

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR (1))
APPROVAL OF A TRANSMISSION,)
DISTRIBUTION AND STORAGE SYSTEM)
IMPROVEMENT CHARGE ("TDSIC"))
RATE SCHEDULE, (2) APPROVAL OF)
PETITIONER'S PROPOSED COST)
ALLOCATIONS, (3) APPROVAL OF THE)
TIMELY RECOVERY OF TDSIC COSTS)
THROUGH PETITIONER'S PROPOSED)
TDSIC RATE SCHEDULE, AND (4))
AUTHORITY TO DEFER APPROVED)
TDSIC COSTS, PURSUANT TO IND.)
CODE CH. 8-1-39.)

CAUSE NO. 44371

TESTIMONY OF

TYLER E. BOLINGER – PUBLIC'S EXHIBIT NO. 1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

OCTOBER 11, 2013

Respectfully submitted,



Randall C. Helmen, Atty. No. 8275-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC Testimony of TYLER E. BOLINGER* has been served upon the following parties of record in the captioned proceeding by electronic service on October 11, 2013.

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TESTIMONY OF OUCC WITNESS TYLER E. BOLINGER
CAUSE NO. 44371
NORTHERN INDIANA PUBLIC SERVICE COMPANY

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Tyler E. Bolinger, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, IN 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed as the Director of the Electric Division for the Indiana Office of
6 Utility Consumer Counselor (OUCC).

7 **Q: Please describe your credentials.**

8 A: I graduated from Ohio University in 1982 with a Bachelor's degree in economics.
9 I was named to the *Phi Beta Kappa* Honor Society and the National Dean's List
10 during my senior year of undergraduate studies. I attended graduate school at
11 Michigan State University and received a Master's degree in economics in 1984.
12 In 1985, I completed all course work and comprehensive examinations required
13 for a Ph.D. degree in economics. I have also completed several courses in
14 accounting, including intermediate accounting and advanced financial accounting.
15 I became Director of the OUCC's Electric Division in May, 2008. Prior to that, I
16 was the OUCC's Natural Gas Director (1999 to 2008) and the OUCC's Chief
17 Economist (1994 to 1999) with responsibilities in electricity, natural gas,
18 telecommunications, water, and sewer regulation. I began my regulatory career
19 with the Indiana Commission as a Utility Analyst in 1987. In 1990 I was

1 transferred to the OUCC at the time of the reorganization of the Commission and
2 the OUCC. During 1985 and 1986, I worked as an Economic Analyst with the
3 Indiana Department of Commerce.

4 While employed by the IURC, I attended the regulatory studies program at
5 Michigan State University sponsored by the National Association of Regulatory
6 Utility Commissioners (NARUC). Since then I have attended numerous other
7 energy, regulatory, and financial training seminars. I have worked on a wide
8 variety of gas, electric, telecommunications, water and sewer issues. I have
9 testified many times before the IURC in gas, electric, water, sewer and
10 telecommunications cases. This includes testimony in NIPSCO's last two (2) base
11 rate cases.

12 **Q: What did you do to prepare to testify in this Cause?**

13 A: I reviewed the petition, testimony, and exhibits filed by Northern Indiana Public
14 Service Company (Petitioner or NIPSCO). Though I am not a witness in Cause
15 No. 44370, which deals with NIPSCO's 7-year Electric Plan, I also reviewed
16 NIPSCO's filing in that Cause. I attended the technical conference related to
17 Cause Nos. 44370 and 44371. I attended other meetings related to these cases. I
18 have conducted discovery and reviewed the results. I have reviewed the
19 Settlement Agreement in NIPSCO's last base electric case, and the order
20 approving it in Cause No. 43969. I have also reviewed Senate Enrolled Act 560
21 (TDSIC statute), which NIPSCO cites as the basis for its request in this Cause. All
22 work related to this testimony was done by me or under my supervision.

23 **Q: What is the purpose of your testimony?**

1 A: I begin by reviewing the recent history of increased use of rate adjustment
2 mechanisms (i.e. trackers) and the likelihood of further reliance on trackers due to
3 the passage of the TDSIC statute. The TDSIC statute permits tracking of
4 Transmission (T) and Distribution (D) investments for electric utilities. The
5 Commission has permitted investment tracking (e.g. CWIP trackers) in the
6 Production (P) segment of the electric business. This has typically focused on
7 unique or extraordinary needs, such as environmental retrofits of coal fired power
8 plants and clean coal technology projects. Major environmental investments
9 contrast sharply with the more routine investments in the transmission and
10 distribution sector that will now be eligible for tracking. I will explain how the
11 appropriate ratemaking treatment for extraordinary investments like “scrubbers”
12 may not be appropriate for more routine investments like the poles, transformers,
13 and substations covered by NIPSCO’s TDSIC.

14 My testimony then addresses specific features of NIPSCO’s proposed
15 TDSIC. This will include the following topics:

- 16 • Cash returns on construction work in progress (CWIP);
- 17 • Accurate measurement of Rate Base investment growth between base rate
18 cases; and
- 19 • Capital structure and tracker impacts on risk.

20 My analysis reveals that NIPSCO’s TDSIC design will result in an over-
21 estimated weighted average cost of capital (WACC) applied to an inflated
22 estimate of NIPSCO’s rate base investment growth. In short, the TDSIC
23 mechanism will over-estimate NIPSCO’s need for additional revenue between

1 rate cases. I recommend denial of NIPSCO's proposed TDSIC and provide
2 recommendations to promote more balanced and reasonable TDSIC designs in the
3 future.

4 **Q: How will you organize the remainder of your testimony?**

5 A: Into the following sections:

6 **II. Increasing Predominance of Trackers in Indiana**

7 **III. Cash Returns on CWIP versus AFUDC**

8 **IV. Accurate Measurement of Rate Base Growth**

9 **V. Capital Structure and Risk**

10 **VI. Summary and Recommendations**

11 **Q: Would you please briefly introduce the other OUCC witnesses in this Cause?**

12 A: Yes.

13 Mr. Wes Blakley: Mr. Blakley addresses NIPSCO's request to exclude cost free
14 capital from its capital structure used in the calculation of NIPSCO's WACC. He
15 demonstrates how excluding cost free capital extremely inflates Return on Equity
16 (ROE) for TDSIC projects. Mr. Blakley also addresses NIPSCO's request to
17 apply its WACC rate to deferred depreciation expense and property tax expense
18 and then gross-up the deferred amounts for income taxes to be recovered in
19 NIPSCO's next base rate case. He further addresses NIPSCO's lack of
20 recognizing, in base rates, T&D items that are being replaced by new equipment
21 that NIPSCO proposes to track in a TDSIC tracker.

22 Mr. Eric Hand: Mr. Hand reviews the statutory language regarding the allocators
23 required to be used in a TDSIC case. He explains how NIPSCO's proposed

1 allocators are contrary to those required by the statute. Specifically, Mr. Hand
2 compares what NIPSCO proposes to use as allocators in this proceeding to the
3 allocators that were actually approved in NIPSCO's last base rate case, Cause No.
4 43969.

5 Mr. Michael Eckert, CPA: Mr. Eckert discusses the requirement that only costs
6 directly attributable to T&D utility plant may be recoverable in NIPSCO's TDSIC
7 mechanism. He also discusses how this new proposed tracker will impact
8 ratepayers both in this case and future cases. Finally, Mr. Eckert recommends that
9 Petitioner not be allowed to recover T&D investment that is already recovered
10 through other tracker mechanisms or base rate components.

II. INCREASING PREDOMINANCE OF TRACKERS IN INDIANA

11 **Q: What is a "tracker?"**

12 A: The term "tracker" applies to a variety of rate adjustment mechanisms that permit
13 changes to retail rates outside of a general rate proceeding (i.e. base rate case).
14 The term "tracker" also connotes that the mechanism tracks limited or isolated
15 components of a utility's costs and revenues. For example, new priorities and
16 goals regarding electric demand side management (DSM) have led to new or
17 revised DSM trackers to provide recovery of DSM program costs and other items
18 such as shareholder incentives, if approved by the Commission.

19 Trackers normally involve summary, expedited proceedings. The utility
20 presents evidence to quantify an increase (or decrease) in revenue requirements
21 and tracking factors are developed and added to the "base rates" developed in the

1 last base rate case. Base rates are the base or starting point upon which cost
2 increments (or decrements) are charged or (credited).

3 For Indiana electric utilities, the Fuel Adjustment Clause (FAC) is the
4 classic example of a tracker, which isolates the fuel cost revenue requirement and
5 "tracks" it in detail to ensure approximate dollar-for-dollar recovery of fuel costs
6 over time, without profit or loss. The FAC "makes the utility whole" for its fuel
7 costs.

8 **Q: How does a tracker proceeding relate to a base rate case proceeding?**

9 A: For large investor owned electric utilities (IOUs), a base rate case quantifies the
10 entire retail revenue requirement or total cost of service. The total cost of service
11 is allocated to the rate classes. Rates and charges (including fixed and variable
12 charges) are designed to recover the allocated cost of service/revenue requirement
13 from each class.

14 For fuel costs, for example, the base cost of fuel is embedded in base rates.
15 In the FAC, fuel costs are evaluated and measured and compared to the base cost
16 of fuel. Increased (or incremental) fuel costs are recovered in the FAC.
17 Decreased (or decremental) fuel costs are flowed back to customers in the FAC.
18 One point about the FAC is worth emphasizing: *the revenue customers pay in*
19 *base rates for fuel costs is recognized in the FAC.* Ratepayers receive reasonable
20 recognition and credit for what they already pay in base rates toward the fuel cost
21 revenue requirement. Trackers then recognize "base amounts" being paid by
22 customers for categories of revenue requirements being tracked. Failure to do so

1 could result in over-estimation of “incremental” revenue requirements, where
2 “incremental” means in addition to amounts embedded in base rates.

3 **Q: Has the use of trackers been expanding in Indiana over the last several**
4 **years?**

5 A: Yes, quite dramatically. For many years cost tracking for electric utilities focused
6 on “fuel cost” in the FAC proceedings. For gas utilities, cost tracking focused on
7 “gas costs” in the Gas Cost Adjustment (GCA) proceedings. Both the FAC and
8 GCA are expense trackers that seek to provide dollar-for-dollar recovery of a
9 major category of expenses viewed as large, volatile, and outside management’s
10 control. The FAC and GCA are “earnings neutral,” and they attempt to make the
11 utility whole for a large and often volatile category of costs.

12 Many additional trackers have been added over the last decade, especially
13 for electric utilities. NIPSCO, for example, now has trackers for fuel (FAC)
14 costs, regional transmission organization (RTO) costs, demand side management
15 (DSMA) costs, resource adequacy (RA) costs, and Environmental Cost Recovery
16 Mechanism (ECRM) and Environmental Expense Recovery Mechanism
17 (EERM)) costs. NIPSCO has a pending request for a federally mandated (FMCA)
18 cost tracker in Cause No. 44340, which was enabled by the passage of Senate
19 Enrolled Act 251 (Federal Mandate statute). In this current proceeding, NIPSCO
20 seeks expedited recovery for costs associated with its Transmission, Distribution,
21 and Storage System Improvement Plan pursuant to the TDSIC statute.

22 **Q: With all these trackers approved or pending, would it be fair to characterize**
23 **NIPSCO’s electric customers as facing *numerous* retail rate changes every**
24 **year?**

1 A: Yes. Furthermore, NIPSCO's cost recovery proposal suggests that trackers are
2 the rule rather than the exception, and no longer a tool reserved for exceptional
3 circumstances, such as the large size and volatility of fuel costs, or the exigent
4 circumstances caused by the need to retrofit coal fired plants with equipment like
5 "scrubbers."

6 **Q: You earlier characterized the FAC and GCA as "expense trackers" and not**
7 **profit sources for the utilities. Do all trackers just pass expenses on to**
8 **customers without profit or return on investment?**

9 A: No. A major growth area involves what I will refer to generically as "investment
10 trackers," which pass through increased returns on new rate base investment. For
11 example, environmental trackers (like NIPSCO's ECRM) include additional
12 return (net operating income) for the utility. These trackers are often called
13 "CWIP trackers" where CWIP refers to Construction Work in Progress. When
14 utilities do not file base rate cases on a regular basis, the CWIP trackers function
15 like rate base trackers and continue to provide additional return dollars on the
16 investment once it becomes in service and used and useful.

17 **Q: Has investment tracking been used in the electric Transmission and**
18 **Distribution (T&D) segments of the Indiana electric utility business?**

19 A: No. Investment trackers have primarily focused on the Production (P) sector.
20 Electric T&D trackers have traditionally not existed in Indiana but will now be
21 permitted under the TDSIC statute. NIPSCO's proposed TDSIC appears to a large
22 extent to be an attempt to transfer ratemaking methods used for extraordinary
23 environmental investments onto much more routine components of electric plant
24 (e.g. poles, conductors, transformers etc.). The risk to customers becomes much
25 greater when investment tracking, through expedited proceedings, is expanded to

1 all major segments of the electric utility business: Production (P), Transmission
2 (T) and Distribution (D).

3 **Q: Are Production (P) sector investments like Flue Gas Desulfurization Units**
4 **(i.e. scrubbers) comparable to T&D investments like poles, transformers,**
5 **conductors, and sub-stations?**

6 A: No, not really. The Production sector is fundamentally different due to ever-
7 changing environmental regulations, market conditions, and increasing
8 competition. Indiana utilities built many large coal fired electric stations prior to
9 the passage of major environmental laws or at a time when environmental
10 permitting requirements were not as stringent. Over time, the federal and state
11 governments implemented new, more stringent regulations that required these
12 stations to undertake expensive environmental retrofits. Consequently,
13 extraordinary relief has been provided for these extraordinary circumstances. The
14 extraordinary relief has come largely in the form of CWIP trackers for qualified
15 pollution control property (QPCP).

16 In contrast, there is nothing extraordinary about an electric utility
17 replacing poles, transformers, conductors and substations. Indiana electric utilities
18 have been making these types of investments with no extraordinary relief since
19 prior to World War II.

20 **Q: Is it the OUCC's position that T&D investments should not receive tracker**
21 **treatment at all?**

22 A: No. The OUCC expects some form of T&D tracking will be approved in Indiana
23 pursuant to the TDSIC statute. However, the OUCC recommends that
24 environmental CWIP tracker practices not simply be transferred to T&D project

1 cost recovery trackers without a rigorous evaluation of how such practices apply
2 for what, in large part, are routine replacement items like poles and transformers.

3 **Q: Does the expansion of investment tracking to all major segments of the**
4 **electric business warrant an evaluation of investment tracking methodologies**
5 **in Indiana to ensure balance and the continued provision of service at just**
6 **and reasonable rates?**

7 A: Yes. Increased reliance on trackers and expedited proceedings has not changed
8 ratepayers' rights to receive service at just and reasonable rates. The addition of
9 TDSIC trackers represents a major change to Indiana retail electric ratemaking.
10 The OUCC believes this is a crucial juncture and important opportunity to review
11 and improve investment tracking methodologies. The TDSIC statute (when
12 combined with previously enacted legislation) would permit investment tracking
13 to become the standard practice for Indiana electric utilities and not just a tool
14 used in exceptional circumstances, such as paying for environmental retrofits.
15 This case provides an excellent opportunity for the Commission to critically
16 evaluate investment tracking methodology and require reasonable adjustments
17 before tracking is extended to all segments of the electric business in Indiana.

III. CASH RETURNS ON CWIP VERSUS AFUDC

18 **Q: Do utilities normally earn cash returns on CWIP under traditional**
19 **ratemaking in Indiana?**

20 A: No. Indiana has traditionally followed the "used and useful" standard that requires
21 utility plant investment to be in-service and used and useful before it is included
22 in rate base in a base rate proceeding. This protects customers from paying rates
23 for plant not actually rendering service. It also prevents customers from paying

1 for new plant until it has been successfully constructed and reviewed for
2 reasonableness by the Commission in a base rate case.

3 **Q: Under traditional ratemaking and normal accounting practices, do utilities**
4 **earn any return on CWIP?**

5 A: Yes. Utilities earn an Allowance for Funds Used during Construction (AFUDC),
6 which is a non-cash return that recognizes the cost of financing new construction.
7 AFUDC eventually gets "capitalized" and added to the value of utility plant on
8 the utility's books. The utility can seek a return on the value of utility plant
9 (inclusive of AFUDC) at its next base rate case. Critics of this traditional method
10 point to utility cash flow challenges caused by the non-cash nature of AFUDC.

11 **Q: How would the treatment of CWIP change under an investment tracker like**
12 **NIPSCO's TDSIC?**

13 A: Under the TDSIC tracker, CWIP on eligible projects would receive rate treatment
14 and a cash return reflected in TDSIC tracking factors. This cash return on eligible
15 CWIP is in lieu of AFUDC, not in addition to AFUDC.

16 **Q: Is the cash return on CWIP a major source of controversy for the OUCC in**
17 **this case?**

18 A: No. The OUCC does not agree with NIPSCO's proposed 8.59% WACC
19 calculation. Otherwise, we believe NIPSCO is entitled to earn cash returns on
20 eligible CWIP in lieu of AFUDC.

21 A significant problem with NIPSCO's TDSIC proposal is the way it treats
22 projects after those projects are complete (and cease to be CWIP) and become
23 Utility Plant in Service. NIPSCO's TDSIC cost recovery proposal is designed to
24 over-state the growth in Net Utility Plant rate base compared to the amount of Net
25 Utility Plant included in rate base by the Commission in the last base rate case,

1 Cause No. 43969. *The TDSIC will essentially count additions to the rate base*
2 *every six months but will not count subtractions from that rate base caused by the*
3 *growth in accumulated depreciation.* This practice of counting additions, but not
4 subtractions, could go on for as long as seven (7) years when NIPSCO would be
5 required to file a base rate case. I will explain this in more detail in the next
6 section of my testimony.

IV. ACCURATE MEASUREMENT OF RATE BASE GROWTH

7 **Q: How does NIPSCO's TDSIC mechanism measure the amount of T&D rate**
8 **base investment growth, relative to the rate base as determined by the**
9 **Commission in the Company's last base rate case?**

10 A: NIPSCO's proposed TDSIC is best described as a Capital Expenditure (CapEx)
11 tracker for eligible capital expenditures approved as part of NIPSCO's "7-Year
12 Electric Plan." (NIPSCO's 7-Year electric plan is under review in related Cause
13 No. 44370.) As proposed, NIPSCO's TDSIC is not a T&D rate base (i.e. net
14 utility plant) tracker, because it does not account for capital recoveries between
15 rate cases. The term "capital recoveries" refers to depreciation and the growth in
16 accumulated depreciation.

17 NIPSCO's TDSIC design assumes incorrectly that each dollar of eligible
18 CapEx will add a dollar of rate base. This causes NIPSCO's TDSIC to over-
19 estimate NIPSCO's need for additional revenue. The OUCC will demonstrate that
20 rate base does not grow dollar-for-dollar with capital expenditures. Rate base
21 growth between rate cases will be a function of both capital expenditures and
22 capital recoveries, as well as other factors including plant replacements discussed
23 by OUCC witness Mr. Wes Blakley.

1 The problems with over-estimating rate base growth are compounded by
 2 the fact that NIPSCO proposes to earn a percentage rate of return on capital
 3 expenditures of 8.59%. This compares to the Commission finding of an
 4 appropriate WACC of 6.98% in NIPSCO's most recent base rate case. As noted
 5 by OUCC witness Blakley, NIPSCO's WACC has actually declined since the rate
 6 case according to NIPSCO's own computation of its WACC in its most recent
 7 ECR filing. Despite NIPSCO's declining WACC, it proposes to add a large
 8 premium to bring its percentage return up to 8.59%. I discuss NIPSCO's
 9 requested return premium in more detail in a separate section below.

10 ***Return on Rate Base versus Capital Expenditures***

11 **Q: What are Indiana utilities authorized to earn a "return on" in base rate**
 12 **cases?**

13 **A:** Utilities in Indiana receive a reasonable opportunity to earn a return (i.e. net
 14 operating income) on rate base. By far the largest component of rate base is
 15 normally "net utility plant" investment. The word "net" means "net" of
 16 depreciation. The rate base may include other, and typically smaller, items like
 17 fuel inventory investment.

18 Two primary methods exist for measuring the value of rate base. The so-
 19 called "original cost" method uses per books figures and the following basic
 20 formula to determine Net Utility Plant investment. The numbers shown below are
 21 purely for illustrative purposes.

	Utility Plant in Service	\$ 100,000,000
Less	Accumulated Depreciation	<u>\$ 40,000,000</u>
Equals	Net Utility Plant	\$ 60,000,000

1 In the above example, the Net Utility Plant figure of \$60,000,000 would
2 be included in the original cost rate base. Both the total Utility Plant in Service
3 and the Accumulated Depreciation figures are extremely important for accurate
4 rate base valuation. At a given point in time, such as the end of a rate case test
5 year, Net Utility Plant will be a function of both total plant investment and
6 accumulated depreciation. Between rate cases, the Net Utility Plant investment
7 value will change (up or down) as a function of both capital expenditures and
8 capital recoveries. Accounting for one, but not the other, will create inaccurate
9 and biased estimates of rate base growth.

10 **Q: What is the second method?**

11 A: The second method of valuation is the "fair value" method. In my experience, this
12 method is much more contentious and controversial. It relies less on per books
13 measurement of value and more on engineering estimates such as "reproduction
14 cost new less depreciation." To my knowledge, NIPSCO does not employ any
15 "fair value" concepts or methods in its proposed TDSIC tracker. Also, the rate
16 base determined by the Commission in the last rate case (43969 rate base) was
17 calculated using the net original cost method.

18 **Q: With the growth in investment tracking in Indiana, is it appropriate to**
19 **recognize that utility rate base does not grow dollar-for-dollar with capital**
20 **expenditures?**

21 A: Yes. This recognition is critical given the expansion of investment tracking into
22 the electric T&D segments and gas utility distribution and storage segments.
23 Again, utility rate base changes over time as a function of both capital
24 expenditures (i.e. new plant investment) *and* capital recoveries (i.e. depreciation

1 and growth in accumulated depreciation reserves.) NIPSCO proposes to track
 2 capital expenditures but not capital recoveries. To track the former, but not the
 3 latter, would result in inappropriate rate increases.

4 **Q: Could you please use NIPSCO's retail electric rate base to illustrate that rate**
 5 **base is a function of both capital expenditures and capital recoveries?**

6 A: Yes. In NIPSCO's last base electric rate case, the Commission calculated
 7 NIPSCO's rate base as shown below:

Indiana Jurisdictional Rate Base as of June 30, 2010

Electric Plant In Service	\$5,636,770,407
Common Allocated	\$207,518,424
Less: Disallowed Plant, Unit 17	<u>\$31,733,655</u>
Total Utility Plant	\$5,812,555,176
Accumulated Depreciation and Amortization	\$(3,165,301,803)
Common Allocated	\$(96,045,375)
Less Disallowed Plant: Unit 17	\$(30,239,815)
Total Accumulated Depreciation and Amortization	<u>\$(3,231,107,364)</u>
Net Utility Plant	\$2,581,447,813
Unit 17 Depreciation	\$0
Unit 18 Depreciation	\$3,277,484
Unit 18 Carrying Charges	\$10,132,193
Materials & Supplies	\$58,224,978
Production Fuel	<u>\$52,823,583</u>
Total Rate Base	<u>\$2,705,906,051</u>

8 Cause No. 43969, final order, December 21, 2011, pp. 64-65.

9 The above table illustrates that by far the largest component of Total Rate Base is
 10 Net Utility Plant, which accounted for \$2.581 billion out of a Total Rate Base of
 11 \$2.706 billion. Inventory investment accounts for most of the difference between

1 Net Utility Plant and Total Rate Base. The terms “rate base” and “net utility
2 plant” are not exactly synonymous. However, as in NIPSCO’s case, net utility
3 plant typically accounts for the vast majority of rate base. Moreover, plant
4 investment is the focus of investment trackers like the TDSIC. Hence, the focus
5 in my testimony is on the net utility plant component of rate base.

6 **Q: In the last rate case, why was the Net Utility Plant rate base amount of \$2.581**
7 **billion so much smaller than the Total Utility Plant balance of \$5.812 billion?**

8 A: The large difference between Total Utility Plant and Net Utility Plant is
9 attributable to the capital recovery process. The Total Utility Plant figure
10 represents NIPSCO’s total investment as of June 30, 2010, in used and useful
11 plant in service as determined by the Commission. The Net Utility Plant balance
12 indicates the amount remaining after accounting for capital recoveries as shown
13 above as approximately \$3.2 billion. NIPSCO’s Net Utility Plant is the amount of
14 plant included in rate base and upon which NIPSCO is entitled the opportunity to
15 earn a reasonable return. The value of plant investment on which utilities are
16 entitled an opportunity to earn a return is normally a “net” figure where “net”
17 means “net of depreciation.”

18 **Q: Do ratepayers fund the capital recovery process through rates?**

19 A: Yes. Revenue requirements and rates for electric utilities generally include large
20 amounts of money for “return of” investment in the form of depreciation expense.
21 In NIPSCO’s last electric rate case, the revenue requirement included just over
22 \$190 million for depreciation expense. This amount is slightly larger than the
23 authorized “return on” rate base investment of \$188.9 million. (Cause No. 43969,
24 final order, p. 7) Through base rates, NIPSCO’s ratepayers provide both “return

1 on” and “return of” investment. Both must be properly considered and accounted
2 for as Indiana expands investment tracking into the Transmission (T) and
3 Distribution (D) segments of the electric utility industry.

4 **Q: Are the capital expenditure and capital recovery processes on-going during**
5 **the periods between rate cases?**

6 A: Yes. NIPSCO's capital expenditures and capital recoveries are on-going.
7 NIPSCO's rate base changes and grows as a function of both capital expenditures
8 and capital recoveries. Accounting for one but not the other will lead to inaccurate
9 estimates of the change in rate base between rate cases. Unfortunately, NIPSCO's
10 TDSIC design accounts for T&D capital expenditures but not capital recoveries.
11 This will cause the TDSIC mechanism to overestimate NIPSCO's need for
12 additional revenues.

13 **Q: When you say that NIPSCO's proposal does not track capital recoveries, are**
14 **you referring to capital recoveries on the rate base shown above as**
15 **determined by the Commission in Cause No. 43969?**

16 A: Yes. I am referring to the 43969 rate base determined by the Commission based
17 on June 30, 2010, balances. (Cause No. 43969, final order, p. 64-65) NIPSCO's
18 method counts additions but not subtractions in the form of capital recoveries.
19 This is both inaccurate and extremely unfair given that NIPSCO customers fund
20 the capital recovery process through the \$190 million of depreciation expense
21 embedded in base rates.

22 **Q: Can you provide an illustrative example of the problems that could result**
23 **from CapEx tracking coupled with a failure to account for capital recoveries**
24 **between rate cases?**

25 A: Yes. My Attachment TEB-1 provides an illustrative example for a utility named
26 Suburban Electric Distribution (Suburban). Suburban serves several growing

1 communities and must invest approximately \$50.0 million per year to meet the
2 needs of the communities it serves. Suburban obtains approval of new base rates
3 using a test year end net original cost rate base of \$800 million combined with a
4 WACC of 7.0%. In addition to the "return on" rate base of 7.0% the regulator
5 also approves "return of" investment by embedding a \$40.0 million annual
6 depreciation expense into revenue requirements and base rates. In light of its
7 demanding \$50.0 million per year capital investment program, Suburban requests
8 and receives approval for a Capital Expenditure tracker to track its additions to
9 plant going forward and beginning immediately after the end of the rate case test
10 year. Suburban's CapEx tracker permits the utility to adjust rates annually to
11 reflect a return on its Capital Expenditures. Suburban's CapEx tracker does not
12 account for the capital recovery (i.e. depreciation) dollars provided by ratepayers
13 through base rates, and it does not account for growth in Suburban's Accumulated
14 Depreciation.

15 **Q: Please explain the impact on Suburban's ratepayers caused by tracking**
16 **Capital Expenditures coupled with a failure to account for capital recoveries.**

17 **A:** As shown on Attachment TEB-1 (line 1) Suburban's Utility Plant balance will
18 grow by \$50.0 million each year. Suburban's Accumulated Depreciation balance
19 (line 2) will grow by \$40.0 million per year. Suburban's Net Utility Plant rate
20 base (line 3) will grow by \$10.0 million per year. The CapEx tracker will provide
21 additional return dollars equal to \$50.0 million times 7% in the first year, or \$3.5
22 million in additional return. However, Suburban's Net Utility Plant rate base only
23 grows by \$10.0 million per year. The \$3.5 million of additional return equals a
24 35% return on the actual rate base (i.e. Net Utility Plant) growth. In the second

1 year, another \$50.0 million is spent for plant and another \$40.0 million of growth
2 in Accumulated Depreciation is not accounted for. The cumulative amount of
3 CapEx grows and the return dollars get larger. The returns continue to equal 35%
4 - not the 7% WACC – on the actual growth in rate base (Net Utility Plant).

5 Suburban's CapEx tracker methodology systematically overcharges
6 ratepayers by recognizing growth in Utility Plant (line 1) but failing to account for
7 growth in Accumulated Depreciation (line 2). The more years pass until the next
8 rate case, the greater will be the excess charges and financial harm to Suburban's
9 ratepayers. Also, under this scenario Suburban will have little incentive to file a
10 new base rate case.

11 The bottom line is this: tracking plant additions while ignoring
12 subtractions will over-charge customers. Suburban will reap windfalls on its rate
13 base growth year after year, far in excess of its 7.0% WACC.

14 **Q: Do you contend that the above illustrative example exactly replicates**
15 **NIPSCO's proposed TDSIC mechanism?**

16 **A:** No. The example is intentionally simplified to illustrate the point that counting
17 additions while ignoring subtractions will over-charge customers. I recognize
18 NIPSCO's situation is certainly different and more complex than Suburban's.
19 However, NIPSCO's TDSIC is a CapEx tracker, and it will over-charge NIPSCO
20 customers. Furthermore, the illustrative example of Suburban (Attachment TEB-
21 1) does not attempt to capture the additional windfalls that will accrue to NIPSCO
22 through its proposal to not account for cost free capital. The results for NIPSCO
23 customers could be worse due to NIPSCO's compounding errors of not

1 accounting for capital recoveries and not accounting for cost free capital in its
2 calculation of its weighted cost of capital.

3 **Q: You have testified that rate base will grow as a function of both capital**
4 **expenditures and capital recoveries. Have you verified that through analysis**
5 **of the changes in NIPSCO's rate base since the Commission determined**
6 **NIPSCO's rate base as June 30, 2010?**

7 A: The OUCC has requested updated rate base calculations from NIPSCO in the
8 same format used in the Commission's rate order in Cause No. 43969. NIPSCO
9 has objected to such requests in their entirety and provides no updated rate base
10 information whatsoever. NIPSCO also states that such information is not relevant
11 in this proceeding. NIPSCO makes this assertion despite the fact that the TDSIC
12 mechanism is designed clearly to provide more return on rate base for NIPSCO.
13 Rate base calculations are relevant in a proceeding where the utility seeks a
14 mechanism to provide more money for return on rate base. (See my Attachment
15 TEB-2 for a copy of NIPSCO's objection.)

16 **Q: The Commission quantified NIPSCO's electric rate base to be \$2.7 billion in**
17 **Cause No. 43969 as you displayed above. How much of that rate base**
18 **consisted of Transmission (T) and Distribution (D) investment?**

19 A: The OUCC asked NIPSCO to provide a breakdown of the rate base into its major
20 components, including Transmission (T), Distribution (D), and Production (P).
21 My Attachment TEB-3 provides a copy of NIPSCO's objection to this request.
22 NIPSCO said that knowing the amount of T&D investment embedded in the rate
23 base is not relevant to this TDSIC proceeding.

24 **Q: Would it be helpful for the Commission to have at least an estimate of how**
25 **much T&D investment is embedded in the rate base before it begins tracking**
26 **the growth in T&D investment?**

1 A: I would think so. Through the TDSIC mechanism, NIPSCO will seek more
2 money for return on T&D investment. The Commission should know how much
3 customers pay for T&D investment in base rates before determining how much
4 extra they should pay through the TDSIC.

5 **Q: Is NIPSCO correct that it is not relevant in this TDSIC proceeding to know**
6 **how much T&D investment is embedded in rate base before one begins**
7 **tracking T&D investment?**

8 A: No. Moreover, NIPSCO has not justified its position. NIPSCO's data responses
9 may reflect its over-simplified view that the rate base grows dollar-for-dollar with
10 capital expenditures. Under this view, one need not worry about the starting point
11 (or base amount) because measuring CapEx would be equivalent to measuring
12 rate base growth. NIPSCO puts forth no evidence to support the assumption that
13 rate base growth equals capital expenditures, and it is a false assumption. *Indiana*
14 *should not set up T&D investment trackers that incorrectly assume that the rate*
15 *base (i.e. net utility plant) will grow dollar-for-dollar with capital expenditures.*

16 One reason why the Commission should deny NIPSCO's TDSIC is
17 because it will not accurately measure the growth in T&D rate base investment
18 relative to the amount of T&D investment embedded in base rates.

V. CAPITAL STRUCTURE AND RISK

19 **Q: What capital structure and rate of return does NIPSCO propose for the**
20 **TDSIC?**

21 A: NIPSCO proposes an 8.59% return (WACC) for the TDSIC as shown below.

Capital Structure as of March 31, 2013

	Balance (000)	% of Total	Cost	WACC
Common Equity	\$1,702,545	60.89%	10.2%	6.21%
Long-Term Debt	<u>\$1,093,377</u>	<u>39.11%</u>	6.07%	<u>2.38%</u>
Totals	<u>\$2,795,922</u>	<u>100.0%</u>		<u>8.59%</u>

1 See Direct Testimony of NIPSCO Witness Derric J. Isensee, Exhibit 2, Schedule 1

2 NIPSCO's proposed capital structure omits *several hundred million*
3 *dollars* of cost free capital that is normally included in the capital structure for
4 ratemaking purposes in Indiana.

5 **Q: Please compare NIPSCO's proposed capital structure to the capital structure**
6 **approved by the Commission in Cause No. 43969.**

7 A: In Cause No. 43969, the Commission followed its normal practice of including
8 cost free capital in the capital structure for ratemaking purposes. The table below
9 shows the approved capital structure from Cause No. 43969.

Capital Structure as of June 30, 2010

	Balance (000)	% of Total	Cost	WACC
Common Equity	\$1,470,831,844	46.53%	10.20%	4.75%
Long-Term Debt	\$1,025,792,388	32.46%	6.42%	2.08%
Customer Deposits	\$73,318,625	2.32%	4.43%	0.10%
Deferred Income Taxes	\$426,048,518	13.48%	0.00%	0.00%
Post-Retirement Liability	\$147,029,052	4.65%	0.00%	0.00%
Post-1970 ITC	<u>\$17,636,467</u>	<u>0.56%</u>	8.65%	<u>0.05%</u>
Totals	<u>\$3,160,656,894</u>	<u>100.0%</u>		<u>6.98%</u>

Cause No. 43969, final order, p. 65.

1 By omitting over \$500 million in cost free capital, NIPSCO proposes a
2 premium return for itself of more than 150 basis points above the percentage
3 return found reasonable by the Commission in Cause No. 43969.

4 **Q: Has the cost free capital somehow gone away?**

5 A: No. NIPSCO just proposes to not account for it in the TDSIC Mechanism.
6 OUCG witness Mr. Wes Blakley will explain how the capital structure has been
7 calculated in NIPSCO's environmental tracker proceedings. Mr. Blakley also
8 documents the fact that NIPSCO's WACC has declined to below 6.98% since the
9 conclusion of the base rate case. As explained by Mr. Blakley, NIPSCO's
10 proposal to omit cost free capital is the mathematical equivalent of awarding a
11 much higher authorized ROE. Please see Mr. Blakley's testimony for a
12 quantification of this premium.

13 **Q: Do you see a common thread between NIPSCO's proposed method of**
14 **measuring the WACC and its proposed method of measuring investment**
15 **growth?**

16 A: Yes. On the rate of return side, NIPSCO proposes to not account for cost free
17 capital, thereby raising the percentage return. On the investment side, NIPSCO
18 proposes to not account for capital recoveries, thereby increasing the amount of
19 investment upon which it can earn a return. If approved, NIPSCO's TDSIC will
20 be a burden on NIPSCO customers who would pay an inflated percentage return
21 on an inflated amount of investment. The problems with NIPSCO's TDSIC are
22 severe. NIPSCO's failure to account for hundreds of millions of dollars of cost
23 free capital is a second major reason why the Commission should deny NIPSCO's
24 proposed TDSIC.

1 **Q: How long has the Commission accounted for cost free capital by including it**
2 **in the capital structure for ratemaking purposes?**

3 A: Since at least the 1980s the Commission has consistently included cost free
4 capital, like deferred income taxes, in the capital structure for ratemaking
5 purposes. This is a well established practice in Indiana. To my knowledge, there is
6 no precedent in Indiana retail electric ratemaking for what NIPSCO proposes to
7 do in the TDSIC. Furthermore, it would be extremely bad practice to make a
8 major change in capital structure methodology outside of a base rate case and at
9 the start of a new tracker, as proposed by NIPSCO.

10 **Q: Do all regulatory commissions include cost free capital in the capital**
11 **structure?**

12 A: No. Some commissions deduct cost free capital from the amount of rate base
13 investment on which the utility can earn a return. This method accounts for cost
14 free capital in a different way. NIPSCO proposes to not account for cost free
15 capital at all in the TDSIC.

16 The Indiana Commission has long recognized the need to account for cost
17 free capital in the ratemaking process. It has chosen to do so by including cost
18 free capital in the capital structure. NIPSCO has put forth no reason why that
19 practice should cease for purposes of the TDSIC. Furthermore, a change to the
20 method of accounting for cost free capital would be a much more appropriate
21 topic for a base rate case rather than a case related to a new tracker.

22 ***NIPSCO-TDSIC Impact on Business Risk***

23 **Q: Will expansion of investment tracking into the T&D sectors impact**
24 **NIPSCO's business risk?**

1 A: Yes. Tracking T&D investment between rate cases will reduce NIPSCO's
2 business risk, other things being equal. NIPSCO's investors face uncertainty
3 regarding future outcomes such as future earnings and dividend streams. Tracking
4 T&D investment will reduce risk in several regards.

5 **Q: Please briefly explain why you believe NIPSCO's business risk will decline.**

6 A: First, NIPSCO seeks pre-approval for its "7-year electric plan" being reviewed in
7 Cause No. 44370. Historically, the Commission has reviewed T&D investment
8 after-the-fact in base rate cases when the utility seeks to add the investment to its
9 rate base. Pre-approval lessens NIPSCO's exposure to traditional after-the-fact or
10 "hindsight" review of utility plant investment. The pre-approval process will
11 provide NIPSCO with greater assurance of recovery (and less risk) going forward.

12 **Q: Please explain other risk reduction benefits related to T&D investment**
13 **tracking.**

14 A: Until the next rate case NIPSCO proposes to recover revenue requirements of its
15 7 year plan through an automatic rate adjustment mechanism (i.e. tracker).
16 Trackers normally include a "reconciliation" or "true-up" process. The
17 reconciliation process provides that under-recoveries in one period will be made
18 up in future periods. The reconciliation process ensures that returns authorized
19 will be earned. Use of a tracker for up to seven (7) years will decrease the
20 probability of under-earning or over-earning the permitted returns. This reduces
21 the uncertainty (i.e. risk) of earning the permitted return when the tracker is in use
22 for up to seven (7) years.

1 In contrast, under traditional ratemaking, without investment tracking, the
2 utility has less assurance of earning its authorized return due to fluctuating
3 economic conditions or fluctuating weather and the resultant impacts on sales.

4 Another feature of investment trackers is the ability to earn cash returns on
5 eligible CWIP rather than normal AFUDC. AFUDC is a non-cash return, which
6 later gets "capitalized" and added to plant in service. Allowance of cash returns,
7 in lieu of AFUDC, improves cash flow in the near term, and is generally viewed
8 as favorable for the utility.

9 **Q: Does NIPSCO propose a reduction in its cost of equity capital to reflect a**
10 **reduction of business risk caused by expanded investment tracking?**

11 A: No. NIPSCO does not account for declining risk due to the proposed major
12 expansion of investment tracking. It also proposes no mechanism or procedure
13 for evaluating NIPSCO's cost of equity capital other than a future rate case within
14 seven (7) years.

15 The OUCC recommends denial of NIPSCO's proposed TDSIC tracker
16 mechanism. If the Commission decides to approve the TDSIC, then it should
17 establish a procedure to review NIPSCO's declining risk and cost of equity if the
18 Commission has the legal authority to do so.

VI. SUMMARY AND RECOMMENDATIONS

19 **Q: Please summarize your testimony and conclusions regarding NIPSCO's**
20 **proposed TDSIC mechanism.**

21 A: NIPSCO's proposed TDSIC tracker is an investment tracker for electric
22 Transmission and Distribution (T&D) rate base investment. Indiana has
23 traditionally not tracked electric T&D investment, but Senate Enrolled Act 560

1 (TDSIC statute) now permits T&D tracking. NIPSCO is the first utility to file
2 under the TDSIC statute. NIPSCO's proposed TDSIC appears to a large extent to
3 be an attempt to transfer favorable ratemaking methods used for extraordinary
4 environmental investments onto much more routine components of electric plant
5 (e.g. poles, conductors, transformers etc.). Indiana electric utilities have been
6 making these types of investments without any extraordinary relief since before
7 World War II. While the OUCC accepts NIPSCO's legal right to some form of
8 tracker for T&D investment growth, the model developed for extraordinary
9 environmental retrofits is not appropriate for more routine investments that
10 electric utilities make in the ordinary course of business.

11 The addition of TDSIC trackers represents a major change to Indiana retail
12 electric ratemaking. The OUCC believes this is a crucial juncture and important
13 opportunity to review and improve investment tracking methodologies. The
14 TDSIC statute (when combined with previously enacted legislation) would permit
15 investment tracking to become the standard practice for Indiana electric utilities
16 and not just a tool used in exceptional circumstances, such as paying for
17 environmental retrofits. This case provides an excellent opportunity for the
18 Commission to critically evaluate investment tracking methodologies and make
19 reasonable adjustments before investment tracking is extended to all segments of
20 the electric utility business in Indiana.

21 Utilities in Indiana receive a reasonable opportunity to earn a return (i.e.
22 net operating income) on rate base. By far the largest component of rate base is
23 "net utility plant" investment. The word "net" means "net" of depreciation. For

1 example, in NIPSCO's last base rate case (Cause No. 43969) Net Utility Plant
2 accounted for approximately 95% of NIPSCO's total Indiana jurisdictional rate
3 base. The calculation of Net Utility Plant, as determined by the Commission as of
4 June 30, 2010, is shown below.

1. Total Utility Plant	\$ 5,812,555,176
2. Total Accumulated Depreciation and Amortization	<u>\$(3,231,107,364)</u>
3. Net Utility Plant	\$ 2,581,447,813

5 NIPSCO's TDSIC is best described as a Capital Expenditure (CapEx)
6 tracker for eligible capital expenditures. As proposed, NIPSCO's TDSIC is not a
7 T&D rate base (i.e. net utility plant) tracker, because it does not account for
8 capital recoveries between rate cases. The term "capital recoveries" refers to
9 depreciation and the growth in accumulated depreciation (line 2 above).

10 NIPSCO's TDSIC assumes incorrectly that each dollar of eligible CapEx
11 will add a dollar of rate base. Relative to the June 30, 2010 rate base as
12 determined by the Commission, NIPSCO's TDSIC would account twice annually
13 for eligible capital expenditures, which are additions to line 1 above (Total Utility
14 Plant). NIPSCO proposes to not account for growth in Accumulated Depreciation
15 for plant in service at June 30, 2010, until the next rate case up to seven (7) years
16 away. There is no *actual* NIPSCO electric rate base that begins June 30, 2010,
17 and grows solely as function of eligible capital expenditures until the next rate
18 case. NIPSCO's rate base will in fact change as a function of both capital
19 expenditures and capital recoveries. NIPSCO's TDSIC fails to account for the
20 capital recovery process. Ratepayers fund the capital recovery process via an

1 approved \$190 million depreciation expense embedded in NIPSCO base rates.
2 (Cause No. 43969, final order, p. 65)

3 NIPSCO's base rates determined in Cause No. 43969 include millions of
4 dollars for T&D related revenue requirements, including "return on" and "return
5 of" T&D investment. NIPSCO provides no accounting and no recognition of the
6 "base amounts" already being paid by NIPSCO ratepayers to support T&D
7 functions. A reasonably designed T&D investment tracker should account for the
8 "base amounts" already provided in base rates, just as a reasonably designed fuel
9 tracker accounts for the base amount of fuel costs embedded in base rates. With
10 investment tracking becoming the norm in Indiana, the Commission should insist
11 on an accurate accounting of the base amounts of revenue requirements embedded
12 in base rates to support T&D investment.

13 According to NIPSCO's own ECR filings, NIPSCO's WACC has declined
14 since its last base rate case. NIPSCO's business risk and cost of equity capital
15 would certainly decline as a result of the major expansion of rate tracking and pre-
16 approved T&D plans, proposed in Cause Nos. 44371 and 44370, respectively.
17 Despite the facts about declining cost of capital, NIPSCO proposes a large
18 premium return for itself of 8.59%. NIPSCO accomplishes this by omitting cost
19 free capital from its capital structure. The Indiana Commission has included cost
20 free capital in the ratemaking capital structure for decades. This error compounds
21 the other severe flaws in NIPSCO's TDSIC proposal.

22 **Q: What do you recommend to the Commission regarding NIPSCO's proposed**
23 **TDSIC mechanism?**

1 A: NIPSCO's proposed TDSIC mechanism provides no accounting and no
2 recognition of the "base amounts" already embedded in base rates for T&D
3 related revenue requirements, including return on and return of T&D investment.
4 NIPSCO proposes to track eligible additions to its rate base every six months and
5 not update for growth in the accumulated depreciation reserve until the next rate
6 case, up to seven (7) years from now. NIPSCO proposes to account for capital
7 expenditures but not capital recoveries related to the rate base as determined in
8 Cause No. 43969. Finally, NIPSCO proposes to not account for cost free capital
9 in determining its TDSIC WACC, thereby providing itself with a large implicit
10 ROE premium as documented by OUCC witness Mr. Blakley. It is not an
11 exaggeration to conclude that NIPSCO fails to account for hundreds of millions of
12 dollars relevant to the calculation of T&D revenue requirements and TDSIC
13 tracking factors.

14 The Commission should strongly deny NIPSCO's requested TDSIC
15 mechanism in this Cause.

16 **Q: What characteristics would more reasonable and balanced TDSIC**
17 **mechanisms include?**

18 A: More reasonable TDSIC mechanisms would, at a minimum, account for base
19 amounts of revenue requirements already embedded in base rates to support T&D
20 investments. For routine investments like poles and transformers, the
21 Commission cannot reasonably calculate how much additional money a utility
22 may need for such things without first having a reasonable estimate of how much
23 customers already pay in base rates for such things. The rate base does not grow
24 dollar-for-dollar with capital expenditures (CapEx). A reasonable TDSIC

1 mechanism should account for the on-going capital expenditure *and* capital
2 recovery processes (i.e. depreciation). Rate base changes between rate cases as a
3 function of both capital expenditures and capital recoveries. TDSIC mechanisms
4 should accurately measure the growth in Net Utility Plant investment for
5 whatever set of T&D plant accounts the Commission approves for tracking.
6 Finally, widespread investment tracking as now permitted in Indiana will reduce
7 risk to utilities. The returns requested by utilities in tracker proceedings and base
8 rate cases should be reasonably commensurate with the risks of the business and
9 accurately account for the sources of capital including cost free capital.

10 **Q: Does this conclude your testimony?**

11 A: Yes, at this time.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Tyler Bolinger

Tyler E. Bolinger, Utility Analyst
Indiana Office of Utility Consumer Counselor

10/11/13

Date

Cause No. 44371
NIPSCO

T. Bolinger
Attachment TEB-1

Suburban Electric Distribution
(\$ millions)

<u>Year</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(Test year)			
1 Utility Plant	\$ 1,000	\$ 1,050	\$ 1,100	\$ 1,150
2 Accumulated Depreciation	<u>\$ 200</u>	<u>\$ 240</u>	<u>\$ 280</u>	<u>\$ 320</u>
3 Net Utility Plant (Rate Base)	\$ 800	\$ 810	\$ 820	\$ 830
4 Rate Base Growth (from test year)		\$ 10	\$ 20	\$ 30
5 Additional Return Required at 7.0%.		<u>\$ 0.700</u>	<u>\$ 1.400</u>	<u>\$ 2.100</u>

Capital Expenditure (CapEx) Tracker Methodology

6 Utility Plant Growth (from test year)	\$ 50	\$ 100	\$ 150
7 CapEx Tracker Claimed Return at 7.0%	<u>\$ 3.500</u>	<u>\$ 7.000</u>	<u>\$ 10.500</u>

Analysis of CapEx Tracker Results

8 Claimed Return Divided by Rate Base Growth	35%	35%	35%
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Conclusion: CapEx Tracker methodology yields a 35% ROR on actual rate base growth due to failure to account for capital recovery through growth in accumulated depreciation.

Cause No. 44371
Northern Indiana Public Service Company's
Objections and Responses to
OUC's Data Request Set No. 1

OUC Set 1-002:

Reference the calculation of NIPSCO's Indiana Electric Jurisdictional Rate Base as of June 30, 2010 (found on pp. 64 - 65 of the Commission's December 21, 2011, Order in Cause No. 43969) and which totaled \$2,705,906,051.

- a. Please provide an updated calculation of NIPSCO's Indiana Electric Jurisdictional Rate Base as of December 31, 2012, in the same format as shown on pp. 64 - 65 of the Commission's December 21, 2011, Order in Cause No. 43969. Please explain the factors that have caused the rate base to change since June 30, 2010, including (but not limited to) the changes in "Net Utility Plant" which equaled \$2,581,447,813 as of June 30, 2010 per the above referenced Order in Cause 43969. Please also provide all schedules and workpapers supporting the updated rate base calculation.
- b. Please provide an updated calculation of NIPSCO's Indiana Electric Jurisdictional Rate Base as of March 31, 2013, in the same format as shown on pp. 64 - 65 of the Commission's December 21, 2011, Order in Cause No. 43969. Please explain the factors that have caused the rate base to change since June 30, 2010, including (but not limited to) the changes in "Net Utility Plant" which equaled \$2,581,447,813 as of June 30, 2010 per the above referenced Order in Cause 43969. Please also provide all schedules and workpapers supporting the updated rate base calculation.
- c. Please provide an updated calculation of NIPSCO's Indiana Electric Jurisdictional Rate Base as of June 30, 2013, in the same format as shown on pp. 64 - 65 of the Commission's December 21, 2011, Order in Cause No. 43969. Please explain the factors that have caused the rate base to change since June 30, 2010, including (but not limited to) the changes in "Net Utility Plant" which equaled \$2,581,447,813 as of June 30, 2010 per the above referenced Order in Cause 43969. Please also provide all schedules and workpapers supporting the updated rate base calculation.
- d. When the data becomes available, please provide an updated calculation of NIPSCO's Indiana Electric Jurisdictional Rate Base as of September 30, 2013, in the same format as shown on pp. 64 - 65 of the Commission's December 21, 2011, Order in Cause No. 43969. Please explain the factors that have caused the rate base to change since June 30,

Cause No. 44371
Northern Indiana Public Service Company's
Objections and Responses to
OUC's Data Request Set No. 1

2010, including (but not limited to) the changes in "Net Utility Plant" which equaled \$2,581,447,813 as of June 30, 2010 per the above referenced Order in Cause 43969. Please also provide all schedules and workpapers supporting the updated rate base calculation.

Objections:

NIPSCO objects to this request in its entirety on the grounds and to the extent that the Request solicits an analysis, calculation or compilation which has not already been performed and which NIPSCO objects to performing. NIPSCO further objects to this Request on the separate and independent grounds and to the extent that NIPSCO's Indiana Electric Jurisdictional Rate Base balance is beyond the scope of this proceeding and not relevant to the subject matter of this proceeding and therefore not reasonably calculated to lead to the discovery of admissible evidence.

Response:

Please see Objection.

Cause No. 44371
Northern Indiana Public Service Company's
Objections and Responses to
OUCC's Data Request Set No. 1

OUCC Set 1-003:

Reference NIPSCO's "Net Utility Plant" which equaled \$2,581,447,813 in the Commission's calculation of Indiana Jurisdictional Rate Base as of June 30, 2010 shown on page 64 of the Commission's December 21, 2011 Order.

- a. Please provide a schedule which disaggregates the above referenced the Net Utility Plant figure into its major components including: Transmission, Distribution, Production and Common/Other Net Utility Plant components. Please provide and explain all supporting detail, calculations and explanations. Please verify that the definitions of Transmission and Distribution are consistent with those being used in the current Cause No. 44371.
- b. Please provide the same information and detail requested in Part (a) above updated for the Net Utility Plant balance as of December 31, 2012.
- c. Please provide the same information and detail requested in Part (a) above updated for the Net Utility Plant balance as of March 31, 2012.
- d. Please provide the same information and detail requested in Part (a) above updated for the Net Utility Plant balance as of June 30, 2012.
- e. When the data becomes available, please provide the same information and detail requested in Part (a) above updated for the Net Utility Plant balance as of September 30, 2012.

Objections:

NIPSCO objects to this request in its entirety on the grounds and to the extent that the Request solicits an analysis, calculation or compilation which has not already been performed and which NIPSCO objects to performing. NIPSCO further objects to this Request on the separate and independent grounds and to the extent that NIPSCO's Net Utility Plant balance is beyond the scope of this proceeding and not relevant to the subject matter of this proceeding and therefore not reasonably calculated to lead to the discovery of admissible evidence.

Response:

Please see Objection.