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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 AND ENVIRONMENTAL EXPENSE RECOVERY MECHANISM FACTOR 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, 43969, 44012 AND 44311; AND (2) MODIFICATIONS OF AND REVISED COST ESTIMATES RESPECTING ENVIRONMENTAL COMPLIANCE PROJECTS SET FORTH IN ITS THIRTEENTH 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 23 APPROVED: APR 30 2014

ORDER OF THE COMMISSION

Presiding Officers:
David Ziegner, Commissioner
Jeffery Earl, Administrative Law Judge

On January 31, 2014, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause. NIPSCO also prefiled direct testimony of the following:

- Ronald G. Plantz, Controller,
- Kurt W. Sangster, Director, Major Projects,
- Derric J. Isensee, Manager, Regulatory Support and Analysis in the Rates and Regulatory Finance Department, and
- Anthony L. Sayers, General Manager, Generation.

On February 3, 2014, the NIPSCO Industrial Group ("Industrial Group") filed its Petition to Intervene, which the Presiding Officers granted in a Docket Entry dated February 17, 2014. On April 1, 2014, 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. The Industrial Group did not file evidence in this Cause.

The Commission held an evidentiary hearing in this Cause at 10:00 a.m. on April 8, 2014, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, and the Industrial Group appeared and participated at 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. 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 subject matter of this case.

2. NIPSCO's Characteristics. NIPSCO 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. NIPSCO seeks the following:

- Approval of an adjustment to its electric service rates through its Environmental Cost Recovery Mechanism ("ECRM") and Environmental Expense Recovery Mechanism ("EERM") factors to reflect costs incurred in connection with its Qualified Pollution Control Property ("QPCP"), Clean Coal Technology ("CCT"), clean energy projects, and federally mandated operating and maintenance ("O&M") projects (collectively "Environmental Compliance Projects").
- Approval of its Thirteenth Progress Report.

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").

In 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_x") 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_2"), NO_x 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_x 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 October 10, 2013 Order in Cause No. 44311 ("44311 Order"), the Commission granted NIPSCO approval for its Mercury and Air Toxics Standards ("MATS") Capital Projects pursuant to Ind. Code ch. 8-1-8.8 and a CPCN for its MATS O&M Projects pursuant to Ind. Code Ch. 8-1-8.4. The Commission also approved NIPSCO's cost estimates for its MATS Compliance Plan.

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 May through October 2014. The ECRM factors include actual costs through December 31, 2013, as well as a reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period May 1, 2013, through October 31, 2013.

B. Environmental Compliance Project Investment. Mr. Isensee testified the total cost of Environmental Compliance Projects under construction, net of accumulated depreciation, upon which NIPSCO is authorized to earn a return is $583,494,152. The construction costs include an Allowance for Funds Used During Construction ("AFUDC"). 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 values shown on Schedules 1 and 1A, and summarized on Schedule 1B of Exhibit 1 attached to NIPSCO'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 attached to NIPSCO's Verified Petition initiating this Cause describe NIPSCO's 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 project, approved cost estimates, the construction start dates, the anticipated in-service dates, and the current and prior investment values for each project. The costs for NIPSCO's Environmental Compliance Projects have been compiled through December 31, 2013. 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 $583,494,152, the value of its Environmental Compliance Projects, net of accumulated depreciation, is reasonable, and we approve the request.

C. Semi-Annual Revenue Requirement. NIPSCO requests approval of a Semi-Annual Revenue Requirement of $28,336,827 (Exhibit 1, Schedule 7, Column 3, Line 21) and an Adjusted Semi-Annual Revenue Requirement of $28,071,584 (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 Environmental Compliance Projects at December 31, 2013, of a net amount of $28,336,827, 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, Schedule 7 shows that NIPSCO's Adjusted Semi-Annual Revenue Requirement is $28,071,584 after including the prior period reconciliation.

Mr. Plantz sponsored the calculation of NIPSCO's 6.51% weighted cost of capital, using its full regulatory capital structure, per books, at December 31, 2013, which is the date of valuation of the Environmental Compliance Projects in accordance with 170 I.A.C. 4-6-14. The cost rates for long-term debt and preferred stock reflect the 12 months ended December 31, 2013. The cost rates for common equity capital of 10.2% and customer deposits of 4.43% are those approved by the 2011 Rate Order. 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 6.51% reflects a 10 basis point decrease from the 6.61% approved in the ECR 22 Order. This decrease is primarily due to a $184.7 million increase in Long-Term Debt issued pursuant to the financing authority granted in Cause No. 44191.

Based on the evidence presented, we find that NIPSCO's proposed Adjusted Semi-Annual Revenue Requirement of $28,071,584 is reasonable, and we approve the revenue requirement.

D. Allocation of Semi-Annual Environmental Compliance Project Revenue Requirement. Mr. Isensee sponsored Schedule 5 of Exhibit 1, which shows the production allocation percentages attributable to each of NIPSCO's rate schedules. These allocation percentages were approved by the ECR 19 Order adjusted to reflect the significant migration of customers amongst Rates 621, 624, 625, 626, and 632. 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 adjustments most recently approved by the Commission in its ECR-22 Order.

Based on the record presented, we find that NIPSCO's ECRM factors have been allocated on the basis of the 12 Coincident Peak ("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 NIPSCO's reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period from May 1, 2013 to October 31, 2013. NIPSCO's total computed under- or over-recoveries of ECRM revenue for this period are reflected in Column 4. Based on the evidence presented, we find that NIPSCO properly included the 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. Isensee testified that the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is $2.94, which is a $0.02 decrease from what a customer would pay today using the current ECRM Factors.

Based on the evidence presented, we approve the proposed ECRM factors set forth in Petitioner's Exhibit 2 to be applicable for bills rendered during the billing cycles of May through October 2014.

5. Commission Findings and Conclusions Regarding EERM.

A. Relevant Period. Mr. Isensee testified that consistent with Rider 673 – Adjustment of Charges for Environmental Expense Recovery Mechanism, NIPSCO requests authority to recover operation, maintenance, and depreciation expenses in connection with the operation of its Environmental Compliance Projects that were in service during the 12 months ended December 31, 2013 and the recoverable portion (80%) of the MATS Compliance Plan O&M Project expenses incurred through December 31, 2013 through its EERM factors to be applicable for bills rendered during the billing cycles of May 2014 through April 2015.

B. Actual O&M Expense. Mr. Sayers testified that for the twelve months ending December 31, 2013, NIPSCO incurred $1,919,027 of Actual O&M Expense associated with NIPSCO's Environmental Compliance Projects and recoverable federally mandated MATS O&M Project expenses, of which $71,480 was fixed and $1,847,547 was variable.

1. Environmental Compliance Projects. Mr. Sayers testified that a total of $1,856,276 O&M expense was incurred related to Environmental Compliance Projects in service as shown on Petitioner's Exh. 3, Schedule 1-EERM, Page 2 of 2 (column A, Line 12 minus Line 10). Mr. Sayers listed the Environmental Compliance Projects that were in service during the period from January 1, 2013, through December 31, 2013, and explained whether NIPSCO incurred any O&M expenses associated with those projects.

Mr. Sayers testified that O&M expenses for the twelve months ending December 31, 2013, increased from actual expenses incurred during the twelve months ending December 31, 2012. The list of Environmental Compliance Projects in service and eligible for recovery through the EERM changed significantly from 2012 to 2013. Mr. Sayers testified that although the Commission approved a number of new projects in Cause No. 44012, many of those projects were not yet in service as of December 31, 2012, and therefore there was no associated O&M expense during 2012. Many of the Multi-Pollutant Compliance Plan projects approved in Cause No. 44012 went into service and began to incur O&M and depreciation expenses in 2013. Finally, Mr. Sayers identified and explained new O&M expense programs created as a result of new Environmental Compliance Projects approved in Cause No. 44012 and summarized his expectations regarding the O&M expenses associated with NIPSCO's ownership and operation of the Environmental Compliance Projects that will be in service during the period from January 1, 2014 through December 31, 2014.

2 MATS Projects. Mr. Sayers testified that in the 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 & 8; (2) Schahfer Unit 15 ESP Flow Modeling; and (3) Air Testing for Schahfer Units 14, 15, 17, 18. Mr. Sayers testified that NIPSCO incurred $53,914 in expenses related to the Precipitator & FGD Mist Eliminator Cleaning for Bailly Units 7 & 8, of which $43,131 is eligible for recovery. NIPSCO started the Schahfer Unit 15 ESP Flow Modeling Project on October 9, 2013. NIPSCO incurred $24,525 in expenses related to the Schahfer Unit 15 project, of which $19,620 is eligible for recovery. Mr. Sayers said that no expenses were incurred for Air Testing for Schahfer Units 14, 15, 17, 18 because no testing was conducted in 2013. He explained that due to scheduling constraints Air Testing for Schahfer Units 14, 15, 17, 18 was postponed and rescheduled for 2014.

Mr. Isensee testified that Schedule 1A-EERM of Exhibit 3 shows the detail of all expenses incurred in conjunction with NIPSCO's federally mandated MATS Compliance Plan O&M Projects. In accordance with the 44311 Order, NIPSCO may recover 80% of all costs associated with approved federally mandated MATS O&M projects through the currently-effective EERM tracking mechanism.

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 O&M Project expenses for the period ending December 31, 2013, of $1,919,027 are reasonable and approve recovery through the EERM factors beginning with the May 2014 billing cycle.

C. <u>Actual Depreciation Expense</u>. Petitioner's Exhibit 3, Schedule 1-EERM, page 1 of 2, shows that NIPSCO's actual depreciation expense for the twelve months ending December 31, 2013, was $3,769,669. Mr. Plantz testified that the Actual Depreciation Expense consists of depreciation expenses incurred in the period January 1, 2013, through December 31, 2013, associated with NIPSCO's ownership and operation of the Environmental Compliance Projects that have been placed in service.

Based on the evidence presented, we find that NIPSCO's Actual Depreciation Expense for the period ending December 31, 2013 of $3,769,669 has been properly calculated and is reasonable. Therefore, we approve the Actual Depreciation Expense for recovery through the EERM factors beginning with the May 2014 billing cycle.

D. <u>Allocation of Actual O&M and Depreciation Expenses</u>. Mr. Isensee testified that the part of the EERM charge for operating and maintenance expenses is determined by multiplying the operating and maintenance expenses proposed for recovery times the composite percentage of two elements: (1) an element for the production allocation percentage, which is used for fixed operating and maintenance expenses, and (2) an element for the energy allocation percentages, which is used for variable operating and maintenance expenses.

Mr. Isensee explained NIPSCO's proposed adjustments to its production allocation percentages. He stated NIPSCO has adjusted its production allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, 626 and 632. He explained that this migration was based upon the customers' 12 CP calculated in conjunction with the approved allocators in Joint Exhibit E to the Stipulation and Settlement Agreement by and among NIPSCO, the Indiana Office of Utility Consumer Counselor, NLMK Indiana f/k/a Beta Steel Corporation, Indiana Municipal Utilities Group, and NIPSCO Industrial Group (the "2011 Settlement") approved in the 2011 Rate Order. 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 adjustments most recently approved by the Commission in its ECR 22 Order.

Mr. Isensee also explained NIPSCO's proposed adjustments to its energy allocation percentages. He stated NIPSCO has adjusted its energy allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, 626 and 632. He explained that this migration was based upon the customers' test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses. Mr. Isensee testified this adjustment is appropriate in order to prevent any unintended consequences of the migration of customers to different rate classes and to properly allocate their share of EERM charges and is consistent with the adjustments most recently approved by the Commission in its ECR 22 Order.

Based on the evidence presented we find that NIPSCO's proposed EERM factors have been properly allocated on the basis of Joint Exhibit E to the 2011 Settlement – the 12 CP method in accordance with our ECR 19 Order. We also find that NIPSCO has properly allocated the depreciation portion of EERM costs and the fixed portion of the O&M component of EERM costs on the same basis as the production allocation utilized for the capital costs inside of the ECRM-i.e. the Joint Exhibit E Allocation or 12 CP in accordance with our ECR-19 Order. Finally, we find that NIPSCO properly allocated the variable O&M expenses to classes based on test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses.

E. Reconciliation of Projected Period Recoveries. Mr. Isensee testified that Schedule 2-EERM of Exhibit 3 shows NIPSCO's reconciliation of projected period recoveries of EERM revenue with actual revenue during the period from May 1, 2012 to April 30, 2013. He explained that since NIPSCO's EERM-9 factors ended April 30, 2013, NIPSCO is able to compute any under or over recoveries of EERM revenue, which are reflected in Column 4. Based on the evidence presented, we find that NIPSCO properly included a reconciliation of projected period recoveries for recovery through the EERM factors beginning with the May 2013 billing cycle.

F. New EERM Factors. Mr. Isensee provided testimony to explain how the EERM factors were calculated. Mr. Isensee testified the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is $0.22, which is a $0.14 increase from what a customer would pay today using the current EERM Factors. OUCC witness Mr. Blakley testified that for the EERM, the bill impact for a typical residential customer using 1,000 kWh per month will be $0.33, which is an increase of $0.21 from current EERM factors.

Mr. Isensee sponsored Exhibit 4 (Appendix E - Environmental Expense Recovery Mechanism Factor) showing the EERM factors applicable to the various NIPSCO rate schedules and explained how the EERM factors were developed. Mr. Isensee also sponsored Petitioner's Exhibit 3, Schedule 1-EERM, page 1 of 2, which shows that calculation underlying the proposed EERM factors. Based on the evidence presented, we find that the proposed EERM factors set forth in Petitioner's Exhibit 3 were properly developed and should be implemented to be applicable to the bills of NIPSCO electric utility customers beginning with the May 2014 billing cycle.

G. Deferred Federally Mandated Costs. Mr. Isensee testified that Schedule 1A-EERM of Exhibit 3 shows the detail of all expenses incurred in conjunction with NIPSCO's federally mandated MATS Compliance Plan O&M Projects. He 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 the approved federally mandated MATS O&M project costs, including post in-service carrying charges on the deferred O&M expenses, for recovery in NIPSCO's next general rate case. Exhibit 3, Schedule3-EERM provides a record of the deferred federally mandated costs as well the ongoing carrying charges on all deferred federally mandated costs until such time as the costs can be recovered as part of NIPSCO's next general rate case.

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 O&M Projects and recover those deferred costs in its next general rate case. In addition, we authorized 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).

6. Commission Findings and Conclusions Regarding Progress Report. In the 42150 Order, 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 43526 Order, 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 Phase I 44012 Order 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. 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 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, in this proceeding NIPSCO requests approval of its Thirteenth 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 and EERM. Specifically, NIPSCO requests the Commission to approve its revised Compliance Plan as set forth in Exhibit PR attached to NIPSCO's Verified Petition initiating this Cause, including the updated project scopes, construction schedules, and cost estimates described therein. Since the Twelfth Progress Report, NIPSCO has identified aspects of the plan that require further modification. Mr. Sangster testified that Exhibit PR attached to NIPSCO's Verified Petition initiating this Cause identifies and describes the plan modifications which can be broken down into several categories: scheduling changes, additions and/or subtractions from the Compliance Plan (none in this proceeding), and changes in estimated costs.

Mr. Sangster provided an update on the status of several of the Environmental Compliance Projects. The Unit 14 FGD Facility Addition and Unit 14/15 FGD Common were successfully put into service on November 19, 2013, and the Unit is currently meeting SO2 emissions requirements. The Unit 15 FGD Facility Addition continues to progress and remains on-schedule and on-budget. The total cost estimate for the three Schahfer FGD projects has not changed ($500 million total for Unit 14 FGD, Unit 15 FGD and Unit 14/15 Common Facilities). Since NIPSCO last modified the allocation of these costs between the three components of the Schahfer FGD project in ECR 20, the accuracy of the "cost to complete" has continued to improve as the project moves closer to completion. As part of ECR 20, NIPSCO provided an updated estimate of the "cost to complete" the three segments. At the time of the filing the estimates had a ±15% accuracy based upon the point in time the project was measured. Mr. Sangster testified that because these projects are now very close to completion, NIPSCO is submitting revised cost estimates for Unit 14 FGD, Unit 15 FGD and Unit 14/15 Common facilities, as indicated in Exhibit PR, in order to appropriately allocate the $500 million amongst the segments of the project. This allocation represents the accuracy at this point in time.

With respect to the Michigan City Unit 12 FGD Facility Addition, Mr. Sangster testified that the Michigan City Unit 12 FGD Facility Addition project is progressing on-schedule and on-budget. Construction began March 25, 2013. NIPSCO has awarded the major equipment supply contract, the two large general work contracts and the engineering contract. At this point in time the accuracy of the estimates is ±25%.

With respect to the Unit 14 TR Set project approved in Cause No. 44311, Mr. Sangster testified that the Unit 14 TR Set Project completed construction and went into service on November 19, 2013. The remainder of the TR Set projects are progressing on-schedule and on-budget. The modifications to the construction start and in-service dates for the TR Set projects, as shown on Exhibit PR, are due to shifts in outage dates for the affected units and not delays in the project schedules.

With respect to the proposed scheduling changes, Mr. Sangster testified the construction start date for the Unit 12 SCR Catalyst 4th Layer, Continuous Particulate Monitors Addition (U14), the Unit 14 TR Sets, and the federally mandated ESP Flow Modeling O&M Project were revised to show the actual start of construction (or, for the ESP Flow Modeling O&M Project, the project start date). The in-service dates for the Unit 12 SCR Catalyst 4th Layer, Unit 14 SCR Catalyst 4th Layer, Unit 14 FGD Facility Addition, Unit 14/15 FGD Common, Continuous Particulate Monitors Addition (Unit 14), and Unit 14 TR Sets were revised to show the actual in-service dates. The Unit 7 SCR Catalyst 2nd Layer, Unit 8 SCR Catalyst 4th Layer, Unit 12 FGD Facility Addition, Unit 15 TR Sets, Unit 17 TR Sets, and Unit 18 TR Sets have had their construction start and/or in-service schedules modified to reflect changes in the outage schedules. Finally, Mr. Sangster testified the construction start date and in service date for the Unit 12 Economizer Waterside Bypass project and the MATS Air Testing and the in-service date for the Unit 15 FGD Addition were revised to reflect the current schedules.

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 the Unit 7 SCR Duct Burners project to reflect the final cost of this project. The approved cost estimate for the project was $11,000,000, while total spend for the project was $6,322,714. Mr. Sangster said that the actual spend was $4,677,286 less than approved and came in around 42% under budget. The Cost Estimate for the Unit 8 SCR Duct Burners was increased by $3,441 to cover the costs for updating the project drawings. This project was originally approved for $16,000,000, and in ECR 21 NIPSCO reported final costs of $14,326,370, but NIPSCO inadvertently overlooked the need to complete the as-built drawings when NIPSCO originally closed the project and NIPSCO has since included the cost of the updated project drawings in the final cost of the project. Mr. Sangster testified the revised final cost is now $14,329,811. Exhibit PR reflects changes to the allocation of estimated costs between the three Schahfer FGD projects (Unit 14 FGD, Unit 15 FGD, and Common Facilities for Unit 14 & 15), but the total cost estimate for the three Schahfer FGD projects has not changed ($500 million total). Specifically, NIPSCO is now projecting: (1) the Unit 14 FGD will cost $157,208,668—an increase from the cost estimate approved in the Tenth Progress Report; (2) the Unit 15 FGD will cost $148,604,805—an increase from the cost estimate approved in the Tenth Progress Report; and (3) the Common Facilities for Unit 14 & 15 will cost $194,186,527—a decrease from the cost estimate approved in the Tenth Progress Report.

The evidence presented demonstrates that the three Schahfer FGD projects are on-schedule and on-budget and the total cost estimate for the three Schahfer FGD projects has not changed ($500 million total for Unit 14 FGD, Unit 15 FGD, and Common Facilities for Unit 14 & 15). We find that NIPSCO's request to change the allocation of estimated costs between the three Schahfer FGD projects (Unit 14 FGD, Unit 15 FGD, and Common Facilities for Unit 14 & 15) as set forth herein is reasonable, and we approve the proposed changes. Further, based on our review of the evidence, we find that NIPSCO's request to decrease the cost estimate for the Unit 7 SCR Duct Burners by $4,677,286 (from $11,000,000 to $6,322,714) and increase the final cost for the Unit 8 SCR Duct Burners by $3,441 (from $14,326,370 to $14,329,811) is reasonable, and we approve the request.

Mr. Sangster testified the total cost estimate approved in the Twelfth Progress Report was $805,995,253. Mr. Sangster testified the proposed revised total cost estimate for all Compliance Plan projects is $860,601,408. As part of its Thirteenth Progress Report, NIPSCO is requesting approval of its updated Environmental Compliance Projects cost estimate of $860,601,408 and approval to recover these costs through the ECRM and EERM. Based on the evidence presented, 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 Thirteenth 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 and EERM.

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

1. NIPSCO is authorized to reflect the additional values of Environmental Compliance Projects identified above in its rates and charges for electric service in accordance with NIPSCO's ECRM beginning with the May 2014 billing cycle.

2. NIPSCO shall file with the Electricity Division of the Commission, prior to placing in effect the ECRM factors approved above, 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. NIPSCO is authorized to reflect the rate adjustments reflecting the recovery of operation, maintenance and depreciation expenses identified above in its rates and charges for electric service in accordance with NIPSCO's EERM, beginning with the May 2014 billing cycle.

4. NIPSCO shall file with the Electricity Division of the Commission, prior to placing in effect the EERM factors approved above, an amendment to its rate schedule with reasonable

reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

5. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS 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.

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

ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: APR 30 2014

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission