

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF NORTHERN INDIANA PUBLIC)
 SERVICE COMPANY FOR APPROVAL OF)
 REGIONAL TRANSMISSION ORGANIZATION) CAUSE NO. 44156 RTO 2
 ADJUSTMENT FACTORS TO BE APPLICABLE)
 DURING THE BILLING MONTHS OF) APPROVED: OCT 31 2012
 NOVEMBER 2012 THROUGH APRIL 2013)
 PURSUANT TO CAUSE NOS. 43526 AND 43969.)

ORDER OF THE COMMISSION

Presiding Officers:

James D. Atterholt, Chairman

Aaron A. Schmoll, Senior Administrative Law Judge

On July 31, 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 November 2012 through April 2013. Petitioner also prefiled its case-in-chief on July 31, 2012, 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, Matthew G. Holtz, Director of the System Reliability and Development Department of NIPSCO and Daniel T. Williamson, Executive Director of Energy Supply and Trading for NIPSCO. NIPSCO Industrial Group filed its Petition to Intervene on August 1, 2012, which was subsequently granted on September 7, 2012. To address an error in the calculation of the demand and energy allocators associated with the customer migration from Rates 626 and 632 to Rates 624 and 625, NIPSCO filed revised pages to the exhibits attached to the Verified Petition on August 24, 2012. On September 14, 2012 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 October 17, 2012, at 10:00 a.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 or sought to testify at the hearing.

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. 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 November 2012 through April 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's 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 November 2012 through April 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 November 2012 through April 2013. The proposed RTO Adjustment factors include reconciliations for the period January through June, 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 November 2012 through April 2013 are \$5,015,306 of which \$2,498,298 constitutes estimated MISO non-fuel costs and

revenues, \$0 constitutes the shared portion of off system sales margin, and \$2,517,008 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 November 2012 through April 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. 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.

Mr. Isensee testified that the total amount of RTO demand allocated MISO non-fuel costs and credits included in this proceeding is \$1,327,097 [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 \$1,171,201. Based on the record evidence, we find that Petitioner has properly included demand allocated MISO non-fuel costs and credits of \$1,327,097 and energy allocated MISO non-fuel costs and credits of \$1,171,201 for recovery through the RTO Adjustment factors during the billing months of November 2012 through April 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 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. Mr. Isensee testified there are no shared OSS margins included in this proceeding because the annual reconciliation will be included in the next RTO Adjustment filing (to be filed in February 2013).

(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 January 2012 through June 2012 billing period. Mr. Isensee testified that the amount of prior period variance included in this proceeding is \$2,517,008. Based on the record evidence, we find that Petitioner properly included a Variance from Prior Periods of \$2,517,008 for recovery through the RTO Adjustment factors during the billing months of November 2012 through April 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 624, 625, 626 and 632. 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 624, 625, 626 and 632. 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 during the billing months of November 2012 through April 2013.

(g) Multi-Value Projects (“MVP”) (Schedule 26-A) Revenues. In the Phase II Order 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. Holtz testified that based on NIPSCO’s current formula rate structure which uses historical information contained in its annual FERC Form 1 filing, NIPSCO does not project any Schedule 26-A revenues for the period from November 2012 through April 2013. He stated that NIPSCO plans to file at the Federal Energy Regulatory Commission (“FERC”) later this year seeking a change to its formula rate structure to forward looking rather than historical looking. He indicated that depending on the timing of a FERC Order regarding its request, it is possible that NIPSCO could receive some Schedule 26-A revenues during the period from November 2012 through April 2013.

(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 OSS margins is evaluated on a calendar 12-month basis, in which OSS margins for the 12-months ending December 31, 2012 will be evaluated in NIPSCO’s RTO-3 filing, (4) as agreed in RTO-1, NIPSCO provided its Attachment GG, which sets forth the method for calculating and collecting the charges associated with RECB eligible network upgrades and for distributing the revenues associated with such charges, which flow through MISO’s Schedule 26; Attachment MM, which 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;

and Attachment O, which 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.

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 November 2012 through April 2013, as set forth in Petitioner's Exhibit No. 1-A, Exhibit A, Revised Schedule 1, are hereby approved.

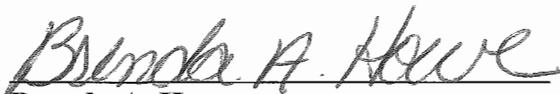
2. Petitioner shall file with the Electricity Division of the Commission, prior to placing in effect the RTO Adjustment factors herein approved, an amendment to its rate schedule with reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 31 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