Northern Indiana Public Service Company LLC

Cause No. 45967

# VERIFIED DIRECT TESTIMONY OF RICK SMITH

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

A1. My name is Rick Smith. I am the Director of Operations Support Programs for Northern Indiana Public Service Company LLC ("NIPSCO"). My business address is 801 East 86th Avenue, Merrillville, Indiana 46410.

**Q2. Please describe your educational and employment background.**

A2. I am a graduate of Purdue University in West Lafayette, Indiana with a Bachelor of Science degree in Aeronautical Technology. I have a Master of Business Administration degree from Auburn University in Auburn, Alabama. I began my employment with NIPSCO in 2010 as an Underground Construction & Maintenance Supervisor (Valparaiso, Indiana 2010-2012); Service Supervisor (Valparaiso, Indiana 2012-2013); Superintendent of Gas Operations (Hammond, Indiana 2013-2015); Manager of Pipeline Services, overseeing the leak survey department (Merrillville, Indiana 2015-2017); Manager of Damage Prevention & Operations Projects, overseeing damage prevention, corrosion, and the prone to fail riser program (Merrillville, Indiana 2017-2020); Manager of

Operations Compliance (Merrillville, Indiana 2020-2022); and Director of Compliance & Public Safety (Merrillville, Indiana 2022-2023). I have been in my current position of Director of Operations Support Programs since October 2023 (Merrillville, Indiana 2023-Present).

**Q3. What are your responsibilities in your new position as Director of Operations Support Programs?**

A3. As Director of Operations Support Programs, I am responsible for the execution of NIPSCO's damage prevention program, leak survey program, cross-bore program, prone to fail riser program, and service line abandonment program. I provide oversight and strategic guidance for some of NIPSCO's federally mandated projects approved for recovery through NIPSCO's gas Federally Mandated Cost Adjustment.

**Q4. What were your responsibilities in your previous position as Director of Compliance & Public Safety?**

A4. As Director of Compliance & Public Safety, I had oversight and delivery of support services for pipeline safety and compliance for all of NIPSCO's gas operations. I was responsible for implementing an industry leading Pipeline Safety Management System, driving a risk assessment and

mitigation strategy through NIPSCO's integrity management programs, and driving improvements in public awareness of natural gas safety issues. In my role, I was also NIPSCO's liaison with the Indiana Utility Regulatory Commission's Pipeline Safety Division ("PSD") facilitating inspections, collaborating on pipeline safety initiatives, and submitting required compliance reports to the PSD and / or the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). I also provided strategic guidance to NIPSCO's Damage Prevention Organization.

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

A5. Yes. I previously testified before the Commission in NIPSCO's last gas rate case in Cause No. 45621.

**Q6. Are you sponsoring any attachments to your testimony in this Cause?**

A6. Yes. I am sponsoring a portion of the workpapers included in Petitioner's Confidential Exhibit No. 19-S2.

**Q7. What is the purpose of your direct testimony?**

A7. The purpose of my direct testimony is to provide an overview of NIPSCO's Damage Prevention Organization, describe NIPSCO's ongoing focus on

damage prevention, and sponsor a portion of NIPSCO's Operations and Maintenance (O&M) expense adjustment included in Adjustment OM 2-24. Finally, I explain why NIPSCO's line locate expenses should be provided deferral accounting treatment as proposed.

**Overview of NIPSCO's Damage Prevention Organization**

**Q8. What is the greatest threat to the integrity of the NIPSCO gas system?**

A8. The greatest threat to the integrity of NIPSCO's gas systems is the risk of third-party damages to its underground facilities during third-party excavations. NIPSCO's Damage Prevention Organization is responsible for protecting its facilities and comply with pipeline safety regulations, including providing the location of its facilities to excavators.

**Q9. Please provide an overview of NIPSCO's Damage Prevention Organization.**

A9. NIPSCO's Damage Prevention Organization is responsible for helping to manage and mitigate the risk of damage through a variety of activities including underground facility locating, excavator engagement and outreach, and damage investigation. Increasingly, the damage prevention function also entails the capture and evaluation of data related to excavation activities and damage events. NIPSCO has a dedicated staff of

34 employees charged with working with NIPSCO's locate contractors and with the excavator community to reduce the risk of damage to NIPSCO's underground gas facilities. NIPSCO's Damage Prevention Organization also audits its underground locate contractors to detect any locator training deficiencies by performing field audits of random locates and works with NIPSCO's communications group to assist with public awareness efforts of the Indiana Dig Law (Ind. Code ch. 8-1-26). The Damage Prevention Organization holds meetings with employees, excavators, and the public to raise awareness of damage prevention and promote public safety. The organization also gathers, organizes, and retains data to look for trends that could help improve NIPSCO's Damage Prevention Program.

**Q10. Please describe NIPSCO's Damage Prevention Program and how it complies with pipeline safety regulations.**

A10. NIPSCO's Damage Prevention Program is administered under the Damage Prevention Organization. Under 49 CFR 192.614 – Damage prevention program – each operator of a buried pipeline must carry out a written program to prevent damage to its pipelines from excavation activities. NIPSCO's Damage Prevention Program satisfies the requirements of 49 CFR Part 192.614 and consists of four main components: (1) participation in

a one-call system operated in accordance with 49 CFR Part 198.37; (2) execution of line locate requests governed by the Indiana Dig Law; (3) excavator outreach pursuant to Section 6.3 of API Recommended Practice 1162 ("RP 1162");[1] and (4) damage prevention and public awareness guidance on one-call center outreach under Section 6.3 of RP 1162. Federal pipeline safety regulations (49 CFR 192.616 and 49 CFR 195.440) require pipeline operators to develop and implement public awareness programs that follow the guidance provided by RP 1162. RP 1162 is an industry consensus standard that provides guidance and recommendations to pipeline operators for the development and implementation of enhanced public awareness programs. It addresses various elements of such programs, including the intended audiences, the kinds of information to be communicated, frequencies and methodologies for communicating the information, and evaluation of the programs for effectiveness.

[1] American Petroleum Institute, Public Awareness Programs for Pipeline Operators, API Recommended Practice 1162, First Edition, December 2003. This API guidance has been incorporated into Title 49 of the Code of Federal Regulations.

**NIPSCO's Ongoing Focus on Damage Prevention**

**Q11. Please describe what actions NIPSCO has taken to improve its Damage Prevention Program.**

A11. Since 2017, NIPSCO has improved its Damage Prevention Program in a number of ways including through the implementation of a safety management system, and ongoing collaboration with the PSD in reviewing damage information and discussing ways to continue to improve damage prevention efforts. In terms of the process for locating its underground facilities, in 2023, NIPSCO transitioned from using two primary locate contractors to using one locate contractor. Although there are potential benefits associated with having a diverse contractor pool, NIPSCO made the decision to end its relationships with one locate contractor based on a gap in its performance as compared to the locate contractor NIPSCO has retained. Throughout 2023, NIPSCO has realized an improvement in overall line locating and attributes some portion of this improvement to utilization of the single, better-performing line locating contractor. In addition, a data analytical risk model was developed to help ensure that locator resources were deployed at excavation sites representing the highest probability of a damage. With regard to implementing its safety

management system, NIPSCO completed a gap analysis in 2016 consistent with the American Petroleum Institute ("API") Recommended Practice 1173 ("RP 1173"),[2] identified leadership competencies, rolled out a Corrective Action Program ("CAP"), and began refining certain processes and procedures, and using the safety management system framework to further promote a culture focused on safety. In 2019, the American Gas Association (AGA) Board of Directors approved a resolution recommending that all members implement RP 1173. Collaboration with the PSD, including quarterly meetings and frequent communications, has facilitated the exchange of ideas, discussions regarding damage prevention data and damage trends NIPSCO and the PSD are observing.

In recent years, NIPSCO has also made significant, incremental investments

[2] API RP 1173, Pipeline Safety Management Systems, is a recommended practice establishing a pipeline safety management systems framework for organizations that operate hazardous liquids and gas pipelines jurisdictional to the US Department of Transportation. RP 1173 provides pipeline operators with safety management system requirements that, when properly applied, provide a framework to reveal and manage risk, promote a learning environment, and continuously improve pipeline safety and integrity. At the foundation of a pipeline safety management system is the operator's existing pipeline safety system, including the operator's pipeline safety processes and procedures. RP 1173 provides a comprehensive framework and defines the elements needed to identify and address safety for a pipeline's life cycle. These safety management system requirements identify what is to be done and leaves the details associated with implementation and maintenance of the requirements to the individual pipeline operators.

in this area, including hiring additional Damage Prevention Coordinators and other compliance staff, increasing the number of personnel to perform "Watch and Protect" activities, and doubling its QA/QC rate from 5% to 10%.

**Q12. Please provide more explanation of NIPSCO's ongoing efforts to reduce the risk of third-party damages to its underground facilities?**

A12. In an effort to prevent third-party damages that pose a potential threat to the public, excavators, and NIPSCO's employees, NIPSCO participates in the Indiana Underground Plant Protection Service, Inc.'s one-call system ("Indiana 811"). Any party conducting excavation work is required to call Indiana 811 at least two business days before excavation is scheduled to commence (the Indiana "Dig Law"). Indiana 811 notifies NIPSCO if its facilities are impacted and NIPSCO pays 95¢ per ticket to Indiana 811 for each locate request. NIPSCO then routes the information to its underground locate contractor or internal employees so that the Company's facilities can be marked.

**Q13. Please describe NIPSCO's participation in Indiana 811.**

A13. NIPSCO provides maps of its gas infrastructure to Indiana 811. When an excavator notifies Indiana 811 where they intend to excavate, the location

of the excavation is referenced to the maps provided to Indiana 811. If there is a possible conflict between the proposed excavation and NIPSCO's facility, Indiana 811 creates a "dig ticket" and sends it to NIPSCO for field execution.

**Q14. Please describe NIPSCO's execution of line locate requests.**

A14. When NIPSCO receives a dig ticket, the ticket is evaluated and assigned a risk score which is then sent to NIPSCO's locate contractor for field execution. The locate contractor completes the locate request (places paint and flags marking the approximate location of NIPSCO's facility), captures pictures of the completed locate request, and creates a sketch of the approximate location of NIPSCO's facilities in relation to the proposed excavation. The locate contractor then notifies Indiana 811 that the ticket has been completed and submits the pictures and sketch to the excavator by email (if an email is provided).

**Q15. Have NIPSCO's continuous improvement initiatives resulted in a reduction in facility damages?**

A15. Yes. Consistent with the approved settlement agreement in NIPSCO's last gas base rate case, NIPSCO has increased staffing in certain key positions

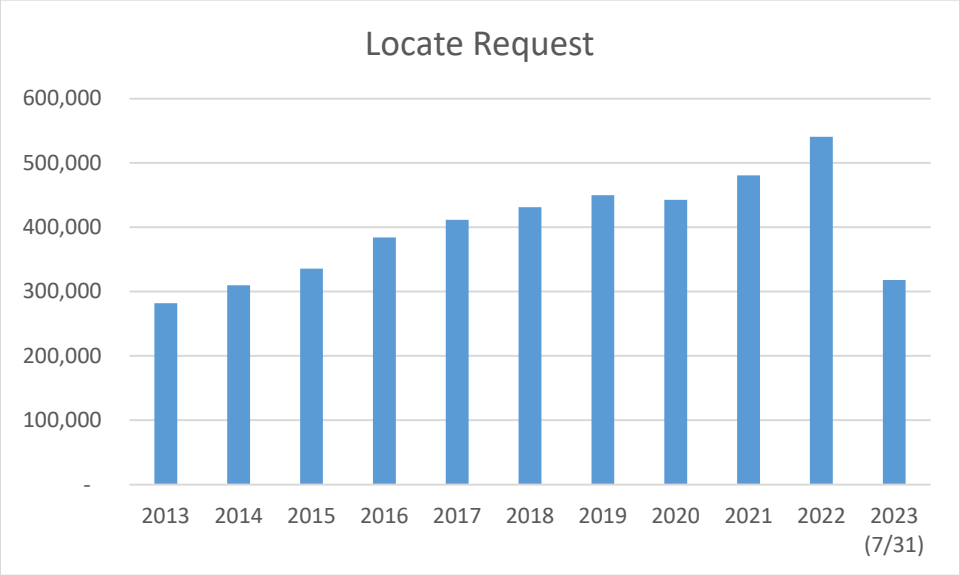
and has also broadened its public outreach programs. As a result, NIPSCO has reduced damages per 1,000 locate tickets (Damages per Thousand) from 3.75 in calendar year 2013 to 1.58 as of July 31, 2023. NIPSCO has also reduced the number of damages for "Locating Practices Not Sufficient" from 292 in calendar year 2013 to 110 as of July 31, 2023, with this reduction occurring at the same time NIPSCO was seeing an increase of locate ticket requests. While NIPSCO's damage prevention efforts have resulted in fewer damages since 2013, NIPSCO must comply with CFR 49 Part 192.907(a) by making continual improvements. The level of risk associated with excavation activities, as well as the ongoing collaboration with the PSD, also drives NIPSCO's continued efforts to improve in this area. Based on an evaluation of its practices, NIPSCO has identified additional measures that could be implemented to achieve further safety improvements, including, an increase in excavator outreach and education coupled with additional audits, to further reduce damages to its infrastructure.

**Q16. Please describe the number of gas Indiana 811 locate tickets NIPSCO has historically experienced within its service territory.**

A16. Table 1 below shows the number of gas Indiana 811 dig tickets within

NIPSCO's service territory.

**Table 1**




As shown above, for 2023, roughly 29,000 excavators and homeowners submitted more than 315,000 Indiana 811 dig tickets.

**<u>NIPSCO's Line Locate Adjustments</u>**

**Q17. Please describe Petitioner's Exhibit No. 3, Attachment 3-C-S2, Adjustment OM 2-24, as it relates to Outside Services – Line Locates.**

A17. A portion of Adjustment OM 2-24 reflects the Forward Test Year (the period beginning January 1, 2024 and ending December 31, 2024) operating expenses in the amount of $25,702,643 for Line Locates, an increase of $6,977,832 from Line Locates operating expenses incurred in 2022. The line locates operating expenses relate to (1) Indiana 811 ticket processing

expenses ($524,889), and (2) facility locating expenses from contract locator, inclusive of an audit requirement of 10% of volume and resolution of locate tickets where facilities are not able to be located ("unlocatables") under soft surfaces ($25,177,754). If an adjustment of $6,977,832 is not included, Forward Test Year Line Locates gas operating expenses would be understated.

**Q18. Please describe the Indiana 811 ticket processing expenses included in OM 2-24 shown in Petitioner's Exhibit No. 19-S2, Page [.4d].**

A18. The 2024 Forecast Period amount of $524,889 reflects the gas operating expense for Line Locates associated with the number of Indiana 811 tickets anticipated to be received for NIPSCO Gas in 2024.

**Q19. Please describe the facility locating expenses from contract locator, inclusive of an audit requirement of 10% of volume and unlocatable expenses, included in OM 2-24 shown in Petitioner's Exhibit No. 19-S2, Page [.4d].**

A19. The 2024 Forecast Period amount of $25,177,754 reflects the gas operating expense for Line Locates associated with the facility locating expenses from locate contractors, inclusive of an audit requirement of 10% of volume and

resolution of unlocatables under soft surfaces, projected for NIPSCO Gas in 2024.

**Q20. What functions does NIPSCO's locate contractor perform?**

A20. NIPSCO's locate contractor performs three primary functions: (1) locate the facility, (2) resolve unlocatables under soft surfaces, and (3) complete watch and protect services on NIPSCO's distribution infrastructure. NIPSCO has generally negotiated a 3-year locate contract with its locate contractor(s), which provides NIPSCO an opportunity to review contractor performance and make necessary changes. NIPSCO's current contract with its locate contractor covers the 3-year period 2022-2025. Rates associated with locate contracts have historically increased with each new contract.

**Q21. Please explain the main drivers associated with increases in rates associated with new locate contracts.**

A21. Rates have typically increased due to inflation, locate equipment, employee salaries, location of the locate request within NIPSCO's territory, and quality control programs. Inflation affects contractor expenses associated with locate flags, locate paint, fuel, vehicle, quality assurance / quality control processes, and equipment costs and thereby generally increases the

rates NIPSCO pays to the contractor. NIPSCO's locate contractor(s) is required to complete an audit on 10% of the locate tickets to reduce operator at-fault damages; this audit requirement is up from 5% historically. Locate contractors have also needed to upgrade equipment to be able to locate marker balls, which is a tool placed over an area that can be difficult to locate to send a unique frequency to the locate equipment allowing the equipment to inform the technician that there is a unique asset buried below (typically a tee on a main or a stub). These marker balls can be utilized when resolving soft and hard surface unlocatables so that future locate requests can be completed.

**Q22. Please provide additional details on unlocatables under soft surfaces.**

A22. Unlocatable facilities are assets that are not able to be located via conductive or inductive means. There are various reasons that can result in a facility being unlocatable including broken tracer wire from previously unreported damages, signal bleed off onto another facility, and faulty tracer wire connection points. NIPSCO separates the unlocatables into two categories – soft surface unlocatables (gravel and grass) and hard surfaces unlocatables (under concrete or asphalt). The factors that generally drive the price of a soft surface unlocatable is the asset that the unlocatable is

related to (main or service), and the type of work the excavator is completing. An unlocatable on a service line in a yard can typically be addressed with hand digging and repairing a tracer wire. Unlocatables on a main are generally more expensive because they are typically deeper and in closer proximity to other utilities, which requires coordination with other utilities and often requires vacuum excavation to avoid damaging the gas line. The number of unlocatables for each of these assets are largely dependent on the type of work the excavator is performing. For example, water/sewer, road, bridge, and broad band construction typically generate more main line unlocatables; whereas, homeowners and building construction typically generate service line unlocatables.

**Q23. Please describe the watch & protect initiative performed by the locate contractor.**

A23. As discussed earlier, NIPSCO's watch & protect initiative on its distribution infrastructure is a mitigation technique to reduce the number of third-party excavation damages (the greatest risk in NIPSCO's DIMP risk model). During this activity, NIPSCO uses a risk model to evaluate each ticket for a probability of a damage. The type of work (construction at or below NIPSCO's facilities depth), excavator history, and method of installation are

factors that influence the score of a ticket. The number of high risk excavations vary from year to year based on the type of work that is being executed by the excavator and the number of third-party contractors awarded work within NIPSCO's service territory with a high number of at-fault damages.

**Deferral Accounting Treatment for Line Locate Expenses**

**Q24. What line locate expenses are included in NIPSCO's proposal for deferral accounting treatment?**[3]

A24. The line locates operating expenses included in NIPSCO's proposal for deferral accounting treatment relate to (1) Indiana 811 ticket processing expenses, and (2) facility locating expenses from contract locator, inclusive of an audit requirement of 10% of volume and resolution of unlocatables related to soft surface unlocatables. A description of the expenses included in these two categories has been provided above.

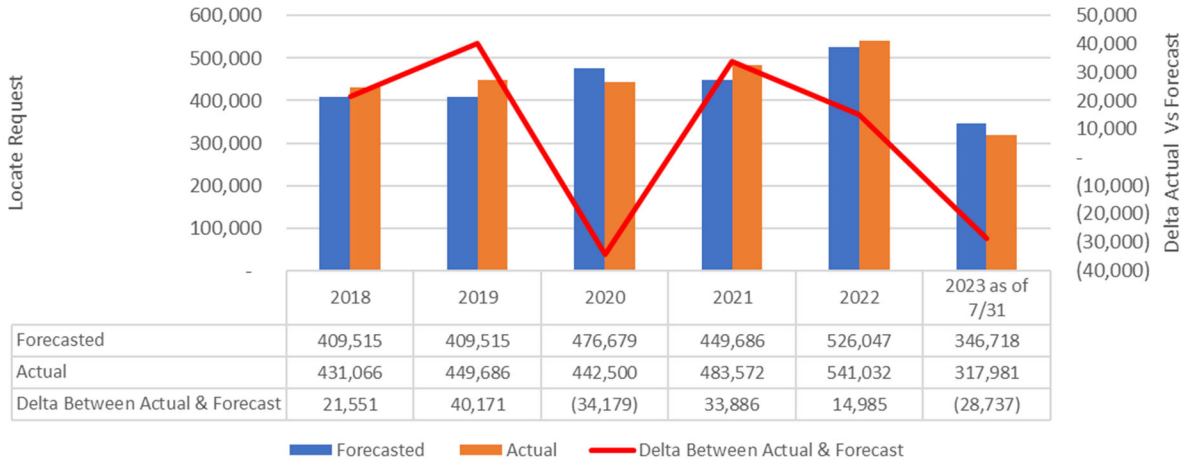
**Q25. Are these line locate expenses variable and outside of NIPSCO's control?**

A25. Yes. There are two primary components to underground facility locate expenses: (1) volume of underground facility locate requests and (2) the per

[3] NIPSCO Witness Weatherford discusses NIPSCO's proposal for deferral accounting treatment.

ticket expense to locate the underground facilities. The volume of underground facility locate requests are a product of industry construction projects, largely dependent upon the broader economy, and public awareness of the Indiana Dig Law, all of which are variable and outside NIPSCO's control. Inflation, producer price index of materials, and state/federal construction funding, all influence the volume of NIPSCO's underground facility locate requests. As inflation and the producer price index of materials rises, there are fewer projects completed at a local level. Inflation and producer price index of materials typically affects new home construction and new business growth. Likewise, as state/federal funding is approved, there are more projects commissioned. State/federal approval typically affects water/sewer, bridge construction work, road work, and broadband communication installation. Lastly, public awareness of the Indiana Dig Law also influences the number of NIPSCO's underground facility locate requests. Table 2 reflects NIPSCO's year over year forecast versus actual locate requests.

Table 2:
Locate Volume Forecasted vs. Actual




| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 as of 7/31 |
|---|---|---|---|---|---|---|
| Forecasted | 409,515 | 409,515 | 476,679 | 449,686 | 526,047 | 346,718 |
| Actual | 431,066 | 449,686 | 442,500 | 483,572 | 541,032 | 317,981 |
| Delta Between Actual & Forecast | 21,551 | 40,171 | (34,179) | 33,886 | 14,985 | (28,737) |

The average delta between the annual forecasted and actual volume is 28,918 locate requests, which is significant considering the average monthly locate volume per month for 2022 was 33,852 locate requests.

NIPSCO is required to comply with pipeline safety regulations that dictate NIPSCO continuously improve its damage prevention and public awareness programs. These programs promote using the Indiana 811 system to avoid facility damages. With the exception of 2020 (pandemic), NIPSCO has experienced a year-over-year increase in the number of underground facility locate requests. Based on that experience, the number of underground facility locate requests forecasted for 2023 was higher than 2022. As inflation has risen, underground facility locate requests in 2023 have actually *decreased* by approximately 1% as of July 31, 2023 are now forecasted to decrease by 3% by

year end. NIPSCO has no control over inflation, producer price index of materials, project approvals at the state/federal level, and the public awareness of the Indiana Dig Law.

The next component of NIPSCO's underground facility locate expense is the cost per ticket. Providing accurate and on-time facility locates is a method to reduce the risk of a facility damage to NIPSCO's infrastructure. NIPSCO has taken several steps to improve its accuracy and timeliness of underground locates. As noted above, NIPSCO's locate contractor(s) is required to complete an audit on 10% of the locate tickets to reduce operator at-fault damages. This audit requirement was increased from 5% in NIPSCO's prior contract with its locate contractor(s), which resulted in increased line locate contract rates. Requiring NIPSCO's locate contractor to increase the number of audits conducted, required locate technicians to complete less tickets per day to focus on accurately locating NIPSCO's facilities and validate the available records (in-turn hire more locate technicians). Other increases result from improvement of documentation relating to the status of the ticket to comply with new reporting requirements, submission of enhanced positive response to excavators, increased wages for cost of living adjustments, upgraded locate equipment to recognize subsurface marker ball technology,

and implementation of higher standards of accuracy in the field.

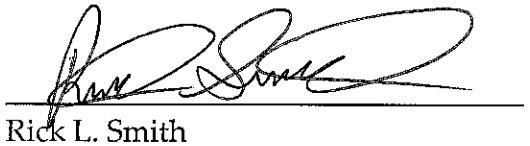
It is for these reasons that NIPSCO is seeking to defer under- or over-recovery of Line Locates expense for future recovery or pass-back to customers.

**Q26. Does this complete your prefiled direct testimony?**

A26. Yes.

**VERIFICATION**

I, Rick L. Smith, Director of Operations Support Programs for Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.



Rick L. Smith

Dated: October 25, 2023