ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF: (1) AN ADJUSTMENT TO ITS ELECTRIC SERVICE RATES THROUGH ITS ENVIRONMENTAL COST RECOVERY MECHANISM FACTORS PURSUANT TO IND. CODE §§ 8-1-2-6.6, 8-1-2-6.8, CH. 8-1-8.4, CH. 8-1-8.7, CH. 8-1-8.8 AND 170 IAC 4-6-1, *ET SEQ.* AND THE COMMISSION'S ORDERS IN CAUSE NOS. 42150, 43188, 44012, 44311 AND 44688; AND (2) MODIFICATIONS TO THE ENVIRONMENTAL COMPLIANCE PROJECTS SET FORTH IN ITS EIGHTEENTH PROGRESS REPORT PURSUANT TO THE ONGOING REVIEW PROCESS UNDER IND. CODE § 8-1-8.7-7 AND APPROVED IN CAUSE NOS. 42150, 43188, 44012 AND 44311.	)	CAUSE NO. 42150 ECR 28 APPROVED: OCT 26 2016

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On August 12, 2016, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause. On that same day and in support of its requested relief, NIPSCO filed the direct testimony and attachments of the following witnesses:[1]

- Jennifer L. Shikany, Director of Regulatory Accounting for NIPSCO;
- Kurt W. Sangster, Vice President, Projects and Construction Electric at NIPSCO;
- David T. Walter, Director, Operations & Maintenance for NIPSCO; and
- Kelly R. Carmichael, Vice President, Environmental for NiSource Corporate Services Company

On August 22, 2016, the NIPSCO Industrial Group ("Industrial Group") filed its Petition to Intervene, which the Presiding Officers granted in a Docket Entry dated September 1, 2016.

On September 26, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Wes. R. Blakley, Senior Utility Analyst.

[1] NIPSCO filed revisions to its case in chief on September 15, 2016, and notification of a substitution of witness with revised testimony on September 19, 2016.

The Commission held an evidentiary hearing at 1:30 p.m. on October 3, 2016, in Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, and the Industrial Group appeared at the hearing. No member of the public appeared or participated.

Having considered the evidence presented and the applicable law, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this case was given and published by the Commission as required by law. NIPSCO is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-2-6.6 and 8-1-2-6.8 and Ind. Code chs. 8-1-8.7 and 8-1-8.8, the Commission has jurisdiction over a public utility's cost recovery related to the use of clean coal technology. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this case.

2. **NIPSCO's Characteristics.** Petitioner is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86th Street, Merrillville, Indiana 46410. NIPSCO owns and operates property and equipment used for the production, transmission, delivery and furnishing of electric utility service to the public in northern Indiana.

3. **Background and Relief Requested.** On July 18, 2016, the Commission issued its Order in Cause No. 44688 ("44688 Order"), NIPSCO's most recent rate case, wherein the Commission approved NIPSCO's proposal to roll into basic rates certain costs of environmental compliance projects placed into service as of June 30, 2015 that had been receiving cost recovery under NIPSCO's Rider 672 – Environmental Cost Recovery Mechanism ("ECRM") and Rider 673 – Environmental Expense Recovery Mechanism adjustment mechanisms. The Commission also approved NIPSCO's proposal to consolidate Rider 672 with Rider 673. Consequently, the ECRM adjustment mechanism continues to allow for the periodic recovery of costs relating to NIPSCO's NOx Compliance Plan, Multi-Pollutant Compliance Plan, and Mercury and Air Toxics Standards ("MATS") Compliance Plan projects that were not in service as of June 30, 2015, and therefore not reflected in the rate case proceeding.

Accordingly, in this proceeding, NIPSCO seeks approval of revised ECRM factors to be effective for bills issued during the billing cycles of November 2016 through April 2017. NIPSCO also requests approval of proposed modifications to its environmental compliance projects and cost estimates detailed in its Eighteenth Progress Report.

4. **Commission Discussion and Findings.**

A. **Relevant Period.** Ms. Shikany testified that NIPSCO requests approval of revised ECRM factors to be applicable to the bills rendered during the billing cycles of November 2016 through April 2017. The ECRM factors include actual capital costs and operating, maintenance, and depreciation expenses in connection with the operation of its environmental compliance projects that were in service during the six months ended June 30, 2016 and the recoverable portion (80%) of the MATS Compliance Plan expenses incurred through June 30, 2016. The ECRM factors also include a reconciliation of projected period recoveries of capital cost revenue with actual revenue during the period November 2015 through April 2016 and operating, maintenance, and depreciation revenue with actual revenue during the period May 2015 through April 2016.

B. Actual Capital Costs. Ms. Shikany testified that the total cost of environmental compliance projects under construction, net of accumulated depreciation, upon which NIPSCO is authorized to earn a return is $266,982,437. She stated the construction costs include an allowance for funds used during construction ("AFUDC"), computed in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts. Ms. Shikany testified that if the Commission approves the proposed ratemaking treatment for the values shown on Petitioner's Exhibit 1, Attachment 1A, Schedule 1B, NIPSCO will cease accruing AFUDC on those costs since NIPSCO will then be allowed a return on that value and those amounts.

Mr. Sangster testified that Petitioner's Exhibit 1, Attachment 1A, Schedules 1, 1A, and 1B describe the environmental compliance projects under construction which have been approved by the Commission and on which NIPSCO proposes to earn a return. Schedules 1, 1A and 1B set out a brief description of the projects, approved cost estimates, construction start dates, estimated and actual in-service dates, and prior and current project costs. The costs for the environmental compliance projects have been compiled through June 30, 2016. Mr. Sangster testified all of the projects for which NIPSCO is seeking ratemaking treatment in this Cause have been under construction for at least six months.

Based on the evidence presented, we find that NIPSCO's request to begin earning a return on $266,982,437, the value of its environmental compliance projects as of June 30, 2016, net of accumulated depreciation, is reasonable and we approve the request.

C. Actual Operation and Maintenance ("O&M") Expenses. Mr. Walter testified that as shown on Petitioner's Exhibit 1, Attachment 2A, Schedule 1, Page 2 (lines 1 through 23), for the period January through June, 2016, NIPSCO incurred $8,588,741 [Line 24, Column B] of actual O&M expenses associated with NIPSCO's ownership and operation of the environmental compliance projects (capital projects) and recoverable federally mandated MATS Compliance Plan O&M projects, of which $371,587 [Line 24, Column C] was fixed and $8,217,153 [Line 24, Column D] was variable.

1. Environmental Compliance Projects. Mr. Walter identified the breakdown of actual O&M expenses incurred during the period January through June, 2016 as shown on Petitioner's Exhibit 1, Attachment 2A, Schedule 1, Page 2. Mr. Walter testified the significant increase in O&M expenses during the period January through June, 2016 relates to an increase in expenditures for the Unit 12 flue gas desulfurization ("FGD") technology that came online in December 2015 ($1,629,007), and the Unit 14 FGD, U14/15 Common and Unit 15 FGD forced outages ($5,852,494). He also identified seven new O&M expense categories since NIPSCO's last ECR proceeding.

2. MATS Compliance Plan O&M Projects. Mr. Walter testified that in its Order in Cause No. 44311 ("44311 Order"), the Commission approved the following federally mandated O&M projects as part of NIPSCO's MATS Compliance Plan: (1) Precipitator & FGD Mist Eliminator Cleaning for Bailly Units 7 and 8; (2) ESP Flow Modeling for Schahfer Unit 15; and (3) Air Testing for Schahfer Units 14, 15, 17 and 18. In Cause No. 42150 ECR 24, the Commission approved a federally mandated O&M project for Unit 12 ESP Flow Modifications. Mr. Walter described each of the projects and indicated that during the period

January through June 2016, NIPSCO had only incurred costs related to the Precipitator & FGD Mist Eliminator Cleaning for Bailly Units 7 and 8. As reflected on Petitioner's Exhibit 1, Attachment 2A, Schedule 1A, NIPSCO incurred $154,596, of which $48,916 related to Unit 7 and $105,680 related to Unit 8.

Based on the evidence presented, we find that NIPSCO's actual O&M expense associated with NIPSCO's environmental compliance projects (capital projects) and recoverable federally mandated MATS Compliance Plan O&M project expenses for the period ending June 30, 2016, of $8,588,741 are reasonable and we approve recovery of such expenses through the ECRM.

D. Actual Depreciation Expense. Petitioner's Exhibit 1, Attachment 2A, Schedule 1, Page 1, shows that NIPSCO's actual depreciation expense for the six months ending June 30, 2016 was $21,248,790. Ms. Shikany testified that the actual depreciation expense consists of depreciation expenses associated with NIPSCO's ownership and operation of the environmental compliance project facilities that have been placed in service. She stated that the actual depreciation expense was computed based on the depreciation lives and/or rates approved in Cause Nos. 42150, 43188, 44012, and 44311.

Based on the evidence presented, we find that NIPSCO's actual depreciation expense for the six-month period ending June 30, 2016 of $21,248,790 has been properly calculated and is reasonable. Therefore, we approve the actual depreciation expense for recovery through the ECRM.

E. Allocation of Actual Capital Costs and O&M and Depreciation Expenses. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1A, Schedule 5 showing the demand allocation percentages and Attachment 2A, Schedule 1, Page 3 showing the demand and energy allocation percentages attributable to each of NIPSCO's rate schedules as approved in the 44688 Order. The demand allocators approved for purposes of the ECRM adjustment were set forth in Joint Exhibit B to the Stipulation and Settlement Agreement approved in the 44688 Order. Ms. Shikany testified NIPSCO has not adjusted its demand allocators in this filing to reflect any significant migration of customers.

Based on the evidence presented, we find that NIPSCO's proposed ECRM factors have been properly allocated.

F. Reconciliation of Actual Capital Costs and O&M and Depreciation Expenses. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 1A, Schedule 6 showing NIPSCO's reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period November 2015 through April 2016. NIPSCO's total computed under- or over-recoveries of ECRM revenue for this period are reflected in Column D, which for this Cause shows an under-recovery of $1,174,966.

Ms. Shikany also sponsored Petitioner's Exhibit 1, Attachment 2A, Schedule 2 showing NIPSCO's reconciliation of projected expense revenue with actual expense revenue during the period May 1, 2015 through April 30, 2016. NIPSCO's total computed under- or over-recoveries of expense revenue for this period are reflected in Column D, which in this Cause shows an under-recovery of $1,410,444.

Based on the evidence presented, we find that NIPSCO properly included a reconciliation of projected period under-recoveries to be collected through the ECRM.

G. Deferred Federally Mandated Costs. Ms. Shikany testified that Petitioner's Exhibit 1, Attachment 2A, Schedule 1A shows the detail of all expenses incurred in connection with NIPSCO's federally mandated MATS Compliance Plan O&M projects. She testified that in accordance with the 44311 Order and Ind. Code § 8-1-8.4-7(c), NIPSCO will defer, as a regulatory asset on the balance sheet, 20% of all costs associated with the approved projects, including post in-service carrying charges on the deferred O&M expenses, for recovery in NIPSCO's next general rate case. Petitioner's Exhibit 1, Attachment 2A, Schedule 3 reflects the deferred federally mandated costs as well as the ongoing carrying charges on those deferred costs.

Based on the evidence presented and pursuant to the 44311 Order and Ind. Code § 8-1-8.4-7(c)(2), we authorize NIPSCO to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS Compliance Plan O&M projects and recover those deferred costs in its next general rate case. In addition, we authorize NIPSCO to record ongoing carrying charges based on the current overall weighted average cost of capital on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2).

H. Semi-Annual Revenue Requirement. Ms. Shikany testified that Petitioner's Exhibit 1, Attachment 1A, Schedule 4, Page 1 shows NIPSCO's proposed return requirement on its environmental compliance projects at June 30, 2016 is $13,327,482, which is the product of the value of NIPSCO's environmental compliance projects multiplied by the debt and equity components of its weighted cost of capital, adjusted for taxes and multiplied by 0.50. Petitioner's Exhibit 1, Attachment 1A, Schedule 7 shows that NIPSCO's six-month revenue requirement related to the Environmental Compliance Projects at June 30, 2016 is $14,502,448 after including the prior period variance.

Ms. Shikany sponsored the calculation of NIPSCO's 6.66% weighted cost of capital, per books, at June 30, 2016, which is the date of valuation of the environmental compliance projects in accordance with 170 IAC 4-6-14. She testified the cost rates for long-term debt reflect the 12 months ended June 30, 2016. In addition, the cost rates for common equity capital of 9.975% and customer deposits of 4.58% are those approved by the Commission in its 44688 Order. She testified that deferred taxes and the reserve for post-retirement benefits and the capital structure offset relating to the prepaid pension asset are treated as zero-cost capital. The cost of post-1970 investment tax credits reflects the weighted costs of long-term debt and common equity capital. Ms. Shikany testified that NIPSCO's weighted average cost of capital of 6.66% reflects a 17 basis point increase from the 6.49% approved in Cause No. 42150 ECR 27.

Based on the evidence presented, we find that NIPSCO's proposed adjusted semi-annual revenue requirement of $14,502,448 is reasonable, and we approve the revenue requirement.

I. New ECRM Factors. Ms. Shikany sponsored Petitioner's Exhibit 1, Attachment 4, showing the proposed ECRM factors and explained how the ECRM factors were

developed. She testified the estimated average monthly bill impact for a typical residential customer using 698 kWh per month is $6.51, which is an increase of $1.95 from what a customer will pay using the approved October 2016 ECRM factors. Ms. Shikany testified the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month is $9.33, which is an increase of $2.79 from what a customer will pay using the approved October 2016 ECRM factors.

Mr. Blakley testified that nothing came to his attention that would indicate that NIPSCO's calculation of the estimated ECRM factors for the relevant period is unreasonable.

Based on the evidence presented, we approve the proposed ECRM factors set forth in Petitioner's Exhibit 1, Attachment 4 to be applicable for bills rendered during the billing cycles of November 2016 through April 2017.

5. Commission Findings and Conclusions Regarding Progress Report. In its November 26, 2002 Order in Cause No. 42150, the Commission approved NIPSCO's proposal that the Commission maintain an ongoing review of its environmental compliance project construction and expenditures and submit to the Commission annually a report of any revisions of its plan and cost estimates for such construction ("Progress Report"). In its August 25, 2010 Order in Cause No. 43526, the Commission ordered NIPSCO to file its Progress Reports on the status of environmental compliance projects tracked in the ECRM as part of its ECRM filings rather than in a separate proceeding. The Commission's December 28, 2011 Phase I Order in Cause No. 44012 approved NIPSCO's request to file semi-annual progress reports (as opposed to annual progress reports) as part of the ongoing review process under Ind. Code § 8-1-8.7-7. In addition, the 44311 Order authorized NIPSCO to seek timely recovery of the MATS Compliance Plan projects as part of NIPSCO's semi-annual progress reports filed in ECR proceedings and to provide updates to the MATS Compliance Plan capital projects through its semi-annual ECRM proceedings.

Pursuant to the ongoing review process under Ind. Code § 8-1-8.7-7 and as approved in the 44311 Order, NIPSCO requests approval of its Eighteenth Progress Report on the status of environmental compliance projects tracked in the ECRM and approval to recover the revised costs of its environmental compliance projects through the ECRM. Mr. Sangster testified that since its Seventeenth Progress Report approved by the Commission in Cause No. 42150 ECR 27, NIPSCO has identified aspects of its Compliance Plan that require further modification. Mr. Sangster sponsored Petitioner's Exhibit 1, Attachment PR setting forth NIPSCO's Compliance Plan containing the NOx Compliance Plan, Multi-Pollutant Compliance Plan and MATS Compliance Plan highlighted to show proposed modifications. He explained the modifications can be broken down into several categories: scheduling changes, scope additions, changes in estimated costs, and changes due to the implementation of new base rates.

As to the scheduling changes, Mr. Sangster testified the construction start and in-service dates for the Unit 7 SCR Catalyst 3rd Layer was revised to reflect the actual dates. The in-service date for the Unit 12 SCR Catalyst 1st Layer and the construction start and in-service dates for the Unit 14 SCR 1st Layer were revised to reflect the current schedule. The in-service dates for the Unit 12 ACI System and the Unit 12 Fuel Additive projects were revised to reflect the actual dates.

As to the scope additions, Mr. Sangster testified NIPSCO has added three catalyst layer projects to its Compliance Plan in the Eighteenth Progress Report. These projects include: Unit 12 SCR Catalyst 2nd Layer (replacement); Unit 7 SCR Catalyst 4th Layer (replacement); and Unit 8 SCR Catalyst 1st Layer (replacement). He stated that all three of the requested catalyst layer projects are replacement layers and NIPSCO requests ratemaking treatment consistent with the Commission's Order in Cause No. 42150 ECR 21.

Mr. Sangster testified the total cost estimate approved in the Seventeenth Progress Report was $850,594,882 for the Compliance Plan capital projects and $2,225,000 for the MATS Compliance Plan O&M projects. Mr. Sangster testified the proposed revised total cost estimate for the Compliance Plan capital projects is $280,539,797. He explained a decrease of $574,895,085 relates to the previously approved qualifying pollution control property, clean coal technology, clean energy projects, and federally mandated compliance projects, placed into service as of June 30, 2015, now being included in its basic rates and charges. An increase of $4,840,000 relates to the three new proposed SCR Catalyst Layer projects. In addition, Mr. Sangster testified the proposed revised estimate for the MATS Compliance Plan O&M projects is $650,000. He explained a decrease of $1,575,000 relates to the previously approved projects placed in service as of June 30, 2015, now being included in basic rates and charges.

Based on the evidence presented and the foregoing discussion, we find that the Eighteenth Progress Report is reasonable. Therefore, we approve the proposed modifications to the Compliance Plan and authorize NIPSCO to recover these costs through its ECRM.

Finally, Mr. Sangster summarized how NIPSCO has complied with the stakeholder reporting and meeting requirements established in the 44311 Order. He testified that consistent with the 44311 Order, NIPSCO has been providing the OUCC and Industrial Group on a quarterly basis since February of 2014, a quarterly status report for the Transformer Rectifier Set Projects, the Activated Carbon Injection Projects and the Fuel Additive Projects. These quarterly status reports contained information about project schedules, project budgets, and project risks. Mr. Sangster stated that since construction is complete and the projects within the MATS Compliance Plan have gone into service, NIPSCO will no longer produce the quarterly status reports and believes there are no further reporting activities associated with the 44311 Order.

Based on our review of the evidence, we agree and find that there are no further reporting activities associated with the 44311 Order.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. NIPSCO is authorized to implement the rate adjustments reflecting the recovery of capital costs and operation, maintenance, and depreciation expenses identified above in its rates and charges for electric service in accordance with NIPSCO's ECRM beginning with the November 2016 billing cycle.

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

3. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS Compliance Plan O&M projects and recover those deferred costs in its next general rate case, and NIPSCO is authorized to record ongoing carrying charges based on the current overall weighted average cost of capital on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.

4. Pursuant to Ind. Code § 8-1-8.7-7 and as approved in Cause No. 44311, NIPSCO's modified Compliance Plan, as set forth in the Eighteenth Progress Report, is approved.

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

STEPHAN, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: OCT 26 2016

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission