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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF PETITIONER'S 7-YEAR 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.	)	**CAUSE NO. 44403** **APPROVED:** APR 30 2014

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ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Loraine L. Seyfried, Chief Administrative Law Judge

On October 3, 2013, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") petitioned the Indiana Utility Regulatory Commission ("Commission"), pursuant to Ind. Code §§ 8-1-39-10 and -11, for approval of a 7-year plan for eligible transmission, distribution and storage system improvements, including targeted economic development projects and extensions to rural areas ("7-Year Gas Plan" or "Plan"). On October 3, 2013, NIPSCO also filed its testimony and exhibits constituting its case-in-chief. Citizens Action Coalition of Indiana, Inc. ("CAC"), NIPSCO Industrial Group ("Industrial Group") and United States Steel Corporation ("U.S. Steel") filed petitions to intervene, all of which were subsequently granted.[1]

On January 13, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC"), Industrial Group and U.S. Steel filed direct testimony. Also on January 13, 2014, Industrial Group filed a Motion for Administrative Notice, which was granted by Docket Entry dated January 27, 2014. NIPSCO filed rebuttal testimony on January 27, 2014.

Also on January 27, 2014, NIPSCO filed a Motion to Strike Portions of the Prefiled Testimony of Nicholas Phillips, Jr. and Richard W. Cuthbert, to which Industrial Group responded on February 4, 2014, U.S. Steel responded on February 5, 2014, and NIPSCO replied on February 11, 2014. On February 17, 2014, the Presiding Officers denied NIPSCO's motion to strike.

An evidentiary hearing was held in this matter on February 18, 2014, at 10:00 a.m., in

[1] Industrial Group filed an Amended Petition to Intervene on January 8, 2014. The members of the Industrial Group in this proceeding are ArcelorMittal USA, BP Products North America, Inc., Chrysler Group, LLC and Praxair, Inc.

Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prefiled evidence of NIPSCO, the OUCC and U.S. Steel were admitted into the record without objection. Industrial Group's prefiled evidence was also admitted, portions of which were admitted over objection. No members of the general public appeared or participated at the hearing.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Commission Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-39-10 and -11, the Commission has jurisdiction over a public utility's 7-year plan for eligible transmission, distribution, and storage improvements, including targeted economic development projects and extension of gas service in rural areas. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is engaged in rendering electric and gas service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public.

3. Requested Relief. By its Petition, Petitioner requests the following relief:

(1) a finding that the projects contained in the 7-Year Gas Plan are "eligible transmission, distribution, and storage system improvements" within the meaning of Indiana Code § 8-1-39-2;

(2) a finding of the best estimate of the cost of the eligible improvements included in the Plan;

(3) a determination that the public convenience and necessity require or will require the eligible improvements included in the Plan;

(4) a determination that the estimated costs of the eligible improvements included in the 7-Year Gas Plan are justified by incremental benefits attributable to that Plan;

(5) approval for inclusion of "targeted economic development projects" and the extension of "service to rural areas," including approval to use Petitioner's proposed definitions of key terms for purposes of interpreting Ind. Code ch. 8-1-39;

(6) approval of the 7-Year Gas Plan and designation of the eligible transmission, distribution and storage system improvements included in the Plan as eligible for Transmission, Distribution and Storage System Improvement Charge ("TDSIC") treatment in accordance with Ind. Code ch. 8-1-39 and approval of the inclusion of the Plan projects in its rate base in subsequent general rate proceedings pursuant to Ind. Code § 8-1-2-23, if the Commission determines that the 7-Year Gas Plan is reasonable; and

(7) approval of Petitioner's proposed process for updating the 7-Year Gas Plan in future TDSIC semi-annual adjustment proceedings.

4. **Evidence Presented.**

A. **NIPSCO's Case-in-Chief.** Providing testimony in support of NIPSCO's request, Mr. Frank A. Shambo, Vice President, Regulatory and Legislative Affairs for NIPSCO, testified that the eligible improvements to its facilities included in the 7-Year Gas Plan will serve the public convenience and necessity in various ways. First, NIPSCO's Plan is largely a replacement plan based upon the condition of these facilities. Second, NIPSCO seeks relief within the requirements provided by the General Assembly in Ind. Code ch. 8-1-39 and achieves the legislative intent of making new and replacement transmission and distribution investments for the purpose of safety, reliability, system modernization and economic development. Third, the eligible investments are essential in protecting the integrity, safety, and reliable operation of the system.

Mr. Shambo testified that NIPSCO's direct cost estimates were independently reviewed and found to be reasonable by EN Engineering. Furthermore, Mr. Shambo noted that NIPSCO's estimates for indirect costs and allowances for funds used during construction ("AFUDC") are consistent with Generally Accepted Accounting Principles and the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts for utilities, and that NIPSCO's methodologies used for estimating indirect costs have not changed since its last rate case.

Mr. Shambo explained that in building the rural gas extension segment of the 7-Year Gas Plan, NIPSCO considered the following goals:

(1) Meeting the Legislature's objective in bringing savings associated with natural gas to rural customers while also balancing the impact of the required investments on other customers;

(2) Being responsive to potential customers by giving them the ability to plan with certainty when natural gas service will be available;

(3) Prioritizing rural service projects based on savings to potential customers; and

(4) Implementing an additional process to NIPSCO's existing New Business Policy that allows rural customers to be connected on a timely, non-discriminatory basis while also doing so cost effectively.

Mr. Shambo testified that NIPSCO's proposed rural gas extensions segment achieves these goals because it: (1) provides the opportunity for thousands of Hoosiers across NIPSCO's service territory to access affordable natural gas service, (2) allows potential customers to plan with certainty when natural gas service will be available, (3) is designed to connect these rural area customers on a non-discriminatory basis and in a cost effective manner by ranking the projects based on the projected customer savings for the particular project, and (4) can run in parallel to NIPSCO's existing New Business Policy so that NIPSCO can continue to honor its obligation to serve customers that meet those requirements.

Mr. Shambo described the proposed data integration project for recovery in the 7-Year Gas Plan. He testified it is a one-time project that NIPSCO must perform in order to convert hard copy system records into an electronic format that can be loaded into a database. He explained that formerly, NIPSCO has maintained these service card records and paper system records (called "linens") physically. However, in order to be able to query the data electronically and to allow access to detailed mapping and installation records electronically in the field, NIPSCO must convert these records now. Mr. Shambo testified that access to the electronic data will allow NIPSCO's field crews to quickly and accurately identify facilities during an emergency response situation. He stated the database will also be utilized in NIPSCO's system integrity management programs for ensuring pipeline safety. Mr. Shambo testified the project is a single, discrete project that will take NIPSCO approximately three years to complete.

Mr. Shambo testified that 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. Therefore, he stated, NIPSCO proposes definitions for the following terms: safety; reliability; system modernization; economic development; transmission, distribution, and storage; and under construction, be used for purposes of interpreting Ind. Code ch. 8-1-39. NIPSCO also proposed a definition for rural areas, solely for the purpose of administrative convenience.

Mr. Shambo explained NIPSCO's proposed process for updating its 7-Year Gas Plan and the reasons for NIPSCO's proposal. He testified that NIPSCO intends to update the Plan in its semi-annual TDSIC filing, beginning September 1, 2014. He stated that at least one time per year, NIPSCO will provide project details (similar to the first year of the 7-Year Gas Plan) for the next upcoming year and required annual spends for the remaining years of the Plan. Also, NIPSCO will continue to refresh its prioritization analyses as new information about the system becomes available.

Mr. Shambo also testified concerning NIPSCO's assessment of the impact of the 7-Year Gas Plan on retail revenue. He stated that the annual increase to total retail revenue from the TDSIC is projected to be less than 2% in each year, or approximately 1.4% on average over the 7 years. In establishing its 7-Year Gas Plan, Mr. Shambo testified that NIPSCO considered the need to maintain a safe and reliable system, lower spending levels in the earlier years to allow learning and improved effectiveness of spending in later years, the ability to obtain capital, and honoring the legislative intent of extending gas service into rural areas and performing targeted economic development projects.

Mark G. Small, Director of Engineering for NIPSCO, sponsored Petitioner's 7-Year Gas Plan, Exhibit No. MGS-1, which consists of three schedules. Schedule 1 provides the direct capital spend by project categories by year. It also includes a projection of indirect capital and AFUDC by year. Schedule 2 provides a summary of projected direct capital spend by FERC account by year. Schedule 3 provides 2014 project detail, including the direct project costs. Mr. Small also sponsored Petitioner's Exhibit No. MGS-2, an infrastructure study prepared by EN Engineering, and provided additional information about the risk methodologies utilized, the quantity and type of assets identified for replacement, the cost estimates, and the expected benefits of NIPSCO's 7-Year Gas Plan. He also sponsored Petitioner's Exhibit No. MGS-3, which provided the estimated direct cost of each individual improvement included in the Plan.

Mr. Small testified that the 7-Year Gas Plan is comprised of four 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); (3) data and technology investments required for the gas system integrity program (System Integrity Data Integration); and (4) the extension of gas facilities into rural areas (Rural Gas Extensions).

Mr. Small testified the Plan focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. He explained that while the Plan addresses all four types of eligible investment (safety, reliability, system modernization and economic development) in the TDSIC statute, most of the Plan's investments positively impact public safety. He explained that the safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion, and that the reliability drivers include the avoidance of gas outages driven from the inability to maintain gas system pressure during peak load events. He testified that based on a widely accepted third-party risk model, along with further analysis and optimization, NIPSCO projects that execution of the 7-Year Gas Plan will produce a 29% reduction in risk associated with the operation of NIPSCO's transmission system. He testified the 7-Year Gas Plan also extends the benefit of natural gas service to rural areas.

Mr. Small testified the cost estimates provided in NIPSCO 7-Year Gas Plan are the best estimate of the cost of the eligible improvements. The total estimated capital cost of the Plan is $713.1 million, plus $8.5 million for a one-time operation and maintenance project. He stated EN Engineering performed detailed cost estimates for all projects that are not typically performed by NIPSCO. And, for those projects that NIPSCO performs on a more routine basis, EN Engineering performed a reasonableness check on the estimates prepared by NIPSCO. Mr. Small testified that the estimates were considered reasonable when the NIPSCO estimate and the EN Engineering estimate were within +/-20%. For these reasons, NIPSCO believes the estimates included in this plan are best estimates.

Mr. Small testified that the 7-Year Gas Plan will need to be updated. He testified that the Plan is reflective of the characteristics of the gas system and the needs of NIPSCO's customers as they exist at the time the Plan was built. Consequently, as NIPSCO learns more and changes occur over the years, the plan will be updated in semi-annual filings.

With regard to rural extensions, Mr. Small testified NIPSCO has included in the 7-Year Gas Plan a process to extend natural gas service to rural customers and the funding expected to be required to execute those extensions. He explained the investment level associated with the rural gas extension segment of the Plan was determined by an analysis of the current interest expressed by NIPSCO's customers in this area and by making adjustments to reflect the new economic evaluative method associated with this work.

Mr. Small testified that NIPSCO's 7-Year Gas Plan includes approximately $98.8 million (direct dollars) over 7 years for the extension of natural gas lines into currently unserved areas. He stated the dollars forecasted in the Plan are the costs associated with designing and installing gas main projects to reach rural areas that are currently relying predominantly upon higher cost propane for heat.

Mr. Small explained the extension of NIPSCO's system must be undertaken thoughtfully and take into consideration both short and long term operational issues. For this reason, he stated, NIPSCO has developed an internal process to ensure that rural extensions address the needs of potential new customers, the logical operational needs of the system, and the time of year that delivers greatest customer value.

Mr. Small testified NIPSCO plans to manage the rural extension process through an "open season" that allows customers to request extension within a 12-month batch closing on September 30 of each calendar year. He explained that once the open season is closed, NIPSCO will bundle requests together into projects that can be readily undertaken together and that promote an orderly and operationally appropriate extension of the system. He stated that each project will also be scoped to remain within the financial parameters specified by the TDSIC statute to ensure that the extensions are made in a cost effective manner. He stated that once the projects have been identified, they will be ranked based upon the overall customer savings associated with each, and those projects falling within the rural extension budget for the year will be built during the next construction season with the goal of completing the projects prior to the next heating season.

Mr. Small testified the funding established in the 7-Year Gas Plan for rural gas extensions was based on NIPSCO's analysis of historical customer interest in natural gas extensions that would have passed the new 20 year margin test. He stated NIPSCO has estimated the cost of rural extensions consistent with meeting customer demand, staying within the statutory limitation, and the anticipated spend for other safety and reliability related projects. He explained that if the total number of projects associated with an open season exceeds the funding allocated for rural extensions, the least advantageous projects will be deferred to the following open season for re-evaluation. He stated that if a customer meets a 20 year margin test, but due to funding, is deferred two consecutive years, that customer will be placed on the approved list in Year 3.

Mr. Small testified it is imperative that extensions be undertaken with an eye toward system planning and operational stability. He stated that those considerations generally indicate that "one-off" extensions for individual customers or isolated areas be incorporated into bigger planned projects to ensure efficiency from both an operational and a construction perspective.

Mr. Small testified that NIPSCO plans to handle rural extensions in 2014 using the same approach as contemplated for future years, using pending customer requests received to date. He stated that since 2014 is the first year of introducing a new economic test into the project viability evaluation, NIPSCO believes customers who have yet to have gas facilities installed will benefit from the new economic test, as well as the efficiencies of the project bundling described. He testified that using this approach, NIPSCO has set aside $13.5 million to fund the 2014 rural gas extensions.

Mr. Small concluded that the investments outlined in the 7-Year Gas Plan are required for the public's convenience and necessity. He testified the estimated costs of the Plan are justified by the incremental benefit of the Plan for NIPSCO's customers by the decrease in the potential risk associated with older or less than optimal facilities, the investment in upgrades to the deliverability on the system to ensure continued and improved system reliability, and the benefit of extending natural gas service to rural areas that are currently without that option.

Steven M. Auld, Director of Gas Systems Operations for NIPSCO, provided an overview of the design, configuration, and operation of NIPSCO's gas transmission, distribution, and storage systems. He stated that NIPSCO evaluates system needs by using a gas network hydraulic simulation model wherein the two primary variables considered are the maximum quantity of gas needed to meet demand and the minimum pressure needed at the delivery point. He noted that while NIPSCO's gas systems have been designed in accordance with his described methodology, it is important to recognize that various systems were designed and built based upon system peak needs at the time the assets were installed and may not reflect current and future needs.

Mr. Auld testified that NIPSCO's gas transmission system is an integrated, multiple city gate, multiple pressure system that operates 808.5 miles of Department of Transportation transmission main that ranges from 2 to 36 inches in diameter. All transmission main is made of cathodically protected steel. He testified NIPSCO's gas distribution system operates 16,837 miles of distribution main that ranges from less than two inches to greater than twelve inches. Of the 16,837 miles of distribution pipe, 8,627 miles is plastic, six miles is wrought or cast iron, and 8,204 miles is steel pipe. As of December 31, 2012 NIPSCO had 848,811 service lines. Mr. Auld testified NIPSCO owns and operates three on-system storage operations – an Underground Gas Storage facility, a Liquified Natural Gas ("LNG") facility and a line pack.

With respect to what impacts the 7-Year Gas Plan investments will have on the overall operation of NIPSCO's gas system, Mr. Auld stated that in addition to the public safety enhancements, the improvements in the gas transmission system will mitigate the operational risk associated with the single source 483 lb. system. The improvements will also add flexibility to the overall system operation, enabling service continuity during periods of planned or unplanned outages on line segments. Lastly, the improvements planned for the LNG facility in 2014 will enhance the liquefaction cycle time, allowing for greater asset utilization if required.

B. <u>OUCC'S Case-in-Chief.</u> Barbara A. Smith, Director of the Resource Planning and Communications Division of the OUCC, explained the OUCC's position regarding NIPSCO's request for relief. Ms. Smith stated the OUCC recommends the Commission approve, with conditions, the 7-Year Gas Plan. First, she stated the Commission should base its approval upon: (1) the process and criteria used to evaluate asset replacement priority, (2) the reasonableness of the project cost estimates, and (3) the incremental benefits to NIPSCO's customers. Second, the Commission should adopt the OUCC's recommended on-going reporting requirements. Third, the Commission should find that the work order level detail for all projects within the 7-Year Gas Plan is necessary and appropriate. Finally, she stated, the Commission should find that prior to project commencement, NIPSCO's tracker filings should contain either updated or new work order level estimates for OUCC review and Commission approval.

Ms. Smith testified that appropriate project prioritization is important because it facilitates the identification of critical assets and helps ensure ratepayers are receiving the most benefit for the dollars spent. She stated that the OUCC considers NIPSCO's transmission and distribution prioritization methodology to be sound. Ms. Smith also identified the support information that the OUCC considers critical to conduct its due diligence analysis of a 7-year plan.

Ms. Smith testified that the OUCC does not object to NIPSCO shifting projects between years or adding new projects to its 7-Year Gas Plan that had not previously been included as long as NIPSCO is transparent with the Commission, the OUCC, and other stakeholders regarding the reasons for the shift. She recommended that NIPSCO's annual report detail each project's progress, including original and revised risk scores. As the OUCC recommended in Cause No. 44370 (to which NIPSCO agreed), Ms. Smith stated the OUCC believes a format similar to NIPSCO's annual ECR progress reports would be appropriate, including:

(1) approved projects, estimated construction start dates, and estimated in-service dates;
(2) approved cost estimates for each project;
(3) revised project cost estimates, construction start dates, and actual in-service dates; and
(4) explanation for any proposed revisions, including new projects or projects proposed for removal from the plan.

She stated that because TDSIC reporting is new for all parties, the OUCC envisions collaborating with NIPSCO and Intervenors to refine the contents of the report over time.

Ms. Smith testified that although NIPSCO's case-in-chief provided some project work order cost estimates, the OUCC sought work order level cost estimates for each project proposed in the Plan in order to determine if the estimates were based on reasonable assumptions. NIPSCO submitted most, but not all, of the projects' work order estimates that the OUCC considers the "best" or the most suitable. She stated that some projects were less detailed than others. For the less detailed projects, the OUCC recommends NIPSCO supply in its tracker filing the work order level detail for OUCC review and Commission approval. Ms. Smith testified that based on the estimates that NIPSCO provided either in its case-in-chief or through discovery, the OUCC concluded that NIPSCO's direct cost estimates were reasonably detailed. She also recommended that the Commission find that work order level cost estimate data should be provided in each of the utility's case-in-chief filings in all future TDSIC proceedings.

Regarding the incremental benefits associated with the 7-Year Gas Plan, Ms. Smith testified the OUCC concluded that the projects included in the Plan provide incremental benefits to NIPSCO's customers by maintaining an adequate level of safety and reliability. She also stated that although it is difficult to quantify the economic value of the incremental benefits, the OUCC has concluded that the project cost estimates are reasonable and the projects will result in some incremental benefits.

Maclean O. Eke, Utility Analyst in the Resource Planning and Communications Division of the OUCC, testified concerning NIPSCO's Risk Model study. He stated the risk model included the necessary attributes for risk analysis and is beneficial for the evaluation of the present condition state of the transmission system. He further explained that because it is not predictive, it is not as valuable for future determination of replacement projects. He stated that as more data is collected, evaluated and recorded, the risk model should grow to encompass probabilistic models. Mr. Eke recommended the Commission require NIPSCO consider increased use of probabilistic models as it acquires data for the risk algorithms in its studies.

Mark H. Grosskopf, Utility Analyst in the Natural Gas Division of the OUCC, discussed NIPSCO's historic capital investments as compared to the capital investments included in the Plan, the rural extensions included in NIPSCO's Plan, and the expected effects on revenues and operations and maintenance expenses ("O&M") resulting from the Plan.

Mr. Grosskopf stated there is a significant increase in the annual average transmission, distribution, and storage investment levels in NIPSCO's 7-Year Gas Plan as compared to average historic levels. He calculated NIPSCO's historic average annual investment in transmission, distribution, and storage assets of $48,468,000 compared to the Plan's $84,913,000, resulting in an increase from historic levels of 75%. Mr. Grosskopf testified the OUCC has not found cause to dispute NIPSCO's assertions that NIPSCO cannot continue to safely and reliably serve its customers without the investments included in the Plan and that public convenience and necessity requires these investments to be made in order for the public to safely receive natural gas service from NIPSCO over the next 7 years.

Mr. Grosskopf testified NIPSCO's rural gas extensions segment of the Plan is consistent with Ind. Code ch. 8-1-39. He stated that since the rural gas extensions are dependent on the 20-year margin test, he recommended that NIPSCO file a detailed accounting of the revenue derived from all rural extensions as part of each TDSIC filing. Based on his own analysis, Mr. Grosskopf determined that gas service extensions to rural areas will benefit those rural customers who decide to switch from propane to natural gas as their fuel source.

Mr. Grosskopf testified that the overall rate increase is expected to average 1.4% per year over a 7-year period, but noted that a full analysis of the rate impact and the cost allocation would be presented by NIPSCO in a subsequent proceeding seeking recovery of TDSIC costs. He also testified that the Plan, as proposed, does not exceed the 2% cap set forth in Ind. Code § 8-1-39-14. Mr. Grosskopf clarified at the evidentiary hearing that the OUCC has not taken a position on the appropriate interpretation of the 2% cap. Tr. at A9.

Mr. Grosskopf concluded by stating that based on NIPSCO's apparent focus on safety and reliability, and the benefits to rural customers, the benefits of the Plan appear justified and in accordance with public convenience and necessity. He recommended approval of the 7-Year Gas Plan with the caveat that Petitioner file a detailed accounting of the revenue derived from all rural extensions as part of each TDSIC tracker filing.

The OUCC also provided copies of consumer comments received concerning NIPSCO's request. Although the majority of consumers expressed opposition to any increase in rates, a few expressed support for the proposed projects and expansion of gas service into rural areas.

C. Industrial Group's Case-in-Chief. Nicholas Phillips, Jr., Managing Principal with Brubaker & Associates, Inc., provided testimony about NIPSCO's request for approval of its 7-Year Gas Plan. He testified that NIPSCO seeks approval of over $700 million in future capital expenditures over the next 7 years, which would basically triple its rate base.

Mr. Phillips explained that, prior to Cause No. 43894, NIPSCO had gone more than 20 years without a rate case. During that period, NIPSCO had a high depreciation rate that lowered its original cost rate base because NIPSCO spent considerably less on capital additions than its annual depreciation expense. He noted that from 1988 to 2008, NIPSCO's depreciation expense was $474.3 million in excess of its capital additions, and between rate cases NIPSCO's original cost rate base declined from $718.8 million to $318 million. Mr. Phillips testified the Commission approved a Settlement Agreement in Cause No. 43894 utilizing a fair value rate base of $725.7 million, although the original cost rate base was $318 million. The settlement also lowered the depreciation rate and provided for a depreciation credit equal to the depreciation expense, in order to close the gap between book value and the remaining useful life of the assets. He noted the depreciation credit mechanism was initially scheduled to end in late 2014, but by an agreed extension approved by the Commission the term was extended to November 2020.

Mr. Phillips stated that while Ind. Code ch. 8-1-39 provides a statutory basis to consider the addition of a tracker to NIPSCO's gas rates, the special circumstances from NIPSCO's last rate case order where its fair value rate base and return cannot be reconciled to an original cost rate base and return should be considered in connection with approving NIPSCO's 7-Year Gas Plan. Specifically, Mr. Phillips addressed his concerns that (1) NIPSCO's plan is enormous in magnitude and would add a layer of special ratemaking to current rates which are a result of a different form of special ratemaking, (2) the current rates are based on a fair value concept because NIPSCO's original cost rate base decreased to such a low level that original cost ratemaking was problematic, (3) the special ratemaking granted to NIPSCO has resulted in NIPSCO earning excess returns, (4) layering a TDSIC of this magnitude to the special ratemaking in place for NIPSCO would result in a regulatory quagmire as the Commission should be concerned with the total ratemaking and regulation of NIPSCO's gas operations, and (5) the proposed TDSIC would generate more revenue than the 2% cap over the 7 years of the Plan.

Mr. Phillips stated that under NIPSCO's proposal, ratepayers will be providing additional funds for capital investments while there is still a significant gap between NIPSCO's fair value and original cost rate base. He stated that it is inappropriate to layer an original cost from ratemaking under the TDSIC with the settlement approach to fair value regulation and return used as a basis for NIPSCO's current rates. Mr. Phillips opined that NIPSCO could have spent at least $474.3 million on capital additions for the period of 1988 – 2008 without any change in its rate base whereby that level of capital expenditures should significantly decrease the amount of capital additions required in NIPSCO's Plan. He also noted that NIPSCO has not previously replaced any of its transmission system. Mr. Phillips indicated that if the capital additions were addressed in a rate case, ratepayer contributions to fund NIPSCO's new capital improvements might be significantly less than NIPSCO is proposing here based on standard ratemaking for both base rates and capital improvements.

Mr. Phillips testified the 5.49% rate of return on its fair value rate base used to develop the current base rates authorized in NIPSCO's last gas rate case has provided NIPSCO with more than adequate returns and no increase in the rate of return is required or appropriate. He stated that NIPSCO has shown excess earnings in the range of $5.6 million to most recently $8.7 million – showing that it is clear that NIPSCO is earning significantly more than its authorized return. Mr. Phillips noted that NIPSCO's proposal, however, is based on an 8.4% rate of return on the planned investments, which is higher than the 5.49% authorized in Cause No. 43894 or the fair value rate of return without inflation adjustment of about 6.83%. Mr. Phillips offered the view that NIPSCO should not be permitted to use a fair value approach to set base rates and then an original cost approach with a higher rate of return for purposes of the TDSIC.

Mr. Phillips recognized that these are issues which likely will also be raised in the subsequent case NIPSCO plans to file to seek approval of the TDSIC tracker, but that these factors are also relevant to the statutory considerations the Commission is to make in connection with considering a 7-year plan. He stated that while NIPSCO has presented the capital costs of its proposed 7-Year Gas Plan, costs have not been presented from the ratepayers' perspective.

Mr. Phillips also addressed his concern that according to NIPSCO's filing, the proposed TDSIC would generate more revenue (rate increase) than the 2% cap over the 7-Year Gas Plan. Mr. Phillips disagreed with NIPSCO's calculation of the 2% cap, which he said appears to be based on the incremental increase in total revenues because of the TDSIC. Under NIPSCO's proposal, NIPSCO would be allowed to collect $206 million in revenues over the 7-Year Gas Plan, or a rate increase of about 32%. He recommends that the 2% cap be applied on the basis of the total TDSIC charge. Under his approach, Mr. Phillips' calculated that NIPSCO's annual retail revenue is shown as $653.4 million, which includes gas cost recovery revenues; and 2% of that revenue level is about $13 million.

As an alternative, Mr. Phillips recommended the Commission limit the capital additions allowed in the 7-Year Gas Plan to $318 million, which is a 100% increase in the original cost rate base for NIPSCO in its last base rate. He testified it is not in the public interest to allow NIPSCO to increase its rate base through a tracking mechanism. He stated that based on NIPSCO's representations and its obligation to provide safe, reliable service, he was not stating that the projects should not be completed but rather that tracking the capital expenditures with NIPSCO's proposed rate of return is not in the public interest, particularly when combined with the other ratemaking issues previously discussed.

Mr. Phillips recommended: (1) TDSIC charges to customers should be limited to a 2% cap based on the total revenue increase to ratepayers, or $13 million per year; (2) if the Commission does not interpret Ind. Code § 8-1-39-14 as an annual 2% cap on total revenue, the Commission should still limit NIPSCO's 7-Year Gas Plan to a 100% increase in rate base ($318 million); (3) NIPSCO should not be allowed to layer an original cost approach to the special ratemaking based on a fair rate of return used to establish the current base rates; and (4) the fair value rate of return of 5.49% found appropriate in Cause No. 43894 should be used for capital investments in this Cause.

D. <u>U.S. Steel's Case-in-Chief.</u> Richard W. Cuthbert, President of Cuthbert Consulting, Inc., testified that three aspects of NIPSCO's request are unclear or ambiguous and could possibly have significant rate impacts on U.S. Steel and other NIPSCO customers. These include: (1) significant uncertainty as to how NIPSCO's future gas TDSIC mechanism will comply with certain TDSIC statutory requirements given the unusual ratemaking history of NIPSCO's gas operations and that this uncertainty should be considered by the Commission in its evaluation of the reasonableness of the 7-Year Gas Plan; (2) uncertainties related to how proposed rural extension costs will be addressed in NIPSCO's future gas TDSIC mechanism;

and (3) uncertainty concerning possible increases to the expenditure amounts presented in the 7-Year Gas Plan from future revisions that might exceed the total expenditure amounts NIPSCO is asking the Commission to approve.

With regard to the TDSIC mechanism for recovery of the 7-Year Gas Plan expenses, Mr. Cuthbert testified that an essential consideration in determining whether a proposal is reasonable and required by the public convenience and necessity is a consideration of the rate impact of the proposal. He stated that the rate impacts of the Plan cannot be fully understood until NISPCO presents information on what the likely impact will be in its request for approval of its gas TDSIC mechanism.

Mr. Cuthbert testified that a number of factors need to be analyzed to fully evaluate and approve the reasonableness of the 7-Year Gas Plan and allow the implementation of the TDSIC cost recovery. He testified that two items warranting further exploration are NIPSCO's pretax return (including cost of common equity and capital structure) and how costs will be allocated among customer classes. He noted that these factors would typically be derived from NIPSCO's last general rate case, but the last full review of NIPSCO's gas rates was conducted more than 20 years ago. Further, NIPSCO's most recent base rate case, Cause No. 43894, approved a stipulated agreement between the parties and was completed in a very short 6-month period. Mr. Cuthbert concluded that this combination of establishing rates on an expedited basis and the lack of a thorough review for more than 20 years suggests that NIPSCO's Plan and cost recovery will require an update of costs and a thorough review in this proceeding or in the first tracker proceeding.

Mr. Cuthbert stated that the reasonableness of the proposed 7-Year Gas Plan is a function of both the public need for the suggested capital improvements and the cost effectiveness of those improvements. For regulated utilities providing a monopoly service, Mr. Cuthbert noted that reasonableness must include consideration of the rate impact of the Plan. He noted that Ind. Code § 8-1-39-9(a)(3) requires the utility to identify the projected effects of a plan on retail rates and charges and that Ind. Code § 8-1-39-9(f) requires the utility to specifically justify and receive Commission approval to recover capital expenditures and TDSIC costs that exceed those approved as part of a 7-year plan. Since the full rate impact cannot accurately be estimated until the pre-tax return and proposed customer class cost allocations are determined, Mr. Cuthbert stated it is premature to conclude that NIPSCO's 7-Year Gas Plan is reasonable, particularly because NIPSCO's own projections show annual rate increases resulting from implementation of the Plan approaching the 2% cap in 3 of the last 4 years of the 7-year period.

Mr. Cuthbert testified that NIPSCO recognizes extra time will be needed to review NIPSCO's TDSIC tracker mechanism. However, he testified that NIPSCO's proposed 150 days is inadequate to fully review NIPSCO's proposal given the limitations of the prior general rate case. He recommended a longer review period for NIPSCO's initial TDSIC proceeding, noting that Ind. Code § 8-1-2-42.7 provides for a 300 day period for the Commission to issue a rate case order.

As for NIPSCO's proposed expenditure of nearly $99 million for rural gas extensions, Mr. Cuthbert testified he does not have concerns except for possible uncertainties related to how these costs will be allocated. He stated that the rural extensions are aimed at adding residential and commercial accounts that will be served at a distribution level and should be recovered from the customer classes that are served at a distribution level, not from customers served at transmission service levels. Mr. Cuthbert also expressed his belief that funding approved for rural extensions should be restricted by the Commission to only be used for rural extensions.

As to NIPSCO's request for approval of its Plan that includes $713.1 million in capital expenditures on specific transmission, distribution, and storage system projects, as well as $8.5 million for O&M spending over the next 7-year period, Mr. Cuthbert testified NIPSCO does not commit that the total capital expenditures will not exceed these specific amounts. He stated that absent a Commission declaration that NIPSCO's expenditures under the 7-Year Gas Plan shall not exceed the amount specifically filed in this proceeding, NIPSCO could seek modifications that might lead to significant and unreasonable increases and rate impacts on customers. He recommended the Commission deny NIPSCO's request for unlimited spending flexibility.

Mr. Cuthbert recommended that as a condition of any approval of the 7-Year Gas Plan, NIPSCO be required to produce a complete and well justified TDSIC mechanism as part of its initial tracker proceeding. Specifically, Mr. Cuthbert recommended the Commission: (1) provide guidance to NIPSCO as to its expectations related to the information it wishes to see and the time period that should be allowed for the review of the gas TDSIC mechanism review process, (2) limit NIPSCO's future use of the proposed $99 million in rural extension expenditures presented in the 7-Year Gas Plan only to rural extension expenditures and that these funds not be allowed to be used to fund other TDSIC projects, and (3) limit the maximum amount of funding authorized for the 7-Year Gas Plan expenditures to be recovered through future TDSIC mechanism filings to 80% of the amount specifically proposed for TDSIC planned expenditures included in the Plan.

E. <u>NIPSCO's Rebuttal.</u> Mr. Shambo responded to the testimony of Industrial Group witness Phillips and U.S. Steel witness Cuthbert. In response to Mr. Phillips testimony that NIPSCO's TDSIC tracker proposal would result in a "regulatory quagmire," because NIPSCO's basic rates and charges are based on a fair value concept, while the tracker rates would be based on an original cost concept, Mr. Shambo testified that this concern is not relevant to this proceeding. Even if it were relevant, Mr. Shambo testified that while Mr. Phillips is correct that NIPSCO's basic rates and charges are based on fair value, and the TDSIC tracker rates would be based on original cost, it is neither a unique nor a contradictory situation. Citing to Ind. Code § 8-1-2-6(a) and *Indianapolis Water Co. v. Public Service Comm'n*, 484 N.E.2d 635 (Ind. App. 1985) and *Office of Utility Consumer Counselor v. Gary-Hobart Water Corp.*, 650 N.E.2d 1201 (Ind. App. 1995), he testified that while original cost is one of the factors the Commission should consider in arriving at a fair value figure, it is not necessarily, in and of itself, an accurate reflection of the fair value of the Company's property upon which investors should be allowed to earn a return.

Mr. Shambo stated that Indiana's capital expenditure trackers are based on dollar for dollar recovery of the utility's actual (or original) costs. As an example, Ind. Code § 8-1-39-7, which outlines the categories of costs that may be recovered via a TDSIC tracker, refers to incurred costs, not fair value. At the same time, he noted, Ind. Code § 8-1-39-16(b) makes clear that the existence and use of a TDSIC tracker in no way precludes the use of fair value ratemaking, under Ind. Code § 8-1-2-6, in a subsequent rate case. Moreover, he testified, although the TDSIC statute is new, Indiana has utilized other "original cost" capital expenditure trackers for years, such as under Ind. Code ch. 8-1-8.8, without creating any regulatory quagmires.

Mr. Shambo asserted there is nothing difficult, confusing, or unreasonable about having a capital expenditure tracker that is based on incurred or "original" cost, and having a general rate case that utilizes fair value ratemaking for the utility's rate base. He noted Mr. Phillips agrees with NIPSCO that when an asset goes into service, its fair value is generally equal to its original cost. Therefore, for ratemaking purposes, the same amount would be included as rate base under either a fair value or original cost approach.

In response to Mr. Phillips' testimony that the ratemaking methodology incorporated into the Settlement Agreement in NIPSCO's most recent general rate case is relevant to consideration of the 7-Year Gas Plan, Mr. Shambo stated that neither NIPSCO's basic rates and charges nor the ratemaking treatment of the investments proposed in the 7-Year Gas Plan are at issue in this proceeding, but rather are ratemaking issues that will be properly considered in a TDSIC tracker proceeding filed under Ind. Code § 8-1-39-9.

In response to Mr. Phillips' implication that NIPSCO's current gas basic rates and charges were the subject of fair value ratemaking only because its original cost rate base had decreased to a low level and therefore original cost ratemaking was problematic, Mr. Shambo responded that while this concern is not relevant to this proceeding, it is also incorrect. He stated that although he does not believe the derivation of NIPSCO's current basic rates is relevant to this proceeding, he does agree that NIPSCO's current rates were the subject of the Settlement Agreement reached in 2010 between NIPSCO, the OUCC and all Intervenors (including the NIPSCO Industrial Group). He noted that in that case, Mr. Phillips testified that the Settlement Agreement provides rates which are reasonable, consistent with appropriate ratemaking and in the public interest, and recommended that the Settlement Agreement be approved by the Commission – which the Commission did.

Mr. Shambo reiterated that NIPSCO's original cost rate base of $318 million did not fully recognize the cost to bring NIPSCO's system to its current state of operational efficiency, or adequately compensate NIPSCO's shareholders for their investment in NIPSCO's gas plant in service. In other words, original cost rate base did not reflect the true fair value of NIPSCO's rate base, and the Settlement Agreement and the Commission's Order recognized that. Mr. Shambo testified that while Mr. Phillips focused his testimony on the treatment of NIPSCO's gas rate base, he failed to note other unique provisions of the Settlement Agreement including the fact that NIPSCO agreed to forego recovery of $25.7 million of depreciation expense – an amount increased to $28.4 million as part of the extension of the Settlement Agreement approved by the Commission last year. Mr. Shambo stated these amounts were nearly 100% of NIPSCO's gas plant depreciation expense – in other words, NIPSCO's current rates are collecting very little depreciation expense. He testified that perhaps a more relevant inference to be drawn from NIPSCO's last general rate case is that the Settlement Agreement and resulting rates have allowed NIPSCO to provide natural gas utility service to its customers at what are consistently among the lowest natural gas rates in the State.

Mr. Shambo testified the Indiana TDSIC statute does not state that a TDSIC tracker should not be authorized if there is a gap between the utility's original cost rate base and its fair value rate base. Moreover, he stated, the fact that there is such a gap is irrelevant to the recovery of TDSIC costs. Rather, as stated above, the fact that there is a gap may simply reflect the value of the utility's rate base, as compared to its original cost. Mr. Shambo stated this issue does not speak to the need for new system investments, and the propriety of the utility having the opportunity to recover such new investment costs on a timely basis through a TDSIC tracker.

In response to Mr. Phillips' assertion that NIPSCO could have spent at least $474.3 million on capital additions for the period of 1988 – 2008 without any change in its rate base, Mr. Shambo stated that this assertion is not relevant to this proceeding. Even if it were, Mr. Shambo testified that NIPSCO invests in its gas systems in order to provide safe and reliable service to its customers. He testified the circumstances giving rise to the investments proposed in the 7-Year Gas Plan were not identified during the period Mr. Phillips cites. He stated that Mr. Phillips mistakenly equates a level of depreciation expense with a need to replace infrastructure. He said while NIPSCO theoretically could have spent those dollars during that period, Mr. Phillips fails to explain why such investment would have been appropriate and necessary to provide safe and reliable service to customers.

In response to Mr. Phillips' claim that NIPSCO is currently overearning, Mr. Shambo disagreed that NIPSCO's earnings are relevant to this proceeding. He stated that NIPSCO is currently earning above its authorized net operating income, but over the longer term as defined in the Indiana Gas Cost Adjustment ("GCA") statute, NIPSCO is not overearning and thus no rate credits have been due to customers through the GCA process. In addition, Mr. Shambo stated, the GCA statute addresses utility overearnings, and if overearnings continue, the GCA statute will require NIPSCO credit customers accordingly. In other words, there is an adequate statutory mechanism in place for monitoring and addressing overearnings, and that statutory mechanism is the GCA statute, not the TDSIC statute. Mr. Shambo pointed out that in NIPSCO's most recent GCA period ending December 31, 2013, NIPSCO had earned $4,584,886 in excess of its authorized return of $44,443,966 rather than the $8.7 million used as the basis for Mr. Phillips' calculation of "excess revenue." He also pointed out that Mr. Phillips did not mention that as part of the Settlement Agreement, NIPSCO agreed to reduce its cumulative bank of underearnings from $1.465 billion to $100 million and that the cumulative bank of underearnings has increased to more than $157 million since the Settlement Agreement was approved, which is hardly consistent with a pattern of overearnings.

In response to Mr. Phillips' assertion that under NIPSCO's interpretation of the 2% cap, it is allowed to increase rates by approximately 32% without hitting the 2% limit, Mr. Shambo testified Mr. Phillips utilized an illogical calculation in order to yield the desired result of a 32% rate increase. Further, Mr. Phillips provides no statutory support for his alternative recommendation that the Commission cap NIPSCO's 7-Year Gas Plan investment at $318 million. Mr. Shambo explained that Mr. Phillips' statement about a 32% rate increase is illogical and inaccurate because it divides a figure representing seven years of revenue by a figure representing only one year of revenue. Specifically, Mr. Phillips divides the total amount of TDSIC revenue that NIPSCO would be collecting over seven years ($206.4 million) by one year's worth of NIPSCO's total retail revenue for the year ended June 30, 2013 ($653.4 million). He stated that it is not appropriate to characterize the result of this calculation as the rate increase from NIPSCO's gas TDSIC.

In response to Mr. Cuthbert's assertion that it is premature to conclude that NIPSCO's 7-Year Gas Plan is reasonable, Mr. Shambo pointed to Ms. Smith's testimony wherein she recognized that NIPSCO's case-in-chief includes all of the information that the Commission needs to determine that NIPSCO's proposed Plan is reasonable including the required findings and determinations under Ind. Code § 8-1-39-10(b). He also pointed to the projected annual increase from the gas TDSIC tracker based on the investments included in NIPSCO's 7-Year Gas Plan. He stated that while Mr. Cuthbert ultimately appears to recognize that ratemaking issues like the appropriate pretax return and determination of the actual annual increase can and should be addressed in the subsequent tracker proceeding, Table 2 on Page 25 of his direct testimony shows that NIPSCO's 7-Year Gas Plan is not projected to reach or exceed the annual 2% cap in any of the seven years of the Plan's horizon. He testified that contrary to Mr. Cuthbert's assertion, the table was included in his testimony to speak directly to the reasonableness of NIPSCO's 7-Year Gas Plan—that it not only included investments that were within the scope of Ind. Code ch. 8-1-39 but also would subsequently comport with the annual increase limitations of Ind. Code § 8-1-39-14 when those investments are recovered in future periods through the gas TDSIC tracker. Mr. Shambo also pointed out that the TDSIC statute does not prohibit expenditures beyond the 2% per year cap, but merely says those expenditures must be deferred for subsequent recovery in a rate case.

5. <u>Statutory Requirements.</u> Ind. Code § 8-1-39-10 permits a public utility to petition the Commission for approval of the public utility's 7-year plan for eligible transmission, distribution, and storage system improvements.

Ind. Code § 8-1-39-10(b) states that after notice and a hearing, and not more than 210 days after the petition is filed, the commission shall issue an order that includes the following:

> (1) A finding of the best estimate of the cost of the eligible improvements included in the plan.
>
> (2) A determination that the 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.

Further, "[i]f the commission determines that the public utility's seven (7) year plan is reasonable, the commission shall approve the plan and designate the eligible transmission, distribution, and storage improvements included in the plan as eligible for the TDSIC treatment." *Id.*

Ind. Code § 8-1-39-2 defines "eligible transmission, distribution, and storage system improvements" as 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; …

(3) either were:

(A) designated in the public utility's seven (7) year plan and approved by the commission under section 10 of this chapter as eligible for TDSIC treatment; or

(B) approved as a targeted economic development project under section 11 of this chapter.

6. **<u>Commission Discussion and Findings.</u>** Ind. Code § 8-1-39-10(b) requires the Commission to approve a 7-year plan and designate the eligible improvements in the plan as eligible for TDSIC treatment if the Commission determines the plan to be reasonable. Although the statute does not specify the criteria by which the Commission must determine a 7-year plan is reasonable, it does set forth three determinations that the Commission's order approving a 7-year plan must include.

Accordingly, the Commission considers the evidence presented herein in light of these statutory requirements in making the following determinations.

A. **<u>NIPSCO's 7-Year Gas Plan.</u>** As we noted in our February 17, 2014 Order in Cause No. 44370 ("44370 Order"), the first question we must answer is whether NIPSCO's Plan is a plan as required by Section 10(a). In construing a statute, the primary goal is to determine and give effect to the intent of the Legislation. *Ind. Civil Rights Comm'n v. Alder,* 714 N.E.2d 632, 637 (Ind. 1999). When the statute is clear and unambiguous, we need not apply any rules of construction other than to require that words and phrases be given their plain, ordinary and usual meanings. *City of Carmel v. Steele,* 865 N.E.2d 612, 618 (Ind. 2007). The Merriam-Webster Dictionary defines a plan as "a set of actions that have been thought of as a way to do or achieve something."[2]

NIPSCO requests approval of its 7-Year Gas Plan, which includes an estimated $713.1 million of capital improvements projects over calendar years 2014 through 2020, plus $8.5 million of O&M dollars required to complete the data integration project. The 7-Year Gas Plan includes general categories of spending, separated primarily by function rather than specific projects in Years 2 through 7, with the specific projects for Year 1 better defined. The 7-Year Gas Plan is comprised of four categories of projects: (1) Gas System Deliverability; (2) Gas System Integrity; (3) System Integrity Data Integration; and (4) Rural Gas Extensions.

Mr. Small testified that "[t]he overarching goal of NIPSCO's 7-Year Gas Plan is to make the necessary investments that enable NIPSCO to continue providing safe, reliable gas service to its customers into the future." Pet.'s Ex. MGS at 4. NIPSCO supported its selection of projects with an infrastructure analysis performed by EN Engineering to assess potential risks and consequences. *See* Pet.'s Ex. MGS-2. Although the other parties raised issue with the cost estimates and sufficiency of detail for included projects in later years of the Plan (which are discussed further below), they did not dispute that the planned projects were appropriate and should be completed. *See* OUCC's Ex. 1 at 10-23; IG's Ex. NP at 13.

NIPSCO believes a prudent 7-year plan is dynamic, not static. While the evidence

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[2] http://www.merriam-webster.com/dictionary/plan

demonstrates considerable analysis and thought went into the development of the 7-Year Gas Plan, NIPSCO emphasized that the Plan is reflective of the characteristics of the gas system and the needs of NIPSCO's customers as they exist at the time the Plan was assembled. OUCC witness Smith acknowledged that over the course of seven years, project priorities will likely change, unforeseen events may occur, and asset risk rankings may change. She stated that the OUCC does not object to shifting projects between years or adding a new project to the Plan that was not previously included as long as NIPSCO is transparent with the Commission, the OUCC, and other stakeholders regarding the reasons for the shift.

As we explained in the 44370 Order, the development and subsequent regulation of a multi-year plan that is sufficiently detailed while affording reasonable flexibility to adapt to changes in need and priority over time is a balancing act that requires a utility sponsored and supported process and the application of the regulating agency's expertise in applying the underlying statutory framework. The evidence of record is that NIPSCO reviewed all of its transmission and distribution assets to create its 7-Year Gas Plan. NIPSCO's Plan provides a reasonably detailed overview of what types of projects need to be undertaken, and why these types of projects are necessary. Furthermore, a primary feature of the 7-Year Gas Plan is the inclusion of a defined roadmap for how NIPSCO intends to achieve its objectives of maintaining safe, reliable service for NIPSCO customers. Based on the evidence presented in this proceeding, and discussed further below, we find that NIPSCO has presented a plan that when regulated as outlined in this Order, meets the requirements of Section 10(a).

B. <u>NIPSCO's Proposed Definitions.</u> Mr. Shambo testified that 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. Therefore, NIPSCO proposed definitions for the following terms: safety; reliability; system modernization; economic development; transmission, distribution, and storage; under construction; and rural area. No party opposed NIPSCO's proposed definitions.

Based on our review of the evidence, we find that NIPSCO has presented reasonable definitions of the above terms for purposes of interpreting and applying those terms to NIPSCO's Plan and issuing an order in this proceeding. Therefore, the following definitions are approved:

- Safety – investments made in facilities that protect life and/or property
- Reliability – investments made in facilities that preserve the ability to serve peak load, maintain system performance, or respond to unplanned events
- System Modernization – investments in facilities that will cost effectively upgrade the system that will maintain system stability and/or reliability over a long period of time
- Economic Development – investments in incremental facilities that are undertaken to:
    1. attract new jobs in NIPSCO's service territory;
    2. extend natural gas service into rural area; or
    3. perform a targeted economic development project

- Transmission, Distribution, and Storage – equipment that is classified as transmission, distribution and storage from the FERC Uniform System of Accounts

- Under Construction – the date the utility incurs charges that are assignable to a project's work order through the date the project is placed in service and all charges that are assignable to the project's work order have been incurred

- Rural Area –

    1. a territory within the state of Indiana that is outside the corporate limits of a municipality, or

    2. any incorporated community of less than 2,000 as of the 2010 census

C. Best Estimate of the Cost of the Eligible Improvements. Ind. Code § 8-1-39-10(b)(1) requires that an order approving a utility's 7-year plan must include a finding of the best estimate of the cost of the eligible improvements included in the plan. Petitioner's estimated $713.1 million of capital investments is set forth in Exhibit No. MGS-1 (Confidential), which identifies a specific amount of expenditures by year with individual project details for Year 1 (2014) and expected investments by project category for Years 2 through 7. Mr. Small testified many of the cost estimates were based on historical data from projects completed in the past by NIPSCO. He noted that NIPSCO also retained EN Engineering to evaluate the reasonableness of those cost estimates. For projects that NIPSCO had not completed in the recent past, such as many of the transmission projects, NIPSCO utilized EN Engineering to complete the estimates consistent with the AACE standard for project estimating.[3] Pet.'s Ex. MGS-3 (Confidential).

With regard to the cost estimates for Years 2 through 7, Mr. Small testified that NIPSCO considered a plan design that detailed every individual project that would be performed by year, but ultimately determined this approach was not practical. As indicated above, NIPSCO believes it is prudent that the 7-Year Gas Plan be dynamic, not static. Mr. Small testified that because the environment surrounding NIPSCO's gas system (e.g., customer demands, regulations, land uses) is continually changing, the Plan will need to be updated.

While no party contested the techniques used by NIPSCO and EN Engineering to estimate costs associated with the 7-Year Gas Plan or challenged particular estimates as excessive or unreasonable, other parties did contest the level of detail of NIPSCO's cost estimates. More specifically, the OUCC noted that although NIPSCO had initially submitted most, but not all, of the projects' work order estimates that the OUCC considered "best" in its case-in-chief, NIPSCO ultimately provided acceptable estimates. Consequently, the OUCC recommended that work order level cost estimate data be provided in a utility's case-in-chief filing in all future TDSIC proceedings in order to determine if the estimates were based on reasonable assumptions.

[3] AACE (Association for the Advancement of Cost Engineering) International is a non-profit organization providing certification and resources in total cost management and cost engineering.

U.S. Steel objected to the unlimited spending flexibility proposed by NIPSCO in Years 2 through 7. U.S. Steel argued that NIPSCO could seek modifications that might lead to significant and unreasonable increases and rate impacts on customers, which was described as essentially providing NIPSCO with a blank check for future cost increases or modifications to the Plan with little or no protection for NIPSCO's ratepayers. Both U.S. Steel and the Industrial Group proposed to limit the total cost of the 7-Year Gas Plan; Mr. Cuthbert to the amount of the projected costs in this proceeding and Mr. Phillips to the amount of original cost rate base approved in the Settlement Agreement approved in Cause No. 43894.

As we noted in the 44370 Order (at p. 12), Ind. Code ch. 8-1-39 requires a public utility to create a plan containing seven years' worth of capital investment. While we have encouraged utilities to improve the level of accuracy and completeness of their cost estimates prior to seeking Commission pre-approval for a project, we have also recognized that the circumstances of a project may dictate the appropriate range of accuracy. *See Northern Indiana Public Service Company,* Cause No. 44012, Phase I Order at 18 (IURC Dec. 28, 2011). We do not find it unreasonable that a plan of such extended duration (i.e., seven years) includes some level of flexibility to address changing circumstances. And, in fact, it may be unreasonable for a public utility to submit a 7-year plan that does not acknowledge that unforeseen events and changes in circumstances do occur and may require changes to that plan.

In this instance, NIPSCO hired an industry-respected third party that had familiarity with Petitioner's gas systems and operations to assist in the development of a robust, risk-based model and project evaluation methodology to construct the 7-Year Gas Plan. In addition, NIPSCO either estimated the costs of the investments included in the 7-Year Gas Plan (and also had them independently reviewed) or obtained estimates consistent with industry standards. While NIPSCO acknowledged that the transmission and other certain projects were capable of being identified with greater specificity, NIPSCO also explained the need for a reasonable level of flexibility, such as with distribution deliverability projects, to allow for new information to be assimilated into the Plan in Years 2 through 7. *See* Tr. at A64 - A71. Accordingly, we find that NIPSCO has provided sufficient support for the cost estimates of the eligible improvements in the Plan.

With regard to U.S. Steel's and the Industrial Group's proposals to limit the total costs of the 7-Year Gas Plan, we note that Ind. Code § 8-1-39-9(f) provides 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.

The General Assembly thus explicitly contemplated circumstances may arise in which capital expenditures could exceed the approved 7-year plan and provides a process for reviewing capital expenditures that exceed the original cost estimate. Therefore, we decline to impose a cost cap or other limit (other than what is provided for in Ind. Code § 8-1-39-14) in this proceeding.

Based on our review of the record evidence, we find that NIPSCO's cost estimate for its 7-Year Gas Plan is reasonable.

D. <u>Public Convenience and Necessity.</u> Ind. Code § 8-1-39-2 defines eligible transmission, distribution, and storage system improvements as projects undertaken for purposes of safety, reliability, system modernization, or economic development.

Mr. Shambo testified that the eligible improvements included in the 7-Year Gas Plan will serve the public convenience and necessity in several ways. He stated that the 7-Year Gas Plan is largely a replacement plan based upon the condition of NIPSCO's facilities and which is necessary to continue serving its customers safely and reliably while also complying with applicable laws. The Plan specifically addresses the need to replace approximately 1% of priority pipe and 59 miles of bare steel pipe on NISPCO's system. He explained that the eligible investments contained in the 7-Year Gas Plan are essential in protecting the integrity, safety, and reliable operation of the system and enhances the ability of NIPSCO customers to take advantage of the rapid development of alternative natural gas supply and delivery options. The investments 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. In addition, the extension of gas service to rural areas will allow some residents in NIPSCO's service territory to access natural gas services for the first time.

While the Industrial Group took issue with the amount of capital projects included in the Plan and argued that NIPSCO could have spent more on capital additions during the past two decades (both of which are discussed further below), no party offered evidence demonstrating that the eligible improvements included in the 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 investments to be made.

Ind. Code § 8-1-2-4 requires that NIPSCO provide reasonable and adequate service to its customers. In addition, Ind. Code § 8-1-2-87(d) requires that the public interest be served and that the public convenience and necessity require the provision of gas distribution service by NIPSCO within its authorized service territory. Based on the evidence presented, we find that NIPSCO has sufficiently supported that the investments described in its 7-Year Gas Plan are reasonably necessary for it to continue to provide reasonable and adequate retail service to its assigned customers. Therefore, we find that the public convenience and necessity requires or will require the eligible improvements included in the 7-Year Gas Plan.

With regard to NIPSCO's proposed rural extension projects, Ind. Code § 8-1-39-2 provides that eligible improvements include, among other things, projects that a public utility undertakes for purposes of economic development, including the extension of gas service to rural areas, and that were either: (1) designated in the public utility's approved 7-year plan, or (2) approved as a targeted economic development project under Ind. Code § 8-1-39-11. NIPSCO did not request approval of any specific targeted economic development project, but instead proposed to include in its Plan approximately $99 million for the extension of natural gas lines into currently unserved rural areas.[4]

Based on the evidence presented, we find that NIPSCO's approach to extending its gas

[4] Any project that includes *both* rural and non-rural applicants will be considered a targeted economic development project. Pet.'s Ex. FAS at 17.

system to rural areas is consistent with Ind. Code ch. 8-1-39 and should be approved. NIPSCO's proposal is intended to bring natural gas service to currently unserved customers who may be able to realize a savings from the lower cost of natural gas as compared to the cost of propane. In addition, NIPSCO's "open-season" proposal for rural gas extensions included in its Plan is a reasonable way to balance the need for impartiality in customer connection with the need to design, construct, and operate its gas system in an efficient and optimized way. However, we encourage NIPSCO to maintain an open dialogue with applicants requesting such rural extensions to effectively manage both system planning and applicant expectations.

Finally, U.S. Steel's witness Cuthbert recommended that if the approximate $99 million allocated for rural extensions is not used, then NIPSCO should not be allowed to use the remaining amount to fund project cost increases or other improvement projects not approved as part of the 7-Year Gas Plan. NIPSCO did not respond to this recommendation. Given the disparate purposes of the categories of eligible improvements, we find it reasonable that the estimated $99 million be used only for rural extensions as outlined in the 7-Year Gas Plan.

E. <u>Incremental Benefits Attributable to the 7-Year Gas Plan.</u> Ind. Code § 8-1-39-10(b)(3) requires the Commission make a determination concerning whether the estimated costs of the eligible improvements included in the Plan are justified by the incremental benefits attributable to the Plan. Mr. Small testified that the Plan provides incremental benefit by significantly decreasing the potential risk associated with older facilities. He stated that, based on a third-party risk model and further analysis, NIPSCO expects that execution of the 7-Year Gas Plan will produce a 29% reduction in risk associated with the operation of its transmission system. Mr. Small testified that incremental benefits also arise from investing in upgrades to the deliverability of the system to ensure continued and improved system reliability and extending the benefit of natural gas to rural areas. Mr. Shambo testified it is essential in considering the incremental benefit of the Plan to recognize that continued safe, reliable service from the investments in the Plan be compared against the potential for service deterioration and capacity restraint that would occur if these investments were not made.

The OUCC agreed that the proposed projects included in the Plan provide incremental benefits to NIPSCO's customers through enhanced safety and reliability. OUCC witness Smith testified that although the OUCC was able to review the project cost estimates and review whether a given project provides incremental benefits, it is difficult to quantify the economic value of the incremental benefits and undertake a meaningful cost/benefit analysis. Noting that a simple formula cannot satisfy whether or not the incremental benefits justify the estimated costs, Ms. Smith testified that the OUCC concluded the project cost estimates were reasonable and that the projects will result in incremental benefits to NIPSCO's system. With regard to NIPSCO's risk model, Mr. Eke testified that the model is satisfactory, but because it is not predictive, it is not as valuable for analyzing future projects. Mr. Eke suggested that improving the predictive ability of the model would assist NIPSCO in mitigating future system threats and failures. Consequently, he recommended that NIPSCO be required to incorporate actual data about the system's real world risk attributes as it is collected along with the experience of engineers familiar with the system. We find this recommendation to be reasonable and require Petitioner to file annually, as part of a semi-annual TDSIC filing, a report describing its progress towards increased predictive modeling based on data collected through O&M and its Maximo system.

Based on the evidence presented, we find that NIPSCO has sufficiently demonstrated that the estimated costs of the eligible improvements are justified by the reasonably expected incremental benefits attributable to the Plan. As noted earlier, NIPSCO's Plan consists largely of replacement projects based upon the age and current condition of NIPSCO's facilities. In addition, the evidence demonstrates that a majority of the eligible improvements are, or will be, required for compliance with federal standards or regulations concerning the integrity, safety, and/or reliable operation of NIPSCO's transmission and distribution facilities. Tr. at A84 - A89. In determining the eligible improvements to be included in the Plan, NIPSCO completed a comprehensive risk analysis that took into account both the probability and the consequence of failure. NIPSCO's 7-Year Gas Plan contains solutions that will enhance customer and employee safety, avoid outages, preserve operational integrity, provide equipment protection, and meet evolving customer demands.

While the Industrial Group argued that NIPSCO has failed to demonstrate that the proposed costs are justified by the benefits, particularly for the categories of unspecified projects in Years 2 through 7, the statute directs us to evaluate the Plan as a composite or portfolio of projects in our assessment of the incremental benefit. Consequently, we need only determine that the estimated costs of the eligible improvements are justified by the incremental benefits attributable to the 7-Year Gas Plan. Given the lack of evidence from opposing parties demonstrating that the costs of any specifically proposed eligible improvements are not justified by the incremental benefits attributable to the Plan to maintain and enhance the safety and reliability in NIPSCO's provision and extension of natural gas service, we find that NIPSCO has presented sufficient evidence for our determination herein.

F. <u>Whether NIPSCO's 7-Year Gas Plan is Reasonable.</u> For all of the reasons discussed above, NIPSCO requests that the Commission approve its 7-Year Gas Plan as reasonable. The OUCC supports approval of the Plan, but recommends the Commission impose ongoing reporting requirements and require updated or new work order level estimates in NIPSCO's TDSIC filings prior to a project's commencement. While U.S. Steel argued it was difficult to determine the reasonableness of the Plan without fully understanding the rate impact to customers, which NIPSCO will present in its TDSIC filing, U.S. Steel did not oppose approval of NIPSCO's Plan. The Industrial Group expressed similar concern, but also took issue with the magnitude of costs based on NIPSCO's historical spending and its current rate base.[5]

Based upon our review of the evidence of record, we find that NIPSCO's 7-Year Gas Plan is reasonable and should be approved as set forth herein.[6] NIPSCO's 7-Year Gas Plan appropriately and reasonably addresses NIPSCO's aging infrastructure through projects intended to enhance, improve and replace system assets for the provision of safe and reliable natural gas service, as well as the cost-effective extension of service into rural areas. At the hearing, Mr. Shambo emphasized that the eligible improvements, with the exception of rural extensions, are for safety and reliability and would be made with or without the tracker authorized by Ind. Code ch. 8-1-39. Tr. at B16 - B17, B23 - B25. And, as noted earlier, many of the projects are

[5] Although NIPSCO argued that evidence relating to the potential rate impact of the 7-Year Plan exceeded the scope of this proceeding, the Presiding Officers' February 17, 2014 Docket Entry determined otherwise.

[6] Although Petitioner indicates Ind. Code § 8-1-2-23 may be applicable to its requested relief, we need not address this provision as Petitioner's requested relief is fully addressed under Ind. Code ch. 8-1-39.

mandated, or will be needed, to address recently enacted and proposed federal transmission and distribution integrity management requirements.

While we agree with U.S. Steel and the Industrial Group that the rate impact of a 7-year plan is a factor to be considered in determining its reasonableness, it is not determinative of the amount of investment a utility may reasonably undertake.[7] Likewise, simply because a utility could, or should, have made more capital investments in the past, such decisions do not address the necessity for (or reasonableness of) undertaking those capital investments now. It is clear that the Industrial Group takes issue with the extensiveness of NIPSCO's Plan and the level of expenditures to be recovered through a TDSIC tracker, as opposed to seeking recovery of its expenditures through a comprehensive review of the utility's rates in a base rate proceeding. Although we may share the Industrial Group's concerns with the ratemaking mechanism authorized by Ind. Code ch. 8-1-39, the Legislature has determined this issue.

Furthermore, while we find NIPSCO's 7-Year Plan reasonable under Ind. Code § 8-1-39-10, we are not making any determination concerning the appropriate ratemaking treatment of the eligible investments. Such determination will be made in the proceeding establishing the TDSIC mechanism when NIPSCO files its petition under Ind. Code § 8-1-39-9. Our approval of NIPSCO's Plan under Ind. Code § 8-1-39-10 is similar to the Commission's approval of an expenditure of greater than $10,000 under Ind. Code § 8-1-2-23 or the issuance of a certificate of public convenience and necessity under Ind. Code ch. 8-1-8.5. In both of those instances, the Commission initially approves the project with an estimated cost, and then later approves of the appropriate ratemaking treatment to ensure just and reasonable rates in a subsequent proceeding, most generally a base rate case.

With respect to the level of project detail provided by NIPSCO, Mr. Shambo testified that the "Plan identifies the expected annual total spends for major projects, with considerable detail included for the first twelve months of the Plan." Pet.'s Ex. FAS at 9. We find there is sufficient evidence to approve the Year 1 projects as eligible for TDSIC treatment. However, we are concerned that the project specific detail of Years 2 through 7 does not rise to the same level of confidence. Thus, in the context of our approval of NIPSCO's 7-Year Gas Plan, we will presume the categories of spending identified in the Plan for Years 2 through 7 are eligible for TDSIC treatment. Because we expect these eligible project categories will become better defined in terms of specificity as their respective investment year comes of age, provided the specific projects fall within the approved project categories, this presumption of eligibility will be assigned to specific projects in the annual updating process as further described below.

Contrary to the Industrial Group's argument in its post-hearing filing, the Commission's determination that certain categories of projects are eligible for TDSIC treatment does not create a legal presumption. In *Southern Ind. Gas and Electric Co. v. Ind. Farm Gas Prod. Co.,* 540 N.E.2d 621 (Ind. App. 1989), *modified on reh'g on other grounds*, 549 N.E.2d 1063 (Ind. App. 1990), the Court found that the Commission exceeded its statutory authority by creating a rebuttable presumption concerning the ownership of certain produced gas because gas ownership is a legal question based on property law, which was outside the Commission's jurisdiction, and

[7] Nor is the limit on the average aggregate increase in total retail revenues in Ind. Code § 8-1-39-14 determinative of whether a 7-year plan and its associated expenditures is reasonable.

improperly shifted the burden of proof from the entity seeking Commission's approval. In this instance, whether projects are "eligible transmission, distribution, and storage system improvements" is a question squarely within the Commission's jurisdiction. Nor has the burden of proof been improperly shifted from the entity seeking Commission approval because NIPSCO continues to bear the burden of demonstrating that the detailed specific projects fall within the approved project categories in the annual filings.

G. Process to Update the 7-Year Gas Plan. Ind. Code § 8-1-39-9(a) requires that a public utility update its 7-year plan as a component of the TDSIC periodic automatic adjustment filings. Aside from inclusion for approval of any targeted economic development projects, the statute is silent as to what should be included in the update.

In accordance with Mr. Shambo's testimony, the Commission finds it reasonable that NIPSCO make its TDSIC filings every six months beginning September 1, 2014. The September filing shall provide project detail similar to Year 1 of the original 7-Year Gas Plan for the next upcoming year of the Plan. NIPSCO shall also update the required annual spends for the remaining years of the 7-Year Gas Plan, including the amount for the rural gas extensions segment. In NIPSCO's other semi-annual adjustment filing (to occur in March), NIPSCO shall provide updates that include intra-year changes and long-term changes as appropriate. We also find it reasonable that in updating the Plan, NIPSCO shall continue to refresh its prioritization analyses as new information about the system becomes available. As the factors driving the analyses change, the risk profile of NIPSCO's system will also change which will require adjustments to the equipment ranking.

We recognize that the statute requires the Commission issue an order in the tracker proceedings within 90 days, which is a shorter time frame than the 210 days afforded the initial plan filing and its approval. This proceeding does not resolve the ratemaking concerns raised by the Industrial Group or U.S. Steel, and all parties' rights are fully reserved to pursue such issues in the tracker proceedings without prejudice. Furthermore, to the extent the plan may change or become more defined as the general projects are fully developed and detailed, we find that an informal process is needed, in addition to the 90 day formal tracker process, to ensure the updates are afforded sufficient scrutiny by the Commission and other interested stakeholders.

Because NIPSCO has provided a satisfactory roadmap for reaching its objectives with its 7-Year Gas Plan, we believe an informal process that allows stakeholders to address their issues prior to NIPSCO filing the tracker is appropriate in this proceeding. It is our expectation that NIPSCO will move its upcoming year-specific projects into a work order level of detail, similar to that which it has provided and we have approved for Year 1. Thus, at least eight weeks before each tracker filing, NIPSCO shall meet with the OUCC and NIPSCO's interested stakeholders to discuss the upcoming tracker filing and identify all variances from the approved Plan. As the OUCC recommended in this Cause and in Cause No. 44370, we find that a presentation formatted similar to NIPSCO's annual Environmental Cost Recovery progress reports is appropriate. Further, NIPSCO shall identify any targeted economic development projects for which NIPSCO will be seeking recovery under Ind. Code ch. 8-1-39. We are approving this process so that the issues between the parties are identified in advance of the Ind. Code § 8-1-39-9 filing to afford the highest potential that any issues can be vetted in that proceeding within the statutory timing constraint. Further, we direct NIPSCO to identify any issues not resolved among the stakeholders in its direct testimony filings.

We find that these processes will reasonably balance the needs of NIPSCO for investment recovery confidence and customers for prudent investment assurance. In the event that these processes break down, we reserve the ability to modify them when considering the updates to the 7-Year Gas Plan.

While both the Industrial Group and U.S. Steel urged the Commission to establish a longer time period for NIPSCO's initial TDSIC filing due to the complexity of the ratemaking concerns expressed in this proceeding, we find that the time afforded herein (approximately 150 days) should be sufficient. However, we are aware that the timeframes afforded in Ind. Code ch. 8-1-39 and this Order are of an expedited nature and therefore strongly encourage NIPSCO to work efficiently and transparently with the OUCC and interested parties to address issues as early as possible.

Finally, at the evidentiary hearing, Mr. Shambo testified that NIPSCO is agreeable to the creation of a sub-docket if a "major" change, such as a different type of project category or cost estimate, occurs in its Plan. Tr. at B33, B42. The sub-docket would be subject to a 210 day clock and be consistent with the approach approved by the Commission in Cause No. 44370. We find this to be a reasonable solution for addressing major changes to the 7-Year Gas Plan.[8] For situations that arise requiring major changes to the plan, NIPSCO shall include in its petition filed pursuant to Ind. Code § 8-1-39-9 a request to establish a sub-docket for review of any major change in its 7-Year Gas Plan.

H. <u>Confidentiality.</u> Petitioner filed a motion for protective order on October 3, 2013 which was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on October 16, 2013 finding such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 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.

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

1. The projects contained in Year 1 of NIPSCO's 7-Year Gas Plan are "eligible transmission, distribution, and storage system improvements" within the meaning of Ind. Code § 8-1-39-2.

2. The project categories contained in Years 2 through 7 of NIPSCO's 7-Year Gas Plan are presumed "eligible transmission, distribution, and storage system improvements" within the meaning of Ind. Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings as set forth herein.

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[8] This does not limit the Commission's discretion to create a sub-docket when otherwise determined necessary.

3. The 7-Year Gas Plan is reasonable and approved subject to the modifications in this Order.

4. Petitioner's proposed definitions of key terms for purposes of interpreting and applying those terms to NIPSCO's Plan are approved.

5. Petitioner's proposed process for updating the 7-Year Gas Plan in future TDSIC semi-annual adjustment proceedings is approved as set forth herein. NIPSCO shall file its first TDSIC filing on September 1, 2014.

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

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

ATTERHOLT, MAYS, STEPHAN, WEBER AND ZIEGNER CONCUR:
APPROVED: APR 30 2014

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

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission