

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC )  
SERVICE COMPANY FOR APPROVAL OF )  
REGIONAL TRANSMISSION ORGANIZATION ) CAUSE NO. 44156 RTO 1  
ADJUSTMENT FACTORS TO BE APPLICABLE )  
DURING THE BILLING MONTHS OF MAY 2012 ) APPROVED: APR 25 2012  
THROUGH OCTOBER 2012 PURSUANT TO )  
CAUSE NOS. 43526 AND 43969. )

ORDER OF THE COMMISSION ON LESS THAN ALL ISSUES

**Presiding Officers:**  
**Carolene R. Mays, Commissioner**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On February 2, 2012, 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 2012 through October 2012. Petitioner also prefiled its case-in-chief on February 2 and 3, 2012, which consisted of the testimony and exhibits of Katherine A. Cherven, Manager of Compliance in the Rates and Regulatory Finance Department of NIPSCO, Matthew G. Holtz, Director of the System Reliability and Development Department of NIPSCO, Curt A. Westerhausen, Director of Rate and Contracts in the Rates and Regulatory Finance Department of NIPSCO, Ronald G. Plantz, Controller of NIPSCO and Daniel T. Williamson, Executive Director of Energy Supply and Trading for NIPSCO. NIPSCO Industrial Group filed its Petition to Intervene on March 2, 2012, which was subsequently granted at the April 10, 2012 evidentiary hearing. On March 20, 2012 the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the Prefiled Testimony of Stacie R. Gruca (Public’s Exhibit No. 1).

On March 30, 2012, Petitioner filed an Unopposed Motion to Modify Procedural Schedule moving the Commission to establish a Phase II in this proceeding to address NIPSCO’s request to retain Multi-Value Project (“MVP”) related revenues obtained through the Midwest Independent System Operator’s (“MISO”) Schedule 26-A. At the April 10, 2012 evidentiary hearing, the Commission approved the modified procedural schedule to address the Schedule 26-A revenues in a subsequent hearing under this Cause

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 10, 2012, at 9:30 a.m. in Room 222 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 electric utility properties in northern Indiana and is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended, Ind. Code § 8-1-2. 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 86<sup>th</sup> 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, plants 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 2012 through October 2012 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 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 Cause No. 43526 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. The 43969 Order also specified that these MISO costs would continue to be deferred until the effective date of new rates and that any difference between the estimate and the actual costs incurred would be included in the RTO Adjustment. *Id.* NIPSCO recovered a portion of this variance in its compliance filing in Cause No. 43969 and proposes to recover the remaining variance through the RTO Adjustment in this filing.

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 2012 through October 2012. 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 2012 through October 2012. The proposed RTO Adjustment factors include reconciliations for the December 27, 2011 through December 31, 2011 period.

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 2012 through October 2012 are (\$2,657,194) of which \$2,988,889 constitutes estimated MISO non-fuel costs and revenues, (\$5,709,553) constitutes the shared portion of off system sales margin, and \$63,470 constitutes the reconciliation of prior periods. 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 2012 through October 2012.

c. MISO Non-Fuel Charges and Credits. Ms. Cherven 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. He stated that he is not aware of any material modifications to any non-fuel MISO charges or credits that have been included in either the forecast or reconciliation period for this filing. Finally, Mr. Williamson testified that the projected non-fuel MISO charges and credits are just and reasonable.

Ms. Cherven testified that the total amount of RTO demand allocated MISO non-fuel costs and credits included in this proceeding is \$892,553 and the amount of RTO energy allocated MISO non-fuel costs and credits included in this proceeding is \$2,096,335. Based on the record evidence, we find that Petitioner has properly included demand allocated MISO non-fuel costs and credits of \$892,553 and energy allocated MISO non-fuel costs and credits of \$2,096,335 for recovery through the RTO Adjustment factors during the billing months of May 2012 through October 2012.

d. Off-System Sales Margin. Ms. Cherven 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.

Ms. Cherven testified that the RTO Adjustment filing which reconciles the July through December period will include the annual reconciliation of January through December for the OSS margins sharing portion of the RTO Adjustment. Ms. Cherven stated this RTO Adjustment filing contains the reconciliation for the OSS margins sharing for the period December 27, 2011 (the date

of new rate implementation) through December 31, 2011. She testified that the amount of annual OSS margins to be shared with customers in this proceeding is \$5,709,553.

Mr. Plantz testified that during the period December 27, 2011 through December 31, 2011, NIPSCO recorded \$11,523,225 in OSS margins. He explained this includes OSS margins of \$3,653 earned during the period December 27 through 31, 2011 and a one-time accounting entry in the amount of \$11,519,572 to record revenue that had been deferred in previous years. He testified that these amounts, recorded following the December 27, 2011 effective date of new rates, are being shared with customers in accordance with the 2011 Rate Order.

Based on the record evidence, we agree that Petitioner should include the annual reconciliation of January through December OSS margins sharing in the semi-annual filing which reconciles the July through December period (generally filed in February) to be shared through the RTO Adjustment. We further find that Petitioner properly included an annual OSS margins sharing amount of \$5,709,553 to be shared with customers through the RTO Adjustment factors during the billing months of May 2012 through October 2012.

e. Variance from Prior Periods and Variance from Base Rates. Ms. Cherven testified that in this proceeding NIPSCO is seeking to recover a reconciliation of actual MISO non-fuel costs, net of revenues for the December 27, 2011 to December 31, 2011 billing period. Ms. Cherven testified that the amount of prior period variance included in this proceeding is \$63,470. Based on the record evidence, we find that Petitioner properly included a Variance from Prior Periods of \$63,470 for recovery through the RTO Adjustment factors during the billing months of May 2012 through October 2012.

Ms. Cherven also stated NIPSCO is seeking to recover the remaining variance of the actual MISO non-fuel costs, net of revenues, to the amount which was included in NIPSCO's base rates, consistent with the 2011 Rate Order. She explained that NIPSCO recovered a portion of this variance in its compliance filing in Cause No. 43969 and proposes to recover the remaining variance of \$709,126 through the RTO Adjustment in this filing. Based on the record evidence, we find that Petitioner properly included this variance from base rates of \$709,126 for recovery through the RTO Adjustment factors during the billing months of May 2012 through October 2012.

f. Allocation of Costs. Mr. Westerhausen testified that the 43969 Order specified that the demand allocators for the RTO Adjustment factors would be the Production Rate Base allocated by the rate classes 12 Coincident Peaks ("CP") which were shown in Joint Exhibit E to the 2011 Settlement Agreement in Cause No. 43969. He testified that the 43969 Order specified that the energy allocators for the RTO Adjustment factors would be test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses to calculate the RTO Adjustment. Mr. Westerhausen testified that NIPSCO used these demand and energy allocators approved in the 43969 Order to calculate the RTO Adjustment factors in this proceeding. 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, Schedule 1 uses the appropriate demand and energy allocators for the RTO Adjustment factors during the billing months of May 2012 through October 2012.

g. Multi-Value Projects Revenues. Mr. Holtz provided testimony in support of NIPSCO's request to retain future Multi Value Project ("MVP") related revenues to be obtained through MISO's Schedule 26-A, which will be addressed in a subsequent Order under this Cause, as ordered at the April 10, 2012 hearing.

h. OUCC Audit Report. Ms. Gruca testified (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 calculation of the OSS margins and NIPSCO's requested recovery seems reasonable, and (4) the RECB projects are included in NIPSCO's base rates and as a result, Renewable Energy Credit Bank ("RECB") revenues collected by NIPSCO under Schedule 26 are passed back to NIPSCO retail customers via the RTO Adjustment, and (5) due to the newness and recent approval of the MISO MVP Portfolio to be included in the MTEP 11, as well as the fact that MVP projects do not yet affect the amounts at issue in this RTO 1 filing, the OUCC believes it is premature to grant authority to Petitioner at this time as to this issue.

The OUCC recommends the Commission (1) approve NIPSCO's proposed recovery of the variance for the reconciliation period and RTO Adjustment factors for the estimated period, (2) approve NIPSCO's proposed recovery of OSS margins included in the RTO Adjustment factors, and (3) defer consideration of NIPSCO's proposed treatment and recovery of Schedule 26-A MVP charges and revenues at this time and address the issue at the time NIPSCO actually begins incorporating charges from MISO under Schedule 26-A.

i. Procedural Schedule. Petitioner included an agreed procedural schedule as part of Petitioner's Exhibit No. 1-A and requested that it be approved for subsequent RTO Adjustment proceedings. The agreed procedural schedule provides as follows:

Petitioner will file its Case-in-Chief (including a verified petition, proposed tariff revisions and supporting testimony) and provide the OUCC and any Intervenors with copies of all supporting workpapers no less than seventy-five (75) days before the effective date of the proposed RTO factors. Petitioner's Case-in-Chief will not be considered complete until all items listed above are filed (or, in the case of workpapers, submitted).

The OUCC and any Intervenors will file their respective Cases-in-Chief approximately 45 days after Petitioner files its completed Case-in-Chief.

Petitioner will file its rebuttal testimony (if any) no less than five (5) days prior to the evidentiary hearing.

Petitioner will make its staff reasonably available to the OUCC and any Intervenors to facilitate an informal discovery process for its RTO filings. Any response or objection to a formal discovery request should be made within ten (10) calendar days of the receipt of such request, and the parties will utilize electronic discovery.

The Commission finds this agreed procedural should be approved for subsequent RTO Adjustment proceedings.

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

1. Petitioner's requested RTO Adjustment factors to be applicable to bills rendered in the months of May 2012 through October 2012, as set forth in Petitioner's Exhibit No. 1-A, Exhibit A, 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. The agreed procedural schedule set forth in Paragraph 4(i) above is hereby approved for subsequent RTO Adjustment proceedings;

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

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

**APPROVED: APR 25 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**