ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ober	√		
Ziegner	√		

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-10, ALL PURSUANT TO IND. CODE § 8-1-39-9.

CAUSE NO. 44403 TDSIC 11

APPROVED: JUN 24 2020

ORDER OF THE COMMISSION

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

On February 25, 2020, Northern Indiana Public Service Company LLC ("Petitioner" or "NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") 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 and exhibits.

On April 30, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits.

NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on May 1, 2020, which was subsequently granted on May 12, 2020.[1]

On May 8, 2020, NIPSCO filed its rebuttal testimony.

On May 27, 2020, NIPSCO filed its response to a May 21, 2020 Docket Entry from the Presiding Officers requesting additional information.

[1] Industrial Group filed an Amendment to "Appendix A" to its Petition to Intervene on May 5, 2020. The members of the Industrial Group in this proceeding are ArcelorMittal USA, BP Products North America, Inc., Praxair, Inc., United States Steel Corporation, and USG Corporation.

The Commission set this matter for an evidentiary hearing at 9:30 a.m. on June 1, 2020, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. A Docket Entry was issued on May 27, 2020, advising that in accordance with Indiana Governor Holcomb's Executive Orders related to the COVID-19 pandemic, which provide for alternative procedures during this time of public health emergency, the hearing would be conducted via video conference and providing related information. NIPSCO, the OUCC, and the Industrial Group, by counsel, participated in the evidentiary hearing via video conference, and the testimony and exhibits of NIPSCO and the OUCC were admitted without objection.

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

1. <u>Notice and Jurisdiction</u>. Notice of the hearing 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. <u>Petitioner's Characteristics</u>. Petitioner is a public utility organized and existing under the laws of the State of Indiana and with 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 approximately 835,000 residential, commercial, and industrial gas customers in northern Indiana.

3. <u>Background and Relief Requested</u>. On April 30, 2014, the Commission issued an Order in Cause No. 44403 ("44403 Order") approving Petitioner's 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. Subsequent to the 44403 Order, the Commission has issued Orders in semi-annual TDSIC filings by Petitioner that have approved updates to the Plan and associated rate making treatment.

In accordance with the TDSIC Statute and the Commission's TDSIC Orders, NIPSCO requests in this proceeding ("TDSIC-11") that the Commission: (1) approve an adjustment to its Appendix F – Transmission, Distribution and Storage System Improvement Charge to be applicable for gas bills rendered by NIPSCO during the months of July through December 2020, or until replaced by different factors that are approved in a subsequent proceeding, to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements ("eligible improvements"); (2) authorize the deferral of, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs incurred in connection with its 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 base rates consistent with Ind. Code § 8-1-39-9(c); (3) approve NIPSCO's updated Plan ("Plan

Update-11"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Cause No. 44403 TDSIC 10; (4) approve deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-11 through the TDSIC and deferral of 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-11, for recovery in its base rates consistent with Ind. Code § 8-1-39-9(c).

4. Evidence Presented.

A. NIPSCO's Case-In-Chief. NIPSCO presented the testimony and exhibits of Alison M. Becker, Manager of Regulatory Policy for NIPSCO; James F. Racher, Director of Regulatory for NiSource Corporate Services Company; and Ryan T. Carr, Gas TDSIC E&C (Engineering and Construction) Program Manager for NIPSCO.

Ms. Becker testified NIPSCO is requesting approval of Plan Update-11, including the actual capital expenditures incurred through December 31, 2019, as well as updated cost estimates for the projects designated in Plan Update-11, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Cause No. 44403 TDSIC 10 ("Plan Update-10").

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 extension 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. 44988. She stated NIPSCO is requesting approval of all of the projects designated in Plan Update-11 that are included for recovery in the proposed TDSIC-11 factors.

Ms. Becker noted that the Commission issued an order changing NIPSCO's basic rates and charges on September 19, 2018 in Cause No. 44988 ("Rate Case Order"). She testified that NIPSCO complied with the requirement in Ind. Code § 8-1-39-9(e) through its filing in Cause No. 44988.

Ms. Becker explained that to date NIPSCO has not undertaken any targeted economic development projects that are eligible for recovery through the TDSIC tracker. However, NIPSCO continues to work with interested parties on potential projects. She further testified that in Cause No. 44403 TDSIC 1 ("TDSIC-1 Order"), the Commission approved NIPSCO's proposal to include all rural customers in the updated estimate for rural extensions and to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extension projects.

Ms. Becker testified that NIPSCO met with the OUCC and interested stakeholders, including representatives of the Industrial Group and US Steel on February 11, 2020. During that meeting, NIPSCO identified known changes to projects from Plan Update-10. She testified that NIPSCO is not aware of any unresolved issues, nor is it including any major change as part of this proceeding.

Regarding NIPSCO's proposed ratemaking treatment, Mr. Racher testified the total cost of the eligible improvements upon which NIPSCO requests authority to earn a return is $65,728,565.

This amount includes allowance for funds used during construction ("AFUDC"), other indirect costs, and is net of accumulated depreciation, incurred through December 31, 2019.

Mr. Racher provided an overview of the indirect capital costs that are associated with capital projects, which 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 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 Rate Case Order.

Mr. Racher explained the calculation of NIPSCO's "return on" portion of the revenue requirement for costs of the eligible improvements incurred through December 31, 2019. He stated the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2019 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 7/12 to calculate a seven-month revenue requirement for this filing. This 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 2020, 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 in order 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 provided information regarding depreciation expense and property taxes for the period May through December 2019. The actual expenses and taxes incurred were reduced to 80% to determine the proposed revenue requirement to be recovered for bills rendered during the months of July through December 2020, not to exceed the 2% excess revenue test.

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 extension 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 May through December 2019.

Mr. Racher explained that the revenue requirement calculated in Cause No. 44403 TDSIC 9 is being reconciled against the actual revenues received from the customers during January through October 2019, which resulted in an over-recovery of $3,741,533. He also explained that NIPSCO has included a one-time reconciliation of the customer refunds for disallowed multiple-unit projects, bare steel replacement projects, and cost overruns from previous TDSIC filings and the base rate refund resulting from the Tax Cuts and Jobs Act that was included in TDSIC-9 against the actual revenues received from the customers during January through October 2019, which resulted in an over-recovery of $533,009.

Mr. Racher provided the allocation factors as approved in the Rate Case 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, 2019.

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 2020, 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-10 and Plan Update-11 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 69 therms per month is a credit of $0.53, which is a $0.60 decrease from 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 approved eligible improvements, including ongoing carrying charges based on the current overall WACC, and recover those deferred costs in base rates. Accordingly, 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 rate case.

Mr. Carr sponsored NIPSCO's Plan Update-11 and Plan Update-10. 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, 2019 relating to designated eligible improvements. He also sponsored Petitioner's Exhibit 3, Attachment 3-A (Summary of Gas System Deliverability, Gas System Integrity, and Records Project categories), Confidential Attachment 3-B (summary of Plan Project Variances (Moves & Costs)), Confidential Attachment 3-C (Cap Movement), and Attachment 3-D (Plan Update-11 Compared to Cap).

Mr. Carr testified that NIPSCO provided the Commission with a notice on October 30, 2019 that its 7-Year Gas Plan would terminate on December 31, 2019, and on December 31, 2019, NIPSCO filed its request for approval of its 2020-2025 Gas Plan, which is currently pending in Cause No. 45330. Mr. Carr explained that with the expiration of NIPSCO's current Plan on December 31, 2019, Plan Update-11 reflects that there are no capital costs associated with the capital projects included in Year 7 (2020) and, since actual costs are being reported for Year 6 (2019) and no costs are included for Year 7 (2020), NIPSCO has not provided information relating to: (1) how estimates were calculated for customer margins for rural extensions, and (2) project estimates for 2020. He testified that with the removal of all capital costs relating to capital projects in Year 7 (2020), Plan Update-11 reflects that 2020 shows a reduction of $171,520,660 and Confidential Attachment 3-C (Cap Movement) shows that the total cap for 2020 is a reduction of $161,047,768.

Mr. Carr 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. Carr 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. Carr described NIPSCO's cost management process, which begins with initiating a new TDSIC work order. The Project Engineer/Manager submits 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.

Mr. Carr stated that once a TDSIC work order is initiated, NIPSCO records charges to the work order in accordance with NIPSCO's internal controls. He stated that in addition to those controls, 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 costs for the current month. The TDSIC project Controls Cost Engineers meet two times per month with the Project Managers and Manager, Gas Major Projects to review actual costs, to estimate accruals, and to update the forecast for the current year estimate at completion and full project estimate at completion for multi-year projects. The Project Managers also review all project costs to ensure that costs are properly recorded to the TDSIC work orders. He noted that any unusual charges are investigated and corrected if necessary.

Mr. Carr described NIPSCO's process for executing the projects included in its 7-Year Gas Plan and provided an overview of NIPSCO's process for managing costs in its 7-Year Gas Plan. He noted that many of the projects are substantial projects that span more than a single year.

For projects that are included in this Plan Update-11, Mr. Carr stated NIPSCO utilizes an estimating process that includes a project scope review. He explained how cost estimates are refined and move from being considered a Class 3 estimate to a Class 2 estimate. 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. He testified that projects planned for 2020 continue to undergo refinement.

Mr. Carr explained the process NIPSCO uses to determine whether requested changes in cost estimates are eligible for TDSIC treatment. He testified that NIPSCO uses a reprioritization process to review and approve changes in current year project estimates. The 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. He stated the intent of the reprioritization process is for leadership to review and approve estimate changes before they occur.

Mr. Carr 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 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-11 are projected to pass the 20-year test identified in Ind. Code § 8-1-39-11.

Mr. Carr described the Plan update process approved in the Commission's 44403 Order and the contents of Plan Update-11. 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. As NIPSCO's customer demands evolve, both from a location and utilization perspective, system deliverability requirements must evolve with them.

Mr. Carr testified as of December 31, 2019, the total gross direct capital expenditures associated with NIPSCO's eligible improvements are $58,000,900; the total indirect capital expenditures are $6,996,350; and the total AFUDC for capital expenditures is $1,044,894, for total gross capital expenditures associated with NIPSCO's designated eligible improvements of $66,042,144.

Mr. Carr stated that there may be 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, may 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-11 and related schedules.

Mr. Carr testified Plan Update-11 reflects actual costs through December 31, 2019, and for projects included in Year 2020, the costs are zero. The result is an overall decrease in direct capital costs of $141,923,630, a decrease in indirect capital costs of $22,733,017, and a decrease in AFUDC of $3,323,722, resulting in an overall cost decrease of $167,980,369.

Mr. Carr testified Plan Update-11 does not include any new projects that were not previously included in the 7-Year Gas Plan. He showed the total projected capital spending, including indirect capital costs and AFUDC, for Plan Update-11 compared to Plan Update-10, 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-10	$39,127,749	$88,150,334	$109,377,411	$104,362,791	$121,893,564	$47,829,957	$171,520,660	$682,262,466
Plan Update-11	$39,127,749	$88,150,334	$109,377,411	$104,362,791	$121,893,564	$51,370,248	0	$514,282,097
Variance	**$0**	**$0**	**$0**	**$0**	**$0**	**$3,540,291**	**($171,520,660)**	**($167,980,369)**

Mr. Carr testified the indirect cost percentage and AFUDC percentage used in Plan Update-11 reflects the actual indirect cost percentage and AFUDC percentage for 2019. Mr. Carr explained that with the expiration of the Plan on December 31, 2019, no additional capital costs for the Plan will be included in future filings.

Mr. Carr testified Plan Update-11 reflects an overall increase in direct costs in 2019 of $4,797,926 (cost increases of $4,797,926 and no moves in or out of 2019). He explained that two of the 2019 Projects drove a majority of the cost increases, with a significant increase in demand for rural extensions (Project ID RE1) leading to a 41% increase in the linear feet of main installed over the prior year, a 7% increase in services installed, and two large residential projects and one large commercial construction project. He also noted that the Company-wide Transmission Crossing Replacement project (Project ID IM1) required 300 additional feet of main be installed to tie in to the existing main at the proper depth consistent with NIPSCO's gas standards, in addition to extension of the timeline due to crew availability and weather conditions.

In response to a May 21, 2020 Docket Entry, NIPSCO explained that its rural extension installations encompassed more than just conversions from propane, and provided details related to the number of installations compared to its initial projections.

Mr. Carr testified Plan Update-11 shows actual costs for the 2014-2019 Projects. He testified Plan Update-11 provides information to support NIPSCO's best estimate of the cost of investments included in the Plan. He stated that Plan Update-11 includes: project estimates for 2019-2020; summary of unit cost estimates; an asset register that includes detailed cost information; PCR forms for 2018 and 2019 Projects; and a Risk Model (updated in TDSIC-7). Mr.

Carr testified that the updated cost estimates provided for the 2019 Projects are based on actual costs for the year, and thus provide the best estimate of the cost of the investments.

Mr. Carr testified concerning the differences between cap moves and cost variances. He sponsored Confidential Attachment 3-C to Petitioner's Exhibit 3, which shows the project moves from one year to another or any project that has been removed from the Plan. Mr. Carr testified that while the actual costs for Year 2019 exceeded the annual cap, when the 5% flexibility factor for each annual cap is applied, NIPSCO has not exceeded the annual cap for Year 2019.

Mr. Carr testified the eligible improvements included in Plan Update-11 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. Carr testified NIPSCO has a statutory obligation to provide adequate retail service in its certificated gas service territory and that NIPSCO performs this obligation for the public convenience and necessity.

Mr. Carr testified that the estimated costs of the eligible improvements included in the Plan Update-11 are justified by incremental benefits attributable to the Plan. He stated that Plan Update-11 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. Carr testified that Plan Update-11 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-11 will continue to increase the number of rural customers served over the life of the Plan. Mr. Carr concluded that Plan Update-11 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 in the Natural Gas Division and Brien R. Krieger, a Utility Analyst in the Natural Gas Division.

Mr. Grosskopf recommended approval of NIPSCO's TDSIC calculations as shown in Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A. He stated the schedules and calculations included in attachments to the Verified Petition in this Cause are consistent with the findings set forth in prior Commission Orders for NIPSCO's previous TDSIC filings.

Mr. Grosskopf stated 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 also verified customer counts and total therms billed with summary documentation, reviewed work order documentation to verify completed capital projects, inquired into the calculation and procedures for indirect costs and AFUDC. Mr. Grosskopf stated he verified the calculation for NIPSCO's 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 the customer class revenue allocation percentages are set forth in Joint Exhibit E of the Stipulation and Settlement Agreement in Cause No. 44988, NIPSCO's last rate case. He also reviewed and verified the resulting revenue requirement allocations 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 annualized revenue requirement does not exceed the 2% retail revenue cap for the 12 months ended December 31, 2019.

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

Mr. Grosskopf testified Attachment 1, Schedule 6 of Petitioner's Exhibit 1, Attachment 1-A shows the reconciliation of the revenue requirement approved in Cause No. 44403 TDSIC 9 with actual revenue collected during the billing period of January 2019 through October 2019. He stated the result is an over-recovery in the amount of $3,741,533, which will be deducted from the revenue requirement to be collected from customers through the TDSIC rate calculation in this Cause.

Mr. Grosskopf testified Attachment 1, Schedule 6 of Petitioner's Exhibit 1, Attachment 1-A also presents the reconciliation of refunds included in Cause No. 44403 TDSIC 9 for disallowed multi-unit projects, bare steel replacement projects, cost overruns from previous TDSIC filings, and base rate refunds resulting from the Tax Cuts and Jobs Act. He stated the reconciliation of these refunds results in an over-recovery in the amount of $533,009, which is also deducted from the revenue requirement to be collected from customers through the TDSIC rate calculation in this Cause.

Mr. Grosskopf testified Attachment 3 of Petitioner's Exhibit 1, Attachment 1-A includes the new proposed TDSIC Rate Schedules on Appendix F and accurately reflects the TDSIC calculations presented by Attachment 1 of Petitioner's Exhibit 1, Attachment 1-A.

Mr. Grosskopf testified Attachment 1, Schedule 10 of Petitioner's Exhibit 1, Attachment 1-A reflects the cumulative total deferred revenue requirements, broken out by return on capital, return of expense, and carrying charges. He stated prior to this filing, much of the deferred revenue requirements from past TDSICs was rolled into base rates in Step 1 and Step 2 compliance filings in Cause No. 44988. He testified the remaining deferred revenue requirements from Cause No. 44403 TDSIC 9 that were not rolled into base rates, the TDSIC-10 deferred revenue requirement and the new TDSIC-11 deferred revenue requirement, reflect the new, and remaining, post-rate case balance of revenue requirement to be deferred for recovery in NIPSCO's next rate case. Mr. Grosskopf traced all data inputs in Schedule 10 to the source schedules in this Cause, and compliance filings in Cause No. 44988, and verified the calculations. He testified Schedule 10 is accurately tracking deferred capital expenditures and expenses, pending recovery in NIPSCO's next base rate case.

Mr. Grosskopf agreed with the rural extension margin credit calculated on Attachment 1, Schedule 5 of Petitioner's Exhibit 1, Attachment 1-A. 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. Krieger discussed his analysis, conclusions, and recommendation regarding 2019 project cost recovery in NIPSCO's Plan Update-11. He analyzed two projects that have experienced increased actual costs as compared to approved estimates (Projects RE1 and IM1). He also discussed NIPSCO's elimination of all 2020 projects and 2020 potential expenditures, thus ending the TDSIC Plan one year early and compared the TDSIC-11 cost recovery request to approved caps in place on 2019 annual cost recovery. Mr. Krieger testified the additional cost for Projects RE1 and IM1 are supported by NIPSCO's testimony and responses to informal data requests and that Project RE1 continues to meet the 20-year margin test. Mr. Krieger recommended the Commission approve NIPSCO's Plan Update-11.

Mr. Krieger stated that in addition to Mr. Carr's testimony, he used five NIPSCO-supplied supporting documents in his analysis: (1) Plan Update-11, (2) Confidential Appendix 1: Project Change Requests, (3) Confidential Attachment 3-B: Gas 2019 Plan Project Variances, (4) Confidential Attachment 3-C: 7-Year Gas Plan Cap Movement, and (5) Attachment 3-D: 7-Year Gas Plan Compared to Cap. He also reviewed NIPSCO's TDSIC-10 filing and the Commission's Order in that Cause. He stated he also discussed Projects IM1 and RE1 with NIPSCO and reviewed additional information supporting Project RE1's 20-year margin test.

Although Mr. Krieger was able to perform his analysis to support his recommendation that the Commission approve NIPSCO's Plan Update-11, he stated Mr. Carr's explanations in testimony did not thoroughly explain reasons why the previously approved estimates were not adequate to complete the projects and did not correlate the additional costs against the original project scope. Mr. Krieger recommended for future filings when the OUCC threshold is exceeded, a variance comparison based upon original scope, including actual additional costs correlated against reasons for additional costs, be presented in NIPSCO's case-in-chief to reduce additional requests by the OUCC for further information.

With respect to the 2019 project caps and removal of 2020 projects, Mr. Krieger testified the 2019 actual spend did not exceed the 2019 project cap and verified that all 2020 estimated caps were removed because all 2020 projects were eliminated.

C. <u>NIPSCO's Rebuttal</u>. NIPSCO filed rebuttal testimony of Ms. Becker and Mr. Carr. Ms. Becker described the amount of detail NIPSCO provides to the OUCC with each plan update filing. She explained that after NIPSCO filed its first plan update filing in 2014, NIPSCO and the OUCC developed a list of 19 items for NIPSCO to provide in an "audit package" to facilitate the OUCC's review, which includes a variety of items and has been adjusted over time based on further discussions with the OUCC.

Ms. Becker testified that since the inception of its plan update filings back in 2014, NIPSCO has held a meeting with its stakeholders prior to the filing ("stakeholder meeting"). In addition, NIPSCO schedules two meetings with the OUCC technical staff, one prior to the filing to review the cost increase explanations ("pre-filing meeting"), and one after the filing ("post-filing meeting") to respond to any additional questions. Ms. Becker described the stakeholder meeting, pre-filing meeting, and post-filing meeting processes for this filing. She noted that, at the request of the OUCC, the post-filing meeting was not held, but NIPSCO and the OUCC did have a conference call with Mr. Krieger to respond to some questions on Project IM1 and, at the OUCC's request, later provided additional information on Project RE1.

Ms. Becker disagreed that the cost increase explanations provided by Mr. Carr were not adequate and noted the discussions that Mr. Krieger had with Mr. Carr are the type of discussions that typically occur in the pre-filing meetings, which typically address actual construction details. She explained that based on those discussions, NIPSCO evaluates whether additional detail would be helpful to add in its cost increase explanations. Ms. Becker stated she is hopeful the OUCC sees the value in the pre-filing and post-filing meetings that they requested and participates in them going forward so that NIPSCO can continue to provide the level of detail the OUCC finds necessary to conduct its review of the plan update filing.

In response to Mr. Krieger's recommendation that NIPSCO provide a variance comparison in its case-in-chief, Ms. Becker testified it was unclear what he was asking NIPSCO to provide. She explained that NIPSCO provides substantial information and also considers the stakeholder meeting, pre-filing meeting, and post-filing meeting to be an excellent opportunity for the OUCC to obtain information needed to conduct its analysis. She stated she believes the current process works well and the level of detail NIPSCO provides in its case-in-chief meets the statutory requirements and, along with the information provided in the audit package, allows the OUCC to conduct a thorough review of NIPSCO's plan update filings.

In response to Mr. Krieger's concerns with the information provided for rural extension projects, Mr. Becker testified the OUCC is requesting much greater detail than what NIPSCO has provided in past plan update filings. She noted that NIPSCO explained in testimony that the cost increase was due to greater demand than was anticipated for both mains and services. NIPSCO also explained how much more main was installed than anticipated and discussed two large residential conversion projects that were completed in 2019. Ms. Becker testified that while she disagrees revenue projections are needed to evaluate the reasonableness of cost increases, NIPSCO is willing to add an item to the audit package detailing the projected revenues for rural extension projects similar to what was provided to the OUCC on April 7, 2020; however, the revenue is only a projection influenced by a number of variables, particularly given that it is over a 20-year timeframe.

With regard to Project IM1, Mr. Carr disagreed with Mr. Krieger's assertion that the cost estimate increases were not correlated to the original scope of the project. Mr. Carr testified that he clearly identified both the quantity of additional footage of main to be installed and the reason for the additional footage. He stated that while the OUCC is not an auditor of NIPSCO's construction practices, NIPSCO is willing to have additional discussions regarding construction methods and materials.

With regard to Project RE1, Mr. Carr disagreed with Mr. Krieger's assertion that specific details were lacking. He stated that Project RE1 is customer-demand driven and, as such, every project is different. He explained that rather than trying to forecast specific pipe sizes, required loads, and geographic locations for the life of the plan, NIPSCO's estimates are primarily based on historical demand, project costs, and customer interest, which can and do fluctuate widely. He stated that providing geographic locations for roughly 300 projects and 3,304 services after the projects have been approved and constructed serves little to no purpose since the details NIPSCO already provides relating to increased demand of footage, trends towards larger pipe sizes from increased customer demand, and information provided to specifically detail three large projects that accounted for a large portion of the budget seems to be much more relevant.

Mr. Carr also disagreed with Mr. Krieger's recommendation that projects exceeding $100,000 or 20% of the approved plan amount include variance comparison. He stated NIPSCO already provides estimate support documentation, variance explanations, PCR forms, and testimony at the requested threshold levels for both variances to scope and increased costs realized on a project. Mr. Carr testified that cost increases within the threshold levels should compare back to the most recently approved project estimate (i.e., TDSIC-10), not the original scope of the project (i.e., the Plan approval).

5. <u>Commission Discussion and Findings</u>.

A. <u>Plan Update-11</u>. 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-11, which contains updates to eligible improvements and associated cost estimates for each year of the Plan. 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. <u>Cost Estimates</u>. Mr. Carr testified Plan Update-11 shows actual costs for the 2014-2019 Projects. He testified Plan Update-11 provides information to support NIPSCO's current best estimate of the cost of investments included in the Plan. Plan Update-11 includes: (1) confidential project estimates for 2020; (2) confidential summary of unit cost estimates; (3) confidential asset register that includes detailed cost information; (4) PCR forms for 2018 and 2019 Projects; and (5) a 2017 Risk Model Update.

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. Carr explained that updated cost estimates provided for the 2019 Projects are based on actual costs for the year.

No party objected to any of the cost estimates and the OUCC recommended the Commission approve NIPSCO's Plan Update-11.

With regard to the OUCC's recommendation that for future filings when the OUCC threshold is exceeded, a variance comparison based upon original scope, including actual additional costs correlated against reasons for additional costs, be presented in NIPSCO's case-in-chief to reduce additional requests by the OUCC for further information, we find NIPSCO should continue to work proactively with its stakeholders including the OUCC to identify if any improvements to the information provided in support of each filing is appropriate, and we encourage the OUCC to take advantage of the current process of stakeholder meetings, pre-filing meetings, and post-filing meetings, along with the information provided in the audit package, to conduct its review of NIPSCO's plan update filings.

We find that NIPSCO has provided a sufficient level of detail in support of its Plan Update-11, including justification for 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 these costs in Plan Update-11.

2. <u>Public Convenience and Necessity</u>. Mr. Carr testified that consistent with NIPSCO's approved Plan, the eligible improvements included in Plan Update-11 will serve the public convenience and necessity. He explained that Plan Update-11 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 eligible improvements as described in Plan Update-11 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. <u>Incremental Benefits Attributable to the Updated Plan</u>. Mr. Carr testified that consistent with the approved Plan, Plan Update-11 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. Plan Update-11 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 two projects have increased compared to those approved in Plan Update-10, no evidence was presented to dispute 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-11 as approved are justified by the incremental benefits attributable to the Plan.

4. Conclusion. Plan Update-11 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-11. NIPSCO's Plan Update-11 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-11.

B. TDSIC-11 Factors. 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-11 factors to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs incurred through December 31, 2019.

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

> [s]ubject to subsection (d), 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 TDSIC 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. NIPSCO's 7-Year Gas Plan. Petitioner's Exhibit 1 contains NIPSCO's currently approved 7-Year Gas Plan as well as its proposed Plan Update-11. Therefore, NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a)(2).

b. Customer Class Revenue Allocation. Attachment 2, Schedule 4 of Petitioner's Exhibit 1, Attachment 1-A provides the calculation of the allocation factors as approved in the Rate Case Order, which NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown in Attachment 1, Schedule 7 of Petitioner's Exhibit 1, Attachment 1-A.

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 Rate Case Order.

c. Projected Effect on Retail Rates and Charges. Mr. Racher sponsored Attachment 2, Schedule 6 of Petitioner's Exhibit 1, Attachment 1-A, which identifies: (1) the projected effect of Plan Update-10 on retail rates and charges, and (2) the projected effect of Plan Update-11 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 69 therms per month is a credit of $0.53, which is a $0.60 decrease from the factor currently in effect. Based on our review of the evidence, we find that NIPSCO provided sufficient information regarding the projected effects of the Plan Update-10 and Plan Update-11 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 Cause No. 44403 TDSIC 9 is being reconciled against the actual revenues received from customers during January through October 2019. This under-/over-recovery analysis is performed as part of Attachment 1, Schedule 6 of Petitioner's Exhibit 1, Attachment 1-A.

3. Semi-Annual Revenue Requirement.

a. Capital. In this proceeding, NIPSCO requests approval of a total adjusted 7-month revenue requirement associated with a return on eligible improvements incurred through December 31, 2019 of $2,480,706 (Attachment 1, Schedule 2, Line 4, Column M of Petitioner's Exhibit 1, Attachment 1-A). The 80% recoverable adjusted 7-month revenue requirement associated with a return on the eligible improvements is $1,984,564 (*Id.* at Line 6). The 20% portion of the adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $496,142 (*Id.* at Line 5).

The total cost of the eligible improvements incurred through December 31, 2019, upon which NIPSCO requests authority to earn a return is $65,728,565 (Attachment 1, Schedule 2, Line 1, Column M of Petitioner's Exhibit 1, Attachment 1-A). 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, 2019, 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 Cause No. 44403 TDSIC 10, we approve $65,728,565 as the total cost of the eligible improvements incurred through December 31, 2019, 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 Attachment 2, Schedule 1 of Petitioner's Exhibit 1, Attachment 1-A. Mr. Racher explained that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2019 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 7/12 in order to calculate a 7-month revenue requirement for this filing. This amount is then multiplied by 20% to calculate the deferred amount. The 80% portion is then adjusted for taxes. The return on investment amount is then shown on Attachment 1, Schedule 5 of Petitioner's Exhibit 1, Attachment 1-A to be recovered for bills rendered for the months of July through December 2020.

Based on the evidence of record, we find the appropriate total 7-month revenue requirement associated with the eligible improvements as of December 31, 2019, to be $2,480,706 and the 80% recoverable 7-month revenue requirement of $1,984,564 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 and Property Tax Expenses</u>. In this proceeding, NIPSCO requests approval of a total depreciation and property tax expense through December 31, 2019 of $289,191 (Attachment 1, Schedule 4, Column D, Page 4, Line 9 of Petitioner's Exhibit 1, Attachment 1-A). The 80% recoverable depreciation and property tax expense associated with eligible TDSIC projects is $231,353 (*Id.* at Line 11). The 20% portion of the depreciation and property tax expense associated with eligible TDSIC projects is $57,838 (*Id.* at Line 10).

Mr. Racher sponsored Attachment 1, Schedule 4 of Petitioner's Exhibit 1, Attachment 1-A, which shows the depreciation expense and property taxes for the period May through December 2019, 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 revenue requirement to be recovered for bills rendered during the months of July through December 2020.

Based on the evidence of record, we find that NIPSCO's total depreciation and property tax expense associated with eligible TDSIC projects through December 31, 2019, is $289,191; the 80% recoverable depreciation and property tax expense associated with eligible TDSIC projects is $231,353; and the 20% portion of the depreciation and property tax expense associated with eligible TDSIC projects is $57,838. 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 Attachment 2, Schedule 5 of Petitioner's Exhibit 1, Attachment 1-A and are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period of May through December 2019.

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

4. <u>Calculation of TDSIC Factors</u>. Mr. Racher sponsored Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A, which shows the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirement adjusted for prior period variances. 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 July through December 2020. Mr. Racher sponsored Attachment 3 (Appendix F - Transmission, Distribution and Storage System Improvement Charge) of Petitioner's Exhibit 1, Attachment 1-A showing the TDSIC factors proposed to be applicable for bills rendered during the months of July through December 2020, 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 Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A to be applicable to bills rendered during the months of July through December 2020 or until replaced by new factors.

5. <u>Billing Period</u>. In this proceeding, NIPSCO requests approval of TDSIC factors to be applicable to bills rendered during the billing months of July through December 2020, or until changed through a future filing, 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, 2019.

C. <u>Deferred TDSIC Costs</u>. 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 Attachment 1, Schedule 10 of Petitioner's Exhibit 1, Attachment 1-A, 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(c).

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 $2,305,430 (Attachment 1, Schedule 10 of Petitioner's Exhibit 1, Attachment 1-A).

D. Average Aggregate Increase in Total Retail Revenues. 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 targeted economic development project.

Mr. Racher sponsored Attachment 1, Schedule 9 of Petitioner's Exhibit 1, Attachment 1-A, 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, 2019.

Based on the record evidence, we find that NIPSCO's proposed TDSIC 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. Confidential Information. NIPSCO filed a motion for protective order on February 25, 2020 which was supported by affidavit showing documents to be submitted to the Commission were trade secret information as defined by Ind. Code § 24-2-3-2 and within the scope of Ind. Code § 5-14-3-4(a)(4). The Presiding Officers issued a Docket Entry on March 9, 2020 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 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-11 is approved.

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 eligible improvements approved in its rates and charges for gas service in accordance with NIPSCO's TDSIC beginning with the month of July, 2020.

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 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. The TDSIC factors set forth in Attachment 1, Schedule 8 of Petitioner's Exhibit 1, Attachment 1-A are approved to be effective for bills rendered by NIPSCO for the months of July through December 2020 or until replaced by different factors approved in a subsequent filing.

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

8. 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.

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

HUSTON, FREEMAN, KREVDA, OBER AND ZIEGNER CONCUR:

APPROVED: JUN 24 2020

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