STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR (1) AN ADJUSTMENT TO ITS GAS SERVICE RATES THROUGH ITS FEDERALLY MANDATED COST ADJUSTMENT FACTOR PURSUANT TO IND. CODE CH. 8-1-8.4 AND THE COMMISSION'S ORDERS IN CAUSE NOS. 45007 AND 45183; (2) AUTHORITY TO DEFER 20% OF THE FEDERALLY MANDATED COSTS FOR RECOVERY IN NIPSCO'S NEXT GENERAL RATE CASE, AND (3) MODIFICATIONS TO THE APPROVED COMPLIANCE PROJECTS SET FORTH IN ITS PROGRESS REPORTS PURSUANT TO THE ONGOING REVIEW PROCESS APPROVED IN CAUSE NOS. 45007 AND 45183.	)	**CAUSE NO. 45007 FMCA 4**

SUBMISSION OF AGREED PROPOSED ORDER

Northern Indiana Public Service Company LLC ("NIPSCO"), on behalf of itself and the Indiana Office of Utility Consumer Counselor, by counsel, respectfully submits the attached form of agreed proposed order. For convenience, a Word version of the agreed proposed order will be provided to the Administrative Law Judge (and the parties to this proceeding) via email transmission.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing was served by email transmission upon the following:

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Dated this 1st day of September, 2020.

Christopher C. Earle

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ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Brad J. Pope, Administrative Law Judge

On May 26, 2020, Northern Indiana Public Service Company LLC ("NIPSCO" or "Petitioner") filed its Verified Petition in this Cause and case-in-chief, including the prefiled direct testimony and attachments of Elizabeth A. Dousias, Manager of Regulatory for NiSource Corporate Services Company ("NCSC"); Ryan T. Carr, Manager Gas TDSIC E&C Program for NIPSCO; Steven W. Sylvester, Vice President and General Manager of NIPSCO; and Benjamin C. Kanoy, Director and Owner of Transmission Class Assets for NCSC.

The NIPSCO Industrial Group filed a petition to intervene on June 30, 2020, which was granted on July 16, 2020.[1]

NIPSCO filed a correction to Mr. Sylvester's direct testimony on June 24, 2020, a correction to the progress report (Attachment 1-A. Attachment PSC-PR-4) to Ms. Dousias' direct testimony on August 5, 2020, and a correction to Mr. Sylvester's direct testimony on August 28, 2020.

[1] The members of the NIPSCO Industrial Group in this proceeding are Arcelor Mittal USA, NLMK Indiana, Praxair, Inc., United States Steel Corporation, and USG Corporation.

On August 7, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony and attachments of Mark H. Grosskopf, Senior Utility Analyst; and Brien R. Krieger, Utility Analyst II.

On August 17, 2020, NIPSCO prefiled the rebuttal testimony of Ms. Dousias and Mr. Carr.

The Commission set this matter for an Evidentiary Hearing to be held on September 1, 2020, at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. A Docket Entry was issued on August 26, 2020, advising that in accordance with Indiana Governor Holcomb's Executive Order 20-09, the hearing would be conducted via teleconference and provided related participation information. NIPSCO, the NIPSCO Industrial Group, and the OUCC participated, by counsel, in the hearing via teleconference. At the hearing, the direct and rebuttal testimony and attachments of NIPSCO, the OUCC's direct testimony and attachments, and Industrial Group Cross-Exhibits 1, 2, 3, and 4, were admitted into the record without objection.

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

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code § 8-1-8.4-3. Petitioner is also subject to Rules and Regulations promulgated by the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA") subject to enforcement as provided by law. Under Ind. Code §§ 8-1-8.4-6 and 8-1-8.4-7, the Commission has authority to approve cost recovery for projects necessary to comply with federally mandated requirements. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to NIPSCO's rates and charges. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. NIPSCO's Characteristics. NIPSCO is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86th Avenue, Merrillville, Indiana. NIPSCO owns, operates, manages, and controls plant and equipment used for the generation, transmission, distribution, and furnishing of electric and gas utility services to the public in northern Indiana.

3. Background. By its September 19, 2018 Order in Cause No. 45007 (the "45007 Order"), the Commission approved, among other things, NIPSCO's request pursuant to Ind. Code ch. 8-1-8.4 for (1) a Certificate of Public Convenience and Necessity ("CPCN") for federally mandated projects associated with NIPSCO's Pipeline Safety Compliance Project (consisting of 24 individual projects) to comply with various provisions of 49 CFR Part 192 promulgated by PHMSA (the "PHMSA Rules"); (2) timely recovery of 80% of the federally mandated costs incurred in connection with the Pipeline Safety Compliance Project; (3) a semi-annual federally mandated cost adjustment mechanism (the "FMCA Mechanism")[2] pursuant to Ind. Code §§ 8-1-8.4-7 and 8-1-2-42 to effectuate the timely and periodic recovery of 80% of the federally mandated project costs and ongoing expenses incurred in connection with the Pipeline Safety Compliance Project; (4) authority to defer 20% of the federally mandated project costs and ongoing expenses incurred in connection with the Pipeline Safety Compliance Project, including ongoing carrying

[2] NIPSCO's FMCA Mechanism is Rider 190 – Federally Mandated Cost Adjustment Rider and Appendix G – FMCA Factors.

charges on all deferred federally mandated costs, for recovery in NIPSCO's next general rate case; and (5) approval of ongoing review of the Pipeline Safety Compliance Project.

By its September 4, 2019 Order in Cause No. 45183 (the "45183 Order"), the Commission approved, among other things, NIPSCO's request pursuant to Ind. Code ch. 8-1-8.4 for: (1) a CPCN for federally mandated projects associated with NIPSCO's PHMSA Compliance Project (consisting of two individual projects) to comply with various provisions of the PHMSA Rules; (2) timely recovery of 80% of the federally mandated costs incurred in connection with the PHMSA Compliance Project through the currently-approved FMCA Mechanism; (3) authority to defer 20% of the federally mandated project costs and ongoing expenses incurred in connection with the PHMSA Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in NIPSCO's next general rate case; and (4) approval of ongoing review of the PHMSA Compliance Project. The 45183 Order also directed NIPSCO to propose cost allocation factors for the PHMSA Compliance Project in its next FMCA mechanism filing (FMCA-3 filing).

By its March 31, 2020 Order in Cause No. 45007-FMCA-3 (the "FMCA-3 Order"), the Commission approved, among other things, the cost allocation factors for the PHMSA Compliance Project and the proposed procedural schedule for use in subsequent FMCA proceedings.

4. **Relief Requested.** NIPSCO requests approval of: (1) an adjustment to its gas service rates through the FMCA Mechanism to recover 80% of the federally mandated costs incurred in connection with its Pipeline Safety Compliance Project (approved in the 45007 Order) and PHMSA Compliance Project (approved in the 45183 Order) (collectively, the "Approved Compliance Projects") to be applicable to bills rendered for the billing months of October 2020 through March 2021 pursuant to Ind. Code § 8-1-8.4-7(c)(1) and the 45007 Order and 45183 Order (collectively, the "Compliance Projects Orders"), (2) authority to defer 20% of the federally mandated costs, including ongoing carrying charges on all deferred federally mandated costs, for recovery in NIPSCO's next general rate case pursuant to Ind. Code § 8-1-8.4-7(c)(2) and the Compliance Projects Orders, (3) modifications to the Pipeline Safety Compliance Project set forth in the Fourth Progress Report (Petitioner's Exhibit No. 1, Attachment PSC-PR-4) pursuant to the ongoing review process approved in the 45007 Order, and (4) modifications to the PHMSA Compliance Project set forth in the Second Progress Report (Petitioner's Exhibit No. 1, Attachment PHMSA-PR-2) pursuant to the ongoing review process approved in the 45183 Order.

5. **Ongoing Review of Progress Reports.**

A. **Pipeline Safety Compliance Project.** In the 45007 Order, we approved NIPSCO's request for ongoing review of the Pipeline Safety Compliance Project as part of its FMCA semi-annual filings. In our March 31, 2020 Order in Cause No. 45007 FMCA 3, the Commission approved NIPSCO's estimated total capital cost of the Pipeline Safety Compliance Project of $95,199,303, which included direct, indirect, and Allowance for Funds Used During Construction ("AFUDC") costs, and estimated operations and maintenance ("O&M") spending related to the Pipeline Safety Compliance Project of $32,350,126. In this proceeding, NIPSCO requests approval of modifications to the Pipeline Safety Compliance Project in its Fourth Progress Report. The Pipeline Safety Compliance Project is separated into three sets of projects:

Transmission Integrity Management Program ("TIMP") Projects,[3] Gas Operations Projects,[4] and Transmission and Distribution ("T&D") Projects.[5]

i. TIMP Projects. Mr. Kanoy provided an update on the status of the TIMP Projects as of March 31, 2020, and he described and explained the federally mandated costs associated with the TIMP Projects incurred for the reconciliation period September 1, 2019 through March 31, 2020 (for O&M expenses), as follows:

- TIMP Programmatic Improvements Project (Project No. PS1) – As of March 31, 2020, NIPSCO (1) evaluated destructive and non-destructive material testing protocols by various vendors; (2) met with statistical consultants concerning material sampling methodologies; and (3) evaluated a methodology for defining and tracking statistical pipeline segment populations. During this period, NIPSCO reviewed and updated the process document based on specific details that were clarified when the Phase 1 Rule was published in October of 2019. The changes and updates due to the Phase 1 Rule were substantial and as NIPSCO continues to review the requirements to form a better understanding, the document will continue to be updated as appropriate. The final version of this document will serve as the technical basis for standards and procedures for front-line workers and engineers to use to carry out job-specific tasks as they relate specifically to the Phase 1 Rule requirements for material validation. Through this effort, NIPSCO has also been able to create and implement a data capture process and framework within the Transmission geographic information system ("GIS") in order to house and improve the new types of data being gathered due to the new requirements. Once the final version of the process document is complete, NIPSCO will begin the required 15-year plan based on the Phase 1 Rule requirements. Despite these efforts, there were no federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020.

- Management of Change Project (Project No. PS2) – As of March 31, 2020, the application to be utilized for this effort is still being determined. Until the application is determined, the team is developing process maps and matrices of who is responsible, accountable, consulted, or informed (RACI), which will be used to develop the adopted application to fit the specific TIMP processes where management of change would apply for other stakeholders outside of TIMP (i.e., Gas Measurement and Transmission (Operations), Field Engineering, Gas Control

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[3] The TIMP Projects include: TIMP Programmatic Improvements Project (Project No. PS1); Management of Change Project (Project No. PS2); Preventive and Mitigative Measures Project (Project No. PS3); Annual Plan Improvements Project (Project No. PS4); Transmission Risk Modeling Project (Project No. PS20); and MAOP – Transmission Project (Project No. PS24).

[4] The Gas Operations Projects include: Enhanced Emergency Responder Outreach Program (Project No. PS5); DIMP Administration / Leak Data Verification Project (Project No. PS6); Service Card Enhancements Project (Project No. PS7); Fiberglass Riser Replacement Project (Project No. PS8); Legacy Cross Bore Remediation Project (Project No. PS9); Underground Storage Integrity Project (Project No. PS10); Farm Tap Remediation Project (Project No. PS11); Legacy Cross Bore Inspection Project (Project No. PS21); Test Station Casings Project (Project No. PS22); and MAOP – Distribution Project (Project No. PS23).

[5] The T&D Projects include: ILI Project (Project No. PS12); Transmission Inspect & Mitigate Project (Project No. PS13); AC Mitigation Project (Project No. PS14); Transmission RCV Installation Project (Project No. PS15); Isolated Services Project (Project No. PS16); Emergency Valve Project (Project No. PS17); Casings Project (Project No. PS18); and Distribution Inspect & Mitigate Project (Project No. PS19).

and others as applicable). There were no federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020.

- <u>Preventive and Mitigative Measures Project (Project No. PS3)</u> – As of March 31, 2020, NIPSCO performed station corrosion evaluations and remediation by applying new coating at two transmission stations in 2018 and another three stations were completed in 2019. NIPSCO has developed a long-term list of stations needing this evaluation and remediation treatment as part of formalizing this program. There are three stations planned for the same treatment in 2020. In addition, NIPSCO conducted indirect surveys at 17 locations with suspected girth welds where tape coating was known to exist in 2018. Four of these areas were excavated in 2019 to confirm whether the indirect survey methodology is able to detect areas with poor or ineffective coating compared with the capability of the ILI tool. Since there were mixed results based on the four excavations, NIPSCO will continue to refine the data evaluation and continue to prove out the methodology to develop a reliable means by which external corrosion caused by disbonded tape coating at girth welds can be found via indirect survey methodology. Additional actions based on the results from the excavations and evaluations completed in 2019 include expansion of the test population to include segments other than the one evaluated in 2019 in order to gather more data and refine the process. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was a credit of $12,083.[6]

- <u>Annual Plan Improvements Project (Project No. PS4)</u> – As of March 31, 2020, NIPSCO had not undertaken any activity in this project. As the Phase 1 Rule is further vetted for effective implementation, NIPSCO will incorporate any necessary changes into the TIMP Plan and procedures. In addition, NIPSCO may utilize a portion of the funds to improve data collection methods and the forms utilized as part of the TIMP Plan and procedures. These activities will position NIPSCO to pursue the project under the second phase of the new rule that should be in full effect by mid-year 2020. Since efforts were focused on procedural impacts from the Phase I Rule, the updates resulting from the 2019 assessments will be completed after the Phase I Rule effort is completed. There were no federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020.

- <u>Transmission Risk Modeling Project (Project No. PS20)</u> – As of March 31, 2020, NIPSCO acquired the Synergi Pipeline[7] application module offered by DNV GL[8] and integrated the risk analysis module into the Synergi Pipeline application at the end of March 2019. Following integration, NIPSCO began configuring the software to search for data gaps for further developing the Probabilistic Risk Analysis ("PRA") functionality of the application. Due to issues with the current Environmental Systems Research Institute (ESRI) environment and the sophisticated

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[6] During the period September 2019 through March 2020, there were outside service expenses of $36,223, there were NIPSCO – Internal expenses of ($48,306) resulting in a credit of $12,083. The credit in NIPSCO – Internal expenses were due to the timing of the monthly accrual process for expected expenses. There were also additional outside service expenses of approximately $10,000 that had not been invoiced in time to include in this filing.

[7] This is a software application intended to enable safe and efficient pipeline operations, document risk, and give a clear overview of the integrity of offshore and onshore pipelines. More information about it can be found here: https://www.dnvgl.com/services/software-for-oil-and-gas-pipelines-synergi-pipeline-1394.

[8] DNV GL is a global quality assurance and risk management company, with an expertise in many areas, including oil and gas pipeline safety and risk management.

nature of the Synergi Pipeline module, several issues were discovered during the configuration stage making complete functionality in a production environment not possible until the larger NIPSCO GIS environment is updated, which is planned to occur during the third quarter of 2020. In the meantime, the PRA model has been fully configured and NIPSCO is able to perform risk analysis using the PRA model. Because the new PRA model is data driven, the focus has been on enhancement and quality assurance/quality control of the data that is feeding the PRA model. Starting in January 2020, this project has integrated data from NIPSCO's supervisory control and data acquisition (SCADA) system, populated data related to annual corrosion test points, and implemented schematic changes to the Transmission GIS to fill some of the data gaps identified by early test runs completed with the PRA model. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $141,397. However, in preparing the audit support for this project (Audit Package 1-002 Confidential Attachment A), NIPSCO discovered there was a total amount of $9,567 during the September 1, 2018 through August 31, 2019 reconciliation period that should have been included in FMCA-3 that was inadvertently excluded. Therefore, the total amount of federally mandated O&M expenses included in this filing for the period September 1, 2019 through March 31, 2020 was $150,964.

- <u>MAOP – Transmission Project (Project No. PS24)</u> – Work associated with this project is completed in multiple analytical phases, which makes tracking by month difficult. NIPSCO is therefore reporting annual data for this project. Through the end of 2019, NIPSCO completed the records research and gap analysis of 665 miles of transmission pipeline and 102 transmission stations, which included verifying the completeness and veracity of the MAOP documentation for each asset. The number of stations evaluated in 2019 was 44, with another 36 stations planned to be evaluated in 2020. In addition to the stations evaluated in 2019, NIPSCO also used the same methodology to evaluate all above-grade transmission piping at the Royal Center Storage Field. In addition, to finalize the review on existing transmission assets, NIPSCO is performing the same review on recently installed and on-going transmission projects as they are completed. The effort to research and evaluate NIPSCO's assets continues to reveal previously unknown sources of data and records, and NIPSCO continues to update the existing records as new information is found through this process. In addition to reviewing the records, NIPSCO is using these records to update and populate the Transmission GIS so that the data from the records can be more easily accessed and used for risk analysis. All 665 miles of transmission pipelines were populated in the Transmission GIS by August 2019. In February 2020, NIPSCO initiated a pilot project to incorporate the stations into the Transmission GIS as NIPSCO had previously done for pipelines. That project is planned to incorporate all Transmission stations that could be impacted by the Phase 1 Rule into the Transmission GIS by the end of 2020. In addition to records research, NIPSCO is also performing some materials validation testing to help substantiate the accuracy of found records and to confirm material properties are consistent with currently established MAOPs. The partial completion of activities as part of the TIMP Programmatic Improvements Project (Project No. PS1) has allowed NIPSCO to undertake this next step as part of the MAOP review process. NIPSCO has also completed a review and compilation of historical Company procedural and stock material standards to create a reference library to help substantiate the validity of MAOP related records that may not by themselves meet the requirement to be traceable, verifiable, and complete. For those pipeline sections where records review was completed and records are not expected to meet the proposed rule requirements, NIPSCO completed ten pilot "Segment Specific MAOP Remediation Plans." The intent of the remediation plans is to be a communication tool used within NIPSCO to help prioritize and communicate the found potential MAOP records issues per the Phase 1 Rule requirements. These plans will feed directly back into the TIMP Programmatic Improvements Project (Project No. PS1), where NIPSCO will create the overall plan to meet the Phase 1 Rule requirement to remediate any found MAOP discrepancies or records gaps within 15 years of the effective date of the Phase 1 Rule. In January 2020, NIPSCO re-worked the initial ten pilot "Segment Specific MAOP Remediation Plans" in addition to starting work on the remaining segments to implement changes between the proposed rule requirements and the Phase 1 Rule. NIPSCO's goal is to complete a plan for each pipeline segment by the end of 2020. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $628,712.

Mr. Kanoy testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 3, Page 1, Line 2, Column D shows the reconciliation of projected to actual O&M expenses related to the TIMP Projects for the reconciliation period September 1, 2019 through March 31, 2020 is ($285,633).

Mr. Kanoy testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Line 8, Column C shows the total amount of federally mandated O&M expenses related to the TIMP Projects projected for the period October 2020 through March 2021 is $809,582.

Mr. Kanoy testified that, as shown in the Fourth Progress Report (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4), there are no changes in the approved total estimated O&M expenses associated with the TIMP Projects included in the Pipeline Safety Compliance Plan. He testified that with the completion of the reconciliation of 2019 expenses, Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4 has been updated to reflect the actual expenses for 2019 with the difference being reflected in the projected expenses for 2020 for the TIMP Projects (Project Nos. PS1, PS2, PS3, PS4, PS20, and PS24).

Mr. Kanoy testified there are no changes to the scope of the TIMP Projects but that NIPSCO continues to work with the industry to determine if any changes to the scope of the TIMP Projects are needed to comply with the Phase 1 Rule. He stated that the Phase 1 Rule has provided a clearer understanding of the requirements for execution of the TIMP projects and noted that NIPSCO continues to work with the industry to review the full impact of the Phase 1 Rule. He testified the Phase 1 Rule further validates the need for the TIMP Projects to comply with the PHMSA Rules.

Mr. Kanoy testified the PHMSA Rules applicable to the TIMP Projects continue to be federally mandated requirements with which NIPSCO must comply, which requires implementation of the TIMP Projects included in the Pipeline Safety Compliance Plan.

ii. Gas Operations Projects. Mr. Sylvester provided an update on the status of the Gas Operations Projects as of March 31, 2020, and described and explained the federally mandated costs associated with the Gas Operations Projects incurred for the reconciliation period September 1, 2019 through March 31, 2020 (for O&M expenses) as follows:

- Enhanced Emergency Responder Outreach Program (Project No. PS5) – For the period September 1, 2019 through March 31, 2020, NIPSCO delivered 61 training sessions, for a total of 207 training sessions as of March 31, 2020. The program has been completed by 148 different agencies comprised of 3,135 Emergency Officials, achieving a 58% completion rate for all Fire Departments within NIPSCO's service territory. NIPSCO has also developed a web-based training portal for first responders as a complement and/or alternative to NIPSCO's in-person training and outreach efforts. The website certification program went live in the third quarter of 2019. Marketing efforts for the web certification program are being created and will be deployed later in 2020. These collective efforts are intended to create enhanced knowledge of universal tactical response, as well as a unified command structure for efficient incident response. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $58,688.

- <u>DIMP Administration / Leak Data Verification Project (Project No. PS6)</u> – NIPSCO hired one (1) Compliance Specialist in January 2018, who is responsible for the review and verification of NIPSCO's historic leak records and the input of that data into a model so that the data can be used for predictive modelling in support of DIMP's progressive improvement requirement. At this time, this employee has direct responsibility for some Local Operating Areas ("LOAs") and works alongside responsible parties for other LOAs. Eventually, this employee will have responsibility for all of NIPSCO's LOAs. During the period September 1, 2019 through March 31, 2020, the Compliance Specialist reviewed 11,588 records and made changes (or reviewed the work of others) for an overall change rate of 34%, for a total of 31,714 records have been reviewed as of March 31, 2020. Since inception of the program, the change rate has improved by approximately 35%. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $52,530.

- <u>Service Card Enhancements Project (Project No. PS7)</u> – As of March 31, 2020, a third party vendor has been selected to research and locate all gas service cards, inclusive of legacy records, and is responsible for re-creating all missing service cards and providing files to NIPSCO. NIPSCO issued a request for proposals, and a third party contractor has been selected to scan, index and convert service cards to a confirmed database. The third-party contractor initiated work in NIPSCO's service territory on April 15, 2019. Scans of existing records for all Local Operating areas have been completed. The indexing of service cards is 40% complete. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $1,952,021.

- <u>Fiberglass Riser Replacement Project (Project No. PS8)</u> – NIPSCO hired two (2) contractors to assist in its efforts with the replacement process. During the period September 1, 2019 through March 31, 2020, NIPSCO completed 925 units, for a total of 4,732 units as of March 31, 2020. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $893,613.

- <u>Legacy Cross Bore Remediation Project (Project No. PS9)</u> – During the period September 1, 2019 through March 31, 2020, NIPSCO identified 21 gas-related cross bores and remediated 19, for a total of 67 identified gas-related cross bores and 61 remediated as of March 31, 2020. Remediation plans for the remaining identified gas-related cross bores are in various stages of engineering or execution. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $36,155. Further information regarding inspection costs related to cross bores is provided below as part of the Legacy Cross Bore Inspection Project (Project No. PS21).

- Underground Storage Integrity Project (Project No. PS10) – During the period September 1, 2019 through March 31, 2020, NIPSCO prepared and "logged"[9] one well, for a total of five wells as of March 31, 2020, with the full suite of logging tools, including: (1) Segment Bond Tool (SBT), which checks the cement to casing bond; (2) Vertilog Tool (VRT), which checks the casing material thickness; and (3) Gamma Ray Neutron Tool (GRN), which checks for tube and/or casing leaks by looking for abnormal areas of gas saturation. NIPSCO also reviewed this logging and associated procedures and then performed a risk analysis of the wells and prepared a logging report based on the data that was produced. NIPSCO performed well maintenance in June 2019 as indicated by the logging activities. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $558,567.

- Farm Tap Remediation Project (Project No. PS11) – NIPSCO has not incurred any O&M expenses during this period and anticipates starting this work later in 2020 to align with other work schedules.

- Legacy Cross Bore Inspection Project (Project No. PS21) – For the period September 1, 2019 through March 31, 2020, NIPSCO investigated approximately 37.3 combined miles of sanitary and storm sewer, including sanitary lateral footage, for a total of 134.14 combined miles of sanitary and storm sewer as of March 31, 2020. Within that 37.3 miles, NIPSCO identified 45 cross bores. Out of those 45 cross bores, 21 were instances of a gas line encroaching on the sanitary or sewer line, and 24 were a mix of water, telephone, cable, and/or electric lines. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $602,368.

- Test Station Casings Project (Project No. PS22) – During the period September 1, 2019 through March 31, 2020, NIPSCO did not perform any additional inspections, for a total of 410 inspected cased crossing sites and installed corrosion test stations at all 410 of these sites, which will permit these crossings to be monitored in conjunction with NIPSCO's corrosion inspection cycle. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $33,076.

- MAOP – Distribution Project (Project No. PS23) – During the period September 1, 2019 through March 31, 2020, NIPSCO established MAOP's on 8 distribution systems with 8 miles of main and 244 services, for a total of 29 distribution systems with 128.4 miles of main and 3,931 services as of March 31, 2020. The total amount of federally mandated O&M expenses incurred for the reconciliation period September 1, 2019 through March 31, 2020 was $170,659.

Mr. Sylvester described and explained the federally mandated costs associated with the Gas Operations Projects incurred for the period October 1, 2019 through March 31, 2020 (for capital costs) as follows:

- Fiberglass Riser Replacement Project (Project No. PS8) – During the period October 1, 2019 through March 31, 2020, NIPSCO replaced regulators and meter loops on 925

[9] Logging is the practice of recording inventory and conditions of each well. NIPSCO's logging checked tubing, casing, and the bore holes associated with underground wells.

units. The total amount of federally mandated direct capital costs incurred for this period was $137,084.

- Underground Storage Integrity Project (Project No. PS10) – During the period October 1, 2019 through March 31, 2020, NIPSCO installed 19 bollards, for a total of 36 bollards. The total amount of federally mandated direct capital costs incurred for this period was $234,969.

- Farm Tap Remediation Project (Project No. PS11) – During the period October 1, 2019 through March 31, 2020, 6 Farm Taps were completed, for a total of 74 completed Farm Taps as of March 31, 2020. The total amount of federally mandated direct capital costs incurred for this period was $407,535.

Mr. Sylvester testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 2, Column C shows the total amount of federally mandated direct capital costs related to the Gas Operations Projects included in the Pipeline Safety Compliance Plan incurred for the period October 1, 2019 through March 31, 2020 was $779,591.

Mr. Sylvester testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 2, Column D shows the total amount of federally mandated direct capital costs related to the Gas Operations Projects included in the Pipeline Safety Compliance Plan incurred through March 31, 2020 was $2,388,680.

Mr. Sylvester testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 3, Page 1, Line 5, Column D shows the reconciliation of projected to actual expenses related to the Gas Operations Projects for the reconciliation period September 1, 2019 through March 31, 2020 is ($2,225,336).

Mr. Sylvester testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Line 20, Column C shows the total amount of federally mandated O&M expenses related to the Gas Operations Projects projected for the period October 2020 through March 2021 is $3,850,605.

Mr. Sylvester testified that, as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4, there are no changes in the approved total estimated capital costs associated with the Gas Operations Projects included in the Pipeline Safety Compliance Plan. He noted that Attachment PSC-PR-4 has been updated to reflect the actual capital costs for 2019 with the difference being reflected in the projected capital costs for 2020 for the Gas Operations Projects.

Mr. Sylvester testified that, as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4, there are no changes in the approved total estimated O&M expenses associated with the Gas Operations Projects included in the Pipeline Safety Compliance Plan. He testified that with the completion of the reconciliation of 2019 expenses, Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4 has been updated to reflect the actual O&M expenses for 2019 with the difference being reflected in the projected expenses for 2020 for the Gas Operations Projects (Project Nos. PS5, PS6, PS7, PS8, PS9, PS10, PS11, PS21, PS22, and PS23).

Mr. Sylvester stated that there have been no changes to the scope of the Gas Operations Projects included in the Pipeline Safety Compliance Plan. He testified there have been no changes to the PHMSA Rules that impact NIPSCO's approved Gas Operations Projects included in the

Pipeline Safety Compliance Plan. He testified that the PHMSA Rules applicable to the Gas Operations Projects continue to be federally mandated requirements with which NIPSCO must comply, which requires implementation of the Gas Operations Projects included in the Pipeline Safety Compliance Plan.

iii. T&D Projects. Mr. Carr provided an update on the status of the T&D Projects, and described and explained the federally mandated costs associated with the T&D Projects incurred for the period October 1, 2019 through March 31, 2020 (for capital costs) as follows:

- ILI Project (Project No. PS12) – During this period, the remaining modifications and/or replacements of the four impacted regulator stations for the Laketon to Warsaw portion of the project were constructed and the associated commissioning and restoration work was performed, thereby completing this project in the field. Investigatory digs were performed at various locations throughout the line between Tassinong and Mayflower, engineering progressed to finalize the Issue for Construction (IFC) drawing packages, and permit procurement for roads and railroads began. Fittings and miscellaneous piping materials were also ordered and delivered. Land for the Mayflower station was purchased and 10 temporary easements were acquired. The total amount of federally mandated direct capital costs incurred for this period was $7,496,592.

- Transmission Inspect & Mitigate Project (Project No. PS13) – During this period, all six planned valve replacements were completed in the field. The total amount of federally mandated direct capital costs incurred for this period was $2,511,456.

- AC Mitigation Project (Project No. PS14) – During this period, 27,495 feet of mitigation cable was installed. The mitigation cable was purchased and received for both the planned 2020 and 2021 project. The permitting process was also started for the primary project to be constructed in 2020. The total amount of federally mandated direct capital costs incurred for this period was $1,120,836.

- Transmission RCV Installation Project (Project No. PS15) – The Transmission RCV Installation Project is scheduled to commence in 2021. There were no direct capital costs incurred for this period.

- Isolated Services Project (Project No. PS16) – During this period, 7 isolated services were completed in the field. The total amount of federally mandated direct capital costs incurred for this period was $177,898.

- Emergency Valve Project (Project No. PS17) – During this period, 74 valves were installed in the field. The total amount of federally mandated direct capital costs incurred for this period was $1,668,042.

- Casings Project (Project No. PS18) – During this period, multiple potential work sites were identified. The total amount of federally mandated direct capital costs incurred for this period was $17,914.

- Distribution Inspect & Mitigate Project (Project No. PS19) – During this period, the previously identified Fort Wayne distribution valve replacement was constructed in November

2019 with project restoration completed in December 2019. Furthermore, a bid package was created to replace a 12" inoperable valve at Swinney Park in Fort Wayne as well as replacing three 16" inoperable valves at Decatur Road in Fort Wayne. The total amount of federally mandated direct capital costs incurred for this period was $380,785.

Mr. Carr testified that Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 7, Column C shows the total amount of federally mandated direct capital costs related to the T&D Projects included in the Pipeline Safety Compliance Project incurred for the period October 1, 2019 through March 31, 2020 was $13,373,522.

Mr. Carr testified that Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 7, Column D shows the total amount of federally mandated direct capital costs related to the T&D Projects included in the Pipeline Safety Compliance Project incurred through March 31, 2020 was $29,519,250.

Mr. Carr testified that as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4, there are no changes in the estimated total capital costs associated with the T&D Projects included in the Pipeline Safety Compliance Plan. He noted that Attachment PSC-PR-4 has been updated to reflect the actual capital costs for 2019 with the difference being reflected in the projected capital costs for 2020 (and 2021 if necessary) for the T&D Projects (Project Nos. PS12, PS13, PS14, PS16, PS17, PS18, and PS19).

Mr. Carr testified there are no changes to the scope of the T&D Projects included in the Pipeline Safety Compliance Plan and that he is not aware of any changes to the PHMSA Rules that impact NIPSCO's approved T&D Projects included in the Pipeline Safety Compliance Plan. He testified that the PHMSA Rules applicable to the T&D Projects continue to be federally mandated requirements with which NIPSCO must comply, which requires implementation of the T&D Projects included in the Pipeline Safety Compliance Plan.

Mr. Krieger testified he has no concerns with the Pipeline Safety Compliance Project as presented in FMCA-4 and recommended approval of Petitioner's Fourth Progress Report on the status of the Pipeline Safety Compliance Project as filed.

Based on the evidence presented, we find that the changes to NIPSCO's Pipeline Safety Compliance Plan are reasonable, and we approve the changes, as reflected in the Fourth Progress Report (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4). We authorize NIPSCO to recover 80% of the costs incurred in connection with the revised Pipeline Safety Compliance Plan through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised Pipeline Safety Compliance Plan, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

B. <u>PHMSA Compliance Project.</u> In the 45007 Order, we approved NIPSCO's request for ongoing review of the PHMSA Compliance Project as part of its FMCA semi-annual filings. Also in the 45183 Order, we approved NIPSCO's estimated total capital cost of the PHMSA Compliance Project of $225,883,481, which included direct, indirect, and AFUDC costs. While NIPSCO made no modifications to the PHMSA Compliance Project in this proceeding, NIPSCO requests approval of the PHMSA Compliance Project in its First Progress Report, which updates the approved cost estimates to reflect the removal of the 3% escalation factor applied to the contingency amounts in compliance with the 45183 Order. The PHMSA

Compliance Project includes two projects: Gary Bare Steel Compliance Project, and Low Pressure Compliance Project.

Mr. Carr described and explained the federally mandated costs associated with the PHMSA Projects incurred for the period October 1, 2020 through March 31, 2020 (for capital costs) as follows:

- <u>Gary Bare Steel Compliance Project (Project No. PC1)</u> – During this period, 2,569 feet of medium pressure plastic main was installed. Additionally 170 services were installed. The total amount of federally mandated direct capital costs incurred for this period was $3,999,042.

- <u>Low Pressure Compliance Project (Project No. PC2)</u> – During this period, work has primarily focused on installing new medium pressure plastic main with 25,784 feet installed along with 2,053 services. The total amount of federally mandated direct capital costs incurred for this period was $20,393,274.

Mr. Carr testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 13, Column C shows the total amount of federally mandated direct capital costs related to the PHMSA Compliance Project incurred for the period October 1, 2019 through March 31, 2020 was $24,392,317.

Mr. Carr testified Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 13, Column D shows the total amount of federally mandated direct capital costs related to the PHMSA Compliance Project incurred through March 31, 2020 was $46,623,537.

Mr. Carr testified that as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PHMSA-PR-2, there are no changes in the estimated total capital costs associated with the PHMSA Projects included in the PHMSA Compliance Plan. He noted that Attachment PHMSA-PR-2 has been updated to reflect the actual capital costs for 2019 with the difference being reflected in the projected capital costs for 2020 for the PHMSA Compliance Project.

Mr. Carr testified there are no changes to the scope of the PHMSA Projects included in the PHMSA Compliance Plan and that he is not aware of any changes to the PHMSA Rules that impact NIPSCO's approved PHMSA Projects included in the PHMSA Compliance Plan. He testified that the PHMSA Rules applicable to the PHMSA Projects continue to be federally mandated requirements with which NIPSCO must comply, which requires implementation of the PHMSA Projects included in the PHMSA Compliance Plan.

Mr. Krieger testified NIPSCO has no scope changes or new estimates for the PHMSA Projects but recommended that NIPSCO provide the total miles of mains replaced to-date and the miles replaced for the project within the FMCA period in future filings for each of the PHMSA Projects (Gary Bare Steel and Kokomo Low Pressure). In rebuttal, Mr. Carr testified that in each Plan update filing, NIPSCO provides the estimated miles/feet that have been replaced for each project during the period reported in the filing (October 1, 2019 through March 31, 2020 in this filing) to support the direct capital costs during the period that is used in calculating the FMCA Adjustment factors. To address the OUCC's concerns, NIPSCO agreed that, in addition to the information that is currently provided in its updates, NIPSCO will include the total feet and services installed for each of the projects. We agree that NIPSCO's agreement to include the total feet and services installed for each of the projects satisfies the OUCC's concerns.

Mr. Krieger recommended approval of Petitioner's Fourth Progress Report on the status of the Pipeline Safety Compliance Project as filed.

Based on the evidence presented, we find that the changes to NIPSCO's PHMSA Compliance Plan are reasonable, and we approve the changes, as reflected in the Second Progress Report (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PHMSA-PR-2). We authorize NIPSCO to recover 80% of the costs incurred in connection with the revised PHMSA Compliance Plan through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised PHMSA Compliance Plan, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

6. <u>FMCA.</u>

A. <u>Capital Projects.</u> The total cost of the Approved Compliance Projects capital projects incurred as of March 31, 2020, upon which NIPSCO is authorized to earn a return is $87,709,725 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 1, Page 1, Line 17, Column F), which includes AFUDC and accumulated depreciation. Ms. Dousias testified NIPSCO computes AFUDC amounts and relevant AFUDC rates in accordance with the FERC Uniform System of Accounts. She testified that if the Commission approves the proposed ratemaking treatment for the total net book value of eligible federally mandated capital costs related to the Approved Compliance Projects as of March 31, 2020, then NIPSCO will cease accruing AFUDC on those costs once the incurred costs receive ratemaking treatment, through base gas rates, or recovered through the FMCA, or the project is placed in service, whichever occurs first.

Ms. Dousias explained the weighted average cost of capital ("WACC") used to calculate post-in-service carrying charges ("PISCC"). The updated total weighted cost of capital as of March 31, 2020 (the date of valuation of the Approved Compliance Projects) is 6.51% (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 2, Schedule 1, Line 8, Column E).

Ms. Dousias explained the calculation of the "return on" portion of NIPSCO's semi-annual revenue requirement for capital costs related to the Approved Compliance Projects as of March 31, 2020. She stated the annual revenue requirement for the return on capital is calculated by multiplying the total eligible net book value of federally mandated capital costs related to the Approved Compliance Projects as of March 31, 2020 by the debt and equity components of its WACC as of March 31, 2020. She stated that the product of this calculation is then multiplied by 50% in order to calculate a semi-annual revenue requirement.

Ms. Dousias explained that PISCC is calculated by multiplying the net book value of completed project costs that have been placed in service, which are not receiving Construction Work in Progress ratemaking, by NIPSCO's effective WACC rate for the period in which the costs are in-service. She stated the PISCC amount is added to the semi-annual revenue requirement to get a combined total capital revenue requirement. She explained that 20% of the combined total capital revenue requirement is deferred to be recovered in NIPSCO's next general rate case, and the remaining 80% of the combined capital semi-annual revenue requirement is then multiplied by the revenue conversion factor for a total capital semi-annual revenue requirement adjusted for taxes.

Ms. Dousias explained the computation of the revenue conversion factor used to compute the revenue requirement before income tax. She stated the revenue conversion factor is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement.

Based on the evidence presented, we approve NIPSCO's total cost of the Approved Compliance Projects capital projects incurred as of March 31, 2020.

B. <u>Depreciation Expense.</u> NIPSCO requests approval of total projected depreciation expense associated with assets related to the Approved Compliance Projects for the period October 2020 through March 2021 of $1,089,312 [Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4 (Line 31, Column D plus Line 37, Column D). Ms. Dousias testified the depreciation expense associated with the Pipeline Safety Compliance Project is shown on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Column D [Lines 2 through 31], and represents the six-month projected depreciation expenses for the period October 2020 through March 2021. She stated the projected depreciation expense associated with the PHMSA Compliance Project is shown on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Lines 35 through 37, Column D and represents the projected depreciation expense for the period October 2020 through March 2021. Ms. Dousias stated the projection of depreciation expense is based on projected in-service dates, FERC account unitization, and the related FERC account depreciation rates approved in the Commission's September 19, 2018 Order in NIPSCO's most recent gas rate case in Cause No. 44988. Based on the evidence presented, we approve NIPSCO's total projected depreciation expense of $1,089,312 for the period October 2020 through March 2021.

C. <u>O&M Expense.</u> NIPSCO requests approval of total projected O&M expense associated with assets related to the Approved Compliance Projects for the period October 2020 through March 2021 of $4,660,187 [Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4 (Line 31, Column C plus Line 37, Column C)]. Ms. Dousias testified the O&M expense associated with the Pipeline Safety Compliance Project is shown on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Column C [Lines 2 through 31] and represents the six-month projected O&M expenses for the period October 2020 through March 2021. Based on the evidence presented, we approve NIPSCO's total projected O&M expense of $4,660,187 for the period October 2020 through March 2021.

D. <u>Property Tax Expense.</u> NIPSCO requests approval of total projected property tax expense associated with the Approved Compliance Projects for the period October 2020 through March 2021 of $238,329 [Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4 (Line 31, Column E plus Line 37, Column E)]. Ms. Dousias testified the projected property tax expense associated with the Pipeline Safety Compliance Project is shown on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Column E [Lines 2 through 31] and represents the six-month projected property tax expense for the period October 2020 through March 2021. She testified the projected property tax expense associated with the PHMSA Compliance Project is shown on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Lines 35 through 37, Column E and represents the projected property tax expense for the period October 2020 through March 2021. Based on the evidence presented, we approve NIPSCO's total projected property tax expense of $238,329 for the period October 2020 through March 2021.

E. Total Revenue Requirement. NIPSCO's Adjusted Semi-Annual Return on Capital Revenue Requirement (before tax gross-up) is $3,454,097 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Line 6, Column J). Eighty percent of this amount, $2,763,277 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Line 8, Column J), will be recovered through the FMCA. The remaining 20%, or $690,820 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Line 7, Column J), will be deferred and recovered in NIPSCO's next general rate case.

Based on the evidence presented, we find that NIPSCO's request to begin earning a return on the $87,709,725 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Line 1, Column J) from the value of the Approved Compliance Projects capital projects complies with the Compliance Project Orders. We further find that NIPSCO's proposed Semi-Annual Return on Capital Revenue Requirement of $3,510,326 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Line 10, Column J) was properly calculated. Therefore, we approve NIPSCO's request to begin earning a return on the value of the Approved Compliance Projects capital projects and recovery of 80% of the proposed revenue requirement through the FMCA for bills rendered during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing.

Based on the evidence presented, we find that NIPSCO's proposed Return of Expense Revenue Requirement of $4,790,262 was properly calculated [Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 5, Line 8, Column D]. Therefore, we approve NIPSCO's request to begin earning a return of the expenses for the Approved Compliance Projects and recovery of 80% of the proposed revenue requirement through the FMCA for bills rendered during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing.

i. Allocation of Federally Mandated Costs. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 2, Schedule 4, Page 1, shows the allocation percentages approved to allocate the federally mandated costs associated with the Pipeline Safety Compliance Project, as well as any changes in the allocation percentages to reflect significant migration of customers among the various rates schedules as required in the 45007 Order. Ms. Dousias stated NIPSCO has not proposed any adjustment to its allocation percentages associated with the Pipeline Safety Compliance Project in this filing. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 7, Page 1, Column B shows the allocation factors determined in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 2, Schedule 4, Page 1 to allocate the FMCA costs associated with the Pipeline Safety Compliance Project.

Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 2, Schedule 4, Page 2, shows the allocation percentages approved to allocate the federally mandated costs associated with the PHMSA Compliance Project, as well as any changes in the allocation percentages to reflect significant migration of customers among the various rates schedules as required in the FMCA-3 Order. Ms. Dousias stated NIPSCO has not proposed any adjustment to its allocation percentages associated with the PHMSA Compliance Project in this filing. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 7, Page 2, Column B shows the allocation factors determined in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 2, Schedule 4, Page 2 to allocate the FMCA costs associated with the PHMSA Compliance Project.

Based on the evidence presented, we find that NIPSCO's FMCA factors were properly allocated in accordance with our 45007 Order and FMCA-3 Order.

ii. Reconciliation. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 1 allows for the reconciliation of the prior FMCA revenue requirement to actual FMCA revenues relating to the Pipeline Safety Compliance Project for the period October 2019 through March 2020. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 2, provides the total expense variance relating to the Pipeline Safety Compliance Project, which is a combination of the allocation of the reconciliation of projected expenses as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 3, Page 1 and the reconciliation of expense revenues as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 1.

Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 3 allows for the reconciliation of the prior FMCA revenue requirement to actual FMCA revenues relating to the PHMSA Compliance Project for the period October 2019 through March 2020. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 4, provides the total expense variance relating to the PHMSA Compliance Project, which is a combination of the allocation of the reconciliation of projected expenses as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 3, Page 2 and the reconciliation of expense revenues as shown in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 6, Page 3.

iii. Calculation of FMCA Factors. Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 8 shows the calculation of the FMCA factors by rate code based on the previously calculated revenue requirements. The factors are calculated by combining the various components of the revenue requirement, which are allocated by rate code, and dividing those components by projected volumes to compute a billing factor for bills rendered during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing.

Ms. Dousias sponsored Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 3 (Appendix G – Federally Mandated Cost Adjustment Mechanism Factor) showing the FMCA factors proposed to be applicable for bills rendered during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing. Ms. Dousias testified the proposed factor will add $0.52 to a 69 therms per month residential bill (which is the average usage level during the test year in Petitioner's last rate case), a decrease of $2.28 compared to the factor currently in effect.

Mr. Grosskopf testified he reviewed the calculations and flow of inputs in Attachment 1, Schedules 1 through 9, and Attachment 2, Schedules 1 through 4. Mr. Grosskopf disagreed with NIPSCO's calculation of the revenue conversion factor shown on Attachment 2, Schedule 2 because NIPSCO did not use the Public Utility Fee that became effective on July 1, 2020. He stated since the semi-annual billing period for recovery of the revenue requirement is October 2020 through March 2021, the updated Public Utility Fee should be used. He explained because the adjustment to the revenue requirement was small ($83),[10] the resulting FMCA rate factors did not

[10] NIPSCO calculated the difference to be $81, the difference most likely being a rounding issue.

change and recommended approval of rate factor calculations as shown in Attachment 1, Schedule 8.

In rebuttal, Ms. Dousias explained that NIPSCO made this filing on May 26, 2020. She stated that the updated Public Utility Fee was not available until it became effective on July 1, 2020. She testified that NIPSCO will use the updated Public Utility Fee in its next filing (expected to be filed at the end of November 2020). Ms. Dousias stated that the Public Utility Fee rate generally does not change significantly enough to warrant a compliance filing to make the update and NIPSCO's practice in this filing is consistent with its practice in other tracker filings that have been approved by the Commission. We agree that NIPSCO's use of the Public Utility Fee in effect at the time of its filing is appropriate and, as both the OUCC and NIPSCO state, the resulting factors did not change.

Based on the evidence presented, we approve the proposed FMCA factors in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 8 as applicable to bills rendered during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing.

7. <u>Deferred Federally Mandated Costs.</u> In the Compliance Project Orders, we authorized NIPSCO to (1) defer 20% of the federally mandated costs incurred in connection with the Approved Compliance Project for recovery in its next general rate case as allowed by Ind. Code § 8-1-8.4-7, and (2) record ongoing carrying charges based on NIPSCO's overall cost of capital, on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.

In this proceeding, Ms. Dousias sponsored Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 9, which is an illustrative ratemaking schedule that accumulates deferred federally mandated costs as well as the ongoing carrying charges on all deferred federally mandated costs until such time as the costs can be recovered as part of NIPSCO's next general rate case. She explained the amounts included in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 9, represents 20% of the total capital revenue requirement calculated in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 2, Column J, total expense requirement on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 4, Column F, and total variance related expense revenue requirements calculated in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 3, Pages 1 and 2, Column D. The amounts included in Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 9, Column Q represent the ongoing carrying charges calculated by multiplying the deferred recoverable costs by current overall WACC.

Based on the evidence presented and pursuant to the Compliance Project Orders, we find that FMCA 4 costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is $1,482,898 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 9, Line 12, Column R) and the total to-date costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is $7,168,507 (Petitioner's Exhibit No. 1, Attachment 1-A, Attachment 1, Schedule 9, Line 13, Column R).

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

1. NIPSCO is authorized to defer and recover 80% of the approved federally mandated costs incurred in connection with the Approved Compliance Projects identified in Finding No. 6 in its rates and charges for gas service in accordance with NIPSCO's FMCA beginning with the October 2020 billing month.

2. NIPSCO is authorized to recover the FMCA factors in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 8 to become effective for bills rendered by NIPSCO during the billing month of October 2020, to remain in place until replaced by different factors approved in a subsequent filing, as set out in Finding No. 6 above.

3. Prior to implementing the approved FMCA factors, NIPSCO shall file under this Cause for approval by the Commission's Energy Division the tariff and an amendment to its rate schedule with reasonable references reflecting that the charges are applicable to the rate schedules reflected on the amendment.

4. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated Approved Compliance Projects described in Finding No. 7 and to recover those deferred costs in its next general rate case, and NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.

5. NIPSCO's Pipeline Safety Compliance Project, as described in NIPSCO's Fourth Progress Report on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PSC-PR-4, is approved, and NIPSCO is authorized to recover 80% of the costs incurred in connection with the modified Pipeline Safety Compliance Project through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised Pipeline Safety Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

6. NIPSCO's PHMSA Compliance Project, as described in NIPSCO's Second Progress Report on Petitioner's Exhibit No. 1, Attachment 1-A, Attachment PHMSA-PR-2, is approved, and NIPSCO is authorized to recover 80% of the costs incurred in connection with the modified PHMSA Compliance Project through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised PHMSA Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

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

<u>HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:</u>
APPROVED:

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

____

Mary M. Becerra,

Secretary of the Commission