

OFFICIAL  
EXHIBITS

Petitioner's Exhibit No. 2  
Northern Indiana Public Service Company LLC  
Cause No. 44733-TDSIC-7  
Page 1

IURC  
PETITIONER'S

EXHIBIT NO.

DATE

REPORTER

VERIFIED DIRECT TESTIMONY OF ERIN K. MEECE

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

2    A1. My name is Erin K. Meece. My business address is 801 E. 86th Avenue,  
3       Merrillville, Indiana 46410. I am a Lead Regulatory Analyst for NiSource  
4       Corporate Services Company ("NCSC").

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

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

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

9    A3. I graduated from the University of Southern Indiana with a Bachelor's of  
10       Science Degree majoring in Accounting in 2002 and from Purdue  
11       University with a Master's of Business Administration Degree in 2009.  
12       Prior to joining NiSource, I was employed as a senior-level accountant  
13       working in multiple industries, including rental services, gaming and  
14       property management. I joined NIPSCO's Rates and Regulatory Finance  
15       Department in August of 2015 as a Senior Regulatory Analyst. On March

1        19, 2018 I accepted my current position of Lead Regulatory Analyst for  
2        NCSC.

3        **Q4. What are your responsibilities as Lead Regulatory Analyst?**

4        A4. As Lead Regulatory Analyst, I am responsible for the preparation and  
5        coordination of NIPSCO's Electric Transmission, Distribution and Storage  
6        System Improvement Charge ("TDSIC") filings and Regional  
7        Transmission Organization Adjustment semi-annual filings (Cause No.  
8        44156-RTO-XX). I am also responsible for the preparation and  
9        coordination of NIPSCO's annual Attachments O, GG and MM postings  
10       to the Midcontinent Independent System Operator, Inc. ("MISO"). I also  
11       support the preparation and coordination of NIPSCO's electric Demand  
12       Side Management annual filings (Cause No. 43618-DSM-XX).

13       **Q5. What is the purpose of your direct testimony in this proceeding?**

14       A5. The purpose of my testimony is to support NIPSCO's proposed  
15       ratemaking treatment for TDSIC factors to be applicable and made  
16       effective for bills rendered by NIPSCO for the billing cycles of February  
17       through July 2021, or until replaced by different factors that are approved  
18       in a subsequent proceeding, to effectuate the timely recovery of 80% of

1 approved capital expenditures and TDSIC costs incurred in connection  
2 with NIPSCO's eligible transmission, distribution, and storage system  
3 improvements. I also support NIPSCO's proposal to recover projected  
4 depreciation and property tax expenses for the billing period.

5 **Q6. Are you sponsoring any attachments to your direct testimony?**

6 A6. Yes. NIPSCO's Verified Petition initiating this Cause is designated as  
7 Petitioner's Exhibit No. 1, Attachment 1-A sponsored by NIPSCO Witness  
8 Becker. I am sponsoring the following attachments to NIPSCO's Verified  
9 Petition, all of which were prepared by me or under my direction and  
10 supervision: (1) Attachment 1, Schedules 2 through 10, which show the  
11 calculations underlying the proposed capital and expense revenue  
12 requirement related to eligible TDSIC costs incurred as of July 31, 2020; (2)  
13 Attachment 2, Schedules 1 through 5, which represent additional  
14 underlying support used in the calculation of the revenue requirement in  
15 Attachment 1; and (3) Attachment 3, which contains a clean and redlined  
16 version of NIPSCO's revised tariff sheet reflecting the TDSIC factors to  
17 become effective for bills rendered by NIPSCO during the billing cycles of  
18 February through July 2021, or until replaced by different factors that are

1 approved in a subsequent proceeding.

2 **Q7. Please describe the changes to the schedules included in Attachments 1**  
3 **and 2 as a result of the Commission's order in NIPSCO's electric rate**  
4 **case in Cause No. 45159.**

5 A7. The Commission issued its order in NIPSCO's electric rate case in Cause  
6 No. 45159 on December 4, 2019 (the "Rate Case Order"). Step 1 rates  
7 became effective January 1, 2020 (the first billing cycle was January 2,  
8 2020) reflecting NIPSCO's net utility plant in service as of June 30, 2019.  
9 Step 2 rates became effective March 1, 2020 (the first billing cycle was  
10 March 2, 2020) reflecting NIPSCO's net utility plant in service as of  
11 December 31, 2019. The Rate Case Order also approved new allocators  
12 and NIPSCO's new industrial rate structure. As a result of the Rate Case  
13 Order, the following changes were made:

14 Attachment 1, Schedule 1 (pages 1-3)

- 15 • The "Capital Expenditures Prior Balance" (Col. B and Col. H) is  
16 from the TDSIC-6 Step 2 Compliance Filing.
- 17 • The "Capital Expenditures Current Activity" (Col. C and Col. I)  
18 represents the activity from July 1, 2019 through July 31, 2020 that  
19 did not go into service prior to the December 31, 2019 cut-off date  
20 for Step 2 rates.

- 1       •       Accumulated Depreciation represents depreciation expense on  
2       assets that went in service after December 31, 2019.

3       Attachment 1, Schedule 3 (pages 1-2); Attachment 1, Schedule 4; and  
4       Attachment 1, Schedule 10

- 5       •       The Post In-Service Carrying Charge ("PISCC") amounts  
6       (Attachment 1, Schedule 3), depreciation and property tax expenses  
7       (Attachment 1, Schedule 4), and the deferred revenue requirement  
8       (20%) (Attachment 1, Schedule 10) have been adjusted to exclude  
9       the amounts that were included in both the TDSIC-6 Step 1 and  
10      Step 2 Compliance Filings.

11      Attachment 2, Schedule 2

- 12      •       The Revenue Conversion Factor has been updated for the exclusion  
13      of Utility Receipts Tax ("URT") with Line 4 set to zero.

14      REVENUE REQUIREMENT FOR APPROVED CAPITAL EXPENDITURES & TDSIC COSTS

15      **Q8. What is the total net amount of investment in transmission,**  
16      **distribution, and storage system improvements upon which the**  
17      **Company seeks to earn a return in this proceeding?**

18      A8. Attachment 1, Schedule 2 shows that the total cost of the eligible  
19      transmission, distribution, and storage system improvements ("Eligible  
20      TDSIC Assets") incurred for the period ended July 31, 2020, upon which  
21      NIPSCO requests authority to earn a return is \$160,953,983, as shown in  
22      Attachment 1, Schedule 1 (Page 3). This total includes an allowance for  
23      funds used during construction ("AFUDC") and other indirect costs, and

1       it is net of accumulated depreciation and is adjusted for net plant of  
2       \$462,055,740 that rolled into base rates in both the Step 1 and Step 2  
3       Compliance Filings.

4   **Q9.   Please provide an overview of indirect capital costs.**

5   A9.   Indirect capital costs are associated with capital projects and must be  
6       capitalized in order to comply with Generally Accepted Accounting  
7       Principles ("GAAP"). However, these often cannot be charged directly to  
8       a specific capital project work order as they cannot be directly linked to  
9       one particular project. These capital costs tend to be incurred away from  
10      the job site. NIPSCO groups these indirect capital costs into three  
11      categories: (1) overhead, (2) stores, freight and handling, and (3) AFUDC.

12      The overhead component of indirect capital includes items such as:

- 13      1.     Portions of benefits such as vacation and holiday pay;
- 14      2.     Portions of charges incurred for outside services that support  
15              NIPSCO's capital project processes; and
- 16      3.     Portions of payroll for NIPSCO employees involved in supporting  
17              capital projects in either a project management function (*i.e.*, project

1           engineering, operations) or an administrative and general function  
2           (*i.e.*, fixed asset accounting, financial planning).

3           Stores, freight, and handling charges are also indirect capital costs that  
4           must be capitalized for GAAP purposes. This component of indirect  
5           capital represents costs that NIPSCO incurs to procure materials and  
6           equipment. Generally, this represents the payroll for NIPSCO's supply  
7           chain and procurement functions. It also includes labor costs and other  
8           warehousing expenses associated with NIPSCO's warehousing function  
9           for inventoried materials and supplies.

10          The last component of NIPSCO's indirect capital is AFUDC. NIPSCO  
11          computes AFUDC amounts and relevant AFUDC rates for Eligible TDSIC  
12          projects in accordance with the Federal Energy Regulatory Commission  
13          ("FERC") Uniform System of Accounts. NIPSCO's calculation of AFUDC  
14          is also consistent with GAAP. NIPSCO also has a process to ensure that  
15          AFUDC is no longer recorded after such costs either are given  
16          construction work in progress ("CWIP") ratemaking treatment or are  
17          otherwise reflected in base electric rates, or the project is placed in service,  
18          whichever occurs first.

1 For classification of all other capital spending, NIPSCO has consistently  
2 followed this approach internally for both direct and indirect capital costs  
3 for years, including during the test year in its last general rate proceeding  
4 in Cause No. 45159.

5 **Q10. Please explain how the AFUDC amount on Attachment 1, Schedule 1**  
6 **was calculated.**

7 A10. As discussed above, the AFUDC related to TDSIC projects was calculated  
8 in accordance with the instructions of the FERC Uniform System of  
9 Accounts and consistent with GAAP.

10 **Q11. If the Commission approves the proposed ratemaking treatment for**  
11 **costs of Eligible TDSIC Assets incurred for the period ended July 31,**  
12 **2020 shown on Attachment 1, Schedule 1, will the Company cease**  
13 **accruing AFUDC on those costs?**

14 A11. Yes. NIPSCO will cease accruing AFUDC on construction costs once the  
15 incurred costs receive CWIP ratemaking treatment or are otherwise  
16 reflected in base electric rates, or the project is placed in service,  
17 whichever occurs first. As discussed below, after the in-service date,  
18 NIPSCO will calculate and include for recovery PISCC on costs which



1 have been placed into service and are not receiving ratemaking treatment  
2 until such costs receive CWIP ratemaking treatment, or are otherwise  
3 reflected in base electric rates.

4 **Q12. Please explain how the accumulated depreciation amount on**  
5 **Attachment 1, Schedule 1 was calculated.**

6 A12. NIPSCO has calculated the depreciation expense related to TDSIC capital  
7 expenditures according to each asset's designated FERC account  
8 classification. Each asset, upon being placed in service, is depreciated by  
9 NIPSCO according to the associated FERC account composite accrual rate  
10 approved by the Commission that is effective as of the date the asset is  
11 placed into service. The test period depreciation expense is added to  
12 accumulated depreciation reported in the previous TDSIC filing, adjusted  
13 for the accumulated depreciation balance that rolled into rate base with  
14 both the TDSIC-6 Step 1 and Step 2 Compliance Filings, to calculate total  
15 accumulated depreciation as of July 31, 2020.

16 **Q13. Please explain the calculation of the "return on" portion of NIPSCO's**  
17 **revenue requirement related to costs of Eligible TDSIC Assets incurred**  
18 **for the period ended July 31, 2020.**

1   A13. The calculation of NIPSCO's "return on" portion of the revenue  
2       requirement for costs of Eligible TDSIC Assets incurred for the period  
3       ended July 31, 2020 is shown on Attachment 1, Schedule 2. The annual  
4       revenue requirement for the return on investment was calculated by  
5       multiplying the July 31, 2020 net book value of all TDSIC projects by the  
6       debt and equity components of NIPSCO's weighted average cost of capital  
7       ("WACC"). The product of this calculation was then divided by twelve  
8       (12) and multiplied by six (6) to calculate a 6-month revenue requirement.  
9       The 6-month revenue requirement amount is then reduced by the amount  
10      of light-emitting diode ("LED") street lighting return that was billed  
11      through Rate 850 for the period ending July 31, 2020 to determine the  
12      adjusted capital revenue requirement. This adjusted capital revenue  
13      requirement is then further reduced to 80% and multiplied by the revenue  
14      conversion factor to determine the total return-related revenue  
15      requirement to be recovered for bills rendered during the billing cycles of  
16      February through July 2021, not to exceed an average aggregate increase  
17      in NIPSCO's total retail revenues of more than 2% in a twelve (12) month  
18      period.

1   **Q14. Please explain the revenue conversion factor applied to the Company's**  
2       **pre-tax revenue requirement for Eligible TDSIC Assets shown on**  
3       **Attachment 1, Schedule 2 and Schedule 3 and calculated in Attachment**  
4       **2, Schedule 2.**

5   A14. Attachment 2, Schedule 2 shows the computation of the revenue  
6       conversion factor applied to the Company's pre-tax revenue requirement.  
7       The revenue conversion factor is calculated for debt and equity in order to  
8       properly synchronize interest for the purpose of calculating the revenue  
9       requirement as reflected on Attachment 1, Schedule 2 and Schedule 3. The  
10      federal income tax rate used in this computation is the 21% corporate rate  
11      that became effective with the passing of the Tax Cuts and Jobs Act of  
12      2017 ("TCJA"). The state income tax rate used in this computation was  
13      determined in accordance with Ind. Code § 6-3-2-1.

14   **DEPRECIATION AND PROPERTY TAX EXPENSES**

15   **Q15. Please explain NIPSCO's proposal to project depreciation and property**  
16       **tax expenses?**

17   A15. NIPSCO is proposing to include projected depreciation and property tax  
18       expense to reduce the regulatory lag that occurs when recovering these

costs on a historical basis. The projected expenses will also be reconciled to actual amounts in a future filing. Any variance between the projected and actual revenues will be recovered from or passed back to customers in that future filing. The Commission has approved projection of depreciation and property tax expense in Cause No. 45007 for use in NIPSCO's gas Federally Mandated Cost Adjustment filings (45007-FMCA-X) and Cause No. 44340 for use in NIPSCO's electric Federally Mandated Cost Adjustment filings (Cause Nos. 44340-FMCA-X), and a similar proposal is pending approval in NIPSCO's gas TDSIC proceeding (Cause No. 45330-TDSIC-1).

**Q16. What is the time period relating to depreciation and property taxes that NIPSCO is including as part of this filing?**

A16. Attachment 1, Schedule 4 includes *actual* depreciation expense and property taxes for the period July 2019 through July 2020 and *projected* depreciation expense and property taxes for the period February through July 2021.<sup>1</sup>

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<sup>1</sup> Attachment 1, Schedule 4 also includes a section for the prior period variance for the projected period. Since there were no projections included in the prior TDSIC filing, there is no

1   **Q17. Please explain the calculation of the depreciation and property tax**  
2       **expenses associated with Eligible TDSIC Assets shown on Attachment**  
3       **1, Schedule 4.**

4   **A17.** The total depreciation expense associated with the Eligible TDSIC Assets  
5       shown on Attachment 1, Schedule 4, Page 3, Column B, Line 7 represents  
6       depreciation expense for this filing. The total property tax expense  
7       associated with the Eligible TDSIC Assets shown on Attachment 1,  
8       Schedule 4, Page 3, Column C, Line 7 represents property tax expenses for  
9       this filing. The total expense associated with the Eligible TDSIC Assets is  
10      shown on Attachment 1, Schedule 4, Page 3, Column D, Line 7. For Page 1  
11      of Attachment 1, Schedule 4, Column D, this cumulative total of actual  
12      depreciation and property tax expenses is then reduced by the amount of  
13      LED street lighting expenses that were billed through Rate 850 for the  
14      corresponding period of July 1, 2019 through July 31, 2020 to determine  
15      the adjusted expense revenue requirement. This adjusted expense  
16      revenue requirement is then reduced to 80% and is then included on  
17      Attachment 1, Schedule 5 to determine the proposed revenue requirement  
18      to be recovered for bills rendered during the months of February through

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variance in this filing.

1 July 2021, provided that the result does not exceed an average aggregate  
2 increase in NIPSCO's total retail revenues of more than 2% in a twelve  
3 (12) month period.

4 **RECONCILIATION**

5 **Q18. Is a reconciliation of revenues included in this filing?**

6 A18. Yes. This filing includes a reconciliation on Attachment 1, Schedule 6 of  
7 the revenues billed in accordance with the Commission's Order in TDSIC-  
8 5. The reconciliation of the TDSIC-5 billing period resulted in a net under-  
9 collection primarily due to actual volumes being lower than forecasted  
10 volumes for the billing period. An informational schedule is included that  
11 calculates how the prior period variances from Rates 732, 733, and 734  
12 would be billed prospectively under the approved 800 series rate  
13 structure.<sup>2</sup> The percentages supplied on this schedule are based upon  
14 underlying contracted customer migrations. These amounts are reflected  
15 in Attachment 1, Schedule 6, Page 2, Columns G, N, and U.

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<sup>2</sup> This is included because the TDSIC-5 rates were billed under the 700 series rates, pursuant to Cause No. 44688, while the current TDSIC-7 rates will be billed under the 800 series rates, pursuant to Cause No. 45159.

1    **COST ALLOCATION**

2    **Q19. Please describe the allocation factors NIPSCO used to allocate approved**  
3       **capital expenditures and TDSIC costs.**

4    A19. In this proceeding, Attachment 1-A, Attachment 1 uses the customer class  
5       revenue allocation factors approved for purposes of the TDSIC tracker in  
6       NIPSCO's most recent retail base rate case order in (Cause No. 45159).  
7       Attachment 1-A, Attachment 2, Schedule 4 provides the allocation factors  
8       that NIPSCO used to allocate the related transmission and distribution  
9       revenue requirements in this proceeding as shown on Attachment 1-A,  
10      Attachment 1, Schedule 7.

11   **CALCULATION OF TDSIC FACTORS AND REVISED TARIFF**

12   **Q20. Please explain the calculation of the TDSIC factors shown on**  
13      **Attachment 1, Schedule 8.**

14   A20. Attachment 1, Schedule 8 shows the calculation of the TDSIC factors by  
15      rate code based on the previously calculated revenue requirements. The  
16      factors are calculated by combining the various components of the  
17      allocated revenue requirement and dividing those components by  
18      forecasted firm volumes to compute a billing factor.

1   **Q21. Did NIPSCO calculate the average aggregate increase in its total retail**  
2       **revenue attributable to the TDSIC to determine whether the TDSIC will**  
3       **result in an average aggregate increase of more than 2% in a twelve**  
4       **month period consistent with the methodology affirmed by the Indiana**  
5       **Court of Appeals in Cause Nos. 44370 and 44371?**

6   A21. Yes.

7   **Q22. Will the proposed TDSIC factors result in an average aggregate increase**  
8       **in NIPSCO's total retail revenue of more than 2% in a twelve month**  
9       **period?**

10   A22. No. As shown on Attachment 1, Schedule 9, there is no amount in excess  
11       of 2% of retail revenues for the past 12 months. NIPSCO has calculated  
12       the 2% cap by comparing the increase in TDSIC revenues in a given year  
13       with the total retail revenues for the past 12 months. The retail revenues  
14       used in this calculation represent the revenues related to the 12 months  
15       ending June 30, 2020.

16   **Q23. Please explain Attachment 3.**

17   A23. Attachment 3 is a clean and redlined version of NIPSCO's revised  
18       Appendix J – Transmission, Distribution and Storage System



Improvement Charge (Second Revised Sheet No. 214) showing the TDSIC factors proposed to be applicable for bills rendered during the billing cycles of February through July 2021, or until replaced by different factors that are approved in a subsequent proceeding.

**PROJECTED EFFECT OF THE 7-YEAR ELECTRIC PLAN ON RETAIL RATES AND CHARGES**

**Q24. Please identify the projected effect of NIPSCO's Plan Update-7 on retail rates and charges as it relates to the revenue requirement derived by the Plan.**

A24. Attachment 2, Schedule 5, Page 1, identifies the projected effect of NIPSCO's Plan Update-6 on retail rates and charges. Attachment 2, Schedule 5, Page 2, identifies the projected effect of NIPSCO's Plan Update-7 on retail rates and charges. This schedule also summarizes the total estimated revenue requirement for each rate class through the end of the Plan in 2022.

**MONTHLY BILL IMPACT**

**Q25. What effect will the proposed TDSIC Factors have on an average residential customer?**

A25. Regarding the proposed factors in Attachment 1-A, the estimated average

1 monthly bill impact for a typical residential customer using 700 kWh<sup>3</sup> per  
2 month is \$2.97, representing a \$2.21 increase from the factor currently in  
3 effect. The estimated average monthly bill impact for a typical residential  
4 customer using 1,000 kWh per month is \$4.24, representing a \$3.15  
5 increase from the factor currently in effect.

6 **DEFERRED TDSIC COSTS**

7 **Q26. Please explain NIPSCO's request to defer, until recovery through the**  
8 **TDSIC, 80% of the post in-service TDSIC costs of the TDSIC projects,**  
9 **including carrying costs, depreciation and taxes.**

10 A26. NIPSCO proposes to defer and recover 80% of the post in-service costs,  
11 including carrying costs and pretax returns, depreciation and taxes  
12 associated with its approved TDSIC projects, through the TDSIC  
13 adjustment factor. NIPSCO proposes to defer such costs as a regulatory  
14 asset until such costs are recognized for ratemaking purposes through  
15 NIPSCO's proposed TDSIC adjustment factor or included for recovery in  
16 NIPSCO's basic rates and charges in its next general rate case.

17 **Q27. How does NIPSCO propose to treat the remaining 20% of TDSIC capital**

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<sup>3</sup> The average kWh per month usage in Cause No. 45159.

1        **expenditures and costs that are not included for recovery through the**  
2        **TDSIC adjustment factor?**

3    A27. Ind. Code § 8-1-39-9(b) provides that 20% of the approved capital  
4        expenditures and TDSIC costs, including depreciation, pretax returns,  
5        AFUDC, PISCC and property taxes, shall be deferred and recovered by  
6        the public utility as part of the next general rate case filed by the public  
7        utility with the Commission.

8        Accordingly, NIPSCO requests approval to defer, as a regulatory asset,  
9        20% of such costs and requests to recover those costs as part of NIPSCO's  
10       next general rate case. NIPSCO also requests approval to record ongoing  
11       carrying charges based on NIPSCO's WACC on these costs until the costs  
12       are included for recovery in NIPSCO's basic rates and charges in its next  
13       general rate case.

14       Attachment 1, Schedule 10 is an illustrative ratemaking schedule that  
15       accumulates deferred costs, as well as the ongoing carrying charges, on all  
16       deferred costs until such time as the costs can be recovered in a future  
17       general rate case. These amounts exclude tax gross up, which would  
18       otherwise be included for recovery at the prevailing tax rates when

1 NIPSCO files a future general rate case. This calculation has no impact on  
2 current or proposed rates in this proceeding.

3 **Q28. Please explain the deferred TDSIC costs shown on Attachment 1,**  
4 **Schedule 10.**

5 A28. NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs,  
6 including depreciation and property tax expenses as a result of the  
7 deferral of 20% of all TDSIC costs for recovery in its next general rate case.  
8 The total deferred revenue is calculated in Attachment 1, Schedule 10 as  
9 follows: Lines 11 through 13 represent the 20% total adjusted deferred  
10 revenue requirement from the TDSIC-6 Step 2 Compliance Filing.  
11 Column U represents 20% of the total revenue requirements calculated in  
12 Attachment 1, Schedules 2 through 4. Column V represents amounts in  
13 excess of the 2% Retail Revenue Cap calculated in Attachment 1, Schedule  
14 9. Column W represents ongoing carrying charges, calculated by  
15 multiplying each month's total WACC by 20% percent of all total TDSIC  
16 costs. The ongoing carrying charges included in this filing specifically  
17 relate to carrying charges on eligible TDSIC costs incurred as of July 31,  
18 2020. Column X represents the total costs to be included for recovery in

1       NIPSCO's base rates in its next general rate case.

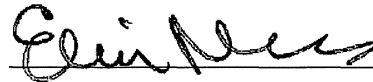
2       Attachment 1, Schedule 10 serves as a record of the deferred TDSIC costs  
3       as well as the ongoing carrying charges on all deferred TDSIC costs,  
4       excluding tax gross up, until such time as the costs can be recovered as  
5       part of NIPSCO's next general rate case.

6       **Q29. Does this conclude your prefiled direct testimony?**

7       **A29. Yes.**

## VERIFICATION

I, Erin K. Meece, Lead Regulatory Analyst of NiSource Corporate Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "Erin Meece", is written over a horizontal line.

Erin K. Meece

Dated: September 29, 2020