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**VERIFIED DIRECT TESTIMONY OF KEVIN J. BLISSMER**

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1 **Q1. Please state your name, business address and title.**

2 A1. My name is Kevin J. Blissmer. My business address is 801 E. 86th Avenue,  
3 Merrillville, Indiana 46410. I am Manager of Regulatory for NiSource Corporate  
4 Services Company ("NCSC").

5 **Q2. On whose behalf are you submitting this direct testimony?**

6 A2. I am submitting this testimony on behalf of Northern Indiana Public Service  
7 Company LLC ("NIPSCO").

8 **Q3. Please describe your educational and employment background.**

9 A3. I graduated from Purdue University with a Bachelor of Science Degree majoring  
10 in both Accounting and Finance. I was employed at Universal Access, a small  
11 public telecommunications company based in Chicago, Illinois for three years,  
12 where I progressed in my career to Assistant Controller before leaving to join  
13 NiSource Inc. ("NiSource"). I joined NiSource in 2003 as the Manager of SEC  
14 Reporting and Research until 2010, after which I held roles as Manager of  
15 Accounting Research and Manager of Corporate Finance before joining NIPSCO's  
16 Rates and Regulatory Finance Department in 2014 as the Manager of Regulatory

1 Accounting. On November 1, 2017, I accepted my current position as Manager of  
2 Regulatory.

3 **Q4. What are your responsibilities as Manager of Regulatory?**

4 A4. I am responsible for the preparation and coordination of many of NIPSCO's  
5 electric tracker filings, including NIPSCO's Fuel Adjustment Clause ("FAC")  
6 filings (Cause No. 38706-FAC-XXX), Electric Transmission, Distribution, and  
7 Storage Improvement Charge ("TDSIC") filings (Cause No. 44733-TDSIC-X),  
8 Electric Demand Side Management ("DSM") filings (Cause No. 43618-DSM-XX),  
9 Resource Adequacy tracker filings (Cause No. 44155-RA-XX), Regional  
10 Transmission Organization ("RTO") Adjustment tracker filings (Cause No. 44156-  
11 RTO-XX), and Green Power Rider filings (Cause No. 44198-GPR-XX). I am also  
12 responsible for the preparation and coordination of NIPSCO's annual Attachment  
13 O, GG, and MM postings to the Midcontinent Independent System Operator, Inc.  
14 ("MISO").

15 **Q5. Have you previously testified before the Indiana Utility Regulatory**  
16 **Commission ("Commission") or any other regulatory commission?**

17 A5. Yes. I have testified before the Commission in support of various electric trackers,  
18 including NIPSCO's FAC filings (FAC-131), TDSIC filings (TDSIC-4, TDSIC-5,

1 TDSIC-6), DSM filings (DSM-15 and DSM-16), RTO filings (RTO-11 through RTO-  
2 19), and GPR filings (GPR-10 through GPR-14).

3 **Q6. What is the purpose of your direct testimony in this proceeding?**

4 A6. The purposes of my direct testimony is to explain NIPSCO's proposed recovery of  
5 an ash pond closure project at NIPSCO's Michigan City Generating Station  
6 ("Michigan City") (the "Ash Pond Compliance Project") through NIPSCO's Rider  
7 887 – Adjustment of Charges for Federally Mandated Costs and Appendix I –  
8 Federally Mandated Cost Adjustment Factor (the "FMCA Mechanism").  
9 Specifically, I provide: (1) a description of the cost recovery provided for under  
10 Ind. Code ch. 8-1-8.4 (the "FMCA Statute"); (2) an overview of the FMCA  
11 Mechanism and its related ratemaking treatment; (3) an explanation of how the  
12 deferred federally mandated costs will be reflected in NIPSCO's FMCA  
13 Mechanism tracker filings; and (4) a description of NIPSCO's proposed allocators  
14 to allocate the various components of the FMCA Mechanism.

15 **Q7. Are you sponsoring any attachments to your direct testimony?**

16 A7. No.

17 **FMCA Statute**

18 **Q8. What cost recovery mechanism is provided for under the FMCA Statute?**

1 A8. Ind. Code § 8-1-8.4-7 provides that if the Commission approves a proposed  
2 compliance project and the projected federally mandated costs associated with the  
3 proposed compliance project, the following apply:

4 (1) Eighty percent (80%) of the approved federally mandated  
5 costs shall be recovered by the energy utility through a periodic retail  
6 rate adjustment mechanism that allows the timely recovery of the  
7 approved federally mandated costs. The commission shall adjust the  
8 energy utility's authorized net operating income to reflect any  
9 approved earnings for purposes of IC 8-1-2-42(d)(3) and IC 8-1-2-  
10 42(g)(3).

11 (2) Twenty percent (20%) of the approved federally mandated  
12 costs, including depreciation, allowance for funds used during  
13 construction, and post in service carrying costs, based on the overall  
14 cost of capital most recently approved by the commission, shall be  
15 deferred and recovered by the energy utility as part of the next  
16 general rate case filed by the energy utility with the commission.

17 (3) actual costs that exceed the projected federally mandated  
18 costs of the approved compliance project by more than twenty-five

1           percent (25%) shall require specific justification by the energy utility  
2           and specific approval by the commission before being authorized in  
3           the next general rate case filed by the energy utility with the  
4           commission.

5    **Recovery of Costs through the FMCA Mechanism**

6    **Q9. Please provide an overview of NIPSCO's FMCA Mechanism.**

7    A9. In accordance with Ind. Code § 8-1-8.4-7, NIPSCO first sought authority to  
8       implement a periodic retail rate adjustment mechanism through which NIPSCO  
9       would recover federally mandated costs associated with federally mandated  
10      compliance projects for NIPSCO electric as defined by Ind. Code §§ 8-1-8.4-2 and  
11      8-1-8.4-4 in Cause No. 44340. The NIPSCO Electric FMCA Mechanism was  
12      approved by Commission Order in that Cause on January 29, 2014.

13   **Q10. What is NIPSCO requesting from the Commission in this proceeding?**

14    A10. As further described by NIPSCO Witness Becker, NIPSCO is requesting a  
15      certificate of public convenience and necessity pursuant to the FMCA Statute for  
16      a federally mandated project and timely recovery of its federally mandated costs  
17      incurred in connection with the Ash Pond Compliance Project. Once the project is  
18      complete, NIPSCO seeks to recover the return on the unamortized retirement costs

1 along with the recovery of such costs, with authority to recover 80% through its  
2 FMCA Mechanism, using the incremental cost of capital at its weighted average  
3 cost of capital ("WACC") as applied to the completed project cost and to defer the  
4 remaining 20% of the recovery in NIPSCO's next general rate case.

5 **Proposed Ratemaking Treatment**

6 **Q11. Please describe NIPSCO's requested ratemaking treatment for the Ash Pond**  
7 **Compliance Project.**

8 A11. NIPSCO requests approval to (1) recover 80% of the approved federally mandated  
9 costs<sup>1</sup> incurred in connection with the Ash Pond Compliance Project through  
10 NIPSCO's FMCA Mechanism pursuant to Ind. Code § 8-1-8.4-7 as described  
11 above, and (2) defer 20% of the federally mandated costs and ongoing expenses  
12 incurred in connection with the Ash Pond Compliance Project for recovery in  
13 NIPSCO's next general rate case, where the deferred balance will be subject to a  
14 carrying charge based on the effective WACC on an interim basis until such costs  
15 are recognized for ratemaking purposes in its next general rate case; (3) recover as  
16 described in parts (1) and (2) any federally mandated costs, including but not  
17 limited to federally mandated costs incurred prior to and after approval of a Final

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<sup>1</sup> This includes a return on the actual project retirement costs using NIPSCO's effective WACC plus amortization.

1 Order in this proceeding to the extent such costs are reasonable and consistent  
2 with the scope of the Ash Pond Compliance Project as described in NIPSCO's  
3 evidence pursuant to Ind. Code § 8-1-8.4-4, and (4) utilize the proposed factors set  
4 forth below to allocate between rate classes.

5 NIPSCO seeks authorization for recovery of a return on and of the Ash Pond  
6 Compliance Project. Because this project relates to the federally mandated closure  
7 of a capital asset, the federally mandated costs associated with the project will be  
8 captured on a retirement work order and recorded as a reduction to accumulated  
9 depreciation. NIPSCO therefore proposes recovery based upon the incremental  
10 effect of the Ash Pond Compliance Project costs on NIPSCO's net original cost rate  
11 base, with 80% of that total amount timely recovered through the FMCA  
12 Mechanism, with the other 20% being deferred to a future electric base rate case.  
13 Rather than amortizing the federally mandated costs associated with the Ash Pond  
14 Compliance Project over the period during which they are projected to be  
15 incurred, which would be over a period of less than 12 months, upon project  
16 completion NIPSCO proposes to amortize the costs associated with the Ash Pond  
17 Compliance Project through 2032, as further by NIPSCO Witness Gode.

1 **Q12. NIPSCO's Verified Petition filed on March 30, 2022 included various references**  
2 **to recovery of carrying costs. Please explain NIPSCO's request with respect to**  
3 **carrying costs.**

4 A12. NIPSCO is proposing to recover carrying costs only on the 20% portion of federally  
5 mandated costs that is deferred for recovery in a future rate case. While  
6 authorized under the FMCA Statute, NIPSCO is not seeking recovery of carrying  
7 costs on federally mandated costs for the period between when the Ash Pond  
8 Compliance Project is initiated and when such costs are included for recovery  
9 through the FMCA Mechanism.

10 **Incorporation into the FMCA Mechanism**

11 **Q13. Please describe how the federally mandated costs associated with the Ash Pond**  
12 **Compliance Project will be incorporated into the FMCA Mechanism.**

13 A13. Once the project is completed, the revenue requirement for federally mandated  
14 costs included in the FMCA Mechanism is calculated by multiplying the  
15 unamortized retirement costs of the associated eligible project by NIPSCO's  
16 effective WACC, which incorporates the Commission-approved return on  
17 common equity and capital structure. These capital costs are grossed-up for all  
18 applicable taxes.



1 **Q14. Please describe how all other federally mandated costs, including amortization**  
2 **and financing and carrying costs, associated with the Ash Pond Compliance**  
3 **Project will be incorporated into the FMCA Mechanism.**

4 A14. For the Ash Pond Compliance Project, there are fewer types of costs that are  
5 federally mandated costs than would typically be seen with a federally mandated  
6 project. There are no operations and maintenance ("O&M") expenses associated  
7 with the Project, so there is no need to defer any ongoing O&M. There also are no  
8 property taxes to be incurred. The only federally mandated costs associated with  
9 this Project are the financing costs associated with the investment in net original  
10 cost rate base (NIPSCO's WACC as applied to the costs of the project) plus the  
11 amortization of that investment, plus associated federal and state income taxes  
12 and the public utility fee. This will be the annual calculation of federally mandated  
13 costs. When NIPSCO has completed the Project, NIPSCO will file for recovery of  
14 80% of this annual calculation and will defer 20% as I have described. Each  
15 ensuing year, NIPSCO's filing will reflect that one year of the total investment has  
16 been amortized. The details related to accounting treatment of these federally  
17 mandated costs is further described by NIPSCO Witness Gode.

1 Ind. Code § 8-1-8.4-7 provides for the timely recovery of federally mandated costs  
2 as that term is defined in Ind. Code § 8-1-8.4-4; therefore, NIPSCO will include all  
3 return on retirement costs, amortization, and financing costs related to the Ash  
4 Pond Compliance Project in the FMCA semi-annual tracker filings to recover the  
5 associated federally mandated costs.

6 **Q15. How does NIPSCO treat the remaining 20% of federally mandated costs that are**  
7 **not included for recovery through the FMCA Mechanism?<sup>2</sup>**

8 A15. In accordance with Ind. Code § 8-1-8.4-7, NIPSCO defers as a regulatory asset 20%  
9 of all federally mandated costs incurred in connection with the Ash Pond  
10 Compliance Project. NIPSCO records carrying charges on such amounts based on  
11 NIPSCO's overall cost of capital until such amounts are recovered through base  
12 rates.

13 **Allocation Factors**

14 **Q16. Please describe NIPSCO's proposed allocation factors to allocate the federally**  
15 **mandated costs.**

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<sup>2</sup> As noted above, NIPSCO is seeking authorization to recover 80% of the Ash Pond Compliance Project costs through the FMCA Mechanism, amortizing this portion of the costs through 2032.

1 A16. NIPSCO proposes that all federally mandated costs associated with the Ash Pond  
2 Compliance Project be allocated based on the demand allocators set forth in the  
3 Cost of Service Study from NIPSCO's most recent electric base rate case in Cause  
4 No. 45159. Additionally, NIPSCO proposes to continue to adjust its allocation  
5 percentages to reflect the significant migration of customers amongst the various  
6 rates to prevent any unintended consequences of the migration of customers  
7 between rates and to properly allocate their share of the revenue requirement in  
8 its FMCA semi-annual tracker filings.<sup>3</sup>

9 **Q17. How does NIPSCO treat the operating income associated with the capital costs**  
10 **associated with the Ash Pond Compliance Project for purposes of the earnings**  
11 **test in NIPSCO's fuel adjustment clause ("FAC") proceedings?**

12 A17. In accordance with Ind. Code § 8-1-8.4-7(c)(1), NIPSCO will include the operating  
13 income associated with the Ash Pond Compliance Project in the total electric  
14 Comparison of Electric Operating Income for purposes of the Ind. Code § 8-1-2-  
15 42(d) earnings test. This is consistent with the treatment of earnings associated

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<sup>3</sup> The Commission approved the adjustment of NIPSCO's allocation percentages to reflect the significant migration of customers amongst the various rates to prevent any unintended consequences of the migration of customers between rates and to properly allocate their share of the revenue requirement in its December 13, 2017 Order in Cause No. 44872 for the Environmental Compliance Project, and in its July 12, 2017 Order in Cause No. 44889 for the NERC Compliance Project.

1 with NIPSCO's transmission, distribution and storage system improvement  
2 charges in Cause Nos. 44371, 44733 and 45557, NIPSCO's Environmental  
3 Compliance Project costs in Cause No. 44872, and NIPSCO's NERC Compliance  
4 Project costs in Cause No. 44889.

5 **Q18. What is the estimated bill impact of the Ash Pond Compliance Project for an**  
6 **average residential customer?**

7 A18. While the ultimate impact of the Ash Pond Compliance Project on the average  
8 residential customer's bill will be dependent on several different factors, NIPSCO  
9 currently estimates FMCA costs in the first FMCA semi-annual tracker filing after  
10 approval would result in a charge of approximately \$0.30 to an average residential  
11 customer using 700 kWh per month.<sup>4</sup>

12 **Q19. Does this conclude your prefiled direct testimony?**

13 A19. Yes.

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<sup>4</sup> The average kWh per month usage in NIPSCO's last electric rate case (Cause No. 45159).

## VERIFICATION

I, Kevin J. Blissmer, Manager of Regulatory of NiSource Corporate Services Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in cursive script that reads "Kevin Blissmer". The signature is written in black ink and is positioned above a horizontal line.

Kevin J. Blissmer

Dated: May 2, 2022