
VERIFIED DIRECT TESTIMONY OF PATRICK L. BARYENBRUCH

1 **Q1. Please state your name, position of employment and business address.**

2 A1. My name is Patrick L. Baryenbruch and I am the President of my own consulting
3 practice, Baryenbruch & Company, LLC, which was established in 1985. In that
4 capacity, I provide consulting services to utilities and their regulators. My business
5 address is 2832 Claremont Road, Raleigh, North Carolina 27608.

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

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

9 **Q3. Please summarize your academic and professional background.**

10 A3. I received a Bachelor of Arts degree in Accounting from the University of
11 Wisconsin-Oshkosh and a Master of Business Administration degree from the
12 University of Michigan.

13 I began my career with Arthur Andersen & Company, where I performed financial
14 audits of utilities, banks and finance companies. I left to pursue an M.B.A. degree.
15 Upon graduation from business school, I worked with the management consulting

1 firms of Theodore Barry & Associates and Scott Consulting Group (now
2 ScottMadden) before establishing my own firm.

3 **Q4. Do you hold any professional certifications?**

4 A4. Yes. I am a Certified Public Accountant (CPA) with an active license from the states
5 of Wisconsin and North Carolina. I am a Certified Information Technology
6 Professional (CITP), an accreditation awarded by the American Institute of Certified
7 Public Accountants to CPA professionals who can demonstrate expertise in
8 information technology management. I also hold a Global Information Assurance
9 Certification (GIAC) in cybersecurity from the SANS Institute. Finally, I hold a
10 certificate in COSO internal controls from the American Institute of Certified Public
11 Accountants, which recognizes my expertise in designing, implementing and
12 monitoring a system of internal control. I am a member of the American Institute of
13 Certified Public Accountants and the North Carolina Association of Certified Public
14 Accountants.

15 **Q5. Please describe your experience with utility affiliate transactions.**

16 A5. I have acted as an expert witness on matters related to utility/affiliate transactions
17 for 30 years. I have presented testimony in more than 90 regulatory proceedings in

1 20 US states for 43 utility clients. Since 1992, I have performed over 130 affiliate
2 market cost comparison studies, as summarized in Attachment 8-A.

3 **Q6. Have you previously testified before the Indiana Utility Regulatory**
4 **Commission (the "Commission") or any other regulatory commission?**

5 A6. Yes. I acted as an expert witness on the topic of service company charges in
6 NIPSCO's 2020 gas rate case (Cause No. 45621) and in Indiana American Water
7 Company's 2017 rate case (Cause No. 45142) before the Commission. I have also
8 acted as an expert witness on the matter of affiliate transactions before regulators in
9 19 other US states and one Canadian province.

10 **Q7. Are you sponsoring any attachments to your direct testimony in this Cause?**

11 A7. Yes. I am sponsoring Attachments 8-A and Attachment 8-B, both of which were
12 prepared by me or under my direction and supervision.

13 **Q8. What is the purpose of your testimony in this proceeding?**

14 A8. My testimony presents the results of my study, which evaluated the services
15 provided during the 12 months ended December 31, 2021, by NiSource Corporate
16 Services Company ("NCSC") to NIPSCO's electric utility ("NIPSCO Electric") (the
17 "Study"). The Study was undertaken in conjunction with NIPSCO Electric's rate

1 case and is accurate to the best of my knowledge and belief. The Study is attached
2 as Attachment 8-B.

3 **Q9. What was the purpose of the Study?**

4 A9. The Study was undertaken to determine the reasonableness and necessity of
5 NIPSCO Electric charges from NCSC for services provided during 2021.

6 **Q10. As part of your work in this proceeding, did you conduct a comprehensive study**
7 **of the NCSC services and charges?**

8 A10. Yes. I undertook a study to determine the reasonableness of affiliate charges for
9 services provided to NIPSCO Electric during 2021. Reasonableness was determined
10 by answering four questions. First, are NCSC's 2021 administrative and general
11 ("A&G") charges to NIPSCO Electric reasonable compared to other utility service
12 companies? Second, did NCSC provide services to NIPSCO Electric at the lower of
13 cost or market during 2021? Third, is the 2021 cost of NIPSCO Electric's customer
14 accounts services comparable to that of other utilities? Fourth, are the services
15 NIPSCO Electric received from NCSC necessary?

16 **Q11. Briefly describe the methodology you followed in performing the Study.**

1 A11. The first 3 questions involve benchmarking of NCSC's 2021 costs and charges using
2 metrics that allow an appropriate comparison against the costs and charges of other
3 utility service companies and outside service providers. Costs and charges
4 information for other utilities are obtained from Federal Energy Regulatory
5 Commission ("FERC") Forms 1 and 60, which are filed annually. Cost information
6 for outside service providers is obtained from relevant survey information (e.g.,
7 National Law Journal, American Institute of Public Accountants). The fourth
8 question is answered by analyzing the specific services provided by NCSC to
9 NIPSCO Electric to determine if they are necessary.

10 **Q12. What conclusions were you able to draw concerning question 1, whether NCSC**
11 **charges to NIPSCO Electric were reasonable?**

12 A12. The cost per NIPSCO Electric customer for A&G services from NCSC is reasonable
13 compared to the cost per customer for similar utility service companies. During
14 2021, NIPSCO Electric was charged an average of \$5.60 per megawatt hour
15 ("MWh") sold for these services from NCSC. This is relatively close to the average
16 of \$4.98 per MWh sold for comparison group service companies. Six of 21
17 comparison group service companies had a higher cost than NIPSCO Electric.

1 I also compared NIPSCO Electric's total A&G expenses and total O&M expenses
2 to a comparison group of 47 regulated utilities that are part of a utility holding
3 company with a service company affiliate and that are subject to traditional utility
4 regulation. These comparisons look at total expenses, including those incurred
5 directly by NIPSCO and those allocated to it by NCSC. The total A&G expenses
6 comparison showed NIPSCO Electric's average of \$12.97 per MWh sold to be
7 somewhat above the comparison group average of \$10.05 per MWh sold. Fourteen
8 of 47 comparison group utilities had a higher cost than NIPSCO Electric.

9 The total O&M expenses comparison showed NIPSCO Electric's average of \$58.31
10 per MWh sold to be less than the comparison group's average of \$64.72 per MWh
11 sold. Thirty-nine of the 47 comparison group utilities had a higher cost than
12 NIPSCO Electric.

13 These cost comparisons show NIPSCO Electric's costs are within a reasonable
14 range of the average for other service companies and regulated utilities. On this
15 basis, I can conclude the cost of NCSC services provided to NIPSCO Electric
16 during 2021 are reasonable.

1 **Q13. What conclusions were you able to draw concerning question 2, whether**
2 **NIPSCO Electric was charged the lower of cost or market for the services**
3 **provided by NCSC during 2021?**

4 A13. I was able to draw the following conclusions:

5 1. NCSC's services were provided to NIPSCO Electric during 2021 at the
6 lower of cost or market.

7 2. On average, the hourly rates for outside service providers are 69% higher
8 than comparable hourly rates charged by NCSC.

9 3. If all of the managerial and professional services now provided by NCSC
10 had been outsourced in 2021, NIPSCO Electric and its customers would
11 have incurred more than an estimated \$39 million in additional expenses.

12 4. NCSC's charges do not include any profit markup. Only the actual cost of
13 the service provided is being charged NIPSCO Electric and its customers.

14 **Q14. What conclusions were you able to draw concerning question 3, whether 2021**
15 **costs of NCSC's customer accounts services were reasonable?**

16 A14. I was able to conclude that NIPSCO Electric's customer accounts services costs,
17 which include charges from NCSC, are well below the average of the utility
18 comparison group from Indiana and neighboring states. During 2021, NIPSCO

1 Electric's customer accounts services cost per customer was \$0.70 per MWh sold
2 compared to the utility comparison group's 2021 average of \$1.53. Twenty-one
3 comparison group companies had a higher cost per customer and one had a lower
4 cost per customer than NIPSCO Electric.

5 **Q15. What conclusions were you able to draw concerning question 4, whether the**
6 **services NIPSCO Electric receives from the NCSC are necessary?**

7 A15. I was able to draw the following conclusions:

8 1. The services that the NCSC provides are necessary and would be required
9 even if NIPSCO Electric were a stand-alone electric utility.

10 2. There is no redundancy or overlap in the services provided by NCSC to
11 NIPSCO Electric.

12 **Q16. Based on your work, can you conclude that NIPSCO Electric's 2021 affiliate**
13 **charges for services are reasonable?**

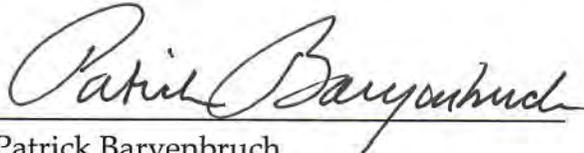
14 A16. Yes. The Study's overall results show that NIPSCO Electric's 2021 service-related
15 charges from NCSC are reasonable.

16 **Q17. Does this conclude your prefiled direct testimony?**

17 A17. Yes.

VERIFICATION

I, Patrick Baryenbruch, President of Baryenbruch & Company, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.


Patrick Baryenbruch

Date: September 15, 2022

Patrick Baryenbruch's Previous Affiliate Transactions
and Rate Case Engagements

	Client	State	Year	Purpose	Rate Case Witness?
1	Connecticut American Water	Connecticut	1999	Rate Case	Yes
2	Illinois American Water	Illinois	2007	Rate Case	Yes
		Illinois	2021	Rate Case	Yes
3	Indiana American Water	Indiana	2017	Rate Case	Yes
4	Iowa American Water	Iowa	2020	Rate Case	Yes
5	Kentucky American Water	Kentucky	2003	Rate Case	Yes
		Kentucky	2006	Rate Case	Yes
		Kentucky	2008	Rate Case	Yes
		Kentucky	2009	Rate Case	Yes
		Kentucky	2018	Rate Case	Yes
6	Massachusetts American Water	Massachusetts	2000	Rate Case	Yes
7	Missouri American Water	Missouri	2002	Rate Case	Yes
		Missouri	2008	Rate Case	Yes
		Missouri	2014	Rate Case	Yes
		Missouri	2016	Rate Case	Yes
		Missouri	2019	Rate Case	Yes
8	New Jersey American Water	New Jersey	2005	Rate Case	Yes
		New Jersey	2007	Rate Case	Yes
		New Jersey	2009	Rate Case	Yes
		New Jersey	2010	Rate Case	Yes
		New Jersey	2014	Rate Case	Yes
		New Jersey	2017	Rate Case	Yes
		New Jersey	2019	Rate Case	Yes
9	New Mexico American Water	New Mexico	2007	Rate Case	Yes
10	New York American Water	New York	2006	Rate Case	Yes
		New York	2010	Rate Case	Yes
		New York	2013	Rate Case	Yes
		New York	2015	Rate Case	Yes
11	Ohio American Water	Ohio	2006	Rate Case	Yes
		Ohio	2010	Rate Case	Yes
12	Pennsylvania American Water	Pennsylvania	2008	Compliance	No
		Pennsylvania	2011	Compliance	No
		Pennsylvania	2014	Compliance	No
		Pennsylvania	2017	Compliance	No
		Pennsylvania	2020	Compliance	No
13	Tennessee American Water	Tennessee	2006	Rate Case	Yes
		Tennessee	2010	Rate Case	Yes
14	Virginia American Water	Virginia	1996	Rate Case	Yes
		Virginia	1999	Rate Case	Yes
		Virginia	2000	Rate Case	Yes
		Virginia	2001	Rate Case	Yes
		Virginia	2003	Rate Case	Yes
		Virginia	2007	Rate Case	Yes
		Virginia	2009	Rate Case	Yes
		Virginia	2011	Rate Case	Yes
		Virginia	2014	Rate Case	Yes
		Virginia	2018	Rate Case	Yes
		Virginia	2021	Rate Case	Yes
15	West Virginia American Water	West Virginia	2002	Rate Case	Yes
		West Virginia	2006	Rate Case	Yes
		West Virginia	2007	Rate Case	Yes
		West Virginia	2009	Rate Case	Yes
		West Virginia	2012	Rate Case	Yes
		West Virginia	2014	Rate Case	Yes
		West Virginia	2017	Rate Case	Yes
		West Virginia	2020	Rate Case	Yes
16	Atlanta Gas Light (Southern Co)	Georgia	2009	Rate Case	Yes
17	Atmos Energy Corporation	Virginia	2004	Compliance	No
18	Columbia Gas of Kentucky	Kentucky	2015	Rate Case	Yes
19	Columbia Gas of Maryland	Maryland	2015	Rate Case	Yes
20	Columbia Gas of Massachusetts	Massachusetts	2004	Rate Case	Yes
		Massachusetts	2006	Internal Info	No
		Massachusetts	2011	Internal Info	No
		Massachusetts	2012	Internal Info	No
		Massachusetts	2014	Internal Info	No
		Massachusetts	2017	Internal Info	No

Patrick Baryenbruch's Previous Affiliate Transactions
and Rate Case Engagements

	Client	State	Year	Purpose	Rate Case Witness?
21	Columbia Gas of Pennsylvania	Pennsylvania	2015	Internal Info	No
		Pennsylvania	2020	Rate Case	Yes
22	Columbia Gas of Virginia	Virginia	2003	Compliance	No
		Virginia	2004	Compliance	No
		Virginia	2005	Rate Case	Yes
		Virginia	2006	Compliance	No
		Virginia	2007	Compliance	No
		Virginia	2008	Compliance	No
		Virginia	2009	Rate Case	Yes
		Virginia	2010	Compliance	No
		Virginia	2011	Compliance	No
		Virginia	2012	Compliance	No
		Virginia	2013	Rate Case	Yes
		Virginia	2014	Compliance	No
		Virginia	2015	Rate Case	Yes
		Virginia	2016	Compliance	No
		Virginia	2017	Rate Case	Yes
		Virginia	2018	Compliance	No
		Virginia	2019	Compliance	No
		Virginia	2020	Compliance	No
23	Northern Indiana Public Service	Indiana	2015	Internal Info	No
		Indiana	2016	Rate Case	Yes
		Indiana	2020	Rate Case	Yes
24	Dominion Energy, Inc.	Virginia	2008	Rate Case	Yes
		Virginia	2009	Compliance	No
		Virginia	2010	Compliance	No
		Virginia	2011	Compliance	No
		Virginia	2012	Compliance	No
		Virginia	2014	Compliance	No
		Virginia	2017	Compliance	No
		Virginia	2019	Compliance	No
25	Duke Energy	North Carolina	2006	Compliance	No
26	Elizabethtown Gas (Southern Co)	New Jersey	2008	Rate Case	Yes
27	Electric Transmission Texas	Texas	2016	Rate Case	Yes
28	General Water Works of Rio Rancho	New Mexico	1993	Rate Case	Yes
29	General Water Works of Virginia	Virginia	1992	Rate Case	Yes
30	Po River Water and Sewer	Virginia	1993	Rate Case	Yes
		Virginia	2007	Rate Case	Yes
		Virginia	2008	Rate Case	Yes
31	Progress Energy	North Carolina	2001	Internal Info	No
32	Roanoke Gas	Virginia	2006	Compliance	No
33	Southern California Edison	California	2002	Compliance	No
		California	2003	Compliance	No
		California	2004	Compliance	No
		California	2005	Compliance	No
34	AEP Texas	Texas	2018	Rate Case	Yes
35	Southwestern Electric Power	Texas	2016	Rate Case	Yes
		Texas	2020	Rate Case	Yes
36	Kentucky Utilities	Virginia	2020	Rate Case	Yes
37	Virginia Natural Gas (Southern Co)	Virginia	2004	Compliance	No
		Virginia	2005	Rate Case	Yes
		Virginia	2010	Rate Case	Yes
38	United Water of Pennsylvania	Pennsylvania	2004	Rate Case	Yes
39	Corix Infrastructure/Water Services Corp.	Enterprise	2018	Internal Info	No
		Enterprise	2019	Internal Info	No
		Enterprise	2021	Internal Info	No
40	Massanutten Public Service Company	Virginia	2006	Rate Case	Yes
		Virginia	2008	Rate Case	Yes
		Virginia	2013	Rate Case	Yes
		Virginia	2019	Rate Case	Yes
41	Water Service Corporation Kentucky	Kentucky	2010	Rate Case	Yes
		Kentucky	2012	Rate Case	Yes
		Kentucky	2019	Rate Case	Yes
		Kentucky	2021	Rate Case	Yes
42	Corix Utilities Oklahoma	Oklahoma	2019	Compliance	Yes
43	Great Basin Water Company	Nevada	2019	Rate Case	Yes
		Nevada	2021	Rate Case	Yes
Total Studies					133
Number of Rate Cases					91
Number of Utility Clients					43
Number of States					20

Northern Indiana Public Service Company
Market Cost Comparison for Affiliate Company Charges
12 Months Ended December 31, 2021

August 2022

Northern Indiana Public Service Company
Market Cost Comparison for Affiliate Company Charges
12 Months Ended December 31, 2021

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Purpose of This Study

This study was undertaken to determine if the services that Northern Indiana Public Service Company's electric business (NIPSCO Electric) received from NiSource Corporate Services Company (NCSC) during 2021 were necessary and reasonable. This was determined by answering the following four questions:

1. Are NCSC's administrative and general (A&G) charges to NIPSCO Electric reasonable compared to other utility service companies?
2. Does NCSC provide services to NIPSCO Electric at the lower of cost or market?
3. Is the cost of NIPSCO Electric customer accounts services comparable to that of other utilities?
4. Are the services NIPSCO Electric receives from NCSC necessary?

Study Results

Conclusions concerning question 1:

- The cost to NIPSCO Electric for A&G-related services from NCSC is reasonable compared to the costs of other utility service companies. During 2021, NIPSCO Electric's NCSC A&G-related charges were \$5.60 per megawatt hour (MWh) sold. This is relatively close to the average of \$4.98 per customer for comparison group service companies. Six of 21 comparison group service companies had a higher cost than NIPSCO Electric. This determination was based on 2021 service company information included in Forms 1 and 60, which must be annually filed with the Federal Energy Regulatory Commission (FERC) by electric and combination electric/gas utility holding companies.
- NIPSCO Electric's 2021 total A&G expenses, including those incurred directly and allocated from NCSC, amount to \$12.97 per MWh sold. This compares to the 2021 average of \$10.05 per MWh sold for the comparison group of 47 utilities. Fourteen of 47 comparison group utilities had a higher cost than NIPSCO Electric.
- The total O&M expenses comparison showed NIPSCO Electric's average of \$58.31 per MWh sold to be less than the comparison group's average of \$64.72 per MWh sold. Thirty-nine of the 47 comparison group utilities had a higher cost than NIPSCO Electric.



Conclusions concerning question 2:

- NCSC's services were provided to NIPSCO Electric during 2021 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 69% higher than comparable hourly rates charged by NCSC.
- If all of the managerial and professional services now provided by NCSC had been outsourced in 2021, NIPSCO Electric and its customers would have incurred \$39.2 million in additional expenses.
- NCSC's charges do not include any profit markup. Only the actual cost of the service provided is being charged NIPSCO Electric and its customers.

Conclusions concerning question 3:

- NIPSCO Electric's customer accounts services costs, which include charges from NCSC, are well below the average of the utility comparison group from Indiana and neighboring states. During 2021, NIPSCO Electric's customer accounts services cost per customer was \$0.70 per MWh sold compared to the utility comparison group's 2021 average of \$1.53. Twenty-one comparison group companies had a higher cost per customer and one a lower cost per customer than NIPSCO Electric.

Concerning question 4, the following conclusions were drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Electric were a stand-alone gas utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Electric. For all of the services listed in Schedule 13, there was only one entity primarily responsible for the service.

This study's results show that NIPSCO Electric's 2021 service-related charges from NCSC are reasonable.



Charges from Affiliates to NIPSCO Electric

During 2021, affiliate entities charged NIPSCO Electric approximately \$224.7 million. The analysis below shows charges by affiliate.

Billings to NIPSCO Electric by Affiliate (A)	Purpose	2021	
NiSource Corporate Service Company	Contract services (B)	\$ 135,622,441	(B)
NiSource Inc.	Interest on debt and employee pensions and benefits	\$ 78,391,513	
NIPSCO Accounts Receivable Corp.	Interest on debt	\$ 1,653,219	
NiSource Development Company	Rent	\$ 2,240,821	
NiSource Insurance Corporation	injuries & damages, insurance and employee life insurance	\$ 6,760,011	
Total Charges to NIPSCO Electric		\$ 224,668,005	

Note A: Includes charges to balance sheet and income statement accounts

Note B: Reconciliation to testimony of company witnesses Gode and Shikany

Total NIPSCO Electric NCS Charges Including Balance Sheet Accounts	\$ 135,622,441
Less: Balance Sheet Account Charges	<u>\$ (29,965,121)</u>
Total NIPSCO Electric 2021 Base Period NCS O&M Charges per Gode Testimony	\$ 105,657,320
Attachment 7-D & Total NIPSCO Electric Only O&M Per Shikany Petitioner's Exhibit 3, Attachment 3-B-S2	

Charges from NCSC represent the cost of management, professional and technical services. They can be subjected to a market cost analysis for which comparative information is available. The NIPSCO Electric portion of NCSC charges (\$135,622,441) is included in the scope of this study.

Charges from other affiliates are, in effect, a pass-through of costs shared with other NiSource entities. In general, the amounts represent NIPSCO's proportionate share of actual expenses incurred by affiliates. No services are involved in these charges so they are not included in the scope of this study.

Overview of Services Provided by NCSC

NCSC provides the following types of services to NiSource operating companies, including NIPSCO Electric:

Accounting and Statistical Services	Gas Dispatching Services
Auditing Services	Information Services
Budget Services	Information Technology Services
Business Services	Insurance Services
Corporate Services	Land/Surveying Services
Customer Billing, Collection and Contact Services	Legal Services
Depreciation Services	Officers
Economic Services	Operations Support and Planning Services
Electronic Communications Services	Purchasing, Storage and Disposition Services
Employee Services	Regulatory Services
Engineering and Research Services	Tax Services
Facility Services	Transportation Services
	Treasury Services

NCSC follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- **Purchasing Economies** – Common expenses (e.g., insurance, contract services) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, NCSC is able to maintain one IT infrastructure for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with large, fixed hardware, software and staffing costs.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- **Maintenance of Corporate-Wide Standards** – Personnel in NCSC establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by NCSC.
- **Improved Governance** – NCSC provides another dimension of management and financial oversight that supplements local operating utility management. NCSC facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

NCSC follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like NIPSCO, at cost. NCSC is not a profit-making entity. It assigns only its actual expenses to the NiSource subsidiaries it services.

NCSC Billings to Affiliate Companies

NCSC was regulated by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA) until February 8, 2006, when the Public Utility Holding Company Act (PUHCA 2005) was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to the Federal Energy Regulatory Commission (FERC). NCSC records transactions in accordance with the FERC Uniform System of Accounts.

Pursuant to FERC Order No. 684 issued October 19, 2006, centralized service companies must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. NCSC has long used a billing pool system to collect costs that are applicable and billable to all affiliates, including NIPSCO Electric. Each billing pool details the affiliate(s) to be charged for the specified services and the basis for allocating charges when more than one affiliate receives the same service.

The relationship between NCSC and NIPSCO is set forth in a Service Agreement dated January 1, 2015. The Service Agreement stipulates that all services will be provided at cost. Allocations among affiliates are only made when it is impractical to charge an affiliate directly.

The bases of allocation, shown in Schedule 1, are used by NCSC Accounting Department for apportioning Job Order charges to affiliates.

Northern Indiana Public Service Company – Electric
Bases for Allocating Service Company Charges to Affiliates

<p>Basis 1 - Gross Fixed Assets and Total Operating Expenses Fifty percent of the total charges will be allocated on the basis of the relation of the affiliate's gross fixed assets to the total gross fixed assets of all benefited affiliates; the remaining 50% will be allocated on the basis of the relation of the affiliate's total operating expenses to the total operating expenses of all benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 2 - Gross Fixed Assets Charges will be allocated to each benefited affiliate on the basis of the relation of its total gross fixed assets to the sum of the total gross fixed assets of all benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 3 - Number of Meters Serviced Charges will be allocated to each benefited affiliate on the basis of the relation of its number of meters serviced to the total number of all meters serviced of the benefited affiliates. This allocation may only be used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland.</p>
<p>Basis 4 - Number of Accounts Payable Invoices Processed Charges will be allocated to each benefited affiliate on the basis of the relation of its number of accounts payable invoices processed (interface invoices excluded) to the total number of all accounts payable invoices processed of the benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 7 - Gross Depreciable Property and Total Operating Expenses Fifty percent of the total charges will be allocated on the basis of the relation of the affiliate's total operating expenses to the total of all the benefited affiliates' total operating expense; the remaining 50% will be allocated on the basis of the relation of the affiliate's gross depreciable property to the gross depreciable property of all benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 8 - Gross Depreciable Property Charges will be allocated to each benefited affiliate on the basis of the relation of its total depreciable property to the sum of the total depreciable property of all benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 9 - Automobile Units Charges will be allocated to each benefited affiliate on the basis of the relation of its number of automobile units to the total number of all automobile units of the benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 10 - Number of Retail Customers Charges will be allocated to each benefited affiliate on the basis of the relation of its number of retail customers to the total number of all retail customers of the benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 11 - Number of Regular Employees Charges will be allocated to each benefited affiliate on the basis of the relation of its number of regular employees to the total number of all regular employees of the benefited affiliates. All companies may be included in this allocation.</p>
<p>Basis 13 - Fixed Allocation Charges will be allocated to each benefited affiliate on the basis of fixed percentages on an individual project basis. All companies may be included in this allocation.</p>
<p>Basis 14 - Number of Transportation Customers Charges will be allocated to each benefited affiliate on the basis of the relation of its Transportation Customers to the total of all Transportation Customers of the benefited affiliates. This allocation is only used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland.</p>
<p>Basis 15 - Number of Commercial Customers Charges will be allocated to each benefited affiliate on the basis of the relation of its Commercial Customers to the total of all Commercial Customers of the benefited affiliates. This allocation is only used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland.</p>
<p>Basis 16 - Number of Residential Customers Charges will be allocated to each benefited affiliate on the basis of the relation of its Residential Customers to the total of all Residential Customers of the benefited affiliates. This allocation is only used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland.</p>
<p>Basis 17 - Number of High Pressure Customers Charges will be allocated to each benefited affiliate on the basis of the relation of its High Pressure Customers to the total of all High Pressure Customers of the benefited affiliates. This allocation is only used by the following companies: Columbia Gas of Virginia, Columbia Gas of Kentucky, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland.</p>
<p>Basis 20 - Service Company Billing (Direct and Allocated) Charges will be allocated to each benefited affiliate on the basis of the relation of its Service Corporation billing costs, in total or by functional group (e.g. IT, Legal, HR, Finance, Audit), to the corresponding total of all Service Company billing costs, (i.e. in total or by functional group). The calculation of Basis 20 will include only those billings for services provided to all NiSource affiliates, excluding Business Unit specific shared service functions (i.e. functions that serve only one particular Business Unit). All companies may be included in this allocation.</p>

III – Evaluation Methodology for NCSC Charges

During 2021 NCSC charged NIPSCO Electric approximately \$135.6 million for contract services. The table below shows the FERC accounts to which these charges were recorded. Baryenbruch & Company, LLC's, methodology for evaluating these charges in connection with this study's four questions are described below.

2021	A&G	Non-A&G	Total
Capital and Other Non-O&M Expenditures		\$ 29,965,121	\$ 29,965,121
Operations and Maintenance Expenses			
403 - Depreciation expense		\$ 7,787,244	\$ 7,787,244
404 - Amortization expense		\$ 151,830	\$ 151,830
405 - Amortization of other property		\$ 183,602	\$ 183,602
408 - Taxes other than income taxes		\$ 2,404,566	\$ 2,404,566
409 - Income taxes		\$ 1,059,114	\$ 1,059,114
410 - Provision for deferred income taxes		\$ 1,082,971	\$ 1,082,971
411 - Provision for deferred income taxes—credit		\$ (2,046,713)	\$ (2,046,713)
419 - Interest and dividend income		\$ (186)	\$ (186)
421 - Miscellaneous income or loss		\$ 496,010	\$ 496,010
426 - Other deductions		\$ 323,290	\$ 323,290
430 - Interest on debt to associate companies		\$ 354,137	\$ 354,137
431 - Other interest expense		\$ 279,586	\$ 279,586
432 - Allowance for borrowed funds used during construction—credit		\$ (133,663)	\$ (133,663)
500 - Operation supervision and engineering.		\$ 46,892	\$ 46,892
557 - Other expenses		\$ (4)	\$ (4)
580 - Operation supervision and engineering		\$ 85,044	\$ 85,044
Administrative and General Expenses			
901 - Supervision	\$ 183		\$ 183
903 - Customer records and collection expenses	\$ 913,782		\$ 913,782
908 - Customer assistance expenses	\$ 2,756		\$ 2,756
910 - Miscellaneous customer service and informational expenses	\$ 112,359		\$ 112,359
913 - Advertising expenses	\$ 82,710		\$ 82,710
920 - Administrative and general salaries	\$ 35,834,620		\$ 35,834,620
921 - Office supplies and expenses	\$ 621,005		\$ 621,005
923 - Outside services employed	\$ 35,169,815		\$ 35,169,815
924 - Property insurance	\$ 15,931		\$ 15,931
925 - Injuries and damages	\$ 612,485		\$ 612,485
926 - Employee pensions and benefits	\$ 6,159,843		\$ 6,159,843
928 - Regulatory commission expenses	\$ 1,635		\$ 1,635
930.1 - General advertising expenses	\$ 133,642		\$ 133,642
930.2 - Miscellaneous general expenses	\$ 124,153		\$ 124,153
931 - Rents	\$ 3,250,997		\$ 3,250,997
932 - Maintenance of general plant.	\$ 10,547,684		\$ 10,547,684
Total NCSC Charges to NIPSCO Electric	\$ 93,583,600	\$ 42,038,841	\$ 135,622,441

The first question—whether NCSC service-related charges are reasonable—is answered by three cost comparisons: (1) A&G-related NCSC charges per retail MWh sold; (2) total A&G expenses per retail MWh sold; and (3) total O&M expenses per retail MWh sold. Each analysis is described below.

Service Company A&G-Related Charges per MWh Sold

NIPSCO Electric's A&G charges from NCSC are compared to those of other utility service companies. The comparison group consists of service companies that file a FERC Form 60 – Annual Report of Service Companies. Every centralized

service company in a holding company system must file a Form 60 in accordance with Section 1270 of the Public Utility Holding Company Act of 2005, Section 390 of the Federal Power Act, and 18 C.F.R. §366.23. This report is designed to collect financial information from service companies that are subject to regulation by FERC.

For 2021, 30 active service companies associated with 22 utility holding companies filed a Form 60. NiSource is excluded from the comparison group because the focus of this study is service company affiliate charges to NIPSCO Electric. Thus, the remaining service companies associated with the following utility holding companies make up the comparison group:

AES Corporation	Eversource Energy
Algonquin Power & Utilities Corporation	Exelon Corporation
Alliant Energy Corporation	FirstEnergy Corporation
Ameren Corporation	National Grid PLC
American Electric Power Corporation	PPL Corporation
Avangrid, Inc.	PNM Resources, Inc.
Black Hills Corporation	Southern Company
CenterPoint Energy, Inc.	Unitil Corporation
Dominion Energy, Inc.	WEC Energy Group, Inc.
Duke Energy Corporation	Xcel Energy Inc.
Entergy Corporation	

Source: FERC Form 60

Service company cost pools include A&G charges to the same FERC accounts in which NIPSCO Electric’s charges from NCSC are recorded. A&G charges recorded to other FERC accounts are excluded from the per-MWh sold cost calculations for the comparison group. Also excluded from the A&G cost pools are charges to FERC account 926 Employee Pensions and Benefits. This account includes charges that relate to labor for all utility O&M functions, generation, transmission, distribution and A&G. By excluding these charges the cost comparison is more focused on the cost of A&G-related services.

Total A&G Expenses per MWH Sold

NIPSCO Electric’s 2021 total A&G expenses are also evaluated to provide a more comprehensive cost comparison perspective. The cost pool includes expenses NIPSCO Electric incurs directly and those allocated to it by NCSC.

The source of this comparison’s data is the FERC Form 1. Cost pools included charges to the FERC accounts that NIPSCO Electric’s total A&G charges were recorded to during 2021. Here too, charges to FERC account 926 Employee Pensions and Benefits are excluded from the cost comparison to facilitate a focus on the cost of A&G services.

III – Evaluation Methodology for NCSC Charges

The comparison group was selected based on each utility’s similarity to NIPSCO Electric. The following selection criteria was applied:

- Part of a utility holding company with a service company affiliate that provides services to regulated utility operating companies.
- Integrated utility with generation, transmission and distribution functions
- Operations in a state with traditional cost-of-service regulation (i.e., not in a state with market competition for generation services).

The selection criteria resulted in the following set of 47 utilities in addition to NIPSCO Electric:

AEP	Entergy
Appalachian Power Company	Entergy Arkansas, LLC
Indiana Michigan Power Company	Entergy Louisiana, LLC
Kentucky Power Company	Entergy Mississippi, LLC
Kingsport Power Company	Entergy New Orleans, LLC
Public Service Company of Oklahoma	Entergy Texas, Inc.
Southwestern Electric Power Company	Evergy
Wheeling Power Company	Evergy Kansas Central, Inc.
AES	Evergy Kansas South, Inc.
Indianapolis Power & Light Company	Evergy Metro, Inc.
Algonquin	Evergy Missouri West, Inc.
Empire District Electric Company	FirstEnergy
Liberty Utilities (Calpeco) LLC	Monongahela Power Company
Alliant	NiSource
Interstate Power and Light Company	NIPSCO Electric
Wisconsin Power and Light Company	PNMR
Ameren	Public Service Company of New Mexico
Union Electric Company	PPL
Black Hills	Kentucky Utilities Company
Black Hills Colorado Electric, LLC	Louisville Gas and Electric Company
Black Hills Power, Inc.	Southern Co
Cheyenne Light, Fuel & Power Company	Alabama Power Company
Centerpoint	Georgia Power Company
Southern Indiana Gas and Electric Company	Mississippi Power Company
Dominion	TECO
Dominion Energy South Carolina, Inc	Tampa Electric Company
Virginia Electric and Power Company	WE Energy
Duke	Wisconsin Electric Power Company
Duke Energy Carolinas, LLC	Wisconsin Public Service Corporation
Duke Energy Florida, LLC	Xcel
Duke Energy Indiana, LLC	Northern States Power Company (MN)
Duke Energy Kentucky, Inc.	Northern States Power Company (WI)
Duke Energy Progress, LLC	Public Service Company of Colorado
	Southwestern Public Service Company

Total O&M Expenses per MWh Sold

NIPSCO Electric’s 2021 total O&M expenses are also evaluated to provide the broadest cost comparison perspective. The cost pool includes expenses NIPSCO Electric incurs directly and those allocated to it by NCSC. The comparison group



of 48 utilities is the same as for the total A&G expenses cost comparison. The source of data is also the same—the FERC Form 1.

The second question—whether NCSC’s services were provided to NIPSCO Electric at the lower of cost or market—is answered by comparing the cost per hour for managerial and professional services provided by NCSC personnel to hourly billing rates that would be charged by outside providers of equivalent services. NCSC’s costs per hour were based on actual charges to NIPSCO Electric during 2021. Outside providers’ billing rates came from surveys or other information from professionals who could perform the services now provided by NCSC.

The third question—whether affiliate customer account services charges were comparable to other utilities— is answered by comparing NIPSCO Electric’s total expenses for customer accounts services to those of utilities in Indiana and neighboring states. The comparison metric is cost per retail MWh sold. Comparison group utility customer account services expenses are obtained from FERC Form 1 data.

The fourth question—the necessity of NCSC services—was investigated by defining the services provided to NIPSCO Electric and determining if these services would be required if NIPSCO Electric were a stand-alone gas utility.

IV – Question 1 – Reasonableness of NCSC Services-Related Charges

NCSC A&G-Related Charges

Utility service companies deliver a variety of services to their regulated operating company affiliates. While some service companies may support their affiliate’s generation, transmission and distribution functions, all provide A&G services such as information technology, finance and human resources. Centralizing the management of such corporate A&G services is justified by the considerable economies of scale achieved. Because A&G-related services are consistently delivered by service companies, considerable data exists on the nature and cost of these services. This study relies on such data to determine A&G charges per MWh sold by comparison companies. These charges are then used as the metric by which to test the reasonableness of charges for services NCSC provides to NIPSCO Electric.

FERC Form 60 shows service company charges to affiliates by FERC account. FERC defines A&G charges as those listed in the table below. During 2021, NCSC’s A&G charges to NIPSCO Electric were recorded in the accounts noted below.

FERC A&G Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	
907 - Supervision	
908 - Customer assistance expenses	X
909 - Informational And Instructional Advertising Expenses	
910 - Miscellaneous Customer Service And Informational Exp	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	X
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	X
926 - Employee Pensions and Benefits (A)	
928 - Regulatory Commission Expenses	X
930.1 - General Advertising Expenses	X
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

Note A: Account 926 includes the cost of benefits for employees in all functional areas--generation, transmission, distribution and A&G. Thus, the entire balance in 926 includes more than the cost of employees providing A&G-related services. For this reason, service company charges to Account 926 are excluded from the cost calculation for NIPSCO Electric and comparison group utility companies.

IV – Question 1 – Reasonableness of NCSC Services-Related Charges

NIPSCO Electric's Cost MWh Sold

As calculated below, NCSC charged NIPSCO Electric \$5.60 per MWh sold for A&G services during 2020.

Administrative and General Expenses	2021 NCSC Charges
901 - Supervision	\$ 183
903 - Customer records and collection expenses	\$ 913,782
908 - Customer assistance expenses	\$ 2,756
910 - Miscellaneous customer service and informational expenses	\$ 112,359
913 - Advertising expenses	\$ 82,710
920 - Administrative and general salaries	\$ 35,834,620
921 - Office supplies and expenses	\$ 621,005
923 - Outside services employed	\$ 35,169,815
924 - Property insurance	\$ 15,931
925 - Injuries and damages	\$ 612,485
928 - Regulatory commission expenses	\$ 1,635
930.1 - General advertising expenses	\$ 133,642
930.2 - Miscellaneous general expenses	\$ 124,153
931 - Rents	\$ 3,250,997
932 - Maintenance of general plant.	\$ 10,547,684
Total NCSC A&G-Related Charges to NIPSCO Electric	\$ 87,423,757
2021 NIPSCO Retail MWh Sold	15,607,008
2021 NCSC A&G Charges per MWh Sold	\$ 5.60

Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

Comparison Group Cost Per MWh Sold

Every centralized service company in a holding company subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and the Code of Federal Regulations Chapter 18, paragraph 366.23. This report is designed to collect financial information from service companies subject to regulation by the FERC.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity's FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated retail customer.

For 2020, a Form 60 was filed by service companies associated with 21 utility holding companies, all of which provide regulated electric and, in some cases, gas service to retail customers.

IV – Question 1 – Reasonableness of NCSC Services-Related Charges

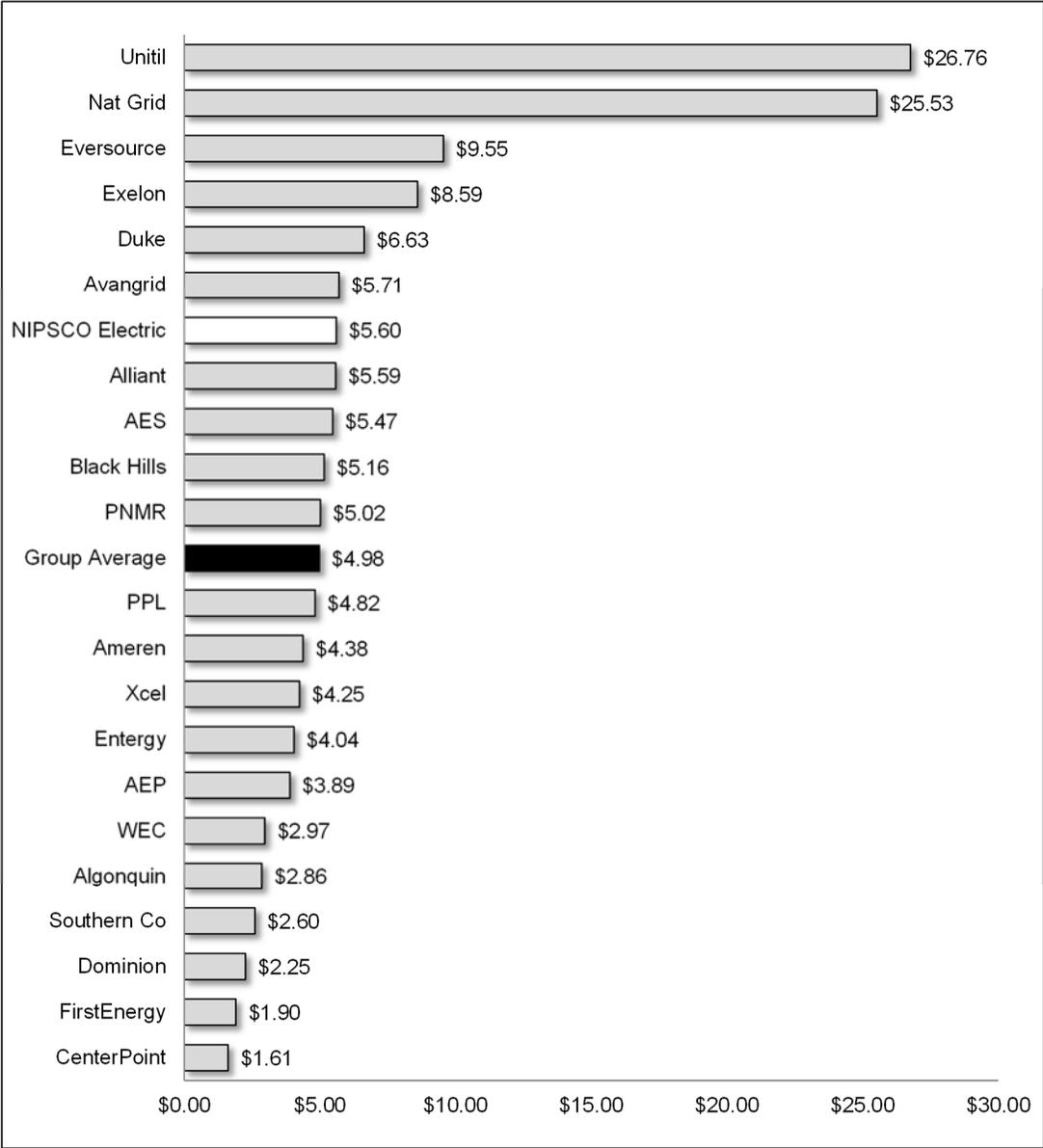
The 2021 A&G expenses per MWh sold for the comparison group are calculated in the table below.

Utility Company	2021 Regulated Electric Service Company A&G Expenses	Retail Megawatt Hours Sold	2021 Cost per MWh Sold
AEP	\$522,965,040	134,393,396	\$ 3.89
AES	\$91,319,926	16,691,558	\$ 5.47
Algonquin	\$25,383,566	8,872,944	\$ 2.86
Alliant	\$142,557,299	25,523,095	\$ 5.59
Ameren	\$170,751,529	38,970,222	\$ 4.38
Avangrid	\$155,882,445	27,321,438	\$ 5.71
Black Hills	\$28,294,804	5,483,964	\$ 5.16
CenterPoint	\$163,987,145	101,543,117	\$ 1.61
Dominion	\$237,509,828	105,469,851	\$ 2.25
Duke	\$1,405,174,320	211,924,957	\$ 6.63
Entergy	\$463,851,404	114,746,913	\$ 4.04
Eversource	\$487,119,059	51,009,865	\$ 9.55
Exelon	\$1,677,310,541	195,204,550	\$ 8.59
FirstEnergy	\$276,515,267	145,250,438	\$ 1.90
Nat Grid	\$631,028,336	24,718,578	\$ 25.53
PNMR	\$68,190,748	13,588,949	\$ 5.02
PPL	\$320,151,076	66,426,396	\$ 4.82
Southern Co	\$373,404,890	143,370,248	\$ 2.60
Unitil	\$23,448,311	876,153	\$ 26.76
WEC	\$102,793,328	34,619,157	\$ 2.97
Xcel	\$381,414,416	89,716,529	\$ 4.25
Total/Average	\$7,749,053,276	1,555,722,318	\$ 4.98

Source: FERC Form1 and Form 60; Baryenbruch & Company, LLC, analysis

Schedule 2 (page 14) shows that NIPSCO Electric' NCSC A&G charges per MWh sold of \$5.60 for 2021 are relatively close to the comparison group average of \$4.98 per MWh sold. Of the 21 utility companies in the comparison group, 6 had a higher cost per customer. Based on this result, it can be concluded that NCSC's charges to NIPSCO Electric for 2021 are reasonable.

Northern Indiana Public Service Company – Electric
Comparison of Service Company A&G Charges per MWh Sold



Source: Company information; 2021 FERC Form 1 and Form 60; Baryenbruch & Company, LLC, analysis

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

Total A&G Expenses

Total A&G expenses per MWh sold for NIPSCO Electric and comparison group utilities are calculated in the table below:

Utility	2021		Cost per MWh Sold
	A&G Expenses	Retail MWh Sales	
Alabama Power Company	\$ 436,952,149	51,171,828	\$ 8.54
Appalachian Power Company	\$ 160,265,165	26,845,286	\$ 5.97
Black Hills Colorado Electric, LLC	\$ 31,453,744	1,920,910	\$ 16.37
Black Hills Power, Inc.	\$ 39,329,606	1,829,453	\$ 21.50
Cheyenne Light, Fuel & Power Company	\$ 17,231,064	1,733,601	\$ 9.94
Dominion Energy South Carolina, Inc	\$ 276,125,802	21,411,242	\$ 12.90
Duke Energy Carolinas, LLC	\$ 686,325,624	78,390,914	\$ 8.76
Duke Energy Florida, LLC	\$ 616,671,352	39,681,797	\$ 15.54
Duke Energy Indiana, LLC	\$ 182,893,968	26,938,817	\$ 6.79
Duke Energy Kentucky, Inc.	\$ 28,854,126	3,946,009	\$ 7.31
Duke Energy Progress, LLC	\$ 457,443,246	43,336,959	\$ 10.56
Empire District Electric Company	\$ 96,835,574	7,422,491	\$ 13.05
Entergy Arkansas, LLC	\$ 308,913,045	22,281,971	\$ 13.86
Entergy Louisiana, LLC	\$ 405,622,021	54,632,923	\$ 7.42
Entergy Mississippi, LLC	\$ 143,785,953	12,744,935	\$ 11.28
Entergy New Orleans, LLC	\$ 78,848,358	5,407,660	\$ 14.58
Entergy Texas, Inc.	\$ 123,939,556	19,679,424	\$ 6.30
Evergy Kansas Central, Inc.	\$ 125,331,433	9,618,791	\$ 13.03
Evergy Kansas South, Inc.	\$ 118,546,330	9,630,791	\$ 12.31
Evergy Metro, Inc.	\$ 214,691,210	14,542,037	\$ 14.76
Evergy Missouri West, Inc.	\$ 114,561,561	8,320,976	\$ 13.77
Georgia Power Company	\$ 726,482,370	82,944,041	\$ 8.76
Indiana Michigan Power Company	\$ 152,904,961	17,494,044	\$ 8.74
Indianapolis Power & Light Company	\$ 159,513,235	12,970,876	\$ 12.30
Interstate Power and Light Company	\$ 181,661,720	14,317,919	\$ 12.69
Kentucky Power Company	\$ 31,760,724	5,093,309	\$ 6.24
Kentucky Utilities Company	\$ 160,907,342	18,139,175	\$ 8.87
Kingsport Power Company	\$ 4,373,378	1,626,549	\$ 2.69
Liberty Utilities (Calpeco) LLC	\$ 24,165,140	549,362	\$ 43.99
Louisville Gas and Electric Company	\$ 108,613,644	11,289,417	\$ 9.62
Mississippi Power Company	\$ 81,044,669	9,254,379	\$ 8.76
Monongahela Power Company	\$ 140,232,962	12,267,497	\$ 11.43
Northern Indiana Public Service Company	\$ 202,465,910	15,607,008	\$ 12.97
Northern States Power Company (Minnesota)	\$ 529,723,157	33,135,807	\$ 15.99
Northern States Power Company (Wisconsin)	\$ 73,685,311	6,788,131	\$ 10.86
Public Service Company of Colorado	\$ 395,798,994	28,932,674	\$ 13.68
Public Service Company of New Mexico	\$ 183,317,185	9,163,032	\$ 20.01
Public Service Company of Oklahoma	\$ 105,434,815	18,205,777	\$ 5.79
Southern Indiana Gas and Electric Company	\$ 46,752,681	4,644,664	\$ 10.07
Southwestern Electric Power Company	\$ 109,011,225	16,452,381	\$ 6.63
Southwestern Public Service Company	\$ 173,408,851	20,859,917	\$ 8.31
Tampa Electric Company	\$ 257,008,359	20,092,643	\$ 12.79
Union Electric Company	\$ 351,906,142	31,120,872	\$ 11.31
Virginia Electric and Power Company	\$ 628,774,278	84,058,609	\$ 7.48
Wheeling Power Company	\$ 13,206,290	4,660,041	\$ 2.83
Wisconsin Electric Power Company	\$ 198,508,643	23,573,061	\$ 8.42
Wisconsin Power and Light Company	\$ 147,370,848	11,205,176	\$ 13.15
Wisconsin Public Service Corporation	\$ 69,996,153	11,046,096	\$ 6.34
Total/Average	\$ 9,922,649,874	986,981,272	\$ 10.05

Schedule 3 (page 16) compares NIPSCO Electric's \$12.97 per MWh sold to the costs of comparison group utilities. NIPSCO Electric's cost is somewhat higher than the group average of \$10.05 and but still lower than 14 of the comparison group's 47 utilities.



**Northern Indiana Public Service Company – Electric
Comparison of 2021 Total A&G Expenses Per MWh Sold**

Utilities Part of a Holdco with Traditional Regulation Comparison	
Utility	A&G Expenses per MWh Sold
Liberty Utilities (Calpeco) LLC	\$ 43.99
Black Hills Power, Inc.	\$ 21.50
Public Service Company of New Mexico	\$ 20.01
Black Hills Colorado Electric, LLC	\$ 16.37
Northern States Power Company (Minnesota)	\$ 15.99
Duke Energy Florida, LLC	\$ 15.54
Evergy Metro, Inc.	\$ 14.76
Entergy New Orleans, LLC	\$ 14.58
Entergy Arkansas, LLC	\$ 13.86
Evergy Missouri West, Inc.	\$ 13.77
Public Service Company of Colorado	\$ 13.68
Wisconsin Power and Light Company	\$ 13.15
Empire District Electric Company	\$ 13.05
Evergy Kansas Central, Inc.	\$ 13.03
Northern Indiana Public Service Company	\$ 12.97
Dominion Energy South Carolina, Inc	\$ 12.90
Tampa Electric Company	\$ 12.79
Interstate Power and Light Company	\$ 12.69
Evergy Kansas South, Inc.	\$ 12.31
Indianapolis Power & Light Company	\$ 12.30
Monongahela Power Company	\$ 11.43
Union Electric Company	\$ 11.31
Entergy Mississippi, LLC	\$ 11.28
Northern States Power Company (Wisconsin)	\$ 10.86
Duke Energy Progress, LLC	\$ 10.56
Southern Indiana Gas and Electric Company	\$ 10.07
Comparison Group Average	\$ 10.05
Cheyenne Light, Fuel & Power Company	\$ 9.94
Louisville Gas and Electric Company	\$ 9.62
Kentucky Utilities Company	\$ 8.87
Georgia Power Company	\$ 8.76
Mississippi Power Company	\$ 8.76
Duke Energy Carolinas, LLC	\$ 8.76
Indiana Michigan Power Company	\$ 8.74
Alabama Power Company	\$ 8.54
Wisconsin Electric Power Company	\$ 8.42
Southwestern Public Service Company	\$ 8.31
Virginia Electric and Power Company	\$ 7.48
Entergy Louisiana, LLC	\$ 7.42
Duke Energy Kentucky, Inc.	\$ 7.31
Duke Energy Indiana, LLC	\$ 6.79
Southwestern Electric Power Company	\$ 6.63
Wisconsin Public Service Corporation	\$ 6.34
Entergy Texas, Inc.	\$ 6.30
Kentucky Power Company	\$ 6.24
Appalachian Power Company	\$ 5.97
Public Service Company of Oklahoma	\$ 5.79
Wheeling Power Company	\$ 2.83
Kingsport Power Company	\$ 2.69



IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

Total O&M Expenses

Total O&M expenses per MWh sold for NIPSCO Electric and comparison group utilities is calculated in the table below.

Utility	2021		Cost per MWh Sold
	Total O&M Expenses	Retail MWh Sales	
Alabama Power Company	\$ 3,148,795,430	51,171,828	\$ 61.53
Appalachian Power Company	\$ 1,859,923,604	26,845,286	\$ 69.28
Black Hills Colorado Electric, LLC	\$ 218,838,272	1,920,910	\$ 113.92
Black Hills Power, Inc.	\$ 210,662,063	1,829,453	\$ 115.15
Cheyenne Light, Fuel & Power Company	\$ 133,812,198	1,733,601	\$ 77.19
Dominion Energy South Carolina, Inc	\$ 1,339,708,812	21,411,242	\$ 62.57
Duke Energy Carolinas, LLC	\$ 3,313,496,675	78,390,914	\$ 42.27
Duke Energy Florida, LLC	\$ 3,204,614,860	39,681,797	\$ 80.76
Duke Energy Indiana, LLC	\$ 1,711,848,487	26,938,817	\$ 63.55
Duke Energy Kentucky, Inc.	\$ 261,332,391	3,946,009	\$ 66.23
Duke Energy Progress, LLC	\$ 3,102,808,867	43,336,959	\$ 71.60
Empire District Electric Company	\$ 476,086,915	7,422,491	\$ 64.14
Entergy Arkansas, LLC	\$ 1,373,528,345	22,281,971	\$ 61.64
Entergy Louisiana, LLC	\$ 3,150,173,886	54,632,923	\$ 57.66
Entergy Mississippi, LLC	\$ 782,280,505	12,744,935	\$ 61.38
Entergy New Orleans, LLC	\$ 488,675,373	5,407,660	\$ 90.37
Entergy Texas, Inc.	\$ 1,202,767,907	19,679,424	\$ 61.12
Evergy Kansas Central, Inc.	\$ 841,820,703	9,618,791	\$ 87.52
Evergy Kansas South, Inc.	\$ 617,068,523	9,630,791	\$ 64.07
Evergy Metro, Inc.	\$ 976,517,177	14,542,037	\$ 67.15
Evergy Missouri West, Inc.	\$ 512,415,708	8,320,976	\$ 61.58
Georgia Power Company	\$ 4,886,017,465	82,944,041	\$ 58.91
Indiana Michigan Power Company	\$ 1,391,615,542	17,494,044	\$ 79.55
Indianapolis Power & Light Company	\$ 860,959,652	12,970,876	\$ 66.38
Interstate Power and Light Company	\$ 964,702,002	14,317,919	\$ 67.38
Kentucky Power Company	\$ 455,971,214	5,093,309	\$ 89.52
Kentucky Utilities Company	\$ 932,693,905	18,139,175	\$ 51.42
Kingsport Power Company	\$ 131,501,673	1,626,549	\$ 80.85
Liberty Utilities (Calpeco) LLC	\$ 49,135,494	549,362	\$ 89.44
Louisville Gas and Electric Company	\$ 618,468,812	11,289,417	\$ 54.78
Mississippi Power Company	\$ 768,729,772	9,254,379	\$ 83.07
Monongahela Power Company	\$ 1,000,626,896	12,267,497	\$ 81.57
Northern Indiana Public Service Company	\$ 910,002,413	15,607,008	\$ 58.31
Northern States Power Company (Minnesota)	\$ 3,037,642,098	33,135,807	\$ 91.67
Northern States Power Company (Wisconsin)	\$ 618,406,416	6,788,131	\$ 91.10
Public Service Company of Colorado	\$ 2,171,472,077	28,932,674	\$ 75.05
Public Service Company of New Mexico	\$ 945,830,660	9,163,032	\$ 103.22
Public Service Company of Oklahoma	\$ 1,044,234,178	18,205,777	\$ 57.36
Southern Indiana Gas and Electric Company	\$ 369,847,658	4,644,664	\$ 79.63
Southwestern Electric Power Company	\$ 1,800,676,201	16,452,381	\$ 109.45
Southwestern Public Service Company	\$ 1,506,357,964	20,859,917	\$ 72.21
Tampa Electric Company	\$ 1,178,136,900	20,092,643	\$ 58.64
Union Electric Company	\$ 1,665,167,605	31,120,872	\$ 53.51
Virginia Electric and Power Company	\$ 3,671,506,157	84,058,609	\$ 43.68
Wheeling Power Company	\$ 229,267,993	4,660,041	\$ 49.20
Wisconsin Electric Power Company	\$ 2,245,478,766	23,573,061	\$ 95.26
Wisconsin Power and Light Company	\$ 790,012,224	11,205,176	\$ 70.50
Wisconsin Public Service Corporation	\$ 706,431,369	11,046,096	\$ 63.95
Total/Average	\$ 63,878,069,807	986,981,272	\$ 64.72

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

Schedule 4 (page 19) compares NIPSCO Electric's \$58.31 per MWh sold to the costs of comparison group utilities. NIPSCO Electric's cost is well below the average of \$64.72 and lower than 39 of the comparison group's 47 utilities.

These cost comparisons show NIPSCO Electric's costs are within a reasonable range of the average for other service companies and regulated utilities. On this basis, I can conclude the cost of NCSC services provided to NIPSCO Electric during 2021 are reasonable.



**Northern Indiana Public Service Company – Electric
Comparison of 2021 Total O&M Expenses Per MWh Sold**

Utilities Part of a Holdco with Traditional Regulation Comparison	
Utility	O&M Expenses per MWh Sold
Black Hills Power, Inc.	\$ 115.15
Black Hills Colorado Electric, LLC	\$ 113.92
Southwestern Electric Power Company	\$ 109.45
Public Service Company of New Mexico	\$ 103.22
Wisconsin Electric Power Company	\$ 95.26
Northern States Power Company (Minnesota)	\$ 91.67
Northern States Power Company (Wisconsin)	\$ 91.10
Entergy New Orleans, LLC	\$ 90.37
Kentucky Power Company	\$ 89.52
Liberty Utilities (Calpeco) LLC	\$ 89.44
Evergy Kansas Central, Inc.	\$ 87.52
Mississippi Power Company	\$ 83.07
Monongahela Power Company	\$ 81.57
Kingsport Power Company	\$ 80.85
Duke Energy Florida, LLC	\$ 80.76
Southern Indiana Gas and Electric Company	\$ 79.63
Indiana Michigan Power Company	\$ 79.55
Cheyenne Light, Fuel & Power Company	\$ 77.19
Public Service Company of Colorado	\$ 75.05
Southwestern Public Service Company	\$ 72.21
Duke Energy Progress, LLC	\$ 71.60
Wisconsin Power and Light Company	\$ 70.50
Appalachian Power Company	\$ 69.28
Interstate Power and Light Company	\$ 67.38
Evergy Metro, Inc.	\$ 67.15
Indianapolis Power & Light Company	\$ 66.38
Duke Energy Kentucky, Inc.	\$ 66.23
Comparison Group Average	\$ 64.72
Empire District Electric Company	\$ 64.14
Evergy Kansas South, Inc.	\$ 64.07
Wisconsin Public Service Corporation	\$ 63.95
Duke Energy Indiana, LLC	\$ 63.55
Dominion Energy South Carolina, Inc	\$ 62.57
Entergy Arkansas, LLC	\$ 61.64
Evergy Missouri West, Inc.	\$ 61.58
Alabama Power Company	\$ 61.53
Entergy Mississippi, LLC	\$ 61.38
Entergy Texas, Inc.	\$ 61.12
Georgia Power Company	\$ 58.91
Tampa Electric Company	\$ 58.64
Northern Indiana Public Service Company	\$ 58.31
Entergy Louisiana, LLC	\$ 57.66
Public Service Company of Oklahoma	\$ 57.36
Louisville Gas and Electric Company	\$ 54.78
Union Electric Company	\$ 53.51
Kentucky Utilities Company	\$ 51.42
Wheeling Power Company	\$ 49.20
Virginia Electric and Power Company	\$ 43.68
Duke Energy Carolinas, LLC	\$ 42.27



Comparison Methodology

NCSC’s 2021 billings to NIPSCO Electric for Contract Services are market tested by comparing the cost per hour for NCSC services to those of outside service providers to whom these duties could be assigned.

The first step was to determine which types of outside providers could assume NCSC services. Based on the nature of these services, it was determined that the following outside service providers could perform the categories of services indicated:

- Attorneys - corporate secretarial and legal services
- Certified Public Accountants - accounting, finance and rates and regulatory services
- Professional Engineers – engineering and operations services
- Management Consultants - executive and administrative management, risk management services, human resources and communications services
- Information Technology (IT) Professionals – information technology services

The next step was to calculate NCSC’s hourly rate for each of the five outside service-provider categories, based on the dollars and hours charged to NIPSCO Electric during 2021.

Next, hourly billing rates for outside service providers were determined using information from pertinent surveys.

Finally, NCSC’s average cost per hour was compared to the average cost per hour for outside providers.

NCSC Hourly Rates

The first step in determining NCSC’s hourly rates is to determine the appropriate expenses to be included in the cost pool. Adjustments to total NCSC charges related to Contract Services are necessary to calculate NCSC’s hourly rates that are directly comparable to those of outside providers. Certain types of expenses are not recovered by outside providers in the hourly billing rate of their professional employees. Such excluded expenses are described below.

- Outside Services – NCSC charges to NIPSCO Electric include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services).

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- IT Infrastructure Expenses – Included in NCSC charges to NIPSCO Electric are leases, maintenance fees and depreciation pertaining to NCSC’s enterprise computing and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor-related charges necessary to deliver IT services.
- Excludable Cost Centers – These departments represent travel-related charges (aviation) and non-service-related charges (cost of capital). Also excluded are customer service-related charges because this function is not considered a professional service. Customer service charges are considered in question 3 of this study.

Schedule 5 (pages 22-23) shows the adjustments made to NCSC’s 2021 NCSC total contract services to NIPSCO Electric. The net result of is a total cost pool that can be subjected to the lower-of-cost-or-market testing.

Northern Indiana Public Service Company – Electric
Determination of Lower of Cost or Market Testable 2021 NCSC Charges

2021 Total Contract Billings from NCSC to NIPSCO Electric	\$ 135,622,441
Less Excludable Cost Elements	
<u>Contract Services</u>	
3000 - Consulting Services	\$ 23,239,681
3001 - Advertising Services	\$ 269,876
3002 - Legal Services	\$ 1,280,904
3003 - Auditing Services	\$ 21,574
3004 - Constructions Services	\$ 156,586
3006 - Engineering Services	\$ 274,856
3008 - Printing and Fulfillment Svcs	\$ 72,711
3010 - Real Estate Management	\$ 162
3011 - Temporary Personnel Services	\$ 1,425,153
3012 - Security Services	\$ 2,242,749
3015 - Other Outside Services	\$ 167,368
3021 - Env Health and Safety Services	\$ 410,044
3024 - Benefit Administration	\$ 458,031
3025 - Credit Collections	\$ 70
3027 - Cash Processing	\$ 10,136
3028 - Expert Witness Fees	\$ 59,420
3030 - Outsourcing - Est Fixed Costs	\$ (371)
3031 - Outsourcing-Variable Cst-ARCs	\$ 5,567,927
3037 - Miscellaneous Reimbursements	\$ 928
3040 - Outsourcing - Act Fixed Costs	\$ 127,549
3044 - IT Costs - Non-IBM Contract	\$ 3,555,060
3046 - HR Services	\$ 621,727
3047 - IT Services	\$ 7,350,110
3089 - Line Location and OneCall Svcs	\$ 87,247
<u>IT Infrastructure</u>	
2500 - IT Hardware	\$ 156,403
2501 - IT Software	\$ 8,142,249
5004 - IT Software Maintenance	\$ 10,515,310
5009 - IT Hardware Maintenance	\$ 84,693
9302 - Hardware Depreciation	\$ 3,822,859
9310 - Other Depreciation	\$ 2,887,066
<u>Travel Expenses</u>	
3100 - Business Travel Expenses	\$ 121,981
3102 - Meals, Food and Water	\$ 33,700
3103 - Entertainment & Other Non-Ded	\$ (638)
3104 - Aviation Charter Expenses	\$ (655)
5003 - Aircraft Maintenance	\$ 222,027
5020 - Vehicle Maintenance	\$ 16,132
9230 - Leases - Aircraft	\$ 1,266

Northern Indiana Public Service Company – Electric
Determination of Lower of Cost or Market Testable 2021 NCSC Charges

Less Excludable Cost Elements (cont.)		
<u>Operational/Non-Service Expenses</u>		
2001 - Chemicals and Gases	\$	128
2017 - Other Materials and Supplies	\$	1,358,130
2023 - Instrumentation & Control	\$	101,806
2024 - Mechanical Equipment	\$	58,461
3604 - Bank Fees	\$	181,482
3619 - AR Customer Refunds	\$	8,142
3671 - Recording Fee	\$	3,338
4017 - Losses_Claims Expense	\$	207
4503 - AFUDC_IDC - Debt	\$	(25,063)
4533 - PP Man Acc Excl Int_OH	\$	604,357
5013 - Garbage and Waste Disposal	\$	1,055
5030 - Truck Maintenance	\$	46,445
5040 - Tool Maintenance	\$	9,206
9210 - Leases - Vehicles	\$	5,434
9261 - Overheads Related To Lse-Rent	\$	440,246
9604 - Income Taxes Federal	\$	932,889
9605 - Income Taxes State	\$	126,225
9606 - Deferred Income Taxes Federal	\$	(873,061)
9607 - Deferred Income Taxes State	\$	(90,681)
9610 - Sales and Use Tax	\$	297,822
9640 - Sales_Use - Audit Reserve	\$	19,930
Total Excludable Cost Elements		\$ 76,608,389
Less Excludable Departments		
0005000 - Aviation Services	\$	444,640
0007100 - Insurance Premiums	\$	632,624
0019800 - Customer Programs & Billing	\$	10,129
0025600 - Customer Operations Training	\$	861
0030300 - Customer Contact Center	\$	72,542
0030310 - Smithfield Customer Care Centr	\$	222,366
0042800 - Cost of Capital	\$	353,951
0053600 - Mailing Operations	\$	247,740
0088000 - Fleet Maintenance	\$	10,745
0042850 - Return on Shared Assets	\$	505,005
Total Excludable Departments		\$ 2,500,602
2021 Testable Contract Billings from NCSC (Note A)		\$ 56,513,450
Note A: This total breaks down as follows for later analysis:		
Service-Related Charges	\$	46,968,029
Overhead-Related Charges	\$	9,545,421
2021 Testable Contract Billings from NCSC	\$	56,513,450

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

The next step is to assign NCSC’s service-related charges to the five outside service-provider cost pools—attorney, certified public accountant, professional engineer, management consultant and IT professional. Among other things, NCSC assigns a “department” to all affiliate charges. Based on the nature of services performed by these departments, NCSC’s charges were assigned to the five outside service-provider cost pools, as shown in Schedule 6 (page 26).

Schedule 7 (page 27) shows the assignment of staff hours by service category to the five outside service provider cost pools. It should be noted that only productive professional personnel hours are included in Schedule 7. Many outside providers charge clients for the time of administrative support personnel (e.g., paralegals). This study chose to be conservative in this regard. By excluding administrative personnel hours from the hourly rate denominator, there are fewer hours to divide into the cost pool. Consequently, NCSC’s hourly rates are somewhat inflated using this approach as compared to the hourly rates of outside providers.

Within 2021 NCSC charges are overhead-related expenses associated with sustaining NCSC personnel. The largest portion of overhead is depreciation expense and rent on various NCSC facilities and equipment. These expenses would also be incurred by outside service providers and must be added into the NCSC cost pools. The table below shows amounts by category.

Department/Cost Element	2021
Cell Phones	\$ 835,713
Corporate Services	\$ 397,742
Facilities Management	\$ 308,887
Facility Rent	\$ 3,065,190
Hardware Depreciation	\$ 1,412,751
Long Term Incentive Expense	\$ 3,518,085
Real Estate	\$ (476)
Telecommunications	\$ 7,528
Total Overhead	\$ 9,545,421

IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

Based on the assignment of expenses and hours to outside provider categories, NCSC's 2021 equivalent cost per hour is calculated below.

	NCSC Hourly Rates					Total
	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	IT Professional	
Service-Related Charges	\$ 3,815,540	\$ 8,896,769	\$ 5,332,602	\$17,595,976	\$11,327,142	\$46,968,029
Overhead Expenses (Note A)	\$ 773,179	\$ 1,804,085	\$ 1,088,178	\$ 3,579,533	\$ 2,300,446	\$ 9,545,421
Cost Pool Total	\$ 4,588,719	\$10,700,853	\$ 6,420,780	\$21,175,509	\$13,627,588	\$56,513,450
Hours	28,153	95,052	64,228	127,544	95,842	410,819
Average Hourly Rate	\$ 163	\$ 113	\$ 100	\$ 166	\$ 142	

Note A: These expenses are assigned to the outside provider categories prorata based on the amount of "direct" expenses in the cost pools, as calculated below.

	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	IT Professional	Total
Service-Related Charges	\$ 3,815,540	\$ 8,896,769	\$ 5,332,602	\$17,595,976	\$11,327,142	\$46,968,029
Percent of Cost Pool Total	8.1%	18.9%	11.4%	37.5%	24.1%	100.0%
Allocation Of Overhead	\$ 773,179	\$ 1,804,085	\$ 1,088,178	\$ 3,579,533	\$ 2,300,446	\$ 9,545,421

Northern Indiana Public Service Company – Electric
Assignment of 2021 NCSC Service-Related Charges to Outside Provider Cost Pools

Service Category	Outside Provider					Total
	Attorney	Certified Public Accountant	Professional Engineer	Management Consultant	IT Professional	
Accounts Payable		\$ 699,820				\$ 699,820
Audit		\$ 899,361				\$ 899,361
Business Continuity				\$ 157,344		\$ 157,344
Business Services				\$ 190,687		\$ 190,687
Corporate Accounting		\$ 2,025,354				\$ 2,025,354
Corporate Affairs				\$ 185,174		\$ 185,174
Corporate Communications				\$ 1,228,714		\$ 1,228,714
Corporate Secretary	\$ 120,347					\$ 120,347
Corporate Security				\$ 364,700		\$ 364,700
Credit Risk Management				\$ 138,541		\$ 138,541
Customer Operations		\$ 105,930		\$ 456,937		\$ 562,867
Customer Services		\$ 186,337				\$ 186,337
Engineering Services			\$ 1,489,943			\$ 1,489,943
Environmental, Health & Safety			\$ 430,678			\$ 430,678
Executive				\$ 5,104,094		\$ 5,104,094
Finance		\$ 1,355,484				\$ 1,355,484
Gas Supply			\$ 580,723			\$ 580,723
Human Resources				\$ 5,014,344		\$ 5,014,344
Information Technology					\$ 11,267,136	\$ 11,267,136
Insurance				\$ 476,387		\$ 476,387
Investor Relations				\$ 346,926		\$ 346,926
Legal	\$ 3,695,193					\$ 3,695,193
Logistics					\$ 60,006	\$ 60,006
Operations			\$ 1,475,520	\$ 722		\$ 1,476,242
Operations Management				\$ 1,194,097		\$ 1,194,097
Regulatory		\$ 2,647,192				\$ 2,647,192
Revenue Transactions		\$ 97,027				\$ 97,027
Risk Management				\$ 101,946		\$ 101,946
Safety and Compliance				\$ 1,728,736		\$ 1,728,736
Strategy and Planning				\$ 906,562		\$ 906,562
Supply Chain			\$ 1,355,739			\$ 1,355,739
Taxes		\$ 693,728				\$ 693,728
Training				\$ 63		\$ 63
Treasury		\$ 186,537				\$ 186,537
Total	\$ 3,815,540	\$ 8,896,769	\$ 5,332,602	\$ 17,595,976	\$ 11,327,142	\$ 46,968,029

Northern Indiana Public Service Company – Electric
Assignment of 2021 NCSC Service-Related Hours to Outside Provider Cost Pools

Service Category	Outside Provider					Total
	Attorney	Certified Public Accountant	Professional Engineer	Management Consultant	IT Professional	
Accounts Payable		9,437				9,437
Audit		8,148				8,148
Business Continuity				1,467		1,467
Business Services				2,073		2,073
Corporate Accounting		22,929				22,929
Corporate Affairs				830		830
Corporate Communications				10,997		10,997
Corporate Secretary	-					-
Corporate Security				4,028		4,028
Credit Risk Management				1,096		1,096
Customer Operations		1,746		1,816		3,563
Customer Services		2,038				2,038
Engineering Services			18,363			18,363
Environmental, Health & Safety			4,814			4,814
Executive				16,416		16,416
Finance		14,070				14,070
Gas Supply			6,790			6,790
Human Resources				47,240		47,240
Information Technology					95,424	95,424
Insurance				3,730		3,730
Investor Relations				1,683		1,683
Legal	28,153					28,153
Logistics					418	418
Operations			16,987	-		16,987
Operations Management				11,057		11,057
Regulatory		27,783				27,783
Revenue Transactions		1,584				1,584
Risk Management				804		804
Safety and Compliance				16,587		16,587
Strategy and Planning				7,720		7,720
Supply Chain			17,274			17,274
Taxes		5,167				5,167
Training				-		-
Treasury		2,148				2,148
Total	28,153	95,052	64,228	127,544	95,842	410,819

Outside Service Provider Hourly Rates

The next step in the lower of cost or market comparison is to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among U.S. public accounting firms, only the more experienced staff members are predominantly licensed certified public accountants, as shown in the table below. Some NCSC employees also have professional licenses. Thus, it is valid to compare NCSC’s hourly rates to those of the outside professional service providers included in this study.

Position	% CPAs
Partner/Owners	98%
Directors (10+ years experience)	87%
Managers (6-10 years experience)	79%
Sr. Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

Attorneys

An estimate of Indiana attorney rates was developed from National Law Journal’s Survey of Law Firm Economics Report. As shown in Schedule 8 (page 30), data from this survey has been adjusted for cost-of-living differences between each law firm’s location and Merrillville, Indiana. The hourly rate data from the National Law Review is as of January 1, 2021. The survey’s calculated average rate was escalated to June 30, 2021—the midpoint of 2021.

Certified Public Accountants

The average hourly rate for Indiana certified public accountants was developed from a 2020 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. The average hourly rate was calculated for a range of accountant positions, as shown in Schedule 9 (page 31). Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2020. The calculated average rate was escalated to June 30, 2021—the midpoint of 2021.

Professional Engineers

NIPSCO provided 2021 hourly rate information for several firms that perform services that could be used by the company when outside engineering services are required. As shown in Schedule 10 (page 32), an average rate was developed for a range of engineering positions. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

Management Consultants

The cost per hour for management consultants was developed from a survey performed by Rodenhauer & Company, LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2020 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Schedule 11 (page 33), was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey covered hourly rates in effect during 2020. The calculated average rate was escalated to June 30, 2021—the midpoint of 2021.

Information Technology Professionals

The 2021 average hourly rate for information technology consultants and contractors was developed from two sources: NCSC for IT contractor rates and a survey performed by Rodenhauer & Company, LLC, for IT consultants. As shown in Schedule 12 (page 34), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company’s experience.

Northern Indiana Public Service Company – Electric
2021 Billing Rates for Indiana Attorneys

Average Hourly Billing Rates as of January 1, 2021									
Region	Avg Billing Rates (Note A)		Weighted Avg Rate Calculation			Cost of Living (COL) Adjustment			(X x Y) Adjusted Rate
	Partner	Associate	0.25	0.75	(X) Weighted Average	COL Indices (Note B)		(Y) Merrillville, COL Adjustment	
						Region	Indiana		
Northeast	\$ 480	\$ 313	\$ 120	\$ 234	\$ 354	121.1	89.8	74.2%	\$ 263
Midwest	\$ 375	\$ 225	\$ 94	\$ 169	\$ 263	94.0	89.8	95.6%	\$ 251
South	\$ 450	\$ 350	\$ 113	\$ 263	\$ 375	94.1	89.8	95.4%	\$ 358
West	\$ 350	\$ 260	\$ 88	\$ 195	\$ 283	108.4	89.8	82.9%	\$ 234
Overall Average Hourly Billing Rate									\$ 276
<u>Escalation to 2021 Midpoint (June 30, 2021)</u>									
CPI at December 31, 2020									260.5
CPI at June 30, 2021									271.7
Inflation/Escalation (Note C)									4.3%
Average Hourly Billing Rate For Attorneys At June 30, 2021									\$ 288

Note A: 2021 Survey of Law Firm Economics Report, National Law Journal

Note B: Cost of Living Index, Source Council for Community and Economic Research

Note C: U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)

Northern Indiana Public Service Company – Electric
2021 Billing Rates for Indiana Public Accounting Firms

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2020 (Note A)					
Average Hourly Billing Rate (Notes A and B)					
	Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	\$ 113	\$ 149	\$ 199	\$ 280	
Percent of Accounting Assignment	30%	30%	20%	20%	Weighted Average
	\$ 34	\$ 45	\$ 40	\$ 56	\$ 174
	National Average Hourly Billing Rate (above)				\$ 174
	Cost of Living Adjustment				
	COL Index for Merrillville, Indiana				89.8
	Average COL Index				100.0
	Adjustment Percentage				89.8%
	Cost of Living Adjusted Hourly Rate				\$ 156
	<u>Escalation to 2021 Midpoint (June 30, 2021)</u>				
	CPI at December 31, 2020				260.5
	CPI at June 30, 2021				271.7
	Inflation/Escalation (Note C)				4.3%
	Average Hourly Billing Rate For CPAs At June 30, 2021				\$ 163

Note A: Source is AICPA's 2020 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: Source is Cost of Living Index, Source Council for Community and Economic Research

Note C: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

Northern Indiana Public Service Company – Electric
 2021 Billing Rates for Professional Engineering Firms

Average Hourly Billing Rates for Professional Engineering Firms During 2021				
Calculation of Average Hourly Rate by Engineer Position				
	Average Hourly Billing Rates			
Firm	Engineering Technician	Engineer	Senior Engineer	Principal Engineer
Firm #1	\$91	\$143	\$196	\$249
Firm #2	\$90	\$127	\$166	
Firm #3				\$344
Firm #4	\$74	\$117	\$158	
Firm #5	\$75	\$113	\$166	
Firm #6	\$75	\$109		
Firm #7	\$75	\$134		
Firm #8	\$93	\$131	\$174	
Calculation of Overall Average Engineering Hourly Billing Rate				
	Engineering Technician	Engineer	Senior Engineer	Principal Engineer
Average Hourly Billing Rate (From Above)	\$85	\$129	\$173	\$296
Typical Percent of Time on an Engineering Assignment	33%	33%	24%	10%
	\$28	\$43	\$42	\$30
				Weighted Average
				\$142

Source: Information provided by NCSC. Firm names are confidential.

Northern Indiana Public Service Company – Electric
 2021 Billing Rates for U.S. Management Consultants

Survey billing rates in effect in 2020 (Note A)

A. Calculation of Average Hourly Billing Rate by Consultant Position

Average Hourly Rates (Note A)					
Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner	
Average	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641

B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement

	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641	
Percent of Consulting Assignment	30%	30%	25%	10%	5%	Weighted Average
	\$ 68	\$ 82	\$ 84	\$ 52	\$ 32	\$ 317

<u>Escalation to Test Period Midpoint (June 30, 2021)</u>	
CPI at December 31, 2020	260.5
CPI at June 30, 2021	271.7
Inflation/Escalation (Note B)	4.3%
Average Hourly Billing Rate For Management Consultants At June 30, 2021	\$ 331

Note A: Source is Rodenhauer & Company, LLC

Northern Indiana Public Service Company – Electric
 2021 Billing Rates for Information Technology Professionals

A. Calculation of 2021 Average Hourly Billing Rate by Information Technology Position

		Average Hourly Billing Rate (Note A)				
		Contractor Positions		Consultant Positions		
		Contractor	Senior Contractor	Associate	Manager	Partner
Average Hourly Billing Rate by IT Position Category		\$ 76	\$ 110	\$ 263	\$ 368	\$ 498
Percent of IT Assignment		25%	25%	25%	15%	10%
		\$ 19	\$ 28	\$ 66	\$ 55	\$ 50
						Weighted Average
						\$ 217

Note A: Source is NCSC, Rodenhauer & Company, LLC, and Baryenbruch & Company, LLC

Cost Comparison of NCSC Versus Outside Providers

As shown in the table below, NCSC’s costs per hour are considerably lower than those of outside providers.

Service Provider	2021 Cost/Hour Difference		
	NCSC	Outside Providers	Difference-- NCSC Greater(Less) Than Outside
Attorney	\$ 163	\$ 288	\$ (125)
Certified Public Accountant	\$ 113	\$ 163	\$ (50)
Professional Engineer	\$ 100	\$ 142	\$ (42)
Management Consultant	\$ 166	\$ 331	\$ (165)
IT Professional	\$ 142	\$ 217	\$ (75)

As calculated below, based on these cost-per-hour differentials and the number of hours that NCSC billed NIPSCO Electric during 2021, the services would cost approximately \$39.2 million more from outside providers. This is 69% more ($\$39,202,194 / \$57,393,961 = 69\%$) than NCSC’s total 2021 market-testable contract billings to NIPSCO Electric.

Service Provider	2021 Total Cost Difference		
	Hourly Rate Difference-- NCSC Greater(Less) Than Outside	NCSC Hours Charged	Dollar Difference
Attorney	\$ (125)	28,153	\$ (3,519,148)
Certified Public Accountant	\$ (50)	95,052	\$ (4,752,595)
Professional Engineer	\$ (42)	64,228	\$ (2,697,561)
Management Consultant	\$ (165)	127,544	\$ (21,044,718)
IT Professional	\$ (75)	95,842	\$ (7,188,171)
Total NCSC Less Than Outside Providers			\$ (39,202,194)

Comparison Methodology

It is difficult to compare the cost of NCSC Customer Accounts-related services-provided to NIPSCO Electric with the cost of outside service providers because survey data is proprietary and expensive to obtain. For this reason, NIPSCO Electric's charges from NCSC for Customer Accounts services are compared to those of neighboring utilities because the data necessary to make the comparison is available from the FERC Form 1.

FERC's chart of accounts is defined in Chapter 18, Part 101, of the Code of Federal Regulations. Customer Accounts expenses cover the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications and telecommunications
- Meter reading – reading customer meters
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

The costs of these services are recorded in the following FERC customer accounts:

- 901 Supervision includes the cost of labor and expenses incurred in the general direction and supervision of customer accounting and collecting activities.
- 902 Meter reading expenses includes the cost of labor, materials used and expenses incurred in reading customer meters, and determining consumption when performed by employees engaged in reading meters.
- 903 Customer records and collection expenses includes the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.
- 905 Miscellaneous customer accounts expenses include the cost of labor, materials used and expenses for other customer accounts activities.

FERC also classifies account 904 Uncollectible Accounts as a Customer Accounts expense. However, charges to this account are excluded from this cost comparison because these expenses are write-offs of customer bills and not service-related costs (the cost of collecting customer bills are recorded in FERC account 903).

Comparison Group

The comparison group includes the following utilities in Indiana and neighboring states:

Indiana	Duke Energy Indiana Indiana Michigan Power	Indiana Power & Light So. Indiana Gas & Electric
Illinois	Ameren Illinois Commonwealth Edison	MidAmerica Energy
Ohio	Cleveland Elect Illuminating Dayton Power & Light Duke Energy Ohio	Ohio Edison Ohio Power Toledo Edison
Michigan	Consumers Energy DTE Electric Indiana Michigan Power NSP Wisconsin	Upper Peninsula Power Wisconsin Electric Wisconsin Public Service
Kentucky	Duke Energy Kentucky Kentucky Power	Kentucky Utilities Louisville Gas & Electric

Costs per Customer Calculation

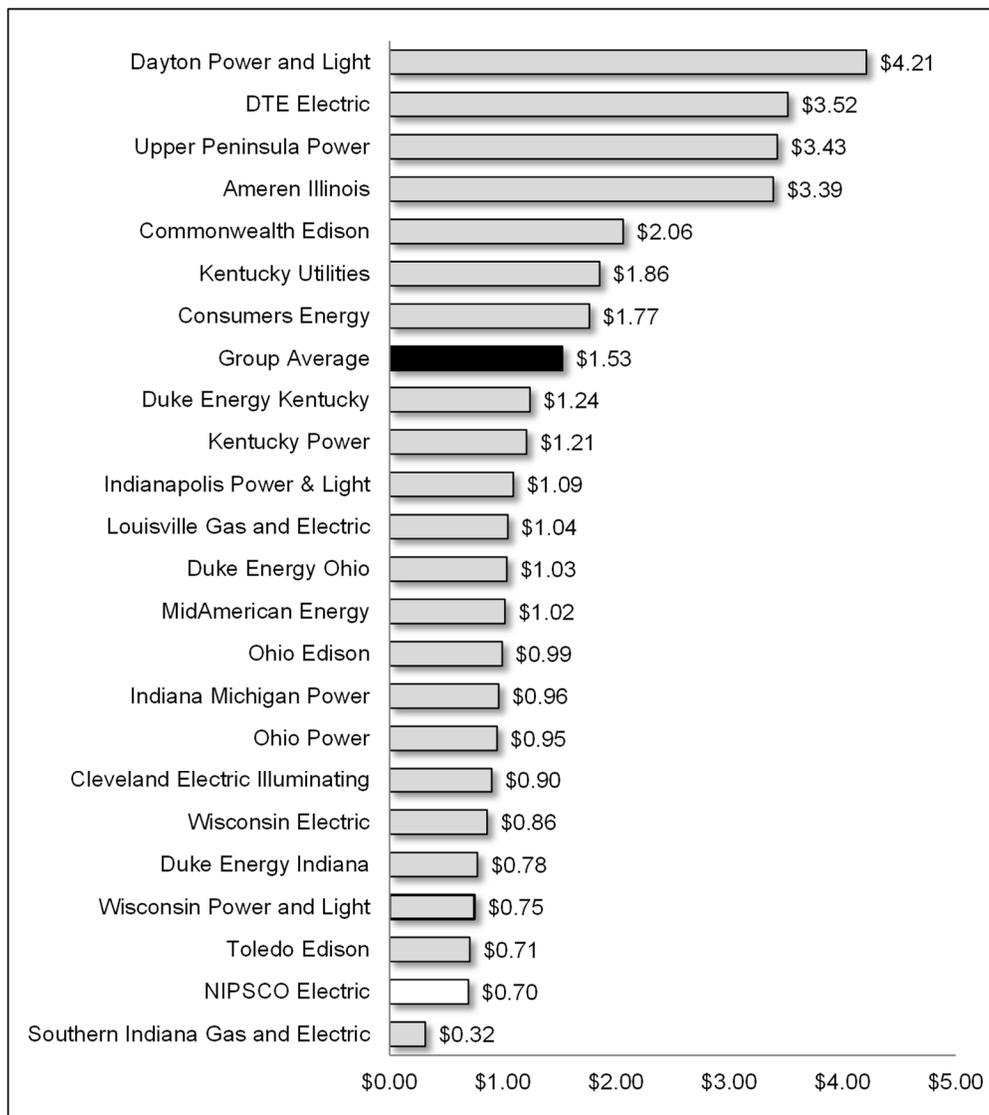
The table below shows the calculation of actual 2021 Customer Accounts expenses per customer for NIPSCO Electric and comparison group utilities.

Comparison Group	CA Expenses	MWH Sold	CA Exp per MWh Sold
Ameren Illinois Company	\$ 26,605,529	7,849,350	\$ 3.39
Cleveland Electric Illuminating Company	\$ 15,832,311	17,563,170	\$ 0.90
Commonwealth Edison Company	\$ 176,235,935	85,410,014	\$ 2.06
Consumers Energy Company	\$ 56,939,192	32,251,402	\$ 1.77
Dayton Power and Light Company	\$ 15,665,914	3,720,682	\$ 4.21
DTE Electric Company	\$ 145,963,671	41,481,966	\$ 3.52
Duke Energy Indiana, LLC	\$ 20,910,687	26,938,817	\$ 0.78
Duke Energy Kentucky, Inc.	\$ 4,898,926	3,946,009	\$ 1.24
Duke Energy Ohio, Inc.	\$ 20,313,005	19,630,461	\$ 1.03
Indiana Michigan Power Company	\$ 16,865,496	17,494,044	\$ 0.96
Indianapolis Power & Light Company	\$ 14,173,952	12,970,876	\$ 1.09
Kentucky Power Company	\$ 6,162,073	5,093,309	\$ 1.21
Kentucky Utilities Company	\$ 33,658,491	18,139,175	\$ 1.86
Louisville Gas and Electric Company	\$ 11,794,190	11,289,417	\$ 1.04
MidAmerican Energy Company	\$ 28,629,787	28,074,100	\$ 1.02
NIPSCO Electric	\$ 10,866,869	15,607,008	\$ 0.70
Ohio Edison Company	\$ 23,077,235	23,209,989	\$ 0.99
Ohio Power Company	\$ 41,759,310	44,016,009	\$ 0.95
Southern Indiana Gas and Electric Company	\$ 1,463,773	4,644,664	\$ 0.32
Toledo Edison Company	\$ 7,626,972	10,745,926	\$ 0.71
Upper Peninsula Power Company	\$ 2,579,836	753,204	\$ 3.43
Wisconsin Electric Company	\$ 20,285,578	23,573,061	\$ 0.86
Wisconsin Power and Light Company	\$ 8,275,633	11,046,096	\$ 0.75
Total	\$ 710,584,365	465,448,749	\$ 1.53

Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

Summary of Results

As shown in the table below, NIPSCO Electric's 2021 cost per MWh sold of \$0.70 is well below the utility comparison group average of \$1.53. The highest comparison group per-customer cost is \$4.21 and the lowest \$0.32. Twenty-one comparison group companies had a higher cost per customer and 1 a lower cost per MWh sold than NIPSCO Electric. Based upon this comparative data, NIPSCO Electric's charges from NCSC for Customer Account services for 2021 are reasonable.



Source: Company information; FERC Form 1; Baryenbruch & Company, LLC, analysis

Analysis of Services

The final aspect of this study was an assessment of whether the services provided to NIPSCO Electric by NCSC would be necessary if NIPSCO Electric were a stand-alone gas utility. The first step in this evaluation was to determine specifically what NCSC does for NIPSCO Electric. The matrix in Schedule 13 (pages 39-40) was created showing which entity—NIPSCO Electric or an NCSC location—is responsible for each of the functions NIPSCO Electric requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by NCSC and (2) if NCSC services are typical of those needed by a stand-alone gas utility.

Upon review of Schedule 13, the following conclusions can be drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Electric were a stand-alone utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Electric. For all of the services listed in Schedule 13, there was only one entity that was primarily responsible for the service.

Northern Indiana Public Service Company Electric
Designation of Responsibility for Electric Utility Functions

Electric Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
Electric System Operations				
Generation				
Technical Support Services	P			
Stations Operations	P			
Generation Engineering	P			
Reliability Programs	P			
Transmission				
Transmission Substation Services	P			
Transmission Planning	P			
Electric Asset Management	P			
Distribution Planning	P			
Electric System Planning	P			
Electric System Protection	P			
Electric System Operations	P			
System Reliability	P			
Critical Infrastructure Protection	P			
Distribution				
Distribution Dispatch				
Dispatch Operations	P			
Field Operations	P			
Operations Services	P			
Distribution Field Engineering				
New Business Support	P			
Joint Pole Services	P			
Engineering Services	P			
Distribution Construction & Maintenance				
Distribution Maintenance	P			
Distribution Construction - Lines	P			
Distribution Construction - Substations	P			
Distribution Substation Operations				
Operations Services	P			
T&D Service Center Support	P			
Metering Maintenance Services	P			
Engineering				
T&D Project Technical Services	P			
T&D Project Management	P			
T&D Engineering Administration	P			
T&D Project Technology Support	P			
Electric System Engineering Services	P			

Electric Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
Electric System Operations (cont.)				
Forestry - Tree Trimming			P	
Major Projects				
Engineering Services			P	
Project Management Services			P	
Construction Management			P	
Contractor Services			P	
Commercial Operations				
Demand Side Management			P	
Major Accounts Support			P	
Customer Operations				
Work Management System Support			P	
Engineering Support			P	
Planning And Scheduling			P	
New Business Support			P	
Meter Reading			P	
Dispatch Operations Support			P	
Customer System Support			P	
Billing			P	S
Revenue Recovery			P	S
Payment Processing			P	
Customer Programs			P	S
Postage Management			P	S
Damage Recovery			P	
Walk in Centers			P	
Contact Center Operations & Support			P	S
Call Center Operations			P	S
NIPSCO Delivery Services			P	S
NIPSCO Warehouse Services				
Warehouse Operations			P	S
Material Services			P	S
NIPSCO Fleet Services			P	S
NIPSCO Supply Chain				
Procurement Operations			S	P
Compliance			S	P
Contractor Time Reporting			S	P
Security Services			S	P

Northern Indiana Public Service Company Electric
Designation of Responsibility for Electric Utility Functions

Electric Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
NIPSCO Planning				
Business Planning	S	P		
Strategic Planning	S	P		
Financial Services				
Financial Planning		P		
Financial Services		P		
Business Support Services - Budgeting	P			
Accounting		P		
Enterprise Transformation		P		
SOX Compliance		P		
Taxes		P		
Credit Risk Management		P		
Enterprise Risk Management		P		
Treasury		P		
Accounts Payable	P	S		
Asset Accounting	S	P		
Insurance		P		
Audit Services		P		
Rates and Regulatory				
Rates and Regulatory Finance		P		
Regulatory Legal		P		
Regulatory Policy				
Federal	P			
State	P			
Executive/Management	S	P		
Legal				
Legal Services		P		
Compliance		P		
Records Management		P		
Corporate Secretary Services		P		
Corporate Security		P		
Business Continuity		P		
Human Resources				
HR Programs Administration		P		
HR Services Delivery		P		
Payroll Services		P		
Organizational Development		P		
Information Technology Services				
IT Security		P		
IT Service Delivery		P		
IT Operations and Maintenance		P		
Enterprise Transformation		P		
Service Performance		P		
Facilities				
Facilities Management		S	P	
Real Estate Management			P	
Other				
Aviation			P	
Corporate Compliance			P	
Corporate Secretary			P	
Corporate Affairs				
Corporate Communications			P	
Government Affairs			P	
Investor Relations			P	
Corporate Affairs			P	
State Governmental Affairs		P		
NIPSCO Communications				
Communications		P		
Public Affairs		P		
Economic Development		P		
Community Development		P		
Energy Supply & Trading				
Portfolio Optimization		P	S	
Energy Trading		P		
Market Research		P		
Resource Planning		P		
Environmental Safety & Training				
Safety Services			P	
Compliance Services			P	
Training			P	
Remediation			P	
Permitting			P	

Governance Practices Associated with NCSC Charges

There are several ways by which NIPSCO Electric exercises control over NCSC services and charges. The most important of these are described below.

- Accounting and Financial Reporting – NCSC’s accounting and financial reporting policies and practices conform to Generally Accepted Accounting Principles (GAAP). The Financial Accounting Standards Board (FASB) is recognized by the accounting profession as the primary body for establishing the standards embodied in GAAP. GAAP refers to the common set of accounting conventions, rules and procedures recognized as authoritative by the accounting profession and used by all non-governmental entities as a basis for their external financial statements and reporting. In addition, NCSC’s accounting records are kept in accordance with the Uniform System of Accounts (USofA) for service companies or for major electric utilities, as applicable, as prescribed by the Federal Energy Regulatory Commission (FERC). NCSC also follows the directives of Sarbanes-Oxley regulations.

During the month, accounting transactions are recorded. Variance analyses are performed based on actual to budget for expenses to ensure accuracy as part of a reasonableness review of NCSC charges in total. As a part of this analysis, NCSC Accounting reviews the monthly activity and investigates any identified material anomalies in conjunction with Corporate Financial Planning & Analysis team (FP&A). Once completed, the NCSC bill is run and the actuals are allocated to the states based on predetermined formulas.

- External Audit Reviews – NiSource’s outside auditors (Deloitte) perform regular independent audits of the company’s including NIPSCO’s standalone, books and records. Random sampling of NCSC contract and convenience bill items are typically conducted by Deloitte to ensure proper accounting and billing to the subsidiaries. The books and records of NCSC, to the extent they relate to transactions with NIPSCO, are also subject to periodic audit by the Indiana Office of the Utility Consumer Counselor (OUCC), the Indiana Utility Regulatory Commission (IURC or Commission) and the FERC. NCSC is also involved in a number of regulatory filings in jurisdictions where NiSource operates. In certain of these filings, NCSC’s allocation factors are subjected to regulatory scrutiny and audit. In addition, NiSource Inc., including NCSC and NIPSCO Electric, underwent a FERC audit, Docket No. FA11-5-000, which covered the period January 1, 2009, through December 31, 2010. The FERC audit staff reviewed and tested the supporting details for NCSC’s cost allocation methods, including those costs billed to NIPSCO Electric. FERC auditors also sampled and selected

supporting documents to ensure that NCSC's billings and NCSC and NIPSCO Electric accounting comply with the USofA.

- **NCSC & NIPSCO Internal Controls** – NCSC follows the directives of various internally established control procedures. Examples of these control procedures: Authority limits and approvals required for requisition and disbursements; time and labor reporting; expense reporting and general ledger transactions; reasonableness review of actual to budget costs; bank and general ledger account reconciliations; access limitations to the accounts payable and general ledger accounting system; and Sarbanes-Oxley testing procedures. NCSC Accounting also performs a monthly review of NCSC contract billings to all affiliates. To support the review, a report is generated that includes invoice ID, vendor name, billing description, allocation code, department number and description and total amount billed, and a limited random selection of NCSC charges greater than \$10,000 is reviewed to ensure reasonableness and accuracy of billing to the affiliate, including NIPSCO charges. In addition, individual invoices are reviewed as needed if there are specific questions regarding their treatment.
- **Accounting Oversight** – Corporate Accounting is responsible for the accounting system and processes that track and identify the costs for services that are subsequently billed to NiSource affiliates, including NIPSCO, as well as reviewing general overall charges billed to each of the NiSource affiliates by NCSC. The Gas Segment Controller and the Electric Segment Controller also perform high level reviews of the charges. A monthly report summarizing contract billings is sent to the Utility Planning group for review and informational purposes.
- **Service Company Budget Review/Approval** – The Corporate Financial Planning and Analysis (FP&A) Manager and Director of FP&A formally reviews and approves NCSC's budgets for reasonableness and develops an understanding of material changes for both the whole of the budgets and allocation to each of the states, including NIPSCO. These budgeted charges are distributed to each state as an input to its planning process upon approval from the Vice President of FP&A
- **Service Company Budget Variance Reporting** – Each month, the Corporate FP&A team prepares a series of reports included in a Monthly Results Package that are reviewed by various levels of management to document variances and provide explanations, as needed.
- **Service Company Bill Scrutiny** – The Corporate FP&A team performs a monthly actual-to-budget comparison of fees each month for

reasonableness and use in identifying unusual variances. This review is performed prior to the allocation of charges to the operating subsidiaries. After the Service Company Bills run and NCSC costs are allocated, another review is performed for NCSC and each subsidiary. Unusual variances are researched, explanations are provided and any corrections are made by Corporate Accounting, if deemed necessary.

- Operating Company Budget Variance Reporting – The operating company FP&A team reviews the Monthly Results Package provided by the Corporate FP&A team to gain an understanding of variance drivers associated with charges from NCSC. This report is intended to increase transparency for review of NCSC budget versus actual month and year-to-date charges.
- Internal Audit Reviews – Periodically, Internal Audit tests NCSC charges to operating utilities to ensure compliance with approved accounting policies, allocation methods and billing practices.