VERIFIED SETTLEMENT 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 and rebuttal testimony in this Cause?

A2. Yes.

Q3. What is the purpose of your settlement testimony in this proceeding?

A3. The purpose of my settlement testimony is to support the Stipulation and Settlement Agreement entered into as of the 19th day of February, 2016, by and between NIPSCO, the Indiana Office of Utility Consumer Counselor ("OUCC"), Indiana Municipal Utilities Group ("Municipals"), NIPSCO Industrial Group ("Industrial Group"), NLMK Indiana ("NLMK"), United States Steel Corporation ("U.S. Steel"); and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO/CLC (collectively the "Settling Parties") filed in this Cause on February 19, 2016 (the "Settlement"). My testimony is outlined as follows:(1) support for the agreed-to Return on Equity ("ROE") and overall return and revenue requirement; (2) support for the revenue allocation proposed in the Settlement; (3) rationale for the modifications to interruptible Rider 675; and (4) explanation of why the Settlement is in the public interest.

Q4. Are you sponsoring any exhibits?

A4. Yes. Together with the other Settling Parties, I am sponsoring Joint Exhibit 1 which is a copy of the Settlement in this Cause.

Q5. What specific objectives were addressed in the Settlement?

A5. The specific objectives addressed in the Settlement include: (1) resolution of the revenue requirement and overall revenue allocation, (2) concern about residential burden, and (3) the effect on NIPSCO's large industrial customers that compete globally.

I. REVENUE REQUIREMENT

Q6. Please summarize the differences in the proposed revenue requirements among the parties.

A6. As I stated in my direct and rebuttal testimony, NIPSCO intentionally filed a narrow case. The vast majority of the differences in the proposed revenue requirement among the parties can be reduced to three issues: (1) NIPSCO's authorized ROE; (2) treatment of NIPSCO's prepaid pension asset; and (3) depreciation expense associated with the earlier retirement date for Bailly Unit 8. Additionally, there were other proposed differences to the revenue requirement related to proposed amortization periods for various regulatory assets and differences in pro-forma operating costs.

Q7. Please describe the rationale for the agreed upon ROE and resulting authorized net operating income.

A7. There obviously is a balancing of interests among NIPSCO's stakeholders. All want to assure NIPSCO's financial health because to do otherwise would eventually increase the Company's financing costs, which must be recovered from customers. Too low of a return would provide a level of financial insecurity that would place inappropriate risk upon NIPSCO's ability to attract capital to provide reasonably adequate service and facilities. However, NIPSCO recognizes that returns have trended downward since its last rate case order. Balancing the interest of all stakeholders, the Settling Parties agreed upon an

ROE of 9.975 percent, which is lower than NIPSCO's requested ROE but higher than the ROE proposed by the OUCC, the Industrial Group and Wal-Mart in this proceeding.

I would also note that NIPSCO has improved key service metrics for the benefit of customers, including customer average interruption duration index (CAIDI), system average interruption duration index (SAIDI) and customer perception scores. These improvements all support the agreed-to ROE and also support how NIPSCO needs to remain financially stable to support further investments to provide reasonably adequate service and facilities and to invest in infrastructure to support the local region and jobs and growth.

NIPSCO continues to recognize the need for and importance of good customer service and performance, and specifically the value of customer surveys like the J.D. Power Electric Customer Satisfaction Surveys. NIPSCO will continue to work on improving its relationships with customers and its customer service to both its existing customers as well as potential new customers. NIPSCO recognizes and agrees it is important to both the Company, its customers and Northern Indiana in general to commit to and focus on increasing opportunities for viable economic development in its service territory and support all reasonable efforts to participate in and promote such efforts.

Q8. Please explain the agreed upon treatment of the Prepaid Pension Asset.

A8. For purposes of settlement, the Settling Parties agreed that the electric portion of the Prepaid Pension Asset would be included in NIPSCO's capital structure as an offset to its deferred taxes. As NIPSCO Witness Alan Felsenthal discussed in his rebuttal testimony, the accounting rules for other postemployment benefit ("OPEB") are similar to those of pensions. The OPEB accrual is treated as zero cost capital in the capital structure. The pension asset and OPEB accrual are mirror images of each other and may be reflected in ratemaking in a consistent or similar manner. The effect of this treatment is discussed in further detail by NIPSCO Witness Derric Isensee. I would also note that this agreement is consistent with the resolution of Indiana-American Water's most recent base rate case.[1]

Q9. Please explain the agreed upon resolution of NIPSCO's request to increase its depreciation expense to reflect the anticipated retirement of Bailly Unit 8.

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[1] *Petition of Indiana-American Water Co.*, Cause No. 44450 (IURC 1/28/15).

A9. Historically, NIPSCO has made age-based retirement assumptions for baseload units in the Integrated Resource Planning ("IRP") analysis. In light of the significant investment that would be required for Bailly Unit 8 to continue operating beyond 2023 and the efficiencies associated with retiring the units at the same time, NIPSCO intends to retire Unit 8 at the same time as Unit 7 (no later than 2023). However, NIPSCO understands the other parties' reluctance to agree to revised depreciation rates until after a thorough review of NIPSCO's 2016 IRP, which will be submitted by November 1, 2016. NIPSCO will not petition to change its depreciation rates to reflect the earlier retirement of Bailly Unit 8 until after the submission of its 2016 IRP. Based upon this revision, the Settling Parties agreed that the depreciation accrual rates recommended by NIPSCO Witness John Spanos and presented in this proceeding (the "Depreciation Study") should be approved, except that pro-forma depreciation expense should be reduced by approximately $17.3 million due to the exclusion of the increase in depreciation expense associated with Bailly Unit 8 (approximately $11.1 million) and to adjust the depreciation rates as proposed by Industrial Group Witness Brian Andrews as outlined in his testimony (approximately $6.2 million).

Q10. What other revenue requirement changes were made?

A10. The Settling Parties agreed to use a seven year amortization for the majority of the regulatory assets and as explained in further detail by Mr. Isensee, another ~$13 million was included as a settlement adjustment. In addition, NIPSCO's proposed rate base was decreased by the value of the Prepaid Pension Asset. Joint Exhibit 1, Joint Exhibit A contains a calculation of NIPSCO's revenue requirement and original cost rate base.

Q11. Is the agreed-to net operating income an acceptable return on the fair value of NIPSCO's assets?

A11. Yes. NIPSCO agrees that a net operating income of $217.1 million, as shown on Joint Exhibit 1, Joint Exhibit A, is an acceptable return on the fair value of its assets.

Q12. Please describe Joint Exhibit 1, Joint Exhibits C and D.

A12. The Settling Parties all agreed that it was imperative to address the allocation of costs recovered through riders in this rate case. Joint Exhibit C contains the demand allocators to be utilized in the RA Tracker on a going forward basis, which will be modified to reflect the amount of interruptible loads to be contained in Rates 732, 733 and 734. Joint Exhibit D reflects the customer class revenue allocator factors that the Settling Parties have agreed should be applied to firm load for the recovery of 80% of NIPSCO's approved capital TDSIC expenditures and costs pursuant Ind. Code § 8-1-39-9(a).

II. <u>REVENUE ALLOCATION</u>

Q13. Please describe the balancing of interest among the classes to achieve the revenue allocation addressed in the Settlement.

A13. The Settlement achieves resolution and compromise to the satisfaction of various customer interests while maintaining a few key objectives in mind. The Settling Parties represent all classes and some of them represent specific needs within those classes. In order to reach resolution and compromise regarding revenue allocation, it took a great deal of effort and involvement from the Settling Parties. NIPSCO appreciates the dedication from the Settling Parties to understand the details of revenue allocation to ultimately reach agreement.

Q14. Please describe the importance of NIPSCO's large industrial customers to the Company's service territory.

A14. One of NIPSCO's objectives in this rate case is to be sensitive to how its new rates and cost allocation methods might affect its largest industrial customers. If a major employer closes its doors or even reduces the number of operating shifts in our service territory, it will negatively impact the broader economic stability of the region as well as hinder NIPSCO's ability to provide reasonably adequate service at just and reasonable rates. Job losses can create a ripple effect that eventually impacts local governments and commercial businesses. NIPSCO has already presented evidence in this case concerning the large job and load losses attendant to the shutdown of operations at U.S. Steel and Arcelor Mittal plants in the Company's service territory. U.S. Steel Witness Perkins provided direct testimony on point regarding this issue. Furthermore and as a recent example, Arcelor just recently idled an aluminizing line.[2]

Q15. Please describe the specific objectives relating to the burden on residential customers.

A15. Regarding the burden on residential customers, NIPSCO maintained a concern about any impact on the broad base of its customers, including specifically, residential customers. NIPSCO proposed a double digit increase in this case in part to avoid increasing the subsidies being provided by the large industrial customers. However, NIPSCO recognizes that moving to fully allocated rates at

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[2] *European steelmaker idles aluminizing line in East Chicago*, NW Times, February 24, 2016.

this time would produce large increases to hundreds of thousands of residential customers.

Q16. How did the agreed-to revenue allocation meet those objectives?

A16. The class allocation agreed to in the Settlement reasonably meets the objectives of the Settling Parties and the key objectives noted above. As the testimony of all experts show, experts on rate case issues can disagree, even given the same facts. The Settlement results are found in Joint Exhibit 1, Joint Exhibit B. To highlight a few of the key customer classes, the increase to residential customers (Rate 711) is 5.37%, the increase to large industrial customers that compete globally (Rates 732, 733 and 734) averages 2.0% and the increase to larger general service classes (Rates 721, 723 and 724) averages 5.5%.

Q17. Please describe the impact to municipalities that utilize NIPSCO's street lighting and traffic lighting rate schedules.

A17. As part of the Settlement, NIPSCO has agreed to reduce its proposed LED default lighting rates. The proposed rate increase to the traffic lighting rate remains the same, but one should remember that municipalities' street lighting and traffic lighting rates were not increased in the last case.

Q18. Does the Settlement provide for gradualism in the impact to customer classes?

A18. Yes. The average revenue increase to NIPSCO's ten largest customer classes, which account for over 99% of the Company's revenue, is only 4.4%. Rate 720, Commercial and General Service – Heat Pump, is the only customer rate that will receive an increase greater than 6.5%, and this is a class that will be considered for elimination anyway in a later rate case given NIPSCO's move away from discounted heating services as separate rate classes. While some classes may still be subsidizing other classes, the industrial classes saw an increase of over 20 percent in the last rate case. In this case we are attempting to address some subsidies that harm customers that compete on a global basis.

Q19. What were NIPSCO's initial rate design objectives?

A19. NIPSCO wanted to keep the case relatively simple and therefore did not propose a change in its service structure in this case. The Company also recognized the need to mitigate the rate increase on the residential customers.

Q20. What specific objectives relating to rate design were addressed in the Settlement?

A20. The Settling Parties have agreed to maintain NIPSCO's existing rate structure. They have also agreed to increase the amount of interruptible (both for its provision of service and recovery of associated credits) and modified so that it is explicit and clear.

Q21. Please summarize the changes made to Rate 711.

A21. The customer charge for Rate 711 would increase to $14.00 per month if the Settlement is approved. This figure was the result of a compromise between NIPSCO and the OUCC, the statutory body that represents all customers in Indiana.

III. <u>INTERRUPTIBLE CREDIT</u>

Q22. Please provide an overview of Rider 775.

A22. Rider 775 balances the needs of all customer groups. NIPSCO's largest industrial customers are capable of interrupting service which is beneficial to all customers. Customers willing to guarantee that they will interrupt service on demand, for the benefit of others, should be compensated. Rider 775 provides these credits to those customers and continues the stable foundation from currently-effective Rider 675. The credits are then recovered from all other customers that are receiving the benefit.

This interruptible credit / recovery mechanism explicitly compensates customers using the rider for behavior that benefits all consumers and in turn recovers costs from all other customers. Amounts provided as credits will still be recovered in the Resource Adequacy ("RA") and the Fuel Adjustment Clause ("FAC") trackers.

The revisions to Rider 775 are a key settlement component that is based upon the inputs and compromise from all Settling Parties who had many different viewpoints on valuation of various interruptible options, even as all parties agreed to the general concept that it clearly does add value. Specifically, the Settling Parties have agreed to:

- Increase the MWs available to 530 and increase the dollar cap to $57 million.
- Incorporation of new Option E as proposed by U.S. Steel in its case in chief.
- Rider Option C shall be revised to provide for two hours' notice for interruptions or curtailments and shall receive a demand charge credit of $9.00/kW-month.
- Customers having existing interruptible capacity under Rider 675 shall be entitled to re-enroll that same capacity in the same or other options under the new Rider 775 consistent with MISO requirements.
- Incremental interruptible capacity (which is estimated to be 153 MW of the new interruptible capacity created as a result of the Settlement in excess of the presently subscribed 377 MW) shall be allocated first to customers showing a demonstrated economic

need, but no more than 85% of that capacity shall be allocated to one customer.

- The rider shall provide greater flexibility for customers operating commonly owned facilities to re-allocate interruptible capacity among those facilities and to permit interruptible capacity to migrate among available options consistent with MISO requirements.

Q23. What is the rationale behind providing interruptible credits?

A23. The interruptible credits are provided for two reasons, reliability and economic, each of which provides value to all customers. This program, the credits and recovery, takes both a long-term and short-term view.

Q24. How do reliability interruptions continue to provide value to all customers?

A24. Reliability is the ability to physically curtail a customer's service in order to maintain system integrity and the credit value is strongly related to the cost of new capacity. This will continue to be beneficial to all customers over time because NIPSCO will be able to avoid purchases of capacity in the market and/or delay building new generation capacity. While there exists today a reasonable or excess capacity situation in the broader market, NIPSCO does not anticipate that this will continue to exist over time. Environmental laws will take a number of generators off line in the next decade. The rate at which these units will move off-line is unknown and depends on a number of factors. Capacity value is a marginal calculation that is likely to be seen in radical terms (very low lows and very high highs) because of the time frame and cost associated with building new generation. Supply change (generating capacity) will move slowly as will demand. Therefore, during periods of clearly excess generation, the price will be very low, such as the current market. However, if capacity becomes tight the price is likely to rise sharply. As reflected in the Settlement, the Settling Parties have, with modifications, agreed to maintain the previously-effective differences of contract length under Rider 675 in recognition of the value of each option under Rider 775 and the ability that each option affords NIPSCO to help manage NIPSCO's own resource plan.

Another distinguishing characteristic of reliability is the ability to change supply / demand. The interruptible services described below and included as part of the Settlement, maintain distinctions based upon response time.

Q25. How do economic interruptions provide value to all customers?

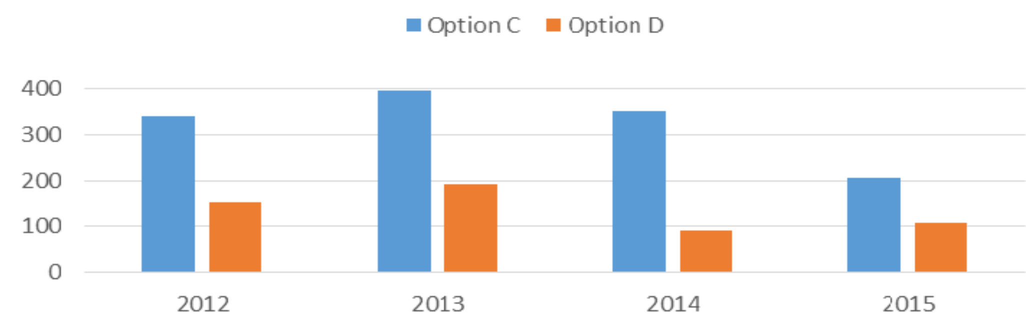
A25. Economic interruption is defined separately from reliability curtailment events. Economic interruptions allow NIPSCO to either reduce marginally more expensive production, such as from peaking units, or from market purchases, which will continue to benefit all customers. These interruptions generally reduce the cost incurred and recovered through the FAC. During an economic interruption interruptible customers will still have the option to reduce production or buy through at market prices, depending on the individual company's economic decision.

The number of economic interruptions allowed in each option is a distinguishing characteristic. New Option E, for example, provides 400 hours of interruption capability, which is greater than any previously-effective option under Rider 675.

Economic interruptions are triggered by high market prices. Market prices are clearly a function of demand and supply. The major drivers of demand are the general economic state and temperature. Recent events provide some guidance on the value of interruptibility.

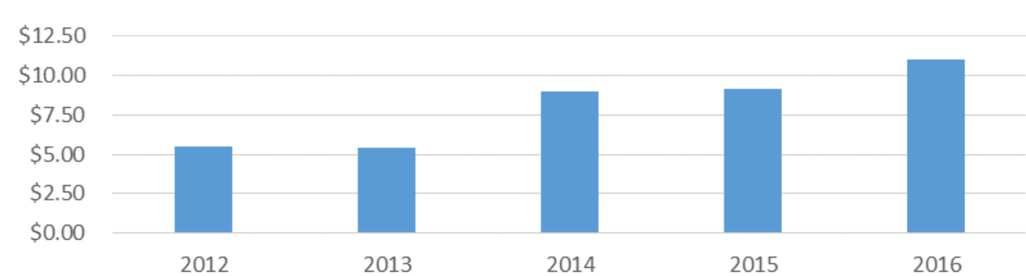
Figure 1 illustrates the number of hours in the last four years NIPSCO has initiated economic interruptions in order to reduce its fuel costs. If the Company had not called interruptions in these hours, its FAC customers would have had to pay higher fuel prices.

Figure 1. Economic interruptions (in hours)



Reductions in generating capacity in the MISO footprint will lead to higher LMPs. Figure 2, which shows NIPSCO's annual avoided capacity costs under Rider 678, illustrates this. As the avoided cost of capacity grows, the value of interruptible power increases. NIPSCO recently filed its 2016 avoided capacity cost filing with the Commission. The $11.05/kW value is more than twice the $5.45/kWh value from three years before. The capacity credit offered under the various Rider 775 options reflects, but is less than, this avoided capacity cost.

Figure 2. NIPSCO's avoided capacity cost ($/kW)



The majority of capacity that will be retired within the near term is coal based. If the capacity is not replaced, LMPs could reach very high prices if this is the tool used to bring demand and supply into balance. This is because the marginal value of electricity to most customers far exceeds the costs to produce or the price at which most regulated electric utilities sell power. The exception might be deregulated areas with real time (hourly) pricing to consumers (reasonably rare in the U.S.).

Q26. Is the 530MW of interruptible power the Settling Parties have agreed to reasonable?

A26. Yes. The Settling Parties have agreed to maintain limitations on the capacity available under Rider 775, but to increase the limitations from currently-effective Rider 675. Specifically, in regard to the proposed 530 MW limitation, this is an increase of 30 MW from the current limitation, and this reflects a reasonable level based upon testimony in this proceeding and agreement of the Settling Parties.

The limitation on total dollars available under the Rider is more of a practical limitation to avoid unanticipated consequences and impacts upon other customers who pay for the interruptible credits. While the Settling Parties do not know how much interruptible demand participants are willing to sign up for, establishing a cap of $57 million allowed the Settling Parties to assess the "what if" impact on customers not taking the service.

Q27. Please describe the changes to the various options and explain how each option relates to the rationale.

A27. There are no proposed changes to Option A or Option B, and currently NIPSCO has no customers taking service under either of those options. Option C interruptions and curtailment rules are akin to a peaking unit, creating much greater value to other customers. Importantly, curtailments are unlimited, economic interruptions may be up to 100 hours annually, and the notice period is 2 hours. The contract term is 7 years and the number of consecutive hours of interruptibility is 12 hours.

Option D is longer (10 years). There are no constraints on curtailment and is curtailable on 10 minutes notice. This 10 minute notice also applies to economic interruptions, which again increases the value. This service can be economically interrupted up to 3 days per week and 200 hours per year.

Option E, as summarized by U.S. Steel Witness Joseph Mancinelli, provides 400 hours of interruption and thus exposes subscribers to much more economic risk. The ability to call upon customers to curtail and interrupt with less notice and curtail more often is of benefit to the system and all customers. It is helpful to incent a greater diversity of interruption and curtailment options. This is not just an economic benefit, but a system reliability benefit that cannot always be measured in dollars per kW. All of the Rider 675 options provide these benefits.

When economic interruptions are called, customers will continue to have the option to "buy-through" into the market. When a customer "buys-through," they will be paying LMP plus an adder. NIPSCO will not be supplying the customer with FAC power during this time, therefore, FAC customers continue to benefit from the bargain. However, the customer may make an economic choice to continue production, despite the higher costs. Each customer can make the decision independently.

Q28. Please describe the allocation of credits if demand exceeds limits (either 530 MW or $57 million annually).

A28. In conjunction with the Settling Parties, and as further described by NIPSCO Witness Curt Westerhausen, NIPSCO has proposed revisions to Rider 775, that explain how the allocation process would work if the Settlement is approved. This allocation methodology required a great deal of attention from the Settling

Parties to assure that it will provide a reasonably adequate process to allocate capacity in this event.

Q29. Please describe the proposed changes to Rider 776 – Back-Up, Maintenance and Temporary Industrial Service Rider.

A29. The Settling Parties agree that NIPSCO should be authorized to modify Rider 676, as proposed by the Industrial Group and accepted by NIPSCO in its rebuttal testimony, to implement a new Rider 776. The Rider now clarifies that NIPSCO must confirm all Back-up Service requests made in full conformance with Rider 776.

Q30. Has anyone in this proceeding expressed concerns with Rider 776?

A30. No. However, Industrial Group Witness Dauphinais expressed concern 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 proposed 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 has incorporated it in the change to the Back-up Service section of the Character of Service in Rider 776, Back-up, Maintenance, and Temporary Industrial Service Rider. Mr. Dauphinais also stated 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. The Settling Parties have agreed that customers should be treated consistently whether they buy through energy under Rider 775 or 776 and should not be subject to Riders.

IV. LOW INCOME PROGRAM

Q31. In NIPSCO's case in chief, you proposed a low income program. Is NIPSCO still proposing such a program?

A31. No. Since the OUCC and CAC opposed this program as proposed, NIPSCO is no longer proposing a low income program in this case. NIPSCO will agree to meet with the OUCC and any other interested parties, independent of this rate case, to discuss the parameters of a similar program that could be requested in the Company's next base rate case.

V. OVERVIEW OF PUBLIC INTEREST RATIONALE AND BACKGROUND

Q32. Please provide a background of this Cause.

A32. NIPSCO's currently effective rates and charges were established by the Commission's Order in Cause No. 43969 dated December 21, 2011. A Settlement Agreement in the Remand Proceeding in Consolidated Cause Nos. 44370 and 44371 required NIPSCO to file an electric base rate case by December 31, 2015. In addition to the Remand Settlement Agreement, NIPSCO initiated this proceeding due to two main drivers – (i) an increase in operating expenses and (ii) a decline in industrial volumes. As I previously noted, the impact of these key drivers on NIPSCO's income was noteworthy. At the end of the March 31, 2015 test year, NIPSCO's electric regulatory (jurisdictional) net operating income was $183.2 million versus an authorized level of $227.9 million. Following the test year, NIPSCO experienced additional load loss. NIPSCO initiated this proceeding to address these drivers.

The Settlement Agreement comprehensively addresses NIPSCO's electric basic rates and charges and associated relief that has been the subject of proceedings for many years. Ultimately, the Settlement falls within the broader public interest by providing all customer segments with a reasonable outcome and providing NIPSCO a solid foundation from which it can invest in Northern Indiana's energy infrastructure, help fuel job creation and economic growth and provide customers with means to manage their energy consumption and bills.

NIPSCO commends the efforts of all Settling Parties that led to the Settlement in the abbreviated time permitted by General Administrative Order 2013-5 and Ind. Code § 8-1-2-42.7. The Settlement was only possible because of the collaborative and open efforts of all Settling Parties.

Q33. Please describe current economic conditions.

A33. This proceeding was filed during a challenging economic period for NIPSCO's service territory. NIPSCO's service territory continues to have recession characteristics of high unemployment, under employment, income challenges, and large industrial customers positioned in an ever more competitive world market.

Q34. How have current economic conditions impacted NIPSCO's large industrial customers?

A34. The large industrial customers located in NIPSCO's service territory face global competition for their products. The cost of goods is a driver for many of these industries, and some are affected more than others by electric costs. These industries must fight for continued capital investment in the broader financial market and within their own corporations. Maintaining Indiana as a competitive landscape is one factor for these national and global participants to garner this capital. These industries are important because they not only invest in our state, but they provide a large number of foundational jobs in NIPSCO's service territory. The Settlement considers the importance of maintaining industries that are critical for the foundation of economic viability for the region and therefore all other customers.

Furthermore, secondary industries align around the major industrial producers (*e.g.*, tool manufactures and installers), and all of these primary and secondary industries provide tax revenue and property tax base for the region and state.

Ultimately, the region, under the current landscape, needs these companies to be competitive to avoid expansion of the ongoing economic downturn in NIPSCO's region. NIPSCO has kept this in mind in this proceeding, and has helped to respond to these drivers in the Settlement, including enhancements to Rider 675, Interruptible Industrial Service and Rider 676 – Back-Up, Maintenance and Temporary Industrial Service.

Q35. How have current economic conditions impacted NIPSCO's residential customers?

A35. Unemployment / under employment rates continue to be high, and NIPSCO is sensitive to this situation. One of the critical elements that NIPSCO representatives understood from its customers attending the field hearing in this proceeding was that they desired further opportunities for employment. Jobs are critical to any region, but given the particular sensitivity to manufacturing in our service territory, jobs are especially so. Families depend upon a favorable manufacturing environment to retain and attract jobs.

NIPSCO considered all of these factors, and it believes that the Settlement reasonably addresses the balance between the need to retain and attract jobs in the manufacturing industry as well as the impact on residential customers and other sectors. An approximate $5.00 increase per month is a manageable amount per household. Moreover, the Settling Parties have agreed that the residential customer charge should only be increased to $14 per month.

Q36. How have current economic conditions impacted NIPSCO's other rate classes?

A36. There are many different types of commercial customers that make up approximately 23% of NIPSCO's load. This includes small to large commercial businesses, schools, government buildings and others. Generally speaking, these entities exist as a function of either the large industrial customers, as discussed above or to provide services to residential customers. Most commercial customers compete locally as compared to larger industrial customers that compete globally.

Q37. How have current economic conditions impacted NIPSCO?

A37. As noted above, the economic downturn has also impacted NIPSCO leading to the relief requested in this proceeding to address the increases in operating expenses and impacts to its net operating income. Moreover, NIPSCO, like many electric companies, faces substantial capital investment requirements and financial health which is critical. To illustrate this point, in Cause No. 44733, NIPSCO is seeking approval for its seven year transmission and distribution infrastructure plan estimated at approximately $1.176 billion. This type of capital program requires a fair rate of return and the ability to seek reasonable financing from the markets to support this capital requirement. The Settlement achieves this objective by providing a fair ROE of 9.975%. In addition, NIPSCO has agreed as part of the Settlement to finance any approved projects in that proceeding and any other proceeding involving capital investments with at least

60% debt capital. This should help address the parties' concerns regarding the capital structure that NIPSCO employs.

Q38. Are there any other provisions of the Settlement designed to address economic issues?

A38. Yes. NIPSCO has agreed to include the LaPorte County Kingsbury Industrial Park infrastructure substation upgrade and corresponding transmission and distribution upgrade needs in Cause No. 44733. The value of the upgrades included in the filing shall be no less than $2.5 million. NIPSCO will also lead a specific economic development review/study committee. It is to the benefit of all NIPSCO customers that this site be returned to an economically viable industrial site.

Q39. Are all of the provisions of the Settlement interrelated?

A39. Yes. The Settlement represents a diligent effort by all Settling Parties to reach a comprehensive result. The complexity of the issues and the diversity of the Settling Parties dictated the need for compromise on the part of everyone involved, and the Settlement reflects a delicate balance that accommodates the interests of all Settling Parties in a reasonable way. One of the most valuable parts of the Settlement concerns the allocation of tracker revenue. There was significant disagreement between the parties after NIPSCO's last rate case, and this resolution is a valuable outcome of the substantial negotiations in this case.

Q40. Are you familiar with the Commission's policy and standard of review regarding settlement agreements?

A40. Yes. The Commission's rules, 170 IAC 1-1.1-17, provide that it is the policy of the Commission to review and accept appropriate settlements. A settlement must be supported by probative evidence so that the Commission may make appropriate findings of fact in its decision and determine whether the evidence supports the Commission's conclusion regarding the settlement. The Commission may reject, in whole or in part, any proposed settlement if the Commission determines the settlement is not in the public interest. The Commission's policy is consistent with the general public policy favoring settlement. As the Commission has previously found, settlements are favored as a matter of policy because they help advance matters with far greater speed and certainty, and far less drain on public and private resources, than litigation or other adversarial proceedings. In a litigated context, the Commission is the sole entity involved in resolving disputes. In the settlement context, the parties are also involved with and satisfied by the resolution. This benefit, as well as the conservation of valuable

Commission time and effort, is in the public interest. We recognize that the Commission will closely examine the Settlement and evidentiary record and must determine on its own whether it is reasonable and in the public interest. We are aware that in other cases the Commission has modified settlement agreements when the Commission has found that modification is necessary in order to find the settlement agreement is in the public interest. In reaching agreement in this case, the Settling Parties have attempted to take previous Commission decisions into account. This approach was taken not to gloss over the importance of Commission review, but in recognition of the request for expedited consideration and approval of the Settlement. The fact that the Settling Parties were able to negotiate a settlement in this proceeding representing various customer segments and diverse interests, I believe, is strong additional evidence that the Settlement is in the public interest. I would add that the ability to obtain a Commission decision in a more timely and cost effective manner, coupled with certainty about the terms and conditions which have been negotiated, is of the utmost importance in the settlement context. Without such certainty, settlements may not be reached. Therefore, the Settlement provides that if following its examination, the Commission finds the Settlement to be in the public interest, the Settlement should be approved in its entirety and without change or condition(s) unacceptable to any Settling Party.

Q41. Why is approval of the Settlement consistent with the public interest?

A41. Approval of the Settlement as it is written is consistent with the public interest because the Settlement represents a comprehensive resolution of all of the issues in this proceeding by NIPSCO and the Settling Parties. As the evidence reflects, the Settlement resolves complex, divisive, and controversial issues surrounding revenue requirement, revenue allocation, rate design and a number of issues that the parties have been litigating for a number of years. The Settlement balances the interests of NIPSCO with those of its customers without the expense and risk of continued litigation and potential appeal. Moreover, the Settlement provides NIPSCO with an opportunity to earn a reasonable return on the investment it has made, balanced with the interests of NIPSCO's customers in receiving reasonable service at a fair cost.

Q42. Is time of the essence in obtaining Commission approval of the Settlement?

A42. Yes. Time is of the essence to have the Settlement considered and approved by the Commission, and the Settling Parties have agreed to request that the Commission review the Settlement on an expedited basis, and if it finds the

Settlement is reasonable and in the public interest, approve it without any material changes as quickly as possible, but in no event later than July 27, 2016. While the Settling Parties appreciate that the Commission has a responsibility to carefully consider the evidence of record to determine whether the Settlement is in the public interest, all Settling Parties request the Commission to do so as soon as possible, so that its industrial customers may begin to enroll in the revised Rider 675. This is a critical term in the Settlement from U.S. Steel's perspective, as it intends to subscribe to Option E as soon as it is approved by the Commission. The Settlement is based on new rates going into effect in the first billing cycle of October.

Q43. Does this conclude your prepared settlement testimony?

A43. Yes.

VERIFICATION

I, Frank A. Shambo, Vice President, Regulatory and Legislative Affairs for 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

Date: March 4, 2016

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**

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into as of the 19th day of February, 2016, by and between Northern Indiana Public Service Company ("NIPSCO" or "Company"), the Indiana Office of Utility Consumer Counselor

("OUCC"), Indiana Municipal Utilities Group;[1] NIPSCO Industrial Group ("Industrial Group");[2] NLMK, Indiana; United States Steel Corporation ("U.S. Steel");[3] United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO/CLC (collectively the "Settling Parties"), who stipulate and agree for purposes of settling the issues in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of all issues subject to incorporation into a Final Order of the Indiana Utility Regulatory Commission ("Commission") without any modification or condition that is not acceptable to the Settling Parties.

A. Background.

1. NIPSCO's Current Base Rates and Charges. NIPSCO's current basic rates and charges were approved by the Commission in its Order dated December 21, 2011 in Cause No. 43969 ("2011 Rate Case Order"). Those basic rates and charges remain in effect today, as modified by various riders approved by the Commission from time to time.

[1] The municipal utilities that comprise the Indiana Municipal Utilities Group are Dyer, East Chicago, Griffith, Highland, Munster, Schererville, Valparaiso, and Winfield.

[2] The companies that comprise the NIPSCO Industrial Group are Accurate Castings, Inc., Arcelor Mittal USA, BP Products North America, Inc., Cargill, Inc., Praxair, Inc., and USG Corporation.

[3] United States Steel Corporation's signature page will be late-filed upon receipt of authorization from U.S. Steel's executive management.

2. NIPSCO's Current Depreciation Accrual Rates. The Commission's Orders in Cause Nos. 42150, 43188, 44012, 44311 and 44340 approved specific depreciation accrual rates to be applied to plant and equipment identified in those proceedings. For other items of property, NIPSCO's current depreciation accrual rates were approved in the 2011 Rate Case Order.

3. NIPSCO's Fuel Adjustment Clause ("FAC") Proceedings. NIPSCO files a quarterly Fuel Adjustment Clause ("FAC") proceeding in accordance with Ind. Code § 8-1-2-42(d) in Cause No. 38706-FAC-XXX to adjust its rates to account for fluctuation in its fuel and purchased energy costs.

4. NIPSCO's Tracking Mechanisms. In coordination with its FAC proceedings, NIPSCO files semi-annual proceedings in: (a) Cause No. 44156-RTO-XX to recover costs associated with MISO non-fuel costs and revenues and to provide for off-system sales sharing through its Rider 671 – Adjustment of Charges for Regional Transmission Organization and Appendix C – Regional Transmission Organization Adjustment Factor ("RTO Tracker") approved by the Commission in its 2011 Rate Case Order,[4] and (b) Cause No. 44155-RA-XX to recover prudently incurred capacity costs

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[4] In Cause No. 43526, the Commission found that NIPSCO's MISO non-fuel costs and revenues and off system sales sharing should be included in one mechanism designated as the RTO Adjustment. The 2011 Rate Case Order approved the implementation of the RTO Adjustment approved in Cause No. 43526 by approving Rider 671 and Appendix C.

through its Rider 674 – Adjustment of Charges for Resource Adequacy and Appendix F – Resource Adequacy Adjustment Factor approved by the Commission in its 2011 Rate Case Order.[5]

The Commission approved two tracking mechanisms by its November 26, 2002 Order in Cause No. 42150 that authorize NIPSCO to recover costs associated with qualified pollution control property, clean coal technology and clean energy projects (collectively "Environmental Compliance Projects") to allow NIPSCO to comply with various environmental obligations. Since that time, NIPSCO has been recovering a return on its investment in approved Environmental Compliance Projects and depreciation expense and operation and maintenance expense relating thereto through its Rider 672 - Adjustment of Charges for Environmental Cost Recovery Mechanism ("ECRM") and Appendix D – Environmental Cost Recovery Mechanism Factor and Rider 673 - Adjustment of Charges for Environmental Expense Recovery Mechanism ("EERM") and Appendix E – Environmental Expense Recovery Mechanism Factor.

Pursuant to the Commission's May 25, 2011 Order in Cause No. 43618, NIPSCO files a semi-annual proceeding in Cause No. 43618-DSM-XX to recover program costs and

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[5] In Cause No. 43526, the Commission found that NIPSCO's prudently incurred capacity should be recovered through the Resource Adequacy or RA Adjustment. The 2011 Rate Case Order approved the implementation of the RA Adjustment approved in Cause No. 43526 by approving Rider 674 and Appendix F.

lost revenues[6] associated with approved demand side management and energy efficiency programs through its Rider 683 – Adjustment of Charges for Demand Side Management Adjustment Mechanism (DSMA) and Appendix G - Demand Side Management Adjustment Mechanism (DSMA) Factor.

Pursuant to the Commission's December 3, 2014 Order in Cause No. 44520, NIPSCO files a semi-annual proceeding in Cause No. 44198-GPR-XX to revise the Green Power Rider rate set forth in its Rider 686 – Green Power Rider and Appendix H – Green Power Rider Rate.[7]

Pursuant to the Commission's January 29, 2014 Order in Cause No. 44340, NIPSCO files a semi-annual proceeding in Cause No. 44340-FMCA-XX to recover federally mandated costs associated with critical infrastructure protection compliance projects (the "CIP Compliance Project") through its Rider 687 – Adjustment of Charges for Federally Mandated Costs and Appendix I – Federally Mandated Cost Adjustment Factor.

In Cause No. 44371, the Commission approved a transmission, distribution, and storage system improvement charge pursuant to Ind. Code § 8-1-39-9 set forth in Rider

[6] The Commission granted NIPSCO authority to recover lost margins in its August 8, 2012 Order in Cause No. 44154 and in its December 30, 2015 Order in Cause No. 44634.

[7] The Green Power Rider Rate was initially approved in the Commission's December 19, 2012 Order in Cause No. 44198.

688 - Adjustment of Charges for Transmission, Distribution and Storage System Improvement Charge and Appendix J - Transmission, Distribution and Storage System Improvement Charge (the "TDSIC"), to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs incurred in connection with NIPSCO's eligible transmission, distribution, and storage system improvements ("TDSIC Projects").[8]

5. This Proceeding. On October 1, 2015, NIPSCO filed with the Commission its Verified Petition 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, changes to the general rules and regulations and changes to 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; (4)

[8] On April 8, 2015, the Court of Appeals of Indiana issued a published opinion in Cause No. 93A02-1403-EX-158, reversing in part, affirming in part, and remanding the Commission Orders in Cause Nos. 44370 and 44371 (NIPSCO's Electric TDSIC cases) ("Appellate Order"). Subsequently, NIPSCO entered into a Stipulation and Settlement Agreement with the Indiana Office of Utility Consumer Counselor, NIPSCO Industrial Group, United States Steel Corporation (the "Settling Parties") to resolve how all issues addressed in the Appellate Order should be handled on Remand. On September 23, 2015, the Commission issued an Order on Remand in Consolidated Cause Nos. 44370 and 44371 whereby the Commission denied the Stipulation and Settlement in its entirety and ordered NIPSCO to refund monies collected through Rider 688. On September 29, 2015, the Settling Parties and Indiana Municipal Utilities Group filed a Verified Petition for Rehearing and Reconsideration or, Alternatively, Commission Clarification and Guidance. On December 16, 2015, the Commission issued a Remand Order, approving in part, the Stipulation and Settlement. NIPSCO's TDSIC program from Cause No. 44370 has terminated, and NIPSCO is currently crediting amounts through Appendix J pursuant to the Stipulation and Settlement Agreement. A new electric TDSIC 7 Year Plan is pending in Cause No. 44733.

accounting relief to allow NIPSCO to defer, as a regulatory asset or liability, certain costs for recovery in a future proceeding; and (5) other requests as described in its Verified Petition. NIPSCO also filed its prepared testimony and exhibits constituting its case-in-chief on October 1, 2015. A Prehearing Conference and Preliminary Hearing was conducted on October 29, 2015 and a Prehearing Conference Order was issued on November 18, 2015.

B. Settlement Terms

6. Revenue Requirement and Net Operating Income.

(a) Revenue Requirement.

The Settling Parties agree that NIPSCO's base rates will be designed to produce $1,644,927,046 (prior to application of surviving Riders), which is the Revenue Requirement of $1,681,746,699 less $36,819,653 million of Other Revenues. This Revenue Requirement is a decrease of approximately $54 million from the amount originally requested by the Company.

(b) Net Operating Income.

The Settling Parties agree that NIPSCO's Revenue Requirement in Paragraph B.6.(a) results in a proposed authorized net operating income ("NOI") of $217,123,565.

7. Fair Value Rate Base, Capital Structure and Fair Return.

(a) Fair Value Rate Base

NIPSCO has agreed that its weighted cost of capital times its original cost rate base yields a fair return for purposes of this case. Based upon this agreement, the Settling Parties concur that NIPSCO should be authorized a fair rate of return of 6.74%, yielding an overall return for earnings test purposes of $217,123,565, based upon:

(i) an original cost rate base of $3.2 billion, inclusive of materials, supplies, production fuel and regulatory assets as proposed in NIPSCO's case-in-chief;

(ii) NIPSCO's capital structure; and

(iii) an authorized return on equity ("ROE") of 9.975%.

(b) Capital Structure and Fair Return.

Based on the following capital structure, the 9.975% ROE and cost of debt/zero cost capital as filed, the overall weighted average cost of capital is computed as follows:

	% of Total	Cost %	WACC %
Common Equity	47.42	9.975	4.73
Long-Term Debt	33.72	5.71	1.93
Customer Deposits	1.59	4.58	0.07
Deferred Income Taxes	19.12	0.00	0.00
Prepaid Pension Asset	-4.93	0.00	0.00
Post-Retirement	2.99	0.00	0.00

Liability			
Post-1970 ITC	0.09	8.20	0.01
Totals	**100.0%**	**100.0%**	**6.74%**

(c) Capital Project Financing.

The Settling Parties agree that during the time these rates remain in effect, NIPSCO should finance, in aggregate, any project, or set of projects in an approved plan, estimated to cost more than $100 million for which it receives a Certificate of Public Convenience and Necessity pursuant to Ind. Code Chapters 8-1-8.4, 8-1-8.5, 8-1-8.7, 8-1-8.8, or 8-1-39 with at least 60% debt capital.

8. Depreciation and Amortization Expense.

(a) Depreciation Expense.

The Settling Parties stipulate that the depreciation accrual rates recommended by NIPSCO Witness John Spanos and presented in this proceeding (the "Depreciation Study") should be approved, except that pro-forma depreciation expense should be reduced by approximately $17.3 million due to proposed changes to not include the increase in depreciation expense associated with Bailly Unit 8 (approximately $11.1 million) and to adjust the depreciation rates as proposed by Industrial Group witness Mr. Brian C. Andrews as outlined in his testimony (approximately $6.2 million).

The Parties agree that NIPSCO may seek an adjustment to its depreciation rates subsequent to its filing of its next Integrated Resource Plan (and all Parties reserve their rights to raise any issue in that proceeding).

(b) Amortization Expense.

The Settling Parties stipulate that annual amortization expense shall be $15.4 million that includes the following items:

(i) Rate case expenses of $2,244,038 for this case amortized over a period of seven (7) years. After the completion of the seven (7) year period, NIPSCO agrees to make a tariff filing that will reflect the reduction in amortization expense.

(ii) All other deferred regulatory asset costs, amortized over seven (7) years with the exception of the amortization of the electric vehicle regulatory asset which is amortized over a three (3) year period.

9. Operating Results at Current and Proposed Rates. Joint Exhibit A contains a Statement of Operating Income for the twelve months ended March 31, 2015 shown on an actual basis, and with pro forma adjustments at current and proposed rates per NIPSCO's filed request and to reflect the provisions of this Agreement.

10. Cost Allocation and Rate Design. The Settling Parties agree that rates

should be designed in order to allocate the revenue requirement to and among NIPSCO's customer classes in a fair and reasonable manner. For settlement purposes, the Settling Parties agree that NIPSCO should design its rates using the structure of its existing 600 Series tariffs. Joint Exhibit B specifies the revenue allocation agreed to by all Settling Parties. This revenue allocation is determined strictly for settlement purposes and is without reference to any particular, specific cost allocation methodology. This revenue allocation shall be utilized for purposes of the demand component of the ECRM, EERM, FMCA, and RTO mechanisms. Regarding the RA Tracker, this mechanism shall utilize the demand allocators set forth in Joint Exhibit C, which will be modified to reflect the amount of interruptible load contained in Rates 732, 733 and 734. For purposes of establishing any rate schedules allowing for the recovery of 80% of NIPSCO's approved capital TDSIC expenditures and costs pursuant to I.C. 8-1-39-9(a), the parties agree that Joint Exhibit D reflects the customer class revenue allocation factors that should be applied to firm load. The parties agree that the Joint Exhibit D allocation factors to be applied for the periodic recovery of any approved capital TDSIC expenditures and costs properly account for differences between transmission and distribution customers. All other components of NIPSCO's filed cost allocation and rate design shall be as NIPSCO filed in its case-in-chief with the following exceptions or adjustments:

- The monthly customer charge for Rate 711 shall be $14.00
- The monthly customer charges for Rates 720, 721 and 722 shall be $24.00

- The demand charges for Rates 723, 724, 725, 726, 732, 733, 734 and 744 shall be modified as agreed by the Settling Parties
- The minimum charges for Rate 741 shall each be increased from their currently-approved levels by a percent equal to 4.51% (the system total increase in revenue requirement)

11. Interruptible Rider 775. The Settling Parties agree that NIPSCO should be authorized to modify Rider 675, and that the credits paid under the provisions of Rider 775 should be recovered from customers, with 75% of the costs recovered through NIPSCO's RA Tracker and 25% of the costs recovered through NIPSCO's FAC mechanism.

The Settling Parties further agree that:

- The limit on megawatt ("MW") eligibility shall be 530 MW, and the maximum amount to be paid in any calendar year under Rider 775 shall be $57 million.
- Incorporation of new Option E as proposed by US Steel.
- Rider Option C shall be revised to provide for two hours' notice for interruptions or curtailments and shall receive a demand charge credit of $9.00/kW-month.
- Customers having existing interruptible capacity under Rider 675 shall be entitled to re-enroll that same capacity in the same or other options under the new Rider 775 consistent with MISO requirements.
- Incremental interruptible capacity (which is estimated to be 153 MW of the new interruptible capacity created as a result of this Stipulation and Settlement Agreement in excess of the presently subscribed 377 MW) shall be allocated first to customers showing a demonstrated economic need, but no more than 85% of that capacity shall be allocated to one customer.

- The rider shall provide greater flexibility for customers operating commonly owned facilities to re-allocate interruptible capacity among those facilities and to permit interruptible capacity to migrate among available options consistent with MISO requirements.

12. Temporary, Backup and Maintenance Service. The Settling Parties agree that NIPSCO should be authorized to modify Rider 676, as proposed by the Industrial Group and accepted by NIPSCO in its rebuttal, to implement a new Rider 776.

13. Consolidation of ECRM and EERM tracking mechanisms. NIPSCO shall consolidate the ECRM and EERM tracking mechanisms into one mechanism, including the frequency of filing, as proposed by NIPSCO in its case-in-chief. Any finding related to NIPSCO's ability to or not to include treatment for replacement projects or components in these mechanisms shall be addressed in a future ECR proceeding.

14. RTO Tracker Mechanism. NIPSCO's proposed Rider 771 shall be effective and treatment of non-fuel MISO charges and off-system sales as proposed by NIPSCO in its case-in-chief shall be approved, including a level of $4,741,390 built into base rates. For purposes of off-system sales margin sharing after the effective date of new base rates, NIPSCO shall flow through the RTO Tracker 100% of margins, below (down to zero) or above the level built into base rates.

15. Industrial Forecasts. NIPSCO agrees, on July 1 of each year, to provide five-year tracker factor forecasts to large industrial customers under Rates 725, 732, 733 and

734 on a good faith estimate basis.

16. Economic Development Rider. NIPSCO's proposal for treatment of economic development rider contracts and revisions to Rider 777 shall be approved, including the deferral mechanism as described in NIPSCO's case-in-chief that provides NIPSCO is authorized to defer, as a regulatory asset, the discounted revenue associated with the economic development rider contracts that were in effect during the test year that continue beyond the date of new, effective base rates. All Settling Parties reserve their right to contest recovery of the deferral in NIPSCO's next general rate case.

NIPSCO agrees to include the LaPorte County Kingsbury Industrial Park infrastructure substation upgrade and corresponding transmission and distribution upgrade needs as part of its plan in Cause No. 44733. The value of the upgrades included in the filing shall be no less than $2.5 million. NIPSCO will also lead a specific economic development review/study committee.

17. LED Streetlight Rates. The LED rates NIPSCO proposed in this rate case will be reduced in this Cause to reflect the lower capital costs, capital structure and other reduced revenue impacts, agreed to in this Settlement Agreement and an approximate 37% reduction in O&M expense. Those LED rates 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 NIPSCO's future, initial electric TDSIC tracker proceeding

would apply to any mass LED retrofit program that may be approved by the Commission in the Company's latest electric 7-Year Plan (Cause No. 44733). Without providing specific tariff rates, NIPSCO will add a new tariff page in its settlement testimony 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.

18. Customer Service. NIPSCO continues to recognize the need for and importance of good customer service and performance, and specifically the value of customer surveys like the J.D. Power Electric Customer Satisfaction Surveys. These types of surveys provide valuable feedback to the Company and show where there is room for improvement. NIPSCO shall continue to work on improving its relationships with customers and its customer service to both its existing customers as well as potential new customers. NIPSCO recognizes and agrees it is important to both the Company, its customers and Northwest Indiana in general to commit to and focus on increasing opportunities for viable economic development in its service territory and support all reasonable efforts to participate in and promote such efforts, including initiatives underway by LaPorte County and other local governmental bodies.

19. General Rules and Regulations and Tariffs. The Settling Parties agree that all other components of NIPSCO's filed tariff shall be approved as NIPSCO filed in its

case-in-chief as corrected during the course of this proceeding.

C. Procedural Aspects and Presentation of the Agreement.

20. The Settling Parties acknowledge that a significant motivation to enter into this Agreement is the expectation that, if the Commission finds this Agreement is reasonable and in the public interest, an order authorizing the increase in NIPSCO's rates and charges will be issued, but will not be effective until the first October, 2016 billing cycle, however, Rider 775 will be implemented and effective with the first billing cycle following issuance of a Commission Order. The Settling Parties have spent valuable time reviewing data and negotiating this Agreement in an effort to eliminate time consuming and costly litigation. The Settling Parties agree to request that the Commission review the Agreement on an expedited basis and, if it finds the Agreement is reasonable and in the public interest, approve this Agreement without any material changes by July 27, 2016.

21. The Settling Parties agree to jointly present this Agreement to the Commission for its approval in this proceeding, and agree to assist and cooperate in the preparation and presentation of supplemental testimony as necessary to provide an appropriate factual basis for such approval.

22. If the Agreement is not approved in its entirety by the Commission, the Settling Parties agree that the terms herein shall not be admissible in evidence or

discussed by any party in a subsequent proceeding. Moreover, the concurrence of the Settling Parties with the terms of this Agreement is expressly predicated upon the Commission's approval of the Agreement in its entirety without any material modification or any material condition deemed unacceptable by any Party. If the Commission does not approve the Agreement in its entirety, the Agreement shall be null and void and deemed withdrawn, upon notice in writing by any Settling Party within fifteen (15) business days after the date of the Final Order that any modifications made by the Commission are unacceptable to it. In the event the Agreement is withdrawn, the Settling Parties will request that an Attorneys' Conference be convened to establish a procedural schedule for the continued litigation of this proceeding.

23. The Settling Parties agree that this Agreement and each term, condition, amount, methodology and exclusion contained herein reflects a fair, just and reasonable resolution and compromise for the purpose of settlement, and is agreed upon without prejudice to the ability of any party to propose a different term, condition, amount, methodology or exclusion in future proceedings. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434, p. 10, the Settling Parties agree and ask the Commission to incorporate as part of its Final Order that this Agreement, or the Order approving it, not be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This

Agreement is solely the result of compromise in the settlement process. Each of the Settling Parties hereto has entered into this Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.

24. The Settling Parties stipulate that the evidence of record presented in this Cause constitutes substantial evidence sufficient to support this Agreement and provide an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Agreement, as filed. The Settling Parties agree to the admission into the evidentiary record of this Agreement, along with testimony supporting it without objection.

25. The issuance of a Final Order by the Commission approving this Agreement without any material modification or further condition shall terminate all proceedings in this Cause.

26. NIPSCO and the OUCC agree to jointly prepare a press release ("Joint Release") with language agreed upon by them describing the contents and nature of this Agreement, which will be jointly issued to the media. The Settling Parties may respond individually to questions from the public or media, provided that such responses are consistent with the Agreement.

27. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

28. The Settling Parties shall not appeal the agreed Final Order or any subsequent Commission order as to any portion of such order that is specifically implementing, without modification, the provisions of this Agreement and the Settling Parties shall not support any appeal of the portion of such order by a person not a party to this Agreement.

29. The provisions of this Agreement shall be enforceable by any Settling Party before the Commission or in any court of competent jurisdiction.

30. The communications and discussions during the negotiations and conferences which produced this Agreement have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

ACCEPTED AND AGREED this 19th day of February, 2016.

Northern Indiana Public Service Company

Kathleen O'Leary

Kathleen O'Leary, President

Indiana Office of Utility Consumer Counselor

A. David Stippler, Utility Consumer Counselor

NIPSCO Industrial Group

____

NLMK Indiana

James W. Brew, Counsel

United States Steel Corporation

____

United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO/CLC

2/19/16

Indiana Municipal Utilities Group

Robert M. Glennon, Counsel

Joint Exhibit 1
Joint Exhibit A
Cause No. 44688

Northern Indiana Public Service Company
Statement of Operating Income
Actual, Pro forma and Proposed
For the Twelve Month Period Ending March 31, 2015

Line No.	Description	Actual	Pro forma Adjustments Increases (Decreases)	Ref.	Pro forma Results Based on Current Rates	Pro forma Adjustments Increases (Decreases)	Ref	Pro forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
1	**Operating Revenue**							
2	Revenue	1,621,539,756			$ 1,609,246,699	72,500,000	PF-1	$ 1,681,746,699
3	Abnormal Weather		13,028,512	REV - 1				
4	Interdepartmental Sales - LNG Liquefaction		(1,258,232)	REV - 2				
5	MISO Transmission Revenue		(6,330,976)	REV - 3				
6	EDR Rates		2,310,105	REV - 4				
7	Metering Billing Adjustment		2,191,471	REV - 5				
8	Large Industrial		(15,621,922)	REV - 6				
9	Customer Migration and Annualization		4,734,007	REV - 7				
10	Traffic and Directive Service Drops		180,106	REV - 8				
11	Multi-Value Project Revenue		(11,526,128)	REV - 9				
12	Total Operating Revenue	1,621,539,756	$ (12,293,057)		$ 1,609,246,699	$ 72,500,000		$ 1,681,746,699
13	**Fuel and Purchased Power**	558,959,309			$ 556,368,462			$ 556,368,462
14	Abnormal Weather		4,118,517	FP - 1				
15	Interdepartmental Sales - LNG Liquefaction - Fuel		(445,669)	FP - 2				
16	Large Industrial		(8,713,009)	FP - 3				
17	Customer Migration and Annualization		1,944,674	FP - 4				
18	Capacity Purchases and Credits		504,640	FP - 5				
19	Total Fuel and Purchased Power	558,959,309	$ (2,590,847)		$ 556,368,462	$ -		$ 556,368,462
20	**Gross Margin**	1,062,580,447	$ (9,702,210)		$ 1,052,878,237	$ 72,500,000		$ 1,125,378,237
21	**Operations and Maintenance Expenses**	491,576,710			$ 503,485,699	207,031	PF - 2	$ 503,692,730
22	MISO Transmission Revenue & Cost Adjustment		(6,330,976)	OM - 1				
23	Rider Reset - EERM & FMCA		6,408,636	OM - 2				
24	Environmental Normalization and Annualization		9,492,866	OM - 3				
25	Vegetation Management		3,179,145	OM - 4				
26	Line Locates		151,103	OM - 5				
27	Wage Increase		5,852,824	OM - 6				
28	Pension		6,660,123	OM - 7				
29	OPEB		(940,109)	OM - 8				
30	Medical Insurance		677,311	OM - 9				
31	BU Signing Bonus/Work Continuity		(2,221,582)	OM - 10				
32	Incentive Compensation		(2,798,207)	OM - 11				
33	Corporate Service Fees - NCSC		(5,162,189)	OM - 12				
34	Environmental Expense Adjustment		(2,721,118)	OM - 13				

Joint Exhibit 1
Joint Exhibit A
Cause No. 44688

Northern Indiana Public Service Company
Statement of Operating Income
Actual, Pro forma and Proposed
For the Twelve Month Period Ending March 31, 2015

Line No.	Description	Actual	Pro forma Adjustments Increases (Decreases)	Ref.	Pro forma Results Based on Current Rates	Pro forma Adjustments Increases (Decreases)	Ref	Pro forma Results Based on Proposed Rates
35	Advertising		(172,805)	OM - 14				
36	Selected Payments		(430,181)	OM - 15				
37	Institutional Goodwill Advertising		(42,557)	OM - 16				
38	Lobbying / EEI		(271,674)	OM - 17				
39	Prior Period Adjustment		751,966	OM - 18				
40	Critical Infrastructure Protection Expense Annualization		433,604	OM - 19				
41	Misc. One-time Item		(607,191)	OM - 20				
42	Total Operations and Maintenance	491,576,710	$ 11,908,989		$ 503,485,699	$ 207,031		$ 503,692,730
43	**Depreciation Expense**	204,808,997			$ 212,266,317			$ 212,266,317
44	Depreciation Expense - New Rates		7,457,320	DA - 1				
45	**Total Depreciation Expense**	204,808,997	$ 7,457,320		$ 212,266,317	$ -		$ 212,266,317
46	**Amortization Expense**	31,962,597			$ 15,362,286			$ 15,362,286
47	MISO expenses Cause No. 43969 Removal		(9,608,159)	DA - 2				
48	Rate Case expenses Cause No. 43969 Removal		(577,621)	DA - 3				
49	Rate Case expenses		320,577	DA - 4				
50	Unit 18 Def Depr & Carrying Chg Removal		(1,515,862)	DA - 5				
51	Sugar Creek Stub Amortization		(13,465,353)	DA - 6				
52	Sugar Creek Amortization Reset		1,984,232	DA - 7				
53	Sugar Creek Acquisition Adjustment Reclassification		2,538,958	DA - 8				
54	Intangible Assets		2,914,075	DA - 9				
55	Electric Vehicle		221,380	DA - 10				
56	Federally Mandated Charges - Electric		42,888	DA - 11				
57	Transmission & Distribution Costs		506,229	DA - 12				
58	Mercury and Air Toxics Standards		38,345	DA - 13				
59	**Total Amortization Expense**	31,962,597	$ (16,600,311)		$ 15,362,286	$ -		$ 15,362,286
60	**Taxes**							
61	**Taxes Other than Income**	61,282,300			$ 66,280,927			$ 66,280,927
62	Real Estate Taxes		3,394,633	OTX - 1				
63	Payroll Tax		233,876	OTX - 2				
64	Indiana Utility Receipts Tax		1,461,872	OTX - 3		1,015,000	PF - 3	$ 1,015,000
65	Public Utility Fee		(91,754)	OTX - 4		78,141	PF - 4	$ 78,141
66	Total Taxes Other Than Income	61,282,300	$ 4,998,627		$ 66,280,927	$ 1,093,141		$ 67,374,068
67	**Operating Income Before Income Taxes**	272,949,843	$ (17,466,835)		255,483,008	$ 71,199,828		$ 326,682,836
68	**Income Taxes**							
69	Federal and State Taxes	83,093,556	$ (7,599,503)	ITX - 1	$ 75,494,053	$ 27,971,016	PF - 5	$ 103,465,069
70	Total Taxes	144,375,856	$ (2,600,876)		$ 141,774,980	$ 29,064,157		$ 170,839,137
71	**Total Operating Expenses including Income Taxes**	872,724,160	$ 165,122		$ 872,889,282	$ 29,271,188		$ 902,160,470
72	**Settlement Adjustment**		$ 6,094,203	S - 1	$ 6,094,203			$ 6,094,203
73	**Required Net Operating Income**	189,856,287	$ (15,961,535)		$ 173,894,752	$ 43,228,812		$ 217,123,565

Northern Indiana Public Service Company
Calculation of Proposed Revenue Increase
Based on Pro forma Operating Results
Original Cost Rate Base Estimated at March 31, 2015

Line No.	Description	Revenue Deficiency
1	Net Original Cost Rate Base	$ 3,221,417,882
2	Rate of Return	6.74%
3	Net Operating Income	217,123,565
4	Pro forma Net Operating Income	173,894,753
5	Increase in Net Operating Income (NOI Shortfall)	43,228,812
6	Effective Incremental Revenuel NOI Conversion Factor	59.626%
7	Increase in Revenue Requirement (Based on Net Original Cost Rate Base) (Line 5 / Line 6)	$ 72,500,000

8	One		1.000000			
9	Less: Public Utility Fee		0.001078			
10	Less: Bad Debt		0.002856			
11	State Taxable Income			0.996066		
12	One	1.000000				
13	Less: IN Utilities Receipts Tax	0.014000				
14	Taxable Adjusted Gross Income Tax		0.996066			
15	Adjusted Gross Income Tax Rate		0.065000			
16	Adjusted Gross Income Tax			0.064744		
17	Line 11 less line 13 less line 16				0.917322	
18	One			1.000000		
19	Less: Federal Income Tax Rate			0.350000		
20	One Less Federal Income Tax Rate				0.650000	
21	Effective Incremental Revenue / NOI Conversion Factor					59.626%

Northern Indiana Public Service Company
Actual, Pro forma, Jurisdictional, As Updated
Twelve Months Ended June 30, 2015

Line No.	Description	TYE March 31, 2015 Actual	Activity	June 30, 2015 Actual	Pro forma Adjustments		Pro forma June 30, 2015
	A	B	C	D	E		F
1	**RATE BASE**						
2	Utility Plant	$ 6,814,355,379	$ 47,239,242	$ 6,861,594,621	$ -		$ 6,861,594,621
3	Common Allocated	295,722,730	2,348,701	298,071,431	-		298,071,431
4	Total Utility Plant	7,110,078,109	49,587,943	7,159,666,052	-		7,159,666,052
5	Accumulated Depreciation and Amortization	(3,888,431,401)	(38,263,400)	(3,926,694,801)	-		(3,926,694,801)
6	Common Allocated	(172,934,946)	(8,768,955)	(181,703,901)	-		(181,703,901)
7	Total Accumulated Depreciation and Amortization	(4,061,366,347)	(47,032,355)	(4,108,398,702)	-		(4,108,398,702)
8	Net Utility Plant	3,048,711,762	2,555,588	3,051,267,350	-		3,051,267,350
9	Prepaid Pension Asset	217,604,554	(1,301,264)	216,303,291	(216,303,291)	**S-2**	-
10	Federally Mandated Cost Adjustment Charges	207,989	92,224	300,213	-		300,213
11	Transmission & Distribution Costs	-	-	-	3,543,604	**RB-1**	3,543,604
12	Mercury and Air Toxics Standards	283,663	60,023	343,686	(75,270)	**RB-2-R**	268,416
13	Materials & Supplies	68,684,461	906,454	69,590,915	-		69,590,915
14	Production Fuel	75,495,173	20,952,211	96,447,384	-		96,447,384
15	Total Rate Base	$ 3,410,987,602	$ 23,265,236	$ 3,434,252,839	$ (212,834,957)		$ 3,221,417,882
16	**REQUIRED NET OPERATING INCOME**						
17	Total Rate Base						$ 3,221,417,882
18	Rate of Return						6.74%
19	Required Net Operating Income						$ 217,123,565

Northern Indiana Public Service Company
June 30, 2015 As Adjusted
Capital Structure

Line No.	Description	Total Company Capitalization		Percent of Total	Cost	Weighted Average Cost
	A	B		C	D	E
1	Common Equity	2,081,460,565		47.42%	9.9750%	4.73%
2	Long-Term Debt	1,480,040,168		33.72%	5.71%	1.93%
3	Customer Deposits	69,822,763		1.59%	4.58%	0.07%
4	Deferred Income Taxes	838,663,390		19.12%	0.00%	0.00%
5	Post-Retirement Liability	131,331,910		2.99%	0.00%	0.00%
6	Prepaid Pension Asset	(216,303,291)	S-2	-4.93%	0.00%	0.00%
7	Post-1970 ITC	4,091,382		0.09%	8.20%	0.01%
8	**Totals**	**4,389,106,887**		**100.00%**		**6.74%**

Cost of Investor Supplied Capital

	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
9	Common Equity	$ 2,081,460,565	58.44%	9.9750%	5.83%
10	Long-Term Debt	$ 1,480,040,168	41.56%	5.71%	2.37%
11	**Totals**	**$ 3,561,500,733**	**100.00%**		**8.20%**

Northern Indiana Public Service Company
Joint Exhibit B
Cause No. 44688

Rev. Req. Increase: $ 72,500,000

		Total Revenue - Current	Total Revenue - Filed (before Total Riders)	Filed % Increase (before Total Riders)	Total Revenue - Proposed Settlement	Settlement Revenue Increase (%)	Resulting % Allocation on Revenue
System Total		$ 1,609,246,698	$ 1,735,834,316	7.87%	$ 1,681,746,698	4.51%	
Residential	Rate 711	$ 435,441,814	$ 483,435,109	11.02%	$ 458,825,039	5.37%	27.28%
C&GS Heat Pump	Rate 720	$ 823,961	$ 932,221	13.14%	$ 908,664	10.28%	0.05%
GS Small	Rate 721	$ 206,181,254	$ 220,812,559	7.10%	$ 217,294,424	5.39%	12.92%
Comml SH	Rate 722	$ 1,262,706	$ 1,354,147	7.24%	$ 1,330,766	5.39%	0.08%
GS Medium	Rate 723	$ 165,675,901	$ 178,837,120	7.94%	$ 175,069,724	5.67%	10.41%
GS Large	Rate 724	$ 207,627,661	$ 222,133,394	6.99%	$ 218,818,792	5.39%	13.01%
Metal Melting	Rate 725	$ 6,337,704	$ 6,812,014	7.48%	$ 6,623,534	4.51%	0.39%
Off-Peak Serv.	Rate 726	$ 70,975,009	$ 75,463,185	6.32%	$ 74,786,367	5.37%	4.45%
Ind. Pwr Serv.	Rate 732	$ 166,871,060	$ 173,925,655	4.23%	$ 169,140,506	1.36%	10.06%
HLF Ind Pwr Serv.	Rate 733	$ 185,282,809	$ 189,173,909	2.10%	$ 188,729,070	1.86%	11.22%
Air Separation	Rate 734	$ 133,092,083	$ 148,939,259	11.91%	$ 136,765,425	2.76%	8.13%
Muni. Power	Rate 741	$ 3,142,639	$ 3,467,177	10.33%	$ 3,312,027	5.39%	0.20%
Int WW Pumping	Rate 742	$ 122,204	$ 123,419	0.99%	$ 123,743	1.26%	0.01%
Railroad	Rate 744	$ 2,036,480	$ 2,190,972	7.59%	$ 2,146,247	5.39%	0.13%
Street Lighting	Rate 750	$ 8,787,377	$ 9,440,542	7.43%	$ 9,338,346	6.27%	0.56%
Traffic Lighting	Rate 755	$ 905,809	$ 942,641	4.07%	$ 942,641	4.07%	0.06%
Dusk-to-Dawn	Rate 760	$ 2,259,376	$ 2,471,816	9.40%	$ 2,381,156	5.39%	0.14%
BUM & Temp	Rider 776	$ -	$ -		$ -		
Interdepartmental	Interdepartmental	$ 2,588,517	$ 5,546,844	114.29%	$ 5,377,893	107.76%	0.32%
Off System	Off System	$ 9,832,335	$ 9,832,335	0.00%	$ 9,832,335	0.00%	0.58%
					$ 1,681,746,698	TOTAL	100.0000%

Northern Indiana Public Service Company
Joint Exhibit C
Cause No. 44688

RA Demand Allocation

	% of Total	Demand	Rider 775 Interruptible Contract Demand	Customer Migration	Demand adjusted for Interruptible Contract Demand and Customer Migration	% of Total
Residential - 711	27.47%	623,160			623,160	27.47%
Rate 720	0.08%	1,726			1,726	0.08%
Rate 721	9.93%	225,376			225,376	9.93%
Rate 722	0.10%	2,222			2,222	0.10%
Rate 723 (Inc 717)	10.92%	247,802			247,802	10.92%
Rate 724	11.80%	267,612			267,612	11.80%
Rate 725	0.32%	7,265			7,265	0.32%
Rate 726	4.61%	104,541			104,541	4.61%
Rate 732	15.05%	341,519	[insert]		341,519	15.05%
Rate 733	11.12%	252,287	[insert]		252,287	11.12%
Rate 734	7.99%	181,247	[insert]		181,247	7.99%
Rate 741	0.13%	2,865			2,865	0.13%
Rate 742	0.00%	28			28	0.00%
Rate 744	0.10%	2,373			2,373	0.10%
Rate 750	0.10%	2,233			2,233	0.10%
Rate 755	0.06%	1,258			1,258	0.06%
Rate 760	0.03%	612			612	0.03%
Interdepartmental	0.21%	4,690			4,690	0.21%
	100.00%	2,268,815	0	0	2,268,815	100.00%

Northern Indiana Public Service Company
Joint Exhibit D
Cause No. 44688

Transmission and Distribution Revenue Requirement Allocation

*For purposes of recovering approved capital TDSIC expenditures and costs pursuant to I.C. 8-1-39-9(a), the following class allocation factor percentages shall be applied to the respective distribution- or transmission-related revenue requirement and then the resulting TDSIC charge factors (per kWh) applied to each customer's firm (or non-interruptible) load within that class:

Line	Description	Rate Class	Transmission Rev. Req. Allocation Factor %	Distribution Rev. Req. Allocation Factor %
1	Residential	Rate 711	26.08%	56.09%
2	C&GS Heat Pump	Rate 720	0.10%	0.21%
3	GS Small	Rate 721	10.53%	13.95%
4	Comml SH	Rate 722	0.12%	0.22%
5	GS Medium	Rate 723	10.59%	11.91%
6	GS Large	Rate 724	14.07%	11.36%
7	Metal Melting	Rate 725	0.44%	0.45%
8	Off-Peak Serv.	Rate 726	4.19%	3.11%
9	Ind. Pwr Serv.	Rate 732	12.40%	0.00%
10	HLF Ind Pwr Serv.	Rate 733	11.62%	0.00%
11	Air Separation	Rate 734	8.94%	0.00%
12	Muni. Power	Rate 741	0.22%	0.62%
13	Int WW Pumping	Rate 742	0.00%	0.00%
14	Railroad	Rate 744	0.11%	0.00%
15	Street Lighting	Rate 750	0.17%	1.24%
16	Traffic Lighting	Rate 755	0.03%	0.04%
17	Dusk-to-Dawn	Rate 760	0.04%	0.29%
18	BUM & Temp	Rate 776		
19	Interdepartmental	Interdepartmental	0.36%	0.50%
20	Off System	Off System		
21	System Total		100.00%	100.00%