

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 FACTOR )  
PURSUANT TO IND. CODE 8-1-2-6.6, 8-2-1-6.8, )  
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, 43969 AND 44012; AND )  
(2) MODIFICATIONS OF AND REVISED COST )  
ESTIMATES RESPECTING CLEAN COAL )  
TECHNOLOGY SET FORTH IN ITS TWELFTH )  
PROGRESS REPORT PURSUANT TO THE )  
ONGOING REVIEW PROCESS UNDER IND. )  
CODE 8-1-8.7-7 AND APPROVED IN CAUSE NOS. )  
42150, 43188 AND 44012. )

CAUSE NO. 42150 ECR 22

APPROVED: OCT 30 2013

ORDER OF THE COMMISSION

**Presiding Officers:**  
**Kari A.E. Bennett, Commissioner**  
**Jeffery A. Earl, Administrative Law Judge**

On August 1, 2013, Northern Indiana Public Service Company ("Petitioner" or "NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission"). NIPSCO also prefiled the direct testimony of Ronald Plantz, NIPSCO's Controller, Kurt W. Sangster, NIPSCO's Director, Major Projects, and Derric J. Isensee, Manager, Regulatory Support and Analysis in NIPSCO's Rates and Regulatory Finance Department.

On August 13, 2013, the NIPSCO Industrial Group ("Industrial Group") filed its Petition to Intervene, which was granted by the Presiding Officers in a Docket Entry dated August 28, 2013. On September 24, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony of Wes R. Blakley, Senior Utility Analyst in the OUCC's Electric Division.

Pursuant to notice given and published as required by law, the Commission held an evidentiary hearing at 9:30 a.m. on October 1, 2013, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated in the hearing. No member of the public appeared or participated at the hearing.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this case was given and published by the Commission as required by law. Petitioner 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 the Petitioner and subject matter of this case.

2. **Petitioner's Characteristics.** 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. **Background and Relief Requested.** NIPSCO seeks approval of the following: (1) an adjustment to its electric service rates through its Environmental Cost Recovery Mechanism ("ECRM") factors to reflect costs incurred in connection with the construction of its Qualified Pollution Control Property ("QPCP"); (2) its Twelfth Progress Report; and (3) modifications of and revised cost estimates respecting Clean Coal Technology ("CCT") under the ongoing review process approved in Cause Nos. 42150, 43188, 43913, and 44012 pursuant to Ind. Code ch. 8-1-8.7.

In its November 26, 2002 Order in Cause No. 42150 (the "42150 Order"), the Commission approved the following: (1) NIPSCO's proposed 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, 8-1-2-6.8, and 8-1-8.7-7; (2) 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; and (3) NIPSCO's proposal 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 ("Progress Report").

By its February 4, 2004 Order in Cause No. 42515, January 19, 2005 Order in Cause No. 42737, December 21, 2005 Order in Cause No. 42935, and December 13, 2006 Order in Cause No. 43144, the Commission approved revisions to NIPSCO's nitrogen oxide ("NO<sub>x</sub>") Compliance Plan.

In its July 3, 2007 Order in Cause No. 43188, the Commission approved NIPSCO's plan to comply with the U.S. Environmental Protection Agency's ("EPA") Clean Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR") (the "CAIR/CAMR Compliance Plan"), which was designed to achieve additional reductions of sulfur dioxide ("SO<sub>2</sub>"), NO<sub>x</sub> and Mercury ("Hg") emissions.

In its December 19, 2007 Order in Cause No. 43371, January 14, 2009 Order in Cause No. 43593, and July 7, 2010 Order in Cause No. 43840, the Commission approved revisions to NIPSCO's NO<sub>x</sub> Compliance Plan and CAIR/CAMR Compliance Plan (referred to collectively as the "Compliance Plan").

In its December 29, 2010 Order in Cause No. 43913, the Commission approved NIPSCO's request for a certificate of public convenience and necessity ("CPCN") pursuant to Ind. Code ch. 8-1-8.7 for the construction of additional CCT in the form of wet flue gas desulfurization ("FGD") facilities at its R.M. Schahfer facility on Unit 14, along with additional facilities to be used jointly with the adjacent Unit 15.

In its April 27, 2011 Order in Cause No. 42150 ECR 17 ("ECR 17 Order"), the Commission approved NIPSCO's report on the progress of its Compliance Plan and modifications to its Compliance Plan, including revised cost estimates, construction start, in-service dates, and scope additions for NIPSCO's CCT pursuant to Ind. Code ch. 8-1-8.7 under the ongoing review process approved in Cause Nos. 42150, 43188 and 43913.

In its December 28, 2011 Phase I Order in Cause No. 44012 ("Phase I 44012 Order"), the Commission approved NIPSCO's request for a CPCN for Unit 15 FGD Additions, and NIPSCO's revised cost estimates for Unit 14 wet FGD and Common Facilities previously approved in the 43913 Order (the "Phase I Projects"). The Phase I Projects are part of NIPSCO's Multi-Pollutant Compliance Plan ("MPCP"). The Commission approved Petitioner's cost estimates for the Phase I Projects, which were \$203 million for the Unit 14 FGD, \$104 million for the Common Facilities and \$193 million for the Unit 15 FGD.

In its February 15, 2012 Phase II Order in Cause No. 44012 ("Phase II 44012 Order"), the Commission approved NIPSCO's request for a CPCN for five CCT projects, including: (1) Unit 7 Selective Catalytic Reduction ("SCR") Duct Burners; (2) Unit 8 SCR Duct Burners; (3) Unit 14 SCR Duct Burners; (4) Unit 15 SNCR Installation; and (5) Continuous Particulate Monitors Addition for Units 7, 8, 14, 15, 17 and 18 (the "Phase II Projects"). The Phase II Projects are also part of NIPSCO's MPCP. The Commission also approved Petitioner's cost estimates for the Phase II Projects (\$11 million for the Unit 7 SCR Duct Burners, \$16 million for the Unit 8 SCR Duct Burners, \$16 million for the Unit 14 SCR Duct Burners, \$6 million for the Unit 15 SNCR Installation, \$375,000 for the Unit 15 Continuous Particulate monitors Addition, \$375,000 for the Unit 14 Continuous Particulate Monitors Addition, \$375,000 for the Unit 17 Continuous Particulate Monitors Addition, 375,000 for the Unit 18 Continuous Particulate Monitors Addition, \$375,000 for the Units 7 and 8 Continuous Particulate Monitors Addition common stack and \$375,000 for the Units 7 and 8 Continuous Particulate Monitors Addition bypass stack).

In its September 5, 2012 Phase III Order in Cause No. 44012, the Commission approved NIPSCO's request for a CPCN for three clean coal technology projects at NIPSCO's Michigan City Unit 12: (1) FGD Facility Addition; (2) Waterside Bypass SCR Reheat Project; and (3) Continuous Particulate Monitors Addition ("Phase III Projects"). The Phase III Projects are part of NIPSCO's MPCP. The Commission also approved Petitioner's cost estimates for the Phase III Projects of: (1) \$239,000,000 for the FGD Facility Addition; (2) \$7,017,700 for the Waterside Bypass SCR Reheat Project; and (3) \$375,000 for the Continuous Particulate Monitors Addition.

In Cause No. 43969, NIPSCO sought approval of changes to its basic rates and charges for electric service. In that Cause, NIPSCO also requested approval to reflect in its basic rates and charges capital costs and operating expenses associated with QPCP projects previously

approved by the Commission in Cause Nos. 42150 and 43188 that were completed and in-service at the end of the test year (the twelve months ended June 30, 2010) and that were being recovered through the ECRM, and an adjustment of the ECRM to eliminate costs relating to those projects on the effective date of the new base rates and charges, subject to any necessary variance reconciliations. In the Final Order in Cause No. 43969 (the “2011 Rate Order”), the Commission approved a Stipulation and Settlement Agreement between NIPSCO, the OUCC, NLMK Indiana f/k/a Beta Steel Corporation, Indiana Municipal Utilities Group, and the Industrial Group (the “2011 Settlement”), which provided for new basic rates and charges. New electric tariffs as a result of the 2011 Rate Order, including new ECRM and EERM factors, became effective December 27, 2011. As a result of the 2011 Rate Order, the projects included for recovery in NIPSCO’s ECRM have changed significantly from the projects approved in the ECR 17 Order and the Final Order in Cause No. 42150 ECR 18 (“ECR 18 Order”).

In its May 2, 2012 Order in Cause No. 42150 ECR 19 (“ECR 19 Order”), the Commission approved NIPSCO’s report on the progress of its Compliance Plan and modifications to its Compliance Plan, including updated project scopes, construction schedules, and revised cost estimates for NIPSCO’s CCT pursuant to Ind. Code § 8-1-8.7 under the ongoing review process approved in Cause Nos. 42150, 43188, and 44012.

In its November 21, 2012 Order in Cause No. 42150 ECR 20 (“ECR 20 Order”), the Commission approved NIPSCO’s report on the progress of its Compliance Plan and modifications to its Compliance Plan, including updated project scopes constructions schedules and revised cost estimates for NIPSCO’s CCT pursuant to Ind. Code § 8-1-8.7 under the ongoing review process approved in Cause Nos. 42150, 43188, and 44012.

#### **4. Commission Discussion and Findings Regarding ECRM.**

**A. Billing Period.** Mr. Isensee testified that consistent with Rider 672 – Adjustment of Charges for Environmental Cost Recovery Mechanism, NIPSCO requests approval of its ECRM factors to be applicable to bills rendered during the billing cycles of November 2013 through April 2014. The ECRM factors include actual costs through June 30, 2013, as well as a reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period November 1, 2012 through April 30, 2013.

**B. QPCP Investment.** Mr. Isensee testified the total cost of QPCP under construction, net of accumulated depreciation, upon which NIPSCO is authorized to earn a return is \$478,837,246. He stated the construction costs include an Allowance for Funds Used During Construction (“AFUDC”). NIPSCO witness, Mr. Plantz testified he computed the AFUDC in accordance with the FERC Uniform System of Accounts. Mr. Isensee testified that if the Commission approves the proposed ratemaking treatment for the value shown in Schedule 1A of Exhibit 1 attached to the Petitioner’s Verified Petition initiating this Cause, NIPSCO will cease accruing AFUDC on those costs.

Mr. Sangster testified that Schedules 1 and 1A of Exhibit 1 (the Verified Petition initiating this Cause) describe Petitioner’s QPCP under construction, which has been approved by the Commission and on which NIPSCO proposes to earn a return. Schedules 1 and 1A set out a brief description of the project, approved cost estimates, the construction start dates, the

anticipated in-service dates, and the current and prior QPCP values for each project. He testified that the costs for Petitioner's QPCP projects have been compiled through June 30, 2013. Mr. Sangster also testified that all of the projects for which Petitioner is seeking ratemaking treatment in this Cause have been under construction for at least six months.

Based on the record evidence, we find that NIPSCO's request to begin earning a return on \$478,837,246, the value of its QPCP, net of accumulated depreciation, is reasonable and should be approved.

**C. Semi-Annual Revenue Requirement.** In this proceeding, NIPSCO requests approval of a Semi-Annual Revenue Requirement of \$23,853,824 (Exhibit 1, Schedule 7, Column 3, Line 21) and an Adjusted Semi-Annual Revenue Requirement of \$24,642,136 (Exhibit 1, Schedule 7, Column 5, Line 21) after adjusting for the prior period reconciliation.

Mr. Plantz computed NIPSCO's proposed semi-annual return on its QPCP at June 30, 2013, of a net amount of \$23,853,824, which is the product of Petitioner's QPCP value 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, Schedule 7 shows that Petitioner's Adjusted Semi-Annual Revenue Requirement is \$24,642,136 after including the prior period reconciliation.

Mr. Plantz testified that Schedule 3 of Exhibit 1 shows the computation of the revenue conversion factor used to compute Petitioner's QPCP-related revenue requirement before income taxation debt and equity revenue conversion factors. He stated the revenue conversion factor is calculated for debt and equity in order to properly synchronize interest for the purpose of calculating the revenue requirement as reflected on Schedule 4 of Exhibit 1 attached to Petitioner's Verified Petition initiating this Cause. Mr. Plantz testified that the state income tax rate of 7.42% reflects the blended statutory rate to be used in calendar years 2013 and 2014, per House Bill 1004.

At the evidentiary hearing, Mr. Plantz testified that in accordance with Ind. Code § 6-3-2-1(c), NIPSCO has calculated a blended tax rate for both 2013 and 2014 based on the tax rate changes on July 1, 2013 and July 1, 2014. NIPSCO then blended the calculated 2013 and 2014 rates based on forecasted volumes for the November 2013 through April 2014 recovery period in order to calculate a blended rate for the recovery period. This resulted in a blended rate for the recovery period of 7.42%. Furthermore, at the hearing, Mr. Plantz testified that NIPSCO is a calendar year taxpayer, so NIPSCO calculates one blended tax rate based on the statutory rates that change each July to calculate tax expense that is applicable to an entire tax year which runs from January through December for NIPSCO.

Mr. Plantz sponsored the calculation of NIPSCO's 6.61% weighted cost of capital, using its regulatory capital structure, per books, at June 30, 2013, which is the date of valuation of the QPCP in accordance with 170 I.A.C. 4-6-14. He testified the cost rates for long-term debt and preferred stock reflect the 12 months ended June 30, 2013. He also testified the cost rates for common equity capital of 10.2% and customer deposits of 4.43% are those approved by the 2011 Rate Order. He stated deferred taxes and the reserve for post-retirement benefits are treated as zero-cost capital and the cost of post-1970 investment tax credits reflects the weighted costs of

long-term debt, preferred stock and common equity capital. Mr. Plantz stated NIPSCO's weighted average cost of capital of 6.61% reflects a 2 basis point decrease from the 6.63% approved in ECR 21.

Based on the record evidence, we find that NIPSCO's proposed Adjusted Semi-Annual Revenue Requirement of \$24,642,136 is reasonable and should be approved.

**D. Allocation of Semi-Annual OPCP Revenue Requirement.** In this Cause, Mr. Isensee sponsored Schedule 5 of Exhibit 1 which shows the production allocation percentages attributable to each of Petitioner's rate schedules. These allocation percentages were based on the production allocation percentages approved by the ECR 19 Order adjusted to reflect the significant migration of customers amongst Rates 621, 624, 625, and 626. Mr. Isensee testified 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 capital charges and is consistent with the adjustment approved by the Commission in Cause Nos. 42150 ECR 7, 42150 ECR 8, 42150 ECR 14, 42150 ECR 20 and 42150 ECR 21.

Based on the record evidence, we find that NIPSCO's ECRM factors have been allocated on the basis of the 12 CP method in accordance with our ECR 19 Order.

**E. Reconciliation of Prior Period Recoveries.** Mr. Isensee testified that Schedule 6 of Exhibit 1 shows Petitioner's reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period from November 1, 2012 to April 30, 2013. He stated Petitioner's total computed under or over recoveries of ECRM revenue for this period, are reflected in Column 4. Based on the record evidence we find that Petitioner properly included reconciliation in its ECRM calculations.

**F. New ECRM Factors.** Mr. Isensee sponsored Exhibit 2 (Appendix D-Environmental Cost Recovery Mechanism Factor) showing the ECRM factors applicable to the various NIPSCO rate schedules and explained how the ECRM factors were developed. Mr. Blakley testified the tracker rate calculation in this proceeding conforms with previous ECR filings. Mr. Isensee testified the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is \$2.96, which is a \$1.03 increase over what a customer would pay today using the current ECRM Factors.

Based on the record evidence, we approve the proposed ECRM factors set forth in Petitioner's Exhibit 2 to be applicable to bills rendered during the billing cycles of November 2013 through April 2014 or until replaced by new factors.

**5. Commission Findings and Conclusions Regarding Progress Report.** In its 42150 Order, the Commission approved NIPSCO's proposal 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 ("Progress Report"). In its 43526 Order, the Commission ordered NIPSCO to file its Progress Reports on the status of QPCP tracked in the ECRM as part of its ECRM filings rather than in a separate proceeding. The Phase I 44012 Order approved Petitioner'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.

Pursuant to the ongoing review process under Ind. Code § 8-1-8.7-7, in this proceeding NIPSCO requests approval of its Twelfth Progress Report on the status of QPCP tracked in the ECRM. Specifically, NIPSCO requests the Commission to approve its revised Compliance Plan as set forth in Exhibit PR attached to Petitioner's Verified Petition initiating this Cause, including the updated project scopes, construction schedules, and cost estimates described therein.

Since the Eleventh Progress Report, NIPSCO has identified aspects of the plan that require further modification. Mr. Sangster testified that Exhibit PR attached to Petitioner's Verified Petition initiating this Cause identifies and describes the plan modifications which can be broken down into scheduling changes and changes in estimated costs.

With respect to the proposed scheduling changes, Mr. Sangster testified the construction start date for the Unit 12 FGD Facility Addition was revised to show the actual start of construction date and the Unit 14 SCR Catalyst 4<sup>th</sup> Layer construction start date was corrected to read September 28, 2013. Based on our review of the evidence, we find that NIPSCO's proposed scheduling changes are reasonable and should be approved.

With respect to the proposed changes in estimated costs, Mr. Sangster testified the Revised Plan Cost Estimate Budget column on Exhibit PR was updated for Unit 8 SCR Catalyst 3<sup>rd</sup> Layer, Unit 14 SCR Catalyst 3<sup>rd</sup> Layer, Unit 8 SCR Duct Burners, Continuous Particulate Monitors Addition (U15), Continuous Particulate Monitors Addition (U17), Continuous Particulate Monitors Addition (U18), Continuous Particulate Monitors Addition (U7, U8), and Continuous Particulate Monitors Addition (U12) to reflect the final cost of these projects. He stated the final cost of each of these projects was lower than the approved cost estimate. Mr. Sangster testified that in total, the approved cost estimates for all eight projects was \$20,231,723, while total spend for all eight projects was \$19,225,970. He stated the actual spend was \$1,005,753 less than approved and came in a little more than 5% under budget. No party disputed this evidence. Based on our review of the evidence, we find that NIPSCO's request to change the cost estimates to \$19,225,970 to reflect actual spend is reasonable and should be approved.

Mr. Sangster testified the proposed revised total cost estimate for all Compliance Plan projects is \$805,995,253, which represents a decrease of \$1,005,753 from the amount set forth in the Eleventh Progress Report. He noted the decrease is due to the decrease in the final project costs of eight projects – Unit 8 SCR Catalyst 3<sup>rd</sup> Layer, Unit 14 SCR Catalyst 3<sup>rd</sup> Layer, Unit 8 SCR Duct Burners, Continuous Particulate Monitors Addition (U15), Continuous Particulate Monitors Addition (U17), Continuous Particulate Monitors Addition (U18), Continuous Particulate Monitors Addition (U7, U8), and Continuous Particulate Monitors Addition (U12).

The total estimated cost of the Compliance Plan presented by NIPSCO is \$805,995,253, which represents a decrease of \$1,005,753 from the total cost estimate included in the Eleventh Progress Report. As part of its Twelfth Progress Report, NIPSCO is requesting approval of its updated QPCP cost estimate of \$805,995,253 and approval to recover these costs through the

ECRM. Based on the record evidence, we find that these changes to the cost estimate for NIPSCO's Compliance Plan are reasonable and should be approved. We also find that the Twelfth Progress Report is reasonable and the modifications to schedule and cost estimates contained therein should be approved and we authorize NIPSCO to recover these costs through its ECRM.

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

1. NIPSCO is authorized to reflect the additional values of QPCP identified above in its rates and charges for electric service in accordance with NIPSCO's ECRM beginning with the November 2013 billing cycle.

2. Petitioner shall file with the Electricity Division of the Commission, prior to placing in effect the ECRM factors herein approved, an amendment to its rate schedule with reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

3. Pursuant to Ind. Code § 8-1-8.7-7, NIPSCO's modified Compliance Plan, as described in NIPSCO's Exhibit PR attached to the Petition is hereby approved.

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

**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**

**APPROVED:      OCT 30 2013**

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



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