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INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED DIRECT TESTIMONY OF KEVIN J. BLISSMER

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

A1. My name is Kevin J. Blissmer. My business address is 801 E. 86th Avenue, Merrillville, Indiana 46410. I am Manager of Regulatory for NiSource Corporate Services Company ("NCSC").

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

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

Q3. Please describe your educational and employment background.

A3. I graduated from Purdue University with a Bachelor of Science Degree majoring in both Accounting and Finance. I was employed at Universal Access, a small public telecommunications company based in Chicago, Illinois for three years, where I progressed in my career to Assistant Controller before leaving to join NiSource Inc. ("NiSource"). I joined NiSource in 2003 as the Manager of SEC Reporting and Research until 2010, after which I held roles as Manager of Accounting Research and Manager of Corporate Finance before joining NIPSCO's Rates and Regulatory

Finance Department in 2014 as the Manager of Regulatory Accounting. On November 1, 2017, I accepted my current position as Manager of Regulatory.

Q4. What are your responsibilities as Manager of Regulatory?

A4. I am responsible for the preparation and coordination of many of NIPSCO's electric tracker filings, including NIPSCO's Fuel Adjustment Clause ("FAC") filings (Cause No. 38706-FAC-XXX), Electric Transmission, Distribution, and Storage Improvement Charge ("TDSIC") filings (Cause No. 44733-TDSIC-X), Electric Demand Side Management ("DSM") filings (Cause No. 43618-DSM-XX), Resource Adequacy tracker filings (Cause No. 44155-RA-XX), Regional Transmission Organization ("RTO") Adjustment tracker filings (Cause No. 44156-RTO-XX), and Green Power Rider filings (Cause No. 44198-GPR-XX). I am also responsible for the preparation and coordination of NIPSCO's annual Attachment O, GG, and MM postings to the Midcontinent Independent System Operator, Inc. ("MISO").

Q5. Have you previously testified before the Indiana Utility Regulatory Commission ("Commission") or any other regulatory commission?

A5. Yes. I have testified before the Commission supporting NIPSCO's proposed cost recovery associated with its request for a Certificate of Public Convenience and Necessity for federally mandated projects associated with NIPSCO's proposed Ash Pond Compliance Project to comply with federally mandated requirements under Ind. Code 8-1-8.4-5 currently pending in Cause No. 45700. I also filed testimony before the Commission in support of various electric trackers, including NIPSCO's FAC filings (FAC-131 and FAC-136), TDSIC filings (TDSIC-4, TDSIC-5, TDSIC-6), DSM filings (DSM-15 and DSM-16), RTO filings (RTO-11 through RTO-19), and GPR filings (GPR-10 through GPR-14).

Q6. What is the purpose of your direct testimony in this proceeding?

A6. The purpose of my direct testimony is to present schedules that demonstrate NIPSCO's projected rate base as of June 30, 2023 (Step 1) and December 31, 2023 (Step 2), which reflects the Forward Test Year investment level that is utilized within the revenue requirement sponsored by NIPSCO Witness Shikany. In addition, and to the extent the Commission has not resolved the issue during FAC proceedings while this case is pending, I support NIPSCO's request to correct the calculation of the earnings bank in its Fuel Adjustment Clause trackers to reflect the correct amount of non-jurisdictional tax expense. I will also discuss proposed new Rider 594 – Adjustment of Charges for Variable Costs of Coal-Fired Generation (the "Variable Cost Tracker").

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

A7. Yes. I am sponsoring Rate Base amounts included in <u>Attachment 3-A-S1</u> through <u>Attachment 3-C-S1</u>, <u>Attachment 3-A-S2</u> through <u>Attachment 3-C-S2</u>, attached to the Verified Direct Testimony of Jennifer L. Shikany, which were prepared by me or under my direction and supervision. I also sponsor Attachment 4-A and Attachment 4-B, both as further described below, as well as a portion of the workpapers included in <u>Petitioner's Confidential Exhibit No. 22-X (S1, S2)</u>.

<u>Net Original Cost Rate Base</u>

Q8. Please explain the Rate Base amounts included in <u>Attachment 3-B-X (S1, S2), RB Module</u>.

A8. <u>Petitioner's Exhibit No. 3</u>, Attachment 3-B-X (S1, S2), RB Module, is a summary statement of rate base. As shown in this attachment, NIPSCO's projected net original cost rate base for ratemaking purposes in this case is $5,945,681,889 as of December 31, 2023. Petitioner's Exhibit No. 3, Attachment 3-C-X (S1, S2), shows the reconciliation to each of the Rate Base subcomponents for each of the adjustments I sponsor (RB-1 through RB-13) that are included in Attachment 3-B-X (S1, S2), RB Module, Columns D, F, and H. Petitioner's Confidential Exhibit No. 22-X (S1, S2) includes the workpapers supporting each adjustment as presented in Attachment 3-B-X (S1, S2) and described or referenced herein. This is the most detailed level of summarized information supporting the calculation of rate base. NIPSCO Witness Camp discusses the overall capital and financial planning processes.

Q9. How are amounts included in Attachment 3-C-X (S1, S2), RB-1 calculated?

A9. The amounts in RB-1 represent the projected utility plant balances for electric assets. The December 31, 2022 and December 31, 2023 values are calculated based on a series of assumptions including projected capital expenditures, in-service timing, and retirements.

Q10. How are amounts included in Attachment 3-C-X (S1, S2), RB-2 calculated?

A10. The amounts in RB-2 represent the projected non-jurisdictional electric utility plant balances. NIPSCO owns and operates certain transmission facilities which are treated as non-jurisdictional assets as approved in Cause Nos. 44156-RTO-1, 13, and 19. These transmission facilities consist of two Multi Value Projects ("MVP"), four Targeted Market Efficiency Projects ("TMEP") and one Interregional Market Efficiency Project ("IMEP") as defined by MISO and further described in the RTO proceedings listed above. The December 31, 2022 and December 31, 2023 values are calculated based on a series of assumptions including projected capital expenditures, in-service timing, and retirements. In accordance with the Commission orders in the RTO proceedings listed above, these amounts are excluded from rate base for purposes of this proceeding.

Q11. How are amounts included in <u>Attachment 3-C-X (S1, S2)</u>, RB-3 calculated?

A11. The amounts in RB-3 represent the projected utility common allocated plant balances for electric assets. NIPSCO Witness Shikany explains how common costs are allocated between NIPSCO Gas and NIPSCO Electric. The December 31, 2022 and December 31, 2023 values are calculated based on a series of assumptions including projected capital expenditures, in-service timing retirements, and allocators.

Q12. How are amounts included in <u>Attachment 3-C-X (S1, S2)</u>, RB-4 calculated?

A12. The amounts in RB-4 represent the projected electric utility plant accumulated depreciation and amortization. The December 31, 2022 and December 31, 2023 values are calculated based on current depreciation rates through the anticipated Step 1 base rate implementation date of September 1, 2023 and proposed depreciation rates from that point until the end of the test year, and a series of assumptions including projected capital expenditures, in-service timing, projected retirements, and cost of removal.

Q13. How are amounts included in Attachment 3-C-X (S1, S2), RB-5 calculated?

A13. The amounts in RB-5 represent the projected MVP, TMEP and IMEP non-jurisdictional electric utility plant accumulated depreciation and amortization. The December 31, 2022 and December 31, 2023 values are calculated based on current depreciation rates through the anticipated Step 1 base rate implementation date of September 1, 2023 and proposed depreciation rates from that point until the end of the test year, and a series of assumptions including projected capital expenditures, projected retirements, and cost of removal. In accordance with the Commission orders in the RTO proceedings listed above, these amounts are excluded from rate base for purposes of this proceeding.

Q14. How are amounts included in <u>Attachment 3-C-X (S1, S2)</u>, RB-6 calculated?

A14. The amounts in Schedule RB-6 represent the projected utility common allocated electric accumulated depreciation from NIPSCO's common assets. The December 31, 2022 and December 31, 2023 values are calculated based on current depreciation rates through the anticipated Step 1 base rate implementation date of September 1, 2023 and proposed depreciation rates from that point until the end of the test year, and a series of assumptions including forecasted capital expenditures, in-service timing, projected retirements, and cost of removal.

Q15. You mentioned proposed depreciation rates. Is the Company proposing new depreciation accrual rates in this proceeding?

A15. Yes. Those rates would take effect upon the implementation of new Step 1 base rates subsequent to the issuance of an Order in this proceeding and thus during the test year. Based on the 300-day provision of Ind. Code § 8-1-2-42.7 and the date of filing the petition and case-in-chief in this Cause, NIPSCO anticipates implementing new base rates on September 1, 2023. NIPSCO Witness Spanos has calculated the proposed depreciation accrual rates for electric and common plant, which are based in part on decommissioning costs for certain generating units that have been estimated by NIPSCO Witness Kopp.

Q16. Do the proposed depreciation accrual rates include all anticipated decommissioning costs?

A16. No. NIPSCO Witness Carmichael discusses the various impoundments at NIPSCO's generation stations that are regulated by the Coal Combustion Residuals ("CCR") Rule.[1] As discussed in NIPSCO's case-in-chief filed in Cause No. 45700, which relates directly to CCR pond closure costs for Michigan City Generating Station ("Michigan City"), recovery of the costs for Michigan City, R.M. Schahfer Generating Station ("Schahfer"), and Bailly Generating Station will be addressed under Ind. Code ch. 8-1-8.4, which is a statute that allows for recovery of federally mandated costs. NIPSCO did this so that these estimated costs can be reviewed in the

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[1] See Question /Answer 24 of Petitioner's Exhibit No. 8 (Verified Direct Testimony of Kelly R. Carmichael).

context of the specific review of NIPSCO's plans for compliance. For this reason, NIPSCO excluded these costs from the Decommissioning Cost Study prepared by NIPSCO Witness Kopp (Attachment 14-B) and is not proposing to recover these compliance costs through base rates in this proceeding. However, if for any reason, those costs are not deemed recoverable in a federal mandate case, then these costs would properly be considered costs of removal and should be included in calculating depreciation accrual rates in a future base rate case. In that event, NIPSCO would continue to charge FERC Account 108 for any costs incurred.

On the other hand, the Decommissioning Cost Study prepared by NIPSCO Witness Kopp *does* include the costs that were projected in Cause No. 45159 for compliance regarding the three non-CCR ponds at Michigan City regulated by the federal Resource Conservation and Recovery Act (RCRA). The number used is simply the cost projected in Cause No. 45159, trended forward to be consistent with the treatment at that time. If NIPSCO's relief sought in Cause No. 45700 is granted as requested, this portion of the costs of removal in the decommissioning study would need to be removed to avoid double counting.[2] Further, at Michigan City Generating Station, Solid Waste Management Units 3 and 12 have yet to be estimated and as such are not included for recovery in this proceeding.

Q17. Are any regulatory assets included in rate base?

A17. Yes. As shown in <u>Attachment 3-C-X (S1, S2)</u>, NIPSCO has included the following regulatory assets in rate base: RB-7 for the projected balance of NIPSCO's Schahfer Units 14 and 15 that were retired in October 2021; RB-8 for NIPSCO's investment in renewable energy joint ventures; RB-9 for unamortized regulatory asset balances from NIPSCO's two previous electric rate cases – Cause Nos. 44688 and 45159; RB-10 for 20% deferred electric TDSIC costs; and RB-11 for 20% deferred electric FMCA costs. These amounts reflect projected deferred amounts as of December 31, 2023.

Q18. Please explain the Schahfer Units 14 and 15 Retirement regulatory asset adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-7.

A18. In October 2021, NIPSCO retired Schahfer Units 14 and 15 from service. The Commission's Order in NIPSCO's last electric rate case (Cause No. 45159)

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[2] NIPSCO would update decommissioning costs at the time of rebuttal to remove these costs, to the extent necessary.

authorized NIPSCO to create a regulatory asset equal to the remaining net book value of its Schahfer and Michigan City units at the date of each unit's retirement to be amortized through December 31, 2032. Adjustment RB 7-22 in the amount of $50,054,650 and Adjustment RB 7-23 in the amount of $55,221,499 decrease this regulatory asset balance to reflect ongoing amortization from the date of retirement of Schahfer Units 14 and 15. Witness Shikany explains the filing of the revenue credit associated with the retirement of these two units.

Q19. Please explain the Renewable Energy Joint Venture Investments regulatory asset adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-8.

A19. NIPSCO has received several Orders granting certificates of public convenience and necessity for current and planned investments in renewable energy joint ventures, including but not limited to, Rosewater Wind Generation LLC ("Rosewater Wind") (Cause No. 45194), Indiana Crossroads Wind Generation LLC ("Crossroads Wind") (Cause No. 45310), Indiana Crossroads Solar Generation LLC ("Crossroads Solar") (Cause No. 45524), and Dunn's Bridge I Solar Generation LLC ("Dunn's Bridge I Solar")

(Cause No. 45462), providing for the recording of the costs to invest in the joint ventures as a regulatory asset in Account 182.3 to be included in the NIPSCO's net original cost rate base for ratemaking purposes, and to amortize the associated costs over the 30-year life of the respective solar or wind project. NIPSCO uses a 30-year life as that was the estimated life that was approved in each of the proceedings approving these new investments; however, in future cases, NIPSCO expects the life of these assets to be reviewed in future depreciation studies. As such, Adjustment RB 8-22 in the amount of $306,927,194 and Adjustment RB 8-23 in the amount of $517,044,668 increase this regulatory asset balance to reflect increased investment net of amortization in these renewable energy joint ventures.

Q20. Each of the joint venture proceedings you referenced above was based upon a certificate of public convenience and necessity issued pursuant to Ind. Code ch. 8-1-8.5, and in each, NIPSCO agreed to certain caps. Are the total costs of these projects less than or equal to the best estimate of construction costs approved in those proceedings and are the amounts that are booked to the regulatory asset to reflect NIPSCO's cost of the investment consistent with the agreed upon caps?

A20. Yes. For all four of the Joint Ventures, the amounts that NIPSCO projected for the regulatory asset balances are well below the estimate of the construction costs approved by the Commission. In both the Rosewater Wind and Crossroads Wind Joint Ventures, NIPSCO agreed to a cap on the developer buyout. There was not an agreed cap on the developer buyout in either the Dunn's Bridge I Solar or Crossroads Solar Joint Ventures, as the developer in those proceedings is not a member of the applicable joint venture.[3] For both Rosewater Wind and Crossroads Wind, the developer buyout payment is within the agreed developer buyout cap.

Q21. Please explain the Cause Nos. 44688 and 45159 Remainder regulatory asset adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-9.

A21. NIPSCO continues to amortize deferred regulatory asset balances approved for recovery in Cause No. 44688 and Cause No. 45159 over a 7-year period. NIPSCO is not proposing a change in the amortization period of these assets in this proceeding. The December 31, 2022 and December

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[3] The "caps" agreed to be NIPSCO for these two solar projects acts as a limit on the recovery of certain additional cash investments NIPSCO may make into the joint ventures *after the projects enter commercial operation*. *See, e.g.*, Commission's May 5, 2021 Order in Cause No. 45462 at pp. 23-24.

31, 2023 projected amounts are calculated by adjusting the December 31, 2021 actual balance. Adjustment RB 9-22 in the amount of $8,445,445 and Adjustment RB 9-23 in the amount of $8,298,553 decrease the regulatory asset balance for ongoing approved amortization. The $23,510,338 Cause Nos. 44688 and 45159 regulatory asset reflects the projected unamortized balance as of December 31, 2023.

Q22. Please explain the Electric TDSIC regulatory asset adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-10.

A22. This adjustment rolls forward normalized Historic Base Period deferrals to those projected as of December 31, 2023. In accordance with the Commission's Orders in Cause Nos. 44733 and 45557, NIPSCO is authorized to defer, as a regulatory asset, 20% of the TDSIC costs incurred in connection with its designated eligible improvements and recover those deferred costs in its next general rate case as allowed by Ind. Code § 8-1-39-9(c). The 2022 and 2023 forecasted amounts are calculated by adjusting the December 31, 2021 actual balance for forecasted changes based on a series of assumptions including forecasted capital expenditures and related capital returns (including post in service carrying charges), and planned in-service timing, which drives deferred depreciation and property taxes. Adjustment RB 10-22 in the amount of $7,298,503 and Adjustment RB 10-23 in the amount of $11,731,445 increase the regulatory asset balance to reflect ongoing TDSIC deferrals.

Q23. Please explain the Electric FMCA regulatory asset adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-11.

A23. This adjustment rolls forward normalized Historic Base Period deferrals to those projected as of December 31, 2023. On March 30, 2022, NIPSCO filed a petition in Cause No. 45700 with the Commission seeking approval of NIPSCO's federally mandated costs for closure of Michigan City's CCR ash ponds (the "Ash Pond Compliance Project"). NIPSCO is expecting an order may be issued in the fourth quarter of 2022 or early 2023 and that an FMCA tracker including recovery associated with these costs would be filed in the first quarter of 2023. NIPSCO is forecasting to defer, as a regulatory asset, 20% of the FMCA costs incurred in connection with the Ash Pond Compliance Project for recovery in this general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2). The 2023 forecasted amount is calculated by adjusting the December 31, 2021, actual balance for forecasted changes to the balance expected in 2023 based on a series of assumptions for forecasted capital expenditures and depreciation impacting the tracker. Adjustment RB 11-23 in the amount of $398,949 increases the regulatory asset balance to reflect this FMCA deferral.

Q24. Please explain the Materials and Supplies adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-12.

A24. This adjustment rolls forward the normalized Historic Base Period balance of Materials and Supplies to a projected balance as of December 31, 2022 and December 31, 2023. Adjustment RB 12-22 in the amount of $4,626,039 decreases the materials and supplies balance to reflect a three-year historical average (2019-2021).

Q25. Please explain the Production Fuel adjustment as shown on <u>Attachment 3-C-X (S1, S2)</u>, RB-13.

A25. This adjustment rolls forward the normalized Historic Base Period balance of Production Fuel to that projected as of December 31, 2022 and December 31, 2023. Projected Production Fuel balances are based on PROMOD inputs utilized to determine the volumes generated at each station as well as cost assumptions. Adjustment RB 13-22 is an increase in the amount of

$10,072,768 and RB 13-23 is an increase in the amount of $3,008,670 in the Production Fuel balance. These increases in the 2022 and 2023 projected Production Fuel balances are due primarily to higher forecasted fuel costs.

<u>Earnings Bank Calculation</u>

Q26. Please describe NIPSCO's request to correct the calculation of the earnings bank in connection with the Fuel Adjustment Clause.

A26. In NIPSCO's Cause No. FAC 136 ("FAC 136"), NIPSCO identified an error that has been made in each FAC covering the entire 60-month FAC earnings bank and requested that error to be corrected. In the event the Commission in that proceeding concludes that making that correction requires more time to consider than the abbreviated time frame for FAC proceedings, NIPSCO is presenting the same request here.

Q27. For the FAC 136 period, did NIPSCO perform any additional review of the Ind. Code § 8-1-2-42(d)(3) test?

A27. Yes. An "earnings test" (as it is commonly referred to) is prepared in conjunction with each FAC pursuant to Ind. Code § 8-1-2-42(d)(3). The FAC earnings test is prepared quarterly by a NIPSCO Senior Regulatory Analyst and reviewed by the NIPSCO Regulatory Manager. The earnings test is subject to audit by the Indiana Office of Utility Consumer Counselor ("OUCC"). While preparing the first quarter earnings test calculation in April 2022, it was determined that the earnings bank would most likely change from a cumulative underearning position to a cumulative overearning position in the second quarter of 2022. This determination was made by utilizing the earnings test calculation based on historical financial information and projections for the remainder of 2022.

The earnings bank is impacted by both the earnings in the current period (FAC 136) and the effect of "rolling off" a quarter of information as each quarterly earnings test is prepared. It is expected to have fluctuations on a quarterly basis that would cause NIPSCO to under- or over-earn in any reporting period since the authorized net operating income approved in a base rate case is based on a normalized test year. Actual earnings in the earnings test calculation are impacted by fluctuations in revenue due to weather and customer count changes, as well as changes in incurred expenses. However, as a part of its continued review, NIPSCO began to take a closer look at the adjustments being made to actual operating earnings to determine if something else might be contributing to an over-earnings position, appropriately or not, in addition to weather and other operational impacts to earnings. It was during this review that NIPSCO discovered an error that was inappropriately increasing the calculation of earnings for purposes of the determination of FAC earnings.

Q28. What did NIPSCO find during that additional review?

A28. The earnings test calculation starts with a rolling 12-month regulatory income statement and makes a few adjustments to make the results comparable to the authorized net operating income from the last base rate case. One of the adjustments is to remove the impact of non-jurisdictional revenue and expense. Non-jurisdictional revenue and expense are not included in Indiana jurisdictional ratemaking and are not part of NIPSCO's Commission-approved tariff; therefore, they are excluded from the earnings test calculation. NIPSCO's non-jurisdictional revenue and expense are primarily related to NIPSCO's investment in MISO-approved, regionally cost-allocated transmission projects, which is collected through an approved FERC formula rate. As described below, NIPSCO's review identified that NIPSCO has consistently included in its earnings test calculation in its FAC filings a level of non-jurisdictional income tax expense that is not accurate, which has resulted in NIPSCO presenting an earnings calculation that overstates actual jurisdictional earnings.

Q29. How was the error identified?

A29. This is probably best explained by reviewing <u>Attachment 4-A</u>, which is a copy of Attachment 1-F from NIPSCO's approved FAC immediately before filing FAC 136 (Cause No. 38706-FAC-135 ("FAC 135")), with some added rows, which I will explain. Column B, Line 10, shows NIPSCO's Total Net Operating Income ("NOI") for purposes of the earnings test before allocation of $360,579,641. You will see that NIPSCO recorded income tax expense of $49,909,878, which means total operating income before tax is $410,489,519 ($360,579,641 + $49,909,878), which is shown in the newly created Row 11 to this schedule. However, NIPSCO did make a tax adjustment in FAC-135 in Column F of $5,510,356 so that total Adjusted Income Tax Expense is $55,420,234 as shown in Column B, Row 12. This is an effective tax rate of approximately 13.50% ($55,420,234/$410,489,519) shown in Column B, Row 13, which is far less than the statutory rate.

Moving to the right on <u>Attachment 4-A</u>, NIPSCO presents various adjustments in Columns C through F to arrive at jurisdictional earnings precented in Column G. Column E is where the income tax error has occurred. Instead of allocating the portion of the total $55,420,234 income tax that corresponds to the non-jurisdictional revenues, NIPSCO instead applied a statutory tax rate of approximately 25% ($12,162,808/($36,534,192 + $12,162,080)). The actual effective tax rate for the non-jurisdictional revenues should be roughly equivalent to the total operating income effective tax rate (13.50%). Put another way – NIPSCO recorded a <u>total</u> income tax expense of $55,420,234 on total operating income before tax of $410,489,519 but allocated $12,162,080 to non-jurisdictional operating income before tax of only $48,696,272. So, an allocation of roughly 12% of the total net operating income before tax is taking with it approximately 22% of the income tax. That is an error, and this same error has been made during every FAC throughout the entire period covered by the 60-month earnings bank.

Q30. Has the inaccurate earnings test calculation impacted the Commission-approved factor in NIPSCO's prior FACs?

A30. No. While this has not impacted the approved FAC fuel adjustment charge or factor in any FAC period prior to FAC 136, it has resulted in a material error in the determination of the sum of the differential calculation in every FAC period. The cumulative effect of the error over the earnings bank calculation as of June 30, 2022 is to overstate jurisdictional net operating income by $74,825,574, as shown in Attachment 4-B, Column N, Line 21.

Q31. Please explain Attachment 4-B.

A31. Attachment 4-B provides the calculation of a correction to the sum of the differentials included in Attachment 1-H to the Verified Direct Testimony of Kelleen M. Krupa filed in Cause No. 38706-FAC-136 to correct the non-jurisdictional income tax expense adjustment. Columns A through E reflect the sum of the differentials earnings bank from Attachment 1-H in NIPSCO's FAC 135 (Line 21, Column E). Column F shows NIPSCO's total Electric Operating Income Before Income Tax, and Column G shows NIPSCO's recorded Electric Income Tax Expense for each reporting period, with Column H showing the NIPSCO Electric Effective Tax Rate for each reporting period. Columns I and J show the Non-Jurisdictional Income Before Income Tax and Non-Jurisdictional Income Tax Expenses at Statutory Rates, with the Rolling 12-Month Statutory Tax Rate shown in Column K. The amounts provided in Columns F, G, I and J can be found on, or calculated from, Attachment 1-F for each respective FAC filing (FAC 116 through FAC 135). Column L calculates the Proportional Non-Jurisdictional Income Before Tax.

For example, in the March 31, 2022 reporting period, the total NIPSCO Electric Income Effective Tax Rate shown in Column H is 13.50%, which is far less than the Rolling 12-Month Statutory Tax Rate shown in Column K of 24.98% because NIPSCO incurs savings from tax planning in its net operating income. This benefit of tax savings is also reflected in the revenue requirement set in NIPSCO's most recent rate case in Cause No. 45159. The gross revenue conversion factor in general rate cases reflects the full statutory rate because every additional dollar that comes in is taxed at the statutory rate. However, NIPSCO's "pro forma present rates income tax expense" (from Cause No. 45159) reflects the tax savings (and is thus reflected in customer base rates) and therefore produces a much lower effective tax rate in base rates.

The Proportional Non-Jurisdictional Income Before Tax (Column L) for each reporting period is determined by dividing the Non-Jurisdictional Income Before Income Tax (Column I) by the NIPSCO Electric Income

Before Income Tax (Column F). This proportional rate in Column L is then used to allocate NIPSCO Electric Income Tax Expense (Column G) instead of using the Rolling 12-Month Statutory Tax Rate (Column K), resulting in the Proportion of Non-Jurisdictional Tax Expense (Column M). The Proportional Non-Jurisdictional Tax Correction (Column N) is determined by comparing the Proportional Non-Jurisdictional Tax Expense (Column M) to the Non-Jurisdictional Tax Expense at Statutory Rates (Column J).

Q32. You indicated that base rates reflect the benefits of tax planning savings. Please explain what you mean and how non-jurisdictional tax expense was reflected in the revenue requirement approved in NIPSCO's last electric rate case in Cause No. 45159.

A32. Income tax expense on non-jurisdictional sales was not reflected in the revenue requirement approved in NIPSCO's last electric rate case in Cause No. 45159. As shown in Adjustments RB2-19R, RB7-19R, Rev 10-19R, Dep 1B-19R, OM 2M-19R, and OTX 1-19R, NIPSCO adjusted rate base, revenues, operating expenses, depreciation, and property tax expense to remove the non-jurisdictional assets and the non-jurisdictional revenues and expenses from the calculation of rates, which was part of the adjustment process at present rates. Income tax expense was then computed by NIPSCO Witness McCuen (Petitioner's Exhibit No. 14, Attachment 14-B) on a pro forma basis at present rates, which reflects a series of adjustments made to what income taxes would be at the statutory rate. The calculated "pro forma present rates income tax expense" was $27,609,096 (Column C, Line 26) on pre-tax income of $159,970,578 (Column C, Line 15), or 17.25%. When NIPSCO filed its Compliance Filing for Step 2 Rates, it reflected total pre-tax operating income of $311,523,182 (Attachment A-S2, Page 2, Column P, Line 45) and total income tax of $46,896,399 (Attachment A-S2, Page 2, Column P, Line 47), or 15.05%. So, NIPSCO's base rates reflect a level of income tax expense *far below* the statutory rates. As further described below, it is this "mismatch" in the way income tax is recovered in NIPSCO's base rates and NIPSCO's actual income tax before tax allocation as compared to its allocation to non-jurisdictional for purposes of the FAC earnings bank calculation that is in error and which NIPSCO is looking to correct.

Q33. Please summarize what this means for purposes of the FAC earnings test calculation.

A33. The earnings test calculation has reflected non-jurisdictional earnings at the (much higher) statutory tax rate to determine the tax expense that should be removed. However, actual tax expense, including the pass back of excess accumulated deferred income taxes, should be allocated to non-jurisdictional earnings based on actual income before tax. This difference results in reducing tax expense by an amount greater than what was incurred *in every period of the earnings test calculation* (currently FAC 116 through FAC 135). As this error has compounded over the full 60-month period, without the proposed correction being properly applied, NIPSCO's cumulative earnings bank as of June 30, 2022 is $74,825,574 higher than what it should be.

NIPSCO has proposed to make a correction in the earnings test calculation in FAC 136 (and going forward) to correct for this error and provide an accurate calculation of the cumulative earnings bank. The correction is to change the adjustment for non-jurisdictional tax from the statutory rate to the allocation of tax expense consistent with the actual amount of tax expense.

Q34. In every FAC Order that is issued, the Commission makes a finding as to

whether there are excess earnings and how much cumulative over- or under-earnings are in the earnings bank. Are you requesting to restate the findings in each of those FAC Orders?

A34. No. In every FAC, the Commission makes a finding for that relevant 12-month period as to (1) NIPSCO's earned jurisdictional return, (2) the overall earnings bank for the relevant period (which is the sum of the differentials for the last 59 months), and (3) based on the evidence presented, whether considering the period earnings which is added to the accumulated earnings total reflected in the overall bank, NIPSCO has earned a return above its authorized return.

NIPSCO's accurate calculation of its earnings bank *for purposes of each FAC proceeding* does not modify the Commission findings regarding the fuel adjustment charges or factors, inclusive of the determination of whether fuel costs should have been reduced due to over earnings, in those past FACs. The earnings totals reflected in the sum of the differentials calculation *for purposes of FAC 136 and duplicated here* are based on the evidence presented in that proceeding which appropriately reflects an accurate calculation of NIPSCO's earnings, which results from correcting the non-jurisdictional tax amount reflected in NIPSCO's earnings that make up its FAC earnings bank that is applicable to the FAC 136 period. The Commission must make a finding *for purposes of each FAC* of the total sum of the differentials of the cumulative earnings bank. This does not change the findings the Commission made in the past FAC Orders based on the evidence in those proceedings, as this correction to the earnings test would not cause NIPSCO's fuel cost recovery in any prior reporting period to be reduced.

As discussed above, by subtracting non-jurisdictional results from the calculation of jurisdictional earnings for the relevant period, NIPSCO has reflected an excessive tax expense applicable to its non-jurisdictional earnings and therefore presented an inaccurate jurisdictional earnings total.

The correction NIPSCO is proposing is appropriate for FAC 136 and going forward and should consistently be reflected in the overall earnings bank calculation (sum of the differentials) that is to be applied in the relevant period to arrive at an accurate determination of whether NIPSCO has earned a return above that authorized in this period based on the evidence presented in the FAC. While NIPSCO's corrected calculation of the earnings bank changes the earnings bank totals that were presented in past FAC filings, NIPSCO is not modifying any historic Order findings related to the Commission's determination of whether it over earned in any of those periods. NIPSCO should be allowed to present an accurate earnings bank calculation for each relevant period that matches the approach taken to calculate its jurisdictional earnings versus continuing to perpetuate an error that was made in past FAC periods.

Q35. Would making the correction NIPSCO requests only on a going-forward basis correct the error that currently exists?

A35. No. If the determination of NIPSCO's earnings is only corrected on a going-forward basis, then only a small portion of the earnings test will be accurate, and the larger portion of the statutory test that relies on a present calculation of the earnings bank will remain inaccurate. Further, such an inaccuracy would remain in place for another fourteen FAC periods, until all quarterly periods related to the previous 56 months were eliminated by the passage of time from the then current bank calculation, unless and until the Commission entered an Order authorizing NIPSCO to correct the past periods that reflect the inaccuracy in the earnings calculation.

Q36. You mentioned previously that you have made this request to correct the earnings bank calculation error in the context of FAC 136. Assume the Commission does not address the issue in the FAC but nonetheless applies the earnings bank using the prior incorrect calculations. If the Commission ultimately accepts your proposed correction in this case, what should occur?

A36. In that event and given that the FAC is decided on an interim and subject to refund basis, we would request authority to record a regulatory asset for any "excess earnings" amounts that had been refunded in error.

<u>Proposed Adjustment of Charges for Variable Costs of Coal-Fired Generation</u>

Q37. NIPSCO Witness Whitehead has described a proposal for a new adjustment mechanism to reflect changes in variable costs of coal-fired generation. Please describe the circumstances leading to this proposed new rider.

A37. As described by NIPSCO Witnesses Whitehead and Campbell, events beyond NIPSCO's control have caused NIPSCO to keep Schahfer Units 17 and 18 in service beyond the originally projected retirement date. It was previously projected that these units would be retired in 2023. As such, it would have been expected that the rate base and O&M expense based upon a 2023 future test year (like the one proposed in this proceeding) would reflect the reductions resulting from such retirement. With the change in circumstances described by NIPSCO Witness Campbell, Units 17 and 18 are expected to remain in rate base and NIPSCO is expected to continue to incur variable production O&M expenses and costs to procure emission allowances until 2025. The Revenue Credit Mechanism that was agreed to in Cause No. 45159 and implemented in connection with the retirement of Units 14 and 15 will capture reductions in rate base over time when Units 17 and 18 retire and later Michigan City Unit 12. Rider 594 – Adjustment of Charges for Variable Costs of Coal-Fired Generation (the "Variable Cost Tracker") will capture the reduction in O&M expenses and emission allowance costs from the retirement of these coal-fired generation assets so that customers will see timely reductions in rates from these cost reductions following unit retirements. The Variable Cost Tracker can be viewed as temporary as it will remain in place until the first general rate case order following the retirement of the last coal-fired generation unit, currently expected to be Michigan City Unit 12.

Q38. How will the proposed Variable Cost Tracker be implemented?

A38. The Variable Cost Tracker will be filed on a semi-annual basis and based upon historical (or actual) expenses. The charge will be calculated on a per kilowatt-hour basis, be allocated according to energy at the generator, and will track the actual costs for environmental expenses associated with chemicals, reagents and similar consumable products utilized at the coal-fired generating stations as well as state and federal emission allowances and credits. The Variable Cost Tracker would also recover maintenance O&M expenses, as noted below, which are included so that they will not be embedded in base rates and will cease being recovered from customers after the units retire.

Q39. Please describe how NIPSCO proposes to implement the Variable Cost Tracker.

A39. NIPSCO proposes that the six categories of O&M expenses be removed from base rates in this Cause. NIPSCO seeks authority to defer costs incurred from the date of Step 1 rate implementation until they are recovered in the proposed tracker. NIPSCO expects to file its first Variable Cost Tracker in March 2024 for recovery of actual costs incurred from

September 1, 2023 (or other step 1 rate implementation date) through December 31, 2023. NIPSCO expects to propose a 90-day procedural schedule, which would result in customers being billed a tracker factor in July 2024. Subsequent tracker filings would include six months of historical costs. The second tracker would be filed in September 2024 for recovery of costs for the period January through June 2024 and be recovered over a six-month period (January through June 2025). In addition, the reconciliation of the revenue requirement from each tracker will follow NIPSCO's already established tracker reconciliation process by including the reconciliation of each revenue requirement in future filings.

Q40. Does NIPSCO propose to include an amount for these costs in the base revenue requirement?

A40. No. One-hundred percent (100%) of the variable non-labor O&M expenses would flow through this proposed Variable Cost Tracker. NIPSCO proposes to remove the six categories of variable non-labor costs from base rates and recover entirely through this proposed Variable Cost Tracker. The six categories (with projected test year amounts) are (1) generation maintenance activity ($34,094,580); (2) planned outages ($11,893,401); (3)

forced outages ($4,648,497); (4) variable chemicals ($21,365,434); (5) nontrackable fuel handling ($19,714,059), and (6) NOx allowances ($9,960,000). Within the Variable Cost Tracker, NIPSCO proposes to allocate the recovery of these costs using the same allocation methodology it uses to recover these costs in base rates. In the event NIPSCO's request to remove these six categories entirely from base rate recovery for recovery in the proposed Variable Cost Tracker is denied, NIPSCO has presented an alternative revenue requirement which includes the test year projection as a component of base rate revenue recovery. NIPSCO Witness Shikany sponsors the alternative revenue requirement.

Q41. Are the O&M expenses NIPSCO proposes to track "collectively or potentially significant"?

A41. Yes. Taken in total, NIPSCO's proposed tracker is expected to recover $101,675,971 in non-labor O&M expenses annually. This amount represents a significant expense for NIPSCO and its customers. Recovering these costs through the Variable Cost Tracker would provide NIPSCO a timely recovery of expenses while coal-fired generation is still in service, while also allowing a timely pass back of O&M savings benefit after coal-fired generation is retired.

Q42. Are NIPSCO's non-labor coal-fired generation costs "potentially variable or volatile"?

A42. Yes. When and as the coal units retire, these costs will be extremely volatile, and, without the proposed Variable Cost Tracker, would remain fully reflected in base rates. Beyond that, until the units are retired, the non-labor costs NIPSCO incurs to operate and maintain its remaining coal-fired generation fleet are subject to considerable volatility due to the unpredictable nature of whether these units will be dispatched in the MISO market. The frequency and duration with which these units are dispatched dictates whether and at what amount NIPSCO must incur these O&M expenses, which is discussed and supported by NIPSCO Witness Campbell.

Q43. Do you have support to show the historical variability in these O&M expenses?

A43. Yes. As described in greater detail by NIPSCO Witness Carmichael, as one example, the price of NOx emission allowances has varied widely in recent years. These emission allowances are not traded on a platform and many transactions are not reported; therefore, NIPSCO makes use of Amerex brokerage pricing sheets as a proxy to evaluate how buyers and sellers are willing to transact. The prices quoted in December of 2021 and August of 2022 (included in NIPSCO Witness Carmichael's testimony) varied significantly. If NIPSCO were to assume a certain level of NOx allowance costs using the most current price in 2022 for purposes of setting base rates, that base level would be significant. Given the wide swings in price from year-to-year, it is difficult to predict whether that higher base amount would over or understate NIPSCO's actual costs. NIPSCO's proposed Variable Cost Tracker allows for the type of real-time adjustment these fluctuating costs demand.

Q44. How are these coal-fired generation O&M expenses "largely outside the utility's control"?

A44. These costs are dictated entirely by the frequency and duration of dispatch in the MISO market, as discussed by NIPSCO Witness Campbell.

Q45. Does this conclude your prefiled direct testimony?

A45. Yes.

VERIFICATION

I, Kevin J. Blissmer, Manager of Regulatory of NiSource Corporate Services Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Kevin Blissmer

Kevin J. Blissmer

Dated: September 19, 2022

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Statement of Jurisdictional Electric Operating Income

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	
Line No.	Description	Total Electric for Twelve Months Ended March 31, 2022	Sugar Creek Plant Acquisition Amortization	Cause No. 44688 and 45159 Rate Case Amortization	Total MVP, TMEP & IMEP Adjustments	Other Adjustments	Applicable to Jurisdictional Customers	Line No.
							(Col B+C+D+E+F)	
1	Operating Revenues	$ 1,727,977,444	-	-	$ (67,694,641)	$ -	$ 1,660,282,803	1
2	Operating Expenses							2
3	Fuel & Purchased Power	446,895,242	-	-	-	-	446,895,242	3
4	Other Operations	350,262,150	-	(792,630)	-	-	349,469,520	4
5	Maintenance	137,683,367	-		(235,205)	-	137,448,162	5
6	Depreciation & Amortization	326,728,545	2,540,514	9,021,824	(16,764,948)	-	321,525,935	6
7	Taxes Other Than Income	55,918,621	-	(262,796)	(1,998,216)	-	53,657,609	7
8	Income Taxes	49,909,878	-	-	(12,162,080)	5,510,356	43,258,154	8
9	Total Operating Expense	$ 1,367,397,803	$ 2,540,514	$ 7,966,398	$ (31,160,449)	$ 5,510,356	$ 1,352,254,622	9
10	Operating Income	$ 360,579,641	$ (2,540,514)	$ (7,966,398)	$ (36,534,192)	$ (5,510,356)	$ 308,028,181	10
11	Operating Income Before Tax	$ 410,489,519			$ 48,696,272			11
12	Adjusted Income Tax Expense	$ 55,420,234			$ 12,162,080			12
13	Effective Tax Rate	13.50%			24.98%			13

Summary of Increase in Operating Expenses Applicable To IURC Jurisdiction

Line No.	Description	Per Cause No. 45159 Column B	Twelve Months Ended March 31, 2022 Column C	Increase / (Decrease) Column D	Line No.
14	Fuel Expenses (Line 3)	$ 321,765,239	$ 446,895,242	$ 125,130,003	14
15	Operating Expenses Excluding Fuel Costs	$ 884,900,897	$ 905,359,380	$ 20,458,483	15

Northern Indiana Public Service Company LLC
IURC Electric Earnings Test Summary

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K	Column L	Column M	Column N	
	FAC-135 Earnings Test Summary as Filed					Electric	Electric	Electric	Non-Jurisdictional	Non-Jurisdictional	Rolling 12-Month	Proportional	Proportional	Proportional	
Line No.	Reporting Period	Cause No.	Authorized Return	Actual Return	Over/(Under) Earning	Income Before Income Tax	Income Tax Expense	Effective Income Tax Rate	Income Before Income Tax	Income Tax Expense at Statutory Rates	Statutory Income Tax Rate	Non-jurisdictional Income Before Tax	Non-Jurisdictional Income Tax Expense	Non-Jurisdictional Income Tax Correction	Line No.
					(Col. D - Col. C)						(Col J/Col I)	(Col I/Col F)	(Col. G * Col. L)	(Col. M - Col. J)	
1	March 31, 2022	38706-FAC 135	$ 281,165,383	$ 308,028,180	$ 26,862,797	$ 410,489,519	$ 55,420,234	13.50%	$ 48,696,272	$ 12,162,080	24.98%	11.86%	$ 6,574,489	$ (5,587,591)	**1**
2	December 31, 2021	38706-FAC 134	279,896,479	301,444,976	21,548,497	405,777,725	55,596,061	13.70%	50,805,495	12,706,073	25.01%	12.52%	$ 6,960,918	$ (5,745,155)	**2**
3	September 30, 2021	38706-FAC 133	276,755,602	253,973,197	(22,782,405)	385,056,233	82,682,146	21.47%	50,397,762	12,634,136	25.07%	13.09%	$ 10,821,783	$ (1,812,353)	**3**
4	June 30, 2021	38706-FAC 132	272,773,481	239,883,313	(32,890,168)	370,964,421	80,253,311	21.63%	53,682,640	13,492,108	25.13%	14.47%	$ 11,613,539	$ (1,878,569)	**4**
5	March 31, 2021	38706-FAC 131	270,547,346	241,421,866	(29,125,480)	375,094,954	81,256,804	21.66%	55,844,350	14,065,332	25.19%	14.89%	$ 12,097,559	$ (1,967,773)	**5**
6	December 31, 2020	38706-FAC 130	268,208,028	230,847,970	(37,360,058)	362,646,236	79,756,897	21.99%	55,720,984	14,067,459	25.25%	15.37%	$ 12,254,733	$ (1,812,726)	**6**
7	September 30, 2020	38706-FAC 129	264,164,433	269,755,479	5,591,046	387,858,928	67,045,694	17.29%	56,391,390	14,263,064	25.29%	14.54%	$ 9,747,874	$ (4,515,190)	**7**
8	June 30, 2020	38706-FAC 128	262,940,611	274,347,643	11,407,032	394,694,251	70,151,422	17.77%	57,231,318	14,507,146	25.35%	14.50%	$ 10,172,072	$ (4,335,074)	**8**
9	March 31, 2020	38706-FAC 127	259,348,991	270,315,386	10,966,395	389,930,384	70,626,419	18.11%	57,605,493	14,629,514	25.40%	14.77%	$ 10,433,836	$ (4,195,678)	**9**
10	December 31, 2019	38706-FAC 126	257,652,283	279,879,805	22,227,522	402,409,175	74,662,293	18.55%	57,759,706	14,696,235	25.44%	14.35%	$ 10,716,635	$ (3,979,600)	**10**
11	September 30, 2019	38706-FAC 125	256,992,621	286,077,491	29,084,870	407,848,784	76,669,407	18.80%	54,076,431	13,778,150	25.48%	13.26%	$ 10,165,552	$ (3,612,598)	**11**
12	June 30, 2019	38706-FAC 124	255,176,608	290,279,140	35,102,532	407,389,316	72,951,172	17.91%	52,851,493	13,496,093	25.54%	12.97%	$ 9,464,113	$ (4,031,980)	**12**
13	March 31, 2019	38706-FAC 123	253,680,141	291,776,793	38,096,652	409,063,902	73,725,862	18.02%	52,085,134	13,327,491	25.59%	12.73%	$ 9,387,339	$ (3,940,152)	**13**
14	December 31, 2018	38706-FAC 122	251,987,099	284,189,786	32,202,687	402,539,268	72,301,691	17.96%	55,466,487	14,222,300	25.64%	13.78%	$ 9,962,558	$ (4,259,742)	**14**
15	September 30, 2018	38706-FAC 121	250,995,664	266,736,606	15,740,942	394,189,288	81,187,045	20.60%	58,048,265	16,517,321	28.45%	14.73%	$ 11,955,594	$ (4,561,727)	**15**
16	June 30, 2018	38706-FAC 120	245,711,121	238,950,600	(6,760,521)	380,420,226	95,825,091	25.19%	60,421,292	19,442,539	32.18%	15.88%	$ 15,219,684	$ (4,222,855)	**16**
17	March 31, 2018	38706-FAC 119	241,216,114	227,931,702	(13,284,412)	379,667,431	107,321,836	28.27%	61,438,547	21,621,524	35.19%	16.18%	$ 17,367,035	$ (4,254,489)	**17**
18	December 31, 2017	38706-FAC 118	238,616,712	214,975,095	(23,641,617)	370,182,278	114,962,135	31.06%	58,534,616	22,817,525	38.98%	15.81%	$ 18,178,246	$ (4,639,279)	**18**
19	September 30, 2017	38706-FAC 117	236,224,407	198,491,710	(37,732,697)	329,686,590	94,434,736	28.64%	52,840,849	20,608,664	39.00%	16.03%	$ 15,135,622	$ (5,473,042)	**19**
20	June 30, 2017	38706-FAC 116	237,949,159	192,043,917	(45,905,242)										**20**
21	Sum of the differentials as-filed in FAC-135				(651,628)					**Sum of the differentials adjustment to be applied to FAC-136**				**$ (74,825,574)**	**21**