

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE)
COMPANY FOR AUTHORITY TO MODIFY ITS RATES)
AND CHARGES FOR ELECTRIC UTILITY SERVICE AND)
FOR APPROVAL OF: (1) CHANGES TO ITS ELECTRIC)
SERVICE TARIFF INCLUDING A NEW SCHEDULE OF)
RATES AND CHARGES AND CHANGES TO THE)
GENERAL RULES AND REGULATIONS AND CERTAIN)
RIDERS; (2) REVISED DEPRECIATION ACCRUAL)
RATES; (3) INCLUSION IN ITS BASIC RATES AND)
CHARGES OF THE COSTS ASSOCIATED WITH)
CERTAIN PREVIOUSLY APPROVED QUALIFIED)
POLLUTION CONTROL PROPERTY, CLEAN COAL)
TECHNOLOGY, CLEAN ENERGY PROJECTS AND)
FEDERALLY MANDATED COMPLIANCE PROJECTS;)
AND (4) ACCOUNTING RELIEF TO ALLOW NIPSCO TO)
DEFER, AS A REGULATORY ASSET OR LIABILITY,)
CERTAIN COSTS FOR RECOVERY IN A FUTURE)
PROCEEDING.)

CAUSE NO. 44688

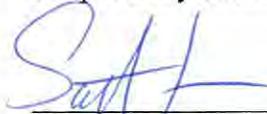
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

WES R. BLAKLEY – PUBLIC’S EXHIBIT NO. 3

JANUARY 22, 2015

Respectfully submitted,



Scott C. Franson
Attorney No. 27839
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC TESTIMONY OF WES R. BLAKLEY* has been served upon the following parties of record in the captioned proceeding by electronic service on January 22, 2015.

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TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 44688
NORTHERN INDIANA PUBLIC SERVICE COMPANY

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley, 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 a Senior Utility Analyst for the Office of Utility Consumer Counselor
6 (“OUCC”). For a summary of my educational and professional background and
7 my preparation for this case, please see Appendix A attached to my testimony.

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

9 A: Northern Indiana Public Service Company (“NIPSCO” or “Petitioner”) has
10 requested rate base treatment of certain regulatory assets which I will address.
11 These assets are: (1) regulatory assets that are a result of NIPSCO’s Federally
12 Mandated Cost Adjustment (“FMCA”) tracker related to the CIPS Compliance
13 Project; (2) regulatory assets that are a result of NIPSCO’s Transmission
14 Distribution Storage System Improvement Charge (“TDSIC”) program tracker;
15 and (3) regulatory assets that result from NIPSCO’s Mercury and Air Toxins
16 Standards (“MATS”) program.

II. REGULATORY ASSETS

17 **Q: Please explain briefly Petitioner’s request for regulatory asset recovery.**

18 A: Petitioner has created regulatory assets as a result of Senate Enroll Act 560 (“SEA
19 560”) and Senate Enrolled Act 251 (“SEA 251”) which, among other things,

1 allow 80% cash recovery of costs, including carrying charges at the weighted
2 average cost of capital ("WACC") rate, depreciation, O&M expenses and taxes.
3 The other 20% of these costs are to be deferred as a regulatory asset to be
4 recovered later in a base rate case. NIPSCO has three such trackers that recover
5 costs on an 80/20 basis. They are the FMCA tracker and the MATS program
6 costs that are a part of NIPSCO's Environmental Cost Recovery ("ECR") tracker.
7 (both pursuant to SEA 251), and the TDSIC tracker(pursuant to SEA 560).

8 **Q: Please explain how NIPSCO wishes to recover these regulatory assets.**

9 A: NIPSCO has included in rate base as of June 30, 2015, 20% of all the costs,
10 including carrying charges at the WACC rate, O&M, depreciation and taxes that
11 have been booked in these trackers. The regulatory assets that are included in rate
12 base for each tracker are as follows:

13	FMCA	\$300,213
14	TDSIC	\$3,543,604
15	ECR (MATS)	<u>\$343,686</u>
16	TOTAL	\$4,187,503

17 NIPSCO is requesting to amortize these regulatory assets over two years by
18 including in base rates amortization expenses of \$2,093,752. NIPSCO would also
19 calculate a return on the regulatory assets included in rate base.

20 **Q: Do you have concerns with NIPSCO's proposed treatment of these**
21 **regulatory assets?**

22 A: Yes. SEA 560 and SEA 251 have created some new provisions that involve the
23 creation and eventual recovery of certain regulatory asset types. NIPSCO's

1 request relates to construction cost regulatory asset deferrals in its TDSIC and
2 FMCA trackers. The regulatory asset deferrals in NIPSCO's MATS program are
3 O&M expenses that are included in its ECR tracker.¹

4 **Q: Please continue.**

5 A: Under SEA 560 and SEA 251, NIPSCO calculates its regulatory asset to include
6 carrying charges on its construction costs in its TDSIC tracker and its FMCA
7 tracker using the WACC rate and then grossing up the return for federal income
8 taxes. SEA 560 allows carrying charges applied to deferred O&M and
9 depreciation expenses as well.

10 **Q: Why do you believe NIPSCO's treatment of these regulatory assets in rate**
11 **base is improper?**

12 A: NIPSCO in this Cause has included in rate base the 20% portion of costs deferred
13 as regulatory assets associated with the FMCA, TDSIC and MATS trackers,
14 which includes income taxes and O&M expenses. For O&M expenses, I believe
15 it is improper to allow a return on these costs in rate base because they are not an
16 investment in plant, and O&M costs are allowed carrying charges to be calculated
17 on them during the deferral period. I believe the proper treatment for deferred
18 O&M would be to amortize it over a period of years. Income tax calculation on
19 the deferred regulatory assets should not be included in rate base because a return
20 will be calculated on these deferred assets, thus causing additional income taxes
21 to be calculated on earnings that already had income taxes calculated on them.
22 The income tax already deferred should be recovered through amortization only.

¹ Pursuant to SEA 29.

1 **Q: Has NIPSCO shown details of its regulatory assets?**

2 A: Yes, to some extent. In response to OUCC data requests², NIPSCO showed some
3 detail of the monthly activity for the FMCA and MATS that did not itemize actual
4 tax or O&M amounts, but appears to be summaries of accounting data. The
5 tracker proceedings that calculated the revenue requirements for the FMCA,
6 TDSIC and MATS programs do have carrying charges, income taxes, O&M and
7 depreciation in them.

8 **Q: What is your rate recovery recommendation as it pertains to the regulatory
9 assets created in the FMCA, TDSIC and the MATS program?**

10 A: NIPSCO has requested to amortize the regulatory assets over two years. This is
11 much shorter than the life of the assets. OUCC witness Mike Eckert discusses in
12 his testimony that a four year amortization period would be more appropriate. On
13 page 33 line 4 of his testimony, Mr. Isensee discusses NIPSCO's FMCA tracker
14 and noted "that NIPSCO proposes to update its base rates after this two year
15 amortization period to reflect the roll off of this amortization." He also stated that
16 the TDSIC and MATS regulatory assets will receive the same amortization
17 treatment. With a four year amortization expense proposed by the OUCC
18 NIPSCO will have recovered all of its regulatory assets related to the FMCA,
19 TDSIC and MATS programs after four years. After the amortization period, I
20 believe NIPSCO should also remove the regulatory assets from rate base at the
21 same time they remove the amortization of the regulatory asset from base rates.
22 In other words, when fully amortized, the revenue requirements for "return of"
23 and "return on" the regulatory assets should come out of base rates.

² NIPSCO's response to OUCC DR 27-002,27-003 and 36-002.

1 Q: Does this conclude your testimony?

2 A: Yes.

APPENDIX A

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

2 A: I received a Bachelor of Science Degree in Business with a major in Accounting
3 from Eastern Illinois University in 1987 and worked for Illinois Consolidated
4 Telephone Company until joining the OUCC in April 1991 as a staff accountant.
5 Since that time I have reviewed and testified in hundreds of tracker, rate cases and
6 other proceedings before the Commission. I have attended the Annual Regulatory
7 Studies Program sponsored by NARUC at Michigan State University in East
8 Lansing, Michigan as well as the Wisconsin Public Utility Institute at the
9 University of Wisconsin-Madison Energy Basics Program.

10 **Q: What review and analysis did you conduct to prepare your testimony?**

11 A: I read NIPSCO's testimony and reviewed exhibits and schedules included in its
12 case-in-chief. I prepared discovery and reviewed NIPSCO's responses to that
13 discovery. I also had discussions with other OUCC staff about issues in this
14 Cause.

Cause No. 44688
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Counselor's Data Request Set No. 27

Cause No. 44688
Attachment WRB - 1
Page 1 of 3

OUCC Request 27-002:

Please itemize the FMCA costs deferred in rate base in the amount of \$300,213 by return, carrying charges, depreciation, operation and maintenance expenses and taxes. Please provide this by month up to the cutoff of June 30, 2015.

Objections:

NIPSCO objects to this Request on the grounds and to the extent that this Request solicits an analysis, calculation or compilation which has not already been performed and which NIPSCO objects to performing.

Response:

Subject to and without waiver of the foregoing general and specific objections, NIPSCO is providing the following response:

Please see file attached hereto as OUCC Set 27-002 Attachment A.

Cause No. 44688
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Counselor's Data Request Set No. 27

Cause No. 44688
Attachment WRB - 1
Page 2 of 3

OUCS Request 27-003:

Please itemize the MATS costs deferred in rate base in the amount of \$343,686 by carrying charges and operation and maintenance expenses. Please provide this by month up to the cutoff of June 30, 2015.

Objections:

NIPSCO objects to this Request on the grounds and to the extent that this Request solicits an analysis, calculation or compilation which has not already been performed and which NIPSCO objects to performing.

Response:

Subject to and without waiver of the foregoing general and specific objections, NIPSCO is providing the following response:

Please see file attached hereto as OUCS Set 27-003 Attachment A.

Cause No. 44688
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Counselor's Data Request Set No. 36

OUCS Request 36-002:

Referring to RB-1 Attachment 6-C relating to the transmission and distribution costs of \$3,543,604, please respond to the following:

- a. Attachment 6-B Workpaper DA-12 shows individual charges relating to T&D costs that add up to \$3,543,604 shown in Attachment 6-C. Please show, in detail, how the individual amounts on Workpaper DA-12 are calculated, including, but not limited to: the asset value, rates applied, and time frames assumed.
- b. Please show the relationship of calculations of charges included on Workpaper DA-12 and the charges calculated in NIPSCO's TDSIC-1 and TDSIC-2 trackers.

Objections:

Response:

- a. Please see the file attached hereto as OUCS Set 36-002 Attachment A for the individual amounts which make up \$3,543,604 deferral relating to transmission and distribution costs. Please see also Attachments B through G for additional calculations which support the amounts summarized in Attachment A.
- b. Please see OUCS Set 36-002 Attachment A for an audit trail which shows how the TDSIC-1 and TDSIC-2 schedules were tied out to the analysis.

AFFIRMATION

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



Wes R. Blakley
Senior Utility Analyst

Indiana Office of Utility Consumer Counselor

January 22, 2016

Date

Cause No. 44688
NIPSCO