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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 THIRD PROGRESS REPORT PURSUANT)
TO THE ONGOING REVIEW PROCESS APPROVED)
IN CAUSE NO. 44340.)

CAUSE NO. 44340 FMCA 3

APPROVED: JUL 29 2015

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays-Medley, Vice Chair
Jeffery A. Earl, Administrative Law Judge

On May 7, 2015, 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
- Margaret Wilson, Manager of CIP Compliance.

On June 24, 2015, 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 1, 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. 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 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.

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 August 2015 through January 2016 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 Third 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”). The Order in Cause No. 44340 FMCA 1 approved modifications to the schedule and cost estimates. The Order in 2015 Order in Cause No. 44340 FMCA 2 approved further modifications to the schedule.

Ms. Wilson provided a general overview of the status of the individual projects included in the CIP Compliance Project and explained the scheduling changes relating to the required installation of additional bandwidth via work with local telecommunications companies at several facility locations. NIPSCO anticipates that this work will be completed in July 2015. At that time, the technology and infrastructure components of these projects will be complete.

Ms. Wilson also described the revised cost estimates to reflect bringing copper and fiber into 4 substations to add necessary communication bandwidth, running Ethernet cables from demark to CIP routers at all substations, and providing UPS power at the demark location at all substations.

Exhibit PR shows that the proposed revised total cost estimate for the individual capital projects included in the CIP Compliance Project is \$4,036,272 and the proposed revised total cost estimate for the annual federally mandated ongoing O&M expenses for 2016 are estimated to be \$1,064,092.

As part of its Third Progress Report, NIPSCO requests approval of the modifications to its CIP Compliance Project set forth in Exhibit PR, including the revised cost estimates. 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 work to maintain compliance with all CIP standards for company infrastructure at all levels and believes the measures the Company is undertaking are necessary, prudent, and justified to protect NIPSCO infrastructure assets. He stated that generally the OUCC would prefer that projects proceed as planned and on the timeline proposed; however, NIPSCO’s CIP projects are designed to protect its assets against a wide array of threats from a variety of entities, which he noted those threats are changing at a rapid pace – evolving into even more potent threats in some cases. Additionally, the CIP requirements themselves are evolving. He stated that the new and changing standards, including the federal MODS (metadata object description schema), impact all utilities in Indiana, including NIPSCO and that it is reasonable to expect some delays and modifications to allow for pauses and potential shifts in direction to ensure the scope of project remains viable. Mr. Keen testified that the OUCC recommends approval of the modifications to NIPSCO’s CIP Compliance Project.

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 Third

Progress Report is reasonable, and we approve the updated schedule and cost estimates. 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 March 31, 2015, upon which NIPSCO is authorized to earn a return is \$3,019,733, 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 March 31, 2015, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive ratemaking treatment and are being recovered through the FMCA.

Mr. Isensee explained the weighted cost of capital used to calculate post-in-service carrying costs. The updated total weighted cost of capital as of March 31, 2015, is 6.56%. Mr. Isensee explained the annual revenue requirement for the return on investment is calculated by multiplying the CIP Compliance Project costs incurred through March 31, 2015, 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 months of August 2015 through January 2016. Using this calculation, the Adjusted Semi-Annual Revenue Requirement is \$161,990. Eighty percent of this amount, \$129,592, will be recovered through the FMCA. The remaining 20%, \$32,398, 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 \$3,019,733 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 \$161,990 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 August 2015 through January 2016.

The CIP requirements address both distribution- and transmission-related upgrades and changes. Only distribution-related FMCA costs may be recovered through Commission-authorized changes in rates—transmission-related costs are properly recovered through another agency, for example the Federal Energy Regulatory Commission. So that we may ensure that NIPSCO is not seeking recovery of inappropriate transmission-related costs, NIPSCO shall include testimony in future FMCA filings that the proposed FMCA costs do not include any transmission-related projects.

B. Depreciation Expense. In this proceeding, NIPSCO requests approval of a total forecasted depreciation expense of \$417,196. The 80% recoverable forecasted depreciation expense associated with the CIP Compliance Project for the period August 2015 through January 2016 is \$333,757. The 20% portion of the depreciation expense associated with the CIP Compliance Project to be deferred is \$83,439.

Mr. Isensee explained the total depreciation expense associated with the CIP Compliance Project represents forecasted federally mandated depreciation expense associated with the CIP Compliance Project for the period August 2015 through January 2016. The forecast is based on 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 August 2015 through January 2016 of \$417,196 and the 80% recoverable depreciation expense of \$333,757 were properly calculated. Therefore, we approve the Depreciation Expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2015 through January 2016.

C. O&M Expense. In this proceeding, NIPSCO requests approval of a total forecasted O&M expense of \$496,946. The 80% recoverable portion of federally mandated O&M expense is \$397,557. The 20% portion of the O&M expense associated with federally mandated CIP Compliance Projects assets to be deferred is \$99,389. Mr. Isensee testified the O&M expense associated with the CIP Compliance Project represents forecasted total O&M expense associated with the CIP Compliance Project for the period August 2015 through January 2016.

Ms. Wilson explained that the federally mandated ongoing O&M expenses for August 2015 through January 2016 were estimated based on the following factors as of March 15, 2015: (a) all four of the approved positions have been filled; (b) first-year software-support agreements and installation warranties began expiring in 2014 resulting in increased O&M expenditures to provide continued support; (c) addition personnel were required to staff the 24x7 Security Operations Center; (d) the single T1 lines initially installed at all locates are subject to service charges and the estimates also include increased telecommunications charges resulting from a need to increase bandwidth to all locations to better utilize video monitoring capabilities. She stated these same facts support the full year 2016 O&M estimates shown on the Third Progress Report.

Based on the evidence presented, we find that NIPSCO's total federally mandated O&M expense of \$496,946 and the 80% recoverable federally mandated O&M expense of \$397,557 were properly calculated. Therefore, we approve the O&M expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2015 through January 2016.

D. Property Tax Expense. In this proceeding, NIPSCO requests approval of a total forecasted property tax expense of \$11,534. The 80% recoverable forecasted property tax expense associated with the CIP Compliance Project for the period August 2015 through January 2016 is \$9,227. The 20% portion of the property tax expense associated with the CIP Compliance Project to be deferred is \$2,307.

Ms. Gruca verified the accuracy of the factor including the incorporation of estimated property tax expense.

Based on the evidence presented, we find that NIPSCO's Total Property Tax Expense associated with the CIP Compliance Project for August 2015 through January 2016 of \$11,534 and the 80% recoverable property tax expense of \$9,227 were properly calculated. Therefore, we approve the Property Tax Expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2015 through January 2016.

E. 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 Attachment 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.

F. Reconciliation. Mr. Isensee testified this filing includes a reconciliation of revenues and costs related to FMCA-1 as calculated in Attachment 4, Schedule 1. A total over-recovery variance of \$509,070 is included in this filing.

G. Calculation of FMCA Factors. Mr. Isensee sponsored Attachment 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 2015 through January 2016.

Mr. Isensee sponsored Attachment 7, showing the FMCA factors proposed to be applicable for bills rendered during the billing cycles of August 2015 through January 2016. Mr. Isensee testified the estimated average monthly bill impact for a typical residential customer using (1) 688 kWh per month is \$0.05 and (2) 1,000 kWh per month is \$0.07.

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-3, matches the amount NIPSCO proposes to recover. The effect of the proposed FMCA factors is a decrease of approximately \$0.000072 per kWh for Rate 611. When including the proposed 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 \$108.91, which equates to an average cost per kWh of 10.89 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 August 2015 through January 2016 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 Attachment 7 as applicable to bills rendered during the billing cycles of August 2015 through January 2016.

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 Attachment 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, Column C and Column D represent 20% of the total capital and expense revenue requirements calculated in Attachment 1 and Attachment 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, 2015.

Based on the evidence presented and pursuant to the 44340 Order, we find that FMCA 3 costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$92,833 and the total to-date costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$592,737.

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 August 2015 billing cycle.

2. NIPSCO's requested FMCA factors in Petitioner's Attachment A, Schedule 1 to become effective for bills rendered by NIPSCO during the billing cycles of August 2015 through January 2016 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.

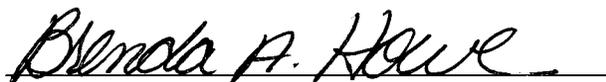
5. NIPSCO's modified CIP Compliance Project, as described in NIPSCO's Third Progress Report on Exhibit PR is approved and NIPSCO is authorized to recover 80% of the costs incurred in connection with the modified CIP Compliance Project through the FMCA and to defer 20% of the federally mandated costs 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, AND ZIEGNER CONCUR; HUSTON AND WEBER
ABSENT:**

APPROVED: JUL 29 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**