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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY	))	CAUSE NO. 43526

PREFILED TESTIMONY OF

MICHAEL D. ECKERT - PUBLIC'S EXHIBIT NO. 6

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 8, 2009

TESTIMONY OF MICHAEL D. ECKERT
CAUSE NO. 43526
NORTHERN INDIANA PUBLIC SERVICE COMPANY

I. Introduction

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

2 A: My name is Michael D. Eckert, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a
6 Senior Utility Analyst in the Electric Division within the Energy Group.

7 **Q: Please summarize your educational background.**

8 A: I graduated from Purdue University in West Lafayette, Indiana, in December 1986,
9 with a Bachelor of Science degree in Accounting. I am licensed in Indiana as a
10 Certified Public Accountant. Upon graduation, I worked as a Field Auditor with
11 the Audit Bureau of Circulation in Schaumburg, Illinois until October 1987. In
12 December 1987, I accepted a position as a Staff Accountant with the OUCC. In
13 May 1995, I was promoted to Principal Accountant, and I was promoted to Assistant
14 Chief Accountant in December 1997. As part of the OUCC's reorganization, I
15 accepted the position of Assistant Director of its Telecommunications Division in
16 July 1999. From January 2000 through May 2000, I was the Acting Director of the
17 Telecommunications Division. I then served as the Assistant Director of that
18 Division until a state telecommunications deregulatory statute took effect in 2006, at
19 which time I was reassigned to the energy area. My current title is Senior Utility

Analyst in the Electric Division. As part of my continuing education, I have attended the National Association of Regulatory Utility Commissioners ("NARUC") two-week seminar in Lansing, Michigan. I attended NARUC's Spring 1993 and 1996 seminars on system of accounts. In addition, I attended several CPA sponsored courses and the Institute of Public Utilities Annual Conference in December 1994 and December 2000.

Q: Have you testified previously before the Indiana Utility Regulatory ("IURC" or "Commission")?

A: Yes.

Q: What have you done to formulate your opinions and prepare your testimony in this Cause?

A: I read the Northern Indiana Public Service Company ("Petitioner" or "NIPSCO") original and revised testimony and exhibits , 2007 FERC Form 1, and relevant IURC Orders. I also reviewed Petitioner's workpapers, participated in OUCC case team meetings and discussions with consultants. I reviewed NIPSCO's responses to the OUCC and Intervenor's data requests. I also reviewed pertinent sections of Title 8 of the Indiana Code and Title 170 of the Indiana Administrative Code. In addition, I reviewed the testimonies of OUCC Witnesses Tyler Bolinger, Andrew Satchwell, Barbara Smith, Cynthia Pruett, Dale Swan, Thomas Catlin, and Michael Majoros. I also read the settlement agreements and relevant IURC Orders in Cause Nos. 41363, 43186, and 38706 FAC-71S1.

II. Purpose

Q: What is the purpose of your testimony?

A: I will address Petitioner's proposal to not embed any fuel or purchased power costs in base rates and track all fuel and fuel related costs through the Fuel Adjustment Clause ("FAC") mechanism or Petitioner's proposed Reliability Adjustment ("RA") tracker. OUCC Witness Mr. Andrew Satchwell recommends that NIPSCO's proposed RA Tracker be divided into two separate tracking mechanisms. I will comment on Petitioner's recommendation to include certain Midwest Independent Transmission System Operator ("Midwest ISO") charges in the RA Tracker as opposed to the FAC. I will recommend continuation of the current practice of tracking the fuel/energy component of purchased power in the FAC, subject to a benchmark. Finally, I will discuss the OUCC's position regarding Petitioner's proposed purchased power benchmark calculation.

III. Fuel and Purchased Power Cost Recovery

Q. In this rate case, do you recommend that the IURC continue the practice of embedding a base cost of fuel in base rates?

A. Yes. NIPSCO's base rates should include a base cost of fuel. Increments and decrements to the fuel cost can be tracked in NIPSCO's FAC proceedings.

Q: What type of Fuel Adjustment mechanism is NIPSCO proposing?

A: NIPSCO proposes to remove fuel costs from base rates and to track 100% of fuel costs through its FAC. This contrasts with the traditional practice of embedding a base cost of fuel in base rates and tracking increments and decrements in the FAC. I am not aware of any electric utility in Indiana that follows the practice proposed by NIPSCO. The result would be base rates that omit a major

component of the cost of service. NIPSCO's fuel costs exceeded $500 million in the test year.

Q: Based on your reading of NIPSCO's Witness Mr. Frank A. Shambo's testimony, what justification has Petitioner provided to support this proposed methodology?

A: After reading Mr. Shambo's testimony, it is my understanding that NIPSCO is making this proposal for three reasons:

> ...(1) fuel is a variable cost by nature and should not be collected in a fixed component on the bill; and (2) as discussed above, one of NIPSCO's objectives is to simplify its tariff structure and having all fuel costs in one place does simplify the process for customers[1]...

and

> ...the rates should be easy to understand and administer...[2]

Q: What are some of the implications of NIPSCO's proposal to track 100% of fuel costs in the FAC, with no amount being embedded in base rates?

A: NIPSCO's base rates would not even come close to fully representing the cost of service. The OUCC would also note that the proposal would have the effect of lowering NIPSCO's base rates considerably and making comparisons to other utilities' base rates more difficult.

Q: Does the OUCC agree with NIPSCO's approach?

A: No. First, whatever confusion or dissatisfaction exists among customers after more than three decades of tracking fuel costs is unlikely to be eliminated by NIPSCO's proposal. Second, NIPSCO has not presented evidence to support its premise that rates would be any easier to understand or administer—particularly

[1] See NIPSCO's Witness Mr. Frank Shambo's prefiled testimony, page 14, lines 12-15.
[2] See NIPSCO's Witness Mr. Frank Shambo's prefiled testimony, page 9, line 5.

no evidence that it cannot revise its bill statements to better distinguish fuel costs and non-fuel costs.

Q. What FAC methodology does the OUCC prefer?

A. The OUCC prefers the current method where adjusted test year fuel costs are embedded in base rates and the difference between actual and embedded costs are tracked through the current FAC mechanism. The current method of embedding fuel cost provides a useful benchmark, the base cost of fuel, that can be used to measure how much fuel costs have varied from the levels determined reasonable in the last base rate case.

Q: Do you believe that Petitioner's proposed FAC mechanism will simplify the process for NIPSCO customers?

A: No. In fact, I think NIPSCO's proposed change has the potential to make the process more difficult for NIPSCO customers. NIPSCO hasn't even decided what its future bills will look like,[3] so it is tenuous to conclude that a change in the FAC mechanism will simplify anything for customers. Customers' bills may look different, and fuel costs may appear to fluctuate more under NIPSCO's proposal when compared to the current approach of tracking just increments and decrements from the base cost of fuel. For those customers that monitor their bills, these changes may create more questions rather than less. For customers who don't monitor their bills, they will see the same total bill either way.

[3] See NIPSCO's response to OUCC Data Request Set No. 33, Question 005. NIPSCO is in the process of internal discussions regarding the format of bills to be used with the rate structure proposed in this case, but has not made a final determination, and therefore is unable to provide samples of proposed bills at this time.

Q: Did NIPSCO provide enough information to demonstrate that its proposal to stop embedding fuel cost into rates is an improvement over the current method of embedding a base cost of fuel?

A: No. NIPSCO did not provide any information to show that the current mechanism is harming its ability to provide service. Most importantly, NIPSCO has put forth no persuasive arguments why a major revenue requirement, like fuel costs, should be omitted from base rates. If NIPSCO's proposal is accepted, then base rates will not come close to representing the full cost of service as established in the base rate case. Fuel is a major input into the electricity production process and a major revenue requirement. NIPSCO's proposal to exclude fuel cost from base rates is not an improvement to electric utility ratemaking. I recommend that the Commission maintain the current method, where adjusted test year fuel costs are embedded in base rates and the difference between actual and embedded is tracked through the FAC mechanism.

IV. Midwest ISO Costs

Q: Is NIPSCO proposing to recover certain Midwest ISO costs through its RA Tracker?

A: Yes. NIPSCO has proposed to track and recover several Midwest ISO costs through its RA Tracker.[4]

Q: Does the OUCC agree with all of these recommendations?

A: No. The OUCC believes that some of the Midwest ISO costs that NIPSCO proposes to track through the RA Tracker should be recovered in its FAC mechanism because the costs are energy-related. I will address the charge types

[4] See OUCC Witness Mr. Andrew Satchwell's Attachment AJS-1.

that should be recovered through the FAC, and Mr. Satchwell will address the charge types that should be recovered through the OUCC's proposed RTO Tracker.

Q: Which Midwest ISO charges, which NIPSCO is requesting to recover in its proposed RA Tracker, should be recovered through the FAC?

A: In contrast to NIPSCO, the OUCC believes the two types of charges shown below should be recovered through the FAC.

1) Midwest ISO costs associated with purchased power such as Non-Asset and certain Asset Energy Amounts;[5]

2) Fuel-related Midwest ISO amounts related to Revenue Sufficiency including (i) Day-Ahead Revenue Sufficieny Guarantee Distribution Amount; (ii) Real-Time Revenue Sufficiency Guarantee First Pass Distribution Amount; and (iii) revenue sufficiency make whole payments;[6]

Q: Why does the OUCC believe Midwest ISO costs associated with purchased power such as Non-Asset and certain Asset Energy Amounts should be recovered in the FAC?

A: Non-Asset Energy and Asset Energy charge types related to energy are currently tracked through the FAC. Costs associated with these charge types should continue to be treated and tracked in the same manner. The Midwest ISO's business practice manual states the following about the charge types:

> "The Day-Ahead Asset Energy Amount is the net energy costs for an [Asset Owner] AO from its Load assets and transactions at those assets.[7]"

and

> "The Day-Ahead Non-Asset Energy Amount represents an AO's daily Day-Ahead net energy cost (or credit) related to Commercial

[5] See Witness Crum's testimony pg 6, lines 20 – 21.
[6] See Witness Crum's testimony pg 7, lines 6 – 9.
[7] See Midwest ISO's Market Settlements Calculation Guide, page 26 of 292.

Pricing Nodes where the AO does not own assets for that Operating Day.[8]"

Q: Has the IURC, through an Order, required fuel-related Midwest ISO amounts related to Revenue Sufficiency Guarantee including 1) Day-Ahead Revenue Sufficiency Guarantee Distribution Amount; 2) Real-Time Revenue Sufficiency Guarantee First Pass Distribution Amount; and 3) Day-Ahead and Real-Time Revenue Sufficiency Guarantee Make Whole Payment ("MWP") Amounts to be recovered through the FAC?

A: Yes. In IURC Cause No. 42685, order dated June 1, 2005, the IURC ordered NIPSCO, Vectren, and Indianapolis Power & Light to recover these make-whole payments through the FAC. In IURC Cause No. 42962, order dated May 4, 2006; the IURC accepted a settlement agreement between the OUCC, Indianapolis Power & Light, NIPSCO, and Vectren South approving recovery of the Day-Ahead Revenue Sufficiency Guarantee Distribution Amount and Real-Time Revenue Sufficiency Guarantee First Pass Distribution Amount charge types in NIPSCO's FAC. In IURC Cause No. 43471, the settlement agreement was renewed, with minor modifications, until March 2009 and is in the process of being renewed again in Cause No. 43665.

Q: Does the OUCC agree with NIPSCO's proposal to move the various "RSG Distribution Amount" charge types to the RA?

A: No. The OUCC recommends that the Day-Ahead RSG Distribution Amount and the Real-Time RSG First Pass Distribution Amount charge types remain in the FAC. Additionally, the OUCC believes that Day-Ahead and Real-Time RSG Distribution Amounts associated with native load should be included in the FAC

[8] See Midwest ISO's Market Settlements Calculation Guide. page 66 of 292.

and charges associated with non-native load should be included in the OUCC's proposed RTO Tracker.

Q: Does the OUCC agree with NIPSCO's proposal regarding "Revenue Sufficiency Guarantee MWP Amounts"?

A: Yes. It is my understanding that Petitioner is proposing to recover "Revenue Sufficiency Guarantee MWP Amounts" in the FAC. In response to Data Request Set No. 35, Questions 7(c), NIPSCO stated:

> The three Revenue Sufficiency Guarantee payment charge types are proposed for inclusion in the FAC Tracker because they are payments to keep generators whole for fuel cost incurrence.

Q: What does the OUCC recommend regarding "Revenue Sufficiency Guarantee MWP Amount" charge types?

A: The OUCC recommends that only Revenue Sufficiency Guarantee MWP Amounts associated with native load be recovered through the FAC. RSG MWP Amounts associated with non-native load should be recovered through the OUCC's proposed RTO Tracker where OSS margins are recovered.

Q: Are there any reporting requirements that NIPSCO is obligated to follow with respect to RSG charges and credits?

A: Yes. Per the pending Settlement Agreement in Cause No. 43665, NIPSCO is required to submit to the Commission and OUCC, at the time of their respective filing(s), supporting documentation establishing the reasonableness of the requested recovery of any RSG amounts above the benchmark through March, 31, 2011, with additional two year renewals, (unless one party notifies the other party that it does not wish to extend the Agreement at least 60 days prior to the termination date).

Q: Does the OUCC have any recommendations with respect to RSG charges and credits?

A: Yes. The OUCC recommends the Commission require NIPSCO to continue to proactively track RSG amounts above the benchmark and provide support/reasoning for proposed recovery of such charges as a narrative in its testimony filed in each of NIPSCO's future FAC and/or RTO tracker filings.

Additionally, the OUCC recommends the Commission require NIPSCO to include a narrative in testimony providing evidence of the reasonableness of Contestable RSG amounts (unless NIPSCO is deferring for future recovery in its next rate case) per pending Cause No. 43665.

Q: Does the OUCC agree with Petitioner that certain Midwest ISO socialized costs and revenues should be recovered through the RA tracker?

A: Essentially, yes. The OUCC agrees with Petitioner that certain Midwest ISO socialized costs and revenues, such as Real-Time ("RT") Revenue Neutrality Uplift ("RNU"), should be recovered through the OUCC's proposed RTO Tracker.

V. Trackable Purchased Power

Q: Did NIPSCO propose to track all its purchased power through its proposed RA Tracker?

A: That is my understanding of NIPSCO's testimony. NIPSCO has proposed to remove all of its purchased power (Capacity and Energy) from base rates and track 100% of it through its proposed RA Tracker. Currently, the fuel cost/energy component of purchased power is recoverable in the FAC subject to a benchmark.

Q: What is NIPSCO's rationale for including purchased power, both energy and capacity, in NIPSCO's proposed RA Tracker?

A: According to the testimony of NIPSCO's Witnesses Mr. Frank A. Shambo and Mr. Curtis A. Crum, NIPSCO believes that this position is consistent with the Settlement agreement in Cause No. 38706 FAC71-S1. Mr. Shambo stated:

> I would also note that inclusion of purchased power costs in the RA is consistent with the FAC71-S 1 Settlement Agreement, which provided for recovery of these costs through a Section 42(a) mechanism.[9]

And Mr. Crum testified:

> As explained in more detail by Mr. Shambo, NIPSCO believes that excluding purchased power costs from the F AC is consistent with the logic of the Revised Purchased Power Benchmark approved in NIPSCO's FAC71 sub-docket, which allows for recovery of certain purchased power costs via a tracker mechanism approved pursuant to Ind. Code § 8-1-2-42(a).[10]

Q: Does the OUCC agree with Petitioner's proposal to recover all its purchased power through the RA Tracker?

A: No. Petitioner's proposal would remove all purchased power, both capacity purchases and energy purchases, from the FAC and place them in the RA Tracker. It is the OUCC's belief that only capacity purchases should be tracked through the RA Tracker.

Q: Does the OUCC believe it is appropriate to continue tracking the energy component of purchased power through the FAC mechanism?

A: Yes. The OUCC believes that fuel costs should continue to be recovered through the FAC, and that only capacity purchases should be recovered through a non-fuel tracking mechanism (i.e. not in the FAC).

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[9] See Witness Shambo's testimony, pg. 24, lines 19 -21.
[10] See Witness Crum's testimony pg 13, lines 5 – 9.

Q: How does the OUCC propose to separate purchased power into energy and capacity cost components?

A: The OUCC believes NIPSCO should identify each purchase when made as to whether it was an energy purchase or a capacity purchase. This identification process is necessary for auditing purposes.

VI. Purchased Power Benchmark Modification

Q: Please summarize Petitioner's current purchased power benchmark that was established in Cause No. 38706 FAC71-S1.

A: Petitioner's current three-tiered purchased power benchmark was established in a settlement agreement in Cause No. 38706 FAC-71S1. The agreement reflected the capacity situation of the NIPSCO system at that time, and had the flexibility to adjust to capacity changes as NIPSCO obtained capacity resources.

Q: Please describe the current three-tiered benchmark approach.

A: Tier 1 of the Benchmark utilizes the costs of a CCGT to establish the benchmark for determining the level of purchased power costs to be recovered by NIPSCO. Tier 1 has been eliminated with NIPSCO's acquisition of the Sugar Creek Generating facility. Tier 2 of the Revised Benchmark utilizes the costs of a CT for determining the level of purchased power recovery. Tier 3 permits NIPSCO to recover 85% of its purchased power costs in excess of 1,000 MW, absent an act of God or a force majeure situation that would give full recovery.

Q: Please describe Petitioner's proposed benchmark.

A: According to the testimony of Mr. Crum, Petitioner's proposed purchased power benchmark will be calculated by utilizing a generic gas turbine with a heat rate of

12,500 btu/kwh. Purchased power would be recovered at either 100% or 85% depending on the reasons such purchases were made.[11]

Q: How does Petitioner's proposal compare to IPL's and Vectren's benchmark mechanism?

A: In general, NIPSCO's mechanism follows the settlement agreements of IPL and Vectren that were approved in Cause No. 43414, order dated April 23, 2008.

Q: Does NIPSCO's proposal better track purchased power markets?

A: NIPSCO's proposal includes provisions for it to make business decisions based, in part, upon Midwest ISO market conditions. NIPSCO's current benchmark price is calculated based on a monthly standard. NIPSCO's proposed benchmark uses a daily benchmark.[12] The OUCC agrees with NIPSCO that by comparing a daily benchmark price to the hourly purchase power price the Commission and the OUCC will better understand the events which occur when purchases are made. Under the current method, the monthly benchmark price is established at the end of the prior month and does not reflect the daily fluctuations that occur in the market.

Q: If the IURC approves the daily benchmark, should Petitioner provide detailed workpapers to support its daily benchmark calculations?

A: Yes. NIPSCO should provide detailed workpapers as part of their standard workpapers in each FAC proceeding.

Q: **Does the proposed benchmark in this proceeding allow NIPSCO to recover purchased power costs which exceed the benchmark?**

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[11] See NIPSCO's witness Mr. Curtis A. Crum's prefiled testimony, Page 14, lines 1 – 29.

[12] Cause No. 43414, Joint Petition, Settlement Agreement, dated December 31, 2007, page 1.

A: Yes. This proposal implements a standardized mechanism for the recovery of economic power purchases and it describes circumstances under which NIPSCO could seek full recovery for power purchases that exceed the benchmark within the FAC.

Q: If the IURC approves NIPSCO's benchmark proposal, should NIPSCO be subject to the same terms and conditions of the settlement agreement approved in Cause No. 43414?

A: Yes.

VIII. Recommendations/Conclusions

Q: Please summarize your recommendations.

A: I recommend that Petitioner continue with its current FAC mechanism wherein base rates include a base cost of fuel and increments and decrements to the fuel costs are tracked in NIPSCO's FAC. I also recommend that NIPSCO be allowed to modify its purchased power benchmark calculation. I also recommend the following charge types be recovered through the Fuel Adjustment Mechanism:

1) Midwest ISO costs associated with purchased power such as Non-Asset and certain Asset Energy Amounts;

2) Fuel-related Midwest ISO amounts related to Revenue Sufficiency including i) Day-Ahead Revenue Sufficiency Guarantee Distribution Amount; ii) Real-Time Revenue Sufficiency Guarantee First Pass Distribution Amount; and iii) revenue sufficiency make whole payments;

Q: Does this conclude your testimony?

A: Yes.

VERIFICATION

STATE OF INDIANA)
) ss:
COUNTY OF MARION)

The undersigned, Michael D. Eckert, under penalties of perjury and being first duly sworn on his oath, says that he is an employee for the Indiana Office of Utility Consumer Counselor; that he caused to be prepared and read the foregoing and that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

By: Michael D. Eckert
Indiana Office of
Utility Consumer Counselor

Subscribed and sworn to before me, a Notary Public, this 8th day of May, 2009.

Signature

Kimberly D. Remy
Printed Name

My Commission Expires: October 22, 2010

My County of Residence: Johnson