

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

CAUSE NO. 44688

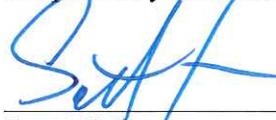
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

BARBARA A. SMITH – PUBLIC’S EXHIBIT NO. 1-S

MARCH 4, 2016

Respectfully submitted,



Scott C. Franson
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TESTIMONY OF OUCC WITNESS BARBARA A. SMITH
CAUSE NO. 44688
NORTHERN INDIANA PUBLIC SERVICE COMPANY

I. INTRODUCTION

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

2 A: My name is Barbara A. Smith. My business address is 115 W. Washington Street,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of the Utility Consumer Counselor (OUCC)
6 as the Executive Director, Technical Operations.

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

8 A: I received a Bachelor of Science degree, *magna cum laude*, from Indiana
9 Wesleyan University. I also earned an Associate's Certificate in Project
10 Management through George Washington University. I was employed by
11 Vectren from 1987 through 2006 in various capacities, including supervisor of
12 distribution planning. My responsibilities included planning installation of new
13 natural gas pipelines, making pipeline replace/repair decisions, as well as
14 development, implementation and support of new data repositories such as asset
15 management and compliance systems, support of Geographic Information System
16 (GIS) mapping, capital work order systems, outage management systems and
17 storm outage. My professional experience as a member of the management team
18 at Vectren with direct customer contact helped me develop a broad understanding

1 of consumer interests, including the value placed on reliable service and the
2 impact rate increases have on consumers. I joined the OUCC as a Utility Analyst
3 in the Electric Division in October 2006 and held the position of Director,
4 Resource Planning and Communication Division from April 2009 through July
5 2015. I was promoted to my current position of Executive Director, Technical
6 Operations in August 2015. On behalf of the OUCC, I have led many case teams
7 in complex cases, including Certificate of Public Convenience and Necessity
8 cases, critical infrastructure as well as demand side management and renewable
9 energy cases.

10 **Q: Have you previously testified before the Indiana Utility Regulatory**
11 **Commission (“IURC” or “Commission”)?**

12 A: Yes.

13 **Q: What did you do to prepare to testify in this Cause?**

14 A: I attended and participated in the settlement negotiations. I reviewed the
15 Stipulation and Settlement Agreement dated February 19, 2016 (“Settlement”)
16 and all of its attached exhibits.

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

18 A: I will describe the OUCC’s support for the Settlement entered into on February
19 19, 2016, by and between NIPSCO; the OUCC; the NIPSCO Industrial Group
20 (“Industrials”); Indiana Municipal Utilities Group (“Municipals”); NLMK,
21 Indiana (“NLMK”); United States Steel Corporation (“U.S. Steel”); United Steel,
22 Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service
23 Workers International Union, AFL-CIO/CLC (collectively the “Settling Parties”)
24 filed in this Cause. If approved, the Settlement will provide certainty around

1 critical issues, including revenue requirements, authorized return, and the
2 allocation of revenue requirement among NIPSCO's various rate classes.

3 **Q: Does the Settlement balance the interests of NIPSCO shareholders and**
4 **ratepayers?**

5 A: Yes. The Settlement is a product of intense negotiations, with each party offering
6 compromise to challenging issues. The nature of compromise includes assessing
7 the litigation risk that the tribunal will find the other side's case more compelling.
8 While the agreement represents a balance of all interests, given the number of
9 benefits provided to ratepayers as outlined in the Settlement and described below,
10 the OUCC, as the statutory representative of all ratepayers, believes the
11 Settlement is a fair resolution, supported by evidence and should be approved.

II. RATEPAYER BENEFITS OF SETTLEMENT

12 **Q: As result of the Settlement, will NIPSCO's base rates be designed to reflect a**
13 **lower revenue requirement than NIPSCO proposed in its case-in-chief filing?**

14 A: Yes. The Settling Parties agreed to an annual revenue requirement increase of
15 \$72,500,000, which is an approximate \$54,000,000 reduction from NIPSCO's
16 requested increase of \$126,587,616.¹ As shown on Joint Exhibit B, this reduces
17 the residential customers' rate impact from 11.02%, as NIPSCO originally
18 proposed, to 5.37%. This Settlement provision reduces the rate impact for all
19 major classes from NIPSCO's original proposal.

20 **Q: Please explain the ROE reduction component of the settlement.**

21 A: All Settling Parties, including NIPSCO, agreed there is a trend of decreasing
22 returns throughout the country. NIPSCO's evidence recommended a 10.75% ROE

¹ Petitioner's Exhibit 6, page 5.

1 and the OUCC and Industrial Group advocated for a considerably lower ROE. As
2 a result of the negotiations, a compromise was reached, resulting in a 9.975%
3 ROE. This means shareholders will receive less return from ratepayers not only
4 from rate base, but also the lower ROE will carry forward to existing trackers.

5 **Q: Are there Settlement benefits associated with the capital structure?**

6 A: Yes. NIPSCO agreed to finance any new project or series of projects estimated to
7 cost over \$100,000,000 and requiring a Certificate of Public Convenience and
8 Necessity ("CPCN") with at least 60% debt until its next rate order. This will
9 result in significant savings to ratepayers because the cost of debt is considerably
10 lower than the cost of equity. The capital structure originally proposed by
11 NIPSCO included only 42% debt and 58% equity.

12 **Q: As part of the Settlement did NIPSCO agree with OUCC's testimonial**
13 **position in regard to the retirement of Bailly Unit 8?**

14 A: Yes. NIPSCO has agreed to exclude the increased depreciation expense
15 associated with Bailly Unit 8. NIPSCO originally requested this increased
16 expense because of its decision to move the Unit 8 retirement date from 2029, the
17 date used in NIPSCO's last IRP modeling, to 2023. The purpose of the IRP is to
18 ensure resources are utilized in the most cost effective manner and result in the
19 lowest risk possible. Any change to a resource option must be consistent with the
20 utility's IRP. The OUCC appreciates that NIPSCO will now wait until after its
21 2016 IRP analysis and associated stakeholder process to determine how early
22 retirement will affect NIPSCO's entire resource plan. This decision results in an
23 approximate \$11,100,000 savings to ratepayers.

1 **Q: Did NIPSCO agree to any other reductions to its proposed depreciation**
2 **rates?**

3 A: Yes. NIPSCO agreed to adjust the depreciation rates downward by \$6,200,000 as
4 proposed by Industrial Group's witness Brian Andrews. Taking this into
5 consideration along with the Bailly adjustments equates to a total depreciation
6 reduction of \$17,300,000 from NIPSCO's filed position.

7 **Q: Please explain how the Settlement's revenue allocation was determined.**

8 A: The Settling Parties spent significant negotiation time arriving at a fair and
9 reasonable revenue class allocation in an effort to allocate the costs of service
10 fairly among all rate classes. As stated in the Settlement on page 11, the agreed
11 allocation is without reference to any particular, specific cost allocation
12 methodology, but was determined strictly for settlement purposes. While I do not
13 consider myself a cost-of-service expert, I discussed the Settlement allocation
14 with OUCC staff experts and we concluded it is a fair compromise.

15 **Q: What Settlement considerations were important to the OUCC in regard to**
16 **the revenue allocation?**

17 A: The OUCC was especially concerned about the revenue allocation and resulting
18 increase to the residential and commercial customers. It was important to the
19 OUCC to keep any customer class increase as close as possible to the system total
20 of 4.51% as demonstrated on Joint Exhibit B.

21 **Q: Does the Settlement include a modification to the monthly customer charge?**

22 A: Yes. As part of the comprehensive settlement package, NIPSCO and the OUCC
23 reached a compromise on the fixed charge. Originally NIPSCO proposed an 82%
24 or \$9 increase in the residential fixed charge (\$11 to \$20) and a 50% or \$10
25 increase in the small commercial fixed charge (\$20 to \$30). Through compromise,

1 the residential charge will be \$14, an increase of 27% versus 82%, and the small
2 commercial charge will be \$24, or an increase of 20% versus 50%.

3 **Q: Please explain the benefit of the Interruptible Rider 775 to all ratepayers.**

4 A: NIPSCO's customer base is somewhat unique as compared to other Indiana
5 investor-owned electric utilities because of its high percentage of large industrial
6 customers. Some of those industries, such as steel production facilities, are
7 exceedingly challenged to remain financially viable. The impact to the Indiana
8 economy if one or more of these facilities close could be devastating, including
9 the loss of thousands of Indiana jobs. If that were to become an eventuality,
10 NIPSCO's fixed costs would then be allocated among the remaining customers.
11 The Settlement provisions for Rider 775 offer both security for these large
12 customers and also more assurance for all NIPSCO customers and Indiana
13 residents that these industries remain viable companies.

14 In addition, interruptions can provide an alternative to NIPSCO
15 purchasing capacity in the market or alleviate the necessity to build new
16 generation capacity. As environmental regulations tighten the capacity markets,
17 building these curtailments into NIPSCO's comprehensive IRP modeling could
18 help protect its ratepayers.

19 As a part of the interruptible rider structure, the Settlement provides for a
20 \$57,000,000 credit allocation annual cap. This cap sets a level of protection for
21 ratepayers.

22 Other important points regarding the \$57,000,000 credit include:

1 1. Customers not participating in Rider 775 are not responsible for the
2 entire amount of credit payments. All customers receiving firm load,
3 including the Interruptible Rider 775 participants, are allocated a
4 portion of those credits based on their firm load.

5 2. The actual credit could be less than the \$57,000,000 cap. As one
6 example, the credit will be less when off-system sales occur as a result
7 of the ability to interrupt.

8 **Q: What is NIPSCO's current treatment of Off-System Sales ("OSS") margins**
9 **sharing within its RTO tracker?**

10 **A:** Currently OSS margins are shared on a 50/50 basis for amounts above the
11 \$7,600,000 embedded in base rates. Therefore 50% of the annual margin realized
12 above the \$7,600,000 is credited to the customers. In this cause, NIPSCO
13 originally proposed a 50/50 sharing of OSS above and below the test year value of
14 \$4,741,390, wherein 50% of the margin realized below the embedded amount
15 would be charged to customers.

16 **Q: What treatment for OSS margins within NIPSCO's RTO tracker was agreed**
17 **to by the Settlement Parties in this proceeding?**

18 **A:** Settlement Parties agreed to the \$4,741,390 credit in base rates for OSS margins,
19 but rather than the 50/50 split, NIPSCO will flow through the RTO tracker 100%
20 of all OSS margins, with customers receiving 100% of all OSS margins greater
21 than zero dollars. This treatment continues to allow for a symmetrical approach
22 wherein if annual OSS margins exceed the \$4,741,390 credit embedded in base
23 rates, the excess will be credited 100% to retail customers, resulting in a credit on
24 customer bills. If annual OSS margins are less than the \$4,741,390 base amount

1 (but greater than zero dollars), 100% of the deficit will be charged to retail
2 customers.

3 **Q: What is the benefit to ratepayers that results from this type of treatment for**
4 **OSS margins?**

5 A: Ratepayers will now receive 100% of the margins (profits) that result from OSS
6 and will no longer be required to share such margins with shareholders. Flowing
7 through 100% of all OSS margins will help mitigate costs to ratepayers who are
8 paying: 1) NIPSCO's retail rates to support the operation and maintenance
9 expenses and provide a return of and a return on the assets that support OSS; and
10 2) the MISO administrative fees that provide for MISO to administer OSS of
11 NIPSCO's excess generation. Additionally, with MISO having the primary role in
12 administering OSS of NIPSCO's excess generation, providing Petitioner with a
13 share of OSS margins (or an incentive to maximize its OSS) is no longer
14 necessary.

15 **Q: What is the OUCC's recommendation to the IURC?**

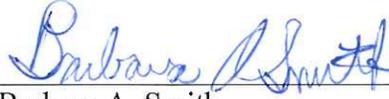
16 A: The OUCC recommends that the IURC find the Settlement to be in the public
17 interest and approve it in its entirety.

18 **Q: Does this conclude your testimony?**

19 A: Yes.

AFFIRMATION

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



Barbara A. Smith
Executive Director, Technical Operations
Indiana Office of Utility Consumer Counselor

March 4, 2016

Date

Cause No. 44688
NIPSCO

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***OUCC SETTLEMENT TESTIMONY OF BARBARA A. SMITH*** has been served upon the following parties of record in the captioned proceeding by electronic service on March 4, 2016.

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