

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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VERIFIED PETITION OF NORTHERN)
INDIANA PUBLIC SERVICE COMPANY FOR (1))
AN ADJUSTMENT TO ITS ELECTRIC SERVICE)
RATES THROUGH ITS FEDERALLY)
MANDATED COST ADJUSTMENT FACTOR)
PURSUANT TO IND. CODE CH. 8-1-8.4 AND)
THE COMMISSION'S ORDER IN CAUSE NO.)
44340; (2) AUTHORITY TO DEFER 20% OF THE)
FEDERALLY MANDATED COSTS FOR)
RECOVERY IN NIPSCO'S NEXT GENERAL)
RATE CASE; AND (3) APPROVAL OF)
MODIFICATIONS TO THE CIP COMPLIANCE)
PROJECT SET FORTH IN THE FIFTH)
PROGRESS REPORT PURSUANT TO THE)
ONGOING REVIEW PROCESS APPROVED IN)
CAUSE NO. 44340.)

CAUSE NO. 44340 FMCA 5

APPROVED: JUL 20 2016

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Jeffery A. Earl, Administrative Law Judge

On April 29, 2016, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause and prefiled direct testimony and exhibits of the following witnesses:

- Thomas S. Sibbo, Manager, Regulatory Support and Analysis in NIPSCO's Rates and Regulatory Finance Department; and
- Franklin Dessuit, Manager of Operations, Technology and Security in NIPSCO's CIP Compliance and Security Division.

On June 9, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled direct testimony and exhibits of the following witnesses:

- Stacie R. Gruca, Senior Utility Analyst in the OUCC's Electric Division; and
- Ronald L. Keen, Senior Utility Analyst in the OUCC's Resource Planning and Communications Division.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on July 7, 2016, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared and participated at the hearing. No member of the general public appeared.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code §§ 8-1-2.5-2 and 8-1-8.4-3. Under Ind. Code §§ 8-1-8.4-6 and 8-1-8.4-7, the Commission has authority to approve cost recovery for projects necessary to comply with federally mandated requirements. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to NIPSCO's rates and charges. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility organized and existing under Indiana law, with its principal office at 801 E. 86th Street, Merrillville, Indiana 46410. NIPSCO owns, operates, manages, and controls plant and equipment used for the generation, transmission, distribution and furnishing of electric and gas utility services to the public in northern Indiana.

3. **Background.** The Commission's January 29, 2014 Order in Cause No. 44340 (the "44340 Order"), approved the following: (1) a Certificate of Public Convenience and Necessity for its Critical Infrastructure Protection Compliance Project (the "CIP Compliance Project"), which includes capital projects and ongoing activities at ten different locations within NIPSCO's electric system necessary to comply with the NERC Critical Infrastructure Protection ("CIP") Reliability Standards; (2) timely recovery of 80% of the federally mandated costs incurred in connection with the CIP Compliance Project; (3) a semi-annual federally mandated cost adjustment mechanism ("FMCA") under Ind. Code §§ 8-1-8.4-7 and 8-1-2-42 to recover 80% of the federally mandated project costs and ongoing expenses from the CIP Compliance Project; (4) authority to defer 20% of the federally mandated project costs and ongoing expenses incurred in connection with the CIP Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in NIPSCO's next general rate case; and (5) NIPSCO's proposal that the Commission maintain an ongoing review of its CIP Compliance Project federally mandated costs and submit to the Commission semi-annually a report of any revisions of its plan and cost estimates ("Progress Report"); and (6) the total weighted cost of capital updated in each semi-annual FMCA filing to reflect an updated capital structure and cost of debt.

The Commission's July 30, 2014 Order in Cause No. 44340 FMCA 1 (the "FMCA 1 Order"), approved NIPSCO's First Progress Report on the status of the CIP Compliance Project, including scheduling and cost modifications for NIPSCO's CIP Compliance Project pursuant to the ongoing review process approved in Cause No. 44340. The Commission's January 28, 2015 Order in Cause No. 44340 FMCA 2 (the "FMCA 2 Order") approved NIPSCO's Second Progress Report on the status of the CIP Compliance Project, including scheduling modifications. The Commission's October 7, 2015 Order in Cause No. 44340 FMCA 3 (the "FMCA 3 Order") approved NIPSCO's Third Progress Report on the status of the CIP Compliance Project, including cost modifications. The Commission's January 27, 2016 Order in Cause No. 44340 FMCA 4 (the "FMCA 4 Order") approved NIPSCO's Fourth Progress Report on the status of the CIP Compliance Project, including scheduling and cost modifications.

4. **Relief Requested.** NIPSCO requests approval of the following:

- An adjustment to its electric rates through the FMCA to recover 80% of the federally mandated costs related to the CIP Compliance Project to be applicable for bills rendered during the billing cycles of August 2016 through January 2017 pursuant to Ind. Code § 8-1-8.4-7(c)(1) and the 44340 Order;
- Deferral of 20% of the federally mandated costs, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case pursuant to Ind. Code § 8-1-8.4-7(c)(2) and the 44340 Order; and
- Modifications to the CIP Compliance Project set forth in the Fifth Progress Report pursuant to the ongoing review process approved in the 44340 Order.

5. Ongoing Review of Progress Reports. In the 44340 Order, the Commission approved NIPSCO's request for ongoing review of the CIP Compliance Project as part of its FMCA semi-annual filings. The 44340 Order approved total estimated costs of the CIP Compliance Plan of \$5,225,625 (capital) and \$1,200,000 (annual ongoing operations and maintenance ("O&M")). In the FMCA 1 Order, the Commission approved NIPSCO's First Progress Report on the status of the CIP Compliance Project and the modifications to the schedule and cost estimates therein. In the FMCA 2 Order, the Commission approved NIPSCO's Second Progress Report on the status of the CIP Compliance Project and the modifications to the schedule. In the FMCA 3 Order, the Commission approved NIPSCO's Third Progress Report on the status of the CIP Compliance Project and cost and scheduling modifications. In the FMCA 4 Order, the Commission approved NIPSCO's Fourth Progress Report on the status of the CIP Compliance Project and cost and scheduling modifications. In this proceeding, NIPSCO requests approval of modifications to the CIP Compliance Project in its Fifth Progress Report, including the revised cost estimates and scheduling changes described therein.

Mr. Dessuit provided a general overview of the status of the individual projects included in the CIP Compliance Project and explained the scheduling change relating to the required installation of additional bandwidth via work with local telecommunications companies at one remaining facility location. NIPSCO anticipates that this work will be completed by the end of June, 2016.

Mr. Dessuit also described the reduction in the cost estimates for the remaining nine facility locations. He said that the costs now reflect actual costs and that NIPSCO does not expect any additional costs to be incurred for any of those nine projects.

Attachment PR to NIPSCO's Verified Petition shows that the proposed revised total cost estimate for the individual capital projects included in the CIP Compliance Project is \$3,916,484. The proposed revised total cost estimate for the annual federally mandated ongoing O&M expenses for 2016 is \$1,152,592.

Mr. Keen testified that NIPSCO continues to work to maintain compliance with all CIP standards for company infrastructure at all levels and believes the measures the Company is undertaking through the FMCA tracker are necessary, prudent, and justified to protect NIPSCO's infrastructure assets and comply with federal mandates. He said that the OUCC continues to believe the NIPSCO CIP team maintains effective and efficient operations in light of the continually changing threat environment, continuing changes in regulations and requirements and

new advances in both technology and techniques. Mr. Keen testified that NIPSCO's request for approval of its CIP Compliance Plan appears to comply with the 44340 Order.

Based on the evidence presented, we find that the changes to NIPSCO's CIP Compliance Project are reasonable, and we approve the changes. We also find that the Fifth Progress Report is reasonable, and approve the updated schedule and cost estimates contained therein. We authorize NIPSCO to recover 80% of the costs incurred in connection with the revised CIP Compliance Project through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised CIP Compliance project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

6. FMCA.

A. Capital Projects. The total cost of the CIP Compliance Project capital projects incurred through March 31, 2016, upon which NIPSCO is authorized to earn a return is \$2,604,051, which includes an Allowance for Funds Used During Construction ("AFUDC") and is net of accumulated depreciation. Mr. Sibio testified the proposed FMCA costs included in this filing do not include any non-jurisdictional costs. Mr. Sibio testified the AFUDC rate was calculated in accordance with the instructions of the FERC Uniform System of Accounts. Mr. Sibio testified that if the Commission approves the proposed ratemaking treatment for the net federally mandated CIP Compliance Project costs incurred through March 31, 2016, NIPSCO will cease accruing AFUDC on construction costs once the incurred costs receive ratemaking treatment and are being recovered through the FMCA.

Mr. Sibio explained that the weighted cost of capital used to calculate post-in-service carrying costs. The updated total weighted cost of capital as of March 31, 2016 (the date of valuation of the CIP Compliance Project) is 6.49%. The annual revenue requirement for the return on investment is calculated by multiplying the CIP Compliance Project costs incurred through March 31, 2016, by the debt and equity components of its weighted cost of capital, multiplied by 50%, and then multiplied by the revenue conversion factor and 80% to determine the total return-related revenue requirement to be recovered for bills rendered during the billing cycles of August 2016 through January 2017. Using this calculation, the Adjusted Semi-Annual Revenue Requirement is \$126,590. Eighty percent of this amount, \$101,272, will be recovered through the FMCA. The remaining 20%, \$25,318, will be deferred and recovered in NIPSCO's next general rate case.

Based on the evidence presented, we find that NIPSCO's request to begin earning a return on the \$2,604,051 from the value of the CIP Compliance Project capital projects complies with the 44340 Order. We further find that NIPSCO's proposed Semi-Annual Revenue Requirement of \$126,590 was properly calculated. Therefore, we approve NIPSCO's request to begin earning a return on the value of the CIP Compliance Project capital projects and recovery of 80% of the proposed revenue requirement through the FMCA for bills rendered during the billing cycles of August 2016 through January 2017.

B. Depreciation Expense. NIPSCO requests approval of a total forecasted depreciation expense associated with the CIP Compliance Project for the period August 2016

through January 2017 of \$411,292. The 80% recoverable forecasted depreciation expense is \$329,034. The 20% portion of the depreciation expense to be deferred is \$82,258.

Mr. Sibó explained that the total depreciation expense associated with the CIP Compliance Project represents forecasted federally mandated depreciation expense associated with the CIP Compliance Project for the period August 2016 through January 2017. He said that the forecast is based on the depreciation lives and rates approved in the 44340 Order.

Based on the evidence presented, we find that NIPSCO's Total Depreciation Expense associated with the CIP Compliance Project for August 2016 through January 2017 of \$411,292 and the 80% recoverable depreciation expense of \$329,034 were properly calculated. Therefore, we approve the Depreciation Expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2016 through January 2017.

C. O&M Expense. NIPSCO requests approval of a total forecasted O&M expense associated with the CIP Compliance Project for the period August 2016 through January 2017 of \$537,805. The 80% recoverable forecasted O&M expense is \$430,244. The 20% portion of the forecasted O&M expense to be deferred is \$107,561. Mr. Sibó testified that the O&M expense associated with the CIP Compliance Project shown on Attachment 2 represents forecasted total O&M expense associated with the CIP Compliance Project for the period August 2016 through January 2017.

Mr. Dessuit explained that the federally mandated ongoing O&M expenses for August 2016 through January 2017 were estimated based on the following factors as of March 31, 2016: (1) a decrease in Labor/Salary relating to a vacancy position that occurred during the period March through May 2016; (2) a decrease in Computer & Software Equipment based on new vendor quotes for support; (3) an increase in Outside Services based on an underestimate of Security Operation Center monitoring and forecasted maintenance charges for Physical Security equipment; and (4) an increase in Telecommunications relating to an underestimate of the initial contract amounts and an anticipated increase following expiration of the current contract in August, 2016. He said that these same facts support the full year 2016 O&M estimates shown on the Fifth Progress Report.

Based on the evidence presented, we find that NIPSCO's total federally mandated O&M expense of \$537,805 and the 80% recoverable federally mandated O&M expense of \$430,244 were properly calculated. Therefore, we approve the O&M expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2016 through January 2017.

D. Property Tax Expense. NIPSCO requests approval of a total forecasted property tax expense associated with the CIP Compliance Project for the period August 2016 through January 2017 of \$11,359. The 80% recoverable forecasted property tax expense is \$9,087. The 20% portion of the forecasted property tax expense to be deferred is \$2,272. Mr. Sibó explained the calculation of the total property taxes expense associated with the CIP Compliance Project.

Based on the evidence presented, we find that NIPSCO's Total Property Tax Expense associated with the CIP Compliance Project for August 2016 through January 2017 of \$11,359 and the 80% recoverable property tax expense of \$9,087 were properly calculated. Therefore, we

approve the Property Tax Expense for recovery through the FMCA factors for bills rendered during the billing cycles of August 2016 through January 2017.

E. Allocation of Federally Mandated Costs. The 44340 Order approved the production and energy allocation percentages attributable to each of the Company's rate schedules using the 12 Coincident Peak ("12-CP") method. The 44340 Order also approved the adjustment of the allocation percentages to reflect migration of customers among the various rates schedules.

Mr. Sibó sponsored Attachment 3 showing the production and energy allocation percentages attributable to each of NIPSCO's rate schedules. These allocation percentages were based on the production and energy allocation percentages approved by the 44340 Order adjusted to reflect the significant migration of customers amongst Rates 621, 624, 625, 626, 632, and 633.

Based on the evidence presented, we find that NIPSCO's FMCA factors were properly allocated on the basis of the 12-CP method in accordance with our 44340 Order.

F. Reconciliation. Mr. Sibó testified this filing includes a reconciliation of revenues and costs related to FMCA 3 as calculated in Attachment 4, Schedule 1. A total over-recovery variance of \$70,822 is included in this filing.

G. Calculation of FMCA Factors. Mr. Sibó sponsored Attachment 5 showing the calculation of the FMCA factors by rate code based on the previously calculated revenue requirements. The factors are calculated by combining the various components of the revenue requirement, which are allocated by rate code, and dividing those components by forecasted volumes to compute a billing factor for bills rendered during the billing cycles of August 2016 through January 2017.

Mr. Sibó sponsored Attachment 7 (Appendix I – Federally Mandated Cost Adjustment Mechanism Factor) showing the FMCA factors proposed to be applicable for bills rendered during the billing cycles of August 2016 through January 2017. Mr. Sibó testified the estimated average monthly bill impact for a typical residential customer using 688 kWh per month is \$0.09, a decrease of \$0.01 from the rates currently in effect. The monthly bill impact for a typical customer using 1,000 kWh per month is \$0.13, a decrease of \$0.01 from the rates current in effect.

Ms. Gruca testified that her calculation of 80% of the FMCA costs, including the return on federally mandated CIP Compliance Project costs, O&M expenses, depreciation expenses and property taxes expenses to be recovered in FMCA-5, matches the amount NIPSCO proposes to recover. She testified that the effect of the proposed FMCA factors is a decrease of approximately \$0.000014 per kWh for Rate 611. When including the proposed FMCA costs along with current base rates and charges, a typical residential customer using 1,000 kWh per month would experience a bill of approximately \$108.06, which equates to an average cost per kWh of 10.81 cents.

Ms. Gruca testified that nothing came to her attention that would indicate that the projections used by NIPSCO are not in compliance with the approved FMCA tracker. She also testified that NIPSCO's proposed FMCA Factors for the billing period of August 2016 through January 2017 appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 44340.

Based on the evidence presented, we approve the proposed FMCA factors in NIPSCO's Attachment 7 as applicable to bills rendered during the billing cycles of August 2016 through January 2017.

7. **Deferred Federally Mandated Costs.** In the 44340 Order, we authorized NIPSCO to (1) defer 20% of the federally mandated costs incurred in connection with the CIP Compliance Project and recover those deferred costs in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2); (2) record and defer ongoing carrying charges based on the current overall weighted average cost of capital ("WACC") on all deferred federally mandated costs including deferred post-in-service costs, depreciation, property taxes and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case; and (3) defer as a regulatory asset and recover in its next general rate case all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs.

In this proceeding, Mr. Sibbald sponsored Attachment 6, which serves as 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. He explained that the amounts included in Column B, Column C and Column D represent 20% of the total capital, expense and variance related revenue requirements calculated in Attachment 1, Attachment 2 and Attachment 4 and Column F represents the ongoing carrying charges based on the monthly effective WACC on all deferred federally mandated costs incurred through March 31, 2016.

Based on the evidence presented and pursuant to the 44340 Order, we find that FMCA 5 costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$214,603 and the total-to-date costs to be deferred and recovered in NIPSCO's base rates in its next general rate case is \$1,002,264.

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

1. NIPSCO is authorized to defer and recover 80% of the approved federally mandated costs incurred in connection with the CIP Compliance Project identified in Finding No. 6 in its rates and charges for electric service in accordance with NIPSCO's FMCA beginning with the August 2016 billing cycle.

2. NIPSCO's requested FMCA factors in Petitioner's Attachment A, Schedule 1 to become effective for bills rendered by NIPSCO during the billing cycles of August 2016 through January 2017 or until replaced by different factors approved in a subsequent filing are approved as set out in Finding No. 6 above;

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 CIP Compliance Projects described in Finding No. 7 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. NIPSCO's modified CIP Compliance Project, as described in NIPSCO's Fifth Progress Report on Attachment PR is approved and NIPSCO is authorized to recover 80% of the costs incurred in connection with the modified CIP Compliance Project through the FMCA and to defer 20% of the federally mandated costs incurred in connection with the revised CIP Compliance Project, including ongoing carrying charges on all deferred federally mandated costs, for recovery in its next general rate case.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: JUL 20 2016

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



Mary M. Becerra
Secretary to the Commission