STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS 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; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44403-TDSIC-6, ALL PURSUANT TO IND. CODE CH. 8-1-39-9.	)	**CAUSE NO. 44403-TDSIC-7**

PETITIONER'S SUBMISSION OF PROPOSED ORDER

Northern Indiana Public Service Company, by counsel, hereby submits the attached form of proposed order. For purposes of convenience, a Word version of its proposed order is being provided via email transmission.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served by email transmission upon the following:

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Dated this 1st day of December, 2017.

Christopher C. Earle

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VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) APPROVAL OF AN ADJUSTMENT TO ITS GAS 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; AND (3) APPROVAL OF PETITIONER'S UPDATED 7-YEAR GAS PLAN, INCLUDING ACTUAL AND PROPOSED ESTIMATED CAPITAL EXPENDITURES AND TDSIC COSTS THAT EXCEED THE APPROVED AMOUNTS IN CAUSE NO. 44403-TDSIC-6, ALL PURSUANT TO IND. CODE CH. 8-1-39.	)	**CAUSE NO. 44403-TDSIC-7** **APPROVED:**

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On August 31, 2017, Northern Indiana Public Service Company ("Petitioner" or "NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in this Cause for approval of a new Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") pursuant to Indiana Code § 8-1-39-9. On the same day, NIPSCO filed its direct testimony.

NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on October 17, 2017, which was granted on October 31, 2017.[1]

On October 30, 2017, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits. The Industrial Group filed a Motion for Administrative Notice, which was granted on November 15, 2017. On November 15, 2017, NIPSCO filed rebuttal testimony. On November 21, 2017 NIPSCO responded to a November 8, 2017 Docket Entry from the Presiding Officers. On November 30, 2017 the OUCC responded to a November 28, 2017 Docket Entry from the Presiding Officers.

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[1] The members of the Industrial Group in this proceeding are ArcelorMittal USA, BP Products North America, Inc., Cargill, Inc., Fiat Chrysler Automobiles, Praxair, Inc. and USG Corporation.

An evidentiary hearing was held on November 30, 2017, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC and Industrial Group appeared and participated. At the hearing, the prefiled evidence of NIPSCO along with its November 21, 2017 docket entry response, and the OUCC along with its November 30, 2017 docket entry response, were offered and admitted into the record. The Industrial Group's IG Exhibit 1, IG Exhibit 1-C, Admin Notice 1 and Admin Notice 1-C were also admitted into the record. The witnesses were made available for cross-examination. No member of the public appeared or participated at the hearing.

Based on the applicable law and evidence presented, 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. Petitioner 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 ("TDSIC Statute"), the Commission has jurisdiction over a public utility's petition to approve rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. <u>Petitioner's Characteristics</u>. Petitioner 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. Petitioner 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. Petitioner provides gas utility service to more than 821,000 residential, commercial and industrial gas customers in northern Indiana.

3. <u>Background and Relief Requested</u>. On April 30, 2014, the Commission issued an Order in Cause No. 44403 ("44403 Order") concerning Petitioner's request for approval of a 7-year plan for eligible transmission, distribution and storage system improvements ("7-Year Gas Plan" or "Plan"), pursuant to Ind. Code §§ 8-1-39-10 and 11. In the 44403 Order, the Commission held: (1) the projects contained in Year 1 of NIPSCO's 7-Year Gas Plan are eligible transmission, distribution, and storage system improvements ("eligible improvements") within the meaning of Indiana Code § 8-1-39-2; (2) the project categories contained in Years 2 through 7 of NIPSCO's 7-Year Gas Plan are presumed eligible improvements within the meaning of Indiana Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings; (3) the 7-Year Gas Plan is reasonable and approved subject to certain modifications; (4) NIPSCO's proposed definitions of key terms for purposes of interpreting and applying those terms to NIPSCO's 7-Year Gas Plan are approved; and (5) NIPSCO's proposed process for updating the 7-Year Gas Plan in future semi-annual adjustment proceedings is approved. Although an Appeal was filed, it was subsequently dismissed with prejudice.[2]

On January 28, 2015, the Commission issued an Order in Cause No. 44403-TDSIC-1 ("TDSIC-1 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-1"),

[2] Order dated September 23, 2014 in Cause No. 93A02-1405-EX-368.

with the exception of certain cost estimates for the 112th Street project and bare steel replacement projects, and designating the projects included in Year 2 as eligible improvements under Ind. Code § 8-1-39-2. The Commission approved NIPSCO's proposed methodology for calculating its TDSIC adjustment and authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2014. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On February 27, 2015, NIPSCO filed its petition and case-in-chief in Cause No. 44403-TDSIC-2 ("TDSIC-2"). Subsequently, on April 8, 2015, the Court of Appeals of Indiana issued a decision in the appeal of a Commission Order in Cause Nos. 44370 and 44371 (NIPSCO's Electric TDSIC cases), reversing in part, affirming in part, and remanding the case to the Commission. *NIPSCO Indus. Grp. v. Northern Ind. Pub. Serv. Co.*, 31 N.E.3d 1 (Ind. Ct. App. 2015) ("Appellate Order"). After discussion with the parties, NIPSCO ultimately moved to dismiss TDSIC-2 with the understanding that it would request to recover approved capital expenditures incurred through June 30, 2015 and TDSIC Costs for the period July 1, 2014 through June 30, 2015 in Cause No. 44403-TDSIC-3 ("TDSIC-3"). On June 2, 2015, the Commission dismissed TDSIC-2 without prejudice.

On March 30, 2016, the Commission issued an Order in TDSIC-3 ("TDSIC-3 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-3"), with the exception of certain new and emergent projects that were not identified or approved in NIPSCO's 7-Year Gas Plan or Plan Update-1, and designating the projects included in the approved Plan Update-3 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission approved a new allocation of NIPSCO's approved capital expenditures and TDSIC costs to the various customer classes based on total revenue, including gas revenue, by removing the adjustment for transmission versus distribution considerations. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case.

On June 22, 2016, the Commission issued an Order in Cause No. 44403-TDSIC-4 ("TDSIC-4 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-4"), with the exception of four projects, and designating the projects included in the approved Plan Update-4 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 31, 2015. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-4 Order was appealed by the Industrial Group in Case No. 93A02-1607-EX-1644. On June 20, 2017, the Court of Appeals issued an order affirming the Commission's order. NIPSCO Industrial Group filed a Petition to Transfer, which is currently pending with the Indiana Supreme Court.

On December 28, 2016, the Commission issued an Order in Cause No. 44403-TDSIC-5 ("TDSIC-5 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-5") and designating the projects included in the approved Plan Update-5 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through June 30, 2016.

NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-5 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-177.

On June 28, 2017, the Commission issued an Order in Cause No. 44403-TDSIC-6 ("TDSIC-6 Order") approving, among other things, NIPSCO's updated Plan ("Plan Update-6") and designating the projects included in the approved Plan Update-6 as eligible improvements within the meaning of Ind. Code § 8-1-39-2. The Commission authorized NIPSCO's recovery of 80% of its approved capital expenditures and TDSIC costs incurred through December 31, 2016. NIPSCO was authorized to defer the remaining 20% until such costs are recovered in NIPSCO's base rates as a result of its general rate case. The Commission's TDSIC-6 Order was appealed by the Industrial Group and is currently pending in Case No. 93A02-1701-EX-1632.

In this proceeding, NIPSCO requests:

(a) Approval of the TDSIC factors set forth in Attachment 1, Schedule 8 to the Verified Petition to become effective for bills rendered by NIPSCO for the months of January through June 2018 or until replaced by different factors approved in a subsequent filing;

(b) Approval of Petitioner's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge set forth in Attachment 3 to the Verified Petition, which contains the TDSIC factors;

(c) Authority to defer, as a regulatory asset, 20% of the eligible and approved capital expenditures and TDSIC costs incurred in connection with its Plan Update-6 and record ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred TDSIC costs until such costs are included for recovery in NIPSCO's next general rate case;

(d) Authority to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project;

(e) Approval of Petitioner's updated 7-Year Gas Plan ("Plan Update-7"), including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-6; and

(f) Authority to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with Plan Update-7 through the TDSIC and authorizing Petitioner to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Plan Update-7, for recovery in its next general rate case.

4. Evidence Presented.

A. NIPSCO's Case-In-Chief. NIPSCO presented the testimony and exhibits of Alison M. Becker, Manager of Regulatory Policy; Jennifer L. Shikany, Director of Regulatory

Accounting; and Robert V. Mooney, Vice President of Engineering and Construction – Gas, for NiSource Corporate Services Company.

Ms. Becker testified that as required by Ind. Code § 8-1-39-9, NIPSCO's currently approved 7-Year Gas Plan (Exhibit Gas Plan Update-6 (Redacted)) and NIPSCO's proposed updated 7-Year Gas Plan (Plan Update-7) (Exhibit Gas Plan Update-7 (Redacted)) were attached to the Verified Petition initiating this Cause.

Ms. Becker testified all of the TDSIC projects included for recovery in this filing were or will be undertaken for the purpose of safety, reliability, system modernization or economic development as required by Ind. Code § 8-1-39-2 and the Rural Gas Extensions projects were undertaken for the purpose of extending gas service in rural areas. She testified that in conformance with Ind. Code § 8-1-39-2, none of the projects included for recovery in the proposed TDSIC-7 factors were included in NIPSCO's rate base in Cause No. 43894. Ms. Becker explained that pursuant to Ind. Code § 8-1-39-9, NIPSCO is requesting approval of all of the projects designated in Plan Update-7 that are included for recovery in the proposed TDSIC-7 factors. She testified that pursuant to Ind. Code § 8-1-39-9(e), NIPSCO intends to file a petition for the timely recovery of its TDSIC costs approximately once every six (6) months (March and September). Ms. Becker testified that pursuant to Ind. Code § 8-1-39-9(c), NIPSCO has not filed a petition within nine (9) months after the date on which the Commission issued an order changing its basic rates and charges. Ms. Becker testified that pursuant to Ind. Code § 8-1-39-9(d), NIPSCO intends to petition the Commission for review of its basic rates and charges before the expiration of its approved 7-Year Gas Plan.

Ms. Becker testified NIPSCO is requesting approval of Plan Update-7, including the actual capital expenditures incurred through June 30, 2017, as well as updated cost estimates for the projects designated in Plan Update-7, including actual and proposed estimated capital expenditures and TDSIC costs that exceed the amounts approved in Plan Update-6.

Ms. Becker explained that to date NIPSCO has not undertaken any Targeted Economic Development Projects that are eligible for recovery through the Gas TDSIC. However, NIPSCO continues to work with interested parties on potential projects, and it will continue to keep TDSIC stakeholders informed to the extent the projects are developed enough to present to them prior to submitting in a TDSIC filing. Ms. Becker testified that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural customers in the updated estimate and to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extension projects.

Ms. Becker testified that NIPSCO met with the OUCC and interested stakeholders, including representatives of the Industrial Group and US Steel on August 3, 2017. During the August 3 meeting, and, based upon the information known at that time, NIPSCO identified known changes to projects from Plan Update-6. She extended NIPSCO's appreciation of the time and attention of the OUCC and the stakeholders throughout the TDSIC process.

Ms. Becker testified that, as of the time of filing, NIPSCO was not aware of any unresolved issues, but recognized that the OUCC and the stakeholders may continue to ask questions and reserve comment on any further issues that they may identify as a result of the filing. She stated that NIPSCO is not including any major change as part of this proceeding. Ms. Becker sponsored the presentation relating to its updates to the 7-Year Gas Plan that NIPSCO provided to the OUCC and its stakeholders during the August 3, 2017 meeting as Confidential Attachment 1-B.

Ms. Shikany supported NIPSCO's proposed ratemaking treatment for TDSIC factors to be applicable and made effective for bills rendered by NIPSCO for the months of January through June 2018, or until replaced by different factors that are approved in a subsequent proceeding, 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, as authorized by the Commission in its 44403 Order, TDSIC-1 Order, TDSIC-3 Order, TDSIC-4 Order, TDSIC-5 Order and TDSIC-6 Order.

Ms. Shikany testified that Attachment 1, Schedule 2 shows that the total cost of the eligible transmission, distribution, and storage system improvements ("Eligible TDSIC Assets"), which includes allowance for funds used during construction ("AFUDC"), other indirect costs, and is net of accumulated depreciation, incurred through June 30, 2017, upon which NIPSCO requests authority to earn a return is $328,935,352 (Attachment 1, Schedule 1, Page 4).

Ms. Shikany testified that NIPSCO is only seeking approval to recover a return on its investment and the related depreciation expense, property taxes and carrying charges associated with $3,322,780 of the total direct capital costs incurred through December 31, 2015 for the 112th Street Project. She stated this amount represents NIPSCO's best estimate provided in Cause No. 44403 and is inclusive of the 20% contingency percentage. She testified that consistent with the TDSIC-1 Order, NIPSCO will defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between this amount and the actual amount of the 112th Street Project.[3] She testified Attachment 1, Schedule 11 shows the depreciation and property taxes NIPSCO plans to defer relating to this difference for the months of January through June 2017 is $136,586 and the total deferred balance is $606,435.

Ms. Shikany provided an overview of the indirect capital costs. She stated that indirect capital costs are associated with capital projects and must be capitalized in order to comply with Generally Accepted Accounting Principles ("GAAP"). However, these often cannot be charged directly to a specific capital project work order as they cannot be directly linked to one particular project and tend to be incurred away from the job site. She stated that NIPSCO groups these indirect capital costs into three categories: (1) overheads, (2) stores, freight and handling, and (3) AFUDC. Ms. Shikany stated that the overhead component of indirect capital includes items such as: (1) portions of benefits such as vacation and holiday pay, (2) portions of charges incurred for outside services that support NIPSCO's capital project processes, and (3) portions of payroll for NIPSCO employees involved in supporting capital projects in either a project management function (i.e., project engineering, operations) or an administrative and general function (i.e., fixed asset accounting, financial planning). She stated that stores, freight, and handling charges are also indirect capital costs that must be capitalized for GAAP purposes. She explained that this component of indirect capital represents costs that NIPSCO incurs to procure materials and equipment. She stated that generally, this represents the payroll for NIPSCO's supply chain and

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[3] Mr. Mooney sponsors Petitioner's Exhibit No. 3, Confidential Attachment 3-C, which shows the costs incurred to date related to this project.

procurement functions and includes labor costs and other warehousing expenses associated with NIPSCO's warehousing function for inventoried materials and supplies.

Ms. Shikany testified the last component of NIPSCO's indirect capital is AFUDC. She stated that NIPSCO computes AFUDC amounts and relevant AFUDC rates for Eligible TDSIC projects in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts and is also consistent with GAAP. She stated that NIPSCO also has a process to ensure that AFUDC is no longer recorded after such costs are given construction work in progress ("CWIP") ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first.

Ms. Shikany stated that three of the indirect capital components must be capitalized in order to conform with GAAP for public utilities. She testified that NIPSCO has consistently followed this approach internally for both direct and indirect capital costs for years, including during the test year in its last general rate proceeding in Cause No. 43894.

Ms. Shikany testified that NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first. She stated that, after the in-service date, NIPSCO will calculate and include for recovery post in-service carrying charges ("PISCC") on costs which have been placed into service and are not receiving ratemaking treatment until such costs receive CWIP ratemaking treatment, or are otherwise reflected in base gas rates.

Ms. Shikany testified NIPSCO has calculated the depreciation expense related to TDSIC capital expenditures according to each asset's designated FERC account classification. Each asset, upon being placed in service, is depreciated by NIPSCO according to the associated FERC account composite remaining life approved by the Commission's November 4, 2010 Order in Cause No. 43894.

Ms. Shikany explained that the calculation of NIPSCO's "return on" portion of the revenue requirement for costs of Eligible TDSIC Assets incurred through June 30, 2017 is shown on Attachment 1, Schedule 2. She stated that the annual revenue requirement for the return on investment is calculated by multiplying the June 30, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted average cost of capital. The product of this calculation is then multiplied by 50% to calculate a semi-annual revenue requirement. She explained that this semi-annual amount is then multiplied by the revenue conversion factor, as discussed below, and further reduced to 80%, as shown in Attachment 1, Schedule 5, to determine the total return-related revenue requirement to be recovered for bills rendered during the months of January through June 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Ms. Shikany testified that Attachment 1, Schedule 3 shows post-in-service carrying costs associated with Eligible TDSIC Assets that were placed into service prior to June 30, 2017. She stated that in the TDSIC-1 Order, the Commission authorized NIPSCO to record and recover PISCC at the effective WACC over the respective PISCC time period. She explained that PISCC is calculated by multiplying the value of costs which have been placed in service and are not receiving CWIP ratemaking, by NIPSCO's effective WACC rate for the period in which the costs are in-service and that ongoing carrying charges on the PISCC are calculated until such balances are recovered through rates. She stated that NIPSCO is proposing recovery of all eligible PISCC incurred for the period January through June 2017 in this filing, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Ms. Shikany stated that Attachment 2, Schedule 2 shows the computation of the revenue conversion factor used to compute the Company's pre-tax revenue requirement. She testified that the revenue conversion factor is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement as reflected on Attachment 1, Schedule 2 and Schedule 3. The state income tax rate used in this computation was determined in accordance with Ind. Code § 6-3-2-1.

Ms. Shikany stated that Attachment 1, Schedule 4 includes depreciation expense, operations and maintenance ("O&M") and property taxes for the period January through June 2017. She stated the total depreciation expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column B represents actual depreciation expense incurred from January through June 2017. The total actual depreciation expense incurred is reduced to 80%, as shown on Attachment 1, Schedule 5, to determine the proposed total revenue requirement to be recovered for bills rendered during the months of January through June 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Ms. Shikany testified the total O&M expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column D represents actual O&M expense incurred from January through June 2017 related to the Integrity Data Integration Project. She explained that the total actual O&M expense incurred is multiplied by 80% as shown on Attachment 1, Schedule 5 to determine the total revenue requirement to be recovered for bills rendered during the months of January through June 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period. She explained that based on the allocators approved in the TDSIC-3 Order, NIPSCO will allocate 91.1% of O&M expenses related to the Integrity Data Integration Project based on the distribution allocator and 8.9% based on the transmission allocator.

Ms. Shikany stated that the property tax expense associated with the Eligible TDSIC Assets shown on Attachment 1, Schedule 4, Column C represents actual property tax expenses incurred for the period January through June 2017. She stated the total actual property tax expenses incurred is reduced to 80%, as shown on Attachment 1, Schedule 5, in order to determine the proposed total revenue requirement to be recovered for bills rendered during the months of January through June 2018, not to exceed an average aggregate increase in NIPSCO's total retail revenues of more than two percent (2%) in a twelve (12) month period.

Ms. Shikany testified the TDSIC-1 Order approved NIPSCO's proposal to provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the Rural Extension projects. She stated these amounts are calculated on Attachment 2, Schedule 5 and are computed by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period January through June 2017.

Ms. Shikany explained that the revenue requirement calculated in NIPSCO's TDSIC-5 filing is being reconciled against the actual revenues received from the customers from January through June 2017 resulting in an under recovery of $902,350. She stated this under/over recovery analysis is performed on Attachment 1 Schedule 6, which also shows the components of the total reconciliation of revenue by capital, expense, and function.

Ms. Shikany testified that Attachment 2, Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order, which NIPSCO used to allocate the related transmission and distribution revenue requirements in this filing as shown on Attachment 1, Schedule 7.

Ms .Shikany explained that Attachment 1, Schedule 7, was changed to show the calculation of the revenue requirement by function (transmission, distribution, storage) and by the capital and expense revenue requirement. The amounts in Columns E, J, and O show the revenue requirement by function from Attachment 1, Schedule 5.

Ms. Shikany testified Attachment 1, Schedule 8 shows the calculation of the TDSIC factors by rate code based on the previously calculated revenue requirements. The amounts in Columns B, F, and J show the revenue requirement by function from Attachment 1, Schedule 7. Columns C, G, and K show the reconciliation of revenues by function from Attachment 1, Schedule 6. The amounts in Columns D, H, and L show the revenue requirement adjusted for prior period variances by function. She stated the factors are calculated by adding the Total Transmission, Distribution, and Storage revenue requirements in Columns N, O, and P, respectively and dividing the Total Revenue Requirement in Column P by the estimated therm sales in Column Q to compute a billing factor in Column R for bills rendered by NIPSCO for the months of January through June 2018.

Ms. Shikany testified Attachment 1, Schedule 9 shows there is no amount in excess of 2% of retail revenues for the past twelve (12) months. She testified 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. She testified the retail revenues used in this calculation represent the revenues related to the 12 months ending June 30, 2017.

Ms. Shikany sponsored Attachment 3, which is a clean and redlined version of NIPSCO's revised Appendix F – Transmission, Distribution and Storage System Improvement Charge showing the TDSIC factors proposed to be applicable for bills rendered during the months of January through June 2018, or until replaced by different factors that are approved in a subsequent proceeding.

Ms. Shikany sponsored Attachment 2, Schedule 6 (Page 1) identifying the projected effect of NIPSCO's Plan Update-6 on retail rates and charges. She also sponsored Attachment 2, Schedule 6 (Page 2) identifying the projected effect of NIPSCO's Plan Update-7 on retail rates and charges and the total estimated revenue requirement for each rate class from 2014 to 2020.

Ms. Shikany stated the estimated average monthly bill impact for a typical residential customer using 72 therms per year is $1.63, which is a $0.60 decrease from the factor currently in effect.

Ms. Shikany explained that Ind. Code § 8-1-39-9(b) provides that twenty percent (20%) of the approved capital expenditures and TDSIC costs, including depreciation, pretax returns, AFUDC, post in service carrying costs and property taxes shall be deferred and recovered by the public utility as part of the next general rate case filed by the public utility with the Commission. She noted that in the TDSIC-1 Order, the Commission authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with approved eligible transmission, distribution, and storage system improvements, including ongoing carrying charges based on the current overall WACC, and recover those deferred costs in its next general rate case. She stated that consistent with this authority, NIPSCO has deferred as a regulatory asset 20% of all TDSIC costs, including depreciation and property tax expenses and all tax expenses recorded as a result of the deferral of 20% of all TDSIC costs for recovery in its next general rate case.

Mr. Mooney sponsored NIPSCO's Plan Update-7 and Plan Update-6. He also sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 1, showing the actual capital expenditures incurred through June 30, 2017 relating to designated eligible improvements. Mr. Mooney also sponsored Petitioner's Exhibit 3, Attachment 3-A (Summary the Gas System Deliverability, Gas System Integrity and Records Project categories) and Confidential Attachment 3-B (rural extensions projects), and Confidential Attachment 3-C (summary of 112th Street Project).

Mr. Mooney testified NIPSCO's Project Managers have been trained in and follow the Project Management Institute's Project Management Body of Knowledge principles. He stated the Project Controls and Project Management teams meet twice a month to review project status. Project reviews focus on safety, quality, cost, scope, schedule, and any associated risks.

Mr. Mooney described how NIPSCO manages the portfolio of projects included in the 7-Year Gas Plan. He explained that the Engineering department developed the 7-Year Gas Plan and the initial cost estimates for the projects. The projects were then assigned to the appropriate departments (including Engineering and Major Projects) for design and execution. He testified that the Project Controls Team has the primary role to verify that costs are accurately forecasted, accounted for and tracked for all TDSIC projects. It is also responsible for obtaining, tracking and paying invoices for the TDSIC projects as well as creating monthly forecasts and accruals

Mr. Mooney described NIPSCO's cost management process, which begins with initiating a new TDSIC work order. The Project Engineer/Manager submitting a Capital Initiative Form ("CIF") to the TDSIC Support Budget Analyst who does a preliminary check of the asset register to verify the work is a valid TDSIC project and initiates the work order and routes the form to the Plan Owner and the Project Execution/Engineering Team for two levels of approval. The purpose of the first level of approval is to verify that the project and costs are TDSIC eligible. The purpose of the second level of approval is to approve the scope and cost of the project work. Both approvals are required before work is performed and project costs are incurred, except when a work order is needed for an emergency.

Mr. Mooney stated that once a TDSIC work order is initiated, NIPSCO records charges to the work order in accordance with NIPSCO's internal controls. He explained that capital dollars are separated into direct capital and indirect capital. Mr. Mooney testified that vendor related direct costs are procured through the use of a material requisition and that a purchase order is required to order goods or services.

Mr. Mooney stated that in addition to those controls, the Project Controls Team provides reports weekly that show the year-to-date actual costs to each project and the current month's estimated weekly actual costs. The TDSIC Project Controls Cost Engineers meet monthly one-on-one with the TDSIC Project Managers to review actual costs, to estimate accruals, and to forecast the current year estimate at completion and full project estimate at completion for multi-year projects. The TDSIC Project Managers also review all project costs to ensure that costs are properly recorded to the TDSIC work orders. This process includes the review of non-vendor payments such as internal labor and other direct costs. The TDSIC Project Managers review the detailed project cost reports provided by the Project Controls Team to ensure that all vendor payments are properly recorded, and internal labor charges are appropriate. He noted that any unusual charges are investigated and corrected if necessary.

Mr. Mooney described NIPSCO's process for executing the projects included in its 7-Year Gas Plan. He stated that with the exception of small Rural Extension projects that are better handled by the local operating area, Engineering and Major Projects jointly execute all of the projects in the 7-Year Gas Plan. The Engineering group, in partnership with Major Projects, develops the updates to the 7-Year Gas Plan and establishes the base scope of work associated with each updated Plan. Next, the Engineering group develops a more detailed scope (with internal NIPSCO stakeholders) and provides detailed estimates for the projects within the Plan for the next year. The Engineering group then conducts more detailed engineering prior to execution start, when possible and when appropriate. The TDSIC Execution group then executes TDSIC work. Mr. Mooney stated the cost tracking of the work is managed by the Project Controls Team.

Mr. Mooney explained that NIPSCO has implemented two operational procedures to increase the safety of its employees and customers. The first is an effort to eliminate cross-bores with other foreign facilities during the installation of NIPSCO's assets. The second is an update to NIPSCO's pipeline tie-in procedures to increase the safety of its employees while performing work that involves the separation of pipe. He indicated that while these procedures will increase the cost of installations, the increase in safety outweighs those increased costs.

Mr. Mooney testified that NIPSCO has adjusted its estimates in Plan Update-7 to reflect implementation of the new safety procedures.

Mr. Mooney provided an update on the potential risks associated with the completion of projects in light of actual experience that NIPSCO identified in previous stakeholder meetings, as follows:

- <u>Stateline to Highland Junction (TP1)</u>: During the TDSIC-6 Stakeholder Meeting, NIPSCO noted that there may be unforeseen underground obstructions. Although that particular risk was not realized, there was a risk realized with an existing valve required for the tie-in procedure that would not fully close and did not completely stop the flow of gas. This necessitated the need for additional stopples to be used in order to complete the tie-in.

- Aetna to LaPorte (TP2): During the TDSIC-6 Stakeholder Meeting, NIPSCO noted that there may be possible delays with land acquisition, permitting and material procurement. In addition, NIPSCO noted that there was a concern regarding the need for directional boring, environmental, corrosion mitigation and land costs. Of these potential risks, NIPSCO encountered a delay in the permitting for a section of planned installation. Although the permit was applied for in a reasonable timeframe and initial indications from the government entity were positive, additional federal review was required, which could neither been foreseen nor controlled by NIPSCO. NIPSCO has worked with its contractor to swap some planned 2018 work into 2017 and some 2017 work into 2018 in order to keep the project on track.

- Gary Bare Steel and Balance of System Project (BSR11). Specifically, during the TDSIC-6 meeting, NIPSCO noted that there could be a need for unexpected shoring due to pipe depth and NIPSCO committed to monitoring for particulate release when pipes are purged. Although the project is still underway, NIPSCO has not encountered either of those noted risks. In the TDSIC-7 meeting, NIPSCO noted that this project did encounter an unexpected risk when environmental testing showed trace Poly Chlorinated Biphenyls (PCBs) and trace gasoline in some soil tests. This necessitated the use of carbon filtering during dewatering at multiple sites. As a follow up, NIPSCO also encountered a risk of un-marked utilities. This required the moving of multiple bore pits to avoid an unknown fiber line that was previously not located. Un-marked utilities are a risk that is nearly impossible to account for due to the fact that NIPSCO is at the mercy of other utilities appropriately responding to locate requests. In this case, a likely damage was prevented by the sharp eye of a construction crew member who noticed the fiber line during the hydro-excavation of a bore pit and stopped the planned bore until the line could be fully located.

Mr. Mooney explained the estimation classes identified by the Association for the Advancement of Cost Engineering ("AACE"). He stated that AACE standards identify classes of estimates based on the use of the estimate and the level of detailed engineering required to produce inputs into the estimate. NIPSCO generally uses these AACE Classifications with respect to its estimates for TDSIC projects, but the process of managing costs involves more than specifying a specific class or range of estimate.

Mr. Mooney provided an overview of NIPSCO's process for managing costs in its 7-Year Gas Plan. He stated that many of the projects are substantial projects that span more than a single year. In addition, multiple-unit projects continue to be estimated on a unit cost basis, with unit costs updated as actual experience is gained with repetitive tasks. He explained that some multiple-unit projects are difficult to estimate because of wide variability in specific sites and circumstances. The process of estimate refinement is a continuous process as the 7-Year Gas Plan progresses.

For projects more than two years out in the Plan, Mr. Mooney stated that they have been estimated utilizing a unit cost methodology. The project scope is developed based on inputs from the risk model, engineering planning, operations and the application of NIPSCO's engineering standards. Historical costs of similar type projects are utilized to estimate the cost of the project with limited engineering being complete. These estimates are considered Class 4 and no detailed site visit has not been conducted.

For projects that are planned for construction within the next two years of the Plan, Mr. Mooney stated NIPSCO utilizes a more detailed estimating process that includes a project scope review. Specific site details are then integrated into the estimate allowing risks that may result in the project cost decreasing or increasing based on the outcome of the site visit and input from all impacted parties. At this phase, estimates are refined and considered Class 3, with at least one site visit, and are based on additional engineering or analysis along with scope definition. After projects advance from this phase, detailed engineering begins, which continues to refine the project cost estimate. He explained that for most projects, this will now occur within 18-24 months of the start of construction, and detailed engineering will be complete. Detailed engineering includes generation of material lists, associated labor and technical drawings to be utilized during construction. Estimated labor hours are utilized to develop a resource plan which includes both internal and external labor resources. Detailed engineering documents are also used to bid external construction projects. A constructability review is also conducted to review the detailed engineering with project management and construction. Mr. Mooney stated this typically takes place at the project site and is designed to identify associated project risks for integration into the cost estimate. At this phase, estimates are refined and considered Class 2. He testified that until construction begins, and until the project is complete, it is difficult to define all of the factors that influence a project's final cost. Factors that can influence project costs include weather, seasonal site conditions, emergencies, specific equipment needs or other situations not identified until the construction process has started.

Mr. Mooney testified that NIPSCO has updated the unit costs used to estimate costs shown in Confidential Appendix 3.

Mr. Mooney explained the process NIPSCO uses to determine whether requested changes in cost estimates are eligible for TDSIC treatment. During the first half of the year, a formal reprioritization meeting is held once a month to review and approve project estimate changes. Because of increased requests, NIPSCO increases the meeting frequency to twice a month during the second half of the year. This reprioritization process starts when the need for a project estimate change is identified and the Project Management team completes a Project Change Request ("PCR") form. NIPSCO requires a PCR for estimate changes that are +/- $30,000 or 15%, whichever is greater, or any estimates changes that exceed $100,000 for any project even if it does not meet the 15% threshold in this filing. He stated the intent of the reprioritization process is for leadership to review and approve estimate changes before they occur.

Mr. Mooney stated that the TDSIC Support team summarizes a list of requested project estimate decreases and increases from the PCRs for review at the reprioritization meeting. Each project estimate change is reviewed and approved or rejected by a level of leadership in accordance with NIPSCO's Capital Governance Policy. If the change is approved, then it is included in the next Plan update. If the change is not approved, it may be placed on a "hold" list for review at a future meeting, or it may be denied, but it will not be included in a Plan update until it is approved.

Mr. Mooney testified that consistent with the TDSIC-1 Order, Plan Update-7 shows the originally approved cost estimate for the 112th Street Project. He sponsored <u>Confidential Attachment 3-C</u> showing the approved costs, actual costs as of December 31, 2014, December 31, 2015, December 31, 2016, and June 30, 2017, total estimated costs and the amount of total estimated costs that exceed the approved amount related to the 112th Street Project. He testified the 112th Street Project was placed in service in December 2014 and is operational. NIPSCO did not perform any additional work related to 112th Street project in 2016 or 2017. As shown in Confidential Attachment 3-C, minimal capital costs associated with the final closeout of the project were booked in 2016 and 2017. He indicated that NIPSCO does not anticipate any additional capital costs for the 112th Street Project.

Regarding the Records Project, Mr. Mooney testified that to date, NIPSCO has successfully completed fourteen out of twenty-eight deliverables for the project, resulting in approximately 20,000 linens mined and 147 features added for placement into the Company's Geographic Information System. He testified that in Plan Update-7, NIPSCO is not proposing any changes to the approved cost estimates for the Records Project. He indicated that although the completion date is expected to extend beyond December 31, 2017, NIPSCO will not be seeking any additional TDSIC funding for completion of the Records Project. Accordingly, NIPSCO has moved $100,000 from 2017 to 2018 to reflect that the Project timeline and actual expenditures to date. At the evidentiary hearing, the Presiding Officers questioned Mr. Mooney extensively about the Records Project process, the timing for completion, the contractor, and the decision to undertake the project within NIPSCO after 2017. Mr. Mooney explained that, while he was not involved in the initial planning and development of the Records Project, he was aware that the vendor selected to perform the digitalization work for the project had struggled to provide deliveries of records in a timely and accurate way. He testified that once the vendor had been identified and engaged, deliveries began in 2015. Those deliveries required an effort to resolve a number of quality issues with the vendor and that ultimately led to the determination to allow the contract to expire and complete the remainder of the work in-house. He explained that NIPSCO had engaged a third-party consultant to undertake a time study to evaluate the time required to complete the remaining work on the Records Project using internal resources, but that the results of that study were not available as of the hearing date. Mr. Mooney testified that the Records Project is and has been a priority for NIPSCO, but that the quality issues with the vendor had primarily impacted the speed of its completion.

Mr. Mooney noted that in the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy, and provide an 80% credit to the TDSIC tracker for actual margins received from all new customers added under the rural extensions projects. He testified that in determining the number of connections expected to be made annually, the New Business department forecasts the number of meters projected to be added each year. This is based on previous customer connections, planned marketing, and the anticipated availability of new main. Once the total number of new connections is determined, NIPSCO further refines the estimate into what is expected to be TDSIC-eligible. Mr. Mooney explained the two primary methods NIPSCO uses to determine whether a new rural business project is eligible for TDSIC treatment. He testified the rural extensions projects included in Plan Update-7 are projected to pass the 20-year test identified in Ind. Code § 8-1-39-11.

Mr. Mooney described the Plan update process approved in the Commission's 44403 Order and the contents of Plan Update-7. He stated that the Plan update process is important because information is continually gathered around asset condition and updated risk analysis data. Additionally, configuration of NIPSCO's system, load growth, deliverability to critical customers and other system events will serve to modify the consequence of failure driver in NIPSCO's aging infrastructure risk model. As NIPSCO's customer demands evolve, both from a location and utilization perspective, system deliverability requirements must evolve with them.

Mr. Mooney testified as of June 30, 2017, the total gross direct capital expenditures associated with NIPSCO's designated eligible improvements is $289,220,976 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Lines 1-3, Column D)]; the total indirect capital expenditures is $35,660,947 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 4, Column D)]; and the total AFUDC for capital expenditures is $7,745,284 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 5, Column D)]. And, as of June 30, 2017, the total gross capital expenditures associated with NIPSCO's designated eligible improvements is $332,626,757 [Attachment 1-A, Attachment 1, Schedule 1 (Page 4, Line 6, Column D)].

Mr. Mooney stated that there are differences in the transmission and distribution subtotals when comparing Project Category to FERC account. He explained that some projects, such as inspect and mitigate projects, incur charges that are booked to both distribution and transmission FERC accounts. However because a majority of project costs related to specific projects are charged to either distribution or transmission FERC accounts, the project is classified into either a transmission or distribution project category on Plan Update-7 and related schedules.

Mr. Mooney testified Plan Update-7 reflects current cost estimates for the completion of the projects in the 7-Year Gas Plan. The result is an overall increase in direct capital costs of $4,173,375 or about 0.6 percent across the remainder of the 7-Year Gas Plan. When indirect capital costs and AFUDC projections are incorporated, the overall projected 7-Year Gas Plan cost increase is $4,898,995 or about 0.6 percent.

Mr. Mooney testified Plan Update-7 does not include any new projects that were not previously included in the 7-Year Gas Plan. He showed the total projected capital spend, including indirect capital costs and AFUDC, for Plan Update-7 compared to Plan Update-6, as follows:

Table 1
Comparison of Total Capital Dollars (inclusive of indirect capital costs and AFUDC)

	2014	2015	2016	2017	2018	2019	2020	7-Year Total
Plan Update-6	$43,116,426	$103,200,473	$127,266,542	$138,904,408	$148,542,112	$138,957,246	$145,028,301	$845,015,508
Plan Update-7	$43,116,426	$103,200,473	$127,266,542	$137,463,039	$150,396,063	$142,711,624	$145,760,336	$849,914,503
Variance	$0	$0	$0	$(1,441,369)	$1,853,951	$3,754,378	$732,035	$4,898,995

Mr. Mooney testified the indirect cost percentage and AFUDC percentage used in Plan Update-7 did not change from that used in Plan Update-6. Mr. Mooney explained that as was experienced with the 2014, 2015 and 2016 projects, additional costs may be incurred in a subsequent calendar year for a prior year project for a variety of reasons, including restoration costs for work completed, vendor invoices, and labor costs incurred but not submitted. In addition, NIPSCO accruals are booked in December based on the best information known at the time including both known costs and estimates for work completed but not yet booked. When invoices are received in subsequent months, the actual cost is booked and the prior period accrual is reversed. This process can result in either an additional charge or credit booked to the work order in a subsequent year. There may also be late-issued vendor invoices related to work completed that were not known when the accruals were estimated and therefore not incorporated into those accruals. Projects may also be multi-year projects, or may start in one year and end the following year depending on the project start and end dates and project schedule.

Mr. Mooney explained how NIPSCO reflects the costs incurred in a subsequent calendar year in the 7-Year Plan. He stated that in Plan Update-7, the Remaining Years Actual Costs (i.e., the amount of actual costs for the project year that may be incurred in a subsequent year) is $(199,683) for Project Year 2014, $241,211 for Project Year 2015, and $(20,021) for Project Year 2016, resulting in a Prior Year Reconciliation of $(187,761) in 2015, $273,136 in 2016, and ($63,868) in 2017.

Mr. Mooney identified the variances in actual or expected direct costs for the 2017 Projects as compared to the best estimates of the costs approved in Plan Update-6. He testified that Plan Update-7, 2017 Project Detail (Page 14) shows the Approved Project Cost for the 2017 Projects was $122,466,142 (Column A), the Updated Project Cost for the 2017 Projects is $121,206,048 (Column B), for a total decrease of $1,260,094 (Column C). Mr. Mooney explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-6) for seven of the 2017 Projects:

Mr. Mooney identified the variances in actual or expected direct costs for the 2018 Projects as compared to the best estimates of the costs approved in Plan Update-6. He testified that Plan Update-7, 2018 Project Detail (Page 21) shows the Approved Project Cost for the 2018 Projects was $130,260,826 (Column A), the Updated Project Cost for the 2018 Projects is $131,886,604 (Column B), for a total increase of $1,625,778 (Column C). Mr. Mooney explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-6) for nine of the 2018 Projects.

Mr. Mooney identified the variances in actual or expected direct costs for the 2019 Projects as compared to the best estimates of the costs approved in Plan Update-6. He testified that Plan Update-7, 2019 Project Detail (Page 25) shows the Approved Project Cost for the 2019 Projects was $117,785,573 (Column A), the Updated Project Cost for the 2019 Projects is $120,967,931 (Column B), for a total increase of $3,182,358 (Column C). Mr. Mooney explained what drove the noteworthy cost increases (variances greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-6) for 12 of the 2019 Projects.

Mr. Mooney identified the variances in actual or expected direct costs for the 2020 Projects as compared to the best estimates of the costs approved in Plan Update-6. He testified that Plan Update-7, 2020 Project Detail (Page 29) shows the Approved Project Cost for the 2020 Projects was $123,888,967 (Column A), the Updated Project Cost for the 2020 Projects is $124,514,300 (Column B), for a total increase of $625,333 (Column C). In addition to the rescheduled project, Mr. Mooney explained what drove the noteworthy cost increases (variance greater than $100,000 or 20%, whichever is greater, over what was approved in Plan Update-6) for nine of the 2020 Projects.

Mr. Mooney testified Plan Update-7 shows actual costs for the 2014 Projects, 2015 Projects and 2016 Projects and updated cost estimates for the 2017-2020 Projects. He testified Plan Update-

7 provides information to support NIPSCO's best estimate of the cost of investments included in the Plan. He stated that Plan Update-7 includes: project estimates for 2018, 2019 and 2020; summary of unit cost estimates; a multiple unit project list and supporting documentation; PCRs for 2017 Projects; and an updated Risk Model. Mr. Mooney stated that the updated cost estimates provided for the 2017 Projects are based on NIPSCO's current forecasted expenditures for the year. For 2018 Projects, the updated estimates are generally based on receiving contractor bids back or the completion of site specific engineering. For 2019 Projects, NIPSCO is expecting to have contractor bids or estimates on the larger projects that are currently showing no variance from the TDSIC-6 estimates and anticipates updating those costs in a future tracker filing. The other cost updates in 2019 are from the provided detailed cost estimates for individual projects. The detailed cost estimates for the 2019 projects are based on site walk downs, subject matter expert input, risk analysis, and environmental condition analysis. The cost estimates for 2019 multiple unit projects are either updated specific to the identified projects or are based on historical experience or similar projects that were executed in earlier years. He stated the cost estimates for the remainder of the 2020 projects and multiple unit projects are generally unit costs based on historical experience or similar projects that were executed in earlier years. Mr. Mooney testified all of the cost estimates are the best estimate of costs based on the information available at this time.

Mr. Mooney testified the eligible improvements included in Plan Update-7 will serve the public convenience and necessity by making investments for safety, reliability, system modernization and economic development consistent with public policy and the public interest. Mr. Mooney testified NIPSCO has a statutory obligation to provide adequate retail service in its certificated gas service territory pursuant to Ind. Code § 8-1-2.3-4(a) and that NIPSCO performs this obligation for the public convenience and necessity.

Mr. Mooney testified that the estimated costs of the eligible improvements included in the Plan Update-7 are justified by incremental benefits attributable to the Plan. He stated that Plan Update-7 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. He stated that the emphasis of most of the Plan's investments is to positively impact public safety. Safety drivers focus on risk reduction related to gas system leaks, pipeline ruptures, or incidents of pressure excursion. Reliability drivers include the avoidance of gas outages driven from the inability to maintain gas system pressure during peak load events.

Mr. Mooney testified that Plan Update-7 is intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investment in data and technology required for the System Integrity Data Integration program, and the extension of gas facilities into rural areas. He stated the Rural Extensions projects included in Plan Update-7 will continue to increase the number of rural customers served over the life of the Plan. Mr. Mooney concluded that Plan Update-7 cost effectively addresses safety, reliability, system modernization, and the extension of gas service into rural areas, and provides incremental benefits to NIPSCO's customers.

B. <u>OUCC's Case-in-Chief</u>. The OUCC filed the testimony of Mark H. Grosskopf, a Senior Utility Analyst in the Natural Gas Division and Leon A. Golden, a Utility Analyst in the Resource Planning and Communications Division.

Mr. Grosskopf recommended approval of rate factor calculations as shown in Attachment 1, Schedule 8. He stated that the schedules and calculations included in attachments to the Verified Petition in this Cause are consistent with the findings set forth in prior Commission Orders for Petitioner's previous TDSIC filings in this Cause. Mr. Grosskopf testified the recommendations of Mr. Golden do not affect the rate factor calculations in NIPSCO's attachments and schedules since the projects have not yet been started, and therefore the proposed disallowances are not a consideration in the cost recovery for this TDSIC.

Mr. Grosskopf stated that he performed a comprehensive analysis of the calculations and data flow contained in NIPSCO's TDSIC rate schedules. He stated he tied specific data to source documentation provided by NIPSCO, verified calculations and compared the schedules to those schedules approved in NIPSCO's prior TDSIC filings. He stated he reviewed work order documentation to verify completed capital projects, inquired into the calculation and procedures for indirect costs and AFUDC, reviewed summary detail of O&M expenses, and verified customer counts and total terms billed with summary documentation. Mr. Grosskopf stated that he verified the calculation for the cost of long term debt and reconciled cost of capital balances shown on Attachment 2, Schedule 1 with NIPSCO's balance sheet. He also verified the public utility fee and tax rates indicated on Attachment 2, Schedule 2.

Mr. Grosskopf testified NIPSCO's allocation of revenue requirements is consistent with the allocation methodology approved by the Commission in its TDSIC-3 Order. Accordingly, the approval allocation percentages are reflected in NIPSCO's Attachment 2, Schedule 4. Mr. Grosskopf testified he reviewed and verified the resulting calculation of the TDSIC factors included on Attachment 1, Schedule 7.

Mr. Grosskopf testified NIPSCO's 2% Cap Test reflected in Attachment 1, Schedule 9 is calculated correctly. He stated he traced pertinent numbers to accompanying schedules and verified the calculations provided by NIPSCO. He stated NIPSCO's proposed revenue requirement does not exceed the 2% Retail Revenue Cap for the current 6-month TDSIC period.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 8 presents the calculation of Total Rate Adjustment Factors. He stated he reviewed the calculations and flow of inputs from other schedules. He testified Attachment 1, Schedule 8 accurately reflects the TDSIC rate factors for this Cause.

Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 6 shows the reconciliation of the approved TDSIC-5 revenue requirement with the actual revenue collected during the 6-month period of January 2017 through June 2017. He stated the result is an under-recovery in the amount of $902,350, which will be collected from customers through the TDSIC rate calculation in this Cause.

Mr. Grosskopf testified Petitioner's Attachment 3 accurately reflects the TDSIC calculations presented by Petitioner's Attachment 1. Mr. Grosskopf testified Petitioner's Attachment 1, Schedule 5 calculates the total deferred revenue requirement broken out by the capital portion and the expense portion. Mr. Grosskopf traced all data input in Attachment 1, Schedule 9 to the source schedules and verified the calculations. He stated it is accurately tracking deferred capital expenditures and expenses, pending recovery in Petitioner's next base rate case.

Mr. Grosskopf testified that Petitioner removed from TDSIC recovery calculations the capital expenditures associated with the 112th Street Project that exceeded the estimate provided by NIPSCO in Cause No. 44403. Also, consistent with the TDSIC-1 Order, NIPSCO will defer, for recovery in its next base rate case, the depreciation and property tax expense related to the difference between the approved amount and the actual amount of the 112th Street Project. Mr. Grosskopf testified the deferred depreciation expense and property tax expense associated with the 112th Street Project is shown on Petitioner's Attachment 1, Schedule 11.

Mr. Grosskopf agreed with the rural extension margin credit calculated on Attachment 1, Schedule 5. He stated the margin credit balances the interests of the utility and the ratepayers and the OUCC continues to support NIPSCO's approved 80% margin credit for rural extensions for each TDSIC filing.

Mr. Grosskopf testified that Petitioner's TDSIC calculation schedules, Attachment 1, Schedules 1 through 11, and Attachment 2, Schedules 1 through 6, accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal. He recommended approval of the rate factor calculations performed in this Cause. He testified NIPSCO's TDSIC rate factors are accurately reflected on Petitioner's Attachment 3, Appendix F.

Mr. Golden addressed the reasonableness of the increases in cost and scope of 2016 projects, cost estimate updates for 2017-2020 projects, and the evidence offered to support the changes. Mr. Golden explained why the OUCC objected to some cost increases and recommended cost recovery for some projects be capped at the cost estimates approved by the Commission in TDSIC-6.

With respect to transmission system projects, Mr. Golden testified there was one (1) project in 2019 (Project ID IM23-DIM34) with an increased cost estimate for which he believed NIPSCO failed to provide sufficient support and recommended the cost estimate increase be disallowed. Mr. Golden testified that other than that one project, NIPSCO adequately explained the cost increases for these projects and that the OUCC did not object to any of the changes to the cost estimates.

With respect to distribution system projects, Mr. Golden testified there was one (1) project in 2019 and 2020 (Project ID DSD10) with an increased cost estimate for which he believed NIPSCO failed to provide sufficient support and recommended the cost estimate increases for 2019 and 2020 be disallowed until NIPSCO can finalize the project design and the OUCC has an opportunity to review the updated information. Mr. Golden testified that other than that project, NIPSCO adequately explained the cost increases for these projects and that the OUCC did not object to any of the changes to the cost estimates.

With respect to storage system projects, Mr. Golden testified there was one (1) project in 2019 (Project ID S36) with an increased cost estimate for which he believed was unreasonable and recommended the cost estimate increase be disallowed and remain at the previously approved amount. Mr. Golden testified that other than that one project, NIPSCO adequately explained the cost increases for these projects and that the OUCC did not object to any of the changes to the cost estimates.

C. NIPSCO's Rebuttal Testimony. NIPSCO filed rebuttal testimony of Mr. Mooney. Mr. Mooney disagreed with the OUCC's recommendation that the Commission disallow the updated cost estimate increase for three projects (Project ID IM23-DIM34, Project ID DSD10, and Project ID S36).

With regard to Project ID IM23-DIM34, Mr. Mooney stated the claim of lower cost is based on a 2015 MATCOR Data Sheet that is a MATCOR marketing piece, and is not reflective of NIPSCO's current experience with the product, which is more expensive than bare copper cable as previously used. He noted that Mr. Golden acknowledges that the MATCOR Mitigator is being deployed because it provides demonstrable benefit to the safety and integrity of NIPSCO's gas system by improving alternating current ("AC") mitigation and providing more installation flexibility. Mr. Mooney testified the increase in cost for this project is driven by the adoption of this superior product in NIPSCO's design standards.

With regard to Project ID DSD10, Mr. Mooney testified NIPSCO agrees with the OUCC's recommendation to limit the cost increase for the 2019 project until the engineering design work has been finalized, but disagreed with the recommendation to limit the updated cost estimate for the 2020 project. He stated that the 2020 project was moved from 2019 to 2020 inclusive of a 3% escalator for inflation, but the estimate itself has not changed. There is neither more nor less certainty surrounding the project in question than when it was approved in the TDSIC-6 filing, and therefore a limitation of the cost for 2020 would be inappropriate.

With regard to Project ID S36, Mr. Mooney testified that project priorities and circumstances can and do evolve over time as conditions at an operating plant change. As these priorities change the projects in question should be updated with the best estimate that is reflective of the circumstances. He testified that the priority projects slated for construction in 2019 are currently better represented by the large unit cost estimate due to their scope and complexity. *See* Petitioner's Exhibit No. 3 at pp. 61-62. He stated that the consulting engineering personnel on these projects followed NIPSCO's goal of engineering projects 18-24 months ahead of construction to accommodate current project priorities at the plant to ensure that the estimate is reasonable under the circumstances in accordance with the expectation established in the TDSIC-4 filing. He stated the original estimate used the small unit cost because it was reflective of the best information known at the time it was made. He stated that NIPSCO could have adjusted all LNG Compressor/Vaporizer projects in each year to be represented by large unit costs, but it would have inflated future project costs. Similarly, to not update NIPSCO's best estimate to use the large unit cost based on the most current information available would be unreasonable. Mr. Mooney testified that as with all projects, NIPSCO will refine estimates as appropriate as the projects progress.

5. Commission Discussion and Findings.

A. Plan Update-7. Ind. Code § 8-1-39-9(a) requires a utility to update its seven-year plan as a component of TDSIC periodic automatic adjustment filings. In this case, NIPSCO requests approval of Plan Update-7, which contains updates to eligible improvements and associated cost estimates for each year of the Plan. The TDSIC Statute is silent as to what may be included in a Section 9 update. We have previously found that plan updates should include a discussion of any changes in an eligible improvement's best estimate of cost, necessity, and associated incremental benefits upon which the Commission based its determination to approve NIPSCO proposed Plan as reasonable.

1. <u>Cost Estimates</u>. Ind. Code § 8-1-39-9(f) provides that actual capital expenditures and TDSIC costs in excess of approved amounts require specific justification by the utility for the increases and approval from the Commission before being authorized for recovery in rates. In prior TDSIC proceedings, we have recognized that a "best estimate" is developed at a point in time and based on information that was known or should have been known. TDSIC-3 Order at 40. We have also indicated that specific justification requires an explanation of why the increase in an approved best estimate is reasonable or warranted and cannot simply identify the reason for the increase. TDSIC-1 Order at 20. While we have also recognized that Ind. Code § 8-1-39-9(f) only requires specific justification when the utility seeks to recover the actual expenditures, we expressed our expectation that utilities would provide such justification for approval whenever the utility became aware of such increases. TDSIC-4 Order at 28.

In this proceeding, Mr. Mooney testified Plan Update-7 shows actual costs for the 2014 Projects, 2015 Projects and 2016 Projects and updated cost estimates for the 2017-2020 Projects. He testified Plan Update-7 provides information to support NIPSCO's current best estimate of the cost of investments included in the Plan. Plan Update-7 includes: (1) updates to actual and estimated project costs for each year of the Plan; (2) a summary of unit cost estimates; (3) a revised multi-unit project list and supporting documentation (Confidential Appendix 3); (4) PCRs for 2017 Projects (Confidential Appendix 4); and (5) Risk Model (Confidential Appendix 5). Petitioners Exhibit 1, Attachment 1-A, Exhibit Gas Plan Update-7.

Consistent with prior TDSIC cases and expectations, NIPSCO provided testimony addressing the reasons for variances greater than $100,000 or 20%, whichever is greater. The Commission's review of cost increases, however, is not limited to these more substantial increases. Rather, we review all project increases and the related documentation provided by NIPSCO.

Mr. Mooney explained that for projects scheduled for completion in 2017, the estimated costs are based in almost all instances on contractor bids or estimates actually received for the completion of the projects. For projects scheduled for completion in 2018, the estimated costs are either based on further engineering or on a contractor bid or estimate. For projects scheduled for completion in 2019, the estimated costs are typically based on further engineering, updated unit costs, or are projects that NIPSCO expects to go out for bid in 2018 and will be updated in a subsequent tracker filing. For projects scheduled for completion in 2020, for projects not based on unit costs, NIPSCO attempted to reflect its actual experience to date in its updated project cost estimates wherever feasible. Mr. Mooney stated it is more difficult to anticipate cost changes for specific projects the further in advance the estimate is made, so changes in non-unit costs have been made only where such changes have a basis in updated engineering analysis.

The OUCC took issue with the sufficiency of the information provided by NIPSCO for three projects. In its November 30, 2017 response to a docket entry question, the OUCC responded that its concern with two of the projects had been addressed by Mr. Mooney's rebuttal testimony.

With respect to the other project (Project ID S36), as Mr. Mooney explained in his rebuttal testimony, project priorities and circumstances evolve over time, at which time the best estimate should be updated. He explained that in this circumstance, the project is better represented by a large unit cost estimate due to scope and complexity. Not updating the cost estimate using the most currently available information would be unreasonable. In its November 30, 2017 response to a docket entry question, the OUCC reiterated the concern expressed by Mr. Golden in its case-in-chief. While we understand Mr. Golden's position concerning support for updated cost estimates, we find Mr. Mooney's rebuttal testimony to be persuasive. The estimate in question is for 2019 and has been further developed since the original estimate was proposed based on updated information and consistent with NIPSCO's practice of engineering projects 18-24 months in advance of execution. We have previously explained our expectation that NIPSCO provide updated information when it becomes available, and we accordingly find that NIPSCO's updated estimate for Project ID S36 for 2019 represents the best estimate of the cost of the project and is reasonable and appropriate.

NIPSCO's cost adjustments are consistent with NIPSCO's estimating process lifecycle of becoming progressively more detailed as the project completion date approaches.

The evidence of record demonstrates that NIPSCO's process of honing its estimates for projects as construction approaches strikes a reasonable balance between the cost associated with conducting highly detailed engineering for all projects within the Plan in advance and the cost to NIPSCO and its customers. Because NIPSCO's Plan spans a period of seven years, it is not unexpected that costs estimated several years ago will have changed based on a variety of reasons and factors, including economic, environmental, and situational, that could not have been anticipated or were unknown. NIPSCO offered evidence explaining why the approved cost estimates for certain projects had increased. No evidence was offered to refute those reasons or to show that NIPSCO could have, or should have, anticipated or accounted for the change causing the increase.

Accordingly, we find that NIPSCO has provided a sufficient level of detail in support of its Plan Update-7, including explanations justifying the cost variances associated with projects through its exhibits as well as additional testimony for those projects exceeding the greater of $100,000 or 20%. We find that NIPSCO met its burden to support the change in cost estimates for the three projects identified by the OUCC.

a. <u>Indirect Capital Expenditures</u>. NIPSCO seeks to recover both direct and indirect capital expenditures associated with its eligible investments. Ms. Shikany explained that as a function of GAAP, certain indirect project costs are incurred across a range of projects in locations away from the project site, including such items as overheads, stores, freight and handling, and AFUDC. She testified that many indirect costs cannot be booked directly to individual work orders because the charges cannot be linked to one particular project.

As noted in the TDSIC-5 Order, the Commission has consistently approved inclusion of capitalized indirect costs at fluctuating rates in capital tracking mechanisms authorized by the General Assembly in a variety of contexts, including trackers for investments in environmental controls under Ind. Code ch. 8-1-8.7 and federally mandated investments under Ind. Code ch. 8-

1-8.4.[4] As Ms. Shikany explained, indirect costs are recovered in the same manner in both NIPSCO's other capital trackers and capitalized using the same methodology used in this TDSIC tracker. In addition, indirect costs incurred by NIPSCO are recorded to both non-tracker O&M and capital projects; therefore, indirect costs are not universally recovered through the TDSIC tracker.

Capitalization of indirect costs is required under GAAP to recognize the full value of assets when they are placed in service. While these costs can and do fluctuate over time, NIPSCO records and includes indirect costs in its semi-annual filings based on actual costs incurred. Based on the evidence presented, the General Ledger software that NIPSCO installed during TDSIC-4 is assisting with appropriately managing indirect capital costs. While indirect capital costs have fluctuated with each tracker filing, the indirect capital cost percentage in this proceeding is still well below the 16% approved in the original Plan.

We find that both the evidence of record and the interest in predictable and consistent regulatory policy support the recovery of indirect capital costs as proposed by NIPSCO. NIPSCO presented testimony that identified the fluctuation in indirect costs and discussed the various factors that influence that fluctuation, providing justification and support for the costs.

b. **<u>Multi-Unit Projects</u>.** In the TDSIC-3 Order, we approved certain project groups, i.e., multi-unit projects that had ascertainable planning criteria for selecting specific projects as designated eligible improvements to be included in NIPSCO's 7-Year Gas Plan. Once a project is specifically identified by NIPSCO, it is required to include the project in a Plan update with appropriate support for any updated estimates and demonstrate compliance with the approved planning criteria. We have consistently reiterated that view in our Orders approving NIPSCO's Plan Updates. *See*, TDSIC-3 Order at 37-38, TDSIC-4 Order at 29-30, TDSIC-5 Order at 27, TDSIC-6 Order at 21-22.

NIPSCO has identified reasonable and ascertainable planning criteria consistent with the standard for TDSIC eligibility and cost recovery. In this proceeding, both NIPSCO and the OUCC provided testimony that Plan Update-7 does not contain any new or emergent projects. NIPSCO also presented extensive evidence about the process and criteria used to update cost estimates associated with multi-unit projects including variance explanations supported by detailed information about the projects in Petitioner's Exhibit 1, Attachment 1-A, Confidential Appendix 3. The multi-unit projects have units that are either included on an asset register or the projects are selected after a specific detailed process that is performed each year. NIPSCO has communicated the criteria by which these projects are selected and continues to provide more specific detail about the units included in the multi-unit projects. No evidence was offered to support the conclusion that updated estimates are inaccurate or that NIPSCO failed to follow the planning criteria we have previously determined to be sufficient and ascertainable for identifying and selecting the specific improvements.

Based on the evidence presented, we find that Plan Update-7 does not contain any new or emergent projects and NIPSCO's updated estimates and further identification of the specific

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[4] *See, e.g., N. Ind. Pub. Serv. Co.*, Cause No. 44340 (IURC Jan. 29, 2014) and *N. Ind. Pub. Serv. Co.*, Cause No. 44012 (IURC Dec. 28, 2011).

projects or asset replacements within the multi-unit projects are reasonable and consistent with our prior TDSIC Orders and are approved.

c. <u>Conclusion</u>. Based on the evidence presented, we find that NIPSCO has provided sufficient detail and explanations for the changes in estimated costs of the eligible improvements included in Plan Update-7. Plan Update-7 includes a description of every cost variance and testimony explaining the 2016 and 2017 Project variances that were greater than 20% or $100,000. We find that the cost estimates for the remainder of the 2018-2020 projects and multi-unit projects, which are unit costs based on historical experience or similar projects that were executed in earlier years, to be reasonable. Accordingly, we find that NIPSCO has provided sufficient information to support the updated best estimates of the cost of the designated eligible improvements included in Plan Update-7, and we approve these as best estimates of the costs for those projects.

2. <u>Public Convenience and Necessity</u>. Mr. Mooney testified that consistent with NIPSCO's approved Plan, the eligible improvements included in Plan Update-7 will serve the public convenience and necessity. He explained that Plan Update-7 follows the requirements of the TDSIC Statute by making investments for the purposes of safety, reliability, system modernization and economic development consistent with public policy and the public interest. No evidence was presented in this Cause to contest the continued public convenience and necessity associated with the designated eligible improvements in the Plan.

NIPSCO has a statutory obligation to provide reasonably adequate retail service in its certificated gas service territory for the public convenience and necessity pursuant to Ind. Code §§ 8-1-2-4, -87 and -87.5. We find that NIPSCO has sufficiently supported that the eligible improvements as described in Plan Update-7 are reasonably necessary for it to continue to provide adequate retail service to its customers, and the public convenience and necessity continues to require or will require those eligible improvements.

3. <u>Incremental Benefits Attributable to the Updated Plan</u>. Mr. Mooney testified that consistent with the approved Plan, Plan Update-7 focuses on maintaining safe, reliable service for NIPSCO's customers in a cost effective manner. Plan Update-7 is also intended to provide benefits in the form of investments to maintain and improve system reliability through the capacity of the system to deliver gas to customers when they need it, the replacement of certain system assets to ensure the ongoing integrity and safe operation of the gas system, investments to enhance pipeline safety and reliability, and the extension of gas facilities into rural areas.

In the 44403 Order (at 23), we found that "NIPSCO's 7-Year Gas Plan contains solutions that will enhance customer and employee safety, avoid outages, preserve operational integrity, provide equipment protection, and meet evolving customer demands." Although the cost estimates for some projects have increased compared to those approved in Plan Update-6, and some projects have been delayed beyond the 7-Year Gas Plan timeframe, there is no evidence of a dispute that the eligible improvements provide incremental benefits to NIPSCO's customers.

Based upon the evidence presented in this proceeding and for the reasons set forth above, we find the estimated costs of the eligible improvements included in Plan Update-7 as approved herein are justified by the incremental benefits attributable to the Plan.

4. Conclusion. Plan Update-7 includes sufficient evidence for us to determine the best estimate of the cost of the eligible improvements and the public convenience and necessity continues to require or will require the eligible improvements, and the estimated costs of the eligible improvements continue to be justified by the incremental benefits attributable to Plan Update-7. NIPSCO's Plan Update-7 appropriately and reasonably addresses NIPSCO's aging infrastructure through projects intended to enhance, improve and replace system assets for the provision of safe and reliable natural gas service, as well as the extension of service into rural areas. Therefore, based on the evidence presented, we find that Plan Update-7 is reasonable and approve it as submitted.

B. TDSIC-7 Factors. In the TDSIC-1 Order, the Commission approved NIPSCO's request for approval of a TDSIC Rate Schedule and accompanying changes to NIPSCO's gas service tariff to allow for timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs pursuant to Ind. Code § 8-1-39-9. Consistent with the ratemaking and accounting principles approved by the TDSIC-1 Order, NIPSCO requests approval of its TDSIC-7 factors to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs incurred through June 30, 2017.

1. Section 9 Requirements. Indiana Code § 8-1-39-9(a) provides:

> [s]ubject to subsection (c), a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. The petition must:
>
> (1) use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order;
> (2) include the public utility's seven (7) year plan for eligible transmission, distribution, and storage system improvements; and
> (3) identify projected effects of the plan described in subdivision (2) on retail rates and charges.

a. NIPSCO's 7-Year Gas Plan. As part of its direct testimony, NIPSCO attached its currently approved 7-Year Gas Plan as well as its proposed Plan Update-7. Therefore, NIPSCO has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a).

b. Customer Class Revenue Allocation. In our TDSIC-3 Order, we found that NIPSCO's approved capital expenditures and TDSIC costs should be allocated to the various customer classes based on total revenue, including gas cost revenue. Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 4 provides the calculation of the allocation factors as approved in the TDSIC-3 Order which NIPSCO used to allocate the related transmission and distribution revenue requirements in this proceeding as shown in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 7.

Therefore, we find 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 the TDSIC-3 Order.

c. <u>Projected Effect on Retail Rates and Charges</u>. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 6, which identifies: (1) the projected effect of Plan Update-6 on retail rates and charges, and (2) the projected effect of Plan Update-7 on retail rates and charges. This exhibit also summarizes the total estimated revenue requirement for each rate class from 2014 to 2020. Finally, Ms. Shikany testified the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $1.63 and represents a $0.60 decrease from the factor approved in TDSIC-6. Based on our review of the evidence, we find that NIPSCO provided sufficient information regarding the projected effects of the Plan Update-6 and Plan Update-7 on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

2. <u>Reconciliation</u>. Ms. Shikany testified that NIPSCO is including a reconciliation of revenues in this filing. The revenue requirement calculated in the TSDIC-5 filing is being reconciled against the actual revenues received from customers during January through June 2017. This under-/over-recovery analysis is performed as part of Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 6.

3. <u>Semi-Annual Revenue Requirement</u>.

a. <u>Capital</u>. In this proceeding, NIPSCO requests approval of a total adjusted semi-annual revenue requirement associated with a return on eligible improvements incurred through June 30, 2017 of $16,913,643 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5, Line 3, Column E). The 80% recoverable adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $13,530,914 (*Id.* at Line 9). The 20% portion of the adjusted semi-annual revenue requirement associated with a return on the eligible improvements is $3,382,729 (*Id.* at Line 6).

The total cost of the eligible improvements incurred through June 30, 2017, upon which NIPSCO requests authority to earn a return is $328,935,352 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 2, Line 1, Column M). Ms. Shikany testified this total includes AFUDC, other indirect costs, and is net of accumulated depreciation. She testified the AFUDC related to TDSIC projects was calculated in accordance with the FERC Uniform System of Accounts, which is consistent with GAAP. She further testified that if the Commission approves the proposed ratemaking treatment for costs of the eligible improvements incurred through June 30, 2017, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive CWIP ratemaking treatment, are otherwise reflected in base gas rates, or the project is placed in service, whichever occurs first.

In accordance with our findings above relating to recovery through the TDSIC tracker of costs in excess of the amounts approved in TDSIC-6, we approve $328,935,352 as the total cost of the eligible improvements incurred through June 30, 2017, upon which NIPSCO is authorized to earn a return.

In TDSIC-1, the Commission ordered NIPSCO to use a full WACC, including zero-cost capital, to calculate pretax return and provided that the WACC should be updated in each semi-annual TDSIC filing to reflect an updated capital structure and cost of debt. The calculation of NIPSCO's updated total WACC is shown on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 1. Ms. Shikany explained that the annual revenue requirement for the return on investment is calculated by multiplying the June 30, 2017 net book value of all TDSIC projects by the debt and equity components of NIPSCO's weighted cost of capital. The product of this calculation is then multiplied by 50% in order to calculate a semi-annual revenue requirement. This semi-annual amount is then multiplied by the revenue conversion factor and further reduced to 80%, as shown in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5, to determine the total return-related revenue requirement to be recovered for bills rendered for the months of January through June 2018.

Based on the evidence of record, we find the appropriate total semi-annual revenue requirement associated with the eligible improvements as of June 30, 2017, to be $16,913,643 and the 80% recoverable semi-annual revenue requirement of $13,530,914 to have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order, and the revenue requirement is approved.

b. Depreciation, O&M Expense and Property Tax Expenses. In this proceeding, NIPSCO requests approval of a total depreciation, O&M, and property expense through June 30, 2017 of $2,703,879 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5, Line 4). The 80% recoverable depreciation, O&M and property tax expense associated with eligible TDSIC projects is $2,163,103 (*Id.* at Line 10). The 20% portion of the depreciation, O&M and property tax expense associated with eligible TDSIC projects is $540,776 (*Id.* at Line 7).

Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 4, which shows the depreciation expense, O&M, and property taxes for the period January through June 2017, which was reduced to 80% as shown on Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5, to determine the total revenue requirement to be recovered for bills rendered during the months of January through June 2018.

Based on the evidence of record, we find that NIPSCO's total depreciation, O&M, and property tax expense associated with eligible TDSIC projects through June 30, 2017, is $2,703,879; the 80% recoverable depreciation, O&M, and property tax expense associated with eligible TDSIC projects is $2,163,103; and the 20% portion of the depreciation, O&M, and property tax expense associated with eligible TDSIC projects is $540,776. These amounts have been calculated in compliance with the TDSIC tracker methodology approved in the TDSIC-1 Order and are approved.

c. Margin Credit for Rural Extensions. In the TDSIC-1 Order, the Commission approved NIPSCO's proposal to include in its 7-Year Gas Plan all rural gas extensions, both those that qualify using the 20-year margin test under Ind. Code § 8-1-39-11 and those that may qualify under NIPSCO's existing line extension policy. The Commission also approved NIPSCO's proposal to provide a credit to the TDSIC tracker for 80% of actual margins received from all new customers added under the rural extensions policy. TDSIC-1 Order at 19, 25-26. In this proceeding, Ms. Shikany testified these amounts are calculated on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 5 and are calculated by obtaining the related customer usage values and billing rate information to compute the total margin billed for the period of January through June 2017.

Based on the evidence of record, we conclude that the rural extensions margin credit calculated on Petitioner's Exhibit 1, Attachment 1-A, Attachment 2, Schedule 5 is computed in accordance with the TDSIC-1 Order, and it is approved.

4. Calculation of TDSIC Factors. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 8, which shows the calculation of the TDSIC factors by rate code based on the total revenue requirement adjusted for prior period variances of $15,514,050 (at Line 28, Column P). She testified the factors are calculated by combining the various components of the allocated revenue requirement and dividing those components by forecasted volumes to compute a billing factor for bills rendered for the months of January through June 2018. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 3 (Appendix F - Transmission, Distribution and Storage System Improvement Charge (Fifth Revised Sheet No. 157)) showing the TDSIC factors proposed to be applicable for bills rendered during the months of January through June 2018, or until replaced by different factors that are approved in a subsequent proceeding.

The OUCC indicated that NIPSCO's TDSIC calculation schedules contained in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedules 1 through 11, and Attachment 2, Schedules 1 through 6, effectively and accurately calculate and track TDSIC costs and rate factors based on NIPSCO's proposal.

Based on the evidence and our consideration of the contested issues, we approve the proposed TDSIC factor calculation methodology set forth in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 8 to be applicable to bills rendered during the months of January through June 2018 or until replaced by new factors.

5. Billing Period. In this proceeding, NIPSCO requests approval of TDSIC factors to be applicable to bills rendered during the billing months of January through June 2018 to effectuate the timely recovery of 80% of TDSIC costs incurred in connection with NIPSCO's eligible improvements. Ms. Shikany testified the TDSIC factors include TDSIC costs incurred through June 30, 2017.

C. Deferred TDSIC Costs. In the TDSIC-1 Order, we authorized NIPSCO to defer 20% of the TDSIC costs incurred in connection with the eligible transmission, distribution, and storage improvements as approved in this Order and recover those deferred costs in its next general rate case. TDSIC-1 Order at 30. 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. *Id.* We also authorized NIPSCO to defer all approved TDSIC costs, including depreciation, pretax returns, AFUDC, post-in-service carrying costs, O&M, and property taxes on an interim basis until such costs are recognized for ratemaking purposes through Petitioner's proposed TDSIC mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. *Id.*

In this proceeding, Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 10, which shows 20% of the total revenue requirements calculated in Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 5. She testified the amount included in Column AC represents the ongoing carrying charges, based on NIPSCO's WACC, on all deferred TDSIC costs incurred through June 30, 2017 She stated these costs will be included for recovery in NIPSCO's base rates in its next general rate case.

In the TDSIC-1 Order, we also ordered that with respect to the 112th Street Project, NIPSCO may recover a return on its investment and the related depreciation expense, property taxes, and carrying charges associated with NIPSCO's best estimate in Cause No. 44403 and NIPSCO may defer for recovery in its next base rate case the difference between the amount authorized in Cause No. 44403 and the actual cost of the project. Consistent with the TDSIC-1 Order, NIPSCO proposes to defer for recovery in its next base rate case the depreciation expense and property taxes related to the difference between the amount approved in Cause No. 44403 and the actual amount of the project. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 11, which shows the total depreciation and property taxes NIPSCO proposes to defer relating to this difference as of June 30, 2017.

Based on the record evidence and in accordance with our TDSIC-1 Order, we find that the total costs to be deferred and recovered in NIPSCO's base rates in its next general rate case are $16,847,032 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 10) and the depreciation and property tax expenses associated with the 112th Street Project to be deferred are $606,435 (Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 11).

D. Average Aggregate Increase in Total Retail Revenues. Ind. Code § 8-1-39-14(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 sponsored Petitioner's Exhibit 1, Attachment 1-A, Attachment 1, Schedule 9 (the revised TDSIC-7 revenue requirement calculation on Attachment 1, Schedule 5), which shows there is no amount in excess of 2% of retail revenues for the past 12 months. Ms. Shikany testified that 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 June 30, 2017.

Based on the record evidence, we find that NIPSCO's proposed TDSIC-7 factors will not result in an average aggregate increase in NIPSCO's total retail revenues of more than 2% in a 12-month period.

6. **Records Project.** Although the evidence demonstrates that NIPSCO is working on the record digitalization and GIS reform initiatives incorporated into its TDSIC Records Project and that NIPSCO has been working with its vendor in an attempt to resolve quality concerns, the Commission is particularly troubled by the acknowledgement that NIPSCO has a substantial amount of the Records Project remaining for completion. Mr. Mooney testified that NIPSCO's failure to complete this conversion is not a resource issue and that NIPSCO has never been denied any funding by the Commission for these projects. Given the documentation of 261 pipeline safety violations addressed in our Order in Cause No. 44970, the likelihood of ongoing significant property damage, and the potential loss of life as demonstrated by the gas explosion in San Bruno, California more than seven years ago, the Commission is extremely concerned that there does not appear to be a sense of urgency on behalf of NIPSCO to update and modernize its pipeline maps and records. Based on the evidence presented and the possible consequences that may occur as a result of being unable to accurately locate its facilities, it is imperative that NIPSCO use its resources to complete these conversions as soon as possible. Therefore, we encourage NIPSCO to consider ways in which it may accelerate its timeline for completion of the Records Project and other digitalization and GIS reform projects and include testimony that documents that in its next TDSIC plan update. Such testimony should, at a minimum, include an update on the results of the time study referenced in NIPSCO's docket entry responses and hearing testimony in this proceeding and a projection of the date for completion of the work remaining within the scope of the Records Project.

7. **Confidential Information.** NIPSCO filed a motion for protective order on August 31, 2017 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. The Presiding Officers issued a Docket Entry on September 13, 2017 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 Plan Update-7 is approved and the approved projects are designated as eligible transmission, distribution, and storage system improvements under Ind. Code § 8-1-39-2.

2. NIPSCO is authorized to defer, as a regulatory asset, and recover 80% of the approved capital expenditures and TDSIC costs incurred in connection with its designated eligible improvements approved in its rates and charges for gas service in accordance with NIPSCO's TDSIC beginning with the month of January, 2018.

3. 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(g)(3)(c) pursuant to Ind. Code § 8-1-39-13(b).

4. 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, which is to be filed no later than April 30, 2021.

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

6. NIPSCO is authorized to defer, as a regulatory asset, for recovery in NIPSCO's next general rate case depreciation expenses and property tax expenses associated with the difference between the amount authorized for the 112th Street Project in Cause No. 44403 and the actual cost of the project.

7. The TDSIC factors set forth in Attachment 1-A, Attachment 1, Schedule 8 to the Verified Petition are hereby approved to be effective for bills rendered by NIPSCO for the months of January through June 2018 or until replaced by different factors approved in a subsequent filing;

8. Prior to implementing the authorized TDSIC factors approved herein, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.

9. 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.

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

ATTERHOLT, FREEMAN, HUSTON, WEBER AND ZIEGNER CONCUR:
APPROVED:

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

____
Mary M. Becerra,
Secretary to the Commission