STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC PURSUANT TO IND. CODE §§ 8-1-2-42.7, 8-1-2-61 AND, IND. CODE § 8-1-2.5-6 FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A PHASE IN OF RATES; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (3) APPROVAL OF REVISED COMMON AND ELECTRIC DEPRECIATION RATES APPLICABLE TO ITS ELECTRIC PLANT IN SERVICE; (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF; AND (5) APPROVAL OF A NEW SERVICE STRUCTURE FOR INDUSTRIAL RATES.	)	CAUSE NO. 45159

NLMK'S NOTICE OF REVISED DIRECT TESTIMONY

NLMK Indiana, a division of NLMK USA ("NLMK"), by counsel, makes the following revisions to the Prefiled Verified Direct Testimony of James A. Lahtinen.

Page 3-4: P. 3 line 22 beginning with "Finally" through p. 4, line 4 have been deleted,

Pages 12-13: P. 12, line 21 through p. 13, line 10 have been deleted.

Attached are a redline copy of the deletions and a clean version, which will be included in the Court Reporter's copies offered into evidence at the hearing.

Respectfully submitted,

/s/ Anne E. Becker
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The undersigned counsel hereby certifies that a copy of the foregoing document was served via electronic mail this 17th day of May, 2019:

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Verified Revised Direct Testimony and Exhibits of

James A. Lahtinen

On behalf of

NLMK Indiana

~~February 13~~May 17, 2019

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Direct Testimony of James A. Lahtinen

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is James A. Lahtinen, and my business address is 34 Founders Green, Pittsford, NY 14534.

Q WHAT IS YOUR OCCUPATION?

A I am an independent economic and financial consultant advising clients on matters involving regulatory policy, rates, and costs.

Q WHAT EXPERIENCE DO YOU HAVE REGARDING THE ISSUES IN THIS PROCEEDING?

A Prior to February 2017, I was employed for 12 years as Vice President of Rates and Regulatory Economics for Rochester Gas & Electric Company. RG&E is a subsidiary of Avangrid Networks, Inc., which is comprised of eight electric and natural gas companies

serving over three million customers in New York and New England. In that position, I managed a team of accountants, financial analysts, and operation researchers supporting company decision making and litigation support for state and federal regulatory rate filings.

In addition, I also served as Vice President of Regulation for New York Transco during the period November 2014 to February 2017 and was responsible for regulatory filings before the Federal Energy Regulatory Commission. New York Transco is a member-owned company formed by New York's investor-owned utilities in late 2014 to construct and maintain electric transmission facilities to address public policy needs defined by the state's Public Service Commission. Its members include Con Edison Transmission, LLC, a subsidiary of Con Edison, Inc.; Grid NY, LLC, a subsidiary of National Grid PCL; Avangrid New York Transco, LLC, a subsidiary of AVANGRID, Inc.; and Central Hudson Electric Transmission, a subsidiary of CH Energy Group, Inc.

A summary of all my relevant experience and education is provided in Exhibit JAL-1.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of NMLK Indiana ("NLMK"). NLMK operates a steel mini-mill located in Portage, Indiana that specializes in the production of hot rolled coil. The company operates an electric arc furnace melt shop that produces continuous cast steel slabs and a hot strip rolling mill for further processing of slabs into flat rolled steel products. NLMK takes power from NIPSCO's high voltage facilities and consumes millions of kWh each month.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A The purpose of my testimony is to comment on NIPSCO's rate restructuring proposal to consolidate three existing large industrial classes (732, 733, and 734) into two new rate

classes (830 and 831) and to require its largest customers taking service under proposed Rate 831 to purchase their non-firm energy requirements from the wholesale markets administered by MISO or from third party suppliers. NIPSCO maintains that the proposed rate restructuring is motivated by pending and potential bypass efforts by its very large industrial customers. NIPSCO claims that the new 831 rate structure will offer these large customers enhanced opportunities to independently manage their energy costs while they accept greater exposure to market price and volatility risks. I explain below that the competitive threats facing NIPSCO's largest energy intensive customers are undeniable, why it is reasonable for NIPSCO to address the prospect of bypass by these customers at this time, and why NIPSCO's proposed rate restructuring is reasonable and necessary. In the event that the Commission does not approve NIPSCO's proposed restructuring of the large industrial rates, I recommend an alternative approach for allocating any revenue increase or decrease among NIPSCO's existing rate classes.

Q WILL YOU OFFER ANY COMMENTS ON OTHER ASPECTS OF NIPSCO'S PROPOSED RATE FILING?

A Yes. I will discuss NIPSCO's proposal to allocate generation production plant using a 4 CP allocator, its proposal to set rates for the new large industrial non-firm rate (Rate 831) at the proposed system average rate of return (*i.e.*, at "parity"), and the reasonableness of NIPSCO's proposed mitigation of the rates of return of other customer classes. I also will address required changes to the Rate 831 rate design and NIPSCO's proposal to address any differences between anticipated and actual Rate 831 Tier 1 (firm service) contract enrollment amounts through a second stage rate filing. ~~Finally, with respect to NIPSCO's proposed revenue requirement, I recommend that the Commission reject NIPSCO's proposal to accelerate book depreciation on generation plants that it~~

~~anticipates retiring within the next 10 years and instead recommend that NIPSCO retain the current depreciation accrual rates. Maintaining current depreciation accrual rates will help to mitigate overall customer rate impacts arising from this Cause. The amortization of the retiring plants can always be reexamined in subsequent rate proceedings.~~

Q PLEASE COMMENT ON NIPSCO'S EXPRESSED RATIONALE FOR THIS RATE FILING.

A NIPSCO witnesses Hooper and Kelly point to the following factors as the key drivers to its rate filing:

1. The need to restructure large industrial rates to address a "changing economic landscape."
2. NIPSCO's desire to accelerate the amortization of its coal-fired generating units (increase depreciation accrual rates) toward the early retirement dates announced in its most recent IRP.
3. NIPSCO's need to fully reflect in its base rates the benefits to consumers of the Tax Cuts and Jobs Act of 2017.

NIPSCO seeks an overall increase in its electric revenues of $21.4 million, or 1.4% based on total requested retail revenues of $1.545 billion. Because it deems this requested increase to be small, NIPSCO asserts that its filing is not motivated by the company's revenue request, but, as Mr. Hooper puts it, is really a "policy case dealing with the changing energy marketplace" (Hooper at p. 12). While these three factors are the primary driving factors, the case clearly is more complicated than that. Although NIPSCO seeks a $21.4 million increase overall in retail revenues, the proposed base rate revenue increase exceeds $111 million. That proposed net change in base revenues reflects not only the factors noted above, but shifting recovery of various items from

trackers to base rates, the movement in the other direction of RTO costs from base rates to the tracker mechanism, separately stating the UTR (which is currently recovered in base rates) on consumer bills, and other features requested by NIPSCO.

Q PLEASE COMMENT ON NIPSCO'S EXPRESSED CONCERN REGARDING LARGE INDUSTRIAL BYPASS OR LOAD LOSS.

A In my view, NIPSCO is entirely correct that the electric energy marketplace is changing, and changing rapidly. It is crucial to recognize that the basic observable changes (coal plant retirements, increased reliance on natural gas fired generation, and NIPSCO's interest in large scale renewable investments) are being driven by fundamental economic and technological developments, including especially the availability of low cost domestic natural gas supply. The Energy Information Administration's ("EIA's) most recent Annual Energy Outlook released at the end of January confirms that abundant natural gas supplies are expected to produce comparatively low gas prices for the foreseeable future. (See https://www.eia.gov/outlooks/aeo/pdf/aeo2019.pdf). This affects both the ongoing economics of NIPSCO's coal-fired generation and the attractiveness of self-supply alternatives to NIPSCO's very large industrial loads.

Given NIPSCO's dependence on industrial customers for such a large component of its retail sales, and the concentration of those sales among a small number of large, energy intensive, competitively at-risk industrial customers, NIPSCO is compelled to respond constructively to potential loss of these loads through bypass or production relocation. As the competitive rate advantage NIPSCO's industrial customers once enjoyed has eroded and global competitive pressures have mounted, NIPSCO's largest customers are being pushed to consider power supply service alternatives. This was jarringly illustrated by BP's petition last year to self-service most of its electric needs with generation from

Whiting Clean Energy ("WCE") in Cause No. 45071. As Mr. Kelly explained further in response to Citizen Action Coalition's Data Request 2-025, in this Cause, given the existing economic conditions and the large industrial customers' desire for more market based choices, this is the appropriate time to address the threat. I agree with that assessment.

Q DO YOU CONSIDER NIPSCO'S PROPOSED RATE RESTRUCTURING CHANGES FOR THE LARGE INDUSTRIAL RATE CLASS 831 TO BE REASONABLE?

A Yes. Based on my previous experience, it is better to proactively deal with the threat of significant load loss rather than wait and deal with the consequences afterwards. I have examined the particular rate structure for Rate Class 831 and find, with the slight revision noted below, that it is a reasonable approach to enable large industrial customers the opportunity to actively manage the energy cost risks for their load. Under current rates, large, non-firm loads participating in Rider 775 are subject to economic interruptions as well as reliability curtailments in exchange for the demand credits offered under the provisions of the Rider. A customer electing to continue to operate during an economic interruption pays the spot wholesale energy price (the locational marginal price, or "LMP"). Generally, as I understand the proposed Rate 831, NIPSCO will expand that concept to treat all non-firm energy sales as a buy-through but without the assurance of the prevailing interruptible credits, which would be eliminated. Large industrial customers will be required to contractually commit to a base level of demand and energy (Tier 1) for a five-year term, accept reliability curtailment provisions for non-firm power purchases (under Tier 2 or Tier 3) based on MISO's requirements for Load Modifying resources ("LMRs"), and be subject to full wholesale energy market risks for all non-firm

energy purchased. For this approach to make sense to large customers, the firm (Tier 1) rates must in the first instance be reasonable, and affected customers must have tools available to manage the market risks that will apply to all Tier 2 and Tier 3 energy purchases.

I note with respect to the first rate element of proposed Rate 831 that existing customers served on Rate 732 will face a significantly increased demand charge under NIPSCO's proposed Tier 1 rates. This approach materially impacts the risk-reward opportunities for existing Rate 732 customers that do not operate at exceptionally high load factors. For this reason, it is imperative that, as NIPSCO has proposed, the Rate 831 rates be designed to provide a rate of return that is not higher than the proposed system average rate of return (*i.e.*, be set at parity to the system return). With respect to the second element, NIPSCO's intent in proposing the Tier 2 and 3 options is to establish customer-determined risk management tools. These risk management tools are essential to this rate structure because the energy price volatility exposure that Rate 831 customers otherwise would encounter would be unacceptable. On balance, the proposed rate structure will allow large customers an enhanced ability to match energy market risks and opportunities with their unique load profiles and energy requirements. This approach is preferable to either a "no action" alternative that does not address bypass risks or further expansion of the current interruptible tariff provisions because the proposed approach creates a sustainable platform that allows competitively at-risk industrial customers to better determine an appropriate balance between expected power cost levels and volatility and curtailment risk.

Q HOW SHOULD NIPSCO'S RATE BE STRUCTURED IF THE COMMISSION DOES NOT APPROVE NIPSCO'S INDUSTRIAL RATE RESTRUCTURING?

A If the Commission rejects NIPSCO's proposed industrial rate restructuring, NIPSCO should retain the current rate 732, 733 and 734 service offerings, apply any authorized base rate revenue increase, or decrease, on an equal percentage basis to all classes, and continue or expand its Rider 775 options. Apart from the reasons for the proposed rate restructuring, there is no reason to consolidate the existing large industrial rates, continuing the Rider 775 options would be essential, and an equal percentage increase or decrease, as NIPSCO has proposed for all service classes other than Rate 831, is a palatable mitigation approach under the circumstances presented. To be clear, however, NLMK agrees with NIPSCO that the proposed rate structure offers a more sustainable platform for preventing uneconomic bypass.

Q DO YOU AGREE WITH NIPSCO'S CLAIMS THAT APPROVAL OF THE PROPOSED RATE STRUCTURE SHOULD BE BENEFICIAL OVER THE LONG TERM TO OTHER RATE CLASSES?

A Yes. While in the short-term other classes will bear increased fixed cost recovery, NIPSCO proposes to mitigate the effects on smaller customers in its rate filing. Also, as noted below, retaining current depreciation accrual rates for its generating plants and other revenue requirement adjustments should further mitigate those effects. Rate impacts also could be moderated by phasing in the requested increase over a multi-year period if the Commission feels such treatment is necessary. While I am not offering a specific proposal in this case, such rate making treatment is a reasonable way to smooth customer class impacts overall while at the same time addressing the threat of bypass by large industrial customers. Over the long run, all NIPSCO customers benefit if NIPSCO

can retain its large industrial base. Given NIPSCO's vulnerability to significant bypass by its largest industrial customers, other customers are exposed to risk of even higher rates over the long term if the current rate structure is maintained without confronting the bypass risks.

Q ARE YOU AWARE OF SITUATIONS AT OTHER UTILITIES WHERE SIGNIFICANT LOAD REDUCTIONS OF INDUSTRIAL CUSTOMERS CAUSED SEVERE IMPACTS?

A Yes. In 1981, steel production in the Pittsburgh area peaked at 465,000 tons. One year later, steel production dropped to 250,000 tons – a 53% decline. It is interesting to note that in July of 1981, Duquesne Light Company established an historic system peak demand of 2,522 MW. In 1982, Dusquesne's recorded system summer peak had fallen to 2,031 MW – a 491 MW (19%) drop in a single year. During the prior 20 years, Duquesne Light had experienced average annual growth in peak demand of about 4%. After that sudden decline, Duquesne's system peak load did not recover to the 1981 level until 1994. As a consequence of this loss of load, the company found itself with substantial excess generation capacity that ultimately forced it to mothball the Phillips power station. I spent my initial years at Duquesne working with others in attempting to arrange for firm sales of this excess generating capacity into eastern PJM. I do not mean to suggest that the industrial load loss at Duquesne Light could have been avoided through rate structure changes or that a similar loss of load will result if NIPSCO's rate redesign is rejected. I bring this up to illustrate that a significant manufacturing load reduction can have significant systemwide impacts that can be long lasting.

Q WOULD YOU PLEASE COMMENT ON THE 4 CP ALLOCATON NIPSCO HAS PROPOSED IN THIS PROCEEDING?

A Yes. NIPSCO's proposal to allocate production costs based on a 4 CP allocator is consistent with cost causation given the strong summer peaking nature of NIPSCO's system. I am aware that NIPSCO has proposed this method in recent prior base rate cases and support its continued application in this Cause. I also am aware of the objections raised by other parties to the use of the 4 CP allocation method for demand-related generation costs in previous proceedings. It is not my intention here to argue the conceptual merits of all conventional approaches for allocating generation costs (*e.g.*, 4 CP, 12 CP, average and excess, fuel offsets, marginal cost, etc.), but simply to affirm that the 4 CP method used by NIPSCO is clearly reasonable. NIPSCO witnesses Kelly and Hooper have made compelling arguments that the threat of bypass is real, and the BP-WCE petition tangibly supports the company's concern. This is not a debate concerning which method, in the abstract, is best, but which approach under current circumstances is most appropriate. The 4 CP method is a reasonable approach based on NIPSCO's system profile. Adopting a more energy-oriented method under any rationale would undermine NIPSCO's efforts to combat large customer bypass.

Q DO YOU AGREE WITH NIPSCO'S RATE DESIGN AND MITIGATION PROPOSALS?

A Yes. NIPSCO's proposed approach of designing Rate 831 at the proposed system average return and applying an across-the-board average increase to all other rate classes reasonably addresses both the industrial bypass and mitigation concerns. In my opinion, this is a reasonable and thoughtful compromise given the circumstances that must be addressed. Finally, it bears noting that equalizing class rates of return is a reasonable

goal in general, but blind adherence to this goal is not. For example, even if the proposed rates for rate class 831 produced a class rate of return below the system average the result would be reasonable if it helped alleviate the industrial bypass threat that exists.

Q ARE YOU AWARE THAT NIPSCO HAS PROPOSED A SECOND STAGE RATE FILING IN PART TO ADDRESS ITS CONCERN THAT CUSTOMERS IN RATE CLASS 831 MAY CONTRACT FOR LESS TIER 1 DEMAND THAN THEY HAVE ASSUMED FOR THE TEST YEAR?

A Yes. This concern is addressed in the testimony of Mr. Kelly in which he explained that the as-filed rates for Rate 831 were designed assuming that 184.556 MWs (measured at the customer meter) of NIPSCO's large industrial load would be enrolled in Rate 831's Tier 1 service. He explained that this level of demand was based on indicated expected firm demands after discussions with NIPSCO's five largest customers. Because those customers, as well as other customers that may be eligible for Rate 831, could elect different levels of firm service for Tier 1, NIPSCO proposes that customer choices regarding Tier 1, 2, and 3 contract levels be made within 30 days following the final order from the Commission in this rate proceeding. Once final contract demands are known NIPSCO would calculate any revenue excess or shortfall resulting from Tier 1 subscriptions that vary from the estimated 184.556 MW, and proposes to incorporate that difference into the proposed second phase true up. He concludes that: "If, after the final order, the total amount of Tier 1 firm service chosen by the five largest industrial customers is different than 184.556 MW, final rates will be set in the Phase 2 rates to collect the appropriate revenue."

Q PLEASE COMMENT ON THIS PROPOSAL.

A NLMK opposes including a Rate 831 Tier 1 true-up in a second stage filing because it is

unnecessary and could produce material but unanticipated rate impacts. NLMK fully expects to subscribe to Tier 1 service based on the estimates it previously provided to NIPSCO and urges other very large industrial customers to commit to the firm service estimates that were provided to NIPSCO.

Q IS THERE A MORE PRACTICAL SOLUTION TO NIPSCO's PROPOSED SECOND STAGE TRUE-UP?

A Yes. A simpler solution to NIPSCO's concern is to revise the contracting requirements contained in the proposed tariff. Rate 831 specifies a default level of firm Tier 1 service at 30,000 kW but allows a customer to opt to reduce that level to 10,000 kW (Petitioner's Exhibit 19, Attachment 19-A, sheet 80). The tariff should instead specify that the minimum level of Tier 1 service shall be 30,000 kW except in the case of non-firm (Rider 775) customers that historically have subscribed to a lesser amount of firm service. In the latter case, the customer may opt to take firm service at the greater of their historic level of firm service or 10,000 kW. This revision would largely ensure against a significant shortfall in projected overall Tier 1 enrollment of 185 MW assumed in NIPSCO's filing, and should render a second stage true-up unnecessary. If a true-up were to be permitted, it should only be adjusted upward if enrollment exceeds NIPSCO's assumption to preclude a material overcollection of NIPSCO's fixed costs through the Tier 1 rates. I have included a redline of the proposed tariff to incorporate this proposed modification as Exhibit JAL-3.

~~**Q PLEASE DISCUSS NIPSCO'S PROPOSAL TO ACCELERATE DEPRECIATION FOR THE PLANNED RETIRMENT OF ITS COAL UNITS**~~

~~A. NIPSCO witness Augustine explained the company's rationale for determining to retire its remaining Shahfer coal-fired generating units in 2023 and Michigan City unit 12 in~~

~~2028. Those units had been expected to remain in service through 2035 and 2040, respectively. For rate purposes rather than to readjust those rates to reflect the newly announced new planned retirement dates, NIPSCO proposes to recalculate its depreciation accrual rates for the units through the year 2030. While NIPSCO intends the arbitrary proposed 2030 date as a means of mitigating the rate impact of the early retirement of the remaining coal units, the proposed accelerated recovery of plant costs nonetheless imposes an unnecessary and unanticipated increase in consumers rates. I suggest that NIPSCO retain its current accrual rates for the coal-fired units in this case in order to mitigate overall customer rate impacts. The depreciation rates for the coal units can always be reassessed in subsequent NIPSCO rate cases if circumstances warrant.~~

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

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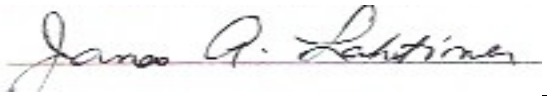
Verification

I, James A. Lahtinen, verify under the penalties of perjury that the foregoing statements are true and correct to the best of my belief and knowledge.



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Verified Revised Direct Testimony and Exhibits of

James A. Lahtinen

On behalf of

NLMK Indiana

May 17, 2019

STATE OF INDIANA

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Direct Testimony of James A. Lahtinen

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is James A. Lahtinen, and my business address is 34 Founders Green, Pittsford, NY 14534.

Q WHAT IS YOUR OCCUPATION?

A I am an independent economic and financial consultant advising clients on matters involving regulatory policy, rates, and costs.

Q WHAT EXPERIENCE DO YOU HAVE REGARDING THE ISSUES IN THIS PROCEEDING?

A Prior to February 2017, I was employed for 12 years as Vice President of Rates and Regulatory Economics for Rochester Gas & Electric Company. RG&E is a subsidiary of Avangrid Networks, Inc., which is comprised of eight electric and natural gas companies

serving over three million customers in New York and New England. In that position, I managed a team of accountants, financial analysts, and operation researchers supporting company decision making and litigation support for state and federal regulatory rate filings.

In addition, I also served as Vice President of Regulation for New York Transco during the period November 2014 to February 2017 and was responsible for regulatory filings before the Federal Energy Regulatory Commission. New York Transco is a member-owned company formed by New York's investor-owned utilities in late 2014 to construct and maintain electric transmission facilities to address public policy needs defined by the state's Public Service Commission. Its members include Con Edison Transmission, LLC, a subsidiary of Con Edison, Inc.; Grid NY, LLC, a subsidiary of National Grid PCL; Avangrid New York Transco, LLC, a subsidiary of AVANGRID, Inc.; and Central Hudson Electric Transmission, a subsidiary of CH Energy Group, Inc.

A summary of all my relevant experience and education is provided in Exhibit JAL-1.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of NMLK Indiana ("NLMK"). NLMK operates a steel mini-mill located in Portage, Indiana that specializes in the production of hot rolled coil. The company operates an electric arc furnace melt shop that produces continuous cast steel slabs and a hot strip rolling mill for further processing of slabs into flat rolled steel products. NLMK takes power from NIPSCO's high voltage facilities and consumes millions of kWh each month.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A The purpose of my testimony is to comment on NIPSCO's rate restructuring proposal to consolidate three existing large industrial classes (732, 733, and 734) into two new rate

classes (830 and 831) and to require its largest customers taking service under proposed Rate 831 to purchase their non-firm energy requirements from the wholesale markets administered by MISO or from third party suppliers. NIPSCO maintains that the proposed rate restructuring is motivated by pending and potential bypass efforts by its very large industrial customers. NIPSCO claims that the new 831 rate structure will offer these large customers enhanced opportunities to independently manage their energy costs while they accept greater exposure to market price and volatility risks. I explain below that the competitive threats facing NIPSCO's largest energy intensive customers are undeniable, why it is reasonable for NIPSCO to address the prospect of bypass by these customers at this time, and why NIPSCO's proposed rate restructuring is reasonable and necessary. In the event that the Commission does not approve NIPSCO's proposed restructuring of the large industrial rates, I recommend an alternative approach for allocating any revenue increase or decrease among NIPSCO's existing rate classes.

Q WILL YOU OFFER ANY COMMENTS ON OTHER ASPECTS OF NIPSCO'S PROPOSED RATE FILING?

A Yes. I will discuss NIPSCO's proposal to allocate generation production plant using a 4 CP allocator, its proposal to set rates for the new large industrial non-firm rate (Rate 831) at the proposed system average rate of return (*i.e.*, at "parity"), and the reasonableness of NIPSCO's proposed mitigation of the rates of return of other customer classes. I also will address required changes to the Rate 831 rate design and NIPSCO's proposal to address any differences between anticipated and actual Rate 831 Tier 1 (firm service) contract enrollment amounts through a second stage rate filing.

Q PLEASE COMMENT ON NIPSCO'S EXPRESSED RATIONALE FOR THIS RATE FILING.

A NIPSCO witnesses Hooper and Kelly point to the following factors as the key drivers to its rate filing:

1. The need to restructure large industrial rates to address a "changing economic landscape."
2. NIPSCO's desire to accelerate the amortization of its coal-fired generating units (increase depreciation accrual rates) toward the early retirement dates announced in its most recent IRP.
3. NIPSCO's need to fully reflect in its base rates the benefits to consumers of the Tax Cuts and Jobs Act of 2017.

NIPSCO seeks an overall increase in its electric revenues of $21.4 million, or 1.4% based on total requested retail revenues of $1.545 billion. Because it deems this requested increase to be small, NIPSCO asserts that its filing is not motivated by the company's revenue request, but, as Mr. Hooper puts it, is really a "policy case dealing with the changing energy marketplace" (Hooper at p. 12). While these three factors are the primary driving factors, the case clearly is more complicated than that. Although NIPSCO seeks a $21.4 million increase overall in retail revenues, the proposed base rate revenue increase exceeds $111 million. That proposed net change in base revenues reflects not only the factors noted above, but shifting recovery of various items from

trackers to base rates, the movement in the other direction of RTO costs from base rates to the tracker mechanism, separately stating the UTR (which is currently recovered in base rates) on consumer bills, and other features requested by NIPSCO.

Q PLEASE COMMENT ON NIPSCO'S EXPRESSED CONCERN REGARDING LARGE INDUSTRIAL BYPASS OR LOAD LOSS.

A In my view, NIPSCO is entirely correct that the electric energy marketplace is changing, and changing rapidly. It is crucial to recognize that the basic observable changes (coal plant retirements, increased reliance on natural gas fired generation, and NIPSCO's interest in large scale renewable investments) are being driven by fundamental economic and technological developments, including especially the availability of low cost domestic natural gas supply. The Energy Information Administration's ("EIA's) most recent Annual Energy Outlook released at the end of January confirms that abundant natural gas supplies are expected to produce comparatively low gas prices for the foreseeable future. (See https://www.eia.gov/outlooks/aeo/pdf/aeo2019.pdf). This affects both the ongoing economics of NIPSCO's coal-fired generation and the attractiveness of self-supply alternatives to NIPSCO's very large industrial loads.

Given NIPSCO's dependence on industrial customers for such a large component of its retail sales, and the concentration of those sales among a small number of large, energy intensive, competitively at-risk industrial customers, NIPSCO is compelled to respond constructively to potential loss of these loads through bypass or production relocation. As the competitive rate advantage NIPSCO's industrial customers once enjoyed has eroded and global competitive pressures have mounted, NIPSCO's largest customers are being pushed to consider power supply service alternatives. This was jarringly illustrated by BP's petition last year to self-service most of its electric needs with generation from

Whiting Clean Energy ("WCE") in Cause No. 45071. As Mr. Kelly explained further in response to Citizen Action Coalition's Data Request 2-025, in this Cause, given the existing economic conditions and the large industrial customers' desire for more market based choices, this is the appropriate time to address the threat. I agree with that assessment.

Q DO YOU CONSIDER NIPSCO'S PROPOSED RATE RESTRUCTURING CHANGES FOR THE LARGE INDUSTRIAL RATE CLASS 831 TO BE REASONABLE?

A Yes. Based on my previous experience, it is better to proactively deal with the threat of significant load loss rather than wait and deal with the consequences afterwards. I have examined the particular rate structure for Rate Class 831 and find, with the slight revision noted below, that it is a reasonable approach to enable large industrial customers the opportunity to actively manage the energy cost risks for their load. Under current rates, large, non-firm loads participating in Rider 775 are subject to economic interruptions as well as reliability curtailments in exchange for the demand credits offered under the provisions of the Rider. A customer electing to continue to operate during an economic interruption pays the spot wholesale energy price (the locational marginal price, or "LMP"). Generally, as I understand the proposed Rate 831, NIPSCO will expand that concept to treat all non-firm energy sales as a buy-through but without the assurance of the prevailing interruptible credits, which would be eliminated. Large industrial customers will be required to contractually commit to a base level of demand and energy (Tier 1) for a five-year term, accept reliability curtailment provisions for non-firm power purchases (under Tier 2 or Tier 3) based on MISO's requirements for Load Modifying resources ("LMRs"), and be subject to full wholesale energy market risks for all non-firm

energy purchased. For this approach to make sense to large customers, the firm (Tier 1) rates must in the first instance be reasonable, and affected customers must have tools available to manage the market risks that will apply to all Tier 2 and Tier 3 energy purchases.

I note with respect to the first rate element of proposed Rate 831 that existing customers served on Rate 732 will face a significantly increased demand charge under NIPSCO's proposed Tier 1 rates. This approach materially impacts the risk-reward opportunities for existing Rate 732 customers that do not operate at exceptionally high load factors. For this reason, it is imperative that, as NIPSCO has proposed, the Rate 831 rates be designed to provide a rate of return that is not higher than the proposed system average rate of return (*i.e.*, be set at parity to the system return). With respect to the second element, NIPSCO's intent in proposing the Tier 2 and 3 options is to establish customer-determined risk management tools. These risk management tools are essential to this rate structure because the energy price volatility exposure that Rate 831 customers otherwise would encounter would be unacceptable. On balance, the proposed rate structure will allow large customers an enhanced ability to match energy market risks and opportunities with their unique load profiles and energy requirements. This approach is preferable to either a "no action" alternative that does not address bypass risks or further expansion of the current interruptible tariff provisions because the proposed approach creates a sustainable platform that allows competitively at-risk industrial customers to better determine an appropriate balance between expected power cost levels and volatility and curtailment risk.

Q HOW SHOULD NIPSCO'S RATE BE STRUCTURED IF THE COMMISSION DOES NOT APPROVE NIPSCO'S INDUSTRIAL RATE RESTRUCTURING?

A If the Commission rejects NIPSCO's proposed industrial rate restructuring, NIPSCO should retain the current rate 732, 733 and 734 service offerings, apply any authorized base rate revenue increase, or decrease, on an equal percentage basis to all classes, and continue or expand its Rider 775 options. Apart from the reasons for the proposed rate restructuring, there is no reason to consolidate the existing large industrial rates, continuing the Rider 775 options would be essential, and an equal percentage increase or decrease, as NIPSCO has proposed for all service classes other than Rate 831, is a palatable mitigation approach under the circumstances presented. To be clear, however, NLMK agrees with NIPSCO that the proposed rate structure offers a more sustainable platform for preventing uneconomic bypass.

Q DO YOU AGREE WITH NIPSCO'S CLAIMS THAT APPROVAL OF THE PROPOSED RATE STRUCTURE SHOULD BE BENEFICIAL OVER THE LONG TERM TO OTHER RATE CLASSES?

A Yes. While in the short-term other classes will bear increased fixed cost recovery, NIPSCO proposes to mitigate the effects on smaller customers in its rate filing. Also, as noted below, retaining current depreciation accrual rates for its generating plants and other revenue requirement adjustments should further mitigate those effects. Rate impacts also could be moderated by phasing in the requested increase over a multi-year period if the Commission feels such treatment is necessary. While I am not offering a specific proposal in this case, such rate making treatment is a reasonable way to smooth customer class impacts overall while at the same time addressing the threat of bypass by large industrial customers. Over the long run, all NIPSCO customers benefit if NIPSCO

can retain its large industrial base. Given NIPSCO's vulnerability to significant bypass by its largest industrial customers, other customers are exposed to risk of even higher rates over the long term if the current rate structure is maintained without confronting the bypass risks.

Q ARE YOU AWARE OF SITUATIONS AT OTHER UTILITIES WHERE SIGNIFICANT LOAD REDUCTIONS OF INDUSTRIAL CUSTOMERS CAUSED SEVERE IMPACTS?

A Yes. In 1981, steel production in the Pittsburgh area peaked at 465,000 tons. One year later, steel production dropped to 250,000 tons – a 53% decline. It is interesting to note that in July of 1981, Duquesne Light Company established an historic system peak demand of 2,522 MW. In 1982, Dusquesne's recorded system summer peak had fallen to 2,031 MW – a 491 MW (19%) drop in a single year. During the prior 20 years, Duquesne Light had experienced average annual growth in peak demand of about 4%. After that sudden decline, Duquesne's system peak load did not recover to the 1981 level until 1994. As a consequence of this loss of load, the company found itself with substantial excess generation capacity that ultimately forced it to mothball the Phillips power station. I spent my initial years at Duquesne working with others in attempting to arrange for firm sales of this excess generating capacity into eastern PJM. I do not mean to suggest that the industrial load loss at Duquesne Light could have been avoided through rate structure changes or that a similar loss of load will result if NIPSCO's rate redesign is rejected. I bring this up to illustrate that a significant manufacturing load reduction can have significant systemwide impacts that can be long lasting.

Q WOULD YOU PLEASE COMMENT ON THE 4 CP ALLOCATON NIPSCO HAS PROPOSED IN THIS PROCEEDING?

A Yes. NIPSCO's proposal to allocate production costs based on a 4 CP allocator is consistent with cost causation given the strong summer peaking nature of NIPSCO's system. I am aware that NIPSCO has proposed this method in recent prior base rate cases and support its continued application in this Cause. I also am aware of the objections raised by other parties to the use of the 4 CP allocation method for demand-related generation costs in previous proceedings. It is not my intention here to argue the conceptual merits of all conventional approaches for allocating generation costs (*e.g.*, 4 CP, 12 CP, average and excess, fuel offsets, marginal cost, etc.), but simply to affirm that the 4 CP method used by NIPSCO is clearly reasonable. NIPSCO witnesses Kelly and Hooper have made compelling arguments that the threat of bypass is real, and the BP-WCE petition tangibly supports the company's concern. This is not a debate concerning which method, in the abstract, is best, but which approach under current circumstances is most appropriate. The 4 CP method is a reasonable approach based on NIPSCO's system profile. Adopting a more energy-oriented method under any rationale would undermine NIPSCO's efforts to combat large customer bypass.

Q DO YOU AGREE WITH NIPSCO'S RATE DESIGN AND MITIGATION PROPOSALS?

A Yes. NIPSCO's proposed approach of designing Rate 831 at the proposed system average return and applying an across-the-board average increase to all other rate classes reasonably addresses both the industrial bypass and mitigation concerns. In my opinion, this is a reasonable and thoughtful compromise given the circumstances that must be addressed. Finally, it bears noting that equalizing class rates of return is a reasonable

goal in general, but blind adherence to this goal is not. For example, even if the proposed rates for rate class 831 produced a class rate of return below the system average the result would be reasonable if it helped alleviate the industrial bypass threat that exists.

Q ARE YOU AWARE THAT NIPSCO HAS PROPOSED A SECOND STAGE RATE FILING IN PART TO ADDRESS ITS CONCERN THAT CUSTOMERS IN RATE CLASS 831 MAY CONTRACT FOR LESS TIER 1 DEMAND THAN THEY HAVE ASSUMED FOR THE TEST YEAR?

A Yes. This concern is addressed in the testimony of Mr. Kelly in which he explained that the as-filed rates for Rate 831 were designed assuming that 184.556 MWs (measured at the customer meter) of NIPSCO's large industrial load would be enrolled in Rate 831's Tier 1 service. He explained that this level of demand was based on indicated expected firm demands after discussions with NIPSCO's five largest customers. Because those customers, as well as other customers that may be eligible for Rate 831, could elect different levels of firm service for Tier 1, NIPSCO proposes that customer choices regarding Tier 1, 2, and 3 contract levels be made within 30 days following the final order from the Commission in this rate proceeding. Once final contract demands are known NIPSCO would calculate any revenue excess or shortfall resulting from Tier 1 subscriptions that vary from the estimated 184.556 MW, and proposes to incorporate that difference into the proposed second phase true up. He concludes that: "If, after the final order, the total amount of Tier 1 firm service chosen by the five largest industrial customers is different than 184.556 MW, final rates will be set in the Phase 2 rates to collect the appropriate revenue."

Q PLEASE COMMENT ON THIS PROPOSAL.

A NLMK opposes including a Rate 831 Tier 1 true-up in a second stage filing because it is

unnecessary and could produce material but unanticipated rate impacts. NLMK fully expects to subscribe to Tier 1 service based on the estimates it previously provided to NIPSCO and urges other very large industrial customers to commit to the firm service estimates that were provided to NIPSCO.

Q IS THERE A MORE PRACTICAL SOLUTION TO NIPSCO's PROPOSED SECOND STAGE TRUE-UP?

A Yes. A simpler solution to NIPSCO's concern is to revise the contracting requirements contained in the proposed tariff. Rate 831 specifies a default level of firm Tier 1 service at 30,000 kW but allows a customer to opt to reduce that level to 10,000 kW (Petitioner's Exhibit 19, Attachment 19-A, sheet 80). The tariff should instead specify that the minimum level of Tier 1 service shall be 30,000 kW except in the case of non-firm (Rider 775) customers that historically have subscribed to a lesser amount of firm service. In the latter case, the customer may opt to take firm service at the greater of their historic level of firm service or 10,000 kW. This revision would largely ensure against a significant shortfall in projected overall Tier 1 enrollment of 185 MW assumed in NIPSCO's filing, and should render a second stage true-up unnecessary. If a true-up were to be permitted, it should only be adjusted upward if enrollment exceeds NIPSCO's assumption to preclude a material overcollection of NIPSCO's fixed costs through the Tier 1 rates. I have included a redline of the proposed tariff to incorporate this proposed modification as Exhibit JAL-3.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

STATE OF INDIANA

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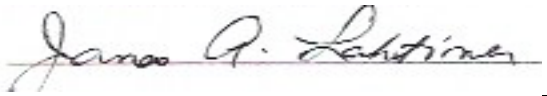
Verification

I, James A. Lahtinen, verify under the penalties of perjury that the foregoing statements are true and correct to the best of my belief and knowledge.



James A. Lahtinen