ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS SERVICE RATES THROUGH ITS TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE SCHEDULE; (2) AUTHORITY TO DEFER 20% OF THE APPROVED CAPITAL EXPENDITURES AND TDSIC COSTS FOR RECOVERY IN PETITIONER'S NEXT GENERAL RATE CASE; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS, ALL PURSUANT TO IND. CODE CH. 8-1-39 AND THE COMMISSION'S ORDERS IN CAUSE NOS. 44403 AND 44403-TDSIC-1.	)	**CAUSE NO. 44403 TDSIC 4** **APPROVED:** JUN 2 2 2016

ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commission Chair
Loraine L. Seyfried, Chief Administrative Law Judge

On February 29, 2016, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in this Cause for approval of a new Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") pursuant to Ind. Code ch. 8-1-39. On the same day, NIPSCO filed its direct testimony.

The NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on March 28, 2016, and United States Steel Corporation ("US Steel") filed a petition to intervene on April 29, 2016, which were granted on April 8, 2016, and May 12, 2016, respectively.[1]

On April 13, 2016, NIPSCO filed supplemental direct testimony.

[1] The Industrial Group filed an Amendment to Appendix A to Petition to Intervene on April 25, 2016. The members of the Industrial Group in this proceeding are Alcoa Inc.–LaPorte, IN, ArcelorMittal USA, BP Products North America, Inc., Cargill, Inc., Fiat Chrysler Automotive, General Motors, Praxair, Inc. and USG Corporation.

On April 29, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") and Industrial Group filed their respective direct testimony and exhibits. The Industrial Group also filed a Motion for Administrative Notice, which was granted on May 12, 2016.

On May 6, 2016, NIPSCO filed a Notice of Substitution of Witness along with its rebuttal testimony. On May 13, 2016, the Industrial Group filed revisions to its testimony to reflect NIPSCO's substitution of witness.

On May 13, 2016, the Commission issued a docket entry requesting responses to questions, to which Industrial Group responded on that same day. NIPSCO filed its responses on May 16, 2016, and provided responses to two revised questions at the hearing.

An evidentiary hearing was held on May 16, 2016, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, the Industrial Group, and US Steel appeared and participated. At the hearing, the parties' prefiled evidence was offered and admitted into the record and the witnesses were made available for cross-examination. No member of the public appeared or participated at the hearing.

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

1. Notice and 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) and 8-1-39-4. Under Ind. Code ch. 8-1-39 ("TDSIC Statute"), the Commission has jurisdiction over a public utility's petition to approve rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. 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 E. 86th Street, Merrillville, Indiana 46410. Petitioner is engaged in rendering gas public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public. Petitioner provides gas utility service to more than 821,000 residential, commercial, and industrial gas customers in northern Indiana.

3. Background and Relief Requested. On April 30, 2014, the Commission issued an Order in Cause No. 44403 ("44403 Order") concerning Petitioner's request for approval of a 7-year plan for eligible transmission, distribution and storage system improvements ("7-Year Gas Plan" or "Plan"), pursuant to Ind. Code §§ 8-1-39-10 and 11. In the 44403 Order, the Commission held: (1) the projects contained in Year 1 of NIPSCO's 7-Year Gas Plan are eligible transmission, distribution, and storage system improvements ("eligible 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 improvements within the meaning of Ind. Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings; (3) the 7-Year Gas Plan is reasonable and approved subject to certain modifications; (4) NIPSCO's proposed definitions of key terms for purposes of interpreting and applying those terms to NIPSCO's 7-Year Gas Plan are approved; and (5) NIPSCO's proposed process for updating the 7-Year Gas Plan in future semi-annual adjustment proceedings is approved. Although an Appeal was filed, it was subsequently dismissed with prejudice.[2]

On January 28, 2015, the Commission issued an Order in Cause No. 44403 TDSIC 1 ("TDSIC-1 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-1"), with the exception of certain cost estimates for the 112th Street project and bare steel replacement projects, and designating the projects included in Year 2 as eligible improvements under Ind. Code § 8-1-39-2. The Commission approved NIPSCO's proposed methodology for calculating its TDSIC adjustment and authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2014. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On February 27, 2015, NIPSCO filed its petition and case-in-chief in Cause No. 44403 TDSIC 2 ("TDSIC-2"). Subsequently, on April 8, 2015, the Court of Appeals of Indiana issued a decision in the appeal of a Commission Order in Cause Nos. 44370 and 44371 (NIPSCO's Electric TDSIC cases), reversing in part, affirming in part, and remanding the case to the Commission. *NIPSCO Indus. Grp. v. N. Ind. Pub. Serv. Co.*, 31 N.E.3d 1 (Ind. Ct. App. 2015) ("Appellate Order"). After discussion with the parties, NIPSCO ultimately moved to dismiss TDSIC-2 with the understanding that it would request to recover approved capital expenditures incurred through June 30, 2015 and TDSIC costs for the period July 2014 through June 2015 in Cause No. 44403 TDSIC 3 ("TDSIC-3"). On June 2, 2015, the Commission dismissed TDSIC-2 without prejudice.

On March 30, 2016, the Commission issued an Order in Cause No. 44403 TDSIC-3 ("TDSIC-3 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-3"), with the exception of certain new and emergent projects that were not identified or approved in NIPSCO's 7-Year Gas Plan or Plan Update-1, and designating the projects included in the approved Plan Update-3 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission approved a new allocation of NIPSCO's approved capital expenditures and TDSIC costs to the various customer classes based on total revenue, including gas revenue, by removing the adjustment for transmission versus distribution considerations. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

In this proceeding, NIPSCO requests:

(a) Approval of the TDSIC factors set forth in Attachment 1, Revised Schedule 7 to the Verified Petition to become effective for bills rendered by NIPSCO for the months of June through November 2016 or until replaced by different factors approved in a subsequent filing;

(b) Approval of Petitioner's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge set forth in Revised Attachment 3 to the Verified Petition, which contains the TDSIC factors;

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[2] Order dated September 23, 2014, in Cause No. 93A02-1405-EX-368.

(c) Authority to defer, as a regulatory asset, 20% of the eligible and approved capital expenditures and TDSIC costs incurred in connection with its Plan Update-3 as well as that portion of the TDSIC costs that exceed the 2% increase in the TDSIC that are approved pursuant to Ind. Code § 8-1-39-14 and to record ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case;

(d) Authority to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project;

(e) Approval of Petitioner's updated 7-Year Gas Plan ("Plan Update-4"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts in Plan Update-3; and

(f) Authority to recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-4 through the TDSIC and authorizing Petitioner to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-4, for recovery in its next general rate case.

4. <u>Evidence Presented</u>.

A. <u>NIPSCO's Case-In-Chief</u>. NIPSCO presented the testimony and exhibits of Timothy R. Caister, Director of Regulatory Policy; Jennifer L. Shikany, Director of Regulatory Accounting; and Robert V. Mooney, Vice President of Engineering and Construction - Gas.[3]

Mr. Caister testified that as a result of the Appellate Order and prior orders of the Commission, NIPSCO's Plan Update-4 provides a greater level of detail, including project estimates, a summary of unit cost estimates, multiple unit project list and supporting documentation, and project change requests. He stated all of the TDSIC projects included for recovery in this filing were or will be undertaken for the purpose of safety, reliability, system modernization, or economic development as required by Ind. Code § 8-1-39-2, and the rural extension projects were undertaken for the purpose of extending gas service in rural areas. In addition, in conformance with Ind. Code § 8-1-39-2, none of the projects included for recovery in the proposed TDSIC-4 factors were included in NIPSCO's rate base in Cause No. 43894. Pursuant to Ind. Code § 8-1-39-9, NIPSCO is requesting approval of all of the 2015 Projects designated in Plan Update-4 that are included for recovery in the proposed TDSIC-4 factors.

Mr. Caister testified NIPSCO is requesting approval of the updated cost estimates for 2015 and 2016 Projects designated in Plan Update-4, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts requested in TDSIC-3. NIPSCO is also requesting approval of the updated cost estimates for 2017–2020 Projects designated in Plan

[3] Mr. Mooney adopted both the Verified Direct Testimony and the Verified Supplemental Direct Testimony of Charles E. Shafer II.

Update-4, including any proposed estimated capital expenditures and TDSIC costs that exceed the amounts requested in TDSIC-3.

Mr. Caister testified that although NIPSCO has not undertaken any targeted economic development projects, it continues to work with interested parties on potential projects. NIPSCO will continue to keep TDSIC stakeholders informed to the extent the projects are developed enough to present prior to submitting them in a TDSIC filing.

Mr. Caister testified that on February 2, 2016, NIPSCO met with the OUCC and interested stakeholders, including representatives of the Industrial Group and US Steel prior to NIPSCO's TDSIC-4 filing. NIPSCO identified known changes to 2015 and 2016 Projects from Plan Update-3. He stated that as of the time of filing, NIPSCO was not aware of any unresolved issues. In addition, NIPSCO did not include any major change as part of this proceeding.

Mr. Caister testified that NIPSCO intends to update its 7-Year Gas Plan as required by the TDSIC Statute with each adjustment filing. In each of its Plan Updates, NIPSCO proposes to update the anticipated costs and annual spending for the 7-Year Gas Plan as well as costs for the economic development projects, if any. As part of each tracker filing, NIPSCO will update its 7-Year Gas Plan, including updates to the asset registers, if appropriate, as well as the cost estimates. Based on industry standards and company needs, NIPSCO will continually refresh both the risk model and the analysis associated with deliverability and condition-based projects. Prior to the start of a new Plan year, NIPSCO will define the detailed project scopes and update unit estimates for at least the next plan year. In updating the Plan, NIPSCO will continue to refresh the prioritization and asset registers as new information 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.

Mr. Caister indicated that NIPSCO's Verified Petition in this Cause was not filed within nine months after the date on which the Commission issued an order changing Petitioner's basic rates and charges.[4] He further testified that consistent with Ind. Code § 8-1-39-9(d), NIPSCO will, before the expiration of the utility's approved Plan, petition the Commission for review of the utility's basic rates and charges with respect to the same type of utility service.

With respect to NIPSCO's proposed ratemaking treatment, Ms. Shikany testified that the total cost of the eligible improvements ("Eligible TDSIC Assets") upon which NIPSCO requests authority to earn a return is $152,919,560. This amount includes allowance for funds used during construction ("AFUDC"), other indirect costs, and is net of accumulated depreciation, incurred through December 31, 2015.

Ms. Shikany testified NIPSCO is only seeking approval to recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with $3,322,780 of the total direct capital costs incurred through December 31, 2015 for the 112th Street Project. This amount represents NIPSCO's best estimate provided in Cause No. 44403 and is inclusive of the 20% contingency percentage. She stated that consistent with the TDSIC-1 Order, NIPSCO will defer for recovery in its next base rate case the depreciation expense and

[4] NIPSCO's basic rates and charges were last approved in Cause No. 43894 on November 4, 2010.

property taxes related to the difference between this amount and the actual amount of the 112th Street Project. The depreciation and property taxes NIPSCO plans to defer relating to this difference for the months of July through December 2015 is $136,083 and the total deferred balance is $194,802.

Ms. Shikany provided an overview of the indirect capital costs, which are associated with capital projects and must be capitalized in order to comply with Generally Accepted Accounting Principles ("GAAP"). She noted these costs often cannot be charged directly to a specific capital project work order because they cannot be directly linked to one particular project and tend to be incurred away from the job site. NIPSCO groups these indirect capital costs into three categories: overheads; stores, freight, and handling; and AFUDC. She also described the overhead component of indirect capital.

Starting in April 2015, NIPSCO began using new General Ledger software. As part of this system implementation, it was decided that the portion of some employee benefits that were previously included in the overhead allocation performed in NIPSCO's asset management software would be more accurately allocated as a direct labor loader applied when direct payroll dollars were charged to specific projects. For classification of all other capital spending, NIPSCO has followed this approach internally for both direct and indirect capital costs for years, including during the test year in its last general rate proceeding in Cause No. 43894.

Ms. Shikany testified the AFUDC related to TDSIC projects was calculated in accordance with the instructions of the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and is consistent with GAAP. She stated that NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive construction work in progress ("CWIP") ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first. After the in-service date, NIPSCO will calculate and include for recovery post in-service carrying charges ("PISCC") on costs which have been placed into service and are not receiving ratemaking treatment until such costs receive CWIP ratemaking treatment, or are otherwise reflected in base gas rates.

Ms. Shikany testified NIPSCO calculated the depreciation expense related to TDSIC capital expenditures according to each asset's designated FERC account classification. Each asset, upon being placed in service, is depreciated according to the associated FERC account composite remaining life approved by the Commission's November 4, 2010 Order in Cause No. 43894.

Ms. Shikany provided the calculation of NIPSCO's "return on" portion of the revenue requirement for costs of Eligible TDSIC Assets incurred through December 31, 2015. The annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2015 net book value of all TDSIC projects by the debt and equity components of NIPSCO's WACC. The product of this calculation is multiplied by 50% to calculate a semi-annual revenue requirement. This semi-annual amount is then multiplied by the revenue conversion factor and further reduced to 80% to determine the total return-related revenue requirement to be recovered for bills rendered during the months of June through November 2016.

Ms. Shikany identified the post-in-service carrying costs associated with Eligible TDSIC Assets in service prior to December 31, 2015. In the TDSIC-1 Order, the Commission authorized

NIPSCO to record and recover PISCC at the effective WACC over the respective PISCC time period. PISCC is calculated by multiplying the value of costs that have been placed in service and are not receiving ratemaking treatment by NIPSCO's effective WACC rate for the period in which the costs are in-service. Ongoing carrying charges on the PISCC are calculated until such balances are recovered through rates. In this filing, NIPSCO is proposing recovery of all eligible PISCC incurred for the period July through December 2015.

Ms. Shikany provided the computation of the revenue conversion factor used to compute NIPSCO's pre-tax revenue requirement. The revenue conversion factor is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement. The state income tax rate used in this computation was determined in accordance with Ind. Code § 6-3-2-1.

Ms. Shikany provided information concerning the depreciation expense, operation and maintenance expense ("O&M"), and property taxes for the period July through December 2015. The actual expenses and taxes incurred from July through December 2015 were reduced to 80% to determine the total to be recovered for bills rendered during the months of June through November 2016, not to exceed the 2% excess revenue test. She explained that based on the allocators approved in the TDSIC-1 Order, NIPSCO will allocate 91.1% of O&M expenses related to the Integrity Data Integration Project ("Records Project") based on the distribution allocator and 8.9% based on the transmission allocator.

Ms. Shikany testified the TDSIC-1 Order approved NIPSCO's proposal to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extension projects. These amounts are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period July through December 2015.

Ms. Shikany explained that the revenue requirement calculated in NIPSCO's TDSIC-2 filing is being reconciled against the actual revenues received from its customers from June through November 2015. Since NIPSCO's TDSIC-2 filing was dismissed without prejudice there was effectively a zero revenue requirement. Therefore, the total amount of actual revenues received for the period of June through November 2015 will be returned to NIPSCO customers as a part of this reconciliation.

Ms. Shikany testified that Attachment 2-A of Petitioner's Exhibit 2 shows an alternate calculation of the TDSIC-4 factors using the allocation factors approved in Cause No. 43894 without any adjustment based on transmission and distribution considerations to allocate approved capital expenditures and TDSIC costs.

Ms. Shikany provided the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirements. The factors are calculated by combining the various components of the allocated revenue requirement and dividing those components by forecasted volumes to compute a billing factor for bills rendered from June through November 2016.

Ms. Shikany testified the original revenue requirement calculation shows a semi-annual revenue requirement of $9,017,531, which results in an annualized revenue requirement of

$18,035,062. Comparing this with the annualized revenue requirement in TDSIC-1, totaling $682,201, the incremental increase in the TDSIC revenue for the TDSIC-4 filing is $17,352,860. The incremental revenue is compared to the 2% of Total Retail Revenue Cap of $12,928,808, yielding an annualized amount in excess of the 2% cap of $4,424,052. The annualized amount is divided by two to adjust to a semi-annual amount of $2,212,026.

Ms. Shikany explained that Ind. Code § 8-1-39-14(a) states that the Commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than 2% in a 12-month period. She testified that in accordance with Ind. Code § 8-1-39-14(b), NIPSCO is deferring the semi-annual amount in excess of the 2% cap of $2,212,026. For the amounts deferred relating to each component of the revenue requirement (i.e., capital return, post in-service carrying charges, depreciation, operating and maintenance, and property taxes), NIPSCO will be recording compounding carrying charges on these amounts until they are recovered through its next general rate case proceeding.

Ms. Shikany sponsored a clean and redlined version of NIPSCO's revised Appendix F – Transmission, Distribution, and Storage System Improvement Charge showing the TDSIC factors proposed to be applicable for bills rendered during the months of June through November 2016, or until replaced by different factors that are approved in a subsequent proceeding. She also sponsored an attachment identifying the projected effect of both NIPSCO's Plan Update-3 and Plan Update-4 on retail rates and charges and the total estimated revenue requirement for each rate class from 2014 to 2020.

Finally, Ms. Shikany noted that in the TDSIC-1 Order, the Commission authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with the Eligible TDSIC Assets, including ongoing carrying charges based on the current overall WACC, and recover those deferred costs in its next general rate case as allowed by Ind. Code § 8-1-39-9(b). She stated that consistent with this authority, NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs, including depreciation and property tax expenses and all tax expenses recorded as a result of the deferral of 20% of all TDSIC costs for recovery in its next general rate case.

Mr. Mooney sponsored Petitioner's Exhibit 3, Attachment 3-A, which provides a summary of the Gas System Deliverability Projects, Gas System Integrity Projects, and Records Project; Attachment 3-B, showing the projected costs for rural extensions by category (Mains and Service Lines inclusive of Meter Loops and Regulators) along with the number of customers projected to be connected each year; Attachment 3-C showing the approved costs, actual costs as of December 31, 2014, actual costs incurred in 2015, total estimated costs and the amount of total estimated costs that exceed the approved amount related to the 112th Street Project; and Attachment 3-D, NIPSCO's Gas Infrastructure Study Risk Model that was prepared in July of 2015 for NIPSCO by EN Engineering ("Risk Model"). The Risk Model used risk-based modeling to identify and prioritize the transmission pipeline replacement within the Gas System Integrity segment. NIPSCO utilized this information, as well as subject matter expert input, in developing its Plan Update-3 and Plan Update-4.

Mr. Mooney testified NIPSCO's Project Managers have been trained and most have been certified as Project Management Professionals. The status of each project is reviewed on a monthly basis and the Project Controls Team ensures that items such as cost, scope, schedule, and safety are being properly managed.

Mr. Mooney explained NIPSCO's cost management process as it relates to the Eligible TDSIC Assets. He stated that with a restructuring in the third quarter of 2015, Engineering and Major Projects are now jointly executing all of the projects in the 7-Year Gas Plan. While the Engineering group previously developed the Plan updates and established the base scope of work associated with each updated Plan, the updates are now undertaken in partnership with Major Projects.

Mr. Mooney testified the Project Development group develops more detailed scope and estimates for the projects within the Plan for the next year. To more efficiently perform the project, the Engineering group then conducts more detailed engineering prior to execution start, when possible and appropriate. The estimating process includes Engineering, Operations, Environmental, Real Estate, Construction Gas, TDSIC Cost Tracking, and any other NIPSCO departments that might be involved in each project. Engineering and/or Major Projects then executes TDSIC work, utilizing project managers, project engineers, construction managers, safety coordinators, quality assurance/quality control inspectors, and others as needed. The cost tracking of the work is managed by the Project Controls Team, which is the same group that tracks the project controls for the electric generation environmental projects. Mr. Mooney stated that for the 2017–2020 projects, Engineering and Major Projects will take the primary role of project development and maintain accountability from project initiation through execution, a process that has proved to be effective in executing gas projects across other NiSource companies.

Mr. Mooney testified that consistent with the TDSIC-1 Order, both Plan Update-3 and Plan Update-4 show the originally approved cost estimate for the 112th Street Project. He sponsored Attachment 3-C of Petitioner's Exhibit 3-C showing the approved costs, actual costs as of December 31, 2014, actual costs incurred in 2015, total estimated costs, and the amount of total estimated costs that exceed the approved amount related to the 112th Street Project. The 112th Street Project was placed in service in December 2014 and is operational. NIPSCO will not perform any additional work related to the 112th Street project in 2016. The total estimated cost (for all years) relating to the 112th Street Project is $16,162,337, and the estimated deferral portion (for all years) is $12,839,557.

Mr. Mooney testified Plan Update-4 includes an update to the 2015 and 2016 Projects to capture any changes since the TDSIC-3 filing. Specifically, Plan Update-4 shows for 2015 one new project that was not previously included in the Plan and three re-prioritized projects from future years, and for 2016 seven projects that have been carried over from 2015. Plan Update-4 also shows updates to project costs and explanations for variances in project costs for all years of the Plan. Plan Update-4 also provides assets registers/project lists and cost estimates for each year of the Plan through 2020.

Mr. Mooney testified that since Plan Update-3, NIPSCO has updated the actual costs associated with the projects through December 31, 2015. NIPSCO experienced cost increases for some projects, which are offset by the impact of an update to the AFUDC and indirect cost calculation, as well as cost decreases for the rural extension projects. The reduction in the rural extension cost is due to fewer customers requesting services than predicted and fewer 6:1 main projects developing than were predicted. These reductions have resulted in the total project costs for 2015 being lower than what was included in Plan Update-3.

Mr. Mooney testified that in Plan Update-4, NIPSCO calculated AFUDC by multiplying the AFUDC rate by the AFUDC base by month. The forecasted AFUDC rate is comprised of debt and equity components and uses the latest actual rates from the accounting department, which are updated every six months. The AFUDC base includes direct capital, overheads and stores, freight, and handling. The forecasted AFUDC base is a monthly cumulative balance and consists of the prior period balance (if any), plus 50% of the prior period base additions, plus 50% of the current period base additions, minus the base reset (if any). The base reset reduces the AFUDC base for assets that were included for recovery and starts the month new factors go into effect. AFUDC as a percentage of direct and indirect capital costs in Plan Update-3 was approximately 3.3% and in Plan Update-4 is approximately 1.7%. Mr. Mooney testified the revised estimate for AFUDC in Plan Update-4 is lower than what was included in Plan Update-3 because NIPSCO updated the assumptions used to calculate AFUDC to incorporate the base reset. He also noted the percentage will fluctuate per year based on timing of TDSIC expenditures and in-service dates.

Mr. Mooney explained the indirect capital cost calculation in Plan Update-4. NIPSCO used the most recent 12-month indirect rate history (indirect costs, excluding AFUDC, as a percentage of direct costs) and established an indirect rate for the current year. The base indirect rate is then adjusted in the plan years, using a weighted average allocation by category to obtain the total indirect capital forecast for NIPSCO. The total indirect capital forecast starts with the prior year's total indirect capital actuals, excluding AFUDC, and is increased approximately 3% per year for inflation. The resulting adjusted rate is applied to the direct capital cost for each year to arrive at the total indirect cost estimate. The indirect capital rate in Plan Update-3 was approximately 17% and in Plan Update-4 is approximately 10%. He explained the revised estimate for indirect capital is lower in Plan Update-4 because of the new General Ledger system implemented in April 2015, which impacted how NIPSCO allocates indirect capital. Costs previously allocated through the indirect capital process, primarily employee benefits, are now charged directly to the work order based on internal labor.

Mr. Mooney also provided a summary of the lessons NIPSCO has learned so far in updating the Plan.

Mr. Mooney testified that as of December 31, 2015, the total gross direct capital expenditures associated with NIPSCO's Eligible TDSIC Assets are $132,613,231; the total indirect capital expenditures associated with NIPSCO's Eligible TDSIC Assets are $18,612,508; and the total AFUDC for capital expenditures associated with NIPSCO's Eligible TDSIC Assets are $2,296,169. The total gross capital expenditures associated with NIPSCO's Eligible TDSIC Assets as of December 31, 2015, are $153,521,908.

Mr. Mooney provided a summary of the status of the 2015 Projects. He stated that by the end of 2015, many of the projects had been completed and were in service. However, due to the normal work order close-out process, NIPSCO will continue to incur some charges associated with these in-service projects in 2016. He identified and explained each of the seven projects that were carried over to 2016 – one transmission project, two distribution projects, and four storage projects that were not fully completed in 2015 ("carry-over projects"). Although these 2015 Projects were not identified as 2016 Projects in Plan Update-3, NIPSCO added these carry-over projects to the 2016 Projects in Plan Update-4 along with the expected costs to complete these projects.

Mr. Mooney testified the total direct cost estimate for the 2015 Projects identified in Plan Update-3 was $93,594,752 and the actual direct cost for the 2015 Projects through December 2015 is $97,419,370, for a total increase of $3,824,618. Plan Update-4 shows, by project, the Plan Update-3 cost estimate, the actual cost, the variance, and an explanation of the cost variance.

Mr. Mooney explained why NIPSCO might continue to incur charges relating to a prior year project in a subsequent calendar year. He also explained how NIPSCO will reflect these costs incurred in a subsequent calendar year in the 7-Year Gas Plan. In this filing, the Remaining Years Actual Costs for project year 2014 are ($188,526), and the Prior Year Reconciliation for project year 2015 is ($188,526). In other words, NIPSCO over-estimated 2014 accruals by $188,526, which resulted in a credit in 2015.

Mr. Mooney identified and provided an explanation of two projects that have been deferred into a future year – the In-Line Inspection System Modification 30" Highland Junction to Inland Steel and the NIPSCO Gas Distribution Crossing Replacement.

Mr. Mooney also provided an explanation of three distribution improvement projects that were not identified as 2015 Projects in Plan Update-3 but were reprioritized to 2015. The three distribution improvement projects were: GSID – Kouts – Merit Steel System Improvement [Project ID DSD7], which was reprioritized from 2016; and GSID Lake of the Four Seasons Inlet System Improvement [Project ID DSD8] and GSID Masons Village, Auburn System Improvement [Project ID DSD9], both of which were reprioritized from 2017. All of the projects, in areas of load growth, were reprioritized due to system deliverability concerns related to the load growth. He also described a new project. The RCUGS – Replace TLA#4 Compressor Components project [Project ID S40] was added in 2015 to replace the compressor piston and rod assemblies in the four compressor cylinders of TLA#4 engine/compressor.

Mr. Mooney identified the 2015 Projects with noteworthy cost increases and explained what drove the variance for those projects. He stated that 41 of the 2015 Projects show a cost increase over what was estimated in Plan Update-3. Of the 41 projects showing a cost increase, 22 show a cost increase of more than $100,000 or more than 20% over what was estimated in Plan Update-3.

Mr. Mooney also testified that there were six 2015 Projects that were reclassified because they were originally assigned to the wrong category. The costs for the projects did not change because of the reclassification.

Mr. Mooney testified NIPSCO is in the early stages of engineering and construction on the majority of the 2016 Projects. He stated that with the exception of seven projects that were carried over to 2016, there were no new projects in 2016 that were not previously included in the 7-Year Gas Plan. He stated that for projects not completed by December 31, 2016, NIPSCO anticipates that the projects will be in-service but may require additional site restoration work in 2017.

Mr. Mooney identified the variances in expected direct costs for the 2016 Projects as compared to the best estimates of the direct costs identified in Plan Update-3. NIPSCO updated and refined the cost estimates for the 2016 Projects. The total direct capital cost estimate for the 2016 Projects identified in Plan Update-3 was $106,100,861 and the revised total direct capital cost estimate based on information to date for the 2016 Projects is $110,555,372, which is a total increase of $4,454,511. Plan Update-4 shows the Plan Update-3 cost estimate, the updated cost estimate, the variance, and an explanation of the cost variance.

Mr. Mooney discussed the variance for projects with a cost increase of more than $100,000 or more than 20% over what was projected in Plan Update-3, as well as the rationale for refining the cost estimates. He stated that a cost estimate is developed at a point in time, and it is based on the information known when the estimate is developed. As the project progresses, the information used as inputs into the cost estimation process becomes more accurate. There are different techniques used by project managers to develop a cost estimate for a project. These cost estimation methods are only as good as information that is available at that time to be used as inputs. He testified NIPSCO uses sound estimation techniques and the most current information available to develop cost estimates for a regulatory filing. However, due to the timing associated with the regulatory proceedings, cost estimates may be prepared well in advance of when the project actually commenced.

Mr. Mooney testified best practices for project and program management call for updating and refining cost estimates as the project proceeds. He stated it is a good practice to use the most recent data, both actual costs and other industry benchmarks for estimating projects. In addition, the practice of updating prior to actual work commencing helps NIPSCO manage the portfolio of projects and overall risk because actual costs and the most recent data better reflect the current market conditions relative to the industry and therefore generate the best estimates at that time. He stated that beyond current costs and market conditions, updating also helps to identify changes over time, specifically related to either constructability impacts or environmental conditions. If the program manager knows that one particular project in the portfolio will cost more than the original estimate, the program manager might need to request approval for additional funds. However, if the program manager also knows two projects will likely cost less than the original estimates, the program manager may be able to balance the portfolio without needing to request additional funds from the supervisor. Furthermore, refining cost estimates as the projects progress helps NIPSCO to identify and mitigate risks.

Mr. Mooney explained that the process of reviewing and updating project cost estimates is done in the normal course of project management and portfolio management, but now the information gleaned through this process is incorporated into NIPSCO's TDSIC filings. It also helps ensure that in each Plan Update, the cost estimate will be based on current information and represent the best estimate for the projects at the time of the filing.

Mr. Mooney identified the 2016 Projects with noteworthy cost increases and explained what drove the variance for those projects. Of the 19 projects showing a cost increase, nine projects show a cost increase of more than $100,000 or more than 20% over what was estimated in Plan Update-3.

With respect to the 2015 bare steel replacement projects, Mr. Mooney testified that NIPSCO is proposing scope changes with subsequent related cost changes. He stated the scope changes for the bare steel replacements in Gary [Project ID BSR8] were for acceleration of 2016 work along Broadway of 7,800 feet of header. Additionally, there were cost increases for laterals and services associated with Grant Street to Broadway between Fifth and Ninth Avenues. The cost changes related to the bare steel replacement in South Bend [Project ID BSR10] were due to conditions in the field (corrosion on the gas main), which delayed the project. These conditions extended the duration of the project and increased contract labor costs. Mr. Mooney testified that in TDSIC-3, NIPSCO demonstrated that completing 2016 and 2017 engineering in 2015 allowed NIPSCO to provide a best estimate for construction costs associated with the Gary bare steel replacement work to be performed in 2016 and 2017. The engineering effort provided a more accurate view of the scope of work necessary to complete the projects. Additionally, estimates from EN Engineering utilized current material, labor, and incidental costs, then increased them with inflation to provide best estimates for all of the bare steel replacements. The only bare steel replacement project for 2016–2020 in Plan Update-4 is Bare Steel-Gary and Balance of System Project [Project ID BSR11], which takes the place going forward for the previous bare steel replacement projects [Project IDs BSR8, BSR9 and BSR10]. Years 2018–2020 are updated to include higher labor costs than originally estimated.

Mr. Mooney summarized the list of 2016–2020 projects included in Plan Update-4. The 2016-2020 project lists include the following types of projects: transmission pipeline replacement; projects to prepare lines for in-line inspection; shallow pipe replacement; inspect & mitigate (both transmission and distribution); system deliverability (both transmission and distribution); the Kokomo Low Pressure System project; bare steel replacements; master meter upgrades; rural extensions; and storage projects. With the exception of transmission pipeline replacement projects and rural extensions, each project category includes both single unit and multiple unit projects.

Mr. Mooney stated the multiple-unit projects are listed in three ways: (1) a specified asset list, which includes the specific assets to be addressed each year; (2) inspection and remediation based, which only includes projects in the inspect and mitigate and storage project categories; and (3) other. For inspection and remediation based projects, the multiple unit work is prioritized based on U.S. Department of Transportation ("DOT") mandated annual inspections. Depending on the results of the inspection, NIPSCO develops a schedule to take actions to mitigate risk, which can include replacement of the assets. This information is then used to identify the specific work to be done within a multiple unit project. He stated that projects in the "other" category are determined using a different means depending on the project category. For example, system deliverability projects are prioritized based on projected load growth, actual pressure readings during high demand, system hydraulic models and system performance. Appendix 3 of Plan Update-4 provides detailed information regarding the multiple unit projects.

Mr. Mooney testified that to address the Commission's December 16, 2015 Order on Remand in Cause Nos. 44370 and 44371, Appendix 3 of Plan Update-4 contains a listing of all of the projects and/or assets that will be addressed in a given year as well as the anticipated annual scope of work. For some projects included in the inspect and mitigate category, the identified assets will be inspected and evaluated during the proposed year. Once the inspections are complete, projects identified for mitigation will be addressed. He stated that the high number of individual projects makes it impractical to produce detailed cost estimates for each individual unit in the Plan. The estimates are based on the type of asset and the typical or historical costs to mitigate. Based on historical costs, the unit cost estimates for the multiple unit projects for all seven years of the Plan are considered to be Class 4 estimates.

Mr. Mooney testified that all of the 2016, 2017, and 2018 system deliverability projects resulted from the 2014-2015 winter field readings as well as the data found during the pre- and post-winter reviews and predicting the results for Design Day conditions. Design Day conditions are the basis for NIPSCO's gas supply and infrastructure and are an average daily temperature of -15° F (or -22°F morning peak demand) as measured at the Hammond, IN Gas Operations Center. He stated that NIPSCO's gas systems are constantly monitored for deliverability. Any pressure alarm or loss of service is reviewed and prioritized based on public safety, operations, and deliverability. He said other deliverability projects were included in the Plan because they were determined to have been operating at or near limitations of gas delivery.

Mr. Mooney testified the noteworthy updates to the 2016-2020 plan years include: refinement of scope and cost estimates for the inspect and mitigate and system deliverability categories (both transmission and distribution); engineering for ILI system modification projects; transfer of three projects from the distribution inspect and mitigate category to the transmission inspect and mitigate category; transfer of two projects from the transmission pipeline replacement category to the transmission inspect and mitigate category; and transfer of funds from distribution inspect and mitigate to transmission inspect and mitigate.

Mr. Mooney explained the increase in the ILI system modification projects for Plan years 2016-2020. He stated the estimates assimilate timing changes to align the ILI system modification projects with the transmission pipeline replacement projects. Additionally, engineering was not included in previous estimates and is now included as a separate project.

Mr. Mooney explained the changes to the inspect and mitigate categories (both transmission and distribution) for Plan years 2016–2020. He stated the estimated cost for the inspect and mitigate category within transmission were adjusted to reflect the best practices for the mitigation of identified crossings for replacements and bores. The multiple unit project "Mitigation Required from Field Inspections - Transmission" [Project ID IM8] remains separate from the "Mitigation Required from Field Inspections – Distribution" [Project ID DIM37] for each year. He stated the inspect and mitigate category within distribution increased based on the average 2015 Mitigation Required from Field Inspection Project cost, number of units per year, and adjusted for inflation. The inspect and mitigate category within transmission increased because the original transmission estimate was based on historical expenditures prior to 2015, which were lower. He noted the projects were estimated at the 2015 average unit cost and were adjusted for inflation.

Mr. Mooney stated the transmission category includes nine projects [Project ID IM8] in each year from 2016 through 2020. In 2016, there are six projects estimated at the unit cost amount plus three specific large emergency valve projects. For 2017 through 2020, each project cost was estimated using the 2015 unit cost ($120,401 each) and adjusted by 3% for inflation. The Transmission Regulator Station Upgrades and Enclosures project [Project ID IM26] used historical unit pricing adjusted for inflation. Two units are planned in 2017, four units each in 2018 and 2019 and five units in 2020. The estimates for projects in the inspect and mitigate category are the best estimates that NIPSCO has at the current time and can fluctuate based upon the results of inspections and the scope of mitigation required.

Mr. Mooney explained the increase in the Odorant System Replacements and the Pipeline Heater Replacements for 2017-2020. He stated the new estimates are based on historical unit pricing and adjusted for inflation. The Odorant System Replacements [Project ID IM20] will include two units each in 2017, 2018, and 2019 and one unit in 2020. Similarly, the Pipeline Heater Replacements [Project ID IM22] will include two units each in 2017, 2018, and 2019 and three units in 2020.

Mr. Mooney explained the changes to the system deliverability projects. The distribution system deliverability projects [Project ID DSD10] are planned in 2017, 2019 and 2020. The transmission system deliverability projects [Project ID SD18] are planned in 2019 and 2020. The specific list of projects is included in Plan Update-4, Appendix 3. The system deliverability projects were all included in transmission in 2019 and 2020 in Plan Update-3 and these projects are now divided between both transmission and distribution in Plan Update-4.

Mr. Mooney testified the engineering for the Kokomo Low Pressure Replacement project [Project ID K1] is scheduled to be completed in 2019. Construction for the project starts in 2020 and is scheduled to be completed by 2023. He noted that while the overall project cost remains unchanged, there was an increase in the 2020 costs due to the timing of construction.

Mr. Mooney stated that the three corrosion projects [Project ID IM23-DIM34, IM24-DIM3 and IM25-DIM35] were transferred from the distribution inspect and mitigate category to the transmission inspect and mitigate category in 2016-2020 because they were originally assigned to the wrong category. Similarly, the North and South Saint Mary's River Bore Projects [Project ID IM31-TP5 and IM32-TP6] were transferred from the transmission pipeline replacement category to the transmission inspect and mitigate category in 2016.

Mr. Mooney noted that approximately $200,000 per year (2016–2020) was transferred from Engineering for Capital Projects Distribution Inspect & Mitigate [Project IDs DIM44, DIM45, DIM47, DIM48 and DIM49] to Engineering Capital Projects Transmission Inspect & Mitigate [Project ID IM27] and Engineering for Capital Projects Distribution Inspect & Mitigate [Project ID DIM2] because engineering for capital projects was originally included in the distribution inspect and mitigate category. The projects to be engineered are both transmission and distribution projects; therefore Engineering for Capital Projects is now split between both transmission and distribution. The total amount of the project estimate has not changed.

Mr. Mooney also provided an explanation of what is included in Engineering for Capital Projects [Project IDs IM27 and DIM2]. He stated that based on lessons learned, NIPSCO is engineering projects earlier to provide improved estimate accuracy, enhance procurement strategies, and help generate beneficial construction contract arrangements. The intent is to engineer projects 12 to 24 months in advance of construction. Since the construction estimates are in subsequent years, the project is not listed in the previous year when it is engineered. A culmination of projects are grouped together in the Engineering for Capital Projects line items [Project IDs IM27 and DIM2] for the engineering portion of those projects included in subsequent years. There are approximately 30 projects included in the Engineering for Capital Projects, with a range of estimated engineering costs between $1,000 and $40,000 per project. Mr. Mooney stated one work order is used for engineering and construction costs, but when the actual costs for engineering are reported in the Plan, they are included in the Engineering for Capital Projects line items [Project IDs IM27 and DIM2]. When actual costs for construction are charged in subsequent years, they will be reported on the specific projects in the Plan, which is consistent with the construction estimate prepared for that specific project.

Mr. Mooney testified there have been no changes between TDSIC-3 and TDSIC-4 in the process for determining rural extension projects. The rural extension projects included in Plan Update-4 are projected to pass the 20-year test identified in Ind. Code § 8-1-39-11. Actual costs incurred through December 2015 for eligible rural extensions were $28,647,224, which were lower than the estimated cost of $32,301,061. NIPSCO forecasted that a total of 3,626 new rural service lines would be installed in 2015, but the actual number installed in 2015 was 3,309. For purposes of preparing Plan Update-4, NIPSCO adjusted the assumptions that supported the cost estimates for years 2016–2020 based on the results of 2014 and partial 2015 actuals. He stated NIPSCO will continue to evaluate the underlying assumptions as the program progresses and will update the assumptions regarding expected number of service requests and cost per service in its next Plan Update.

Mr. Mooney provided an overview of the Records Project. To date, NIPSCO has successfully completed its fourth of 28 planned data deliveries for the project. NIPSCO remains on schedule in its preparation for acceptance testing, with the end result of the mined information being placed into the Geographic Information System ("GIS"). NIPSCO anticipates a projected completion date of December 31, 2017.

Mr. Mooney stated NIPSCO utilizes a federally-mandated operational safety metric to measure the number of excavation damages per one thousand one call locate requests. NIPSCO has also added additional metrics to track detailed root causes of excavation damages. When utilizing these metrics, he said the data shows that most of the excavation damages occur on service lines within NIPSCO's system. As a result of these findings, NIPSCO is continuing to evaluate the best approach for how service lines will be added into the GIS so that the most value-added solution and approach is selected. The actual mining of the service cards remains on hold to allow NIPSCO to fully evaluate all viable solutions, ranging from the manual option of drawing service lines to the use of survey-grade Global Positioning System collection. He stated once a preferred solution is determined, NIPSCO will discuss the options with stakeholders and propose an update to the TDSIC Plan for review.

Mr. Mooney testified NIPSCO is not proposing any changes to the Records Project in Plan Update-4. He noted that in Plan Update-3, NIPSCO requested a one-year schedule extension and $3.7 million of additional funding for a total budget of $12.2 million. The 2016 estimated budget shows a $387,611 increase over the Plan Update-3 budget, but the project remains at a total of $12.2 million as NIPSCO underspent the budget for this project in 2014 and 2015. He testified NIPSCO will continue to execute on the approved plans from the previous TDSIC filings.

Mr. Mooney testified Plan Update-4 provides the best estimate of the cost of the investments included in the Plan. Plan Update-4 shows actual costs for the 2015 Projects and updated cost estimates for the 2016–2020 Projects and provides information to support NIPSCO's best estimate of the cost of investments included in the Plan. Mr. Mooney stated that Plan Update-4 also reflects the lessons NIPSCO has learned in executing the Plan. The updated cost estimates provided for the 2016 Projects are primarily Class 2. For 2017, NIPSCO provided detailed cost estimates for projects and unit costs for multiple unit projects. The detailed cost estimates for the 2017 projects are based on site walk downs, subject matter expert input, risk analysis, environmental condition analysis, and are Class 3 or 4 estimates The cost estimates for 2017 multiple unit projects are unit costs and are based on historical experience or similar projects that were executed in earlier years.

Mr. Mooney testified NIPSCO provided detailed cost estimates for some of the projects beyond 2016 such as the large transmission projects, which are Class 2 or 3 estimates, and identified system deliverability projects, which are Class 4 estimates. The cost estimates for the remainder of the 2017-2020 projects and multiple unit projects are unit costs based on historical experience or similar projects that were executed in earlier years. He stated that all of the cost estimates are the best estimate of costs based on the information available at this time.

Mr. Mooney testified that consistent with Plan Update-3, the eligible improvements included in Plan Update-4 will serve the public convenience and necessity. He stated NIPSCO's Plan Update-4 follows the requirements of the TDISC Statute. He also indicated that NIPSCO has a statutory obligation to provide adequate retail service in its certificated gas service territory and that NIPSCO performs this obligation for the public convenience and necessity.

Mr. Mooney testified that the estimated costs of the eligible improvements included in the Plan Update-3 are justified by incremental benefits attributable to the Plan. He stated that Plan Update-4 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost-effective manner. He stated that while Plan Update-4 addresses all four types of eligible investment (safety, reliability, system modernization and economic development) in the TDSIC Statute, the emphasis of most of the Plan's investments is to positively impact public safety. Safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion. Reliability drivers include the avoidance of gas outages driven from the inability to maintain gas system pressure during peak load events.

Mr. Mooney testified that Plan Update-4 is intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investment in data and technology required for the Records Project, and the extension of gas facilities into rural areas. The rural extension projects included in Plan Update-4 will continue to increase the number of rural customers served over the life of the Plan.

B. <u>NIPSCO's Supplemental Direct Testimony</u>. NIPSCO filed supplemental direct testimony of Mr. Caister, Ms. Shikany, and Mr. Mooney to address revisions to NIPSCO's filing necessitated by the Commission's TDSIC-3 Order.

Mr. Caister first provided a summary of the TDSIC-3 Order. NIPSCO included a copy of the Plan approved in the TDSIC-3 Order as required by Ind. Code § 8-1-39-9. In addition, Plan Update-4 was revised to remove the projects found by the Commission to be new or emergent projects that were not approved in the TDSIC-3 Order. In addition, NIPSCO updated the schedules and resulting factors to reflect the allocation of costs without any adjustment based on transmission and distribution considerations to allocate approved capital expenditures and TDSIC costs and to include gas costs to arrive at total revenue, not margin.

Mr. Caister testified the TDSIC-3 Order approved NIPSCO's request (with stakeholder support) to move from an eight-week meeting to a four-week meeting, and NIPSCO will continue to follow this requirement as part of subsequent TDSIC proceedings.

Ms. Shikany testified that as a result of the TDSIC-3 Order, Petitioner's Exhibit 1, Attachment 1, Revised Schedule 2 shows the total cost of the Eligible TDSIC Assets incurred through December 31, 2015, upon which NIPSCO requests authority to earn a return is \$146,733,238. This total includes AFUDC, other indirect costs, and is net of accumulated depreciation.

Ms. Shikany testified that based on the allocators approved in the TDSIC-3 Order, NIPSCO revised the schedules and resulting factors to reflect the allocation of costs without any adjustment based on transmission and distribution considerations to allocate approved capital expenditures and TDSIC costs. Petitioner's Exhibit 1, Attachment 2, Revised Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order, which NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown on Attachment 1, Revised Schedule 7.

Ms. Shikany testified that the revised calculated TDSIC revenue requirement results in an average aggregate increase in NIPSO's total retail revenue of more than 2% in a 12-month period. As shown on Petitioner's Exhibit 1, Attachment 1, Revised Schedule 8, the revised TDSIC-4 revenue requirement calculation on Attachment 1, Revised Schedule 5, Page 1, shows a semi-annual revenue requirement of \$8,773,385. This semi-annual amount is annualized and results in an annualized revenue requirement of \$17,546,770. The annualized revenue requirement was compared to the annualized revenue requirement in TDSIC-1 totaling \$682,201. This comparison shows the incremental increase in TDSIC revenue for TDSIC-4 is \$16,864,569. The incremental revenue is then compared to the 2% of Total Retail Revenue Cap of \$12,928,808. This comparison yields an annualized amount in excess of the 2% cap of \$3,935,761. The annualized amount is then divided by a factor of two to adjust to a semi-annual amount of \$1,967,880. She stated that in accordance with Ind. Code § 8-1-39-14(b), NIPSCO is deferring the semi-annual amount in excess of the 2% cap (\$1,967,880). For the amounts deferred relating to each component of the revenue requirement (i.e., capital return, post in-service carrying charges, depreciation, operating and maintenance, and property taxes), NIPSCO will record compounding carrying charges on these amounts until they are recovered through its next general rate case proceeding.

Ms. Shikany testified that the adjustment mechanism NIPSCO used relating to amounts in excess of the 2% cap did not change as a result of the TDSIC-3 Order.

Ms. Shikany sponsored Petitioner's Exhibit 1, Revised Attachment 3, which is a clean and redlined version of NIPSCO's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge (Second Revised Sheet No. 157) showing the TDSIC factors proposed to be applicable for bills rendered during the months of June through November 2016, or until replaced by different factors approved in a subsequent proceeding.

Ms. Shikany testified that based on the TDSIC-3 Order, Petitioner's Exhibit 1, Attachment 2, Revised Schedule 6, Page 2, identifies the projected effect of NIPSCO's Plan Update-4 on retail rates and charges and summarizes the total estimated revenue requirement for each rate class from 2014 to 2020.

Based on the TDSIC-3 Order, the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $2.66, which represents a $1.43 increase from the TDSIC-3 factor currently in effect.

Ms. Shikany concluded that since the TDSIC-3 and TDSIC-4 revenue requirements were revised to comply with the TDSIC-3 Order, the 20% deferral of the revenue requirement was also revised. The most notable change is a $244,146 reduction in the Amount in Excess of the 2% Retail Revenue Cap for TDSIC-4.

Mr. Mooney testified that as a result of the TDSIC-3 Order, NIPSCO revised Plan Update-4. Specifically, NIPSCO removed all costs related to the Shipshewana Main Extension [Project ID SD6], Nappanee Heater [Project ID DSD1], North Hayden Heater [Project ID SD7], Monoquet Reg Station [Project ID DSD6], and City of LaPorte Shallow Main [Project ID DIM33]. In addition, NIPSCO removed one project, TLA #4 Compressor Components [Project ID S40], which was the one new project added in this TDSIC-4 filing. Once these six projects were removed, the associated indirect costs and AFUDC were also removed. This changed the total capital requested in Plan Update-4 from $778.6 million as filed to $771.1 million as updated (plus $12.2 million in the Records Project, which remains the same). As a result of the TDSIC-3 Order, Petitioner's Exhibit 1, Schedule 1 was revised to remove the actual project expenditures for the period ended December 2015 for these six projects.

Mr. Mooney testified that as a result of the TDSIC-3 Order, NIPSCO revised Plan Update-3. In addition to the six projects that were not approved, NIPSCO also removed the 2014 actual costs for Gary Bare Steel [Project ID BSR5], Bykit Ave., 5th Ave. [Project ID BSR6], Mitigation Required from Field Inspections Transmission [Project ID IM8] and Bare Steel Replacements [Project ID BSR10] because they were included on Petitioner's Exhibit 3-R-1. NIPSCO removed the 2014 actual costs, including the capital, indirect costs, and AFUDC, and then added these projects back to Plan years 2015–2020 because they are eligible TDSIC projects, which changed the total capital requested in Plan Update-3 from $817.0 million as filed to $811.8 million as approved by the TDSIC-3 Order. The costs for these four projects are included in Petitioner's Exhibit 1, Revised Schedule 1, which includes actual project expenditures for the period ended December 31, 2015, as well as the estimated costs for 2016–2020.

Mr. Mooney stated that it is appropriate to include these four projects because they are not "new or emergent projects" in the sense of the other six projects. Three of the projects are extensions of the bare steel replacement project, even though they are shown as separate line items. In the TDSIC-3 Order, the Commission determined the expanded project scope and extended project schedule for the bare steel replacements were appropriate. This expansion included the three projects included in Petitioner's Exhibit 3-R-1 in the TDSIC-3 filing. He testified that to reach the approved estimate, the bare steel replacements included on Petitioner's Exhibit 3-R-1 must be included in the Plan.

Mr. Mooney testified that the fourth project is the Mitigation Required from Field Inspections Transmission. Although listed as a new project on Petitioner's Exhibit 3-R-1, the project is a reclassification. This reclassification transfers inspect and mitigate dollars to transmission to appropriately classify the projects. He noted the Commission specifically addressed the inspect and mitigate project groups in the TDSIC-3 Order at 38 as follows: "[b]ased on the evidence presented, we find that NIPSCO has provided ascertainable planning criteria for identifying and selecting specific improvements that it will undertake in these project groups."

Mr. Mooney explained the changes made to Appendix 1 and Appendix 4 of Plan Update-4. The Project Estimate for the one new project previously included was removed from Appendix 1 of the Plan. In addition, a total of 13 project change requests were removed from Appendix 4 of the Plan for projects found by the Commission to be "new or emergent" projects.

Mr. Mooney testified that as of December 31, 2015, the total gross direct capital expenditures associated with the Eligible TDSIC Assets are $127,107,418; the total indirect capital expenditures are $18,022,530; the total AFUDC for capital expenditures are $2,203,234; and the total gross capital expenditures are $147,333,182.

Mr. Mooney explained the revisions to the total direct cost estimates for the variances in actual or projected direct costs for the 2015 Projects as compared to the best estimates of the costs identified in the approved Plan Update-3. The total direct cost estimate for the 2015 Projects identified in approved Plan Update-3 was $89,292,659 and the actual direct cost for the 2015 Projects through December 2015 is $92,027,492, for a total increase of $2,734,833. The only revisions were for the removal of projects found by the Commission to be new or emergent projects.

Mr. Mooney explained changes to the Prior Year Reconciliation and carry-over projects for 2015 based on the TDSIC-3 Order. With the removal of projects, the Prior Year Reconciliation changed from ($188,526) to ($187,761) in Plan Update-4. The Shipshewana Main Ext. [Project ID SD6] and TLA #4 Compressor Components [Project ID S40] projects were removed from the list of carry-over projects. He testified that Plan Update-4 does not include any new projects for 2015.

Mr. Mooney summarized the differences in the variances in expected direct cost for the 2016 Projects as compared to the best estimates of the direct costs in the approved Plan Update-3. The total direct capital cost estimate for the 2016 Projects identified in the approved Plan Update-3 was $106,100,861 and the revised total direct capital cost estimate at the time TDSIC-4 was filed for the 2016 Projects is $109,404,215, for a total increase of $3,303,354. Plan Update-4 now shows the approved Plan Update-3 cost estimate, the updated cost estimate, the variance, and an explanation of the cost variance.

Mr. Mooney testified there were no changes to the bare steel replacement projects as a result of the TDSIC-3 Order. He also testified there were no other noteworthy updates to the 2016–2020 plan years, no changes to the rural extensions estimates, and no changes to the Records Project as a result of the TDSIC-3 Order.

C. **<u>OUCC's Case-in-Chief.</u>** The OUCC filed the testimony of Mark H. Grosskopf, a Senior Utility Analyst, and Leon A. Golden, a Utility Analyst in the Resource Planning and Communications Division.

Mr. Grosskopf testified NIPSCO's calculation of the TDSIC factors have been amended to be consistent with the TDSIC-3 Order and recommended approval of rate factor calculations as shown in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 7, subject to changes in Petitioner's cost recovery recommended by Mr. Golden. He stated that he performed a comprehensive analysis of the calculations and data flow contained in NIPSCO's TDSIC rate schedules. In addition, following NIPSCO's filing of its supplemental testimony to comply with the TDSIC-3 Order, he reviewed and verified NIPSCO's revisions to the schedules and verified the resulting calculation of the TDSIC factors. Mr. Grosskopf testified NIPSCO's 2% cap test reflected in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 8 is calculated correctly.

Mr. Grosskopf stated that he reviewed NIPSCO's TDSIC rate factor calculations and flow of inputs from other schedules and Petitioner's Exhibit 1, Attachment 1, Revised Schedule 7 operates effectively to calculate accurate TDSIC rate factors.

Mr. Grosskopf testified Petitioner's Exhibit 1, Attachment 1, Revised Schedule 6 shows the reconciliation of the allowed TDSIC revenue requirement with the actual revenue collected from June through November 2015. He further testified Petitioner's Exhibit 1, Revised Attachment 3 accurately reflects the TDSIC calculations presented by Petitioner's Exhibit 1, Revised Attachment 1. He also traced all data input in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 9 to the source schedules and verified the calculations. He stated that the schedule is accurately tracking deferred capital expenditures and expenses, pending recovery in Petitioner's next base rate case.

Mr. Grosskopf agreed that Petitioner removed from TDSIC recovery calculations for the capital expenditures associated with the 112th Street Project that exceeded the estimate provided by NIPSCO in Cause No. 44403. Also, consistent with the TDSIC-1 Order, NIPSCO will defer, for recovery in its next base rate case, the depreciation and property tax expense related to the difference between the approved amount and the actual amount of the 112th Street Project.

Mr. Grosskopf testified the rural extension margin credit balances the interests of the utility and the ratepayers and the OUCC continues to support NIPSCO's approved 80% margin credit for rural extensions for each TDSIC filing.

Finally, Mr. Grosskopf testified that generally Petitioner's TDSIC calculation schedules, Exhibit 1, Attachment 1, Revised Schedules 1 through 9, and Attachment 2, Revised Schedules 1 through 6, effectively and accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal. He agreed with Mr. Golden's recommended disallowance of certain requested cost recovery, which affect the revenue requirements and ultimately the TDSIC factors.

Mr. Golden focused on the reasonableness of the increases in cost and scope of the 2015 Projects, cost estimate updates for the 2016–2020 projects, and whether the increases in cost and scope were adequately supported. He explained the OUCC is not objecting to some cost increases, but is recommending cost recovery be limited to 20% above the TDSIC-3 cost estimate for other projects. He recommended the Commission find: (1) NIPSCO has provided sufficient cost estimate detail and support for projects in years 2016–2020 of Plan Update-4, and (2) NIPSCO has provided sufficient engineering detail and support for projects in years 2016–2020 of Plan Update-4.

Mr. Golden explained the reasons for his recommendation that cost recovery for the following projects be limited to the TDSIC-3 estimate plus 20% as follows:

- Arcelor Mittal Run Changer [Project ID SD3] – Given that this was a 2015 project, it is reasonable to expect that engineering would be substantially complete and that cost estimates would be of high quality. For a current year project, a site visit seems to be a reasonable part of creating both a "best" estimate and engineering detail sufficient to create work order level detail in TDSIC-3. But much of the 1,102% increase flows from discoveries made during the project initiation site visit, which seemingly took place after the TDSIC-3 estimate was approved.

- Goodland Trunkline Regulator Station #7176 Upgrade [Project ID SD5] – Given that this was a 2015 Project, it is reasonable to expect that engineering would be substantially complete and that cost estimates would be of high quality.

- Rebuild 8269-6 Marycrest & New Carlisle [Project ID DIM21] – Cost increases were caused by: (1) additional outside engineering to assist with obtaining the railroad permit; (2) an easement from the property owners on the south side of the railroad; and (3) increased contract labor for a railroad flagger. A site visit would have made plain that the site was a private parking lot and that railroad permits would be required and perhaps that an additional easement would be required. Many of these additional costs should have been recognized and included in a "best" estimate for a current year project. These omissions seem less inadvertent and more akin to an incomplete understanding of the total project when the TDSIC-3 estimate was offered.

- LNG – Compressor Discharge Piping [Project ID: S25] – Experienced lower than estimated NIPSCO material and labor costs, but experienced overall cost increases as a result of engineering and construction for this project being moved from internal resources to contract resources. NIPSCO's evidence provided no explanation as to why it was reasonable and necessary to shift this project to external engineering and contract labor and incur a 46.8% increase.

D. <u>Industrial Group's Case-in-Chief.</u> The Industrial Group filed the testimony of Nicholas Phillips, Jr., Managing Principal of Brubaker & Associates, Inc.

Mr. Phillips voiced concern with NIPSCO requesting increases in cost estimates for projects that have not yet been installed. He stated that when NIPSCO has received approval for a certain future project's cost estimate, it should undergo vigorous scrutiny for any revised cost estimate in a subsequent update. NIPSCO's approved cost estimates include as much as a 20% contingency that is supposed to address the utility's risk in addressing unknown factors at the time the estimate is finalized. Thus, a high standard is appropriate when considering changes to the cost estimate.

Mr. Phillips stated NIPSCO is not automatically entitled to recover increased costs through the TDSIC tracker, noting that in the TDSIC-1 Order the Commission explained that NIPSCO must present specific justification to secure tracker treatment for costs in excess of the approved estimate. He stated the "best estimate" criterion in the statute is an important ratepayer protection and the utility should be required to present specific justification before an increase is authorized through an update, both for any completed project as well as for a future project.

He recommended that the statutory specific justification be applied to all requested increases in project costs, both for completed projects as well as future projects yet to be installed. He noted that the TDSIC Statute establishes an exceptional form of rate treatment for defined investments and to secure that ratemaking treatment, the utility is required to present a seven-year plan that satisfies criteria including the best estimate standard and cost justification. The ratepayer protections with respect to cost overruns, in particular the specific justification standard for cost increases, are important to ensure the integrity of the estimates presented when the plan is submitted for approval and further to preserve cost discipline while the plan is being implemented.

Mr. Phillips testified the Commission concluded in its TDSIC-3 Order that a utility cannot add new or emergent projects through an update proceeding, after a seven-year plan has been approved. NIPSCO's Plan includes several programs, such as system deliverability and inspect and mitigate, as to which individual improvements were not specified, and instead NIPSCO undertook to identify particular projects from time to time during the seven-year period. He voiced concern that although the Commission approved those projects in its TDSIC-3 Order, the Commission emphasized the need for ascertainable criteria and noted NIPSCO's commitment to provide additional detail in further proceedings. Mr. Phillips stated it appears NIPSCO has not followed through on its undertaking to provide more detail regarding the program criteria.

Mr. Phillips expressed concern that if the program criteria are too loose, then NIPSCO nevertheless has the opportunity to add new and emergent projects year by year by classifying them under one of the program umbrellas. He stated that NIPSCO's approach seems to be that within the program categories, specific projects will be identified through a process conducted by NIPSCO in successive years and will be presented to the Commission through plan updates. He opined that the Appellate Order found a similar approach to be inconsistent with the statutory requirements. He stated that based on the Appellate Order, the Commission rejected the programs portion of NIPSCO's electric plan in its December 16, 2015 Remand Order in Cause Nos. 44370 and 44371, while noting that process definitions could alter that determination in a different case. He noted that NIPSCO stated in TDSIC-3 that it would provide additional detail supporting the program criteria for its gas plan but has not done so in this proceeding.

Mr. Phillips stated NIPSCO now seeks to include a variety of emergent projects in its Plan Updates. He pointed to Mr. Mooney's testimony explaining risk mitigation and a schedule to replace assets. He also took notice of Mr. Mooney's testimony describing a Mason's Village project that was undertaken in response to conditions that arose in January 2015 and indicating that the system deliverability projects included in the Plan are similar to the Mason's Village project. He also noted Mr. Mooney's testimony explaining a cost increase for the transmission inspect and mitigate category for 2015 by statements that the Plan anticipated three projects but NIPSCO later determined a need for five "additional projects." Mr. Phillips argued that these are examples of added projects that were not previously identified by NIPSCO as part of the approved Plan, and instead were undertaken in reaction to circumstances arising after Plan approval.

Mr. Phillips opined that at the very least, the Commission should require NIPSCO to establish and adhere to ascertainable criteria for identifying specific projects, so that the process for selecting particular improvements does not become open-ended and too discretionary. He stated that even though the Commission ruled in the TDSIC-3 Order that new and emergent projects cannot be added through a plan update, NIPSCO apparently seeks the flexibility to use the program categories to accomplish the same result. By NIPSCO's approach, any problem that arises subsequent to plan approval can be investigated and addressed, with associated costs recovered through the TDSIC rider, and if more issues come up than anticipated the budget can simply be expanded through a cost increase in a plan update. He stated the Commission should require reasonable limits and boundaries on the scope of projects included in the Plan. This will enforce the determination that new and emergent projects cannot be added in midstream, prevent NIPSCO from turning its program categories into catchalls covering all transmission and distribution investments, and avoid reinstituting the year-by-year method of identifying particular projects that the Court of Appeals found to be inconsistent with the terms of the TDSIC Statute. NIPSCO, therefore, should be directed in its next TDSIC filing to provide additional detail to establish and adhere to ascertainable criteria for the selection of specific improvements in program categories where particular projects were not identified in the TDSIC-3 Update. In this proceeding, these categories should not be expanded with cost increases beyond what the Commission approved in TDSIC-3. He stated that unless and until NIPSCO follows through on the commitment to detail the criteria necessary to prevent circumvention of the prohibition against adding new and emergent projects, the Commission should not approve any increases in those cost categories.

In response to a May 13, 2016 Docket Entry concerning the ascertainable criteria, the Industrial Group indicated that NIPSCO should, at a minimum, expand what was included in Attachment 3-A to Petitioner's Exhibit 3 by specifically identifying reliability planning criteria and objective standards it uses to determine when to invest in a system deliverability project and the DOT, Pipeline Safety Division, or other relevant standards for the system integrity and inspect and mitigate categories.

E. <u>NIPSCO's Rebuttal Testimony</u>. NIPSCO filed rebuttal testimony of Mr. Caister.

In response to Mr. Phillips' discussion of the concept of "specific justification" as used in the TDSIC Statute, Mr. Caister testified NIPSCO views the "specific justification" and "specific approval" requirements in the TDSIC Statute as direction from the General Assembly that project cost increases may not automatically be included and recovered through a TDSIC tracker. Rather, a utility must justify to the Commission that a project cost increase is reasonable and necessary – i.e., similar to the public convenience and necessity findings the Commission must make when approving a utility's TDSIC plan. He noted that the Legislature did not identify any criteria for determining whether a utility had provided specific justification for cost increases. He stated that "justification" is defined in Merriam-Webster as "an acceptable reason for doing something." Mr.

Caister stated that NIPSCO has provided substantial, specific evidence demonstrating justification for its request for recovery of costs in excess of the previously approved estimates, that the increased costs are both reasonable and necessary, and the increased cost estimates are currently the best estimates of costs for such projects.

Mr. Caister also testified that for each project included in the Plan with a variance of more than $3,000, whether it is an increase or decrease, the project budget has a project change request ("PCR") form created by the engineer/project manager and approved by differing levels of management depending on the amount included in the PCR. The PCRs are then summarized as part of the Plan Update. For example, the ArcelorMittal Run Changer [Project ID SD3] had three PCRs included in this Plan Update. The first was created on September 1, 2015, which was when it was determined that the project as previously designed did not meet the needs of either NIPSCO or the industrial customer being served. The second was completed on October 23, 2015, after the project with its new scope had been engineered, scheduled, and estimated. The final PCR was completed on December 31, 2015, to decrease the project budget when labor costs were less than estimated.

Mr. Caister stated that NIPSCO provided an additional level of justification in testimony for projects with a change of more than $100,000, or more than 20%. He noted that Mr. Mooney provided additional details on 22 projects that met the threshold of $100,000 or more than 20% of what was estimated in Plan Update-3. For the ArcelorMittal Run Changer project, he noted that Mr. Mooney explained the project required additional work once the system was investigated, stating that there were safety concerns, as well as a need to upgrade the meter based on customer usage. Furthermore, as a result of these new measures and in order to prevent a shutdown of a large end-user or ArcelorMittal's plant, a temporary service had to be installed for this customer.

Mr. Caister testified this level of detail is similar to what has been provided in other Plan Updates. NIPSCO has provided explanations within the Plan as well as testimony regarding projects for which costs have increased by more than $100,000, or more than 20% of what was included in the previous filing. He stated this provides a level of detail supporting all changes to the estimates in the full filing while trying to balance what is individually identified in testimony. In addition, NIPSCO provided the OUCC and any other intervenors with copies of the PCRs, and the only change is that NIPSCO is now including the PCRs as an appendix to the Plan Update.

Mr. Caister testified these criteria meet the "best estimate" and "specific justification" criteria in the TDSIC Statute. He stated that in approving the specific increases requested in Plan Update-3, the Commission also approved NIPSCO's process of estimating the projects and justifying any increases to the project.

Mr. Caister disagreed with Mr. Phillips that NIPSCO is including "a variety of emergent projects in its plan updates." He stated that to the contrary, NIPSCO's Plan Update-4 includes even greater detail about the specific projects, including multiple unit projects to complete in a given year.

Mr. Caister testified the projects included in the inspect and mitigate category are not emergent projects. NIPSCO has listed the projects that will be inspected in a given year and mitigation plans will be formulated to address the results of those inspections. He stated the

Commission found in the TDSIC-3 Order that these are not emergent projects, but that the projects are similar to rural extension projects, wherein once a project has been identified and selected, NIPSCO will include it within its Plan update prior to construction occurring.

Mr. Caister explained that despite estimates, the scope of a project can change once a project is started – an example is the ArcelorMittal Run Changer. Mr. Caister testified that regardless of whether or not a public utility project is eligible under TDSIC and despite all reasonable estimating practices, inevitably, reasons arise to change a scope of a project based upon new information. These reasons do not automatically render the updated estimates short of the "best estimate" standard nor do they fall short of the "specific justification" standard.

Mr. Caister testified the inspection program changes meet the Commission specific criteria requirement. The PCRs provide documentation of modifications to the scope of work that needs to be performed, such as if an underlying safety issue emerges when beginning a sub-project. He stated NIPSCO must address the underlying issue first and therefore may need to modify some of the scope and cost of a specific sub-project to insure that the sub-project can proceed as planned.

Mr. Caister indicated that a modification in the scope or work necessary to complete a sub-project does not equate to a new or emergent project. He said an example of this would be if a homeowner hired a company to install carpet and quoted a price based on an initial inspection, but the company found tacks and decided tack strip replacement was needed upon removal of the old carpet. Those types of changes are not truly outside of the scope of the initial project, even with a potential for a cost increase. He testified the PCRs allow management to make the decision if a modification or cost change is significantly higher, or outside of the original scope of the proposed work.

Mr. Caister noted the Commission has traditionally allowed for recovery of cost increases if the costs incurred were "reasonable and appropriate" or "reasonable and necessary." Cost increases from some projects do not signify a cost overrun on the TDSIC plan as a whole. While some projects have higher costs due to a variety of documented reasons, other projects come in lower. Mr. Caister testified NIPSCO continually updates its Plan based on these changes and provides the Commission and other parties with documentation of these changes. He stated the reason that utilities include contingency in large capital project cost estimates is precisely because it is expected that costs may change, due to many factors, including inflation, increased labor or material costs, or necessary scope changes to address unanticipated conditions.

Mr. Caister disagreed with Mr. Phillips' assertion that NIPSCO is not providing sufficient detail regarding a program's ascertainable criteria. He testified the 7-Year Gas Plan has continued to evolve as NIPSCO has received additional guidance from the Commission and the Court of Appeals. In Appendix 3 of its Plan Update-4, NIPSCO added additional details to the Plan, including a list of the multiple unit projects and supporting documentation. He testified this goes beyond the detail NIPSCO included in previous filings for project groups. NIPSCO also provided the equivalent of "asset registers" for most projects, including those that were previously in project groups. Although the inspect and mitigate projects are included in some type of list or register, the specific projects are not known until the inspection is complete. Accordingly, NIPSCO included the list of projects to be inspected and evaluated during the Plan and then projects identified for mitigation will be addressed. He testified that because NIPSCO has listed each of the multiple unit projects, rather than having a program or project group to be completed or inspected in a given year, no additional criteria are required.

In response to Mr. Golden's recommendation to limit cost recovery for four projects, Mr. Caister testified the traditional standard in approving cost increases is whether it is reasonable and necessary. No party argued that the cost incurred was unreasonable, or that the project was unnecessary. He stated NIPSCO provided the best estimates it had for those four projects in TDSIC-3 and provided specific justification through evidence in this filing discussing the increases.

Mr. Caister disagreed with the OUCC that having a Class 2 estimate, as NIPSCO provided in TDSIC-3 for 2015 Projects, should mean that recovery should be limited to no more than 20% above the costs included in that estimate. He noted the Commission's statement in the TDSIC -3 Order at 40 that, "[w]hen reviewing a utility's 'best estimate' of the costs of eligible improvements, we recognize that a cost estimate is developed at a point in time, and it is based on the information known when the estimate is developed." He stated in the ArcelorMittal example, as work began, it was determined that the original scope of the project would not resolve the business needs of either NIPSCO or the customer and additional work was required. He testified the TDSIC Statute provides for specific justification of cost increases and NIPSCO has met that standard in the same way the Commission approved in the TDSIC-3 Order.

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

A. **<u>Findings and Conclusions Regarding Plan Update-4</u>.** Ind. Code § 8-1-39-9(a) requires a utility to update its seven-year plan as a component of TDSIC periodic automatic adjustment filings. In this case, NIPSCO requests approval of Plan Update-4, which contains updates to the 2015 and 2016 Projects, a detailed project list and cost estimates for each year of the Plan, and updated cost estimates. The TDSIC Statute is silent as to what may be included in a Section 9 update and what review is required. As we stated in the TDSIC-3 Order, updates should include a discussion of any changes in an eligible improvement's best estimate of cost, necessity, and associated incremental benefits upon which the Commission based its determination to approve NIPSCO's proposed Plan as reasonable.

1. **<u>Cost Estimates</u>.** We found in our TDSIC-3 Order that the Appellate Order requires that the Commission's finding of the "best estimate of the costs of eligible improvements" is to be determined in a Section 10 proceeding, where it is a factor to be considered in whether a utility's seven-year plan is reasonable and should be approved. In contrast, in a Section 9 proceeding, a utility must update its approved plan and explain any changes in the best estimate of costs, necessity, or incremental benefits.

The Merriam-Webster online dictionary defines "estimate" as, "to judge tentatively or approximately the value, worth or significance of; to determine roughly the size, extent, or nature of; to produce a statement of the approximate cost of."[5] The words "tentatively," "approximately," "roughly," and "approximate" all indicate that an estimate is not equal to a final, actual, or firm value. However, the TDSIC Statute also requires the estimate to be "best," which Merriam-

[5] http://www.merriam-webster.com/dictionary/estimate

Webster defines as, "better than all others in quality or value; most skillful, talented, or successful; most appropriate, useful, or helpful."[6] A TDSIC best estimate should reflect, at a minimum, costs a utility reasonably could or should have foreseen at the time the estimate was created.

We also indicated in the TDSIC-3 Order at 34 that "[a]lthough Section 9(f) only requires a utility to provide specific justification when actual capital expenditures and TDSIC costs exceed approved capital expenditures and TDSIC costs," we expected that utilities would seek to provide specific justification for any changes in the approved best estimate as they become known.[7] The reason being, if a utility waited until it sought to recover actual capital expenditures to justify the increased cost estimate, then it would bear the risk of incurring costs the Commission may find lack sufficient justification. Additionally, if the utility seeks to provide specific justification for an increase in the approved best estimate when it becomes aware of the change (such as in an update proceeding and before it incurs actual capital expenditures), then it has greater flexibility to make alternative decisions.

Whether the utility seeks to provide specific justification for approval of an increase in the best estimate at the time it seeks cost recovery or prior to incurring actual costs, the standard is the same. As we explained in the TDSIC-1 Order at 20, a utility may not simply detail the reasons for the increase in costs. Instead, it must explain why the increase in the best estimated cost, which was considered to be better than all others in quality or value, is reasonable or warranted under the circumstances presented. Although we will not engage in a hindsight review, we will consider whether the utility's actions and its explanation of the specific reasons for the increase in the approved best estimate are reasonable in light of the circumstances that were known or should have been known at the time the estimate was made.

In this case, Mr. Mooney testified Plan Update-4 shows actual costs for the 2015 Projects and updated cost estimates for the 2016–2020 Projects and provides information to support NIPSCO's best estimate of the cost of investments included in the Plan. He testified Plan Update-4 includes: (1) project cost estimates for 2015 through 2019 (Appendix 1); (2) summary of unit cost estimates; (3) multiple unit project list and supporting documentation (Appendix 3); and PCRs for 2015 and 2016 Projects (Appendix 4).

Mr. Mooney stated that Plan Update-4 reflects the lessons NIPSCO has learned in executing the 7-Year Gas Plan. He stated the updated cost estimates provided for the 2016 Projects are primarily Class 2.[8] For 2017, NIPSCO provided detailed cost estimates for projects and unit costs for multiple unit projects. The detailed cost estimates for the 2017 Projects are based on site walk downs, subject matter expert input, risk analysis, environmental condition analysis, and are Class 3 or 4 estimates. The cost estimates for 2017 multiple unit projects are unit costs and are based on historical experience or similar projects that were executed in earlier years.

[6] http://www.merriam-webster.com/dictionary/best
[7] The "approved capital expenditures" as that term is used in Ind. Code § 8-1-39-9(f) is the approved best estimate for an eligible improvement. While the approved best estimate may be updated in a Section 9 filing, an eligible improvement can only be designated in a Section 10 filing.
[8] Class 2 and 3 estimates are performed at 10-70% project definition, have detailed engineering complete, and use bids tendered as development for the estimate.

Mr. Mooney testified NIPSCO has provided detailed cost estimates for some of the projects beyond 2016 – such as the large transmission projects, which are Class 2 or 3, and identified system deliverability projects, which are Class 4. He stated the cost estimates for the remainder of the 2017–2020 Projects and multiple unit projects are unit costs based on historical experience or similar projects that were executed in earlier years. Mr. Mooney testified all of the cost estimates are the best estimate of costs based on the information available at this time.

The Industrial Group argues that NIPSCO has generally failed to provide specific justification for the increase in approved cost estimates and takes issue with the revised cost estimates concerning the project groups that the Commission approved in TDSIC-3, which NIPSCO has redefined in this Cause as "multiple unit projects." However, the OUCC after its review only called into question four specific projects. We address each of the parties' arguments below.

a. **Project Groups or Multiple Unit Projects.** In its Plan Update-4, NIPSCO reclassified and identified several additional projects that fall under particular project groups approved in TDSIC-3 as having sufficiently ascertainable planning criteria. One such example is the Mitigation Required from Field Inspections – Transmission. Mr. Mooney testified that during the course of its field inspections, NIPSCO identified five projects that were necessary for compliance with DOT requirements in addition to the three originally anticipated. He also noted that the costs for the individual projects were higher than anticipated due to increased labor and material costs.

The Industrial Group appears to argue that these additional projects are new or emergent projects, which in its TDSIC-3 Order the Commission found could not be included in a Section 9 filing, and questioned whether NIPSCO provided sufficient detail regarding the program ascertainable criteria. Mr. Phillips expressed concern that if the ascertainable criteria were insufficiently defined, then NIPSCO may be able to include new and emergent projects to the Plan by classifying them under an approved project group.

The OUCC, after its review and discussion with NIPSCO, indicated that it had no objection to the inclusion of the additional projects or the corresponding increases in labor and material costs. Mr. Golden explained that this is an inspection-based project within the inspect and mitigate (transmission) project group. He further noted that in the TDSIC-3 Order at 38, the Commission found:

> With respect to the project groups **within the inspect and mitigate and storage categories,** these also contain a preset list of planned replacements through 2020 **as well as certain asset replacements that are not specifically identified because they are planned and prioritized based on DOT mandated annual inspections** . . . . (Emphasis added.)

As noted by the OUCC, the Commission in its TDSIC-3 Order approved as designated eligible improvements certain project groups that contained some "identified" as well as "yet to be identified" projects because we found NIPSCO had provided sufficient ascertainable planning criteria for identifying and selecting the specific improvements to be undertaken. There was no evidence presented in this proceeding to alter that determination. Based on the evidence presented, we find that NIPSCO's reclassification and further identification of the specific projects or asset replacements within the approved project groups is reasonable and consistent with the TDSIC-3 Order.

Notwithstanding, in response to a May 13, 2016 Docket Entry requesting a description of additional criteria NIPSCO should provide, the Industrial Group indicated that NIPSCO should identify the standards used in its reliability planning criteria referred to in Petitioner's Exhibit 3, Attachment 3-A and the objective standards it uses to determine when to invest in a system deliverability project. In addition, for the inspect and mitigate (system integrity) projects, NIPSCO should specify the DOT, Pipeline Safety Division, or other relevant standard referred to in Petitioner's Exhibit 3, Attachment 3-A. Although we found in TDSIC-3 that NIPSCO had provided sufficiently ascertainable planning criteria, we also expressed our expectation that NIPSCO would cooperate fully with the parties to further delineate the criteria NIPSCO utilizes to ensure that the parties have a sufficient understanding of the information used to evaluate whether a particular project satisfies the planning criteria described by NIPSCO. Therefore, we find that NIPSCO shall work with the Industrial Group to further delineate the standards referenced in Petitioner's Exhibit 3, Attachment 3-A.

b. Arcelor Mittal Run Changer. Mr. Mooney testified that after investigation of the system, it was determined that the original scope of this project did not allow for resolution of all issues found, including several safety concerns. The original scope included only replacement of one run changer valve and to move one of the existing orifice meter runs to that valve section. However, after inspection, it was determined that the project needed to include a new digital meter run based on customer usage, additional isolation valve repairs, and replacement of the degraded inlet header. An additional expense involved the installation of temporary services to the facility while work was being completed on the permanent facilities in order to prevent a shutdown. Labor costs were also higher than anticipated because contract labor was required due to internal labor constraints and a small window for execution of the project during a low-load timeframe.

No party challenged the need for this project or that it was a designated eligible improvement. However, the OUCC's witness, Mr. Golden, recommended that TDSIC cost recovery for this project be limited to 120% of the TDSIC-3 approved estimate. Mr. Golden testified that because this was a 2015 Project, it is reasonable to expect that engineering would be substantially complete and that cost estimates would be of high quality. Noting that a site visit would seem to be a reasonable part of creating a best estimate for a current year project, he stated that much of the 1,102% increase for this project flows from discoveries made during the project site visit.

The Commission recognizes that circumstances in the field may identify unforeseen conditions that drive changes in project costs, but in this instance we agree with the OUCC and conclude that the evidentiary record fails to specifically justify the full increased cost for the Arcelor Mittal Run Changer project for the purpose of TDSIC tracker recovery. We find that NIPSCO failed to reasonably justify the substantial increase in cost above the approved estimate. Therefore, we find that the OUCC's proposal to limit TDSIC tracker recovery to 120% of the original cost estimate is reasonable for this project.

c. Goodland Trunkline Regulator Station. Mr. Mooney testified that material cost increases occurred with this project due to inadequate and incomplete engineering work as well as incorrect estimates. Additionally, labor costs (including contract labor) associated with the revised scope were higher than originally estimated. Mr. Mooney noted that NIPSCO has proactively addressed these engineering concerns by beginning engineering earlier in the process rather than waiting for the project year to commence.

Mr. Golden testified that because this was a 2015 Project, it is reasonable to expect that engineering would be substantially complete and cost estimates would be of high quality. He recommended that TDSIC cost recovery for this project be limited to 120% of the TDSIC-3 approved estimate.

While no party contested that the Goodland Trunkline Regulator Station project is a designated eligible project, we agree with the OUCC and find that the record fails to justify inclusion of the full revised project cost. Mr. Mooney acknowledged in testimony that the initial project cost estimate had been based on inadequate and incomplete engineering work as well as incorrect estimates. Adequate and reasonably complete engineering is a reasonable expectation for an approved best estimate of cost. While NIPSCO indicated it has taken steps to improve its processes going forward, we find the OUCC's recommendation to limit TDSIC tracker recovery to 120% of the original estimate is reasonable and should be approved.

d. Rebuild Marycrest & New Carlisle. Mr. Mooney indicated that because this project was near a railroad track, NIPSCO incurred costs for: outside engineering to assist with obtaining a railroad permit, easement acquisition on the south side of the railroad, and contract labor for a railroad flagger. He noted that contracted labor and material costs were also more than originally estimated due to relocation of a 2-inch line requiring additional activities.

Mr. Golden testified that, similar to the Arcelor Mittal Run Changer, a site visit would have revealed that the site was a private parking lot, railroad permits would be required, and perhaps an additional easement would be required for this project. He indicated that many of these additional costs should have been recognized and included in the best estimate for a current year project. Accordingly, Mr. Golden recommended that TDSIC cost recovery for this project be limited to 120% of the TDSIC-3 approved estimate.

On rebuttal, Mr. Caister noted that in Plan Update-3, NIPSCO indicated that this project had not been completed in 2014 because of permit and easement acquisition. However, the cost increase did not meet the threshold of being included in testimony. He stated that Plan Update-4 provided additional details related to the easement acquisition as well as the railroad permit and the required bore.

This project is a carry-over project from the list of 2014 Projects. Like the 2015 Projects, we would have reasonably expected that NIPSCO would have conducted a site visit (or at least explained why it was reasonable for one not to have been done) for such a near-term project, which would have revealed the issues associated with the site, and engineering would have been substantially complete. We also note that although this project was flagged by NIPSCO in TDSIC-3 as requiring additional work, NIPSCO did not revise or update the estimate. Based on this evidence, we find that NIPSCO has failed to justify the cost increase as reasonable and TDSIC tracker recovery should be limited to 120% of the original estimate.

e. **LNG - Compressor Discharge Piping.** Mr. Mooney explained that the increased costs associated with this project occurred due to shifting engineering and construction from internal to external resources.

Mr. Golden noted that neither Petitioner's testimony nor exhibits offered any explanation as to why it was reasonable or necessary to shift this project to external engineering and contract labor and incur a 46.8% increase. The OUCC recommended that TDSIC cost recovery for this project be limited to 120% of the TDSIC-3 approved estimate.

In response to a May 13, 2016 Docket Entry requesting an explanation for the shift in resources, NIPSCO indicated that due to the compressed window to complete the project, the need for experienced welders, and the unavailability of internal resources, it used external resources to complete the project in time for the winter heating season.

Because the project was part of the approved Plan, it is reasonable to expect that NIPSCO had been planning to begin and complete this project as contemplated and would have allocated sufficient resources. Although NIPSCO explained why it shifted from internal to external resources, it failed to explain why it needed to do so or why the compressed window to the complete the project existed. Consequently, we find that the evidence fails to demonstrate specific justification for the increased costs, and TDSIC recovery should be limited to 120% of the approved estimate.

f. **Conclusion.** Ind. Code 8-1-39-9(f) requires that a utility provide specific justification for any increases in project costs. As addressed by our TDSIC-1 Order at 20, to "justify" means "to show to be just or right," "to defend or uphold as warranted or well-grounded," or "to show a satisfactory reason or excuse for something done." While NIPSCO provided evidence demonstrating that costs had increased for each of the four projects discussed above, we find that NIPSCO failed to demonstrate specific justification for the cost increases. There is a responsibility to take all reasonable and necessary steps in order to obtain a best estimate in light of circumstances that were known or should have been known at the time. Failure to adequately plan is not a sufficient justification for a cost increase.

Therefore, based on the evidence presented, and with the exception of the increases specifically addressed above, we find that NIPSCO has provided specific evidence demonstrating justification for the increase in costs above the previously approved estimates. NIPSCO's evidence demonstrates that the increased costs as adjusted herein are both reasonable and necessary and provide the best estimate of costs for such projects.

In addition, we find that NIPSCO has provided sufficient detail and explanations, except as noted herein, for the changes in estimated costs of the eligible improvements included in Plan Update-4. However, in the future, it would be beneficial to the Commission for NIPSCO to provide a breakdown of costs in all PCRs sufficient to enable the detail of the changes to be easily and logically tracked. Accordingly, we find that NIPSCO has provided sufficient information to support the updated best estimates of the cost of the eligible improvements included in Plan Update-4 as adjusted herein, and we approve these as best estimates of the costs for those projects.

Finally, because we find that NIPSCO failed to reasonably justify its request for approval and recovery through the TDSIC tracker of the cost increase for the four projects identified above, we also decline to authorize deferral of the costs in excess of the approved amount. Having determined that such additional costs do not qualify for TDSIC cost treatment pursuant to the TDSIC Statute, we see no justification to authorize deferral with TDSIC treatment of such costs. Rather, the amount in excess of the approved costs is simply a capital expenditure subject to a used and useful showing for cost recovery in a future base rate case. Although we allowed deferral of the amount above the approved costs for the 112th Street Project, further consideration of the TDSIC Statute as clarified by the Appellate Order leads us to conclude that the incentive ratemaking treatment of the statute is limited to approved capital expenditures and TDSIC costs. Accordingly, on a going forward basis, only cost increases approved as reasonably justified warrant special treatment.

2. <u>Public Convenience and Necessity</u>. Mr. Mooney testified that consistent with the approved Plan, the eligible improvements included in Plan Update-4 will serve the public convenience and necessity. He explained that Plan Update-4 follows the requirements of the TDSIC Statute by making investments for the purposes of safety, reliability, system modernization, and economic development consistent with public policy and the public interest. No evidence was presented in this Cause to contest the continued public convenience and necessity associated with the designated eligible improvements in the Plan.

NIPSCO has a statutory obligation to provide reasonably adequate retail service in its certificated gas service territory for the public convenience and necessity pursuant to Ind. Code §§ 8-1-2-4, -87 and -87.5. We find that NIPSCO has sufficiently supported that the eligible improvements as described in Plan Update-4 are reasonably necessary for it to continue to provide adequate retail service to its customers, and the public convenience and necessity continues to require or will require those eligible improvements.

3. <u>Incremental Benefits Attributable to the Updated Plan</u>. Mr. Mooney testified that consistent with the approved Plan, Plan Update-4 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost-effective manner. Plan Update-4 is also intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, the replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investments to enhance pipeline safety and reliability, and the extension of gas facilities into rural areas.

In the 44403 Order at 23, we found that "NIPSCO's 7-Year Gas Plan contains solutions that will enhance customer and employee safety, avoid outages, preserve operational integrity, provide equipment protection, and meet evolving customer demands." Although the cost estimates for some projects have increased compared to those previously approved and some projects have been delayed beyond the 7-Year Gas Plan timeframe, there is no dispute that the designated eligible improvements provide incremental benefits to NIPSCO's customers.

Based upon the evidence presented in this proceeding and for the reasons set forth above, we find the estimated costs of the eligible improvements included in Plan Update-4 as approved herein are justified by the incremental benefits attributable to the Plan.

4. **Conclusion.** Plan Update-4 includes sufficient evidence for us to determine the best estimate of the cost of the eligible improvements, the public convenience and necessity continues to require or will require the eligible improvements, and the estimated costs of the eligible improvements continue to be justified by the incremental benefits attributable to Plan Update-4. NIPSCO's Plan Update-4, as modified herein, ("Order Adjusted Plan Update-4") appropriately and reasonably addresses NIPSCO's aging infrastructure through projects intended to enhance, improve, and replace system assets for the provision of safe and reliable natural gas service, as well as the extension of service into rural areas. Therefore, based on the evidence presented, we approve the Order Adjusted Plan Update-4.

B. **Findings and Conclusions Regarding TDSIC-4 Factors.** In the TDSIC-1 Order, the Commission approved NIPSCO's request for approval of a TDSIC Rate Schedule and accompanying changes to NIPSCO's gas service tariff to allow for timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs pursuant to Ind. Code § 8-1-39-9. Consistent with the ratemaking and accounting principles approved by the TDSIC-1 Order, NIPSCO requests approval of its TDSIC-4 factors to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs incurred through December 31, 2015.

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

> [s]ubject to subsection (c), a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. The petition must:
>
> (1) use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order;
> (2) include the public utility's seven (7) year plan for eligible transmission, distribution, and storage system improvements; and
> (3) identify projected effects of the plan described in subdivision (2) on retail rates and charges.

a. **NIPSCO's 7-Year Gas Plan.** As part of its supplemental direct testimony, NIPSCO attached its currently approved 7-Year Gas Plan as well as its proposed Plan Update-4. Therefore, NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a)(2).

b. **Customer Class Revenue Allocation.** In our TDSIC-3 Order, we found that NIPSCO's approved capital expenditures and TDSIC costs should be allocated to the various customer classes based on total revenue, including gas cost revenue. Ms. Shikany testified Petitioner's Exhibit 1, Attachment 2, Revised Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order that NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 7.

Therefore, we find that NIPSCO's approved capital expenditures and TDSIC costs have been properly allocated to the various customer classes in accordance with Ind. Code § 8-1-39-9(a)(1) and the TDSIC-3 Order.

c. Projected Effect on Retail Rates and Charges. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 2, Revised Schedule 6, which identifies: (1) the projected effect of Plan Update-3 on retail rates and charges (page 1); and (2) the projected effect of Plan Update-4 on retail rates and charges (page 2). This exhibit also summarizes the total estimated revenue requirement for each rate class from 2014 to 2020. Finally, Ms. Shikany testified the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $2.66. Based on our review of the evidence, we find that NIPSCO provided sufficient information regarding the projected effects of the Plan Update-3 and Plan Update-4 on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

Although we find that NIPSCO has satisfied the statutory requirement to provide the projected effects on retail rates and charges, this Order requires NIPSCO to make changes to its Plan Update-4. Accordingly, NIPSCO shall revise its schedules consistent with the findings in this Order and submit the revised schedules under this Cause prior to implementing the TDSIC-4 factors.

2. Reconciliation. Ms. Shikany testified that NIPSCO is including a reconciliation of revenues in this filing. The revenue requirement calculated in the TDSIC-2 filing is being reconciled against the actual revenues received from customers during June through November 2015. Ms. Shikany noted that since NIPSCO's TDSIC-2 filing was dismissed without prejudice there was effectively a zero revenue requirement. Therefore, the total amount of actual revenues received for the period of June through November 2015 will be returned to NIPSCO customers as a part of this reconciliation. This under/over recovery analysis is performed as part of Petitioner's Exhibit 1, Attachment 1, Revised Schedule 6.

3. Semi-Annual Revenue Requirement.

a. Capital. In this proceeding, NIPSCO requests approval of a total adjusted semi-annual revenue requirement associated with a return on eligible improvements incurred through December 31, 2015 of $10,137,106 (Pet.'s Ex. 1, Attachment 1, Revised Schedule 5, Page 1, Line 3). The 80% recoverable adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $8,109,685 (*Id.* at Line 9). The 20% portion of the adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $2,027,421 (*Id.* at Line 6).

The total cost of the eligible improvements incurred through December 31, 2015, upon which NIPSCO requests authority to earn a return is $146,733,238 (Pet.'s Ex. 1, Attachment 1, Revised Schedule 2, Line 1). Ms. Shikany testified this total includes AFUDC, other indirect costs, and is net of accumulated depreciation. She testified the AFUDC related to TDSIC projects was calculated in accordance with the instructions of the FERC Uniform System of Accounts, which is consistent with GAAP. She further testified that if the Commission approves the proposed ratemaking treatment for costs of the eligible improvements incurred through December 31, 2015, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base rates, or the project is placed in service, whichever occurs first.

As discussed above, both the OUCC and the Industrial Group argued the Commission should not allow recovery of certain costs in excess of the amounts approved in TDSIC-3 through the TDSIC tracker. With the exceptions noted above, we concluded that NIPSCO has specifically justified why certain costs have increased over the amounts approved in TDSIC-3. Therefore, we approve $146,733,238, with the exception of the disallowed amounts addressed above, as the total cost of the eligible improvements incurred through December 31, 2015, upon which NIPSCO is authorized to earn a return.

In TDSIC-1, the Commission ordered NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return and provided that the WACC should be updated in each semi-annual TDSIC filing to reflect an updated capital structure and cost of debt. The calculation of NIPSCO's updated total WACC is shown on Petitioner's Exhibit 1, Attachment 2, Revised Schedule 1. Ms. Shikany explained that the annual revenue requirement for the return on investment is calculated by multiplying the December 31, 2015 net book value of all transmission and distribution projects by the debt and equity components of NIPSCO's weighted cost of capital. The product of this calculation is multiplied by 50% to calculate a semi-annual revenue requirement. This semi-annual amount is multiplied by the revenue conversion factor and further reduced to 80%, as shown in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 5, to determine the total return-related revenue requirement to be recovered for bills rendered for the months of June through November 2016.

Based on the evidence of record, we find the appropriate total semi-annual revenue requirement associated with the eligible improvements as of December 31, 2015, to be $10,137,106, with the exception of the disallowed amounts addressed above, and the 80% recoverable semi-annual revenue requirement of $8,109,685, with the exception of the disallowed amounts addressed above, to have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order, and the revenue requirement is approved.

b. Depreciation, O&M Expense, and Property Tax Expense. In this proceeding, NIPSCO requests approval of a total depreciation, O&M, and property expense through December 31, 2015, of $1,293,738 (Pet.'s Ex. 1, Attachment 1, Revised Schedule 5, Line 4). The 80% recoverable depreciation, O&M, and property tax expense associated with the Eligible TDSIC Assets is $1,034,990 (*Id.* at Line 10). The 20% portion of the depreciation, O&M, and property tax expense associated with Eligible TDSIC Assets is $258,748 (*Id.* at Line 7).

Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1, Revised Schedule 4 showing the actual depreciation expense, O&M (related to the Records Project), and property taxes for the period July 2015 through December 2015, which was reduced to 80% as shown on Petitioner's Exhibit 1, Attachment 1, Revised Schedule 5, to determine the total revenue requirement to be recovered for bills rendered during the months of June through November 2016.

Based on the evidence of record, we find that NIPSCO's total depreciation, O&M, and property tax expense associated with the Eligible TDSIC Assets through December 31, 2015, is $1,293,738, with the exception of the disallowed amounts addressed above. The 80% recoverable depreciation, O&M, and property tax expense associated with the Eligible TDSIC Assets is $1,034,990, with the exception of the disallowed amounts addressed above. The 20% portion of the depreciation, O&M, and property tax expense associated with eligible TDSIC projects is $258,748, with the exception of the disallowed amounts addressed above. These amounts have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order and are approved.

c. <u>Margin Credit for Rural Extensions</u>. In the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include in its 7-Year Gas Plan all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy. The Commission also approved NIPSCO's proposal to provide a credit to the TDSIC tracker for 80% of actual margins received from all new customers added under the rural extensions policy. TDSIC-1 Order at 19, 25-26. In this proceeding, Ms. Shikany testified these amounts are calculated on Petitioner's Exhibit 1, Attachment 2, Revised Schedule 5 and are computed by obtaining the related customer usage values and billing rate information to determine the total margin billed for the period of July 2015 through December 2015.

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

4. <u>Calculation of TDSIC Factors</u>. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1, Revised Schedule 7, which shows the calculation of the TDSIC factors by rate code based on the total revenue requirement adjusted for prior period variances of $6,679,044 (at Line 7). She testified the factors are calculated by combining the various components of the allocated revenue requirement and dividing those components by forecasted volumes to compute a billing factor for bills rendered for the months of June through November 2016. Ms. Shikany sponsored Petitioner's Exhibit 1, Revised Attachment 3 (Appendix F - Transmission, Distribution and Storage System Improvement Charge (Second Revised Sheet No. 157)) showing the TDSIC factors proposed to be applicable for bills rendered during the months of June through November 2016, or until replaced by different factors that are approved in a subsequent proceeding.

The OUCC indicated that generally NIPSCO's TDSIC calculation schedules contained in Petitioner's Exhibit 1, Attachment 1, Revised Schedules 1-9 and Attachment 2, Revised Schedules 1-6 effectively and accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal.

Based on the evidence and our consideration of the contested issues, we approve the proposed TDSIC factor calculation methodology set forth in Petitioner's Exhibit 1, Revised Attachment 3 to be applicable to bills rendered during the months of June through November 2016 or until replaced by new factors.

5. **Billing Period.** In this proceeding, NIPSCO requests approval of TDSIC factors to be applicable to bills rendered during the months of June through November 2016 to effectuate the timely recovery of 80% of the approved TDSIC costs incurred in connection with the Eligible TDSIC Assets. Ms. Shikany testified the TDSIC factors include TDSIC costs incurred through December 31, 2015.

C. **Deferred TDSIC Costs.** In the TDSIC-1 Order, we authorized NIPSCO to defer 20% of the approved capital expenditures and TDSIC costs incurred in connection with its eligible improvements as approved in the Order and recover those deferred costs in its next general rate case. TDSIC-1 Order at 30. NIPSCO was also authorized to record ongoing carrying charges based on the current overall WACC on all deferred TDSIC costs until such costs are recovered in NIPSCO's base rates as a result of its next general rate case. *Id.* We also authorized NIPSCO to defer all approved TDSIC costs, including depreciation, pretax returns, AFUDC, post-in-service carrying costs, O&M, and property taxes, on an interim basis, until such costs are recognized for ratemaking purposes through Petitioner's proposed TDSIC mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. *Id.*

In this proceeding, Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1, Revised Schedule 9, which shows 20% of the total revenue requirements calculated in Petitioner's Exhibit 1, Attachment 1, Revised Schedule 5. The amount included in Column F represents the ongoing carrying charges, based on NIPSCO's WACC, on all deferred capital expenditures and TDSIC costs incurred through December 31, 2015. She stated these costs will be included for recovery in NIPSCO's base rates in its next general rate case.

In the TDSIC-1 Order, we also ordered that with respect to the 112th Street Project, NIPSCO may recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with NIPSCO's best estimate provided by NIPSCO in Cause No. 44403 and NIPSCO may defer for recovery in its next base rate case the difference between the amount authorized in Cause No. 44403 and the actual cost of the project. Consistent with the TDSIC-1 Order, NIPSCO proposes to defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between the amount approved in Cause No. 44403 and the actual amount of the project. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1, Revised Schedule 10, which shows the total depreciation and property taxes NIPSCO proposes to defer relating to this difference as of December 31, 2015.

Based on the record evidence, we find that the costs to be deferred and recovered in NIPSCO's base rates in its next general rate case are $6,409,440 and $194,802 (Petitioner's Exhibit 1, Attachment 1, Revised Schedules 9 and 10), respectively, in accordance with our TDSIC-1 Order.

D. **Average Aggregate Increase in Total Retail Revenues.** Ind. Code § 8-1-39-14(a) states:

> The commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than two percent (2%) in a twelve (12) month period. For purposes of this subsection, a public

utility's total retail revenues do not include TDSIC revenues associated with a target economic development project.

Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1, Revised Schedule 8 (the revised TDSIC-4 revenue requirement calculation on Attachment 1, Revised Schedule 5, Page 1), which shows a semi-annual revenue requirement of $8,773,385. This semi-annual amount is annualized on Petitioner's Exhibit 1, Attachment 1, Revised Schedule 8 and resulted in an annualized revenue requirement of $17,546,770. The annualized revenue requirement was compared to the annualized revenue requirement in TDSIC-1 totaling $682,201. This comparison shows the incremental increase in the TDSIC revenue associated with this TDSIC-4 filing of $16,864,569. The incremental revenue is then compared to the 2% of Total Retail Revenue Cap of $12,928,808. This comparison yields an annualized amount in excess of the 2% cap of $3,935,761. The annualized amount is then divided by a factor of two to adjust to a semi-annual amount of $1,967,880. The Commission finds these amounts to be properly calculated with the exception of the disallowed amounts addressed above.

Ind. Code § 8-1-39-14(a) states that the Commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than 2% in a 12-month period. However, if a public utility incurs approved capital expenditures and TDSIC costs under its seven-year plan that exceed the percentage increase in a TDSIC approved by the Commission, the public utility shall defer recovery of the capital expenditures and TDSIC costs as set forth in Ind. Code § 8-1-39-9(b). Ms. Shikany testified that in accordance with Ind. Code § 8-1-39-14(b), NIPSCO is proposing to defer the semi-annual amount in excess of the 2% cap, which is $1,967,880. She testified that for the amounts deferred relating to each component of the revenue requirement (i.e. capital return, post in-service carrying charges, depreciation, O&M, and property taxes), NIPSCO will be recording compounding carrying charges on these amounts until they are recovered through its next general rate case proceeding.

Based on the record evidence, we find that NIPSCO's proposed TDSIC-4 factors as adjusted herein will not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

6. Motion for Administrative Notice. After the evidentiary hearing, the Industrial Group filed a Motion for Administrative Notice on May 16, 2016, requesting the Commission take administrative notice pursuant to 170 IAC 1-1.1-21 of NIPSCO's 7-Year Gas Plan filed in Cause No. 44403. NIPSCO filed its Response to the Motion on May 24, 2016, and the Industrial Group filed its Reply on May 25, 2016.

As noted by NIPSCO, the Industrial Group's Motion is untimely filed under 170 IAC 1-1.1-21(i) and (j) and seeks administrative notice of factual matters after the record has been closed, without any request or explanation of need to reopen the record. In its Reply, the Industrial Group asserts that the Plan supports its exceptions to NIPSCO's proposed order and that a 57% increase has occurred in the multiple unit projects since NIPSCO's original filing of its Plan.

Given the untimeliness of the Industrial Group's Motion and the lack of relevance regarding the percentage increase as to whether NIPSCO has provided specific justification to support approval of the cost increases, the Industrial Group's Motion for Administrative Notice is denied.

7. **Confidential Information.** NIPSCO filed a motion for protective order on February 29, 2016 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 March 11, 2016, 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. NIPSCO's Plan Update-4 is approved as set forth in this Order.

2. NIPSCO is authorized to defer, as a regulatory asset, and recover 80% of the approved capital expenditures and TDSIC costs incurred in connection with its designated eligible improvements in its rate and charges for gas service in accordance with NIPSCO's TDSIC beginning with the month of July 2016.

3. NIPSCO is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(g)(3)(c) pursuant to Ind. Code § 8-1-39-13(b).

4. NIPSCO is authorized to defer, as a regulatory asset, 20% of the approved capital expenditures and TDSIC costs incurred in connection with its designated eligible improvements and recover those deferred costs in its next general rate case, which is to be filed no later than April 30, 2021.

5. NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred capital expenditures and TDSIC costs until such costs are recovered in NIPSCO's base rates as a result of its next general rate case.

6. NIPSCO is authorized to continue to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project.

7. Prior to implementing the authorized TDSIC factors, NIPSCO shall file the applicable schedules reflecting the exclusion of the disallowed amounts addressed above and the applicable tariff sheets under this Cause for approval by the Commission's Energy Division.

8. The Industrial Group's May 16, 2016 Motion for Administrative Notice is denied.

9. 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.

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

STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED:

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission