

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE )  
COMPANY FOR APPROVAL OF PETITIONER'S 7-YEAR )  
PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION )  
AND STORAGE SYSTEM IMPROVEMENTS, PURSUANT TO ) CAUSE NO. 44370  
IND. CODE 8-1-39-10(a). )

OUCC PREFILED TESTIMONY

BARBARA A. SMITH - PUBLIC'S EXHIBIT #1

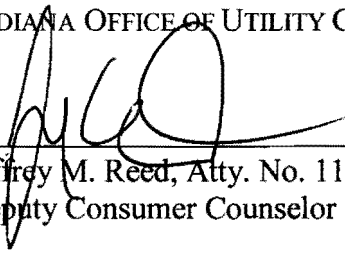
ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

OCTOBER 11, 2013

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER

  
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Jeffrey M. Reed, Atty. No. 11651-49  
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## CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Prefiled Testimony of Barbara A. Smith* has been served upon the following counsel of record in the captioned proceeding by electronic service and/or by depositing a copy of same in the United States mail, first class postage prepaid, on October 11, 2013.

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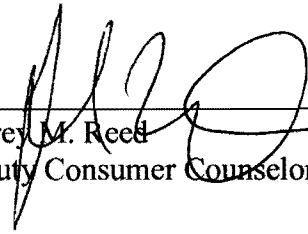
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**OUCG TESTIMONY OF BARBARA A. SMITH**  
**CAUSE NO. 44370**  
**NORTHERN INDIANA PUBLIC SERVICE COMPANY (NIPSCO)**

**I. INTRODUCTION**

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

2   A:   My name is Barbara A. Smith. My business address is 115 W. Washington Street, Suite  
3       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 the Utility Consumer Counselor (OUCC) as the  
6       Director of the Resource Planning and Communications Division.

7   **Q:   Please describe your educational background and experience.**

8   A:   I received a Bachelor of Science degree, *magna cum laude*, from Indiana Wesleyan  
9       University. I also earned an Associate's Certificate in Project Management through  
10      George Washington University. I was employed by Vectren from 1987 through 2006 in  
11      various capacities, including supervisor of distribution planning. My responsibilities  
12      included planning installation of new natural gas pipelines, development, implementation  
13      and support of new data repositories such as asset management and compliance systems,  
14      support of Geographic Information System (GIS) mapping, capital work order systems,  
15      outage management systems and storm outage. My professional experience as a member  
16      of the management team at Vectren with direct customer contact helped me develop a  
17      broad understanding of consumer interests, including the value placed on reliable service  
18      and the impact rate increases have on consumers. I joined the OUCC as a Utility Analyst  
19      in the Electric Division in October 2006 and was promoted to my current position in

1 April 2009. On behalf of the OUCC, I have led many case teams in complex cases,  
2 including Certificate of Public Convenience and Necessity cases, as well as demand side  
3 management and renewable energy cases.

4 **Q: Have you previously testified before the Indiana Utility Regulatory Commission**  
5 **(IURC)?**

6 A: Yes.

7 **Q: What did you do to prepare for your testimony?**

8 A: I reviewed the Petitioner's testimony, exhibits and discovery responses. I attended the  
9 August 23, 2013 IURC technical conference, multiple meetings with NIPSCO, Black and  
10 Veatch (B&V) and other interveners.

11 **Q: Do you have observations regarding the efforts NIPSCO made to meet with the**  
12 **OUCC before and during the procedural process?**

13 A: Yes. NIPSCO met with the OUCC several times before its July 19, 2013 filing and  
14 conducted several meetings in September and October to discuss the B&V model in  
15 detail. The OUCC appreciates the time NIPSCO and B&V spent with the OUCC  
16 enhancing our understanding of the model and the surrounding processes.

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

18 A: The purpose of my testimony is to:

- 19 1. Introduce the other OUCC witnesses; and  
20 2. Explain the OUCC position regarding NIPSCO's request for relief under Ind.  
21 Code § 8-1-39-10(a) and (b) (the Statute).

**OUCW WITNESSES AND TOPICS ADDRESSED**

1 **Q: Who will be testifying on behalf of the OUCW?**

2 A: In addition to my testimony, the following matrix identifies the other OUCW witnesses and  
3 the topics each will address:

OUCW WITNESS	ISSUES ADDRESSED
Ed Rutter	<ul style="list-style-type: none"><li>7-Year Plan (Plan) projects' cost estimates developed and used by NIPSCO and B&amp;V.</li></ul>
Maclean Eke	<ul style="list-style-type: none"><li>Model development, calculations, and results.</li></ul>

4 **Q: Will any OUCW witness testimony in this cause discuss the TDSIC tracker cost**  
5 **recovery issues associated with the Plan?**

6 A: No. The related, yet separate, cost recovery issues will be covered by OUCW witnesses  
7 testifying in IURC Cause No. 44371.

8 **Q: Is NIPSCO's petition the first 7-Year Plan filed pursuant to Ind. Code 8-1-39,**  
9 **commonly referred to as the TDSIC statute (Statute)?**

10 A: Yes.

11 **Q: Does the Statute raise any novel issues?**

12 A: Yes. The OUCW has had to work through interpretation of undefined terms used in the  
13 Statute, as well as implementation issues. As this case progressed, we were continually  
14 confronted with new challenges due to the distinctive nature of the Statute. My testimony  
15 addresses those challenges.

1                   **UTILITIES SHOULD BE REQUIRED TO JUSTIFY THE PROPOSED**  
2                   **EXPENDITURES WITHIN THEIR 7-YEAR PLANS BASED UPON**  
3                   **RISK-BASED ASSESSMENTS SUPPORTED BY CRITICAL DATA.**

4   **Q:     Why is the Plan project prioritization important?**

5   A:     Appropriate project prioritization facilitates the identification of the critical assets most  
6           likely to fail. As demand side management and environmental compliance costs continue  
7           to rise, prioritizing and optimizing the projects helps ensure the ratepayers get the  
8           “biggest bang for the buck.”

9   **Q:     How did NIPSCO determine what asset replacement projects should be included**  
10           **and how they should be prioritized?**

11 A:     NIPSCO's transmission and distribution (T&D) personnel worked with B&V to develop  
12           criteria determining an asset class's probability of failure (POF) and consequence of  
13           failure (COF). These criteria were applied to more than 3,800 T&D assets. POF and  
14           COF create an asset's ranked risk score, set forth in Petitioner's CONFIDENTIAL  
15           Exhibit No. TAD-2 (B&V Report). OUCC Witness Maclean Eke will discuss the risk  
16           score inputs, weighting, calculations and results further in his testimony.

17 **Q:     Does the OUCC support NIPSCO's using a third-party engineering consultant to**  
18           **assist in prioritizing eligible assets in a logical, cost-effective and objective manner?**

19 A:     Yes. In fact, the OUCC recommends the IURC require a third-party consultant's report  
20           be filed as part of the case in chief in all future TDSIC petitions. In addition to requiring  
21           a third-party report, the OUCC also recommends the IURC require the use of a third-  
22           party expert as a witness in the proceeding.

1 **Q: What type of information does the OUCC consider critical to have in order to**  
2 **conduct its due diligence?**

3 A: Where company-specific material and failure rates are available, these elements should  
4 be inputs to the risk evaluation process. Although not an all-inclusive list, third-party  
5 reports should contain the following critical data in order for the OUCC, other  
6 stakeholders and the IURC to be able to perform a meaningful evaluation of a 7-year  
7 plan:

- 8 1. A single, sortable list of each asset evaluated, including proposed installation year;
- 9 2. The process and criteria used to evaluate each asset, explaining why a project  
10 was/was not chosen as part of a 7-Year Plan, including how the following contributed  
11 to the end result:
  - 12 a. Utility personnel expertise;
  - 13 b. Internal utility facility data;
  - 14 c. External industry data;
  - 15 d. Operational dependencies;
  - 16 e. Aging of assets;
  - 17 f. Reliability improvement, including how the Plan specifically will either maintain  
18 or enhance system performance; and
  - 19 g. Relevant safety information, including how the Plan will provide for enhanced  
20 safety to utility customers and workers;
- 21 3. Estimated direct costs of each project evaluated (in today's dollars and at the  
22 anticipated time of completion for projects included in the Plan);



1 4. Third party cost estimate review; and

2 5. Incremental benefits.

3 **Q: Did NIPSCO include each listed piece of critical data in either the B&V Report or**  
4 **its case-in-chief filing?**

5 A: No. While NIPSCO's case-in-chief requests approval for \$1.072 billion of capital  
6 expenditures,<sup>1</sup> neither the B&V Report nor Petitioner's testimony identified which  
7 projects were specifically included within the Plan. As a result, OUCC was unable to  
8 determine if NIPSCO had properly selected and prioritized the projects. Because the  
9 IURC and all parties are under statutory time constraints, this information should be  
10 provided by Petitioner in its original filings.

11 **Q: Should NIPSCO, or any petitioning utility, have the ability to shift projects between**  
12 **years or add a new project to the Plan that was not previously included?**

13 A: The OUCC appreciates that over the course of 7 years project priorities will likely  
14 change. Unforeseen events will occur and assets may fail sooner than anticipated and.  
15 The elements that stress the T&D systems every day will continue to do so throughout  
16 the 7-Year Plan period.

17 The OUCC does not object to this shifting as long as the utility (NIPSCO) is  
18 transparent with the IURC, OUCC and Intervenors regarding the reasons for the shift. In  
19 the following section, I will propose a reporting mechanism that will help facilitate  
20 transparency.

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<sup>1</sup> See Petitioner's Exhibit FAS, Page 8, lines 1 – 4.

1 NIPSCO should not be locked into a specific set of projects today that in the  
2 future would not provide the greatest benefit to the T&D system and its users.  
3 Conversely, the OUCC does not believe the Statute permits NIPSCO to make wholesale  
4 substitutions of projects as it sees fit. If NIPSCO seeks to replace, modify or add projects  
5 to the Plan, OUCC expects it will have the opportunity to review each proposed change  
6 independently, considering factors such as TDSIC eligibility, project size, cost, risk  
7 score, prioritization and optimization of the spend, cost/benefit, etc. OUCC will make its  
8 decision to support or oppose any such change on a case-by-case basis via a sub-docket,  
9 if necessary.

**REPORTING AMBIGUITIES UNDER IND. CODE 8-1-39**

10 **Q: Is the TDSIC Statute unclear concerning updates or revisions to a 7-Year Plan?**

11 A: Yes.

12 **Q: How does NIPSCO propose to update its Plan?**

13 A: NIPSCO proposes "As risk inputs change, the Plan will continue to be optimized to  
14 ensure the best plan possible is being deployed."<sup>2</sup> NIPSCO proposes to submit a report  
15 annually concurrent with its Fall TDSIC tracker filings<sup>3</sup>. It is important that the OUCC  
16 and other stakeholders are not only aware of how the risk scores change, but also why. If  
17 the stakeholders are not in agreement with the updates NIPSCO submits annually, the  
18 parties should have the opportunity to contest the revised plan.

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<sup>2</sup> See Petitioner's Exhibit TAD, Page 11, lines 3 – 5.

<sup>3</sup> See Petitioner's Exhibit FAS, page 13, line 13.

1 **Q: What recommendations does the OUCC have regarding how NIPSCO should report**  
2 **the progress of the projects and any changes in the Plan's projects?**

3 A: The OUCC recommends that NIPSCO's annual report detail each project's progress,  
4 including original and revised risk scores. OUCC believes a format similar to NIPSCO's  
5 annual ECR progress reports would be appropriate.<sup>4</sup> NIPSCO's Annual Progress Reports  
6 for its Environmental Compliance Plan contain the following details:

- 7 • Approved projects, estimated construction start dates, and estimated in-service  
8 dates;
- 9 • Approved cost estimates for each project;
- 10 • Revised project cost estimates, construction start dates, and actual in-service  
11 dates; and
- 12 • Explanation for any proposed revisions.

13 Because TDSIC reporting is new for all parties, OUCC envisions collaborating with  
14 NIPSCO and Intervenors to refine the reports' contents over time.

### INCREMENTAL BENEFITS

15 **Q: The Statute requires an order include a "determination whether the estimated costs**  
16 **of the eligible improvements included in the plan are justified by incremental**  
17 **benefits attributable to the plan."**<sup>5</sup> **Please state and then discuss the OUCC's**  
18 **position on the term "incremental benefits."**

19 A: Because it is undefined in the Statute, "incremental benefits" can be interpreted many  
20 ways. NIPSCO chose to use system risk reduction as a primary element. We agree that  
21 the term could include the several types of examples Mr. Dehring describes on pages 7-8

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<sup>4</sup> See Petitioner's Exhibit PR in Cause Nos. 42150 ECR 19-22.

<sup>5</sup> Ind. Code § 8-1-39-10(b)(3).

1 of his testimony. Identifying kinds of incremental benefits is far easier than quantifying  
2 them.

3 Mr. Dehring's chart on page 7 suggests the proposed plan achieves a 32%  
4 reduction in system risk versus a "do nothing" scenario that assumes no current assets fail  
5 and there are no capital investments in transmission or distribution assets. The scenario  
6 makes no assumptions about the level of storm damage that will occur nor does it make  
7 assumptions regarding the level of O&M expenditures. While we agree the proposed  
8 projects can provide incremental benefits to the system, we have fundamental misgivings  
9 about NIPSCO's proposed baseline ("run to failure") and the resulting quantification.  
10 Additionally, while we understand projects in the Plan would reduce the system "risk  
11 score" (from 42,153 points to 37,139), it is impossible to evaluate the significance of the  
12 reduction without a meaningful and commonly understood frame of reference.

13 Comparing these two end points will not necessarily show the incremental  
14 benefits. As time passes, assets continue to deteriorate, putting constant upward pressure  
15 on the risk score. Therefore, it is possible for risk reductions from improvements to be  
16 outweighed by the risk increases attributable to aging, non-improved elements. OUCC  
17 considered measuring incremental benefits based on historical spends and their associated  
18 benefits. We ultimately rejected this approach in part because the Statute does not  
19 explicitly require such a comparison.

20 The lowest threshold for identifying "incremental benefits" would include any  
21 project that makes the T&D system better than it was before. OUCC believes in order to  
22 make this statutory requirement meaningful, the IURC should require something more.  
23 The OUCC considered the relatively large number of assets that over the next 7 years

1 will move toward the “critical focus region.”<sup>6</sup> From that data and other information  
2 reviewed, the OUCC concluded that the projects included in the Plan’s initial priority  
3 provide incremental benefits to NIPSCO’s customers by maintaining an adequate level of  
4 safety and reliability. NIPSCO stated the initial POF driver is only based on the asset age  
5 and survivor curve relationship. NIPSCO represented that this information will be  
6 updated annually using the specific asset’s condition data. This level of detail will help  
7 ensure the assets scheduled for replacement in the upcoming year provide incremental  
8 benefits.

9 **Q: The Statute requires an IURC determination that estimated costs are justified by**  
10 **the incremental benefits. What conclusion has the OUCC reached about this**  
11 **requirement regarding NIPSCO’s proposed Plan?**

12 **A:** The OUCC is able to review project cost estimates and make a determination regarding  
13 their reasonableness. The OUCC is also able to review a given project and make a  
14 determination whether it provides some type of incremental benefit. However, as  
15 discussed earlier, it is difficult to quantify the economic value of the incremental benefits,  
16 and in turn, undertake a meaningful cost/benefit analysis. All reasonably priced projects  
17 are not automatically justified by their incremental benefits. This section of the Statute  
18 cannot be satisfied by a simple, rigid formula. However, in this case, the OUCC has  
19 concluded that the project cost estimates are reasonable and that the projects will result in  
20 some incremental benefits to NIPSCO’s T&D system.

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<sup>6</sup> See Petitioner’s Exhibit TAD-2 (confidential), Figures 6-33, 6-36, 6-38 on pages 6-29 – 6-32.

**COST ESTIMATES**

1 **Q: Is the OUCC satisfied with NIPSCO's cost estimates in this filing?**

2 A: As discussed by OUCC Witness Edward Rutter, while NIPSCO's case-in-chief provided  
3 some cost estimate information, the OUCC sought work order level cost estimates for  
4 each project proposed in the Plan. This level of specificity would allow the OUCC to  
5 determine if the estimates were based on reasonable assumptions. NIPSCO provided  
6 work order level estimates for 25 projects scheduled for 2014. This information, in  
7 conjunction with other cost estimate evidence we gathered (through analysis of  
8 testimony, discovery requests and informal discussions with both the Petitioner and  
9 B&V) allowed us, in this case, to conclude NIPSCO's cost estimating procedure and  
10 estimates were reasonable. Notwithstanding this ultimate outcome, we request the IURC  
11 require work order level detail be included for all projects in future TDSIC 7-Year Plans.

**ECONOMIC DEVELOPMENT**

12 **Q: How does NIPSCO propose to treat economic development projects in the Plan?**

13 A: NIPSCO proposes to "set aside approximately \$10 million each year for economic  
14 development projects as part of the annual total spend requested for approval."<sup>7</sup> It also  
15 proposes to use the same requirements contained in NIPSCO's current Economic  
16 Development Rider. NIPSCO requests the ability to pull economic development budget  
17 dollars forward from later years if needed.

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<sup>7</sup> See Petitioner's Exhibit FAS, page 12, lines 5 – 6.

1 **Q: Does the OUCC agree with the \$10 million annual set aside, the conformity to**  
2 **NIPSCO's existing Economic Development Rider and the ability to pull economic**  
3 **development budget dollars forward from later years?**

4 A: Yes. The annual set aside budget seems reasonable. Conformity with NIPSCO's existing  
5 tariff requirements will eliminate potential participants' confusion. Since it is unknown  
6 when during the 7-year period an economic development project will surface, the OUCC  
7 accepts NIPSCO's proposal regarding these aspects of its economic development  
8 proposal.

9 **Q: NIPSCO also proposes the "ability to redeploy those [economic development]**  
10 **dollars to other TDSIC project categories for use in current or subsequent plan**  
11 **years."<sup>8</sup> Does the OUCC agree with this aspect of NIPSCO's economic development**  
12 **proposal?**

13 A: No. The TDSIC Statute addresses economic development separately. It is consistent with  
14 the Statute to keep those dollars separate. NIPSCO's economic development set-aside  
15 should not be used for any TDSIC category other than economic development. The \$10  
16 million set-aside, if unused for any given year, should roll forward in the event an  
17 economic development project surfaces in a future Plan year. If, at the end of the Plan  
18 any part of the \$70 million remains unused for economic development, that amount will  
19 not be collected from ratepayers.

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<sup>8</sup> See Petitioner's Exhibit FAS, page 12, lines 17 – 18.

**ASSET MANAGEMENT**

1 **Q: Does NIPSCO have a plan to develop an asset condition history database?**

2 A: Yes. NIPSCO Witness Timothy A. Dehring states that “Over time, information is  
3 continually gathered around asset condition data. This information will be integrated into  
4 our risk model and will serve to modify the probability of asset failure.”<sup>9</sup>

5 **Q: Did NIPSCO explain its current transmission and distribution asset data repository**  
6 **and how that will be used in the future?**

7 A: No, not in its case-in-chief. However, NIPSCO informed the OUCC that it implemented  
8 an integrated Maximo asset management system and ESRI geographic information  
9 system in January 2011. NIPSCO loaded electronic records available at that time into the  
10 asset management system. As NIPSCO continues to capture condition data, industry data  
11 and other forms of information, it plans to analyze this information at the asset level and  
12 use it to modify the POF in future updates to the electric risk model.

13 **Q: Did NIPSCO rely on the asset management data in its risk assessment?**

14 A: No. Unfortunately there is not enough history to show trending. Also, the data integration  
15 from the asset management system and the B&V model proved challenging. The initial  
16 risk assessment model determines its POF driver only from asset age and survivor curve  
17 relationships. However, NIPSCO considered known asset condition data as it identified  
18 projects for 2014. Over the 7 year period, NIPSCO stated it would work through the data  
19 integration issues while continuing to build asset history.

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<sup>9</sup> See Petitioner's Exhibit TAD, page 10, lines 8 – 11.



**RECOMMENDATIONS**

1 **Q: What OUCC recommendations are you sponsoring in this cause?**

2 A: The OUCC recommends the IURC:

- 3 1. With the exception of NIPSCO's economic development proposal, approve  
4 NIPSCO's 7-Year Plan based on:
- 5 a. The process and criteria used to evaluate asset replacement priority,
  - 6 b. The reasonableness of the project cost estimates, and
  - 7 c. The incremental benefits to NIPSCO customers.
- 8 2. Adopt the OUCC's recommended on-going reporting requirements.
- 9 3. Deny NIPSCO's request to redeploy economic development budget dollars to  
10 other TDSIC project categories for use in current or subsequent plan years.
- 11 4. Determine work order level detail for all proposed projects is appropriate and  
12 should be included in a utility's case in chief seeking approval of a TDSIC 7-  
13 Year Plan.

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

15 A: Yes.

**AFFIRMATION**

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

*Barbara A. Smith*

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By: Barbara A. Smith  
Indiana Office of  
Utility Consumer Counselor