

**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

*[Handwritten signatures and initials in black and blue ink]*

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 2

APPROVED:

JAN 28 2015

ORDER OF THE COMMISSION

**Presiding Officers:**

**Carolene Mays-Medley, Vice-Chair of the Commission**

**Jeffery A. Earl, Administrative Law Judge**

On October 30, 2014, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause and prefiled direct testimony and exhibits of the following:

- Derric J. Isensee, Manager, Regulatory Support and Analysis in the Rates and Regulatory Finance Department; and
- Teodoro Gutierrez, Director of Operations Technology and NERC Compliance.

On December 15, 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 1:30 p.m. on January 6, 2015, 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 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. 86<sup>th</sup> 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 January 29, 2014 Order in Cause No. 44340 (the "44340 Order"), approved the following: (1) a Certificate of Public Convenience and Necessity for its Critical Infrastructure Protection Compliance Project (the "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 incurred in connection with the CIP Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in NIPSCO's next general rate case; and (5) NIPSCO's proposal that the Commission maintain an ongoing review of its CIP Compliance Project federally mandated costs and submit to the Commission semi-annually a 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.

The Commission's July 30, 2014 Order in Cause No. 44340-FMCA-1 (the "FMCA-1 Order"), approved NIPSCO's First Progress Report on the status of the CIP Compliance Project, including modifications to schedule and cost estimates for NIPSCO's CIP Compliance Project pursuant to the ongoing review process approved in Cause No. 44340.

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

- An adjustment to its electric 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 cycles of February 2015 through July 2015 pursuant to Ind. Code § 8-1-8.4-7(c)(1) and the 44340 Order;
- Deferral of 20% of the federally mandated costs, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case pursuant to Ind. Code § 8-1-8.4-7(c)(2) and the 44340 Order; and

- Modifications to the CIP Compliance Project set forth in the Second Progress Report pursuant to the ongoing review process approved in the 44340 Order.

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 its FMCA-1 Order, we approved NIPSCO's First Progress Report on the status of the CIP Compliance Project and the modifications to the schedule and cost estimates therein. In this proceeding, NIPSCO requests approval of modifications to the CIP Compliance Project in its Second Progress Report, including the updated project scopes, construction schedules, and cost estimates.

Mr. Gutierrez explained one scheduling change for one individual project included in the CIP Compliance Project. He testified the change to the expected in-service date for project XWFM was primarily due to difficulty encountered by the telecommunication provider in installing infrastructure to the needed location where existing telecommunications facilities did not support the increased bandwidth requirements.

Exhibit PR shows that the proposed total cost estimate for the individual capital projects included in the CIP Compliance Project is \$3,673,940, which is consistent with the total cost estimate approved in the FMCA-1 Order as part of the First Progress Report. Exhibit PR shows that the proposed revised total cost estimate for the annual federally mandated ongoing O&M expenses for 2015 are estimated to be \$861,918 and are expected to reach the approved \$1,200,000 annual level beginning in 2016.

As part of its Second Progress Report, NIPSCO requests approval of the modifications to its CIP Compliance Project set forth in Exhibit PR, including the updated schedules and the revised cost estimates described therein. Consistent with the 44340 Order, NIPSCO requests approval to recover 80% of the costs incurred in connection with the revised 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.

Mr. Keen testified that NIPSCO continues to engage in and complete the ten projects included in the CIP Compliance Project approved by the Commission in Cause No. 44340. While all ten projects were initiated later than originally anticipated, Mr. Keen testified that since filing and receiving approval of its First Progress Report, NIPSCO's CIP Compliance Project has remained on schedule, save for one project. *See* Exhibit PR. Mr. Keen testified that according to NIPSCO, the delay in the expected in-service date for project XWFM (now 11/30/2014) was primarily due to difficulty encountered by the telecommunication provider in installing infrastructure to the needed location where existing telecommunications facilities did not support the increased bandwidth requirements. Mr. Keen stated that in his opinion, this is a legitimate cause for delay and that he confirmed with NIPSCO that project XWFM is, as of the date of this filing, in service. He also testified that the CIP Compliance Project remains under its anticipated budget.

Mr. Keen stated from a program perspective, the OUCC continues to have a high degree of confidence in the effectiveness and efficiency of the NIPSCO CIP team. He testified in light of the rapidly changing environment of threats, regulations and maintaining effective and efficient operations, the NIPSCO team remains highly motivated, exceptionally trained and professional in every aspect. He explained that they maintain current threat analyses for all company infrastructure at all levels and the OUCC believes that NIPSCO's activities are necessary, prudent and justified to protect NIPSCO infrastructure assets against the wide variety of natural and man-made events, accidents, and incidents. Mr. Keen testified that to stay up to date on critical infrastructure issues, the OUCC continues to closely follow CIP rules and regulations that are being considered, developed, and promulgated by federal and state government, as well as other directing authorities such as the RTOs and NIST. Mr. Keen testified that the OUCC recommends approval of NIPSCO's Second Progress Report.

Based on the evidence presented, we find that the changes to NIPSCO's CIP Compliance Project are reasonable, and we approve the changes. We also find that the Second Progress Report is reasonable, and approve the updated schedule and cost estimates contained therein. We authorize NIPSCO to recover 80% of the costs incurred in connection with the revised 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. FMCA.

**A. Capital Projects.** The total cost of the CIP Compliance Project capital projects incurred through September 30, 2014, upon which NIPSCO is authorized to earn a return is \$3,082,180 (Exhibit 1, Schedule 1, Column K, Line 23), which includes an Allowance for Funds Used During Construction ("AFUDC") and is net of accumulated depreciation. Mr. Isensee testified the AFUDC rate was calculated in accordance with the instructions of the FERC Uniform System of Accounts. Mr. Isensee testified that if the Commission approves the proposed ratemaking treatment for the net federally mandated CIP Compliance Project costs incurred through September 30, 2014 (shown on Exhibit 1, Schedule 1), NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive ratemaking treatment and are being recovered through the FMCA.

Mr. Isensee testified that NIPSCO's updated total weighted cost of capital as of September 30, 2014 (the date of valuation of the CIP Compliance Project) is 6.60%. Mr. Isensee explained the annual revenue requirement for the return on investment is calculated by multiplying the CIP Compliance Project costs incurred through September 30, 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 February 2015 through July 2015. Using this calculation, the Adjusted Semi-Annual Revenue Requirement is \$220,606 (Exhibit 1, Schedule 5, Page 1, Column D, Line 8). Eighty percent of this amount, \$176,485 (Exhibit 1, Schedule 5, Page 1, Column D, Line 10), will be recovered through the FMCA. The remaining 20%, \$44,121 (Exhibit 1, Schedule 5, Column D, Line 9), will be deferred and recovered 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 \$3,082,180 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 \$220,606 was 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 cycles of February 2015 through July 2015.

**B. Depreciation Expense.** In this proceeding, NIPSCO requests approval of a total forecasted depreciation expense of \$380,423 (Exhibit 2, Schedule 1, Page 1, Column B, Line 7). The 80% recoverable forecasted depreciation expense associated with the CIP Compliance Project for the period February 1, 2015 through July 31, 2015 is \$304,338 (Exhibit 2, Schedule 1, Page 1, Column B, Line 9). The 20% portion of the depreciation expense associated with the CIP Compliance Project to be deferred is \$76,085 (Exhibit 2, Schedule 1, Page 1, Column B, Line 8).

Mr. Isensee explained the total depreciation expense associated with the CIP Compliance Project shown on Exhibit 2 represents forecasted federally mandated depreciation expense associated with the CIP Compliance Project for the period February 1, 2015 through July 31, 2015. He stated the forecast is based on the expected in-service date of CIP Compliance Project assets as well as the depreciation lives and rates approved in the 44340 Order.

Based on the evidence presented, we find that NIPSCO's Total Depreciation Expense associated with the CIP Compliance Project for February 2015 through July 2015 of \$380,423 and the 80% recoverable depreciation expense of \$304,338 were properly calculated. Therefore, we approve the Depreciation Expense for recovery through the FMCA factors for bills rendered during the billing cycles of February 2015 through July 2015.

**C. O&M Expense.** In this proceeding, NIPSCO requests approval of a total forecasted O&M expense of \$460,555 (Exhibit 2, Schedule 1, Page 1, Column C, Line 7). The 80% recoverable portion of federally mandated O&M expense is \$368,444 (Exhibit 2, Schedule 1, Page 1, Column C, Line 9). The 20% portion of the O&M expense associated with federally mandated CIP Compliance Projects assets to be deferred is \$92,111 (Exhibit 2, Schedule 1, Page 1, Column C, Line 8). Mr. Isensee testified the O&M expense associated with the CIP Compliance Project shown on Exhibit 2 represents forecasted total O&M expense associated with the CIP Compliance Project for the period February 1, 2015 through July 31, 2015.

Mr. Gutierrez explained that the federally mandated ongoing O&M expenses for February 2015 through July 2015 were estimated based on several factors. He stated as of September 30, 2014 two (CIP Systems Engineer and CIP Network and Security Engineer) of the five approved positions have been staffed. Mr. Gutierrez testified that NIPSCO has had significant difficulty in identifying qualified candidates for the CIP Compliance Engineer and Leader, CIP Compliance Engineer roles but continues its search efforts. NIPSCO has determined that the second approved CIP Network and Security Engineer position will not be required and will not be filled. He explained that first year software support agreements and installation warranties began expiring in 2014 resulting in increased O&M expenditures in 2014 to provide continued support. Mr. Gutierrez testified that telecommunication installations at all locations

were completed and are incurring service charges. He explained the estimates also include increased telecommunication charges resulting from a need to increase bandwidth to all locations to better utilize video monitoring capabilities.

Based on the evidence presented, we find that NIPSCO's total federally mandated O&M expense of \$460,555 and the 80% recoverable federally mandated O&M expense of \$368,444 were properly calculated. Therefore, we approve the O&M expense for recovery through the FMCA factors for bills rendered during the billing cycles of February 2015 through July 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 the 44340 Order adjusted to reflect the significant migration of customers amongst 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 as the billing period for FMCA-1 will not be completed prior to filing FMCA-2. The first reconciliation of revenues and costs included in FMCA-1 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 February 2015 through July 2015.

Mr. Isensee sponsored 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 February 2015 through July 2015. Mr. Isensee testified the estimated average monthly bill impact for a typical residential customer using (1) 688 kWh per month is \$0.09 and (2) 1,000 kWh per month is \$0.14.

OUCS witness 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-2, matches the amount NIPSCO proposes to recover. She testified that the effect of the proposed FMCA factors is a decrease of approximately \$0.000039 per kWh for Rate 611. When including the proposed FMCA costs along with current base rates and charges (adjusted for NIPSCO's approved revenue neutral rate

transition), a typical residential customer using 1,000 kWh per month would experience a bill of approximately \$108.98, which equates to an average cost per kWh of 10.90 cents.

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. She also testified that NIPSCO's proposed FMCA Factors for the billing period of February 2015 through July 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 Exhibit 7 as applicable to bills rendered during the billing cycles of February 2015 through July 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.

In this proceeding, Mr. Isensee sponsored Exhibit 6, which serves as a record of the deferred federally mandated costs as well the ongoing carrying charges on all deferred federally mandated costs until such time as the costs can be recovered as part of NIPSCO's next general rate case. He explained that the amounts included in Column B and Column C represent 20% of the total capital and expense revenue requirements calculated in Exhibit 1 and Exhibit 2 and Column F represents the ongoing carrying charges based on the current overall WACC on all deferred federally mandated costs incurred through September 30, 2014.

Based on the evidence presented and pursuant to the 44340 Order, we find that FMCA-2 costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$213,543 [Exhibit 6, Column G, Line 2] and the total to-date costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$499,854 [Exhibit 6, Column G, Line 3].

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

1. NIPSCO is authorized to defer and recover 80% of the approved federally mandated costs incurred in connection with the CIP Compliance Project identified in Finding No. 6 in its rates and charges for electric service in accordance with NIPSCO's FMCA beginning with the February 2015 billing cycle.

2. NIPSCO's requested FMCA factors in Petitioner's Exhibit 5, Schedule 1 to become effective for bills rendered by NIPSCO during the billing cycles of February 2015

through July 2015 or until replaced by different factors approved in a subsequent filing are approved as set out in Finding No. 6 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. 7 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 Second Progress Report on 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. This Order shall be effective on and after the date of its approval.

**STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:**      JAN 28 2015

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



**Brenda A. Howe**  
**Secretary to the Commission**