

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY FOR APPROVAL OF: (1) AN)
ADJUSTMENT TO ITS ELECTRIC SERVICE)
RATES THROUGH ITS ENVIRONMENTAL COST)
RECOVERY MECHANISM FACTOR AND)
ENVIRONMENTAL EXPENSE RECOVERY)
MECHANISM FACTOR 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, 43188, 43969, 44012 AND 44311; AND (2))
MODIFICATIONS OF AND REVISED COST)
ESTIMATES RESPECTING ENVIRONMENTAL)
COMPLIANCE PROJECTS SET FORTH IN ITS)
SEVENTEENTH PROGRESS REPORT)
PURSUANT TO THE ONGOING REVIEW)
PROCESS UNDER IND. CODE § 8-1-8.7-7 AND)
APPROVED IN CAUSE NOS. 42150, 43188, 44012)
AND 44311; AND MODIFICATION OF APPENDIX)
E – ENVIRONMENTAL EXPENSE RECOVERY)
MECHANISM FACTOR.)

CAUSE NO. 42150 ECR 27

APPROVED: APR 20 2016

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On January 29, 2016, Northern Indiana Public Service Company (“NIPSCO”) filed its Verified Petition in this Cause. NIPSCO also prefiled the direct testimony and attachments of the following witnesses:

- Thomas S. Sibb; Manager, Regulatory Support and Analysis in NIPSCO’s Rates and Regulatory Finance Department; and
- Kurt W. Sangster, Vice President, Projects and Construction Electric at NIPSCO; and
- Anthony L. Sayers, General Manager, Generation at NIPSCO.

On February 4, 2016, the NIPSCO Industrial Group (“Industrial Group”) filed its Petition to Intervene, which the Presiding Officers granted in a Docket Entry dated February 19, 2016.

On March 23, 2016, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled direct testimony of Wes R. Blakley, Senior Utility Analyst in the OUCC’s Electric Division.

The Commission held an evidentiary hearing in this Cause at 10:00 a.m. on April 6, 2016, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO, the OUCC and the Industrial Group appeared at the hearing. No member of the public appeared or participated at the hearing.

Having considered the evidence presented and the applicable law, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this case 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. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this case.

2. **NIPSCO's Characteristics.** Petitioner is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86th Street, Merrillville, Indiana 46410. 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.** NIPSCO seeks the following relief:

- Approval of the proposed rate adjustments through its environmental cost recovery mechanism ("ECRM"), effective for bills issued during the billing cycles of May through October 2016.
- Approval of the proposed rate adjustments through its environmental expense recovery mechanism ("EERM"), effective for bills issued during the billing cycles of May 2016 through April 2017.
- Approval of the proposed modifications to its environmental compliance projects and cost estimates detailed in its Seventeenth Progress Report.

4. **Commission Discussion and Findings Regarding ECRM.**

A. **Billing Period.** Mr. Sibbald testified that consistent with Rider 672 – Adjustment of Charges for Environmental Cost Recovery Mechanism, NIPSCO requests approval of its ECRM factors to be applicable to the bills rendered during the billing cycles of May through October 2016. The ECRM factors include actual costs through December 31, 2015, and a reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period May through October 2015.

B. **Environmental Compliance Project Investment.** Mr. Sibbald testified that the total cost of Environmental Compliance Projects under construction, net of accumulated depreciation, upon which NIPSCO is authorized to earn a return is \$800,748,752. He testified that the construction costs include an allowance for funds used during construction ("AFUDC"), computed in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts. Mr. Sibbald testified that if the Commission approves the proposed ratemaking treatment for the values shown on Petitioner's Exh. 1, Attachment A, Schedule 1B, NIPSCO will cease accruing AFUDC on those costs once such amounts are being recovered through rates.

Mr. Sibó testified that for purposes of calculating the revenue requirement associated with the Unit 7 SCR Catalyst 2nd Layer, NIPSCO followed the ratemaking treatment prescribed by the Commission in Cause No. 42150 ECR 21. As reflected on Petitioner's Exh. 1, Attachment A, Schedule 4, NIPSCO has only included the incremental amount of the return on its investment for the replacement catalyst layer that exceeds the return on investment currently included in its base rates and charges for the original catalyst layer.

Mr. Sangster testified that Petitioner's Exh. 1, Attachment A, Schedules 1, 1A, and 1B describe the Company's Environmental Compliance Projects under construction which have been approved by the Commission and on which NIPSCO proposes to earn a return. Schedules 1, 1A, and 1B set out a brief description of the project, approved cost estimates, the construction start dates, the anticipated in-service dates, and the current and prior investment values for each project. The costs for NIPSCO's Environmental Compliance Projects have been compiled through December 31, 2015. Mr. Sangster also testified that all of the projects for which NIPSCO is seeking ratemaking treatment in this Cause have been under construction for at least six months.

Based on the evidence presented, we find that NIPSCO's request to begin earning a return on \$800,748,752, the value of its Environmental Compliance Projects, net of accumulated depreciation, is reasonable and we approve the request.

C. Semi-Annual Revenue Requirement. Mr. Sibó computed NIPSCO's proposed semi-annual return on its Environmental Compliance Projects at December 31, 2015, of a net amount of \$38,822,445, which is the product of the value of NIPSCO's Environmental Compliance Projects multiplied by the debt and equity components of its weighted cost of capital, adjusted for taxes and multiplied by 0.50. Schedule 7 shows that NIPSCO's Adjusted Semi-Annual Revenue Requirement is \$40,212,582 after including the prior period reconciliation.

Mr. Sibó sponsored the calculation of NIPSCO's 6.49% weighted cost of capital, using its full regulatory capital structure, per books, at December 31, 2015, which is the date of valuation of the Environmental Compliance Projects in accordance with 170 I.A.C. 4-6-14. He testified the cost rates for long-term debt and preferred stock reflect the 12 months ended December 31, 2015. He also testified the cost rates for common equity capital of 10.2% and customer deposits of 4.43% are those approved by the 2011 Rate Order. He testified that deferred taxes and the reserve for post-retirement benefits are treated as zero-cost capital and the cost of post-1970 investment tax credits reflects the weighted costs of long-term debt, preferred stock, and common equity capital. Mr. Sibó testified that NIPSCO's weighted average cost of capital of 6.49% reflects an 8-basis-point decrease from the 6.57% approved in the ECR 26 Order.

Based on the evidence presented, we find that NIPSCO's proposed Adjusted Semi-Annual Revenue Requirement of \$40,212,582 is reasonable, and we approve the revenue requirement.

D. Allocation of Semi-Annual Environmental Compliance Project Revenue Requirement. Mr. Sibó sponsored Petitioner's Exh. 1, Attachment A, Schedule 5, which shows the production allocation percentages attributable to each of NIPSCO's rate schedules. These allocation percentages, which were approved by the ECR 19 Order, are adjusted to reflect the significant migration of customers among Rates 621, 624, 625, 626, and 632. Mr. Sibó testified that this adjustment is appropriate in order to prevent any unintended consequences of the

migration of customers between rates and to properly allocate their share of capital charges and is consistent with the adjustments most recently approved by the Commission in its ECR 26 Order.

Based on the evidence presented, we find that NIPSCO's ECRM factors have been allocated on the basis of the 12 Coincident Peak ("CP") method in accordance with our ECR 19 Order.

E. Reconciliation of Prior Period Recoveries. Mr. Sibó testified that Petitioner's Exh. 1, Attachment A, Schedule 6 shows NIPSCO's reconciliation of projected period recoveries of ECRM revenue with actual revenue during the period May through October 2015. NIPSCO's total computed under- or over-recoveries of ECRM revenue for this period are reflected in Column 4. Based on the evidence presented, we find that NIPSCO properly included reconciliation in its ECRM calculations.

F. New ECRM Factors. Mr. Sibó sponsored Petitioner's Exh. 1-A, Attachment B (Appendix D - Environmental Cost Recovery Mechanism Factor) showing the ECRM factors applicable to the various NIPSCO rate schedules and explained how the ECRM factors were developed. Mr. Sibó testified that the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is \$4.14, which is a \$0.28 decrease from what a customer would pay today using the current ECRM Factors. Mr. Sibó testified that the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month will be \$6.02, which is a \$0.41 decrease from what a customer would pay today using the current ECRM Factors. Mr. Blakley testified that nothing came to his attention that would indicate that NIPSCO's calculation of estimated ECR adjustment factors for the relevant period is unreasonable.

Based on the evidence presented, we approve the proposed ECRM factors set forth in Petitioner's Exh. 1-A, Attachment B to be applicable for bills rendered during the billing cycles of May through October 2016.

5. Commission Findings and Conclusions Regarding EERM.

A. Relevant Period. Mr. Sibó testified that consistent with Rider 673 – Adjustment of Charges for Environmental Expense Recovery Mechanism, NIPSCO requests authority to recover operating, maintenance and depreciation expenses in connection with the operation of its Environmental Compliance Projects that were in service during the 12 months ended December 31, 2015, and the recoverable portion (80%) of the MATS Compliance Plan O&M Project expenses incurred through December 31, 2015, through its EERM factors to be applicable for bills rendered during the billing cycles of May 2016 through April 2017.

B. Actual O&M Expense. Mr. Sayers testified that as shown on Petitioner's Exh. 1-A, Attachment C, Schedule 1-EERM, Page 2 of 2, for the twelve months ending December 31, 2015, NIPSCO incurred \$10,495,039 of Actual O&M Expense associated with NIPSCO's Environmental Compliance Projects (capital projects) and recoverable federally mandated MATS O&M Project expenses, of which \$449,228 was fixed and \$10,045,811 was variable.

1. Environmental Compliance Projects. Mr. Sayers testified that a total of \$10,495,039 O&M expense was incurred related to Environmental Compliance Projects

in service as shown on Petitioner's Exh. 1-A, Attachment C, Schedule 1-EERM, Page 2 of 2. Mr. Sayers listed the Environmental Compliance Projects that were in service during the period from January 1 through December, 2015, and explained whether NIPSCO incurred any O&M expenses associated with those projects.

Mr. Sayers testified that O&M expenses for the twelve months ending December 31, 2015, increased from actual expenses incurred during the twelve months ending December 31, 2014, primarily because more Environmental Compliance Projects were in service in 2015 than in 2014. Most notably, the Unit 15 FGD project was in service and incurred operating expenses for a full year in 2015 as compared to only approximately one month in 2014. In addition, Mr. Sayers explained a few MATS ACI projects went into service in 2015 along with the Unit 12 FGD going into service at the end of 2015. Finally, Mr. Sayers testified that there were no noteworthy increases in O&M expenses in 2015, identified and explained new O&M expense categories created since the O&M expenses were approved in the ECR 25 Order, and summarized his expectations regarding the O&M expenses associated with NIPSCO's ownership and operation of the Environmental Compliance Projects that will be in service during the period from January 1, 2016, through December 31, 2016.

2. **MATS Projects.** Mr. Sayers testified that in the 44311 Order, the Commission approved the following federally mandated O&M Projects as part of NIPSCO's MATS Compliance Plan: (1) Precipitator & FGD Mist Eliminator Cleaning for Bailly Units 7 & 8; (2) Schahfer Unit 15 ESP Flow Modeling; and (3) Air Testing for Schahfer Units 14, 15, 17, 18. He described the Precipitator & FGD Mist Eliminator Cleaning for Bailly Units 7 & 8 approved as part of the MATS Compliance Plan in Cause No. 44311 and testified that as shown on Petitioner's Exh. 1-A, Attachment C, Schedule 1A-EERM, NIPSCO incurred \$333,333 related to Bailly Units 7 & 8 during 2015, \$84,508 related to Unit 7 and \$248,825 related to Unit 8. Mr. Sayers described the federally mandated Schahfer Unit 15 ESP Flow Modeling Project approved as part of the MATS Compliance Plan in Cause No. 44311 and testified that NIPSCO did not incur any expenses associated with that project.

Mr. Sayers described the federally mandated O&M Project Unit 15 ESP Flow Modifications approved as part of the Fourteenth Progress Report in Cause No. 42150 ECR 24 and testified that although this work was originally scheduled for the Fall 2014 outage, this work was not completed during that outage because of congestion inside the ESP due to normal outage work, duct work repairs, and the installation of the Unit 15 TR Sets Project. The work is now scheduled to be completed during the 2017 spring outage. He testified that NIPSCO has followed up with preliminary construction estimates for the installation of the modifications suggested in the Unit 15 Flow Model study. He testified that the preliminary installation estimates have seen increases from the original estimate of \$650,000 approved in the Fourteenth Progress Report. He testified that NIPSCO will continue to refine the estimate to have better information to share in its next filing. Mr. Sayers described the federally mandated O&M Project Air Testing for Schahfer Units 14, 15, 17, 18 approved as part of the MATS Compliance Plan in Cause No. 44311 and testified that NIPSCO did not incur any expenses associated with those projects.

Mr. Sibbald testified that Petitioner's Exh. 1, Attachment C, Schedule 1A-EERM shows the detail of all expenses incurred in conjunction with NIPSCO's federally mandated MATS Compliance Plan O&M Projects. In accordance with the 44311 Order, NIPSCO may recover 80%

of all costs associated with approved federally mandated MATS O&M projects through the currently-effective EERM tracking mechanism.

Based on the evidence presented, we find that NIPSCO's Actual O&M Expense associated with NIPSCO's Environmental Compliance Projects (capital projects) and recoverable federally mandated MATS O&M Project expenses for the period ending December 31, 2015, of \$10,495,039 are reasonable and approve recovery through the EERM factors beginning with the May 2016 billing cycle.

C. Actual Depreciation Expense. Petitioner's Exh. 1, Attachment C, Schedule 1-EERM, page 1 of 2, shows that NIPSCO's actual depreciation expense for the twelve months ending December 31, 2015 was \$29,052,708. Mr. Sibio testified that the Actual Depreciation Expense consists of depreciation expenses incurred in the period January through December 2015 associated with NIPSCO's ownership and operation of the Environmental Compliance Projects that have been placed in service. He testified that Actual Depreciation Expense was computed based on the depreciation lives and/or rates approved in Cause Nos. 42150, 43188, 44012 and 44311.

Based on the evidence presented, we find that NIPSCO's Actual Depreciation Expense for the period ending December 31, 2015, of \$29,052,708 has been properly calculated and is reasonable. Therefore, we approve the Actual Depreciation Expense for recovery through the EERM factors beginning with the May 2016 billing cycle.

D. Allocation of Actual O&M and Depreciation Expenses. Mr. Sibio testified that the part of the EERM charge for operating and maintenance expenses is determined by multiplying the operating and maintenance expenses proposed for recovery times the composite percentage of two elements: (1) an element for the production allocation percentage, which is used for fixed operating and maintenance expenses, and (2) an element for the energy allocation percentages, which is used for variable operating and maintenance expenses.

Mr. Sibio explained NIPSCO's proposed adjustments to its production allocation percentages. He testified that NIPSCO has adjusted its production allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, 626, and 632. He explained that this migration was based upon the customers' 12 CP calculated in conjunction with the approved allocators in Joint Exh. E to the Stipulation and Settlement Agreement approved in the 2011 Rate Order. Mr. Sibio testified that this adjustment is appropriate in order to prevent any unintended consequences of the migration of customers between rates and to properly allocate their share of capital charges and is consistent with the adjustments most recently approved by the Commission in its ECR 25 Order.

Mr. Sibio also explained NIPSCO's proposed adjustments to its energy allocation percentages. He testified that NIPSCO has adjusted its energy allocation percentages to reflect the significant migration of customers amongst Rates 621, 624, 625, 626, and 632. He explained that this migration was based on the customers' test year sales for the 12 months ending June 30, 2010 from Cause No. 43969, adjusted for system losses. Mr. Sibio testified this adjustment is appropriate in order to prevent any unintended consequences of the migration of customers to different rate

classes and to properly allocate their share of EERM charges and is consistent with the adjustments most recently approved by the Commission in its ECR 25 Order.

Based on the evidence presented, we find that NIPSCO's proposed EERM factors have been properly allocated on the basis of Joint Exh. E to the 2011 Settlement – the 12 CP method in accordance with our ECR 19 Order. We also find that NIPSCO has properly allocated the depreciation portion of EERM costs and the fixed portion of the O&M component of EERM costs on the same basis as the production allocation utilized for the capital costs inside of the ECRM (i.e. the Joint Exh. E Allocation or 12 CP in accordance with our ECR-19 Order). Finally, we find that NIPSCO properly allocated the variable O&M expenses to classes based on test year sales for the twelve months ending June 30, 2010 from Cause No. 43969, adjusted for system losses.

E. Reconciliation of Projected Period Recoveries. Mr. Sibó testified that Petitioner's Exh. 1, Attachment C, Schedule 2-EERM shows the Company's reconciliation of projected period recoveries of EERM revenue with actual revenue during the period from May 1, 2014, to April 30, 2015. He explained that since NIPSCO's EERM factors approved in Cause No. 42150 ECR 23 ended April 30, 2015, NIPSCO is able to compute any under- or over- recoveries of EERM revenue, which are reflected in Column 4. Based on the evidence presented, we find that NIPSCO properly included a reconciliation of projected period recoveries for recovery through the EERM factors beginning with the May 2016 billing cycle.

F. New EERM Factors. Mr. Sibó sponsored Petitioner's Exh. 1-A, Attachment D (Appendix E - Environmental Expense Recovery Mechanism Factor) showing the EERM factors applicable to the various NIPSCO rate schedules and explained how the EERM factors were developed. Mr. Sibó also sponsored Petitioner's Exh. 1, Attachment C, Schedule 1-EERM which shows that calculation underlying the proposed EERM factors. Mr. Sibó testified that the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is \$2.12, which is a \$0.50 increase from what a customer would pay today using the current EERM Factors. Mr. Sibó testified that the estimated average monthly bill impact for a typical residential customer using 1,000 kWh per month will be \$3.08, which is a \$0.73 increase from what a customer would pay today using the current EERM Factors.

Based on the evidence presented, we approve the proposed EERM factors set forth in Petitioner's Exh. 1-A, Attachment D to be applicable for bills rendered during the billing cycles of May 2016 through April 2017.

G. Deferred Federally Mandated Costs. Mr. Sibó testified that Petitioner's Exh. 1, Attachment C, Schedule 1A-EERM shows the detail of all expenses incurred in conjunction with NIPSCO's federally mandated MATS Compliance Plan O&M Projects. He 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 approved federally mandated MATS Compliance Plan O&M Project, including post in-service carrying charges on the deferred O&M expenses, for recovery in NIPSCO's next general rate case. Petitioner's Exh. 1, Attachment C, Schedule 3-EERM provides a record of the deferred federally mandated costs as well the ongoing carrying charges on all deferred federally mandated costs until such time as the costs can be recovered as part of NIPSCO's next general rate case.

Based on the evidence presented and pursuant to the 44311 Order and Ind. Code § 8-1-8.4-7(c)(2), we authorize NIPSCO to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS O&M Projects and recover those deferred costs in its next general rate case. In addition, we authorize 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 in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2).

6. Commission Findings and Conclusions Regarding Progress Report. In the 42150 Order, the Commission approved NIPSCO's proposal that the Commission maintain an ongoing review of its Environmental Compliance Project construction and expenditures and submit to the Commission annually a report of any revisions of its plan and cost estimates for such construction ("Progress Report"). In its 43526 Order, the Commission ordered NIPSCO to file its Progress Reports on the status of Environmental Compliance Projects tracked in the ECRM as part of its ECRM filings rather than in a separate proceeding. The Phase I 44012 Order approved Petitioner's request to file semi-annual progress reports (as opposed to annual progress reports) as part of the ongoing review process under Ind. Code § 8-1-8.7-7. The 44311 Order 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 Capital Projects through its 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, in this proceeding NIPSCO requests approval of its Seventeenth 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 and EERM. Specifically, NIPSCO requests the Commission approve its revised Compliance Plan as set forth in Attachment PR attached to NIPSCO's Verified Petition initiating this Cause, including the updated project scopes, construction schedules, and cost estimates described therein. Since the Sixteenth Progress Report, NIPSCO has identified aspects of the plan that require further modification. Mr. Sangster testified that Attachment PR attached to NIPSCO's Verified Petition initiating this Cause identifies and describes the plan modifications which can be broken down into several categories: scheduling changes, additions and/or subtractions from the Compliance Plan, and changes in estimated costs.

Mr. Sangster provided an update on the status of several of the Environmental Compliance Projects. With respect to the three components of the Schahfer FGD program, Unit 14 FGD Facility Addition, Unit 14/15 FGD Common, and Unit 15 FGD Facility Addition, Mr. Sangster testified that the Unit 14 FGD Facility Addition and Unit 14/15 FGD Common facilities were successfully put into service on November 19, 2013. He testified that the Unit 15 FGD Facility Addition was successfully put into service on November 5, 2014. For the Unit 14 FGD, the 2015 average outlet SO₂ level was 0.014 lbs./MMBtu and the Unit 15 FGD outlet SO₂ level was 0.011 lbs./MMBtu. Both units are operating well below the Consent Decree limit of 0.08 lbs./MMBtu. The Consent Decree limit is more restrictive for SO₂ than the MATS limit of 0.20 lbs./MMBtu. Mr. Sangster testified that the total cost estimate for the three components of the Schahfer FGD program has not changed (\$500 million total for Unit 14 FGD, Unit 15 FGD and Unit 14/15 Common Facilities).

With respect to the Michigan City Unit 12 FGD Facility Addition, Mr. Sangster testified that the Michigan City Unit 12 FGD Facility Addition project was successfully put into service on December 15, 2015 and is currently undergoing commissioning, tuning, and performance testing, so SO₂ emissions data is not yet available. He testified that the project is progressing on budget with respect to the revisions made and approved in ECR-25. Mr. Sangster testified consistent with the 44012 Phase III Order, NIPSCO has been providing the OUCC and Industrial Group on a monthly basis since March of 2013, with a weekly project status report, monthly project report, and senior executive project reports, relating to the Michigan City Unit 12 FGD Facility Addition. He testified that these reports also contained NIPSCO's monthly risk assessment relating to the Unit 12 FGD Facility Addition. Also consistent with the 44012 Phase III Order, NIPSCO extended an open invitation to the OUCC and Industrial Group to attend NIPSCO's recurring (usually monthly) project meeting held on-site at the Michigan City Generation Station. Several OUCC staff members periodically attended these meetings. Mr. Sangster testified that since construction is complete and the Unit 12 FGD Facility Addition has gone into service, NIPSCO will no longer produce the three separate reports referenced above and will no longer hold the monthly project meetings. He testified that in light of the foregoing, NIPSCO believes there are no further reporting activities associated with the Unit 12 FGD Facility Addition.

Mr. Sangster testified the Unit 14 TR Set Project completed construction and went into service on November 19, 2013. The Unit 15 TR Set Project completed construction and went into service on November 5, 2014. The Unit 17 TR Set Project completed construction and went into service on June 1, 2015. The Unit 18 TR Set Project completed construction and went into service on May 5, 2014. He testified that NIPSCO currently expects the TR Set Project to be under budget by approximately \$2,000,000.

Mr. Sangster testified the Units 7, 8, 12, 14 and 15 ACI projects are progressing on schedule and under budget. The Units 7 and 8 ACI System was commissioned on January 16, 2015. The Unit 12 ACI System is mechanically complete, commissioning is expected to occur after the Unit 12 FGD has been put into service, tuned and tested, which is projected to occur around March 31, 2016. The Unit 14 ACI System was commissioned on July 31, 2015. The Unit 15 ACI System was commissioned on May 22, 2015. He testified that NIPSCO currently expects the ACI Project to be under budget by approximately \$6,000,000.

Mr. Sangster testified that the Units 7 and 8 Fuel Additive project was commissioned on December 8, 2015. The Unit 12 Fuel Additive project is mechanically complete, commissioning is expected to occur after the Unit 12 FGD has been put into service, tuned and tested, which is projected to occur around March 31, 2016. The Unit 14 and Unit 15 Fuel Additive projects were commissioned on December 10, 2015.

Mr. Sangster testified that the Permeation Source for Unit 17 installation was completed on June 23, 2015. The Units 7/8, 14 and 15 Permeation Sources were installed and put in service July 30, 2015. The Unit 12 Permeation Source was installed and put in service July 31, 2015. The Permeation Source for Unit 18 was installed and put in service on August 13, 2015.

As to the scheduling changes, Mr. Sangster testified the construction start for the Unit 17 SCR Catalyst 3rd Layer was revised to reflect the current schedule. The construction start date for the Unit 12 Fuel Additive project was revised to reflect the actual date. The Unit 12 FGD Facility

Addition was revised to reflect the actual in-service date. The Unit 7 Fuel Additive, Unit 8 Fuel Additive, Unit 14 Fuel Additive, Unit 15 Fuel Additive, Unit 17 Fuel Additive, Unit 18 Fuel Additive, Permeation Source Unit 7/8, Permeation Source Unit 12, Permeation Source Unit 14, Permeation Source Unit 15, Permeation Source Unit 17 and Permeation Source Unit 18 projects were all revised to reflect the actual construction start and actual in-service dates. The dates for the Unit 12 Economizer Waterside Bypass were removed to reflect the project cancellation that was communicated in ECR025. Based on our review of the evidence, we find that NIPSCO's proposed scheduling changes are reasonable and should be approved.

With respect to the proposed changes in estimated costs, Mr. Sangster testified the final project costs for the Unit 8 SCR Catalyst 4th Layer has been revised to reflect an actual spend of \$1,316,938, which is \$433,062 under the approved budget of \$1,750,000. The Continuous Particulate Monitors Addition (Unit 14) project which was closed in ECR 26 has been adjusted for a charge of \$1,409 that was miscoded, the budget now reflects the final costs. The project costs for the Unit 17 TR Sets have been reduced to \$3,187,350, the Unit 18 TR Sets have been reduced to \$3,187,350, the Unit 7 ACI System has been reduced to \$3,136,402, the Unit 8 ACI System has been reduced to \$4,262,918, the Unit 12 ACTI System has been reduced to \$4,614,280, the Unit 14 ACI System has been reduced to \$4,614,850, the Unit 15 ACI System has been reduced to \$5,114,850 and the Unit 7 Fuel Additive project has been increased to \$483,240, all to reflect the new forecast. The Unit 17 and Unit 18 TR Set projects had a unique TR Set design which was identified as a risk at project initiation, however this risk was never realized and as a result the budget forecast has decreased by \$1,000,000 for each project. The ACI projects were able to take advantage of the execution occurring in succession and utilized the same installation crews, the same project teams and the same support groups and as a result the budget forecast has decreased by \$6,000,000 in the aggregate for the ACI group of projects. The Unit 7 Fuel Additive Project forecast increased due to foundation constructability issues by \$85,000 to \$483,240, which is still below the initial amount of \$531,240 approved in the 44311 Order.

Based on our review of the evidence, we find that NIPSCO's proposed changes in estimated costs are reasonable, and we approve.

Mr. Sangster testified the total cost estimate approved in the Sixteenth Progress Report was \$858,941,535 for the Compliance Plan Capital projects and \$2,225,000 for the MATS O&M Projects. Mr. Sangster testified the proposed revised total cost estimate for all Compliance Plan projects is \$850,594,882, which is a decrease of \$8,346,643. The total cost estimate of the MATS O&M Projects did not change.

As part of its Seventeenth Progress Report, NIPSCO is requesting approval of its updated Environmental Compliance Projects cost estimate of \$850,594,882 and approval to recover these costs through the ECRM and EERM.

Based on the evidence presented and our discussion above, we find that the Seventeenth Progress Report is reasonable. Therefore, we approve the modifications to the schedule, the additions and subtractions, and the cost estimates in the Progress Report, and we authorize NIPSCO to recover these costs through its ECRM and EERM.

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

1. NIPSCO is authorized to reflect the additional values of Environmental Compliance Projects identified above in its rates and charges for electric service in accordance with NIPSCO's ECRM beginning with the May 2016 billing cycle.
2. NIPSCO is authorized to reflect the rate adjustments reflecting the recovery of operation, maintenance, and depreciation expenses identified above in its rates and charges for electric service in accordance with NIPSCO's EERM, beginning with the May 2016 billing cycle.
3. Prior to implementing the authorized rates, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.
4. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the federally mandated MATS 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.
5. Pursuant to Ind. Code § 8-1-8.7-7 and as approved in Cause Nos. 44311, NIPSCO's modified Compliance Plan, as set forth in the Seventeenth Progress Report, is approved.
6. This Order shall be effective on and after the date of its approval.

STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED:

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



Mary M. Becerra
Secretary of the Commission