The sole issue in dispute is whether the Commission should approve the provision
of the Stipulation and Settlement Agreement filed by the Settling Parties¹ (the “Settlement Agreement”) that would increase the monthly residential customer charge from $11.00 per month to $14.00. CAC contends that the Commission should modify the Settlement Agreement to reject any increase to NIPSCO’s fixed customer charges (particularly the residential customer charge). CAC evidently misunderstands the longstanding regulatory theory and practice behind customer charges generally, and ignores the evidence of record supporting an increase to the residential customer charges specifically. As a result, CAC mischaracterizes the nature of the increased customer charge agreed upon by the Settling Parties while ignoring the benefits to all customers of the Settlement Agreement’s gradual increase and cost of service based customer charges.

Recognized ratemaking expert Charles F. Phillips describes the costs that make up a customer charge as follows:

"Customer costs vary with the number of customers. These costs include a portion of the distribution system, local connection facilities, metering equipment, meter reading, billing and accounting. Customer costs, moreover, are independent of consumption. . . . Despite the differences in consumption, each customer requires a meter, each meter must be read and a bill must be sent to each customer."

Emphasis added.²

¹ NIPSCO, the Indiana Office of Utility Consumer Counselor (“OUCC”), the NIPSCO Industrial Group (“Industrial Group”),¹ the NIPSCO Gas Supplier Group (“GSG”),¹ Steel Dynamics, Inc. (“SDI”), EDF Energy Services, LLC (“EDF”), and Direct Energy Business Marketing, LLC and its affiliate Direct Energy Services, LLC (together “Direct Energy”), (collectively, the “Settling Parties”).
NIPSCO’s customer charge represents a portion of the costs that occur regardless of whether gas is consumed such as metering, billing and payment processing costs, as well as a portion of distribution costs. However, contrary to CAC’s assertions, neither NIPSCO nor the Settling Parties are seeking a shift to full fixed/variable ratemaking in this proceeding. In fact the residential customer charge of $14.00 under the Settlement Agreement represents an increase of only 27% in the residential customer charge of $11.00, which is below the overall residential increase of 36.21% projected under Step 3 of the Settlement Agreement and is therefore actually a reduction in the percentage of costs recovered through the customer charge.

The Commission concluded in an Indianapolis Power & Light Company rate case that “cost recovery design alignment with cost causation principles sends efficient price signals to customers, allowing customers to make informed decisions regarding their consumption of the service being provided.” In re Indianapolis Power & Light Co., Cause No. 44576 (IURC 03/16/2016) (“IPL Rate Case Order”), p. 72, affirmed Citizens Action Coalition of Indiana, Inc. v. Indpls Power & Light, 74 N.E. 3d 554 (Ind. App. 2017); see also In re Northern Ind. Pub. Ser. Co., Cause No. 44688 (IURC 07/18/2016), p.88, affirmed Citizens Action Coalition of Indiana Inc. v. NIPSCO, 76 N.E.3d 144 (Ind. App. 2017). The residential

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3 See direct testimony of Ronald J. Amen, Petitioner’s Ex. No. 15, at p. 61 and Attachment 15-F; see also rebuttal testimony of Mr. Amen, Petitioner’s Ex. No. 15-R, at p. 14.

4 See Joint Exhibit D appended to Settlement Agreement, Settlement Testimony of Edward T. Rutter, Public’s Exhibit No. 2-S at p.2.
customer charge included in the Settlement Agreement in this case ($14), is comparable to the residential customer charges approved by the Commission in the IPL Rate Case Order ($11.25 and $17.00), as well as to other utilities' customer charges. *Id. See also In re Midwest Natural Gas, Cause No. 44063, p. 25 (IURC 11/07/2012).*  

CAC’s contention that the cost-supported increase in NIPSCO’s customer charges will put the utility on a path to straight fixed/variable ratemaking is also incorrect. NIPSCO made no such proposal in this case, nor does the Settlement Agreement include such provisions. If NIPSCO were to make such a proposal in a future case, it will be required to demonstrate the reasonableness of its proposal with full opportunity by other parties to present evidence in opposition.

CAC contends that NIPSCO’s low income customers will be unreasonably harmed by the increase in the residential customer charge, yet offers no NIPSCO customer-specific evidence to support its argument. Instead, it cites national data in an unsuccessful effort to prove its point. In contrast, NIPSCO presented evidence based on

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5 In Cause No. 44063, the Commission stated: “economically efficient pricing promotes good decision making by customers. Thus variable costs (i.e., primarily the cost of gas) would be in the volumetric charge, and all other costs that do not vary or vary significantly would be included in the fixed costs, such as a customer charge. Here the Petitioner is not proposing to include all non-variable charges in the customer charge. In fact, Petitioner has not proposed to increase the customer charge to the extent that its evidence would support. Further, we are mindful that the customer charge proposed here is not significantly different than the customer charges proposed by other regulated gas utilities operating in Indiana. As such, we believe the Petitioner's proposed cost of service study allocation, including its proposed customer charges, should be accepted.”
its own customer data that showed many of its low income customers’ usage to be higher than average for other residential customers, indicating that NIPSCO’s low income customers as a whole will not be uniformly or disproportionately affected by an increase to the customer charge.6 NIPSCO also presented evidence detailing the customer charges for gas utilities in two separate north central regions of the United States that demonstrates that the $14.00 customer charge agreed upon by the Settling Parties fell within the middle of the range as of May 31, 2015.7

Customer charges have long been an accepted component of Indiana utility rate structures. Contrary to CAC’s arguments, customer charges are supported by embedded cost of service regulatory policy. In fact, both Bonbright and Phillips recognize that customer charges are standard ratemaking policy.8 Customer charges are consistent with almost every one of Bonbright’s attributes of a sound rate structure – understandability, meeting revenue requirements, revenue stability, fairness, etc.9 As the Commission has

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6 See Petitioner’s Exhibit No. 2, Attachment 2-E. A review of Attachment 2-E documents that while low income customers within the average range of consumption on NIPSCO’s system consume less gas than the system average, low income customers outside of the average range generally use more.
7 See Petitioner’s Exhibit No. 15-R, Attachment 15-A-R.
8 See Principles of Public Utility Rates, by James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, 2nd edition, at pp. 490-91: “Customer costs are those operating and capital costs found to vary with the number of customers regardless, or almost regardless, of power consumption. Included as a minimum are the costs of the drop wire, metering and billing, along with whatever other nonrecoverable expenses the company must incur in taking on another consumer. . . . Since PURPA in 1978, many electric companies have replaced the minimum monthly charge with a customer charge.” See also The Regulation of Public Utilities, by Charles F. Phillips, Jr., 3rd edition, at pp. 455-56, quoted supra.
recognized and contrary to the CAC’s position, increases in the customer charge are consistent with the principle of gradualism especially when evaluated in the context of the total bill.\textsuperscript{10}

**CONCLUSION**

The Settlement Agreement’s provision proposing approval of a $14 monthly residential customer charge is significantly less than what was initially proposed by NIPSCO and is in the public interest. It is based on the actual cost of providing service to residential customers and is consistent with the principle of gradualism. The Commission should reject CAC’s objections and should approve the Settlement Agreement in its entirety and adopt the Joint Proposed Order as submitted by the Settling Parties.

\textsuperscript{10} As the Commission stated in the IPL Rate Order, “this structure [increased residential customer charge] does not violate the principles of gradualism, because gradualism is best considered in the context of the entire customer bill and not discrete charges within the bill.” IPL Rate Case Order at 72.
Respectfully submitted,

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