

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR (1) AN)
ADJUSTMENT TO ITS ELECTRIC SERVICE)
RATES THROUGH ITS FEDERALLY MANDATED)
COST ADJUSTMENT FACTOR PURSUANT TO)
IND. CODE CH. 8-1-8.4 AND THE COMMISSION'S)
ORDER IN CAUSE NO. 44340; (2) AUTHORITY TO)
DEFER 20% OF THE FEDERALLY MANDATED)
COSTS FOR RECOVERY IN NIPSCO'S NEXT)
GENERAL RATE CASE; AND (3) APPROVAL OF)
MODIFICATIONS TO THE CIP COMPLIANCE)
PROJECT SET FORTH IN THE FIRST PROGRESS)
REPORT PURSUANT TO THE ONGOING REVIEW)
PROCESS APPROVED IN CAUSE NO. 44340)

CAUSE NO. 44340 FMCA 1

APPROVED: JUL 30 2014

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Vice-Chair

Jeffery A. Earl, Administrative Law Judge

On May 1, 2014, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause and prefiled the direct testimony and exhibits of the following:

- Derric J. Isensee, Manager, Regulatory Support and Analysis, Rates and Regulatory Finance Department; and
- Teodoro Gutierrez, Director, Operations Technology and North American Electric Reliability Corporation ("NERC") Compliance.

On June 9, 2014, NIPSCO prefiled the supplemental direct testimony of Mr. Isensee.

On June 24, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled direct testimony of the following:

- Stacie R. Gruca, Senior Utility Analyst in the OUCC's Electric Division; and
- Ronald L. Keen, Senior Analyst in the OUCC's Resource Planning and Communications Division.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on July 11, 2014, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared and participated at the hearing. No member of the general public appeared.

Based on the applicable law and the evidence presented, the Commission finds:

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code §§ 8-1-2.5-2 and 8-1-8.4-3. Under Ind. Code §§ 8-1-8.4-6 and 8-1-8.4-7, the Commission has authority to approve cost recovery for projects necessary to comply with federally mandated requirements. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to NIPSCO's rates and charges. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. NIPSCO's Characteristics. NIPSCO is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86th Street, Merrillville, Indiana 46410. NIPSCO owns, operates, manages, and controls plant and equipment used for the generation, transmission, distribution, and furnishing of electric and gas utility services to the public in northern Indiana.

3. Background. The Commission's Order in Cause No. 44340 ("44340 Order") approved the following: (1) a Certificate of Public Convenience and Necessity for its Critical Infrastructure Protection Compliance Project ("CIP Compliance Project"), which includes capital projects and ongoing activities at ten different locations within NIPSCO's electric system necessary to comply with the NERC Critical Infrastructure Protection ("CIP") Reliability Standards; (2) timely recovery of 80% of the federally mandated costs incurred in connection with the CIP Compliance Project; (3) a semi-annual federally mandated cost adjustment mechanism ("FMCA") under Ind. Code §§ 8-1-8.4-7 and 8-1-2-42 to recover 80% of the federally mandated project costs and ongoing expenses from the CIP Compliance Project; (4) authority to defer 20% of the federally mandated project costs and ongoing expenses from the CIP Compliance Project for recovery in NIPSCO's next general rate case; (5) NIPSCO's proposal that the Commission maintain an ongoing review of its CIP Compliance Project federally mandated costs and submit to the Commission a semi-annual report of any revisions of its plan and cost estimates ("Progress Report"); and (6) the total weighted cost of capital updated in each semi-annual FMCA filing to reflect an updated capital structure and cost of debt.

4. Relief Requested. NIPSCO requests approval of the following:

- An adjustment to its electric service rates through the FMCA to recover 80% of the federally mandated costs related to the CIP Compliance Project to be applicable for bills rendered during the billing period of August 2014 through January 2015 pursuant to Ind. Code § 8-1-8.4-7(c)(1) and the 44340 Order.
- Deferral of 20% of the federally mandated costs related to the CIP Compliance Project for recovery in its next general rate case pursuant to Ind. Code § 8-1-8.4-7(c)(2) and the 44340 Order;
- Modifications to the CIP Compliance Project set forth in the First Progress Report pursuant to the ongoing review process approved in the 44340 Order.

In this Cause, NIPSCO also requests approval of a procedural schedule for subsequent FMCA proceedings.

5. Ongoing Review of Progress Reports. In the 44340 Order, we approved NIPSCO's request for ongoing review of the CIP Compliance Project as part of its FMCA semi-annual filings. The 44340 Order approved total estimated costs of the CIP Compliance Plan of

\$5,225,625 (capital) and \$1,200,000 (annual ongoing operations and maintenance (“O&M”)). In this proceeding, NIPSCO requests approval of modifications to the CIP Compliance Project in its First Progress Report, including the updated project scopes, construction schedules, and cost estimates. Mr. Gutierrez testified that Second Revised Exhibit PR identifies and describes the plan modifications that can be broken down into scheduling changes and changes in estimated costs.

Mr. Gutierrez testified that the new in-service dates have changed for a number of reasons, including a delay in the start of the projects. NIPSCO decided not to exercise options to pay premium contract labor costs that would have been required to meet the original in-service dates because the Federal Energy Regulatory Commission (“FERC”) granted an extension of time to comply with CIP Version 4 from April 1, 2014, to October 1, 2014. Additional project delays occurred due to unanticipated difficulties in the installation of suitable telecommunication networks to the substation locations. Mr. Gutierrez testified that the winter weather created additional project delays as construction crews were forced to cancel planned work that had to be rescheduled weeks later. In an effort to manage O&M expenses in 2013, NIPSCO chose to postpone filling approved CIP Version 4 internal positions until 2014.

Mr. Gutierrez testified that Second Revised Exhibit PR shows the currently approved cost estimates as well as any proposed revisions to the cost estimates. The original cost estimates were based on estimates provided by the vendors. After the projects were approved, the vendors refined their estimates to consider the detailed requirements of the physical work to be performed at each substation. The Operations Technology teams achieved significant cost savings by adjusting the equipment selection in favor of lower cost network devices. The costs associated with the Security Operations Center (“SOC”) relocation was significantly lower than estimated contributing to the reduced overall project costs.

Second Revised Exhibit PR shows that the proposed revised total cost estimate for the individual capital projects included in the CIP Compliance Project is \$3,673,940. This represents a decrease of \$1,551,685 from the currently-approved amount for the individual capital projects. Mr. Gutierrez testified that the proposed revised total cost estimate for the annual federally mandated ongoing O&M expenses included in the CIP Compliance Project is \$664,916 in 2014. He stated that revised estimated O&M expenses for 2015 are estimated to be \$1,033,707 and are expected to reach the approved \$1,200,000 annual level beginning in 2016.

Mr. Keen testified that he examined the NIPSCO CIP program discussed in this Cause. He stated the OUCG continues to have a high degree of confidence in the effectiveness and efficiency of the NIPSCO CIP team. Mr. Keen testified the NIPSCO team remains highly motivated, exceptionally trained, and professional in every aspect. He explained that they continue to conduct threat analyses against the company infrastructure at all levels, and the OUCG remains convinced the measures the company is undertaking continue to be both prudent and justified to protect NIPSCO infrastructure assets against the wide variety of natural and man-made events, accidents, and incidents. The OUCG recommends the Commission approve the CIP-related activities of NIPSCO to this point and continue to monitor the progress of NIPSCO. The OUCG also recommends the Commission continue to closely follow additional CIP mandates, rules, and regulations being considered, developed, and promulgated by Federal and State governments, as well as other directing authorities, such as regional transmission authorities, the National Institute of Standards and Technology, etc.

Based on the evidence presented, we find the changes to the cost estimate for NIPSCO's CIP Compliance Project are reasonable, and we approve the changes. We also find that the First Progress Report is reasonable, and approve the modifications to schedule and cost estimates.

Because of the sensitive nature of the information related to the CIP Compliance Projects and the need to protect the security of that information, the Commission reserves the right to periodically schedule on-site visits to review secure documents and records to facilitate our ongoing review of the CIP Compliance Projects. In order to avoid any ex parte issues or appearance of impropriety, the Commission will attempt to schedule these visits between FMCA proceedings. The Commission will also notify the OUCC of scheduled visits, so that representatives from the OUCC may attend.

6. FMCA.

A. Capital Projects. Mr. Isensee testified that the total cost of the CIP Compliance Project capital projects incurred through March 31, 2014, is \$2,915,009, which includes an Allowance for Funds Used During Construction ("AFUDC") of \$85,269. NIPSCO has not incurred depreciation expense related to these projects as these projects had not been placed in service as of March 31, 2014. The AFUDC rate was calculated in accordance with the instructions of the FERC Uniform System of Accounts. Mr. Isensee said that if the Commission approves the proposed ratemaking treatment for the net CIP Compliance Project costs incurred through March 31, 2014, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive ratemaking treatment and are recovering through the FMCA.

Mr. Isensee testified that NIPSCO's updated total weighted cost of capital as of March 31, 2014, (the date of valuation of the CIP Compliance Project) is 6.52%. The annual revenue requirement for the return on investment is calculated by multiplying the CIP Compliance Project costs incurred through March 31, 2014, by the debt and equity components of its weighted cost of capital, multiplied by 50%, and then multiplied by the revenue conversion factor and 80% to determine the total return-related revenue requirement to be recovered for bills rendered during the billing cycles of August 2014 through January 2015. Using this calculation, the Adjusted Semi-Annual Revenue Requirement is \$141,706. Eighty percent of this amount, \$113,365, will be recovered through the FMCA. The remaining 20%, \$28,341, will be deferred for recovery in NIPSCO's next general rate case.

Based on the evidence presented, we find that NIPSCO's request to begin earning a return on the \$2,915,009 from the value of the CIP Compliance Project capital projects complies with the 44340 Order. We further find that NIPSCO's proposed Semi-Annual Revenue Requirement of \$141,706 and the 80% recoverable Semi-Annual Revenue Requirement of \$113,365 were properly calculated. Therefore, we approve NIPSCO's request to begin earning a return on the value of the CIP Compliance Project capital projects and recovery of 80% of the proposed revenue requirement through the FMCA for bills rendered during the billing period of August 2014 through January 2015.

B. Depreciation Expense. Mr. Isensee testified that the Total Depreciation Expense associated with the CIP Compliance Project is \$508,607, which represents the forecasted federally mandated depreciation expense associated with the CIP Compliance Project for April 2014 through January 2015. The forecast is based on the expected in-service date of CIP

Compliance Project assets and the depreciation lives and rates approved in the 44340 Order. Eighty percent of this amount, \$406,885, will be recovered through the FMCA. The remaining 20%, \$101,721, will be deferred for recovery in NIPSCO's next general rate case.

Based on the evidence presented, we find that NIPSCO's Total Depreciation Expense associated with the CIP Compliance Project for April 2014 through January 2015 of \$508,607 and the 80% recoverable depreciation expense of \$406,885 were properly calculated. Therefore, we approve the Total Depreciation Expense for recovery through the FMCA factors for bills rendered during the billing period of August 2014 through January 2015.

C. O&M Expense. Mr. Gutierrez testified that the federally mandated ongoing O&M expenses for April 2014 through January 2015 were estimated based on the assumption that the approved additional employee positions would be fully staffed and that the O&M expense associated with those positions would commence following completion of the capital projects. Additionally, first year software support agreements and installation warranties will expire in 2014, which will increase O&M expenditures in 2014 to provide continuing support. Telecommunication installations at eight of the ten locations are now complete and are incurring service charges. The estimates include increased telecommunication charges resulting from an anticipated need to increase bandwidth to all locations to better utilize video monitoring capabilities.

Mr. Isensee testified the total O&M expense associated with the CIP Compliance Project shown on Revised Exhibit 2 is \$784,489. This total is comprised of the actual O&M expense incurred through March 2014, of \$72,995 plus the forecasted total O&M expense associated with the CIP Compliance Project for April 2014 through January 2015 of \$711,494. Eighty percent of this amount, \$627,591, will be recovered through the FMCA. The remaining 20%, \$156,898, will be deferred for recovery in NIPSCO's next general rate case.

Based on the evidence presented, we find that NIPSCO's total federally mandated O&M expense of \$784,489 and the 80% recoverable federally mandated O&M expense of \$627,591 were properly calculated. Therefore, we approve the O&M expense for recovery through the FMCA factors for bills rendered during the billing period of August 2014 through January 2015.

D. Allocation of Federally Mandated Costs. The 44340 Order approved the production and energy allocation percentages attributable to each of the Company's rate schedules using the 12 Coincident Peak ("12-CP") method. The 44340 Order also approved the adjustment of the allocation percentages to reflect migration of customers among the various rates schedules.

Mr. Isensee sponsored Exhibit 3, Schedule 1 showing the production and energy allocation percentages attributable to each of NIPSCO's rate schedules. These allocation percentages were based on the production and energy allocation percentages approved by 44340 Order adjusted to reflect the significant migration of customers among Rates 621, 624, 625, 626, and 632.

Based on the evidence presented, we find that NIPSCO's FMCA factors were properly allocated on the basis of the 12-CP method in accordance with our 44340 Order.

E. Reconciliation. Mr. Isensee testified NIPSCO is not including a reconciliation of revenues and costs in this filing because this is the first filing for the mechanism and no previous factors were in effect. The first reconciliation of revenues and costs included in this proceeding will be included in FMCA 3.

F. Calculation of FMCA Factors. Mr. Isensee sponsored Exhibit 5 showing the calculation of the FMCA factors by rate code based on the previously calculated revenue requirements. The factors are calculated by combining the various components of the revenue requirement, which are allocated by rate code, and dividing those components by forecasted volumes to compute a billing factor for bills rendered during the billing cycles of August 2014 through January 2015.

Mr. Isensee sponsored Revised Exhibit 7 (Appendix I – Federally Mandated Cost Adjustment Mechanism Factor) showing the FMCA factors proposed to be applicable for bills rendered during the billing cycles of August 2014 through January 2015. Mr. Isensee testified that the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month is \$0.18.

Ms. Gruca testified that her calculation of 80% of the FMCA costs, including the return on federally mandated CIP Compliance Project costs, O&M expenses, and depreciation expenses to be recovered in FMCA 1, matches the amount NIPSCO proposes to recover. The effect of the proposed FMCA factors is an increase of approximately \$0.000177 per kWh for residential customers. Including the FMCA costs along with current base rates and charges, a typical residential customer using 1,000 kWh per month would experience a bill of approximately \$108.86, equating to an average cost per kWh of 10.87 cents. When including other current NIPSCO tracker costs with its base rates and charges and proposed FMCA costs, a typical NIPSCO residential customer using 1,000 kWh per month would experience a bill of approximately \$128.27, equating to an average cost per kWh of 12.83 cents. Tracker costs, excluding the fuel clause adjustment, make up approximately \$15.80, or 12.32% of the total costs included on a typical residential customer's bill.

Ms. Gruca testified that nothing came to her attention that would indicate that the projections used by NIPSCO are not in compliance with the approved FMCA tracker. NIPSCO's proposed FMCA Factors, for the billing period of August 2014 through January 2015, appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 44340.

Based on the evidence presented, we approve the proposed FMCA factors in NIPSCO's Revised Exhibit 7 as applicable to bills rendered during the billing cycles of August 2014 through January 2015.

7. Deferred Federally Mandated Costs. In the 44340 Order, we authorized NIPSCO to (1) defer 20% of the federally mandated costs incurred in connection with the CIP Compliance Project and recover those deferred costs in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2); (2) record ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred federally mandated costs including deferred depreciation and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case; and (3) defer as a regulatory asset and recover in its next general rate case all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs.

Mr. Isensee sponsored Second Revised Exhibit 6 showing the costs to be included for recovery in NIPSCO's base rates in its next general rate case of \$287,211. He explained that the

amounts included in Column B and Column C represent 20% of the total capital and revenue requirements calculated in Exhibit 1 and Revised Exhibit 2, and Column F represents the ongoing carrying charges based on the current overall WACC on all deferred federally mandated costs incurred through March 31, 2014.

Based on the evidence presented and pursuant to the 44340 Order, we find that the cost to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$287,211.

8. Procedural Schedule for Future FMCA Proceedings. NIPSCO included an agreed procedural schedule as part of its Verified Petition and requested that it be approved for subsequent FMCA proceedings. The agreed procedural schedule provides as follows:

- NIPSCO 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 75 calendar days before the effective date of the proposed FMCA factors.
- The OUCC and any Intervenors will file their respective Cases-in-Chief approximately 45 calendar days after NIPSCO files its completed Case-in-Chief.
- NIPSCO will file its rebuttal testimony (if any) no less than five business days prior to the evidentiary hearing.
- NIPSCO will make its staff reasonably available to the OUCC and any Intervenors to facilitate an informal discovery process for its FMCA filings. Any response or objection to a formal discovery request should be made within 10 calendar days of the receipt of the request, and the parties will utilize electronic discovery.

The Commission approves the agreed procedural schedule for subsequent FMCA proceedings.

9. Confidential Information. Under Ind. Code §§ 5-14-3-4(b)(19)(A) and 8-1-2-29, NIPSCO moved for a protective order relating to NIPSCO's Exhibit No. Confidential-1, which showed documents that contained records or parts of records that if publicly disclosed would reasonably threaten public safety by exposing vulnerability to terrorist attack and may be held from public disclosure. The Presiding Officer granted the motion during the evidentiary hearing and found the information to be preliminarily confidential. We find the information as confidential under Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2 and exempt from public access and disclosure by Indiana law and must be held confidential and protected from public access and disclosure by the Commission.

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

1. NIPSCO is authorized to recover 80% of the approved federally mandated costs incurred in connection with the CIP Compliance Project identified in Finding No. 4 in its rates and charges for electric service in accordance with NIPSCO's FMCA beginning with the August 2014 billing cycle.

2. NIPSCO's requested FMCA factors in Petitioner's Exhibit 5, Revised Schedule 1 to become effective for bills rendered by NIPSCO during the billing cycles of August 2014 through

January 2015 or until replaced by different factors approved in a subsequent filing are approved as set out in Finding No. 4 above.

3. NIPSCO shall file with the Electricity Division of the Commission, prior to placing in effect the approved FMCA factors, an amendment to its rate schedule with reasonable reference reflecting that the charges are applicable to the rate schedules reflected on the amendment.

4. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated CIP Compliance Projects described in Finding No. 4 and recover those deferred costs in its next general rate case, and NIPSCO is authorized to record ongoing carrying charges based on the current overall weighted average cost of capital on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.

5. NIPSCO's modified CIP Compliance Project, as described in NIPSCO's First Progress Report on the Second Revised Exhibit PR is approved, and NIPSCO is authorized to recover 80% of the costs incurred in connection with the modified CIP Compliance Project through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised CIP Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

6. The agreed procedural schedule set forth in Finding No. 6 above is approved for subsequent FMCA proceedings.

7. NIPSCO shall comply with periodic requests by the Commission for on-site visits to review secure documents and records to facilitate our ongoing review of the CIP Compliance Projects.

8. The information filed by NIPSCO in this Cause pursuant to NIPSCO's Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

STEPHAN, MAYS, WEBER, AND ZIEGNER CONCUR:

APPROVED: JUL 30 2014

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



Shala M. Coe
Acting Secretary to the Commission