

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY ("PETITIONER") FOR)
APPROVAL OF AND AUTHORITY FOR: (1))
MODIFICATION TO ITS RATES AND CHARGES FOR)
GAS UTILITY SERVICE; (2) NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE THERETO; (3))
REVISIONS TO ITS DEPRECIATION ACCRUAL)
RATES; (4) DEFERRAL OF ACCRUED)
DEPRECIATION EXPENSE; (5) DEFERRAL IN A)
BALANCING ACCOUNT OF OVER AND UNDER)
RECOVERIES OF PENSION AND OPEB EXPENSES;)
(6) CONTINUATION OF NIPSCO'S ENERGY)
EFFICIENCY PROGRAM WITH MODIFICATIONS;)
(7) IMPLEMENTATION OF A NEW LOW-INCOME)
PROGRAM; (8) CERTAIN RATEMAKING)
TREATMENTS FOR REVENUES AND EXPENSES)
RELATING TO SERVICES AND PROGRAMS)
OFFERED PURSUANT TO PETITIONER'S)
CUSTOMER CHOICE ALTERNATIVE)
REGULATORY PLAN; (9) TO THE EXTENT)
NECESSARY, GRANTING THE REQUESTED RELIEF)
AS AN ALTERNATIVE REGULATORY PLAN)
PURSUANT TO IND. CODE CHAPTER 8-1-2.5; (10))
MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE)
UNACCOUNTED FOR GAS AND THE GAS COST)
COMPONENT OF BAD DEBT EXPENSE; AND (11))
VARIOUS CHANGES TO ITS TARIFF FOR GAS)
SERVICE INCLUDING IMPLEMENTING A)
STRAIGHT-FIXED VARIABLE RATE DESIGN,)
REMOVAL OF GAS COSTS FROM BASE RATES AND)
CHANGES TO ITS GENERAL TERMS AND)
CONDITIONS FOR SERVICE)

CAUSE NO. 43894

APPROVED: NOV 04 2010

BY THE COMMISSION:
James D. Atterholt, Chairman
Angela Rapp Weber, Administrative Law Judge

On May 3, 2010, Northern Indiana Public Service Company ("Petitioner," "Company" or "NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission ("Commission") that in part sought approval of and authority for: (1) modifications to its rates and charges for gas utility service; (2) new schedules of rates and charges applicable thereto;

(3) revisions to its depreciation accrual rates; (4) continuation of NIPSCO'S Energy Efficiency Program with modifications; (5) implementation of a new low-income program; (6) certain ratemaking treatments for revenues and expenses relating to services and programs offered pursuant to Petitioner's Customer Choice Alternative Regulatory Plan ("ARP"); (7) modification of Petitioner's Gas Cost Adjustment ("GCA") process to include Unaccounted For Gas ("UAFG") and the gas cost component of Bad Debt Expense; (8) various changes to its tariff for gas service including implementing a straight-fixed variable rate design, removal of gas costs from base rates and changes to its General Terms and Conditions for Service; and (9) an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 *et seq.* to the extent such relief is necessary to affect the ratemaking mechanisms proposed by NIPSCO.

Petitions to Intervene were filed by NIPSCO Industrial Group ("IG"), NIPSCO Marketer Group ("MG"), and Citizens Action Coalition of Indiana, Inc. ("CAC") (collectively referred to herein as "Intervenors"), all of which were granted, and made a party to this cause. The Indiana Office of Utility Consumer Counselor ("OUCC" or "Public") also participated in this proceeding as the statutory representative of the consumers.

On May 3, 2010, NIPSCO filed its prepared testimony and exhibits constituting its case-in-chief and the workpapers required by the Commission's Rules on Minimum Standard Filing Requirements, 170 IAC 1-5-1 *et seq.* ("MSFRs"). On May 27, 2010, NIPSCO filed responses to questions posed in the Presiding Officers' May 14, 2010 Docket Entry relating to its MSFR workpapers.

A Prehearing Conference was held on June 4, 2010 and a Prehearing Conference Order was issued on June 16, 2010, which established the agreed-to procedural schedule for this proceeding. At the Prehearing Conference, NIPSCO stated that if the agree-to procedural established by the parties was approved by the Commission, NIPSCO would withdraw its request that this proceeding be processed under the deadlines set forth in the MSFRs.

Pursuant to Ind. Code § 8-1-2-61(b), public field hearings were held on (1) July 8, 2010 in the City of Gary; (2) July 26, 2010 in the City of Fort Wayne, the largest municipality in Petitioner's gas utility service area; and (3) July 27, 2010 in the City of South Bend. At the field hearings, members of the public were afforded the opportunity to make statements on the record or submit written comments to the Commission.

On August 24, 2010, Petitioner, the OUCC and Intervenors (the "Parties") filed a Stipulation and Settlement Agreement ("Settlement Agreement") containing a proposed resolution of the issues in this proceeding. A copy of the Settlement Agreement is attached hereto and incorporated herein by reference. On September 1, 2010, Petitioner prefiled supplemental testimony and exhibits in support of the Settlement Agreement. On September 8, 2010, the OUCC, IG and MG prefiled their respective testimonies and exhibits in support of the Settlement Agreement.

A Settlement Hearing was held on September 21, 2010. At that time, the supplemental testimony and exhibits of Petitioner and the testimonies and exhibits of the OUCC, IG and MG in support of the Settlement Agreement were admitted into evidence. Various portions of

the prefiled case-in-chief of the Petitioner were also admitted for the purpose of providing further evidentiary support for the reasonableness of the Settlement Agreement.

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

1. **Notice and Jurisdiction.** Due, legal and timely notice of the filing of the Petition in this cause was given and published by Petitioner as required by law. Proper and timely notice was given by Petitioner to its customers summarizing the nature and extent of the proposed changes in its rates and charges for gas service. Due, legal and timely notices of the public hearings in this Cause were given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. This Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a public utility with its principal place of business located at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is authorized by the Commission to provide gas utility service to the public in all or part of Adams, Allen, Benton, Carroll, Cass, Clinton, Elkhart, Fulton, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, St. Joseph, Starke, Tippecanoe, Wabash, Warren, Wells, White and Whitley Counties in Indiana. Petitioner renders such gas utility service by means of utility plant, property, equipment and related facilities owned, operated, managed and controlled by it, which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of gas. NIPSCO also provides electric utility service in northern Indiana. NIPSCO is a wholly-owned subsidiary of NiSource Inc. ("NiSource").

3. **Existing Rates.** Petitioner's existing basic rates and charges for gas utility service ("base rates") were established pursuant to the Commission's Orders in Cause No. 38380 dated October 26, 1988 ("1988 Rate Order") and December 28, 1990. Petitioner's residential rates were redesigned in certain respects pursuant to the Commission's Order in Cause No. 43051 dated May 9, 2007 approving a Rate Simplification Plan.

4. **Test Year and Rate Base Cutoff.** As provided in the Prehearing Conference Order, the test year to be used for determining Petitioner's actual and pro forma operating revenues, expenses and operating income under present and proposed rates is the twelve months ended December 31, 2009. The financial data for this test year, when adjusted for fixed, known and measurable changes as provided in the Prehearing Conference Order, is a proper basis for fixing new rates for Petitioner and testing the effect thereof. The Prehearing Conference Order provided that the general rate base cutoff shall reflect used and useful property at the end of the test year.

5. **Relief Requested.** In its case-in-chief, NIPSCO proposed, among other things: (1) to remove all of the cost of the cost of gas and associated taxes from base rates; (2) no overall increase in its gross margin and therefore has designed rates to collect only the margin at pro forma present rates revenues, or \$251,504,170; (3) revisions to its depreciation accrual rates; (4) continuation of energy efficiency programs with modifications; (5) implementation of a new low-income program; (6) certain ratemaking treatments for revenues and expenses

relating to services and programs offered pursuant to alternative regulatory plans; (7) modification of its GCA process; and (8) various changes to its tariff for gas service.

6. Petitioner's Evidence. Prior to the submission of the Settlement Agreement, NIPSCO presented extensive evidence, which is summarized here and further considered in the discussion of the Settlement Agreement below.

A. Robert C. Skaggs, Jr. Robert C. Skaggs, Jr., President and Chief Executive Officer of NiSource, provided an overview of NiSource and its corporate structure and explained NiSource's strategic direction. Mr. Skaggs explained that NiSource is a Fortune 400 company headquartered in Merrillville, Indiana, and is one of only three Fortune 500 companies with corporate headquarters in Indiana. Mr. Skaggs noted that NiSource is one of the twenty-five largest employers in the state and is informally organized into three business units: (i) Northern Indiana Energy (which includes NIPSCO, Northern Indiana Fuel & Light Company, Inc. and Kokomo Gas and Fuel Company), (ii) Natural Gas Distribution and (iii) Gas Transmission and Storage.

Mr. Skaggs stated that NiSource's aspiration is to become the premier regulated company in North America with a strong financial profile, a wide range of investment-driven growth opportunities, robust and sustainable earnings and cash flow, top-tier safety, customer service and reliability metrics, and a solid foundation of engaged, aligned and safe employees.

Mr. Skaggs testified that unlike most local gas distribution companies ("LDCs"), NIPSCO is not faced with the challenge of replacing large amounts of its delivery system because it has invested heavily in replacing the vast majority of its aging facilities with plastic lines over the past twenty years. However, Mr. Skaggs stated that the industry and NIPSCO's operations have fundamentally changed since NIPSCO's gas rates were last set over two decades ago, prior to the unbundling of the interstate pipeline system and during a period of sustained economic growth. Mr. Skaggs testified that changes in the natural gas industry and the ongoing need to promote energy efficiency and conservation support the need to examine rate structures to ensure that they represent an accurate reflection of the value of the commodity, capacity and other costs required to provide service to NIPSCO's customers.

Mr. Skaggs next testified as to the impact of the economic downturn and financial market conditions on NIPSCO's gas operations. He stated that the current economic downturn has been particularly severe for the manufacturing sector of the Indiana economy. In 2009, NIPSCO's industrial customers (sales and transport) comprised nearly 62% of its test year throughput, yet that volume was down about 20% from 2008. In addition, he noted that much of NIPSCO's service territory has also experienced a significant increase in unemployment, generally exceeding 10%.

Mr. Skaggs also discussed the importance to NIPSCO and NiSource of credit ratings and the impact of regulatory treatment on those credit ratings. Mr. Skaggs indicated that notable progress has been made in enhancing NiSource's financial profile, including favorable action from Moody's Investors Service, which raised NiSource's credit outlook to "stable" from "negative." Despite this marked improvement in the Company's situation since

January 2009, Mr. Skaggs stated that the Company needs to continue to work to improve its credit ratings.

B. Jimmy D. Staton. Jimmy D. Staton, Executive Vice President and Group Chief Executive Officer for NiSource's Northern Indiana Energy Business Segment, provided an overview of NIPSCO's gas operations, explained the challenges faced by NIPSCO and briefly summarized the relief requested by NIPSCO in its case-in-chief. Mr. Staton testified that NIPSCO's gas distribution system delivers natural gas to about 718,000 customers in twenty-eight counties in northern Indiana. He noted that while industrial customers make up less than one half of one percent of the total NIPSCO gas customers, they accounted for more than 60% of system throughput during 2009. He testified that NIPSCO's delivery system includes more than 15,000 miles of pipe interconnected with seven interstate pipelines and also incorporates on-system underground and liquefied natural gas ("LNG") storage facilities along with a portfolio of production area contractual storage arrangements.

Mr. Staton discussed the biggest challenges facing NIPSCO's gas operations, including the need to rebalance its rate structure to better align with current industry and operational conditions, and the need to establish a rate structure that recognizes the value of NIPSCO's delivery system. He further stated that NIPSCO has an excellent track record of delivering safe and reliable gas service at extremely low rates. However, NIPSCO continues to work to improve its reputation with all of its stakeholders.

Finally, Mr. Staton explained how NIPSCO's proposal recognizes the value of its gas delivery system. He stated that, unlike many gas utilities, NIPSCO has aggressively and proactively upgraded its delivery system to modern and safe standards while maintaining rates that are among the lowest in the nation. He testified that the challenge in this case was developing a rate structure to recognize the true value of that proactive investment to NIPSCO and its customers in the face of an anomalous set of circumstances whereby the value of NIPSCO's substantial investment in its plant is not recognized on its books. He stated that the solution crafted in this proceeding will allow NIPSCO's gas rates to remain among the lowest in Indiana while allowing the Company an opportunity to recognize the value of its modern delivery system. He concluded that through the revision of NIPSCO's depreciation rates, NIPSCO will have the opportunity to rebuild the book value of its plant without sacrificing the Company's potential to earn a reasonable return on its investment and with minimal impact on its customers.

C. Christopher D. Smith. NIPSCO presented testimony from Christopher D. Smith, Director of Human Resources for NiSource Corporate Services Company ("NCSC") that addressed NIPSCO's compensation and benefits practices in support of NIPSCO's test year labor expense as well as several pro forma adjustments. Mr. Smith testified that NIPSCO and NCSC employees linked to NIPSCO utilize a "total rewards" compensation philosophy that considers all forms of compensation in order to attract and retain qualified employees. He explained that employee compensation generally consists of three components: base pay, annual incentive opportunity, and benefits.

Mr. Smith explained that the terms of NIPSCO's two collective bargaining agreements determine wages for its union employees and those agreements provide for wage increases of

2.75% effective at the conclusion of the calendar year ending December 31, 2009. He stated that there are also increases required at the end of each calendar year thereafter. He testified that for employees not covered by those contracts, base pay is determined using market data to establish a compensation range of between 75% and 125% of the market median, with specific decisions within that range based on the skill set, experience and performance of the employee. He testified that effective March 1, 2008, an overall average 3.25% pay increase was awarded to NIPSCO's non-union workforce.

Mr. Smith testified that NIPSCO's base salary and total cash compensation are reasonable when compared with other utilities and general industry employers. Mr. Smith's testimony also addressed the benefits paid to NIPSCO's employees, including health and welfare plans, a defined benefit plan (pension), a 401k plan as well as paid time off for vacation, holidays and sick days. He testified that pension plans are provided to certain NCSC and NIPSCO employees under one of four pension offerings. Mr. Smith testified that NCSC performs periodic studies to compare NIPSCO's benefits to a "market basket" of similar offerings from other employers both in the energy industry and in general industry.

D. Susanne M. Taylor. Susanne M. Taylor, Controller for NCSC, testified about NCSC and the role it serves within NiSource, and provided support for the annualized level of fixed, known and measurable NCSC charges applicable to NIPSCO. Ms. Taylor explained that NCSC is a subsidiary of NiSource and an affiliate of NIPSCO within the NiSource corporate organization. She testified that NCSC provides a range of services to the individual operating companies within NiSource, including NIPSCO, and coordinates the allocation and billing of charges to the operating companies for services provided by both NCSC directly and by third-party vendors. Ms. Taylor sponsored allocation tables related to NIPSCO Gas, Electric and Common allocators done by the accounting department for NIPSCO as Petitioner's Exhibit No. SMT-7. Ms. Taylor also sponsored a copy of the most recent NCSC Service Agreement with NIPSCO and an exhibit showing the unadjusted total NCSC billings to NIPSCO during the test year of \$76,343,380 broken down by service category. Petitioner's Exhibit No. SMT-3.

Ms. Taylor testified that NCSC uses thirteen Bases of Allocation that are filed annually with FERC and that were previously approved by the Securities and Exchange Commission ("SEC"). Petitioner's Exhibit SMT-4 described in detail each of those Bases of Allocation. She explained that all services provided to NIPSCO are billed at cost, and that the 2007 Service Agreement provides that charges allocated to NIPSCO may be reviewed and challenged as a matter of right.

E. John M. O'Brien. Mr. John M. O'Brien is the Assistant Controller of Taxes at NCSC. He presented testimony in support of NIPSCO's federal and state income tax expense adjustments and the adjustments for taxes other than income included in the cost of service shown in the accounting exhibits of Ms. Miller. Mr. O'Brien described the basic components of federal income tax expense and the various adjustments made to NIPSCO's test year income tax expense amount.

Mr. O'Brien also testified regarding the differences and issues arising from the use of prescribed tax depreciation for income tax purposes versus book regulatory depreciation. Mr.

O'Brien then described other adjustments made to NIPSCO's federal income tax expense, including adjustments related to non-deductible expenses, amortization of investment tax credits and parent company interest expense. He then testified regarding various adjustments made to reconcile the level of income tax expense included for state income taxes.

F. Steven M. Auld. Steven M. Auld, Director of Gas Systems Operations for NIPSCO, described NIPSCO's gas infrastructure and explained how the quality of that system promotes safety and provides customer value. Mr. Auld stated that NIPSCO's gas distribution system is a dispersed/multiple city-gate, integrated transmission/distribution and multiple-pressure-based system providing gas service to more than 718,000 customers. At the end of 2009, the Company had 15,411 miles of gas main composed principally of plastic and cathodically protected steel pipe. He indicated that NIPSCO has invested substantially in its gas distribution system over the years, resulting in a very low percentage of priority pipe (main that is not plastic or cathodically protected steel) compared to industry benchmarks. Mr. Auld explained that reducing a gas utility's priority pipe percentage increases safety and reliability of the system. A low priority pipe percentage also reduces repair costs because of the much lower likelihood of developing leaks. In addition, he stated that priority pipe is more likely to require repair and lead to higher UAFG. Mr. Auld explained the benchmarking conducted by NIPSCO to evaluate how its system compares to other LDCs and stated that NIPSCO's 0.42% of priority pipe is nearly thirty times better than the industry average.

Mr. Auld next testified regarding the design of NIPSCO's gas system. He then described the various state and federal pipeline safety standards applicable to NIPSCO's distribution system and stated that NIPSCO complies with all of the applicable standards. He discussed NIPSCO's Integrity Management Program and Distribution Integrity Management Program, which apply to the higher pressure transmission lines and lower pressure distribution systems, respectively. Finally, Mr. Auld described NIPSCO's gas delivery system and storage facilities. He stated that NIPSCO's gas delivery system has twenty-nine interconnects with seven interstate pipelines. The delivery system allows for flexibility in the amount of gas needed through most of the twenty-nine delivery points and helps ensure safe, reliable and cost effective service. He noted that NIPSCO owns and operates three on-system storage operations, including an underground gas storage facilities, a LNG facility and line pack. He explained that customers benefit from NIPSCO's storage options because access to storage facilities enhances cost effectiveness and reliability of service.

G. John J. Spanos. John J. Spanos, Vice President, Valuation and Rate Division of Gannett Fleming, Inc., testified in support of Petitioner's proposed new depreciation accrual rates and sponsored the depreciation study that he conducted. He proposed new depreciation rates for all accounts and plants as of September 30, 2009, with the exception of common plant. Mr. Spanos stated that he excluded any recommended depreciation accrual rates for NIPSCO's common plant because he studied and recommended new depreciation accrual rates for the common plant in NIPSCO's recent electric rate case, Cause No. 43526, which was still pending at the time of his study. Mr. Spanos explained that depreciation refers to the loss in service value that is not restored by current maintenance and incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that can be reasonably anticipated or contemplated, against which the Company is not protected by insurance. Mr. Spanos conducted his study using the straight

line remaining life method with the equal life group procedure. This method distributes the unrecovered cost of fixed capital assets over the estimated remaining useful life of each unit or group of assets.

Mr. Spanos also incorporated net salvage into his analysis. Net salvage is the salvage value received for an asset upon retirement minus the cost to retire the asset. When the cost to retire the asset (cost of removal) exceeds the salvage value, the result is negative net salvage. Because depreciation expense is the loss in service value of an asset during a defined period, Mr. Spanos noted that it must include a ratable portion of both the original cost and net salvage. For most accounts, Mr. Spanos determined net salvage percentages by analyzing historical data. In the historical analysis, the net salvage, cost of removal and gross salvage amounts are expressed as percents of the original costs retired.

For some underground storage facilities at Mt. Simon, Mr. Spanos also factored in final net salvage in his recommended net salvage percentages. For those facilities, the final net salvage component includes site remediation costs based on a 2010 study conducted by Crisman Gas Storage Consulting. The overall site remediation costs were then added to original cost to establish complete service value of the Mt. Simon assets being retired in 2010.

H. John P. Kelly. NIPSCO Witness John P. Kelly, an asset valuation specialist with Concentric Energy Advisors, Inc., determined the value of NIPSCO's natural gas utility assets including common plant allocated to the gas operation and excluding Mt. Simon and certain vaporizing assets. In his valuation, Mr. Kelly used the reproduction cost new less depreciation ("RCNLD") approach. To the extent the assets would be constructed today in substantially the same form, Mr. Kelly determined the cost to reproduce the property as it exists today. Where assets would be replaced in a different form, he derived the cost for the functionally-equivalent assets that would be constructed today.

Mr. Kelly's analysis resulted in a RCNLD value of \$3,240,149,093. He then made an additional adjustment to reflect changes in technology in order to better capture all of the value differences associated with planning and building the system today using current technology and more efficient system design and construction. Mr. Kelly's resulting technologically adjusted RCNLD or Replacement Cost for NIPSCO's natural gas utility is \$1,849,785,830. He concluded that NIPSCO's total proposed fair value rate base after adding the materials, supplies and underground gas storage inventory amounts of \$87,859,304 is \$1,937,645,134.

I. Robert B. Hevert. Robert B. Hevert, President of Concentric Energy Advisors, Inc., provided testimony assessing the reasonableness of Mr. Kelly's fair value estimate based upon the application of market-based valuation approaches and valuation multiples in particular. He explained that his approach is separate and distinct from the methodology employed by Mr. Kelly and is designed to provide the Commission with additional data and information regarding the reasonableness of Mr. Kelly's estimate. Mr. Hevert opined that, based upon the data and information presented in his testimony, Mr. Kelly's fair value estimate of \$1.85 billion is within a reasonable range of fair value according to numerous independent market observations.

Mr. Hevert also addressed the Commission's decision in Westfield Gas, Cause No. 43624. He stated that his methodologies are considerably different than the "hybrid" valuation approach used by the Petitioner in Westfield Gas. He stated that his approach took into consideration the various elements that comprised the purchase price, including the allocation of goodwill to utility assets. He added that he structured his analysis to mitigate any potential effect of such biases. Based on his analysis, he concluded that the fair value estimate produced by Mr. Kelly is reasonable.

J. Vincent V. Rea. Vincent V. Rea, Assistant Treasurer for NiSource, NIPSCO and NiSource Financial Corp. ("NFC"), testified regarding NIPSCO's debt financing activities, credit ratings and cost of debt. He explained that NIPSCO finances its operations through four basic debt financing alternatives: (1) long-term intercompany notes issued to NFC for long-term financing requirements, (2) NiSource Money Pool borrowings for short-term liquidity and working capital needs, (3) Jasper County, Indiana Pollution Control Bonds and (4) externally issued medium-term notes. He indicated that credit ratings are important to NIPSCO because they influence borrowing costs and affect the ability of NIPSCO to attract capital and to finance at reasonable rates.

Mr. Rea testified in support of Ms. Miller's calculation of NIPSCO's cost of long-term debt and explained the treatment of certain long-term agreements and other debt costs. He also discussed how NIPSCO's credit ratings and debt costs compare to its parent company and how NIPSCO benefits from its strong equity ratio. He stated that the capital markets give NIPSCO substantial credit for its higher relative equity ratio and overall superior credit profile versus NiSource, resulting in higher credit ratings from Moody's and Fitch as well as lower expected borrowing costs. He concluded that NIPSCO's proposed capital structure is the appropriate capital structure to be used in these proceedings.

K. Paul R. Moul. NIPSCO's proposed cost of common equity rate of 11.75% was supported by the testimony of Mr. Moul. Mr. Moul testified that he considered the risk factors that affect gas utilities in general and NIPSCO in particular. He noted that gas utilities, including NIPSCO, face substantial risk arising from competition, economic regulation, the business cycle and customer usage patterns. He noted that gas utilities face abbreviated timeframes for decision making and are influenced by market-oriented pricing for the commodity distributed to customers and open access for the transportation of natural gas for customers. He also noted that in order to address safety and reliability issues and conservation efforts, as well as comply with new and pending pipeline safety regulations, natural gas utilities are now allocating more of their resources to addressing aging infrastructure issues.

Mr. Moul further stated that NIPSCO's risk profile is greatly influenced by the magnitude of its sales to industrial customers that represent 61% of its sales in therms but are less than 1% of its customers. He testified that NIPSCO's industrial sales far exceed the utility average. He said NIPSCO's top twenty customers—representing over one billion therms of sales—are steel, refining, chemical and other manufacturing-related industries that are highly susceptible to the business cycle and face considerable pressure from the price of alternative energy sources and competitors. Mr. Moul pointed out that cost factors can impact industrial customers' operations from alternative facilities located outside NIPSCO's service territory, putting NIPSCO's fixed cost recovery at risk. Mr. Moul also discussed NIPSCO's substantial

future capital expenditure requirements and stated a fair rate of return will be key to attracting the capital necessary to meet NIPSCO's needs.

Mr. Moul also pointed out that in *Bluefield Water Works & Improvement Co. v. Public Service Commission*, 262 U.S. 679 (1923), the United States Supreme Court held a public utility is entitled to rates that will permit it to earn a return on the value of its property equal to that generally being made on investments in other business undertakings which are attended by corresponding risks. Therefore, Mr. Moul testified, it is important to identify the returns earned by comparable risk companies that compete for capital with the public utility and are subject to competitive marketplace forces.

Mr. Moul recommended that the Commission find a cost of common equity for NIPSCO of 11.75% to be reasonable. He explained that this is at the high end of the market measures of the cost of equity (DCF, CAPM and Risk Premium), gives some weight to the Comparable Earnings results and reflects the risks associated with NIPSCO's service area and high industrial throughput. The average of the DCF, Risk Premium, CAPM and Comparable Earnings results was 12.44%, the median was 11.59% and the mid-point was 13.29%. Mr. Moul said his proposed 11.75% cost of equity made no provision for the prospect that the rate of return may not be achieved due to unforeseen events such as unexpected spikes in costs, abrupt changes in customer usage and abnormal weather.

L. Guy H. Ausmus. Petitioner's witness Guy H. Ausmus, Senior Vice President, Customer Engagement for NIPSCO, testified regarding NIPSCO's focus on customer service. Mr. Ausmus stated that there are several measurements and metrics that demonstrate NIPSCO is providing quality interfaces for its customers. As an example, Mr. Ausmus pointed to NIPSCO's record on complaints filed by customers with the Commission. He stated that NIPSCO's average of 0.0009 monthly, justified gas complaints per thousand customers in 2009 was less than the statewide average of 0.0010. Further, 2009 marks three straight years of improvement in the number of gas justified monthly complaints per thousand customers.

Mr. Ausmus also discussed the findings from NIPSCO's internal customer satisfaction surveys. He testified that NIPSCO engaged a third party research group to survey customers after they have transacted with the Company. He indicated that the survey results demonstrate a high level of customer satisfaction with NIPSCO's call center, with overall call center satisfaction at or above 90% for ten of the past twelve months. NIPSCO has also made strides in the percentage of requests resolved in one call. As for other services provided by NIPSCO, Mr. Ausmus stated the survey results demonstrate that 85% of customers ranked NIPSCO's field performance at a nine or ten on a ten-point scale.

Mr. Ausmus then described a number of initiatives taken or planned to further improve customer satisfaction, including a Customer Care Line, business process improvements, NIPSCO Connect, upgraded telecom infrastructure, and enhanced e-billing and e-pay options. He stated that the goal of all of these projects is to improve NIPSCO's service to its customers.

M. Frank A. Shambo. Petitioner's Witness Frank A. Shambo, Vice President, Regulatory and Legislative Affairs for NIPSCO, testified concerning various issues. He

provided a brief background of NIPSCO's existing rates; explained the reasons for NIPSCO's decision to file a rate case, the rationale for NIPSCO's proposal for changing its depreciation rates and to defer depreciation expense, and NIPSCO's use of fair value for determination of its allowed net operating income ("NOI"); described why NIPSCO proposed a modification to its GCA mechanism; explained NIPSCO's proposed treatment of revenues and expenses related to its ARP Programs; described NIPSCO's proposal to continue to support energy efficiency efforts; and explained NIPSCO's proposed modifications to its low income assistance program.

Mr. Shambo testified that NIPSCO proposed to remove all gas costs, and bad debt expense associated with gas costs, from base rates and recover them through its GCA mechanism. In addition, NIPSCO proposed to remove the cost of UAFG from base rates and recover the full cost through its GCA. He noted that many other gas utilities in Indiana have already removed gas costs from their base rates, and that all gas costs would be fully examined in NIPSCO's quarterly GCA filings.

With respect to NIPSCO's proposed treatment of its bad debt expense, Mr. Shambo explained that NIPSCO will continue to recover the non-gas portion of its bad debt expense in its base rates. The portion that relates to gas costs will be recovered through the GCA mechanism by applying NIPSCO's historic experience ratio to total gas cost recovered through the GCA. Mr. Shambo stated that NIPSCO will have considerable incentive to manage bad debt expense because NIPSCO will continue to be at risk if its percentage of bad debt write-offs increases beyond the levels in the test year. He observed that all three other major gas local distribution companies in Indiana are currently authorized to recover gas cost related bad debt expense in their GCA mechanism. Mr. Shambo explained in detail how NIPSCO's proposal is consistent with the purpose of the GCA mechanism and its governing statute.

Mr. Shambo testified that NIPSCO is proposing to exclude certain revenues and expenses from its ARP Programs in its Revenue Requirement and Earnings Test calculation. He stated that for programs relying on storage and distribution assets, which are also included in the determination of rates, to generate revenues, NIPSCO proposes to exclude the revenues and expenses from calculation of its Revenue Requirement but include them for purposes of the Earnings Test. For programs that involve managing the gas commodity, some of which sharing already exists, NIPSCO proposes to remove the revenues and expenses from calculation of its Revenue Requirement and the Earnings Test. Mr. Shambo presented a table summarizing NIPSCO's proposed treatment of each ARP Program. Petitioner's Exhibit FAS-1 at 63-64 (Table 3).

Mr. Shambo testified that the Commission has previously approved similar regulatory treatment for similar types of ARP programs. He cited the Commission's Order in Cause No. 42721, where the Commission approved PSI Energy's Fixed Bill Program. The profits and losses of the Fixed Bill Program were not included in its jurisdictional income or the earnings test. He also pointed to the Commission's Order in Cause No. 42097, where the Commission granted similar relief with respect to NIPSCO's Depend-a-Bill service.

Mr. Shambo stated that NIPSCO's proposed treatment of the ARP revenues is appropriate because it balances the interests of both customers and the Company. It also allocates risks and rewards in a manner that recognizes the relative risks between the parties. He said that by treating optimization revenues and losses "below the line," the risks and rewards are shared between NIPSCO and its customers in a logical way with the recognition that NIPSCO retains (and its customers are subsequently shielded from) much of the risk associated with optimization. He concluded that it was appropriate to request a change in the treatment of ARP revenues and expenses in this proceeding, where the parties and the Commission can address and thoroughly review issues regarding revenues, expenses and cost of service.

Mr. Shambo also provided additional details concerning proposed Rules 5, 6, 9, 12 and 16. With respect to Rule 5, Mr. Shambo stated that the purpose of new tariff Rule 5.7 (Transportation and Sales Service) is to establish requirements for transportation service (non choice) customers who desire to switch service to an applicable sales rate schedule offered by NIPSCO. The goal of these new provisions are to protect NIPSCO's sales customers from the unintended negative consequences that can occur if a sizeable transportation customer moves to sales service on a short-term basis with little or no prior notice.

With respect to Rule 6, Mr. Shambo explained NIPSCO seeks a waiver of the Commission regulations that require gas utilities to provide an allowance for service extensions equal to three years of total revenue for the customer where facilities are extended. He stated that a better allowance formula would be based on the anticipated margin to be earned from the new customer. Thus, NIPSCO proposes to use the present value of six years of the customer's anticipated margin as an allowance to connect a new customer.

With respect to Rule 9, Mr. Shambo explained that NIPSCO is proposing, in new tariff Rule 9.6, a meter reading charge of \$40 if the customer fails to provide NIPSCO service personnel access to the meter during a previously scheduled appointment. NIPSCO will waive this charge if the customer provides adequate notice that an appointment must be canceled. The customer must also agree to allow the Company to install a remote meter-reading device.

With respect to Rule 11, Mr. Shambo testified that the purpose of new tariff Rule 11.3 is to: (1) incorporate and conform the terms of the Commission's rules at 170 IAC 5-1-17 as they pertain to billing disputes for residential customers; and (2) include provisions that govern how billing disputes will be handled by NIPSCO for non-residential, customers which are not addressed by the Commission's rules.

With respect to Rule 12, Mr. Shambo explained that under Rule 12.4, NIPSCO is permitted to discontinue service: (1) for non-payment of charges; (2) for failure to provide a security deposit or collateral; (3) at the customer's request; or (4) for any other reason authorized by the Company's Rules and caused by the customer's actions. The customer will be charged to cover the cost of reconnection of service as set out in Rule 16. Mr. Shambo testified that Rule 12.4 is designed to make NIPSCO whole in the event that a customer who only uses gas for heating purposes requests service to be discontinued during the summer months. Absent this Rule, Mr. Shambo stated that customers who disconnect during the

summer months would assure NIPSCO's under-recovery of its fixed costs from those customers.

With respect to Rule 16, Mr. Shambo testified that NIPSCO is expanding the options available to reconnect service at a customer's premises that has been shut-off for reasons described in tariff Rule 12.4. New tariff Rule 16.3 permits customers to request and receive their gas service outside of normal business hours or on the same day requested by the customer for an additional charge of \$55.00. Rule 16.4 permits the Company to assess a \$40.00 charge when a Company employee is unable to gain access to the Company's facilities for a scheduled service appointment due to the absence of the customer. Mr. Shambo explained that this charge is intended to compensate the Company for its costs in making a return trip to the customer's premises. Mr. Shambo stated that this charge is cost-based and will vary depending on whether the work was performed during regular time, overtime or on Sunday/holidays.

N. Karl E. Stanley. NIPSCO Witness Karl E. Stanley, Executive Director, Energy Supply and Trading for NIPSCO, Kokomo and NIFL, provided additional support for NIPSCO's proposed treatment of ARP revenues. Mr. Stanley explained that the unique operating conditions of certain ARP programs justify different ratemaking and regulatory treatment. For example, Mr. Stanley noted that NIPSCO's shareholders assume risk because of the availability of the ARP programs, that the revenue generated by the programs is variable because of competition and market conditions, and that several of the programs already share results with customers. Moreover, Mr. Stanley pointed out that the incentive implicit in the sharing mechanisms contained in the ARP programs would be in jeopardy if NIPSCO were to be at risk of returning its share as a result of exceeding its earnings cap.

Mr. Stanley noted that some of the ARP programs put NIPSCO at risk for customer usage that is different than projected. They also may leave NIPSCO with high priced gas in a low cost market or purchasing gas that is more expensive than volumes sold to customers. Mr. Stanley acknowledged that in some years, NIPSCO will succeed in managing these risks and may even generate higher margins. However, Mr. Stanley also stated that in other years, NIPSCO may experience more market risk than expected and generate lower margins or even losses.

Mr. Stanley also discussed the variable nature of the revenues generated from the ARP programs and noted that the associated risks are unique from normal business risks and thus warrant non-traditional treatment.

O. Kevin A. Kirkham. Kevin A. Kirkham, Director of Energy Efficiency for NIPSCO, testified regarding NIPSCO's Demand Side Management ("DSM") programs. Mr. Kirkham provided a history of NIPSCO's gas DSM efforts, including the DSM programs NIPSCO currently offers to residential customers. He explained NIPSCO's request for an extension of the existing programs through December 31, 2012 and the necessary funding modifications. Mr. Kirkham described NIPSCO's plans to expand its existing gas DSM programs in a subsequent proceeding to be filed no later than April 1, 2011.

Mr. Kirkham testified that NIPSCO's existing DSM portfolio was approved for a four-year period, expiring on May 9, 2011. He stated that NIPSCO will conduct a gas market potential study ("Study") to provide a framework for the expansion of NIPSCO's existing gas DSM programs. He explained that it will take time to complete the Study, have the Study reviewed and to obtain Commission approval of the expansion of the programs to non-residential customers. Mr. Kirkham stated that NIPSCO is therefore requesting authority to continue its existing DSM programs through the earlier of December 31, 2012 or the date new programs become effective. Mr. Kirkham testified that NIPSCO proposes that the existing DSM programs be administered in the same way they have operated since being implemented. He noted that the existing portfolio of programs is cost effective, as determined by evaluations conducted by the third party administrator and an independent evaluator.

Mr. Kirkham explained that it is necessary to change the funding mechanism for NIPSCO's DSM programs if they are extended. He stated that NIPSCO previously agreed to contribute its own funds to the energy efficiency programs approved in the Commission's Order issued in Cause No. 43051 because the contribution was made in concert with the approval of the Rate Simplification rate structure also approved in that proceeding. Because NIPSCO proposed to replace Rate Simplification with a modified rate design, Mr. Kirkham testified that additional revenues will cease to be generated by way of Rate Simplification. Nonetheless, he stated that NIPSCO would continue to contribute \$1,000,000 towards the DSM programs through the end of year four of the program. Mr. Kirkham explained how the gas efficiency rider would be calculated during the extension period and stated that it would be true-up to ensure a dollar-for-dollar recovery of the costs approved for recovery, no more and no less.

P. Cynthia Jackson. Cynthia Jackson, Manager of Demand Side Management and Energy Efficiency for NIPSCO, testified in support of NIPSCO's efforts to assist its low-income customers in managing their gas bills. Ms. Jackson provided some history concerning NIPSCO's low-income assistance programs. She also set forth NIPSCO's ARP for implementing a modified low-income assistance program that is very similar to programs currently offered by Vectren and Citizens.

Ms. Jackson described NIPSCO's proposed new low-income program, which she stated is very similar to the universal service programs ("USPs") offered by Citizens and Vectren. She stated that NIPSCO's USP will provide tiered discounts to all customers receiving Low-Income Home Energy Assistance Program ("LIHEAP") benefits. Ms. Jackson testified that NIPSCO is also proposing a "crisis or hardship" program similar to that of Vectren and Citizens, which will provide assistance for customers who are disconnected or threatened with disconnection. She stated that this hardship program is similar to Winter Warmth, but on a much smaller scale and limited to households that are not receiving standard discounts.

Ms. Jackson also explained the benefits of this new low-income assistance program. She indicated that one significant benefit will be a reduction in administrative costs once the programs are up and running. Furthermore, because LIHEAP customers are automatically enrolled in the USP, the administrative costs associated with qualifying customers should be less than the current program. She stated that NIPSCO's proposed program is modeled after

the USPs Citizens and Vectren have had in place for several years and thus should provide similar benefits.

According to Ms. Jackson, to be eligible for assistance from NIPSCO's USP, a customer must enroll in, and qualify for, assistance from LIHEAP. Customers who are above 150% but below 200% of the federal poverty level do not receive LIHEAP assistance and will not be automatically enrolled for assistance. Instead, eligible customers will be able to apply for assistance through the hardship program if they are disconnected or in danger of being disconnected. Ms. Jackson provided information on the initial discounts NIPSCO proposes to offer to families participating in the USP and illustrated the impact of both LIHEAP assistance and the NIPSCO USP discounts on customer bills.

Ms. Jackson testified that although it is difficult to quantify many of the benefits that are anecdotally apparent, the business purpose of low-income programs is to keep customers connected and paying some portion of their bill. This helps keep down costs associated with connecting and disconnecting customers, bad debt expense and collection costs associated with trying to get customers to pay. She stated that low-income assistance programs like the USP also make collection efforts more efficient and brings customer bills down to a level that low-income customers should be able to afford. Keeping these customers connected also ensures they are contributing to the Company's fixed costs. Ms. Jackson concluded that the Commission should approve NIPSCO's proposed low-income assistance programs.

Q. Ronald J. Amen. NIPSCO presented the results of its Allocated Cost of Service Study ("ACOSS"), prepared by Ronald J. Amen of Concentric Energy Advisors, Inc. Mr. Amen explained that the purpose of an ACOSS is to determine what costs are incurred to serve the various classes of utility customers and provide the analyst with the data necessary to design cost-based rates. Mr. Amen testified that the cost of service study was developed on a gross margin basis (i.e. net of the cost of gas and associated taxes) because the Company is proposing to recover all of its gas costs through its GCA. The cost of service study used the traditional three-step approach that consists of functionalization, classification and allocation. Mr. Amen noted that several factors can influence the cost allocation used to perform a cost of service study, including the physical configuration of the utility's gas system, the availability of data within the utility and the state regulatory policies and requirements applicable to the utility.

The ACOSS allocated demand-related costs using a coincident peak demand allocation methodology, which was derived on a design day basis. Mr. Amen testified that this approach reflects cost causation on the Company's system and strikes a balance with the other cost causative principle, that being a customer related element to the distribution system. He stated that, from a gas engineering perspective, NIPSCO must size its plant investment for peak period demands in order to ensure that it is able to satisfy its service obligation throughout the year. As such, cost causation with respect to demand related costs are unrelated to average demand characteristics. Mr. Amen noted that this method is also consistent with the goal of sending proper price signals to customers to encourage efficient use of the system and thereby prolong the need for distribution capacity additions.

Mr. Amen next described the results of the zero-intercept analysis used to allocate a portion of the investment in distribution mains as customer related. Mr. Amen also detailed the methods used by the cost of service study to allocate various other expenses, including distribution related O&M, customer accounting, customer information, administrative and general, and taxes other than income taxes. Mr. Amen testified that a portion of the administrative expenses were directly assigned to the ARP services via pro forma adjustments to the Company's revenue requirement based on the results of NIPSCO's ARP services cost study.

Mr. Amen described the modernization of NIPSCO's Residential Multi-Family and Commercial and Industrial ("C&I") rate classes and explained how NIPSCO's C&I customers were redistributed to the new 400 Series rate schedules. He also presented the results of the ACOSS with respect to rate of return under both the Company's existing 300 Series rate classes and the proposed 400 Series rate classes. He also summarized the costs allocated to the rate schedules on a classified basis, or by demand, customer and commodity basis. Mr. Amen testified that these results were used as a guide in developing the monthly customer and demand charges proposed for the various rate schedules.

Mr. Amen described NIPSCO's proposed rates structures and levels by customer class. He testified that the proposed monthly customer charge levels for each class approximate their full customer cost responsibility, with the remaining proposed margin revenues recovered through variable charges. He stated that these proposed customer charges reduce customer bill volatility, alleviate a significant portion of the instability in the Company's margin recovery, are fair to customers within the Residential and C&I classes, are easily understood, do not place a greater burden on LIHEAP customers than rates that have a more volumetric weighting, and convey more appropriate price signals with respect to recovery of fixed distribution costs.

R. Cecelia Largura. Cecelia Largura, Director, Strategic Execution for NIPSCO, testified in support of NIPSCO's weather normalization adjustment, which reduced revenue by \$10,234,010 and gas cost by \$5,651,033 to account for colder than normal weather in the test year. Ms. Largura stated the Heating Degree Days ("HDD") experienced during the test year were 2.9% higher than the thirty-year average period ended 2009 and should be normalized to reflect test year consumption under normal weather conditions. She used a base load/temperature-sensitive load normalization procedure, which begins by identifying a level of therms per customer that is not dependent on weather (base load) and subtracts that from total therms per customer to derive temperature-sensitive therms per customer. The load in excess of the base load is then normalized for weather and added back to the base load to arrive at a normal level of usage.

Ms. Largura did not weather normalize July and August because there is typically no temperature sensitive load during these months. She stated that the Company weather normalized June because NIPSCO used billing months rather than calendar months, and the early units include days in May when there was a notable amount of HDDs and heating load. Ms. Largura's normalization adjustment is a reduction of 2.3% of the annual volume for the adjusted rates.

7. **The Settlement Agreement.** The Settlement Agreement entered into by all of the Parties in this Cause is attached hereto and incorporated herein by reference. The Settlement Agreement presents a comprehensive resolution of all matters pending before the Commission in this Cause, which all Parties agree is fair, just and reasonable. The Settlement Agreement states that the Parties agree that resolution of the individual issues are reasonable for purposes of compromise and as part of the overall settlement package. The Settlement Agreement provides as follows:

A. Revenue Requirement and Net Operating Income.

(1) Revenue Requirement. The Parties agreed that NIPSCO's Revenue Requirement is \$232,800,000, which represents gross margin and is net of all of the Company's gas costs, which will be recovered in the Company's GCA mechanism. The Parties agreed that NIPSCO's base rates should be designed to produce \$225,200,000, which is the Revenue Requirement less \$7,600,000 of Other Revenues. This Revenue Requirement is a decrease from the amount originally requested by the Company of \$251,500,000.

(2) Net Operating Income. The Parties agreed the Revenue Requirement in Paragraph B5(a) of the Settlement Agreement should yield a NOI of \$39,841,895.

B. Fair Value Rate Base, Capital Structure and Fair Return.

(1) Fair Value Rate Base. The Parties agreed that NIPSCO should be authorized a fair return of \$39,841,895 yielding an overall return for earnings test purposes of 5.49%, based upon:

- (i) a fair value rate base of \$725,717,577, inclusive of gas in underground storage, and materials and supplies;
- (ii) NIPSCO's capital structure; and
- (iii) a fair rate of return on equity ("ROE") of 7% based upon a pre-inflation ROE of 9.9% and inflation reduction of 2.9%.

(2) Capital Structure and Fair Return. For settlement purposes, the Parties agreed that the overall rate of return ("ROR") and ROE be developed on the basis of the NIPSCO capital structure at December 31, 2009, as filed. The ROE on fair value will be 7.00% (9.90% less 2.90% inflation adjustment). Based on the following capital structure, the 7.00% ROE and cost of debt/zero cost capital as filed, the overall ROR on fair value of 5.49% is computed as follows:

Common Equity	46.29%	7.00%
Long-Term Debt	32.43%	6.44%
Customer Deposits	2.35%	4.32%
Deferred Income Taxes	13.87%	0.00%
Post-Retirement Liability	4.43%	0.00%
Post-1970 ITC	0.63%	6.79%
	100.0%	5.49%

C. Depreciation and Amortization Expense.

(1) Depreciation Expense. The Parties stipulate that the depreciation accrual rates recommended by NIPSCO Witness John Spanos and presented in this proceeding (the “Depreciation Study”) should be approved. However, the annual depreciation expense and provision for accumulated depreciation should be offset for a period of four years or until further order of the Commission, whichever occurs first, through a reduction in the accumulated depreciation reserve in the fixed amount of \$25,700,000 per year. The Parties further agreed that in no case shall the accounting treatment described herein result in the creation of either a deferred depreciation expense or regulatory asset for the purpose of future recovery of current period depreciation expense.

The provision for depreciation is an accounting estimate, which is revised prospectively utilizing depreciation studies that incorporate recent experience with relevant factors such as useful life, cost of removal and net salvage values. By applying these updated factors retrospectively, a theoretical reserve can be calculated. A difference between the actual accumulated depreciation reserve and this theoretical reserve is reflected as a component of prospective depreciation expense in the Depreciation Study. The Parties agreed that \$102,800,000 of the amount of the depreciation reserve will be reduced over the next four years, thereby reducing this difference more rapidly than over the remaining life of the property to which it relates. The Company will offset depreciation expense for each class of depreciable gas utility plant up to, but not in excess of, the amount of expense computed in connection with the Depreciation Study. Depreciation on common plant will be as proposed by NIPSCO in its case-in-chief. This method would result in the following accounting for gas plant:

		Millions	
		Debit	Credit
	Depreciation Expense	\$26	
	Accumulated Depreciation		\$26
	Annual Adjustment to Depreciation Expense		
	Accumulated Depreciation	\$25.7	
	Depreciation Expense		\$25.7

In the event that annual depreciation for any class of gas utility plant is reduced to zero during the year and prior to the full annual depreciation adjustment of \$25,700,000, the Company will reduce the annual adjustment such that there will not be negative depreciation for any class of property. The Parties agreed that NIPSCO will not seek an accelerated recovery period on depreciation expense reduced as a result of the Settlement Agreement. NIPSCO agreed to provide the OUCC with a full accounting of any reductions to the annual depreciation expense adjustment, showing details of the cause and the effect on all utility plant account.

(2) Amortization Expense. The Parties stipulate that annual amortization expense shall be \$6,542,321 as proposed by NIPSCO in its case-in-chief, which number includes \$1,080,937 of NIPSCO's rate case expenses over a period of three years. After the completion of the three-year period, NIPSCO agreed to make a tariff filing that will reflect the reduction in amortization expense as a result of the end of rate case expense amortization.

D. Regulatory Treatment of Current Gas ARP Margins. The Parties agreed the margins associated with NIPSCO's Current Gas ARP programs will be included in the GCA NOI Earnings Test pursuant to Ind. Code §§ 8-1-2-42(g)(3)(C) and 8-1-2-42.3 except for: (a) NIPSCO's Gas Cost Incentive Mechanism ("GCIM"), Capacity Release, and Optional Storage Service Rider (Rider 482A), which will be treated as below-the-line but will continue to be shared with customers through the GCA as provided in the Current Gas ARP; (b) NIPSCO's Depend-a-Bill program; and (c) Price Protection Service ("PPS").

NIPSCO agreed to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and service in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. NIPSCO further agreed that a code of conduct consistent with those principles and objectives will be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger with its affiliated gas utilities, and that pending the implementation of such code of conduct, NIPSCO will not alter its current market practices and policies in connection with its competitive products.

E. Rate Design. The Parties agreed that rates should be designed in order to allocate the revenue requirement to and among NIPSCO's customer classes in a fair and reasonable manner and consistent with cost causation principles. The Parties also agreed that the Commission has issued an Order promoting movement toward a Straight Fixed Variable ("SFV") rate design. During the settlement process, NIPSCO revised its original revenue requirement request to \$247,600,000. For settlement purposes, the Parties agreed that NIPSCO should design its rates using the structure of its existing 300 Series tariffs. The Parties agreed to reduce NIPSCO's existing revenue collected from residential customers by \$5,000,000 and reduce all other rate schedules as described below by \$9,800,000.

The Parties agreed that NIPSCO's settlement rates in total will be designed to produce reductions in all customer classifications for a total reduction of \$14,800,000 from the Company's revised revenue request. The impacts are described below:

(1) Residential Service. The Parties agreed to implement a residential customer/meter charge of \$11.00/month along with a single volumetric charge based on consumption for residential customers taking service under Rate 411 – Residential Service. The overall impact on the residential class is a \$5,000,000 reduction in revenue, which equals a 3.3% decrease in delivery charges to the class.

(2) Multifamily, Governmental Housing and Small Commercial and Industrial Customers. The Parties agreed that NIPSCO will simplify its tariff by eliminating current Rates 316 and 317 and including those customers in Rate 421. NIPSCO is retaining one multifamily rate schedule, which is Rate 415. NIPSCO will implement a customer/meter charge of \$12.50/per month for residential customers taking service under Rate 415 – Multiple Family Housing Service. The overall impact on the Multifamily Housing class is a \$300,000 reduction in revenue, which equals an 11.00% decrease to the class.

NIPSCO's smaller C&I customers will be served under Rate 421 – General Service Small Service, which is comprised of customers from current Rates 321 (General Service) and customers formerly served under Rate 316 and Rate 317 (Government Housing Service). Rate 421 is a two part rate consisting of a customer/meter charge of \$30.00 and a volumetric energy charge. The General Service Small Service class will experience a decrease of \$5,800,000, which equals an 11.0 % decrease to the class.

(3) Larger Commercial and Industrial Customers. For settlement purposes, NIPSCO agreed to not implement a demand component for larger commercial and industrial customers and to adopt the rate structure and transportation terms from the existing 300 series rates. NIPSCO will rename its existing General Service – Rate 325 as Rate 425 – General Service Large. Rate 425 will be a two-part rate consisting of a customer/meter charge of \$250.00, and a volumetric energy charge. The overall impact on the General Service Large class will result in a \$700,000 reduction in revenue, which equals a 13.0% decrease to the class.

NIPSCO will rename its existing Rate 328 as Rate 428 – Large Firm Transportation and Balancing Service. Rate 428 will be for firm service and present a two-part rate. The customer/meter charge will be \$350.00, and there will be a volumetric charge. The overall impact on the Rate 428 class will be a \$2,400,000 reduction in revenue, which equals a 13.7% decrease to the class. Further, NIPSCO will rename its existing Rate 338 as Rate 438 – General Transportation and Balancing Service, which will also be a two-part rate with a customer/meter charge of \$250.00 and a volumetric charge. The overall impact on the Rate 438 class is a \$500,000 reduction in revenue, which equals a 13.0% decrease to the class.

To design these rates, NIPSCO agreed that customers currently served under Firm Distribution Transportation Service – Rate 343 and Firm Transportation Service – Rate 344 may migrate to Rate 428.

The Parties agreed that the cost allocation herein results in fair and reasonable rates and charges.

F. Manufactured Gas Plant. The Parties agreed that all Manufactured Gas Plant costs should be removed from NIPSCO's test period operating expenses for purposes of developing its revenue requirement in this proceeding.

G. Customer Programs.

(1) Energy Efficiency/Demand Side Management. In its Order dated May 9, 2007 in Cause No. 43051, the Commission approved a DSM Program for Petitioner for a

four-year period (“Current DSM Program”). The Current DSM Program includes an Oversight Board with consumer representation, a third-party administrator and a third-party evaluator. The Current DSM Program is currently scheduled to expire on May 9, 2011.

The Parties agreed to extend the Current DSM Program for a period of eighteen months (November 9, 2012) while NIPSCO conducts a Market Potential Study (“MPS”) to support revisions to the Current DSM Program. NIPSCO agreed to use its best efforts to file a Petition for a new DSM program by April 1, 2011. In addition to the \$1,000,000 already funded by NIPSCO for the fourth year of the program, NIPSCO will contribute another \$1,000,000 for its DSM program thirty days following the issuance of an Order in this Cause. The Parties agreed that the extended Current DSM Program will continue to be governed by an Oversight Board.

(2) Low Income Assistance. NIPSCO agreed to implement a low-income assistance program that is similar in design to the universal service fund (“USF”) programs currently in place for Citizens Gas and Vectren Energy Delivery. NIPSCO agreed that its shareholders will contribute 25% of USF program costs, the first \$500,000 of which will be utilized to continue a hardship program for non-eligible LIHEAP customers and the remainder of which will be NIPSCO’s contribution to the USF Program. NIPSCO will recover the customer’s share through the GCA and as direct bill to transportation customers, consistent with its present practice. NIPSCO agreed to file an annual report summarizing the number of customers assisted, including those who received hardship program funding, and the total amount of funds expended with a breakdown of the funding.

H. Special Cost Recovery Mechanisms.

(1) Pension and Post-Retirement Benefits Other Than Pensions (“OPEB”) Expense. The Parties agreed that Pension and OPEB costs are fully recovered within the NOI and revenue requirement agreed to in the Settlement Agreement. NIPSCO agreed to withdraw its request to implement a Pension/OPEB Balancing Account.

(2) UAFG and Bad Debt Related to Gas Cost Expense. The Parties agreed that UAFG and the gas cost component of bad debt expense may be recovered by NIPSCO through its GCA. The cost of UAFG will be fully recoverable within the GCA mechanism consistent with the methodology approved in the Commission Order for Vectren Energy Delivery of Indiana (North and South) (Cause Nos. 43298 and 43112, respectively) and Citizens Gas & Coke Utility (Cause No. 37399-GCA-95), based on a maximum system-wide UAFG rate of 1.04%. Customers served directly from the transmission system will pay the system-wide UAFG percentage rate less .10, and the rate for other customers, including Choice customers, PPS and Depend-a-Bill will be set at an amount in order for NIPSCO to recover the system-wide percentage. The Parties agreed that NIPSCO’s UAFG percentage will be updated annually, capped at the 1.04% maximum.

The gas cost component of bad debt expense shall be based on the bad debt experience averaged on a weighted basis for the past three years. The recovery mechanism is consistent with the methodology approved in the Commission’s Order for Vectren Energy Delivery of

Indiana (South) (Cause No. 43112). The Company will be at risk for any bad debt expense that is greater than 0.68%.

I. Earnings Bank Adjustment. The Parties agreed that NIPSCO should be authorized to reduce its earnings bank as described in Ind. Code § 8-1-2-42.3 to \$100,000,000 as of the date new base rates are implemented as provided herein.

J. Accounting Reporting. NIPSCO agreed to file separate gas and electric income statements with the Commission annually by April based on the previous calendar year. NIPSCO agreed to insure that its financial reports are transparent and verifiable for future OUCC financial audits. NIPSCO also agreed to work cooperatively with the OUCC to facilitate the auditing function.

K. General Rules and Regulations. NIPSCO Witness Curt A. Westerhausen submitted the proposed tariff, including the Rules and Regulations as Petitioner's Exhibit CAW-S2. The Parties also agreed the New Residential Development Procedures (Rule 6.2) proposed in Cause No. 43706, if approved by the Commission, will supersede the Rule 6.2 tariff language proposed in this proceeding.

Finally, the Commission notes the Settlement Agreement states that the Parties agree that the Settlement Agreement and each term, condition, amount, methodology and exclusion contained therein reflects a fair, just and reasonable resolution and compromise for the purpose of settlement.

8. Testimony in Support of the Settlement Agreement. NIPSCO presented the testimony of Witnesses Frank Shambo, Curt Westerhausen and Linda Miller in support of the Settlement Agreement. OUCC Witness Leja Courter, IG Witness Nicholas Phillips and MG Witness Thomas A. Payne also presented testimony in support of the Settlement Agreement.

A. NIPSCO's Evidence in Support of the Settlement Agreement.

(1) Frank A. Shambo. Mr. Shambo prefiled settlement testimony to address the unique circumstances surrounding the Settlement Agreement and the regulatory policy that supports the conclusion that the Settlement Agreement is in the public interest.

Mr. Shambo testified the Parties represent a diverse group of constituents with differing views on the complicated issues raised in this proceeding. He stated that the Settlement Agreement is the result of substantial negotiations and investigation of the concerns raised in this proceeding and that while the Settlement Agreement is clear and uncomplicated, it is the result of very tedious and time-consuming work. He stated that experts were involved with legal counsel in the development of both the conceptual framework and the details of the Settlement Agreement. The Parties devoted many hours to settlement negotiations both before and after the Settlement Agreement in principle was reached. He noted that NIPSCO appreciated the willingness of the other Parties to engage in the rigorous process that resulted in the Settlement Agreement. He presented an overview of the Settlement Agreement, and he concluded that the process and the results reflected in the

Settlement Agreement produce just and reasonable rates that balance the interests of the various stakeholders and the overall public interest.

Mr. Shambo noted that in NIPSCO's direct case, it proposed that the fair value of its used and useful property should be equal to the RCNLD, which in NIPSCO's view is \$1.9 billion. That amount is nearly twice as large as the fair value established in NIPSCO's last rate proceeding in 1988, where the amount was defined as \$1,035,383,718. However, NIPSCO's original cost rate base declined by over 50% during the same period, from \$718,794,708 to \$318,023,432. Mr. Shambo explained that NIPSCO's direct case also proposed that a fair value return (NOI) on RCNLD would be \$129,240,930 and supported an ROR of 7.69% based upon NIPSCO's capital structure as of December 31, 2009, and an ROE of 11.75%. Mr. Shambo noted that an NOI produced using original cost rate base and the 7.69% ROR would have been \$24,456,002. He stated that NIPSCO did not reconcile the fair value return with original cost return due to the large gap between the two approaches. Instead, NIPSCO proposed an NOI for ratemaking purposes of \$48,824,542 by keeping its gross margin constant while making changes to key expense items such as depreciation expense.

Mr. Shambo explained that the Settlement Agreement considers the difficulty of reconciling these very extreme outcomes. A \$129,200,000 NOI yields a very high overall return on original cost rate base of 40.63%. A \$24,500,000 NOI yields an overall return of 2.45% on NIPSCO's proposed fair value rate base, in contrast to NIPSCO's last approved fair value rate base of \$1.0 billion and 1.3% return on NIPSCO's RCNLD. He stated that due to the enormous gap in return computations, the Parties focused on the impact these outcomes would have on customer rates, since the determination of a fair ROR on the fair value of NIPSCO's assets must consider the impact on both NIPSCO and its customers. Mr. Shambo testified the Parties agreed that NIPSCO's fair value rate base is \$725,700,000, with an associated fair ROE of 7% and an overall fair return of 5.49%, yielding an NOI for ratemaking purposes of \$39,800,000. Mr. Shambo concluded that all Parties agreed that this result is the best representation of fair return on fair value given the very unique circumstances of this proceeding.

Mr. Shambo testified that from NIPSCO's perspective, its original cost rate base of \$318,000,000 does not fully recognize the cost to bring NIPSCO's system to its current state of operational efficiency, or adequately compensate NIPSCO's shareholders for their investment in NIPSCO's gas plant in service. He stated that other calculations of NIPSCO's fair value and original cost rate base as approved by the Commission in 1988 (\$1,035,383,718 and \$718,794,708, respectively) and Mr. Kelly's RCNLD calculation of \$1,900,000 fair value calculation in this case were instructive of competing valuations and approaches. The \$725,700,000 valuation is clearly within the range, albeit a very broad range. He noted that the fair value rate base agreed to by the Parties is below the amount previously approved over twenty years ago.

Mr. Shambo stated that while the Parties did not commit to a specific mathematical calculation of NIPSCO's fair value rate base, or to precisely how the balance of competing factors would be weighed, agreement was reached on an acceptable fair value of NIPSCO's plant in service upon which a fair return could be reasonably based for purposes of settlement.

He stated that while there are many ways to arrive at a specific calculation, the result is consistent with a balancing of methodologies and approaches. It is also important to recognize that the compromise result reflected in the Settlement Agreement does not limit the ability of any Party to propose a specific methodology or result in future proceedings.

Mr. Shambo testified the Parties agreed that NIPSCO's authorized NOI should be \$39,800,000 based on \$725,717,577, the agreed value of its fair value rate base. This result was calculated based on the capital structure proposed by NIPSCO in its case-in-chief, and incorporated a return on fair value equity capital of 9.9%, adjusted downward by 2.9% for inflation, equating to an overall fair value rate of return of 5.49%. Mr. Shambo noted that the Settlement Agreement results in a reduction in NIPSCO's fair value rate base of \$309,666,141 from the fair value rate base approved in Cause No. 38380, and a reduction in its authorized NOI of \$23,340,061, or 36.9%.

Mr. Shambo explained NIPSCO proposed in its case-in-chief that depreciation expense for gas plant be deferred in this proceeding by creating a regulatory asset for recovery at a later point in time. He stated that while the Parties agreed that a contributing factor in the gap between NIPSCO's proposed fair value and original cost returns was the current depreciation rates which accelerated the growth in accumulated depreciation faster than the decline in the useful life of the property. The Parties had concern about the creation of a deferred account as a means to resolve this issue. As a consequence, the Parties have stipulated in the Settlement Agreement to effectively reverse the process that created the gap.

Mr. Shambo testified that NIPSCO will depreciate gas plant at the rate proposed by its depreciation expert NIPSCO Witness John J. Spanos, but then will book another entry to reduce the growth in accumulated depreciation by a defined amount in this proceeding. The reduction in accumulated depreciation expense will be \$25,700,000 per year for the next four years, unless superseded by a Commission Order in a subsequent rate proceeding. He stated that no deferral or regulatory asset will be created; this entry simply reduces the rate at which accumulated depreciation grows. Mr. Shambo testified that depreciation expense for common plant will be based upon the Depreciation Study and that as the period over which the netting of accumulated depreciation reserve is shortened (holding the other components of the equation constant), the resulting annual depreciation expense mathematically falls. The Settlement Agreement reached by the Parties recognizes both the entry of depreciation expenses and an adjustment to shorten the netting of accumulated depreciation. Mr. Shambo stated that this netting reduces the overall revenue requirement to the benefit of customers, as shown on Petitioner's Exhibit No. LEM-S2.

Mr. Shambo explained that depreciation expense will be recorded in accordance with the Depreciation Study and will fluctuate annually with plant account balances. NIPSCO will then make an offsetting entry to credit its accumulated depreciation reserve account annually for four years by an amount of \$25,700,000 per year.

Mr. Shambo testified that the Parties have agreed to an overall revenue requirement of \$232,775,730, which is a decrease of \$18,700,000 from that included in NIPSCO's direct case. He explained that there are two parts to this reduction. First, NIPSCO reduced the overall requirement by approximately \$3,900,000 by removing a portion of ARP expenses

included in its direct case, and adjustments driven by recalculations in the revenue proof. This reduced the revenue requirement to \$247,500,000 agreed to by the Parties. Second, NIPSCO reduced the adjusted revenue requirement by another \$14,800,000 in rate reductions resulting in the overall revenue requirement of \$232,800,000. He testified that residential customers will see a rate reduction of \$5,000,000 and all other classes will see a reduction of \$9,800,000.

Mr. Shambo stated that the Settlement Agreement would result in rate decreases for all non-ARP rate classes and proposed rate schedules. The impact of the Settlement Agreement is shown below:

Rate Schedule - Class	(Decrease)	Percentage
Rate 411- Residential Service	\$(5,000,000)	(3.3%)
Rate 415-Multifamily Housing	\$(296,046)	(11.0%)
Rate 421-General Service Small	\$(5,795,415)	(11.0%)
Rate 425-General Service Large	\$(700,848)	(13.0%)
Rate 428-Large Transportation and Balancing Service	\$(2,480,765)	(13.7%)
Rate 438-Transportation and Balancing Service	\$(540,860)	(13.0%)
Total	\$(14,813,934)	(6.13%)

He explained that no changes were made to the Company's ARP tariffs in accordance with the Commission's Order dated March 31, 2010 in Cause No. 43837. As a result, delivery margins under NIPSCO's ARP tariffs remain unchanged as part of the settlement rate design and are not reflected in the above.

Mr. Shambo testified that the Parties have agreed to submit Rule 10.2 unchanged from NIPSCO's current deposit rule. However, in accordance with the Commission's recent Orders, he noted that the Parties recognize that this deposit rule needs to be modified. The Parties have agreed to meet and attempt to revise the rule during the next ninety days. Upon agreement of Parties, NIPSCO will file changes to rule 10.2 within ninety days of approval of the Settlement Agreement. In the event the Parties are unable to agree on a modification within ninety days, any Party may petition the Commission for modification of Rule 10.2.

Mr. Shambo testified that NIPSCO's proposed cost allocation methodology effectively shifted \$10,000,000 between classes, with the residential class increasing by \$10,000,000. All other classes decreased by the same amount. He explained that the Settlement Agreement maintains the decrease of nearly \$10,000,000 to non-residential classes, while passing back the reduction in revenue requirement from that initially requested to residential customers, causing the class to go from a \$10,000,000 increase to approximately a \$5,000,000 decrease.

Mr. Shambo testified that the customer charges in Rates 411 (Residential) and 421 (General Service Small) have been increased to \$11 and \$30, respectively. For residential customers this is a decrease from NIPSCO's proposed level of \$20, but higher than the current rate of \$6.36. He stated that this change more accurately reflects the cost characteristics of these services. He noted that the rates have also been changed to reflect a single volumetric delivery rate instead of block rates.

He stated the Parties were also concerned that the three part rate design for NIPSCO's larger customers could result in volatility of their annual delivery service bills if they experienced large swings in load factor and annual usage. He noted that while NIPSCO believed the larger customer rate structures initially proposed by NIPSCO in the 400 Series rates promoted and rewarded improvements in load factor, the Parties agreed that uncertainty surrounding the economic recovery in NIPSCO's service territory made it more appropriate to adjust the C&I rates under the existing 300 Series rate structure at this time. He explained that the new C&I tariffs for larger customers will carry the 400 Series designation, but will be based on the 300 Series rate design.

He stated that the Parties supported the consolidation of NIPSCO's three multifamily housing tariffs in the current 300 Series tariff into a single Multiple Family Housing Service tariff for customers with five or fewer units under Rate 415 in the 400 Series. The ultimate service used in the multiple family dwellings is residential and therefore the rate design used under the Settlement is similar to that proposed under Rate 411 – Residential Service. Multiple Family Housing Service that contained five or greater units (Rate 316 presently) and Governmental Project Housing Service (Rate 317 presently) had service characteristics in line with the General Service classification and as a result, those customers were included in Rate 421 – General Service Small.

Mr. Shambo stated that the overall impact on the residential class is a \$5,000,000 reduction in revenue, which equates to a 3.3% decrease in delivery charges for the class. He noted that an average residential customer using 863 therms annually will now experience a reduction of \$.05 per month rather than the \$1.67/month increase initially proposed by NIPSCO. He stated that NIPSCO agreed to implement a customer/meter charge of \$12.50/per month for residential customers taking service under Rate 415 – Multiple Family Housing Service. He noted the overall impact on the Multiple Family Housing Service class is a \$300,000 reduction in revenue, which equals an 11% decrease for the class. He stated NIPSCO's smaller C&I customers will be served under Rate 421 and will experience a decrease of \$5,800,000 which equates to an 11% decrease to the class.

Mr. Shambo stated that for settlement purposes, NIPSCO redesignated its existing General Service - Rate 325 as Rate 425 – General Service Large, which will be a two part rate consisting of a customer/meter charge of \$250.00 and a volumetric energy charge. The overall impact on the General Service Large class will be a \$700,000 reduction in revenue, which equates to a 13% decrease to the class. NIPSCO redesignated its existing Rate 328 as Rate 428 – Large Firm Transportation and Balancing Service, which will be a two-part rate consisting of a customer/meter charge of \$350.00 and a volumetric energy charge. The overall impact on the Rate 428 class will be a \$2,300,000 reduction in revenue, which equates to a 13.7% decrease to the class. NIPSCO redesignated existing Rate 338 as Rate 438 – General Transportation and Balancing Service, which will be a two-part rate consisting of a customer/meter charge of \$250.00 and a volumetric energy charge. The overall impact on the Rate 438 class is a \$500,000 reduction in revenue, which equates to a 13% decrease to the class. He stated that in designing rates under the Settlement Agreement, NIPSCO agreed and assumed that customers currently served under Firm Distribution Transportation Service – Rate 343 could migrate to General Service Large - Rate 425 and Firm Transportation Service – Rate 344 could migrate to Large Transportation and Balancing Service - Rate 428.

Mr. Shambo stated that the Parties agreed that the margins associated with NIPSCO's Current Gas ARP programs should be treated as above-the-line for purposes of the GCA Earnings Test pursuant to Ind. Code § 8-1-2-42(g)(3)(C) and § 8-1-2-42.3 except for: (1) NIPSCO's GCIM, (2) Capacity Release and (3) Optional Storage Service (Rider 482A), which shall be treated as below-the-line but shall continue to be shared with customers through the GCA as provided in the Current Gas ARP, (4) NIPSCO's Depend-a-Bill, which is currently treated as below-the line and (5) PPS. He opined that this result balances the interests of both customers and the Company, and allocates risks and rewards in a manner that recognizes their relative risks. Mr. Shambo explained that the treatment of these revenues is appropriate noting that, albeit with slightly different conclusions, the Parties used the same criteria that NIPSCO proposed in its direct case.

He stated the first criteria considered was the question of whether sharing of revenues or margins exists for the ARP products or services. He noted that the Parties agreed that if sharing existed, that below-the-line treatment was appropriate. He stated the GCIM, Capacity Release and Optional Storage Service (Rider 482A) clearly meet that standard. The second criteria was a combination of NIPSCO's second and third criteria (are on-system assets used and is there increased risk associated with the product or service) described in Mr. Shambo's Direct Testimony. He stated both the Depend-a-Bill and PPS meet that standard. He testified all other ARP products and services were deemed to not meet either criteria in total, but may have met part of the criteria.

Mr. Shambo explained that margins earned under NIPSCO's (1) GCIM and Optional Storage Service Rider (Rider 482A) are currently shared 50/50 with customers taking service under NIPSCO's GCA; (2) Capacity Release are currently shared 85 (customer) /15 (Company); and (3) Optional Storage Service (Rider 482A, replaces Rate 342A) are shared 50/50 with customers taking service under NIPSCO's GCA. He stated that by treating NIPSCO's share of GCIM, Optional Storage Service and Capacity Release revenues below-the-line for purposes of the GCA Earnings Test and not including it in the revenue requirement for future rate cases, NIPSCO will be appropriately incented to generate the largest benefit for its customers under these optimization tools.

Mr. Shambo noted that if these ARP activities were treated above-the-line, NIPSCO would face the perverse potential of exceeding the authorized earnings level as a result of these products and the potential of returning these earnings to customers. In this situation, NIPSCO would have zero incentive to perform well under these ARP tools, which would be detrimental to its customers. He stated that if NIPSCO were to include gains from gas supply optimization in its rate case revenue requirement calculation, NIPSCO would effectively be returning its share of those revenues through a reduction in customer base rates, thus defeating the incentive approved by the Commission. Moreover, that reduction would continue in base rates regardless of NIPSCO's performance until its next base rate case. Mr. Shambo stated that including NIPSCO's share of these revenues, through a reduction in customer base rates, would result in NIPSCO being penalized for using its expertise to optimize revenues for customers.

Mr. Shambo explained that margins under Depend-a-Bill are currently booked below-the-line and the Settlement Agreement continues that practice. The Parties agreed to permit

margins earned under NIPSCO's PPS to be booked below-the-line as well. He stated that under the Settlement Agreement, it was recognized that both Depend-a-Bill and PPS had distinct risk of loss due to circumstance in the natural gas industry or weather that could greatly impact any gains or losses resulting from those programs. It was also understood that current and future ratepayers should not be punished or rewarded from the gains/losses generated by these highly competitive products.

Mr. Shambo testified that to ensure all Parties that NIPSCO will fairly balance the needs of its customers and competitors the Company agreed to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and services in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. He testified NIPSCO further agreed that a code of conduct consistent with those principles and objectives would be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger with its affiliated gas utilities, and that pending the implementation of such code of conduct NIPSCO will not alter its current market practices and policies in connection with its competitive products. He explained that while the Parties agree that there have not been concerns with Depend-a-Bill and PPS inappropriately competing with Choice products to date, this language is designed to continue to protect the overall structure approved in Cause No. 43837.

Mr. Shambo explained that NIPSCO is requesting a change in the treatment of its ARP revenues and expenses in this proceeding because the most appropriate time to request a change in the treatment of revenues and expenses is in a proceeding that determines a utility's basic rates and charges. In its March 31, 2010 Order in Cause No. 43745 the Commission noted, "In the context of a rate case, parties, and ultimately this Commission, can address and thoroughly review issues regarding revenues, expenses, and cost of service." Therefore, Mr. Shambo testified, it seemed to NIPSCO that the best type of proceeding within which to request a change in the treatment of ARP revenues and expenses would be a general rate case.

Mr. Shambo testified the Parties agreed that NIPSCO should be authorized to extend its current gas DSM program as approved by the Commission in Cause No. 43051 up to an additional eighteen months through November 9, 2012 while NIPSCO completes a Market Potential Study ("MPS") to support any revisions to the current DSM program. He noted that NIPSCO agreed to use its best efforts to file a Petition for approval of a successor DSM program, by April 1, 2011. NIPSCO made a \$1,000,000 contribution in May 2010 to this program, covering year four of its current DSM program, which runs from April 1, 2010 to March 31, 2011. Mr. Shambo testified NIPSCO has agreed to provide an additional \$1,000,000 into the program thirty days following approval of the Settlement Agreement to assure adequate funding for the period starting April 1, 2011 until a new program is approved. The Parties also agreed that the successor DSM program will continue to be governed by an Oversight Board. He stated that NIPSCO has worked closely with its DSM stakeholders in developing and implementing its current DSM program, and he anticipates continuing to do so into the future.

Mr. Shambo testified the Parties have agreed that NIPSCO should be authorized to implement a USF program similar to those already in place for Citizens Gas, Vectren North and Vectren South. He explained the program will be funded jointly by NIPSCO and its customers, with 25% of the USF program costs being contributed by NIPSCO's shareholders. Based on present usage factors and the program design outlined in the direct testimony of NIPSCO Witness Cynthia Jackson, NIPSCO estimates its contribution to be \$1,500,000 annually, the same target amount established in the Commission's November 3, 2009 Order in Cause No. 43669. The first \$500,000 of the shareholder contribution will be dedicated to continuation of a hardship program for non-eligible LIHEAP customers. The remainder of the Company's contribution, \$1,000,000, will go to assist the funding of the USF program.

Mr. Shambo stated under the Settlement Agreement, NIPSCO will be authorized to recover the customer's share through the GCA and as a direct bill to larger customers consistent with its present practice. NIPSCO will design the program around the State's low income categories and provide eligible customers with discounts toward their wintertime utility bills in a manner as outlined in Ms. Jackson's direct testimony. Furthermore, NIPSCO agreed that it will make an annual informational filing detailing the program, including identification of the number of customers served, those receiving hardship funding, and a breakdown of the previous years' funding. Mr. Shambo stated that NIPSCO's intention is to embed the cost of this USF program in base rates in NIPSCO's next general rate proceeding, which NIPSCO plans to file within thirty-six months.

Mr. Shambo testified that under the Settlement Agreement, NIPSCO may fully recover UAFG expenses recalculated on an annual basis up to a cap that will not exceed 1.04% through its quarterly GCA proceedings. He noted that the Settlement Agreement treats UAFG expenses in a manner consistent with the Commission-approved mechanisms for Vectren North, Vectren South and Citizens Gas. The underlying basis for this treatment is the nature of the cost, namely that this is a variable gas cost and should be recovered in the GCA. He testified that annually, NIPSCO will file its system-wide UAFG factor, but the factor collected on a system-wide basis cannot exceed 1.04%. He noted that NIPSCO recently filed its annual UAFG with a system average of .66%.

Mr. Shambo testified that the Parties have agreed that transmission level customers will be charged .1% less than distribution customers, and then all other customer rates will be adjusted to allow NIPSCO to recover the system average UAFG. However, NIPSCO's system average for collection cannot be greater than 1.04%. To illustrate, if NIPSCO's system UAFG was .70%, the transmission customers' rate would be adjusted down to .60% and all other customers would be adjusted upward to recover the system average.

Mr. Shambo stated that NIPSCO will continue to recover the non-gas portion of its bad debt expense in its base rates. The Parties have agreed that NIPSCO should be authorized to recover the gas cost component of its bad debt expense through its quarterly GCA proceedings based on a weighted average of the three previous years actual experience. The Parties agreed that NIPSCO is at risk for recovery of bad debt expense in excess of 0.68% based on the most recent three years experience as of the filing of the Settlement Agreement. He explained that because increases in NIPSCO's gas cost component of bad debt above the three year weighted average will erode NIPSCO's earnings, NIPSCO has a strong incentive to

manage and control its bad debt expense. The same is true of the non-gas cost component of bad debt, which will continue to be embedded in base rates.

Mr. Shambo explained that the Parties agreed to reset the bank of under earnings calculated according to Ind. Code § 8-1-2-42.3 to \$100,000,000. Since its last rate case, NIPSCO had amassed more than \$1,300,000,000 in cumulative under earnings since its last rate case, due in part to the imbalance between its accumulated depreciation and the remaining useful life of its plant in service. He stated that in recognition of the fact that the Settlement Agreement is intended to reduce that imbalance and provide NIPSCO with a better opportunity to earn its authorized NOI during the life of the proposed rates, the Parties agreed to a substantial reduction in the bank of under earnings.

Mr. Shambo explained that the Settlement Agreement represents a diligent effort by all Parties to reach a comprehensive result. The complexity of the issues and the diversity of the Parties dictated the need for compromise on the part of everyone involved, and the Settlement Agreement reflects a delicate balance that accommodates the interests of all Parties in a reasonable way.

Mr. Shambo testified that approval of the Settlement Agreement is consistent with the public interest. He noted that the Settlement Agreement represents a unanimous and comprehensive resolution of all of the issues in this proceeding by NIPSCO and its stakeholders. The Settlement Agreement resolves complex, divisive, and controversial issues surrounding the valuation of NIPSCO's plant in a manner that balances the interests of the Company with those of its customers without the expense and risk of continued litigation and potential appeal. In addition, the Settlement Agreement provides NIPSCO with an opportunity to earn a reasonable return on the investment it has made to bring its system to a modern state of efficiency, balanced with the interest of NIPSCO's customers in receiving reasonable service at a fair cost. He noted that all classes of NIPSCO customers will receive a reduction in what are already very low base rates at a time when economic conditions present significant financial challenges across NIPSCO's service territory, supplemented by additional assistance for NIPSCO's most at-risk customers. Finally, Mr. Shambo testified that the Settlement Agreement calls for a continuation of NIPSCO's gas energy efficiency and DSM programs consistent with the State's emphasis on reducing its energy usage and the Settlement Agreement brings NIPSCO's regulatory treatment of UAFG, bad debt and low income assistance into accord with that of Indiana's other major investor owned gas utilities.

Mr. Shambo also explained that time is of the essence to have the Settlement Agreement considered and approved by the Commission quickly. First, as just mentioned, the Settlement Agreement contains reductions in rates for all customer classes. Second, the residential customer rate design will clearly help customers as we move into colder weather. By increasing the recovery of costs in the fixed customer charge, NIPSCO customers will benefit as weather gets colder and usage increases because a customer's bill will be more insulated from consumption increases with the higher customer charge. Third, the sooner the Settlement Agreement is approved, the sooner that NIPSCO will be in a position to fully implement its new USF program if timely approval is forthcoming.

Mr. Shambo explained that a significant motivation for the Company to enter into the Settlement Agreement is the expectation that, if the Commission finds the Settlement Agreement is reasonable and in the public interest, an Order authorizing the decrease in NIPSCO's depreciation rates will be issued promptly by the Commission following such determination. He stated that while the Parties appreciate that the Commission has a responsibility to carefully consider the evidence of record to determine whether the Settlement Agreement is in the public interest, all Parties urge the Commission to do so as soon as reasonably possible. He concluded that this is a critical term in the Settlement Agreement from NIPSCO's perspective.

(2) Linda E. Miller. Linda E. Miller, Executive Director of Rates and Regulatory Finance for the Northern Indiana Energy ("NIE"), presented supplemental testimony in support of the Settlement Agreement. She discussed NIPSCO's present rate base, capital structure and weighted cost of capital. She also presented the results of operations during the test year and on a pro forma basis at both present rates and rates proposed by the Settlement Agreement. She also described NIPSCO's proposal to recover through the GCA the gas cost component of bad debt expense. She provided an overview of NIPSCO's accounting practices including its audits, controls, and processes and explained how common costs are allocated between NIPSCO's gas and electric businesses.

Ms. Miller testified that Petitioner's Exhibit No. LEM-S2, pages 1 and 2, is the Statement of Operating Income for the twelve months ended December 31, 2009 shown on an actual basis and with pro forma adjustments at current and the proposed rates provided by the Settlement Agreement. Column B shows the actual results for the twelve months ended December 31, 2009. Column C shows the pro forma adjustments made for the fixed, known and measurable changes to reflect ongoing operations levels at current rates and supported by the Settlement Agreement. Ms. Miller testified that a detailed listing of the pro forma adjustments was included in Petitioner's Exhibit No. LEM-S3. Column D shows the reference to each of the detailed adjustments. Column E shows the pro forma levels at current rates. Column F shows the changes necessary to produce the required net operating income provided by the Settlement Agreement. Column G shows the reference to each of the line items in Column F. Column H shows the pro forma statement of operating revenue and income at the rates proposed by the Settlement Agreement. Each of the adjustments was discussed in Ms. Miller's supplemental testimony.

In particular, Ms. Miller explained that Adjustment OM-21 on Petitioner's Exhibit No. LEM-S2 decreased (credits) test year operating expenses in the amount of \$3,670,912 to capture an additional reduction to rates that NIPSCO has agreed to in the Settlement Agreement. Ms. Miller testified that the Parties reached compromise on a number of disputed issues for purposes of reaching agreement. For instance, NIPSCO agreed in the GCA to use a bad debt percentage of 0.68% rather than the test year 0.98%. She noted that NIPSCO also agreed to lower net operating income and to recover zero depreciation expense on gas plant. She explained that the elimination of depreciation expense on gas plant by itself lowers NIPSCO expenses by close to \$26,000,000. She also noted that other parties have compromised as well and concluded that all of the various compromises produce the rate level to which the Parties have agreed.

Ms. Miller testified that Petitioner's Exhibit No. LEM-S4, page 1 of 3, quantifies NIPSCO's original cost rate base as of December 31, 2009. Column B shows the original cost rate base as of December 31, 2009, per NIPSCO's books. Column E shows the debit and credit updates to rate base by line item. Column F shows the total original cost rate base with the rate base updates reflected. Petitioner's Exhibit No. LEM-S4, page 2 of 3, shows the detail of the rate base updates. Petitioner's Exhibit No. LEM-S4, page 3 of 3, shows the computation of the fair value rate base set forth in the Settlement Agreement. Ms. Miller noted that this rate base amount supports the \$39,841,895 net operating income amount reflected in Petitioner's Exhibit LEM-S2, page 2 of 3, in Column H.

Ms. Miller testified that Petitioner's Exhibit No. LEM-S5, page 1 of 3, shows the computation of the fair rate of return to which the Parties have stipulated for purposes of computing net operating income. Column A shows the components of NIPSCO's actual capital structure, including common equity, long-term debt, customer deposits, deferred income taxes, post-retirement liability, and Post 1970 ITC. Column B shows the "as adjusted" amount for each component. Column C shows the percent each component represents of the total capitalization. Column D shows the cost for each component. For purposes of common equity, the cost rate is shown at 7.0%. This amount reflects a stipulated cost of common equity of 9.9% as provided in the Settlement Agreement, which is then reduced by 2.9% for historic inflation for purposes of computing the fair rate of return on fair value. Column E shows the weighted average cost for each component. The cost of Post-1970 ITC represents the weighted average cost of investor-supplied capital, which is computed in the second table on page 1 of 1. She noted that the total of Column E is 5.49%, which is the stipulated fair rate of return on fair value.

She explained that Petitioner's Exhibit No. LEM-S5, page 2 of 3, shows the December 31, 2009 actual capital structure and the adjustments made to arrive at the capital structure reflected on page 1 of 3. Column B shows the actual December 31, 2009 balances. Columns C and D show the updates to capital structure. Column E shows the reference to these updates, and Column F shows the adjusted balance. Column G reflects the percent of the total capitalization for each component. Column H shows the cost for each component. Column I shows the weighted average cost for each component.

She explained that Petitioner's Exhibit No. LEM-S5, page 3 of 3, shows a detailed schedule of long-term debt, reflecting actual debt outstanding at December 31, 2009. Column A reflects the interest rate associated with each debt issue. The individual debt issues are listed in Column B. Columns C and D reflect the dates of issuance and dates of maturity, respectively. The principal amount outstanding is shown in Column E. Column F reflects the interest requirement, which is the principal amount (Column E) multiplied by the interest rate (Column A). Column G reflects the overall cost of debt, which flows to page 1.

Ms. Miller testified Petitioner's Exhibit No. LEM-S10, page 1 of 2, reflects the calculation of the bad debt cost component per therm that will be included in the quarterly GCA filings on Schedule 1. The monthly estimated commodity and demand costs are totaled and multiplied by the bad debt percentage set forth in the Settlement Agreement of 0.68%. She explained that the Company will be at risk for any bad debt experience that is greater than 0.68%, which represents the three-year average of bad debt expense to the three-year average

of revenues. The calculated bad debt costs are divided by the monthly estimated sales to derive the bad debt cost component per therm that will be included in the quarterly GCA filings on Schedule 1.

She stated Petitioner's Exhibit No. LEM-10, page 2 of 2, reflects the calculation that will be used to reconcile actual bad debt cost recovery to the GCA component cost per therm. To reconcile the actual bad debt recovery, the actual monthly sales volume will be multiplied by the bad debt cost component to calculate the actual bad debt cost recovered. Next, the actual recoverable bad debt cost is calculated using the actual recoverable commodity and demand costs multiplied by the allowable bad debt ratio. The actual bad debt cost recovered is compared to the actual bad debt cost incurred, and the over/under recovery will be included in the variance amounts to be recovered over twelve months in the quarterly GCA filings on Schedule 12B.

Ms. Miller also provided an overview of the NIE Accounting department. She testified that the NIE Accounting department performs internal accounting functions for all of the Indiana regulated utilities, including NIPSCO's gas and electric operations. She stated two of the primary functions provided for NIPSCO are General Accounting and Asset Accounting. NIE Accounting also prepares financial statements and reports for internal use and external distribution and manages the books and records related to NIPSCO's fixed assets.

Ms. Miller testified that NIPSCO's accounting and financial reporting policies and practices are in conformance with Generally Accepted Accounting Principles ("GAAP"). GAAP is the recognized authoritative set of accounting rules, procedures and conventions used by non-governmental entities as a basis for their external financial statements and reporting. The Financial Accounting Standards Board ("FASB") is recognized by the accounting profession as the primary body for establishing the standards embodied in GAAP. She further explained that as a company whose securities are traded in interstate commerce, NiSource and its subsidiaries are subject to the accounting principles established by the SEC. Also, the Uniform System of Accounts ("USoA") are accounting standards prescribed by FERC for most major utilities, including NIPSCO. She stated the Commission adopted the USoA as the standard for Indiana utilities in its administrative rules at 170 IAC 5-2-3. She noted that while there are some differences between GAAP and the USoA, they are generally consistent with one another and none of the differences are applicable to the subjects included in her testimony.

Ms. Miller testified that formal audits of the financial books and records of NiSource and all of its affiliates, including NIPSCO, are performed annually by Deloitte and Touche USA, LLP. In addition, the internal audit department of NiSource supplements the audits performed by Deloitte & Touche on some transactional matters. She testified that NIPSCO generates internal financial reports from its general ledger software system, the primary source for NIPSCO's accounting books and records, and it interfaces with the NiSource accounting system, which is used to generate NiSource's consolidated financial reports. She stated that in addition, in compliance with the Sarbanes-Oxley Act, NiSource must attest to the adequacy and effectiveness of its internal controls. She stated that during 2004, NiSource implemented a plan of self-assessment of its internal control structure, which includes "self-testing" of individual internal controls. As a part of this process, NIE Accounting tests on a

periodic basis the existence, adequacy, and effectiveness of the internal controls surrounding disclosure, including testing the specific controls outlined in this document. She stated the results of this self-testing have been to provide evidence of the adequacy and effectiveness of these controls.

Ms. Miller testified that Petitioner's Exhibit No. LEMS-6 is the per-books Statement of Income (unaudited) for NIPSCO for the twelve-month periods ending December 31, 2009 and December 31, 2008. Petitioner's Exhibit No. LEM-S7 is the per-books Consolidated Balance Sheet (unaudited) for NIPSCO as of December 31, 2008 and December 31, 2009. Petitioner's Exhibit No. LEM-S8 is the per books Statement of Cash Flows (unaudited) for NIPSCO for the twelve-month period ending December 31, 2009.

Ms. Miller explained that NIPSCO's common costs represent costs that must be incurred by both the gas and electric functions in performing their regular business activities, but which can also be shared or pooled between both functions. She stated that a typical example of a common cost is the cost to bill customers. Both gas customers and electric customers must be billed, but combination utilities like NIPSCO can pool billing activities in a single common department to avoid duplicating costs and resources. She stated that because common costs represent pooled costs of both the gas and electric functions, these costs must be allocated between gas and electric using common allocation ratios that measure the cost causation relationship between the gas and electric functions for these costs. She noted that in NIPSCO's recent electric rate case order in Cause No. 43526, the Commission approved the revised common cost allocation methodology. She explained that common cost allocation ratios are updated twice each year to reflect the most current information, and the most current calculation of each ratio is applied to common costs when they are booked to allocate the cost between gas and electric. Ms. Miller testified that Petitioner's Exhibit No. LEM-S9 contains NIPSCO's common cost allocation ratios in effect at the close of the test year in this proceeding.

(3) Curt A. Westerhausen, Curt A. Westerhausen, Director of Rates and Contracts for NIPSCO, provided supplemental testimony in support of the Settlement Agreement, which described NIPSCO's proposed gas tariff, including the schedules of rates, Riders and General Rules and Regulations ("Rules"). He also explained how the proposed Gas Tariff differs from NIPSCO's current tariff and how the rates in the gas tariff were derived. Mr. Westerhausen testified NIPSCO's current gas tariff represents a combination of the rates approved in NIPSCO's last base rate case in Cause No. 38380 and the rates approved in NIPSCO's ARP proceedings.

Mr. Westerhausen explained that in order to streamline and standardize NIPSCO's gas tariff, NIPSCO reduced the overall number of rate schedules. He noted that under NIPSCO's current rate structure, many of the terms and conditions are repeated in each individual rate. This duplication of language for common items has been removed from each individual rate and relocated, where appropriate, to NIPSCO's proposed Rules, resulting in a description in each rate that is more concise, consistent and easier to understand. He stated that in addition, in response to customer feedback received over the years regarding the current tariff, many of NIPSCO's rates have been updated to provide a clearer understanding and meaning as to each rate's intent, interpretation and applicability. Mr. Westerhausen stated that similar attempts

were made to standardize terms used in NIPSCO's tariff. He also noted that a definitions section was added to the proposed Rules and similar language was standardized throughout the rates or relocated to the Rules.

According to Mr. Westerhausen, the proposed rate structure separates the cost of the Company's physical assets required to deliver the natural gas to the customer's meter from the cost of the natural gas commodity itself. He explained that with this design, all natural gas costs has been removed from the base gas rates with rate recovery via the customer's delivery charges defined as the Customer Charge and the Distribution Charge. He stated that the customer has the choice to purchase the gas commodity from the Company, from a supplier through the Company's Supplier Choice Delivery Service Program or from a third party supplier through the Company's proposed transportation rates (Rates 428 or 438).

Mr. Westerhausen explained that in addition to its proposed 400 Series rates, NIPSCO is also including the rates and riders that were originally approved in its Current Gas ARP proceedings, as part of the Settlement Agreement. He stated that NIPSCO made no substantive changes to these ARP rates. But, references to the existing 300 Series rate and rider numbers were updated with the appropriate 400 Series references and obsolete charges were updated and/or removed.

Mr. Westerhausen provided a summary, in general terms only, of the new rates and Rules as follows:

Rate 411 – Rate for Gas Service, Residential Service

As the successor to existing Rate 311, Residential Rate (Rate 411) continues as the rate available to residential customers who are located in the area served by the Company. Farm tap customers with grain drying loads that require larger meter installations and receive service at higher delivery pressures have been migrated out of existing Rate 311 to Rate 421, which is a more appropriate rate schedule for the range of grain drying loads. This Rate now incorporates an \$11.00 per month Customer Charge and a Distribution Charge.

Rate 415 – Rate for Gas Service, Multiple Family Housing Service

As the successor to existing Rate 315, the Multiple Family Housing Rate (Rate 415) continues as the rate available to customers requiring service through a single meter to residential buildings or residential developments containing more than one dwelling unit but not exceeding five dwelling units, including service for space and water heating auxiliary to residential use. In keeping with the Company's intent to limit the multi-family rate schedule to small, single-meter, residential premises with no more than five individual dwelling units, larger commercial sized, customers with more than five dwelling units (some as high as 100) were migrated to the proposed General Service Rate 421. In addition, all of the other existing multi-family rate schedules, Existing Rates 316 (Multiple Family Housing – with a single meter and multiple buildings) and 317 (Governmental Housing Projects), were migrated to Rate 421 as well.

Rate 421 – Rate for Gas Service, General Service - Small

Rate 421 – General Service – Small, is the successor to existing Rate 321. Rate 421 is available to non-residential customers and customers requiring service through a single meter to residential buildings or residential developments containing more than five dwelling units. Customers from existing Rates 311, 315, 316, 317, 321, 323, 324 and 325 were mapped to this Rate. This Rate is comprised of a Customer and Distribution Charge.

Rate 425 – Rate for Gas Service, General Service - Large

As the successor to existing Rate 325, Rate 425 – General Service - Large is available to non-residential customers whose daily demands do not exceed 10,000 Dth. A contract is required for customers with daily demands at or above 50 Dth. Customers from existing Rates 321, 325, 338, and 343 were mapped to this Rate. This Rate remains comprised of a Customer and Distribution Charge.

Rate 428 – Rate for Gas Service, Large Transportation and Balancing Service

Rate 428 is the successor to existing Rate 328, Transportation and Transportation Balancing Service and Rider 328 FT, Rider to Rate 328 Transportation and Transportation Balancing Service. Rate 428 is available to customers presently receiving gas service from the Company, whose gas requirements during the most recent calendar year average at least 200 Dth per day and to new or existing customers presently utilizing an alternate fuel and/or adding additional load who shall certify in writing and demonstrate that their gas requirements will average at least 200 Dth per day. Service under this Rate will be firm transportation service and firm balancing service. Service under Rate 428 is available to any of those customers and requires execution of a standard contract for the delivery by the Company of quantities of natural gas obtained by the customer from a source other than the Company and delivered to the Company. The written contract under this rate will be for an initial period of one year, or such other period as shall be mutually agreeable to the parties, and shall continue from year to year thereafter unless canceled by either party giving to the other sixty days prior written notice of the termination at the end of the initial period or any yearly period thereafter. The customer's balancing options and associated charges are defined in this Rate. This Rate is comprised of a Customer Charge, Transportation Charge, Administrative Charges for Balancing Services, Nomination Exchange Service Charges, Imbalance Exchange Service Charges, Balancing and Interruptible Gas Overtake Service Charges. Customers from existing Rates 328 and 344 were mapped to this service.

Rate 438 – Rate for Gas Service, General Transportation and Balancing Service

Rate 438, General Transportation and Balancing Service, is the successor to existing Rate 338. Rate 438 is available to customers presently receiving gas service from the

Company, whose gas requirements during the most recent calendar year average at least 100 Dth per day and to new or existing customers presently utilizing an alternate fuel and/or adding additional load who shall certify in writing and demonstrate that their gas requirements will average at least 100 Dth per day. Service under this Rate shall be firm transportation service and firm balancing service. Service under Rate 438 requires execution of a standard contract for the delivery by the Company of quantities of natural gas obtained by the customer from a source other than the Company and delivered to the Company. This written contract will be for an initial period of one year, or another mutually agreeable period, and shall continue from year to year unless canceled by either party giving to the other sixty days prior written notice of the termination at the end of the initial period or any yearly period thereafter. The customer's balancing options and associated charges are defined in this Rate. This Rate is comprised of a Customer Charge, Transportation Charge, Administrative Charges for Balancing Services, Nomination Exchange Service Charges, Imbalance Exchange Service Charges, Balancing and Interruptible Gas Overtake Service Charges. Customers from existing Rate 338 were mapped to this service.

Rider 422A – Commercial and Industrial Gas Spacecooling Rider

Rider 422A is the successor to Rate 322A. This Rider is available to commercial and industrial customers, who enter into a service agreement, for gas spacecooling. Such gas spacecooling equipment shall be the only equipment utilized for spacecooling. It is a seasonal rate for the delivery charge during the months of May to September. This Rider is comprised of a Customer, Delivery and Commodity Charge.

Rate 424A – Rate for Gas Service, Compressed Natural Gas Service

Rate 424A is the successor to Rate 324A. This Rate is available 1) to any customer for natural gas to be supplied to a customer-operated and owned or leased Compressed Natural Gas ("CNG") facility for the express purpose of converting such natural gas to CNG to fuel motorized vehicles; and 2) to any customer for the purchase of CNG to fuel motorized vehicles from designated Company-owned and operated CNG facilities. This Rate is comprised of either a customer and a negotiated Commodity Charge for a customer-operated and owned or leased facility, or a negotiated Commodity Charge and Rate Adjustment for a Company-owned and operated GNC facility.

Rate 430 – Rate for Gas Service, Large Volume Negotiated Sales Service

Rate 430 is the successor to Rate 330. This Rate is available to commercial and industrial customers in Zones A and B whose annual gas requirements will average at least 200 Dth per day, or in the case of a new customer or a customer's increasing gas requirements, who shall certify that its annual gas requirements will average at least 200 Dth per day. Under this Rate, NIPSCO will negotiate gas prices and terms of service with the customer. A properly executed contract is necessary before any service may be taken under this Rate. This Rate is comprised of a Customer, Supply and Delivery Charge.

Rate 434A – Rate for Gas Service, Off-Peak Commercial and Industrial Interruptible Negotiated Service

Rate 434A is the successor to Rate 334A, an ARP product for interruptible service available to commercial and industrial customers for gas service on an interruptible basis. Service hereunder is available to (1) customers who have functioning alternate fuel capability and/or (2) off-peak seasonal processing customers who typically use 90% of their annual gas requirements during the off-peak period, defined as April 1 through November 30, who can and will promptly curtail or cease the take of gas within the notice period provided for in the general terms and conditions of service, by discontinuing their operations or utilizing alternate fuel facilities. This rate is comprised of a customer and a negotiated Commodity Charge. A written Service Agreement between the Company and a customer is required.

Rate 440 – Rate for Gas Service, LNG Service

Rate 440 is the successor to Rate 340. This Rate is available for LNG service on an interruptible basis when in the judgment of the Company, gas supplies are available for non-firm service, and its LNG service facilities are adequate to render proper service without impairing the quality of the Company's service to other customers. This Rate is comprised of a Transaction, Liquefaction (individually negotiated), and Supply and Delivery Charge.

Rate 443 – Rate for Gas Service, Firm Distribution Transportation Service

Rate 443 is the successor to Rate 343. This Rate for Firm Distribution Transportation Service ("FDTS") for the transportation of natural gas on a firm basis by the Company is available to commercial and industrial customers (1) who have arranged for a supply of natural gas from a supplier other than the Company, (2) whose gas requirements during the most recent calendar year average at least 50 Dth per day, and (3) new customers who certify in writing that their gas requirements will average at least 50 Dth per day. This Rate is comprised of a Customer, Transportation and Daily Imbalance Cash-out Charge.

Rate 444 – Rate for Gas Service, Firm Transportation Service

Rate 444 is the successor to Rate 344. This Rate for Firm Transportation Service ("FTS") for the transportation of natural gas by the Company is available for any Zone A or Zone B customer eligible for service under Rate 428 who has arranged for a supply of natural gas from a supplier other than the Company, and either its gas requirements during the most recent calendar year average at least 200 Dth per day, or is a new customer who certifies in writing that its gas requirements will average at least 200 Dth per day. This Rate is comprised of a Customer, Transportation, and Daily Imbalance Cash-out Charge.

Rate 445 – Rate for Gas Service, Supplier Aggregation Service

Rate 445 is the successor to Rate 345. This Rate is available to marketers and brokers who: (1) have been designated as a qualified supplier and/or agent by customers who have elected to receive service under Rate Schedules 411, 415, 421, and 425, or Rate 443 FDTS; (2) meet the qualification requirements specified in the rate schedule; and (3) have executed a Supplier Aggregation Service (“SAS”) Agreement with the Company. A qualifying aggregator may aggregate individual customers, on whose behalf the qualifying aggregator is providing gas supply, for nomination, balancing and load management purposes at specified points of receipt on the Company’s distribution system or at specified pipeline interconnections available to the Company on its upstream capacity. This Rate is comprised of an Administration, Imbalance and Overrun Charge, and Other Charges as defined in the proposed Gas Tariff.

Rate 451 – Rate for Gas Service, Fixed Gas Bill Service

Rate 451 is the successor to the Experimental Rider to Rates 311, 315, 316, 317, 321 and 325 Fixed Gas Bill Rider. Service under this ARP product shall be available to customers who are otherwise eligible for service under Rate Schedule 411, 415, 421 and 425. The fixed bill quoted to each customer electing to take service under this Rate shall apply in lieu of the applicable rates and applicable rate adjustments under which the customer otherwise takes service (e.g., rate schedule 411, 415, 421 and 425).

Rider 470 – Gas Cost Adjustment

Two proposed changes to the GCA Rider are the removal of gas from base rates, which is further discussed by Mr. Shambo, and the tracking of the gas cost component of bad debt expense which is further explained by Ms. Miller. The GCA, as updated on a quarterly basis, shall be applicable to customers selecting NIPSCO to supply their commodity for rate schedules listed in Appendix A – Applicable Riders.

Rider 472 – Energy Efficiency Rider

Rider 472 is applicable to residential customers taking service under Rates 411 and 451 and Riders 480 and 481 and shall provide the continued funding for natural gas energy efficiency programs throughout the Company’s service area, as approved by the Commission in Cause No. 43051 and as extended by the Settlement Agreement.

Rider 473 – Universal Service Fund Rider

The Settlement Agreement calls for the implementation of a USF arrangement for NIPSCO similar to that currently in place for Vectren and Citizens. When determined, the charge under this Rider will be stated in Appendix D, Universal Service Fund Factor. Rider 473 is applicable to customers taking service under Rates 411, 415, 421, 425, 428, 430, 434A, 443, 444, 451 to provide billing assistance to low income customers.

Rider 431 – Commercial and Industrial Temporary Emergency Service Rider

Rider 431 is the successor to Rate 331. This Rider is available for temporary emergency gas service to replace the alternate fuel supply and/or pipeline transportation service which have been impaired or interrupted for commercial and industrial customers who have contracted for this service under Rates 428, 430 and 438.

Rider 446 – Firm No-Notice Backup Supply Service Rider

Rider 446 is the successor to Rate 346. This Rider is available to customers receiving service under Rate 428 or 438, FDTS or FTS, and suppliers and marketer aggregators utilizing SAS, who shall execute a Service Agreement with the Company for service hereunder. Firm No-Notice Backup Supply Service will entitle a customer who is also taking service under the Company's Rate 428 or 438, FDTS or FTS to gas delivery on a firm, no-notice basis from the Company on those days when the customer's gas supply, delivered by other suppliers on its behalf, fails for any reason, to equal the volume of gas actually used by the customer on that day. This Rider is comprised of a Service, Demand and Commodity Charge and Adjustment for Authorized and Unauthorized Overruns.

Rider 447 – Gas Parking Service (GPS) Rider

Rider 447 is the successor to Rate 347. This Rider for Parking and Interchange Service is available to Zone A and Zone B customers receiving service under Rate 428 or 438, FDTS or FTS, and suppliers and marketer aggregators utilizing SAS, who shall execute a Service Agreement with the Company for service hereunder. Service hereunder shall be available, on a transaction by transaction basis at the sole discretion of the Company, to any customer, who from time to time, may require a service to temporarily store certain quantity of natural gas for a designated period of time and then have the natural gas delivered back to the customer. This Rider is comprised of a Service and Commodity Charge.

Rider 448 – Gas Lending Service Rider

Rider 448 is the successor to Rate 348. This Rider for Gas Lending Service is available to all Zone A and Zone B customers receiving service under Rate 428 or 438, FDTS or FTS, and suppliers and marketer aggregators utilizing SAS, who shall execute a Service Agreement with the Company for service hereunder. Service hereunder shall be available at the sole discretion of the Company, to any customer, who from time to time, desires to borrow certain quantity of natural gas for a designated period of time, and then repay the borrowed quantity of natural gas to the Company. This Rider is comprised of a Service and Commodity Charge.

Rider 449 – Firm Peaking Capacity Service Rider

Rider 449 is the successor to Rate 349. This Rider is available to all Zone A and Zone B customers receiving service under Rate 428 or 438, FDTS or FTS, and suppliers and marketer aggregators utilizing SAS, who shall execute a Service Agreement with the Company for service hereunder. Service hereunder shall be a short-term, nominated, firm capacity service for customer's gas at various delivery points on the Company's system during the months of November through April. This Rider is comprised of a Service and Peaking Capacity Charge and Adjustment for Authorized and Unauthorized Overruns.

Rider 450 – Nomination Exchange Service for Suppliers and Marketers Rider

Rider 450 is the successor to Rate 350. This Rider is available to marketers and/or suppliers of natural gas. Service under this rate is only available to marketers or gas suppliers who enter in a nomination exchange transaction with any customer receiving transportation service from the Company under rate schedule 428, 430 and 438. In order to provide suppliers and marketers with more flexibility in the supply management of end-use customers, the Company will allow suppliers and marketers to exchange gas between each other or their authorized agents at the city gate and thus adjust their scheduled transportation receipts and deliveries on the Company's system up to two hours prior to the end of each gas day. The charge is \$50 for each buyer and seller for each day in which a trade is made.

Rider 480 – Supplier Choice Delivery Service Rider

Rider 480 is the successor to Rider to Rates 311, 315, 316, 317, 321, and 325 – Supplier Choice Delivery Service ("SCDS"). This Rider is available to customers who take service under rate schedules 411, 415, 421 and 425 who elect to have a qualified supplier other than the Company supply their natural gas requirements. This Rider is comprised of a Delivery and Gas Purchase Charge.

Rider 481 – Price Protection Service Rider

Rider 481 is the successor to Rider to Rates 311, 315, 316, 317, 321 and 325 – Price Protection Service Rider. This Rider shall be available to customers who are otherwise eligible for service under Rate Schedule 411, 415, 421 and are eligible for service under the SCDS Rider. An eligible customer electing to receive service under this optional Rider shall have the ability to choose either a fixed price or a price cap, as provided in this Rider, which price shall apply to all gas supply commodity delivered under this Rider. The elected price shall apply in lieu of the otherwise applicable gas supply commodity charge included in the base rate schedule under which the customer takes service (e.g. Rate Schedules 411, 415, 421 and 425). This Rider is comprised of an Administrative, Delivery and Gas Purchase Charge.

Rider 482 – Optional Storage Service Rider

Rider 482 is the successor to Rate 342. This Rate is available to customers who receive gas service from the Company under any Transportation Rate Schedule or Rider and who shall enter into a written contract for Storage Service from the

Company. Gas service under this rate schedule shall only be available at the sole discretion of the Company and is cancelable by the Company on April 1 of any year. The maximum annual storage capacity available under Rider 482A and this Rider shall be 40,000,000 Therms. This Rider is comprised of a Customer, Reservation, Injection and Withdrawal Charge.

Rider 482A – Optional Storage Service Rider

Rider 482A is the successor to Rate 342A. This Rider is available to all Zone A and Zone B customers receiving service under Rate 428 or 438, FDTS or FTS, and at sole discretion of the Company, to suppliers or marketer aggregators utilizing Supplier Aggregation Service, who shall enter into a written Service Agreement for Storage Service from the Company. Gas service under this rate schedule shall only be available at the sole discretion of the Company and is cancelable by the Company on April 1 of any year. The maximum annual storage capacity available under Rider 442 and this Rider shall be 40,000,000 Therms. This Rider is comprised of a Customer, Reservation, Injection and Withdrawal Charge.

Rider 487 – Daily Imbalance Cash-out Provisions

Rider 487 is the successor to the Daily Imbalance Cash-out Provisions Rider to Rate Schedules. This Rider is available to customers taking service under Rates 443, 444 and 445 and defines the daily charges for the customer's daily volume imbalances.

Rider 488 – Residential Gas Spacecooling Rider

Rider 488 is the successor to Rider to Rates 311, 315, 316, and 317 – Residential Gas Spacecooling Service. This Rider is available for residential spacecooling service to customers that take service under Rates 411 and 415 who have a permanently installed gas cooling device for the residence and depend totally on said gas cooling equipment for spacecooling. It is a seasonal rate for the delivery charge during the months of May to September. This Rider is comprised of a Delivery and Commodity Charge.

Mr. Westerhausen also provided a summary of the material changes from the current rules to the proposed Rules and sponsored Petitioner's Exhibit No. CAW-3S, which is NIPSCO's proposed standard gas contract template for service under Rates 425, 428 and 438. He stated that the purpose of the standard gas contract template is to allow standardization of common terms and conditions of use of this Rider as well as clarify supply and billing obligations between the customer and the Company.

B. OUCC's Evidence in Support of the Settlement Agreement. Leja Courter, Director of the OUCC's Natural Gas Division, testified in support of the Settlement Agreement. Mr. Courter stated the Settlement Agreement provides a reasonable resolution of all the issues in this Cause among all the participating Parties. He recommended the Commission approve the Settlement Agreement as being in the public interest. Mr. Courter testified regarding eight specific items: fair value rate base and fair return; treatment of depreciation expense and amortization expense; revenue requirements; cost allocation and

rate design; treatment of ARP margins; customer programs; treatment of UAFG and bad debt expense; and reduction in NIPSCO's earnings bank level.

Mr. Courter stated NIPSCO had been depreciating its gas utility plant at an overall depreciation rate of 5.5% since its last gas rate case Order issued by the Commission in Cause No. 38380 on October 26, 1988. He noted this is a higher overall depreciation rate than that employed by other gas utilities in Indiana. Consequently, any NIPSCO gas utility plant subject to this depreciation rate would be fully depreciated for book purposes in slightly over eighteen years. Further, the value of NIPSCO's original cost gas utility plant was less than it would have been if a lower overall depreciation rate had been used. Mr. Courter said that if NIPSCO's overall depreciation rate had been 2.5%, then the average useful life of its plant would be closer to forty years, as opposed to eighteen years. As part of its review of this case, the OUCC prepared alternative calculations to determine what the value of NIPSCO's original cost gas utility plant would have been if depreciated at lower overall depreciation rates. The numbers derived from these calculations were then used as a basis for comparison in order to assess the reasonableness of various fair value rate base proposals.

In addressing the fairness of a rate base of \$725,700,000, Mr. Courter agreed with Mr. Shambo's statement that for purposes of settlement and given the enormous gap in various return computations, an agreement was reached on an acceptable fair value of NIPSCO's plant in service upon which a fair return could be reasonably based. In agreeing to such fair value rate base, the Parties assessed how each of these outcomes would impact both NIPSCO and its customers, while at the same time acknowledging the non-precedential nature of such a settlement. Further, Mr. Courter said the Settlement Agreement does not limit the ability of any Party to propose a specific methodology or result in future proceedings on this issue.

Mr. Courter testified the Parties agreed NIPSCO should be authorized to earn an NOI of \$39,800,000 based on the agreed value of its fair value rate base of \$725,717,577. This result was calculated based on the capital structure proposed by NIPSCO in its case-in-chief, and incorporated a return on fair value equity capital of 9.9%, adjusted downward by 2.9% for inflation. This resulted in an overall fair value rate of return of 5.49%. Mr. Courter stated the OUCC's cost of equity analysis determined 9.9% is within a range of reasonableness for settlement purposes in this Cause. He stated the OUCC's analysis indicates the 2.9% inflation adjustment also is within a range of reasonableness because the percentage calculation varied depending on the time period being used.

Mr. Courter testified the Settlement Agreement provides that NIPSCO's annual depreciation expense and provision for accumulated depreciation should be offset for a period of four years or until further order from the Commission, whichever comes first. This is to be achieved through a reduction in the accumulated depreciation reserve in the fixed amount of \$25,700,000 per year. The Settlement Agreement also provides NIPSCO will not seek an accelerated recovery period on depreciation expense in the future as a result of the Settlement Agreement.

Mr. Courter said he believes the depreciation expense provision is reasonable. This provision in the Settlement Agreement lowers rates for current and future NIPSCO ratepayers. He also said if NIPSCO has not received a new gas base rate case Order within four years of

the date of the Order in this Cause, then NIPSCO will eliminate the \$25,700,000 reduction and begin booking its full depreciation expense. In addition, depreciation expense will not be deferred and recovered from future NIPSCO ratepayers at an accelerated rate.

Mr. Courter stated the Parties agreed to an overall revenue requirement of \$232,775,730, which is a decrease of \$18,700,000 from the revenue requirement included in NIPSCO's case-in-chief. Included in this decrease are \$14,800,000 in rate reductions for all customer classes. Pursuant to the Settlement Agreement, NIPSCO's residential customers will see a rate reduction of \$5,000,000 and all other customer classes will see a reduction of \$9,800,000.

Mr. Courter stated the Parties agreed revenues, expenses, and margins for NIPSCO's current gas ARP programs shall be included in the GCA NOI earnings test, with noted exceptions. He testified NIPSCO will continue to share GCIM, Capacity Release, and Optional Storage Service margins with customers through the GCA. In addition to the treatment of ARP revenues, Mr. Courter testified NIPSCO agreed to maintain competitive neutrality in offering its various ARP programs, proactively support customer choice, enhance transparency, and ensure fair cost allocation regarding its products and services. NIPSCO also agreed in the upcoming proceeding in which NIPSCO will begin the process of merging its affiliate companies that it will establish a code of conduct to operate its ARP programs in a competitively neutral manner.

Mr. Courter testified the Settlement Agreement has provisions covering customer programs. For example, while NIPSCO's Current DSM Program is scheduled to expire on May 9, 2011. The Settlement Agreement provides for continuation of it for eighteen months to November 9, 2012. This continuation will allow NIPSCO to complete a MPS and propose revisions to the Current DSM Program. NIPSCO has already funded \$1,000,000 for the fourth year of the Current DSM Program, and the Settlement Agreement provides NIPSCO will contribute another \$1,000,000 thirty days after the issuance of an Order in this Cause. Mr. Courter stated NIPSCO also agreed to implement a low income assistance program similar to the USF programs currently operated by Citizens Gas and Vectren. NIPSCO agreed its shareholders will contribute 25% of the USF program costs. The first \$500,000 of the shareholders' contribution will continue funding of a hardship program for non-eligible LIHEAP customers. The remainder, and any unused portion of the initial \$500,000, will be NIPSCO's contribution to the USF program. Additionally, NIPSCO agreed to file an annual report summarizing the number of customers assisted and the total amount of funds expended in the USF and LIHEAP programs.

Mr. Courter testified the Settlement Agreement provides that the cost of UAFG will be recoverable, up to 1.04%, through the GCA mechanism. Mr. Courter stated this methodology is consistent with the UAFG recovery mechanisms approved by the Commission for Vectren North, Vectren South and Citizens Gas. UAFG costs will be collected from sales customers through the GCA. UAFG costs also will be collected from transport customers, including Choice, PPS and Depend-a-Bill customers. Mr. Courter stated pursuant to the Settlement Agreement, NIPSCO's UAFG percentage will be updated annually, but will be capped at 1.04%. NIPSCO's most recently filed annual UAFG is 0.66%. Mr. Courter testified the Settlement Agreement has provisions for bad debt expense. The Parties agreed the GCA

portion of bad debt expense will be based on NIPSCO's weighted average bad debt experience for the past three years, which is 0.68%. NIPSCO will be at risk for any bad debt expense greater than 0.68%.

Mr. Courter testified regarding why the Settlement Agreement resets NIPSCO's earnings bank to \$100,000,000. He noted NIPSCO's current earnings bank is more than \$1,300,000,000. Pursuant to Ind. Code 8-1-2-42.3, NIPSCO's earnings bank would be reset to the last five years of earnings after a rate Order is issued in this Cause. Even at the five year reset, NIPSCO's earnings bank would be near \$700,000,000. The Parties stipulated the \$100,000,000 earnings bank is reasonable because it provides NIPSCO with an opportunity to retain some earnings if the authorized NOI is exceeded. However, it is not so high (i.e. \$700,000,000) that customers may never receive refunds if NIPSCO consistently exceeds its authorized NOI.

Mr. Courter said the Settlement Agreement, if approved by the Commission, resolves controversial issues including the fair value of NIPSCO's gas utility plant in service, treatment of depreciation expense, rate design and continuation of DSM and low income assistance programs. The Parties in this Cause had significant differences of opinion on these and other issues. Litigation of these issues would have been foreseeably quite contentious. The compromises reached in the Settlement Agreement on myriad issues were reasonable in light of the respective positions of the Parties, forging stipulated, reasonable results that ensure NIPSCO's ability to provide safe and reliable gas services for all of its customers, both now as well as into the future.

Mr. Courter testified approval of the Settlement Agreement will result in a highly desirable outcome—rate reductions for all of NIPSCO's customer classes. These rate reductions are particularly significant because of the current economic conditions, and due to the fact NIPSCO has not had a gas base rate case in over twenty years. At the same time, the Settlement Agreement establishes the fair value of NIPSCO's rate base at a reasonable level on which NIPSCO can earn a fair return. The Settlement Agreement further helps to mitigate NIPSCO's low earnings problem that occurred from its current high overall depreciation rate and the resulting depreciation expense. The Settlement Agreement provides for an increase in monthly service charges, but at a lower level than NIPSCO proposed in its direct case-in-chief, and commensurate with the level for the residential service charge currently in place for such customers served by the other large Indiana gas utilities.

Finally, the Settlement Agreement continues essential DSM and low income assistance programs for its customers and includes funding by NIPSCO for these programs. These programs are important to NIPSCO's customers. The OUCC received over 1,200 separate consumer comments related to NIPSCO's request for a base gas rate increase, and of those, over 1,100 (over 90%) related to consumers' pleas for a restraint on rates in these tough economic times as well as continued assistance for low income NIPSCO consumers. Both issues are addressed in the Settlement Agreement, and the outcomes are beneficial to both NIPSCO and its customers. Therefore, Mr. Courter recommended the Commission approve the Settlement Agreement.

C. IG's Evidence in Support of the Settlement Agreement. IG presented the testimony of Nicholas Phillips, Jr., consultant with the firm of Brubaker & Associates, Inc. Mr. Phillips described a global competitive environment in which large employers, such as the IG, require reasonable cost-based rates and other terms and conditions of service.

Mr. Phillips testified that the Settlement Agreement provides for a decrease in Rate 428, Large Transportation and Balancing Service. He explained that Rate 428 was a modification of the current structure of Rate 328 and provided NIPSCO fixed cost recovery while allowing for more consistent intraclass bill impacts. Mr. Phillips stated that the resulting rates for Rate 428 are reasonable. Mr. Phillips also testified that IG and NIPSCO were able to agree on other terms and conditions of service. For example, they agreed to a process for modifying NIPSCO's current tariff terms respecting customer deposits for service. He also described the agreement of the parties to work collaboratively through any capacity expansion issues that may arise in the future.

Mr. Phillips stated that the Settlement Agreement provides rates which are reasonable, consistent with appropriate ratemaking and in the public interest. He recommended that the Settlement Agreement be approved by the Commission.

D. MG's Evidence in Support of the Settlement Agreement. Thomas Payne of Border Energy offered testimony on behalf of MG in support of the Settlement Agreement. He addressed specifically the provision in the Settlement Agreement concerning the treatment of ARP revenues. Mr. Payne testified that, although NIPSCO has administered the Choice Program and other ARP offerings in a fair and reasonable manner, the NIPSCO proposal seeking below-the-line accounting treatment of ARP revenues raised concerns arising from the potential financial incentives. The concerns related to NIPSCO's offering of competitive products while continuing to serve as a regulated utility providing distribution and bundled services, with resulting advantages in customer access, customer information, supply resources and administrative oversight of competing marketers.

In Mr. Payne's view, however, those concerns were adequately addressed in the Settlement Agreement because of NIPSCO's commitment to establish a code of conduct in its now-pending merger proceeding and NIPSCO's agreement to maintain its existing market practices until the code of conduct is in place. Mr. Payne explained that the code of conduct will set standards and guidelines consistent with principles of competitive neutrality, enhanced transparency, support for customer choice and fair cost allocation, including non-subsidization of competitive offerings with regulated operations. Mr. Payne concluded that, through the Settlement Agreement, NIPSCO properly addressed the concerns raised by MG, and he indicated that he expected to continue working collaboratively with NIPSCO to ensure that customers receive the full benefits of competitive choice.

9. Commission Discussion and Findings. We have previously discussed our policy with respect to settlements:

Indiana law strongly favors settlement as a means of resolving contested proceedings. *See, e.g., Manns v. State Department of Highways* (1989), Ind., 541 N.E.2d 929, 932; *Klebes v. Forest Lake Corp.* (1993), Ind. App. 607

N.E.2d 978, 982; *Harding v. State* (1992), Ind. App., 603 N.E.2d 176, 179. A settlement agreement “may be adopted as a resolution *on the merits* if [the Commission] makes an independent finding supported by ‘substantial evidence on the record as a whole’ that the proposal will establish ‘just and reasonable’ rates.” *Mobil Oil Corp. v. FPC* (1974), 417 U.S. 283, 314 (emphasis in original).

See, e.g., Indianapolis Power & Light Co., Cause No. 39938, p. 7 (IURC 8/24/95); *Commission Investigation of Northern Ind. Pub. Serv. Co.*, Cause No. 41746, p. 23 (IURC 9/23/02). This policy is consistent with expressions to the same effect by the Supreme Court of Indiana. *See, e.g., Mendenhall v. Skinner & Broadbent Co.*, 728 N.E.2d 140, 145 (Ind. 2000) (“The policy of the law generally is to discourage litigation and encourage negotiation and settlement of disputes.”)(citation omitted); *In re Assignment of Courtrooms, Judge’s Offices and Other Facilities of St. Joseph Superior Court*, 715 N.E.2d 372, 376 (Ind. 1999) (“Without question, state judicial policy strongly favors settlement of disputes over litigation.”)(citations omitted).

Nevertheless, a settlement agreement will not be approved by the Commission unless it is supported by probative evidence. 170 IAC 1-1.1-17. Settlements presented to the Commission are not ordinary contracts between private parties. *United State Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). Any settlement agreement that is approved by the Commission “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406. Furthermore, any Commission decision, ruling or order—including the approval of a settlement—must be supported by specific findings of fact and sufficient evidence. *United State Gypsum*, 735 N.E.2d 790 at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2-1 *et seq.*, and that such Settlement Agreement serves the public interest.

In this proceeding, the Commission carefully analyzed the evidence and the proposed Settlement Agreement to determine that the resulting rates are reasonable and just and properly balance the interests of NIPSCO, its customers and the overall public interest. As shown by substantial evidence of record, the Settlement Agreement provides a just and reasonable resolution of all matters pending before the Commission in this case. It reflects the significant collaboration and compromise inherent in serious negotiations among a diverse group of interests. While the Settlement Agreement is reasonable as a whole, the evidence in support of the Settlement Agreement explains the basis for the proposed rates and other included elements. As a result, the Commission is able to understand how each disputed issue was resolved and to determine that the Settlement Agreement, as a whole, is amply supported by the evidence of record, and we so find. In particular, the Commission finds that the

proposed rates, treatment of ARP revenues and proposal for the depreciation mechanism have been documented in significant detail and are just and reasonable.

Additionally, as noted above, Commission and public policy favors settlements. This public policy is part of the overall public interest. Hence, in the context of settlement, the public interest appropriately includes consideration of the compromise inherent in the negotiation process, particularly where, as here, the Settlement Agreement results from a rigorous process and presents a balanced and comprehensive resolution of all the issues among all the Parties. Therefore, the Commission finds that the Settlement Agreement is reasonable and in the public interest and should be approved in its entirety without modification or change. We further find that the new Tariff For Gas Service filed on September 1, 2010, including, but not limited to, the rates and charges set forth therein, is fair, just and reasonable and should be approved subject to the terms and conditions contained in the Settlement Agreement. The Commission further finds that for purposes of the earnings test component of the GCA, Petitioner's authorized annual net operating income shall be \$39,800,000.

The Parties agreed that the Settlement Agreement shall not constitute an admission or a waiver of any position that any of the Parties may take with respect to any or all of the items and issues resolved therein in any future regulatory or other proceedings, except to the extent necessary to enforce its terms. However, with regard to future citation of the Settlement Agreement, we find the Settlement Agreement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC 3/19/97).

10. Confidentiality. NIPSCO filed a motion for protective order, which was supported by affidavits 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 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. The Stipulation and Settlement Agreement between Petitioner, the OUCC and Intervenors filed in this Cause on August 24, 2010, shall be and hereby is accepted, approved and adopted by the Commission in its entirety without modification or change.

2. The proposed Tariff for Gas Service as filed on September 1, 2010, is approved and authorized and shall be effective upon its filing with the Commission's Natural Gas Division.

3. Petitioner is hereby authorized to implement the rates and charges for gas utility service described herein, in the Settlement Agreement and in the Tariff for Gas Service for bills rendered on and after November 4, 2010, subject to the filing of the new Tariff for Gas Service with the Commission's Gas Division and its approval.

4. The depreciation accrual rates set forth in Petitioner's Exhibit No. JJS-2 shall be and hereby are approved.

5. For a period of four years or until further Order of the Commission, whichever occurs first, Petitioner shall make the reversing journal entry as described in Finding Paragraph No. 7.C.(1) to reduce accumulated depreciation reserve in the fixed amount of \$25,700,000 per year.

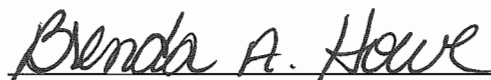
6. The information submitted under seal in this Cause pursuant to motions for protective orders is determined to be confidential and exempt from public access and disclosure pursuant to Ind. Code § 24-2-3-2 and § 5-14-3-4.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 04 2010

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



Brenda A. Howe,
Secretary to the Commission

FILED
August 24, 2010
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE)
COMPANY ("PETITIONER") FOR APPROVAL OF AND)
AUTHORITY FOR: (1) MODIFICATION TO ITS RATES)
AND CHARGES FOR GAS UTILITY SERVICE; (2) NEW)
SCHEDULES OF RATES AND CHARGES APPLICABLE)
THERETO; (3) REVISIONS TO ITS DEPRECIATION)
ACCRUAL RATES; (4) DEFERRAL OF ACCRUED)
DEPRECIATION EXPENSE; (5) DEFERRAL IN A)
BALANCING ACCOUNT OF OVER AND UNDER)
RECOVERIES OF PENSION AND OPEB EXPENSES; (6))
CONTINUATION OF NIPSCO'S ENERGY EFFICIENCY)
PROGRAM WITH MODIFICATIONS; (7))
IMPLEMENTATION OF A NEW LOW-INCOME)
PROGRAM; (8) CERTAIN RATEMAKING) CAUSE NO.)
43894 TREATMENTS FOR REVENUES AND EXPENSES)
RELATING TO SERVICES AND PROGRAMS OFFERED)
PURSUANT TO PETITIONER'S CUSTOMER CHOICE)
ALTERNATIVE REGULATORY PLAN; (9) TO THE)
EXTENT NECESSARY, GRANTING THE REQUESTED)
RELIEF AS AN ALTERNATIVE REGULATORY PLAN)
PURSUANT TO IND. CODE CHAPTER 8-1-2.5; (10))
MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE UNACCOUNTED)
FOR GAS AND THE GAS COST COMPONENT OF BAD)
DEBT EXPENSE; AND (11) VARIOUS CHANGES TO ITS)
TARIFF FOR GAS SERVICE INCLUDING)
IMPLEMENTING A STRAIGHT- FIXED VARIABLE RATE)
DESIGN, REMOVAL OF GAS COSTS FROM BASE RATES)
AND CHANGES TO ITS GENERAL TERMS AND)
CONDITIONS FOR SERVICE)

CAUSE NO. 43894

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into as of the 24th day of August, 2010, by and between Northern Indiana Public Service Company ("NIPSCO" or the "Company"), the Indiana Office of Utility Consumer Counselor ("OUCC"), the NIPSCO Industrial Group, the NIPSCO Marketer Group and Citizens Action Coalition of Indiana, Inc. (collectively, the "Parties"), who stipulate and agree for purposes of settling the issues in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of

the issues subject to incorporation into a Final Order of the Indiana Utility Regulatory Commission (“Commission”) without any modification or condition that is not acceptable to the Parties.

A. Background.

1. ~~NIPSCO’s Current Base Rates and Charges.~~ NIPSCO’s current base rates and charges for gas utility service were established pursuant to the Commission’s Orders dated October 26, 1988 and December 28, 1990, in Cause No. 38380.

2. NIPSCO’s Alternative Regulatory Plan (“ARP”). The Commission’s Order dated October 8, 1997 in Cause No. 40342 accepted the terms and conditions of an Amended Stipulation and Settlement Agreement and the implementation of an ARP pursuant to the terms of Ind. Code 8-1-2.5 (the “Current Gas ARP”). The Order approving the Current Gas ARP authorized a variety of programs on a pilot basis and approved a series of affiliate guidelines applicable to NIPSCO and its affiliated companies. The Current Gas ARP was extended and enhanced by subsequent orders of the Commission, most recently by the Commission’s Order dated March 31, 2010 in Cause No. 43837.

3. NIPSCO’s Winter Warmth Program. NIPSCO currently has in place a low-income bill assistance program called Winter Warmth. The Winter Warmth Program was initially approved by the Commission in its Order dated December 15, 2004 in Cause No. 42722. The Program has been extended and modified in a number of subsequent Commission orders, most recently by the Commission’s Order dated November 19, 2009 in Cause No. 43669. In this Order, the Commission required NIPSCO to contribute 25% of the program costs, pay for all administrative expenses incurred to facilitate the program, and eliminate a provision that allowed

Winter Warmth funds to be used for deposits. Further, the Commission provided that, for NIPSCO's Winter Warmth and similar programs approved for Vectren Energy Delivery and Citizens Gas & Coke Utility ("Citizens") to be effective beyond October 31, 2012, each company must file for a base rate case by October 31, 2012. The Order also encouraged the Indiana gas utilities with low-income bill assistance programs to seek more statewide uniformity.

4. This Proceeding. On May 3, 2010, NIPSCO filed with the Commission its Verified Petition to modify its rates and charges for gas utility service, for approval of new schedules of rates and charges applicable thereto, and for approval of certain other requests. NIPSCO also filed its prepared testimony and exhibits constituting its case-in-chief on May 3, 2010. A Prehearing Conference and Preliminary Hearing was conducted on June 4, 2010 and a Prehearing Conference Order was issued on June 16, 2010.

B. Settlement Terms.

5. Revenue Requirement and Net Operating Income.

(a) Revenue Requirement.

The Parties agree that NIPSCO's Revenue Requirement will be \$232.8 million, which represents gross margin and is net of all of the Company's gas costs, which will be recovered in the Company's gas cost adjustment ("GCA") mechanism. The Parties agree that NIPSCO's base rates will be designed to produce \$225.2 million, which is the Revenue Requirement less \$7.6 million of Other Revenues. This Revenue Requirement is a decrease from the amount originally requested by the Company of \$251.5 million.

(b) Net Operating Income.

The Parties agree the Revenue Requirement in Paragraph B.5.(a) should yield a net operating income (“NOI”) of \$39,841,895.

6. Fair Value Rate Base, Capital Structure and Fair Return.

(a) Fair Value Rate Base.

The Parties agree that NIPSCO should be authorized a fair return of \$39,841,895 yielding an overall return for earnings test purposes of 5.49%, based upon:

- i. a fair value rate base of \$725,717,577, inclusive of gas in underground storage, and materials and supplies as proposed in NIPSCO’s case-in-chief;
- ii. NIPSCO’s capital structure; and
- iii. an authorized return on equity (“ROE”) of 7% based upon a pre-inflation ROE of 9.9% and inflation reduction of 2.9%.

(b) Capital Structure and Fair Return.

For settlement purposes, the Parties agree that the overall rate of return (“ROR”) and ROE be developed on the basis of the NIPSCO capital structure at 12/31/09 as filed. The ROE on Fair Value will be 7.00% (9.90% less 2.90% inflation adjustment). Based on the following capital structure, the 7.00% ROE and cost of debt/zero cost capital as filed, the overall ROR on Fair Value of 5.49% is computed as follows:

Common Equity	46.29%	7.00%
Long-Term Debt	32.43%	6.44%
Customer Deposits	2.35%	4.32%
Deferred Income Taxes	13.87%	0.00%
Post-Retirement Liability	4.43%	0.00%
Post-1970 ITC	0.63%	6.79%
	100.0%	5.49%

7. Depreciation and Amortization Expense.

(a) Depreciation Expense.

Parties stipulate that the depreciation accrual rates recommended by NIPSCO Witness John Spanos and presented in this proceeding (the “Depreciation Study”) should be approved, but that the annual depreciation expense and provision for accumulated depreciation should be offset for a period of four years or until further order of the Commission, whichever occurs first, through a reduction in the accumulated depreciation reserve in the fixed amount of \$25.7 million/year. The Parties further agree that in no case shall the accounting treatment described herein result in the creation of either a deferred depreciation expense or regulatory asset for the purpose of future recovery of current period depreciation expense.

The provision for depreciation is an accounting estimate, which is revised prospectively utilizing depreciation studies that incorporate recent experience with relevant factors such as useful life, cost of removal, net salvage values, etc. By applying these updated factors retrospectively, a theoretical reserve can be calculated. A difference between the actual accumulated depreciation reserve and this theoretical reserve is reflected as a component of prospective depreciation

expense in the Depreciation Study. The Parties agree that \$102.8 million of the amount of the depreciation reserve will be reduced over the next four years, thereby reducing this difference more rapidly than over the remaining life of the property to which it relates. The Company will offset depreciation expense for each class of depreciable gas utility plant up to, but not in excess of, the amount of expense computed in connection with the Depreciation Study. The Company agrees that Depreciation on common plant shall be as proposed by NIPSCO in its case-in-chief. This method would result in the following accounting for gas plant:

		Millions	
		Debit	Credit
	Depreciation Expense	\$26	
	Accumulated Depreciation		\$26
	Annual Adjustment to Depreciation Expense		
	Accumulated Depreciation	\$25.7	
	Depreciation Expense		\$25.7

In the event that annual depreciation for any class of gas utility plant is reduced to zero during the year and prior to the full annual depreciation adjustment of \$25.7 million, the Company will reduce the annual adjustment such that there will not be negative depreciation for any class of property. The Parties agree that NIPSCO will not seek an accelerated recovery period on depreciation expense reduced as a result of this Agreement. NIPSCO will provide the OUCC with a full accounting of any reductions to the annual depreciation expense adjustment, showing details of the cause and the effect on all utility plant account.

(b) Amortization Expense.

The Parties stipulate that annual amortization expense shall be \$6,542,321 as proposed by NIPSCO in its case-in-chief, which number includes \$1,080,937 of NIPSCO's rate case expenses over a period of three (3) years. After the completion of the three (3) year period, NIPSCO agrees to make a tariff filing that will reflect the reduction in amortization expense as a result of the end of rate case expense amortization.

8. Regulatory Treatment of Current Gas ARP Margins.

The Parties agree the margins associated with NIPSCO's Current Gas ARP programs shall be included in the GCA NOI earnings test pursuant to Ind. Code §§ 8-1-2-42(g)(3)(C) and 8-1-2-42.3 except for: (a) NIPSCO's Gas Cost Incentive Mechanism ("GCIM"), Capacity Release, and Optional Storage Service Rider (Rider 482A), which shall be treated as below-the-line but shall continue to be shared with customers through the GCA as provided in the Current Gas ARP; (b) NIPSCO's Depend-a-Bill program; and (c) Price Protection Service ("PPS").

NIPSCO agrees to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and service in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. NIPSCO further agrees that a code of conduct consistent with those principles and objectives will be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger

with its affiliated gas utilities, and that pending the implementation of such code of conduct NIPSCO will not alter its current market practices and policies in connection with its competitive products.

9. Rate Design.

The Parties agree that rates should be designed in order to allocate the revenue requirement to and among NIPSCO's customer classes in a fair and reasonable manner and consistent with cost causation principles. The Parties also agree that the Commission has issued an order promoting movement toward a Straight Fixed Variable ("SFV") rate design. During the settlement process, NIPSCO revised its original revenue requirement request to \$247.6 million. For settlement purposes, the Parties agree that NIPSCO should design its rates using the structure of its existing 300 Series tariffs. Next, the Parties agree to reduce NIPSCO's existing revenue collected from residential customers by \$5.0 million and reduce all other rate schedules as described below by \$9.8 million.

The Parties agree that NIPSCO's settlement rates in total will be designed to produce reductions in all customer classifications for a total reduction of \$14.8 million from the Company's revised revenue request. The impacts are described below:

Residential Service.

The Parties agree to implement a residential customer/meter charge of \$11.00/month along with a single volumetric charge based on consumption for residential customers taking service under Rate 411 – Residential Service. The

overall impact on the residential class is a \$5.0 million reduction in revenue, which equals a 3.3 % decrease in delivery charges to the class.

Multifamily, Governmental Housing and Small Commercial and Industrial Customers.

The parties agree that NIPSCO will simplify its tariff by eliminating current Rates 316 and 317 and including those customers in Rate 421. NIPSCO is retaining one multifamily Rate Schedule – Rate 415. NIPSCO will implement a customer/meter charge of \$12.50/per month for residential customers taking service under Rate 415 – Multiple Family Housing Service. The overall impact on the Multifamily Housing class is a \$300,000 reduction in revenue, which equals an 11.00% decrease to the class.

NIPSCO's smaller C&I customers will be served under Rate 421 – General Service Small Service, which is comprised of customers from current Rates 321 (General Service) and customers formerly served under Rate 316 and Rate 317 (Government Housing Service). Rate 421 is a two part rate consisting of a customer/meter charge of \$30.00 and a volumetric energy charge. The General Service Small Service class will experience a decrease of \$5.8 million, which equals an 11.0 % decrease to the class.

Larger Commercial and Industrial Customers.

For settlement purposes, NIPSCO agrees to not implement a demand component for larger commercial and industrial customers and to adopt the rate structure and transportation terms from the existing 300 series rates. NIPSCO will rename its

existing General Service – Rate 325 as Rate 425 – General Service Large. Rate 425 will be a two part rate consisting of a customer / meter charge of \$250.00, and a volumetric energy charge. The overall impact on the General Service Large class will result in a \$700,000 reduction in revenue, which equals a 13.0% decrease to the class.

NIPSCO will rename its existing Rate 328 as Rate 428 – Large Firm Transportation and Balancing Service. Rate 428 will be for firm service, and present a two-part rate. The customer/meter charge will be \$350.00, and there will be a volumetric charge. The overall impact on the Rate 428 class will be a \$2.4 million reduction in revenue, which equals a 13.7% decrease to the class.

NIPSCO will rename its existing – Rate 338 as Rate 438 – General Transportation and Balancing Service, which will also be a two-part rate with a customer / meter charge of \$250.00 and a volumetric charge. The overall impact on the Rate 438 class is a \$500,000 reduction in revenue, which equals a 13.0% decrease to the class.

To design these rates, NIPSCO agrees that customers currently served under Firm Distribution Transportation Service – Rate 343 and Firm Transportation Service – Rate 344 may migrate to Rate 428.

The Parties agree that the cost allocation herein results in fair and reasonable rates and charges.

10. Manufactured Gas Plant.

The Parties agree that all Manufactured Gas Plant costs should be removed from NIPSCO's test period operating expenses for purposes of developing its revenue requirement in this proceeding.

11. Customer Programs.

(a) Energy Efficiency/Demand Side Management.

In its Order dated May 9, 2007 in Cause No. 43051, the Commission approved a DSM Program for Petitioner for a four year period ("Current DSM Program"). The Current DSM Program includes an Oversight Board with consumer representation, a third-party administrator and a third-party evaluator. The Current DSM Program is currently scheduled to expire on May 9, 2011.

The Parties agree to extend the Current DSM Program for a period of 18 months (November 9, 2012) while NIPSCO conducts a Market Potential Study ("MPS") to support revisions to the Current DSM Program. NIPSCO agrees to use its best efforts to file a petition for a new DSM program by April 1, 2011. In addition to the \$1 million already funded by NIPSCO for the fourth year of the program, NIPSCO will contribute another \$1.0 million for its DSM program thirty days following the issuance of an order in this Cause. The Parties agree that the extended Current DSM Program will continue to be governed by an Oversight Board.

(b) Low Income Assistance.

NIPSCO agrees to implement a low-income assistance program that is similar in design to the universal service fund (“USF”) programs currently in place for Citizens Gas and Vectren Energy Delivery. NIPSCO agrees that its shareholders will contribute 25% of USF program costs, the first \$500,000 of which will be utilized to continue a hardship program for non-eligible Low-Income Home Energy Assistance Program (“LIHEAP”) customers and the remainder of which will be NIPSCO’s contribution to the “USF” Program. NIPSCO will recover the customer’s share through the GCA and as direct bill to transportation customers, consistent with its present practice. NIPSCO agrees to file an annual report summarizing the number of customers assisted, including those that received hardship program funding, and the total amount of funds expended with a breakdown of the funding.

12. Special Cost Recovery Mechanisms.

(a) Pension and Post-Retirement Benefits Other Than Pensions (“OPEB”) Expense.

The Parties agree that Pension and OPEB costs are fully recovered within the NOI and revenue requirement agreed to in this Agreement. NIPSCO agrees to withdraw its request to implement a Pension/OPEB Balancing Account.

(b) Unaccounted for Gas (“UAFG”) and Bad Debt Related to Gas Cost Expense.

The Parties agree that UAFG and the gas cost component of bad debt expense may be recovered by NIPSCO through its GCA.

- (i) The cost of UAFG will be fully recoverable within the GCA mechanism consistent with the methodology approved in the Commission Order for Vectren Energy Delivery of Indiana (North and South) (Cause Nos. 43298 and 43112, respectively) and Citizens Gas & Coke Utility (Cause No. 37399-GCA-95), based on a maximum system-wide UAFG rate of 1.04%. Customers served directly from the transmission system will pay the system-wide UAFG percentage rate less .10, and the rate for other customers, including Choice customers, PPS and Depend-a-Bill will be set at an amount in order for NIPSCO to recover the system-wide percentage. The Parties agree that NIPSCO’s UAFG percentage shall be updated annually, capped at the 1.04% maximum.
- (ii) The gas cost component of bad debt expense shall be based on the bad debt experience averaged on a weighted basis for the past three (3) years. The recovery mechanism is consistent with the methodology approved in the Commission Order for Vectren Energy Delivery of Indiana (South) (Cause No. 43112). The

Company will be at risk for any bad debt expense that is greater than 0.68%.

13. Earnings Bank Adjustment.

The Parties agree that NIPSCO should be authorized to reduce its earnings bank as described in Ind. Code § 8-1-2-42.3 to \$100 million as of the date new base rates are implemented as provided herein.

14. Accounting Reporting.

NIPSCO agrees to file separate gas and electric income statements with the Commission annually by April based on the previous calendar year. NIPSCO agrees to insure that its financial reports are transparent and verifiable for future OUCC financial audits. NIPSCO agrees to work cooperatively with the OUCC to facilitate the auditing function.

15. General Rules and Regulations.

The Parties agree that NIPSCO will make certain modifications to the Rules and Regulations and Tariffs initially proposed in this proceeding, and the Parties will jointly submit those revised Rules and Regulations and Tariffs in support of approval of this Agreement. If the Parties fail to agree as to those modifications, any Party who fails to reach agreement with NIPSCO shall no longer be bound by the terms of this Settlement Agreement. The Parties also agree the New Residential Development Procedures (Rule 6.2) proposed in Cause No. 43706, if approved by the Commission, shall supersede the Rule 6.2 tariff language proposed in Cause No. 43894.

16. Time is of the Essence.

The Parties acknowledge that a primary motivation of NIPSCO in entering into this Agreement is the expectation that if the Commission finds the Agreement reasonable and in the public interest, the Commission will expeditiously enter a final order approving the Agreement. The Parties agree to urge the Commission to consider the Agreement on an expedited basis and to approve the Agreement, if found reasonable and in the public interest, by November 1, 2010.

C. Procedural Aspects and Presentation of the Agreement.

17. The Parties agree to jointly present this Agreement to the Commission for its approval in this proceeding, and agree to assist and cooperate in the preparation and presentation of supplemental testimony as necessary to provide an appropriate factual basis for such approval.

18. If the Agreement is not approved in its entirety by the Commission, the Parties agree that the terms herein shall not be admissible in evidence or discussed by any party in a subsequent proceeding. Moreover, the concurrence of the Parties with the terms of this Agreement is expressly predicated upon the Commission's approval of the Agreement in its entirety without any material modification or any material further condition deemed unacceptable by any Party. If the Commission does not approve the Agreement in its entirety, the Agreement shall be null and void and deemed withdrawn, upon notice in writing by any settling Party within fifteen (15) business days after the date of the order that any modifications made by the Commission are unacceptable to it. In the event the Agreement is withdrawn, the Parties will request that an Attorneys' Conference be convened to establish a procedural schedule for the continued litigation of this proceeding.

19. The parties agree that this Agreement and each term, condition, amount, methodology and exclusion contained herein reflects a fair, just and reasonable resolution and

compromise for the purpose of settlement, and is agreed upon without prejudice to the ability of any party to propose a different term, condition, amount, methodology or exclusion in future proceedings. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434, p. 10, as a term of this Agreement, the Parties agree and ask the Commission to incorporate as part of its Final Order that this Agreement, or the Order approving it, not be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This Agreement is solely the result of compromise in the settlement process. Each of the Parties hereto has entered into this Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.

20. The Parties stipulate that the evidence of record presented in this Cause constitutes substantial evidence sufficient to support this Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Agreement, as filed. The Parties agree to the admission into the evidentiary record of this Agreement, along with testimony supporting it without objection.

21. The issuance of an order by the Commission that is deemed final approving this Agreement without any material modification or further condition shall terminate all proceedings in this Cause.

22. The Parties agree to jointly prepare a press release ("Joint Release") with language agreed upon by them describing the contents and nature of this Agreement, which will be jointly issued to the media. The Parties may respond individually to questions from the public or media, provided that such responses are consistent with the Agreement.

23. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

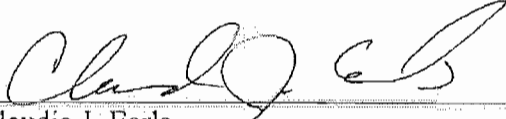
24. The Parties shall not appeal the agreed final order or any subsequent Commission order as to any portion of such order that is specifically implementing, without modification, the provisions of this Agreement and the Parties shall not support any appeal of the portion of such order by a person not a party to this Agreement.

25. The provisions of this Agreement shall be enforceable by any party before the Commission or in any court of competent jurisdiction.

26. The communications and discussions during the negotiations and conferences which produced this Agreement have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

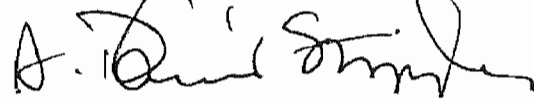
ACCEPTED AND AGREED this 24th day of August, 2010.

Northern Indiana Public Service Company:



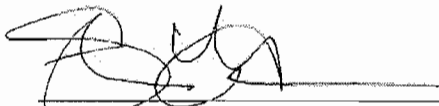
Claudia J. Earls

Indiana Office of Utility Consumer Counselor:



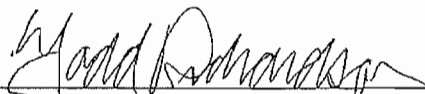
A. David Stippler

NIPSCO Industrial Group:



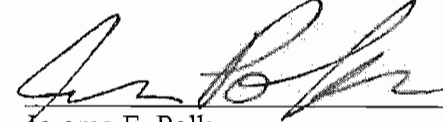
Steve Griesemer

NIPSCO Marketer Group:



Todd A. Richardson

Citizens Action Coalition of Indiana, Inc.:



Jerome E. Polk

CERTIFICATE OF SERVICE

The undersigned certifies that she has served a copy of the foregoing on the following party, by hand delivery, or U.S. mail first class, postage prepaid, this 24th day of August, 2010.

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