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**VERIFIED REBUTTAL TESTIMONY OF PATRICK L. BARYENBRUCH**

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2 **Q1. Please state your name, position of employment and business address.**

3 A1. My name is Patrick L. Baryenbruch and I am the President of my own consulting  
4 practice, Baryenbruch & Company, LLC, which was established in 1985. In that  
5 capacity, I provide consulting services to utilities and their regulators. My business  
6 address is 2832 Claremont Road, Raleigh, North Carolina 27608. I am filing this  
7 testimony on behalf of Northern Indiana Public Service Company LLC ("NIPSCO").

8 **Q2. Summarize your academic and professional background.**

9 A2. I received a Bachelor of Arts degree in Accounting from the University of  
10 Wisconsin-Oshkosh and a Master of Business Administration degree from the  
11 University of Michigan.

12 I am a member of the American Institute of Certified Public Accountants and the  
13 North Carolina Association of Certified Public Accountants.

14 I began my career with Arthur Andersen & Company, where I performed financial  
15 audits of utilities, banks and finance companies. I left to pursue an M.B.A. degree.  
16 Upon graduation from business school, I worked with the management consulting

1 firms of Theodore Barry & Associates and Scott Consulting Group (now  
2 ScottMadden) before establishing my own firm.

3 **Q3. Do you hold any professional certifications?**

4 A3. Yes. I am a Certified Public Accountant (CPA) with an active license from the state  
5 of Wisconsin (license number 5343-1). I am a Certified Information Technology  
6 Professional (CITP), an accreditation awarded by the American Institute of Certified  
7 Public Accountants to CPA professionals who can demonstrate expertise in  
8 information technology management. I also hold a Global Information Assurance  
9 Certification (GIAC) in cybersecurity from the SANS Institute. Finally, I hold a  
10 certificate in COSO internal controls from the American Institute of Certified Public  
11 Accountants which recognizes my expertise in designing, implementing and  
12 monitoring a system of internal control.

13 I am a member of the American Institute of Certified Public Accountants and the  
14 North Carolina Association of Certified Public Accountants.

15 **Q4. Please describe your experience with utility affiliate transactions.**

16 A4. I have acted as an expert witness on matters related to utility/affiliate transactions  
17 for over 25 years. I have presented testimony in nearly 70 regulatory proceedings

1 in 17 US states for over 36 utility clients. Since 1992, I have performed over 100  
2 affiliate market cost comparison studies, as summarized in Attachment 18-R-A.

3 **Q5. What is the purpose of your testimony in this proceeding?**

4 A5. My testimony responds to the testimony of Mr. Michael Gorman, witness for the  
5 NIPSCO Industrial Group. I am also presenting the results of my study which  
6 evaluated the services provided during the 12 months ended December 31, 2016 by  
7 NiSource Corporate Services Company ("NCSC") to NIPSCO's gas utility  
8 ("NIPSCO Gas"). This study was undertaken in conjunction with NIPSCO Gas' rate  
9 case and is accurate to the best of my knowledge and belief. The study is attached  
10 as Attachment 18-R-B.

11 **Testimony of Mr. Michael Gorman**

12 **Q6. In section II.D of his direct testimony, Mr. Michael Gorman, witness for the**  
13 **NIPSCO Industrial Group, recommends a \$9.5 million reduction of NCSC**  
14 **O&M charges to NIPSCO Gas for ratemaking purposes. Is his recommendation**  
15 **valid?**

16 A6. No. The basis for Mr. Gorman's recommendation is simplistic and his  
17 recommendation is wrong. He essentially prescribes that 2016 through 2018 NCSC  
18 O&M charges to NIPSCO Gas should remain the same as average charges for 2012

1 through 2015. He does this without any supporting analysis to substantiate his  
2 recommendation. He makes no attempt to evaluate changes in the makeup of  
3 NCSC services from 2012 through 2016 to determine the root cause of those charges.

4 As part of my work, I requested NIPSCO to provide information that allows for  
5 an accounting for the change in NCSC O&M charges to NIPSCO between 2012 and  
6 2016. An analysis of that information is presented in Attachment 18-R-C. The  
7 table below summarizes the changes by major cost-driver category.

2012 Actual NCSC Charges to NIPSCO-Gas	\$ 31.0
Transfer of NIPSCO Functions/Staff to NCSC	\$ 1.6
Increase in NCSC Technology Services	\$ 1.3
Increase in NCSC Non-Technology Services	\$ 1.0
Allocation Changes	\$ 2.4
Inflation	\$ 1.6
Other Changes	\$ 0.9
2016 Actual NCSC Charges to NIPSCO-Gas	\$ 39.8

8  
9 A description of each category of increase is provided below.

- 10 • Transfer of NIPSCO Functions/Staff to NCSC – A number of functions and  
11 the associated employees were transferred from NIPSCO to NCSC. Those  
12 functions included outside security services, corporate strategy, supply  
13 chain, environmental, safety and training, customer services and new  
14 business and finance.

- 1       •     Increase in Technology Services – NCSC expanded cybersecurity services  
2             and support for new applications. NCSC also implemented programs to  
3             improve the performance of its information technology organization.  
4             Depreciation expenses also increased due to new applications and  
5             infrastructure being placed in service.
  
- 6       •     Increase in Non-Technology Services – NCSC expanded services related to  
7             supply chain, corporate services (e.g., aviation, security, facilities and real  
8             estate), damage prevention, environmental safety, training and customer  
9             services and new business. These increases were partially offset by  
10            decreases associated with the 2013 sale of EPS/Retail Services (NiSource's  
11            non-regulated warranty services company), consolidation of the enterprise  
12            finance executive leadership positions and reduced services for regulatory  
13            policy, corporate affairs and human resources.
  
- 14      •     Allocation Changes – Two allocation-related factors impacted the  
15             assignment of NCSC charges to NIPSCO Gas. First, the separation of the  
16             Columbia Gas Pipeline Group from NiSource Inc., in July 2015 resulted in  
17             a smaller base over which to spread NCSC costs. NIPSCO continues to  
18             benefit from economies of scale associated with NCSC's provision of

1 services to all of NiSource's operating companies. NCSC's services are  
2 provided to NIPSCO at the lower of cost or market. As I mention later in  
3 my testimony, if the services provided by NCSC had been performed by  
4 outside service providers, NIPSCO Gas and its ratepayers would have  
5 incurred almost \$15 million in additional expenses. Second, the basis for  
6 allocating certain NCSC outside services charges was changed, which  
7 produced a reduction in those costs assigned to NIPSCO Gas.

- 8 • Inflation – Represents merit increase for NCSC employees and price  
9 increases for outside services.
- 10 • Other – The largest factor was higher rent expenses for NCSC's new office  
11 facilities (the old office was originally leased in the 1980s and was obsolete).  
12 Also included here is increased executive compensation which has been  
13 removed for NIPSCO Gas ratemaking purposes.

14 In the course of my long career, I have provided many types of services to  
15 numerous utility service companies and the regulated utilities they serve. My  
16 consulting work for these clients covered many functions, including information  
17 technology, finance, accounting and human resources. This extensive direct

1       experience allows me to observe the following trends among my service company  
2       clients:

- 3       1.     Consolidating some functions from regulated operating companies into  
4             their service company affiliates in order to realize economies of scale, more  
5             consistent practices and improved service levels. All of these factors serve  
6             a valid business purpose for the utility enterprise. However, they can result  
7             in an increase in service company charges to operating company affiliates.
- 8       2.     Supporting expanded technology (e.g., new and upgraded applications, IT  
9             security, cloud computing, smart metering, more sophisticated customer-  
10            facing websites) that has been incorporated into operations and corporate  
11            areas of the utility enterprise.

12       Based upon my discussions with NCSC and NIPSCO personnel and review of  
13       information regarding the increase in NCSC O&M charges to NIPSCO Gas, I  
14       conclude the reasons for the overall increase in those charges from 2012 to 2016  
15       are in line with the experience of my other utility clients with service company  
16       affiliates.

1   **Q7. Did you also review the explanation of changes in NCSC O&M billings to**  
2       **NIPSCO Gas between 2016 Actual to 2018 Forecast?**

3   **A7.** Yes, I did review the reasons for the change in NCSC charges to NIPSCO Gas  
4       between 2016 Actual to 2018 Forecast as described in the direct testimony of  
5       NIPSCO witness Ronald Harper. An analysis of that information is presented in  
6       Attachment 18-R-D. The table below summarizes the changes by major cost-driver  
7       category.

2016 Actual NCSC Charges to NIPSCO-Gas	\$ 39.8
Transfer of NIPSCO Functions/Staff to NCSC	\$ 0.4
Increase in NCSC Technology Services	\$ 2.1
Increase in NCSC Non-Technology Services	\$ 2.8
Inflation	\$ 0.4
Other Changes	\$ 1.1
2018 Forecast NCSC Charges to NIPSCO-Gas	<u>\$ 46.6</u>

9       A description of each category of increase is provided below:

- 10       • Transfer of NIPSCO Functions/Staff to NCSC – NIPSCO employees from  
11       operations and environmental, safety and training were transferred to  
12       NCSC.
- 13       • Increase in Technology Services – Software and license expenses will  
14       increase because new applications have been placed into service.  
15       Additional resources will be required to support the new systems



1 implemented in connection with NiSource's Transformation initiative. The  
2 new applications replace older systems and have improved security,  
3 functionality and operating efficiencies. Finally, NCSC's information  
4 technology organization will continue to improve its project management  
5 capabilities and the environment for developing, testing and deploying the  
6 new applications.

- 7 • Increase in Non-Technology Services – In 2018, NCSC launched a pipeline  
8 safety program that begins with the development of an improvement plan  
9 prepared by an outside engineering consulting firm. NCSC is also  
10 implementing several strategic/customer growth initiatives designed to  
11 improve safety and customer service. NCSC is also expanding its services  
12 in the areas of supply chain, damage prevention, corporate security and  
13 facilities services.

- 14 • Inflation – Represents merit increase for NCSC employees.

- 15 • Other – Two instances of one-time credits result in 2018 forecast NCSC  
16 O&M charges being higher than 2016 actual. In 2016, NIPSCO Gas received  
17 its share of rebates paid to NCSC by a vendor whose performance did not

1           meet contractual obligations. In 2016, NIPSCO Gas also received its share  
2           of a third-party payment for the use of NCSC assets.

3           Based upon my discussions with NCSC and NIPSCO personnel and review of  
4           information regarding the increase from 2016 Actual to 2018 Forecast NCSC O&M  
5           charges to NIPSCO Gas, I can conclude the reasons for the overall increase in those  
6           charges are also in line with the experience of my other utility clients with service  
7           company affiliates.

8    **Further Evaluation of NCSC Services and Charges to NIPSCO Gas**

9    **Q8. As part of your work in this proceeding, did you conduct a comprehensive study**  
10   **of the NCSC services and charges?**

11   A8. Yes, I undertook a study to determine the reasonableness of affiliate charges for  
12   services provided to NIPSCO Gas during 2016. Reasonableness was determined by  
13   answering the following four questions: First, are affiliates' 2016 administrative and  
14   general (A&G) charges to NIPSCO Gas reasonable compared to other utility service  
15   companies? Second, did NCSC provide services to NIPSCO Gas at the lower of cost  
16   or market during 2016? Third, is the 2016 cost of NCSC's customer accounts services  
17   comparable to those of other utilities? Fourth, are the services NIPSCO Gas received  
18   from NCSC necessary?

1   **Q9. Briefly describe the methodology you followed in performing the study.**

2   A9. The first 3 questions involve benchmarking of NCSC's costs and charges using  
3       metrics that allow an appropriate comparison against the costs and charges of other  
4       utility service companies and outside service providers. Costs and charges  
5       information for other utilities are obtained from Federal Energy Regulatory  
6       Commission ("FERC") Forms 1 and 60. Cost information for outside service  
7       providers is obtained from relevant survey information (e.g., National Law Journal,  
8       American Institute of Public Accountants). The fourth question is answered by  
9       analyzing the specific services provided NCSC and NIPSCO Gas to determine if  
10      they are necessary.

11   **Q10. What conclusions were you able to draw concerning question 1, whether NCSC**  
12      **charges to NIPSCO Gas were reasonable?**

13   A10. The cost per NIPSCO Gas customer for A&G services from NCSC is reasonable  
14       compared to the cost per customer for similar utility service companies. During  
15       2016 NIPSCO Gas was charged an average of \$49 per customer for these services by  
16       NCSC. This is well below the average of \$102 per customer for comparison group  
17       service companies. NIPSCO Gas's \$49 annual cost is lower than 19 and higher than  
18       4 of the 23 comparison group service companies. This determination was based on

2016 service company information included in Form 60, which must be annually  
filed with FERC by electric and combination electric/gas utility holding companies.

**Q11. What conclusions were you able to draw concerning question 2, whether  
NIPSCO Gas was charged the lower of cost or market for the services provided  
by NCSC during 2016?**

A11. I was able to draw the following conclusions:

1. NCSC's services were provided to NIPSCO Gas during 2016 at the lower of  
cost or market.
2. On average, the hourly rates for outside service providers are 68% higher  
than comparable hourly rates charged by NCSC.
3. If all of the managerial and professional services now provided by NCSC  
had been outsourced in 2016, NIPSCO Gas and its customers would have  
incurred almost \$15 million in additional expenses.
4. NCSC's charges do not include any profit markup. Only the actual cost of  
the service provided is being charged NIPSCO Gas and its customers.

**Q12. What conclusions were you able to draw concerning question 3, whether 2016  
costs of NCSC's customer account services were reasonable?**

1   A12. I was able to conclude that NIPSCO Gas's customer accounts services costs, which  
2       include charges from NCSC, are well below the average of the utility comparison  
3       group from Indiana and neighboring states. During 2016, NIPSCO Gas's customer  
4       accounts services cost per customer was \$21.74 compared to the utility comparison  
5       group's 2016 average of \$27.42. The highest comparison group per-customer cost  
6       was \$44.88 and the lowest \$11.62.

7   **Q13. What conclusions were you able to draw concerning question 4, whether the**  
8       **services NIPSCO Gas receives from the NCSC are necessary?**

9   A13. I was able to draw the following conclusions:

10       1.     The services that the NCSC provides are necessary and would be required  
11             even if NIPSCO Gas were a stand-alone gas utility.

12       2.     There is no redundancy or overlap in the services provided by the NCSC to  
13             NIPSCO Gas.

14   **Q14. Based on your work, can you conclude that NIPSCO Gas's 2016 affiliate charges**  
15       **for services are reasonable?**

16   A14. Yes. The study's overall results show that NIPSCO Gas's 2016 service-related  
17       charges from NCSC are reasonable.

1 Q15. Does this conclude your prefiled rebuttal testimony?

2 A15. Yes, it does.

## VERIFICATION

I, Patrick Baryenbruch, President of Baryenbruch & Company, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, reading "Patrick Baryenbruch", written over a horizontal line.

Patrick Baryenbruch

Date: March 28, 2018

# Direct Testimony of Patrick Baryenbruch

## Summary of Affiliate Transactions and Rate Case Experience

Client	Year	Purpose	Rate Case Witness?	Client	Year	Purpose	Rate Case Witness?
Connecticut American Water	1999	Rate Case	Yes	Columbia Gas of Massachusetts	2004	Rate Case	Yes
Illinois American Water	2007	Rate Case	Yes		2006	Internal Info	No
Kentucky American Water	2003	Rate Case	Yes		2011	Internal Info	No
	2006	Rate Case	Yes		2012	Internal Info	No
	2008	Rate Case	Yes		2014	Internal Info	No
	2009	Rate Case	Yes	Columbia Gas of Pennsylvania	2015	Rate Case	Yes
Massachusetts American Water	2000	Rate Case	Yes	Columbia Gas of Virginia	2003	Compliance	No
Missouri American Water	2002	Rate Case	Yes		2004	Compliance	No
	2008	Rate Case	Yes		2005	Rate Case	Yes
	2014	Rate Case	Yes		2006	Compliance	No
	2016	Rate Case	Yes		2007	Compliance	No
New Jersey American Water	2005	Rate Case	Yes		2008	Compliance	No
	2007	Rate Case	Yes		2009	Rate Case	Yes
	2009	Rate Case	Yes		2010	Compliance	No
	2010	Rate Case	Yes		2011	Compliance	No
	2014	Rate Case	Yes		2012	Compliance	No
	2017	Rate Case	Yes		2013	Rate Case	Yes
New Mexico American Water	2007	Rate Case	Yes		2014	Compliance	No
New York American Water	2006	Rate Case	Yes		2015	Rate Case	Yes
	2010	Rate Case	Yes		2016	Compliance	No
	2013	Rate Case	Yes	Dominion Resources, Inc. (VA)	2008	Rate Case	Yes
	2015	Rate Case	Yes		2009	Compliance	No
Ohio American Water	2006	Rate Case	Yes		2010	Compliance	No
	2010	Rate Case	Yes		2011	Compliance	No
Pennsylvania American Water	2008	Compliance	No		2012	Compliance	No
	2011	Compliance	No		2014	Compliance	No
	2014	Compliance	No	Duke Energy (NC)	2006	Compliance	No
Tennessee American Water	2006	Rate Case	Yes	Elizabethtown Gas (AGL Resources) (NJ)	2008	Rate Case	Yes
	2010	Rate Case	Yes	General Water Works of Rio Rancho (NM)	1993	Rate Case	Yes
Virginia American Water	1996	Rate Case	Yes	General Water Works of Virginia	1992	Rate Case	Yes
	1999	Rate Case	Yes	Po River Water and Sewer (VA)	1993	Rate Case	Yes
	2000	Rate Case	Yes		2007	Rate Case	Yes
	2001	Rate Case	Yes		2008	Rate Case	Yes
	2003	Rate Case	Yes	Progress Energy (NC)	2001	Internal Info	No
	2007	Rate Case	Yes	Roanoke Gas Company (VA)	2006	Compliance	No
	2009	Rate Case	Yes	Southern California Edison	2002	Compliance	No
	2011	Rate Case	Yes		2003	Compliance	No
	2014	Rate Case	Yes		2004	Compliance	No
West Virginia American Water	2002	Rate Case	Yes		2005	Compliance	No
	2006	Rate Case	Yes	Southwestern Electric Power (Texas)	2016	Rate Case	Yes
	2007	Rate Case	Yes	Virginia Natural Gas (AGL Resources)	2004	Compliance	No
	2009	Rate Case	Yes		2005	Rate Case	Yes
	2012	Rate Case	Yes		2010	Rate Case	Yes
	2014	Rate Case	Yes	United Water of Pennsylvania	2004	Rate Case	Yes
Atlanta Gas Light (AGL Resources)	2009	Rate Case	Yes	Utilities, Inc. (VA)	2006	Rate Case	Yes
Atmos Energy Corporation (VA)	2004	Compliance	No		2008	Rate Case	Yes
Electric Transmission Texas	2016	Rate Case	Yes		2013	Rate Case	Yes
Columbia Gas of Kentucky	2015	Rate Case	Yes	Utilities, Inc. (KY)	2010	Rate Case	Yes
Columbia Gas of Maryland	2015	Rate Case	Yes		2012	Rate Case	Yes



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**Northern Indiana Public Service Company**  
**Market Cost Comparison for Affiliate Company Charges**  
**12 Months Ended December 31, 2016**

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December 2017

**Northern Indiana Public Service Company  
Market Cost Comparison for Affiliate Company Charges  
12 Months Ended December 31, 2016**

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## I - Introduction

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### **Purpose of This Study**

This study was undertaken to determine the reasonableness of Northern Indiana Public Service Company gas (NIPSCO Gas) business charges from NiSource Corporate Services Company (NCSC) for services provided during 2016. Reasonableness was determined by answering the following four questions:

1. Are NCSC's administrative and general (A&G) charges to NIPSCO Gas reasonable compared to other utility service companies?
2. Does NCSC provide services to NIPSCO Gas at the lower of cost or market?
3. Is the cost of NIPSCO Gas customer accounts services comparable to that of other utilities?
4. Are the services NIPSCO Gas receives from NCSC necessary?

### **Study Results**

Conclusions concerning question 1:

- The cost per NIPSCO Gas customer for A&G services from NCSC is reasonable compared to the cost per customer for similar utility service companies. During 2016 NIPSCO Gas was charged an average of \$49 per customer for these services by NCSC. This is well below the average of \$102 per customer for comparison group service companies. NIPSCO Gas's \$49 annual cost is lower than 19 and higher than 4 of the 23 comparison group service companies. This determination was based on 2016 service company information included in Form 60, which must be annually filed with the Federal Energy Regulatory Commission (FERC) by electric and combination electric/gas utility holding companies.

Conclusions concerning question 2:

- NCSC's services were provided to NIPSCO Gas during 2016 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 68% higher than comparable hourly rates charged by NCSC.
- If all of the managerial and professional services now provided by NCSC had been outsourced in 2016, NIPSCO Gas and its customers would have incurred almost \$15 million in additional expenses.

## I - Introduction

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- NCSC's charges do not include any profit markup. Only the actual cost of the service provided is being charged NIPSCO Gas and its customers.

Conclusions concerning question 3:

- NIPSCO Gas's customer accounts services costs, which include charges from NCSC, are well below the average of the electric utility comparison group from Indiana and neighboring states. During 2016, NIPSCO Gas's customer accounts services cost per customer was \$21.74 compared to the utility comparison group's 2016 average of \$27.42. The highest comparison group per-customer cost was \$44.88 and the lowest \$11.62.

Concerning question 4, the following conclusions were drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Gas were a stand-alone gas utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Gas. For all of the services listed in Exhibit 12, there was only one entity primarily responsible for the service.

This study's results show that NIPSCO Gas's 2016 service-related charges from NCSC and other affiliates are reasonable.

## II – Background

### Analysis of NIPSCO Gas Charges from Affiliates

During 2016, affiliate entities charged NIPSCO approximately \$234.9 million. The analysis below shows charges to NIPSCO by affiliate.

Billings to NIPSCO by Affiliate	Purpose	2016
NiSource Corporate Service Company	Contract services	\$ 151,312,019 (A)
NiSource Inc.	Employee pensions and benefits	\$ 1,458,358
NIPSCO Accounts Receivable Corp.	Interest on debt	\$ 4,804,186
NiSource Development Company	Rent	\$ 3,273,173
NiSource Finance Company	Interest on debt	\$ 65,888,369
NiSource Insurance Corporation	Employee pensions and benefits, injuries and damages, insurance	\$ 8,199,307
Total Charges to NIPSCO		<u>\$ 234,935,412</u>

Note A: These represent total charges to NIPSCO. The amount assigned to NIPSCO-Gas during 2016 was \$48,249,730.

Charges from NCSC represent the cost of management, professional and technical services. They can be subjected to a market cost analysis for which comparative information is available. The NIPSCO Gas portion of NCSC charges (\$48,249,730) is included in the scope of this study.

Charges from other affiliates are, in effect, a pass-through of costs shared with other NiSource entities. In general, the amounts represent NIPSCO's proportionate share of actual expenses incurred by affiliates. No services are involved in these charges so they are not included in the scope of this study.

### Overview of NCSC

NCSC provides the following types of services to NiSource operating companies, including NIPSCO Gas:

Executive management	Corporate affairs and communications
Auditing	Governmental affairs
Accounting	Human resources
Financial planning and analysis	Organizational development
SOX compliance	Legal
Tax	Corporate secretary
Treasury and corporate finance	Environment, safety and sustainability
Insurance	Information technology
Risk management	Supply chain
Investor relations	

NCSC follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional

## II – Background

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services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- **Purchasing Economies** – Common expenses (e.g., insurance, contract services) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, NCSC is able to maintain one IT infrastructure for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with large fixed hardware, software and staffing costs.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- **Maintenance of Corporate-Wide Standards** – Personnel in NCSC establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by NCSC.
- **Improved Governance** – NCSC provides another dimension of management and financial oversight that supplements local operating utility management. NCSC facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

NCSC follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like NIPSCO, at cost. NCSC is not a profit-making entity. It assigns only its actual expenses to the NiSource subsidiaries it services.

## II – Background

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### **NCSC Billings to Affiliate Companies**

NCSC was regulated by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA) until February 8, 2006, when the Public Utility Holding Company Act (PUHCA 2005) was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to the Federal Energy Regulatory Commission (FERC). NCSC records transactions in accordance with the FERC Uniform System of Accounts.

Pursuant to FERC Order No. 684 issued October 19, 2006, Centralized Service Companies must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. In April 2015, NCSC transitioned to a new, integrated inter-company billing process to compile and bill charges applicable to affiliates. The process allows NCSC charges to be automatically recorded to affiliates' books. Affiliates are able to trace the original charge detail, view the accounting classification (allocation basis or direct charge) and review charges more efficiently.

The relationship between NCSC and NIPSCO is set forth in a Service Agreement dated January 1, 2015. The Service Agreement stipulates that all services will be provided at cost. Allocations among affiliates are only made when it is impractical to charge an affiliate directly.

The bases of allocation shown in Schedule 1 are used by NCSC Accounting Department for apportioning Job Order charges to affiliates.

Schedule 1

**Northern Indiana Public Service Company  
Bases for Allocating NCSC Charges to Affiliates**

<p><b>Basis 1 - Gross Fixed Assets and Total Operating Expenses</b> Fifty percent of the total charges will be allocated on the basis of the relation of the affiliate's gross fixed assets to the total gross fixed assets of all benefited affiliates; the remaining 50% will be allocated on the basis of the relation of the affiliate's total operating expenses to the total operating expenses of all benefited affiliates. All companies may be included in this allocation.</p>
<p><b>Basis 2 - Gross Fixed Assets</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its total gross fixed assets to the sum of the total gross fixed assets of all benefited affiliates. All companies may be included in this allocation.</p>
<p><b>Basis 3 - Number of Meters Serviced</b> Charges will be allocated to each benefited affiliate on the basis of its number of meters serviced to the total number of all meters serviced of the benefited affiliates. This allocation will be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Maryland and Bay State Gas Company.</p>
<p><b>Basis 4 - Number of Accounts Payable Invoices Processed</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its number of accounts payable invoices processed (interface invoices excluded) to the total number of all accounts payable invoices processed for the benefited affiliates. All companies may be used in this allocation.</p>
<p><b>Basis 7 - Gross Depreciable Property and Total Operating Expenses</b> Fifty percent of the total charges will be allocated on the basis of the relation of the affiliate's total operating expenses to the total of all the benefited affiliates' total operating expense; the remaining 50% will be allocated on the basis of the relation of the affiliate's gross depreciable property to the gross depreciable property of all benefited affiliates. All companies may be included in this allocation.</p>
<p><b>Basis 8 - Gross Depreciable Property</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its total depreciable property to the sum of the total depreciable property of all benefited affiliates. All companies may be used in this allocation.</p>
<p><b>Basis 9 - Automobile Units</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its number of automobile units to the total number of all automobile units of the benefited affiliates. All companies may be used in this allocation.</p>
<p><b>Basis 10 - Number of Retail Customers</b> Charges will be allocated to each benefited affiliate on the basis of its number of retail customers to the total number of all retail customers of the benefited affiliates. All companies may be used in this allocation.</p>
<p><b>Basis 11 - Number of Regular Employees</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its number of regular employees to the total number of all regular employees of the benefited affiliates. All companies may be used in this allocation.</p>
<p><b>Basis 13 - Fixed Allocation</b> Charges will be allocated to each benefitted affiliate on the basis of fixed percentages on an individual project basis. All companies may be used in this allocation.</p>
<p><b>Basis 14 - Number of Transportation Customers</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its Transportation Customers to the total of all Transportation Customers of the benefited affiliates. This allocation will be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Maryland and Bay State Gas Company.</p>
<p><b>Basis 15 - Number of Commercial Customers</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its Commercial Customers to the total of all Commercial Customers of the benefited affiliates. This allocation will be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Maryland and Bay State Gas Company.</p>
<p><b>Basis 16 - Number of Residential Customers</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its Residential Customers to the total of all Residential Customers of the benefited affiliates. This allocation will be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Maryland and Bay State Gas Company.</p>
<p><b>Basis 17 - Number of High Pressure Customers</b> Charges will be allocated to each benefited affiliate on the basis of the relation of its High Pressure Customers to the total of all High Pressure Customers of the benefited affiliates. This allocation will be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Maryland and Bay State Gas Company.</p>
<p><b>Basis 20 - Direct Costs</b> Charges will be allocated to each benefitted affiliate on the basis of the relation of its direct costs billed by NCSC to the total of all direct costs billed by NCSC. All companies may be included in this allocation.</p>



## II – Background

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### **Comparison Approach for NCSC Billings**

2016 NCSC charges to NIPSCO Gas are evaluated in connection with the four questions described below.

The first question—whether NCSC service-related charges are reasonable—is answered by comparing NIPSCO Gas’s affiliate charges per customer to those of utility service companies that file a FERC Form 60 – Annual Report of Service Companies.

The second question—whether NCSC’s services were provided to NIPSCO Gas during 2016 at the lower of cost or market—is answered by comparing the cost per hour for managerial and professional services provided by NCSC personnel to hourly billing rates that would be charged by outside providers of equivalent services. NCSC’s costs per hour were based on actual charges to NIPSCO Gas during the test period. Outside providers’ billing rates came from surveys or other information from professionals who could perform the services now provided by NCSC.

The third question—whether affiliate customer account services charges were comparable to other utilities— is answered by comparing NIPSCO Gas’s total expenses for customer accounts services to those of electric utilities in Indiana and neighboring states. The comparison metric is cost per customer. Comparison group electric utility customer account services expenses are obtained from FERC Form 1 data.

The fourth question—the necessity of NCSC services—was investigated by defining the services provided to NIPSCO Gas and determining if these services would be required if NIPSCO Gas were a stand-alone electric utility.

### III – Question 1 – Reasonableness of NCSC Services-Related Charges

#### Methodology

Utility service companies deliver a variety of services to their regulated operating company affiliates. While some service companies support their affiliate's generation, transmission and distribution functions, all provide A&G services such as information technology, finance and human resources. Centralizing the management of such corporate A&G services is justified by the considerable economies of scale achieved. Because A&G-related services are consistently delivered by service companies, considerable data exists on the nature and cost of these services. This study relies on such data to determine A&G charges per MWh sold by comparison companies. These charges are then used as the metric by which to test the reasonableness of charges for services NCSC provides to NIPSCO Gas.

FERC Form 60 shows service company charges to affiliates by FERC account. FERC defines A&G charges as those listed in the table below. During 2016, NCSC's A&G charges to NIPSCO Gas were recorded in the noted accounts.

FERC A&G Accounts	Used to Record NCSC Test Period Charges to NIPSCO Gas
901 – Supervision	
902 – Meter reading expenses	
903 – Customer records and collection expenses	X
904 – Uncollectible accounts	
905 – Miscellaneous customer accounts expenses	
907 – Supervision	
908 – Customer assistance expenses	
909 – Information and instructional adv expenses	X
910 – Misc customer service and info expenses	X
911 – Supervision	
912 – Demonstrating and selling expenses	X
913 – Advertising expense	X
916 – Miscellaneous sales expenses	
920 – Administrative and general salaries	X
921 – Office supplies and expenses	X
923 – Outside services employed	X
924 – Property Insurance	Note A
925 – Injuries and damages	X
926 – Employee pensions and benefits	
928 – Regulatory commission expenses	
930.1 – General advertising expenses	X
930.2 – Miscellaneous general expenses	X
931 – Rents	X
932 – Maintenance of structures and equipment	X

Note A: NSCS 2016 charges to NIPSCO Gas includes a small amount for Account 924 - Property Insurance. Because the amount is negligible, Account 924 charges are excluded from the cost pools for comparison group service companies.

### III – Question 1 – Reasonableness of NCSC Services-Related Charges

This study compares NCSC's 2016 A&G charges to NIPSCO Gas to comparison group service companies' 2016 charges to their regulated utility affiliates for the same FERC accounts except for account 926 – Employee Pensions and Benefits. Account 926 is excluded because it represents total pension and benefit costs associated with all service company employees. Some of these employees may perform generation, transmission and distribution services for affiliates. Thus, the balance in account 926 is not strictly A&G-related. Exclusion of account 926 charges produces a more precise A&G cost comparison.

#### NIPSCO Gas Cost per Customer

As calculated below, NCSC charged NIPSCO Gas \$49 per customer for A&G services during 2016.

FERC Account	2016 NCSC Charges
903 - Customer Records and Collection Expenses	\$ 1,028,885
909 - Informational and Instructional Advertising Expenses	\$ 233,534
910 - Misc Customer Service And Informational Expenses	\$ 82,591
912 - Demonstrating and Selling Expenses	\$ 36,027
913 - Advertising Expenses	\$ 31,069
920 - Administrative and General Salaries	\$ 14,618,408
921 - Office Supplies and Expenses	\$ 975,089
923 - Outside Services Employed	\$ 18,613,173
924 - Property Insurance	\$ (1)
925 - Injuries and Damages	\$ 359,488
930.1 - General Advertising Expenses	\$ 59,304
930.2 - Miscellaneous General Expenses	\$ 102,061
931 - Rents	\$ 1,715,482
932 - Maintenance of General Plant	\$ 1,943,318
Total A&G NCSC Charges to NIPSCO	\$ 39,798,428
Total Customers	819,908
<b>NIPSCO Gas Cost per Customer</b>	<b>\$ 49</b>

#### Comparison Group Cost per Customer

Every centralized service company in a holding company subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and the Code of Federal Regulations Chapter 18, paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity's FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated

### III – Question 1 – Reasonableness of NCSC Services-Related Charges

affiliates from the cost pool used to calculate A&G expenses per regulated retail customer.

For 2016, a Form 60 was filed by service companies associated with 24 utility holding companies, all of which provide regulated electric and, in some cases, gas service to retail customers.

NCSC filed a Form 60 for 2016. However, NiSource/NCSC is not included in the comparison group because its Form 60 includes charges for all its affiliates and this cost comparison examines only charges to NIPSCO Gas. The A&G expenses per regulated retail customer for the other 23 utility companies that filed a Form 60 for 2016 are calculated in the table below.

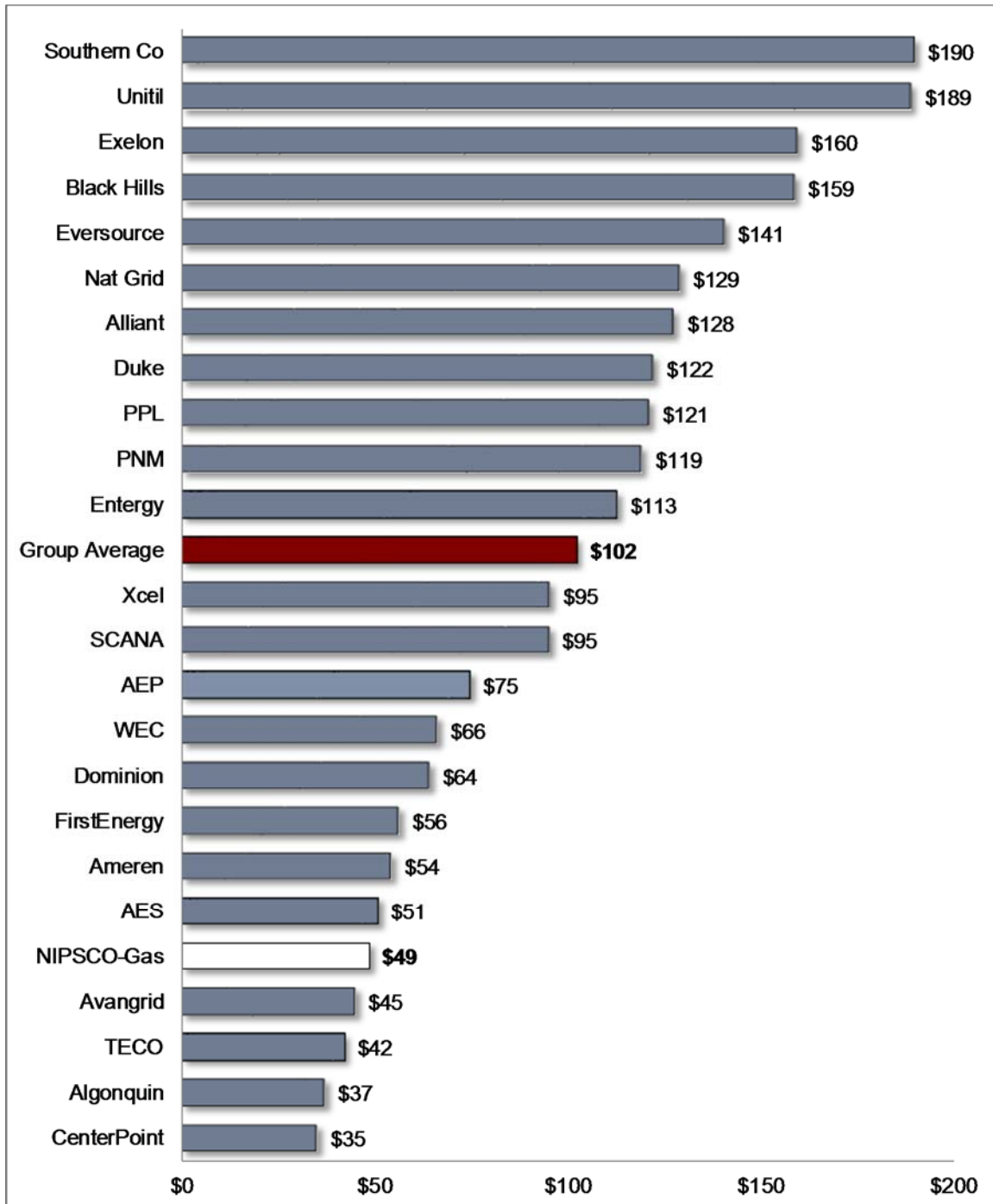
Utility Company	2016 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$403,481,126	5,400,000	\$ 75
AES	\$51,327,313	1,009,000	\$ 51
Algonquin	\$22,297,619	600,500	\$ 37
Alliant	\$174,694,217	1,370,076	\$ 128
Ameren	\$179,583,320	3,300,000	\$ 54
Avangrid	\$142,525,946	3,172,000	\$ 45
Black Hills	\$196,611,854	1,239,260	\$ 159
CenterPoint	\$205,895,570	5,842,684	\$ 35
Dominion	\$250,418,805	3,900,000	\$ 64
Duke	\$1,112,114,997	9,110,000	\$ 122
Entergy	\$345,586,740	3,067,000	\$ 113
Eversource	\$518,117,049	3,686,770	\$ 141
Exelon	\$1,612,160,543	10,100,000	\$ 160
FirstEnergy	\$341,527,194	6,058,000	\$ 56
Nat Grid	\$889,312,801	6,900,000	\$ 129
PNM	\$90,720,731	761,000	\$ 119
PPL	\$326,633,924	2,700,000	\$ 121
SCANA	\$196,822,558	2,066,076	\$ 95
Southern Co	\$872,765,912	4,600,000	\$ 190
TECO	\$67,669,380	1,605,000	\$ 42
Unitil	\$34,810,845	184,200	\$ 189
WEC	\$290,061,792	4,374,000	\$ 66
Xcel	\$534,679,846	5,600,000	\$ 95
<b>Total</b>	<b>\$8,859,820,083</b>	<b>86,645,566</b>	<b>\$ 102</b>

Schedule 2 (page 12) shows that NIPSCO Gas' NCSC A&G charges per customer of \$49 for 2016 are considerably lower than the comparison group's average of \$102 per customer. Of the 23 utility companies in the comparison group, 19 had a higher cost per customer and 4 had a lower cost per customer. Based on this result, it can be concluded that NCSC's charges to NIPSCO Gas for 2016 are reasonable.



Schedule 2

Northern Indiana Public Service Company  
Comparison of Service Company A&G Costs per Regulated Retail Customer



#### IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

##### **Methodology**

NCSC's 2016 billings to NIPSCO Gas for Contract Services are market tested by comparing the cost per hour for NCSC services to those of outside service providers to whom these duties could be assigned.

The first step was to determine which types of outside providers could assume NCSC services. Based on the nature of these services it was determined that the following outside service providers could perform the categories of services indicated:

- Attorneys - corporate secretarial and legal services
- Certified Public Accountants - accounting, finance and rates and regulatory services
- Professional Engineers – engineering and operations services
- Management Consultants - executive and administrative management, risk management services, human resources and communications services
- Information Technology (IT) Professionals – information technology services

The next step was to calculate NCSC's hourly rate for each of the four outside service-provider categories, based on the dollars and hours charged to NIPSCO Gas during 2016.

Next, hourly billing rates for outside service providers were determined using information from pertinent surveys.

Finally, NCSC's average cost per hour was compared to the average cost per hour for outside providers.

##### **NCSC Hourly Rates**

The first step in determining NCSC's hourly rates is to determine the appropriate expenses to be included in the cost pool. Adjustments to total NCSC charges related to Contract Services are necessary to calculate NCSC's hourly rates that are directly comparable to those of outside providers. Certain types of expenses are not recovered by outside providers in the hourly billing rate of their professional employees. Such excluded expenses are described below.

- Outside Services – NCSC charges to NIPSCO Gas include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services).

IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- IT Infrastructure Expenses – Included in NCSC charges to NIPSCO Gas are leases, maintenance fees and depreciation pertaining to NCSC's enterprise computing and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor-related charges necessary to deliver IT services.
- Non-Service Related Expenses – These are corporate expenses such as current and deferred income tax expense, line of credit fees and board expenses. These are not related to the provision of services by NCSC personnel and are excluded.
- Non-Recovery Expenses – NIPSCO Gas is not seeking recovery of stock-related compensation. Thus, these expenses should not be included in the calculation of NCSC's hourly rates that are paid for by ratepayers.

Schedule 3 shows the amount of adjustments made to NCSC's 2016 NCSC total contract services to NIPSCO Gas. The net result of is a total cost pool that can be subjected to the lower-of-cost-or-market testing.

Northern Indiana Public Service Company  
Determination of Lower of Cost or Market Testable 2016 NCSC Charges

2016 Total Contract Billings from NCSC to NIPSCO Gas		\$ 48,249,730
Less Excludable Cost Elements:		
<u>Contract Services</u>		
3000 - Consulting Services	\$ 3,561,724	
3001 - Advertising Services	\$ 334,780	
3002 - Legal Services	\$ 552,666	
3003 - Auditing Services	\$ 99	
3006 - Engineering Services	\$ 102,634	
3007 - Laboratory Services	\$ 14,394	
3009 - Operations Services	\$ 506	
3011 - Temporary Personnel Services	\$ 45,687	
3012 - Security Services	\$ 675,465	
3015 - Other Outside Services	\$ 1,012,818	
3018 - Personnel Cargo Transportation	\$ 17	
3021 - Env Health and Safety Services	\$ 43,734	
3024 - Benefit Administration	\$ 104,509	
3028 - Expert Witness Fees	\$ 1,000	
3030 - Outsourcing - Est Fixed Costs	\$ 39,521	
3031 - Outsourcing-Variable Cost-ARCs	\$ 1,548,181	
3033 - Sales Tax	\$ 201,309	
3036 - Service Level Agreements	\$ (412,725)	
3037 - Miscellaneous Reimbursements	\$ 147	
3038 - Request for Service-RFS	\$ 919,281	
3040 - Outsourcing - Act Fixed Costs	\$ 10,120,823	
3041 - Outsourcing-Variable Cost-RRCs	\$ (314,631)	
3054 - Capitalized Portion-PCs-Laptops	\$ (82,341)	
3004 - Constructions Services	\$ 6,995	
3066 - WMS GIS Capital Lease Payment	\$ (14,260)	
Total Outside Services	\$ 18,462,333	\$ 18,462,333
<u>Travel Expenses</u>		
3100 - Business Expenses	\$ 676,080	
3101 - Meals 100 Deductible	\$ 83,466	
3102 - Meals Entertain 50 Deductible	\$ 200,908	
3103 - Non-Deductible Business Expenses	\$ 2,432	
3104 - Aviation Charter Expenses	\$ 1,943	
3105 - Taxable Business Exp-ERS Only	\$ 38	
5003 - Aircraft Maintenance	\$ 83,496	
5020 - Vehicle Maintenance	\$ 64,018	
9230 - Leases - Aircraft	\$ 82,218	
Total Travel Expenses	\$ 1,194,599	\$ 1,194,599



Northern Indiana Public Service Company  
Determination of Lower of Cost or Market Testable 2016 NCSC Charges

<u>IT Infrastructure Expenses</u>		
2500 - IT Hardware	\$ 227,907	
2501 - IT Software	\$ 642,004	
5004 - Software Maintenance	\$ 1,907,044	
5009 - Hardware Maintenance	\$ 17,783	
9310 - Other Depreciation	\$ 1,778,374	
Total IT Infrastructure Expenses	\$ 4,573,112	\$ 4,573,112
<u>Non-Service-Related Expenses</u>		
3849 - Service Charges Other	\$ 194	
4503 - AFUDC IDC - Debt	\$ (27,099)	
4508 - Gain-Loss on Sale	\$ 19,731	
4531 - Manual Accruals	\$ 18,168	
4533 - PP Man Acc Excl Int OH	\$ 331,020	
5030 - Truck Maintenance	\$ 24,870	
9210 - Leases - Transport Gen Tools	\$ (5,097)	
9261 - Overheads Related To Lease-Rent	\$ 286,544	
9604 - Income Taxes Federal	\$ 1,438,463	
9605 - Income Taxes State	\$ 116,426	
9606 - Deferred Income Taxes Federal	\$ (1,438,463)	
9607 - Deferred Income Taxes State	\$ (116,477)	
9610 - Sales and Use Tax	\$ 3,141	
3863 - Goods	\$ 41	
7001 - Corporate Services - Bill	\$ 718	
5040 - Tool Maintenance	\$ 9	
3671 - Recording Fee	\$ 3	
9637 - State Consumption Tax	\$ 215	
3667 - Permit Request Fee	\$ 37,215	
2013 - Pipe	\$ 8,374	
Total Non-Service-Related Expenses	\$ 697,996	\$ 697,996
<u>Non-Recovery Expenses</u>		
9101 - Phantom Stock	\$ (7,000)	
9108 - Stock Compensation - Other	\$ 10,238	
9114 - Contingent LTIP Expense	\$ 764,160	
9115 - Restricted LTIP Expense	\$ 389,361	
9185 - CEO Stock Grants	\$ 55,557	
Total Non-Recovery Expenses	\$ 1,212,316	\$ 1,212,316
Total Excludable Cost Elements		\$ 26,140,356
Less Excludable Department		
0005000 Aviation Services	\$ 259,035	\$ 259,035
2016 Testable Contract Billings from NCSC (Note A)		\$ 21,850,339

Note A: This total breaks down as follows for later analysis:

Service-Related Charges	\$ 20,114,263
Overhead-Related Charges	\$ 1,736,075
2016 Testable Contract Billings from NCSC	\$ 21,850,339

#### IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

The next step is to assign NCSC’s service-related charges to the five outside service-provider cost pools—attorney, certified public accountant, professional engineer, management consultant and IT professional. Among other things, NCSC assigns a “department” to all affiliate charges. Based on the nature of services performed by these departments, NCSC’s charges were assigned to the five outside service-provider cost pools, as shown in Schedule 4 (page 19).

Schedule 5 (page 20) shows the assignment of staff hours by service category to the five outside service provider cost pools. It should be noted that only professional personnel hours are included in Schedule 5. Many outside providers charge clients for the time of administrative support personnel (e.g., paralegals). This study chose to be conservative in this regard. By excluding administrative personnel hours from the hourly rate denominator, there are fewer hours to divide into the cost pool. Consequently, NCSC’s hourly rates are somewhat higher using this approach.

Also, within 2016 NCSC charges are overhead-related items associated with sustaining NCSC personnel. Most of these are depreciation expense and rent on various NCSC facilities and equipment. These expenses would also be incurred by outside service providers and must be added into the NCSC cost pools. The table below shows amounts by department.

NCSC Department	2016
0007100 Insurance Premiums	\$ 357,883
0042100 Income Tax	\$ 4,124
0042700 General	\$ (71)
0042800 Cost of Capital (Note A)	\$ 152,815
0047300 Corporate Services	\$ 141,551
0047400 Facility Mgt (IN and MA)	\$ 328,747
0047800 Facility Mgt (OH and KY)	\$ 74,033
0049000 Real Estate	\$ 58,213
0053600 Mailing Operations	\$ 617,791
0099990 Corp Undistributed - Common	\$ 990
Total Overhead	\$1,736,076

Note A: Includes interest expense on NCSC debt.



IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

Based on the assignment of expenses and hours to outside provider categories, NCSC's 2016 equivalent cost per hour is calculated below.

NCSC Hourly Rates						
	Attorney	Certified Public Acctt	Professional Engineer	Mgmt Consultant	IT Professional	Total
Service-Related Charges	\$ 1,394,314	\$ 3,574,174	\$ 6,349,665	\$ 6,323,578	\$ 2,472,532	\$ 20,114,263
Overhead Expenses (Note A)	\$ 120,344	\$ 308,489	\$ 548,044	\$ 545,792	\$ 213,406	\$ 1,736,075
Cost Pool Total	\$ 1,514,658	\$ 3,882,664	\$ 6,897,709	\$ 6,869,371	\$ 2,685,938	\$ 21,850,339
Hours	10,426	38,204	77,444	50,404	26,135	202,614
<b>Average Hourly Rate</b>	<b>\$ 145</b>	<b>\$ 102</b>	<b>\$ 89</b>	<b>\$ 136</b>	<b>\$ 103</b>	

Note A: These expenses are assigned to the outside provider categories prorata based on the amount of direct expenses in the cost pools, as calculated below.

	Attorney	Certified Public Acctt	Professional Engineer	Mgmt Consultant	IT Professional	Total
Service-Related Charges	\$ 1,394,314	\$ 3,574,174	\$ 6,349,665	\$ 6,323,578	\$ 2,472,532	\$ 17,641,732
Percent of Cost Pool Total	6.9%	17.8%	31.6%	31.4%	12.3%	100.0%
Allocation Of Overhead	\$ 120,344	\$ 308,489	\$ 548,044	\$ 545,792	\$ 213,406	\$ 1,522,669

Northern Indiana Public Service Company  
Assignment of 2016 NCSC Service-Related Charges to Outside Provider Cost Pools

Service Category	Outside Provider					Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	IT Consultant	
Accounts Payable		\$ 378,409				\$ 378,409
Audit		\$ 372,951				\$ 372,951
Business Continuity				\$ 43,943		\$ 43,943
Business Services				\$ 153,050		\$ 153,050
Corporate Accounting		\$ 1,272,565				\$ 1,272,565
Corporate Affairs				\$ 201,363		\$ 201,363
Corporate Communications				\$ 261,879		\$ 261,879
Corporate Secretary	\$ 1,475					\$ 1,475
Corporate Security				\$ 61,315		\$ 61,315
Credit Risk Management				\$ 44,306		\$ 44,306
Customer Services		\$ 353,631				\$ 353,631
Engineering Services			\$ 1,950,873			\$ 1,950,873
Environmental, Health & Safety			\$ 1,551,177			\$ 1,551,177
Executive				\$ 1,806,129		\$ 1,806,129
Finance		\$ 558,024				\$ 558,024
Fleet Management			\$ 397,965			\$ 397,965
Gas Supply			\$ 535,892			\$ 535,892
Human Resources				\$ 1,922,350		\$ 1,922,350
Information Technology					\$ 2,472,532	\$ 2,472,532
Insurance				\$ 262,969		\$ 262,969
Investor Relations				\$ 62,867		\$ 62,867
Legal	\$ 1,392,839					\$ 1,392,839
Logistics			\$ 124,013			\$ 124,013
Operations			\$ 791,775			\$ 791,775
Operations Management				\$ 440,123		\$ 440,123
Regulatory		\$ 113,459				\$ 113,459
Revenue Transactions		\$ 67,505				\$ 67,505
Risk Management				\$ 89,057		\$ 89,057
Safety and Compliance				\$ 469,041		\$ 469,041
Strategy and Planning				\$ 425,268		\$ 425,268
Supply Chain			\$ 997,972			\$ 997,972
Taxes		\$ 309,103				\$ 309,103
Training				\$ 79,918		\$ 79,918
Treasury		\$ 148,528				\$ 148,528
Total	\$ 1,394,314	\$ 3,574,174	\$ 6,349,665	\$ 6,323,578	\$ 2,472,532	\$ 20,114,263

Northern Indiana Public Service Company  
Assignment of 2016 NCSC Service-Related Hours to Outside Provider Cost Pools

Service Category	Outside Provider					Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	IT Consultant	
Accounts Payable		4,852				4,852
Audit		3,455				3,455
Business Continuity				451		451
Business Services				1,281		1,281
Corporate Accounting		13,544				13,544
Corporate Affairs				1,194		1,194
Corporate Communications				3,520		3,520
Corporate Secretary	-					-
Corporate Security				819		819
Credit Risk Management				340		340
Customer Services		4,422				4,422
Engineering Services			24,720			24,720
Environmental, Health & Safety			15,344			15,344
Executive				9,312		9,312
Finance		6,024				6,024
Fleet Management			5,119			5,119
Gas Supply			6,960			6,960
Human Resources				20,513		20,513
Information Technology					26,135	26,135
Insurance				2,485		2,485
Investor Relations				302		302
Legal	10,426					10,426
Logistics			1,385			1,385
Operations			11,199			11,199
Operations Management				3,151		3,151
Regulatory		1,149				1,149
Revenue Transactions		877				877
Risk Management				757		757
Safety and Compliance				2,649		2,649
Strategy and Planning				3,233		3,233
Supply Chain			12,717			12,717
Taxes		2,712				2,712
Training				397		397
Treasury		1,170				1,170
Total	10,426	38,204	77,444	50,404	26,135	202,614

#### IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

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##### **Outside Service Provider Hourly Rates**

The next step in the lower of cost or market comparison is to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among U.S. public accounting firms, only the more experienced staff members are predominantly licensed certified public accountants, as shown in the table below. Some NCSC employees also have professional licenses. Thus, it is valid to compare NCSC's hourly rates to those of the outside professional service providers included in this study.

Position	% CPAs
Partner/Owners	98%
Directors (10+ years experience)	87%
Managers (6-10 years experience)	79%
Sr. Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management  
of an Accounting Practice Survey (2010)

##### Attorneys

The Indiana Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Indiana attorneys. Therefore, an estimate of Indiana attorney rates was developed from a 2016 billing rate survey from National Law Journal. As shown in Exhibit 6 (pages 22-26), data from this survey has been adjusted for cost-of-living differences between each law firm's location and Merrillville, Indiana. The National Law Review Billing survey hourly rates data is for 2016.

##### Certified Public Accountants

The average hourly rate for Indiana certified public accountants was developed from a 2016 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. Hourly rates in the AICPA survey are the average of firms in Indiana. The average hourly rate was calculated for a range of accountant positions, as shown in Schedule 7 (page 27). Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2015. Thus,



#### IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

the calculated average rate was escalated to June 30, 2016—the midpoint of 2016.

##### Professional Engineers

NIPSCO provided 2016 hourly rate information for several firms that perform services that could be used by the company when outside engineering services are required. As shown in Schedule 8 (page 28), an average rate was developed for a range of engineering positions. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

##### Management Consultants

The cost per hour for management consultants was developed from the 2016 annual survey information from ALM Intelligence, a research firm that follows the management consulting industry. The first step in the calculation, presented in Schedule 9 (page 29), was to determine an average rate by consultant position. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. This survey includes rates that were in effect during 2016 for firms in the United States.

##### Information Technology Professionals

The 2016 average hourly rate for information technology consultants and contractors was developed from two sources: NSCS for IT contractor rates and ALM Intelligence for IT consultants. As shown in Exhibit 10 (page 30), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment.

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Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Attorneys

2016 Hourly Billing Rates		Weighted Average Rate Calculation					Cost of Living (COL) Adjustment (Note B)			(A x B)
		2016 Avg Billing Rates		0.25	0.75	(A)	COL Indices		(B)	
							Law Firm Location	Merrillville, Indiana		
Firm Name	Location	Partner	Associate	Partner	Associate	Weighted Average	Law Firm Location	Merrillville, Indiana	COL Adjustment	Adjusted Rate
Ackerman Fox	East Meadow, NY	\$ 475	\$ 350	\$ 119	\$ 263	\$ 381	129.2	90.5	70.0%	\$ 267
Adam Law Group	Jacksonville, FL	\$ 350	\$ 350	\$ 88	\$ 263	\$ 350	95.5	90.5	94.7%	\$ 331
Akerman	Miami, FL	\$ 510	\$ 285	\$ 128	\$ 214	\$ 341	107.2	90.5	84.4%	\$ 288
Akin Gump Strauss Hauer & Feld	Washington , DC	\$ 1,175	\$ 523	\$ 294	\$ 392	\$ 686	141.6	90.5	63.9%	\$ 438
Allen Barnes & Jones	Phoenix, AZ	\$ 345	\$ 285	\$ 86	\$ 214	\$ 300	97.3	90.5	93.0%	\$ 279
Amigone, Sanchez & Mattrey	Buffalo, NY	\$ 275	\$ 175	\$ 69	\$ 131	\$ 200	96.2	90.5	94.0%	\$ 188
Andante Law Group	Scottsdale, AZ	\$ 565	\$ 375	\$ 141	\$ 281	\$ 423	113.9	90.5	79.4%	\$ 335
Andreozzi Bluestein Weber Brown	Clarence, NY	\$ 400	\$ 230	\$ 100	\$ 173	\$ 273	96.2	90.5	94.0%	\$ 256
Andrews Kurth	Houston, TX	\$ 813	\$ 360	\$ 203	\$ 270	\$ 473	99.0	90.5	91.4%	\$ 433
Arent Fox	Washington, DC	\$ 582	\$ 295	\$ 146	\$ 221	\$ 367	141.6	90.5	63.9%	\$ 234
Arnstein & Lehr	Chicago, IL	\$ 493	\$ 250	\$ 123	\$ 188	\$ 311	117.4	90.5	77.0%	\$ 239
Ashby & Geddes	Wilmington, DE	\$ 495	\$ 353	\$ 124	\$ 265	\$ 389	108.4	90.5	83.5%	\$ 324
Ayres, Shelton, Williams	Shreveport, LA	\$ 325	\$ 275	\$ 81	\$ 206	\$ 288	92.7	90.5	97.6%	\$ 281
Bailey & Busey	Yakima, WA	\$ 250	\$ 230	\$ 63	\$ 173	\$ 235	89.9	90.5	100.7%	\$ 237
Baker & Associates	Houston, TX	\$ 450	\$ 325	\$ 113	\$ 244	\$ 356	99.0	90.5	91.4%	\$ 326
Baker Botts	Houston, TX	\$ 788	\$ 550	\$ 197	\$ 413	\$ 610	99.0	90.5	91.4%	\$ 557
Baker, Donelson, Bearman, Caldwell & Berkov	Nashville, TN	\$ 395	\$ 320	\$ 99	\$ 240	\$ 339	86.3	90.5	104.8%	\$ 355
Baldi Berg	Chicago, IL	\$ 388	\$ 275	\$ 97	\$ 206	\$ 303	117.4	90.5	77.0%	\$ 234
Barron and Newburger	Austin, TX	\$ 450	\$ 450	\$ 113	\$ 338	\$ 450	92.5	90.5	97.9%	\$ 440
Bayard	Wilmington, DE	\$ 692	\$ 477	\$ 173	\$ 358	\$ 531	108.4	90.5	83.5%	\$ 443
Behar, Gutt & Glazer	Fort Lauderdale, FL	\$ 400	\$ 335	\$ 100	\$ 251	\$ 351	109.5	90.5	82.6%	\$ 290
Benjamin & Brand	Chicago, IL	\$ 425	\$ 395	\$ 106	\$ 296	\$ 403	117.4	90.5	77.0%	\$ 310
Bernstein-Burkley	Pittsburgh, PA	\$ 385	\$ 249	\$ 96	\$ 187	\$ 283	121.2	90.5	74.6%	\$ 211
Bielli & Klauder	Philadelphia, PA	\$ 350	\$ 285	\$ 88	\$ 214	\$ 301	121.2	90.5	74.6%	\$ 225
Binder & Malter	Santa Clara, CA	\$ 440	\$ 300	\$ 110	\$ 225	\$ 335	148.8	90.5	60.8%	\$ 204
Bingham Greenebaum Doll	Indianapolis, IN	\$ 313	\$ 215	\$ 78	\$ 161	\$ 240	91.1	90.5	99.3%	\$ 238
Blanchard Law	Largo, FL	\$ 250	\$ 225	\$ 63	\$ 169	\$ 231	96.8	90.5	93.5%	\$ 216
Bolognese & Associates	Philadelphia, DE	\$ 675	\$ 675	\$ 169	\$ 506	\$ 675	108.4	90.5	83.5%	\$ 564
Bond, Schoeneck & King	Syracuse, NY	\$ 383	\$ 196	\$ 96	\$ 147	\$ 243	99.9	90.5	90.6%	\$ 220
Bracewell	Houston, TX	\$ 779	\$ 523	\$ 195	\$ 392	\$ 587	99.0	90.5	91.4%	\$ 537
Bradley Arant Boult Cummings	Birmingham, AL	\$ 540	\$ 330	\$ 135	\$ 248	\$ 383	85.9	90.5	105.3%	\$ 403
Broege, Neumann, Fischer & Shaver	Manasquan, NJ	\$ 438	\$ 438	\$ 110	\$ 329	\$ 438	122.2	90.5	74.0%	\$ 324
Bryan Cave	St. Louis, MO	\$ 543	\$ 350	\$ 136	\$ 263	\$ 398	94.4	90.5	95.8%	\$ 382
Burr & Forman	Birmingham, AL	\$ 545	\$ 310	\$ 136	\$ 233	\$ 369	85.9	90.5	105.3%	\$ 388
Butler Snow	Memphis, TN	\$ 313	\$ 195	\$ 78	\$ 146	\$ 225	84.9	90.5	106.6%	\$ 239
Canterbury Law Group	Scottsdale, AZ	\$ 400	\$ 140	\$ 100	\$ 105	\$ 205	113.9	90.5	79.4%	\$ 163
CGA Law Firm	York, PA	\$ 288	\$ 195	\$ 72	\$ 146	\$ 218	98.1	90.5	92.3%	\$ 201
Chambliss, Bahner & Stophel	Chattanooga, TN	\$ 300	\$ 240	\$ 75	\$ 180	\$ 255	93.1	90.5	97.2%	\$ 248
Ciardi, Ciardi & Astin	Philadelphia, PA	\$ 540	\$ 300	\$ 135	\$ 225	\$ 360	121.2	90.5	74.6%	\$ 269
Coats Rose Yale Ryman & Lee	Houston, TX	\$ 550	\$ 325	\$ 138	\$ 244	\$ 381	99.0	90.5	91.4%	\$ 349
Cohen & Grigsby	Pittsburgh, PA	\$ 425	\$ 255	\$ 106	\$ 191	\$ 298	92.2	90.5	98.1%	\$ 292
Cole, Schotz, Meisel, Forman & Leonard	Baltimore, MD	\$ 510	\$ 320	\$ 128	\$ 240	\$ 368	111.3	90.5	81.3%	\$ 299



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Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Attorneys

2016 Hourly Billing Rates		Weighted Average Rate Calculation					Cost of Living (COL) Adjustment (Note B)			(A x B) Adjusted Rate	
		2016 Avg Billing Rates		0.25		0.75	(A) Weighted Average	COL Indices			(B) COL Adjustment
				Partner	Associate	Partner		Associate	Law Firm Location		
Firm Name	Location	Partner	Associate	Partner	Associate	Partner	Associate	Law Firm Location	Merrillville, Indiana	Adjustment	Adjusted Rate
Cooley	Palo Alto, CA	\$ 995	\$ 563	\$ 249	\$ 422	\$ 671		159.9	90.5	56.6%	\$ 380
Cooper & Scully	Houston, TX	\$ 425	\$ 300	\$ 106	\$ 225	\$ 331		99.0	90.5	91.4%	\$ 303
Crane Heyman Simon Welch	Chicago, IL	\$ 458	\$ 430	\$ 115	\$ 323	\$ 437		117.4	90.5	77.0%	\$ 337
Creim Macias Koenig & Frey	Los Angeles, CA	\$ 595	\$ 350	\$ 149	\$ 263	\$ 411		131.0	90.5	69.0%	\$ 284
Crowley, Liberatore, Ryan & Brogan	Norfolk, VA	\$ 350	\$ 350	\$ 88	\$ 263	\$ 350		99.4	90.5	91.0%	\$ 319
Curtis Castillo	Dallas, TX	\$ 420	\$ 350	\$ 105	\$ 263	\$ 368		95.7	90.5	94.5%	\$ 347
Dal Lago Law	Naples, FL	\$ 360	\$ 200	\$ 90	\$ 150	\$ 240		96.3	90.5	93.9%	\$ 225
David W Steen	Tampa, FL	\$ 450	\$ 450	\$ 113	\$ 338	\$ 450		92.9	90.5	97.4%	\$ 438
Davis Miles McGuire Gardner	Tempe, AZ	\$ 380	\$ 238	\$ 95	\$ 179	\$ 274		97.3	90.5	93.0%	\$ 254
Day Pitney	Parsippany, NY	\$ 585	\$ 375	\$ 146	\$ 281	\$ 428		133.0	90.5	68.0%	\$ 291
DeCaro & Howell	Upper Marlboro, MD	\$ 425	\$ 380	\$ 106	\$ 285	\$ 391		111.8	90.5	80.9%	\$ 317
Dechert	New York, NY	\$ 930	\$ 570	\$ 233	\$ 428	\$ 660		221.3	90.5	40.9%	\$ 270
Dentons	Atlanta, GA	\$ 690	\$ 538	\$ 173	\$ 404	\$ 576		93.5	90.5	96.7%	\$ 557
Derbes Law Firm	Metairie, LA	\$ 325	\$ 165	\$ 81	\$ 124	\$ 205		98.2	90.5	92.2%	\$ 189
Desmond, Nolan, Livaich & Cunningham	Sacramento, CA	\$ 325	\$ 225	\$ 81	\$ 169	\$ 250		109.8	90.5	82.4%	\$ 206
Dickinson Wright	Troy, MI	\$ 600	\$ 245	\$ 150	\$ 184	\$ 334		96.1	90.5	94.1%	\$ 314
DLA Piper	New York, NY	\$ 958	\$ 633	\$ 240	\$ 475	\$ 714		221.3	90.5	40.9%	\$ 292
Dragich Law	Grosse Pointe Woods, MI	\$ 350	\$ 250	\$ 88	\$ 188	\$ 275		96.1	90.5	94.1%	\$ 259
DuBosar Sheres	Boca Raton, FL	\$ 425	\$ 290	\$ 106	\$ 218	\$ 324		109.5	90.5	82.6%	\$ 267
Dykema Cox Smith	San Antonio, TX	\$ 565	\$ 290	\$ 141	\$ 218	\$ 359		87.6	90.5	103.3%	\$ 371
Ehrhard & Associates	Worcester, MA	\$ 300	\$ 275	\$ 75	\$ 206	\$ 281		103.6	90.5	87.3%	\$ 246
FactorLaw	Chicago, IL	\$ 350	\$ 275	\$ 88	\$ 206	\$ 294		117.4	90.5	77.0%	\$ 226
Faucher & Associates	Westlake Village, CA	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400		131.0	90.5	69.0%	\$ 276
Felderstein Fitzgerald Willoughby and Scuzzi	Sacramento, CA	\$ 495	\$ 350	\$ 124	\$ 263	\$ 386		109.8	90.5	82.4%	\$ 318
Flaster Greenberg	Cherry Hill, NJ	\$ 490	\$ 490	\$ 123	\$ 368	\$ 490		121.2	90.5	74.6%	\$ 366
Foley & Lardner	Milwaukee, WI	\$ 680	\$ 425	\$ 170	\$ 319	\$ 489		101.7	90.5	89.0%	\$ 435
Foley Hoag	Boston, MA	\$ 702	\$ 508	\$ 176	\$ 381	\$ 557		140.1	90.5	64.6%	\$ 359
Forman Holt Eliades & Youngman	Paramus, NJ	\$ 495	\$ 200	\$ 124	\$ 150	\$ 274		133.0	90.5	68.0%	\$ 186
Fowler White Burnett	Miami, FL	\$ 450	\$ 275	\$ 113	\$ 206	\$ 319		107.2	90.5	84.4%	\$ 269
Fox Rothschild	Philadelphia, PA	\$ 548	\$ 340	\$ 137	\$ 255	\$ 392		121.2	90.5	74.6%	\$ 293
Frank B. Lyon	Austin, TX	\$ 395	\$ 305	\$ 99	\$ 229	\$ 328		92.5	90.5	97.9%	\$ 320
Franklin Hayward	Dallas, TX	\$ 318	\$ 280	\$ 80	\$ 210	\$ 290		95.7	90.5	94.5%	\$ 274
Furr & Cohen	Boca Raton, FL	\$ 550	\$ 388	\$ 138	\$ 291	\$ 429		109.5	90.5	82.6%	\$ 354
Gardere Wynne Sewell	Dallas, TX	\$ 590	\$ 578	\$ 148	\$ 434	\$ 581		95.7	90.5	94.5%	\$ 549
Garrity Traina	Coconut Creek, FL	\$ 250	\$ 200	\$ 63	\$ 150	\$ 213		109.5	90.5	82.6%	\$ 176
Genova Burns Giantomasi Webster	Newark, NJ	\$ 600	\$ 275	\$ 150	\$ 206	\$ 356		128.4	90.5	70.5%	\$ 251
Gerald K. Smith & John C. Smith Law Office	Tucson, AZ	\$ 400	\$ 350	\$ 100	\$ 263	\$ 363		96.4	90.5	93.9%	\$ 340
Goldstein & McClintock	Chicago, IL	\$ 435	\$ 225	\$ 109	\$ 169	\$ 278		117.4	90.5	77.0%	\$ 214
Gray Reed & McGraw	Houston, TX	\$ 600	\$ 300	\$ 150	\$ 225	\$ 375		99.0	90.5	91.4%	\$ 343
Green & Sklarz	New Haven, CT	\$ 443	\$ 350	\$ 111	\$ 263	\$ 373		128.3	90.5	70.5%	\$ 263
Greenberg & Bass	Encino, CA	\$ 450	\$ 363	\$ 113	\$ 272	\$ 385		131.0	90.5	69.0%	\$ 266
Greenberg Traurig	New York, NY	\$ 950	\$ 563	\$ 238	\$ 422	\$ 660		221.3	90.5	40.9%	\$ 270

Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Attorneys

2016 Hourly Billing Rates		Weighted Average Rate Calculation					Cost of Living (COL) Adjustment (Note B)			(A x B)
		2016 Avg Billing Rates		0.25	0.75	(A)	COL Indices (B)			
Firm Name	Location	Partner	Associate	Partner	Associate	Weighted Average	Law Firm Location	Merrillville, Indiana	COL Adjustment	Adjusted Rate
Greene Infuso	Las Vegas, NV	\$ 388	\$ 225	\$ 97	\$ 169	\$ 266	102.7	90.5	88.1%	\$ 234
Gregory K. Stern	Chicago, IL	\$ 465	\$ 440	\$ 116	\$ 330	\$ 446	117.4	90.5	77.0%	\$ 344
Gruber Hurst Elrod Johansen Hail Shank	Dallas, TX	\$ 490	\$ 295	\$ 123	\$ 221	\$ 344	95.7	90.5	94.5%	\$ 325
Haberbush & Associates	Long Beach, CA	\$ 388	\$ 175	\$ 97	\$ 131	\$ 228	131.0	90.5	69.0%	\$ 158
Hall, Estill, Hardwick, Gable, Golden & Nelson	Tulsa, TX	\$ 410	\$ 225	\$ 103	\$ 169	\$ 271	88.4	90.5	102.3%	\$ 278
Harter Secrest & Emery	Rochester, NY	\$ 468	\$ 245	\$ 117	\$ 184	\$ 301	99.9	90.5	90.6%	\$ 272
Haynes and Boone	Dallas, TX	\$ 750	\$ 325	\$ 188	\$ 244	\$ 431	95.7	90.5	94.5%	\$ 408
Hirschler, Fleischer	Richmond, VA	\$ 440	\$ 265	\$ 110	\$ 199	\$ 309	99.7	90.5	90.7%	\$ 280
Holland & Knight	Washington, DC	\$ 725	\$ 575	\$ 181	\$ 431	\$ 613	141.6	90.5	63.9%	\$ 391
Hughes Watters Askanase	Houston, TX	\$ 420	\$ 310	\$ 105	\$ 233	\$ 338	99.0	90.5	91.4%	\$ 309
Irell & Manella	Los Angeles, CA	\$ 1,135	\$ 870	\$ 284	\$ 653	\$ 936	131.0	90.5	69.0%	\$ 646
J. Bennett White	Tyler, TX	\$ 350	\$ 250	\$ 88	\$ 188	\$ 275	96.4	90.5	93.8%	\$ 258
James & Haugland	El Paso, TX	\$ 300	\$ 225	\$ 75	\$ 169	\$ 244	90.8	90.5	99.6%	\$ 243
Jeffer Mangels Butler and Marmaro	Los Angeles, CA	\$ 695	\$ 360	\$ 174	\$ 270	\$ 444	131.0	90.5	69.0%	\$ 306
Jefferson & Brewer	Indianapolis, IN	\$ 375	\$ 250	\$ 94	\$ 188	\$ 281	91.1	90.5	99.3%	\$ 279
Jeffrey Strange & Associates	Wilmette, IL	\$ 450	\$ 395	\$ 113	\$ 296	\$ 409	117.4	90.5	77.0%	\$ 315
Johnson Pope Bokor Ruppel & Burns	Tampa, FL	\$ 350	\$ 298	\$ 88	\$ 224	\$ 311	92.9	90.5	97.4%	\$ 303
Kasen & Kasen	Cherry Hill, NJ	\$ 425	\$ 350	\$ 106	\$ 263	\$ 369	121.2	90.5	74.6%	\$ 275
Keller & Benvenuti	San Francisco, CA	\$ 800	\$ 400	\$ 200	\$ 300	\$ 500	159.9	90.5	56.6%	\$ 283
King & Spalding	Atlanta, GA	\$ 925	\$ 530	\$ 231	\$ 398	\$ 629	93.5	90.5	96.7%	\$ 608
Klee Tuchin Bogdanoff & Stern	Los Angeles, CA	\$ 650	\$ 493	\$ 163	\$ 370	\$ 532	131.0	90.5	69.0%	\$ 368
Kos & Associates	Fort Wayne, IN	\$ 300	\$ 175	\$ 75	\$ 131	\$ 206	89.8	90.5	100.7%	\$ 208
Krigel & Krigel	Kansas City, MO	\$ 275	\$ 225	\$ 69	\$ 169	\$ 238	98.0	90.5	92.3%	\$ 219
Lakelaw	Chicago, IL	\$ 650	\$ 375	\$ 163	\$ 281	\$ 444	117.4	90.5	77.0%	\$ 342
Lamberth, Cifelli, Stokes, Ellis & Nason	Macon, GA	\$ 450	\$ 300	\$ 113	\$ 225	\$ 338	89.4	90.5	101.2%	\$ 341
Landau Gottfried & Berger	Los Angeles, CA	\$ 565	\$ 418	\$ 141	\$ 314	\$ 455	131.0	90.5	69.0%	\$ 314
Langley & Banack	San Antonio, TX	\$ 350	\$ 350	\$ 88	\$ 263	\$ 350	87.6	90.5	103.3%	\$ 361
Lansing Roy	Jacksonville, FL	\$ 300	\$ 250	\$ 75	\$ 188	\$ 263	95.5	90.5	94.7%	\$ 249
Law Office of Daren M. Schlechter	Los Angeles, CA	\$ 350	\$ 150	\$ 88	\$ 113	\$ 200	131.0	90.5	69.0%	\$ 138
Law Office of Robert M. Aronson	Los Angeles, CA	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	131.0	90.5	69.0%	\$ 276
Law Offices of Langley & Chang	Riverside, CA	\$ 425	\$ 425	\$ 106	\$ 319	\$ 425	112.0	90.5	80.8%	\$ 343
Law Offices of Michael Jay Berger	Beverly Hills, CA	\$ 450	\$ 345	\$ 113	\$ 259	\$ 371	131.0	90.5	69.0%	\$ 256
Law Offices of Raymond H. Aver	Los Angeles, CA	\$ 495	\$ 300	\$ 124	\$ 225	\$ 349	131.0	90.5	69.0%	\$ 241
LeClairRyan	Newark, NJ	\$ 340	\$ 250	\$ 85	\$ 188	\$ 273	128.4	90.5	70.5%	\$ 192
Leslie Cohen Law	Santa Monica, CA	\$ 575	\$ 335	\$ 144	\$ 251	\$ 395	131.0	90.5	69.0%	\$ 273
Levene Neale Bender Yoo & Brill	Los Angeles, CA	\$ 575	\$ 380	\$ 144	\$ 285	\$ 429	131.0	90.5	69.0%	\$ 296
Locke Lord	Dallas, TX	\$ 630	\$ 415	\$ 158	\$ 311	\$ 469	95.7	90.5	94.5%	\$ 443
Malaise Law Firm	San Antonio, TX	\$ 275	\$ 275	\$ 69	\$ 206	\$ 275	87.6	90.5	103.3%	\$ 284
Marshack Hays	Irvine, CA	\$ 550	\$ 360	\$ 138	\$ 270	\$ 408	140.7	90.5	64.3%	\$ 262
McAuliffe & Associates	Newton, MA	\$ 300	\$ 250	\$ 75	\$ 188	\$ 263	140.1	90.5	64.6%	\$ 170
McCallar Law Firm	Savannah, GA	\$ 400	\$ 290	\$ 100	\$ 218	\$ 318	91.9	90.5	98.5%	\$ 313
McDonald Carano Wilson	Las Vegas, NV	\$ 425	\$ 300	\$ 106	\$ 225	\$ 331	102.7	90.5	88.1%	\$ 292

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Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Attorneys

2016 Hourly Billing Rates		Weighted Average Rate Calculation					Cost of Living (COL) Adjustment (Note B)			(A x B)
		2016 Avg Billing Rates		0.25	0.75	(A)	COL Indices		(B)	
							Law Firm Location	Merrillville, Indiana		
Firm Name	Location	Partner	Associate	Partner	Associate	Weighted Average				Adjusted Rate
McDonald Hopkins	Cleveland, OH	\$ 565	\$ 330	\$ 141	\$ 248	\$ 389	98.2	90.5	92.1%	\$ 358
McDowell Posternock Apell & Detrick	Maple Shade, NJ	\$ 375	\$ 338	\$ 94	\$ 254	\$ 347	121.2	90.5	74.6%	\$ 259
McKool Smith	Dallas, TX	\$ 750	\$ 495	\$ 188	\$ 371	\$ 559	95.7	90.5	94.5%	\$ 528
McNamee, Hosea, Jernigan, Kim, Greenan & L	Greenbelt, MD	\$ 375	\$ 325	\$ 94	\$ 244	\$ 338	127.4	90.5	71.0%	\$ 240
Meland Russin & Budwick	Miami, FL	\$ 500	\$ 250	\$ 125	\$ 188	\$ 313	107.2	90.5	84.4%	\$ 264
Merrill & Stone	Swainsboro, GA	\$ 285	\$ 285	\$ 71	\$ 214	\$ 285	89.4	90.5	101.2%	\$ 288
Mesch Clark & Rothschild	Tucson, AZ	\$ 463	\$ 275	\$ 116	\$ 206	\$ 322	96.4	90.5	93.9%	\$ 302
Mestone & Associates	North Andover, MA	\$ 300	\$ 300	\$ 75	\$ 225	\$ 300	103.6	90.5	87.3%	\$ 262
Middlebrooks Shapiro	Springfield, NJ	\$ 400	\$ 300	\$ 100	\$ 225	\$ 325	133.0	90.5	68.0%	\$ 221
Miles and Stockbridge	Baltimore, MD	\$ 485	\$ 320	\$ 121	\$ 240	\$ 361	111.3	90.5	81.3%	\$ 294
Mirick, O'Connell, DeMallie & Lougee	Westborough, MA	\$ 410	\$ 280	\$ 103	\$ 210	\$ 313	103.6	90.5	87.3%	\$ 273
Moon Wright & Houston	Charlotte, NC	\$ 500	\$ 260	\$ 125	\$ 195	\$ 320	96.1	90.5	94.1%	\$ 301
Moore & Van Allen	Charlotte, NC	\$ 573	\$ 260	\$ 143	\$ 195	\$ 338	96.1	90.5	94.1%	\$ 318
Morris Polich & Purdy	Las Vegas, NV	\$ 575	\$ 350	\$ 144	\$ 263	\$ 406	102.7	90.5	88.1%	\$ 358
Morrison Cohen	New York, NY	\$ 618	\$ 475	\$ 155	\$ 356	\$ 511	221.3	90.5	40.9%	\$ 209
Munsch Hardt Kopf & Harr	Dallas, TX	\$ 588	\$ 323	\$ 147	\$ 242	\$ 389	95.7	90.5	94.5%	\$ 368
Nathan Horowitz	White Plains, NY	\$ 450	\$ 135	\$ 113	\$ 101	\$ 214	129.2	90.5	70.0%	\$ 150
Norton Rose Fulbright	Houston, TX	\$ 825	\$ 355	\$ 206	\$ 266	\$ 473	99.0	90.5	91.4%	\$ 432
Ogier Rothschild & Rosenfeld	Atlanta, GA	\$ 450	\$ 125	\$ 113	\$ 94	\$ 206	93.5	90.5	96.7%	\$ 200
Olshan Frome Wolosky	New York, NY	\$ 700	\$ 290	\$ 175	\$ 218	\$ 393	221.3	90.5	40.9%	\$ 160
Pachulski Stang Ziehl & Jones	Houston, TX	\$ 938	\$ 600	\$ 235	\$ 450	\$ 685	99.0	90.5	91.4%	\$ 626
Parker Schwartz	Phoenix, AZ	\$ 450	\$ 375	\$ 113	\$ 281	\$ 394	97.3	90.5	93.0%	\$ 366
Paul, Weiss, Rifkind, Wharton & Garrison	New York, NY	\$ 1,240	\$ 713	\$ 310	\$ 535	\$ 845	221.3	90.5	40.9%	\$ 345
Pendergraft & Simon	Houston, TX	\$ 500	\$ 450	\$ 125	\$ 338	\$ 463	99.0	90.5	91.4%	\$ 423
Platzer Swergold Karlin Levine Goldberg & Jas	New York, NY	\$ 590	\$ 455	\$ 148	\$ 341	\$ 489	221.3	90.5	40.9%	\$ 200
Porzio, Bromberg & Newman	Morristown, NJ	\$ 675	\$ 410	\$ 169	\$ 308	\$ 476	133.0	90.5	68.0%	\$ 324
Quinn Emanuel Urquhart & Sullivan	New York, NY	\$ 1,103	\$ 618	\$ 276	\$ 464	\$ 739	221.3	90.5	40.9%	\$ 302
Rabinowitz, Lubetkin & Tully	Livingston, NJ	\$ 412	\$ 195	\$ 103	\$ 146	\$ 249	128.4	90.5	70.5%	\$ 176
Rapport Osborne and Rapport	Boca Raton, FL	\$ 573	\$ 400	\$ 143	\$ 300	\$ 443	109.5	90.5	82.6%	\$ 366
Red Hill Law Group	Irvine, CA	\$ 390	\$ 300	\$ 98	\$ 225	\$ 323	140.7	90.5	64.3%	\$ 207
Reed Smith	New York, NY	\$ 800	\$ 575	\$ 200	\$ 431	\$ 631	221.3	90.5	40.9%	\$ 258
Richards, Layton & Finger	Wilmington, DE	\$ 763	\$ 360	\$ 191	\$ 270	\$ 461	108.4	90.5	83.5%	\$ 385
Ringstad & Sanders	Irvine, CA	\$ 625	\$ 375	\$ 156	\$ 281	\$ 438	140.7	90.5	64.3%	\$ 281
Rogers Law Offices	Atlanta, GA	\$ 325	\$ 275	\$ 81	\$ 206	\$ 288	93.5	90.5	96.7%	\$ 278
Roussos Lassiter Glanzer & Barnhart	Ashburn, VA	\$ 390	\$ 325	\$ 98	\$ 244	\$ 341	102.0	90.5	88.7%	\$ 303
Salazar Jackson	Coral Gables, FL	\$ 500	\$ 358	\$ 125	\$ 269	\$ 394	96.3	90.5	93.9%	\$ 370
Saul Ewing	Philadelphia, PA	\$ 525	\$ 335	\$ 131	\$ 251	\$ 383	121.2	90.5	74.6%	\$ 286
Schafer and Weiner	Bloomfield Hills, MI	\$ 376	\$ 265	\$ 94	\$ 199	\$ 293	96.1	90.5	94.1%	\$ 275
Schreeder, Wheeler & Flint	Atlanta, GA	\$ 450	\$ 280	\$ 113	\$ 210	\$ 323	93.5	90.5	96.7%	\$ 312
Scott H. Marcus & Associates	Turnersville, NJ	\$ 375	\$ 240	\$ 94	\$ 180	\$ 274	121.2	90.5	74.6%	\$ 204
Searcy & Searcy	Longview, TX	\$ 400	\$ 238	\$ 100	\$ 179	\$ 279	96.6	90.5	93.6%	\$ 261
Shapiro Croland Reiser Apfel & Di Iorio	Hackensack, NJ	\$ 373	\$ 275	\$ 93	\$ 206	\$ 300	133.0	90.5	68.0%	\$ 204

Schedule 6  
Page 5 of 5

Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Attorneys

2016 Hourly Billing Rates		Weighted Average Rate Calculation						Cost of Living (COL) Adjustment (Note B)		
Firm Name	Location	2016 Avg Billing Rates		0.25		0.75	(A)	COL Indices		(B)
		Partner	Associate	Partner	Associate	Weighted Average		Law Firm Location	Merrillville, Indiana	COL Adjustment
Shaw Fishman Glantz & Towbin	Chicago, IL	\$ 425	\$ 210	\$ 106	\$ 158	\$ 264		117.4	90.5	77.0%
Sheppard, Mullin, Richter & Hampton	Los Angeles, CA	\$ 760	\$ 488	\$ 190	\$ 366	\$ 556		131.0	90.5	69.0%
Shulman Hodges & Bastian	Irvine, CA	\$ 550	\$ 295	\$ 138	\$ 221	\$ 359		140.7	90.5	64.3%
Shulman Rogers Gandal Pordy & Ecker	Potomac, MD	\$ 490	\$ 320	\$ 123	\$ 240	\$ 363		127.4	90.5	71.0%
Sidley Austin	Chicago, IL	\$ 925	\$ 738	\$ 231	\$ 554	\$ 785		117.4	90.5	77.0%
Simon Resnik Hayes	Sherman Oaks, CA	\$ 425	\$ 365	\$ 106	\$ 274	\$ 380		131.0	90.5	69.0%
Smith, Gilliam, Williams and Miles	Gainesville, GA	\$ 290	\$ 265	\$ 73	\$ 199	\$ 271		94.7	90.5	95.5%
Speckman & Associates	San Diego, CA	\$ 425	\$ 295	\$ 106	\$ 221	\$ 328		129.2	90.5	70.0%
Spencer Fane Britt & Browne	Kansas City, MO	\$ 450	\$ 268	\$ 113	\$ 201	\$ 314		98.0	90.5	92.3%
Springer Brown	Wheaton, IL	\$ 350	\$ 315	\$ 88	\$ 236	\$ 324		117.4	90.5	77.0%
Steffes Vingiello	Baton Rouge, LA	\$ 350	\$ 275	\$ 88	\$ 206	\$ 294		91.7	90.5	98.6%
Stevenson & Bullock	Southfield, MI	\$ 363	\$ 275	\$ 91	\$ 206	\$ 297		96.1	90.5	94.1%
Stichter, Riedel, Blain & Postler	Tampa, FL	\$ 475	\$ 210	\$ 119	\$ 158	\$ 276		92.9	90.5	97.4%
Subranni, Ostrove & Zaubert	Atlantic City, NJ	\$ 350	\$ 250	\$ 88	\$ 188	\$ 275		122.2	90.5	74.0%
Sugar Felsenthal Grais & Hammer	Chicago, IL	\$ 500	\$ 360	\$ 125	\$ 270	\$ 395		117.4	90.5	77.0%
SulmeyerKupetz	Los Angeles, CA	\$ 585	\$ 454	\$ 146	\$ 341	\$ 487		131.0	90.5	69.0%
Taylor, Porter, Brooks & Phillips	Baton Rouge, LA	\$ 375	\$ 225	\$ 94	\$ 169	\$ 263		91.7	90.5	98.6%
Tetzlaff Law Offices	Chicago, IL	\$ 575	\$ 250	\$ 144	\$ 188	\$ 331		117.4	90.5	77.0%
The Callins Law Firm	Atlanta, GA	\$ 175	\$ 175	\$ 44	\$ 131	\$ 175		93.5	90.5	96.7%
The Eidson Law Firm	Jacksonville, FL	\$ 365	\$ 233	\$ 91	\$ 175	\$ 266		95.5	90.5	94.7%
The Fuller Law Firm	San Jose, CA	\$ 465	\$ 448	\$ 116	\$ 336	\$ 452		148.8	90.5	60.8%
The Grant Law Firm	San Diego, CA	\$ 550	\$ 338	\$ 138	\$ 254	\$ 391		129.2	90.5	70.0%
The Janvier Law Firm	Raleigh, NC	\$ 435	\$ 273	\$ 109	\$ 205	\$ 314		94.6	90.5	95.6%
The Law Office of William J. Factor	Northbrook, IL	\$ 350	\$ 275	\$ 88	\$ 206	\$ 294		117.4	90.5	77.0%
The Law Offices of Demetrius J. Parrish	Philadelphia, PA	\$ 300	\$ 275	\$ 75	\$ 206	\$ 281		121.2	90.5	74.6%
The Law Offices of Jason A. Burgess	Jacksonville, FL	\$ 295	\$ 195	\$ 74	\$ 146	\$ 220		95.5	90.5	94.7%
Thompson Burton	Franklin, TN	\$ 375	\$ 200	\$ 94	\$ 150	\$ 244		86.3	90.5	104.8%
Tiemstra Law Group	Oakland, CA	\$ 495	\$ 300	\$ 124	\$ 225	\$ 349		134.9	90.5	67.1%
Trenk DiPasquale Della Fera & Sodono	West Orange, NJ	\$ 460	\$ 240	\$ 115	\$ 180	\$ 295		128.4	90.5	70.5%
Walker & Patterson	Houston, TX	\$ 400	\$ 300	\$ 100	\$ 225	\$ 325		99.0	90.5	91.4%
Waller Lansden Dortch & Davis	Nashville, TN	\$ 478	\$ 250	\$ 120	\$ 188	\$ 307		86.3	90.5	104.8%
Wasserman Jurista & Stolz	Basking Ridge, NJ	\$ 550	\$ 375	\$ 138	\$ 281	\$ 419		128.4	90.5	70.5%
Weissberg & Associates	Chicago, IL	\$ 450	\$ 350	\$ 113	\$ 263	\$ 375		117.4	90.5	77.0%
Winthrop Couchot	Newport Beach, CA	\$ 673	\$ 385	\$ 168	\$ 289	\$ 457		140.7	90.5	64.3%
Young Conaway Stargatt & Taylor	Wilmington, DE	\$ 678	\$ 403	\$ 170	\$ 302	\$ 472		108.4	90.5	83.5%
Zalkin Revell	Santa Rosa Beach, FL	\$ 300	\$ 300	\$ 75	\$ 225	\$ 300		97.6	90.5	92.7%
Overall 2016 Average Hourly Billing Rate										\$ 299

Note A: Source is National Law Journal 2016 Billing Survey

Note B: Cost of Living Index, Source Council for Community and Economic Research

Schedule 7

Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position				
Survey billing rates were those in effect in 2015 (Note A)				
Average Hourly Billing Rate by CPA Firm Position	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Manager	Partner
	\$ 91	\$ 116	\$ 161	\$ 208
Percent of Accounting Assignment	30%	30%	20%	20%
	\$ 27	\$ 35	\$ 32	\$ 42
Weighted Average				
				<b>\$ 136</b>
Escalation to Test Period Midpoint (June 30, 2016)				
CPI at December 31, 2015				236.5
CPI at June 30, 2016				241.0
Inflation/Escalation (Note B)				1.9%
Average Hourly Billing Rate for Indiana CPAs at June 30, 2016				<b>\$ 138</b>

Note A: Source is AICPA's 2016 National PCPS Management of an Accounting Practice Survey  
(Indiana edition)

Note B: Source is U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)



Schedule 8

Northern Indiana Public Service Company  
2016 Billing Rates for Indiana Professional Engineers

Billing rates were those in effect in 2016				
A. Calculation of Average Hourly Rate by Engineer Position				
Name of Firm	Average Hourly Billing Rates			
	Engineer Tech, CAD Drafter	Design Engineer Project Engineer	Senior Engineer, Project Manager	Principal
<u>Design Engineering Firms</u>				
Firm #1	\$119	\$131	\$173	na
Firm #2	\$75	\$105	\$153	\$189
Firm #3	\$62	\$89	\$111	na
Firm #4	\$88	\$114	na	na
Firm #5	\$74	\$110	\$176	\$224
B. Calculation of Overall Average Engineering Hourly Billing Rate				
	Engineer Tech, CAD Drafter	Design Engineer Project Engineer	Senior Engineer, Project Manager	Principal
Average Hourly Billing Rate (From Above)	\$83	\$110	\$153	\$207
Typical Percent of Time on an Engineering Assignment	33%	33%	24%	10%
	\$28	\$36	\$37	\$21
				<b>Weighted Average</b>
				<b>\$121</b>

Source: Information provided by NIPSCO. Firm names are confidential.



Schedule 9

Northern Indiana Public Service Company  
2016 Billing Rates for U.S. Management Consultants

Survey billing rates in effect in 2016 (Note A)					
A. Calculation of Average Hourly Billing Rate by Consultant Position					
Average	Average Hourly Rates (Note A)				
	Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner
	\$ 206	\$ 234	\$ 288	\$ 438	\$ 523
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement					
Average Hourly Billing Rate (from above)	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
	\$ 206	\$ 234	\$ 288	\$ 438	\$ 523
Percent of Consulting Assignment	30%	30%	25%	10%	5%
	\$ 62	\$ 70	\$ 72	\$ 44	\$ 26
Average Hourly Billing Rate For Management Consultants During 2016					<b>\$ 274</b>

Note A: Source is ALM Intelligence



Exhibit 10

Northern Indiana Public Service Company  
2016 Billing Rates for Information Technology Professionals

A. Calculation of Average Hourly Billing Rate by Information Technology Position Survey billing rates were those in effect in 2016 (Note A)						
Average Hourly Billing Rate by IT Position Category	Average Hourly Billing Rate (Note A)					Weighted Average
	Contractor Positions		Consultant Positions			
	Developer, Analyst	Proj Mgr, Architect	Associate	Manager	Partner	
	\$ 100	\$ 125	\$ 218	\$ 323	\$ 406	
	25%	25%	25%	15%	10%	
Percent of IT Assignment	\$ 25	\$ 31	\$ 55	\$ 48	\$ 41	\$ 200
Average Hourly Billing Rate for IT Professionals During 2016						\$ 200

Note A: Source is ALM Intelligence





IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

**Cost Comparison of NCSC versus Outside Providers**

As shown in the table below, NCSC's costs per hour are considerably lower than those of outside providers.

Service Provider	2016 Cost/Hour Difference		
	NCSC	Outside Providers	Difference-- NCSC Greater(Less) Than Outside
Attorney	\$ 145	\$ 299	\$ (154)
Certified Public Accountant	\$ 102	\$ 138	\$ (36)
Professional Engineer	\$ 89	\$ 121	\$ (32)
Management Consultant	\$ 136	\$ 274	\$ (138)
IT Professional	\$ 103	\$ 200	\$ (97)

As calculated below, based on these cost-per-hour differentials and the number of hours that NCSC billed NIPSCO Gas during 2016, the services would cost almost \$14.4 million more from outside providers. This is 68% more ( $\$14,950,109 / \$21,850,339 = 68\%$ ) than NCSC's total 2016 market testable contract billings to NIPSCO Gas.

Service Provider	2016 Total Cost Difference		
	Hourly Rate Difference-- NCSC Greater(Less) Than Outside	NCSC Hours Charged	Dollar Difference
Attorney	\$ (154)	10,426	\$ (1,605,626)
Certified Public Accountant	\$ (36)	38,204	\$ (1,375,354)
Professional Engineer	\$ (32)	77,444	\$ (2,478,219)
Management Consultant	\$ (138)	50,404	\$ (6,955,799)
IT Professional	\$ (97)	26,135	\$ (2,535,111)
Total NCSC Less Than Outside Providers			\$ (14,950,109)

V – Question 3 – Reasonableness of Customer Account Services Costs

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**Comparison Methodology**

Customer Accounts Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

Certain of these functions are performed for NIPSCO Gas by NCSC. Others are performed by NIPSCO Gas itself. For this reason, total customer accounts services expenses are subjected to comparison.

It is difficult to compare the cost of NCSC and other affiliate customer accounts services charges to NIPSCO Gas with those of outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, NIPSCO Gas's charges from affiliates for customer accounts services are compared to those of neighboring electric utilities because the data necessary to make such comparison is available to the public.

Cost information regarding the comparison group of electric utilities comes from the FERC Form 1 that each utility must file. FERC's chart of accounts is defined in Chapter 18, Part 101, of the Code of Federal Regulations. FERC accounts that contain expenses for customer accounts services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Schedule 11 provides FERC's definition of the type of expenses that should be recorded in these accounts.

**Northern Indiana Public Service Company  
FERC Account Descriptions**

**903 – Customer Records and Collection Expenses**

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**905 – Miscellaneous Customer Accounts Expenses**

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.



V – Question 3 – Reasonableness of Customer Account Services Costs

**Comparison Group**

Neighboring electric utilities included in the comparison group are shown in the table below. Each company's FERC Form 1 shows amounts for Accounts 903 and 905.

State	Electric Utilities Providing FERC Form 1 Information	
Indiana	<ul style="list-style-type: none"> <li>Duke Energy Indiana</li> <li>Indiana Michigan Power</li> </ul>	<ul style="list-style-type: none"> <li>Indiana Power &amp; Light</li> <li>So. Indiana Gas &amp; Electric</li> </ul>
Illinois	<ul style="list-style-type: none"> <li>Ameren Illinois</li> <li>Commonwealth Edison</li> </ul>	<ul style="list-style-type: none"> <li>MidAmerica Energy</li> </ul>
Ohio	<ul style="list-style-type: none"> <li>Cleveland Elect Illuminating</li> <li>Dayton Power &amp; Light</li> <li>Duke Energy Ohio</li> </ul>	<ul style="list-style-type: none"> <li>Ohio Edison</li> <li>Ohio Power</li> <li>Toledo Edison</li> </ul>
Michigan	<ul style="list-style-type: none"> <li>Consumers Energy</li> <li>DTE Electric</li> <li>Indiana Michigan Power</li> <li>NSP Wisconsin</li> </ul>	<ul style="list-style-type: none"> <li>Upper Peninsula Power</li> <li>Wisconsin Electric</li> <li>Wisconsin Public Service</li> </ul>
Kentucky	<ul style="list-style-type: none"> <li>Duke Energy Kentucky</li> <li>Kentucky Power</li> </ul>	<ul style="list-style-type: none"> <li>Kentucky Utilities</li> <li>Louisville Gas &amp; Electric</li> </ul>

**NIPSCO Gas Cost per Customer**

As calculated below, NIPSCO Gas's customer accounts expense per customer is \$21.74 for 2016. NIPSCO Gas's cost pool includes the same expense items that are included in the neighboring electric utilities' customer accounts expenses.

2016 Total NIPSCO Gas Customer Account Services Expenses			
Account	NIPSCO	NCSC	2016
Acct 903	\$ 16,796,564	\$ 1,028,885	\$ 17,825,448
Total Customers			819,908
Customer Acct Services Expenses per Customer			\$ 21.74

**Comparison Group Cost per Customer**

Schedule 12 (page 36) shows the calculation of actual 2016 customer accounts expense per customer for the electric utility comparison group. The underlying data were taken from each utility's FERC Form 1.



Northern Indiana Public Service Company  
Comparison Group 2016 Customer Accounts Expense Per Customer

**Customer Account Services Cost Pool**

FERC Account Balances:

Account 903 - Customer Records & Collection (page 322, line 161)

Account 905 - Misc Customer Accounts (page 322, line 163)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

Indiana				Illinois		
Duke Energy Indiana	Indiana Michigan Pwr	Indianapolis Pwr & Light	So. Indiana Gas & Elect	Ameren Illinois	Com Edison	MidAmerica Energy
\$ 21,846,740	\$ 13,361,331	\$ 9,403,071	\$ 2,453,918	\$ 27,341,018	\$ 149,635,458	\$ 15,656,957
\$ 2,639	\$ 52,992	\$ 56,072	\$ 323,550	\$ 217,699	\$ -	\$ 258,713
<b>\$ 21,849,379</b>	<b>\$ 13,414,323</b>	<b>\$ 9,459,143</b>	<b>\$ 2,777,468</b>	<b>\$ 27,558,717</b>	<b>\$ 149,635,458</b>	<b>\$ 15,915,670</b>
812,986	589,041	486,827	148,429	1,224,649	3,969,041	760,580
<b>\$ 26.88</b>	<b>\$ 22.77</b>	<b>\$ 19.43</b>	<b>\$ 18.71</b>	<b>\$ 22.50</b>	<b>\$ 37.70</b>	<b>\$ 20.93</b>

**Customer Account Management Cost Pool**

FERC Account Balances:

Account 903 - Customer Records & Collection (page 322, line 161)

Account 905 - Misc Customer Accounts (page 322, line 163)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

Ohio					
Cleveland Electric Illum	Dayton Power & Light	Duke Energy Ohio	Ohio Edison	Ohio Power	Toledo Edison
\$ 7,970,850	\$ 10,539,914	\$ 20,413,579	\$ 12,216,430	\$ 39,560,703	\$ 4,612,200
\$ 715,161	\$ -	\$ 2,453	\$ 1,022,745	\$ 164,845	\$ 356,401
<b>\$ 8,686,011</b>	<b>\$ 10,539,914</b>	<b>\$ 20,416,032</b>	<b>\$ 13,239,175</b>	<b>\$ 39,725,548</b>	<b>\$ 4,968,601</b>
747,748	271,323	706,793	1,041,123	1,467,725	309,060
<b>\$ 11.62</b>	<b>\$ 38.85</b>	<b>\$ 28.89</b>	<b>\$ 12.72</b>	<b>\$ 27.07</b>	<b>\$ 16.08</b>

**Customer Account Services Cost Pool**

FERC Account Balances:

Account 903 - Customer Records & Collection (page 322, line 161)

Account 905 - Misc Customer Accounts (page 322, line 163)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

Michigan						
Consumers Energy	DTE Electric	Indiana Michigan Pwr	NSP Wisconsin	Upper Peninsula Pwr	Wisconsin Electric	Wisconsin Public Svc
\$ 34,036,229	\$ 61,938,711		\$ 3,850,643	\$ 1,611,107	\$ 18,537,089	\$ 8,173,705
\$ 12,217	\$ 35,425,628		\$ 536,329	\$ 14,218	\$ 260,494	\$ 1,651,992
<b>\$ 34,048,446</b>	<b>\$ 97,364,339</b>		<b>\$ 4,386,972</b>	<b>\$ 1,625,325</b>	<b>\$ 18,797,583</b>	<b>\$ 9,825,697</b>
1,804,630	2,169,416		256,540	52,707	1,142,983	449,877
<b>\$ 18.867</b>	<b>\$ 44.880</b>	<b>see Indiana</b>	<b>\$ 17.101</b>	<b>\$ 30.837</b>	<b>\$ 16.446</b>	<b>\$ 21.841</b>

**Customer Account Services Cost Pool**

FERC Account Balances:

Account 903 - Customer Records & Collection (page 322, line 161)

Account 905 - Misc Customer Accounts (page 322, line 163)

**Total Cost Pool**

Total Customers (page 304, line 43)

**Customer Account Services Expense per Customer**

Kentucky			
Duke Energy Kentucky	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric
\$ 4,810,532	\$ 5,227,697	\$ 18,432,371	\$ 6,664,816
\$ 455	\$ 17,864	\$ 8,511	\$ 7,998
<b>\$ 4,810,987</b>	<b>\$ 5,245,561</b>	<b>\$ 18,440,882</b>	<b>\$ 6,672,814</b>
140,014	168,848	547,069	404,744
<b>\$ 34.36</b>	<b>\$ 31.07</b>	<b>\$ 33.71</b>	<b>\$ 16.49</b>

Group Average
<b>\$ 539,404,045</b>
19,672,153
<b>\$ 27.42</b>



V – Question 3 – Reasonableness of Customer Account Services Costs

**Summary of Results**

As shown in the table below, NIPSCO Gas's cost per customer is below the electric utility comparison group average. Based upon this comparative data, NIPSCO Gas's charges from NCSC for customer account services for 2016 are reasonable.

Customer Account Services Expenses/Customer	
Cleveland Electric Illuminating	\$ 11.62
Ohio Edison	\$ 12.72
Toledo Edison	\$ 16.08
Wisconsin Electric	\$ 16.45
Louisville Gas & Electric	\$ 16.49
NSP Wisconsin	\$ 17.10
So. Indiana Gas & Electric	\$ 18.71
Consumers Energy	\$ 18.87
Indianapolis Power & Light	\$ 19.43
MidAmerica Energy	\$ 20.93
<b>NIPSCO Gas</b>	<b>\$ 21.74</b>
Wisconsin Public Service	\$ 21.84
Ameren Illinois	\$ 22.50
Indiana Michigan Power	\$ 22.77
Duke Energy Indiana	\$ 26.88
Ohio Power	\$ 27.07
<b>Group Average</b>	<b>\$ 27.42</b>
Duke Energy Ohio	\$ 28.89
Upper Peninsula Power	\$ 30.84
Kentucky Power	\$ 31.07
Kentucky Utilities	\$ 33.71
Duke Energy Kentucky	\$ 34.36
Com Edison	\$ 37.70
Dayton Power & Light	\$ 38.85
DTE Electric	\$ 44.88



V - Question 4 – Need for NCSC Services

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**Analysis of Services**

The final aspect of this study was an assessment of whether the services provided to NIPSCO Gas by NCSC would be necessary if NIPSCO Gas were a stand-alone gas utility. The first step in this evaluation was to determine specifically what NCSC does for NIPSCO Gas. The matrix in Exhibit 13 (pages 38-39) was created showing which entity—NIPSCO Gas or an NCSC location—is responsible for each of the functions NIPSCO Gas requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by NCSC and (2) if NCSC services are typical of those needed by a stand-alone gas utility.

Upon review of Exhibit 13, the following conclusions can be drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Gas were a stand-alone utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Gas. For all of the services listed in Exhibit 13, there was only one entity that was primarily responsible for the service.



Northern Indiana Public Service Company  
Designation of Responsibility for Gas Utility Functions

Gas Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
<b>Gas System Operations</b>				
Capital Execution				
Capital Allocation and Controls	P	S		
Gas Engineering	P	S		
Gas Construction	P	S		
Capital Scheduling	P	S		
Distribution Planning	P			
Maps and Records	P			
Public Improvement	P			
Gas Operations				
Central Dispatch	P			
Gas Planning	P			
Gas Scheduling	P			
Work Management	P			
Field Operations				
Commercial Field Operations	P			
Damage Prevention	P			
Gas Control and Storage	P			
Gas System Operations	P			
Leak Survey	P			
LNG Operations	P			
Underground Storage Operations	P			
Service Installation	P			
Vegetation Management - Gas	P			
Pipeline Safety and Compliance				
Integrity Management				
Pipeline Integrity	P	S		
System Integrity	P	S		
Public Awareness	P	S		
Compliance	P	S		
<b>Gas System Operations (cont.)</b>				
Major Projects				
Engineering Services	P			
Project Management Services	P			
Construction Management	P			
Contractor Services	P			
Commercial Operations				
Demand Side Management	P			
Major Accounts Support	P			
Customer Operations				
Work Management System Support	P			
Engineering Support	P			
Planning And Scheduling	P			
New Business Support	P	S		
Meter Reading	P			
Dispatch Operations Support	P			
Customer System Support	P			
Billing	P	S		
Revenue Recovery	P			
Payment Processing	P			
Customer Programs	P	S		
Postage Management	P	S		
Damage Recovery	P			
Walk in Centers	P	S		
Contact Center Operations & Support	P	S		
Call Center Operations	P	S		
<b>NIPSCO Delivery Services</b>	P			
<b>NIPSCO Warehouse Services</b>				
Warehouse Operations	P	S		
Material Services	P			
<b>NIPSCO Fleet Services</b>	P	S		
<b>NIPSCO Supply Chain</b>				
Procurement Operations	P	S		
Compliance	P			
Contractor Time Reporting	P			
Security Services	P			



Northern Indiana Public Service Company  
Designation of Responsibility for Gas Utility Functions

Gas Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
<b>NIPSCO Planning</b>				
Business Planning	S	P		
Strategic Planning	S	P		
<b>Financial Services</b>				
Financial Planning		P		
Financial Services		P		
Business Support Services - Budgeting	P			
Accounting		P		
Enterprise Transformation		P		
SOX Compliance		P		
Taxes		P		
Credit Risk Management		P		
Enterprise Risk Management		P		
Treasury		P		
Accounts Payable	P	S		
Asset Accounting	S	P		
<b>Insurance</b>		P		
<b>Audit Services</b>		P		
<b>Rates and Regulatory</b>				
Rates and Regulatory Finance	P	S		
Regulatory Legal		P		
Regulatory Policy				
Federal	P			
State	P			
<b>Executive/Management</b>	S	P		
<b>Legal</b>				
Legal Services		P		
Compliance		P		
Records Management		P		
Corporate Secretary Services		P		
Corporate Security		P		
Business Continuity		P		
<b>Human Resources</b>				
HR Programs Administration	S	P		
HR Services Delivery	S	P		
Payroll Services		P		
Organizational Development	S	P		
<b>Information Technology Services</b>				
IT Security		P		
IT Service Delivery		P		
IT Operations and Maintenance		P		
Enterprise Transformation		P		
Service Performance		P		
<b>Facilities</b>				
Facilities Management	P	S		
Real Estate Management		P		
<b>Other</b>				
Aviation		P		
Corporate Compliance		P		
Corporate Secretary		P		
Corporate Affairs				
Corporate Communications		P		
Government Affairs		P		
Investor Relations		P		
Corporate Affairs		P		
State Governmental Affairs	P			
<b>NIPSCO Communications</b>				
Communications	P			
Public Affairs	P			
Economic Development	P			
Community Development	P			
<b>Energy Supply &amp; Trading</b>				
Portfolio Optimization	P	S		
Energy Trading	P			
Market Research	P			
Resource Planning	P			
<b>Environmental Safety &amp; Training</b>				
Safety Services	P	S		
Compliance Services	P	S		
Training	P	S		
Remediation	S	P		
Permitting	P	S		

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VI - Question 4 – Need for NCSC Services

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**Governance Practices Associated with NCSC Charges**

There are several ways by which NIPSCO Gas exercises control over NCSC services and charges. The most important of these are described below.

- **Accounting and Financial Reporting** – NCSC’s accounting and financial reporting policies and practices conform to Generally Accepted Accounting Principles (GAAP). The Financial Accounting Standards Board (FASB) is recognized by the accounting profession as the primary body for establishing the standards embodied in GAAP. GAAP refers to the common set of accounting conventions, rules and procedures recognized as authoritative by the accounting profession and used by all non-governmental entities as a basis for their external financial statements and reporting. In addition, NCSC’s accounting records are kept in accordance with the Uniform System of Accounts (USofA) for service companies or for major gas utilities, as applicable, as prescribed by the Federal Energy Regulatory commission (FERC). NCSC also follows the directives of Sarbanes-Oxley regulations.

During the month, accounting transactions are recorded. At month end, the NCSC Finance team reviews all transactions. Variance analyses are performed based on actual to budget to ensure accuracy as part of a reasonableness review of NCSC charges in total. Once completed, the NCSC bill is run and the actuals are “pushed down” and allocated to the states based on predetermined formulas.

- **External Audit Reviews** – NiSource’s outside auditors (Deloitte & Touche) perform regular independent audits of NIPSCO and other NiSource subsidiaries’ books and records. Random sampling of NCSC contract and convenience bill items are conducted by Deloitte and Touche to ensure proper accounting and billing to the subsidiaries. The books and records of NCSC, to the extent they relate to transactions with NIPSCO, are also subject to audit by the Indiana Office of the Utility Consumer Counselor (OUCC), the Indiana Utility Regulatory Commission (IURC or Commission) and the FERC. NCSC is also involved in a number of regulatory filings in jurisdictions where NiSource operates. In certain of these filings, NCSC’s allocation factors are subjected to regulatory scrutiny and audit. In addition, NiSource Inc., including NCSC and NIPSCO Gas, underwent a FERC audit, Docket No. FA11-5-000, which covered the period January 1, 2009 through December 31, 2010. The FERC audit staff reviewed and tested the supporting details for NCSC’s cost allocation methods, including those costs billed to NIPSCO Gas. They also sampled and selected supporting documents to ensure that NCSC’s billings and NCSC and NIPSCO Gas accounting comply with the USofA.

VI - Question 4 – Need for NCSC Services

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- NCSC Internal Controls – NCSC follows the directives of various internally established control procedures. Examples of these control procedures: Authority limits and approvals required for requisition and disbursements; time and labor reporting; expense reporting and general ledger transactions; reasonableness review of actual to budget costs; bank and general ledger account reconciliations; access limitations to the accounts payable and general ledger accounting system; and Sarbanes-Oxley testing procedures.
- NIPSCO Internal Controls – NIPSCO Accounting performs a monthly review of NCSC contract billings. A report is generated that includes invoice ID, vendor name, billing description, allocation code, department number and description and total amount billed. A random selection of NCSC charges greater than \$10,000 is considered for review to ensure they are properly billed to NIPSCO (company 59 NIPSCO Common, company, 89 NIPSCO Electric and company 90 NIPSCO Gas). When the NIPSCO Accounting team identifies a charge that they believe may be incorrectly assigned to NIPSCO, NCSC Accounting team initially researches the item. If NIPSCO eventually challenges a charge, then NCSC Accounting team gathers and evaluates the supporting documentation to determine if the charge in question is accurate or if a correction is necessary.
- Controller Oversight – The Controller of NCSC is responsible for reviewing general overall charges billed to each of the NiSource affiliates by NCSC. The Controller is also responsible for the accounting system that tracks and identifies the costs for services that are subsequently billed to NiSource affiliates, including NIPSCO.
- Service Company Budget Review/Approval – The Vice President of Planning and Analysis formally reviews and approves NCSC's budgets for reasonableness and an understanding of material changes for both the whole of the budgets and allocation to each of the states, including NIPSCO. These budgeted charges are distributed to each state as an input to their planning process upon approval from the Vice President of Planning and Analysis.
- Service Company Bill Scrutiny – The NCSC Budgeting team reviews the Service Company operating expenses for accuracy and reasonableness on a monthly basis. This review is done prior to the allocation of charges to the operating subsidiaries and after charges have been allocated. The Corporate Services Budgeting team performs an actual-to-budget comparison of fees each month for use in identifying unusual variances. This comparison is performed for NCSC and each subsidiary. Unusual variances are researched, explanations are provided and any corrections are made, as necessary.

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VI - Question 4 – Need for NCSC Services

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- Service Company Budget Variance Reporting – Each month, the NCSC Budget team prepares a series of reports included in a Monthly Results Package that are reviewed by various levels of management to document variances and provide explanations, as needed.
- Operating Company Budget Variance Reporting – The operating company Financial Planning and Analysis (FP&A) team reviews the Monthly Results Package provided by the NCSC Budget team to gain an understanding of variance drivers associated with charges from NCSC. This report is distributed to key NIPSCO leaders. In this way, NCSC budget versus actual charges can be monitored for the month, quarter-to-date and year-to-date.
- Internal Audit Reviews – Corporate internal audit tests NCSC charges to operating utilities to ensure compliance with approved accounting policies, allocation methods and billing practices.

## Direct Testimony of Patrick Baryenbruch

## Analysis of Changes in NCSC O&amp;M Charges to NIPSCO Gas (2012 Actual to 2016 Actual)

			Major Change Category					
			Transfer of NIPSCO Functions/Staff	IT Services	Non-IT Services	Allocation Changes	Inflation	Other
Actual 2012 NCSC Charges	\$ 31.0	Unadjusted (no ratemaking adjustments)						
Inflation and Merit								
Merit on Labor & Payroll Tax	\$ 0.8	2.87%					\$ 0.8	
Inflation on Outside Services	\$ 0.8	1.3% inflation (2013-2016 Yr Avg CPI Inflation)					\$ 0.8	
Total after Inflation & Merits	\$ 32.6							
Services transferred from NIPSCO to NCS								
Outside Security Services	\$ 0.6	Transferred from NIPSCO	\$ 0.6					
Corporate Strategy	\$ 0.2	Transferred from NIPSCO	\$ 0.2					
Total after Transfers	\$ 33.4							
NIPSCO Allocation Changes								
Change in Scale	\$ 2.8	\$1.5M Labor & Related, \$1.3M Non-Labor				\$ 2.8		
Total after Allocation Changes	\$ 36.2							
Headcount & Organization Changes (Labor & Related)								
Headcount Changes/Dept Changes: \$2.6M	\$ 1.1	Supply Chain - support purchasing for intensive capital investment; Corp Services (Aviation, Security, Facilities, Real Estate); Damage Prevention began providing services to NIPSCO	\$ 0.1	\$ 1.0	\$ 1.0			
	\$ 1.0	IT - PMO, cyber security, critical systems, IT Transformation, Performance Support (new - process improvement opportunities), Business Integration (new - common platforms)						
	\$ 0.9	ES&T - Combo of increased safety and environmental support, includes some geography of employee transfers from NIPSCO	\$ 0.3		\$ 0.6			
	\$ 0.6	Customer Services & New Business; Customer Programs & Billings - Meter to Cash Administration, Customer Programs, and CISC Electronic Access; Org restructure to support all 7 operating companies	\$ 0.1		\$ 0.5			
	\$ 0.1	IT Transition Management (Workbrain Time & Labor upgrade, Employee Expense (MySpend) and eProcurement		\$ 0.1				
	\$ (0.7)	EPS/Retail Services Sold in 2013			\$ (0.7)			
	\$ (0.2)	Finance & Executive Org Change in 2015 - NIPSCO CFO position eliminated; Office of the COO established	\$ 0.2		\$ (0.4)			
	\$ (0.2)	Regulatory Policy, Corp Affairs & HR - fewer FTE's supporting NIPSCO			\$ (0.2)			
Total after Headcount & Dept. Changes	\$ 38.8							
Non-Labor								
Outside Services - non-labor: (\$0.2M)*	(0.4)	The levels of outside services (IT, consulting, other outside services) have not changed, however, the allocation to NIPSCO Gas has changed since 2012		\$ 0.2			\$ (0.4)	
	0.2	Depreciation expense increase due to additional capitalized IT investments						
Total after Non-Labor	\$ 38.6							
Rent, Employee Expense, & Stock Comp								
Employee Expenses	0.1	Due to organization change and increased headcount	\$ 0.1					
Rent Expense	0.6	Move to Arena building in 2014 (Columbus) & incremental headcount has led to greater portion of lease and rent costs						\$ 0.6
Training Expense	0.2	Add'l training expense			\$ 0.2			
Stock Compensation	0.3	Executive Compensation (removed as ratemaking adjustment - no recovery)						\$ 0.3
Total after Rent, EE, & Stock Comp	\$ 39.8							
Actual 2016 NCSC Charges	\$ 39.8		\$ 1.6	\$ 1.3	\$ 1.0	\$ 2.4	\$ 1.6	\$ 0.9

## Direct Testimony of Patrick Baryenbruch

## Analysis of Changes in NCSC O&amp;M Charges to NIPSCO Gas (2016 Actual to 2018 Forecast)

		Major Change Category					
		Transfer of NIPSCO Functions/Staff	IT Services	Non-IT Services	Allocation Changes	Inflation	Other
<b>2016 Actual NCSC Charges</b>	<b>\$ 39.8</b>						
<b>One-time Credits (in 2016 Actual, not in 2018 Forecast)</b>							
Vendor Rebate	\$ 0.4						\$ 0.4
Third Party Use of NCSC Assets	\$ 0.6						\$ 0.6
<b>Corporate Function Changes</b>							
Pipeline safety program (compliance with new regulations)	\$ 1.0			\$ 1.0			
Software licenses for new applications	\$ 0.4		\$ 0.4				
Expanded Corporate-related IT services	\$ 0.3		\$ 0.3				
Increased IT employee development expenses	\$ 0.3		\$ 0.3				
Strategic/customer growth initiatives	\$ 1.0			\$ 1.0			
Transformation	\$ 0.7		\$ 0.7				
Business integration and performance support	\$ 0.4		\$ 0.4				
Other expanded Corporate-related services	\$ 0.3			\$ 0.3			
Merit increases	\$ 0.4					\$ 0.4	
<b>Operations Function Changes</b>							
Supply chain, damage prevention, corporate security and facilities services expansion	\$ 0.5			\$ 0.5			
Transfer of NIPSCO Operations employees to NCSC	\$ 0.2	\$ 0.2					
Transfer of NIPSCO employees to NCSC - environmental, safety and training	\$ 0.2	\$ 0.2					
Plant accounting adjustment	\$ 0.1						\$ 0.1
<b>2018 Forecast NCSC Charges</b>	<b>\$ 46.6</b>	<b>\$ 0.4</b>	<b>\$ 2.1</b>	<b>\$ 2.8</b>	<b>\$ -</b>	<b>\$ 0.4</b>	<b>\$ 1.1</b>