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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR APPROVAL)
PURSUANT TO IND. CODE § 8-1-2.5 ET SEQ. OF)
MODIFICATION TO AND EXTENSION OF ITS)
ALTERNATIVE REGULATORY PLAN APPLICABLE)
TO NATURAL GAS UTILITY SERVICE AS)
APPROVED BY THE INDIANA UTILITY)
REGULATORY COMMISSION IN CAUSE NO. 43837.)

CAUSE NO. 44081

APPROVED: MAR 15 2012

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On September 30, 2011 Northern Indiana Public Service Company (“Petitioner,” “Company” or “NIPSCO”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking approval of modification to and extension of its Alternative Regulatory Plan (“ARP”) applicable to natural gas utility service as approved by the Commission in Cause No. 43837. On October 14, 2011, Intervenors collectively designated as the Choice Marketer Group consisting of Border Energy, CenterPoint Energy Services, Inc., Interstate Gas Supply, Inc., Just Energy Indiana Corp., MXenergy, Nordic Energy Services, LLC, Spark Energy Gas, LP, US Gas & Electric, Inc. and Vectren Retail, LLC. (“Marketer Group”) filed a Petition to Intervene.

Pursuant to notice as provided by law, the Commission conducted a Prehearing Conference on November 2, 2011 at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the Prehearing Conference, the Commission granted the Petition to Intervene of Marketer Group and NIPSCO, the Indiana Office of Utility Consumer Counselor (“OUCC”) and the Marketer Group agreed upon various procedural and scheduling dates to govern this proceeding. On November 22, 2011, the Commission approved its Prehearing Conference Order.

On December 22, 2011, NIPSCO, OUCC, and Marketer Group (the “Settling Parties”) filed a Stipulation and Settlement Agreement (“Settlement”) in this Cause. On January 24, 2012, the Presiding Officers issued a docket entry containing questions for Petitioner’s witnesses, to which NIPSCO responded on January 24, 2012.

Pursuant to notice as provided by law, the Commission conducted an Evidentiary Hearing on January 25, 2012 at 10:30 a.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner, OUCC and the Marketer Group participated in the hearing. At that time, the evidence prefiled by the Settling Parties was admitted into the record without objection. Petitioner’s responses to the Commission’s Docket Entry were also admitted into the record without objection. No member of the rate paying public was in attendance at the

evidentiary hearing.

Based upon the applicable law and evidence presented herein, the Commission now finds as follows:

1. Notice and Jurisdiction. Due, legal and timely notice of the public hearing in this Cause was given and published as required by law. Petitioner is a “public utility” as defined in Ind. Code § 8-1-2-1(a) and is thereby subject to the jurisdiction of the Commission as provided in the Public Service Commission Act, as amended. In its Verified Petition, Petitioner stated that it was electing to become subject to Ind. Code §§ 8-1-2.5-5 and 8-1-2.5-6 for purposes of its filing. Petitioner is an “energy utility” providing “retail energy service” within the meaning of Ind. Code § 8-1-2.5-2 and § 8-1-2.5-3, respectively. Petitioner published notice as required by Ind. Code § 8-1-2.5-6(d). The Commission has jurisdiction over the parties and the subject matter of this proceeding.

2. Petitioner’s Characteristics. NIPSCO provides natural gas utility service to approximately 786,000 residential, commercial, and industrial customers in Adams, Allen, Benton, Carroll, Cass, Clinton, DeKalb, Elkhart, Fulton, Howard, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, Saint Joseph, Starke, Steuben, Tippecanoe, Tipton, Wabash, Warren, Wells, White and Whitley Counties in Indiana, and owns, operates, manages and controls, among other things, plant, property, equipment and facilities, which are used and useful for the production, storage, transmission, distribution and furnishing of gas service to its customers. Petitioner’s natural gas service is currently subject to an ARP approved by the Commission pursuant to Ind. Code § 8-1-2.5-6, most recently in the Commission’s Order in Cause No. 43837 (March 31, 2010), as modified in Cause No. 43894 (November 4, 2010) and Consolidated Cause Nos. 43941, 43942 and 43943 (May 31, 2011) (“Current Gas ARP”).

3. Relief Requested. By its Verified Petition, NIPSCO seeks Commission approval of its proposal (“Proposed Gas ARP”) consisting of an indefinite extension of its Current Gas ARP beginning on April 1, 2012 and incorporating modifications to the Current Gas ARP. By the Settlement filed with the Commission on December 22, 2011, the Settling Parties submit terms and conditions of a modified ARP supported by testimony from all parties of record for our consideration and approval. No evidence has been submitted by any party opposing approval of the Proposed Gas ARP.

4. Petitioner’s Current Gas ARP. The following programs represent Petitioner’s Current Gas ARP effective through the expiration of the current term on March 31, 2012:

- Rider 480 – Supplier Choice Delivery Service (SCDS) Rider (the “Choice Program”) – a supplier choice program for NIPSCO residential, commercial and small industrial customers under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 40342.
- Rate 430 – Large Volume Negotiated Sales Service – a negotiated sales rate for large volume sales customers. This program was originally approved by the Commission in Cause No. 40342.

- Rate 434A – Off-Peak Commercial and Industrial Interruptible Negotiated Service – a negotiated sales rate for commercial and industrial customers. This program was originally approved by the Commission in Cause No. 40342.
- Rate 440 – Liquefied Natural Gas (LNG) Service – a negotiated rate interruptible service provided from NIPSCO’s LNG facilities when available. This program was originally approved by the Commission in Cause No. 40342.
- Rider 442A – Optional Storage Service Rider – a negotiated rate for transportation customers for long-term storage using on-system storage assets. This program was originally approved by the Commission in Cause No. 40342.
- Rate 443 – Firm Distribution Transportation Service (FDTS) – a firm delivery service available to customers requiring a minimum of 50 Dth per day. This program was originally approved by the Commission in Cause No. 40342.
- Rate 445 – Supplier Aggregation Service (SAS) – supplier aggregation service allowing for the aggregation of customer load by qualifying third-party gas suppliers (“Choice Suppliers”) to Choice Program customers. This program was originally approved by the Commission in Cause No. 40342.
- Rider 446 – Firm No-Notice Backup Supply Service (FNBS) Rider – a negotiated rate firm no-notice backup service available to transportation customers and Marketers. This program was originally approved by the Commission in Cause No. 40342.
- Riders 447 and 448 – Gas Parking Service (GPS) Rider and Gas Lending Service (GLS) Rider – negotiated rates offered to transportation customers for short term storage using on-system storage assets. This program was originally approved by the Commission in Cause No. 40342.
- Rider 449 – Firm Peaking Capacity Service (FPCS) Rider – a negotiated firm capacity service available to transportation customers and aggregators. This program was originally approved by the Commission in Cause No. 40342.
- Rider 481 - Price Protection Service (PPS) Rider – a fixed price program offered to residential, commercial, and small industrial customers receiving service under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 40342.
- Rate 451 – Fixed Gas Bill Service (also known as DependableBill) – a fixed bill program offered residential, commercial, and small industrial customers receiving service under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 42097.
- Rider 422A – Commercial and Industrial Gas Spacecooling Rider – a tariff intended for Commercial and Industrial customers making use of gas spacecooling technology. This Rider was originally approved in Cause No. 40342.

- Rate 424A – Compressed Natural Gas Service – gas service to a customer-operator and owned or leased CNG facility or to any customer for the purchase of CNG to fuel motorized vehicles from designated Company-owned and operated CNG facilities. This Rate was originally approved in Cause No. 40342.
- Rate 444 – Firm Transportation Service (FTS) – a transportation service first proposed and approved in Cause No. 40342.
- Rider 488 – Residential Gas Spacecooling Rider – a tariff intended for residential customers making use of gas spacecooling technology. This program was originally approved in Cause No. 40342.
- Gas Cost Incentive Mechanism (GCIM) – a sharing mechanism providing an incentive for NIPSCO to optimize its gas supply purchases so as to produce shared benefits for NIPSCO and its jurisdictional customers subject to the GCA. The GCIM was originally approved by the Commission in Cause No. 40342. The sharing mechanism was modified in consolidated Cause Nos. 42800 and 42884 to a uniform 50% / 50% sharing of benefits with GCA customers.
- Capacity Release Incentive – a sharing mechanism providing an incentive for NIPSCO to optimize its release of under-utilized pipeline capacity so as to produce shared benefits for NIPSCO and its jurisdictional customers subject to the GCA. The Capacity Release Incentive was originally approved by the Commission as an amendment to the ARP approved in Cause No. 40342.

5. **The Settlement.** The Stipulation and Settlement Agreement (“Settlement”) submitted by the Settling Parties proposes resolution of all issues associated with the relief requested by NIPSCO in its Verified Petition, including the extension of its Current Gas ARP with specific modifications on an indefinite basis beginning on April 1, 2012. The Settlement also provides for the elimination of seven programs or services from the ARP. Rather than repeating each aspect of the Settlement here, the Settlement is appended to this Order and incorporated herein by reference. The Settlement presents a comprehensive resolution of all matters pending before the Commission in this Cause, which the Settling Parties agree is fair and reasonable.

6. **Evidence Presented in Support of the Settlement.** Petitioner presented its evidence, which is summarized here and further considered in the discussion of the Settlement below.

Shawn M. Kelly, Senior Analyst for Regulatory Policy for NIPSCO, testified that since approval of NIPSCO’s first gas ARP on October 8, 1997, the Company has developed and refined gas commodity product and service choices and asset optimization tools that benefit its customers. He stated these options have been well received by customers, with over 150,000 residential, commercial, and small industrial customers, representing approximately 19% of NIPSCO’s total customer base subscribing to alternative products as of November 30, 2011.

Mr. Kelly testified the objectives of the Settlement include the following principles: (1) the Proposed Gas ARP will continue NIPSCO’s goal of eliminating any cross-subsidization between NIPSCO, Gas Cost Adjustment (“GCA”) ratepayers, and Choice customers and ensure

that cost allocation follows cost causation; (2) enhanced program rules intended to improve transparency to stakeholders; and (3) gas cost optimization to ensure that any sharing of funds with customers will be based on cost-causation principles and that affected groups share on an equitable basis. Mr. Kelly testified the Settling Parties do not consider any of these issues to be a wholesale change to the structure of the Choice Program.

Mr. Kelly explained that in its Final Order dated November 4, 2010 in Cause No. 43894, the Commission accepted the terms of a Stipulation and Settlement Agreement calling for, *inter alia*, implementation of new basic rates and charges for natural gas service and established regulatory treatment of margins for NIPSCO's Current Gas ARP. In addition, the Stipulation and Settlement Agreement approved in that Cause provided (at ¶8) that:

NIPSCO agrees to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and service in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. NIPSCO further agrees that a code of conduct consistent with those principles and objectives will be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger with its affiliated gas utilities, and that pending the implementation of such code of conduct NIPSCO will not alter its current market practices and policies in connection with its competitive products.

As part of the *Stipulation and Settlement Agreement* involving the merger of Kokomo Gas and Fuel Company ("Kokomo") and Northern Indiana Fuel & Light Company ("NIFL") into NIPSCO, which was approved by the Commission in its May 31, 2011 Order in Consolidated Cause Nos. 43941, 43942, and 43943 (the "Merger Order") NIPSCO agreed to make all ARP products and services approved by the Commission in Cause No. 43837 available to customers in the former Kokomo and NIFL service territories, and implementation of a Code of Conduct consistent with the Commission's Order in Cause No. 43894. In addition, the *Stipulation and Settlement Agreement* approved in the Merger Order provided the following with respect to the NIPSCO Gas ARP:

- NIPSCO agreed to the incorporation of an additional delivery option for Choice Marketers consistent with that presently applicable to PPS and Depend-a-Bill, whereby the Marketer has the option to bring in a flat volumetric amount per day per calendar month as specified by the Company. Any over or under deliveries would be reconciled as they are currently for the other Options, and Marketers that choose this option would be required to mitigate their allocated portion of storage and transport consistent with the current mitigation program. NIPSCO agreed that this delivery option will be incorporated before or during the renewal of the [43837] ARP.
- NIPSCO agreed that it will implement steps necessary and appropriate to provide for access to customer information systems and billing records by non-GCA services and marketers on a non-discriminatory basis no later than the effective date of the successor to the [43837] ARP.

- NIPSCO agreed that it will incorporate the *Choice* program into its gas tariff without a stated term of years or sunset date during the renewal of the [43837] ARP.
- NIPSCO agreed to complete its transition to the maintenance of transparent records that identify and appropriately allocate costs between GCA services and non-GCA services, with sufficient specificity and clarity to confirm the proper allocation of costs such that non-GCA services are not under-allocated expenses, no later than the effective date of the successor to the [43837] ARP.

Consolidated Cause Nos. 43941, 43942, 43943 *Stipulation and Settlement Agreement* at ¶8 (the “Merger ARP Requirements”). Mr. Kelly stated that, in his opinion, NIPSCO has satisfied each of these conditions in the Proposed Gas ARP.

In this proceeding, Mr. Kelly noted that NIPSCO has improved the flow and readability of its ARP tariff sheets and made other modifications necessitated by the Proposed Gas ARP (i.e., applicable rates, etc.). Mr. Kelly testified that NIPSCO is proposing incorporation of an additional delivery option consistent with the commitment made in the Merger proceeding. He stated a fourth delivery option (“Option 4”) will be available to Choice Suppliers. Choice Suppliers selecting Option 4 will be required to use NIPSCO’s asset mitigation program where they are invoiced by NIPSCO for their share of interstate pipeline and storage capacity on a monthly basis. Option 4 Choice Suppliers will now receive the benefit of capacity release revenues as do GCA, PPS, and Depend-a-Bill customers. These Choice Suppliers will receive a credit on their monthly invoice for 85% of any capacity release revenues attributed to the capacity they are billed.

Mr. Kelly explained how Choice Suppliers are responsible for their share of pipeline capacity related to the number of customers they serve. This capacity is currently released to the Choice Suppliers on a quarterly basis in order to allow NIPSCO to recalculate their share of the system. In the proposed ARP, capacity will be released on a seasonal or semi-annual basis. With the appropriate pipeline capacity, Choice Suppliers are able to purchase the gas required to serve their customers and deliver this gas to NIPSCO’s distribution system where NIPSCO becomes responsible for delivering the gas to the end use customer.

Mr. Kelly also explained why NIPSCO agreed to an indefinite term. He stated that most of the programs in the Current Gas ARP have been in existence since 1997. Over the course of multiple renewals, there have been enhancements made to the programs in order to give NIPSCO customers viable options. More specifically, the Choice Program has been subject to numerous customer protections and a major shift in cost assignments that make cost allocation fair and equitable for Choice customers and GCA customers. An indefinite term will eliminate some of the business risk that exists for Choice Suppliers and allow them to offer more creative pricing options that may benefit customers. The elimination of a term will also increase efficiencies of the Settling Parties by not requiring negotiations to occur at regular intervals.

Mr. Kelly testified that an indefinite term will not eliminate the ability of the Settling Parties to propose enhancements to the Proposed Gas ARP. He stated that the Settling Parties will actually have more flexibility to propose changes. The Proposed Gas ARP is subject to review and discussion among the Settling Parties at the conclusion of the first year and every 24 months thereafter. The Settlement also does not preclude any of the parties from filing a petition

with the Commission to make changes to the ARP or requesting changes or termination of the ARP in the context of a general rate proceeding.

Mr. Kelly detailed the consumer protections that have been included in the Settlement. He stated that as the regulated utility, NIPSCO will continue to maintain its relationship with customers enrolled in the Choice Program. Customer satisfaction is a high priority to NIPSCO and the Settling Parties so protections were agreed to in order to protect customers from fraudulent or deceptive behaviors. The consequences of any such conduct can be suspension of enrollment or termination from the program.

Mr. Kelly detailed the major shift in cost assignments that occurred as a result of the Commission Order approving the Current Gas ARP in Cause No. 43837. The goal has been to allow the Choice Program to grow to a point where it could be self-sustaining without placing a large initial burden on the program that would not allow it to grow. He explained that Choice suppliers are now completely responsible for their share of pipeline capacity, and that the Settlement contemplates no changes to the pipeline capacity allocation methodology.

Mr. Kelly testified that NIPSCO's customers view the Choice Program as an attractive option. He explained that as of November 30, 2011, NIPSCO's Choice Program has participation of approximately 103,000 customers. Approximately 88,000 are residential customers and 15,000 are commercial and small industrial customers.

Mr. Kelly testified that in order to provide evidence concerning customer satisfaction, NIPSCO conducted a survey regarding Choice. There were two separate surveys conducted. One was for residential customers participating in Choice and the other was for residential customers not participating in Choice. The results of this survey showed favorable results. Over 75% of Choice customers polled are satisfied with the program.

Mr. Kelly explained that the monthly customer satisfaction reports that NIPSCO has filed with the Commission in Cause No. 42884 was approved to contain data regarding average speed of answer ("ASA"), abandonment rate, customer satisfaction with customer service representative ("CSR"), service appointment punctuality, gas emergency response performance, and meter reading performance. Mr. Kelly noted that the Settlement proposes to discontinue the requirement for NIPSCO to submit monthly customer satisfaction reports to the Commission. However, Mr. Kelly explained that NIPSCO will continue to share these metrics with the Commission through communications with the Consumer Affairs Division (CAD). He stated NIPSCO and the Commission's CAD routinely communicate regarding customer issues through informal calls and meetings when necessary. NIPSCO intends to take advantage of the informal means of communication.

Mr. Kelly stated the Order in Cause No. 43837 also required NIPSCO (1) to continue audit funding for OUCC for purposes of auditing NIPSCO's GCA and GCIM filings, (2) to develop a mechanism on NIPSCO's website to allow customers to compare prices, and (3) to continue semi-annual bill inserts updating marketer contact information. He testified that NIPSCO is in compliance with each of those requirements, and will continue to make semi-annual bill inserts regarding Choice and also include this information in new customer welcome packets. Mr. Kelly explained that the Parties have begun a collaborative process to develop a web-based comparison of residential customer bills at an average level of consumption to compare the standard NIPSCO GCA price with each Choice Supplier serving the residential

market. The parties expect to implement the new comparisons by April 1, 2012. The comparison will provide customers with total commodity costs over a specified period without projections of future market conditions.

Mr. Kelly also testified that NIPSCO is in compliance with the Code of Conduct requirements in the Merger Order. He stated that the Code of Conduct approved in the Merger Order was intended to ensure competitive neutrality, transparency, and fair cost allocation between NIPSCO, its affiliates, and Choice Suppliers. NIPSCO has routinely conducted internal meetings to make sure the terms and conditions of the Code of Conduct are met.

Mr. Kelly testified that the Proposed Gas ARP is in the public interest and should be approved by the Commission. The Commission has consistently found that continued approval of the NIPSCO ARP and its various programs is in the public interest. The revisions to the Current ARP in this proceeding represent improvements that provide NIPSCO's retail customers with a number of supplier and pricing options.

Diane M. Cota, Manager, Major Accounts Support for NIPSCO, described the Supplier Aggregation Service Agreement – For Rate Schedule 445 End Use Customers (the “SAS Agreement”) and explained the timeframe for transfer of customers to sales service in the event a Choice Supplier defaults. She also explained NIPSCO's proposal to eliminate certain tariffs currently available to commercial and industrial customers.

Ms. Cota testified customers currently participating in the Choice Program will not see noticeable changes to the program. She stated the proposed changes to the program relate to the relationship between NIPSCO and Choice Suppliers. The actual tariff sheet for Rider 445 is only changing to clarify that all qualified suppliers are required to execute an SAS Agreement in order to enroll customers. The majority of the changes to the Choice Program are reflected in the SAS Agreement.

Ms. Cota explained that the SAS Agreement was developed to set forth the terms and conditions under which the Choice Program would operate and sets out specific requirements for Choice Suppliers and NIPSCO. She explained that the proposed modifications include (1) a requirement that Choice Suppliers must submit a confidential monthly marketing report, (2) a process for taking action to address any supplier non-compliance with the requirements of the SAS Agreement, (3) a reduction in the collateral requirement, (4) expansion of the level of record keeping for enrollments and cancellations to the program, (5) the inclusion of a Commission appeals process relative to sanctions imposed on Choice Suppliers, and (6) a modification to the enrollment procedures.

Ms. Cota testified that in addition to the advance submission of marketing materials currently required in the SAS Agreement, Choice Suppliers will be required to provide NIPSCO with a written confidential monthly marketing report. The monthly marketing report will identify the type of marketing media to be employed identifying the specific geographic area where any door-to-door marketing is to take place. The monthly marketing report will also identify outbound telephone numbers used by the Choice Supplier for telemarketing activities. The SAS Agreement provides that the monthly marketing reports will be treated as commercially sensitive and confidential. The monthly marketing reports will allow NIPSCO to more efficiently manage any complaints received relating to Choice Supplier marketing activities.

Ms. Cota explained that there are two levels of action available to NIPSCO should a Choice Supplier not perform the requirements detailed in the SAS Agreement. The first level of action is suspension of enrollments by a Choice Supplier if it fails to maintain creditworthiness, supply information requested by NIPSCO, or comply with the SAS Agreement or the tariff. Additionally, if it is determined that a Choice Supplier has engaged in fraudulent, deceptive or abusive acts or has a demonstrated pattern of administrative violations of the SAS Agreement, pursuant to its terms, written notification of the circumstances will be sent to the Choice Supplier. The Choice Supplier will have three (3) days to provide an explanation in response to the notice of sanction. In appropriate instances, NIPSCO may terminate the SAS Agreement if the Choice Supplier is determined to be in violation of the terms of the SAS Agreement.

Ms. Cota testified that in previous versions of the SAS Agreement, there was no incremental sanctioning authority for violations of the tariff or of the Agreement. The revisions proposed here provide NIPSCO with the ability to impose a sanction short of termination of the SAS Agreement in instances where the conduct does not warrant such a severe penalty. The SAS Agreement has also been modified to provide for sanctions for violations of administrative provisions of the Agreement. Examples could include failure to timely provide reports or submit other information required by the Agreement.

Ms. Cota stated that the relationship between NIPSCO and eligible Suppliers has generally been cooperative and professional, and problems of any kind (administrative or otherwise) have been minimal. With that having been said, Ms. Cota stated that growth in participation by eligible Suppliers has driven an increase in the activities required by NIPSCO to administer the Choice Program, and small administrative issues with a single Supplier could become enormous if experienced with the 15 Suppliers now eligible to compete in the program.

Ms. Cota explained the proposed inclusion of a Commission appeals process relative to sanctions imposed on Choice Suppliers. She stated that if sanctions are imposed upon a Choice Supplier, the Choice Supplier may appeal the decision in writing to the Commission within ten (10) business days of the imposition of a sanction. If an appeal is initiated, no sanction will be imposed until the Commission rules on the appeal. This provides protection for all participants and ensures that NIPSCO is fair and proportional in the assessment of sanctions.

Ms. Cota discussed the proposed reduction in the amount of collateral required by Choice Suppliers to participate in the Choice Program. She stated that the current collateral calculation uses 10 average days usage on a seasonal basis. The current collateral provisions provide that if the collateral requirement for such period is less than the dollar amount of collateral provided by a Choice Supplier and held by NIPSCO, NIPSCO shall return the excess collateral amount to the Choice Supplier within five business days of receipt of written notice as to where such excess collateral should be delivered. Likewise, if the collateral requirement for such period is greater than the dollar amount of collateral provided by a Choice Supplier and held by NIPSCO, the Choice Supplier shall, within 5 business days after receipt of NIPSCO's notice, deliver the amount of collateral necessary to meet the full requirement for that period. The proposed collateral calculation is being modified to use 5 average days usage on a seasonal basis. The proposed collateral provisions provide that if the collateral requirement for a period is less than the dollar amount of collateral provided by the Choice Supplier and held by NIPSCO, NIPSCO shall return the excess collateral amount to the Choice Supplier within 14 business days of receipt of written notice as to where such excess collateral should be delivered. Likewise, if the collateral requirement for that period is greater than the dollar amount of collateral provided by

Choice Supplier and held by NIPSCO, the Choice Supplier shall within 14 business days after receipt of NIPSCO's notice deliver to NIPSCO the amount of collateral necessary to meet the full requirement for that period.

Ms. Cota explained the proposed expansion in the level of record keeping for enrollments and cancellations to the Choice Program. She stated that the current Choice Program requires enrollment forms and voice recordings of enrollments and cancellations be retained by Choice Supplier, its agents, assigns and/or contractors for a period of two years from the date of enrollment and/or cancellation. The proposed Choice Program requires enrollment forms and voice recordings of enrollments and cancellations be retained by Choice Supplier, its agents, assigns and/or contractors for a period of two years from the later of the date of the SAS Agreement or the expiration and/or cancellation of the service contract with the Customer.

Ms. Cota explained the proposed modifications to the enrollment procedures. She stated that the proposed Choice Program includes the requirement that should a customer be dropped from the Choice Program for ineligibility a Choice Supplier may only attempt to reenroll the customer for a period of 90 days without executing a new enrollment form with the customer. She explained that if the customer has not re-established eligibility for participation within 90 days, the customer can only be enrolled upon (a) establishment of eligibility under the NIPSCO Gas Service Tariff, and (b) execution of a new agreement with a Choice Supplier.

Ms. Cota explained the timeframe for transfer of customers to sales service in the event a Choice Supplier defaults. Ms. Cota stated that NIPSCO's GCA customers will not be impacted if a Choice Supplier defaults and is terminated from the program. The customers of the defaulting Choice Supplier will automatically return to the GCA upon termination of the Choice Supplier. NIPSCO maintains the SOLR responsibility and will obtain the necessary gas to serve those customers. As explained above, NIPSCO will maintain collateral for each Choice Supplier equal to 5 average days usage on a seasonal basis. In the case of a Choice Supplier's termination from the program, this collateral requirement will cover at least the incremental cost of any gas purchases above the weighted average cost of the rest of the GCA portfolio and the former Choice customers will pay the same cost of gas as all GCA customers. She also explained why NIPSCO is proposing the elimination of certain tariffs available to commercial and industrial customers.

Stacy A. Djukic, Manager, Scheduling and Accounting in the Energy Supply & Trading Department for NIPSCO, explained the capacity assignment process and other operational aspects of the Choice Program, as well as the other ARP products as it relates to gas supply. Ms. Djukic described NIPSCO's responsibilities as Supplier of Last Resort ("SOLR"). She stated that in the event a Choice Supplier defaults on its obligation to deliver supply to its customers, NIPSCO holds sufficient interstate pipeline and storage capacity to serve the needs of these customers.

Ms. Djukic described NIPSCO's seasonal allocations process. She stated that in the current approved Choice Program, NIPSCO allocates assets to the Choice Suppliers on a calendar quarter. A review of the allocation is performed on or around the 15th of each month, but assets are only reallocated within the quarter if a Choice Supplier's percent of peak day changes by plus or minus 15%. Only that Choice Supplier's assets would be reallocated unless the entire Choice Program changes by more than plus or minus 10%. In that instance, NIPSCO would reallocate all Choice Suppliers. In the proposed extension of the Choice Program,

NIPSCO is proposing allocation on a seasonal basis, for the periods April – October and November – March for each year. The 15th of the month review and reallocation if necessary, would still occur, as referenced in the Operational Parameters appendix.

Ms. Djukic described the changes resulting from the Merger. She stated that the Commission approved the Merger in its May 31, 2011 Order in Consolidated Cause Nos. 43941, 43942 and 43943. The effective date of the Merger was July 1, 2011. As a result of the Merger, NIPSCO's consolidated distribution system expanded from three (3) transportation nomination zones to five (5) transportation nomination zones for purposes of accommodating delivery of gas associated with transportation service and service under NIPSCO's Choice and ARP services. These zones are: Northwest Zone A, Southeast Zone B, South Zone C, Northeast Zone D, and East Zone E. NIPSCO added approximately 81,000 additional gas customers and four additional counties. As a result of the Merger, a new forecasting option, Baseload Option, is being offered.

Ms. Djukic explained that the Baseload Option was developed to allow a Choice Supplier to deliver the same quantity of gas each day during a month. The process determines a Choice Supplier's daily pool forecast by calculating the Choice Supplier's "pool sales factor." NIPSCO will calculate the allocated usage of the current customers in the Choice Supplier's pool based on the previous year's metered usage. This usage is divided by the prior year's total system general sales usages, resulting in the Choice Supplier's pool sales factor. The usage excludes the eight largest users and natural gas used by utility owned generation plants for that same metered period. NIPSCO will determine a total system load forecast for general sales usage on or about the 20th day of the month preceding flow for each day, taking into account normal weather and type of day (weekend, holiday, etc.). These daily total system estimates are multiplied by the "pool sales factor" to determine each individual Choice Supplier's daily pool estimate. These estimates are averaged to calculate the average daily pool quantity. The averages are adjusted by the maximum allowable pool quantity to calculate the Choice Supplier's base load nomination. When a Choice Supplier meets the NIPSCO created daily nomination schedule, the reconciliation will not be subject to the Daily Imbalance Cashout Provision ("DICOP"). The total imbalance for the month, after any trades with other Option 4 Choice Suppliers, will be cashed-out at the Monthly Purchase Weighted Average Cost of Gas ("WACOG"). Any Choice Supplier electing Option 4 will not be allocated any on-system bank capacity or zonal transfer rights. If electing this option, the Choice Supplier will be required to take the upstream asset mitigation service.

Ms. Djukic explained the need for the maximum allowable pool quantity adjustment. She stated that the average daily pool quantity is a constant volume that is to be delivered by the Choice Supplier and is determined by calculating the average of the individual normal daily estimates for the month. Since this is a constant volume, in a month where the weather is normally getting colder, the Choice Supplier would over-deliver in the beginning of the month and under-deliver at the end of the month. The requirement for Choice Suppliers to take the upstream asset mitigation service will help NIPSCO fill the shortages, but not the over-delivery of gas. The maximum allowable pool quantity adjustment will be used if the volume of load being served under this option increases to the point where the calculated average daily pool quantity is larger than NIPSCO's ability to balance the supply to a minimum expected demand.

Ms. Djukic described NIPSCO's on-system storage assets. She stated that NIPSCO owns and operates an underground storage facility, Royal Center, and two liquefied natural gas ("LNG") facilities. The Royal Center underground storage facility has a Maximum Storage

Quantity (“MSQ”) of 4,000,000 Dth, with a Maximum Daily Injection Quantity (“MDIQ”) of 60,000 Dth and Maximum Daily Withdrawal Quantity (“MDWQ”) of approximately 72,000 Dth. The LNG facilities have a MSQ of 4,400,000 Dth with a MDIQ of approximately 11,200 Dth and a MDWQ of approximately 430,000 Dth.

Ms. Djukic described the reduction of on-system storage to reflect retirements of the Mt. Simon field. She stated that NIPSCO owns two aquifer Underground Storage facilities located in Royal Center, Indiana. The two facilities are named Trenton and Mt. Simon. Trenton has a working capacity of 4,000,000 Dth and Mt. Simon had a working capacity of 2,300,000 Dth. NIPSCO is no longer using the Mt. Simon facility. Pursuant to the NIPSCO Gas Rate Case Order in Cause No. 43894, the Mt. Simon Underground facility has been retired and removed from rate base. The Royal Center facility is used to allocate the zonal on-system bank to the Choice Suppliers. With the retirement of Mt. Simon, effective April 1, 2012 the capacity that is being used to calculate the on-system bank capacity and rights for the Choice Suppliers is being reduced from 6,300,000 Dth to 4,000,000 Dth and MDWQ from 85,000 Dth to 72,000 Dth. The MDIQ is being increased from 50,000 Dth to 60,000.

Ms. Djukic explained that NIPSCO injects gas into the Royal Center underground storage facility during the off-peak months, and gas is withdrawn during the peak months. The volumes injected and withdrawn from Royal Center are typically ratable in nature, meaning a consistent volume of gas will be injected or withdrawn for a particular time period. However, NIPSCO is able to call on this storage facility to supply gas or balance the system when unexpected events occur.

Ms. Djukic explained that NIPSCO’s LNG facility is utilized to supplement system supply on critical winter days when customer demand is at its highest. NIPSCO holds this facility for peak day supply because one single day of maximum withdrawal requires approximately 30 days of injection to refill.

Ms. Djukic explained the new Choice Suppliers’ annual election defaults. She stated that currently, existing approved Choice Suppliers make annual elections for Asset Allocation, Forecasting Option and Cash-out Option by February 28th of each calendar year. These annual elections are effective April 1st of the current calendar year through March 31st of the next calendar year. If a new Choice Supplier is approved for the Choice program, after the annual February 28th election deadline, that Choice Supplier’s annual elections will be defaulted to the following options:

Asset Allocation = Upstream Asset Mitigation Service

Forecasting Option = Option 1 Company Option

Cash-Out Option = Monthly

All new Choice Suppliers will be defaulted to the options above for a minimum of the first six months they are approved to be in the program. After that time period, NIPSCO will give the Choice Supplier the option to change their options at the next annual election period. The new Choice Supplier will be able to choose their annual elections the following February 28th to be effective the following April 1st thru March 31st.

Ms. Djukic discussed NIPSCO's annual operations meetings. She stated that over the past two years, February 10, 2010 and February 16, 2011, respectively, NIPSCO has held on-site operations meetings with the Choice Suppliers. These meetings were used to communicate any updates and changes to the Choice program. NIPSCO plans to continue these annual meetings.

Curt A. Westerhausen, Director of Rates and Contracts in the Rates and Regulatory Finance Department for NIPSCO, provided a summary applicable to each tariff sheet contained in Petitioner's Exhibit No. CAW-1 as follows:

The Settling Parties propose elimination of the following ARP Rates and Riders:

Rate/Rider	Description
Rider 422A	Commercial and Industrial Gas Spacecooling Rider
Rate 424A	Compressed Natural Gas Service
Rate 443	Firm Distribution Transportation Service
Rate 444	Firm Transportation Service
Rider 446	Firm No-Notice Backup Supply Service (FNBS) Rider
Rider 449	Firm Peaking Capacity Service (FPCS) Rider
Rider 488	Residential Gas Spacecooling Rider

The Settling Parties propose modifications to the following ARP Rates and Riders:

Rate 445 – Supplier Aggregation Service (SAS)

The Settling Parties propose modifications to Rate 445 to provide for an additional delivery option in accordance with the requirements set forth in the Merger Order. The Settling Parties also propose modifications to the collateral requirements and the form of contract to be used between NIPSCO and Choice Suppliers, including customer protection enhancements, incorporation of the new transportation zones as a result of the Merger Order, and revisions in the pricing policy reconciliation.

Rider 480 – Supplier Choice Delivery Service (SCDS) Rider

The Settling Parties are not proposing any modifications to Rider 480 from the perspective of the Choice Customer, but have proposed modifications (as shown above) to the relationship between NIPSCO and Qualifying Suppliers under the SAS Agreement.

Rider 481 – Price Protection Service Rider

The Settling Parties propose modifications to Rider 481 to permit customer contracts of shorter than one year.

Rider 442A – Optional Storage Service Rider

The Settling Parties are proposing to eliminate the ranges of the reservation, injection and withdrawal charges to meet current market conditions.

As a result of the proposed modifications to the ARP Rates and Riders described above, clarifying tariff language is being proposed to the following non-ARP Rates and Riders.

Rate/Rider	Description
Rider 431	Commercial and Industrial Temporary Emergency Service Rider
Rider 472	Energy Efficiency Rider
Rider 473	Universal Service Fund Rider
Rider 487	Daily Imbalance Cash-Out Provisions Rider
Appendix A	Applicable Riders
Appendix B	Gas Cost Adjustment Factor
Appendix D	Universal Service Fund (USF) Factor

Rider 487 – Daily Imbalance Cash-Out Provisions Rider

Rider 487 was modified to incorporate all of Zones A, B, C, D and E. The Daily Index and the First of the Month Index were expanded to distinguish the difference between Zone A and Zones B, C, D and E. For Zone A customers, the price is calculated using the Chicago City Gate midpoint price. For Zones B, C, D and E customers, the price is calculated using the Mich Con City Gate midpoint price, which is representative of market gas prices for those zones.

There are no proposed modifications to the Rules and Regulations or the Standard Contract as a result of the proposed modifications to the ARP Rates and Riders.

Mr. Westerhausen explained that other than clarifying language and updating references, the Settling Parties are not proposing any modifications to the 400 Series Rates to the following ARP Rates and Riders:

Rate/Rider	Description
Rate 430	Large Volume Negotiated Sales Service
Rate 434A	Off-Peak Commercial and Industrial Interruptible Negotiated Service
Rate 440	Liquefied Natural Gas (LNG) Service
Rider 447	Gas Parking Service (GPS) Rider
Rider 448	Gas Lending Service (GLS) Rider
Rate 451	Fixed Gas Bill (DependaBill) Service

OUCG submitted testimony from Jon C. Dahlstrom, a Senior Utility Analyst in the Natural Gas division of OUCG in support of the Settlement. Mr. Dahlstrom testified that OUCG recommends approval of the Settlement as being in the public interest and a reasonable compromise between NIPSCO, the Marketer Group and OUCG. He explained that OUCG was concerned about six issues related to the Proposed Gas ARP and that all six had been resolved in the Settlement.

Mr. Dahlstrom testified that in Cause No. 43837, OUCG was concerned NIPSCO's GCA customers were subsidizing the Choice customers (including NIPSCO's Price Protection Service and DependaBill customers) with regard to interstate pipeline transportation and storage demand costs. He testified that Paragraph 13 of the Settlement continues the methodology approved in Cause No. 43837 and addresses allocation of costs to Choice Customers and the elimination of subsidies, including revisions to operational parameters governing the Choice Program.

Mr. Dahlstrom testified that GCA customers pay for pipeline capacity and gas commodity through the GCA mechanism and that NIPSCO has opportunities to release capacity and create revenues, which lower the overall cost of the interstate capacity to GCA customers. He stated the capacity release revenues are currently shared, and will be shared pursuant to the Settlement, with 85% credited to GCA customers and 15% retained by NIPSCO. He stated that GCIM revenues will continue to be shared on a 50%/50% basis between NIPSCO and GCA customers. He testified the 85%/15% sharing remains the same in this Cause and the Settlement provides for a guarantee of capacity release revenue sharing based on the lower of \$1 million or the total capacity release revenues from the prior year.

Mr. Dahlstrom testified the NIPSCO Choice program has been successful in enrolling over 100,000 customers. He stated the Choice customer base is spread over a number of Choice marketers. He stated it is not inconceivable that Choice marketers would be unable to provide gas service to Choice customers. Therefore, it is important NIPSCO remain the SOLR, and retain the ability to access the capacity and commodity resources to serve those customers.

Mr. Dahlstrom testified that pursuant to Paragraph 21 of the Settlement, NIPSCO agreed to take into account suggested content from the Marketers and OUCC to develop and provide information resources for customer education about available suppliers. He stated that NIPSCO also agrees to continue biannual bill inserts updating marketer contact information and continue to include Choice supplier information on its company website.

Mr. Dahlstrom testified that pursuant to Paragraph 24 of the Settlement, NIPSCO agreed to continue to work with the Parties in a collaborative process for the purpose of developing a workable web-based comparison of residential customer bills that is reflective of service received from NIPSCO and each Choice Supplier, with the expectation that such comparison will be implemented on or before April 1, 2012. He added that NIPSCO had agreed to program rules intended to enhance transparency to all stakeholders, and that enhanced transparency will help customers make more informed choices when evaluating gas supplier options.

Mr. Dahlstrom testified the maximum annual funding for the NIPSCO GCA and GCIM audit remains the same. He stated that Paragraph 26 of the Settlement provides that NIPSCO agrees to pay OUCC's actual audit expenses up to an annual maximum of \$100,000 per year for the time period that begins April 1, 2012 and continues for the life of the Settlement.

Mr. Dahlstrom testified that pursuant to Paragraph 23 of the Settlement, the implementation and operation of the Proposed Gas ARP shall be subject to review and discussion among the parties at the conclusion of the first year and every 24 months thereafter.

Mr. Dahlstrom concluded that the Settlement is in the public interest because it allows NIPSCO's gas customers to choose alternatives to traditional GCA service. He stated the public interest is served (1) when informed customer choices are made based on good customer education and comparative pricing information; (2) by NIPSCO retaining its status as SOLR in the event Choice marketers are unable to provide gas service; (3) by providing NIPSCO incentives to generate capacity release revenues, and optimize its gas supply purchases and share benefits with GCA customers; and (4) by providing OUCC with funding to audit NIPSCO's GCA and GCIM purchases.

The Marketer Group submitted testimony from Harry Kingerski, Director of Regulatory

at Spark Energy, in support of the Settlement. Mr. Kingerski testified from the perspective of competing marketers active in the NIPSCO Choice Program on some of the notable features of the Settlement.

Mr. Kingerski explained the consumer protections built into the Choice Program, including (1) to become an authorized supplier in the NIPSCO Choice Program, a marketer is required to go through an enrollment process administered by NIPSCO, in which the marketer's capability of serving customers reliably and its creditworthiness are reviewed and must be approved; (2) the marketer must provide adequate security to NIPSCO to protect customers in the event of a marketer default, and must accept assignment or pay for mitigation of a proportionate share of NIPSCO's upstream supply resources such as interstate pipeline transportation and storage capacity, so as to ensure that the marketer holds sufficient supply resources to provide reliable service and that non-Choice customers are not subsidizing Choice customers; (3) NIPSCO continues to act as SOLR and continues to provide the local distribution function; and (4) each marketer must enter into a standardized SAS Agreement which imposes a number of terms and conditions designed to protect customers and maintain standards relating to participation in the Choice Program.

Mr. Kingerski testified that the standards and protections provided for in the SAS Agreement include (1) requirements relating to supply reliability, such as certifying adequate supply resources, adhering to defined operational parameters and posting sufficient security; (2) procedures for enrolling new customers and verifying the customer's selection of a Choice supplier; (3) NIPSCO has oversight with respect to marketing activities and must review in advance any written marketing materials that a Choice Marketer wishes to utilize; and (4) Choice marketers are bound by a Supplier Code of Conduct that establishes standards and rules associated with marketing activities and communications with customers, as well as specific provisions prohibiting fraudulent, deceptive or abusive practices.

Mr. Kingerski testified that pursuant to Section 19 of the Settlement, the Settling Parties have agreed to provisions that authorize NIPSCO to investigate, make determinations and impose defined sanctions in the event of any violation by a Choice supplier, subject to Commission review in the event of a dispute.

Mr. Kingerski testified there are a variety of resources available to customers interested in making informed decisions relating to the Choice Program. He stated that under the SAS Agreement, NIPSCO oversees any written marketing materials provided by Choice Suppliers and that the Supplier Code of Conduct calls for required disclosures and sets standards for customer communications. He noted that for questions about the Choice Program and any issues or concerns, customers can communicate with NIPSCO or OUCC and that every Choice supplier has its own website and personnel who are available to answer questions and provide information to customers orally or by written communication. He stated that providing strong customer service and useful information to customers is one of the areas in which Choice Suppliers compete with each other and strive to achieve customer satisfaction. He stated that in addition, NIPSCO provides information about the Choice Program on its website, and sponsors a website page that shows current pricing options for each Choice Supplier that serves residential customers, so that those customers can engage in comparison shopping and consider the array of service alternatives that are available.

Mr. Kingerski testified Paragraph 24 of the Settlement establishes a collaborative process

by which the parties are implementing the presentation of cost-comparison information on NIPSCO's website. He stated the added information will reflect costs for a given level of consumption over a defined time period, providing residential customers with a basis for comparing total costs in addition to current prices for the different Choice suppliers. He noted that there is a working group among the Settling Parties determining the format and details of that added presentation, with the goal of providing meaningful data in a clear manner that will assist customers in making informed decisions.

Mr. Kingerski testified that based on his experience in providing energy services in competitive markets, competitive dynamics provide customers with additional benefits and protections beyond those provided in a regulatory framework. He stated that in the absence of an exclusive service franchise or monopoly territory, competitive marketers are dependent for success on their ability to attract and retain customers who have alternatives and may choose to patronize a different supplier. He stated that it is a challenge to build a customer base and increase sales when competing suppliers are trying to serve the same market; accordingly, rival marketers not only engage in price competition, but also strive to provide customers with better and more responsive service, a greater diversity of pricing and product options, and innovation in better meeting their needs and interests. He stated that for NIPSCO customers, all of that translates into more service options, more competitive prices and more attention to customer service.

Mr. Kingerski testified the success of competing marketers is largely dependent on their ability to deliver quality product and service to customers and satisfy or exceed their expectations. He stated that generally, the effort and expense involved in gaining a new customer is greater than the effort and expense associated with retaining the business of an existing customer. He noted his company has a strong interest in building its customer base through reliable service, effective communication and meeting or exceeding expectations.

Mr. Kingerski testified the NIPSCO Choice Program is a mature program that has been in place since 1997. He stated that it has been successful and has clearly been embraced by the market, with over 100,000 customers being served currently by Choice Suppliers, representing a substantial portion of NIPSCO's total retail gas load. He noted it has also been very successful in terms of attracting a diverse array of competing marketers, thereby delivering to NIPSCO customers the full benefits of vigorous competition. He testified that the Choice Program has developed over time through a collaborative process in which NIPSCO, competing marketers, OUCC, and the Commission have all been active in establishing agreed standards and procedures to promote competition, preserve reliable supply, provide customer choices and institute appropriate protections and oversight. Mr. Kingerski stated that this level of stability and market penetration confirm that it is no longer an experimental pilot program and supports the decision that the Choice Program should be incorporated into the NIPSCO tariff going forward without a specified sunset date or fixed term of years.

Mr. Kingerski testified as participants in the Choice Program, competing marketers are making an investment in the Indiana market and devoting resources to promoting and delivering their services; investing in the development of lasting customer relationships; and structuring supply resources to serve that market reliably and efficiently – all under the continuing risk and uncertainty of a Choice program termination date that would put an end to its NIPSCO customer relationships. Thus, the ability to invest in the NIPSCO market with a reasonable degree of security and efforts to foster strong and lasting customer relationships are compromised by the

regulatory risk of requiring periodic renewals simply to stay in business. Additionally, the process of intervening in periodic renewal proceedings and working with NIPSCO and OUCC to seek each successive renewal for a limited period consumes time, attention and expense, thereby increasing the burden and cost of doing business in the NIPSCO market.

Mr. Kingerski testified the Choice Program will continue to be part of NIPSCO's approved ARP, and as such will remain subject to the statutory process that governs review, potential amendment and even termination of such plans. Mr. Kingerski testified that Paragraph 23 of the Settlement provides the implementation and operation of the ARP, including the Choice Program, is subject to review by the parties at the end of the first year and every two years thereafter, which allows consideration of amendments or enhancements to improve the Program. He noted that any agreed-upon improvements can then be submitted for Commission review and approval and if there are contested proposals, any party remains free to present them to the Commission.

Mr. Kingerski concluded that the Settlement provides for the continued operation of a successful program that has provided substantial benefits and options to NIPSCO customers, under provisions that establish appropriate customer protections and continuing regulatory oversight.

7. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.*, citing *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996). The Commission "may not accept a settlement merely because the private parties are satisfied; rather it must consider whether the public interest will be served by accepting the settlement agreement." *Citizens Action Coalition*, 664 N.E.2d at 406.

The proposed settlement requests Commission approval to extend NIPSCO's existing ARP, with certain modifications, pursuant to Ind. Code ch. 8-1-2.5. Petitioner is an "energy utility" under the Alternative Utility Regulatory Act ("AUR Act"), Ind. Code ch. 8-1-2.5. Under Section 6(a)(1) of the AUR Act, the Commission may adopt alternative regulatory practices, procedures, and mechanisms and establish just and reasonable rates and charges that (a) are in the public interest as determined by consideration of the factors listed in Ind. Code § 8-1-2.5-5; and (b) enhance or maintain the value of a utility's energy services or properties. Alternative regulatory plans authorized by the statute include practices, procedures and mechanisms focused on the price, quality, reliability, and efficiency of the service of the utility. Pursuant to Ind. Code § 8-1-2.5-5(b), the Commission, in determining whether the public interest will be served must consider:

- (1) Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render traditional regulation unnecessary or wasteful,
- (2) Whether the commission's approval of an alternative regulatory plan will be beneficial for the utility, its customers, or the state,

(3) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency, and

(4) Whether the exercise of commission jurisdiction inhibits a utility from competing with other providers of functionally similar services or equipment.

A. Existing ARP Programs and Services. The Settlement proposes approval of a modified ARP, but the majority of the programs and services it contains are already in effect and will remain unchanged. Beginning with our approval of the first NIPSCO Gas ARP in the October 8, 1997 Order in Cause No. 40342, and in extending and modifying it in Cause No. 41338, consolidated Cause Nos. 42800 and 42884, and in Cause No. 43837, we have authorized its adoption by NIPSCO under Ind. Code § 8-1-2.5-6 based on findings that its constituent programs and services are consistent with the public interest factors identified in Ind. Code § 8-1-2.5-5. *See NIPSCO*, Cause No. 40342 at p. 101 (IURC Oct. 8, 1997); *NIPSCO*, Consolidated Cause Nos. 42800 and 42824, at p. 21 (IURC Jan. 31, 2006); *NIPSCO*, Cause No. 43837 at p.15 (IURC Mar. 31, 2010). Each renewal and modification of the NIPSCO Gas ARP has been the result of a negotiated agreement between NIPSCO, its customers, and alternative suppliers that participate in its competitive programs. As such, the NIPSCO Gas ARP has evolved over time and we have approved the incorporation of appropriate modifications proposed in light of actual experience with its programs and services by all participants. The evolution of the ARP has resulted in the continued growth in both customer participation and marketer participation. *See* Exhibit SMK at 19, Choice Marketer Group Exhibit HK at 8.

In Cause No. 43837, the Commission required that NIPSCO present evidence in this proceeding concerning customer satisfaction to provide a basis for the evaluation of the continued extension of the Choice Program. The customer survey results sponsored by Mr. Kelly in Exhibit SMK-4 demonstrate that the Choice Program is sufficiently valued by participating customers at this time to warrant its continuation. It is evident from that survey that customer satisfaction is driven by a variety of factors including price and service flexibility.

NIPSCO has proposed that certain component programs and services be continued without change. We find that our previous approval of Rate 430 - Large Volume Negotiated Sales Service, Rate 434A - Off-Peak Commercial and Industrial Interruptible Negotiated Service, Rate 440 - Liquefied Natural Gas ("LNG") Service, Rider 442A - Optional Storage Service Rider, Riders 447 and 448 - Gas Parking Service and Gas Lending Service, Rate 451 - Fixed Bill Option ("DependaBill Service"), the Gas Cost Incentive Mechanism ("GCIM"), and the Capacity Release Incentive should be extended on an indeterminate basis as proposed in the Settlement.

B. Proposed Modifications to ARP Programs and Services. In its Petition, NIPSCO proposed elimination of seven underutilized or unutilized component programs or services of the ARP, and that result was supported by the parties to the Settlement. We find that the elimination of Rider 422A - Commercial and Industrial Gas Spacecooling Rider, Rate 444 - Firm Transportation Service, Rider 446 - Firm No-Notice Backup Supply Service ("FNBS") Rider, Rider 449 - Firm Peaking Capacity Service Rider, Rider 488 - Residential Gas Spacecooling Rider, Rate 443 - Firm Distribution Transportation Service, and Rider 424A - Compressed Natural Gas Service is supported by the evidence of record and should be approved.

The Parties have agreed to modifications of the Choice Program that do not impact customers enrolled in the program but rather the relationship between NIPSCO and qualifying suppliers under Rate 445 - Supplier Aggregation Service (“SAS”) and provided to customers under Rider 480 - Supplier Choice Delivery Service (“SCDS”) Rider. The changes consist of the addition of a fourth supplier delivery option to mirror the capacity assignment made to the PPS and Depend-a-Bill products offered by NIPSCO, revision to the SAS contract between NIPSCO and qualifying suppliers, and revision of the SAS tariff to reflect the operational changes resulting from the merger of Northern Indiana Fuel & Light Company and Kokomo Gas & Fuel Company into NIPSCO as approved in consolidated Cause Nos. 43941, 43942, and 43943. As we previously noted, the evidentiary record supports the conclusion that the Choice Program has been a success, both from the perspective of customer enrollment and marketer participation. We have previously found that the Choice Program provides innovative competitive alternatives that benefit customers in a manner consistent with Ind. Code ch. 8-1-2.5. The agreed modifications to the underlying relationship between NIPSCO and qualifying suppliers are supported by the record and are consistent with the continued evolution of the Choice Program, and are accordingly approved.

The parties also agreed to the modification of Rider 481 - PPS Rider to remove the previous restriction requiring customer contracts be at least one year in length. The record supports the conclusion that the removal of this restriction allows the PPS Service to be on a par with Supplier service offerings under the Choice Program and should also be approved.

C. Extension of ARP. Since its inception in 1997, the NIPSCO ARP has been treated as a pilot program subject to periodic renewal. The Parties have proposed in the Settlement that the ARP programs and services be incorporated into NIPSCO’s gas tariff going forward on an indefinite basis, subject to the statutory processes of the AUR Act and subject to relief granted in the context of general rate proceedings. The Settlement further provides for ongoing dialogue and an opportunity for the update of the ARP at the conclusion of the first year after approval, and every twenty-four months thereafter. Settlement, ¶ 23. We find the request for extension of the ARP to be in the public interest and it is hereby approved.

D. Other Settlement Provisions. The Settlement continues audit funding for OUCC for purposes of auditing NIPSCO’s GCA filings and GCIM filings. We have previously found that that such funding does not jeopardize the independence of such audits and adequate safeguards exist to ensure that NIPSCO pays only actual auditing costs. The Agreement also contains provisions whereby NIPSCO agrees to work collaboratively with all Parties and with Commission staff to effectuate billing comparability between services to the extent such comparability is economically reasonable and technically feasible. Any such meetings involving Commission staff shall be noticed as technical conferences under this Cause. Finally, we note with approval the Parties’ collaborative work to develop web-based tools to enable enhanced customer information and evaluation of service options.

E. Conclusion. We found in Cause No. 40342 that:

The ARP is a platform for NIPSCO to provide new competitive services to its customers, coupled with an unbundling proposal that will give all classes of customers access to a choice of suppliers. The ARP attempts to balance the interests of NIPSCO in providing new and different competitive gas supply services against any advantages it may have as the sole provider of bundled

service to most of the customers behind its city gate. An ARP represents a unique proposal in that, while it is designed to transition the company for a deregulated gas supply market, the Commission's jurisdiction will continue and, in some instances its regulatory oversight will be enhanced. Thus, the ARP is a balanced proposal through which NIPSCO will unbundle its services and open its market area to increased competition in exchange for the ability to provide new services and price mechanisms better suited to the transitioning market. Customers should be better served in all respects.

Northern Indiana Public Service Company, Cause No. 40342, at. 77-78 (IURC Oct. 8, 1997). That statement continues to be appropriate of the NIPSCO Gas ARP. The record established that the Choice Program has increased participation. As detailed by Ms. Cota, Mr. Kelly, and Mr. Kingerski, the changes made over time to the NIPSCO Gas ARP, including those proposed in the Settlement in this proceeding, have enhanced the Choice Program from both a marketer and customer standpoint. The SAS Agreement has been further clarified and strengthened to provide a more complete contractual foundation for the consistent oversight of the Choice program. The ARP as modified in the Settlement promotes competitive forces within NIPSCO's service territory by continuing and refining NIPSCO's Choice Program with significant input from all stakeholders.

We also note that the modifications to the NIPSCO Gas ARP contained in the Settlement provide tangible financial benefit to non-Choice customers receiving NIPSCO's traditional GCA-based gas service. We observed in Cause No. 43837 that the Choice program must be able to stand on its own without financial supports from other services. The minimum guaranteed capacity release revenue incorporated into the Settlement remains reasonable, and GCA customers have continued to receive the benefit of releases of capacity but the reduced guarantee approved in Cause No. 43837 reflects a reasonable balance of interests between NIPSCO and its customers in light of current market conditions.

The evidentiary record supports the finding that the NIPSCO Gas ARP as modified in the Settlement will continue to provide benefits to NIPSCO, its customers, and its competitors and should be approved. Customers will benefit by having a choice of service suppliers and competitive rate options, while retaining the ability to receive traditional regulated GCA service. NIPSCO's competitors will benefit because they will continue to have access to markets through the direct assignment of upstream pipeline and storage capacity operational flexibility through enhanced access to on-system storage, and a new nominating option under the revised SAS Contract that mirrors capacity allocations made to NIPSCO's PPS and Depend-a-Bill products. NIPSCO will continue to benefit from an expanded service portfolio which will enable it to more efficiently compete with unregulated service providers and more fully utilize its resources. The modified NIPSCO Gas ARP will continue to provide NIPSCO with market-based pricing provisions in a number of its tariffs as well as incentive mechanisms for its gas purchase activities, both of which are consistent with the competitive market.

After considering each of the factors listed in Ind. Code § 8-1-2.5-5(b), the Commission finds that evidence establishes that approval of the NIPSCO Gas ARP as modified is in the public interest. The evidence of record establishes that approval of the NIPSCO Gas ARP as modified will benefit the Company, its customers and competitors and ultimately the State of Indiana, and will improve efficiency and result in a regulatory framework which will promote competition between NIPSCO and other providers of similar services. Finally, the NIPSCO Gas

ARP as modified is a continuation of an approach that allows for adjustments as the plan proceeds. For all these reasons, the Commission concludes that extension of our approval of the NIPSCO Gas ARP as modified is consistent with the public interest considerations set forth in Ind. Code § 8-1-2.5-5. Finally, we find that approval of the NIPSCO Gas ARP as modified by the Settlement will enhance or maintain the value of NIPSCO's services or property consistent with Ind. Code § 8-1-2.5-6(a)(1)(B) and promote efficiency in rendering retail energy services consistent with Ind. Code § 8-1-2.5-6(a)(2)(B).

Finally, we find our approval herein should be construed in a manner consistent with our finding in *In Re Richmond Power & Light*, Cause No. 40434 (IURC Mar. 19, 1997).

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

1. The attached *Stipulation and Settlement Agreement* is hereby approved in all respects, and the terms and conditions thereof shall be and hereby are incorporated herein as part of this Order.

2. The NIPSCO Gas ARP, as modified in the Settlement, is approved in all respects and is extended as set forth in the *Stipulation and Settlement Agreement*.

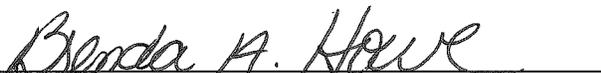
3. NIPSCO shall file tariff sheets consistent with this order, and those tariffs shall become effective on April 1, 2012 after filing with and approval by the Commission's Natural Gas Division.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAR 15 2012

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


Brenda A. Howe
Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR APPROVAL)
PURSUANT TO IND. CODE § 8-1-2.5 *ET SEQ.* OF)
MODIFICATION TO AND EXTENSION OF ITS) CAUSE NO. 44081
ALTERNATIVE REGULATORY PLAN APPLICABLE)
TO NATURAL GAS UTILITY SERVICE AS)
APPROVED BY THE INDIANA UTILITY)
REGULATORY COMMISSION IN CAUSE NO. 43837)

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (“Agreement”) is entered into by and between Northern Indiana Public Service Company (“NIPSCO”), the Indiana Office of Utility Consumer Counselor (“OUCC”), the Choice Marketer Group (consisting of Border Energy, CenterPoint Energy Services, Inc., Interstate Gas Supply, Inc., Just Energy Indiana Corp., MX Energy, Nordic Energy Services, LLC, Spark Energy Gas, LP, US Gas & Electric, Inc. d/b/a Indiana Gas & Electric and Vectren Retail, LLC)(“Marketer Group”), (collectively, the “Parties”) who stipulate and agree for purposes of settling the issues in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of the issues subject to incorporation into a Final Order of the Indiana Utility Regulatory Commission (“Commission”) without any modification or condition that is not acceptable to the Parties. The Parties respectfully request that, to the extent necessary, the Commission decline jurisdiction under Ind. Code § 8-1-2.5 in order to approve, without modification, the terms and conditions of this Agreement.

A. Background.

1. The Commission approved a Final Order on October 8, 1997 in Cause No. 40342 accepting the terms of an *Amended Stipulation and Settlement Agreement* and the

implementation of NIPSCO's first gas Alternative Regulatory Plan ("ARP"). The ARP approved in that proceeding approved a variety of programs on a pilot basis for an initial term of two years, and also approved a series of affiliate guidelines applicable to NIPSCO and its affiliated companies. The ARP approved has remained in effect, subject to modification as discussed below, since that time.

2. The Commission approved a Final Order on August 11, 1999 in Cause No. 41338 accepting the terms of a *Stipulation and Agreement* and the implementation of an ARP that provided for a redesigned gas cost adjustment ("GCA") mechanism whereby NIPSCO was authorized to adjust the commodity cost of gas charged to its retail sales customers on a monthly basis, with a single comprehensive proceeding conducted annually to reconcile estimated costs with actual costs, and to evaluate NIPSCO's capacity and storage portfolio. By its Final Order approved on August 26, 2009 in Cause No. 43629, the Commission authorized the termination of the portion of NIPSCO's ARP to eliminate NIPSCO's monthly GCA and transition back to a quarterly GCA mechanism.

3. The Commission approved a Final Order on July 3, 2002 in Cause No. 42097 authorizing the implementation of an ARP consisting of NIPSCO's Fixed Gas Bill Rider, also known as "DependaBill." On December 22, 2004, the Commission approved an Amended Order in the same proceeding to change the delineation of responsibilities between NIPSCO and WeatherWise USA, Inc.

4. The Commission approved a Final Order on December 31, 2006 in consolidated Cause Nos. 42800 and 42884 accepting the terms of a *Stipulation and Settlement Agreement* calling for the continuation of the components of the programs approved in Cause Nos. 40342,

41338 and 42097, and the consolidation of those programs under a single ARP. *The Stipulation and Settlement Agreement* provided for, *inter alia*, a term for the consolidated ARP that extended through April 30, 2010.

5. The Commission approved a Final Order on March 31, 2010 in Cause No. 43837 accepting the terms of a *Stipulation and Settlement Agreement* calling for the modification of the programs approved in Cause Nos. 40342, 41338, 42097 and consolidated Cause Nos. 42800 and 42884, and the extension of those modified programs through and including March 31, 2012. As part of that Final Order, the Commission required NIPSCO to file a Petition seeking renewal of its gas ARP on or before October 1, 2011. That Petition was filed on September 30, 2011.

6. The Commission approved a Final Order on November 4, 2010 in Cause No. 43894 accepting the terms of a *Stipulation and Settlement Agreement* calling for, *inter alia*, implementation of new basic rates and charges for natural gas service and established regulatory treatment of margins for NIPSCO's gas ARP programs. In addition, the *Stipulation and Settlement Agreement* approved in that cause provided that:

NIPSCO agrees to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and service in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. NIPSCO further agrees that a code of conduct consistent with those principles and objectives will be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger with its affiliated gas utilities, and that pending the implementation of such code of conduct NIPSCO will not alter its current market practices and policies in connection with its competitive products.

Cause No. 43894 Stipulation and Settlement Agreement at ¶8.

7. The Commission approved a Final Order on May 31, 2011 in consolidated Cause Nos. 43941, 43942, and 43943 (the “Merger Order”) accepting the terms of a *Stipulation and Settlement Agreement* calling for, *inter alia*, the merger of Kokomo Gas and Fuel Company (“Kokomo”) and Northern Indiana Fuel & Light Company (“NIFL”) into NIPSCO and for consolidation of their operations and rates. As part of the *Stipulation and Settlement Agreement*, NIPSCO agreed to make all ARP products and services approved by the Commission in Cause No. 43837 available to customers in the former Kokomo and NIFL service territories, and implementation of a Code of Conduct consistent with the Commission's Order in Cause No. 43894. In addition, the *Stipulation and Settlement Agreement* approved in the Merger Order provided the following with respect to the NIPSCO gas ARP:

- NIPSCO agrees to the incorporation of an additional delivery option for Choice Marketers consistent with that presently applicable to PPS and Depend-a-Bill, whereby the Marketer has the option to bring in a flat volumetric amount per day per calendar month as specified by the Company. Any over or under deliveries would be reconciled as they are currently for the other Options, and Marketers that choose this option would be required to mitigate their allocated portion of storage and transport consistent with the current mitigation program. NIPSCO agrees that this delivery option will be incorporated before or during the renewal of the [43837] ARP.
- NIPSCO agrees that it will implement steps necessary and appropriate to provide for access to customer information systems and billing records by non-GCA services and marketers on a non-discriminatory basis no later than the effective date of the successor to the 43837 ARP.
- NIPSCO agrees that it will incorporate the *Choice* program into its gas tariff without a stated term of years or sunset date during the renewal of the [43837] ARP.
- NIPSCO agrees to complete its transition to the maintenance of transparent records that identify and appropriately allocate costs between GCA services and non-GCA services, with sufficient specificity and clarity to confirm the proper allocation of costs such that non-GCA services are not under-allocated expenses no later than the effective date of the successor to the [43837] ARP.

Consolidated Cause Nos. 43941, 43942, 43943 Stipulation and Settlement Agreement at ¶8 (the “Merger ARP Requirements”). Each of these conditions will be satisfied in this proceeding.

B. NIPSCO’s Current Gas ARP.

8. The following programs represent NIPSCO’s “Current Gas ARP.”
 - (a) Rider 480 – Supplier Choice Delivery Service (SCDS) Rider (the “Choice Program”) – a supplier choice program for NIPSCO residential, commercial and small industrial customers under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 40342.
 - (b) Rate 430 – Large Volume Negotiated Sales Service – a negotiated sales rate for large volume sales customers. This program was originally approved by the Commission in Cause No. 40342.
 - (c) Rate 434A – Off-Peak Commercial and Industrial Interruptible Negotiated Service – a negotiated sales rate for commercial and industrial customers. This program was originally approved by the Commission in Cause No. 40342.
 - (d) Rate 440 – Liquefied Natural Gas (LNG) Service – a negotiated rate interruptible service provided from NIPSCO’s LNG facilities when available. This program was originally approved by the Commission in Cause No. 40342.
 - (e) Rider 442 and 442A– Optional Storage Service Rider – a negotiated rate for transportation customers for long-term storage using on-system storage assets. This program was originally approved by the Commission in Cause No. 40342.
 - (f) Rate 443 – Firm Distribution Transportation Service (FDTS) – a firm delivery service available to customers requiring a minimum of 50 Dth per day. This program was originally approved by the Commission in Cause No. 40342.
 - (g) Rate 445 – Supplier Aggregation Service (SAS) – supplier aggregation service allowing for the aggregation of customer load by qualifying third-party gas suppliers (“Choice Suppliers”) to Choice Program customers. This program was originally approved by the Commission in Cause No. 40342.
 - (h) Rider 446 – Firm No-Notice Backup Supply Service (FNBS) Rider– a negotiated rate firm no-notice backup service available to transportation customers and Marketers. This program was originally approved by the Commission in Cause No. 40342.
 - (i) Riders 447 and 448 – Gas Parking Service (GPS) Rider and Gas Lending Service (GLS) Rider – negotiated rates offered to transportation customers for short term

storage using on-system storage assets. This program was originally approved by the Commission in Cause No. 40342.

- (j) Rider 449 – Firm Peaking Capacity Service (FPCS) Rider – a negotiated firm capacity service available to transportation customers and aggregators. This program was originally approved by the Commission in Cause No. 40342.
- (k) Rider 481 - Price Protection Service Rider – a fixed price program offered to residential, commercial, and small industrial customers receiving service under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 40342.
- (l) Rate 451 – Fixed Gas Bill Service (also known as DependableBill) – a fixed bill program offered residential, commercial, and small industrial customers receiving service under Rates 411, 415, 421 and 425. This program was originally approved by the Commission in Cause No. 42097.
- (m) Rider 422A – Commercial and Industrial Gas Spacecooling Rider–a tariff intended for Commercial and Industrial customers making use of gas spacecooling technology. This Rider was originally approved in Cause No. 40342.
- (n) Rate 424A – Compressed Natural Gas Service – gas service to a customer-operator and owned or leased CNG facility or to any customer for the purchase of CNG to fuel motorized vehicles from designated Company-owned and operated CNG facilities. This Rate was originally approved in Cause No. 40342.
- (o) Rate 444 – Firm Transportation Service (FTS) – a transportation service first proposed and approved in Cause No. 40342.
- (p) Rider 488 – Residential Gas Spacecooling Rider– a tariff intended for residential customers making use of gas spacecooling technology. This program was originally approved in Cause No. 40342.
- (q) Gas Cost Incentive Mechanism (GCIM) – a sharing mechanism providing an incentive for NIPSCO to optimize its gas supply purchases so as to produce shared benefits for NIPSCO and its jurisdictional customers subject to the GCA. The GCIM was originally approved by the Commission in Cause No. 40342. The sharing mechanism was modified in consolidated Cause Nos. 42800 and 42884 to a uniform 50% / 50% sharing of benefits with GCA customers.
- (r) Capacity Release Incentive – a sharing mechanism providing an incentive for NIPSCO to optimize its release of under-utilized pipeline capacity so as to produce shared benefits for NIPSCO and its jurisdictional customers subject to the GCA. The Capacity Release Incentive was originally approved by the Commission as an amendment to the ARP approved in Cause No. 40342.

C. Terms and Conditions of Settlement.

9. Extended Term of ARP. The Parties agree that the term of the Current Gas ARP, as modified herein, should be extended on an indefinite basis beginning on April 1, 2012, consistent with Paragraph 22 of this Agreement.

10. Changes to the Current Gas ARP. Except as specifically stated in this Agreement, the terms and conditions of the Current Gas ARP shall remain in full force and effect.

11. NIPSCO's Function. Absent an Indiana statutory change or an order by the Commission to the contrary, NIPSCO will continue to (a) be the Supplier of Last Resort ("SOLR"); (b) provide choices to its customers through its Commission-approved Rider 481 – Price Protection Service ("PPS") and Rate 451 – Fixed Gas Bill Program ("DependaBill"); and (c) provide a merchant function through its balanced portfolio based GCA with incentives.

12. Program Objectives. The Parties agree that the following principles underlie the proposed Gas ARP: (a) the ARP will proceed with the goal of eliminating any cross-subsidization between NIPSCO, GCA ratepayers and Choice customers and to ensure that cost allocation follows cost causation; (b) program rules are intended to enhance transparency to stakeholders; and (c) gas cost optimization will continue as modified with the intent that any sharing of funds with customers will be based on cost causation principles and designed to ensure that affected groups share on an equitable basis.

13. Allocation of Costs to Choice Customers. The Parties agree to continue the methodology approved in Cause No. 43837 to eliminate the responsibility for the Choice Program-related interstate pipeline transportation and storage demand costs that were previously recovered from non-Choice customers in NIPSCO's GCA. The revised operational parameters

governing Choice Supplier participation in the Choice Program are attached hereto as Exhibit A. Each Choice Supplier participating as a supplier to end-use customers on the NIPSCO distribution system via participation in the Choice Program will be allocated a proportionate share of the upstream pipeline and storage capacity portfolio representative of the capacity necessary to provide firm service to the end use customers they serve. The components of the allocation of such capacity are as follows:

- (a) Capacity Assignment. Choice Suppliers will be assigned upstream pipeline capacity and storage assets on a recallable basis based upon the ratio of the demand of customers utilizing Choice Suppliers as their commodity supplier (“Choice Supplier Demand”) divided by the sum of NIPSCO System Sales (GCA sales + PPS sales + Dependable sales) demand and Choice Supplier Demand on the most recent peak day (collectively for all Choice Suppliers known as “Choice Percentage” and individually as the “Supplier Percentage”).
- (b) Such assignment shall be made for all NIPSCO upstream capacity and supply assets other than those specifically identified in Paragraph 14 below, but such Choice Supplier may elect to mitigate such capacity through the use of other delivery assets.
- (c) In such case, the Choice Supplier shall provide notification to NIPSCO of that election, and such assets may be released by NIPSCO according to the terms of Paragraph 15 below.
- (d) Regardless of the election of any Choice Supplier to mitigate upstream assets assigned by NIPSCO pursuant to this paragraph, all proportionate costs of assets assigned pursuant to this paragraph shall be borne by the Choice Supplier to which such assignment is made.
- (e) The Choice Suppliers will be notified which NIPSCO storage and transportation contracts are approaching their expiration dates and they will be updated as to what changes NIPSCO will make. Changes of system gas supply assets subject to assignment initiated by NIPSCO as part of its SOLR responsibility shall be reported to the Commission and are subject to Commission review within quarterly GCA proceedings. NIPSCO will provide Choice Suppliers a copy of such quarterly filings simultaneous with their filings at the Commission upon request. Choice Suppliers can intervene or seek discovery within the context of the Gas Cost Adjustment filings, but will continue to be responsible for their allocated share of system assets.

14. Non-Assigned Assets. The following assets will not be physically allocated to Choice Suppliers pursuant to Paragraph 13(a) above because they are integral to the asset base required by NIPSCO for the balancing of its system for both NIPSCO Choice and non-Choice loads:

- (a) ANR No-notice balancing services detailed below:
 - (i) 30,000 dekatherms (“Dth”) per day of ANR No Notice Service and associated transportation November thru March of each year
 - (ii) 13,226 dekatherm (“Dth”) per day of ANR No Notice Service and associated transportation annually
- (b) Panhandle Gas Parking Service (“GPS”) and associated transportation for parking and unparking, used for a nominated balancing service.
- (c) On-system storage assets, both Royal Center storage and LNG.

15. Capacity Release Incentive. NIPSCO will continue to utilize its best efforts to release upstream pipeline capacity in an effort to maximize revenues for such releases.

Revenues for such releases shall be shared as follows:

- (a) Revenues generated by releasing interstate pipeline capacity not assigned to Choice Suppliers pursuant to Paragraph 13(a) above on a recallable or non-recallable basis in the interstate market on a monthly basis shall be shared with 85% of such revenues credited to GCA customers through the GCA mechanism and 15% retained by NIPSCO. The Parties agree that for each year of the ARP under this Agreement, revenues subject to such sharing from such releases shall be the lower of \$1 Million or the actual total revenues from the previous year of the term of the ARP.
- (b) Revenues generated by releasing upstream capacity assigned to Choice Suppliers pursuant to Paragraph 13(a) above, but mitigated by Choice Suppliers, shall be shared with 85% of revenues generated by such releases being donated to a NIPSCO Care Plan-Universal Service Plan, and 15% retained by NIPSCO.

16. On-system Bank. Each Choice Supplier will be assigned a bank of on-system capacity at zero cost in each delivery zone. The bank will be assigned by multiplying each Supplier Percentage as that term is defined in Paragraph 13(a) above times the total on-system storage quantity as that calculation is reflected in the operational parameters set forth in Exhibit A to this Agreement. Choice Suppliers shall have the right to nominate gas into and out of the bank on a day-ahead basis consistent with the operational parameters set forth in Exhibit A to this Agreement.

17. ANR No Notice Service. In addition to the on-system capacity bank, each Choice Supplier will be allocated a share of the cost associated with NIPSCO's 30,000 Dth per day of ANR No Notice Service (and associated transportation), for the months of November thru March of each year, and NIPSCO's 13,226 Dth per day of ANR No Notice Service (and associated transportation), twelve months of the year, by multiplying the Supplier Percentage as that term is defined in Paragraph 13(a) above times the total capacity, to reflect each Choice Supplier's proportionate share of the system load balanced, in part, with this service.

18. Zone to Zone Transfers. Choice Suppliers with customers in Zone A, Zone B, Zone D and/or Zone E will also be allocated capacity that allows Choice Suppliers to move supply between zones. The zone to zone transfer quantities are as follows:

To/From Zone A/Zone B	40,000 Dth
To/From Zone B/Zone D	3,000 Dth
To/From Zone B/Zone E	6,000 Dth
To/From Zone D/Zone E	7,600 Dth

The allocation will be determined by multiplying the total zonal transfer capacity for each zonal combination by the Supplier's Percentage as that term is defined in Paragraph 13(a) above.

19. Proposed Gas ARP Tariff and SAS Contract. The Parties agree to the terms of and the approval by the Commission of the tariff sheets comprising its proposed Gas ARP, a copy of which is attached to this Agreement as Exhibit B, along with a revised form SAS Contract, a copy of which is attached to this Agreement as Exhibit C. Among other revisions, the SAS Contract includes provisions by which NIPSCO will be authorized to investigate, make determinations and impose defined sanctions in the event of violations by Choice Suppliers of the terms of the SAS Contract, subject to Commission review in the event of a dispute. NIPSCO shall exercise such authority in a reasonable and non-discriminatory manner, and will impose measured sanctions in reasonable proportion to the nature and extent of the violations.

20. PPS and Dependable Bill. The cost allocation and operation of the PPS and Dependable Bill programs by NIPSCO shall be conducted in a manner designed to ensure that they are not subsidized by GCA customers or the Choice Program.

21. Customer Education. NIPSCO agrees to consider input from the Parties concerning the education of customers about available supply and pricing alternatives. NIPSCO agrees to continue the provision of information at least twice per year to customers that includes names and contact information for all eligible Choice Suppliers, and agrees to continue to provide information concerning supply and pricing alternatives, including the Choice program, on its website.

22. Effectiveness and Term of Agreement. The term of the Current Gas ARP runs through and including March 31, 2012. Assuming Commission approval of this Agreement as written without modification, and unless indicated otherwise herein, this Agreement shall

become effective on April 1, 2012 and shall remain effective thereafter unless and until modified by Order of the Commission.

23. Review and Update of ARP. Once approved by the Commission, the implementation and operation of the proposed Gas ARP shall be subject to review and discussion among the Parties at the conclusion of the first year and every 24 months thereafter. Such discussion may be initiated at the request of any signatory to this Agreement and all signatories shall be entitled to participate. The purpose of the review and discussion will be to consider any necessary and appropriate amendments, or termination of the ARP, as may be proposed by any signatory in order to effectuate the provisions of the ARP in accordance with its intended objectives and effect as provided by the Commission. In the event the Parties reach a consensus on one or more agreed amendments, they will jointly propose such revisions to, or termination of, the ARP for Commission approval. In the event one or more Parties propose an amendment, or termination of the ARP, as to which there is not full agreement, the Party or Parties making such proposal may seek Commission review, in which case the Party seeking the revision, or termination of the ARP, shall bear the burden of proof in showing the proposed amendment or termination would better effectuate the provisions of the ARP in accordance with its intended objectives and effect as approved by the Commission. The review and discussion process described above shall not act to modify the statutory framework applicable to the ARP or on the ability to advance proposals concerning the ARP in the context of a general rate proceeding.

24. NIPSCO Choice Web Tools. The Parties have initiated a collaborative process for the purpose of developing a workable web-based comparison of residential customer bills at a representative level of consumption that is reflective of service received from NIPSCO and each Choice Supplier, with the expectation that such comparison will be implemented on or before

April 1, 2012. The purpose of the comparison will be to provide customers with total commodity costs over a specified period without projections of future market conditions.

25. By the effective date of the ARP as modified herein, and in any event no later than April 1, 2012, NIPSCO shall implement all necessary and appropriate steps to provide for access to customer information systems and billing records by Choice Suppliers and by non-GCA services, specifically PPS and Depend-a-Bill, on a non-discriminatory basis.

26. GCA and GCIM Audit Funding. NIPSCO agrees to continue to pay the OUCC actual audit expenses up to an annual maximum of \$100,000 per year for the time period that begins April 1, 2012 and continuing each period beginning April 1 until a Commission Order terminates the GCIM or this audit funding requirement for the sole purpose of conducting a gas cost audit and/or an audit of NIPSCO's GCA/GCIM filings as those filings apply to the GCIM calculation, in a manner and on a schedule as agreed to between NIPSCO and the OUCC. NIPSCO agrees to make the first annual payment of \$100,000 minus any unused amount from the period of April 1, 2011 to March 31, 2012 to the OUCC by June 1, 2012, with annual payments to be made thereafter on June 1 of each year in which the ARP remains in effect. The OUCC agrees (a) to provide an itemized accounting of disbursements of that maximum amount as requested by NIPSCO for each annual twelve month period, (b) to provide all related invoices, and (c) that any portion of the annual maximum amount not used during each annual twelve month period will either be returned to NIPSCO, or will be an offset to the next \$100,000 annual payment that is due. The retention of an auditor under the provisions of this paragraph shall be at the sole discretion of the OUCC. The Parties further agree that any findings and documentation by the auditor will be provided only to the OUCC, and such findings or documentation shall be the property of the OUCC, protected by all of the OUCC's applicable

privileges and rights to confidentiality. However, the Parties agree that the previous sentence shall not in any way limit NIPSCO's right to discovery under the Commission's General Rules of Practice and Procedure and the Indiana Rules of Trial Procedure.

27. Customer Satisfaction Reports to the Commission. The Customer Satisfaction Reports submitted to the Commission pursuant to the Order in Cause Nos. 42884 and 42800 shall no longer be required.

28. External Communications. The Parties agree all public announcements regarding this Agreement will be issued jointly by the Parties to this Agreement. All jointly issued public announcements should include a brief description of NIPSCO and the OUCC, their roles and contact information as well as provide a link to the Parties' web pages. The Parties may respond individually to questions from the public or media, provided that such responses are consistent with this Agreement.

D. Miscellaneous.

29. This Agreement is not to be deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process and, except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the issues resolved herein in any other future regulatory or other proceedings.

30. If this Agreement is not approved by the Commission, the Parties agree that the terms hereof shall be privileged and shall not be admissible in evidence or in any way discussed in any subsequent proceeding. Moreover, the concurrence of the Parties with the terms of this

Agreement is expressly predicated upon the Commission's approval of this Agreement in its entirety without modification or further condition deemed unacceptable by any Party. If the Commission does not approve this Agreement in its entirety, this Agreement shall be null and void and deemed withdrawn, unless otherwise agreed in writing by the Parties.

31. This Agreement represents all of the terms and conditions agreed to by the Parties. It shall be construed in accordance with its plain meaning. Its terms may not be expanded, varied or interpreted based on supporting testimony, the order approving this Agreement or any other documents. This Agreement shall be binding upon the Parties, successors and assigns.

32. NIPSCO will submit prefiled written testimony into the record at the public hearing related to approval of this Agreement sufficient to support the Commission's finding that this Agreement is in the public interest.

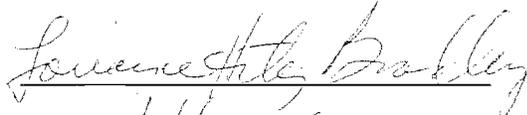
33. The communications and discussions during the negotiations and conferences which have produced this Agreement shall be conducted on the explicit understanding that they are, or relate to offers of settlement and shall be privileged and confidential, shall be without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

34. Each of the undersigned represents and agrees that she/he is fully authorized to execute this Agreement on behalf of the Party identified above her/his respective signature.

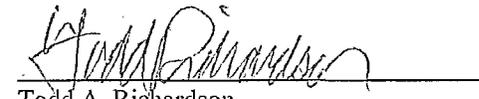
35. The Parties agree that the execution of duplicate signature page(s) hereto shall be binding upon each Party as if each had executed the same original document.

ACCEPTED AND AGREED this 22nd day of December, 2011.

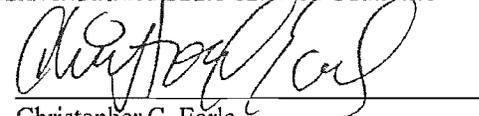
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COUNSELOR

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