

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).)**

OUCS PREFILED TESTIMONY

EDWARD T. RUTTER - PUBLIC'S EXHIBIT #3

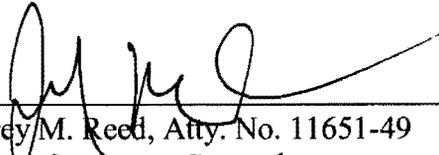
ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

OCTOBER 11, 2013

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER



Jeffrey M. Reed, Atty. No. 11651-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Prefiled Testimony of Edward T. Rutter* 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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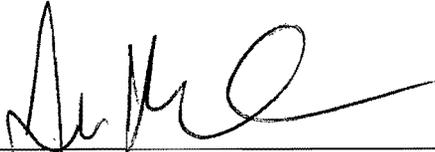
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**OUCG TESTIMONY OF EDWARD T. RUTTER
CAUSE NO. 44370
NORTHERN INDIANA PUBLIC SERVICE COMPANY**

I. INTRODUCTION

1 **Q. Please state your name, business address and title.**

2 A. My name is Edward T. Rutter. My business address is 115 West Washington St., Suite
3 1500 South Tower, Indianapolis, IN, 46204. I am employed by the Indiana Office of
4 Utility Consumer Counselor (OUCC), and my current position is Utility Analyst in the
5 Resource Planning and Communications Division.

6 **Q. Please summarize your educational background.**

7 A. I am a graduate of Drexel University in Philadelphia, PA, with a Bachelor of Science
8 degree in Business Administration.

9 **Q. Please summarize your employment history.**

10 A. I was employed by South Jersey Gas Company as an accountant responsible for
11 coordinating annual budgets, preparing preliminary monthly, quarterly, annual and
12 historical financial statements, assisting in preparation of annual reports to shareholders,
13 all SEC filings, state and local tax filings, all FPC/FERC reporting, plant accounting,
14 accounts payable, depreciation schedules and payroll. Once the public utility holding
15 company was formed, South Jersey Industries, Inc., I continued to be responsible for
16 accounting as well as for developing the consolidated financial statements and those of
17 the various subsidiary companies including South Jersey Gas Company, Southern

1 Counties Land Company, Jessie S. Morie Industrial Sand Company, and SJI LNG
2 Company.

3 I left South Jersey Industries, Inc. and took a position with Associated Utility Services
4 Inc. (AUS), a regulated utility consulting firm specializing in rate regulation including
5 rate of return, revenue requirement, purchased gas adjustment clauses, fuel adjustment
6 clauses, revenue requirement development and valuation of regulated entities.

7 On leaving AUS, I worked as an independent consultant in the public utility area as well
8 as telecommunications including cable television (CATV). I joined the OUCC in
9 December, 2012 as a utility analyst.

10 **Q. Have you previously testified before this or any other regulatory commission?**

11 A. I have previously testified before the Indiana Utility Regulatory Commission
12 (Commission) in Cause Nos. 44311, 44331, 44339, and 44363. I have also testified
13 before the regulatory commissions in the states of New Jersey, Delaware, Maryland,
14 Pennsylvania, New York, Connecticut, Georgia, Florida, North Carolina, Ohio,
15 Oklahoma, Virginia and Wisconsin. In addition to the states mentioned, I submitted
16 testimony before the utility regulatory commissions in the Commonwealth of Puerto Rico
17 and the U.S. Virgin Islands.

18 I have also testified as an independent consultant on behalf of the U.S. Internal Revenue
19 Service in Federal Tax Court, New York jurisdiction.

II. COST ESTIMATES OF NIPSCO'S TDSIC 7-YEAR PLAN

1 **Q. What is the purpose of your direct testimony in this proceeding?**

2 I discuss the steps I took to review NIPSCO's cost estimate for the projects included in
3 their TDSIC 7-Year Plan (Plan) and my conclusion regarding whether those estimates
4 represent the best estimate of the cost of the eligible improvements included in the Plan.

5 **Q. Prior to reviewing and analyzing the cost estimates of the projects included in Plan,**
6 **did you review the included projects to see if they were eligible transmission,**
7 **distribution, and storage system improvements?**

8 A. Yes. As I read and interpret Section 2 of Chapter 39 of IC-8-1-39 any project proposed
9 for inclusion in a public utility's 7-year plan must constitute a new or replacement
10 electric or gas transmission, distribution, or storage utility project. I interpret that
11 requirement to mean that the projects must be consistent with transmission, distribution
12 and/or storage facilities as delineated in the Federal Energy Regulatory Commission
13 (FERC) currently adopted Uniform System of Accounts (USOA).
14 I reviewed the petition in this Cause and the accompanying supporting testimony and
15 exhibits, as well as responses to data requests. I also participated in meetings with
16 NIPSCO personnel and their consultants. It is my position that each of the projects
17 proposed to be included in the Plan would be properly recorded as a transmission,
18 distribution and/or storage asset under the FERC USOA and would qualify as an eligible
19 transmission, distribution, and storage system improvement. I concluded that each of the
20 projects included in the Plan satisfied these conditions.

21 **Q. What steps did you undertake in your review and analysis of the cost estimates of**
22 **the improvements included in the Plan?**

1 A. I started my review and analysis with NIPSCO's petition in this Cause and the testimony
2 and supporting exhibits filed with the petition. That information included various studies
3 and documents prepared by Black & Veatch on behalf of NIPSCO in a consulting
4 capacity.

5 My review was primarily concerned with NIPSCO's cost estimate for the individual
6 projects included in the Plan. Since Black & Veatch provided a third-party review of
7 NIPSCO's direct capital cost estimates, I considered those reports as secondary support
8 to the reasonableness of NIPSCO's direct capital cost estimates.

9 While the NIPSCO petition, the supporting testimony and exhibits, and the information
10 gathered during several meetings with Company personnel and their consultants provided
11 voluminous information, I did not believe it was sufficient to reach a conclusion as to the
12 reasonableness of the cost estimates. Consequently, I then generated data requests to
13 NIPSCO in order to be able to review the direct and indirect costs utilized by NIPSCO in
14 developing the cost estimates associated with the projects included in the Plan.

15 In this regard NIPSCO was cooperative and provided detailed cost estimates for 25
16 specific projects included in the TDSIC 7-Year Plan for 2014.

17 **Q. What is the overall estimate of the cost of the eligible improvements included in the**
18 **Plan?**

19 A. Petitioner's Exhibit No. TAD-1 (Confidential) Exhibit A, Schedules 1, 2, and 3 provides
20 a summary of the Plan's estimated costs. A review of the Exhibit indicates that the
21 overall estimated costs are \$1,072,803,990 for the period 2014 through 2020. The 2014
22 estimated costs aggregate \$75,238,403.

1 While there is an overall 7-Year cost estimate, that estimate will in all likelihood be
2 modified as the individual projects are actually implemented. Like any long term
3 estimate, circumstances and costs change. In some cases those changes may be beyond
4 the Company's control. The individual projects are the primary focus of the Plan
5 recognizing that any proposed cost recovery adopted in subsequent proceedings will be
6 based on the "actual" cost of the projects when completed and implemented.

7 The point is that while the initial estimate of the cost of the Plan is about \$1.072 billion,
8 that number will most likely become modified as the Plan is implemented.

9 **Q. Have you reviewed and analyzed the individual project cost estimates NIPSCO has**
10 **included in the Plan?**

11 A. I reviewed the project estimates provided in the Black & Veatch reports filed with the
12 petition and discussed how the cost estimates were developed with both NIPSCO
13 personnel and Black & Veatch representatives. However, I was not able to review in
14 detail the cost estimates developed by NIPSCO for each and every project for each year
15 of the Plan.

16 In response to an OUCC data request, NIPSCO provided specific cost estimates for 25
17 individual projects included in the projects scheduled for 2014. I would have preferred to
18 be able to review a detailed cost estimate for each individual project included in the 7-
19 Year Plan, but was unable to do so given the brevity of time and the nature of the other
20 supporting materials presented by the Company for the Plan's expenditures. I would
21 recommend the Commission find such detailed cost estimates should be made part of
22 each utility's case-in-chief filings in all future TDSIC proceedings for a more meaningful
23 and complete review.

1 **Q. What other reviews did you perform?**

2 I reviewed the methodology employed by the Company in developing their estimates,
3 reviewed whether it was based initially on historical replacements, equipment failures
4 and other factors such as weather. I was able to review and analyze individual
5 component costs for equipment, discuss and understand how the labor components of
6 each project were developed and review the components of the indirect costs. My review
7 of the individual components encompassed checking the reasonableness of available
8 prices for the components where details were available.

9 Black & Veatch's analysis included a review of the "direct" capital costs and concluded
10 "the cost estimates NIPSCO has developed and is using for its long term electric T&D
11 capital plan are reasonable." Discussions with Black & Veatch and NIPSCO personnel
12 revealed that the 2014 cost estimates were reviewed in detail by Black & Veatch while
13 the cost estimates for the period 2015 to 2020 were "spot" reviewed for reasonableness. I
14 have prepared and attached to my testimony OUCC Confidential Attachment ETR -1,
15 which compares the NIPSCO's 2014 direct cost estimates with those created by Black &
16 Veatch for these projects.

17 I also was able to review the detailed estimates prepared by NIPSCO for 25 individual
18 2014 transmission, distribution and/or storage improvement projects included in the
19 TDSIC 7-Year Plan and was able to review and analyze the reasonableness of each
20 component for those projects. A copy of the aggregate cost estimates for each of the 25
21 improvement projects is set forth in OUCC Confidential Attachment ETR -2 attached to
22 my testimony.

III. CONCLUSION

1 **Q. Do you have an opinion regarding the reasonableness of NIPSCO's cost estimates?**

2 A. Yes. The cost estimates I reviewed were developed based on individual component costs
3 for labor and material that are reflective of NIPSCO's history and currently known
4 material cost estimates verified through vendor estimates and readily available
5 component cost availability through public information. The methodology adopted by
6 NIPSCO is reasonable and reflective of industry policies and procedures. In light of the
7 evidence I reviewed and my understanding of the nature of long term estimates discussed
8 earlier, I conclude that in this case, NIPSCO's cost estimates for its 7-year Plan are
9 reasonable.

10 **Q. While you concluded that the NIPSCO TDSIC 7-Year Plan cost estimates are**
11 **reasonable, are they the "best estimate" of the cost of the eligible improvements**
12 **included in the 7-Year plan?**

13 A. I do not know what the legislature had in mind when it included the "best estimate"
14 language. See, IC 8-1-39-10 (b) (1). Webster's defines "best" as: 1) most excellent; or 2)
15 most suitable. I believe in this particular case "most suitable" is appropriate to use for
16 my purposes. As I've previously indicated, this case involves long term cost estimates
17 that are dependent on many factors beyond the influence of the estimator.

18 The cost estimates were prepared by the Company and are reflective of actual historical
19 experience. A recognized, experienced third party consultant, utilizing independent cost
20 data based on the specifics of each project, concluded NIPSCO's improvement project
21 cost estimates are reasonable. My independent review of the costs and procedures
22 adopted by NIPSCO in developing the cost estimates reaches a similar conclusion. Given

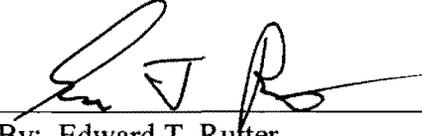
1 all of the information available and recognizing that the cost estimates start with NIPSCO
2 specific historical data I believe that the cost estimates for the improvement projects
3 included in the 7-year Plan are the most suitable and as such the best available at this
4 time.

5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**

AFFIRMATION

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



By: Edward T. Rutter
Indiana Office of
Utility Consumer Counselor

10/11/13
Date

CAUSE NO. 44370

OUCG ATTACHMENT ETR-1

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OUCC ATTACHMENT ETR-2

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