PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR APPROVAL OF:
(1) AN ADJUSTMENT TO ITS ELECTRIC SERVICE RATES THROUGH ITS ENVIRONMENTAL COST RECOVERY MECHANISM FACTORS PURSUANT TO IND. CODE §§ 8-1-2-6.6, 8-1-2-6.8, CH. 8-1-8.4, CH. 8-1-8.7, CH. 8-1-8.8 AND 170 IAC 4-6-1, ET SEQ. AND THE COMMISSION’S ORDERS IN CAUSE NOS. 42150, 44012, 44311 AND 44688; AND (2) MODIFICATIONS TO THE ENVIRONMENTAL COMPLIANCE PROJECTS SET FORTH IN ITS TWENTY-SECOND PROGRESS REPORT PURSUANT TO THE ONGOING REVIEW PROCESS UNDER IND. CODE § 8-1-8.7-7 AND APPROVED IN CAUSE NOS. 42150, 44012, AND 44311.

ORDER OF THE COMMISSION

Presiding Officers:
Stefanie N. Krevda, Commissioner
Carol Sparks Drake, Administrative Law Judge

On July 31, 2018, Northern Indiana Public Service Company LLC (“NIPSCO” or “Petitioner”) filed its Verified Petition in this Cause and the direct testimony and attachments of the following witnesses:

- Katherine A. Cherven, Manager of Regulatory for NiSource Corporate Services Company;
- Greg Baacke, Manager of Generation Major Projects at NIPSCO; and
- David T. Walter, Vice President of Electric Generation at NIPSCO.

On August 1, 2018, the NIPSCO Industrial Group (“Industrial Group”) filed a Petition to Intervene, which the Presiding Officers granted in a Docket Entry dated August 15, 2018.\(^1\)

On August 1, 2018, NIPSCO filed corrections to the direct testimony of Katherine A. Cherven and attachments to correct the header on Attachment 1-B.

\(^1\) For purposes of this Cause, the Industrial Group consists of the following companies: ArcelorMittal USA, BP Energy, Praxair, Inc., USG Corporation, and United States Steel Corporation.
On August 31, 2018, NIPSCO, on behalf of itself, the Industrial Group, and the Indiana Office of Utility Consumer Counselor (“OUCC”), filed a Joint Motion for Approval of Agreed Procedural Schedule. A Docket Entry was issued on September 5, 2018, establishing the procedural schedule in this matter consistent with the parties’ joint motion.

On August 18, 2018, the OUCC prefiled the testimony of Wes. R. Blakley, Senior Utility Analyst. NIPSCO filed no rebuttal testimony.

The Commission held an evidentiary hearing in this Cause at 9:00 a.m. on October 11, 2018, in Hearing Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC, and the Industrial Group appeared at the hearing by counsel, and their respective evidence was admitted without objection.

Based upon applicable law and the evidence presented, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-2-6.6 and 8-1-2-6.8 and Ind. Code chs. 8-1-8.7 and 8-1-8.8, the Commission has jurisdiction over a public utility’s cost recovery related to the use of clean coal technology and other pollution control equipment. The Commission, therefore, has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. **NIPSCO’s Characteristics.** Petitioner is a public utility organized as a limited liability company under Indiana law with its principal office at 801 East 86th Street, Merrillville, Indiana. NIPSCO owns and operates property and equipment used for the production, transmission, delivery, and furnishing of electric utility service to the public in northern Indiana.

3. **Relief Requested.** In this proceeding, NIPSCO requests approval of revised Environmental Cost Recovery Mechanism (“ECRM”) factors to be effective for bills issued during the November 2018 through April 2019 billing cycles, which begin October 31, 2018. NIPSCO also requests approval of proposed modifications to its environmental compliance projects and cost estimates detailed in its Twenty-second Progress Report.

4. **Commission Discussion and Findings.**

   A. **Relevant Period.** Ms. Cherven testified that NIPSCO is requesting approval of revised ECRM factors to be applicable to the bills rendered during the November 2018 through April 2019 billing cycles. The ECRM factors include actual capital costs and operating, maintenance, and depreciation expenses in connection with the operation of Petitioner’s environmental compliance projects that were in service during the six months ended June 30, 2018, and the recoverable portion (80%) of the MATS Compliance Plan expenses incurred through June 30, 2018. The ECRM factors also include a reconciliation of projected period recoveries of capital cost revenue with actual revenue during the period November 2017 through April 2018 (ECR 30) and operating, maintenance, and depreciation revenue with actual revenue during the period November 2017 through April 2018. The ECRM capital revenue requirement reflects the 21% federal corporate tax rate resulting from the Tax Cuts and Jobs Act of 2017 (“TCJA”) for January 1, 2018, through April 30, 2018.
B. **Actual Capital Costs.** According to Ms. Cherven, the total cost of environmental compliance projects under construction, net of accumulated depreciation, upon which NIPSCO is authorized to earn a return is $240,537,508. She stated the construction costs include an allowance for funds used during construction (“AFUDC”). Ms. Cherven testified that if the Commission approves the proposed ratemaking treatment for the values shown on Attachment 1, Schedule 1B, to the Verified Petition filed in this Cause (“Attachment 1-A”), NIPSCO will cease accruing AFUDC on those costs because NIPSCO will then be allowed a return on that value and those amounts.

Mr. Baacke testified that Petitioner’s Attachment 1-A, Attachment 1, Schedules 1, 1A, and 1B describe Commission-approved environmental compliance projects under construction and on which NIPSCO proposes to earn a return. Schedules 1, 1A, and 1B include a brief description of the projects, the approved cost estimates, construction start dates, estimated and actual in-service dates, and prior and current environmental compliance project costs. The costs for the environmental compliance projects have been compiled through June 30, 2018. Mr. Baacke testified all of the projects for which NIPSCO seeks ratemaking treatment in this Cause have been under construction for at least six months.

Based on the evidence presented, the Commission finds NIPSCO’s request to begin earning a return on $240,537,508, the value of its environmental compliance projects as of June 30, 2018, net of accumulated depreciation, is reasonable and approves the request.

Ms. Cherven testified that Petitioner’s Attachment 1-A, Attachment 1, Schedule 4, page 1 shows NIPSCO’s proposed semi-annual capital revenue requirement on its environmental compliance projects at June 30, 2018, is $9,776,870, which is the product of the value of NIPSCO’s environmental compliance projects at June 30, 2018, multiplied by the debt and equity components of NIPSCO’s weighted cost of capital grossed up for taxes, computing the 12-month and six-month revenue requirement related to the environmental compliance projects. Ms. Cherven sponsored the calculation of NIPSCO’s 6.42% weighted average cost of capital at June 30, 2018, which utilizes the methodology the Commission approved in Cause No. 44688.

Ms. Cherven testified Petitioner’s Attachment 1-A, Attachment 1, Schedule 4 includes the incremental amount of the return on NIPSCO’s investment for replacement catalyst layers that exceeds the return on investment included in NIPSCO’s base rates and charges for the original catalyst layers. In this ECR filing, NIPSCO calculated the incremental amount of the return on its investment for the replacement catalyst layers using the estimate of “return on” the original catalyst layers included in NIPSCO’s rate base in Cause No. 44688.

OUCC witness Blakely testified that in ECR 31 NIPSCO adjusted the federal income tax rate going forward from 35% to 21%. He testified that in the current filing, NIPSCO adjusted the federal income tax rate for the billing period of January 2018 through April 2018 (previously billed at the 35% federal income tax rate). Mr. Blakely stated the result of this adjustment is an over-recovery net variance of $1,036,085 which NIPSCO credited in this filing to the capital revenue requirement.
Based on the evidence presented, the Commission finds that NIPSCO’s proposed adjusted semi-annual capital revenue requirement of $9,776,870 is reasonable and approves the capital revenue requirement.

C. Actual Operation and Maintenance ("O&M") Expenses. Mr. Walter testified that as shown on Petitioner’s Attachment 1-A, Attachment 2, Schedule 1, page 2 (lines 1 through 17), for the period January through June 2018, NIPSCO incurred $4,181,538 of actual O&M expenses associated with NIPSCO’s ownership and operation of the environmental compliance projects (capital projects) and recoverable federally mandated MATS Compliance Plan O&M projects, of which $79,766 was fixed, and $4,101,772 was variable.

1. Environmental Compliance Projects. Mr. Walter identified the breakdown of actual O&M expenses incurred during the January through June 2018 period as shown on Petitioner’s Attachment 1-A, Attachment 2, Schedule 1, page 2. Mr. Walter testified there is a $609,292 charge (Line 11) associated with the inclusion of fly ash disposal from the Unit 12 Flue Gas Desulfurization (“FGD”). This cost is associated with trucking of the by-product from the Unit 12 FGD to the conditioning system at the R.M Schahfer Generating Station, as well as conditioning the by-product so it can be placed in the landfill. He stated that although these costs have been incurred in the past, this is the first time NIPSCO has sought recovery of these costs through the ECR proceeding. Mr. Walter testified the costs are directly related to running the FGD on Unit 12 and incremental to the handling and treatment of other material from Unit 12. He testified that fly ash disposal is a new expense category created since the O&M expenses approved in Cause No. 42150 ECR 31.

2. MATS Compliance Plan O&M Projects. Mr. Walter testified that in its October 10, 2013, Order in Cause No. 44311 ("44311 Order"), the Commission approved the following federally mandated O&M projects as part of NIPSCO’s MATS Compliance Plan: (1) Precipitator and FGD Mist Eliminator Cleaning for Bailly Units 7 and 8; (2) ESP Flow Modeling for Schahfer Unit 15; and (3) Air Testing for Schahfer Units 14, 15, 17, and 18. In Cause No. 42150 ECR 24, the Commission approved a federally mandated O&M project for Unit 15 ESP Flow Modifications. Mr. Walter testified that during the period January through June 2018 no expense associated with the ESP Flow Modifications for Schahfer Unit 15 were incurred.

Based on the evidence presented, the Commission finds that NIPSCO’s actual O&M expenses associated with NIPSCO’s environmental compliance projects (capital projects) and recoverable federally mandated MATS Compliance Plan O&M project expenses for the period ending June 30, 2018, of $4,181,538 are reasonable and approves recovery of such expenses through the ECRM.

D. Actual Depreciation Expense. Petitioner’s Attachment 1-A, Attachment 2, Schedule 1, page 1 shows NIPSCO’s actual depreciation expense for the six months ending June 30, 2018, was $6,888,868. Ms. Cherven testified the actual depreciation expense consists of depreciation expenses associated with NIPSCO’s ownership and operation of the environmental compliance project facilities that have been placed in service. She explained that the actual depreciation expense was computed based on the depreciation lives and/or rates the Commission approved in Cause Nos. 44688, 42150, 44012, and 44311.
Based on the evidence presented, the Commission finds that NIPSCO’s actual depreciation expense for the six months ending June 30, 2018, of $6,888,868 has been properly calculated and is reasonable; therefore, the Commission approves the actual depreciation expense for recovery through the ECRM.

E. **Allocation of Actual Capital Costs, O&M, and Depreciation Expenses.** Ms. Cherven sponsored Petitioner’s Attachment 1-A, Attachment 1, Schedule 5 showing the demand allocation percentages and Attachment 2, Schedule 1, page 3 showing the demand and energy allocation percentages attributable to each of NIPSCO’s rate schedules as approved in the 44688 Order. The demand allocators approved for purposes of the ECRM adjustment were set forth in Joint Exhibit B to the Stipulation and Settlement Agreement approved in the 44688 Order. Ms. Cherven testified NIPSCO has adjusted its demand and energy allocation percentages in this filing to reflect the migration of customers.

Based on the evidence presented, the Commission finds that NIPSCO’s proposed ECRM allocation factors are reasonable, the ECR costs have been properly allocated, and such allocations are approved.

F. **Reconciliation of Actual Capital Costs, O&M, and Depreciation Expenses.** Ms. Cherven sponsored Petitioner’s Attachment 1-A, Attachment 1, Schedule 6 showing NIPSCO’s reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period November 2017 through April 2018. NIPSCO’s total computed under- or over-recoveries of ECRM revenue for this period are reflected in Column D, which in this Cause shows an over-recovery of $1,036,085.

Ms. Cherven testified that the revenue requirement on Attachment 1-A, Attachment 1, Schedule 6, Column C reflects an adjusted revenue conversion factor that includes the 21% federal corporate tax rate that became effective under the TCJA on January 1, 2018. As a result, the total revenue requirement for ECR 30 changed from $12,777,310 to $11,554,808, representing a decrease of $1,222,502. Ms. Cherven sponsored Attachment 1-B showing the original filed ECR 30 Attachment 1, Schedules 3, 4, and 7, and Attachment 3, Schedule 1 adjusted for the TCJA. She stated the adjusted calculations incorporate two months of the pre-TCJA revenue requirement (November and December 2017) and four months of the post-TCJA revenue requirement (January through April 2018).

Ms. Cherven also sponsored Petitioner’s Attachment 1-A, Attachment 2, Schedule 2 showing NIPSCO’s reconciliation of projected expense revenue with actual expense revenue during the period November 2017 through April 2018. NIPSCO’s total computed under- or over-recoveries of expense revenue for this period are reflected in Column D, which in this Cause shows an under-recovery of $377,915.

Based on the evidence presented, the Commission finds NIPSCO properly included a reconciliation of November 2017 through April 2018 to be reflected in the ECRM 32 factors.

G. **Deferred Federally Mandated Costs.** Ms. Cherven testified that Petitioner’s Attachment 1-A, Attachment 2, Schedule 1A shows the detail of all expenses incurred in connection with NIPSCO’s federally mandated MATS Compliance Plan O&M projects and that
there are none in this cycle. She testified that in accordance with the 44311 Order and Ind. Code § 8-1-8.4-7(c), NIPSCO will defer, as a regulatory asset on the balance sheet, 20% of all costs associated with the approved projects, including post in-service carrying charges on the deferred O&M expenses, for recovery in NIPSCO’s next general rate case. Petitioner’s Attachment 1-A, Attachment 2, Schedule 3 reflects the deferred federally mandated costs and the ongoing carrying charges on those deferred costs.

Based on the evidence presented and pursuant to the 44311 Order and Ind. Code § 8-1-8.4-7(c)(2), the Commission authorizes NIPSCO to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS Compliance Plan O&M projects and recover those deferred costs in Petitioner’s next general rate case. The Commission also authorizes NIPSCO to record ongoing carrying charges based on the current overall weighted average cost of capital on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO’s base rates as allowed by Ind. Code § 8-1-8.4-7(c)(2).

**H. Semi-Annual Revenue Requirement.** Ms. Cherven testified that Petitioner’s Attachment 1-A, Attachment 3, Schedule 1 summarizes the capital and expense revenue requirements calculated in Attachments 1 and 2. NIPSCO’s proposed total revenue requirement on its environmental compliance projects at June 30, 2018, is $20,361,648. The capital revenue requirement is the sum of the requested capital revenue requirement of $9,776,870 minus an amount of $1,036,085 from the capital cost reconciliation, for a total capital revenue requirement of $8,740,785 for the billing period of November 2018 through April 2019.

The expense revenue adjustment, as shown on Petitioner’s Attachment 1A, Attachment 2, Schedule 1 is the sum of Petitioner’s requested O&M expense of $4,181,538 and depreciation expense of $6,888,868, plus $377,915 from the expenses reconciliation, for a total expense revenue requirement of $11,448,321. Ms. Cherven testified that Column E on Petitioner’s Attachment 1-A, Attachment 3, Schedule 1 shows the total revenue requirement which NIPSCO seeks to recover in this Cause, with the forecasted kWh sales for the billing period applied to calculate the billing factors shown in Column G.

Based on the evidence presented, the Commission finds that NIPSCO’s proposed adjusted semi-annual revenue requirement of $20,361,648 is reasonable and approves the revenue requirement.

**I. New ECRM Factors.** Ms. Cherven sponsored Petitioner’s Attachment 1-A, Attachment 4, showing the proposed ECRM factors and explained how the ECRM factors were developed. She testified the estimated average monthly bill impact for a typical residential customer using 698 kWh per month is $2.28, which is an increase of $0.21 from what a customer has paid using the currently approved ECRM factor. Ms. Cherven testified the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month is $3.27, which is an increase of $0.31 from what a customer has paid using the currently approved ECRM factor.

Mr. Blakley testified that nothing came to his attention that indicates Petitioner’s calculation of the estimated ECRM adjustment factors for the relevant period is unreasonable.
Based on the evidence presented, the Commission approves the proposed ECRM factors set forth in Petitioner's Attachment 1-A, Attachment 3, Schedule 1 to be applicable for bills rendered during the billing cycles of November 2018 through April 2019, to remain in effect until a different ECRM adjustment is approved in a subsequent filing.

5. **Commission Findings and Conclusions Regarding Progress Report.** In its November 26, 2002 Order in Cause No. 42150, the Commission approved NIPSCO's proposal that the Commission maintain an ongoing review of NIPSCO's environmental compliance project construction and expenditures and that NIPSCO annually submit to the Commission a report of any revisions of the plan and cost estimates for such construction ("Progress Report"). In its August 25, 2010 Order in Cause No. 43526, the Commission ordered NIPSCO to file the Progress Reports on the status of environmental compliance projects tracked in the ECRM as part of Petitioner's ECRM filings. In its December 28, 2011 Phase I Order in Cause No. 44012, the Commission approved NIPSCO's request to file semi-annual Progress Reports (as opposed to annual) as part of the ongoing review process under Ind. Code § 8-1-8.7-7. In addition, in the 44311 Order, the Commission authorized NIPSCO to seek timely recovery of the MATS Compliance Plan projects as part of NIPSCO's semi-annual Progress Reports filed in ECR proceedings and to provide updates to the MATS Compliance Plan capital projects through the semi-annual ECRM proceedings.

Pursuant to the ongoing review process under Ind. Code § 8-1-8.7-7 and as approved in the 44311 Order, NIPSCO requests approval of its Twenty-second Progress Report on the status of environmental compliance projects tracked in the ECRM and approval to recover the revised costs of its environmental compliance projects through the ECRM. Mr. Baacke testified that since NIPSCO's Twenty-first Progress Report approved in Cause No. 42150 ECR 31, NIPSCO has identified aspects of its Compliance Plan that require further modification. Mr. Baacke sponsored Attachment PR to Petitioner's Attachment 1-A. Attachment PR sets forth NIPSCO's Compliance Plan containing the NOx Compliance Plan, Multi-Pollutant Compliance Plan, and MATS Compliance Plan highlighted to show proposed modifications. He testified the modifications consist only of changes in estimated costs.

With respect to the changes in estimated costs, Mr. Baacke testified final project costs for the Unit 7 SCR Catalyst 3rd Layer and Unit 14 SCR Catalyst 1st Layer have been revised to reflect actual expenditures, resulting in a decrease of $1,877,452 from NIPSCO's Twenty-first Progress Report.

Based on the evidence presented, the Commission finds the Twenty-second Progress Report is reasonable; therefore, the Commission approves the proposed modifications to the Compliance Plan and authorizes NIPSCO to recover these costs through its ECRM, including ratemaking treatment for the catalyst layer projects consistent with the October 16, 2013 Order in Cause No. 42150 ECR 21.

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

1. NIPSCO is authorized to implement the rate adjustments reflecting the recovery of capital costs, O&M, and depreciation expenses identified above in Petitioner's rates and charges.
for electric service in accordance with NIPSCO’s ECRM beginning with the November 2018 billing cycle, to remain in effect until replaced by a different ECRM adjustment approved in a subsequent filing.

2. Prior to implementing the approved ECRM factors, NIPSCO shall file the tariff and applicable rate schedules under this Cause for approval by the Commission’s Energy Division. Such rate(s) shall be effective for bills NIPSCO renders commencing with the November 2018 billing cycle subject to Division review and agreement with the amounts reflected.

3. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS Compliance Plan O&M projects and recover those deferred costs in its next general rate case, and NIPSCO is authorized to record ongoing carrying charges based on the current overall weighted average cost of capital on all deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO’s base rates in its next general rate case.

4. Pursuant to Ind. Code § 8-1-8.7-7 and as approved in Cause No. 44311, NIPSCO’s modified Compliance Plan, as set forth in the Twenty-second Progress Report, is approved.

5. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR; OBER ABSENT:

APPROVED: OCT 31 2018

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

Mary M. Becerra
Secretary of the Commission