

**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF NORTHERN INDIANA )  
PUBLIC SERVICE COMPANY, UNDER THE )  
ONGOING REVIEW PROCESS APPROVED )  
IN CAUSE NO. 42150, FOR APPROVAL OF )  
AN ADJUSTMENT TO ITS ELECTRIC )  
UTILITY RATES TO REFLECT COSTS )  
RELATED TO ITS QUALIFIED )  
POLLUTION CONTROL PROPERTY, )  
INCLUDING CERTAIN EXPENSES AND A )  
RETURN ON THE VALUE OF SUCH )  
PROPERTY PURSUANT TO IND. CODE §§ )  
8-1-2-6.6, 8-1-2-6.8 AND 8-1-8.7 AND 170 IAC )  
4-6-1, ET SEQ. )

CAUSE NO. 42150 ECR 14

APPROVED: OCT 28 2009

**BY THE COMMISSION:**  
Aaron A. Schmoll, Administrative Law Judge

On August 14, 2009, Northern Indiana Public Service Company ("Petitioner," or "NIPSCO") petitioned the Indiana Utility Regulatory Commission ("Commission") for approval of an adjustment to its electric utility service rates to reflect costs incurred in connection with the construction of its Qualified Pollution Control Property ("QPCP"), pursuant to the procedures approved by the Commission's order entered, November 26, 2002, in Cause No. 42150.

On September 29, 2009, the Commission issued a docket entry seeking additional information from NIPSCO. On October 6, 2009, NIPSCO filed Supplemental Testimony that addressed the questions raised in the September 29, 2009 docket entry. On October 8, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its testimony.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, an evidentiary hearing was held in this matter, October 15, 2009, at 10:00 a.m., in Room 222, National City Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, NIPSCO presented its case in chief, consisting of pre-filed testimony and exhibits of Philip W. Pack, Mitchell E. Hershberger, and Curt A. Westerhausen, along with Supplemental Testimony from Mr. Westerhausen, which were admitted into evidence, without objection. The OUCC participated in the hearing, and presented its case-in-chief consisting of Prefiled Testimony from its witness Wes Blakley that was admitted into the record without objection. No members of the general public appeared or participated in the hearing.

The Commission, having considered the evidence and being duly advised in the premises, now finds that:

1. **Notice and Jurisdiction.** Proper legal notice of the hearing in this case was given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code 8-1-2, and is subject to the jurisdiction of the Commission, in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over the Petitioner and subject matter of this case.

2. **Petitioner's Characteristics and Generating System.** Petitioner is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86<sup>th</sup> 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. **Relief Requested.** On November 26, 2002 in Cause No. 42150, the Commission approved NIPSCO's proposed Environmental Cost Recovery Mechanism ("ECRM") as set forth in its Rule 47, which provides for ratemaking treatment of NIPSCO's QPCP pursuant to Ind. Code §§ 8-1-2-6.6 and 8-1-8.7-7 ("Original Order"). In the Original Order, the Commission also approved NIPSCO's proposed Environmental Expense Recovery Mechanism ("EERM") as set forth in its Rule 48, which provides for recovery of operation and maintenance and depreciation expenses related to NIPSCO's QPCP in service. In its petition for recovery of these environmental costs, NIPSCO proposed that the Commission maintain an ongoing review of its QPCP construction and expenditures and submit to the Commission annually a report of any revisions of its plan and cost estimates for such construction, which ongoing review the Commission has conducted. NIPSCO submitted a progress report in Cause No. 43593, in which the Petitioner presented and the Commission approved an update of the Petitioner's NOx and CAIR/CAMR Compliance Plans, by an order issued on January 14, 2009.

In this six-month Environmental Cost Recovery ("ECR") proceeding, NIPSCO seeks ratemaking treatment for its QPCP that, on June 30, 2009, had been under construction for at least six months, as required by 170 IAC 4-6-1, computed in accordance with its Rule 47. NIPSCO requests authority to reflect additional values of QPCP in its rates and charges for electric service beginning November 1, 2009, via the ECRM.

4. **Summary of Petitioner's Evidence Presented in this Cause.** Philip Pack testified regarding the Petitioner's QPCP under construction on which NIPSCO proposes to earn a return. Mr. Pack identified the construction start date, anticipated cost and in-service date and QPCP value for each project as of June 30, 2009. Mr. Pack testified that these capital projects will be used and useful for the public convenience and constitute a part of the Petitioner's updated NOx and CAIR/CAMR Compliance Plans approved by the Commission in Cause No. 43593. Mr. Pack also testified that all of the projects on which Petitioner is seeking a return have been under construction for at least six months. Mr. Pack sponsored Schedules 1 and 1A of Petitioner's Exhibit 3 which shows a total net balance for such QPCP at June 30, 2009 of \$271,153,030, which is the value on which Petitioner proposes to earn a return in this case

Mr. Hershberger testified that he computed, in accordance with the FERC Uniform System of Accounts, the allowance for funds used during the construction ("AFUDC"), as shown in Schedules 1 and 1A of Petitioner's Exhibit 3. In Schedule 2 of Petitioner's Exhibit 3, Mr.

Hershberger computed a NIPSCO weighted cost of capital of 8.53 %, using its regulatory capital structure, at June 30, 2009, which is the date of valuation of the QPCP in accordance with 170 IAC 4-6-14. Mr. Hershberger indicated that the cost rates for long-term debt and preferred stock reflect the costs of such capital at June 30, 2009. The cost rates for common equity capital and customer deposits were those approved and used by the Commission in Company's last general electric rate case, Cause No. 38045. Mr. Hershberger indicated that deferred taxes and the reserve for post-retirement benefits were treated as zero-cost capital. The cost of post-1970 investment tax credits reflects the weighted costs of a capital structure consisting of long-term debt, preferred stock and common equity capital.

Mr. Hershberger also described his computation of Company's proposed annual return on its QPCP of \$23,129,353, which is the product of Petitioner's QPCP value times its weighted cost of capital. Pet's. Ex. 3, Sch. 4, Page 1 of 2. Mr. Hershberger computed Petitioner's 12-month and 6-month revenue requirements related to a return on the QPCP as of June 30, 2009, in the amounts of \$36,230,709 and \$18,115,354 respectively.

Mr. Westerhausen testified that upon Commission approval of the proposed ratemaking treatment of Petitioner's QPCP, Petitioner would cease accruing AFUDC on the QPCP. He identified the production allocation percentages attributable to each of Petitioner's rate schedules to be used to allocate QPCP values to customer classes (Pet's. Ex. 3, Sch. 5) and said that the source for these allocation factors is Petitioner's most recent cost of service study, introduced as Petitioner's Exhibits RDG-2 and RDG-3 (revised) in the Commission's Order in Cause No. 42150 (Approved Nov. 26, 2002) and approved for use in Petitioner's subsequent proceedings for recovery of a return on the QPCP costs.

Adjustments were made to these production allocation percentages to reflect significant migration of customers between rates that were approved by the Commission in Cause Nos. 42150 ECR 7 and 42150 ECR 8. Mr. Westerhausen addressed NIPSCO's proposed additional adjustment, as shown in Exhibit 3, Schedule 5, to reflect the significant migration of customers from Rate 847 to Rates 824, 832, and 833. Based upon the Commission-approved allocation methodology in the Cost of Service Study, NIPSCO proposes to migrate the net Production Rate Base calculated on a demand basis for these customers. Mr. Westerhausen testified that this adjustment is appropriate in order to prevent any unintended consequences of the migration of customers between Rates and to properly allocate their share of environmental costs through the ECRM. He further testified that this adjustment is consistent with the adjustments previously approved by the Commission in Cause Nos. 42150 ECR 7 and 42150 ECR 8. In his Supplemental Testimony, Mr. Westerhausen clarified that the amount of costs shifted in the absence of the adjustment were significant because in the aggregate the customers in question comprise 36.01% of NIPSCO's kilowatt hour sales for 2007.

Mr. Westerhausen discussed Petitioner's form for reconciling projected period recoveries of ECRM revenue with actual revenue collections and the calculation of the ECRM factors proposed to be used by Petitioner beginning with November 2009 billing. Pet's. Ex. 3, Sch. 6. He also testified regarding his computation of NIPSCO's jurisdictional revenue requirement connected with its QPCP associated with each rate schedule, in Petitioner's Exhibit 3, Schedule 7. Mr. Westerhausen affirmed that the computations he had made in regard to the ECRM are

consistent with the Original Order in Cause No. 42150, and that the factors set forth in proposed Appendix D to Petitioner's tariff are the result of those computations.

5. **Commission Discussion and Findings.** Based upon the evidence presented in this Cause, the Commission finds that NIPSCO's requested relief should be granted. Specifically, the Commission finds that NIPSCO shall be authorized to reflect the additional values of QPCP in its rates and charges for electric service in accordance with NIPSCO's ECRM, beginning on November 1, 2009, and that the factors should be implemented subject to refund until the Commission completes its annual review of NIPSCO's QPCP expenditures.

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

1. NIPSCO is hereby authorized to reflect the additional values of QPCP identified herein in its rates and charges for electric service in accordance with NIPSCO's ECRM, beginning November 1, 2009. The factors shall be implemented subject to refund as described herein, pending completion of the Commission's annual review of NIPSCO's QPCP expenditures.

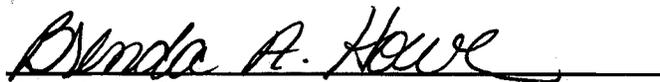
2. NIPSCO should be authorized to reflect its proposed production and energy allocation percentage adjustments reflecting the recent migration from Rate 847 to Rates 824, 832, and 833.

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

**HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:**

**APPROVED: OCT 28 2009**

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



**Brenda A. Howe**  
**Secretary to the Commission**