

Northern Indiana Public Service Company LLC

Cause No. 45621

FILED
September 29, 2021
**INDIANA UTILITY
REGULATORY COMMISSION**

VERIFIED DIRECT TESTIMONY OF PATRICK L. BARYENBRUCH

1 **Q1. Please state your name, position of employment and business address.**

2 A1. My name is Patrick L. Baryenbruch and I am the President of my own consulting
3 practice, Baryenbruch & Company, LLC, which was established in 1985. In that
4 capacity, I provide consulting services to utilities and their regulators. My business
5 address is 2832 Claremont Road, Raleigh, North Carolina 27608.

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

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

9 **Q3. Please summarize your academic and professional background.**

10 A3. I received a Bachelor of Arts degree in Accounting from the University of
11 Wisconsin-Oshkosh and a Master of Business Administration degree from the
12 University of Michigan.

13 I began my career with Arthur Andersen & Company, where I performed financial
14 audits of utilities, banks and finance companies. I left to pursue an M.B.A. degree.
15 Upon graduation from business school, I worked with the management consulting

1 firms of Theodore Barry & Associates and Scott Consulting Group (now
2 ScottMadden) before establishing my own firm.

3 **Q4. Do you hold any professional certifications?**

4 A4. Yes. I am a Certified Public Accountant (CPA) with an active license from the state
5 of Wisconsin (license number 5343-1). I am a Certified Information Technology
6 Professional (CITP), an accreditation awarded by the American Institute of Certified
7 Public Accountants to CPA professionals who can demonstrate expertise in
8 information technology management. I also hold a Global Information Assurance
9 Certification (GIAC) in cybersecurity from the SANS Institute. Finally, I hold a
10 certificate in COSO internal controls from the American Institute of Certified Public
11 Accountants, which recognizes my expertise in designing, implementing and
12 monitoring a system of internal control. I am a member of the American Institute of
13 Certified Public Accountants and the North Carolina Association of Certified Public
14 Accountants.

15 **Q5. Please describe your experience with utility affiliate transactions.**

16 A5. I have acted as an expert witness on matters related to utility/affiliate transactions
17 for almost 30 years. I have presented testimony in more than 80 regulatory

1 proceedings in 20 US states for 42 utility clients. Since 1992, I have performed over
2 120 affiliate market cost comparison studies, as summarized in Attachment 8-A.

3 **Q6. Have you previously testified before the Indiana Utility Regulatory**
4 **Commission (the "Commission") or any other regulatory commission?**

5 A6. Yes. I acted as an expert witness on the topic of service company charges for Indiana
6 American Water Company in its 2017 rate case (Cause No. 45142) before the
7 Commission. I have also acted as an expert witness on affiliate transactions before
8 regulators in 19 other US states and 1 Canadian province.

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

10 A7. Yes. I am sponsoring Attachments 8-A and Attachment 8-B, both of which were
11 prepared by me or under my direction and supervision.

12 **Q8. What is the purpose of your testimony in this proceeding?**

13 A8. My testimony presents the results of my study which evaluated the services
14 provided during the 12 months ended December 31, 2020 by NiSource Corporate
15 Services Company ("NCSC") to NIPSCO's gas utility ("NIPSCO Gas") (the
16 "Study"). The Study was undertaken in conjunction with NIPSCO Gas's rate case
17 and is accurate to the best of my knowledge and belief. The Study is attached as
18 Attachment 8-B.

1 **Q9. What was the purpose of the Study?**

2 A9. The Study was undertaken to determine the reasonableness and necessity of
3 NIPSCO Gas charges from NCSC for services provided during 2020.

4 **Q10. As part of your work in this proceeding, did you conduct a comprehensive study**
5 **of the NCSC services and charges?**

6 A10. Yes. I undertook a study to determine the reasonableness of affiliate charges for
7 services provided to NIPSCO Gas during 2020. Reasonableness was determined by
8 answering four questions. First, are NCSC's 2020 administrative and general
9 ("A&G") charges to NIPSCO Gas reasonable compared to other utility service
10 companies? Second, did NCSC provide services to NIPSCO Gas at the lower of cost
11 or market during 2020? Third, is the 2020 cost of NIPSCO Gas's customer accounts
12 services comparable to that of other utilities? Fourth, are the services NIPSCO Gas
13 received from NCSC necessary?

14 **Q11. Briefly describe the methodology you followed in performing the Study.**

15 A11. The first 3 questions involve benchmarking of NCSC's costs and charges using
16 metrics that allow an appropriate comparison against the costs and charges of other
17 utility service companies and outside service providers. Costs and charges
18 information for other utilities are obtained from Federal Energy Regulatory

1 Commission ("FERC") Forms 1 and 60. Cost information for outside service
2 providers is obtained from relevant survey information (e.g., National Law Journal,
3 American Institute of Public Accountants). The fourth question is answered by
4 analyzing the specific services provided by NCSC to NIPSCO Gas to determine if
5 they are necessary.

6 **Q12. What conclusions were you able to draw concerning question 1, whether NCSC**
7 **charges to NIPSCO Gas were reasonable?**

8 A12. The cost per NIPSCO Gas customer for A&G services from NCSC is reasonable
9 compared to the cost per customer for similar utility service companies. During
10 2020, NIPSCO Gas was charged an average of \$53 per customer for these services
11 by NCSC. This is well below the average of \$116 per customer for comparison
12 group service companies. NIPSCO Gas's \$53 annual cost is lower than 20 and
13 higher than 1 of the 21 comparison group service companies. This determination
14 was based on 2020 service company information included in FERC Form 60, which
15 must be annually filed with FERC by electric and combination electric/gas utility
16 holding companies.

1 **Q13. What conclusions were you able to draw concerning question 2, whether**
2 **NIPSCO Gas was charged the lower of cost or market for the services provided**
3 **by NCSC during 2020?**

4 A13. I was able to draw the following conclusions:

5 1. NCSC's services were provided to NIPSCO Gas during 2020 at the lower of
6 cost or market.

7 2. On average, the hourly rates for outside service providers are 55% higher
8 than comparable hourly rates charged by NCSC.

9 3. If all of the managerial and professional services now provided by NCSC
10 had been outsourced in 2020, NIPSCO Gas and its customers would have
11 incurred \$16.9 million in additional expenses.

12 4. NCSC's charges do not include any profit markup. Only the actual cost of
13 the service provided is being charged NIPSCO Gas and its customers.

14 **Q14. What conclusions were you able to draw concerning question 3, whether 2020**
15 **costs of NCSC's customer accounts services were reasonable?**

16 A14. I was able to conclude that NIPSCO Gas's customer accounts services costs, which
17 include charges from NCSC, are well below the average of the utility comparison
18 group from Indiana and neighboring states. During 2020, NIPSCO Gas's customer

1 accounts services cost per customer was \$21.47 compared to the utility comparison
2 group's 2020 average of \$30.26. The highest comparison group per-customer cost
3 was \$63.91 and the lowest was \$11.46.

4 **Q15. What conclusions were you able to draw concerning question 4, whether the**
5 **services NIPSCO Gas receives from the NCSC are necessary?**

6 A15. I was able to draw the following conclusions:

7 1. The services that the NCSC provides are necessary and would be required
8 even if NIPSCO Gas were a stand-alone gas utility.

9 2. There is no redundancy or overlap in the services provided by NCSC to
10 NIPSCO Gas.

11 **Q16. Based on your work, can you conclude that NIPSCO Gas's 2020 affiliate charges**
12 **for services are reasonable?**

13 A16. Yes. The Study's overall results show that NIPSCO Gas's 2020 service-related
14 charges from NCSC are reasonable.

15 **Q17. Does this conclude your prefiled direct testimony?**

16 A17. Yes.

VERIFICATION

I, Patrick Baryenbruch, President of Baryenbruch & Company, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



Patrick Baryenbruch

Date: September 29, 2021

Rate Case Experience

	Client	State	Year	Purpose	Rate Case Witness?
1	Connecticut American Water	Connecticut	1999	Rate Case	Yes
2	Illinois American Water	Illinois	2007	Rate Case	Yes
3	Indiana American Water	Indiana	2017	Rate Case	Yes
4	Iowa American Water	Iowa	2020	Rate Case	Yes
5	Kentucky American Water	Kentucky	2003	Rate Case	Yes
		Kentucky	2006	Rate Case	Yes
		Kentucky	2008	Rate Case	Yes
		Kentucky	2009	Rate Case	Yes
		Kentucky	2018	Rate Case	Yes
6	Massachusetts American Water	Massachusetts	2000	Rate Case	Yes
7	Missouri American Water	Missouri	2002	Rate Case	Yes
		Missouri	2008	Rate Case	Yes
		Missouri	2014	Rate Case	Yes
		Missouri	2016	Rate Case	Yes
		Missouri	2019	Rate Case	Yes
8	New Jersey American Water	New Jersey	2005	Rate Case	Yes
		New Jersey	2007	Rate Case	Yes
		New Jersey	2009	Rate Case	Yes
		New Jersey	2010	Rate Case	Yes
		New Jersey	2014	Rate Case	Yes
		New Jersey	2017	Rate Case	Yes
	New Jersey	2019	Rate Case	Yes	
9	New Mexico American Water	New Mexico	2007	Rate Case	Yes
10	New York American Water	New York	2006	Rate Case	Yes
		New York	2010	Rate Case	Yes
		New York	2013	Rate Case	Yes
		New York	2015	Rate Case	Yes
11	Ohio American Water	Ohio	2006	Rate Case	Yes
		Ohio	2010	Rate Case	Yes
12	Pennsylvania American Water	Pennsylvania	2008	Compliance	No
		Pennsylvania	2011	Compliance	No
		Pennsylvania	2014	Compliance	No
		Pennsylvania	2017	Compliance	No
13	Tennessee American Water	Tennessee	2006	Rate Case	Yes
		Tennessee	2010	Rate Case	Yes
14	Virginia American Water	Virginia	1996	Rate Case	Yes
		Virginia	1999	Rate Case	Yes
		Virginia	2000	Rate Case	Yes
		Virginia	2001	Rate Case	Yes
		Virginia	2003	Rate Case	Yes
		Virginia	2007	Rate Case	Yes
		Virginia	2009	Rate Case	Yes
		Virginia	2011	Rate Case	Yes
		Virginia	2014	Rate Case	Yes
	Virginia	2018	Rate Case	Yes	
15	West Virginia American Water	West Virginia	2002	Rate Case	Yes
		West Virginia	2006	Rate Case	Yes
		West Virginia	2007	Rate Case	Yes
		West Virginia	2009	Rate Case	Yes
		West Virginia	2012	Rate Case	Yes
		West Virginia	2014	Rate Case	Yes
	West Virginia	2017	Rate Case	Yes	
16	Atlanta Gas Light (Southern Co)	Georgia	2009	Rate Case	Yes
17	Atmos Energy Corporation	Virginia	2004	Compliance	No
18	Columbia Gas of Kentucky	Kentucky	2015	Rate Case	Yes
19	Columbia Gas of Maryland	Maryland	2015	Rate Case	Yes
20	Columbia Gas of Massachusetts	Massachusetts	2004	Rate Case	Yes
		Massachusetts	2006	Internal Info	No
		Massachusetts	2011	Internal Info	No
		Massachusetts	2012	Internal Info	No
		Massachusetts	2014	Internal Info	No
	Massachusetts	2017	Internal Info	No	

	Client	State	Year	Purpose	Rate Case Witness?
21	Columbia Gas of Pennsylvania	Pennsylvania	2015	Rate Case	No
		Pennsylvania	2020	Rate Case	Yes
22	Columbia Gas of Virginia	Virginia	2003	Compliance	No
		Virginia	2004	Compliance	No
		Virginia	2005	Rate Case	Yes
		Virginia	2006	Compliance	No
		Virginia	2007	Compliance	No
		Virginia	2008	Compliance	No
		Virginia	2009	Rate Case	Yes
		Virginia	2010	Compliance	No
		Virginia	2011	Compliance	No
		Virginia	2012	Compliance	No
		Virginia	2013	Rate Case	Yes
		Virginia	2014	Compliance	No
		Virginia	2015	Rate Case	Yes
		Virginia	2016	Compliance	No
23	Northern Indiana Public Service	Indiana	2015	Internal Info	No
		Indiana	2016	Rate Case	Yes
24	Dominion Resources, Inc.	Virginia	2008	Rate Case	Yes
		Virginia	2009	Compliance	No
		Virginia	2010	Compliance	No
		Virginia	2011	Compliance	No
		Virginia	2012	Compliance	No
		Virginia	2014	Compliance	No
		Virginia	2017	Compliance	No
Virginia	2019	Compliance	No		
25	Duke Energy	North Carolina	2006	Compliance	No
26	Elizabethtown Gas (Southern Co)	New Jersey	2008	Rate Case	Yes
27	Electric Transmission Texas	Texas	2016	Rate Case	Yes
28	General Water Works of Rio Rancho	New Mexico	1993	Rate Case	Yes
29	General Water Works of Virginia	Virginia	1992	Rate Case	Yes
30	Po River Water and Sewer	Virginia	1993	Rate Case	Yes
		Virginia	2007	Rate Case	Yes
		Virginia	2008	Rate Case	Yes
31	Progress Energy	North Carolina	2001	Internal Info	No
32	Roanoke Gas	Virginia	2006	Compliance	No
33	Southern California Edison	California	2002	Compliance	No
		California	2003	Compliance	No
		California	2004	Compliance	No
		California	2005	Compliance	No
34	AEP Texas	Texas	2018	Rate Case	Yes
35	Southwestern Electric Power	Texas	2016	Rate Case	Yes
		Texas	2020	Rate Case	Yes
36	Virginia Natural Gas (Southern Co)	Virginia	2004	Compliance	No
		Virginia	2005	Rate Case	Yes
		Virginia	2010	Rate Case	Yes
37	United Water of Pennsylvania	Pennsylvania	2004	Rate Case	Yes
38	Corix Infrastructure/Water Services Corp.	Enterprise	2018	Internal Info	No
		Enterprise	2019	Internal Info	No
39	Massanutten Public Service Company	Virginia	2006	Rate Case	Yes
		Virginia	2008	Rate Case	Yes
		Virginia	2013	Rate Case	Yes
		Virginia	2019	Rate Case	Yes
40	Water Service Corporation Kentucky	Kentucky	2010	Rate Case	Yes
		Kentucky	2012	Rate Case	Yes
		Kentucky	2019	Rate Case	Yes
41	Corix Utilities Oklahoma	Oklahoma	2019	Compliance	Yes
42	Great Basin Water Company	Nevada	2020	Rate Case	Yes
Total Studies					124
Number of Rate Cases					83
Number of Utility Clients					42
Number of States					20

Northern Indiana Public Service Company
Market Cost Comparison for Affiliate Company Charges
12 Months Ended December 31, 2020

August 2021

**Northern Indiana Public Service Company
Market Cost Comparison for Affiliate Company Charges
12 Months Ended December 31, 2020**

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I - Introduction

Purpose of This Study

This study was undertaken to determine the reasonableness of Northern Indiana Public Service Company gas distribution business (NIPSCO Gas) charges from NiSource Corporate Services Company (NCSC) for services provided during 2020. Reasonableness was determined by answering the following four questions:

1. Are NCSC's administrative and general (A&G) charges to NIPSCO Gas reasonable compared to other utility service companies?
2. Does NCSC provide services to NIPSCO Gas at the lower of cost or market?
3. Is the cost of NIPSCO Gas customer accounts services comparable to that of other utilities?
4. Are the services NIPSCO Gas receiving from NCSC necessary?

Study Results

Conclusions concerning question 1:

- The cost per NIPSCO Gas customer for A&G services from NCSC is reasonable compared to the cost per customer for similar utility service companies. During 2020 NIPSCO Gas was charged an average of \$53 per customer for these services by NCSC. This is well below the average of \$116 per customer for comparison group service companies. NIPSCO Gas's \$53 annual cost is lower than 20 and higher than 1 of the 21 comparison group service companies. This determination was based on 2020 service company information included in Form 60, which must be annually filed with the Federal Energy Regulatory Commission (FERC) by electric and combination electric/gas utility holding companies.

Conclusions concerning question 2:

- NCSC's services were provided to NIPSCO Gas during 2020 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 55% higher than comparable hourly rates charged by NCSC.
- If all of the managerial and professional services now provided by NCSC had been outsourced in 2020, NIPSCO Gas and its customers would have incurred \$16.9 million in additional expenses.

I - Introduction

- NCSC's charges do not include any profit markup. Only the actual cost of the service provided is being charged NIPSCO Gas and its customers.

Conclusions concerning question 3:

- NIPSCO Gas's customer accounts services costs, which include charges from NCSC, are well below the average of the utility comparison group from Indiana and neighboring states. During 2020, NIPSCO Gas's customer accounts services cost per customer was \$21.47 compared to the utility comparison group's 2020 average of \$30.26. The highest comparison group per-customer cost was \$63.91 and the lowest \$11.46. Fifteen comparison group companies had a higher cost per customer and 7 a lower cost per customer than NIPSCO Gas.

Concerning question 4, the following conclusions were drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Gas were a stand-alone gas utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Gas. For all of the services listed in Exhibit 13, there was only one entity primarily responsible for the service.

This study's results show that NIPSCO Gas's 2020 service-related charges from NCSC are reasonable.

II – Background

Analysis of NIPSCO Gas Charges from Affiliates

During 2020, affiliate entities charged NIPSCO Gas approximately \$106 million. The analysis below shows charges by affiliate.

Billings to NIPSCO Gas by Affiliate (A)	Purpose	2020 - Gas
NiSource Corporate Service Company	Contract services	\$ 69,865,560
NiSource Inc.	Interest on debt and employee pensions and benefits	\$ 28,348,373
NIPSCO Accounts Receivable Corp.	Interest on debt	\$ 2,852,561
NiSource Development Company	Rent	\$ 1,355,017
NiSource Insurance Corporation	injuries & damages, insurance and employee life insurance	\$ 3,600,214
Total Charges to NIPSCO Gas		\$ 106,021,725

Note A: Includes charges to balance sheet and income statement accounts

Note B: Reconciliation to testimony of company witnesses Newcomb (Attachment 3-B-S2) and Gode (Attachment 7-D)

Total NIPSCO Gas NCS Charges Including Balance Sheet Accounts	\$ 69,865,560
Less: Balance Sheet Account Charges	<u>\$ (14,654,407)</u>
Historic Base Period NIPSCO Gas NCSC Charges	\$ 55,211,153
Less: Miscellaneous Adjustment	<u>\$ (6,412)</u>
Total NIPSCO Gas NCSC Charges per Newcomb and Gode Testimony	\$ 55,204,741

Charges from NCSC represent the cost of management, professional and technical services. They can be subjected to a market cost analysis for which comparative information is available. The NIPSCO Gas portion of NCSC charges (\$69,865,560) is included in the scope of this study.

Charges from other affiliates are, in effect, a pass-through of costs shared with other NiSource entities. In general, the amounts represent NIPSCO's proportionate share of actual expenses incurred by affiliates. No services are involved in these charges so they are not included in the scope of this study.

Overview of NCSC

NCSC provides the following types of services to NiSource operating companies, including NIPSCO Gas:

Accounting and Statistical Services	Information Technology Services
Auditing Services	Insurance Services
Budget Services	Land/Surveying Services
Business Services	Legal Services
Corporate Services	Officers
Customer Billing, Collection and Contact	Operations Support and Planning Services
Employee Services	Purchasing, Storage and Disposition Services
Engineering and Research Services	Regulatory Services
Facility Services	Tax Services
Gas Dispatching Services	Transportation Services
Information Services	Treasury Services

II – Background

NCSC follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- **Purchasing Economies** – Common expenses (e.g., insurance, contract services) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, NCSC is able to maintain one IT infrastructure for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with large, fixed hardware, software and staffing costs.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- **Maintenance of Corporate-Wide Standards** – Personnel in NCSC establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by NCSC.
- **Improved Governance** – NCSC provides another dimension of management and financial oversight that supplements local operating utility management. NCSC facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

NCSC follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like NIPSCO, at cost. NCSC is not a profit-making entity. It assigns only its actual expenses to the NiSource subsidiaries it services.

II – Background

NCSC Billings to Affiliate Companies

NCSC was regulated by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA) until February 8, 2006, when the Public Utility Holding Company Act (PUHCA 2005) was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to the Federal Energy Regulatory Commission (FERC). NCSC records transactions in accordance with the FERC Uniform System of Accounts.

Pursuant to FERC Order No. 684 issued October 19, 2006, Centralized Service Companies must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. In April 2015, NCSC transitioned to a new, integrated inter-company billing process to compile and bill charges applicable to affiliates. The process allows NCSC charges to be automatically recorded to affiliates' books. Affiliates are able to trace the original charge detail, view the accounting classification (allocation basis or direct charge) and review charges more efficiently.

The relationship between NCSC and NIPSCO is set forth in a Service Agreement dated January 1, 2015. The Service Agreement stipulates that all services will be provided at cost. Allocations among affiliates are only made when it is impractical to charge an affiliate directly.

II – Background

Comparison Approach for NCSC Contract Services Charges

During 2020 NCSC charged NIPSCO Gas approximately \$69.4 million for contract services. The table below shows the FERC accounts to which these charges were recorded. Baryenbruch & Company, LLC’s, methodology for evaluating these charges in connection with this study’s four questions are described below.

2020	A&G	Non-A&G	Total
Capital and Other Non-O&M Expenditures		\$ 14,654,407	\$ 14,654,407
Operations and Maintenance Expenses			
403 - Depreciation expense		\$ 4,744,713	\$ 4,744,713
404 - Amortization expense		\$ 26,763	\$ 26,763
405 - Amortization of other property		\$ 1,580,922	\$ 1,580,922
408 - Taxes other than income taxes		\$ 1,108,570	\$ 1,108,570
409 - Income taxes		\$ 190,174	\$ 190,174
410 - Provision for deferred income taxes		\$ 1,078,634	\$ 1,078,634
411 - Provision for deferred income taxes—credit		\$ (1,268,807)	\$ (1,268,807)
419 - Interest and dividend income		\$ (159)	\$ (159)
421 - Miscellaneous income or loss		\$ (135,340)	\$ (135,340)
426 - Other deductions		\$ 29,095	\$ 29,095
430 - Interest on debt to associate companies		\$ 255,135	\$ 255,135
431 - Other interest expense		\$ 243,421	\$ 243,421
432 - Allowance for borrowed funds used during construction—Credit		\$ (69,328)	\$ (69,328)
807 - Purchased gas expenses		\$ 114,614	\$ 114,614
870 - Operation supervision and engineering		\$ 2,669,758	\$ 2,669,758
874 - Mains and services expenses		\$ 8,602	\$ 8,602
875 - Measuring and regulating station expenses—General		\$ 36,541	\$ 36,541
876 - Measuring and regulating station expenses—Industrial		\$ 29,898	\$ 29,898
879 - Customer installations expenses		\$ 41	\$ 41
880 - Other expenses		\$ 3,403	\$ 3,403
887 - Maintenance of mains		\$ (49,044)	\$ (49,044)
889 - Maintenance of measuring and regulating station equipment—General		\$ 36,541	\$ 36,541
890 - Maintenance of measuring and regulating station equipment—Industrial		\$ 29,898	\$ 29,898
Administrative and General Expenses			
903 - Customer records and collection expenses	\$ 1,231,064		\$ 1,231,064
909 - Informational and instructional advertising expenses	\$ 5,345		\$ 5,345
910 - Miscellaneous customer service and informational expenses	\$ 219,572		\$ 219,572
912 - Demonstrating and selling expenses	\$ (382)		\$ (382)
913 - Advertising expenses	\$ 50,122		\$ 50,122
920 - Administrative and general salaries	\$ 16,637,273		\$ 16,637,273
921 - Office supplies and expenses	\$ 1,038,316		\$ 1,038,316
923 - Outside services employed	\$ 16,680,607		\$ 16,680,607
924 - Property insurance	\$ 3,194		\$ 3,194
925 - Injuries and damages	\$ 299,849		\$ 299,849
926 - Employee pensions and benefits	\$ 3,136,152		\$ 3,136,152
930.1 - General advertising expenses	\$ 25,941		\$ 25,941
930.2 - Miscellaneous general expenses	\$ 61,631		\$ 61,631
931 - Rents	\$ 1,799,365		\$ 1,799,365
932 - Maintenance of general plant.	\$ 3,359,059		\$ 3,359,059
Total NCSC Charges to NIPSCO Gas	\$ 44,547,108	\$ 25,318,452	\$ 69,865,560

The first question—whether NCSC service-related charges are reasonable—is answered by comparing NIPSCO Gas’s A&G charges from NCSC per customer to those of utility service companies that file a FERC Form 60 – Annual Report of Service Companies.

The second question—whether NCSC’s services were provided to NIPSCO Gas during 2020 at the lower of cost or market—is answered by comparing the cost per hour for managerial and professional services provided by NCSC personnel to

II – Background

hourly billing rates that would be charged by outside providers of equivalent services. NCSC's costs per hour were based on actual charges to NIPSCO Gas during 2020. Outside providers' billing rates came from surveys or other information from professionals who could perform the services now provided by NCSC.

The third question—whether affiliate customer account services charges were comparable to other utilities— is answered by comparing NIPSCO Gas's total expenses for customer accounts services to those of utilities in Indiana and neighboring states. The comparison metric is cost per customer. Comparison group utility customer account services expenses are obtained from FERC Form 1 data.

The fourth question—the necessity of NCSC services—was investigated by defining the services provided to NIPSCO Gas and determining if these services would be required if NIPSCO Gas were a stand-alone gas utility.

III – Question 1 – Reasonableness of NCSC Services-Related Charges

Comparison Methodology

Utility service companies deliver a variety of services to their regulated operating company affiliates. While some service companies support their affiliate's generation, transmission and distribution functions, all provide A&G services such as information technology, finance and human resources. Centralizing the management of such corporate A&G services is justified by the considerable economies of scale achieved. Because A&G-related services are consistently delivered by service companies, considerable data exists on the nature and cost of these services. This study relies on such data to determine A&G charges per customer by comparison companies. These charges are then used as the metric by which to test the reasonableness of charges for services NCSC provides to NIPSCO Gas.

FERC Form 60 shows service company charges to affiliates by FERC account. FERC defines A&G charges as those listed in the table below. During 2020, NCSC's A&G charges to NIPSCO Gas were recorded in the noted accounts.

FERC A&G Accounts	Used to Record NCSC 2020 Charges to NIPSCO Gas
901 - Supervision	
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	
906 - Total Customer Accounts Operation Expenses	
907 - Supervision	
908 - Customer assistance expenses	
909 - Informational And Instructional Advertising Expenses	X
910 - Miscellaneous Customer Service And Informational Expenses	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	X
913 - Advertising Expenses	X
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	X
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	X
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

III – Question 1 – Reasonableness of NCSC Services-Related Charges

NIPSCO Gas Cost per Customer

As calculated below, NCSC charged NIPSCO Gas \$53 per customer for A&G services during 2020.

FERC A&G Accounts	2020 NCSC A&G-Related Charges
903 - Customer records and collection expenses	\$ 1,231,064
909 - Informational and instructional advertising expenses	\$ 5,345
910 - Miscellaneous customer service and info expenses	\$ 219,572
912 - Demonstrating and selling expenses	\$ (382)
913 - Advertising expenses	\$ 50,122
920 - Administrative and general salaries	\$ 16,637,273
921 - Office supplies and expenses	\$ 1,038,316
923 - Outside services employed	\$ 16,680,607
924 - Property insurance	\$ 3,194
925 - Injuries and damages	\$ 299,849
926 - Employee pensions and benefits	\$ 3,136,152
930.1 - General advertising expenses	\$ 25,941
930.2 - Miscellaneous general expenses	\$ 61,631
931 - Rents	\$ 1,799,365
932 - Maintenance of general plant.	\$ 3,359,059
Total NCSC A&G Charges to NIPSCO Gas	\$ 44,547,108
2020 NIPSCO Gas Customers	847,821
2020 NCSC A&G Charges per NIPSCO Gas Customer	\$ 53

Comparison Group Cost per Customer

Every centralized service company in a holding company subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and the Code of Federal Regulations Chapter 18, paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated retail customer.

For 2020, a Form 60 was filed by service companies associated with 22 utility holding companies, all of which provide regulated electric and, in some cases, gas service to retail customers.

III – Question 1 – Reasonableness of NCSC Services-Related Charges

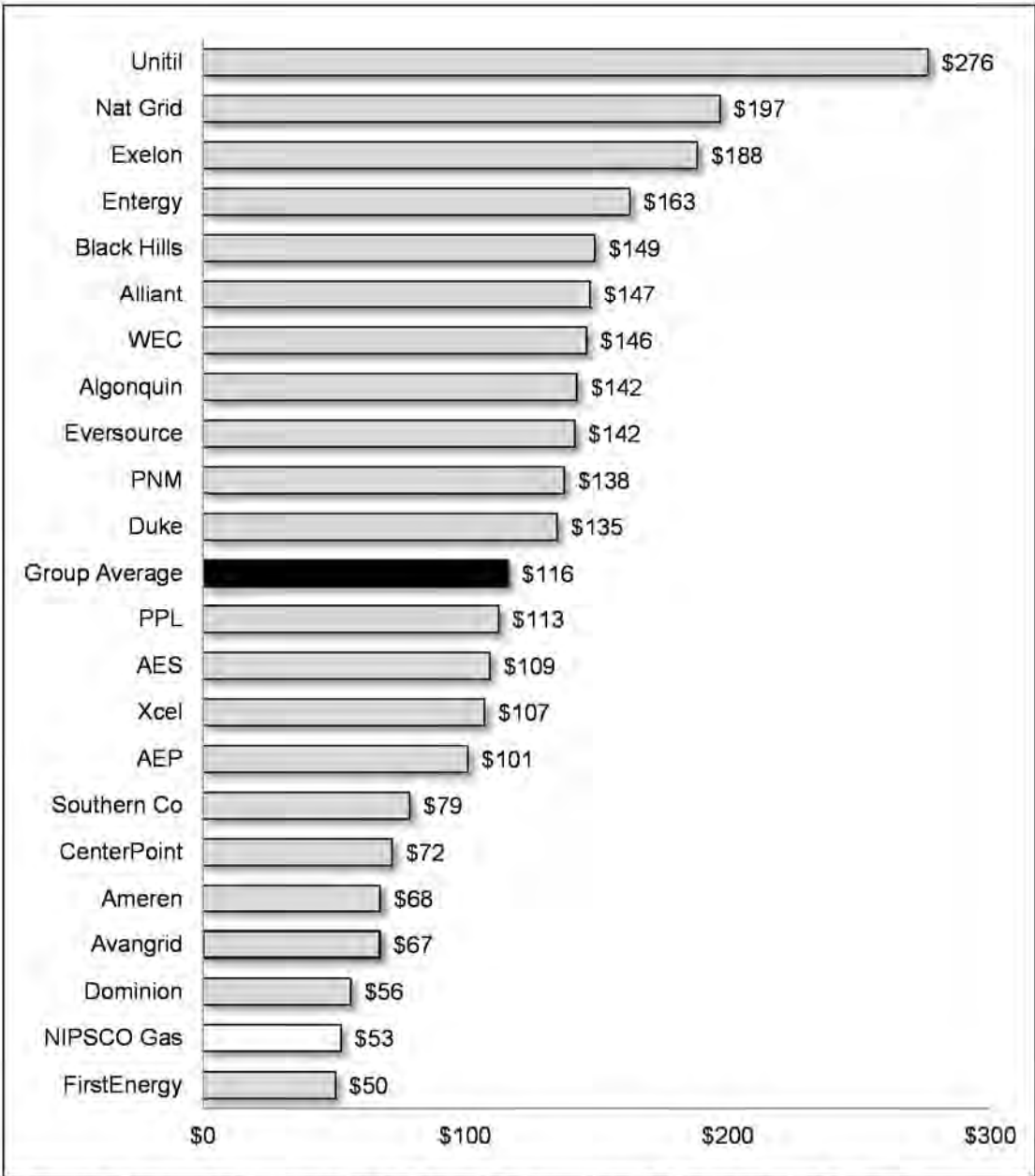
NCSC filed a Form 60 for 2020. However, NiSource/NCSC is not included in the comparison group because its Form 60 includes charges for all its affiliates and this cost comparison examines only charges to NIPSCO Gas. The A&G expenses per regulated retail customer for the other 21 utility companies that filed a Form 60 for 2020 are calculated in the table below.

Utility Company	2020 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$554,919,735	5,500,000	\$ 101
AES	\$86,667,622	793,500	\$ 109
Algonquin	\$96,401,587	677,000	\$ 142
Alliant	\$204,842,438	1,390,000	\$ 147
Ameren	\$222,809,043	3,300,000	\$ 68
Avangrid	\$222,390,063	3,300,000	\$ 67
Black Hills	\$190,976,930	1,280,000	\$ 149
CenterPoint	\$534,602,218	7,427,500	\$ 72
Dominion	\$391,503,174	6,963,000	\$ 56
Duke	\$1,287,241,241	9,541,000	\$ 135
Entergy	\$520,628,124	3,202,000	\$ 163
Eversource	\$567,876,510	4,009,000	\$ 142
Exelon	\$1,883,032,436	10,000,000	\$ 188
FirstEnergy	\$302,823,719	6,000,000	\$ 50
Nat Grid	\$1,378,382,313	7,000,000	\$ 197
PNM	\$109,862,909	798,700	\$ 138
PPL	\$304,013,291	2,700,000	\$ 113
Southern Co	\$679,469,480	8,630,000	\$ 79
Unitil	\$53,216,126	192,700	\$ 276
WEC	\$335,285,701	2,294,000	\$ 146
Xcel	\$610,861,983	5,700,000	\$ 107
Total/Average	\$10,537,806,644	90,698,400	\$ 116

Source: FERC Form 60; Baryenbruch & Company, LLC, analysis

Schedule 1 (page 11) shows that NIPSCO Gas' NCSC A&G charges per customer of \$53 for 2020 are considerably lower than the comparison group's average of \$116 per customer. Of the 21 utility companies in the comparison group, 20 had a higher cost per customer and one had a lower cost per customer. Based on this result, it can be concluded that NCSC's charges to NIPSCO Gas for 2020 are reasonable.

Northern Indiana Public Service Company
Comparison of Service Company A&G Charges per Regulated Retail Customer



Source: Company information; FERC Form 60; Baryenbruch & Company, LLC, analysis

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

Comparison Methodology

NCSC’s 2020 billings to NIPSCO Gas for Contract Services are market tested by comparing the cost per hour for NCSC services to those of outside service providers to whom these duties could be assigned.

The first step was to determine which types of outside providers could assume NCSC services. Based on the nature of these services it was determined that the following outside service providers could perform the categories of services indicated:

- Attorneys - corporate secretarial and legal services
- Certified Public Accountants - accounting, finance and rates and regulatory services
- Professional Engineers – engineering and operations services
- Management Consultants - executive and administrative management, risk management services, human resources and communications services
- Information Technology (IT) Professionals – information technology services

The next step was to calculate NCSC’s hourly rate for each of the five outside service-provider categories, based on the dollars and hours charged to NIPSCO Gas during 2020.

Next, hourly billing rates for outside service providers were determined using information from pertinent surveys.

Finally, NCSC’s average cost per hour was compared to the average cost per hour for outside providers.

NCSC Hourly Rates

The first step in determining NCSC’s hourly rates is to determine the appropriate expenses to be included in the cost pool. Adjustments to total NCSC charges related to Contract Services are necessary to calculate NCSC’s hourly rates that are directly comparable to those of outside providers. Certain types of expenses are not recovered by outside providers in the hourly billing rate of their professional employees. Such excluded expenses are described below.

- Outside Services – NCSC charges to NIPSCO Gas include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services).

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- IT Infrastructure Expenses – Included in NCSC charges to NIPSCO Gas are leases, maintenance fees and depreciation pertaining to NCSC’s enterprise computing and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor-related charges necessary to deliver IT services.
- Excludable Cost Centers – These departments represent travel-related charges (aviation) and non-service-related charges (cost of capital). Also excluded are customer service-related charges because this function is not considered a professional service.

Schedule 2 (pages 14-15) shows the adjustments made to NCSC’s 2020 NCSC total contract services to NIPSCO Gas. The net result of is a total cost pool that can be subjected to the lower-of-cost-or-market testing.

Northern Indiana Public Service Company
Determination of Lower of Cost or Market Testable 2020 NCSC Charges

2020 Total Contract Billings from NCSC to NIPSCO Gas		\$ 69,865,560
Less Excludable Cost Elements:		
<u>Contract Services</u>		
3000 - Consulting Services	\$ 10,076,768	
3001 - Advertising Services	\$ 91,341	
3002 - Legal Services	\$ 676,464	
3003 - Auditing Services	\$ 24,727	
3004 - Constructions Services	\$ 97,562	
3006 - Engineering Services	\$ 401,054	
3008 - Printing and Fulfillment Svcs	\$ 107,450	
3009 - Operations Services	\$ (1,235)	
3011 - Temporary Personnel Services	\$ 485,956	
3012 - Security Services	\$ 646,974	
3015 - Other Outside Services	\$ 98,119	
3021 - Env Health and Safety Services	\$ 74,716	
3024 - Benefit Administration	\$ 156,171	
3025 - Credit Collections	\$ 1,071	
3028 - Expert Witness Fees	\$ 1,410	
3030 - Outsourcing - Est Fixed Costs	\$ (489)	
3031 - Outsourcing-Variable Cst-ARCs	\$ 3,050,560	
3036 - Service Level Agreements	\$ 14,860	
3040 - Outsourcing - Act Fixed Costs	\$ 911,533	
3044 - IT Costs - Non-IBM Contract	\$ 1,161,931	
3046 - HR Services	\$ 225,561	
3047 - IT Services	\$ 5,184,620	
3093 - Operations Mapping Svcs - GPS	\$ (12,190)	
Total Outside Services	\$ 23,474,936	\$ (23,474,936)
<u>Travel Expenses</u>		
3100 - Business Travel Expenses	\$ 308,198	
3102 - Meals, Food and Water	\$ 66,081	
3103 - Entertainment & Other Non-Ded	\$ 11,822	
3105 - Taxable Business Exp-ERS Only	\$ 28	
5003 - Aircraft Maintenance	\$ 21,231	
5020 - Vehicle Maintenance	\$ 21,863	
9230 - Leases - Aircraft	\$ 57,291	
Total Travel Expenses	\$ 486,515	\$ (486,515)
<u>IT Infrastructure Expenses</u>		
2500 - IT Hardware	\$ 45,594	
2501 - IT Software	\$ 2,860,911	
5004 - IT Software Maintenance	\$ 3,781,401	
5009 - IT Hardware Maintenance	\$ 143,557	
9310 - Other Depreciation	\$ 3,793,280	
Total IT Infrastructure Expenses	\$ 10,624,742	\$ (10,624,742)

Northern Indiana Public Service Company
Determination of Lower of Cost or Market Testable 2020 NCSC Charges

<u>Non-Service-Related Expenses</u>		
2017 - Other Materials and Supplies	\$	456,722
2023 - Instrumentation & Control	\$	1,268
2024 - Mechanical Equipment	\$	77,538
2203 - Other Gas Materials and Equip	\$	1,616
3635 - Severance	\$	2,961,175
3647 - Impairment of Asset	\$	-
3671 - Recording Fee	\$	546
4017 - Losses_Claims Expense	\$	34,274
4503 - AFUDC_IDC - Debt	\$	(69,328)
4508 - Gain-Loss on Sale	\$	(4,059)
4533 - PP Man Acc Excl Int_OH	\$	50,188
5013 - Garbage and Waste Disposal	\$	1,268
5030 - Truck Maintenance	\$	2,006
5040 - Tool Maintenance	\$	5,925
9210 - Leases - Vehicles	\$	17,909
9261 - Overheads Related To Lse-Rent	\$	400,449
9604 - Income Taxes Federal	\$	138,630
9605 - Income Taxes State	\$	51,544
9606 - Deferred Income Taxes Federal	\$	(356,672)
9607 - Deferred Income Taxes State	\$	166,498
9610 - Sales and Use Tax	\$	54,828
9629 - State and Local Tax Other	\$	28,628
9640 - Sales_Use - Audit Reserve	\$	14,521
Total Non-Service-Related Expenses	\$	4,035,475
Total Excludable Cost Elements		\$ (4,035,475)
Less Excludable Cost Centers		
0005000 - Aviation Services	\$	194,245
0030300 - Customer Contact Center	\$	135,393
0030310 - Smithfield Customer Care Centr	\$	181,773
0042800 - Cost of Capital	\$	254,976
Total Excluded Cost Centers	\$	766,387
Total Excluded Cost Centers		\$ (766,387)
2020 Testable Contract Billings from NCSC (Note A)		\$ 30,477,506

Note A: This total breaks down as follows for later analysis:

Service-Related Charges	\$	23,747,000
Overhead-Related Charges	\$	6,730,506
2020 Testable Contract Billings from NCSC	\$	30,477,506

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

The next step is to assign NCSC’s service-related charges to the five outside service-provider cost pools—attorney, certified public accountant, professional engineer, management consultant and IT professional. Among other things, NCSC assigns a “department” to all affiliate charges. Based on the nature of services performed by these departments, NCSC’s charges were assigned to the five outside service-provider cost pools, as shown in Schedule 3 (page 18).

Schedule 4 (page 19) shows the assignment of staff hours by service category to the five outside service provider cost pools. It should be noted that only professional personnel hours are included in Schedule 4. Many outside providers charge clients for the time of administrative support personnel (e.g., paralegals). This study chose to be conservative in this regard. By excluding administrative personnel hours from the hourly rate denominator, there are fewer hours to divide into the cost pool. Consequently, NCSC’s hourly rates are somewhat higher using this approach.

Within 2020 NCSC charges are overhead-related expenses associated with sustaining NCSC personnel. The largest portion of overhead is depreciation expense and rent on various NCSC facilities and equipment. These expenses would also be incurred by outside service providers and must be added into the NCSC cost pools. The table below shows amounts by category.

Expense Item	2020
Cell Phones	\$ 257,793
Corporate Services	\$ 29,813
Facilities Management	\$ 246,633
Facility Rent	\$ 1,585,408
Hardware Depreciation	\$ 2,559,117
Long Term Incentive Expense	\$ 1,290,542
Insurance Premiums	\$ 275,011
Mailing Operations	\$ 409,017
Real Estate	\$ 60,543
Telecommunications	\$ 7,888
Other	\$ 8,741
Total Overhead	\$ 6,730,506

IV – Question 2 – NCSC's Provision of Services at the Lower of Cost or Market

Based on the assignment of expenses and hours to outside provider categories, NCSC's 2020 equivalent cost per hour is calculated below.

NCSC Hourly Rates						
	Attorney	Certified Public Acctnt	Professional Engineer	Mgmt Consultant	IT Professional	Total
Service-Related Charges	\$ 1,480,138	\$ 3,757,271	\$ 6,816,077	\$ 6,659,257	\$ 5,034,258	\$ 23,747,000
Overhead Expenses (Note A)	\$ 419,509	\$ 1,064,907	\$ 1,931,850	\$ 1,887,403	\$ 1,426,837	\$ 6,730,506
Cost Pool Total	\$ 1,899,647	\$ 4,822,177	\$ 8,747,927	\$ 8,546,660	\$ 6,461,094	\$ 30,477,506
Hours	10,482	44,924	79,068	45,353	56,189	236,016
Average Hourly Rate	\$ 181	\$ 107	\$ 111	\$ 188	\$ 115	

Note A: These expenses are assigned to the outside provider categories prorata based on the amount of direct expenses in the cost pools, as calculated below.

	Attorney	Certified Public Acctnt	Professional Engineer	Mgmt Consultant	IT Professional	Total
Service-Related Charges	\$ 1,480,138	\$ 3,757,271	\$ 6,816,077	\$ 6,659,257	\$ 5,034,258	\$ 23,747,000
Percent of Cost Pool Total	6.2%	15.8%	28.7%	28.0%	21.2%	100.0%
Allocation Of Overhead	\$ 419,509	\$ 1,064,907	\$ 1,931,850	\$ 1,887,403	\$ 1,426,837	\$ 6,730,506

Schedule 3

Northern Indiana Public Service Company
Assignment of 2020 NCSC Service-Related Charges to Outside Provider Cost Pools

Service Category	Outside Provider					Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	IT Consultant	
Accounts Payable		\$ 283,231				\$ 283,231
Audit		\$ 287,698				\$ 287,698
Business Continuity				\$ 32,820		\$ 32,820
Business Services				\$ 125,690		\$ 125,690
Corporate Accounting		\$ 738,058				\$ 738,058
Corporate Affairs				\$ 193,101		\$ 193,101
Corporate Communications				\$ 208,436		\$ 208,436
Corporate Secretary	\$ 3,210					\$ 3,210
Corporate Security				\$ 309,494		\$ 309,494
Credit Risk Management				\$ 41,322		\$ 41,322
Customer Operations		\$ 396,799				\$ 396,799
Engineering Services			\$ 1,675,558			\$ 1,675,558
Environmental, Health & Safety			\$ 2,694,736			\$ 2,694,736
Executive				\$ 2,887,304		\$ 2,887,304
Finance		\$ 616,907				\$ 616,907
Fleet Management			\$ 37,145			\$ 37,145
Gas Supply			\$ 454,864			\$ 454,864
Human Resources				\$ 2,104,948		\$ 2,104,948
Information Technology					\$ 5,034,258	\$ 5,034,258
Insurance				\$ 230,201		\$ 230,201
Investor Relations				\$ 106,550		\$ 106,550
Legal	\$ 1,476,928					\$ 1,476,928
Logistics			\$ 43,232			\$ 43,232
Operations			\$ 1,281,442			\$ 1,281,442
Regulatory		\$ 943,315				\$ 943,315
Revenue Transactions		\$ 68,343				\$ 68,343
Risk Management				\$ 129,176		\$ 129,176
Safety and Compliance				\$ 63,786		\$ 63,786
Strategy and Planning				\$ 226,422		\$ 226,422
Supply Chain			\$ 629,099			\$ 629,099
Taxes		\$ 312,008				\$ 312,008
Training				\$ 6		\$ 6
Treasury		\$ 110,911				\$ 110,911
Total	\$ 1,480,138	\$ 3,757,271	\$ 6,816,077	\$ 6,659,257	\$ 5,034,258	\$ 23,747,000

Schedule 4

Northern Indiana Public Service Company
Assignment of 2020 NCSC Service-Related Hours to Outside Provider Cost Pools

Service Category	Outside Provider				Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	
Accounts Payable		3,968			3,968
Audit		2,563			2,563
Business Continuity				398	398
Business Services				1,885	1,885
Corporate Accounting		9,590			9,590
Corporate Affairs				1,066	1,066
Corporate Communications				2,623	2,623
Corporate Secretary	-				-
Corporate Security				1,639	1,639
Credit Risk Management				367	367
Customer Operations		5,564			5,564
Engineering Services			20,647		20,647
Environmental, Health & Safety			26,211		26,211
Executive				8,034	8,034
Finance		7,887			7,887
Fleet Management			466		466
Gas Supply			6,197		6,197
Human Resources				23,283	23,283
Information Technology					56,189
Insurance				2,106	2,106
Investor Relations				744	744
Legal	10,482				10,482
Logistics			526		526
Operations			16,574		16,574
Regulatory		10,765			10,765
Revenue Transactions		977			977
Risk Management				1,007	1,007
Safety and Compliance				343	343
Strategy and Planning				1,857	1,857
Supply Chain			8,447		8,447
Taxes		2,793			2,793
Training				-	-
Treasury		818			818
Total	10,482	44,924	79,068	45,353	56,189
					236,016

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the lower of cost or market comparison is to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among U.S. public accounting firms, only the more experienced staff members are predominantly licensed certified public accountants, as shown in the table below. Some NCSC employees also have professional licenses. Thus, it is valid to compare NCSC’s hourly rates to those of the outside professional service providers included in this study.

Position	% CPAs
Partner/Owners	98%
Directors (10+ years experience)	87%
Managers (6-10 years experience)	79%
Sr. Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA’s National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

Attorneys

An estimate of Indiana attorney rates was developed from National Law Journal’s Survey of Law Firm Economics Report. As shown in Schedule 5 (page 22), data from this survey has been adjusted for cost-of-living differences between each law firm’s location and Merrillville, Indiana. The hourly rate data from the National Law Review is as of January 1, 2020. The survey’s calculated average rate was escalated to June 30, 2020—the midpoint of 2020.

Certified Public Accountants

The average hourly rate for Indiana certified public accountants was developed from a 2018 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years (due to COVID, the 2020 survey was postponed). Hourly rates in the AICPA survey are the average of firms in Indiana. The average hourly rate was calculated for a range of accountant positions, as shown in Schedule 6 (page 23). Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2017. The calculated average rate was escalated to June 30, 2020—the midpoint of 2020.

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

Professional Engineers

NIPSCO provided 2020 hourly rate information for several firms that perform services that could be used by the company when outside engineering services are required. As shown in Schedule 7 (page 24), an average rate was developed for a range of engineering positions. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

Management Consultants

The cost per hour for management consultants was developed from a survey performed by Rodenhauser & Company, LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2020 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Schedule 8 (page 25), was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey covered hourly rates in effect during 2020.

Information Technology Professionals

The 2020 average hourly rate for information technology consultants and contractors was developed from two sources: NCSC for IT contractor rates and a survey performed by Rodenhauser & Company, LLC, for IT consultants. As shown in Schedule 10 (page 26), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company’s experience.

Schedule 5

Northern Indiana Public Service Company
2020 Billing Rates for Indiana Attorneys

Average Hourly Billing Rates for Law Firms as of January 1, 2020									
Region	Avg Billing Rates (Note A)		Weighted Avg Rate Calculation			Cost of Living (COL) Adjustment			(x * y) Adjusted Rate
	Partner	Associate	0.25	0.75	(x) Weighted Average	COL Indices (Note B)		(y) Merrillville, COL Adjustment	
						Region	Indiana		
Northeast	\$ 478	\$ 303	\$ 119	\$ 227	\$ 346	121.1	89.8	74.2%	\$ 257
Midwest	\$ 378	\$ 250	\$ 94	\$ 188	\$ 282	94.0	89.8	95.6%	\$ 269
South	\$ 470	\$ 325	\$ 118	\$ 244	\$ 361	94.1	89.8	95.4%	\$ 345
West	\$ 325	\$ 250	\$ 81	\$ 188	\$ 269	108.4	89.8	82.9%	\$ 223
Overall Average Hourly Billing Rate									\$ 273
<u>Escalation to Test Period 2020 Midpoint (June 30, 2020)</u>									
CPI at December 31, 2019									257.0
CPI at June 30, 2020									257.8
Inflation/Escalation (Note C)									0.3%
Average Hourly Billing Rate For Attorneys At June 30, 2020									\$ 274

Note A: 2020 Survey of Law Firm Economics Report, National Law Journal

Note B: Cost of Living Index, Source Council for Community and Economic Research

Note C: U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)

Schedule 6

Northern Indiana Public Service Company
 2020 Billing Rates for Indiana Public Accounting Firms

Average Hourly Billing Rates for Public Accounting Firms During 2017				
	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Billing Rate by CPA Firm Position	\$ 107	\$ 127	\$ 162	\$ 246
Percent of Accounting Assignment	30%	30%	20%	20%
	\$ 32	\$ 38	\$ 32	\$ 49
				Weighted Average \$ 152
	<u>Escalation to Test Period Midpoint (June 30, 2020)</u>			
				CPI at June 30, 2017 245.0
				CPI at June 30, 2020 257.8
				Inflation/Escalation (Note B) 5.2%
	Average Hourly Billing Rate For Indiana CPAs At June 30, 2020			\$ 160

Note A: Source is AICPA's 2018 National PCPS/TSCPA Management of an Accounting Practice Survey (Indiana edition)

Note B: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

Schedule 7

Northern Indiana Public Service Company
 2020 Billing Rates for Indiana Professional Engineering Firms

Average Hourly Billing Rates for Professional Engineering Firms During 2020				
Calculation of Average Hourly Rate by Engineer Position				
	Average Hourly Billing Rates			
Firm	Engineering Technician	Engineer	Senior Engineer,	Principal Engineer
Firm #1	\$75	\$102	\$146	na
Firm #2	\$95	\$183	\$234	\$344
Firm #3	\$93	\$122	\$166	\$242
Firm #4	na	\$136	\$172	\$210
Firm #5	\$89	\$101	\$148	na
Calculation of Overall Average Engineering Hourly Billing Rate				
	Engineering Technician	Engineer	Senior Engineer,	Principal Engineer
Average Hourly Billing Rate (From Above)	\$88	\$136	\$179	\$265
Typical Percent of Time on an Engineering Assignment	33%	33%	24%	10%
	\$29	\$45	\$43	\$27
				Weighted Average
				\$143

Source: Information provided by NCSC. Firm names are confidential.

Schedule 8

Northern Indiana Public Service Company
2020 Billing Rates for U.S. Management Consultants

Average Hourly Billing Rates for Management Consulting Firms During 2020						
	Average Hourly Rates (Note A)					
	Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner	
Average	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641	
Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641	
Percent of Consulting Assignment	30%	30%	25%	10%	5%	Weighted Average
	\$ 68	\$ 82	\$ 84	\$ 52	\$ 32	\$ 317
Average Hourly Billing Rate For Management Consultants During 2020						\$ 317

Note A: Source is Rodenhauer & Company, LLC

Schedule 9

Northern Indiana Public Service Company
 2020 Billing Rates for Information Technology Professionals

Average Hourly Billing Rates for Information Technology Service Providers During 2020					
Average Hourly Billing Rate (Note A)					
Contractor Positions			Consultant Positions		
	Senior				
Contractor	Contractor	Associate	Manager	Partner	
Average Hourly Billing Rate by IT Position Category	\$ 70	\$ 105	\$ 252	\$ 353	\$ 478
Percent of IT Assignment	25%	25%	25%	15%	10%
	\$ 18	\$ 26	\$ 63	\$ 53	\$ 48
					Weighted Average \$ 207

Note A: Source is NCSC, Rodenhauser & Company, LLC, and Baryenbruch & Company, LLC

IV – Question 2 – NCSC’s Provision of Services at the Lower of Cost or Market

Cost Comparison of NCSC Versus Outside Providers

As shown in the table below, NCSC’s costs per hour are considerably lower than those of outside providers.

Service Provider	2020 Cost/Hour Difference		
	NCSC	Outside Providers	Difference-- NCSC Greater(Less) Than Outside
Attorney	\$ 181	\$ 274	\$ (93)
Certified Public Accountant	\$ 107	\$ 160	\$ (53)
Professional Engineer	\$ 111	\$ 143	\$ (32)
Management Consultant	\$ 188	\$ 317	\$ (129)
IT Professional	\$ 115	\$ 207	\$ (92)

As calculated below, based on these cost-per-hour differentials and the number of hours that NCSC billed NIPSCO Gas during 2020, the services would cost \$16.9 million more from outside providers. This is 55% more ($\$16,905,895 / \$30,477,506 = 55\%$) than NCSC’s total 2020 market-testable contract billings to NIPSCO Gas.

Service Provider	2020 Total Cost Difference		
	Hourly Rate Difference-- NCSC Greater(Less) Than Outside	NCSC Hours Charged	Dollar Difference
Attorney	\$ (93)	10,482	\$ (974,785)
Certified Public Accountant	\$ (53)	44,924	\$ (2,380,984)
Professional Engineer	\$ (32)	79,068	\$ (2,530,182)
Management Consultant	\$ (129)	45,353	\$ (5,850,559)
IT Professional	\$ (92)	56,189	\$ (5,169,386)
Total NCSC Less Than Outside Providers			\$ (16,905,895)

V – Question 3 – Reasonableness of Customer Account Services Costs

Comparison Methodology

Customer Account Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

Certain of these functions are performed for NIPSCO Gas by NCSC. Others are performed by NIPSCO itself. For this reason, total customer account services expenses are subjected to comparison.

It is difficult to compare the cost of NCSC and other affiliate customer accounts services charges to NIPSCO Gas with those of outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, NIPSCO Gas's charges from affiliates for customer accounts services are compared to those of neighboring electric and combination electric/gas utilities because the data necessary to make such comparison is available to the public. The nature of customer account services is similar for electric and gas utilities so it is appropriate for the comparison group to include both types of utilities.

Cost information regarding the comparison group of utilities comes from the FERC Form 1 that each utility must file. FERC's chart of accounts is defined in Chapter 18, Part 101, of the Code of Federal Regulations. FERC accounts that contain expenses for customer account services are Account 901 – Supervision, Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Schedule 10 (page 29) provides FERC's definition of the type of expenses that should be recorded in these accounts.

Northern Indiana Public Service Company
FERC Account Descriptions

901 Supervision (Major only).

This account shall include the cost of labor and expenses incurred in the general direction and supervision of customer accounting and collecting activities. Direct supervision of a specific activity shall be charged to account 902, Meter Reading Expenses, or account 903, Customer Records and Collection Expenses, as appropriate.

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

V – Question 3 – Reasonableness of Customer Account Services Costs

Comparison Group

Neighboring utilities included in the comparison group are shown in the table below. Each company's FERC Form 1 shows amounts for Accounts 903 and 905.

State	Utilities Providing FERC Form 1 Information	
Indiana	<ul style="list-style-type: none"> Duke Energy Indiana Indiana Michigan Power 	<ul style="list-style-type: none"> Indiana Power & Light So. Indiana Gas & Electric
Illinois	<ul style="list-style-type: none"> Ameren Illinois Commonwealth Edison 	<ul style="list-style-type: none"> MidAmerica Energy
Ohio	<ul style="list-style-type: none"> Cleveland Elect Illuminating Dayton Power & Light Duke Energy Ohio 	<ul style="list-style-type: none"> Ohio Edison Ohio Power Toledo Edison
Michigan	<ul style="list-style-type: none"> Consumers Energy DTE Electric Indiana Michigan Power NSP Wisconsin 	<ul style="list-style-type: none"> Upper Peninsula Power Wisconsin Electric Wisconsin Public Service
Kentucky	<ul style="list-style-type: none"> Duke Energy Kentucky Kentucky Power 	<ul style="list-style-type: none"> Kentucky Utilities Louisville Gas & Electric

NIPSCO Gas Cost per Customer

As calculated below, NIPSCO Gas's customer accounts expense per customer is \$21.47 for 2020. NIPSCO Gas's cost pool includes the same expense items that are included in the neighboring utilities' customer account services expenses (FERC accounts 901, 903 and 905).

2020 Total NIPSCO Gas CAS Expenses Per Customer

	2020
FERC Account	CAS Cost Pool
Acct 901	\$ 2,255,327
Acct 903	\$ 15,947,141
Acct 905	\$ -
Total Cost Pool	\$ 18,202,468
NIPSCO Gas Customers	847,821
NIPSCO Cost per Customer	\$ 21.47

Comparison Group Cost per Customer

Schedule 11 (page 31) shows the calculation of actual 2020 customer accounts expenses per customer for the utility comparison group. The underlying data were obtained from each utility's FERC Form 1. The comparison group's 2020 weighted average cost is \$30.26 per customer.

Schedule 11

Northern Indiana Public Service Company
Comparison Group 2020 Customer Account Expenses Per Customer

Comparison Group	2020 Cost Pool Calculation				Total Customers	Account Services Expenses per Customer
	Charges to Accounts 901, 903 and 905	Employee Benefits		Total Cost Pool		
		Employee Pension and Benefits	Payroll Taxes			
Ameren Illinois Company	\$ 25,147,355	\$ 222,920	\$ 1,060,243	\$ 26,430,518	1,225,204	\$ 21.57
Cleveland Electric Illuminating Company	\$ 9,031,775	\$ 796,587	\$ 269,760	\$ 10,098,122	754,024	\$ 13.39
Commonwealth Edison Company	\$ 143,418,637	\$ 10,032,574	\$ 6,062,523	\$ 159,513,734	4,089,726	\$ 39.00
Consumers Energy Company	\$ 44,329,109	\$ (126,250)	\$ 1,567,646	\$ 45,770,504	1,855,672	\$ 24.67
Dayton Power & Light	\$ 6,566,026	\$ 794,069	\$ 382,336	\$ 7,742,431	281,989	\$ 27.46
DTE Electric Company	\$ 132,182,839	\$ 6,366,926	\$ 3,736,330	\$ 142,286,095	2,226,501	\$ 63.91
Duke Energy Indiana, Inc.	\$ 17,240,472	\$ 834,989	\$ 675,403	\$ 18,750,864	852,004	\$ 22.01
Duke Energy Kentucky, Inc.	\$ 3,919,759	\$ 194,275	\$ 135,714	\$ 4,249,748	145,957	\$ 29.12
Duke Energy Ohio, Inc.	\$ 9,613,445	\$ 532,644	\$ 644,113	\$ 10,790,202	731,414	\$ 14.75
Indiana Michigan Power Company	\$ 15,673,958	\$ 186,880	\$ 224,583	\$ 16,085,421	600,946	\$ 26.77
Indianapolis Power & Light Company	\$ 11,749,722	\$ 1,223,676	\$ 537,988	\$ 13,511,387	511,501	\$ 26.42
Kentucky Power Company	\$ 5,008,875	\$ 30,074	\$ 93,410	\$ 5,132,358	165,762	\$ 30.96
Kentucky Utilities Company	\$ 24,942,601	\$ 1,891,272	\$ 755,406	\$ 27,589,280	560,922	\$ 49.19
Louisville Gas and Electric Company	\$ 8,743,045	\$ 470,982	\$ 246,677	\$ 9,460,703	421,842	\$ 22.43
MidAmerican Energy Company	\$ 19,635,758	\$ 455,994	\$ 1,050,533	\$ 21,142,285	795,351	\$ 26.58
Ohio Edison	\$ 13,175,958	\$ 599,108	\$ 413,407	\$ 14,188,473	1,058,301	\$ 13.41
Ohio Electric	\$ 37,653,420	\$ 199,355	\$ 601,415	\$ 38,454,190	1,501,571	\$ 25.61
Southern Indiana Gas and Electric Company	\$ 1,675,674	\$ 22,566	\$ 47,622	\$ 1,745,862	152,373	\$ 11.46
Toledo Edison	\$ 4,506,021	\$ 70,979	\$ 131,178	\$ 4,708,178	313,654	\$ 15.01
Upper Peninsula Power Company	\$ 1,558,423	\$ 198,545	\$ 78,084	\$ 1,835,052	54,051	\$ 33.95
Wisconsin Electric Power Company	\$ 14,624,154	\$ 569,653	\$ 374,754	\$ 15,568,561	1,144,981	\$ 13.60
Wisconsin Public Service Corporation	\$ 6,572,044	\$ 190,317	\$ 178,791	\$ 6,941,152	451,063	\$ 15.39
Total	\$ 556,969,070	\$ 25,758,135	\$ 19,267,917	\$ 601,995,122	19,894,809	\$ 30.26

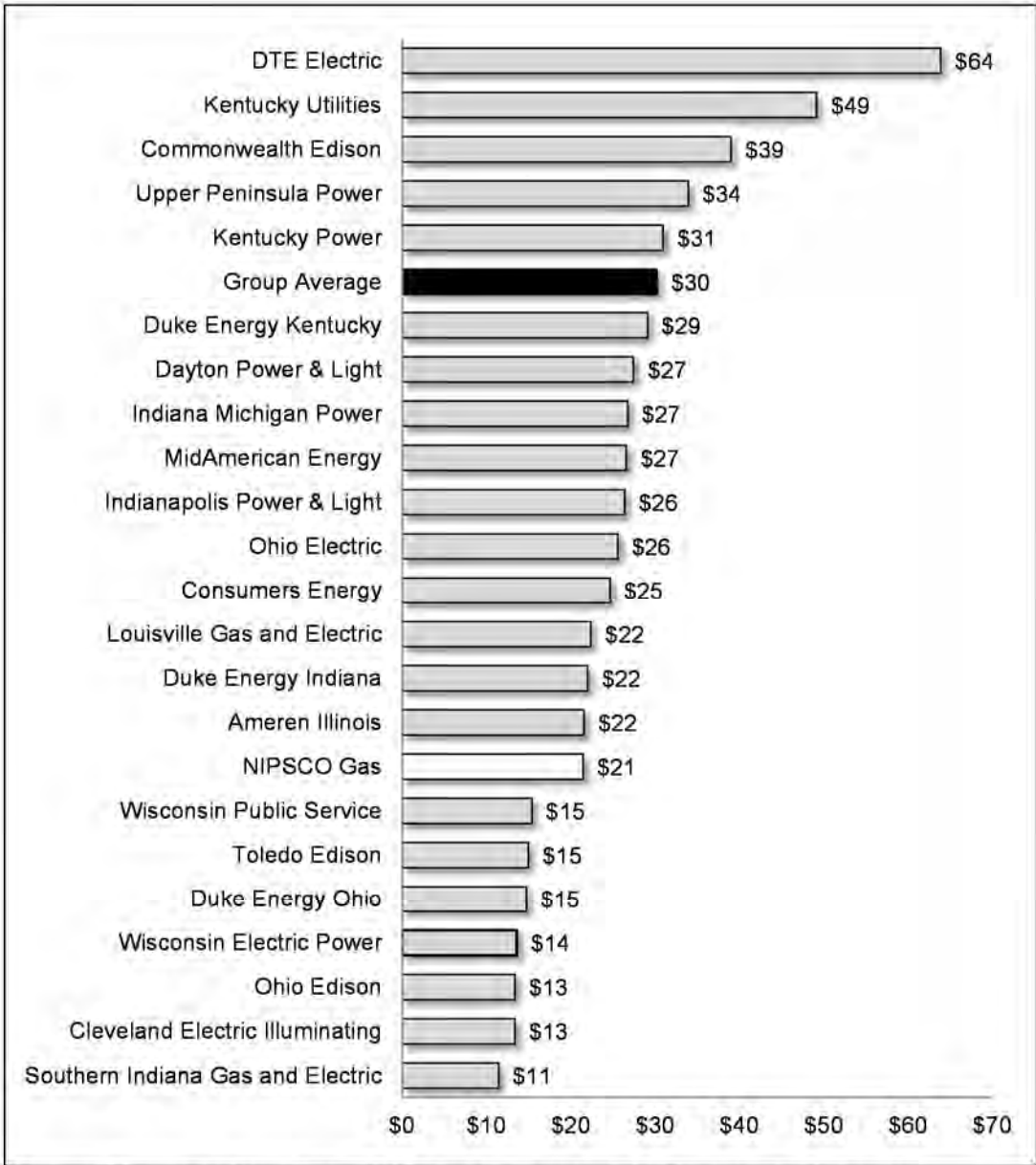
Source: FERC Form 1; Baryenbruch & Company, LLC, analysis



V – Question 3 – Reasonableness of Customer Account Services Costs

Summary of Results

As shown in the table below, NIPSCO Gas’s 2020 cost per customer of \$21.47 is below the utility comparison group average of \$30.26. The highest comparison group per-customer cost was \$63.91 and the lowest \$11.46. Fifteen comparison group companies had a higher cost per customer and 7 a lower cost per customer than NIPSCO Gas. Based upon this comparative data, NIPSCO Gas’s charges from NCSC for customer account services for 2020 are reasonable.



Source: Company information; FERC Form 1; Baryenbruch & Company, LLC, analysis

V - Question 4 – Need for NCSC Services

Analysis of Services

The final aspect of this study was an assessment of whether the services provided to NIPSCO Gas by NCSC would be necessary if NIPSCO Gas were a stand-alone gas utility. The first step in this evaluation was to determine specifically what NCSC does for NIPSCO Gas. The matrix in Schedule 12 (pages 34-35) was created showing which entity—NIPSCO Gas or an NCSC location—is responsible for each of the functions NIPSCO Gas requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by NCSC and (2) if NCSC services are typical of those needed by a stand-alone gas utility.

Upon review of Schedule 13, the following conclusions can be drawn:

- The services that NCSC provides are necessary and would be required even if NIPSCO Gas were a stand-alone utility.
- There is no redundancy or overlap in the services provided by NCSC to NIPSCO Gas. For all of the services listed in Schedule 13, there was only one entity that was primarily responsible for the service.



Northern Indiana Public Service Company
Designation of Responsibility for Gas Utility Functions

Primarily Responsible Provides Support	Performed by		Gas Company Function	Performed by				
	P	S		NIPSCO	NCSC			
Gas System Operations					Gas System Operations (cont.)			
			Capital Execution		Major Projects			
			Capital Allocation and Controls	P	S	Engineering Services	S	P
			Gas Engineering	S	P	Project Management Services	S	P
			Gas Construction	P	S	Construction Management	S	P
			Capital Scheduling	P	S	Contractor Services	S	P
			Distribution Planning	P		Commercial Operations		
			Maps and Records	P		Demand Side Management	P	
			Public Improvement	P		Major Accounts Support	P	
			Gas Operations			Customer Operations		
			Central Dispatch	P		Work Management System Support	P	
			Gas Planning	P		Engineering Support	P	
			Gas Scheduling	P		Planning And Scheduling	P	
			Work Management	P		New Business Support	P	S
			Field Operations			Meter Reading	P	
			Commercial Field Operations	P		Dispatch Operations Support	P	
			Damage Prevention	P		Customer System Support	P	
			Gas Control and Storage	P		Billing	P	S
			Gas System Operations	P		Revenue Recovery	P	S
			Leak Survey	P		Payment Processing	P	
			LNG Operations	P		Customer Programs	P	S
			Underground Storage Operations	P		Postage Management	P	S
			Service Installation	P		Damage Recovery	P	
			Vegetation Management - Gas	P		Walk in Centers	P	S
			Pipeline Safety and Compliance			Contact Center Operations & Support	P	S
			Integrity Management			Call Center Operations	P	S
			Pipeline Integrity	P	S	Delivery Services	P	S
			System Integrity	P	S	Warehouse Services		
			Public Awareness	P	S	Warehouse Operations	P	S
			Compliance	P	S	Material Services	P	S
						Fleet Services	P	S
						Supply Chain		
						Procurement Operations	S	P
						Compliance	S	P
						Contractor Time Reporting	S	P
						Security Services	S	P



Northern Indiana Public Service Company
Designation of Responsibility for Gas Utility Functions

Gas Company Function	Primarily Responsible P Provides Support S		Performed by	
	NIPSCO	NCSC	NIPSCO	NCSC
Planning				
Business Planning	S	P		
Strategic Planning	S	P		
Financial Services				
Financial Planning		P		
Financial Services		P		
Business Support Services - Budgeting	P			
Accounting		P		
Enterprise Transformation		P		
SOX Compliance		P		
Taxes		P		
Credit Risk Management		P		
Enterprise Risk Management		P		
Treasury		P		
Accounts Payable	P	S		
Asset Accounting	P	S		
Insurance		P		
Audit Services		P		
Rates and Regulatory				
Rates and Regulatory Finance		P		
Regulatory Legal		P		
Regulatory Policy				
Federal	P			
State	P			
Executive/Management	S	P		
Legal				
Legal Services		P		
Compliance		P		
Records Management		P		
Corporate Secretary Services		P		
Corporate Security		P		
Business Continuity		P		
Human Resources				
HR Programs Administration		P		
HR Services Delivery		P		
Payroll Services		P		
Organizational Development		P		

Gas Company Function	Performed by	
	NIPSCO	NCSC
Information Technology Services		
IT Security		P
IT Service Delivery		P
IT Operations and Maintenance		P
Enterprise Transformation		P
Service Performance		P
Facilities		
Facilities Management	S	P
Real Estate Management		P
Other		
Aviation		P
Corporate Compliance		P
Corporate Secretary		P
Corporate Affairs		
Corporate Communications		P
Government Affairs		P
Investor Relations		P
Corporate Affairs		P
State Governmental Affairs	P	
NIPSCO Communications		
Communications	P	
Public Affairs	P	
Economic Development	P	
Community Development	P	
Energy Supply & Trading		
Portfolio Optimization		P
Energy Trading		P
Market Research		P
Resource Planning		P
Environmental Safety & Training		
Safety Services		P
Compliance Services		P
Training		P
Remediation		P
Permitting		P

VI - Question 4 – Need for NCSC Services

Governance Practices Associated with NCSC Charges

There are several ways by which NIPSCO Gas exercises control over NCSC services and charges. The most important of these are described below.

- Accounting and Financial Reporting – NCSC’s accounting and financial reporting policies and practices conform to Generally Accepted Accounting Principles (GAAP). The Financial Accounting Standards Board (FASB) is recognized by the accounting profession as the primary body for establishing the standards embodied in GAAP. GAAP refers to the common set of accounting conventions, rules and procedures recognized as authoritative by the accounting profession and used by all non-governmental entities as a basis for their external financial statements and reporting. In addition, NCSC’s accounting records are kept in accordance with the Uniform System of Accounts (USofA) for service companies or for major gas utilities, as applicable, as prescribed by the Federal Energy Regulatory Commission (FERC). NCSC also follows the directives of Sarbanes-Oxley regulations.

During the month, accounting transactions are recorded. Variance analyses are performed based on actual to budget to ensure accuracy as part of a reasonableness review of NCSC charges in total. As a part of this analysis, NCSC Accounting reviews the monthly activity and investigates any identified anomalies. Once completed, the NCSC bill is run and the actuals are “pushed down” and allocated to the states based on predetermined formulas.

- External Audit Reviews – NiSource’s outside auditors (Deloitte) perform regular independent audits of NIPSCO and other NiSource subsidiaries’ books and records. Random sampling of NCSC contract and convenience bill items are conducted by Deloitte to ensure proper accounting and billing to the subsidiaries. The books and records of NCSC, to the extent they relate to transactions with NIPSCO, are also subject to audit by the Indiana Office of the Utility Consumer Counselor (OUCC), the Indiana Utility Regulatory Commission (IURC or Commission) and the FERC. NCSC is also involved in a number of regulatory filings in jurisdictions where NiSource operates. In certain of these filings, NCSC’s allocation factors are subjected to regulatory scrutiny and audit. In addition, NiSource Inc., including NCSC and NIPSCO Gas, underwent a FERC audit, Docket No. FA11-5-000, which covered the period January 1, 2009 through December 31, 2010. The FERC audit staff reviewed and tested the supporting details for NCSC’s cost allocation methods, including those costs billed to NIPSCO Gas. They also sampled and selected supporting documents to ensure that NCSC’s billings and NCSC and NIPSCO Gas accounting comply with the USofA.

VI - Question 4 – Need for NCSC Services

- **NCSC & NIPSCO Internal Controls** – NCSC follows the directives of various internally established control procedures. Examples of these control procedures: Authority limits and approvals required for requisition and disbursements; time and labor reporting; expense reporting and general ledger transactions; reasonableness review of actual to budget costs; bank and general ledger account reconciliations; access limitations to the accounts payable and general ledger accounting system; and Sarbanes-Oxley testing procedures. NCSC Accounting performs a monthly review of NCSC contract billings to all affiliates. A report is generated that includes invoice ID, vendor name, billing description, allocation code, department number and description and total amount billed. A random selection of NCSC charges greater than \$10,000 is reviewed to ensure reasonableness and accuracy of billing to the affiliate, including NIPSCO (company 59 NIPSCO Common, company, 89 NIPSCO Electric and company 90 NIPSCO Gas) charges.
- **Accounting Oversight** – The Corporate Accounting Manager is responsible for the accounting system and processes that track and identify the costs for services that are subsequently billed to NiSource affiliates, including NIPSCO, as well as reviewing general overall charges billed to each of the NiSource affiliates by NCSC. The Gas Segment Controller and the Electric Segment Controller also perform high level reviews of the charges. A monthly report summarizing contract billings is sent to the Utility Planning group for review and informational purposes.
- **Service Company Budget Review/Approval** – The Vice President of Planning and Analysis formally reviews and approves NCSC's budgets for reasonableness and an understanding of material changes for both the whole of the budgets and allocation to each of the states, including NIPSCO. These budgeted charges are distributed to each state as an input to their planning process upon approval from the Vice President of Planning and Analysis.
- **Service Company Bill Scrutiny** – The NCSC Budgeting team reviews the Service Company operating expenses for accuracy and reasonableness on a monthly basis. This review is done prior to the allocation of charges to the operating subsidiaries and after charges have been allocated. The Corporate Services Budgeting team performs an actual-to-budget comparison of fees each month for use in identifying unusual variances. This comparison is performed for NCSC and each subsidiary. Unusual variances are researched, explanations are provided and any corrections are made, as necessary.
- **Service Company Budget Variance Reporting** – Each month, the NCSC Budget team prepares a series of reports included in a Monthly Results

VI - Question 4 – Need for NCSC Services

Package that are reviewed by various levels of management to document variances and provide explanations, as needed.

- Operating Company Budget Variance Reporting – The operating company Financial Planning and Analysis (FP&A) team reviews the Monthly Results Package provided by the NCSC Budget team to gain an understanding of variance drivers associated with charges from NCSC. This report is distributed to key NIPSCO leaders. In this way, NCSC budget versus actual charges can be monitored for the month, quarter-to-date and year-to-date.
- Internal Audit Reviews – Corporate internal audit tests NCSC charges to operating utilities to ensure compliance with approved accounting policies, allocation methods and billing practices.