

ORIGINAL

STATE OF INDIANA  
INDIANA UTILITY REGULATORY COMMISSION

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 I.C. 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 16

APPROVED: OCT 27 2010

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

On August 5, 2010, 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 in Cause No. 42150, entered November 26, 2002. On August 6, 2010, NIPSCO prefiled direct testimony and exhibits of Curt Westerhausen, Thomas Titus, and Mitchell Hershberger.

On October 6, 2010, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled testimony from its witness Wes Blakely.

Pursuant to notice given as provided by law, proof of which was incorporated into the record of this Cause, by reference, an evidentiary hearing was held in this matter on October 13, 2010, at 10:00 a.m., in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, NIPSCO and Indiana Office of Utility Consumer Counselor (“OUCC”) presented their respective evidence, which was admitted into the record without objection. No member of the public appeared or participated at 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. 43840, in which the Petitioner presented and the Commission approved an update of the Petitioner's NO<sub>x</sub> and CAIR/CAMR Compliance Plans and its costs of QPCP construction, by an order issued on July 7, 2010.

In this six-month Environmental Cost Recovery ("ECR") proceeding, as required by 170 IAC 4-6-1 and computed in accordance with its Rule 47, NIPSCO seeks ratemaking treatment for its QPCP that had been under construction for at least six months, as determined on June 30, 2010. NIPSCO requests authority to reflect additional values of QPCP in its rates and charges for electric service beginning November 1, 2010, via the ECRM.

4. **Summary of Evidence Presented in this Cause.**

A. **NIPSCO's Evidence.** Mr. Titus testified regarding Petitioner's QPCP under construction on which NIPSCO proposes to earn a return. Mr. Titus identified the construction start date, anticipated cost and in-service date and QPCP value for each project at June 30, 2010. Mr. Titus testified that these capital projects will be used and useful for the public convenience and constitute a part of Petitioner's updated NO<sub>x</sub> and CAIR/CAMR Compliance Plan approved by the Commission in Cause No. 43840. Mr. Titus also testified that all of the projects on which Petitioner is seeking a return have been under construction for at least six months. Mr. Titus sponsored Schedules 1 and 1A of Petitioner's Exhibit 3 which shows a total net balance for such QPCP at June 30, 2010, of \$288,104,307, which is the value on which Petitioner proposes to earn a return in this case.

Mr. Titus also explained that credits in the amounts of \$18,603 and \$11,839 are reflected in the calculation of capital expenditures to reverse the previous recovery of costs that exceeded estimates approved by the Commission in its Annual Progress Filing in Cause No. 43840. He testified that NIPSCO intends to recover those costs associated with the BGS U8 SCR Catalyst Layer and MCGS U12 SCR Catalyst 2<sup>nd</sup> Layer projects, respectively, in its next Annual Progress filing and resubmit them for recovery in a future ECR proceeding.

Mr. Hershberger testified that he computed the allowance for funds used during construction (“AFUDC”), as shown in Schedule 1 of Petitioner’s Exhibit 3 and in accordance with the FERC Uniform System of Accounts. In Schedule 2 of Petitioner’s Exhibit 3, Mr. Hershberger computed a NIPSCO weighted cost of capital of 8.04%, using its regulatory capital structure, at June 30, 2010, 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, 2010. The cost rates for common equity capital and customer deposits were those approved and used by the Commission in the Petitioner’s last general electric rate case, Cause No. 38045.<sup>1</sup> 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 the Petitioner’s proposed annual return on its QPCP of \$23,163,586, which is the product of the Petitioner’s QPCP value times its weighted cost of capital. As shown in Petitioner’s Exhibit 3, Schedule 4, Page 1 of 2, Mr. Hershberger computed the Petitioner’s 12-month and 6-month revenue requirements related to a return on the QPCP as of June 30, 2010, in the amounts of \$35,827,318 and \$17,913,659 respectively. *Id.*

Mr. Westerhausen testified that upon Commission approval of the proposed ratemaking treatment of the 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 as shown in Petitioner’s Exhibit 3, Schedule 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 Commission’s Order in Cause No. 42150 (Nov. 26, 2002) and approved for use in Petitioner’s subsequent proceedings for recovery of a return on the QPCP costs.

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 2010 billing, as shown in Petitioner’s Exhibit 3, Schedule 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. Mr. Westerhausen also testified that the negative factor for interdepartmental sales shown in Column 4 of Schedule 7 was driven by (a) the fact that ECR 14 estimated usage had not included SCR operations at NIPSCO’s generating stations, and (b) an over-collection of \$35,299 based on significantly higher kWh usage during the ECR 14 recovery period. He testified that an estimate of 16,816,920 kWh for incremental SCR usage had been included in the interdepartmental forecast in this proceeding.

**B. OUCC’s Evidence.** The OUCC offered the testimony of Wes R. Blakley, Senior Utility Analyst. Mr. Blakley stated that NIPSCO was seeking to recover its revenue requirement

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<sup>1</sup> The rates approved by the Commission in Cause 43526 (Aug. 25, 2010) are not in effect pending approval by the Commission’s Electricity Division.

semi-annually for QPCP investment at its Bailly, Michigan City, and R.M. Schahfer Generating Stations, as permitted under the QPCP statutes. Mr. Blakley testified that NIPSCO's calculation of the ECRM adjustment factors for the relevant period appeared reasonable. He noted, however, that these calculations were made based on NIPSCO's current tariff. He noted that while the Commission has issued an order granting NIPSCO an electric rate increase on August 25, 2010, new tariffs have not yet been approved and several parties are appealing the Order to the Indiana Court of Appeals. Mr. Blakley stated that when new tariffs are eventually approved, recalculation of the ECRM factors may be necessary.

**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, 2010, 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, 2010. 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. Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved ECRM Factors contained in Petitioner's Exhibit 2, Appendix D to NIPSCO's electric tariff.

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

**LANDIS, MAYS, AND ZIEGNER CONCUR; ATTERHOLT ABSENT:**

**APPROVED:** OCT 27 2010

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

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