

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

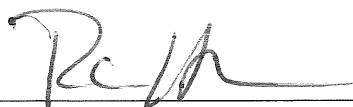
MICHAEL D. ECKERT – PUBLIC'S EXHIBIT NO. 4

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 MICHAEL D. ECKERT* 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 MICHAEL D. ECKERT
CAUSE NO. 44371
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.

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

8 A: I graduated from Purdue University in West Lafayette, Indiana in December
9 1986, with a Bachelor of Science degree, majoring in Accounting. I am licensed
10 in the State of Indiana as a Certified Public Accountant. Upon graduation, I
11 worked as a Field Auditor with the Audit Bureau of Circulation in Schaumburg,
12 Illinois until October 1987. In December 1987, I accepted a position as a Staff
13 Accountant with the OUCC. In May 1995, I was promoted to Principal
14 Accountant and in December 1997, I was promoted to Assistant Chief
15 Accountant. As part of the OUCC's reorganization, I accepted the position of
16 Assistant Director of its Telecommunications Division in July 1999. From
17 January 2000 through May 2000, I was the Acting Director of the
18 Telecommunications Division. As part of an OUCC reorganization, I accepted a
19 position as a Senior Utility Analyst. As part of my continuing education, I have

1 attended the National Association of Regulatory Utility Commissioner's
2 (NARUC) two-week seminar in Lansing, Michigan. I attended NARUC's Spring
3 1993 and 1996 seminar on system of accounts. In addition, I attended several
4 CPA sponsored courses and the Institute of Public Utilities Annual Conference in
5 December 1994 and December 2000.

6 **Q: Please describe the review and analysis you conducted in order to prepare**
7 **your testimony.**

8 A: I read Northern Indiana Public Service Company's (NIPSCO or Petitioner or
9 Company) Verified Petition and Verified Direct Testimony in this proceeding, as
10 well as relevant Commission Orders. I reviewed Petitioner's work papers and
11 participated in meetings. I also reviewed Petitioner's responses to OUCC data
12 requests and pertinent sections of Title 8 of Indiana Code and Title 170 of the
13 Indiana Administrative Code. I participated in meetings with other OUCC staff
14 members, other Intervenors, and Company personnel in developing issues
15 identified in this Cause.

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

17 A: The purpose of my testimony is to demonstrate how NIPSCO's proposed
18 tracking mechanism may seek to recover costs not directly related to
19 Transmission and Distribution (T&D) investments. I also discuss how the
20 proposed tracker will impact ratepayers. Finally, I recommend that Petitioner not
21 be allowed to recover T&D investments that are already recovered through other
22 mechanisms or base rate components.

23 **Q: Have you previously testified before the Indiana Utility Regulatory**
24 **Commission (Commission)?**

25 A: Yes.

II. T&D ACCOUNTS TO BE TRACKED

1 **Q: Does NIPSCO have plant accounts eligible for TDSIC tracking?**

2 A: Yes.

3 **Q: How many plant accounts does NIPSCO include as eligible for TDSIC**
4 **trackers?**

5 A: In response to OUC Data Request Set 4, Question 4, Petitioner identified 22
6 plant accounts that are eligible for TDSIC Treatment. See the table below.

Intangible Plant Account Number	Intangible Plant Account Name		
E303	Miscellaneous Intangible Plant		
Distribution Plant Account Number	Distribution Plant Account Name	Transmission Plant Account Number	Transmission Plant Account Name
E350	Land and Land Rights	E360	Land and Land Rights
E352	Structures and Improvements	E361	Structures and Improvements
E353	Station Equipment	E362	Station Equipment
E354	Towers and Fixtures	E364	Poles, Towers and Fixtures
E355	Poles and Fixtures	E365	Overhead Conductors and Devices
E356	Overhead Conductors and Devices	E366	Underground Conduit
E357	Underground Conduit	E367	Underground Conductors and Devices
E358	Underground Conductors and Devices	E368	Line transformers
E359	Road and Trails	E369	Services
		E370	Meters
		E371	Installations on Customer Premises
		E373	Street Lighting and Signal Systems.

7 **Q: Is Petitioner's proposed TDSIC mechanism appropriately limited to plant**
8 **investment for T&D accounts?**

1 A: It is not entirely clear. There may be expenditures included in NIPSCO's
2 proposal that are not related to T&D. For example, Account 303 is an "Intangible
3 Account" and, therefore, could have expenditures related not only to T&D plant,
4 but also production plant and hydraulic production plant. The OUCC believes that
5 only investments directly related to T&D-specific projects should be eligible for
6 TDSIC tracking.

7 **Q: What is the definition of Account 303 Miscellaneous Intangible Plant?**

8 A: According to the Federal Energy Regulatory Commission (FERC) Uniform
9 System of Accounts (USOA), the definition of the account is: "This account shall
10 include the cost of patent rights, licenses, privileges, and other intangible property
11 necessary or valuable in the conduct of utility operations and not specifically
12 chargeable to any other account."

13 **Q: If the Commission approves a TDSIC tracker, should the Commission limit**
14 **the tracking of investment to T&D utility plant accounts?**

15 A: Yes. The TDSIC tracker should be limited to T&D utility plant accounts and
16 related plant accounts. For example, if a T&D project requires the Company to
17 make a change at a "Production Plant", it should not be allowed to track that
18 change at the Production Plant in the TDSIC tracker.

19 **Q: Are you familiar with any other trackers where the costs to be tracked are**
20 **limited?**

21 A: Yes. The Fuel Adjustment Cost (FAC) tracker limits costs to be tracked
22 specifically to 151 (Fuel Stock) and 152 (Fuel Stock Expenses). In my opinion,
23 by limiting the costs to be tracked in the FAC, the Commission has kept the FAC
24 less complex and more transparent.

III. FUTURE RATE CASE IMPACTS

1 **Q: How will future rate cases be impacted by the TDSIC tracker?**

2 A: The TDSIC tracker will impact future rate proceedings in many areas. Some of
3 those areas are: 1) weighted average cost of capital (WACC)/return on equity
4 (ROE); 2) maintenance expense; and 3) T&D capital expenditures.

5 **Q: How would you expect the TDSIC tracker to impact Petitioner's ROE and**
6 **WACC in future base rate case rate proceedings?**

7 A: Petitioner's ROE in future base rate cases should be lower than its most recent
8 case and prior rate proceedings. Petitioner's current ROE includes an amount to
9 accommodate higher operating risks and the pressures of funding significant
10 capital investments. The TDSIC tracker allows for more frequent rate changes to
11 reflect the Company's invested capital costs. The TDSIC tracker also mitigates
12 NIPSCO's construction and operating risk that supports a lower return. The OUCC
13 would expect Petitioner's lower ROE to decrease Petitioner's WACC, which should
14 reduce rate increases in future rate proceedings. The Commission should award
15 NIPSCO a lower ROE in its next rate case to reflect NIPSCO's lower construction
16 and operating risk.

17 **Q: How would you expect the TDSIC tracker to impact Petitioner's**
18 **maintenance expense in future rate proceedings?**

19 A: NIPSCO's T&D maintenance expense should decrease in future years as
20 Petitioner's capital expenditure plan for T&D will upgrade the Company's current
21 aging T&D infrastructure.

22 **Q: How would you expect the TDSIC tracker to impact Petitioner's T&D**
23 **capital expenditures in future rate proceedings?**

1 A: T&D capital expenditures in future rate cases should be less contentious as most
 2 of Petitioner's T&D capital expenditures have been reviewed and approved in
 3 Petitioner's 7-year electric plan.

IV. CURRENT TRACKING AND BASE RATE MECHANISMS

4 **Q: Does NIPSCO currently have a variety of mechanisms that allow it to**
 5 **recover operating expenses and capital expenditures through base rates**
 6 **and/or trackers?**

7 A: Yes. The following table outlines these mechanisms:

Cause Number	Mechanism Name
38706 FAC	Fuel Adjustment Clause
42150 ECR	Environmental Cost Recovery Mechanism(ECRM)
42150 ECR	Environmental Expense Recovery Mechanism(EERM)
43618 DSM	Demand Side Management
44155 RA	Resource Adequacy Tracker
44156 RTO	Regional Transmission Organization Tracker
44198 GPR	Green Power Rider
44340	Federally Mandated Cost Adjustment Mechanism (Proposed) (FMCA)
44371	Transmission, Distribution, and Storage System Improvement Charge Mechanism (Proposed)
43969 (Base Rates)	Maintenance Expense
43969 (Base Rates)	Storm Damage Expense
43969 (Base Rates)	Return Component
43969 (Base Rates)	Depreciation/Capital Recovery

8 **Q: What types of costs does Petitioner recover through these mechanisms from**
 9 **ratepayers?**

10 A: Petitioner recovers both capital expenditures and operating expenses from
 11 ratepayers. For example, the ECR, Cause No. 42150, tracks both operating
 12 expenses and capital expenditures, allowing Petitioner to recover certain costs
 13 associated with these projects prior to its next base rate case. The FAC allows

1 Petitioner to track its fuel expense every quarter. In addition, Petitioner's base
2 rates have an amount of T&D maintenance expense and T&D storm damage
3 expense.

4 **Q: What are the OUCC's concerns with monitoring Petitioner's capital**
5 **expenditures in the proposed TDSIC mechanism?**

6 A: The OUCC is concerned that monitoring the Company projects and the payment
7 for such projects will be very detailed and complicated when factoring in the
8 various tracking mechanisms. One situation where this could occur is where an
9 investment that Petitioner seeks recovery for in its TDSIC tracker could already
10 be embedded in NIPSCO's base rates for an item such as storm restoration. For
11 illustrative purposes, assume in Year 1, the TDSIC tracker is scheduled to recover
12 costs for the replacement of a distribution line between Road A and Road B.
13 Prior to replacing the line, a storm comes through and destroys the line. We need
14 the ability to determine whether the line repair costs are covered by storm damage
15 expense or recovered through the TDSIC mechanism.

16 **Q: Did you ask Petitioner how it will ensure that storm damage expense to T&D**
17 **plant are recovered through the storm damage component of its base rates**
18 **and not through the TDSIC mechanism?**

19 A: Yes. Petitioner provided the following response to OUCC Data Request Set No.
20 4, Question 8:

21 When storm damage occurs, a portion of the costs are expenses,
22 and are recovered in NIPSCO's basic rates and charges. NIPSCO
23 is not seeking recovery of O&M expense in conjunction with the
24 current 7-year plan. Another portion of the costs are capitalized,
25 and those costs are included in NIPSCO's rate base. Traditionally,
26 NIPSCO would not begin to recover these costs until its next
27 general rate case, however, with passage of SB 560, NIPSCO is
28 proposing to recover the capital component of emergent expenses
29 through its TDSIC factor.

1 **Q: Do you believe NIPSCO should be able to recover “emergent expenses” as a**
2 **result of a storm in its TDSIC tracker?**

3 A: No. I assume that “emergent expenses” are those attributable to an unexpected or
4 unplanned event. Recovering “emergent costs” in a tracker expressly designed to
5 recover costs associated with a detailed 7-year plan is inconsistent with the
6 purpose of the TDSIC statute.

7 **Q: Does the OUCC have similar concerns about potential overlapping with**
8 **other recovery mechanisms?**

9 A: Yes. The OUCC asked Petitioner how it will ensure that Demand-Side
10 Management (DSM) T&D plant improvements are recovered through its DSM
11 adjustment mechanism and not through its proposed TDSIC mechanism.
12 Petitioner provided the following response to OUCC Data Request Set No. 4,
13 Question 14:

14 ...Furthermore, NIPSCO maintains separate and distinct work
15 orders for all capital projects. Work orders related to DSM would
16 be identified and recovered through NIPSCO’s proposed DSM
17 Adjustment mechanism, whereas work orders related to NIPSCO’s
18 7-year plan would be identified and recovered through its TDSIC
19 mechanism.

20 **Q: Did you ask Petitioner the same question with regard to the ECR, RTO, and**
21 **FMCA trackers?**

22 A: Yes. Petitioner provided the same general answers for each of its trackers.

23 **Q: As part of the review process during future TDSIC trackers, will the OUCC**
24 **have to review and verify that projects are actually TDSIC projects and not**
25 **storm damage expense or vice versa?**

26 A: Yes. The OUCC will need an in-depth understanding of Petitioner’s work order
27 process. The OUCC will have to know which T&D accounts may qualify for
28 other tracker mechanisms and/or base rate case expense to verify the TDSIC
29 projects are actual TDSIC projects. Therefore, the Commission should require

1 Petitioner to provide a list of current trackers and/or components of base rates that
2 could have T&D capital investments.

V. CONCLUSIONS AND RECOMMENDATIONS

3 **Q: What does the OUCC recommend?**

4 A: The OUCC recommends the Commission deny Petitioner's proposed TDSIC
5 capital expenditure (CapEx) tracking mechanism (*See* OUCC Witness Tyler E.
6 Bolinger's Testimony). However, if the Commission approves the CapEx tracking
7 mechanism as proposed by Petitioner the OUCC recommends the Commission
8 Order the following:

1) TDSIC recovery should be limited to those accounts that are specifically
 identified by NIPSCO as T&D utility plant accounts 4; and

9 2) TDSIC recovery should be limited to those investments that are not already
10 recovered through other mechanisms or base rate components.

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


12 A: Yes, it does.

AFFIRMATION

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



Michael D. Eckert, Utility Analyst
Indiana Office of Utility Consumer Counselor



Date

Cause No. 44371
NIPSCO