VERIFIED REBUTTAL TESTIMONY OF FRANK A. SHAMBO

Q1. Please state your name, business address and title.

A1. My name is Frank A. Shambo. My business address is 150 W. Market Street, Suite 600, Indianapolis, Indiana 46204. I am Vice President, Regulatory and Legislative Affairs for Northern Indiana Public Service Company ("NIPSCO" or the "Company").

Q2. Are you the same Frank A. Shambo who prefiled direct testimony in this Cause on October 1, 2015?

A2. Yes.

Q3. What is the purpose of your rebuttal testimony?

A3. The purpose of my rebuttal testimony is to provide an overview of NIPSCO's rebuttal case and witnesses and address issues related to cost of capital, rate base, operating expenses and finally cost allocation and rate design.

<u>Overview</u>

Q4. Please provide an overview of NIPSCO's rebuttal case.

A4. NIPSCO's rebuttal case addresses the major issues raised by the OUCC and Intervenors. Failure to address each and every issue in each witness' testimony does not imply agreement with those issues.

The OUCC proposes a mere $15 million increase in the Company's current revenue requirement, or approximately $110 million less than NIPSCO's proposed revenue requirement. The Industrial Group proposes a similar revenue requirement. The vast majority of the decrease, associated with their proposals, is to radically reduce NIPSCO's authorized rate of return and deny NIPSCO recovery, in any form, on an asset (Prepaid Pension) that works to their benefit. The other major adjustment by both parties is to eliminate depreciation expense associated with the earlier retirement date for Bailly Unit 8. Additionally, there are other changes to the revenue requirement in terms of reduced operating costs. If adopted, the OUCC's and Industrial Group's recommendations, as a whole, would be detrimental to NIPSCO's financial health, its ability to access needed capital on reasonable terms, its operations, and ultimately its customers. The financial integrity of the Company would clearly suffer and create a very difficult environment for NIPSCO to obtain much needed capital to support its required infrastructure replacements and improvements. In contrast, NIPSCO's case-in-chief and rebuttal recommendations will allow the Company to continue to provide safe, reliable, economic utility service to its customers.

The OUCC's and the Industrial Group's proposed adjustments, combined with their proposed costs of equity, are not extensive in terms of the number of issues. The revenue requirement-related items include: cost of equity, capital structure, return on prepaid pension asset, certain operating expenses, a couple of depreciation issues, taxes and amortizations. As I mentioned in my direct testimony, the scope of this case is a narrow one.

NIPSCO has a strong track record in terms of reliability, safety, and customer service, and its service quality continues to improve. NIPSCO urges the Commission to recognize the role that constructive rate relief will play in supporting its quality of service. Further, NIPSCO strongly believes that its case-in-chief and rebuttal case support the need for a significant rate increase.

NIPSCO's rebuttal witnesses and the topics they address are summarized in the table below:

Witness	Topics
Derric J. Isensee	Revenue Requirement Pro-Forma Adjustments Original Cost Rate Base Accounting Issues
Alan D. Felsenthal	Prepaid Pension Asset
Michael D. McCuen	NIPSCO's Federal and State Income Tax Expenses
Paul R. Moul	Rate of Return Return on Common Equity
Ann E. Bulkley	Fair Value Rate Base
J. Stephen Gaske	Allocated Class Cost of Service Study

Cost of Capital

Q5. Please characterize the parties' recommendations you wish to address related to NIPSCO's cost of equity.

A5. OUCC Witness Woolridge and Industrial Group Witness Gorman ultimately disagree with NIPSCO's proposed cost of equity and believe it should be lower. LaPorte County Witness Cearley argues that NIPSCO has poor customer satisfaction performance levels and that the Commission should adjust the Company's cost of equity accordingly.

Mr. Woolridge has recommended a cost of equity of 8.7% while Mr. Gorman has recommended a cost of equity of 9.3%. Mr. Moul explains why these recommendations are much too low in his rebuttal testimony.

Q6. What is your response to the recommendations of Mr. Woolridge and Mr. Gorman?

A6. Mr. Woolridge's and Mr. Gorman's recommendations would jeopardize NIPSCO's financial health and eventually increase the Company's financing costs, which must be recovered from customers. As I mentioned in my direct testimony, NIPSCO has not approached its allowed return on equity in any year since its current base rates were implemented. Both parties' recommendations would provide a level of financial insecurity that would also place inappropriate risk upon NIPSCO's ability to attract capital to provide reasonably adequate service and facilities. Mr. Moul addresses these concerns in his rebuttal testimony.

Q7. What is LaPorte Witness Cearley's recommendation?

A7. Mr. Cearley (at 9) recommends the Commission adjust NIPSCO's cost of equity because of poor customer satisfaction performance levels. Mr. Cearley cites 2015 J.D. Power reports.

Q8. How do you respond to Mr. Cearley?

A8. NIPSCO disagrees with Mr. Cearley's assertions due to the evidence to the contrary. In fact, as demonstrated by NIPSCO Witness Sistovaris in her direct testimony, NIPSCO's customer service metrics have shown improvement from its last electric rate case. Although J.D. Power information is a data point in the consideration of how NIPSCO is performing, it is not the only one, and the evidence as a whole in this proceeding, including the information in the technical conference material, demonstrates that NIPSCO is providing both improved and reasonably adequate service and facilities to meet its customers' needs. Commensurate with those needs, NIPSCO needs to ensure financial security through a reasonable return on equity to support its investments to continuing those services.

Capital Structure

Q9. Characterize the parties' recommendations you wish to address that are related to NIPSCO's capital structure.

A9. Industrial Group Witness Gorman recommends that NIPSCO's net operating income in this case be based upon a hypothetical capital structure, for investor-supplied capital, of 50% equity and 50% debt. He states that NIPSCO's proposed capital structure contains more equity than is reasonably necessary to support the Company's credit rating. The Industrial Group proffered a similar proposal in NIPSCO's last fully litigated rate case, Cause No. 43526.

Q10. What was the Commission's response to the Industrial Group's proposal in that case?

A10. The Commission stated, "[h]ypothetical capital structures such as those proposed here…have long been held to be contrary to Indiana law."[1] It went on to quote the Indiana Supreme Court, which stated in an earlier case that Indiana's law of the valuation of public utility property "does not permit the fixing of rates on a hypothesis or a situation never in existence"[2]

Q11. What is your response to Mr. Gorman's recommendation?

A11. The Commission and the Indiana Supreme Court have already rejected the same argument Mr. Gorman is making in this case. I recommend that the Commission use NIPSCO's actual capital structure at the end of the test year to determine the Company's net operating income in this case.

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1 *Petition of Northern Indiana Pub. Serv. Co.*, Cause No. 43526, p. 18 (IURC 8/25/2010).

2 *Public Service Comm'n of Indiana v. City of Indianapolis*, 235 Ind. 91, 131 N.E.2d 317 (Ind. 1956).

<u>Prepaid Pension Asset</u>

Q12. Characterize the parties' recommendations you wish to address related to NIPSCO's prepaid pension asset.

A12. OUCC Witness Stull and Industrial Group Witness Rackers both recommend that the Commission deny NIPSCO's proposal to place its $216.3 million prepaid pension asset ("PPA") into rate base and earn a return on it.

Q13. What is NIPSCO's general response?

A13. NIPSCO's treatment of its PPA in rate base is appropriate and should be approved. As Mr. Isensee explained in his direct testimony and explains in rebuttal testimony and Mr. Felsenthal explains in his rebuttal testimony, NIPSCO's incorporation of its PPA into rate base is sound policy.

A prepaid pension asset is effectively a prepaid labor expense, since pension is a form of labor expense. Both labor and pension expenses are appropriate costs for recovery in base rates. Prepayments are booked as assets since there is a timing difference between when cash is paid versus when the expense is recognized.

Mr. Felsenthal demonstrates that NIPSCO's prepayments have reduced its test year pension expense as well as its future pension expenses. There is also no doubt that this asset was created with the use of investor capital and is a benefit to rate payers. For these reasons, it is appropriately treated inside of rate base.

There are a number of assets and liabilities considered in a rate proceeding that result from timing differences. A few examples are fuel inventory, deferred income taxes, and other post-employment benefits. All of these assets and liabilities are dealt with in a base rate case. Fundamentally, a prepaid pension asset should be treated either as a rate base component or as an offset to zero cost capital in the capital structure. Since the asset is supplied by investors and beneficial to rate payers, the utility must receive compensation. To argue otherwise is to provide incentive to utilities to under-fund their pension liabilities and create a greater operating expense. As Mr. Felsenthal points out, this has multiple negative impacts, including future debt ratings, as our neighbors in Illinois are now all too aware.

Q14. How does OUCC Witness Stull support her recommendation that the PPA is not used and useful?

A14. Ms. Stull basically argues that the asset is not "used and useful," as that term is defined by Indiana law. She also states (at pp. 1-5) that the asset can be considered neither working capital nor inventory. She believes that NIPSCO's proposal is not supported by any precedent, despite the fact that the Commission approved similar proposals in two recent cases. She disregards the first case by stating that because the parties settled, the Commission did not specifically approve the requested treatment.[4] She believes the second case is not precedential because neither the Commission nor the Indiana Court of Appeals, which affirmed the Commission's decision on the matter, explained how the asset qualified to be included in rate base under Indiana law.[5]

Q15. What is your response to Ms. Stull's belief that the PPA is not "used and useful"?

A15. The Commission has already found that a PPA may be included in rate base. Indiana Code § 8-1-2-6 provides that the Commission "shall value all property of every public utility actually used and useful for the convenience of the public at its fair value ... ." The Indiana Court of Appeals has interpreted the "used and useful" phrase several times.[6] The Court has noted that this code

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4 *Petition of Indiana-American Water*, Cause No. 44450 (IURC 1/28/2015).

5 *Petition of Indiana Michigan Power Co.*, Cause No. 44075 (02/13/2013).

6 See, for example, *Indiana-American Water Co., Inc. v. Ind. Office of Util. Consumer Counselor*, 844 N.E.2d 106 (Ind. Ct. App. 2006).

provision is used in rate proceedings to "establish a level of rates and charges sufficient to permit the utility to meet its operating expenses plus a return on investments which will compensate its investors."[7] The Appellate Court has found that the Commission must determine the utility's rate base, which "is usually defined as that utility property 'used and useful' in rendering the particular utility service." The Court stated that the "used and useful" standard requires:

> (1) the utility plant be actually devoted to providing utility service, and
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> (2) the plant's utilization be reasonably necessary to the provision of utility service.[8]

While the prepaid pension asset is not "plant", NIPSCO's prepaid pension asset meets both of these requirements. First, the PPA is actually devoted to providing utility service. It is capital that has been invested by the Company's shareholders to provide NIPSCO's employees with retirement benefits. These benefits are part of the compensation the Commission has previously found is necessary to attract and retain the labor necessary to

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[7] *Id.* at 110 (quoting *City of Evansville v. S. Ind. Gas & Elec. Co.*, 167 Ind. App. 472, 478, 339 N.E.2d 562, 568 (1975)).

[8] *Id.* at 111.

provide utility service. Second, the PPA is reasonably necessary to the provision of utility service. Mr. Felsenthal testifies in his rebuttal testimony that a portion of the excess pension contributions that created the PPA was mandated by federal law. He also testifies that the contributions in excess of the annual mandated minimum amounts create benefits to customers in this rate case that are greater than the capital cost NIPSCO is requesting on the PPA. NIPSCO believes that an investment that lowers the cost of service to its customers, even after the financing costs are accounted for, is reasonably necessary to providing service.

Q16. How does Industrial Group Witness Rackers support his recommendation?

A16. Mr. Rackers supports his recommendation in three basic ways. First, he states that the Commission rejected a similar request by NIPSCO in its 2008 rate case. In that case, NIPSCO requested rate base inclusion of a $25.7 million PPA. In its order, the Commission stated:

> With respect to NIPSCO's request to include the prepaid pension asset in rate base, the only evidence [is an] accounting exhibit showing the amount of the prepaid pension asset.
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> A prepaid pension asset could be a voluntary payment by shareholders to supplement the required pension expenses. NIPSCO has presented no justification for including the prepaid

> pension asset in rate base, and without additional supporting evidence, we decline to include it in NIPSCO's rate base.[11]

In his rebuttal testimony, Mr. Felsenthal provides evidence that shows that the annual return NIPSCO is requesting on its PPA is less than the amount of pension expense the PPA has saved the Company's customers in this rate case. Further, he explains that a well-funded pension plan helps NIPSCO attract and retain qualified employees and satisfies rating agencies. Therefore, NIPSCO has provided the evidence necessary to support its request in this case.

Second, Mr. Rackers alleges that more than 50% of the current PPA came about when NIPSCO merged with NIFL and Kokomo Gas in 2011.[12] Not only is this not correct, Mr. Rackers offers no support for this claim. Mr. Felsenthal addresses this inaccuracy.

Q17. If the Commission determines that it will not include the PPA in rate base, is there an alternative treatment that NIPSCO would recommend?

A17. Yes. As Mr. Felsenthal discusses, the accounting rules for OPEB's are similar to those of pensions. The OPEB accrual is treated as zero cost capital in the

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11 *Northern Indiana Pub. Serv. Co.*, Cause No. 43526, p. 9 (IURC 8/25/2010).

12 *Joint Petition of Northern Indiana Pub. Serv. Co., Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Co.*, Cause No. 43941.

capital structure, the economic equivalent of reducing rate base. The pension asset and OPEB accrual are, mirror images of each other and could be reflected in ratemaking in a consistent or similar manner. The effect of this treatment is discussed in further detail by Mr. Isensee.

<u>**Rider 775 (Interruptible Industrial Service)**</u>

Q18. Characterize the parties' recommendations you wish to address related to Rider 775.

A18. US Steel Witness Mancinelli testified that NIPSCO should (1) increase the capacity available under current Rider 675 to 600 MW, (2) remove the $38 million cap, and (3) add an additional Option E.

Q19. What is NIPSCO's response to Mr. Mancinelli's proposals relative to proposed Rider 775?

A19. NIPSCO supports Mr. Mancinelli's proposal to eliminate the $38 million cap and does not object to increasing the capacity available under proposed Rider 775. Generally speaking, NIPSCO agrees with the supporting reasons for the additional interruptible capacity, and the benefits that will accrue to all other customers through additional capacity resources that will qualify as part of NIPSCO's portfolio to meet ongoing MISO planning reserve requirements.

This increase in capacity available under Rider 775 is solely to the benefit of other customers and should be treated in the same manner as all other interruptible capacity under currently effective Rider 675 and proposed Rider 775.

Finally, NIPSCO agrees with US Steel's proposed addition of Option E to proposed Rider 775. For the reasons stated in Mr. Mancinelli's testimony, the $9.50 per kW-month credit is reasonable.

Cost Allocation

Q20. Characterize the parties' statements you wish to address related to cost allocation.

A20. It is notable that all parties agreed that reasonable minds could differ as to the appropriate cost allocations.

Q21. How does NIPSCO respond to LaPorte County Witness Cearley's recommendation that NIPSCO's should not adjust its revenues for the loss of two large industrial facilities during the test year?

A21. As NIPSCO has identified in this and other matters, the large industrial customers located in NIPSCO's territory are participants in a much broader global marketplace, and the individual customer's decision to shutter or relocate production from our service territory is a function of a number of factors outside the control of NIPSCO. Although NIPSCO's electric rates do play a small part, it is not the sole factor, and I believe US Steel's prefiled direct testimony demonstrates this. As a result, Mr. Cearley's suggestion is not applicable, and the load loss experienced by NIPSCO is a fixed, known and measurable loss that is appropriately considered in this proceeding.

<u>**Customer Charges**</u>

Q22. Characterize the parties' recommendations you wish to address related to NIPSCO's proposed customer charges.

A22. OUCC Witness Watkins and CAC Witness Rabago each recommend that the Commission should reject NIPSCO's proposal to raise the fixed customer charge in its residential and small commercial rates. Mr. Watkins supports his recommendation by stating that the proposal: (1) violates the regulatory principle of gradualism, (2) violates the economic theory of efficient competitive pricing, and (3) is contrary to effective conservation efforts.

Mr. Rabago supports his recommendation (pp. 4-6) by stating that NIPSCO: (1) has not met its burden to prove that its proposal is reasonable, (2) has failed to demonstrate that the current level of fixed customer charges exposes the company to financial harm, and (3) offers no evidence that customers who have or are likely to invest in energy efficiency or renewable energy investments have created any harm that can best be remedied through the proposal.

Q23. Mr. Watkins and Mr. Rabago both recommend that the Commission should reject NIPSCO's proposal to raise the fixed customer charge. Has either Mr. Watkins or Mr. Rabago disagreed with Dr. Gaske's cost classification?

A23. No. There was no disagreement that the majority of NIPSCO's costs are fixed, except Mr. Watkins' theoretical statement that all costs are variable in the long-run. These are fixed costs because the costs are related to assets that have very long lives and are not likely to change over the next decade or longer. Furthermore, the resources required to provide the service, such as field labor and customer service also do not change within any reasonable length of time.

Q24. What is your general observation of the reasons Mr. Rabago is opposed to increasing the customer charge?

A24. Mr. Rabago has two primary concerns. First, increasing the customer charge will impede increased energy efficiency / renewable energy growth and, second, it will disproportionately and negatively impact low income customers. He makes a third argument that NIPSCO needs to show that it is going to be financially hurt by a variable rate collection.

Q25. Please address Mr. Rabago's concern on energy efficiency.

A25. Mr. Rabago appears to support maintaining the subsidy to promote energy efficiency programs and home based renewable energy development. I wish Mr. Rabago would have more clearly stated that view. I understand the point of view that these should be subsidized, even if I don't agree. This is a public policy decision. I am more concerned about the potential unintended consequences of subsidies and uneconomic decisions. I believe there are better ways to address energy efficiency and renewable energy than to subsidize it implicitly through rate design.

Q26. Do you agree with Mr. Rabago's concern about the impacts on low income customers?

A26. No. As I stated in my direct testimony, if NIPSCO seeks to help low income customers, we should develop a program that is designed to explicitly and intentionally accomplish this objective. NIPSCO has culled the LIHEAP data and presented information on the annual usage patterns of 18,000 low income customers. This is not a small sample size. The average usage in this group is equal to or greater than NIPSCO's average customer. Meaning that for approximately 9,000 low income customers, not a trivial level, variable rate design is clearly a negative.

Q27. Do you believe that Mr. Rabago could have been clearer that the appropriate customer charge is a policy proposal driven by energy efficiency and home renewable energy sources?

A27. Yes. The facts clearly indicate that this is a policy decision around whether to subsidize energy efficiency and home renewables through rate design. Finally, NIPSCO does agree to help low income customers in a meaningful way as I describe below.

<u>**Low Income Program**</u>

Q28. How did NIPSCO determine the number of electric LIHEAP customers to include in its proposed program?

A28. NIPSCO's LIHEAP enrollment is relatively stable from year to year, although it does vary somewhat. NIPSCO used the number of electric customers enrolled in LIHEAP the previous year to model its proposed program since this number reflected the most current information available.

Q29. Is it NIPSCO's intention to make an annual compliance filing for the proposed program and to reconcile any under collection or over collection of program funds?

A29. Yes. The reconciliation process will allow the program to address the actual number of customers who receive LIHEAP funds each year.

Q30. Did NIPSCO evaluate alternatives to its proposed program?

A30. Yes, NIPSCO did look at the possibility of a Universal Service Program (USP) similar to its current Gas USP. The Company proposed the one-time bill credit applied in June to assist low-income electric customers at the time of year when electric bills are generally the highest. This approach is very similar to the Indiana LIHEAP Summer Cooling Program, which provides a one-time assistance payment to participants in years when summer LIHEAP funds are available.

Q31. Did NIPSCO consider a voluntary program such as a bill round-up program?

A31. No. NIPSCO determined that a voluntary program would not generate enough participation to be viable. Additionally, a voluntary program does not provide a known or consistent level of funding, which makes planning and administration extremely difficult.

Q32. OUCC Witness Hand states that program recipients should not be required to help fund the program. Do low-income customers receiving a benefit through NIPSCO's current Gas USP also contribute to the Gas USP program?

A32. Yes, all residential customers, including those receiving a bill discount, are subject to Rider 473 – Universal Service Fund Rider.

Q33. Does NIPSCO agree with CAC's Witness Howat that NIPSCO's low-income residential customers may have a hard time affording electricity?

A33. Yes. However, NIPSCO believes that Mr. Howat's recommendations go too far because he does not incorporate into his recommendations other assistance funding currently available.

Q34. What recommendations does NIPSCO currently make to low-income customers to help them manage their bills?

A34. NIPSCO encourages customers to participate in budget billing so that they can plan for a constant bill amount each month and avoid any surprises that extreme weather could cause. Additionally, customers who choose to participate in budget billing are not charged any late fees. Therefore, LIHEAP customers may completely avoid these fees.

Q35. Should a low-income rate be established?

A35. No. A low-income rate would not send the correct price signal for service. Electricity rates should be based upon cost of service principles regardless of the income status of customers. NIPSCO believes that a low income program should provide benefits under a different, separate framework that is outside of setting base rates.

Q36. Should an arrearage management program be established as part of its program?

A36. No. Arrears can be addressed by currently available assistance agencies or programs such as Township Trustees, who are authorized under Indiana Code to provide such assistance. NIPSCO has extensive experience with assistance programs on the gas side of its business and has found that customer arrears have been effectively managed without instituting an arrears management component.

Additionally, NIPSCO's current billing system is not set up to administer such a program. A great deal of time and expense would be needed to make necessary modifications. And finally, Mr. Howat offers no evidence that arrearage management program costs decrease in subsequent years. It has been NIPSCO's understanding through one of its sister companies with an arrearage management program that these costs do not decrease.

Q37. Mr. Howat refers to several policy objectives and design principles of a low-income electricity affordability program. Please provide a response to each.

A37. My response to each of Mr. Howat's policy objectives and design principles is as follows:

<u>Serves LIHEAP-eligible residential electricity customers at or below 150% of the federal poverty level.</u>

NIPSCO's program addresses these customers.

<u>Lowers program participant's electricity burden to an affordable level.</u>

Mr. Howat does not offer evidence to define "affordable level" for customers in NIPSCO's service territory. He makes the assumption that a 25% monthly discount is appropriate for all LIHEAP customers. Coincidently, this is the same assumption he made for LIHEAP customers in IPL's service territory when he testified in its current rate case.

NIPSCO proposes that its shareholders contribute 25% of the program funding annually. NIPSCO's program provides a benefit that is in addition to the LIHEAP benefit the customer is already receiving. Mr. Howat's calculations do not appear to take any LIHEAP benefit into consideration.

<u>Promotes regular, timely payment of electric bills by program participants.</u>

As stated above, NIPSCO believes that budget billing offers an excellent tool to even out payment amounts to a predictable level each month making regular payments easier to achieve.

<u>Comprehensively addresses payment problems associated with program participants' current and past-due bills.</u>

NIPSCO did not design its program to be the sole source of customer assistance but instead recognizes that other assistance resources are available to help customers and should also be utilized.

<u>Is funded through a mechanism that is predictable while providing sufficient resources to meet policy objectives over an extended timeframe.</u>

NIPSCO's program funding mechanism is predictable and consistent. As also stated above in NIPSCO's response to Mr. Hand's testimony, this is essential for program planning for both the utility and program participants.

<u>Is paid for by all classes of customers.</u>

Mr. Howat's suggestion that a uniform volumetric charge be applied to all electric sales is troublesome in NIPSCO's service territory. The majority of these sales are to industrial customers. It does not seem appropriate that this class of customers should shoulder a greater burden for the program than the residential class receiving the assistance.

Q38. Does NIPSCO agree that LIHEAP recipients should be automatically enrolled in the NIPSCO program to make administration of the program more cost effective?

A38. Yes. NIPSCO agrees with Mr. Howat that efficient, streamlined administration allows limited funding to be directed to participant benefits. NIPSCO would enroll LIHEAP customers in its program automatically thereby eliminating the need for additional administrative support or expense. NIPSCO's program would rely on information it currently receives from the State's Community Action Agencies so no additional costs for agency administration of the program would be incurred. However, NIPSCO does not have the ability to address other means-tested programs as suggested by Mr. Howat since it receives no notification of those benefits to customers. Therefore, NIPSCO's program would be restricted to LIHEAP recipients.

Q39. Is NIPSCO comfortable with the estimates of the cost Mr. Howat has projected for his proposed program?

A39. No. Although NIPSCO appreciates that Mr. Howat attempted to provide solid estimates, by his own admission in the footnote on Page 16 of his testimony, "…CAC must make assumptions about average participant pre-program arrears. For purposes of this analysis, I have assumed that the average past arrearage among NIPSCO's residential customers participating in LIHEAP to be $250.00."

Since NIPSCO does not have the data to verify this assumption, it is quite possible these arrears are higher therefore the program costs estimated by Mr. Howat could also be much higher. Once again, because other community resources are available to assist with arrearages, NIPSCO does not support an arrearage component to its assistance program.

<u>**Rider 771 (RTO)**</u>

Q40. Characterize the parties' recommendations you wish to address related to NIPSCO's proposed changes to the RTO Tracker.

A40. OUCC Witness Gruca recommends the Commission approve NIPSCO's proposal to embed a $4.7 million credit for off-system sales ("OSS") margins in the Company's base rates. She also recommends that NIPSCO, within the RTO Tracker, credit to or recover from customers 100% of the variance between actual margins above $0 and the embedded credit.

Industrial Group Witness Dauphinais objects to NIPSCO's proposals and recommends a number of changes.

Q41. What is NIPSCO's response to Ms. Gruca's recommendations?

A41. In the spirit of reaching common ground, NIPSCO is willing to accept the OUCC's stated position. However, NIPSCO believes the OSS sharing mechanism should be evaluated in future base rate proceedings.

In addition, and although it is unlikely to ever occur, NIPSCO would modify the OUCC's proposal to limit the sharing down to zero margin. Specifically, if NIPSCO were to ever incur negative margins for some unforeseen reason – e.g., due to market dynamics – then this too needs to be incorporated into the 100% sharing treatment.

Q42. Characterize Mr. Dauphinais' objections to and recommendations regarding NIPSCO's proposed changes to its RTO Tracker.

A42. Mr. Dauphinais recommends that the Commission reject the proposed tracker. He believes that NIPSCO should rename the tracker "Adjustment for OSS Margins" and that the Commission should direct NIPSCO to begin recovering three MISO line items, which he believes to be fuel-related, in the Company's FAC tracker instead of in the RTO Tracker as they are currently.[13]

Although he supports NIPSCO's proposal to symmetrically share with its customers 50% of the difference between the Company's annual OSS margins and the embedded credit, he recommends that the Commission prohibit NIPSCO from recovering any negative OSS margins from its customers.

Q43. What is your response to Mr. Dauphinais' recommendations?

A43. I do not agree with any of his proposals. His "heads they win, tails NIPSCO loses" OSS margin recommendation unreasonably shifts most of the risk associated with off-system sales opportunities onto the Company. While NIPSCO would receive recovery of 50% and OSS margins up to zero

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[13] These three line items are MISO Miscellaneous Amount, Revenue Neutrality Uplift, and MVP Distribution revenues and expenses.

("negative OSS margins"), this is relatively unlikely to occur over a reconciliation period.

Mr. Dauphinais' proposal to alter NIPSCO's FAC and RTO Trackers is contrary to multiple Commission orders.[14] Furthermore, he admits that NIPSCO's RTO costs are increasing. This is an obvious attempt to simply penalize NIPSCO for being a utility within an RTO. MISO bills these costs through its own tariff approved by FERC.

A number of the MISO non-fuel items within the RTO Tracker are allocated on a load-basis, not on an energy-basis ("fuel"). NIPSCO is open to moving credits / charges that are allocated on an energy-basis to the FAC Tracker, however, these changes should occur in collaboration with other utilities, the Commission, and stakeholders to ensure consistent treatment and to aid in simplifying the regulatory recovery process.

<u>Rider 777 (Economic Development Rider)</u>

Q44. Characterize the parties' arguments you wish to address related to NIPSCO's proposed changes to its Rider 777.

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[14] See Cause Nos. 42685 (2005) and 38706-FAC-XX (NIPSCO's FAC filings).

A44. OUCC Witness Hand recommends that if NIPSCO desires to continue offering its EDR customers the discounted rates they are currently paying, the Company's customers should not be forced to pay the lost revenue. He states that EDR customers should not have been caught off guard by the contract provision at issue. He supports the other changes to the EDR that NIPSCO has proposed.

Q45. What is your response to Mr. Hand's recommendations?

A45. NIPSCO agrees that these customers should be aware that their currently discounted rates will terminate when new base rates go into effect. However, it is important to note that NIPSCO filed this rate case as part of a commitment in another settlement entered into in 2015, and it is not the appropriate time to hastily terminate contracts that have attracted additional load to the service territory to the benefit of all customers. Specifically, there are contracts that have been in effect for less than two years.

NIPSCO desires to establish a mechanism or framework around the rider that would be fair to the EDR customers, all other customers, and the Company. NIPSCO's proposal achieves this balance by placing the burden on NIPSCO for lost margins until the next rate case, establishing deferred treatment until a subsequent rate case, and maintaining the benefits of the discounts through the term of the contracts.

I would lastly clarify the tariff's operation relative to Mr. Hand's suggestion that NIPSCO can unilaterally decide to not terminate the currently-effective EDR contracts when new base rates are implemented. Specifically, the tariff notes that the currently-effective contracts "shall" terminate upon the effectiveness of new base rates. As such, NIPSCO does not have discretion to continue the contracts.

<u>LED Streetlights</u>

Q46. Characterize the parties' arguments you wish to address related to the proposed LED street lighting rate.

A46. IMUG Witness Sommer (at 3) commends NIPSCO on its efforts to be the first investor-owned utility in Indiana to propose an LED street lighting replacement program, but he does not think the rates the Company has proposed in this proceeding reflect the low costs associated with a mass retrofit strategy.

He states (at 14) that the Company's proposed rates resemble the cost of installation of only a few street lights at a time, not a mass modernization that would be a once in a generation event. He also states that the LED rates should incorporate a 50% reduction in O&M per fixture, rather than the 25% amount Mr. Gaske proposes.

He recommends the Commission approve a revised LED street lighting rate that assumes mass fixture replacements. In the alternative, he recommends a rate if the retrofits are done on a smaller scale.

Q47. What is your response to Mr. Sommer's and Dr. Kramer's recommendations?

A47. I agree with Mr. Sommer and Dr. Kramer on the benefits of LED streetlights and the savings available if NIPSCO pursues a mass replacement strategy. This mass LED retrofit strategy is being pursued in NIPSCO's latest 7-Year Electric TDSIC Plan filing currently pending in Cause No. 44733. That program will include, for example, the benefits of utilizing contractors or other efficiencies for a mass rollout of such LED conversions. This does not prohibit the institution and approval of the streetlight rates proposed in this proceeding to allow conversions outside the context of a TDSIC program.

NIPSCO has planned to submit, subject to the Commission's review and approval, a set of LED streetlight tariff rates in the initial electric TDSIC tracker proceeding that would incorporate the effects of any mass replacement strategy and the benefits or synergies associated with that roll-out. These additional "TDSIC-specific" LED streetlight rates would be complimentary and in addition to the ones that the Company is proposing in this proceeding.

The LED rates NIPSCO proposed in this proceeding would serve as a "default" rate to any conversion of a Company-owned light to an LED regardless of any TDSIC treatment; whereas, the rates proposed in the initial TDSIC tracker proceeding would apply to any mass retrofit program that may be approved by the Commission in the Company's latest 7-Year Electric TDSIC Plan filing. Since the TDSIC program would have its own treatment for the revenue requirement and the synergies from mass replacement, it is important to maintain this distinction between the two.

Without providing specific tariff rates, NIPSCO is willing to add a new tariff page in its compliance filing in this proceeding to serve as a placeholder for the finalized LED mass retrofit rate that will be proposed for final approval in conjunction with and subject to an approval of the LED mass retrofit plan in TDSIC.

<u>A&G Expenses</u>

Q48. Characterize the parties' arguments you wish to address related to NIPSCO's administrative and general ("A&G") expenses.

A48. OUCC Witness Etheridge recommends that the Commission should, "evaluat[e] the overall revenue increase, if any, to be granted to NIPSCO…consider the fact that NIPSCO's A&G expenses have been increasing at an extraordinary rate." Mr. Etheridge (at 43-44) made this recommendation after evaluating NIPSCO's A&G expenses and referencing the corporate separation between NiSource Inc. and Columbia Pipeline Group, which was final on July 1, 2015.

Q49. What is your response to Mr. Etheridge's comments regarding NIPSCO's A&G expenses and his reference to the corporate separation?

A49. First, the corporate separation Mr. Etheridge referenced took place three months after the end of the test year in this proceeding. NIPSCO requested no pro forma adjustments based upon the separation.

In addition and as NIPSCO witness Hooper discusses in his direct testimony, NIPSCO does monitor its expenses and has set controls in place to manage budgets and expenses to provide reasonably adequate services and facilities for customers.

Second, it is an axiom of a rate case that the Commission look at a utility's revenues and expenses holistically. A&G expenses are just one component of NIPSCO's operating and maintenance costs. Mr. Etheridge did not look at NIPSCO's service costs as a whole, but only picked apart one component.

Q50. How have NIPSCO's O&M expenses fared in the last three years?

A50. Slide 7 of NIPSCO's technical conference presentation illustrates that the Company's O&M expenses increased by $31 million between December 31, 2012 and September 30, 2015, a compound average growth rate of approximately 2% per year over that period. NIPSCO continues to monitor and control its costs to provide reasonably adequate service and facilities to customers.

<u>**Other Miscellaneous Items**</u>

Q51. Industrial Group Witness Dauphinais opposes Rider 776 buy-through energy from paying the trackers. Please respond?

A51. Mr. Dauphinais is recommending the buy through energy for Back-up and Temporary Service should not be subject to the application of riders according to Appendix A. He states that these customers do not get the benefits of NIPSCO's generation facilities and should not be required to pay generation and demand reduction costs through other NIPSCO adjustment riders. I would note that customers do not pay any of the riders if they buy through energy consistent with the terms of Rider 675. Customers should be treated consistently whether they buy through energy under Rider 675 or 676. NIPSCO is in agreement with Mr. Dauphinais that the buy through energy should not be subject to the FAC (Rider 770) and NIPSCO has not been applying the FAC to any buy through energy under Rider 676. NIPSCO is proposing that all buy through energy in both Riders 775 and 776 should be treated the same.

Q52. Mr. Dauphinais makes a distinction between backup service and maintenance service in Rider 776. Please respond.

A52. Mr. Dauphinais is concerned that NIPSCO is proposing to add the phrase "the amount confirmed by company shall be deemed firm load and subject to Curtailments" and that under certain circumstances NIPSCO might not confirm a request for Back-up Service from a Rider 776 customer. He is proposing that NIPSCO add an additional sentence immediately following the sentence that NIPSCO proposes to modify. The sentence would state

"Confirmation of a Customer request for Back-up Service under this Rider shall not be withheld by the Company provided the request for Back-up Service is made in full conformance with the terms and conditions for Back-up Service under this Rider." NIPSCO accepts the recommendation of Mr. Dauphinais and will incorporate the change to the Back-up Service section of the Character of Service in Rider 776, Back-up, Maintenance, and Temporary Industrial Service Rider, if the Commission approves, in its compliance filing.

Q53. Mr. Dauphinais recommends that on July 1 of each year, NIPSCO should provide a non-binding good faith 5-year projection of its electric rates. Please respond.

A53. NIPSCO historically has provided some projections, when requested, to its customers, and therefore accepts the recommendation of Mr. Dauphinais that by July 1 of each year, NIPSCO will provide an annual five-year good faith projection of its electric rates and riders for its large industrial rates – Rates 725, 732, 733 and 734.

Q54. Mr. Dauphinais recommends that NIPSCO's definition of Qualifying Facilities be deleted in its General Terms and Conditions and Rider 778

should be modified to be consistent with Ind. Code § 8-1-2.4-2(g). Please respond.

A54. NIPSCO accepts the recommendation of Mr. Dauphinais.. On February 11, 2016, NIPSCO filed a correction to delete the definition of Qualifying Facilities from its General Rules and Regulations and revised Rider 778 to be consistent with Ind. Code § 8-1-2.4-2(g).

Q55. OUCC Witness Armstrong states (at 12) that the "OUCC would propose that NIPSCO cease the tracking of both capital and O&M costs of equipment embedded in rate base." What is NIPSCO's response to this proposal?

A55. NIPSCO agrees with the OUCC regarding the tracking of revenue requirement associated with specific assets that are included as part of rate base in a base rate case wherein all the attendant revenue requirement components are included. However, that is not the case, for example, with regard to the Selective Catalytic Reduction catalyst layers in an ECR proceeding. Nonetheless, this issue is not ripe for this base rate case proceeding, and it is more appropriately handled in the context of NIPSCO's next ECR proceeding following this case when a replacement catalyst layer, that is not included as part of rate base, is addressed.

Q56. Does this conclude your prefiled rebuttal testimony?

A56. Yes.

VERIFICATION

I, Frank A. Shambo, Vice President, Regulatory and Legislative Affairs of Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Frank A. Shambo

Frank A. Shambo

Date: February 16, 2016