FILED
May 2, 2022
INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED DIRECT TESTIMONY OF GUNNAR J. GODE

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

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

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

A2. I am submitting this testimony on behalf of Northern Indiana Public Service Company LLC ("NIPSCO"), a wholly-owned subsidiary of NiSource.

Q3. Please describe your educational and employment background.

A3. I earned a B.S. degree in managerial economics from Cornell University and completed my M.B.A. from Babson College. I am a Certified Public Accountant, licensed in the state of Maryland. I joined NiSource in my current role in August 2020. Prior to that, I was the Vice President and Controller for AltaGas Services US, including its wholly owned subsidiary Washington Gas Light Company. I was employed by Washington Gas for 16 years, serving in increasing roles of responsibility within the Finance and Accounting functions. Prior to joining Washington Gas, I worked as a business recovery consultant for FTI Consulting and also as a senior accountant at PricewaterhouseCoopers and Grant Thornton, serving the technology and utility sectors, respectively.

Q4. What are your responsibilities as Vice President and Chief Accounting Officer?

A4. As Vice President and Chief Accounting Officer, my principal responsibilities include overseeing the Company's financial statement preparation, accounting and control processes. This includes the determination of accounting for the establishment and retirement of capital assets, including the support for depreciation studies supporting the recovery of capital investments and their associated retirement and removal costs.

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

A5. Yes. I recently testified before the Commission in NIPSCO's most recent gas base rate case in Cause No. 45621. I have also previously testified in proceedings in Virginia and the District of Columbia.

Q6. What is the purpose of your testimony?

A6. The purpose of my testimony is to describe the accounting treatment for the federally mandated costs associated with an ash pond closure project at NIPSCO's Michigan City Generating Station ("Michigan City") (the "Ash Pond Compliance Project"). The accounting treatment for these costs underlies the basis for NIPSCO's proposed recovery of these costs as described by NIPSCO Witness Blissmer. Specifically, I provide an explanation of how NIPSCO will account for the deferred federally mandated costs, which then leads to how the costs will be reflected in NIPSCO's FMCA Mechanism[1] tracker filings and a description of the amortization rate NIPSCO proposes for the federally mandated projects included in the Ash Pond Compliance Project.

Q7. Are you sponsoring any attachments to your direct testimony?

A7. No.

Q8. What cost recovery mechanism is provided for under the FMCA Statute?

A8. Ind. Code § 8-1-8.4-7 provides that if the Commission approves a proposed compliance project and the projected federally mandated costs associated with the

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[1] NIPSCO's Rider 887 – Adjustment of Charges for Federally Mandated Costs and Appendix I – Federally Mandated Cost Adjustment Factor for the cost recovery provided for under Ind. Code ch. 8-1-8.4 (the "FMCA Statute").

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.

Q9. Please confirm the costs being sought for recovery through the FMCA Mechanism.

A9. As described by NIPSCO Witness Blissmer, NIPSCO is seeking to recover a return of and on the actual retirement costs incurred to comply with the Resource Conservation and Recovery Act ("RCRA") and the U.S. Environmental Protections Agency's ("EPA") Coal Combustion Residuals ("CCR") rule ("CCR Rule"). NIPSCO will track all of these costs through a retirement work order. As stated above, once the project is completed, the FMCA Mechanism provides recovery for 80% of the actual costs incurred, which includes the associated return on the retirement costs incurred at NIPSCO's weighted average cost of capital ("WACC") as well as amortization of the actual costs incurred. The remaining 20% of the actual costs would be deferred as described above to a future general rate case.

Q10. NIPSCO's Verified Petition filed on March 30, 2022 included various references to recovery of carrying costs. Please explain NIPSCO's request with respect to carrying costs.

A10. Although authorized under the FMCA Statute, NIPSCO is not seeking recovery of carrying costs on the federally mandated costs for the period between when the Ash Pond Compliance Project is initiated and when such costs are included for recovery through the FMCA Mechanism. Instead, NIPSCO is proposing to recover carrying costs only on the 20% portion of federally mandated costs that is deferred for recovery in a future rate case.

Q11. Why should the FMCA Mechanism provide a return on the costs of the Ash Pond Compliance Project at NIPSCO's WACC?

A11. These costs will be recorded as a retirement work order which reduces NIPSCO's Accumulated Depreciation (Account 108) balance and increases rate base. Stated another way, net original cost rate base is equal to Utility Plant in Service minus Accumulated Depreciation. An entry that reduces Accumulated Depreciation increases net original cost rate base just as much as if NIPSCO had made the same investment in Utility Plant in Service. So the costs incurred in connection with this project are capital costs in that they increase net original cost rate base, and the financing cost of these capital costs is equal to NIPSCO's WACC. As these costs will be omitted from the calculation of depreciation rates, the return on calculation will be included in this FMCA proceeding.

Q12. Prior to filing its Verified Petition in this proceeding, had NIPSCO provided estimates for its federally mandated CCR compliance remediation costs, including those contemplated by the Ash Pond Compliance Project?

A12. Yes. As part of Cause No. 45159, an initial estimate for these CCR costs was provided as part of the filed demolition study.[2] The initial estimate was based on a very preliminary plan of actions deemed required to meet the CCR Rule requirements, as they existed at that time, and the associated costs. However, as explained by NIPSCO Witness Turman, the CCR Rule was not yet final. As a result, these preliminary estimates were not included as part of the reserve calculation in the final depreciation rates for that case.

Q13. How are costs of removal, including these federally mandated CCR remediation requirements, typically recovered by utilities?

A13. As I explained previously, when a removal project is complete, the actual costs are reflected in the financial statements by reducing Accumulated Depreciation and thereby increasing net original cost rate base. Over time, estimated future costs of removal are typically collected through depreciation rates, as established in a base

[2] *See* Verified Direct Testimony of Kelly R. Carmichael (Pet. Exh. No. 8) at pp. 24-25, offered in Cause No. 45159.

rate case. The estimated reserve necessary to remove and settle all legal obligations associated with utility plant is added to the original cost of the underlying plant when calculating the required total depreciation expense. As these cost of removal estimates are collected through depreciation rates, a utility generally continues to build a cost of removal reserve in Accumulated Depreciation. Subsequent depreciation studies update the estimates for the eventual cost of removal as cost drivers are refined, actual retirement costs are incurred, and as new retirement requirements are defined.

Q14. Are costs of removal, when recovered through depreciation rates as described above, known actual costs, or estimates of the ultimate costs incurred to complete the required asset removal activities?

A14. The amounts associated with the cost of removal within depreciation rates are always *estimates* based on the expected and known requirements for decommissioning and retirement at the time of that depreciation study. As an asset ages, gets closer to retirement, and new requirements are known and defined, the estimates for cost of removal are updated with each new depreciation study. Once the decommissioning activities begin, these estimates are further refined to match the actual costs incurred.

Q15. Were NIPSCO's prior estimates for the federally mandated CCR compliance remediation costs included in the depreciation rates for which NIPSCO sought approval in Cause No. 45159?

A15. No. NIPSCO's petition in Cause No. 45159 was filed in late 2018, around the same time as the results of NIPSCO's then most recent integrated resource plan ("IRP"). The new preferred portfolio included retirements of NIPSCO's coal-fired generation on a much sooner basis than had been estimated in prior IRPs. To mitigate this impact, NIPSCO proposed an extended amortization period (through 2032) for the expected net book values of NIPSCO's R.M. Schahfer Generating Station and Michigan City coal fired generation at the time of planned retirement, which was approved as part of that proceeding. Specifically, NIPSCO proposed not to include the ash pond removal costs until those obligations could be better understood and those costs could be better estimated and included in a future general rate case or federal mandate case under the FMCA Statute such as this one.[3] Recall that at the time of NIPSCO's last rate case, CCR was relatively new and was being challenged broadly. As described by NIPSCO Witness Turman, the CCR requirement with respect to the ash pond at Michigan City has been further

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[3] *See* Verified Direct Testimony of Kelly R. Carmichael (Pet. Exh. No. 8) at pp. 24-25, offered in Cause No. 45159.

refined since that proceeding.

Q16. Why is NIPSCO proposing to recover the federally mandated costs for the Ash Pond Compliance Project through the FMCA Mechanism rather than depreciation rates?

A16. As noted above, in Cause No. 45159, Mr. Carmichael explained that NIPSCO's obligations under the CCR Rule were likely to remain and to involve significant expenditures and noted that NIPSCO anticipated addressing these federally mandated costs to comply with environmental regulations in a proceeding under the FMCA Statute at some time in the future.[4] This is exactly what NIPSCO is doing in this proceeding. While NIPSCO could have sought recovery of these costs in its next base rate case as part of cost of removal through depreciation, NIPSCO is doing so here because the costs related to the Ash Pond Compliance Project are costs directly related to NIPSCO's compliance with federally mandated requirements. Specifically, to comply with the federally mandated requirements, NIPSCO is compelled to begin this work presently. Since these associated retirement costs have not previously been included in NIPSCO's depreciation

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[4] *See* Verified Direct Testimony of Kelly R. Carmichael (Pet. Exh. No. 8) at pp. 24-25, offered in Cause No. 45159.

rates – and they are directly federally mandated – it is appropriate to use the FMCA Mechanism for recovery. To be clear, NIPSCO has not collected or recovered any amounts associated with these federally mandated requirements through base rates or otherwise.

Q17. Over what period does NIPSCO typically recover costs through the FMCA Mechanism? And what is the recovery period that NIPSCO is requesting in this proceeding?

A17. NIPSCO has historically recovered federally mandated costs through the FMCA Mechanism as the costs are incurred. In this proceeding, the federally mandated work is for the cost of removal as part of Michigan City's eventual retirement. Requesting the recovery as costs are expended would result in immediate recovery, as the Project is expected to be complete in late 2022. Instead, NIPSCO has requested the recovery coincide with the same period agreed to recover the remaining net asset balance of NIPSCO's coal fleet retirement ending in 2032.

Q18. Why is NIPSCO proposing to amortize these costs through 2032?

A18. For previous federally mandated costs in which NIPSCO has applied the FMCA Mechanism, NIPSCO has recovered costs as they were incurred, which has typically been a period of a few years. However, because all the costs for the Ash

Pond Compliance Project will be incurred over a relatively short period of time (through December of 2022), and since they directly relate to the retirement of the Michigan City plant, NIPSCO is proposing to recover these costs over a longer period. NIPSCO is proposing to amortize the total project costs through 2032, to align the recovery of the Ash Pond Compliance Project with the period over which the remaining return on and of its retiring coal-fired generating fleet's net book value will be recovered through rates. *See* the Commission's December 4, 2019 Final Order in Cause No. 45159 at Ordering Par. 9.

Q19. Does this conclude your direct testimony?

A19. Yes.

VERIFICATION

I, Gunnar J. Gode, Vice President and Chief Accounting Officer of NiSource Corporate Services Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Gunnar J. Gode

Date: May 2, 2022