ORIGINAL

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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR APPROVAL OF PETITIONER'S TDSIC PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENTS, PURSUANT TO IND. CODE § 8-1-39-10(a) INCLUDING TARGETED ECONOMIC DEVELOPMENT PROJECTS PURSUANT TO IND. CODE § 8-1-39-10(c) AND EXTENSIONS TO RURAL AREAS PURSUANT TO IND. CODE § 8-1-39-11, FOR AUTHORITY TO DEFER COSTS FOR FUTURE RECOVERY AND APPROVING INCLUSION OF NIPSCO'S TDSIC PLAN PROJECTS IN ITS RATE BASE IN ITS NEXT GENERAL RATE PROCEEDING PURSUANT TO IND. CODE § 8-1-2-23.	)	**CAUSE NO. 45330** **APPROVED: JUL 22 2020**

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Lora L. Manion, Administrative Law Judge

On December 31, 2019, Northern Indiana Public Service Company LLC ("NIPSCO" or "Petitioner") filed its Verified Petition, together with its testimony and exhibits seeking Indiana Utility Regulatory Commission ("Commission") approval of the NIPSCO 2020-2025 TDSIC Plan (the "Plan" or "TDSIC Plan") for: (1) eligible transmission, distribution, and storage system improvement charges ("TDSIC") pursuant to Ind. Code § 8-1-39-10(a), including targeted economic development projects, pursuant to Ind. Code § 8-1-39-10(c); and (2) extensions to rural areas, pursuant to Ind. Code § 8-1-39-11. The following witnesses provided testimony in support of NIPSCO's case-in-chief:

- Alison M. Becker, NIPSCO, Manager of Regulatory Policy;
- Donald L. Bull, NIPSCO, Director of Gas TDSIC Projects;
- James F. Racher, NiSource Corporate Services Company, Director of Regulatory; and
- Adam S. Wittorp, NIPSCO, Manager of Gas Control.

On December 31, 2019, NIPSCO also filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which the Commission granted on a preliminary basis in its January 16, 2020 Docket Entry.

NIPSCO Industrial Group ("Industrial Group") and Steuben County Economic Development Corporation ("SCEDC") filed petitions to intervene, both of which were subsequently granted.[1]

On April 9, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC"), Industrial Group, and SCEDC filed their respective testimony and attachments. The OUCC filed testimony from the following witnesses:

- Brien R. Krieger, Utility Analyst in the Natural Gas Division; and
- Mark H. Grosskopf, Senior Utility Analyst in the Natural Gas Division.

Additionally, the Industrial Group filed testimony from Nicholas Phillips, Jr., Principal, Brubaker & Associates, Inc. and a Motion for Administrative Notice. SCEDC filed testimony from Isaac R. Lee, Executive Director of the SCEDC.

On April 14, 2020, NIPSCO filed an Objection and Motion to Strike portions of Mr. Lee's testimony, to which SCEDC responded on April 24, 2020. NIPSCO replied to SCEDC's response on May 1, 2020. The Presiding Officers granted NIPSCO's motion by Docket Entry dated May 4, 2020.

On April 22, 2020, NIPSCO filed rebuttal testimony and attachments of Mr. Bull and Mr. Racher.

On May 5, 2020, the Presiding Officers issued a Docket Entry requesting NIPSCO to provide additional information, and NIPSCO responded on May 6, 2020.

The Commission set this matter for an Evidentiary Hearing to be held at 9:30 a.m. on May 12, 2020, in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. A Docket Entry was issued on May 8, 2020, advising that, in accordance with Indiana Governor Holcomb's Executive Orders concerning the COVID-19 pandemic, the hearing would be conducted via teleconference and providing related participation information. NIPSCO, the OUCC, the Industrial Group, and SCEDC participated in the Evidentiary Hearing by counsel via teleconference. The testimony and exhibits of NIPSCO, the OUCC, and the Industrial Group, were offered at the Evidentiary Hearing and admitted without objection. [2]

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

1. <u>Notice and Jurisdiction</u>. Notice of the hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-39-10 and -11, the Commission has jurisdiction over a public utility's plan for eligible TDSIC, including targeted economic development projects and extension of gas service in rural areas. Therefore, the Commission has jurisdiction over

[1] The five members of the Industrial Group in this proceeding include: ArcelorMittal USA; BP Products North America, Inc.; Praxair, Inc.; United States Steel Corporation; and USG Corporation.
[2] While the SCEDC filed the testimony and exhibits of Isaac R. Lee, Executive Director of SCEDC, its counsel chose not to offer the filings be admitted into evidence at the Evidentiary Hearing.

NIPSCO and the subject matter of this proceeding.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility with its principal office and place of business at 801 East 86th Avenue, Merrillville, Indiana and provides gas and electric service in Indiana. NIPSCO is authorized by the Commission to provide gas utility service to the public in all or part of Adams, Allen, Benton, Carroll, Cass, Clinton, DeKalb, Elkhart, Fulton, Howard, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, St. Joseph, Starke, Steuben, Tippecanoe, Tipton, Wabash, Warren, Wells, White, and Whitley Counties in northern Indiana. NIPSCO's parent company, NiSource Inc. ("NiSource"), serves nearly four million natural gas and electric customers across seven states under its NIPSCO and Columbia Gas brands. NiSource Corporate Services Company, a nonutility, service company, provides administrative support to the NiSource operating companies.

3. **Requested Relief.** NIPSCO requests approval of its TDSIC Plan pursuant to Ind. Code § 8-1-39-10(a), including targeted economic development projects, pursuant to Ind. Code § 8-1-39-10(c) and extensions to rural areas, pursuant to Ind. Code § 8-1-39-11. NIPSCO's TDSIC Plan proposes six years of defined investment totaling $807,573,279 as follows:

Investment Segment	2020-2025 TDSIC Gas Plan Projected Investment (Direct Capital Dollars)
Gas System Deliverability	$92,656,660
Gas System Integrity	$531,495,088
Rural Gas Extensions	$183,421,531
Plan Total	**$807,573,279**

4. **NIPSCO Case-in-Chief.**

A. **Overview.** Mr. Bull testified that NIPSCO's TDSIC Plan is focused on investments made for safety, reliability, system modernization, and economic development. Mr. Bull testified the total estimated capital cost of the Plan is $948,676,520, including direct capital ($807,573,279), indirect capital ($109,022,393) and allowance for funds used during construction ("AFUDC") ($32,080,848), and he identified the Plan costs by year. The Plan includes a Transmission Risk Comparison used to: (1) identify and prioritize the transmission pipeline replacement projects; (2) project estimates; (3) and summarize unit cost estimates, used to support the cost estimates associated with the capital improvement projects included in the Plan. Mr. Bull described that the Plan is comprised of three segments: (1) investments aimed at maintaining the system reliability through the capacity of the system to deliver gas to customers when they need it (Gas System Deliverability); (2) replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system (Gas System Integrity); and (3) the extension of gas facilities into rural areas (Rural Gas Extensions). Mr. Bull provided a description of each of the investment segments. He stated the Plan allows NIPSCO to make necessary investments to continue providing safe, reliable gas service to its customers into the future.

B. **NIPSCO TDSIC Gas Plan.** Mr. Bull testified that the assets reviewed as part of the Plan included all current transmission, distribution, and storage system assets at NIPSCO. He testified that NIPSCO engaged: (1) EN Engineering, using its November 26, 2019

Transmission Risk Comparison (the "Risk Model"); and (2) its internal subject matter experts in engineering, planning, and system integrity teams, to prepare the TDSIC Plan.

Mr. Bull explained the reduction in overall risk in the Risk Model caused by NIPSCO's completed projects in TDSIC Plan 1 approved in the 44403 Order ("TDSIC Plan 1") and the forecasted impact of projects in the proposed TDSIC Plan. Mr. Bull provided an overview of the methodology used by EN Engineering in evaluating risk. He stated the engineering analysis for individual projects incorporated specific algorithms and ranking methodologies. He testified this methodology is consistent with the risk ranking methodology used in support of TDSIC Plan 1 and is generally consistent with other risk ranking approaches with which he is familiar. He explained that relative risk is always a function of the likelihood of occurrence and the potential consequence associated with a specific event, and relative risk is a logical way to approach the prioritization of risks when faced with practical considerations that limit the ability to address all risks simultaneously. He testified the Risk Model forecasts a total transmission system reduction of 32.5% from the 2013 baseline upon completion of the Plan's transmission projects.

Mr. Bull testified the Plan was developed to address risks identified and prioritized as of early 2019, and as such, the Plan represents the current best path forward to ensure the continued delivery of safe and reliable gas service to NIPSCO's customers. He explained that in considering the Plan design, NIPSCO conducted comprehensive reviews of many segments of its gas system. He stated the Plan addresses high priority safety, operational and integrity needs, and extends gas facilities into rural areas. He explained projects were also reviewed to provide a high level of confidence that they could be executed as proposed and a broader portfolio of projects was prioritized to develop the specific improvements included in the Plan.

C. **Best Estimate.** Mr. Bull testified the Plan includes projects that are similar to work NIPSCO performed as part of its TDSIC Plan 1. He explained that NIPSCO utilized PFES, LLC ("PFES"), a consulting, engineering, and construction management firm that provides a broad range of professional services to the energy industry, to complete detailed cost estimates and internal stakeholders reviewed the estimates. Mr. Bull stated that NIPSCO gained significant experience with respect to the costs necessary for project completion, and cost estimates for this work reflect NIPSCO's experience on a range of the TDSIC Plan 1 projects of different types. Mr. Bull testified that the basis for the cost estimates in the Plan vary from 2017 to 2020 based on engineering maturity, and cost estimates that include: material, construction costs, and the cost for engineering, or other professional services, and a contingency cost.

Mr. Bull described the approach PFES typically followed: (1) develop cost estimates, documented work scopes, and risks for projects identified by NIPSCO; (2) work with NIPSCO to incorporate both the lessons learned from TDSIC Plan 1 and industry best practices when developing, reviewing, revising, and finalizing project cost estimates; (3) consider risks and opportunities identified during design reviews and field site visits and incorporate them into a risk matrix; (4) gather existing scope and design documents and complete a site walk-down with relevant internal stakeholders; (5) hold a working session with the internal stakeholders to review and gather additional design information and scope of work; and (6) develop a preliminary estimate and peer check it with other PFES employees and internal stakeholders. He stated this cycle of collecting data, completing or updating estimates, and completing reviews was repeated until a final formal review was completed and internal stakeholders were confident that the potential costs had been considered. The final estimate was then accepted by NIPSCO.

Mr. Bull testified that the base estimates for three of the transmission pipeline replacement projects (TP8, TP10, and TP11) were updated by NIPSCO because the project maturity increased since the initial estimates were prepared. NIPSCO also updated most of the estimates for the Inspect & Mitigate projects that are planned for execution in 2020. He noted that NIPSCO will update estimates for projects planned for execution later in the Plan as engineering progresses and will consider the costs associated with similar construction projects as part of those updates.

As summarized in the Plan and discussed by Mr. Bull, the cost estimates provided in the Plan represent NIPSCO's best estimate of the cost of the eligible TDSIC. He stated that PFES performed detailed cost estimates for all projects that are not typically performed by NIPSCO, including all large transmission pipe segment replacements and storage projects. He explained that for the Aetna to Tassinong and the Aetna to 483# Loop ("483# Loop") projects, NIPSCO updated the PFES estimates as additional engineering was completed or other studies and reviews provided more specific Aetna to 483# Loop information. He noted that for those projects that NIPSCO performs on a more routine basis, the estimates include a combination of estimates prepared by NIPSCO and PFES. For these reasons, Mr. Bull testified that NIPSCO's estimates of the costs of the eligible TDSIC included in its proposed Plan are the best estimates of the project identified in the Plan.

Mr. Bull testified regarding the term "contingency" and its definition for purposes of cost estimation. Mr. Bull testified that contingency is an amount added to a project base cost estimate to cover uncertainty and project risk, which is critical to creating a realistic estimate of the final project cost and increases the transparency around the expected cost at completion for a project. He explained that because projects are developed through a process of progressive elaboration whereby details to complete the scope required to satisfy the project deliverables are developed through an iterative process over time, projects are generally not fully engineered or bid at the time the cost estimates are developed. He testified that contingency is added for several reasons including: (1) covering details that may be identified later in the iterative design process; (2) covering requirements that may not have been reasonably anticipated during the land acquisition or permitting process; (3) addressing responses or exceptions that may not have been reasonably anticipated during the bid process; or (4) accounting for field conditions where it is neither possible nor reasonable to identify all construction risks that could be encountered.

Mr. Bull testified NIPSCO included contingency consistent with the AACE International, the Association for the Advancement of Cost Engineering, ("AACE") Recommended Practice for cost estimate classification. He stated the AACE Recommended Practice is based on project maturity or progress of project engineering or project development. He explained the preliminary engineering for most projects in the Plan would support a Class 4 estimate based on: (1) applied recent construction experience; (2) added efforts to inspect and understand site conditions; (3) identified real estate and environmental requirements; and (4) characterized project risks, especially on the larger transmission projects. Mr. Bull sponsored Confidential Attachment 2-C, showing the contingency amount for each project, and he testified the total contingency is about 9% of the Plan's total direct capital costs, excluding contingency.

Mr. Bull explained how NIPSCO determined the contingency for the projects included in the Plan. He stated the contingency covers both potential changes in scope as additional engineering or design work is completed, uncertainty in cost estimates, and risks encountered during execution (including known risks that may be encountered, but not with a level of certainty that would warrant inclusion in the cost estimate), and to cover unknown risks that cannot be reliably predicted. He stated the AACE recognizes use of contingency to mitigate unexpected, additional costs as industry best practices.

Mr. Bull testified that maintaining an appropriate contingency can actually prevent project cost increases by providing a process that avoids costly project interruptions or delays when an issue or risk is realized. He explained that "contingency": (1) increases transparency for the project stakeholders and provides the Project Manager with an appropriate tool to manage issues or risks that may be realized during project development or execution; (2) provides the Project Manager with resources to avoid detrimental trade-offs in schedule, scope, quality, or functionality; and (3) ultimately, increases the confidence in completing the project within the estimated cost. Mr. Bull testified the contingency incorporated in the estimates for each of the Plan projects is consistent with industry practice for these types of projects and is consistent with the AACE Recommended Practice and NIPSCO's experience for risk that can impact a project cost gained through the execution of projects within TDSIC Plan 1. Mr. Bull fully explained the process used by NIPSCO to determine the appropriate contingency and discussed NIPSCO's process of documenting the risks considered in establishing the contingency for each project.

Mr. Bull testified that once NIPSCO successfully completes various stages of a project and is able to determine that a risk that was used to support a contingency amount was not realized, the contingency amount is reduced and is shown on a Project Change Request ("PCR") form that is provided in Plan Update filings to support material project estimate changes during the current year for projects.

Mr. Bull testified that the AACE uses "escalation" as an industry best practice to mitigate likely cost increases. He stated the 3% annual escalation factor is only intended to address expected inflation-based cost increases in material, labor, and other resources under normal circumstances, not to address project risk or uncertainty. He explained that "escalation" is separate and distinct from "contingency," and addresses different risks (cost increases). Mr. Bull also noted that the 3% annual escalation factor is applied only to base cost capital estimates, not to the contingency.

For each project category in the Plan, Mr. Bull described the purpose and explained how NIPSCO determined the projects for each year of the Plan. For each project included in the Plan, Mr. Bull described the project and explained how the estimate was developed. Additionally, for the Transmission Pipeline Installation Projects, Mr. Bull also explained alternatives that were considered, how the contingency was developed, and what risks were anticipated to support the contingency. He also explained risks anticipated to support the contingency for the Inspect & Mitigate and Storage Projects.

Mr. Bull testified the Plan includes $183,421,531 (direct dollars) over six years for the extension of natural gas service into currently unserved areas. He explained the forecast in the Plan are the costs associated with designing and installing gas main and service projects to reach rural areas. He described how NIPSCO would administer the rural gas extension process and stated NIPSCO's approach is consistent with the way it designs and executes other, non-TDSIC extension projects. Mr. Bull then explained how the estimate was developed and that unit costs associated with rural extensions and the underlying assumptions for the forecasted connection rate would be updated annually.

Mr. Bull explained large projects include a detailed work scope, preliminary engineering, route reviews, desktop and on-site real estate and environmental reviews. NIPSCO used cost data from recent projects and updated budgetary quotes from construction contractors as the basis for the estimates in most cases, and experience modifiers were considered for site-specific conditions. Small projects are generally based on: (1) parametric or unit price estimates, reflecting a mix of contractor and internal labor resources similar to the allocation of work maintained during TDSIC Plan 1; and (2) a review of routes and site conditions. For all projects, NIPSCO sought broad internal stakeholder input to assure comprehensive, integrated work scopes, documented and validated through a formal review process.

Mr. Racher testified NIPSCO's estimates for indirect costs and AFUDC are consistent with Generally Accepted Accounting Principles and the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts for utilities, and NIPSCO's methodologies used for estimating these costs have not changed since its last general rate case.

D. Public Convenience and Necessity. Mr. Bull testified the eligible improvements included in the Plan are required or will be required to maintain the safety, integrity, and reliability of NIPSCO's transmission, distribution, and storage systems consistent with the public convenience and necessity. He stated that rural extensions were determined by the General Assembly to be in the public interest as reflected in the statutory advantages the TDSIC Statute provides for them in comparison to other extension projects.

Ms. Becker testified the TDSIC Gas Plan follows the requirements of the TDSIC Statute and achieves the legislative intent of making new and replacement TDSIC investments for the purpose of safety, reliability, system modernization, and economic development, which is consistent with public policy and serves the public interest. Ms. Becker testified that to continue serving customers safely and reliably while also complying with applicable laws, public convenience and necessity require that the assets identified in the Plan be replaced. Ms. Becker testified NIPSCO's Plan is largely a replacement plan based upon the condition of the facilities.

She stated the public's reliance on natural gas is linked directly with quality of life, economic enhancement, and overall public safety. She testified NIPSCO takes its role seriously in serving its customers safely and reliably, and this includes: (1) protecting customers and employees from potential injury; and (2) property damage associated with the operation of its gas transmission, distribution, and storage systems.

Ms. Becker testified the eligible investments contained in the Plan are essential in protecting the integrity, safety, and reliable operation of the system. She explained these investments provide for the public convenience and necessity at a much broader level by enhancing the ability of NIPSCO customers to take advantage of the rapid development of alternative natural gas supply and delivery options both now and into the future and position NIPSCO's system to remain reliable and flexible in the face of significant changes to the economic and operational climate for natural gas.

Ms. Becker stated the extension of gas service to rural areas would allow some residents in NIPSCO's service territory to access natural gas services for the first time. She explained that this portion of the Plan alone addresses the need of the currently unserved public to gain access to natural gas service. Ms. Becker opined that for all these reasons, approval of the Plan is and will be required for the public convenience and necessity.

E. **<u>Benefits of the TDSIC Plan</u>.** Mr. Bull testified the Plan focuses on maintaining safe, reliable service for NIPSCO's customers. He stated that while the Plan addresses all four types of eligible investment in the TDSIC Statute (safety, reliability, system modernization, and economic development), most of the Plan's investments positively impact safety. He explained the Plan drivers as follows: (1) "safety drivers" focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion; and (2) "reliability drivers" include the avoidance of gas outages or curtailments driven from the inability to maintain gas system pressure during peak-load events. He testified that system modernization impacts both safety and reliability by upgrading the facilities to current industry standards. Mr. Bull said the Plan provides incremental benefit for NIPSCO's customers: (1) by significantly decreasing the potential risk associated with older or less than optimal facilities; (2) by investing in upgrades to the deliverability on the system to ensure continued and improved system reliability; and (3) by extending the benefit of natural gas service to rural areas that are currently without that option.

Mr. Bull described how NIPSCO approached the quantification of incremental benefits associated with the Plan. He said NIPSCO expects to see an aggregate reduction in the risks associated with the transmission projects in the Plan of more than 80%. Each of the distribution and storage projects included in the Plan has been designed and chosen with the intent to reduce: (1) the likelihood of failure; and (2) the attendant risk to service reliability, continuity, and availability of system capacity. He testified the benefit to NIPSCO's customers from these investments cannot be calculated in an actuarial calculation. He explained that while it would be convenient if the benefit of each of the transmission, distribution, and storage projects could be quantified in monetary terms to permit some kind of a cost/benefit analysis, the value to be placed on life and property potentially at risk from the failure of one of these assets is too high to realistically contemplate.

Mr. Bull testified about the options considered for the projects proposed in the Plan with an eye toward the reduction of costs whenever that could be accomplished while maintaining appropriate system benefits. He testified that the Commission found TDSIC Plan 1 provided incremental benefit through a reduction in system risk associated with the replacement of aging assets and avoidance of the consequences of service deterioration and capacity restraint.[3] He testified the same is true of the projects proposed in this Plan.

F. **<u>Updates to TDSIC Plan</u>.** Mr. Bull testified regarding NIPSCO's Plan Update process. He stated that while considerable analysis and thought went into the development of the Plan, it is important to recognize that the Plan is reflective of the characteristics of the gas system and the needs of NIPSCO's customers as they existed at the time the Plan was developed. As NIPSCO completes ongoing system analyses in the upcoming years, the Plan would be updated

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[3] *Northern Indiana Public Service Co.,* Cause No. 44403, 2014 WL 1801596, at 22 (IURC April 30, 2014) ("44403 Order").

at least annually under Section 9 of the TDSIC Statute. Mr. Bull testified NIPSCO proposes to follow an Update process very similar to the process from TDSIC Plan 1. He stated NIPSCO proposes to continue the current process of meeting with its stakeholders approximately four weeks prior to filing each Plan Update. He explained that in each filing: (1) the Plan will be updated with NIPSCO's best estimate by project for each calendar year; (2) confidential appendices to the Plan will be updated as new, relevant information becomes available during the Plan Update process; (3) PCR forms will be provided to support material project estimate changes during the current year for projects; (4) actual costs (direct capital, indirect capital, and AFUDC) will be included in the Plan Update when a given calendar year is closed out; and (5) rural extension inputs will be updated annually. Ms. Becker testified NIPSCO would also include in each Plan Update filing a description of any moves between project years and explanations of all increases that exceed the greater of $100,000 or 20%.

G. Preliminary Survey and Investigation and Plan Development Costs. Mr. Bull explained that "total estimated capital cost" includes preliminary survey and investigation ("PS&I") and plan development costs. He described the costs as follows: (1) PS&I costs for specific projects would be included in the project's construction work order (direct capital) and transferred typically to the first year of project construction; and (2) approximately $1.5 million of plan development costs would be amortized over the life of the Plan as capital overhead (or indirect capital), which is consistent with allocated plan development costs in TDSIC Plan 1.

H. Accounting and Ratemaking. Mr. Racher described NIPSCO's accounting and ratemaking treatment that will be used to record and recover costs associated with NIPSCO's Plan. He explained NIPSCO anticipates recovering approved capital expenditures and TDSIC costs associated with the Plan through its Commission-authorized Gas TDSIC Mechanism in TDSIC Plan 1.

Mr. Racher described NIPSCO's approved ratemaking treatment for recovery of approved capital expenditures and TDSIC costs, including how: (1) the TDSIC revenue requirement is calculated; (2) the return on capital costs and expenses included in the revenue requirement are calculated; (3) reconciliation costs are included in the revenue requirement calculation; (4) NIPSCO defers, until recovery through the TDSIC, 80% of the post in service TDSIC costs of the TDSIC projects, including carrying costs and pretax returns, depreciation, O&M, and taxes; and (5) treatment of the remaining 20% of TDSIC capital expenditures and costs that are not included for recovery through the TDSIC adjustment factor.

Mr. Racher testified NIPSCO depreciates the TDSIC capital expenditures according to each asset's designated FERC account classification. Upon being placed in service, NIPSCO depreciates each asset according to the FERC account composite remaining life approved in the 44988 Order, NIPSCO's most recent general gas rate case.[4]

Mr. Racher explained that in each Plan Update filing, NIPSCO allocates the transmission, distribution, and storage-system revenue requirements consistent with the revenue allocation approved in the 44988 Order and recovers through a volumetric factor calculated in each Plan

[4] *Northern Indiana Public Service Co.,* Cause No. 44988, 2018 WL 4566587 (IURC Sept. 19, 2019) ("44988 Order").

Update filing.

Mr. Racher testified the only change to NIPSCO's approved ratemaking treatment is to adjust its allocation percentages to reflect the significant migration of customers amongst the various rate classes for each Plan Update filing, to prevent any unintended consequences of the migration of customers between rates and to allocate properly the associated share of the revenue requirement.

Mr. Racher provided an overview of indirect capital costs and the steps used in determining planned indirect capital costs during the first two years of the Plan. He stated that the indirect percentages from the first two years of the Plan were used as a basis for the remainder of the Plan and held constant at 13.5%. He indicated NIPSCO would provide Plan Updates for indirect costs as updated information becomes available. Mr. Racher testified the estimate for AFUDC is based on, among other things: (1) the estimated direct and indirect project costs; (2) estimated timing of the expenditures; and (3) current financing costs, which change over time. He stated the AFUDC estimate used in the Plan is 3.5%. Mr. Racher testified NIPSCO's inclusion of indirect capital costs and AFUDC is consistent with NIPSCO's overhead capitalization and with AFUDC methodologies that have been in place for years, including during the test year in NIPSCO's last general rate case.

Mr. Racher also described the TDSIC Plan's estimated impact on retail revenues. He testified that NIPSCO's TDSIC Plan, as shown below, does not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

Estimated Revenue Requirement Based on TDSIC 2020 Proposed 6 -Year Gas TDSIC Plan (in millions)

		Estimated Revenues						
Line No.	**Rate Code**	**2018**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
1	111	$ -	$ -	$ 3.5	$ 8.4	$ 15.9	$ 25.2	$ 34.5
2	115	-	-	0.0	0.1	0.2	0.3	0.4
3	121	-	-	1.3	3.1	5.8	9.3	12.7
4	125	-	-	0.3	0.6	1.2	1.9	2.6
5	128	-	-	0.3	0.7	1.3	2.1	2.9
6	138	-	-	0.0	0.1	0.2	0.3	0.4
7	**Total**	**$ -**	**$ -**	**$ 5.4**	**$ 13.0**	**$ 24.6**	**$ 39.0**	**$ 53.4**

Table 1: Projected Impact on Retail Revenue from TDSIC Rate Schedule (in millions)

				2020	**2021**	**2022**	**2023**	**2024**	**2025**
1	Prior Year TDSIC Revenue			$ -	$ -	$ 5.4	$ 13.0	$ 24.6	$ 39.0
2	Incremental TDSIC Revenue			-	5.4	7.6	11.6	14.4	14.4
3	Total TDSIC Revenue			$ -	$ 5.4	$ 13.0	$ 24.6	$ 39.0	$ 53.4
4	Total Retail Revenue [1]	[2]	$ 820.6	$ 820.6	$ 826.0	$ 833.6	$ 845.2	$ 859.6	$ 874.0
5	Annual % Increase (Current line 2 ÷ prior line 4)	[3]			0.66%	0.92%	1.39%	1.70%	1.67%
6	Average Annual % Increase (Average of Line 5)								1.27%

[1] Assumes the revenues from base rates and charges and all trackers is constant prior to and as of 9/30/2019
[2] Operating revenue of $820,600,163 for the twelve months ended 9/30/2019

5. **<u>OUCC Case-in-Chief</u>.** Mr. Krieger testified that NIPSCO's proposed projects are "eligible transmission, distribution, and storage system improvements" under Ind. Code § 8-1-39-2, and NIPSCO proposed the "best estimate" of the cost of the eligible improvements under Ind. Code § 8-1-39-10(b)(1). Mr. Krieger testified, however, that NIPSCO's proposed 3% escalation is too high at this time. He explained that a 2% escalation factor is more reflective of the United States Bureau of Labor Statistics ("BLS") average annual Consumer Price Index ("CPI"), which was 2.3% for the 12 months ending February 2020. Mr. Krieger stated he is satisfied NIPSCO has provided best estimates and will solidify estimates in Plan Updates when projects in later years become imminent. Mr. Krieger testified that NIPSCO was thorough in recognizing the potential "what if's" specific to a project, and he recommended that NIPSCO address major project contingency outcomes in the Update process to show its use of contingency in the estimating process.

Mr. Krieger testified that public convenience and necessity require or would require the eligible improvements in the Plan according to Ind. Code § 8-1-39-10(b)(2). He stated the risk analysis indicates these projects will improve reliable natural gas delivery during the Plan installation and into the future. He added that for some pipelines, vintage year alone suggests that replacement is required.

Mr. Krieger testified that NIPSCO provided conclusory testimony stating that the estimated costs of the safety, reliability, and system modernization improvements in the Plan are justified by their incremental benefits and the significant decrease to potential risk. Mr. Krieger testified NIPSCO did not provide a dollar quantification or demonstrate that the incremental benefits justify the costs. Therefore, Mr. Krieger determined NIPSCO has not met the requirement of Ind. Code § 8-1-39-10(b)(3), proving that estimated costs of the eligible improvements in the plan are justified by incremental benefits. Mr. Krieger also testified that it is not apparent how selected Plan projects were chosen over alternative projects. He stated that although NIPSCO provided a general explanation of its review of Plan projects, NIPSCO did not provide the exact methodology that shows how a specific project was or was not included in the Plan. Mr. Krieger testified that a comparison of cost and risk reduction for projects versus potential alternatives of competing projects was not provided by NIPSCO. However, Mr. Krieger testified that he is satisfied that the EN Engineering report is supported by the evaluation of comprehensive risk magnitudes applied to those risks evaluated.

Mr. Krieger recommended NIPSCO take the following actions regarding its Update process if the Commission approves its Plan: (1) provide refined project location and work-order level cost estimates on a per unit basis to the original Plan; (2) provide 20-year margin tests for defined rural extension projects and include work-order level costs, customers, and estimated consumption; (3) continue to work with the OUCC to ensure that NIPSCO's accounting process is well understood to avoid double counting any project costs; (4) inform the OUCC if NIPSCO anticipates that a project will exceed approved best estimates by greater than 20% or $100,000 and supply reasons with estimated costs for the overages, thus creating a new best estimate request for approval; (5) inform the OUCC if a project's actual cost incurred exceeds the approved best estimate by greater than 20% or $100,000 and supply reasons substantiated with actual costs; and (6) file detailed work-order level estimates, based on completed engineering with site visits, when NIPSCO requests that a new project be added.

Mr. Grosskopf did not oppose NIPSCO's proposed modification to adjust allocation percentages to reflect migration of customers among the various rate classes. Mr. Grosskopf recommended NIPSCO address in a future Update filing the effect of "other information" to its weighted average cost of capital ("WACC") when determining its pre-tax return consistent with the Commission's Order in Cause No. 45264 with Indianapolis Power & Light.[5] Mr. Grosskopf recommended that adjustments to the WACC be based on "other information" when determining said that the OUCC would recommend adjustments to the WACC based on "other information" in NIPSCO's future TDSIC cost recovery filings.

6. <u>Industrial Group Case-in-Chief</u>. Mr. Phillips testified that the Industrial Group is concerned with the level of rates established in this proceeding. He testified that large employers, including members of the Industrial Group, manufacture products that must compete in Indiana and on a worldwide basis, and the price of energy can be a substantial portion of product cost. Mr. Phillips testified regarding NIPSCO's rate case filing history over the past 35 years, subsequent impacts to total capital costs, and NIPSCO's previous TDSIC Plan. Mr. Phillips ultimately testified that the system work NIPSCO plans to perform would provide operational benefits and should be completed. However, Mr. Phillips recommended: (1) close scrutiny of cost estimates to prevent ratepayers from bearing excessive cost responsibility; and (2) further protections to mitigate rate impacts in NIPSCO's upcoming tracker proceedings and its next rate case.

Mr. Phillips recommended that NIPSCO's system work would provide operational benefits and should be completed; however, he testified that NIPSCO's cost estimates are excessive and in several respects, include inflated and unnecessary costs. Mr. Phillips stated there are three components in particular that are excessive or unnecessary: (1) the contingency allowances in the estimates; (2) the escalation factor; and (3) the proposed indirect capital and AFUDC.

Mr. Phillips testified that the contingency allowance proposed by NIPSCO is unnecessary and should be disallowed. Mr. Phillips stated that the estimated costs for the two main transmission projects have already increased by 445% above what NIPSCO presented as its best estimate six years ago in Cause No. 44403. That increase dwarfs the proposed contingency requested by NIPSCO, and consequently any further risk should be borne by NIPSCO and not ratepayers. He stated that instead of preapproving contingencies for automatic recovery in rates, the Commission should apply the specific justification standard under the TDSIC Statute in the event of further unanticipated cost increases. Mr. Phillips testified that the statutory process places the burden on NIPSCO to justify any excess costs and leaves the risk with NIPSCO to manage any contingencies that may not meet the specific justification standard.

Mr. Phillips testified that NIPSCO's 3% escalation factor should be reduced to 2% to reflect the Federal Reserve's targeted 2% long-term inflation rate. He testified that the Commission recently found that a proposed escalation factor of 2.25% was excessive in Cause No. 45235, and that 2.1% was more consistent with the long-range outlook of the Federal Reserve and consensus economists.[6] Like contingency, he stated that cost estimates approved by the Commission that include an inflation adjustment: (1) amount to preapproval of automatic increases under the TDSIC

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[5] *Indianapolis Power & Light Co.,* Cause No. 45264, 2020 WL 1232325, at 27 (IURC March 4, 2020) ("45264 Order").

[6] *See,* Nuclear Decommissioning Funding Expense discussion in *Indiana Michigan Power Co.,* Cause No. 45235, 2020 WL 1656243, at 72-74 (IURC March 11, 2020) ("45235 Order").

Statute; (2) shift additional risk to ratepayers; (3) and reduce NIPSCO's incentive to complete the work as cost-effectively as possible. The TDSIC Statute provides a mechanism for NIPSCO to seek specific approval for cost increases. Mr. Phillips stated that this was especially appropriate given that hundreds of millions of dollars of additional cost are due to NIPSCO's delay in completing the work.

Mr. Phillips stated the projected levels of $109 million for indirect capital and $32.1 million for AFUDC are excessive and higher than actual experience in the past five years. Indirect capital and AFUDC are applied by NIPSCO as percentages to the direct capital spend. Although NIPSCO stated that its proposed indirect capital and AFUDC percentages of 13.5% and 3.5%, respectively, reflect NIPSCO's experience with the prior TDSIC 1 Plan, the most recent five-year averages were 10.94% and 2.5%. Mr. Phillips testified that the proposed use of the higher percentages would result in excessive costs in the Plan estimates and would unnecessarily increase the amounts preapproved for recovery through rates. Mr. Phillips stated that the percentages for indirect capital and AFUDC for 2014 were: (1) not included in the average because they are outliers; and (2) not calculated using the General Ledger software implemented by NIPSCO starting in 2015. Experience from 2015 forward, therefore, is more reliable as a guide to future determinations of the indirect capital percentage than the much higher figure from 2014.

Mr. Phillips stated the pretax return assumed by NIPSCO in its rate calculations is based on the return authorized in its last rate case, which is higher than appropriate in this context. He testified that the pretax return for TDSIC purposes should be significantly lower, to reflect the reduction in risk arising from preapproved rate recovery for rate base investments. In addition, he stated that the allowed return for TDSIC purposes should recognize that NIPSCO proposes to continue to collect return in base rates associated with removed assets while also adding incremental return under the TDSIC tracker for replacement assets performing the same functions. Mr. Phillips recommended that the Commission should make a downward adjustment to the approved pretax return. Mr. Phillips stated that the approved 9.85% return on equity was excessive in the context of the continued recovery of replaced assets and in light of the significant risk reduction due to NIPSCO's tracking of major investments and expenses, such as its gas cost and other federally mandated costs. Unlike electric utilities, Mr. Phillips stated that gas utilities do not require major investments in production plant. Additionally, Mr. Phillips testified that NIPSCO in its first plan ranked 483# Loop its highest priority project, but NIPSCO has not completed that project, and under the new Plan, customers are still several years away from seeing the benefits of that project.

7. NIPSCO Rebuttal.

A. Incremental Benefits. Mr. Bull responded to the OUCC's recommendation that the Commission deny NIPSCO's application because NIPSCO has not quantified the reduced risk associated with completion of projects included in the Plan in comparison to other projects not included. He pointed out that Mr. Krieger admits that NIPSCO identifies the cost of the projects and demonstrates the benefits of the Plan through the reduction of risk. Mr. Bull testified that NIPSCO demonstrated that the Plan is proposed to reduce risk of asset failure and maintain service reliability and, in doing so, the Plan provides incremental benefits compared to how the future may otherwise unfold. Mr. Bull testified NIPSCO has sufficiently prioritized and optimized the incremental benefits of its Plan and otherwise shown a sound basis for the proposed projects and associated costs. Based on his understanding of the standard the Commission has previously applied to the evaluation of incremental benefits under the TDSIC Statute, Mr. Bull opined the Commission should find that the estimated costs of the eligible improvements are justified by incremental benefits attributable to the Plan. Mr. Bull testified regarding and provided page number references in its case-in-chief wherein NIPSCO described the benefits of its proposed Plan.

In response to Mr. Krieger's criticism that NIPSCO did not provide a dollar quantification or demonstration that the incremental benefits of the projects justify the costs in comparison to other projects that were not selected, Mr. Bull noted that the OUCC in other cases has consistently agreed that NIPSCO's TDSIC projects provide incremental benefits by improving safety and reliability. However, in this proceeding the OUCC proposes that the Commission deny approval of the Plan based on the absence of a formulaic assessment of project benefits and costs. Mr. Bull stated the Commission has consistently determined that the following constitute sufficient evidence to support a finding that the estimated costs of eligible improvements included in a TDSIC plan are justified by the reasonably expected incremental benefits attributable to the plan: (1) replacement of aging infrastructure supports the need for replacement of those assets in a cost efficient and prioritized manner; (2) that the plan will provide operational benefits, including: (a) improved safety and reliability, (b) decreased system risk through replacement of older and obsolete equipment, and (c) introduction of modern materials; (3) improved system integrity, reduced threats of failure, improved emergency response and customer education, and reduced excavation damages; and (4) explanation of benefits from extending natural gas service to rural areas.

Mr. Bull noted that the Commission commented in the 45264 Order on an effort to monetize incremental benefits in Indianapolis Power & Light Company's ("IPL") recent TDSIC. He explained that while IPL was able to monetize the value of avoiding service outages associated with asset failure from the customer experience perspective for some of its proposed projects, the Commission noted that IPL's supplemental analysis did not attempt to quantify all project benefits, but rather focused on projects that lend themselves readily to monetization. Mr. Bull stated that the benefit of the projects comprising NIPSCO's Plan would be very difficult to monetize without attempting to: (1) assign a dollar value to the health and safety of NIPSCO's customers individually or in the aggregate; or (2) evaluate the economic impact of a gas outage on the enormous industrial customers served by 483# Loop. As a result, Mr. Bull opined that the analysis previously and consistently performed by NIPSCO and accepted by the Commission is a preferable way to assess whether there are sufficient incremental benefits to justify the costs of the projects incorporated in the Plan.

B. Best Estimate.

i. Escalation. Mr. Bull disagreed with: (1) the OUCC's contention that 2% is more reflective of the average annual CPI reported by the BLS, which was 2.3% for the 12 months ending February 2020; and (2) the Industrial Group's suggestion that 2% would be more reasonable to reflect the Federal Reserve's targeted 2% long-term inflation rate. He stated that the CPI cited by Mr. Krieger is derived from the comparative cost of consumer spending in eight categories (food and beverage, housing, apparel, transportation, medical care, recreation, communication, and other goods and services) and is a frequently used resource to adjust income and expenditure streams for changes in the cost of living. The Federal Reserve's long-term target inflation rate of 2%, cited by Mr. Phillips, is a target that is set based on consumer spending. Mr. Bull testified that neither of these approaches is a reasonable proxy for costs associated with large industrial construction projects, which are driven by the cost of labor and materials, not consumer goods. Mr. Bull said this is particularly true given the amount of construction that has taken place in the utility sector over the past several years, which has resulted in shortages of some materials and a rise in labor costs.

Mr. Bull described the factors that typically influence costs for material, labor, and other resources in transmission and distribution pipeline projects: (1) the significant amount of work in the transmission pipeline industry over the last few years driven by the development of shale oil and gas fields; (2) the expanded use of natural gas for power generation; (3) new Pipeline and Hazardous Materials Safety Administration ("PHMSA") regulations), all of which resulted in higher labor, material, and equipment costs. Mr. Bull testified that in determining that a 3% escalation is appropriate, NIPSCO considered its experience on projects executed through its TDSIC Plan 1 and information that is likely to influence costs for the projects included in the Plan. He cited several examples supporting the conclusion that the proposed 3% escalation was based on consideration of specific market and contract conditions that impacted labor rates, cost escalation for materials, and equipment availability.

Mr. Bull disagreed with Mr. Phillips's conclusion that cost estimates approved by the Commission that include an inflation adjustment amount to a preapproval of "automatic increases" under the TDSIC Statute. From an execution standpoint, cost estimates that fail to include an appropriate inflation adjustment are simply less reliable because they fail to take into consideration the conditions that are likely to occur. He explained that in putting together the Plan, NIPSCO's goal was to provide its best estimate of the costs, and the inclusion of a 3% escalator is a realistic reflection of NIPSCO's expectations for the reasons he set forth. He noted that Mr. Phillips's recommendation to reduce the escalation rate to 2% would build in an unrealistically low escalation rate, which would be inconsistent with NIPSCO's best estimate.

Mr. Bull also disagreed with Mr. Phillips's conclusion that preapproved estimates that include escalation: (1) shift additional risk to ratepayers; and (2) reduce NIPSCO's incentive to complete the work as cost-effectively as possible. He testified the TDSIC Statute requires that NIPSCO provide a best estimate of the costs. He explained that the goal is to provide the best estimate of costs for all years of the Plan at the time approval is sought. He noted that if the actual costs of construction are lower than the approved estimate, NIPSCO's customers would pay that lower cost. He stated NIPSCO is not attempting to shift risk to its customers, but rather is providing the best estimate so that the Commission and NIPSCO's stakeholders have realistic expectations of the costs. He explained that NIPSCO works aggressively to control costs through extensive planning, detailed constructability reviews, competitive bidding, and effective project management processes. Mr. Bull testified that NIPSCO has been transparent in providing full detail supporting its project costs down to the work-order level. He testified NIPSCO has and will continue to put forth its best effort to execute projects in a safe, compliant, and cost effective manner.

Mr. Bull testified that to his knowledge, while the Commission has not found that a best estimate of costs should be limited to a 2% escalation factor, the Commission has consistently approved NIPSCO's 3% escalation factor in both its gas and electric TDSIC plan filings. He distinguished the Commission Order cited by Mr. Phillips finding that an escalation factor of even 2.25% was excessive and that escalation at 2.1% would be more consistent with the long-range inflation outlook of the Federal Reserve and consensus economists, explaining that finding was related to escalation of the cost of decommissioning electric generating facility, not the construction of gas transmission and distribution pipelines.[7]

Mr. Bull described how NIPSCO uses competitive bidding and blanket contracts to achieve the most favorable costs possible, as well as: (1) routinely seeking to add qualified contractors to the bidder pool to assure adequate competition; (2) identifying the most efficient construction methods; and (3) engaging contractors in pre-planning work and in constructability reviews to evaluate efficiencies that can be achieved during construction. Mr. Bull also described the steps NIPSCO takes to limit material price increases by: (1) leveraging the size and scope of NiSource purchasing agreements to achieve the most favorable prices for distribution materials; (2) working with suppliers to negotiate mill-direct purchases, where NIPSCO would purchase material directly from the manufacturer with minimal intermediate supplier mark-up for transmission pipeline materials.

ii. Contingency. Mr. Bull disagreed with Mr. Phillips's statement that the contingency included in NIPSCO's cost estimates is unnecessary and should be disallowed, and he referred to his testimony in the case-in-chief supporting the level of contingency in cost estimates. He testified the Commission has consistently found that including contingency costs in the cost estimate is consistent with the AACE system and with industry practice, and the Commission recently found: "the exclusion of contingency from the cost estimate would be unreasonable and would not establish the best cost estimate as required by the TDSIC Statute."[8]

Mr. Bull disagreed with Mr. Phillips's contention that including contingency in cost estimates shifts additional risk to ratepayers and reduces NIPSCO's level of cost discipline during the execution of projects. Mr. Bull stated NIPSCO has used and will continue to use discipline to execute each project regardless of the level of contingency included in the cost estimate and that contingency simply accounts for probable project risks that cannot be controlled in advance. Mr. Bull reiterated points from his direct testimony regarding the reasonable contingency needed to address the significant risks that exist for the projects in NIPSCO's Plan.

Mr. Bull testified knowledge of risk helps inform proper contingency levels and NIPSCO is continuing to undertake activities to better understand project risks. As an example, he stated the following activities were undertaken as part of the 483# Loop project: (1) NIPSCO conducted two independent reviews for the project to identify the most efficient routing, and each review considered at least three alternate routes; (2) NIPSCO has already begun negotiating rights of entry for real estate that the pipeline will cross and conducting soil bores and testing to identify contaminated areas or underground obstructions; (3) NIPSCO is working with utility owners and "pot-holing" or excavating around utilities in advance to identify the exact location and depths; (4) NIPSCO is working with one large landowner to research archived records to identify prior land uses and potential obstructions; and (5) NIPSCO has invited potential contractors on the project

[7] 45235 Order, at 72-74.

[8] 45264 Order, at 23.

to: (a) review the drawings and the route, and (b) provide input to the design team on potential construction issues and technologies that may be employed to reduce risk during construction. He concluded that each of these activities has allowed NIPSCO to understand better the risks associated with the project and to reduce the contingency required for the project because there are fewer unquantified unknowns.

iii. Investments in the TDSIC Plan. Mr. Bull responded to Mr. Phillips's suggestion that NIPSCO could have completed the Plan at a much lower cost had it undertaken many of the investments included in the Plan between 1988 and 2010. He stated that while it might be true that some projects would have cost less 20 years ago, the conditions and regulations that require the significant transmission system investments did not exist prior to 2010 and NIPSCO's transmission pipeline system is now more than 20 years older than it was then. He stated the Nation's tolerance for risks related to transmission pipeline safety changed markedly following two major pipeline incidents in 2010 in San Bruno, California and with Enbridge, Inc. in Michigan. Over the subsequent nine years, the National Transportation Safety Board and PHMSA issued new safety recommendations and directives and promulgated new regulations, requiring the industry to: (a) inspect pipelines; (b) evaluate the design and supporting documentation; and (c) undertake work to correct legacy design conditions that no longer met current standards. He explained that NIPSCO and others in the industry work proactively to follow the development of the recommendations, directives, and proposed regulations and undertake assessments and projects to assure pipeline integrity.

Mr. Bull noted that in the Gas Infrastructure Study submitted in support of NIPSCO's TDSIC Plan 1, in April 2011, the Secretary of Transportation Ray LaHood and PHMSA issued a "Call to Action" for pipeline operators to undertake programs to accelerate the identification, repair, rehabilitation, and replacement of pipelines to ensure the fitness for continued service. He stated that the increased focus on pipeline safety measures has continued as evidenced by the publication of the final version of PHMSA's long anticipated Gas Transmission Rule on October 1, 2019.[9] Mr. Bull testified that in support of both its TDSIC Plan 1 and this proceeding, NIPSCO conducted an assessment of its transmission pipeline system to identify and prioritize pipeline segments most at risk and subsequently initiated projects to replace or upgrade certain segments to comply with the evolving safety directives and regulations.

In response to Mr. Phillips's statements regarding the 483# Loop project, Mr. Bull agreed that the 483# Loop is important and accounts for over half of NIPSCO's daily gas deliveries. Mr. Bull testified that the 483# Loop would: (1) reduce operational risk both for NIPSCO and its large customers on the 483# Loop system by providing a redundant feed to a significant part of the system; and (2) provide transport customers with additional flexibility in terms of gas supply. He testified NIPSCO has implemented programs to mitigate the operational risk to some degree and protect the 483# Loop system by: (1) adding additional pipeline markers; (2) implementing more frequent patrols; (3) upgrading the corrosion protection system; and (4) establishing a watch-and-protect program so a NIPSCO observer is present any time there is excavation work near the pipeline. In addition, NIPSCO had to complete other projects first before it could provide the pipeline network required to feed into the 483# Loop for the benefits of the project to be realized. He explained that Aetna to Tassinong is the final project required to support the 483# Loop and

[9] 84 FR 52180 (Oct. 1, 2019).

NIPSCO plans to construct these projects in a parallel sequence to establish the redundant feed as early as possible.

In response to Mr. Phillips that the current estimates for Aetna to Tassinong and the 483# Loop projects exceed the estimates approved by the Commission in 2014 by 445%. Mr. Bull testified the Aetna to Tassinong and the 483# Loop projects proposed in the 2020-2025 Plan are not the same as the projects originally approved in 2014. He explained that significant changes were identified as NIPSCO proceeded through the design process and design reviews and that in this filing, NIPSCO has also applied experience gained through the execution of other projects completed in TDSIC Plan 1. He described that the Aetna to Tassinong project was originally scoped to be a direct replacement for the existing 16-inch pipeline, but that as the design progressed, it was determined that use of the existing 16-inch pipeline would limit the capacity of gas available through the back-feed requiring a number of changes. Mr. Bull explained that these changes and developments increased the cost for the 483# Loop.

C. Plan Update Process. Mr. Bull responded to Mr. Krieger's recommendation that NIPSCO: (1) inform the OUCC if it anticipates a project will exceed the approved best estimate by greater than 20% or $100,000 and also supply the reasons and estimated costs for those overages, thus creating a new best estimate request for approval; and (2) supply reasons substantiated with actual costs incurred if a project's actual costs exceed an approved best estimate by greater than 20% or $100,000. Mr. Bull testified that NIPSCO already provides that information in its current Plan Update process and has agreed to continue to provide that information in future Plan Updates. Mr. Bull testified in detail regarding ten components of the Plan Update process.

Mr. Bull also stated that in conjunction with the OUCC, NIPSCO developed 19 items to provide with each Plan Update filing and made modifications. In response to Mr. Krieger's recommendation, Mr. Bull testified that NIPSCO would also provide: (1) updated best estimates to projects that are unit based when new relevant information is available; and (2) to the extent that projects are initially estimated on a unit-cost basis and later developed based on a project-specific basis, detailed information to support the detailed estimate. Mr. Bull testified that rural extensions are driven by customer demand, and while it is difficult, if not impossible, to provide estimated consumption, NIPSCO would continue to work with stakeholders to provide greater clarity to the information that is provided.

Mr. Bull stated that NIPSCO would continue to work with the OUCC. He recalled that Mr. Krieger testified the OUCC had no difficulty conducting its review to determine there were neither duplicative costs between TDSIC Plan 1 and the 2020-2025 TDSIC Plan nor projects in the 2020-2025 TDSIC Plan that were in rate base in Cause No. 44988. Mr. Bull concluded that it is clear that NIPSCO and the OUCC have already been working together to ensure the OUCC has a good understanding of the various issues that have arisen throughout the process.

D. Accounting and Ratemaking.

i. Weighted Average Cost of Capital. Mr. Racher responded to Mr. Grosskopf's recommendation to address adjustments to the WACC based on other information when determining the pre-tax return used in future TDSIC semi-annual filings. He testified that, unlike IPL, the Commission already granted NIPSCO TDSIC ratemaking authority in its TDSIC 1 Order. Mr. Racher testified that in compliance with the Commission's TDSIC 1 Order authorizing NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return in each of its Update filings, NIPSCO has included the total WACC calculation with the equity, debt, and zero cost components. NIPSCO has also included an updated WACC as of the capital expenditure date. He explained that NIPSCO is not requesting any changes to its ratemaking authority in this proceeding, with the exception of the allocators.

Mr. Racher testified the Commission recently considered Ind. Code § 8-1-39-13 for determination of pretax return for NIPSCO's recent TDSIC filings in its October 16, 2019 Order in Cause No. 44403 TDSIC 10 finding: "[i]n TDSIC 1, the Commission ordered NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return and provided that the WACC should be updated in each semi-annual TDSIC filing to reflect an updated capital structure and cost of debt."[10] He stated the Commission approved a return on equity for NIPSCO in 44988 Order. He explained NIPSCO utilizes a holistic approach including all of the capital resources, including the zero cost items in the WACC calculation and that NIPSCO would use all capital resources (including equity, debt, and other zero cost items and the methodology approved in 44988 Order) to finance the TDSIC projects and follow its normal utility funding process. He testified this methodology is consistent with NIPSCO's other long-standing capital investment trackers.

Mr. Racher disagreed with Mr. Phillips's recommendation that the pretax return for TDSIC purposes should be significantly lower to reflect the reduction in risk arising from preapproved rate recovery for rate base investments. He explained that a fair pretax return methodology was approved in the 44988 Order, and in Cause No. 44371, the Commission declined to lower NIPSCO's authorized return on equity. Mr. Racher testified that given that the return determination was relatively recent, and given the TDSIC investments are new, a lower return should not be included in the return on those assets.

ii. <u>Replaced Asset Investment Costs</u>. In response to Mr. Phillips's recommendation that the allowed return for TDSIC purposes should recognize that NIPSCO proposes to continue to collect return in base rates for removed assets while also adding incremental return under the TDSIC tracker for replacement assets performing the same functions, Mr. Racher testified the Commission previously addressed the treatment of netting current eligible TDSIC improvement amounts with the replaced asset investment costs. He explained that in its 44371 Order, the Commission found that the statutory definition of eligible improvements at Ind. Code § 8-1-39-2 authorizes recovery of investment for replacement projects and the definition of pretax return at Ind. Code § 8-1-39-3 provides that revenues should provide for such investments, notably without suggesting any deduction or netting of the replaced asset. Mr. Racher testified regarding its ratemaking treatment for the TDSIC Plan: (1) projects included in the Plan are considered eligible improvements as defined in Ind. Code § 8-1-39-2; (2) the next gas general rate case would include a review of all costs (both capital and the related expenses) associated with the TDSIC investments in the Plan; and (3) a gas general rate case would be filed prior to the expiration of the Plan in compliance with Ind. Code § 8-1-39-9(e), the same criteria the Commission used in its 44371 Order addressing treatment of netting current eligible TDSIC improvement amounts with

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[10] *Northern Indiana Public Service Co.,* Cause No. 44403 TDSIC 10, at 15 (IURC Oct. 16, 2019).

the replaced asset investment costs.

iii. Calculation of Indirect Capital and AFUDC. Mr. Racher responded to Mr. Phillips's proposal to calculate indirect capital at the most recent five-year period average of 10.94% and AFUDC at the most recent five-year period average of 2.5%. He stated that NIPSCO reviewed its experience in TDSIC Plan 1, but did not use a historic average. He explained that the 2014 percentage was given no weight given the time that has passed and the change in reporting systems, but that more weight was given to the recent 12.9% 2019 results while also using forward-looking estimates from NiSource's Financial Planning and Analysis department. He testified that using this information as a guide, NIPSCO estimated 13.5% for indirect capital costs for the Plan and, in addition to incorporating experience from TDSIC Plan 1, NIPSCO increased the AFUDC estimate to 3.5% in the Plan to account for the large, multi-year gas transmission projects that would accrue AFUDC during the duration of the project. He testified NIPSCO's estimates of indirect capital and AFUDC are part of its "best estimate" of the cost of the gas transmission, distribution, and storage system investments included in the Plan.

Mr. Racher testified that as in NIPSCO's current process, at such time as a calendar year is closed out (every other Update filing), NIPSCO would update the indirect capital and AFUDC amounts to reflect the actual costs incurred. He stated that NIPSCO in each Update filing only includes actual amounts of indirect capital and AFUDC included in project costs as of the capital expenditure date, and these amounts are the basis of the capital revenue requirement calculation performed in each Update filing.

8. Commission Discussion and Findings.

A. Statutory Framework. Ind. Code § 8-1-39-10 permits a public utility to petition the Commission for approval of the public utility's plan for eligible transmission, distribution, and storage improvements, which may include approval of a targeted economic development project. The Commission's Order must include the following:

> (1) A finding of the best estimate of the cost of the eligible improvements included in the plan.
>
> (2) A determination whether public convenience and necessity require or will require the eligible improvements included in the plan.
>
> (3) A determination whether the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan.
>
> If the commission determines that the public utility's TDSIC plan is reasonable, the commission shall approve the plan and authorize TDSIC treatment for the eligible transmission, distribution, and storage improvements included in the plan.

Ind. Code § 8-1-39-10(b).

"Eligible transmission, distribution, and storage system improvements" means new or replacement electric or gas transmission, distribution, or storage utility projects that:

(1) a public utility undertakes for purposes of safety, reliability, system modernization, or economic development, including the extension of gas service to rural areas;

(2) were not included in the public utility's rate base in its most recent general rate case; and

(3) were [among other things] described in the public utility's TDSIC plan and approved by the commission under [Ind. Code § 8-1-39-10] and authorized for TDSIC treatment . . .

Ind. Code § 8-1-39-2(a).

The term "eligible transmission, distribution, and storage system improvements" includes the following:

(1) projects that do not include specific locations or an exact number of inspections, repairs, or replacements, including inspection based projects such as pole or pipe inspection projects; and

(2) projects involving advanced technology investments to support the modernization of a transmission, distribution, or storage system, such as advanced metering infrastructure, information technology systems, or distributed energy resource management systems.

Ind. Code § 8-1-39-2(b).

Ind. Code § 8-1-39-7.8 requires that a TDSIC plan cover a period of at least five years and not more than seven years.

Ind. Code § 8-1-39-10(d) allows a utility to "terminate an existing TDSIC plan before the end of the original plan period by providing the commission a notice of termination at least sixty (60) days before the date on which the plan will terminate."

Ind. Code § 8-1-39-11(c) provides:

> Notwithstanding any rule or law governing extension of service, a public utility that provides gas service may, on a non-discriminatory basis, extend service in rural areas without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period. However, if the public utility determines that the extension of service to a targeted economic development project would not result in a positive contribution to the utility's overall cost of service over a twenty (20) year period, the public utility may require a deposit or other adequate assurance of performance from: (1) the developer of the targeted economic development project; or (2) a local, regional, or state economic development organization.

Ind. Code § 8-1-39-11(c)

B. <u>NIPSCO's TDSIC Plan and Eligible Improvements</u>. NIPSCO's TDSIC Plan is comprised of three segments: (1) investments aimed at maintaining the system reliability through the capacity of the system to deliver gas to customers when they need it (Gas System Deliverability); (2) replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system (Gas System Integrity); and (3) the extension of gas facilities into rural areas (Rural Gas Extensions). NIPSCO's TDSIC Plan and attached appendices identify what projects would be undertaken, when they would be undertaken, and why these projects are necessary and beneficial. The evidence presented demonstrates that the improvements are being undertaken by NIPSCO for purposes of safety, reliability, system modernization, or economic development. NIPSCO also showed that the proposed improvements were not included in its rate base in its most recent general rate case.

The witnesses for the other parties did not challenge the TDSIC Plan on the basis that the projects are not "eligible improvements" under applicable law. Thus, based on the evidence, we find that the projects described in NIPSCO's TDSIC Plan meet the criteria established by the TDSIC Statute and find that the projects are being undertaken by NIPSCO for the purpose of safety, reliability, system modernization, and support of economic development. We further find that the proposed projects are "eligible improvements" as defined in Ind. Code § 8-1-39-2 and were not included in NIPSCO's most recent rate case.

C. <u>NIPSCO's Proposed Definitions</u>. While Ind. Code § 8-1-39-1 states that definitions in Ind. Code § 8-1-2-1 apply, there are several terms that are not defined elsewhere, and NIPSCO is proposing to continue to use definitions for the following key terms: Safety; Reliability; System Modernization; Economic Development; Transmission and Distribution; and Under Construction as approved by the Commission in Cause No. 44403. NIPSCO is also proposing that the Commission retain the definition for "Rural Area" as accepted by the Commission in 44403 Order solely for the purpose of administrative convenience. No party opposed NIPSCO's proposed definitions. We find NIPSCO's continued use of the definitions approved in 44403 Order is reasonable and is approved.

D. <u>Best Cost Estimate</u>. Ind. Code § 8-1-39-10(b)(l) requires that the Commission's Order on a TDSIC Plan must include "[a] finding of the best estimate of the cost of the eligible improvements included in the plan."

NIPSCO's TDSIC Plan proposes six years of defined investment totaling $807,573,279. Approximately $92.7 million (11%) of the estimated Plan addresses gas system deliverability projects, such as adding new gas mains and adding or upgrading regulator stations to improve NIPSCO's ability to meet customers' deliverability demands. Approximately $531.5 million (66%) of the estimated Plan addresses gas system integrity projects, such as replacing certain segments of NIPSCO's gas transmission, distribution, and storage facilities to ensure public safety, and asset replacements identified to be at risk of continued operability through routine and special inspection and assessment cycles. Approximately $183.4 million (23%) of the estimated Plan addresses rural gas extension projects making investments in new or upgraded gas mains and / or regulator stations, and new services to make natural gas available to rural customers. The total cost estimate is $598.1 million for transmission cost; $193.9 million for distribution costs; and $15.6

million for storage costs. NIPSCO's TDSIC Plan provides year-by-year project details, including cost estimates in a sortable list and an associated summary of the Plan's cost by FERC account (TDSIC Plan, Page 2).

NIPSCO developed cost estimates for the projects included in the TDSIC Plan using the AACE Cost Classification System. As a general matter, NIPSCO presented Class 4 estimates for most of the projects. The confidential appendices included in NIPSCO's TDSIC Plan include a risk register, asset registers, project estimates, and unit cost estimates. The level of detail NIPSCO used to estimate project cost estimates in its TDSIC Plan is consistent with common practice within the industry.

NIPSCO engaged EN Engineering and its own internal subject matter experts in engineering, planning, and system integrity teams to prepare the TDSIC Plan. Mr. Bull provided an overview of the methodology used by EN Engineering in evaluating risk. He stated the engineering analysis for individual projects incorporated specific algorithms and ranking methodologies. OUCC witness Krieger testified that he is satisfied that the EN Engineering report is supported by the evaluation of comprehensive risk magnitudes applied to those risks evaluated.

Further, NIPSCO plans to update the Plan with its best estimate by project for each calendar year as part of its periodic Update. The confidential appendices included in NIPSCO's TDSIC Plan will be updated as new, relevant information becomes available during the Plan Update process. PCR forms would be provided to support material project estimate changes during the current year for projects. Actual costs (direct capital, indirect capital, and AFUDC) will be included in the Plan Update when a given calendar year is closed out, and rural extension inputs will be updated annually.

We find that NIPSCO's estimates are sufficiently detailed and reasonably based on the AACE Cost Classification System. The Industrial Group raised a concern that the contingency included in NIPSCO's cost estimates is unnecessary and should be disallowed. However, we find that including contingency costs in the cost estimate is consistent with the AACE system and industry practice. We also find that NIPSCO has shown that the level of contingency reflected in its cost estimates is reasonable. Given these considerations, we find the exclusion of contingency in the cost estimate would be unreasonable and would not establish the best cost estimate as required by the TDSIC Statute.

The Industrial Group and the OUCC raised a concern that NIPSCO's escalation rate should be reduced from 3%. The Industrial Group proposed that 2% would be a more reasonable escalation rate to reflect the Federal Reserve's targeted long-term inflation rate, and the OUCC proposed use of 2.3% to reflect the average annual CPI reported by the BLS. Mr. Bull testified that neither of these approaches is a reasonable proxy for costs associated with large industrial construction projects, which are driven by the cost of labor and materials, not consumer goods. Mr. Bull said this is particularly true given the amount of construction that has taken place in the utility sector over the past several years, which has resulted in shortages of some materials and a rise in labor costs, and Mr. Bull testified about the applicable cost risks for large industrial projects. We agree that neither of the rates proposed by the Industrial Group nor the OUCC measure the escalation rates applicable to the large industrial construction projects in NIPSCO's TDSIC Plan.

Therefore, we find the escalation rate of 3% is reasonable and will establish the best cost estimate as required by the TDSIC Statute.

Industrial Group witness Mr. Phillips also contended that preapproved estimates that include escalation shifts additional risk to ratepayers and reduces NIPSCO's incentive to complete the work as cost-effectively as possible. To the contrary, inclusion of escalation in its best estimate of costs does not shift risk to its customers, but rather provides the best estimate so that the Commission and NIPSCO's stakeholders have realistic expectations of the cost of the Plan. We agree that the goal is to provide the best estimate of costs for all years of the Plan at the time approval is sought. We further agree that if the actual costs of construction are lower than the approved estimate, NIPSCO's customers would pay that lower cost.

Industrial Group witness Mr. Phillips suggested that it would be more reasonable to calculate indirect capital at the most recent five-year period average of 10.94% and AFUDC at the most recent five-year period average of 2.5%. However, we find that NIPSCO has shown that its methodology of: (1) looking at the 12.9% indirect capital costs for 2019 and then adjusting to reflect forward-looking estimates from NiSource's Financial Planning and Analysis department; and (2) increasing AFUDC to 3.5% to account for the large multi-year gas transmission projects that would accrue AFUDC during the duration of the project, is reasonable. We further find that NIPSCO's estimates of indirect capital and AFUDC, part of its best estimate of the cost of the Plan, are a realistic reflection of NIPSCO's expectations.

Ind. Code § 8-1-39-10 requires the Commission Order to include a "finding of the best estimate" of the cost of the proposed improvements. At this juncture, the Commission is not tasked with reviewing actual project costs. After approval of a TDSIC plan, Ind. Code § 8-1-39-9 establishes procedures for TDSIC trackers, providing that "[a]ctual capital expenditures and TDSIC costs that exceed the approved capital expenditures and TDSIC costs require specific justification by the public utility and specific approval by the commission before being authorized for recovery in customer rates." Moreover, Ind. Code § 8-1-39-14 establishes a limitation on TDSIC recovery within a 12-month period. We find these sections adequately address the other parties' concerns about future variation in costs.

Based on the evidence presented, we find that the record demonstrates that the estimated cost of NIPSCO's TDSIC Plan of approximately $948.7 million rests on a sound factual and analytical foundation and is reasonable. Accordingly, we find the best estimate of the cost of the eligible improvements included in the Plan is the estimate provided by NIPSCO.

E. Public Convenience and Necessity. Ind. Code§ 8-1-39-10(b)(2) requires that an Order on a TDSIC Plan must include "[a] determination whether public convenience and necessity require or will require the eligible improvements included in the plan."

The evidence of record in this Cause demonstrates that the TDSIC Plan is largely a replacement plan based upon the condition of the facilities and which is necessary to continue serving its customers safely and reliably while also complying with applicable laws. The TDSIC Plan follows the requirements of the TDSIC Statute and achieves the legislative intent of making new and replacement transmission, distribution, and storage system investments for the purpose of safety, reliability, system modernization, and economic development. No party offered evidence demonstrating that the eligible improvements included in the TDSIC Plan were unnecessary for the continued safe and reliable service to customers or that the public convenience and necessity did not, or would not, require the TDSIC investments to be made. Rural extensions have been determined by the General Assembly to be in the public interest as reflected in the statutory advantages the TDSIC Statute provides for them in comparison to other extension projects.

Thus, we find that the eligible investments are essential in protecting the integrity, safety, and reliable operation of the system and enhance the ability of NIPSCO customers to take advantage of the rapid development of alternative natural gas supply and delivery options and also position NIPSCO's system to remain reliable and flexible in the event of significant changes to the economic and operational climate for natural gas. Additionally, the extension of gas service to rural areas would allow some residents in NIPSCO's service territory to access natural gas services for the first time. Based on the evidence presented, we find that NIPSCO's approach to extending its gas system to rural areas is consistent with the TDSIC Statute and is approved. Thus, we find that substantial evidence in this Cause shows that the projects included in NIPSCO's TDSIC Plan will serve the public convenience and necessity.

F. <u>Incremental Benefits Attributable to the TDSIC Plan</u>. Ind. Code § 8-1-39-10(b)(3) requires that an Order on a petition for approval of a TDSIC plan must include "[a] determination whether the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan."

Ms. Becker testified the TDSIC Plan effectively addresses safety, reliability, system modernization, and the extension of gas service into rural areas. She stated it is essential in considering the incremental benefit of the Plan to recognize that continued safe, reliable service from the eligible investments in the Plan be compared against the potential for service deterioration and capacity restraint that would occur if these investments were not made. Mr. Bull testified that while the Plan addresses all four types of eligible investment in the TDSIC Statute, most of the Plan's investments positively impact public safety. He explained the Plan's drivers: (1) safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion; (2) reliability drivers include the avoidance of gas outages or curtailments driven from the inability to maintain gas system pressure during peak-load events; and (3) system modernization impacts both safety and reliability by upgrading the facilities to current industry standards. He noted that the Plan also extends the benefit of natural gas service to rural areas.

Although OUCC witness Mr. Krieger testified that NIPSCO identified the cost of the projects and demonstrated the benefits of the TDSIC Plan through the reduction of risk, he recommended that the Commission deny NIPSCO's application because NIPSCO has not quantified the reduced risk associated with completion of projects in comparison to other projects not included. We disagree. Although in Cause No. 45264 IPL was able to monetize the value of avoiding service outages associated with asset failure from the customer experience perspective for some of its proposed projects, that analysis did not attempt to quantify all project benefits, but rather focused on projects that lent themselves readily to monetization.[11] Such an analysis in this Cause would be very difficult without attempting to: (a) assign a dollar value to the health and safety of NIPSCO's customers individually or in the

[11] 45264 Order, at 22-23.

aggregate; or (b) evaluate the economic impact of a gas outage on the numerous industrial customers served by NIPSCO's system. There is nothing in the TDSIC Statute that would indicate that such an analysis is necessary. The record evidence demonstrates that NIPSCO's TDSIC Plan is proposed to reduce risk of asset failure and maintain service reliability. In doing so, the TDSIC Plan provides incremental benefits compared to how the future would otherwise unfold.

Accordingly, based on the evidence presented, we find that NIPSCO has sufficiently prioritized and optimized the incremental benefits of its Plan and otherwise shown a sound basis for the proposed projects and associated costs, which is consistent with the standard we have previously applied to the evaluation of incremental benefits under the TDSIC Statute. Therefore, the Commission's determination is that the estimated costs of NIPSCO's TDSIC Plan improvements are justified by incremental benefits attributable to the TDSIC Plan.

G. <u>NIPSCO's 2020-2025 TDSIC Plan Is Reasonable</u>. As discussed above, NIPSCO's TDSIC Plan satisfies the applicable statutory requirements. The TDSIC Plan is reasonably designed to incrementally maintain or improve: safety, NIPSCO's ability to serve its customers, and the reliability and resiliency of NIPSCO's system. The Plan also includes the extension of gas facilities into rural areas. The record establishes that NIPSCO's Plan is based on a logical approach and sound analysis that presents the best estimate of the cost of the investments. Accordingly, based upon our review of the evidence of record and the foregoing considerations of each component of Ind. Code § 8-1-39-10, we find that NIPSCO's TDSIC Plan is reasonable and is therefore approved. In accordance with Ind. Code § 8-1-39-10(b), we authorize TDSIC treatment for the improvements described in NIPSCO's TDSIC Plan, including costs incurred prior to the date of this Order that were discussed by Ms. Becker.

H. <u>Plan Development Costs and PS&I Costs</u>. To demonstrate compliance with the TDSIC Statute, NIPSCO hired independent consultants to support this effort, including PFES, LLC and TRC Companies, Inc. As stated above, NIPSCO seeks Commission approval to defer and recover these costs with approximately $1.5 million of Plan development costs to be amortized over the life of the Plan as capital overhead (or indirect capital), which is consistent with how NIPSCO allocated plan development costs in its TDSIC Plan 1. No party presented evidence challenging the amount or recovery of NIPSCO's plan development and PS&I costs. We find and conclude that NIPSCO's proposal is reasonable and is approved.

I. <u>Accounting and Ratemaking.</u> As summarized above, NIPSCO requests Commission approval to defer TDSIC costs until they are recovered through the TDSIC adjustment factor or included in basic rates. Mr. Racher testified that NIPSCO seeks Commission authority to recover approved capital expenditures and TDSIC costs through its existing approved Gas TDSIC Mechanism. The Commission approved NIPSCO's Gas TDSIC Mechanism in its TDSIC 1 Order, allowing for the timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs and authorization to defer, until recovery through the TDSIC, 80% of the post in service TDSIC costs of the TDSIC project, including carrying costs, depreciation and taxes.

NIPSCO witness Mr. Racher testified the only change NIPSCO is proposing to its accounting and ratemaking authority is to adjust its allocation percentages to reflect the significant migration of customers amongst the various rate classes for each TDSIC tracker filing to prevent any unintended consequences of the migration of customers between rates and to properly allocate the associated share of the revenue requirement. No party presented evidence challenging this requested relief. We find NIPSCO's proposal is reasonable, and is approved.

Additional issues related to accounting and ratemaking are discussed further below.

i. <u>Calculation of Indirect Capital Costs and AFUDC.</u> Industrial Group witness Mr. Phillips proposed NIPSCO calculate indirect capital at the most recent five-year period average of 10.94% and AFUDC at the most recent five-year period average of 2.5%. On rebuttal, Mr. Racher explained that NIPSCO reviewed its experience in TDSIC Plan 1, but did not use a historic average and instead gave more weight to the recent 12.9% 2019 results while also using forward-looking estimates. Mr. Racher stated that using this information as a guide, NIPSCO estimated 13.5% for indirect capital costs and increased the AFUDC estimate to 3.5% to account for the large multi-year gas transmission projects which would accrue AFUDC during the duration of the project. Mr. Racher testified NIPSCO's estimates of indirect capital and AFUDC are part of its "best estimate" of the cost of the gas transmission, distribution, and storage system investments included in the Plan. We also point out that when a calendar year is complete, the indirect capital and AFUDC amounts are updated to reflect actual costs in the appropriate TDSIC tracker filing. We find NIPSCO's proposal is reasonable, and is approved.

ii. <u>Determination of Pretax Return and Replaced Asset Investment Costs</u>. OUCC witness Mr. Grosskopf recommended that adjustments to the WACC be based on "other information" when determining the pretax return. Mr. Grosskopf testified that approach is consistent with the Commission's direction in IPL's 45264 Order, and the OUCC would recommend adjustments to the WACC based on "other information" in NIPSCO's future TDSIC cost recovery filings. Industrial Group witness Mr. Phillips recommended that the allowed return for TDSIC purposes should recognize that NIPSCO proposes to continue to collect a return in base rates associated with removed assets while also adding incremental return under the TDSIC tracker for replacement assets performing the same functions. Mr. Racher testified that the Commission already granted NIPSCO TDSIC ratemaking authority in its TDSIC 1 Order.

We begin by recognizing that the TDSIC 1 Order was for a TDSIC plan that is not the subject of this proceeding as NIPSCO has presented a new TDSIC Plan for our approval. As we noted in our recent IPL TDSIC proceeding:

> Although we have consistently concluded that the TDSIC statute does not allow for the netting of retired assets as advocated by the OUCC, we note that we also found in our February 17, 2014 Order in Cause No. 44371, at p. 17, that the TDSIC statute "does not preclude us from increasing or decreasing the allowed return on equity [which is used in determining the utility's weighted average cost of capital], as the Commission is authorized to consider other necessary information in determin[ing] the appropriate pretax return." Based on the passage of time and the experience we have gained implementing the TDSIC statute over the past six years, as well as the OUCC's continued concerns with double recovery and the Industrial Group's concerns with the shifting of risks based on plan approval, we find it appropriate to

> explore a reasonable adjustment under the statutory provisions. While we find that Ind. Code § 8-1-39-13(a) allows us to consider "other information" when determining the WACC under Ind. Code § 8-1-39-3(1), such as the impact of retirements and allocation of risk based on TDSIC plan approval, we do not find the record provides sufficient evidence for us to determine how or to what extent to reasonably adjust IPL's WACC to address the parties' concerns. Therefore, we will defer our finding on the appropriate WACC pending consideration of any reasonable adjustment until such a record has an opportunity to be developed in TDSIC 1 or other appropriate docketed forum.

45264 Order, at 27.

The primary request in this proceeding by NIPSCO was our consideration of its TDSIC Plan and, similar to the IPL circumstance, the need to decide the WACC is not urgent and provides an opportunity to develop more fully the evidence for and our consideration of a reasonable WACC to apply to NIPSCO's new TDSIC Plan. We accept Mr. Grosskopf's recommendation to utilize, consistent with our IPL finding, the TDSIC Update filing for such evidence development. Accordingly, we will defer our decision regarding NIPSCO's appropriate WACC until such time.

9. <u>Other Matters</u>.

A. <u>Plan Update Process</u>. Ind. Code § 8-1-39-9(b) provides that a utility shall update its TDSIC Plan at least annually. NIPSCO anticipates filing a new petition every six months, and each semi-annual filing would include the Update to the Plan supported by information on the actual costs incurred, a description of any moves between project years, and explanations of all increases that exceed the greater of $100,000 or 20%. NIPSCO would provide an updated Risk Model (Confidential Appendix 1) and updated unit costs (Confidential Appendix 3) included in the 2020-2025 TDSIC Plan as new relevant information becomes available during the Plan Update process.

Ms. Becker stated that the only changes to its Plan Update Process is that NIPSCO is not intending to provide the six pages comparing the approved plan to the Updated plan in its current Plan Update process, including identification of the related variances because the comparisons by project category currently found on Update pages 21, 23, and 25 can already be found on Update Page 1. No party presented evidence challenging this requested relief. We find NIPSCO's proposed Update process is reasonable, and is approved.

OUCC witness Mr. Krieger recommended NIPSCO: (1) inform the OUCC if it anticipates a project would exceed the approved best estimate by greater than 20% or $100,000, and supply reasons with estimated costs for those overages, thus creating a new best estimate request for approval; and (2) supply reasons substantiated with actual costs incurred if a project's actual costs exceed an approved best estimate by greater than 20% or $100,000, both of which NIPSCO currently provides and agreed to continue to provide. Mr. Krieger also recommended that NIPSCO provide refined project location and work-order level cost estimates for Plan projects originally submitted on a per unit basis, to which NIPSCO agreed to provide updated best estimates to projects that are unit based when new relevant information is available; and, to the extent that projects are initially estimated on a unit-cost basis and later developed based on a project-specific basis, NIPSCO would continue to provide detailed information to support the detailed estimate.

Mr. Krieger also recommended that NIPSCO: (1) provide 20-year margin tests for defined rural extensions projects including work-order level costs, customers, and estimated consumption, and (2) continue to work with the OUCC to ensure the accounting process is well understood so no project costs are double counted. NIPSCO responded it is committed to working with its stakeholders to determine additional information that can be provided for rural extension projects. Mr. Bull stated NIPSCO has the ability to provide margin test results for identified projects that are included in the Plan, and rural extension project work orders are currently included in a list that NIPSCO currently provides to the OUCC from which invoice-level detail is requested to audit as part of each Plan Update filing. NIPSCO agreed to continue to work with the OUCC to ensure the accounting process is understood well so no project costs are double counted. We find the level of detail provided by NIPSCO is sufficient and encourage the parties to continue to work together to determine how to provide appropriate information for the OUCC to review Plan Updates in a manner that is not unduly burdensome.

B. Motion for Administrative Notice. Mr. Phillips's testimony relied in part upon the Commission's previous Orders. The Industrial Group filed a Motion for Administrative Notice on April 9, 2020. We grant the Industrial Group's Motion for Administrative Notice.

C. Confidentiality. NIPSCO filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on December 31, 2019, which was supported by the affidavit of Mr. Bull, showing that certain information to be submitted to the Commission were trade secrets under Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on January 16, 2020, finding such information to be preliminarily confidential, after which such information was submitted under seal. After reviewing the information, we find this information qualifies as confidential trade secret information pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2. This information shall be held as confidential and protected from public access and disclosure by the Commission and is exempted from the public access requirements contained in Ind. Code §§ 8-1-2-29 and 5-14-3-4.

10. Conclusion. We find that NIPSCO's TDSIC Plan meets the requirements of the TDSIC Statute. However, as required by the TDSIC Statute, NIPSCO will be required to provide specific justification for the Commission to approve the recovery of costs in excess of approved estimates.

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

1. The projects identified in Petitioner Northern Indiana Public Service Company LLC's 2020-2025 TDSIC Plan constitute "eligible transmission, distribution, and storage system improvements" within the meaning of Ind. Code § 8-1-39-2;

2. NIPSCO's 2020-2025 TDSIC Plan is reasonable and approved;

3. NIPSCO's extension of service in rural areas of its authorized service territory pursuant to Ind. Code § 8-1-39-11(c) is approved;

4. NIPSCO's continued used of definitions of key terms for purposes of interpreting Ind. Cod ch. 8-1-39 are hereby approved;

5. NIPSCO is authorized to defer costs associated with the 2020-2025 TDSIC Plan that are incurred prior to and subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates;

6. NIPSCO's proposed process for updating the 2020-2025 TDSIC Plan in future TDSIC semi-annual adjustment proceedings under the Cause No. 45330 TDSIC X is approved; and

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

8. The NIPSCO Industrial Group Motion for Administrative Notice on April 9, 2020, is granted.

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

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

APPROVED: JUL 22 2020

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission