ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR A FEDERALLY MANDATED NERC COMPLIANCE PROJECT; (2) AUTHORITY TO RECOVER FEDERALLY MANDATED COSTS INCURRED IN CONNECTION WITH THE NERC COMPLIANCE PROJECT; (3) APPROVAL OF THE ESTIMATED FEDERALLY MANDATED COSTS ASSOCIATED WITH THE NERC COMPLIANCE PROJECT; 4) AUTHORITY FOR THE TIMELY RECOVERY OF 80% OF THE FEDERALLY MANDATED COSTS THROUGH RIDER 787 – ADJUSTMENT OF FEDERALLY MANDATED COSTS AND APPENDIX I – FEDERALLY MANDATED COST ADJUSTMENT FACTOR; (5) AUTHORITY TO DEFER 20% OF THE FEDERALLY MANDATED COSTS FOR RECOVERY IN NIPSCO'S NEXT GENERAL RATE CASE; (6) APPROVAL OF SPECIFIC RATEMAKING AND ACCOUNTING TREATMENT; (7) APPROVAL TO DEPRECIATE THE NERC COMPLIANCE PROJECT ACCORDING TO PREVIOUSLY APPROVED DEPRECIATION RATES; AND (8) APPROVAL OF ONGOING REVIEW OF THE NERC COMPLIANCE PROJECT; ALL PURSUANT TO IND. CODE §§ 8-1-8.4-1 *ET SEQ.*, 8-1-2-19, 8-1-2-23 AND 8-1-2-42.	)	CAUSE NO. 44889 APPROVED: JUL 12 2017

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
David E. Veleta, Senior Administrative Law Judge

On December 5, 2016, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause. Also, on December 5, 2016, NIPSCO filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was granted by Docket Entry dated January 4, 2017.

On December 6, 2016, NIPSCO filed the verified direct testimony of the following: Cynthia C. Jackson, Manager of Regulatory Policy for NIPSCO; Matthew G. Holtz, Managing Director of Transmission in the Transmission and Engineering Department at NIPSCO; and

Jennifer L. Shikany, Director of Regulatory Accounting for NIPSCO. NIPSCO did not provide rebuttal testimony in this Cause.

On February 28, 2017, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of the following: Ronald L. Keen, Senior Analyst with the Resource Planning and Communications Division of the OUCC and Stacie R. Gruca, Senior Utility Analyst in the Electric Division of the OUCC.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on April 19, 2017, in Hearing Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared and participated at the hearing. No members of the general public appeared or participated at the hearing.

Having considered the evidence and the applicable law, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as that term is defined in Ind. Code § 8-1-2-1 and an energy utility as that term is defined in Ind. Code §§ 8-1-2.5-2 and 8-1-8.4-3. Under Ind. Code §§ 8-1-8.4-6 and 8-1-8.4-7, the Commission has authority to issue a certificate of public convenience and necessity ("CPCN") and to approve cost recovery for projects necessary to comply with federally mandated requirements. Under Ind. Code § 8-1-2-42, the Commission has authority over changes to NIPSCO's rate and charges. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility organized and existing under the laws of the State of Indiana, having its principal office at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO is engaged in rendering electric and gas public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution, and furnishing of such service to the public.

3. **Background and Relief Requested.** On January 18, 2008, the Federal Energy Regulatory Commission ("FERC") approved the North American Electric Reliability Corporation's ("NERC") Critical Infrastructure Protection ("CIP") reliability standards in Order No. 706 (Docket No. RM06-22-000). The CIP reliability standards require certain users, owners, and operators of the bulk-power system to safeguard critical cyber assets. There are 11 currently effective CIP reliability standards, seven of which have been impacted by the CIP Version 6 development process. The currently approved CIP standards include:

- CIP-002-5.1 - Cyber Security - Bulk Electric System ("BES") Cyber System Categorization,
- CIP-003-6 - Cyber Security - Security Management Controls,
- CIP-004-6 - Cyber Security - Personnel & Training,
- CIP-005-5 - Cyber Security - Electronic Security Perimeter(s),
- CIP-006-6 - Cyber Security - Physical Security of BES Cyber Systems,
- CIP-007-6 - Cyber Security - Systems Security Management,

- CIP-008-5 - Cyber Security - Incident Reporting & Response Planning,
- CIP-009-6 - Cyber Security - Recovery Plans for BES Cyber Systems,
- CIP-010-2 - Cyber Security - Configuration Change Management and Vulnerability Assessments,
- CIP-011-2 - Cyber Security - Information Protection, and
- CIP-014-2 - Physical Security.

Additionally, NERC is incorporating the National Institute of Standards and Technology ("NIST") cyber security framework into what is required in the NERC CIP reliability standards. On January 21, 2016, in Order No. 822 FERC approved CIP Version 6 that includes seven reliability standards: (1) CIP-003-6; (2) CIP-004-6; (3) CIP-006-6; (4) CIP-007-6; (5) CIP-009-6; (6) CIP-010-2; and (7) CIP-011-2. *See* Docket No. RM15-14-000, 154 FERC ¶ 61,037 ("CIP Version 6").

NERC's Interconnection Reliability Operations and Coordination ("IRO") and Transmission Operations ("TOP") families of reliability standards were first approved by FERC on March 16, 2007, in Order No. 693 (Docket No. RM06-16-000), which approved the first sets of NERC reliability standards, thereby making them mandatory and enforceable (collectively, the "IRO/TOP Standards"). FERC did, however, require revisions and improvements to certain IRO and TOP Standards. While there were some additional developments in the interim, as relevant here, on March 18, 2015, NERC submitted a petition to FERC for approval of revised IRO and TOP Standards in Docket No. RM15-16-000.

NIPSCO requests the following relief: (1) a CPCN for its physical and electronic security controls for numerous capital projects and ongoing activities at 51 different locations within NIPSCO's electric system necessary to comply with CIP Version 6 (the "CIP Version 6 Compliance Project") and NIPSCO's staffing changes necessary to comply with the IRO/TOP Standards ("IRO/TOP Compliance Project"); (2) approval to recover 80% of the federally mandated project costs and ongoing expenses incurred in connection with the CIP Version 6 Compliance Project and the IRO/TOP Compliance Project (collectively "NERC Compliance Project") through NIPSCO's Rider 787 – Adjustment of Charges for Federally Mandated Costs and Appendix I – Federally Mandated Cost Adjustment Factor (the "FMCA Mechanism"); (3) authority to defer 20% of the federally mandated project costs and ongoing expenses incurred in connection with the NERC Compliance Project for recovery in NIPSCO's next general rate case; and (4) approval of the specific ratemaking and accounting treatment as discussed in evidence.

4. Overview of NIPSCO's Direct Evidence.

A. Direct Testimony of Cynthia C. Jackson. Ms. Jackson provided testimony to: (1) describe NIPSCO's request for a CPCN for its NERC Compliance Project; (2) explain the statutory authority supporting NIPSCO's requested relief; (3) explain why the CIP Version 6 and IRO/TOP Standards are federally mandated requirements under Ind. Code § 8-1-8.4-5; (4) explain why NIPSCO's requested relief is appropriate and will serve the public interest; and (5) introduce NIPSCO's witnesses providing testimony in this proceeding.

B. Direct Testimony of Matthew G. Holtz. Mr. Holtz provided testimony to:

(1) describe the NERC CIP reliability standards and the new compliance requirements resulting from CIP Version 6; (2) explain NIPSCO's physical and electronic security controls for numerous capital projects and ongoing activities associated with the CIP Version 6 compliance project; (3) describe the IRO/TOP Standards and the new compliance requirements resulting from recent revisions to the IRO/TOP Standards; (4) explain NIPSCO's staffing changes necessary to comply with the IRO/TOP Standards compliance project; (5) explain NIPSCO's NERC Compliance Project and the associated costs; (6) explain how NIPSCO's NERC Compliance Project will allow NIPSCO to comply with the federally mandated requirements; (7) describe alternative compliance methods that NIPSCO reviewed; and (8) explain how the NERC Compliance Project serves the public convenience and necessity.

C. **Direct Testimony of Jennifer L. Shikany.** Ms. Shikany provided testimony to explain NIPSCO's accounting and proposed ratemaking treatment to record and recover federally mandated costs to comply with NIPSCO's proposed NERC Compliance Project.

5. **Overview of the OUCC's Evidence.**

A. **Direct Testimony of Ronald L. Keen.** Mr. Keen provided his analysis of the NERC Compliance Project and related cost estimates. Mr. Keen recommended the Commission approve NIPSCO's request for approval of a CPCN for its NERC Compliance Project.

B. **Direct Testimony of Stacie R. Gruca.** Ms. Gruca addressed and ultimately recommended the Commission approve NIPSCO's proposal to recover the NERC Compliance Project costs through its FMCA Mechanism. Ms. Gruca testified that NIPSCO is not requesting any changes to the structure of the FMCA Mechanism currently in place and the ratemaking treatment approved in Cause No. 44340 will continue to be used for NERC Compliance Project costs, including the use of an updated capital structure. Ms. Gruca testified that NIPSCO has a pending case, Cause No. 44872, wherein NIPSCO requested ratemaking and accounting treatment for costs related to its environmental compliance project through its FMCA Mechanism, which could have a significant impact on NIPSCO's next FMCA tracker proceeding. However, ratemaking and accounting treatment for NIPSCO's environmental compliance project was not addressed in the current proceeding, because it will be addressed in Cause No. 44872. Ms. Gruca testified NIPSCO's proposed estimated annual ongoing operations and maintenance ("O&M") costs appear reasonable and will be reconciled in each of NIPSCO's semi-annual FMCA filings. Ms. Gruca testified it is reasonable to assign depreciation lives for NIPSCO's CIP Version 6 Compliance Project capital assets that are the same depreciation lives assigned to similar capital assets included in NIPSCO's depreciation study and approved by the Commission in its July 18, 2016 Order in Cause No. 44688 ("Rate Case Order"). Ms. Gruca recommended the Commission approve NIPSCO's proposal to recover its NERC Compliance Project costs through its FMCA Mechanism.

The OUCC recommended the Commission (1) require NIPSCO to continue to update its capital structure in each FMCA semi-annual filing consistent with the Commission's approved method used in NIPSCO's current FMCA proceedings and consistent with the Commission's construction work in progress ("CWIP") rules; (2) approve NIPSCO's proposed estimated annual

O&M costs for its NERC Compliance Project; (3) approve NIPSCO's proposal to record, defer and recover depreciation related to the NERC Compliance Project according to the depreciation rates approved by the Commission in its Rate Case Order; and (4) require NIPSCO to provide the Commission (as well as the OUCC) its Compliance Filing that includes NIPSCO's updated FMCA factors.

6. Commission Discussion and Findings.

A. CPCN. Before granting a CPCN under Ind. Code ch. 8-1-8.4, we must (1) find that public convenience and necessity will be served by the proposed compliance project, (2) approve the costs associated with the project, and (3) make a finding on each of the factors in Ind. Code § 8-1-8.4-6(b). Those factors are:

> (A) A description of the federally mandated requirements, including any consent decrees related to the federally mandated requirements, which the energy utility seeks to comply with through the proposed compliance project.
> (B) A description of the projected federally mandated costs associated with the proposed compliance project, including costs that are allocated to the energy utility: (i) in connection with regional transmission expansion planning and construction; or (ii) under a FERC-approved tariff, rate schedule, or agreement.
> (C) A description of how the proposed compliance project allows the energy utility to comply with the federally mandated requirements described by the energy utility under clause (A).
> (D) Alternative plans that demonstrate that the proposed compliance project is reasonable and necessary.
> (E) Information as to whether the proposed compliance project will extend the useful life of an existing energy utility facility and, if so, the value of that extension.

Ind. Code § 8-1-8.4-6(b).

(1) Federally Mandated Requirements. Ind. Code § 8-1-8.4-5 defines a federally mandated requirement to include "a requirement that the commission determines is imposed on an energy utility by the federal government in connection with any of the following: (1) The federal Clean Air Act (42 U.S.C. 7401 et seq.)" and also includes "(7) Any other law, order, or regulation administered or issued by the United States Environmental Protection Agency, the United States Department of Transportation, the Federal Energy Regulatory Commission, or the United States Department of Energy." Ind. Code § 8-1-8.4-5.

Ms. Jackson testified that the NERC CIP requirements, including CIP Version 6, are federally mandated requirements under Ind. Code § 8-1-8.4-5. She testified that Section 215 of the Federal Power Act requires a FERC-certified electric reliability organization to develop mandatory and enforceable reliability standards, which are subject to FERC review and approval. FERC certified NERC as the electric reliability organization to establish and enforce reliability standards for the bulk-power system. Once approved by FERC, the CIP reliability standards may be enforced by NERC, subject to FERC oversight, or by FERC independently.

Ms. Jackson testified that the IRO/TOP Standards were approved by FERC on November 15, 2015, in Order No. 817 as part of an approval of a broader set of reliability standards. Once approved by FERC, compliance with reliability standards is mandatory. Violations of any mandatory NERC reliability standard including the IRO/TOP Standards or CIP Version 6, may result in a financial penalty of up to $1.2 million per violation per day.

FERC approved CIP Version 6 on January 21, 2016 in Order No. 822 and the IRO/TOP Standards on November 15, 2015 in Order No. 817. Based on our review of the evidence, we find that the NERC CIP reliability standards and IRO/TOP Standards are federally mandated requirements under Ind. Code § 8-1-8.4-5 and NIPSCO has satisfied the requirement of Ind. Code § 8-1-8.4-6(b) (1) (A).

(2) Projected Costs. Ms. Jackson testified that NIPSCO's total capital cost estimate for the CIP Version 6 Compliance Project is $11.4 million, excluding allowance for funds used during construction ("AFUDC") or ongoing carrying charges. Mr. Holtz testified that NIPSCO estimates the annual O&M expenses associated with the CIP Version 6 Compliance Project is approximately $2.5 million, which are generally comprised of annual license fees for the new capital assets being installed and monthly communications fees for locations receiving a commercial data connection. NIPSCO's Exhibit No. 2, Attachment 2-A provides, among other things, a description of the capital projects at each of the 51 substations, estimated costs, construction start dates, and estimated in-service dates associated with the CIP Version 6 Compliance Project.

Mr. Holtz testified that after the scope and approach of the CIP Version 6 Compliance Project was finalized, NIPSCO identified all material and labor costing components of the project plan. The cost estimates for parts of the project plan were compiled by obtaining price quotes from vendors (where applicable) and estimating the labor that would be required by NIPSCO staff or contractors to complete the CIP Version 6 Compliance Project. Mr. Holtz testified that vendor quotes were updated in October and November 2016. He stated that the labor estimates provided by the various NIPSCO groups are based on the use of contractors and outside consultants, because workload for employees will vary based on a number of variables and staff availability is difficult to project that far into the future.

Mr. Holtz testified that a change in the class level of scoping of the estimates could cause the cost estimates to change. He stated that a delay in the CIP Version 6 Compliance Project could invalidate the vendor quotes, which could alter the cost figures for that equipment. He also stated that if NIPSCO employee workload at the time of project execution is heavier or lighter than expected and the use of more or less contractors is required, those labor costs could change. Ongoing vendor support costs could increase over the use of the products, and timing of expenses could also shift depending on activity from FERC on future CIP Reliability Standards.

Mr. Keen testified that NIPSCO used a reasonable and logical methodology to estimate its costs in this case, including recent vendor quotes and acceptable sources for labor estimates. He stated that NIPSCO has committed to conduct further refinement of its cost estimates as the CIP Version 6 Compliance Project is implemented, and certain unknowns become known. He stated that the OUCC expects that NIPSCO will not exceed its estimated $11.4 million total cost estimate (excluding AFUDC and carrying costs), and will review any refinements to individual cost estimates when NIPSCO files its FMCA Mechanism for the CIP Version 6 Compliance Project.

Ms. Jackson testified that NIPSCO is requesting that the Commission approve approximately $654,000 per year as the projected federally mandated ongoing O&M (including indirect, overhead, and benefits expenses) associated with the IRO/TOP Compliance Project. In addition, NIPSCO requests that the Commission approve recovery of depreciation, tax, and financing expenses associated with the IRO/TOP Compliance Project.

NIPSCO's Exhibit No. 2, Attachment 2-A provides, among other things, the labor costs associated with the six Real-Time Operations Engineer ("RTOE") positions (in 2016 dollars) associated with the IRO/TOP Compliance Project. Mr. Holtz testified that after the scope and approach of the IRO/TOP Compliance Project was finalized, NIPSCO began its search for qualified candidates to fill the six new positions. He stated that NIPSCO posted these positions in the beginning of the 3rd quarter of 2016 and as of mid-October, NIPSCO had filled all six positions. He stated that the values contained in this filing are based on the employees' actual 2016 salaries, including indirect, overhead, and benefits expenses.

Mr. Keen testified that NIPSCO appears to have a sound understanding of the changes to the IRO/TOP Standards. He stated that the hiring of the six RTOEs is an adjustment NIPSCO needs to make in order to comply with these new, robust, real-time requirements, and the costs associated with retaining these employees are reasonable and supported by the evidence.

The evidence presented describes the projected federally mandated costs associated with the NERC Compliance Project and demonstrates that the cost estimates are based on multiple sources of information. The evidence also identifies the factors that could cause the cost estimates to change. Based on our review of the record evidence, we find that NIPSCO's cost estimates for the NERC Compliance Project, as depicted in NIPSCO's Exhibit No. 2, Attachment 2-A, are reasonable. Therefore, we approve the projected federally mandated costs associated with the NERC Compliance Project as required by Ind. Code § 8-1-8.4-7(b)(2). In addition, we find that NIPSCO has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(B).

(3) <u>CIP Version 6 Compliance Project</u>. Mr. Holtz testified that NIPSCO chose a third-party, Network & Security Technologies, Inc. ("N&ST") to (1) perform a gap analysis to analyze the changes in the CIP Version 6 Reliability Standards, (2) review the current state of in-scope NIPSCO facilities, and (3) recommend cost-effective manageable changes or upgrades needed to ensure compliance with CIP Version 6 on or before the relevant compliance dates. He stated N&ST has expertise in NERC CIP and has conducted similar projects for other responsible entities throughout the country. He testified that NIPSCO has performed site evaluations with internal subject matter experts and engaged contractors to conduct scoping and cost estimates. He testified NIPSCO analyzed results of site evaluations and estimates, reviewed alternative projects or plans, and ultimately developed the CIP Version 6 Compliance Project that will be executed to achieve compliance with CIP Version 6.

Mr. Holtz testified that implementing the CIP Version 6 Compliance Project will ensure compliance with the CIP Version 6 Reliability Standards requirements for physical and electronic access control. He stated that this is the first and most essential step to achieve compliance with the new requirements in the CIP Version 6 Reliability Standards. However, maintaining compliance with the existing standards will require ongoing operations and continuous vigilance by NIPSCO. He stated that NIPSCO has already undertaken some steps to ensure it can achieve compliance with the CIP Version 6 Reliability Standards by the required dates, such as hiring N&ST to prepare the report. Mr. Holtz testified that NIPSCO is not seeking recovery of any expenditures incurred prior to the date of the Verified Petition in this Cause. In addition, as NERC and FERC continue to evaluate and strive to improve CIP Reliability Standards, maintaining compliance with future, yet-to-be-approved standards will likely require more projects to be completed. Mr. Holtz testified NIPSCO will execute the CIP Version 6 Compliance Plan in a manner that ensures completion by the applicable compliance effective date. NIPSCO views the achievement of compliance as a project. NIPSCO fully understands, however, that maintaining compliance is a process that must be sustained after project completion.

Mr. Holtz further testified that NIPSCO is well aware of the CIP compliance challenges facing entities. He testified that NIPSCO will leverage existing programs and processes as much as possible in its efforts to maintain ongoing compliance with the CIP Reliability Standards; however, it will face unique challenges due to the geographic distribution of the newly identified assets, systems, and facilities. He testified that ongoing compliance will require vendor support and maintenance costs for the additional assets deployed, and ongoing monthly communications expenses for new commercial data connections installed to support those projects. For this reason, NIPSCO has included the ongoing O&M costs related to the additional assets installed in its CIP Version 6 Compliance Project.

Mr. Keen did not object to the scope of NIPSCO's proposed CIP Version 6 Compliance Project. He stated that NIPSCO and N&ST determined a reasonable and necessary portfolio of projects in order to achieve compliance with the CIP Version 6 Reliability Standards.

Based on the evidence presented, we find that NIPSCO's CIP Version 6 Compliance Project will allow the utility to comply with CIP Version 6. Therefore, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(C).

(4) <u>IRO/TOP Compliance Project</u>. Mr. Holtz testified that NIPSCO's current activities that are required to comply with the IRO and TOP families of reliability standards require an operations engineer to perform analysis and develop operating plans based on the current system configuration and in the future from planned system outages. He stated that operating plans historically were established only when system issues were projected and were used as a guide by the System Operator (real-time and out into the future). He testified that under the current version of the Reliability Standards (i.e., the version effective prior to January 1, 2017), existing NIPSCO resources can perform the required tasks during normal business hours. However, staff in this area are available 24 hours a day based on system need in the case of an emergency.

The IRO/TOP Standards will require NIPSCO to undertake assessments and analysis of transmission system conditions on a continual basis and in a much more proactive and robust manner. He stated that two of the new tasks that must be performed are called an "Operational

Planning Analysis" and "Real-time Assessment." He testified that depending on the results of the analysis, additional actions can be required of NIPSCO, and these actions must now be taken immediately. There are also new documentation requirements under the IRO/TOP Standards.

Mr. Holtz testified that IRO-17-1 will require NIPSCO to evaluate and coordinate generation and transmission maintenance in accordance with a process defined by the applicable reliability coordinator (Midcontinent Independent System Operator ("MISO") in the case of NIPSCO), during real-time and next-day. He stated that this requirement did not explicitly exist in previous versions of NERC's reliability standards. He explained that in the case of the defined MISO outage coordination process, MISO requires outages to be reported and coordinated in a time period from real-time in the case of emergency outages, to a rolling 12-month period for planned outages. He stated that this NERC reliability standard also contains new compliance obligations regarding maintaining documentation of compliance with the MISO outage coordination process. He testified that these new requirements will require additional personnel to perform.

Mr. Holtz further testified that under TOP-002-4, NIPSCO must first perform current-day and next-day operational planning analysis, which explicitly includes the evaluation of system protection degradation (stability) and phase angle limitations. Second, NIPSCO will be required to prepare and revise operating plans documenting their findings and mitigating actions to support the system operator in real-time. In addition, all operating plans must be coordinated with all impacted entities (e.g., MISO and any impacted neighboring utilities) identified in the plan. Also, in its operating plans, NIPSCO will be required to analyze, develop, and implement system operating limits, such as voltage stability limits in place of static limits established in the long-term planning horizon. Lastly, NIPSCO will be required to provide the compliance focus and direction during abnormal and emergency conditions to ensure all the appropriate operating actions, reporting, notifications, and decisions are being carried out in a timely manner, while providing compliance documentation support.

Mr. Holtz testified these new requirements are substantial and will require a significant amount of new work to be performed. He testified that performing the compliance tasks associated with these new requirements will require the assistance of the additional personnel, who must now be on-site 24 hours per day and seven days per week.

Mr. Holtz testified that NIPSCO would need six RTOEs who will be directly responsible for supporting NIPSCO's real-time operations. He explained that the job responsibilities of the RTOEs will include: (1) the review of anticipated and historical system conditions, (2) the use of various analysis tools in their ongoing review, and (3) the development of appropriate responses to these system conditions. Because real-time assessments (and, depending on the results of such assessments, potential responsive actions) will be required every 30 minutes, the RTOE will be a 24 hours per day and seven days per week rotating shift position, with a primary purpose of proactively monitoring network analysis performance, resulting anticipated system conditions from the network analysis; developing operating plans based on anticipated system conditions; resolving any problems with solution quality in the tools; and maintaining other essential analysis tools.

Mr. Keen did not object to NIPSCO's proposed IRO/TOP Compliance Project. He stated that NIPSCO appears to have a sound understanding of the changes to the IRO/TOP Standards and that the hiring of the six RTOEs is an adjustment NIPSCO needs to make in order to comply with the new, robust real-time requirements.

Based on the evidence presented, we find that NIPSCO's IRO/TOP Compliance Project will allow the utility to comply with IRO/TOP Standards. Therefore, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b) (1) (C).

(5) Alternative Plans. With regard to compliance with CIP Version 6, Mr. Holtz testified that under CIP Version 6, entities with in-scope low-impact BES cyber systems and assets are given the option of protecting those systems or assets with granular controls close to the systems or assets themselves, or further back from the systems or assets at the perimeter of the facility. He stated that NIPSCO, in consultation with N&ST, evaluated both its electric transmission sites and generation stations to determine if perimeter or more granular controls were appropriate. This evaluation was based on the location of the system or assets at each site, what existing protections were already in place, and which personnel would visit each site and the frequency of such visits. With that approach, it was determined that existing perimeter controls at the generating stations were adequate to achieve compliance with CIP Version 6. Mr. Holtz testified that it was also determined that 51 of NIPSCO's BES substations would require more granular protections closer to the assets in the relay houses at each site. He stated the reason for this approach is due to the number of employees and contractors that have access to substations themselves and the associated difficulty of controlling and monitoring access at the perimeter of the substation, but a much smaller group requires access to the relay houses at each substation location, making more granular control a better option. In addition, since the low impact BES cyber systems that require protections are contained in the relay houses themselves, it is more controllable and easier to apply the protections within the relay houses, instead of the entire substation perimeter.

With regard to compliance with the IRO/TOP Standards, Mr. Holtz testified that initially, NIPSCO evaluated the burden associated with the new compliance requirements. He stated that when NIPSCO began considering available options for complying with IRO/TOP Standards, it soon became clear that it would not be possible for NIPSCO's existing staff to perform all the new required tasks under the IRO/TOP Standards.

Based on the evidence presented, we find that NIPSCO considered alternative plans for compliance with CIP Version 6 and IRO/TOP Standards. The evidence shows that the NERC Compliance Project is reasonable and necessary. Therefore, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(D).

(6) Useful Life of the Facility. Mr. Holtz testified that although the assets being installed to provide physical and cyber protections to NIPSCO's BES facilities do not impact the operation of the physical electrical assets themselves, and, therefore, do not directly impact the useful lives of these BES assets, the CIP Version 6 Compliance Project will indirectly help ensure the useful life of NIPSCO's BES facilities are reached. These physical and cyber protections will provide additional safeguards for each of the impacted facilities, thereby minimizing the possibility that the facilities could be damaged before the end of their useful life.

Mr. Holtz testified that although the IRO/TOP Compliance Project will not extend the useful life of NIPSCO's BES Facilities, it is likely that the additional analysis and compliance activities that the new engineers will be engaged in day-to-day will allow NIPSCO to better and more reliably operate its portion of the BES.

Based on the evidence presented, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(E).

We therefore approve the NERC Compliance Project pursuant to Ind. Code § 8-1-8.4 and find that NIPSCO's request for a CPCN for the NERC Compliance Project is granted.

(7) **__Conclusion__.** The evidence presented demonstrates that the NERC Compliance Project will allow NIPSCO to comply with the requirements of CIP Version 6 and IRO/TOP Standards. The NERC Compliance Project will also allow NIPSCO to reasonably ensure its facilities are secure from both physical and cyber threats. As discussed above, we have made a finding on each of the factors described in Ind. Code § 8-1-8.4-6(b) and approved the projected federally mandated costs associated with the NERC Compliance Project. Therefore, we approve the NERC Compliance Project and issue NIPSCO a CPCN for the project under Ind. Code § 8-1-8.4-7(b).

B. **__Cost Recovery__.** Ind. Code § 8-1-8.4-7(c) states:

> If the commission approves under subsection (b) a proposed compliance project and the projected federally mandated costs associated with the proposed compliance project, the following apply:
>
> (1) Eighty percent (80%) of the approved federally mandated costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism that allows the timely recovery of the approved federally mandated costs. The commission shall adjust the energy utility's authorized net operating income to reflect any approved earnings for purposes of IC 8-1-2-42(d)(3) and IC 8-1-2-42(g)(3).
>
> (2) Twenty percent (20%) of the approved federally mandated costs, including depreciation, allowance for funds used during construction, and post in service carrying costs, based on the overall cost of capital most recently approved by the commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the commission.
>
> (3) Actual costs that exceed the projected federally mandated costs of the approved compliance project by more than twenty-five percent (25%) shall require specific justification by the energy utility and specific approval by the commission before being authorized in the next general rate case filed by the energy utility with the commission.

(1) **FMCA Mechanism.** NIPSCO requests authority to utilize its currently approved semi-annual FMCA Mechanism pursuant to Ind. Code §§ 8-1-8.4-7 for the timely and periodic recovery of 80% of the federally mandated costs. Ind. Code § 8-1-8.4-7 provides that an energy utility may, in a timely manner, recover 80% of all federally mandated costs through a periodic rate adjustment mechanism. Ind. Code §§ 8-1-8.4-4 and 8-1-8.4-7 provide that such costs include capital, AFUDC, O&M, depreciation, tax, and financing costs.

Ms. Shikany described how the capital costs associated with the NERC Compliance Project will be incorporated into the FMCA Mechanism. She testified the revenue requirement for capital costs included in the FMCA Mechanism will be calculated by multiplying the net book value of the associated eligible projects by NIPSCO's current overall Weighted Average Cost of Capital ("WACC"), which incorporates the return on common equity and capital structure most recently approved by the Commission in its Rate Case Order. These capital costs will be grossed-up for all applicable taxes.

Ms. Shikany described how all other federally mandated costs, including O&M, depreciation expense, property tax expense, and other incurred tax expense, associated with the NERC Compliance Project will be incorporated into the FMCA Mechanism. She testified that NIPSCO's accounting practice related to these costs is to defer on the balance sheet, as a regulatory asset, all costs incurred until such amounts are included and recovered in rates through the FMCA Mechanism. As amounts are recovered through rates, NIPSCO reduces the regulatory asset and records expense in the income statement in order to appropriately match the revenues being recorded with the expenses. These expenses would be treated consistently with expenses approved as part of the CIP Version 4 Compliance Project approved in the Commission's 44340 Order.

Ms. Shikany described how the FMCA Mechanism revenue requirement is calculated in general. She stated that in each semi-annual filing, NIPSCO calculates a revenue requirement, which consists of two components: (1) a return of capital costs including AFUDC and post in-service carrying charges ("PISCC"), and (2) recovery of all federally mandated costs associated with the projects. Then NIPSCO multiplies the total revenue requirement by eighty percent (80%) to establish the FMCA Mechanism revenue requirement.

(2) **Accounting and Ratemaking Treatment for the FMCA Mechanism.** Ms. Shikany testified that pursuant to Ind. Code § 8-1-8.4-7, NIPSCO seeks ratemaking treatment for the NERC Compliance Project consistent with and through NIPSCO's currently approved FMCA Mechanism. Specifically, NIPSCO seeks timely recovery of 80% of all federally mandated costs associated with the NERC Compliance Project including capital costs, AFUDC, PISCC, O&M, depreciation expense, property tax expense, other incurred tax expense, and approved deferral of the remaining 20% of costs, including other carrying charges, for recovery in NIPSCO's next rate case.

Ms. Shikany testified that in order to recover all capital costs associated with these projects, NIPSCO seeks authority to (a) implement CWIP ratemaking treatment associated with the NERC Compliance Project through the FMCA Mechanism, (b) record AFUDC on the construction costs associated with the NERC Compliance Project until such costs receive either CWIP ratemaking treatment through the FMCA, are placed in service, or are otherwise reflected in NIPSCO's base electric rates, and (c) defer as a regulatory asset and recover through the FMCA Mechanism PISCC associated with capital expenditures that are in service yet not receiving ratemaking treatment.

Ms. Shikany testified that in addition to the recovery of these capital costs, NIPSCO requests the timely recovery through the FMCA Mechanism of reasonably incurred O&M, depreciation expense, property tax expense, and other incurred tax expense associated with each approved project included in the NERC Compliance Project. She stated this ratemaking treatment is consistent with the ratemaking treatment authorized by the Commission in its 44340 Order.

With respect to cost allocation, Ms. Shikany testified consistent with the Rate Case Order, NIPSCO proposes to allocate all demand-related federally mandated costs associated with these projects based on the demand allocators for the FMCA Mechanism set forth in Joint Exhibit B to the Stipulation and Settlement Agreement approved in that Cause. All energy-related federally mandated costs will be allocated based upon the energy attributable to each of the NIPSCO's rate schedules based upon amounts included in NIPSCO's most recent general electric rate case. Additionally, NIPSCO will adjust its allocation percentages to reflect the significant migration of customers amongst the various rates. This adjustment is appropriate in order to prevent any unintended consequence of the migration of customers between rates and to properly allocate their share of the revenue requirement.

With respect to the treatment of operating income, Ms. Shikany testified NIPSCO proposes to include the operating income associated with the NERC Compliance Project in the total electric operating income for purposes of the Ind. Code § 8-1-2-42(d)(3) test. She stated this is consistent with the way earnings associated with NIPSCO's CIP Version 4 Compliance Project were approved to be treated by the Commission in its 44340 Order.

Ms. Gruca testified that the OUCC recommends the Commission approve NIPSCO's proposal to recover its NERC Compliance Project costs through its FMCA Mechanism and require NIPSCO to continue to update its capital structure in each FMCA semi-annual filing consistent with the Commission's approved method used in NIPSCO's current FMCA proceedings and consistent with the Commission's CWIP rules.

Based on the evidence presented, the Commission finds that NIPSCO is authorized to defer (until captured within the FMCA tracker) and recover 80% of the approved federally mandated costs incurred in connection with the NERC Compliance Project through the currently approved FMCA Mechanism pursuant to Ind. Code § 8-1-8.4-7, including capital, O&M, depreciation, taxes, financing, and carrying costs based on the current overall WACC and AFUDC. NIPSCO is authorized to utilize CWIP ratemaking treatment for the NERC Compliance Project through the currently approved FMCA Mechanism. NIPSCO is authorized to accrue AFUDC relating to the NERC Compliance Project until such time as all of the projects included in the NERC Compliance Project are placed into service or receive ratemaking treatment. NIPSCO is authorized to defer post-in service costs of the NERC Compliance Project, including carrying costs based on the current overall WACC, depreciation, taxes, and operating and maintenance expenses on an interim basis until such costs are recognized for ratemaking purposes through NIPSCO's currently approved FMCA Mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. NIPSCO is authorized to defer and recover through NIPSCO's currently approved FMCA Mechanism any federally mandated costs, including but not limited to federally mandated costs incurred prior to and after approval of a final order in this proceeding to the extent that such costs are reasonable and consistent with the scope of the NERC Compliance Project described in NIPSCO's evidence. NIPSCO's proposed cost-allocation factors are approved.

(3) **Accounting and Ratemaking Treatment for Deferred Costs.** Ind. Code § 8-1-8.4-7 provides that 20% of the approved federally mandated costs, including depreciation, AFUDC, and PISCC, based on the overall cost of capital most recently approved by the Commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the Commission. Ms. Shikany testified NIPSCO proposes to defer as a regulatory asset 20% of all federally mandated costs incurred in connection with the NERC Compliance Project. She testified NIPSCO also proposes to record carrying charges on such amounts based on NIPSCO's WACC, which incorporates the return on common equity most recently approved by the Commission in its Rate Case Order until such amounts are recovered through rates.

Based on the evidence presented, the Commission finds that NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the NERC Compliance Project, and NIPSCO may recover the deferred costs in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2). NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred federally mandated costs including deferred depreciation and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case. Consistent with the Commission's Order in Cause No. 44340, for ratemaking purposes, NIPSCO will gross up for taxes all amounts associated with the 20% deferral but will exclude these amounts from the gross up for taxes in its next base rate case.

(4) **Depreciation Treatment.** NIPSCO requests authority to depreciate the individual projects included in the NERC Compliance Project according to the depreciation rates approved by the Commission in Cause No. 44688. Ms. Shikany testified in this proceeding that NIPSCO is proposing to record, defer, and recover depreciation related to the NERC Compliance Project according to those depreciation rates approved by the Commission in its Rate Case Order.

Ms. Gruca testified it is reasonable to assign depreciation lives for NIPSCO's CIP Version 6 Compliance Project capital assets that are the same depreciation lives assigned to similar capital assets included in NIPSCO's depreciation study and approved by the Commission in its Rate Case Order.

Based on the evidence presented, we find that NIPSCO's proposal to depreciate the individual projects included in the NERC Compliance Project based on the depreciation rates approved by the Commission in its Rate Case Order is reasonable and is approved.

C. **Ongoing Review.** NIPSCO requests ongoing review of the NERC Compliance Project as part of its FMCA Mechanism semi-annual filings. In its current semi-annual filings, NIPSCO includes (1) information supporting proposed revised FMCA Mechanism factors including actual capital expenditures and forecast expenses during the relevant period, and a reconciliation of prior period revenues and costs; and (2) updated information regarding project list or scope, schedules, and costs for the individual projects, for purposes of explaining the progress of its NERC Compliance Project.

We approve NIPSCO's request for ongoing review of the NERC Compliance Project as part of its FMCA Mechanism semi-annual filings. While Ind. Code ch. 8-1-8.4 does not contain an explicit provision for ongoing review, we find that the ongoing review currently approved for NIPSCO's CIP Version 4 Compliance Plan is reasonable and will provide useful information to the Commission and the OUCC.

D. **NIPSCO's Next FMCA Mechanism Filing.** Under its currently approved FMCA Mechanism, NIPSCO is scheduled to make its next semi-annual filing on or about October 31, 2017 under Cause No. 44340-FMCA-8. The filing will be based on capital costs actually incurred through July 2017, federally mandated O&M, property taxes and depreciation actuals through September 2017 and forecasted expenses for the period February 2018 through July 2018, and reconciliation of prior FMCA costs to actual FMCA revenues for the period February 2017 through July 2017, with factors to become effective for bills rendered by NIPSCO during the billing cycles of February through July 2018.

E. **Confidentiality.** NIPSCO filed a motion for protective order which was supported by affidavit showing documents to be submitted to the Commission were confidential and trade secret information within the meaning of Ind. Code § 5-14-3-4(a) as defined in Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on January 4, 2017 finding such information to be preliminarily confidential, and the confidential information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. NIPSCO is issued a CPCN for the NERC Compliance Project pursuant to Ind. Code ch. 8-1-8.4. This Order constitutes the Certificate.

2. The NERC CIP Reliability Standards as approved by the FERC constitute federally mandated requirements as defined by Ind. Code § 8-1-8.4-5.

3. The NERC IRO and TOP families of Reliability Standards as approved by the FERC constitute federally mandated requirements as defined by Ind. Code § 8-1-8.4-5.

4. The projects included in the NERC Compliance Project constitute compliance projects as that term is defined in Ind. Code § 8-1-8.4-2, and the costs incurred in connection with the NERC Compliance Project are federally mandated costs as that term is defined in Ind. Code § 8-1-8.4-4. The federally mandated costs are eligible for ratemaking treatment described in Ind. Code § 8-1-8.4-7.

5. NIPSCO's cost estimates for the NERC Compliance Project set forth above are approved.

6. NIPSCO is authorized to defer (until captured within the FMCA Mechanism) and recover 80% of the approved federally mandated costs incurred in connection with the NERC Compliance Project through the currently approved FMCA Mechanism pursuant to Ind. Code § 8-1-8.4-7 including capital, O&M, depreciation, taxes, financing, and carrying costs based on its WACC and AFUDC rate.

7. NIPSCO is authorized to utilize CWIP ratemaking treatment for the NERC Compliance Project through the currently approved FMCA Mechanism.

8. NIPSCO is authorized to accrue AFUDC relating to the NERC Compliance Project until such time as the projects included in the NERC Compliance Project are placed into service or receive ratemaking treatment.

9. NIPSCO is authorized to defer PISCC related to the NERC Compliance Project, including carrying costs based on its WACC, depreciation, taxes, and O&M expenses on an interim basis until such costs are recognized for ratemaking purposes through NIPSCO's currently approved FMCA Mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case.

10. NIPSCO is authorized to defer and recover through NIPSCO's currently approved FMCA Mechanism any federally mandated costs, including but not limited to federally mandated costs incurred prior to and after approval of a final Order in this proceeding to the extent that such costs are reasonable and consistent with the scope of the NERC Compliance Project described in NIPSCO's evidence.

11. NIPSCO is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the NERC Compliance Project for purposes of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42(g)(3) as allowed under Ind. Code § 8-1-8.4-7(c)(1).

12. NIPSCO's proposed cost allocation factors are approved.

13. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the NERC Compliance Project for recovery in its next general rate case.

14. NIPSCO is authorized to record ongoing carrying charges based on its current overall weighted average cost of capital on all deferred federally mandated costs including deferred depreciation and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.

15. Consistent with the Commission's Order in Cause No. 44340, for ratemaking purposes, NIPSCO will gross up for taxes all amounts associated with the 20% deferral but will exclude these amounts from the gross up for taxes in its next base rate case.

16. NIPSCO is authorized to depreciate the individual projects included in the NERC Compliance Project according to depreciation rates set forth above.

17. NIPSCO's request for ongoing review of the NERC Compliance Project as part of NIPSCO's FMCA Mechanism semi-annual filings is approved.

18. The information filed by NIPSCO in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

19. This Order shall be effective on and after the date of its approval.

ATTERHOLT, HUSTON, WEBER, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: JUL 12 2017

I hereby certify that the above is a true and correct copy of the Order as approved.

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission