ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS SERVICE RATES THROUGH ITS TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE SCHEDULE; (2) AUTHORITY TO DEFER 20% OF THE APPROVED CAPITAL EXPENDITURES AND TDSIC COSTS FOR RECOVERY IN PETITIONER'S NEXT GENERAL RATE CASE; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44403-TDSIC-7, ALL PURSUANT TO IND. CODE CH. 8-1-39-9.	)	**CAUSE NO. 44403 TDSIC 8** **APPROVED:** AUG 22 2018

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On February 27, 2018, Northern Indiana Public Service Company LLC ("Petitioner" or "NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in this Cause for approval of a new Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") pursuant to Ind. Code § 8-1-39-9. On the same day, NIPSCO filed its direct testimony.

NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on April 20, 2018, which was granted by docket entry on April 27, 2018.[1]

On April 30, 2018, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits. On that same day, the Industrial Group filed a Motion for Administrative Notice, which was granted by docket entry on May 11, 2018.

An evidentiary hearing was held on June 8, 2018, at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, and Industrial

[1] The members of the Industrial Group in this proceeding are ArcelorMittal USA, Cargill, Inc., Fiat Chrysler Automobiles, General Motors LLC, Praxair, Inc. and USG Corporation.

Group appeared and participated. At the hearing, the parties' prefiled evidence and administrative notice documents were offered and admitted into the record without objection.

On July 12, 2018, prior to the issuance of an order in this Cause, NIPSCO filed a Motion to Reopen the Record and for Leave to Submit Evidence in Compliance with the Opinion of the Indiana Supreme Court. The Motion was granted by Docket Entry on July 16, 2018.

On July 18, 2018, NIPSCO filed supplemental testimony addressing the Indiana Supreme Court's June 20, 2018 decision in Cause No. 44403 TDSIC 4.

An evidentiary hearing was held on August 2, 2018, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, and Industrial Group appeared and participated. At the hearing, NIPSCO's supplemental testimony and exhibits were admitted into the record without objection.

Based on the applicable law and evidence presented, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of the hearings in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39 ("TDSIC Statute"), the Commission has jurisdiction over a public utility's petition to approve rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a public utility organized and existing under the laws of the State of Indiana, having its principal office at 801 E. 86th Avenue, Merrillville, Indiana 46410. Petitioner 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. Petitioner provides gas utility service to more than 821,000 residential, commercial, and industrial gas customers in northern Indiana.

3. **Background and Relief Requested.** On April 30, 2014, the Commission issued an Order in Cause No. 44403 ("44403 Order") concerning Petitioner's request for approval of a 7-year plan for eligible transmission, distribution, and storage system improvements ("7-Year Gas Plan" or "Plan"), pursuant to Ind. Code §§ 8-1-39-10 and 11. In the 44403 Order, the Commission held: (1) the projects contained in Year 1 of NIPSCO's 7-Year Gas Plan are eligible transmission, distribution, and storage system improvements ("eligible improvements") within the meaning of Ind. Code § 8-1-39-2; (2) the project categories contained in Years 2 through 7 of NIPSCO's 7-Year Gas Plan are presumed eligible improvements within the meaning of Ind. Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings; (3) the 7-Year Gas Plan is reasonable and approved subject to certain modifications; (4) NIPSCO's proposed definitions of key terms for purposes of interpreting and applying those terms to NIPSCO's 7-Year Gas Plan are approved; and (5) NIPSCO's proposed process for updating the

7-Year Gas Plan in future semi-annual adjustment proceedings is approved. Although an Appeal was filed, it was subsequently dismissed with prejudice.[2]

On January 28, 2015, the Commission issued an Order in Cause No. 44403 TDSIC 1 ("TDSIC-1 Order") approving, among other things, NIPSCO's updated Plan, with the exception of certain cost estimates for the 112th Street project and bare steel replacement projects, and designating the projects included in Year 2 as eligible improvements under Ind. Code § 8-1-39-2. The Commission approved NIPSCO's proposed methodology for calculating its TDSIC adjustment and authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 2014. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On February 27, 2015, NIPSCO filed its petition and case-in-chief in Cause No. 44403 TDSIC 2 ("TDSIC-2"). Subsequently, on April 8, 2015, the Court of Appeals of Indiana issued a decision in the appeal of a Commission Order in Cause Nos. 44370 and 44371 (NIPSCO's Electric TDSIC cases), reversing in part, affirming in part, and remanding the case to the Commission. *NIPSCO Indus. Grp. v. N. Ind. Pub. Serv. Co.*, 31 N.E.3d 1 (Ind. Ct. App. 2015). After discussion with the parties, NIPSCO ultimately moved to dismiss TDSIC-2 with the understanding that it would request to recover approved capital expenditures incurred through June 2015 and TDSIC Costs for the period July 2014 through June 2015 in Cause No. 44403 TDSIC 3. On June 2, 2015, the Commission dismissed TDSIC-2 without prejudice.

On March 30, 2016, the Commission issued an Order in Cause No. 44403 TDSIC 3 ("TDSIC-3 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-3"), with the exception of certain new and emergent projects that were not identified or approved in NIPSCO's 7-Year Gas Plan or an update, and designating the projects included in the approved Plan Update-3 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission approved a new allocation of NIPSCO's approved capital expenditures and TDSIC costs to the various customer classes based on total revenue, including gas revenue, by removing the adjustment for transmission versus distribution considerations. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On June 22, 2016, the Commission issued an Order in Cause No. 44403 TDSIC 4 ("TDSIC-4 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-4"), with the exception of four projects. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-4 Order was appealed by the Industrial Group in Case No. 93A02-1607-EX-1644. On June 20, 2017, the Court of Appeals issued an order affirming the TDSIC-4 Order. The Industrial Group filed a Petition to Transfer, which is currently pending with the Indiana Supreme Court.

[2] Order of the Indiana Court of Appeals in Cause No. 93A02-1405-EX-368 dated September 23, 2014.

On December 28, 2016, the Commission issued an Order in Cause No. 44403 TDSIC 5 ("TDSIC-5 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-5"). The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 2016. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-5 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-177.

On June 28, 2017, the Commission issued an Order in Cause No. 44403 TDSIC 6 ("TDSIC-6 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-6"). The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 2016. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-6 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-1632.

On December 28, 2017, the Commission issued an Order in Cause No. 44403 TDSIC 7 ("TDSIC-7 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-7"). The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 2017. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-7 Order was appealed by the Industrial Group and is currently pending in Case No. 18A-EX-146.

In its Petition, NIPSCO requested:

(a) Approval of the TDSIC factors set forth in Attachment 1, Schedule 8 to the Verified Petition to become effective for bills rendered by NIPSCO for the months of July through December 2018 or until replaced by different factors approved in a subsequent filing;

(b) Approval of Petitioner's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge set forth in Attachment 3 to the Verified Petition, which contains the TDSIC factors;

(c) Authority to defer, as a regulatory asset, 20% of the eligible and approved capital expenditures and TDSIC costs incurred in connection with its approved 7-Year Gas Plan and record ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case;

(d) Authority to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project;

(e) Approval of Petitioner's updated 7-Year Gas Plan ("Plan Update-8"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-7; and

(f) Authority to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-8 through the TDSIC and authorizing Petitioner to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-8, for recovery in its next general rate case.

4. Evidence Presented.

A. NIPSCO's Case-In-Chief. NIPSCO presented the testimony and exhibits of Alison M. Becker, NIPSCO's Manager of Regulatory Policy, and NiSource Corporate Services Company employees: James F. Racher, Director of Regulatory; Karima Hasan Bey, Director of Records Management; and Donald L. Bull, Director of Gas TDSIC Projects.

Ms. Becker testified all of the TDSIC projects included for recovery in this filing were or will be undertaken for the purpose of safety, reliability, system modernization, or economic development and the rural gas extensions projects were undertaken for the purpose of extending gas service in rural areas. She testified that none of these projects were included in NIPSCO's rate base in Cause No. 43894. Ms. Becker stated NIPSCO is requesting approval of all of the projects contained in Plan Update-8 that are included for recovery in the proposed TDSIC-8 factors.

Ms. Becker testified that pursuant to Ind. Code § 8-1-39-9(c), NIPSCO has not filed a petition within nine months after the date on which the Commission issued an order changing its basic rates and charges. In addition, she testified that pursuant to Ind. Code § 8-1-39-9(d), NIPSCO intends to petition the Commission for review of its basic rates and charges before the expiration of its approved 7-Year Gas Plan.

Ms. Becker testified NIPSCO is requesting approval of Plan Update-8, including the actual capital expenditures incurred through December 31, 2017, as well as updated cost estimates for the designated eligible improvements in Plan Update-8, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-7.

Ms. Becker explained that to date NIPSCO has not undertaken any targeted economic development projects that are eligible for recovery through the TDSIC. However, NIPSCO continues to work with interested parties on potential projects, and it will continue to keep TDSIC stakeholders informed to the extent the projects are developed enough to present to them prior to submitting in a TDSIC filing. Ms. Becker testified that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural customers in the updated estimate and to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extensions projects.

Ms. Becker testified that NIPSCO met with the OUCC and interested stakeholders, including representatives of the Industrial Group and United States Steel Corporation on January 31, 2018. During this meeting, NIPSCO identified known changes to projects from Plan Update-7. She stated NIPSCO is not aware of any unresolved issues, nor is it including any major change in this proceeding.

Regarding NIPSCO's proposed ratemaking treatment, Mr. Racher testified the total cost of the designated eligible improvements upon which NIPSCO requests authority to earn a return is $405,150,049. This amount includes allowance for funds used during construction ("AFUDC") and other indirect costs and is net of accumulated depreciation incurred through December 31, 2017.

Mr. Racher testified that NIPSCO is only seeking approval to recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with $3,322,780 of the total direct capital costs incurred through December 31, 2015 for the 112th Street Project. He stated this amount represents NIPSCO's best estimate provided in Cause No. 44403 and is inclusive of the 20% contingency percentage. He testified that consistent with the TDSIC-1 Order, NIPSCO will defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between this amount and the actual amount of the 112th Street Project. The depreciation and property taxes NIPSCO plans to defer relating to this difference for the months of July through December 2017 is $141,627 and the total deferred balance is $739,018.

Mr. Racher provided an overview of the indirect capital costs that are associated with capital projects and must be capitalized in order to comply with Generally Accepted Accounting Principles ("GAAP"). He noted these often cannot be charged directly to a specific capital project work order because they cannot be directly linked to one particular project and tend to be incurred away from the job site. He stated that NIPSCO groups these indirect capital costs into three categories: (1) overheads, (2) stores, freight, and handling, and (3) AFUDC.

Mr. Racher testified that NIPSCO computes AFUDC amounts and relevant AFUDC rates for the designated eligible improvements in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and is also consistent with GAAP. He stated that NIPSCO also has a process to ensure that AFUDC is no longer recorded after such costs are given construction work in progress ("CWIP") ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first. After the in-service date, NIPSCO will calculate and include for recovery post in-service carrying charges on costs which have been placed into service and are not receiving ratemaking treatment until such costs receive CWIP ratemaking treatment, or are otherwise reflected in base gas rates.

Mr. Racher testified NIPSCO has calculated the depreciation expense related to TDSIC capital expenditures according to each asset's designated FERC account classification. Each asset, upon being placed in service, is depreciated by NIPSCO according to the associated FERC account composite remaining life approved by the Commission's November 4, 2010 Order in Cause No. 43894.

Mr. Racher explained that the calculation of NIPSCO's "return on" portion of the revenue requirement for costs of the designated eligible improvements incurred through December 31, 2017. He stated that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's WACC. The product of this calculation is then multiplied by 50% to calculate a semi-annual revenue requirement. This semi-annual amount is then multiplied by the revenue conversion factor and further reduced to 80% to determine the total return-related revenue requirement to be recovered for bills rendered during the months of July through December 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

Mr. Racher provided the computation of the revenue conversion factor used to compute NIPSCO's pre-tax revenue requirement. He testified that the revenue conversion factor is calculated for debt and equity to properly synchronize interest for the purpose of calculating the revenue requirement. The state income tax rate used in this computation was determined in accordance with Ind. Code § 6-3-2-1.

Mr. Racher testified the federal income tax rate used in the computation of the revenue conversion factor is the 21% corporate income tax rate that became effective January 1, 2018, as directed in the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017. He stated that as a result of the reduction in the corporate income tax rate, the revenue requirement reflecting the tax expense change in this proceeding was approximately $2.4 million lower than if the federal income tax rate remained at 35%.

Mr. Racher provided information concerning depreciation expense, operations and maintenance ("O&M") expense, and property taxes for the period July through December 2017. The actual expenses and taxes incurred were reduced to 80% to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of July through December 2018, not to exceed the 2% excess revenue test. He explained that based on the allocators approved in the TDSIC-3 Order, NIPSCO will allocate 91.1% of O&M expenses related to the System Integrity Data Integration Project ("Records Project") based on the distribution allocator and 8.9% based on the transmission allocator.

Mr. Racher testified the TDSIC-1 Order approved NIPSCO's proposal to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extensions projects. He stated these amounts are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period July through December 2017.

Mr. Racher explained that the revenue requirement calculated in Cause No. 44403 TDSIC-6 is being reconciled against the actual revenues received from customers during July through December 2017 resulting in an over-recovery of $200,286.

Mr. Racher provided the allocation factors as approved in the TDSIC-3 Order, which NIPSCO used to allocate the related transmission, distribution, and storage revenue requirements. He also explained the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirements.

Mr. Racher testified there is no amount in excess of 2% of retail revenues for the past 12 months. He testified NIPSCO has calculated the 2% cap by comparing the increase in TDSIC revenues with the total retail revenues for the past 12 months. The retail revenues used in this calculation represent the revenues related to the 12 months ending December 31, 2017.

Mr. Racher sponsored a clean and redlined version of NIPSCO's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge showing the TDSIC factors proposed to be applicable for bills rendered during the months of July through December 2018, or until replaced by different factors that are approved in a subsequent proceeding. He also sponsored an attachment identifying the projected effect of NIPSCO's Plan Update-8 on retail rates and charges and the total estimated revenue requirement for each rate class from 2014 to 2020. He stated the estimated average monthly bill impact for a typical residential customer using 72 therms per year is $4.14, which is a $2.51 increase to the bill based on the factor currently in effect.

Finally, Mr. Racher noted that in the TDSIC-1 Order, the Commission authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with the designated eligible improvements, including ongoing carrying charges based on the current overall WACC, and recover those deferred costs in its next base rates case. Accordingly, NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs, including depreciation and property tax expenses and all tax expenses recorded as a result of the deferral of 20% of all TDSIC costs for recovery in its next rate case.

Mr. Bull sponsored NIPSCO's Plan Update-8 and Plan Update-7. He also sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 1 (Columns B through D and H through J), showing the actual capital expenditures incurred through December 31, 2017 relating to designated eligible improvements. Mr. Bull also sponsored Petitioner's Exhibit 3, Attachment 3-A (Summary the Gas System Deliverability, Gas System Integrity, and Records Project categories) and Confidential Attachment 3-B (rural extensions projects), Confidential Attachment 3-C (summary of 112th Street Project) and Confidential Attachment 3-D (summary of Plan Project Variances (Moves & Costs).

Mr. Bull described NIPSCO's project management processes and procedures, which were developed around the Project Management Institute's Project Management Body of Knowledge guidelines. He stated the processes are designed to integrate project design and project planning, scope management, schedule and cost management, and risk management to provide a project life cycle plan and provide consistency in execution.

Mr. Bull described how NIPSCO manages the portfolio of projects included in the 7-Year Gas Plan. He explained that the Engineering department developed the Plan and the initial cost estimates for the projects. The projects were then assigned to the appropriate departments (including Engineering and Gas Major Projects) for design and execution. He testified that the Project Manager and the Project Controls Team have the primary responsibility to verify that costs are accurately forecasted, accounted, and tracked for all TDSIC projects. It is also responsible for obtaining, tracking, and paying invoices for the TDSIC projects as well as creating monthly forecasts and accruals.

Mr. Bull described NIPSCO's cost management process, which begins with initiating a new TDSIC work order. The Project Engineer/Manager submitting a Capital Initiative Form to the TDSIC Support Budget Analyst who does a preliminary check of the asset register to verify the work is a valid TDSIC project, initiates the work order, and routes the form to the Plan Owner and the Project Execution/Engineering Team for two levels of review. The purpose of the first level of review is to verify that the project and costs are TDSIC eligible. The purpose of the second level of review is to approve the scope and cost of the project work. Both the review and approval are required before work is performed and project costs are incurred, except when a work order is needed for an emergency.

Mr. Bull stated that once a TDSIC work order is initiated, NIPSCO records charges to the work order. He explained that capital dollars are separated into direct capital and indirect capital.

Mr. Bull testified that vendor-related direct costs are procured through the use of a material requisition and that a purchase order is required to order goods or services.

Mr. Bull stated the TDSIC Project Controls Team provides bi-weekly reports that show the year-to-date actual costs to each project and an estimate of the weekly actual costs for the current month. The TDSIC Project Controls Cost Engineers meet two times per month one-on-one with the Project Managers and Manager, Gas Major Projects to review actual costs, estimate accruals, and forecast estimates. The Project Managers also review all project costs to ensure that costs are properly recorded to the TDSIC work orders. This process includes the review of non-vendor payments such as internal labor and other direct costs. The Project Managers review the detailed project cost reports provided by the Project Controls Team to ensure that all vendor payments are properly recorded, and internal labor charges are appropriate. He noted that any unusual charges are investigated and corrected if necessary.

Mr. Bull described NIPSCO's process for executing the projects included in its 7-Year Gas Plan. He stated that with the exception of rural extensions projects that are better handled by the local operating area, Engineering and Gas Major Projects execute all of the projects in the Plan. The Engineering group, in partnership with Major Projects, develops the updates to the Plan and establishes the base scope of work associated with each updated Plan. Next, the Engineering group develops a more detailed scope (with internal NIPSCO stakeholders) and provides detailed estimates for the next year's projects. When possible and appropriate, the Engineering group then conducts more detailed engineering prior to execution start. The TDSIC Execution group then executes the work. Mr. Bull stated the cost tracking of the work is managed by the Project Controls Team.

Mr. Bull provided an update on the potential risks associated with the completion of projects in light of actual experience that NIPSCO identified in previous stakeholder meetings, including Stateline to Highland Junction (TP1), the Aetna to LaPorte (TP2), and the Gary Bare Steel and Balance of System Project (BSR11).

Mr. Bull explained the estimation classes identified by the Association for the Advancement of Cost Engineering ("AACE"). He stated that AACE standards identify classes of estimates based on the use of the estimate and the level of detailed engineering required to produce inputs into the estimate. NIPSCO generally uses these AACE classifications with respect to its estimates for TDSIC projects, but the process of managing costs involves more than specifying a specific class or range of estimate.

Mr. Bull provided an overview of NIPSCO's process for managing costs in its 7-Year Gas Plan. He stated that many of the projects are substantial projects that span more than a single year. In addition, multiple-unit projects continue to be estimated on a unit cost basis, with unit costs updated as actual experience is gained with repetitive tasks. He explained that some multiple-unit projects are difficult to estimate because of wide variability in specific sites and circumstances. The process of estimate refinement is a continuous process as the 7-Year Gas Plan progresses.

For projects more than two years out in the Plan, Mr. Bull stated that they have been estimated utilizing a unit cost methodology. The project scope is developed based on inputs from the risk model, engineering planning, operations, and the application of NIPSCO's engineering standards. Historical costs of similar type projects are utilized to estimate the cost of the project with limited engineering being complete. These estimates are considered Class 4 and no detailed site visit has been conducted.

For projects that are planned for construction within the next two years of the Plan, Mr. Bull stated NIPSCO utilizes a more detailed estimating process that includes a project scope review. Specific site details are then integrated into the estimate allowing risks that may result in the project cost decreasing or increasing based on the outcome of the site visit and input from all impacted parties. At this phase, estimates are refined and considered Class 3, with at least one site visit, and are based on additional engineering or analysis along with scope definition. After projects advance from this phase, detailed engineering begins, which continues to refine the project cost estimate. He explained that for most projects, this will now occur within 18-24 months of the start of construction, and detailed engineering will be complete. Detailed engineering includes generation of material lists, associated labor, and technical drawings to be utilized during construction. Estimated labor hours are utilized to develop a resource plan which includes both internal and external labor resources. Detailed engineering documents are also used to bid external construction projects. A constructability review is also conducted to review the detailed engineering with project management and construction. Mr. Bull stated this typically takes place at the project site and is designed to identify associated project risks for integration into the cost estimate. At this phase, estimates are refined and considered Class 2. He testified that until construction begins, and until the project is complete, it is difficult to define all of the factors that influence a project's final cost. Factors that can influence project costs include weather, seasonal site conditions, emergencies, specific equipment needs, or other situations not identified until the construction process has started.

Mr. Bull testified that NIPSCO has not updated the unit costs used to estimate costs shown in Confidential Appendix 3.

Mr. Bull explained the process NIPSCO uses to determine whether requested changes in cost estimates are eligible for TDSIC treatment. During the first half of the calendar year, a formal reprioritization meeting is held once a month to review and approve project estimate changes. Because of increased requests, NIPSCO increases the meeting frequency to twice a month during the second half of the year. This reprioritization process starts when the need for a project estimate change is identified and the Project Management team completes a Project Change Request ("PCR") form. NIPSCO requires a PCR for estimate changes that are +/- $30,000 or 15%, whichever is greater, or any estimates changes that exceed $100,000 for any project even if it does not meet the 15% threshold in this filing. He stated the intent of the reprioritization process is for leadership to review and approve estimate changes before they occur.

Mr. Bull stated that the TDSIC Support team summarizes a list of requested project estimate decreases and increases from the PCRs for review at the reprioritization meeting. Each project estimate change is reviewed and approved or rejected by a level of leadership in accordance with NIPSCO's Capital Governance Policy. If the change is approved, then it is included in the next Plan update. If the change is not approved, it may be placed on a "hold" list for review at a future meeting, or it may be denied, but it will not be included in a Plan update until it is approved.

Mr. Bull testified that consistent with the TDSIC-1 Order, Plan Update-8 shows the originally approved cost estimate for the 112th Street Project. He sponsored Confidential Attachment 3-C of Petitioner's Exhibit 3 showing the approved costs, actual costs as of December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017, total estimated costs and the amount of total estimated costs that exceed the approved amount related to the 112th Street Project. He testified the 112th Street Project was placed in service in December 2014 and is operational. NIPSCO did not perform any additional work related to 112th Street project in 2016 or 2017. Although minimal capital costs associated with the final closeout of the project were booked in 2016 and 2017, he indicated that NIPSCO does not anticipate any additional capital costs for the 112th Street Project.

Mr. Bull noted that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy, and provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extensions projects. He testified that in determining the number of connections expected to be made annually, the New Business department forecasts the number of meters projected to be added each year. This is based on previous customer connections, planned marketing, and the anticipated availability of new main. Once the total number of new connections is determined, NIPSCO further refines the estimate into what is expected to be TDSIC-eligible. Mr. Bull explained the two primary methods NIPSCO uses to determine whether a new rural business project is eligible for TDSIC treatment. He testified the rural extensions projects included in Plan Update-8 are projected to pass the 20-year test identified in Ind. Code § 8-1-39-11.

Regarding the Records Project, Mr. Bull testified that to date, NIPSCO has successfully completed 14 out of 28 deliverables for the project, resulting in approximately 20,000 linens mined and 147,000 features added for placement into Petitioner's geographic information system ("GIS"). He testified that in Plan Update-8, NIPSCO is not proposing any changes to the approved cost estimates for the Records Project.

Ms. Hasan Bey explained the process originally followed for the Records Project, challenges experienced with that process, and changes made in the interest of expediting the accurate completion of the Records Project in line with the expectations of the Commission as expressed in its Orders in Cause Nos. 44790 and 44403 TDSIC 7. She stated that after completion of a time study, NIPSCO determined the best course is to outsource mining of the remaining linens to a domestic vendor while making use of internal resources for quality assurance/quality control ("QA/QC") and GIS entry. She indicated that this approach represents an appropriate balance between the need for speed and efficiency and the premium on accuracy and the leveraging of internal gas system expertise entry. During the interim period pending engagement of a contractor, NIPSCO will continue to use its internal resources for the mining of data from the remaining linens, but those resources will then be reassigned to work with NIPSCO's internal subject matter experts to expedite completion of QA/QC and GIS integration once vendor work begins. NIPSCO estimates that the Records Project can be completed by the end of 2019 at an additional cost of approximately $3.1 million and reiterated that NIPSCO will not seek additional TDSIC funding for the Records Project over and above the currently approved cost estimate of $12.2 million.

Mr. Bull described the Plan update process approved in the 44403 Order and the contents of Plan Update-8. He stated that the Plan update process is important because information is continually gathered around asset condition and updated risk analysis data. Additionally, configuration of NIPSCO's system, load growth, deliverability to critical customers, and other system events will serve to modify the consequence of failure driver in NIPSCO's aging infrastructure risk model. He said that as NIPSCO's customer demands evolve, both from a location and utilization perspective, system deliverability requirements must evolve with them.

Mr. Bull testified as of December 31, 2017, the total gross direct capital expenditures associated with NIPSCO's designated eligible improvements is $357,077,305; the total indirect capital expenditures is $43,581,780; and the total AFUDC for capital expenditures is $9,881,589. And, as of December 31, 2017, the total gross capital expenditures associated with NIPSCO's designated eligible improvements is $410,540,674.

Mr. Bull stated that there are differences in the transmission and distribution subtotals when comparing project category to FERC account. He explained that some projects, such as inspect and mitigate projects, incur charges that are booked to both distribution and transmission FERC accounts. However because a majority of project costs related to specific projects are charged to either distribution or transmission FERC accounts, the project is classified into either a transmission or distribution project category on Plan Update-8 and related schedules.

Mr. Bull testified Plan Update-8 reflects current cost estimates for the completion of the projects in the 7-Year Gas Plan. The result is an overall decrease in direct capital costs of $357,738 or about -0.05% across the remainder of the 7-Year Gas Plan. When indirect capital costs and AFUDC projections are incorporated, the overall projected 7-Year Gas Plan cost increase is $1,084,049 or about 0.13%.

Mr. Bull testified Plan Update-8 does not include any new projects that were not previously included in the 7-Year Gas Plan. He showed the total projected capital spend, including indirect capital costs and AFUDC, for Plan Update-8 compared to Plan Update-7, as follows:

Table 1
Comparison of Total Capital Dollars (inclusive of indirect capital costs and AFUDC)

	2014	2015	2016	2017	2018	2019	2020	7-Year Total
Plan Update-7	$43,116,426	$103,200,473	$127,266,542	$137,463,039	$150,396,063	$141,277,057	$145,760,336	$848,479,936
Plan Update-8	$43,116,426	$103,200,473	$127,266,542	$136,957,233	$150,561,933	$142,610,907	$145,850,471	$849,563,985
Variance	$0	$0	$0	($505,806)	$165,870	$1,333,850	$90,135	$1,084,049

Mr. Bull testified the indirect cost percentage and AFUDC percentage used in Plan Update-8 changed from that used in Plan Update-7. Mr. Bull explained that as was experienced with the 2014, 2015, and 2016 projects, additional costs may be incurred in a subsequent calendar year for a prior year project for a variety of reasons, including restoration costs for work completed, vendor invoices, and labor costs incurred but not submitted. In addition, NIPSCO accruals are booked in December based on the best information known at the time including both known costs and estimates for work completed but not yet booked. When invoices are received in subsequent months, the actual cost is booked and the prior period accrual is reversed. This process can result in either an additional charge or credit booked to the work order in a subsequent year. There may also be late-issued vendor invoices related to work completed that were not known when the accruals were estimated and therefore not incorporated into those accruals. Projects may also be multi-year projects, or may start in one year and end the following year depending on the project start and end dates and project schedule.

Mr. Bull explained how NIPSCO reflects the costs incurred in a subsequent calendar year in the 7-Year Gas Plan. He stated that in Plan Update-8, the remaining years actual costs (i.e., the amount of actual costs for the project year that may be incurred in a subsequent year) is $(230,594) for Project Year 2014, $225,458 for Project Year 2015, and $(42,579) for Project Year 2016, resulting in a Prior Year Reconciliation of $(187,761) in 2015, $273,136 in 2016, and ($133,091) in 2017.

Mr. Bull testified NIPSCO's 2017 actual direct capital costs were $120,703,310 as compared to an estimate of $121,206,048 from Plan Update-7, a decrease of $502,738, or -0.41%. He explained there was one transmission project and one storage project that were not fully completed in 2017 and carried over to 2018. He explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for four of the 2017 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2018 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2018 Project Detail shows the approved project cost for the 2018 Projects was $131,886,604 and the updated project cost is $132,031,604, resulting in a total increase of $145,000. Mr. Bull explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7) for two of the 2018 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2019 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2019 Project Detail shows the approved project cost for the 2019 Projects was $119,751,936 and the updated project cost for the 2019 Projects is $119,751,936, resulting in no variance. Mr. Bull testified there were no projects showing cost increases greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7 for the 2019 Projects.

Mr. Bull identified the variances in actual or updated direct costs for the 2020 Projects as compared to the best estimates of the costs approved in Plan Update-7. He testified that Plan Update-8, 2020 Project Detail shows the approved project cost for the 2020 Projects was $124,514,300 and the updated project cost for the 2020 Projects is $124,514,300, resulting in no variance. Mr. Bull testified there were no projects showing cost increases greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-7 for the 2020 Projects.

Mr. Bull testified Plan Update-8 shows actual costs for the 2014–2017 Projects and updated cost estimates for the 2018–2020 Projects. He testified Plan Update-8 provides information to support NIPSCO's best estimate of the cost of investments included in the Plan and includes: project estimates for 2018–2020; summary of unit cost estimates; a multiple unit project list and supporting documentation; PCRs for 2017 and 2018 Projects; and a Risk Model (updated in TDSIC-7). Mr. Bull stated that the updated cost estimates provided for the 2017 Projects are based on actuals for the year. For 2018 Projects, the updated estimates are generally based on receiving contractor bids back or the completion of site specific engineering. For 2019 Projects, NIPSCO is expecting to have contractor bids or estimates on the larger projects that are currently showing no variance from the TDSIC-6 estimates and anticipates updating those costs in its next TDSIC filing. He stated the cost estimates for the remainder of the 2020 projects and multiple unit projects are generally unit costs based on historical experience or similar projects that were executed in earlier years. Mr. Mooney testified all of the cost estimates are the best estimate of costs based on the information available at this time.

Mr. Bull testified the eligible improvements included in Plan Update-8 will serve the public convenience and necessity by making investments for safety, reliability, system modernization, and economic development consistent with public policy and the public interest. Mr. Bull testified NIPSCO has a statutory obligation to provide adequate retail service in its certificated gas service territory pursuant to Ind. Code § 8-1-2.3-4(a) and that NIPSCO performs this obligation for the public convenience and necessity.

Mr. Bull testified that the estimated costs of the eligible improvements included in the Plan Update-8 are justified by incremental benefits attributable to the Plan. He stated that Plan Update-8 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost-effective manner. He stated that the emphasis of most of the Plan's investments is to positively impact public safety. Safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion. Reliability drivers include the avoidance of gas outages driven from the inability to maintain gas system pressure during peak load events.

Mr. Bull testified that Plan Update-8 is intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investment in data and technology required for the Records Project, and the extension of gas facilities into rural areas. He stated the rural extensions projects included in Plan Update-8 will continue to increase the number of rural customers served over the life of the Plan. Mr. Bull concluded that Plan Update-8 cost effectively addresses safety, reliability, system modernization, and the extension of gas service into rural areas, and provides incremental benefits to NIPSCO's customers.

B. <u>OUCC's Case-in-Chief</u>. The OUCC filed the testimony of Mark H. Grosskopf, a Senior Utility Analyst with the OUCC and Leon A. Golden, a Utility Analyst in the OUCC's Natural Gas Division.

Mr. Grosskopf recommended approval of rate factor calculations as shown in Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A. He stated that the schedules and calculations are consistent with the findings set forth in prior Commission Orders for Petitioner's previous TDSIC filings. Mr. Grosskopf testified Mr. Golden has not recommended any changes that affect Petitioner's calculations, schedules, or cost recovery in this TDSIC.

Mr. Grosskopf stated that he performed a comprehensive analysis of the calculations and data flow contained in NIPSCO's TDSIC rate schedules. He stated he tied specific data to source documentation provided by NIPSCO, verified calculations, and compared the schedules to those schedules approved in NIPSCO's prior TDSIC filings. He stated he reviewed work order documentation to verify completed capital projects, inquired into the calculation and procedures for indirect costs and AFUDC, reviewed summary detail of O&M expenses, and verified customer counts and total therms billed with summary documentation. Mr. Grosskopf stated that he verified the calculation for the cost of long-term debt and reconciled cost of capital balances with NIPSCO's balance sheet. He also verified the public utility fee and tax rates.

Mr. Grosskopf testified that consistent with the Tax Cuts and Jobs Act of 2017, NIPSCO applied a 21% federal income tax rate to the revenue requirement in this filing and that it is the OUCC's expectation that the amount associated with collecting the 35% federal income tax rate during the months of January through June 2018 for TDSIC-7 will be reconciled in NIPSCO's next TDSIC filing, which is consistent with the Settlement Agreement recently filed in Cause No. 44988.

Mr. Grosskopf testified NIPSCO's allocation of revenue requirements is consistent with the allocation methodology approved in the TDSIC-3 Order. Accordingly, the approved allocation percentages are reflected in Attachment 2, Schedule 4 of Petitioner's Exhibit 1, Attachment 1-A. Mr. Grosskopf testified he reviewed and verified the resulting calculation of the TDSIC factors included on Attachment 1, Schedule 7 of Petitioner's Exhibit 1, Attachment 1-A.

Mr. Grosskopf testified NIPSCO's 2% cap test reflected in Attachment 1, Schedule 9 of Petitioner's Exhibit 1, Attachment 1-A is calculated correctly. He stated he traced pertinent numbers to accompanying schedules and verified the calculations provided by NIPSCO. He stated NIPSCO's proposed revenue requirement does not exceed the 2% retail revenue cap for the 12 months ended June 30, 2017.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A presents the calculation of total rate adjustment factors. He stated he reviewed the calculations and flow of inputs from other schedules and Schedule 8 accurately reflects the TDSIC rate factors for this Cause.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 6 of Petitioner's Exhibit 1, Attachment 1-A shows the reconciliation of the approved TDSIC-6 revenue requirement with the actual revenue collected during the six-month period of July through December 2017. He stated the result is an over-recovery in the amount of $200,286 that will be returned to customers through the TDSIC rate calculation in this Cause.

Mr. Grosskopf testified Petitioner's rate schedules on Appendix F accurately reflect the TDSIC calculations presented by Petitioner's Attachment 1 of Petitioner's Exhibit 1, Attachment 1-A. He testified Schedule 10 of Attachment 1 reflects the cumulative total deferred revenue requirement broken out by return on capital, return of expense, and carrying charges as well as broken out into the transmission, distribution, and storage cost elements for each TDSIC filing. Mr. Grosskopf traced all data input in this schedule to the source schedules and verified the calculations. He stated it accurately tracks deferred capital expenditures and expenses, pending recovery in Petitioner's next base rate case.

Mr. Grosskopf testified that Petitioner removed from TDSIC recovery calculations the capital expenditures associated with the 112th Street Project that exceeded the estimate provided by NIPSCO in Cause No. 44403. Also, consistent with the TDSIC-1 Order, NIPSCO will defer, for recovery in its next base rate case, the depreciation and property tax expense related to the difference between the approved amount and the actual amount of the 112th Street Project. Mr. Grosskopf testified the deferred depreciation expense and property tax expense associated with the 112th Street Project is shown on Petitioner's Attachment 1, Schedule 11 of Petitioner's Exhibit 1, Attachment 1-A.

Mr. Grosskopf agreed with the rural extension margin credit calculated by NIPSCO. He stated the margin credit balances the interests of the utility and the ratepayers and the OUCC continues to support NIPSCO's approved 80% margin credit for rural extensions for each TDSIC filing.

Mr. Golden discussed his analysis of transmission, distribution, and storage projects included in NIPSCO's Plan Update-8. He discussed seven specific projects that experienced increased costs, and why the OUCC does not object to the actual or estimated cost increase for the projects that he determined to have sufficient testimony or evidentiary support. Mr. Golden recommended the Commission approve NIPSCO's Plan Update-8.

C. <u>NIPSCO's Supplemental Testimony and Exhibits</u>. NIPSCO presented supplemental testimony and exhibits of Alison M. Becker, James F. Racher, and Donald L. Bull.

Ms. Becker explained that NIPSCO is revising its Plan Update-8 because of the Indiana Supreme Court's June 20, 2018 opinion reversing the Commission and the Indiana Court of Appeals in Cause No. 44403 TDSIC 4. She noted that the Court (at p. 15) held, "costs for all multiple-unit projects as to which particular improvements were identified for the first time in TDSIC-4 are disallowed for TDSIC recovery to the extent those projects were not properly designated in the previously approved seven-year plan."

Ms. Becker further explained that NIPSCO shared drafts of its supplemental testimony and exhibits and Revised Gas Plan Update-8 with both the OUCC and the Industrial Group, but that the Parties have not necessarily endorsed NIPSCO's revisions and have reserved all rights to address issues in a subsequent remand proceeding. NIPSCO has also agreed the relief in this docket should be interim and subject to refund pending the remand. She also noted that while the revisions reflect the removal of certain multiple unit projects from the TDSIC-8 revenue requirement, no effort was made to address the recovery of costs in excess of approved estimates and the NIPSCO Industrial Group and OUCC have not agreed that further changes in that regard are not required, but have agreed to address issues beyond the going-forward disallowance of multiple unit projects, which is the sole focus of the supplemental evidence, in the remand rather than in this docket.

Mr. Bull identified the multiple-unit projects that were removed from Plan Update-8 as follows:

Project ID	Description
SP5	Shallow Pipe Replacement
IM8	Mitigation Required from Field Inspections Transmission
IM20	Odorant System Replacement
IM21	Regulator Station Enclosure
IM22	Pipeline Heater Replace
IM23 – DIM34	Corrosion AC Mitigation
IM24 – DIM3	Corrosion Rectifiers Install/Replace
IM25 – DIM35	Corrosion Moisture Monitoring
IM26	Transmission Regulator Station Upgrades and Enclosure
IM33 – DIM14	Station Equipment Upgrades
DSD10	System Deliverability Projects
DIM1	Corrosion - Company Wide Gas Isolated Service Replacement
DIM4	DIMP Install Emergency Valves - Company-Wide
DIM14	Station Equipment Upgrades
DIM15	Buried Regulator Station or Single Regulator Multi-customer
DIM36	Integrity Management- Corrosion Casing Replacement/Removal
DIM37	Mitigation Required from Field Inspections Distribution
DIM46	Distribution Regulator Station Upgrades and Enclosure
S15	RCUGS - Trenton Field Isolation Valves
S35	LNG - Mechanical / Electrical System Upgrade
S36	LNG - Compressor / Vaporizer Upgrade
S37	RCUGS - Mechanical / Electrical System Upgrade
S38	RCUGS - Replace Drips / Gathering System Piping
S41	Engineering and Preconstruction – Storage

Mr. Racher explained how NIPSCO determined the multiple-units project costs to remove as part of the calculation of the revised TDSIC-8 factors. He stated that the total capital expenditures for the excluded multiple-unit projects is $23,600,507. He also sponsored revised schedules reflecting a total semi-annual revenue requirement of $14,442,574, a reduction of $1,000,934 from the revenue requirement for TDSIC-8 originally proposed by Petitioner, with the revised factors calculated based upon a four rather than six-month effective period to reflect the timing of the Indiana Supreme Court Opinion and this Order. Mr. Racher explained that the impact of the removal of multiple-unit projects from prior tracker filings (TDSIC-4 through TDSIC-7) will be addressed in a different proceeding.

D. Additional Evidence. At the June 8, 2018 evidentiary hearing, the Industrial Group's documents for which the Presiding Officers granted administrative notice were offered and admitted into evidence. The documents included prior Commission Orders in NIPSCO's TDSIC proceedings and the initial summary page for each version of the 7-Year Gas Plan for which NIPSCO has sought approval in prior TDSIC proceedings.

5. Commission Discussion and Findings.

A. Plan Update-8. Ind. Code § 8-1-39-9(a) requires a utility to update its seven-year plan as a component of TDSIC periodic automatic adjustment filings. In this case, NIPSCO requests approval of Plan Update-8, which contains updates to eligible improvements and associated cost estimates for each year of the Plan.[3] The TDSIC Statute is silent as to what may be included in a Section 9 update. We have previously found that plan updates should include a discussion of any changes in an eligible improvement's best estimate of cost, necessity, and associated incremental benefits upon which the Commission based its determination to approve NIPSCO's proposed Plan as reasonable.

1. Cost Estimates. Ind. Code § 8-1-39-9(f) provides that actual capital expenditures and TDSIC costs in excess of approved amounts require specific justification by the utility for the increases and approval from the Commission before being authorized for recovery in rates. In prior TDSIC proceedings, we have recognized that a "best estimate" is developed at a point in time and based on information that was known or should have been known. TDSIC-3 Order at 40. We have also indicated that specific justification requires an explanation of why the increase in an approved best estimate is reasonable or warranted and cannot simply identify the reason for the increase. TDSIC-1 Order at 20. While we have also recognized that Ind. Code § 8-1-39-9(f) only requires specific justification when the utility seeks to recover the actual expenditures, we expressed our expectation that utilities would provide such justification for approval whenever the utility became aware of such increases. TDSIC-4 Order at 28.

In this proceeding, Mr. Bull testified Plan Update-8 shows actual costs for the 2014–2017 Projects and updated cost estimates for the 2018–2020 Projects. He testified Plan Update-8 provides information to support NIPSCO's current best estimate of the cost of investments included in the Plan. Plan Update-8 includes: (1) confidential project estimates for 2018–2020 (Confidential Appendix 1); (2) confidential summary of unit cost estimates (Confidential Appendix 2); (3) confidential multiple unit project list and supporting documentation (Confidential Appendix 3); (4) PCRs for 2017 and 2018 Projects (Confidential Appendix 4); and (5) a Risk Model (updated in TDSIC-7) (Confidential Appendix 5). Petitioner's Exhibit 1, Attachment 1-A, Exhibit Gas Plan Update-8 and as modified in Petitioner's Exhibit 3-S.

Consistent with prior TDSIC cases and expectations, NIPSCO provided testimony addressing the reasons for variances greater than $100,000 or 20%, whichever is greater. The Commission's review of cost increases, however, is not limited to these more substantial increases. Rather, we review all project increases and the related documentation provided by NIPSCO.

Mr. Bull explained that for projects scheduled for completion in 2017, the costs are based on actual costs as of December 31, 2017. For projects scheduled for completion in 2018, the estimated costs are either based on further engineering or on a contractor bid or estimate. For projects scheduled for completion in 2019, the estimated costs are typically based on further engineering, updated unit costs, or are projects that NIPSCO expects to go out for bid in 2018 and will be updated in a subsequent tracker filing. For 2020, for projects not based on unit costs, NIPSCO has attempted to reflect its actual experience to date in its updated project cost estimates wherever feasible. Mr. Bull testified it is more difficult to anticipate cost changes for specific projects the further in advance the estimate is made, so changes in non-unit costs have been made only where such changes have a basis in updated engineering analysis.

[3] Plan Update-8 refers to the plan as revised by NIPSCO's supplemental testimony and exhibits.

The OUCC did not object to any of the updated cost estimates.

Based on the evidence presented, we find that NIPSCO has provided a sufficient level of detail in support of its Plan Update-8, including explanations justifying the cost variances associated with projects through its exhibits as well as additional testimony for those projects exceeding the greater of $100,000 or 20%, and we approve, on an interim basis, these costs as best estimates of the costs in Plan Update-8.

2. **Public Convenience and Necessity.** Mr. Bull testified that consistent with NIPSCO's approved Plan, the eligible improvements included in Plan Update-8 will serve the public convenience and necessity. He explained that Plan Update-8 follows the requirements of the TDSIC Statute by making investments for the purposes of safety, reliability, system modernization, and economic development consistent with public policy and the public interest. No evidence was presented in this Cause to contest the continued public convenience and necessity associated with the designated eligible improvements in the Plan.

NIPSCO has a statutory obligation to provide reasonably adequate retail service in its certificated gas service territory for the public convenience and necessity pursuant to Ind. Code §§ 8-1-2-4, -87 and -87.5. We find that NIPSCO has sufficiently supported that the designated eligible improvements as described in Plan Update-8 are reasonably necessary for it to continue to provide adequate retail service to its customers, and the public convenience and necessity continues to require or will require those eligible improvements.

3. **Incremental Benefits Attributable to the Updated Plan.** Mr. Bull testified that consistent with the approved Plan, Plan Update-8 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost-effective manner. Plan Update-8 is also intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, the replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investments to enhance pipeline safety and reliability, and the extension of gas facilities into rural areas.

In the 44403 Order (at 23), we found that "NIPSCO's 7-Year Gas Plan contains solutions that will enhance customer and employee safety, avoid outages, preserve operational integrity, provide equipment protection, and meet evolving customer demands." Although the cost estimates for some projects have increased compared to those approved in Plan Update-7, and some projects have been delayed beyond the 7-Year Gas Plan timeframe, there is no evidence disputing that the eligible improvements provide incremental benefits to NIPSCO's customers.

Based upon the evidence presented in this proceeding and for the reasons set forth above, we find the estimated costs of the eligible improvements included in Plan Update-8 as approved herein are justified by the incremental benefits attributable to the Plan.

4. **Conclusion.** Plan Update-8 includes sufficient evidence for us to determine the best estimate of the cost of the eligible improvements and the public convenience and necessity continues to require or will require the eligible improvements, and the estimated costs of the eligible improvements continue to be justified by the incremental benefits attributable to Plan Update-8. NIPSCO's Plan Update-8 appropriately and reasonably addresses NIPSCO's

aging infrastructure through projects intended to enhance, improve, and replace system assets for the provision of safe and reliable natural gas service as well as the extension of service into rural areas. Therefore, based on the evidence presented, we approve Plan Update-8 on an interim subject to refund basis, subject to the results of subsequent remand proceedings to be conducted pursuant to order of the Indiana Supreme Court.

B. <u>TDSIC-8 Factors</u>. In the TDSIC-1 Order, the Commission approved NIPSCO's request for approval of a TDSIC Rate Schedule and accompanying changes to NIPSCO's gas service tariff to allow for timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs pursuant to Ind. Code § 8-1-39-9. Consistent with the ratemaking and accounting principles approved by the TDSIC-1 Order, NIPSCO requests approval of its TDSIC-8 factors to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs incurred through December 31, 2017. As set forth in its supplemental testimony and exhibits, NIPSCO also requests that such factors be approved on an interim subject to refund basis, subject to the results of subsequent remand proceedings to be conducted pursuant to order of the Indiana Supreme Court.

1. <u>Section 9 Requirements</u>. Indiana Code § 8-1-39-9(a) provides:

> [s]ubject to subsection (c), a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. The petition must:
>
> (1) use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order;
> (2) include the public utility's seven (7) year plan for eligible transmission, distribution, and storage system improvements; and
> (3) identify projected effects of the plan described in subdivision (2) on retail rates and charges.

a. <u>NIPSCO's 7-Year Gas Plan</u>. As part of its direct testimony, NIPSCO attached its currently approved 7-Year Gas Plan as well as its proposed Plan Update-8. Therefore, NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a)(2).

b. <u>Customer Class Revenue Allocation</u>. In our TDSIC-3 Order, we found that NIPSCO's approved capital expenditures and TDSIC costs should be allocated to the various customer classes based on total revenue, including gas cost revenue. Petitioner's Exhibit 2-S, Attachment 2, Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order which NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown in Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 7.

Therefore, we find that NIPSCO's approved capital expenditures and TDSIC costs have been properly allocated to the various customer classes in accordance with Ind. Code § 8-1-39-9(a)(1) and the TDSIC-3 Order.

c. Projected Effect on Retail Rates and Charges. Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 2, Revised - Schedule 6, which identifies: (1) the projected effect of Plan Update-7 on retail rates and charges, and (2) the projected effect of Plan Update-8 on retail rates and charges. This exhibit also summarizes the total estimated revenue requirement for each rate class from 2014 to 2020. Finally, Mr. Racher testified the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $5.81 and represents a $4.40 increase to the bill based on the factor approved in TDSIC-7. Based on our review of the evidence, we find that NIPSCO provided sufficient information regarding the projected effects of the Plan Update-7 and Plan Update-8 on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

2. Reconciliation. Mr. Racher testified that NIPSCO is including a reconciliation of revenues in this filing. The revenue requirement calculated in the TDSIC-6 filing is being reconciled against the actual revenues received from customers during July through December 2017. This under-/over-recovery analysis is performed as part of Petitioner's Exhibit 2-S, Attachment 1, Schedule 6.

3. Semi-Annual Revenue Requirement.

a. Capital. In this proceeding, NIPSCO requests approval of a total adjusted semi-annual revenue requirement associated with a return on eligible improvements incurred through December 31, 2017 of $11,716,945 (Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 2, Line 4, Column M). The 80% recoverable adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $9,373,556 (*Id.* at Line 6). The 20% portion of the adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $2,343,389 (*Id.* at Line 5).

The total cost of the eligible improvements incurred through December 31, 2017, upon which NIPSCO requests authority to earn a return is $381,659,457 (Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 2, Line 1, Column M). Mr. Racher testified this total includes AFUDC, other indirect costs, and is net of accumulated depreciation. He testified the AFUDC related to TDSIC projects was calculated in accordance with the FERC Uniform System of Accounts, which is consistent with GAAP. He further testified that if the Commission approves the proposed ratemaking treatment for costs of the eligible improvements incurred through December 31, 2017, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first.

In accordance with our findings above relating to recovery through the TDSIC tracker of costs in excess of the amounts approved in TDSIC-7, we approve, on an interim subject to refund basis, $381,659,457 as the total cost of the eligible improvements incurred through December 31, 2017, upon which NIPSCO is authorized to earn a return.

In TDSIC-1, the Commission ordered NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return and provided that the WACC should be updated in each semi-annual TDSIC filing to reflect an updated capital structure and cost of debt. The calculation of NIPSCO's updated total WACC is shown on Petitioner's Exhibit 2-S, Attachment 2, Schedule 1.

Mr. Racher explained that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted cost of capital. The product of this calculation is then multiplied by 50% to calculate a semi-annual revenue requirement. This semi-annual amount is then multiplied by 20% to calculate the deferred amount. The 80% portion is then adjusted for taxes. The semi-annual return on investment amount is then shown on Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 5 to be recovered for bills rendered for the months of September through December 2018.

Based on the evidence of record, we find the appropriate total semi-annual revenue requirement associated with the eligible improvements as of December 31, 2017, to be $11,716,945 and the 80% recoverable semi-annual revenue requirement of $9,373,556 to have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order, and the revenue requirement is approved.

b. <u>Depreciation, O&M Expense, and Property Tax Expenses</u>. In this proceeding, NIPSCO requests approval of a total depreciation, O&M, and property tax expense through December 31, 2017 of $3,022,549 (Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 4, Column E, Total of Line 7 on Pages 1, 2, and 3). The 80% recoverable depreciation, O&M, and property tax expense associated with the designated eligible improvements is $2,418,039 (*Id.* Line 9). The 20% portion of the depreciation, O&M and property tax expense associated with eligible TDSIC projects is $604,510 (*Id.* Line 8).

Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 4, which shows the depreciation expense, O&M, and property taxes for the period July through December 2017, which was reduced by 20% to calculate the 80% revenue requirement and then adjusted for taxes. The 80% revenue requirement amount is then included on Schedule 5 to determine the proposed total semi-annual revenue requirement to be recovered for bills rendered during the months of September through December 2018.

Based on the evidence of record, we find that NIPSCO's total depreciation, O&M, and property tax expense associated with the designated eligible improvements through December 31, 2017, is $3,022,549; the 80% recoverable depreciation, O&M, and property tax expense associated with the designated eligible improvements is $2,418,039; and the 20% portion of the depreciation, O&M, and property tax expense associated with the designated eligible improvements is $604,510. These amounts have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order and are approved.

c. <u>Margin Credit for Rural Extensions</u>. In the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include in its 7-Year Gas Plan all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy. The Commission also approved NIPSCO's proposal to provide a credit to the TDSIC tracker for 80% of actual margins received from all new customers added under the rural extensions policy. TDSIC-1 Order at 19, 25-26. In this proceeding, Mr. Racher testified these amounts are calculated on Petitioner's Exhibit 2-S, Attachment 2, Schedule 5 and are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period of July through December 2017.

Based on the evidence of record, we conclude that the rural extensions margin credit calculated on Petitioner's Exhibit 2-S, Attachment 2, Schedule 5 is computed in accordance with the TDSIC-1 Order, and it is approved.

4. Calculation of TDSIC Factors. Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 8, which shows the calculation of the TDSIC factors by rate code based on the total revenue requirement of $14,242,288 (at Line 28, Column P). He testified the factors are calculated by dividing the total revenue requirement by the estimated therm sales to compute a billing factor for bills rendered for the months of September through December 2018. Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 2-S-B (Appendix F - Transmission, Distribution and Storage System Improvement Charge (Sixth Revised Sheet No. 157)) showing the TDSIC factors proposed to be applicable for bills rendered during the months of September through December 2018, or until replaced by different factors that are approved in a subsequent proceeding.

Based on the evidence, we approve the proposed TDSIC factor calculation methodology set forth in Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 8 to be applicable to bills rendered during the months of September through December 2018 or until replaced by new factors.

5. Billing Period. NIPSCO requests approval of TDSIC factors to be applicable to bills rendered during the billing months of September through December 2018 to effectuate the timely recovery of 80% of TDSIC costs incurred in connection with NIPSCO's eligible improvements. Mr. Racher testified the TDSIC factors include TDSIC costs incurred through December 31, 2017.

C. Deferred TDSIC Costs. In the TDSIC-1 Order, we authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with the approved eligible improvements and recover those deferred costs in its next general rate case. TDSIC-1 Order at 30. NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred TDSIC costs until such costs are recovered in NIPSCO's base rates as a result of its next general rate case. *Id.* We also authorized NIPSCO to defer all approved TDSIC costs, including depreciation, pretax returns, AFUDC, post-in-service carrying costs, O&M, and property taxes on an interim basis until such costs are recognized for ratemaking purposes through Petitioner's proposed TDSIC mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. *Id.*

In this proceeding, Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 10, which serves as a record of the deferred TDSIC costs as well as the ongoing carrying charges on all deferred costs, excluding tax gross up. He testified NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs as a result of the deferral of 20% of all TDSIC costs for recovery in its base rates consistent with Ind. Code § 8-1-39-9(b).

In the TDSIC-1 Order, we also ordered that with respect to the 112th Street Project, NIPSCO may recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with NIPSCO's best estimate in Cause No. 44403 and NIPSCO may defer for recovery in its next base rate case the difference between the amount authorized in Cause No. 44403 and the actual cost of the project. Consistent with the TDSIC-1 Order, NIPSCO proposes to defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between the amount approved in Cause No. 44403 and the actual amount of the project. Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 1, Schedule 11, which shows the total depreciation and property taxes NIPSCO proposes to defer relating to this difference as of December 31, 2017.

Based on the record evidence and in accordance with our TDSIC-1 Order, we find that the total costs to be deferred and recovered in NIPSCO's base rates in its next general rate case are \$15,789,203 (Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 10) and the depreciation and property tax expenses associated with the 112th Street Project to be deferred are \$739,018 (Petitioner's Exhibit 2-S, Attachment 1, Schedule 11). Our approval is made on an interim subject to refund basis, subject to the results of subsequent remand proceedings to be conducted pursuant to order of the Indiana Supreme Court.

D. <u>Average Aggregate Increase in Total Retail Revenues</u>. Ind. Code § 8-1-39-14(a) states as follows:

> The commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than two percent (2%) in a twelve (12) month period. For purposes of this subsection, a public utility's total retail revenues do not include TDSIC revenues associated with a target economic development project.

Mr. Racher sponsored Petitioner's Exhibit 2-S, Attachment 1, Revised – Schedule 9, which shows there is no amount in excess of 2% of retail revenues for the past 12 months. Mr. Racher testified that NIPSCO has calculated the 2% cap by comparing the increase in TDSIC revenues in a given year with the total retail revenues for the past 12 months. The retail revenues used in this calculation represent the revenues related to the 12 months ending December 31, 2017.

Based on the record evidence, we find that NIPSCO's proposed TDSIC-8 factors will not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

6. <u>Records Project</u>. In our TDSIC-7 Order (at 27), we found that,

> NIPSCO shall also include an update on the results of the time study referenced in NIPSCO's Docket Entry response and by Mr. Mooney at the hearing and a projection of the date for completion of the work remaining within the scope of the Records Project.

In this proceeding, NIPSCO presented testimony from Ms. Hasan Bey that provided an update on the results of the time study and also provided additional information concerning progress on the Records Project and the projected timeline for completion. We recognize the challenges associated with the work involved with the Records Project as well as its importance. We encourage NIPSCO to continue its efforts to expedite completion of the Records Project and find that NIPSCO shall also continue to include testimony in subsequent TDSIC filings to update the Commission on changes in the status of the Records Project or its timeline until completed.

7. **Confidential Information.** NIPSCO filed a motion for protective order on February 27, 2018, which was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on March 12, 2018 finding such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29, 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's Plan Update-8 is approved on an interim subject to refund basis, subject to the results of subsequent remand proceedings to be conducted pursuant to order of the Indiana Supreme Court.

2. NIPSCO is authorized to defer, as a regulatory asset, and recover 80% of the approved capital expenditures and TDSIC costs incurred in connection with its designated eligible improvements approved in its rates and charges for gas service in accordance with NIPSCO's TDSIC beginning with the month of September 2018.

3. NIPSCO is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(g)(3)(c) pursuant to Ind. Code § 8-1-39-13(b).

4. NIPSCO is authorized to defer, as a regulatory asset, 20% of the TDSIC costs incurred in connection with its designated eligible improvements and recover those deferred costs in its next general rate case.

5. NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred capital expenditures and TDSIC costs until such costs are recovered in NIPSCO's base rates as a result of its next general rate case.

6. NIPSCO is authorized to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project.

7. The TDSIC factors set forth in Petitioner's Exhibit 2-S, Attachment 1, Revised - Schedule 8 are approved to be effective for bills rendered by NIPSCO for the months of September through December 2018 or until replaced by different factors approved in a subsequent filing;

8. Prior to implementing the authorized TDSIC factors approved herein, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.

9. The information filed by Petitioner in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29, 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.

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

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR; OBER ABSENT:

APPROVED: AUG 22 2018

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