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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF REGIONAL TRANSMISSION ORGANIZATION ADJUSTMENT FACTORS TO BE APPLICABLE DURING THE BILLING MONTHS OF MAY 2013 THROUGH OCTOBER 2013 PURSUANT TO CAUSE NOS. 43526 AND 43969.	)	CAUSE NO. 44156 RTO 3 APPROVED: APR 24 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Aaron A. Schmoll, Senior Administrative Law Judge

On January 30, 2013, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its petition for Commission approval of regional transmission organization adjustment ("RTO Adjustment") factors to be applicable during the billing months of May 2013 through October 2013. Petitioner also prefiled its case-in-chief on January 30, 2013, which consisted of the testimony and exhibits of Derric J. Isensee, Manager, Regulatory Support and Analysis in the Rates and Regulatory Finance Department of NIPSCO, Daniel L. Douglas, Director of Transmission Commercial Operations of NIPSCO and Daniel T. Williamson, Executive Director of Energy Supply and Trading for NIPSCO. NIPSCO Industrial Group filed its Petition to Intervene on February 6, 2013, which was subsequently granted on February 18, 2013. On March 15, 2013, NIPSCO filed revised pages to certain schedules and exhibits attached to the Verified Petition and included in the Petitioner's Case-in-Chief. On March 18, 2013 the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie R. Gruca.

Pursuant to public notice duly given and published as required by law, proof of which was incorporated into the record by reference and placed in the Commission's official file, a public hearing in this Cause was held on April 11, 2013, at 1:30 p.m., in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Petitioner, the OUCC, and NIPSCO Industrial Group appeared by counsel. Petitioner and OUCC offered their respective prefiled testimony and exhibits which were admitted into evidence without objection. No other party or members of the general public appeared.

Based upon the applicable law and the evidence of record, the Commission now finds:

1. **Notice and Jurisdiction.** Proper notice of the hearing in this Cause was given as required by law. Petitioner is a public utility corporation incorporated under the laws of the State of Indiana, operating an electric utility in northern Indiana and is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended, Ind. Code ch. 8-1-2.

Further, the Commission has jurisdiction over changes in utility rates and charges under Ind. Code § 8-1-2-42. Thus, the Commission has jurisdiction over NIPSCO and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner has its principal office at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is engaged in rendering electric public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public.

3. **Background and Requested Relief.** In this proceeding, NIPSCO requests Commission approval of RTO Adjustment factors to be applicable and made effective for bills rendered by NIPSCO during the billing months of May 2013 through October 2013 or until replaced by different factors approved in a subsequent filing pursuant to provisions of the Public Service Commission Act, as amended, the Commission's August 25, 2010 Final Order in Cause No. 43526 ("43526 Order"), and the Commission's December 21, 2011 Final Order in Cause No. 43969 ("43969 Order").

The 43526 Order found that NIPSCO's Midwest Independent Transmission System Operator ("MISO") non-fuel costs and revenues and off-system sales sharing should be included in one mechanism designated as the RTO Adjustment. 43526 Order at 93-94. The 43969 Order approved the implementation of the RTO Adjustment approved in the 43526 Order by approving NIPSCO's Rider 671 – Adjustment of Charges for Regional Transmission Organization and NIPSCO's Appendix C – Regional Transmission Organization Adjustment Factor. 43969 Order at 70. The 43969 Order specified that the RTO Adjustment will be a semi-annual mechanism coordinated with the FAC audit process. *Id.*

The 43969 Order specified that the RTO Adjustment will recover MISO non-fuel costs and revenues that exceed $5.3 million annually or $2.65 million semi-annually (the amount of MISO non-fuel credits and charges included in base rates) and 50% of any off system sales margins that exceed $7.6 million annually (the amount of off system sales margins included in base rates). 43969 Order at 70. The 43969 Order also specified that the amortization expenses included in the base rates approved in the 43969 Order would include deferred MISO costs, amortized and recovered over a period of four (4) years which were estimated through June 30, 2011. *Id.* at 9, 66.

4. **Commission Discussion and Findings.**

A. Relevant Period. Petitioner's Exhibit No. 1-A shows that NIPSCO's proposed RTO Adjustment factors will apply to bills rendered by NIPSCO during the billing months of May 2013 through October 2013. The proposed RTO Adjustment factors are calculated based on estimated costs, sharing of actual annual off system sales margins, energy and demand allocators, and forecasted usage for the period of May 2013 through October 2013. The proposed RTO Adjustment factors include reconciliations for the period July through December 2012.

B. Total Recoverable Costs. Exhibit A to Petitioner's Exhibit No. 1-A shows that Petitioner's total costs to be recovered during the billing months of May 2013 through October

2013 are $2,749,361 [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 6] of which $3,542,706 constitutes estimated MISO non-fuel costs and revenues [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 1 and Line 2], $0 constitutes the shared portion of off system sales margin [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 3], and $(793,345) constitutes the reconciliation of prior periods. [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 5] Based on our discussion of the record evidence set forth below, we find that these costs should be included for recovery through the RTO Adjustment factors during the billing months of May 2013 through October 2013.

C. MISO Non-Fuel Charges and Credits. Mr. Isensee testified that NIPSCO is allowed to recover MISO non-fuel costs and revenues that exceed $5.3 million annually or $2.65 million semi-annually (the amount of MISO non-fuel credits and charges included in base rates) through the semi-annual RTO Adjustment mechanism. Mr. Williamson provided the MISO non-fuel charges and credits included for recovery through the RTO Adjustment mechanism and the basis upon which they are allocated to customers (i.e., demand or energy).

Mr. Williamson testified that he is not aware of any new non-fuel MISO charges or credits that have been included in either the forecast or reconciliation period for this filing. Mr. Williamson provided testimony regarding material modifications to non-fuel MISO costs. He identified a pending dispute with MISO regarding $7 million in market-to-market charges that MISO refunded to PJM in November 2012. He stated NIPSCO's portion of the uplift was $249,400.08, which is reflected in Petitioner's Exhibit No. 1-A, Exhibit A, Schedule 5, Page 2 of 2, Line 11. Mr. Williamson explained that NIPSCO had filed a settlement dispute with MISO indicating that it shares a concern with MISO's Independent Market Monitor that the tariff provides no authority for the refund and that MISO customers should not incur these costs because PJM accounted for the majority of the flow on the constraints and was well over its entitlement. He stated that MISO denied the dispute and NIPSCO is participating with 27 MISO load-serving entities to work with MISO and the Independent Market Monitor to resolve the issue. He also indicated that NIPSCO was considering presenting a case for reconsideration of the denial through MISO's Alternative Dispute Resolution ("ADR") process. He stated if any monies were resettled back to NIPSCO, those amounts would be reflected in the next RTO filing following the refund. Finally, Mr. Williamson testified that the projected non-fuel MISO charges and credits are just and reasonable.

Mr. Isensee testified that the total amount of RTO demand allocated MISO non-fuel costs and credits included in this proceeding is $2,077,330 [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 1] and the amount of RTO energy allocated MISO non-fuel costs and credits included in this proceeding is $1,465,376 [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 2]. Based on the record evidence, we find that Petitioner has properly included demand allocated MISO non-fuel costs and credits of $2,077,330 and energy allocated MISO non-fuel costs and credits of $1,465,376 for recovery through the RTO Adjustment factors during the billing months of May 2013 through October 2013.

D. Off-System Sales ("OSS") Margin. Mr. Isensee testified that NIPSCO is required to share 50% of any OSS margins in excess of the OSS margins included in base rates ($7,600,638) on an annual basis. Mr. Williamson testified that off-system sales occur when

NIPSCO's real-time generation resources exceed the real-time native load obligation. He stated that fuel costs associated with making an off-system sale are passed back to NIPSCO's Fuel Adjustment Clause customers in the form of a fuel credit.

Mr. Isensee testified that the annual reconciliation of the January through December period for the sharing of OSS margins is included in this filing. He testified that the amount of annual OSS margins to be shared with customers in this proceeding is $0 [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 3].

E. Variance from Prior Periods and Variance from Base Rates. Mr. Isensee testified that in this proceeding NIPSCO is seeking to recover a reconciliation of actual MISO non-fuel costs, net of revenues for the July 2012 through December 2012 billing period. Mr. Isensee testified that the amount of prior period variance included in this proceeding is $(793,345) [Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, Line 5]. Based on the record evidence, we find that Petitioner properly included a Variance from Prior Periods of $(793,345) for recovery through the RTO Adjustment factors during the billing months of May 2013 through October 2013.

F. Allocation of Costs. Mr. Isensee testified that the 43969 Order specified that the demand allocators for the RTO Adjustment were shown in Joint Exhibit E to the Stipulation and Settlement Agreement approved in that Order (the "2011 SA") and represented the Production Rate Base allocated by the rate classes' 12 Coincident Peaks ("CP"). He stated that in this proceeding NIPSCO has adjusted its demand allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, and 626 [Petitioner's Exhibit No. 1-A, Exhibit B]. He stated the migration was based upon the customers' 12 CP calculated in conjunction with the Commission's approved allocators in Joint Exhibit E to the 2011 SA.

Mr. Isensee testified that in its RTO-1 filing, NIPSCO used test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses to calculate the RTO energy allocators. He stated that in this proceeding NIPSCO has adjusted its energy allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, and 626 [Petitioner's Exhibit No. 1-A, Exhibit B]. He stated the migration was based upon the customers' test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses.

Mr. Williamson testified that MISO charges and credits are allocated to customers (i.e. demand vs. energy) in the same manner that they are allocated by MISO to NIPSCO and other market participants. Based on the record evidence, we find that Exhibit A to Petitioner's Exhibit No. 1-A, Revised Schedule 1 uses the appropriate demand and energy allocators for the RTO Adjustment factors applicable during the billing months of May 2013 through October 2013.

G. Multi-Value Projects ("MVP") (Schedule 26-A) Revenues. In the Order on Remaining Issue dated August 22, 2012 in RTO-1, the Commission authorized NIPSCO to retain 100% of the MISO Schedule 26-A revenues associated with NIPSCO's construction of MVP projects. Therefore, Schedule 26-A revenues are not reflected in NIPSCO's RTO filings. However, NIPSCO agreed to provide its current Attachment O, GG, and MM and identify the current forecasted amount of Schedule 26-A revenues in its RTO Adjustment filings. Mr. Douglas testified that on December 19, 2012, the Federal Energy Regulatory Commission ("FERC") approved NIPSCO's request to transition from a formula rate structure that uses historical information to one that is forward looking. As a result, Mr. Douglas testified, between January 1, 2013 and April 30, 2013, NIPSCO forecasts MISO Schedule 26-A revenues of $1,085,345. For the period from May 2013 through October 2013, NIPSCO projects Schedule 26-A revenues of $1,664,195. In RTO-1, the Commission authorized NIPSCO to retain 100% of the MISO Schedule 26-A revenues associated with NIPSCO's construction of MVP projects; therefore Schedule 26-A revenues are not reflected in NIPSCO's RTO Adjustment factors.

H. OUCC Audit Report. Ms. Gruca testified that: (1) nothing came to her attention that would indicate that the RTO projections used by NIPSCO were unreasonable; (2) NIPSCO's calculation of the RTO variance is supported by evidence; (3) NIPSCO's actual OSS margin and calculation of the OSS margin retail sharing portion is supported by evidence; and (4) as agreed in RTO-1, NIPSCO provided Attachments GG, MM, and O.

Attachment GG sets forth the method for calculating and collecting the charges associated with Regional Expansion Criteria and Benefits ("RECB") eligible network upgrades and for distributing the revenues associated with such charges, which flow through MISO's Schedule 26. Attachment MM sets forth the method for calculating and collecting the charges associated with MVP eligible network upgrades and for distributing the revenues associated with such charges, which flow through MISO's Schedule 26-A. Attachment O sets forth the method for calculating and collecting the charges and for distributing the revenues associated with such charges for all applicable transmission assets under MISO's functional control.

The OUCC recommends the Commission approve NIPSCO's proposed recovery of the variance for the reconciliation period and RTO Adjustment factors for the estimated period.

Ms. Gruca testified that she had participated in discussions with NIPSCO representatives regarding the pending dispute with MISO over the November 2012 refund to PJM of $7 million in market-to-market charges. She noted that NIPSCO, along with 21 load serving entities, filed a request for reconsideration of the denial of the dispute related to the resettlement to PJM by MISO through the ADR process. She stated MISO had acknowledged receipt of the request and would respond shortly to initiate the tariff ADR process. Ms. Gruca recommended that NIPSCO provide status updates with respect to this issue in future RTO filings and include any progress or resolution of work with MISO and the Independent Market Monitor, updates with respect to the request for reconsideration of the denial of the dispute through the ADR process, and a refund dollar amount should any monies get resettled back to NIPSCO. We find that NIPSCO shall comply with Ms. Gruca's recommended reporting requirements as described above.

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

1. Petitioner's requested RTO Adjustment factors to be applicable to bills rendered

during the billing months of May 2013 through October 2013, as set forth in Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, are hereby approved.

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

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

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

APPROVED: APR 24 2013

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission