ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS ELECTRIC SERVICE RATES THROUGH ITS TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE SCHEDULE; (2) AUTHORITY TO DEFER 20% OF THE APPROVED CAPITAL EXPENDITURES AND TDSIC COSTS FOR RECOVERY IN PETITIONER'S NEXT GENERAL RATE CASE; (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR ELECTRIC PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44733-TDSIC-2, ALL PURSUANT TO IND. CODE § 8-1-39-9; AND (4) A MODIFICATION TO APPENDIX J – TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE.	)	**CAUSE NO. 44733 TDSIC 3** **APPROVED:** MAY 3 0 2018

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
David E. Veleta, Senior Administrative Law Judge

On January 30, 2018, Northern Indiana Public Service Company LLC ("NIPSCO" or "Petitioner") filed its Verified Petition in this Cause requesting: (1) approval of an adjustment to its Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Rate Schedule to be applicable for bills rendered during the billing cycles of June through November 2018 ("TDSIC 3 Billing Period") to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements; (2) authority to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs; (3) approval of NIPSCO's Updated 7-Year Electric Plan ("Plan Update-3"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Cause No. 44733 TDSIC 2; and (4) approval to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3 through the TDSIC and to defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3, for recovery in its next general rate case, all pursuant to Ind. Code ch. 8-1-39 and the Commission's TDSIC Orders.[1]

United States Steel Corporation ("US Steel"), Indiana Municipal Utilities Group ("IMUG"), the Redevelopment Commission of LaPorte County, Indiana ("LaPorte"), and NIPSCO Industrial Group ("Industrial Group")[2] filed petitions to intervene, all of which were subsequently granted.

On January 30, 2018, NIPSCO prefiled direct testimony and attachments of the following: Alison M. Becker, Manager of Regulatory Policy; Jennifer L. Shikany, Director of Regulatory; Russell L. Atkins, Vice President of Electric Engineering; and Kristi L. Figg, Director of TDSIC Support.

On April 4, 2018, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled direct testimony and attachments of the following: Stacie R. Gruca, Director of the OUCC's Electric Division; and Anthony A. Alvarez, Utility Analyst in the OUCC's Electric Division.

On April 4, 2018, Industrial Group filed a Motion for Administrative Notice, which was subsequently granted.

On April 4, 2018, US Steel prefiled the direct testimony and attachments of Constance T. Cannady, an Executive Consultant at NewGen Strategies & Solutions, LLC.

On April 13, 2018, NIPSCO prefiled the rebuttal testimony of Ms. Becker.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, an evidentiary hearing was held on April 30, 2018, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, IMUG, Industrial Group, and US Steel appeared and participated in the hearing. At the hearing, the prefiled evidence of NIPSCO, the OUCC, and US Steel were admitted into the record without objection. The Commission also admitted IG Exhibit 1, NIPSCO's responses to Industrial Group Data Request Nos. 1-4, 1-5, 1-6 and 1-7, with attachments, into the record without objection.

Having considered the evidence presented and being duly advised, the Commission now finds:

1. <u>Notice and Jurisdiction</u>. Notice of the hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a public utility as that term is defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a public utility's petition to approve rate schedules establishing a TDSIC that will allow the period automatic adjustment of the public utility's basic rates and charges to provide for

1 The Commission's 44733 Order, TDSIC-1 Order, TDSIC-1-S1 and TDSIC-2 Orders are herein referred to as the "TDSIC Orders."

2 The members of the Industrial Group in this proceeding are ArcelorMittal USA, BP Products North America, Inc., Cargill, Inc., Jupiter Aluminum Corporation, Praxair, Inc. and USG Corporation.

timely recovery of 80% of approved capital expenditures and TDSIC costs. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 E. 86th Avenue, Merrillville, Indiana 46410. NIPSCO is engaged in rendering electric and gas public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public. NIPSCO provides electrics utility service to more than 461,000 residential, commercial and industrial and wholesale and other customers.

3. **Background and Relief Requested.** On July 12, 2016, the Commission issued its Order in Cause No. 44733 (the "44733 Order") approving a 7-Year Plan and TDSIC Settlement Agreement (the "Settlement") entered into March 24, 2016 by and among NIPSCO, the OUCC, IMUG, LaPorte County Board of Commissioners, the Industrial Group and US Steel (collectively the "Settling Parties"), and (a) approved NIPSCO's proposed 7-Year Electric TDSIC Plan and designated the eligible transmission, distribution and storage system improvements included in the Plan as eligible for TDSIC treatment in accordance with Indiana Code ch. 8-1-39, subject to the provisions of the Settlement (the "7-Year Plan"); (b) granted NIPSCO's request for authority to defer any costs associated with the Plan that are incurred beginning January 1, 2016 until such amounts are recovered through rates; (c) approved NIPSCO's proposed process for updating the 7-Year Electric TDSIC Plan in future TDSIC adjustment proceedings; and (d) approved the ratemaking treatment set forth in the Settlement including authority to (i) apply construction work in progress ("CWIP") ratemaking treatment, (ii) continue the statutory 80/20 percent recovery and deferral of approved TDSIC costs through current Rider 688 or its successor, (iii) defer ongoing carrying charges associated with TDSIC projects as a regulatory asset based on NIPSCO's weighted cost of capital, until the deferred TDSIC Costs are included for recovery in rates, and (iv) adjust NIPSCO's authorized net operating income to reflect TDSIC earnings.

On January 25, 2017, the Commission issued its Order in Cause No. 44733 TDSIC 1 (the "TDSIC 1 Order") approving, among other things, NIPSCO's updated Plan (Plan Update-1) and designated the projects included in Year 2 as eligible improvements under Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's deferral and recovery of 80% of its eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-1 through the TDSIC and defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-1 for recovery in its next general rate case.

On April 19, 2017, the Commission issued its Order in Cause No. 44733 TDSIC 1 S1 (the "TDSIC 1 S1 Order") approving a Settlement Agreement dated February 15, 2017 by and among NIPSCO, IMUG and the OUCC, and approved, among other things, the addition of NIPSCO-owned TDSIC installed rates relating to the TDSIC LED (light emitting diode) Street Lighting Project,[3] with 50% of the revenue requirement on a per lamp basis associated with the installed costs to be included in a LED street light lamp rate applicable to each fixture and all variances being recovered as TDSIC Costs.

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[3] In the Settlement approved by the 44733 Order, the settling parties agreed to the implementation of a mass retrofit LED streetlight project for NIPSCO-owned streetlights ("TDSIC LED Street Lighting Project").

On October 31, 2017, the Commission issued its Order in Cause No. 44733 TDSIC 2 (the "TDSIC 2 Order") approving, among other things, NIPSCO's updated Plan (Plan Update-2) and designated the projects eligible improvements under Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's deferral and recovery of 80% of its eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-2 through the TDSIC and defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-2 for recovery in its next general rate case.[4]

In this proceeding, in accordance with Ind. Code § 8-1-39-9(a), NIPSCO seeks an Order: Approving an adjustment to its TDSIC Rate Schedule to be applicable for bills rendered during the billing cycles beginning June through November 2018, to remain in effect until another factor is approved to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements; Authorizing the deferral, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs and record ongoing carrying charges based on the current overall weighted cost of capital on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case; Approving NIPSCO's Updated 7-Year Plan, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Cause No. 44733 TDSIC 2; and Authorizing the deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3 through the TDSIC and to defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3, for recovery in its next general rate case.

4. Commission Discussion and Findings Regarding TDSIC-3. NIPSCO submitted its Verified Petition and supporting testimony and attachments to demonstrate compliance with the requirements of Ind. Code § 8-1-39-9 and the Settlement approved by the Commission in the 44733 Order.

A. Past and Future Rate Case Timing and TDSIC Timing.

1. Ind. Code § 8-1-39-9(c). Ind. Code § 8-1-39-9(c) states that "[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service." NIPSCO's most recent retail electric base rate order changing NIPSCO's basic rates and charges was issued July 18, 2016 in Cause No. 44688. Therefore, we find that NIPSCO's request in this Cause was filed more than nine months after NIPSCO's last general rate case in accordance with Ind. Code § 8-1-39-9(c).

2. Ind. Code § 8-1-39-9(d). Ind. Code § 8-1-39-9(d) states that "[a] public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public utility's basic rates and charges with respect to the same type of utility service." In its

4 The Commission's TDSIC-2 Order was appealed by the NIPSCO Industrial Group in Case No. 93A02-1711-EX-02735.

Verified Petition, NIPSCO affirms that it will petition the Commission for review and approval of its electric basic rates and charges before the expiration of its 7-Year Plan in 2022. We therefore order NIPSCO to petition the Commission for review and approval of its basic electric rates and charges prior to the expiration of its 7-Year Plan pursuant to Ind. Code § 8-1-39-9(d).

3. Ind. Code § 8-1-39-9(e). Ind. Code § 8-1-39-9(e) states that "[a] public utility may file a petition under this section not more than one (1) time every six (6) months." NIPSCO filed its petition under the terms of the Settlement approved by the 44733 Order, and not within six months of a previous filing. Therefore, we find that NIPSCO's proposed timeline for its TDSIC filings is consistent with Ind. Code § 8-1-39-9(e).

B. NIPSCO's Current 7-Year Plan Under Ind. Code § 8-1-39-9(a)(2). As part of its case-in-chief, NIPSCO attached its currently approved 7-Year Plan approved by the TDSIC-2 Order as Confidential Exhibit Electric Plan Update-2 as well as its Plan Update-3 as Confidential Exhibit Electric Plan Update-3. Therefore, we find that NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a)(2). We note that in each semi-annual TDSIC filing, NIPSCO must update its 7-Year Plan pursuant to Ind. Code § 8-1-39-9(a) and in accordance with the specific parameters set forth in our 44733 Order.

C. NIPSCO's Updated 7-Year Plan. Ind. Code § 8-1-39-9(a) requires a utility to update its 7-Year Plan with each TDSIC petition the utility files. NIPSCO Witness Atkins explained that NIPSCO's proposed updated 7-Year Plan is contained in Confidential Exhibit Electric Plan Update-3. Mr. Atkins further explained the appendices supporting Plan Update-3 as follows: Confidential Appendix 1 identifies and prioritizes the overhead and underground circuit rebuild projects, transformers, and circuit breaker assets. These are major transmission and distribution projects requiring significant lead time and planning to execute. Confidential Appendix 2 identifies and prioritizes the Aging Infrastructure assets (oil circuit breakers, wood poles, steel tower rehabilitation, underground cable, circuit performance and system deliverability). These are projects that were ranked using factors such as age, condition and capacity. Confidential Appendix 3 includes the detailed cost estimates for the 2017 projects. Confidential Appendix 3.1 includes the revised Estimate Summaries, along with estimate worksheets, supporting the revisions to individual project costs for Year 2017 filed in support of Plan Update-1. Confidential Appendix 3.2 includes PCR forms and new cost estimates for projects moved into 2017 from a future year filed in support of Plan Update-2. Confidential Appendix 3.3 includes PCR forms and new cost estimates for projects moved into 2017 from a future year filed in support of Plan Update-3. Confidential Appendix 4 includes the detailed cost estimates for the 2018 projects. Confidential Appendix 4.1 includes PCR forms filed in support of Plan Update-3. Confidential Appendix 5 includes the detailed cost estimates for the 2019 projects. Confidential Appendix 6 provides the methodology and initial unit-cost based estimates developed for the TDSIC Plan (2016 – 2022) broken down by direct and indirect costs including labor and material for projects with unit based estimates. Confidential Appendix 6.1 provides updates to the unit-cost based estimates initially developed in Appendix 6 for the TDSIC Plan for years 2016, 2017, and 2018 in support of Plan Update-2 and Plan Update-3. Appendix 7 includes NIPSCO's Register of Street Lights by Municipality showing the number of streetlights to be replaced by municipality in each year of the Plan. Confidential Appendix 8 shows 2018 projects that moved from one Project ID to another.

Pursuant to the 44733 Order, in each fall tracker filing, NIPSCO will provide a detailed list of projects for the upcoming year, with best estimate of project costs

Under the terms of the Settlement, NIPSCO retains the ability to move projects between years as appropriate. In the event that a given project, in whole or in part, is rescheduled to a different year, the annual cost recovery caps for the affected years will be adjusted by that project's whole or partial approved cost estimate to reflect the change. Ms. Figg testified that each of the moves discussed later is shown on Petitioner's Exhibit No. 4, Confidential Attachment 4-A. OUCC Witness Alvarez testified NIPSCO's proposed Plan Update-3 cap moves and annual cap adjustments are consistent with the Settlement.

Mr. Atkins sponsored Confidential Attachment 3-B showing plan variances (moves and costs) by year, by project, specifically showing the amount of the project move, the project cost variance, and the percent of project cost variance to further break down the plan variances into project moves and project cost variances. He testified that the following ten projects were moved into Year 2017 from other years: Arrester Projects – Transmission [Project ID TSA1]; Battery & Charger Equipment Projects – Transmission [Project ID TSB1]; Relay & Breaker Upgrade – Goodland 69kV [Project ID TSRU42]; Rebuild Mitchell Substation 138kV Yard [Project ID TSNRS1]; Substation Engineering – Transmission [Project ID TSE1]; Underground Cable Replacement Projects [Project ID DUG1; Arrester Projects – Distribution [Project ID DSA1]; Recloser Replacement Projects – Distribution [Project ID DSBRU1]; LTC Control Upgrade Projects – Distribution [Project ID DSRU3]; and Replace Transformer – Waterloo #2 [Project ID DSTU6].

Mr. Atkins noted that the following 18 projects were moved into Year 2018 from other years: Arrester Projects – Transmission [Project ID TSA1]; Potential Transformer Projects – Transmission [Project ID TSPT1]; Relay & Breaker Upgrade – Monticello -13832 & 13847 W (Breaker Only), 69kV Trsfrmr & Line (Relay and Breaker) [Project ID TSRU27]; Substation Pre-construction – Transmission [Project ID TSPC1]; Substation Engineering – Transmission [Project ID TSE1]; Steel Structure Life Extension Projects – Transmission [Project ID TLST1]; Circuit 3465 Rebuild – 69kV Laporte JCT to Tee Lake [Project ID TLNRL6]; Line Pre-construction – Transmission [Project ID TLPC1]; Underground Cable Replacement Projects [Project ID DUG1]; 4kV Line Pre-construction [Project ID D4KVLPC1]; Recloser Replacement Projects – Distribution [Project ID DSBRU1]; Replace Transformer – Waterloo #2 [Project ID DSTU6]; Court #1 Switch Gear Replacement [Project ID DSNRS8]; Rebuild Substation – Torrence - #1 Transformer and Switchgear [Project ID DSNRS17]; Substation Pre-construction – Distribution [Project ID DSPC1]; Substation Engineering - Distribution [Project ID DSE1]; Circuit 3433 Rebuild – Grandview to Bendix West Side [Project ID DLNRL24]; and Line Pre-construction – Distribution [Project ID DLPC1].

Mr. Atkins identified the following seven projects which were moved into Year 2019 from other years: Arrester Projects – Transmission [Project ID TSA1]; Substation Engineering – Transmission [Project ID TSE1]; Steel Structure Life Extension Projects – Transmission [Project ID TLST1]; Circuit 6986 Rebuild – Dekalb Phase 2 [Project ID TLNRL8]; Underground Cable

Replacement Projects [Project ID DUG1]; Power Transformer Projects – Distribution [Project ID DSTU1]; and LED Street Lighting [Project ID DLED1].

Mr. Atkins testified that the following six projects were moved into Year 2020 from other years: Arrester Projects – Transmission [Project ID TSA1]; Substation Engineering – Transmission [Project ID TSE1]; Recloser Replacement Projects – Distribution [Project ID DSBRU1]; Battery & Charger Equipment Projects - Distribution – [Project ID DSB1]; Replace 34kV Transformers [Project ID DSTU3]; and Line Switch Projects – Distribution [Project ID DLSW2].

Mr. Atkins noted that the following three projects were moved into 2021 from other years: Arrester Projects – Transmission [Project ID TSA1]; Potential Transformer Projects – Transmission [Project ID TSPT1]; and Switches to Clear Incoming Lines Projects – Distribution [Project ID DLSW1]. Finally, for 2022, Mr. Atkins testified that the following three (3) projects were moved into Year 2022 from other years: Annunciator Projects – Transmission [Project ID TSRU2]; Underground Cable Replacement Projects [Project ID DUG1]; and Replace 12kV Transformers [Project ID DSTU4].

Mr. Atkins described the projects with cost increases greater than or equal to $100,000 or 20% that were included in Plan Update-3, each of which were supported by Project Change Requests ("PCRs"). OUCC Witness Alvarez identified the 15 revised projects with costs increases greater than or equal to $100,000 or 20% that were included in Plan Update-3. He testified the increases were identified in the corresponding Project Change Requests ("PCR") for each project and that each PCR provided justification to support the changes. Mr. Alvarez believed NIPSCO provided adequate support for the revised projects with significant cost increases and that the OUCC will continue to monitor the costs of these projects in subsequent tracker filings. Mr. Alvarez noted that the Settlement allows NIPSCO to use cost decreases to offset cost increases of revised projects within the limited stipulated in the Settlement. In Plan Update-3 NIPSCO revised approximately 133 projects, 49 project direct cost estimates increased by approximately $42.3 million and the remaining 84 project direct cost estimates decreased by approximately $37.6 million, resulting in a net cost increase of approximately $4.6 million. Mr. Alvarez recommended that the Commission approve NIPSCO's proposed Plan Update-3 not to exceed its $1.25 billion cap, as stipulated in the Settlement.

The Commission finds that each of the variances and moves between years were made pursuant to the terms of the Commission-approved Settlement and should be approved.

D. Revenue Requirement. As supported by NIPSCO Witness Shikany, NIPSCO requested authority to earn a return on $250,425,745, as shown on Attachment 1, Schedule 1 (Page 3), which includes an allowance for funds used during construction ("AFUDC"), other indirect costs, and the amount is net of accumulated depreciation. Ms. Shikany further testified that once the Commission approves the proposed ratemaking treatment for costs of eligible TDSIC assets incurred for the six-month period ended November 30, 2017 ("TDSIC 3 Period"), as shown on Attachment 1, Schedule 1, NIPSCO will cease to accrue AFUDC for those costs, which will begin receiving CWIP ratemaking treatment.

The billing period for TDSIC-1 was February 2017 through September 2017, an 8-month billing period. Ms. Shikany testified that NIPSCO's calculation in TDSIC 1 of the electric revenue requirement-capital to be recovered was converted to a 6-month revenue requirement, but should have been an 8-month revenue requirement. To address this issue, Ms. Shikany explained that an adjustment equal to the difference in this calculation (as well as a line item showing the Total Adjusted) has been added to the calculation of the Post-In Service Carrying Charges ("PISCC") that flows to Attachment 1, Schedule 5, and Line 2. OUCC witness Gruca reviewed NIPSCO's changes to Attachment 1, Schedule 3, and agreed that NIPSCO had properly remedied the two months of revenue requirement capital that had been inadvertently excluded from TDSIC 1.

Ms. Shikany testified that NIPSCO calculated the depreciation expense related to TDSIC capital expenditures according to each asset's designated Federal Energy Regulatory Commission ("FERC") account classification. She also testified that pursuant to the Settlement, the annual revenue requirement for the return on investment is calculated by multiplying the November 30, 2017, net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted average cost of capital ("WACC"), as shown on Attachment 1, Schedule 2.

Finally, Ms. Shikany testified that the revenue conversion factor used to compute NIPSCO's pre-tax revenue requirement is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement on Attachment 1, Schedules 2 and 3. She stated the federal income tax rate used in this computation is the 21% corporate rate that became effective with the passing of the Tax Cuts and Jobs Act of 2017 ("TCJA"). As a result of the reduction in corporate rate, the 80% revenue requirement in this proceeding was reduced by approximately $1.9 million lower than if the federal income tax rate remained at 35%.

US Steel Witness Cannady requested that the Commission require NIPSCO to refund amounts for billings under the current TDSIC 2 rates from January 1, 2018, until the time the rate is changed to reflect the 21% tax rate under the TCJA in this Cause. She also stated that a carrying charge using NIPSCO's AFUDC rate of 7.44% should be added until the new TDSIC 3 rate is implemented, and requested that the Commission require, in this case, NIPSCO to compute any excess deferred income taxes ("EDIT") for the TDSIC projects from the effective date of the first TDSIC rate through December 17, 2017.

In response, NIPSCO Witness Becker disagreed noting that on February 16, 2018, the Commission issued an order designating Cause No. 45032 as the forum to address the impacts of TCJA and the rate implications in two phases. In Phase 1, the Commission required NIPSCO and other utilities to submit for Commission approval revised tariff sheets reflecting the new tax rate applicable as a result of TCJA. She stated on March 26, 2018, NIPSCO submitted its Phase 1 30-Day Filing which included TDSIC Original Sheet No. 246, Appendix J. The Commission established Phase 2 to address "all remaining issues, including (1) the amount and amortization of normalized and non-normalized excess accumulated deferred income taxes and the regulatory accounting being used by Respondents as required by the Commission's January 3, 2018 Order in this Cause for estimated impacts resulting from the Act, and (2) the timing and method for how these benefits will be realized by customers, whether directly or indirectly." Ms. Becker testified Ms. Cannady's requested action should be addressed in the Phase 2 of Cause No. 45032 and that

NIPSCO requests that the Commission utilize the normal reconciliation process to implement any refunds resulting from Phase 2 of Cause No. 45032. She further testified that Ms. Cannady's other requests are issues that should be addressed in Phase 2 of Cause No. 45032.

OUCC Witness Gruca recommends the Commission approve recovery of NIPSCO's proposed total revenue requirement in TDSIC 3, based on the customer class revenue allocation factors approved by the Commission in NIPSCO's last base rate case, Cause No. 44688 and further outlined in the Commission's TDSIC 2 Order, consistent with the TDSIC statute. Ms. Gruca testified NIPSCO adjusted its revenue conversion factor applied to its pre-tax revenue requirement to reflect the lower federal income tax rate that became effective with the passing of the TCJA.

Based on a review of the evidence and finding that project costs variances should be approved, we find that NIPSCO's proposed revenue requirement does not require adjustment and has been calculated in compliance with the TDSIC tracker methodology outlined in Rider 788. The Commission rejects the proposition that NIPSCO's revenue requirement for TDSIC 3 should be reduced by estimated federal income tax over-collections in TDSIC 2. These are estimated amounts outside the normal reconciliation period for TDSIC 3, and at this time, such over-collections are a regulatory liability to be addressed in Phase 2 of Cause No. 45032.

E. Depreciation and Property Tax Expenses. NIPSCO Witness Shikany testified that Attachment 1, Schedule 4 contains the depreciation expense and property taxes for the TDSIC 3 period. Ms. Shikany explained how the total actual depreciation expense incurred is reduced by the amount of LED street lighting expenses that were billed through Rate 750 for the corresponding TDSIC 3 period to determine the adjusted semi-annual expense revenue requirement. This adjusted semi-annual expense revenue requirement is then reduced to 80% and multiplied by the revenue conversion factor. The Commission finds that NIPSCO's total depreciation and property tax expense associated with eligible TDSIC projects should be approved.

F. Reconciliation. NIPSCO Witness Shikany testified this filing includes a reconciliation of the revenues billed in accordance with the Commission's TDSIC 1 Order. The Commission finds that NIPSCO has appropriately reconciled the revenues bill in accordance with the TDSIC-1 Order.

G. Cost Allocation. NIPSCO Witness Shikany testified that NIPSCO's proposed TDSIC factors use the customer class revenue allocation factor based on firm load approved for purposes of the TDSIC tracker in its most recent retail base rate case order. Attachment 2, Schedule 4 provides the allocation factors that NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown on Attachment 1, Schedule 7.

OUCC Witness Gruca testified that NIPSCO's rate factors in TDSIC 2 and TDSIC 3 were based on firm load and billed based on firm load in conformance with the Commission's TDSIC 2 Order. In the TDSIC 2 Order, the Commission found that:

> Indiana Code Section 8-1-39-9(a)(l) states that the Petition must use the customer class revenue allocation factor based on firm load approved in the public utility's

> most recent retail base rate case order. Specific to the evidence of this proceeding, the Parties explicitly agreed to and the Commission approved the allocation factors established in the Rate Case Settlement and the Settlement. Those agreements leave no question as to what factors would be applied and made no allowance for subsequent adjustments for migrations. Thus, we find that the allocation factors reflected in Joint Exhibit D to the Rate Case Settlement are to be used to calculate NIPSCO's TDSIC 3 customer class specific revenue requirement. Further, we find that the derivation of the customer class specific rate factors to collect the class allocated revenue should use the firm load within that class as proposed by Mr. Westerhausen. (Footnote deleted).

This finding from TDSIC 2 is currently under appeal by the NIPSCO Industrial Group at the Court of Appeals in Case No. 93A02-1711-EX-02735.

In the TDSIC 2 Order, the Commission noted that Witness Westerhausen testified that the impact of using Joint Exhibit D without migration is that when a large customer moves from one rate class to another without that customer's proportionate costs following it to the new rate class, the remaining customers in the rate class that the customer leaves may be unduly burdened by the costs being stranded in that rate class. In his TDSIC 2 testimony, which the Commission granted administrative notice of in this Cause, Industrial Group Witness Phillips proposed two options to remedy the difference in the development of the TDSIC 1 and TDSIC 2 rate factors, which he noted contained both firm and non-firm revenues. Mr. Phillips asserted that NIPSCO mistakenly spread each class's assigned revenue requirement over total sales (both firm and non-firm), but only applied the factor to firm sales. To remedy this, Mr. Phillips testified that any variance between approved TDSIC 1 and TDSIC 2 revenues and those actually collected would need to be spread among all firm customers' load, or deferred for inclusion in the next general rate case.[5] The Commission recognizes the risk to the remaining customers in a rate class after a large industrial customer departs.

The Commission finds that NIPSCO's approved capital expenditures and TDSIC costs have been properly allocated to the various customer classes in accordance with Ind. Code §8-1-39-9(a)(1) and our 44733 and TDSIC 2 Orders and should be approved.

H. Calculation of TDSIC Factors. NIPSCO Witness Shikany testified that Attachment 1, Schedule 8 shows the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirements. She explained the factors are calculated by combining the various components of the allocated revenue requirement and dividing those components by forecasted firm volumes to compute a billing factor for bills rendered by NIPSCO for the TDSIC 3 Billing Period.

The Commission finds that the proposed TDSIC factors set forth in Petitioner's Exhibit No. 1, Attachment 1, Schedule 8 were correctly calculated, and such factors should be approved.

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[5] The second option presented by Mr. Phillips was to multiply the transmission revenue requirement allocation factor by the ratio of firm sales to total sales, and then use the revised allocators to allocate the TDSIC-2 revenue requirement to each rate class.

I. Projected Effect on Retail Rates and Charges as Required by Ind. Code § 8-1-39-9(a)(3). Ind. Code § 8-1-39-9(a)(3) requires NIPSCO to identify the projected effects of the plan on retail rates and charges. The projected effects of the TDSIC factors on retail rates and charges are shown on Petitioner's Exhibit No. 1, Attachment 2, Schedule 5. Ms. Shikany testified that the estimated average monthly bill impact for a typical residential customer using 698 kWh per month would be $2.21, while the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month is $3.16.

The Commission finds that NIPSCO identified the projected effects of the 7-Year Plan on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

J. Average Aggregate Increase in Total Retail Revenues under Ind. Code § 8-1-39-14. Section 14(a) states as follows:

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

Ms. Shikany testified that Attachment 1, Schedule 9 shows that there is no amount in excess of 2% of retail revenues for the past 12 months. NIPSCO has calculated the 2% cap by comparing the increase in TDSIC revenues in a given year with the total retail revenues for the past 12 months. The retail revenues used in this calculation represent the revenues related to the 12 months ending September 30, 2017.

The Commission finds that NIPSCO's proposed TDSIC 3 factors will not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12 month period.

K. Deferred TDSIC Costs. Ms. Shikany testified that NIPSCO requests to defer and recover 80% of the PISCC, including carrying costs and pretax returns, depreciation and taxes associated with the approved TDSIC projects through the TDSIC adjustment factor. Ms. Shikany explained that NIPSCO proposes to defer these costs as a regulatory asset until such costs are recognized for ratemaking purposes through NIPSCO's proposed TDSIC adjustment factor or included for recovery in NIPSCO's base rates and charges in NIPSCO's next general rate case. Ms. Shikany also testified that pursuant to Ind. Code § 8-1-39-9(b), NIPSCO proposes that 20% of the approved capital expenditures and TDSIC costs, including depreciation, pretax returns, AFUDC, PISCC, and property taxes be deferred and recovered in NIPSCO's next general rate case. Attachment 1, Schedule 10 is an illustrative ratemaking schedule that accumulates deferred costs as well as the ongoing carrying charges on all deferred costs until such time as the costs can be recovered in a future general rate case. Ms. Shikany further testified that these amounts exclude tax gross up, which would otherwise be included for recovery at the prevailing tax rates when NIPSCO files a future general rate case. She stated that this calculation has no impact on current or proposed rates in this proceeding.

The Commission approves NIPSCO's proposal to defer these costs as a regulatory asset until such costs are recognized for ratemaking purposes through NIPSCO's proposed TDSIC adjustment factor or included for recovery in NIPSCO's basic rates and charges.

L. Compliance with the 44733 Order. NIPSCO witness Figg explained how NIPSCO tracks and complies with the various provisions of the Settlement approved in the 44733 Order. The Settlement requires that in the event that a project is rescheduled, in whole or in part, to a different year, the annual cost recovery caps for the affected years will be adjusted by that project's whole or partial approved cost estimate to reflect the change. Ms. Figg sponsored Confidential Attachment 4-A (7-Year Electric Plan Cap Movement) and explained how the project moves are tracked and how the original project estimate is subtracted from the year the project moves from and added to the year the project moves to. Ms. Figg also explained that the overall 7-Year Cap amount of the project move will be zero and that the total 7-Year Cap will remain at $1,251,954,035. Ms. Figg also explained the annual cap amounts for direct capital costs, indirect capital costs and AFUDC included in Plan Update-3. Next, Ms. Figg identified the difference between the projected capital expenditures, the Plan Update-2 cap and the Plan Update-3 cap. Ms. Figg confirmed that NIPSCO has not exceeded the 2017 annual cap of $144,311,495 in Plan Update-3.

The 44733 Order set the cap on total capital costs eligible for TDSIC ratemaking treatment at $1.25 billion and required NIPSCO to remove $80 million of capital expenditures from the TDSIC ratemaking treatment. Ms. Figg sponsored Attachment 4-B (7-Year Electric Plan: Cap vs Plan), showing how Plan Update-3 compares to the Cap. Ms. Figg confirmed that the tracker eligible amounts do not exceed the $1.25 billion cap.

The 44733 Order allows NIPSCO to deviate above each annual cost recovery cap by no more than 5% in a rolling historical three-year period. Ms. Figg sponsored Attachment 4-B computing the maximum allowed recovery based on the annual cap plus 5% in the historical three-year period. Ms. Figg confirmed that the amounts included in the "Annual TDSIC Tracker Eligible" line, as shown on line 22 of Attachment 4-B, are the amounts allowed to be recovered through TDSIC, and are compliant with the Settlement.

The 44733 Order requires TDSIC investments to be split (+/- 1%) between transmission (39%) and distribution (61%). Mr. Atkins testified that the overall composition of the projects included in the Plan will be maintained at 61% distribution and 39% transmission, plus or minus one percent, as shown on Page 1 of the Plan. OUCC Witness Alvarez reviewed NIPSCO's Plan Update-3 and verified the overall composition of the projects as stipulated in the Settlement is included in NIPSCO's Plan Update-3.

US Steel Witness Cannady recommends the Commission order NIPSCO to use the Project Category Method in determining the functional revenue requirement in its TDSIC rate filings if the FERC Account Method produces assignment of capital costs to transmission that does not comply with the Settlement. Next, Ms. Cannady recommends the Commission direct NIPSCO to use the Project Category Method rather than the FERC Account Method in determining the revenue requirement. Finally, Ms. Cannady recommends that should the Commission allow the FERC Account Method, regardless of the assigned percentage in each of the future TDSIC filings, the Commission should require NIPSCO to include a transparent true-up provision into the TDSIC process on a going forward basis.

In response, NIPSCO Witness Becker testified that in its TDSIC 2 Order the Commission clearly found that NIPSCO's revenue requirement is appropriately based on the FERC Account Method and found US Steel's proposed true-up mechanism is not necessary. She testified that nothing has changed since the Commission made its finding in its TDSIC 2 Order. She testified that as NIPSCO previously explained in TDSIC 1 and TDSIC 2, NIPSCO only uses the Project Category Method for determining compliance with the requirement in the Settlement that the split between distribution and transmission projects be kept at 61% distribution projects and 39% transmission projects, plus or minus one percent.

Ms. Becker also testified that as NIPSCO previously explained in TDSIC 1 and TDSIC 2, NIPSCO's books and records are kept in accordance with the Uniform System of Accounts, which was adopted by the Commission and that ratemaking is based on FERC account balances. She testified NIPSCO has applied this methodology consistent in all base rate and tracker proceedings, including TDSIC; therefore it is appropriate to use the FERC Account Method to determine the revenue requirement.

Finally, Ms. Becker testified that as NIPSCO previously explained in TDSIC 1 and TDSIC 2, and the Commission found in those Causes, it is appropriate to use the FERC Account Method to establish the revenues requirement. She stated that based on the structure of the Settlement, it is appropriate to use the Project Category Method to determine that NIPSCO is meeting the terms of the Settlement with regard to the overall project composition. Therefore, a "true up provision" is not only not required, but would go against the terms of the Settlement Agreement agreed to by the various parties, including US Steel, and approved by the Commission.

As the Commission found in the TDSIC 1 and TDSIC 2 Orders, the Commission finds again in this case that NIPSCO's revenue requirement is appropriately based on the FERC Account Method. The Commission also finds that US Steel's proposed true-up mechanism is not necessary.

The 44733 Order approved of up to $3.5 million for an Economic Development project for the LaPorte County Kingsbury Industrial Park ("Kingsbury Projects") including a $2.5 million project for substation upgrades as provided for in the Commission's July 18, 2016, Order in Cause No. 44688 and up to $1.0 million for other distribution infrastructure upgrades. NIPSCO Witness Atkins stated that no capital expenditures for the Kingsbury Project had been made yet, but any capital expenditures related to the Kingsbury Project will be included in future tracker filings by NIPSCO.

The Commission finds that NIPSCO has complied with the Settlement terms approved in the 44733 Order.

M. Compliance with the TDSIC 1 S1 Order. Ms. Becker explained that the Company included in its presentation at its electric TDSIC stakeholder meeting an update on the number of mast arm rotation and power supply cable replacements associated with the TDSIC LED Street Lighting Project, along with the associated cost, as required by the TDSIC 1 S1 Order.

The Commission finds that NIPSCO has complied with the requirement to provide an update on the number of mast arm rotation and power supply cable replacements associated with the TDSIC LED Street Lighting Project, along with the associated costs, as required by the TDSIC 1 S1 Order.

5. Modification to Appendix J. NIPSCO Witness Shikany testified that pursuant to the Commission's January 11, 2017 Order in Cause No. 44828, NIPSCO has modified Appendix J – Transmission, Distribution and Storage System Improvement Charge to reflect that it is also applicable to NIPSCO's Rider 785 – Plug-In Electric Vehicle Off-Peak Charging Rider. We find that NIPSCO's addition of Rider 785 – Plug-In Electric Vehicle Off-Peak Charging Rider to Appendix J is appropriate.

6. Confidential Information. On January 30, 2018, NIPSCO filed a motion for protective order which was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code § 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. On February 16, 2018, the Presiding Officers issued a Docket Entry finding such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. NIPSCO's proposed adjustment to its TDSIC Rate Schedule to be applicable for bills beginning with the first billing cycle in June 2018, or until another factor is approved to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements is hereby approved.

2. NIPSCO is authorized to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs and record ongoing carrying charges based on the current overall weighted cost of capital on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case.

3. NIPSCO's Plan Update-3, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Cause No. 44733 TDSIC 2, is hereby approved and the approved projects are designated as eligible transmission, distribution, and storage system improvements under Ind. Code § 8-1-39-2.

4. NIPSCO is authorized to allocate transmission and distribution revenue requirements by using the allocation percentages contained on Joint Exhibit D as previously approved in Cause No. 44688. For the derivation of the customer class specific rates, NIPSCO shall use the firm load within each rate class.

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

6. NIPSCO is authorized to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3 through the TDSIC and to defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-3, for recovery in its next general rate case.

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

8. Petitioner's request that Appendix J – Transmission, Distribution and Storage System Improvement Charge be modified to reflect that it is also applicable to Petitioner's Rider 785 – Plug-In Electric Vehicle Off-Peak Charging Rider is hereby approved.

9. Prior to implementing the authorized TDSIC factors, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the order date subject to Division review and agreement with the amounts reflected.

10. The information filed by Petitioner in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

HUSTON, KREVDA, OBER, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: MAY 3 0 2018

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission