deferred income
8 tax liabilities on NIPSCO's balance sheet and is reflected as zero-cost
9 capital in the calculation of the weighted-average cost of capital. NIPSCO
10 flowed-through the benefits of accelerated depreciation for vintage years
11 prior to 1981. For the Forward Test Year, NIPSCO will have little in terms
12 of tax depreciation remaining on those pre-1981 assets.

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

15 A16. Yes. For book purposes, the Company records AFUDC Equity to reflect a
16 return on the equity portion of capital while an asset is under construction
17 and before it is placed in service. During construction, AFUDC Equity is
18 capitalized to the book cost of the asset and after the asset is in service,
19 book depreciation expense is recorded on the total cost including AFUDC

1 Equity. For income tax purposes, neither the AFUDC Equity capitalized
2 for accounting purposes nor the subsequent depreciation of that
3 capitalized amount enters into the determination of taxable income. Thus,
4 income tax expense for ratemaking purposes must be adjusted to capture
5 the effects of non-deductible book depreciation attributable to capitalized
6 AFUDC Equity. As shown on Schedule 2 of Attachments 14-A and 14-B,
7 the adjustment for AFUDC Equity for the Forward Test Year is an increase
8 in income tax expense of \$227,107.¹

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

11 A17. Yes. NIPSCO has EDIT that was originally computed at a 48% federal tax
12 rate for 1971-1978 vintages and a 46% federal tax rate for 1979-1986
13 vintages that is being returned to customers in rates using the Average
14 Rate Assumption Method ("ARAM"). In addition, NIPSCO has EDIT
15 arising from the TCJA where the 35% federal tax rate was reduced to 21%
16 that is being returned to customers in rates. Under ARAM, protected
17 EDIT from the TCJA is being returned to the customer at the weighted-

¹ The adjustment for AFUDC Equity is \$191,759 (Schedule 2, Line 5) for federal plus \$44,744 (Schedule 2, Line 9) for state less \$9,396 for the federal benefit of state (21% federal income tax rate times \$44,744) for a total of \$227,107.

1 average rate the accumulated deferred income taxes were built over the
2 remaining book life of the assets giving rise to the EDIT. As I explain
3 below, the Company is also returning unprotected EDIT arising from the
4 TCJA. An adjustment to the Forward Test Year in the jurisdictional
5 amount of \$8,253,571 as a reduction to federal income tax expense for the
6 flow back of the EDIT is reflected in Attachments 14-A and 14-B (Schedule
7 2, Line 3).²

8 **Q18. How does the Company propose to amortize jurisdictional protected**
9 **property EDIT and the 1986 Tax Reform Act EDIT going forward?**

10 A18. The Company is proposing to continue amortizing jurisdictional protected
11 property EDIT using ARAM and all of the EDIT resulting from the Tax
12 Reform Act, which is (\$2,208,516) and which is offset by 26-year straight-
13 line amortization of the jurisdictional protected federal net operating loss
14 which is \$98,023 for the Forward Test Year.

15 **Q19. How does the Company propose to amortize jurisdictional unprotected**
16 **property EDIT resulting from the TCJA going forward?**

² Note \$2,208,516 protected excess amortization less \$98,023 net operating loss amortization from Question 18 plus \$6,143,078 unprotected property amortization from Question 19 equals the \$8,253,571 total excess amortization reflected on Schedule 1, Line 11 and Schedule 2, Line 3 of Attachments 14-A and 14-B.

1 A19. Similar to jurisdictional protected property EDIT, the Company is
2 proposing to continue to amortize jurisdictional unprotected property
3 EDIT resulting from the TCJA, of which the jurisdictional amount is
4 (\$6,143,078). At this rate, unprotected ADIT will be fully amortized in
5 approximately 5 years. While this period is beyond the presently
6 anticipated life of the rates that will be approved in this Cause, NIPSCO
7 requests to continue its authority to make a compliance filing to update
8 the rates to reflect the removal of this amortization of the unprotected
9 EDIT at the conclusion of the amortization period and, to the extent there
10 is any delay between the completion of amortization and effective date of
11 such new rates, authority to defer as a regulatory asset for later recovery.

12 **Q20. Have any other adjustments been made for expenses that are not**
13 **deductible for income tax purposes?**

14 A20. Yes. The Company is not permitted to deduct certain business expenses.
15 As shown on Schedule 1, Line 14 in Attachments 14-A and 14-B, the
16 Company has increased its jurisdictional Forward Test Year federal
17 income tax expense by \$45,764 to reflect the non-deductibility of these
18 expenses.

1 **Q21. Please explain the adjustment relating to the amortization of Investment**
2 **Tax Credits that is included as a reduction to federal income tax**
3 **expense.**

4 A21. The Company is amortizing Investment Tax Credits that it reflected on
5 federal tax returns prior to 1989 over the service life of the property that
6 generated the credits. The investment tax credit was repealed as part of
7 the Tax Reform Act of 1986, with transition rules that permitted certain
8 projects to qualify post-1986. An investment tax credit balance remains
9 deferred as of December 31, 2023. As shown on Schedule 1, Line 15 of
10 Attachments 14-A and 14-B, for the 12 months ended December 31, 2024,
11 NIPSCO will amortize \$217,016 of these Investment Tax Credits resulting
12 in a decrease to income tax expense and a corresponding decrease to the
13 gas portion of the Post 1970 Investment Tax Credit Liability that is
14 included in NIPSCO's capital structure.

15 **Q22. What adjustment have you made for parent company interest expense?**

16 A22. NIPSCO's parent company, NiSource, has additional interest expense
17 obligations relating to the ongoing utility operations of NiSource's public
18 utility subsidiaries. I have allocated a portion of the tax benefit on this
19 interest expense to NIPSCO, which is then further allocated between gas

1 and electric. This allocation was based on NiSource's equity investment in
2 NIPSCO compared to its equity investment in all subsidiaries. As shown
3 on Line 16 of Schedule 1, Line 16 of Attachments 14-A and 14-B, the
4 amount of the adjustment is a decrease to jurisdictional Forward Test Year
5 income tax expense of \$107,354. This adjustment is derived from what is
6 frequently referred to as the "Muncie Remand Method" and described in
7 the Commission's Order dated September 16, 1981 in Cause No. 34571. It
8 is also consistent with the Company's treatment of parent company
9 interest expense in several recent gas and electric rate cases.

10 **State Income Tax Expense**

11 **Q23. What level of income tax expense is included for state income taxes?**

12 A23. The tax calculations include Indiana Adjusted Gross Income taxes
13 calculated at 4.9%, as adjusted for the following reconciling items: (1) the
14 excess deferred taxes resulting from the decrease in the state tax rate from
15 6.5% to 4.9%; and (2) the non-deductibility of certain expenses.

16 **Q24. Did NIPSCO include an adjustment for non-deductibility of the utility**
17 **receipts tax in the computation of state income tax expense for the**
18 **Forward Test Year?**

1 A24. No. On March 15, 2022, the House Enrolled Act 1002 was enacted, which
2 repealed the utility receipts tax effective July 1, 2022.

3 **Q25. Please explain the adjustment for the excess state deferred taxes.**

4 A25. The Indiana General Assembly implemented a gradual periodic decrease
5 of the Indiana corporate income tax rates beginning in 2012, as follows:

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

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

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

9

10 After the latest decrease in the Indiana corporate income tax rate was
11 phased in, state deferred tax balances were remeasured to capture the
12 decrease in the tax rate from 8.5% to the current 4.9% which resulted in
13 excess state deferred taxes. NIPSCO has included an adjustment to the
14 Forward Test Year in the amount of (\$2,485,458) as a reduction to state
15 income tax expense for the flow back of the deferred tax excess as
16 reflected in Schedule 1, Line 20 of Attachments 14-A and 14-B.

17 **Q26. Please explain the adjustment for non-deductibility of certain expenses.**

18 A26. The State of Indiana follows federal law on non-deductible expenses. The
19 Company has increased Forward Test Year state income tax expense by

1 \$10,678 as shown on Schedule 1, Line 23 of Attachments 14-A and 14-B, to
2 reflect the non-deductibility of certain expenses.

3 **Taxes Other Than Income**

4 **Q27. Please explain the Company's proposal to reflect \$17,940,886 in real and**
5 **personal property taxes and explain Adjustment OTX-1 shown on**
6 **Petitioner's Exhibit No. 3, Attachment 3-C-S2, OTX 1.**

7 A27. NIPSCO is subject to real and personal property taxes in numerous
8 counties in Indiana. The Company calculated an effective property tax
9 rate based on 2022 property tax expense as a portion of gross plant
10 balances. That effective property tax rate was used to estimate property
11 tax expenses through the Forward Test Year based on gross plant
12 balances. As shown in Attachment 3-C-S2, OTX 1, Adjustment OTX 1-22
13 is an adjustment to decrease Historic Base Period property tax expense of
14 \$14,332,832 by \$119,108 of amortization expense from a reclassification
15 entry. Adjustment OTX 1-23 is a 2023 Forecast Period adjustment to
16 increase property tax expense by \$1,524,093. Adjustment OTX 1-24 is a
17 2024 Forecast Period Year adjustment to increase property tax expense by
18 \$1,914,385. These adjustments result in pro forma adjusted property tax
19 expense of \$17,652,203 for the Forward Test Year. These pro forma

1 property tax adjustments are required to account for planned property
2 additions between the Historic Base Period and Forward Test Year.

3 **Federal and State Income Taxes**

4 **Q28. Please explain Adjustment ITX 1-24R shown on Petitioner's Exhibit No.
5 3, Attachment 3-C-S2, ITX 1.**

6 A28. As shown in Attachment 3-C-S2, ITX 1, Adjustment ITX 1-24R is the
7 combination of the adjustments I have previously described that are set
8 forth in Attachments 14-A and 14-B. These adjustments are made to pro
9 forma Forward Test Year results at present rates. Adjustment PF-4 is the
10 adjustment to federal and state income taxes to reflect the requested
11 increase in pro forma operating revenues at proposed rates. The total
12 jurisdictional federal and state income taxes at proposed rates equals
13 \$51,570,055 as set forth in Attachment 14-B.

14 **Components of Capital Structure**

15 **Q29. Please explain Adjustment CS 4-23-S2 and CS 4-24-S2 shown on
16 Petitioner's Exhibit No. 3, Attachment 3-C-S2.**

17 A29. Adjustment CS 4-23-S2 is a 2023 Forecast Period adjustment to increase
18 deferred income taxes by \$33,986,647. Adjustment CS 4-24-S2 is a 2024
19 Forecast Period adjustment to increase deferred income taxes by

1 \$83,470,609. The deferred income tax balances are forecasted by using a
2 combination of pre-tax income and changes in balance sheet accounts.
3 NIPSCO utilizes Accounting Standards Codification Topics 740 and 980 to
4 account for income taxes to reflect its after-tax financial position in its
5 balance sheet.

6 **Q30. Please explain Adjustments CS 7-23 and CS 7-24 shown on Petitioner's**
7 **Exhibit No. 3, Attachment 3-C-S2.**

8 A30. Adjustment CS 7-23 is a 2023 Forecast Period adjustment in the amount of
9 \$269,088 to decrease Post 1970-ITC for the period ending December 31,
10 2023. Adjustment CS 7-24 is a 2024 Forecast Period adjustment in the
11 amount of \$217,016 to decrease Post 1970-ITC for the period ending
12 December 31, 2024. The Company is amortizing Investment Tax Credits
13 over the service life of the property that generated the credits as of
14 December 31, 2024.

15 **Q31. Are the tax expense adjustments reflected in NIPSCO Witness**
16 **Weatherford's attachments correct and consistent with the matters**
17 **described above?**

18 A31. Yes.

1 Q32. Does this conclude your prefiled direct testimony?

2 A32. 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: October 25, 2023

Northern Indiana Public Service Company

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

Line No.	Description	<u>Pro Forma At Test Year Base Rates</u>	<u>%</u>
1	Book Income / (Loss) Before Income Taxes	\$ 87,129,106	
2	Tax Expense at Statutory Federal Income Tax Rate	\$ 18,297,112	21.00%
3	Increases (Reductions) in Taxes Resulting From:		
4	- State Income Taxes, Net of Federal Income Tax Benefit	\$ 3,878,030	4.45%
5	- Regulatory Treatment of Property Differences	\$ (10,375,549)	-11.91%
6	- Amortization of Deferred Investment Tax Credits	\$ (217,016)	-0.25%
7	- Nondeductible Expenses	\$ 56,442	0.06%
8	- Other, net	<u>\$ (107,354)</u>	<u>-0.12%</u>
9	Total Income Tax Expense - Gas	<u><u>\$ 11,531,666</u></u>	<u><u>13.24%</u></u>

Schedule 1

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

Description	Amount
Net Operating Income - Gas Segment	\$ 59,820,374
Plus: Income Taxes Included in Net Operating Income	\$ 11,531,666
Net Operating Income Before Taxes	\$ 87,129,106
Interest Synchronization Deduction	\$ -
Federal Taxable Income Before State Tax Deduction	\$ 87,129,106
Less: State Income Taxes at 4.9%	\$ 4,269,326
Federal Taxable Income	\$ 82,859,780
Federal Income Taxes at 21%	\$ 17,400,554
<u>Other Components of Operating Income Tax Expense</u>	
<u>Federal Income Taxes</u>	
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$ (8,253,571)
Flow Through for Method, Basis and Life Differences	\$ 102,954
Flow Through of AFUDC Equity	\$ 191,759
Permanent Differences:Nondeductibles	\$ 45,764
Amortization of Investment Tax Credit	\$ (217,016)
Parent Company Tax Benefit of Interest Expense	\$ (107,354)
Federal Benefit of State Adj and Misc	\$ 505,263
Subtotal	\$ (7,732,201)
<u>State Income Taxes</u>	
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	\$ (2,485,458)
Flow Through for Method, Basis and Life Differences	\$ 24,023
Flow Through of AFUDC Equity	\$ 44,744
Permanent Differences:Nondeductibles	\$ 10,678
BTR, Adjustments and Rate Change	\$ -
Miscellaneous	\$ -
Permanent Differences: Utility Receipts Tax	\$ -
Subtotal	\$ (2,406,013)
<u>Summary:</u>	
Federal Income Taxes	\$ 9,668,353
State Income Taxes	\$ 1,863,313
Total Income Taxes Included In Test Period Actuals	\$ 11,531,666

Schedule 2

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

Description			Pro Forma Adj for Test Per
<u>Excess & Deficient Deferred Taxes</u>			
<u>Federal</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (8,253,571)
Flow Through for Method, Basis and Life Differences			\$ 102,954
Flow Through of AFUDC Equity			\$ 191,759
<u>State</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (2,485,458)
Flow Through for Method, Basis and Life Differences			\$ 24,023
Flow Through of AFUDC Equity			\$ 44,744
Total			\$ (10,375,549)
	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Per
<u>Permanent Differences</u>			
Various Perm Differences	\$ 217,924	21.000%	\$ 45,764
Various Perm Differences	\$ 217,924	4.900%	\$ 10,678
Federal Benefit			\$ (2,242)
Total			\$ 54,200
	Amount for Test Per		Pro Forma Adj for Test Per
<u>Amortization of ITC</u>	\$ (217,016)		\$ (217,016)
	Projected Allocation		Tax Allowance
<u>Parent Company Tax Benefit of Interest Expense</u>			
Interest Expense on Parent	5,736,801		
Percent Allocated to NIPSCO Based on Investment	36.8378%		
Subtotal	2,113,311		
Gas Percentage	24.1900%		
Tax Loss Allocated to Gas	511,210		
Tax Rate	21%		
Tax	(107,354)		(107,354)
	Nondeductible Expenses	Tax Rate	Tax Allowance
<u>State Income Tax Allowance for URT</u>			
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			\$ (10,645,719)

Schedule ETR

Northern Indiana Public Service Company

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

Line No.	Description	Pro Forma At Test Year Base Rates	%
1	Book Income / (Loss) Before Income Taxes	\$ 248,113,341	
2	Tax Expense at Statutory Federal Income Tax Rate	\$ 52,103,802	21.00%
3	Increases (Reductions) in Taxes Resulting From:		
4	- State Income Taxes, Net of Federal Income Tax Benefit	\$ 10,109,730	4.07%
5	- Regulatory Treatment of Property Differences	\$ (10,375,549)	-4.18%
6	- Amortization of Deferred Investment Tax Credits	\$ (217,016)	-0.09%
7	- Nondeductible Expenses	\$ 56,442	0.02%
8	- Other, net	<u>\$ (107,354)</u>	<u>-0.04%</u>
9	Total Income Tax Expense - Gas	<u><u>\$ 51,570,055</u></u>	<u><u>20.78%</u></u>

Schedule 1

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

Description	Amount
Net Operating Income - Gas Segment	\$ 198,777,468
Plus: Income Taxes Included in Net Operating Income	\$ 51,570,055
Net Operating Income Before Taxes	\$ 248,113,341
Interest Synchronization Deduction	\$ -
Federal Taxable Income Before State Tax Deduction	\$ 248,113,341
Less: State Income Taxes at 4.9%	\$ 12,157,554
Federal Taxable Income	\$ 235,955,787
Federal Income Taxes at 21%	\$ 49,550,715
<u>Other Components of Operating Income Tax Expense</u>	
<u>Federal Income Taxes</u>	
Net Excess for Method, Basis and Life Differences for Tax Rate Changes	\$ (8,253,571)
Flow Through for Method, Basis and Life Differences	\$ 102,954
Flow Through of AFUDC Equity	\$ 191,759
Permanent Differences:Nondeductibles	\$ 45,764
Amortization of Investment Tax Credit	\$ (217,016)
Parent Company Tax Benefit of Interest Expense	\$ (107,354)
Federal Benefit of State Adj and Misc	\$ 505,263
Subtotal	\$ (7,732,201)
<u>State Income Taxes</u>	
Net Deficiency for Method, Basis and Life Differences for Tax Rate Changes	\$ (2,485,458)
Flow Through for Method, Basis and Life Differences	\$ 24,023
Flow Through of AFUDC Equity	\$ 44,744
Permanent Differences:Nondeductibles	\$ 10,678
BTR, Adjustments and Rate Change	\$ -
Miscellaneous	\$ -
Permanent Differences: Utility Receipts Tax	\$ -
Subtotal	\$ (2,406,013)
<u>Summary:</u>	
Federal Income Taxes	\$ 41,818,514
State Income Taxes	\$ 9,751,541
Total Income Taxes Included In Test Period Actuals	\$ 51,570,055

Schedule 2

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

Description			Pro Forma Adj for Test Per
<u>Excess & Deficient Deferred Taxes</u>			
<u>Federal</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (8,253,571)
Flow Through for Method, Basis and Life Differences			\$ 102,954
Flow Through of AFUDC Equity			\$ 191,759
<u>State</u>			
Net Excess for Method, Basis and Life Differences for Tax Rate Changes			\$ (2,485,458)
Flow Through for Method, Basis and Life Differences			\$ 24,023
Flow Through of AFUDC Equity			\$ 44,744
Total			\$ (10,375,549)
	Amount for Test Per	Tax Rate	Pro Forma Adj for Test Per
<u>Permanent Differences</u>			
Various Perm Differences	\$ 217,924	21.000%	\$ 45,764
Various Perm Differences	\$ 217,924	4.900%	\$ 10,678
Federal Benefit			\$ (2,242)
Total			\$ 54,200
	Amount for Test Per		Pro Forma Adj for Test Per
<u>Amortization of ITC</u>	\$ (217,016)		\$ (217,016)
	Projected Allocation		Tax Allowance
<u>Parent Company Tax Benefit of Interest Expense</u>			
Interest Expense on Parent	5,736,801		
Percent Allocated to NIPSCO Based on Investment	36.8378%		
Subtotal	2,113,311		
Gas Percentage	24.1900%		
Tax Loss Allocated to Gas	511,210		
Tax Rate	21%		
Tax	(107,354)		(107,354)
	Nondeductible Expenses	Tax Rate	Tax Allowance
<u>State Income Tax Allowance for URT</u>			
Proforma Utility Receipts Tax Expense	-	4.900%	\$ -
Federal Benefit			\$ -
Tax Allowance			\$ -
			Pro Forma Current Rates
Total Federal and State Tax Adjustments to Statutory Rate			\$ (10,645,719)

**Northern Indiana Public Service Company LLC
Pro forma Adjustment to Taxes Other Than Income
Twelve Months Ending December 31, 2024**

This pro forma adjusts the twelve months ended December 31, 2022, gas taxes other than income for property tax to reflect normalization adjustment(s), forecast changes for the twelve months ending December 31, 2023, and December 31, 2024, and ratemaking adjustment(s) for the twelve months ending December 31, 2024, as described below.

Line No.	Description	Adjustment	Amount	Page Reference
	A	B	C	D
1	Actual Expense - December 31, 2022		\$ 14,332,832	[.2]
2	Normalization adjustment to Increase / (Decrease) expense to reclass from Property Tax Expense to Amortization Expense - AMTZ 5	OTX 1-22	\$ (119,108)	[.2]
3	Normalized expense for the twelve months ended December 31, 2022		<u>\$ 14,213,724</u>	
4	Pro Forma adjustment to Increase/(Decrease) expense for the twelve months ending December 31, 2023	OTX 1-23	<u>1,524,093</u>	
5	Forecasted expense for the twelve months ending December 31, 2023		<u>\$ 15,737,818</u>	[.3]
6	Pro Forma adjustment to Increase/(Decrease) expense for the twelve months ending December 31, 2024	OTX 1-24	<u>1,914,385</u>	
7	Forecasted expense for the twelve months ending December 31, 2024		<u>\$ 17,652,203</u>	[.3]
8	Pro Forma adjustment to Increase / (Decrease) property tax expense for Ratemaking based on updates for the most recent property tax filing.	OTX 1-24R	<u>-</u>	
9	Ratemaking expense for the twelve months ending December 31, 2024		<u>\$ 17,652,203</u>	[.3]

Northern Indiana Public Service Company LLC
Account 40813200 - Tax Exp-Property
Twelve Months Ended December 31, 2022

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Line No.	Segment	Activity	2022												Twelve Months Ended December 31, 2022		
			January	February	March	April	May	June	July	August	September	October	November	December			
1	G	Y2021 -Year 2021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (407,500)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (407,500)	[.4]
2	G	Y2022 -Year 2022	1,265,573	1,265,573	1,265,573	1,265,573	1,265,573	1,265,573	1,776,462	1,776,462	1,776,462	1,776,462	(1,117,563)	1,197,657	14,779,383	[.4]	
3	G	CE 3300 - Amortization	9,233	9,233	9,233	9,233	9,233	9,233	9,233	9,233	15,096	15,096	3,743	11,311	119,108	[.1]	
4	G	TDSIC	(3,894)	37,083	29,405	20,828	11,262	5,741	2,678	2,778	1,334	1,614	3,096	4,054	115,980		
5	G	FMCA	(33,643)	(28,565)	(23,068)	(66,014)	34,701	19,164	15,342	15,441	(59,704)	16,045	(171,308)	7,471	(274,138)		
6		Grand Total	\$ 1,237,270	\$ 1,283,324	\$ 1,281,144	\$ 1,229,620	\$ 1,320,769	\$ 892,211	\$ 1,803,715	\$ 1,803,913	\$ 1,733,187	\$ 1,809,217	\$ (1,282,031)	\$ 1,220,493	\$ 14,332,832	[.1]	

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

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		Forecast											
Line No.	Description	2022		2023		2024		2024R					
	A	B		C		D		E					
1	Property Tax	\$	14,332,832	[.2]	\$	15,737,818	[.1]; [.4]	\$	17,652,203	[.1]; [.4]	\$	17,652,203	[.1]
									A			A	

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

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Line No.	Description	Amount	
		2023	2024
1	Gross Utility Plant	A 3,631,360,530	
	Plus:		
2	Materials & Supplies	A 15,360,394	
3	Gas Stored Underground - Current	A 123,082,959	
4	Gas Stored Underground - Non-Current	A 4,949,422	
5	Total Plant Subject to Property Taxes	A 3,774,753,304	
6	Divided By: Per Books Property Tax Expense	B 14,371,883 [2]	
7	Effective Property Tax Rate	0.3807% E	
8	Gross Utility Plant	3,928,982,325 C	4,512,541,465 D
	Plus:		
9	Materials & Supplies	22,263,644 C	17,337,093 D
10	Gas Stored Underground - Current	177,318,697 C	101,496,554 D
11	Gas Stored Underground - Non-Current	4,949,422 C	4,949,422 D
12	Total Plant Subject to Property Taxes	4,133,514,088	4,636,324,533
13	Times: Effective Property Tax Rate	0.3807% E	0.3807% E
14	Property Tax Expense	15,737,818	17,652,203

A- Rate Base 1-2 and 8-10 Per Books Amounts as of December 31, 2021 (Terminal Balance)
 B- Amount for the twelve months ending December 31, 2022
 C- Rate Base 1-2 and 8-10 Amounts as of December 31, 2022 (Terminal Balance)
 D- Rate Base 1-2 and 8-10 Amounts as of December 31, 2023 (Terminal Balance)