

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE)
COMPANY ("PETITIONER") FOR APPROVAL OF AND)
AUTHORITY FOR: (1) MODIFICATION TO ITS RATES)
AND CHARGES FOR GAS UTILITY SERVICE; (2) NEW)
SCHEDULES OF RATES AND CHARGES APPLICABLE)
THERETO; (3) REVISIONS TO ITS DEPRECIATION)
ACCRUAL RATES; (4) DEFERRAL OF ACCRUED)
DEPRECIATION EXPENSE; (5) DEFERRAL IN A)
BALANCING ACCOUNT OF OVER AND UNDER)
RECOVERIES OF PENSION AND OPEB EXPENSES; (6))
CONTINUATION OF NIPSCO'S ENERGY EFFICIENCY)
PROGRAM WITH MODIFICATIONS; (7))
IMPLEMENTATION OF A NEW LOW-INCOME)
PROGRAM; (8) CERTAIN RATEMAKING) CAUSE NO.)
43894 TREATMENTS FOR REVENUES AND EXPENSES)
RELATING TO SERVICES AND PROGRAMS OFFERED)
PURSUANT TO PETITIONER'S CUSTOMER CHOICE)
ALTERNATIVE REGULATORY PLAN; (9) TO THE)
EXTENT NECESSARY, GRANTING THE REQUESTED)
RELIEF AS AN ALTERNATIVE REGULATORY PLAN)
PURSUANT TO IND. CODE CHAPTER 8-1-2.5; (10))
MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE UNACCOUNTED)
FOR GAS AND THE GAS COST COMPONENT OF BAD)
DEBT EXPENSE; AND (11) VARIOUS CHANGES TO ITS)
TARIFF FOR GAS SERVICE INCLUDING)
IMPLEMENTING A STRAIGHT- FIXED VARIABLE RATE)
DESIGN, REMOVAL OF GAS COSTS FROM BASE RATES)
AND CHANGES TO ITS GENERAL TERMS AND)
CONDITIONS FOR SERVICE)

CAUSE NO. 43894

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into as of the 24th day of August, 2010, by and between Northern Indiana Public Service Company ("NIPSCO" or the "Company"), the Indiana Office of Utility Consumer Counselor ("OUCC"), the NIPSCO Industrial Group, the NIPSCO Marketer Group and Citizens Action Coalition of Indiana, Inc. (collectively, the "Parties"), who stipulate and agree for purposes of settling the issues in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of

the issues subject to incorporation into a Final Order of the Indiana Utility Regulatory Commission ("Commission") without any modification or condition that is not acceptable to the Parties.

A. Background.

1. NIPSCO's Current Base Rates and Charges. NIPSCO's current base rates and charges for gas utility service were established pursuant to the Commission's Orders dated October 26, 1988 and December 28, 1990, in Cause No. 38380.

2. NIPSCO's Alternative Regulatory Plan ("ARP"). The Commission's Order dated October 8, 1997 in Cause No. 40342 accepted the terms and conditions of an Amended Stipulation and Settlement Agreement and the implementation of an ARP pursuant to the terms of Ind. Code 8-1-2.5 (the "Current Gas ARP"). The Order approving the Current Gas ARP authorized a variety of programs on a pilot basis and approved a series of affiliate guidelines applicable to NIPSCO and its affiliated companies. The Current Gas ARP was extended and enhanced by subsequent orders of the Commission, most recently by the Commission's Order dated March 31, 2010 in Cause No. 43837.

3. NIPSCO's Winter Warmth Program. NIPSCO currently has in place a low-income bill assistance program called Winter Warmth. The Winter Warmth Program was initially approved by the Commission in its Order dated December 15, 2004 in Cause No. 42722. The Program has been extended and modified in a number of subsequent Commission orders, most recently by the Commission's Order dated November 19, 2009 in Cause No. 43669. In this Order, the Commission required NIPSCO to contribute 25% of the program costs, pay for all administrative expenses incurred to facilitate the program, and eliminate a provision that allowed

Winter Warmth funds to be used for deposits. Further, the Commission provided that, for NIPSCO's Winter Warmth and similar programs approved for Vectren Energy Delivery and Citizens Gas & Coke Utility ("Citizens") to be effective beyond October 31, 2012, each company must file for a base rate case by October 31, 2012. The Order also encouraged the Indiana gas utilities with low-income bill assistance programs to seek more statewide uniformity.

4. This Proceeding. On May 3, 2010, NIPSCO filed with the Commission its Verified Petition to modify its rates and charges for gas utility service, for approval of new schedules of rates and charges applicable thereto, and for approval of certain other requests. NIPSCO also filed its prepared testimony and exhibits constituting its case-in-chief on May 3, 2010. A Prehearing Conference and Preliminary Hearing was conducted on June 4, 2010 and a Prehearing Conference Order was issued on June 16, 2010.

B. Settlement Terms.

5. Revenue Requirement and Net Operating Income.

(a) Revenue Requirement.

The Parties agree that NIPSCO's Revenue Requirement will be \$232.8 million, which represents gross margin and is net of all of the Company's gas costs, which will be recovered in the Company's gas cost adjustment ("GCA") mechanism. The Parties agree that NIPSCO's base rates will be designed to produce \$225.2 million, which is the Revenue Requirement less \$7.6 million of Other Revenues. This Revenue Requirement is a decrease from the amount originally requested by the Company of \$251.5 million.

(b) Net Operating Income.

The Parties agree the Revenue Requirement in Paragraph B.5.(a) should yield a net operating income ("NOI") of \$39,841,895.

6. Fair Value Rate Base, Capital Structure and Fair Return.

(a) Fair Value Rate Base.

The Parties agree that NIPSCO should be authorized a fair return of \$39,841,895 yielding an overall return for earnings test purposes of 5.49%, based upon:

- i. a fair value rate base of \$725,717,577, inclusive of gas in underground storage, and materials and supplies as proposed in NIPSCO's case-in-chief;
- ii. NIPSCO's capital structure; and
- iii. an authorized return on equity ("ROE") of 7% based upon a pre-inflation ROE of 9.9% and inflation reduction of 2.9%.

(b) Capital Structure and Fair Return.

For settlement purposes, the Parties agree that the overall rate of return ("ROR") and ROE be developed on the basis of the NIPSCO capital structure at 12/31/09 as filed. The ROE on Fair Value will be 7.00% (9.90% less 2.90% inflation adjustment). Based on the following capital structure, the 7.00% ROE and cost of debt/zero cost capital as filed, the overall ROR on Fair Value of 5.49% is computed as follows:

Common Equity	46.29%	7.00%
Long-Term Debt	32.43%	6.44%
Customer Deposits	2.35%	4.32%
Deferred Income Taxes	13.87%	0.00%
Post-Retirement Liability	4.43%	0.00%
Post-1970 ITC	0.63%	6.79%
	100.0%	5.49%

7. Depreciation and Amortization Expense.

(a) Depreciation Expense.

Parties stipulate that the depreciation accrual rates recommended by NIPSCO Witness John Spanos and presented in this proceeding (the "Depreciation Study") should be approved, but that the annual depreciation expense and provision for accumulated depreciation should be offset for a period of four years or until further order of the Commission, whichever occurs first, through a reduction in the accumulated depreciation reserve in the fixed amount of \$25.7 million/year. The Parties further agree that in no case shall the accounting treatment described herein result in the creation of either a deferred depreciation expense or regulatory asset for the purpose of future recovery of current period depreciation expense.

The provision for depreciation is an accounting estimate, which is revised prospectively utilizing depreciation studies that incorporate recent experience with relevant factors such as useful life, cost of removal, net salvage values, etc. By applying these updated factors retrospectively, a theoretical reserve can be calculated. A difference between the actual accumulated depreciation reserve and this theoretical reserve is reflected as a component of prospective depreciation

expense in the Depreciation Study. The Parties agree that \$102.8 million of the amount of the depreciation reserve will be reduced over the next four years, thereby reducing this difference more rapidly than over the remaining life of the property to which it relates. The Company will offset depreciation expense for each class of depreciable gas utility plant up to, but not in excess of, the amount of expense computed in connection with the Depreciation Study. The Company agrees that Depreciation on common plant shall be as proposed by NIPSCO in its case-in-chief. This method would result in the following accounting for gas plant:

		Millions	
		Debit	Credit
	Depreciation Expense	\$26	
	Accumulated Depreciation		\$26
	Annual Adjustment to Depreciation Expense		
	Accumulated Depreciation	\$25.7	
	Depreciation Expense		\$25.7

In the event that annual depreciation for any class of gas utility plant is reduced to zero during the year and prior to the full annual depreciation adjustment of \$25.7 million, the Company will reduce the annual adjustment such that there will not be negative depreciation for any class of property. The Parties agree that NIPSCO will not seek an accelerated recovery period on depreciation expense reduced as a result of this Agreement. NIPSCO will provide the OUCC with a full accounting of any reductions to the annual depreciation expense adjustment, showing details of the cause and the effect on all utility plant account.

(b) Amortization Expense.

The Parties stipulate that annual amortization expense shall be \$6,542,321 as proposed by NIPSCO in its case-in-chief, which number includes \$1,080,937 of NIPSCO's rate case expenses over a period of three (3) years. After the completion of the three (3) year period, NIPSCO agrees to make a tariff filing that will reflect the reduction in amortization expense as a result of the end of rate case expense amortization.

8. Regulatory Treatment of Current Gas ARP Margins.

The Parties agree the margins associated with NIPSCO's Current Gas ARP programs shall be included in the GCA NOI earnings test pursuant to Ind. Code §§ 8-1-2-42(g)(3)(C) and 8-1-2-42.3 except for: (a) NIPSCO's Gas Cost Incentive Mechanism ("GCIM"), Capacity Release, and Optional Storage Service Rider (Rider 482A), which shall be treated as below-the-line but shall continue to be shared with customers through the GCA as provided in the Current Gas ARP; (b) NIPSCO's Depend-a-Bill program; and (c) Price Protection Service ("PPS").

NIPSCO agrees to maintain competitive neutrality, to proactively support customer choice, to enhance transparency, and to ensure fair cost allocation in regard to its products and service in order to avoid: (a) subsidization of its competitive products, specifically PPS and Depend-a-Bill, and the operational and overhead costs associated with those products; and (b) optimization of assets in a manner inconsistent with or broader than otherwise currently permitted by the Stipulation approved by the Commission in Cause No. 43837. NIPSCO further agrees that a code of conduct consistent with those principles and objectives will be established within the context of the upcoming proceeding in which NIPSCO seeks approval of a merger

with its affiliated gas utilities, and that pending the implementation of such code of conduct NIPSCO will not alter its current market practices and policies in connection with its competitive products.

9. Rate Design.

The Parties agree that rates should be designed in order to allocate the revenue requirement to and among NIPSCO's customer classes in a fair and reasonable manner and consistent with cost causation principles. The Parties also agree that the Commission has issued an order promoting movement toward a Straight Fixed Variable ("SFV") rate design. During the settlement process, NIPSCO revised its original revenue requirement request to \$247.6 million. For settlement purposes, the Parties agree that NIPSCO should design its rates using the structure of its existing 300 Series tariffs. Next, the Parties agree to reduce NIPSCO's existing revenue collected from residential customers by \$5.0 million and reduce all other rate schedules as described below by \$9.8 million.

The Parties agree that NIPSCO's settlement rates in total will be designed to produce reductions in all customer classifications for a total reduction of \$14.8 million from the Company's revised revenue request. The impacts are described below:

Residential Service.

The Parties agree to implement a residential customer/meter charge of \$11.00/month along with a single volumetric charge based on consumption for residential customers taking service under Rate 411 – Residential Service. The

overall impact on the residential class is a \$5.0 million reduction in revenue, which equals a 3.3 % decrease in delivery charges to the class.

Multifamily, Governmental Housing and Small Commercial and Industrial Customers.

The parties agree that NIPSCO will simplify its tariff by eliminating current Rates 316 and 317 and including those customers in Rate 421. NIPSCO is retaining one multifamily Rate Schedule – Rate 415. NIPSCO will implement a customer/meter charge of \$12.50/per month for residential customers taking service under Rate 415 – Multiple Family Housing Service. The overall impact on the Multifamily Housing class is a \$300,000 reduction in revenue, which equals an 11.00% decrease to the class.

NIPSCO's smaller C&I customers will be served under Rate 421 – General Service Small Service, which is comprised of customers from current Rates 321 (General Service) and customers formerly served under Rate 316 and Rate 317 (Government Housing Service). Rate 421 is a two part rate consisting of a customer/meter charge of \$30.00 and a volumetric energy charge. The General Service Small Service class will experience a decrease of \$5.8 million, which equals an 11.0 % decrease to the class.

Larger Commercial and Industrial Customers.

For settlement purposes, NIPSCO agrees to not implement a demand component for larger commercial and industrial customers and to adopt the rate structure and transportation terms from the existing 300 series rates. NIPSCO will rename its

existing General Service – Rate 325 as Rate 425 – General Service Large. Rate 425 will be a two part rate consisting of a customer / meter charge of \$250.00, and a volumetric energy charge. The overall impact on the General Service Large class will result in a \$700,000 reduction in revenue, which equals a 13.0% decrease to the class.

NIPSCO will rename its existing Rate 328 as Rate 428 – Large Firm Transportation and Balancing Service. Rate 428 will be for firm service, and present a two-part rate. The customer/meter charge will be \$350.00, and there will be a volumetric charge. The overall impact on the Rate 428 class will be a \$2.4 million reduction in revenue, which equals a 13.7% decrease to the class.

NIPSCO will rename its existing – Rate 338 as Rate 438 – General Transportation and Balancing Service, which will also be a two-part rate with a customer / meter charge of \$250.00 and a volumetric charge. The overall impact on the Rate 438 class is a \$500,000 reduction in revenue, which equals a 13.0% decrease to the class.

To design these rates, NIPSCO agrees that customers currently served under Firm Distribution Transportation Service – Rate 343 and Firm Transportation Service – Rate 344 may migrate to Rate 428.

The Parties agree that the cost allocation herein results in fair and reasonable rates and charges.

10. Manufactured Gas Plant.

The Parties agree that all Manufactured Gas Plant costs should be removed from NIPSCO's test period operating expenses for purposes of developing its revenue requirement in this proceeding.

11. Customer Programs.

(a) Energy Efficiency/Demand Side Management.

In its Order dated May 9, 2007 in Cause No. 43051, the Commission approved a DSM Program for Petitioner for a four year period ("Current DSM Program"). The Current DSM Program includes an Oversight Board with consumer representation, a third-party administrator and a third-party evaluator. The Current DSM Program is currently scheduled to expire on May 9, 2011.

The Parties agree to extend the Current DSM Program for a period of 18 months (November 9, 2012) while NIPSCO conducts a Market Potential Study ("MPS") to support revisions to the Current DSM Program. NIPSCO agrees to use its best efforts to file a petition for a new DSM program by April 1, 2011. In addition to the \$1 million already funded by NIPSCO for the fourth year of the program, NIPSCO will contribute another \$1.0 million for its DSM program thirty days following the issuance of an order in this Cause. The Parties agree that the extended Current DSM Program will continue to be governed by an Oversight Board.

(b) Low Income Assistance.

NIPSCO agrees to implement a low-income assistance program that is similar in design to the universal service fund (“USF”) programs currently in place for Citizens Gas and Vectren Energy Delivery. NIPSCO agrees that its shareholders will contribute 25% of USF program costs, the first \$500,000 of which will be utilized to continue a hardship program for non-eligible Low-Income Home Energy Assistance Program (“LIHEAP”) customers and the remainder of which will be NIPSCO’s contribution to the “USF” Program. NIPSCO will recover the customer’s share through the GCA and as direct bill to transportation customers, consistent with its present practice. NIPSCO agrees to file an annual report summarizing the number of customers assisted, including those that received hardship program funding, and the total amount of funds expended with a breakdown of the funding.

12. Special Cost Recovery Mechanisms.

(a) Pension and Post-Retirement Benefits Other Than Pensions (“OPEB”) Expense.

The Parties agree that Pension and OPEB costs are fully recovered within the NOI and revenue requirement agreed to in this Agreement. NIPSCO agrees to withdraw its request to implement a Pension/OPEB Balancing Account.

(b) Unaccounted for Gas ("UAFG") and Bad Debt Related to Gas Cost Expense.

The Parties agree that UAFG and the gas cost component of bad debt expense may be recovered by NIPSCO through its GCA.

- (i) The cost of UAFG will be fully recoverable within the GCA mechanism consistent with the methodology approved in the Commission Order for Vectren Energy Delivery of Indiana (North and South) (Cause Nos. 43298 and 43112, respectively) and Citizens Gas & Coke Utility (Cause No. 37399-GCA-95), based on a maximum system-wide UAFG rate of 1.04%. Customers served directly from the transmission system will pay the system-wide UAFG percentage rate less .10, and the rate for other customers, including Choice customers, PPS and Depend-a-Bill will be set at an amount in order for NIPSCO to recover the system-wide percentage. The Parties agree that NIPSCO's UAFG percentage shall be updated annually, capped at the 1.04% maximum.
- (ii) The gas cost component of bad debt expense shall be based on the bad debt experience averaged on a weighted basis for the past three (3) years. The recovery mechanism is consistent with the methodology approved in the Commission Order for Vectren Energy Delivery of Indiana (South) (Cause No. 43112). The

Company will be at risk for any bad debt expense that is greater than 0.68%.

13. Earnings Bank Adjustment.

The Parties agree that NIPSCO should be authorized to reduce its earnings bank as described in Ind. Code § 8-1-2-42.3 to \$100 million as of the date new base rates are implemented as provided herein.

14. Accounting Reporting.

NIPSCO agrees to file separate gas and electric income statements with the Commission annually by April based on the previous calendar year. NIPSCO agrees to insure that its financial reports are transparent and verifiable for future OUCC financial audits. NIPSCO agrees to work cooperatively with the OUCC to facilitate the auditing function.

15. General Rules and Regulations.

The Parties agree that NIPSCO will make certain modifications to the Rules and Regulations and Tariffs initially proposed in this proceeding, and the Parties will jointly submit those revised Rules and Regulations and Tariffs in support of approval of this Agreement. If the Parties fail to agree as to those modifications, any Party who fails to reach agreement with NIPSCO shall no longer be bound by the terms of this Settlement Agreement. The Parties also agree the New Residential Development Procedures (Rule 6.2) proposed in Cause No. 43706, if approved by the Commission, shall supersede the Rule 6.2 tariff language proposed in Cause No. 43894.

16. Time is of the Essence.

The Parties acknowledge that a primary motivation of NIPSCO in entering into this Agreement is the expectation that if the Commission finds the Agreement reasonable and in the public interest, the Commission will expeditiously enter a final order approving the Agreement. The Parties agree to urge the Commission to consider the Agreement on an expedited basis and to approve the Agreement, if found reasonable and in the public interest, by November 1, 2010.

C. Procedural Aspects and Presentation of the Agreement.

17. The Parties agree to jointly present this Agreement to the Commission for its approval in this proceeding, and agree to assist and cooperate in the preparation and presentation of supplemental testimony as necessary to provide an appropriate factual basis for such approval.

18. If the Agreement is not approved in its entirety by the Commission, the Parties agree that the terms herein shall not be admissible in evidence or discussed by any party in a subsequent proceeding. Moreover, the concurrence of the Parties with the terms of this Agreement is expressly predicated upon the Commission's approval of the Agreement in its entirety without any material modification or any material further condition deemed unacceptable by any Party. If the Commission does not approve the Agreement in its entirety, the Agreement shall be null and void and deemed withdrawn, upon notice in writing by any settling Party within fifteen (15) business days after the date of the order that any modifications made by the Commission are unacceptable to it. In the event the Agreement is withdrawn, the Parties will request that an Attorneys' Conference be convened to establish a procedural schedule for the continued litigation of this proceeding.

19. The parties agree that this Agreement and each term, condition, amount, methodology and exclusion contained herein reflects a fair, just and reasonable resolution and

compromise for the purpose of settlement, and is agreed upon without prejudice to the ability of any party to propose a different term, condition, amount, methodology or exclusion in future proceedings. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434, p. 10, as a term of this Agreement, the Parties agree and ask the Commission to incorporate as part of its Final Order that this Agreement, or the Order approving it, not be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This Agreement is solely the result of compromise in the settlement process. Each of the Parties hereto has entered into this Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.

20. The Parties stipulate that the evidence of record presented in this Cause constitutes substantial evidence sufficient to support this Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Agreement, as filed. The Parties agree to the admission into the evidentiary record of this Agreement, along with testimony supporting it without objection.

21. The issuance of an order by the Commission that is deemed final approving this Agreement without any material modification or further condition shall terminate all proceedings in this Cause.

22. The Parties agree to jointly prepare a press release ("Joint Release") with language agreed upon by them describing the contents and nature of this Agreement, which will be jointly issued to the media. The Parties may respond individually to questions from the public or media, provided that such responses are consistent with the Agreement.

23. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

24. The Parties shall not appeal the agreed final order or any subsequent Commission order as to any portion of such order that is specifically implementing, without modification, the provisions of this Agreement and the Parties shall not support any appeal of the portion of such order by a person not a party to this Agreement.

25. The provisions of this Agreement shall be enforceable by any party before the Commission or in any court of competent jurisdiction.

26. The communications and discussions during the negotiations and conferences which produced this Agreement have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

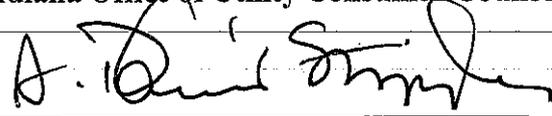
ACCEPTED AND AGREED this 24th day of August, 2010.

Northern Indiana Public Service Company:



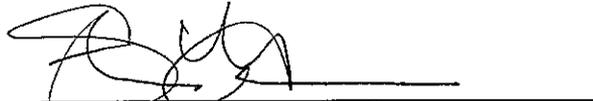
Claudia J. Earls

Indiana Office of Utility Consumer Counselor:



A. David Stippler

NIPSCO Industrial Group:



Steve Griesemer

NIPSCO Marketer Group:



Todd A. Richardson

Citizens Action Coalition of Indiana, Inc.:



Jerome E. Polk

CERTIFICATE OF SERVICE

The undersigned certifies that she has served a copy of the foregoing on the following party, by hand delivery, or U.S. mail first class, postage prepaid, this 24th day of August, 2010.

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