

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY FOR (1) APPROVAL OF AND A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR A FEDERALLY MANDATED CIP)
COMPLIANCE PROJECT; (2) AUTHORITY TO)
RECOVER FEDERALLY MANDATED COSTS INCURRED)
IN CONNECTION WITH THE CIP COMPLIANCE)
PROJECT; (3) APPROVAL OF THE ESTIMATED)
FEDERALLY MANDATED COSTS ASSOCIATED WITH)
THE CIP COMPLIANCE PROJECT; (4) AUTHORITY TO)
IMPLEMENT A FEDERALLY MANDATED COST)
ADJUSTMENT MECHANISM ("FMCA"); (5) APPROVAL)
OF CHANGES TO NIPSCO'S ELECTRIC SERVICE)
TARIFF RELATING TO THE PROPOSED FMCA; (6))
AUTHORITY FOR THE TIMELY RECOVERY OF 80% OF)
THE FEDERALLY MANDATED COSTS THROUGH THE)
PROPOSED FMCA; (7) AUTHORITY TO DEFER 20% OF)
THE FEDERALLY MANDATED COSTS FOR RECOVERY)
IN NIPSCO'S NEXT GENERAL RATE CASE; (8))
APPROVAL OF SPECIFIC RATEMAKING AND)
ACCOUNTING TREATMENT; (9) APPROVAL TO)
DEPRECIATE THE CIP COMPLIANCE PROJECT)
ACCORDING TO THE PROPOSED DEPRECIATION)
RATES; AND (10) APPROVAL OF ONGOING REVIEW OF)
THE CIP COMPLIANCE PROJECT; ALL PURSUANT TO)
IND. CODE § 8-1-8.4-1 ET SEQ., § 8-1-2-19, AND § 8-1-2-42.)

CAUSE NO. 44340

APPROVED:

JAN 29 2014

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On May 1, 2013, Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition in this Cause. On May 17, 2013, NIPSCO prefiled its Case-In-Chief, which included the direct testimony and exhibits of the following witnesses:

- Timothy R. Caister, Director of Regulatory Policy at NIPSCO;
• Teodoro Gutierrez, Director of Operations Technology and NERC Compliance at NIPSCO;
• Angela P. Camp, Manager, Financial Reporting at NIPSCO; and
• Derric J. Isensee, Manager, Regulatory Support and Analysis at NIPSCO.

The Commission held a prehearing conference and preliminary hearing at 10:00 a.m. on June 13, 2013. On June 19, 2013, the Commission issued a Prehearing Conference Order with the procedural schedule for this Cause.

On August 19, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled direct testimony and exhibits of the following witnesses:

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

On September 7, 2013, NIPSCO prefiled the rebuttal testimony of Mrs. Caister, Isensee, and Guitierrez.

The Commission held an evidentiary hearing at 9:30 a.m. on September 26, 2013. NIPSCO and the OUCC appeared at and participated in the hearing. No members of the general public sought to participate in the hearing.

Having considered the applicable law and the evidence presented, the Commission finds:

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

2. **NIPSCO’s Characteristics.** NIPSCO is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO is engaged in rendering electric and gas public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution, and furnishing of such service to the public.

3. **Background and Requested Relief.** On January 18, 2008, the Federal Energy Regulatory Commission (“FERC”) approved the North American Electric Reliability Corporation’s (“NERC”) Critical Infrastructure Protection (“CIP”) Reliability Standards in Order No. 706 (Docket No. RM06-22-000). The CIP Reliability Standards require certain users, owners, and operators of the Bulk-Power System to safeguard critical cyber assets. There are currently eight (8) CIP Reliability Standards:

- CIP-002-4 - Cyber Security - Critical Cyber Asset Identification
- CIP-003-4 - Cyber Security - Security Management Controls
- CIP-004-4 - Cyber Security - Personnel & Training
- CIP-005-4 - Cyber Security - Electronic Security Perimeter(s)
- CIP-006-4 - Cyber Security - Physical Security of Critical Cyber Assets

- CIP-007-4 - Cyber Security - Systems Security Management
- CIP-008-4 - Cyber Security - Incident Reporting & Response Planning
- CIP-009-4 - Cyber Security - Recovery Plans for Critical Cyber Assets

FERC approved the 4th version of the NERC CIP Reliability Standards (“CIP 4”) on April 19, 2012, in Order No. 761 (Docket No. RM11-11-000). FERC approved the 5th Version of the NERC CIP Reliability Standards (“CIP 5”) on November 22, 2013, in Order No. 791 (Docket No. RM13-5-000).¹

NIPSCO requests the following relief:

- A certificate of public convenience and necessity (“CPCN”) for its CIP Compliance Project which includes numerous capital projects and ongoing activities at ten locations in NIPSCO’s electric system necessary to comply with the CIP 4 and CIP 5 Reliability Standards.
- Approval to recover 80% of the federally mandated project costs and ongoing expenses of the CIP Compliance Project through a semi-annual cost adjustment mechanism.
- Authority to defer 20% of the federally mandated project costs and ongoing expenses of the CIP Compliance Project for recovery in NIPSCO’s next general rate case.

4. **NIPSCO’s Direct Evidence.** Mr. Caister described NIPSCO’s request for a CPCN for its CIP Compliance Project and for approval of a federally mandated cost adjustment mechanism and associated relief. Mr. Caister explained the statutory authority supporting NIPSCO’s requested relief and said the NERC CIP 4 Reliability Standards are federally mandated requirements under Ind. Code § 8-1-8.4-5.

Mr. Gutierrez described the NERC CIP Reliability Standards and the new compliance requirements resulting from the CIP 4 Reliability Standards. He provided an update on the status of the NERC CIP 5 Reliability Standards. Mr. Gutierrez explained the highly sensitive nature of some of the information relating to NIPSCO’s CIP Compliance Project and NIPSCO’s proposed solution to deal with such highly sensitive information in a regulatory proceeding. He outlined NIPSCO’s CIP Compliance Project and the associated costs and explained how the CIP Compliance Project will allow NIPSCO to comply with the federally mandated requirements. Finally, Mr. Gutierrez described alternative compliance methods that NIPSCO reviewed.

Ms. Camp explained the proposed accounting treatment to recover the federally mandated costs of the CIP Compliance Project under Ind. Code § 8-1-8.4-7 including capital, operating, maintenance, depreciation, taxes, financing and carrying costs, and allowance for funds used during construction (“AFUDC”). She summarized the accounting treatment for NIPSCO’s proposed Federally Mandated Cost Adjustment Mechanism (“FMCA”). She next addressed NIPSCO’s proposal to defer 20% of the federally mandated costs under Ind. Code § 8-1-8.4-7. Finally, Ms. Camp provided support for NIPSCO’s proposed depreciation rates for the projects in the CIP Compliance Project.

¹ At the time of the evidentiary hearing in this Cause, the CIP 5 Reliability Standards were still pending at FERC.

Mr. Isensee provided an overview of the proposed FMCA Mechanism, including: (1) a description of the proposed ratemaking treatment related to the FMCA Mechanism; (2) an explanation of how the FMCA Mechanism revenue requirement and the related factors will be calculated; (3) an explanation of how the deferred federally mandated costs will be reflected in NIPSCO's FMCA Mechanism filings; (4) a description of the proposed allocators for the components of the FMCA Mechanism; and (5) the proposed timeline for future FMCA Mechanism filings. Mr. Isensee also explained the proposed changes and additions to NIPSCO's electric service tariff.

5. OUCC's Evidence. Mr. Keen addressed NIPSCO's request for cost recovery for its CIP Compliance Project. Mr. Keen provided his in-depth analysis of the NERC CIP Reliability Standards and a comparison of CIP 4 and CIP 5. Mr. Keen recommended an industry-wide, three-phase reporting and monitoring concept.

Ms. Gruca addressed NIPSCO's proposed FMCA Mechanism tariff language, capital structure, and the ratemaking treatment of CIP Compliance Project costs. She presented the OUCC's proposed ratemaking treatment for the 80% of CIP Compliance Project costs to be tracked as well as the OUCC's proposed treatment for the 20% of deferred CIP Compliance Project costs.

6. NIPSCO's Rebuttal Evidence. Mr. Caister summarized NIPSCO's response to the issues raised by Ms. Gruca regarding NIPSCO's proposed FMCA Mechanism and to the proposed three-phase reporting and monitoring concept described by OUCC witness Keen.

Mr. Isensee responded to the following issues raised by Ms. Gruca regarding NIPSCO's proposed FMCA Mechanism: (1) the OUCC's proposed changes to the tariff language; (2) the OUCC's disagreement with NIPSCO's proposal to use the overall weighted average cost of capital ("WACC") approved in Cause No. 43969 to calculate the financing costs related to capital costs; (3) the OUCC's proposal that NIPSCO should accrue post-in-service AFUDC as opposed to calculating post-in-service carrying charges on capital costs for the period of time after an asset has been placed into service and before it receives ratemaking treatment through the FMCA Mechanism; and (4) the OUCC's proposal for different treatment for the 20% of deferred CIP Compliance Project costs.

Mr. Gutierrez responded to various issues raised by Mr. Keen and provided NIPSCO's response to Mr. Keen's three-phase reporting recommendations.

7. Commission Discussion and Findings.

A. CPCN. Before granting a CPCN under Ind. Code ch. 8-1-8.4, we must (1) find that public convenience and necessity will be served by the proposed compliance project, (2) approve the costs associated with the project, and (3) make a finding on each of the factors in Ind. Code § 8-1-8.4-6(b). Those factors are:

- (A) A description of the federally mandated requirements ... that the energy utility seeks to comply with through the proposed compliance project.
- (B) A description of the projected federally mandated costs associated with the proposed compliance project
- (C) A description of how the proposed compliance project allows the energy utility to comply with the federally mandated requirements described by the energy utility under Clause (A).

- (D) Alternative plans that demonstrate that the proposed compliance project is reasonable and necessary.
- (E) Information as to whether the proposed compliance project will extend the useful life of an existing energy utility facility and, if so, the value of that extension.

Ind. Code § 8-1-8.4-6(b).

1. **Federally Mandated Requirements.** Ind. Code § 8-1-8.4-5 defines a federally mandated requirement to include “a requirement that the commission determines is imposed on an energy utility by the federal government in connection with ... any other law, order, or regulation administered or issued by ... the Federal Energy Regulatory Commission, or the United States Department of Energy.” Ind. Code § 8-1-8.4-5. Mr. Caister testified that the NERC CIP requirements, including NERC CIP 4, are federally mandated requirements under Ind. Code § 8-1-8.4-5. He testified that Section 215 of the Federal Power Act requires a FERC-certified Electric Reliability Organization to develop mandatory and enforceable Reliability Standards, which are subject to FERC review and approval. FERC certified NERC as the Electric Reliability Organization to establish and enforce reliability standards for the Bulk-Power System. Once approved by FERC, the CIP Reliability Standards may be enforced by NERC, subject to FERC oversight, or by FERC independently.

FERC approved CIP 4 on April 19, 2012 in Order No. 761. Based on this evidence our review of the extensive evidence describing the CIP Reliability Standards, we find that the NERC CIP Reliability Standards are federally mandated requirements under Ind. Code § 8-1-8.4-5 and NIPSCO has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(A).

2. **Projected Costs.** Mr. Caister testified that NIPSCO’s total capital cost estimate for the CIP Compliance Project is \$5,225,625 (not including AFUDC or ongoing carrying charges). Mr. Gutierrez testified that NIPSCO estimates annual operations and maintenance (“O&M”) expenditures will be approximately \$1.2 million. Petitioner’s Exhibit No. TG-1 (Confidential) provides a confidential, detailed description of the projected federally mandated costs associated with the CIP Compliance Project. Mr. Gutierrez testified that after the scope and approach of the CIP Compliance Project was finalized, NIPSCO identified all material and labor costing components of the project plan. The cost estimates for the project plan were compiled by obtaining price quotes from vendors (where applicable) and estimating the labor that would be required by NIPSCO staff or contractors to complete the project. Mr. Gutierrez testified that vendor quotes were updated in March 2013.

With respect to factors that could cause the cost estimates to change, Mr. Gutierrez testified that a delay in the project could invalidate the vendor quotes, which could alter the cost figures for that equipment. He also stated that if NIPSCO employee workload at the time of project execution is heavier or lighter than expected and the use of more or less contractors is required, those labor costs could change. Vendor ongoing support costs could increase over the use of the products, and staffing salary estimates will vary based on actual costs incurred as the positions are filled. Finally, Mr. Gutierrez testified that timing of expenses could also shift depending on activity from FERC on CIP 5.

The evidence presented sufficiently describes the projected federally mandated costs associated with the CIP Compliance Project and demonstrates that the cost estimates are based on

multiple sources of information. The evidence also adequately identifies the factors that could cause the cost estimates to change. Based on the evidence presented, we find that NIPSCO's cost estimates for the CIP Compliance Project, as depicted in Petitioner's Exhibit No. TG-1 (Confidential), are reasonable. Therefore we approve the projected federally mandated costs associated with the CIP Compliance Project as required by Ind. Code § 8-1-8.4-7(b)(2). In addition, we find that NIPSCO has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(B).

3. CIP Compliance Project. Mr. Gutierrez testified that NIPSCO chose a third-party, Network & Security Technologies, to create and collect cost quotes for the CIP Compliance Project. He stated the third-party has expertise in NERC CIP and has conducted similar projects for other Responsible Entities throughout the country. Mr. Gutierrez testified the focus of the project was to identify the gaps between existing controls and the requirements under NERC CIP-005-4 and CIP-006-4, and then provide a cost-effective, manageable solution to address them. Mr. Gutierrez testified that NIPSCO's CIP Compliance Project includes numerous projects that increase the security of NIPSCO's critical infrastructure and that are necessary to allow NIPSCO to comply with the federally mandated requirement of CIP 4 and, in part, the proposed CIP 5. He stated that because nine of NIPSCO's facilities are designated critical under CIP 4 that were not designated critical under CIP 3, NIPSCO will need to implement additional physical and cyber security measures at these sites to comply with the CIP Reliability Standards.

Petitioner's Exhibit No. TG-1 (Confidential) provides a matrix of the projects, sites, costs, and schedules associated with NIPSCO's CIP Compliance Project. Mr. Gutierrez's confidential testimony provided additional detail about the various CIP Compliance Projects needed to comply with CIP 4. Mr. Gutierrez also testified that NIPSCO would need to undertake all of the projects included in NIPSCO's CIP Compliance Project to comply with CIP 5. Mr. Gutierrez testified that he is confident that NIPSCO's CIP Compliance Project will allow NIPSCO to comply with CIP 4 and that the CIP Compliance Project will be necessary (but not sufficient) to comply with CIP 5.

Mr. Keen testified that the OUCC is convinced that the proposed measures comply with federal CIP compliance guidance, and are both prudent and justified to protect NIPSCO infrastructure assets against the wide variety of natural disasters, accidents and incidents.

Based on the evidence presented, we find that NIPSCO's CIP Compliance Project will allow the utility to comply with CIP 4. Therefore, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(C).

4. Alternative Plans. Mr. Gutierrez testified that NIPSCO carefully considered all available options for complying with CIP 4 to develop a CIP Compliance Project that will balance the interests of NIPSCO's customers in maintaining affordable and reliable electricity with the need to protect NIPSCO's Critical Assets. In doing so, NIPSCO considered the costs of various options, alternative project timelines, the CIP 4 and CIP 5 overlap problem, and the likelihood that these variables would impact NIPSCO's efforts to comply with CIP 4.

Mr. Gutierrez stated that the requirements in CIP-005-4 and CIP-006-4 are rather rigid so there were minimal alternative choices NIPSCO considered in developing the CIP Compliance Project. In his confidential testimony, Mr. Gutierrez provided a description of alternative projects/plans NIPSCO considered.

Based on the evidence presented, we find that NIPSCO considered alternative plans for compliance with CIP 4. The evidence shows that the CIP Compliance Project is reasonable and necessary. Therefore, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(D).

5. Useful Life of the Facility. Mr. Gutierrez testified that although the CIP Compliance Project does not extend the life of NIPSCO's facilities from an accounting or physical standpoint, they are intended to prevent a security breach that could impact the useful life of these facilities.

Based on the evidence presented, we find that NIPSCO has satisfied the requirements of Ind. Code § 8-1-8.4-6(b)(1)(E).

We therefore approve the CIP Compliance Project pursuant to Ind. Code Ch. 8-1-8.4 and find that NIPSCO's request for a CPCN for the CIP Compliance Project should be granted.

6. Conclusion. The evidence presented demonstrates that the CIP Compliance Project will allow NIPSCO to comply with the requirements of CIP 4. The project will also allow NIPSCO to reasonably ensure its facilities are secure from both physical and cyber threats. As discussed above, we have made a finding on each of the factors described in Ind. Code § 8-1-8.4-6(b) and approved the projected federally mandated costs associated with the CIP Compliance Project. Therefore, we approve the CIP Compliance Project and issue NIPSCO a CPCN for the project under Ind. Code § 8-1-8.4-7(b).

B. Cost Recovery. Ind. Code § 8-1-8.4-7(c) states:

If the commission approves under subsection (b) a proposed compliance project and the projected federally mandated costs associated with the proposed compliance project, the following apply:

(1) Eighty percent (80%) of the approved federally mandated costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism that allows the timely recovery of the approved federally mandated costs. The commission shall adjust the energy utility's authorized net operating income to reflect any approved earnings for purposes of IC 8-1-2-42(d)(3) and IC 8-1-2-42(g)(3).

(2) Twenty percent (20%) of the approved federally mandated costs, including depreciation, allowance for funds used during construction, and post in service carrying costs, based on the overall cost of capital most recently approved by the commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the commission.

(3) Actual costs that exceed the projected federally mandated costs of the approved compliance project by more than twenty-five percent (25%) shall require specific justification by the energy utility and specific approval by the commission before being authorized in the next general rate case filed by the energy utility with the commission.

1. FMCA. NIPSCO requests authority to implement a semi-annual FMCA Mechanism to allow the timely and periodic recovery of 80% of the federally mandated

costs. NIPSCO also requests approval of proposed changes to its electric service tariff relating to the proposed FMCA Mechanism, including the proposed Rider 687 and Appendix I and the proposed changes to Appendix A which were provided in Petitioner's Exhibits No. DJI-2.

Mr. Isensee testified that NIPSCO proposes to file its FMCA Mechanism petition and case-in-chief by May 1 and November 1 of each year with new rates becoming effective for the 6-month periods starting on August 1 and February 1, respectively. The reconciliation of actual costs to estimated costs will be completed on a 12-month lag. Msrs. Isensee and Caister testified that as part of each FMCA Mechanism tracker proceeding, NIPSCO will provide a report on the progress of its CIP Compliance Project, including any scheduling changes, proposed project additions, or subtractions and proposed changes in cost estimates.

Ms. Camp testified that NIPSCO requests approval to adjust NIPSCO's authorized net operating income to reflect any approved earnings associated with the CIP Compliance Project for purposes of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42(g)(3) as authorized by Ind. Code § 8-1-8.4-7(c)(1).

Ms. Gruca recommended the Commission approve the proposed FMCA Mechanism tariff with modifications. Specifically, Ms. Gruca proposed to add the words "associated with a Commission-approved Certificate of Public Convenience and Necessity (CPCN) pursuant to I.C. § 8-1-8.4 et al. and" to NIPSCO's proposed Rider 687. NIPSCO did not oppose this change, and Mr. Isensee included a redlined version of the revised tariff with his rebuttal testimony as Petitioner's Exhibit No. DJI-R1 to reflect this change.

Based on the evidence presented, we find that the proposed semi-annual FMCA Mechanism should allow for the timely and periodic recovery of 80% of NIPSCO's approved federally mandated costs. We also find that the proposed corresponding changes to NIPSCO's tariff, including the proposed Rider 687 as revised by the OUCC, Appendix I and the proposed changes to Appendix A, are reasonable. Finally, we find NIPSCO's request for approval to adjust its authorized net operating income to reflect any approved earnings associated with the CIP Compliance Project for purposes of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42(g)(3) is consistent with Ind Code § 8-1-8.4-7(c)(1).

2. Accounting and Ratemaking Treatment for the FMCA. Ms. Camp testified that pursuant to Ind. Code § 8-1-8.4-7, NIPSCO proposes to recover 80% of the capital costs, O&M expenses, depreciation expenses, tax expenses and financing costs associated with its CIP Compliance Project through its proposed FMCA Mechanism. NIPSCO proposes to include its construction work in progress ("CWIP") balance for the CIP Compliance Project for ratemaking treatment in the FMCA Mechanism. NIPSCO proposes to accrue AFUDC relating to the CIP Compliance Project until such time as the projects included in the CIP Compliance Project are placed into service or receive ratemaking treatment. NIPSCO proposes to defer post-in-service carrying costs, and to the extent necessary, depreciation expenses, taxes, and O&M expenses associated with its CIP Compliance Project, including expenses incurred prior to receiving a final Order in this Cause, until such costs are recognized for ratemaking purposes through the FMCA Mechanism.

Mr. Isensee testified that NIPSCO's proposed FMCA Mechanism will forecast O&M costs, depreciation, and taxes. NIPSCO will recover those costs over the same period in which they are incurred. All forecasted costs will be subject to reconciliation in future FMCA proceedings.

Ms. Camp testified that NIPSCO proposes to commence CWIP ratemaking treatment for the costs of each of the projects included in the CIP Compliance Project once construction begins. Specifically, NIPSCO proposes to add to the value of NIPSCO's property on which NIPSCO is authorized to earn a return the value of the CIP Compliance Project under construction. She testified that NIPSCO proposes to record AFUDC, in accordance with Generally Accepted Accounting Principles ("GAAP"), until such costs are given CWIP ratemaking treatment, are otherwise reflected in base electric rates, or the CIP Compliance Projects are placed in service, whichever occurs first. NIPSCO will compute the AFUDC amounts and relevant AFUDC rates for the CIP Compliance Projects in accordance with the FERC or NARUC Uniform System of Accounts, which is consistent with GAAP.

Mr. Isensee testified that NIPSCO proposes to recover 80% of all post-in-service carrying costs incurred in connection with the approved compliance projects through the FMCA Mechanism. NIPSCO proposed that these costs would be determined based on the overall cost of capital most recently approved by the Commission in Cause No. 43969 and will include all financing incurred from the in-service date until such projects receive ratemaking treatment.

Mr. Isensee testified that in each semi-annual tracker proceeding, NIPSCO proposes to calculate a revenue requirement, which will consist of two components: (1) a return of capital costs, including AFUDC and post-in-service carrying costs, and (2) recovery of O&M, depreciation expense, and other expenses associated with the projects. Then NIPSCO will multiply the total revenue requirement by 80% to establish the FMCA Mechanism revenue requirement.

With respect to cost allocation, Mr. Isensee testified NIPSCO proposes to use the production and energy allocation percentages attributable to each of NIPSCO's rate schedules set forth in Joint Exhibit E (the 12 CP method) to the Stipulation and Settlement Agreement by and among NIPSCO, the OUC, NLMK Indiana f/k/a Beta Steel Corporation, Indiana Municipal Utilities Group, and NIPSCO Industrial Group and approved in the Commission's December 21, 2011 Order in Cause No. 43969. He stated NIPSCO will adjust its allocation percentages to reflect the significant migration of customers amongst the various rates.

Ms. Gruca raised two issues with NIPSCO's proposed ratemaking and accounting treatment for the FMCA Bucket. First, the OUC disagrees with NIPSCO's proposal to use the overall weighted average cost of capital approved in Cause No. 43969 to calculate the return on capital costs and believes NIPSCO should either (1) use the cost of capital approved by the Commission in NIPSCO's most recent ECR filing (currently 6.63%), which will change as the capital structure is updated in each future ECR filing that is approved by the Commission, or (2) update its capital structure in each FMCA Mechanism semi-annual filing consistent with the method used in the ECR filings. In rebuttal, Mr. Caister testified that NIPSCO does not object to updating the WACC in each semi-annual FMCA Mechanism semi-annual filing as recommended by the OUC.

Second, the OUC proposes that NIPSCO should accrue post-in-service AFUDC as opposed to calculating post-in-service carrying charges on capital costs for the period of time after an asset has been placed into service and before it receives ratemaking treatment through the FMCA

Mechanism. Ms. Gruca stated NIPSCO's use of a static rate of return from a rate case with a test year from three years ago does not follow the Commission's CWIP rules or Ind. Code § 8-1-8.4-7. She also stated that using post-in-service carrying charges calculated at the same rate of return from NIPSCO's last rate case and then attempting to recover 80% of that amount as additional cash return grossed up for taxes is not the Commission's standard practice for post-in-service accounting treatment.

In rebuttal, Mr. Isensee testified that the OUCC's proposal indicates there may be confusion over how utilities capitalize costs while the asset is under construction versus after it is in service and that Ms. Gruca's testimony appears to confuse the recovery associated with the utility plant asset versus a regulatory asset. He explained that in both general rate case proceedings and automatic adjustment mechanism proceedings involving long-life capital assets, utilities have followed the FERC Uniform System of Accounts, specifically, Section 3(A)17 of Part 101, regarding the capitalization of financing costs. That section requires utilities to use a prescribed formula for the calculation of capitalized financing costs incurred during the construction period. This prescribed formula, also referred to as the AFUDC is intended to capture the cost of capital based on traditional finance concepts. He explained that this formula considers the short-term financing instruments commonly used by utilities in the financing of capital projects throughout the construction period. The intention of utilities to use short-term instruments during the construction period is to match the term of the instrument with the term of the financed project. Typically, utilities will finance the construction of projects with short-term instruments and refinance the short-term instruments with long-term instruments once the asset is placed in service. This effectively matches the term of the financing instrument with the life of the long-lived asset.

Mr. Isensee stated that in order to be consistent with traditional ratemaking and financing concepts related to the calculation of financing costs throughout the life-cycle of an asset, NIPSCO proposed in this proceeding to only use the AFUDC rate to calculate financing costs *during* the construction phase of a project (emphasis added). He testified it is appropriate to use the WACC to calculate all post-in-service carrying charges recoverable through the FMCA Mechanism. To that end, Mr. Isensee testified that NIPSCO has proposed to calculate the "post-in-service carrying charges" incurred in the period of time between the date the asset is placed in service and the date the asset receives ratemaking treatment and defer such amounts as a regulatory asset until the asset receives ratemaking treatment. NIPSCO proposes to include such amounts as a component of the FMCA Mechanism revenue requirement. Mr. Isensee stated that for each asset, this cost will only be incurred once and will only be recovered through the FMCA Mechanism revenue requirement in the next FMCA Mechanism semi-annual filing made after the asset is placed into service.

Mr. Isensee testified that the OUCC's proposal is unworkable as proposed because neither FERC nor GAAP accounting guidelines allow a utility to capitalize post-in-service AFUDC. Rather, upon regulatory approval to recover post-in-service AFUDC or post-in-service carrying charges in accordance with FERC and GAAP accounting guidelines, a utility would be required to defer as a regulatory asset the calculated financing costs until such amounts receive ratemaking treatment. He testified that upon receiving ratemaking treatment, the regulatory asset would be amortized. Mr. Isensee recommended the Commission approve NIPSCO's original proposal to calculate post-in-service carrying charges on capital costs once the asset has been placed in service and reject the OUCC's proposal to accrue post-in-service AFUDC.

The parties dispute the appropriate method and rate for calculating post-in-service financing costs for the period of time between the in-service date for a project and the date it receives ratemaking treatment through the FMCA Mechanism. Mr. Isensee provided evidence that NIPSCO's proposal to record post-in-service carrying charges at the WACC rate once an asset is placed in service is consistent with FERC and GAAP accounting rules. Therefore, we find that once a CIP Compliance Project asset is placed into service AFUDC should cease and carrying charges at the WACC rate apply.

NIPSCO is authorized to recover 80% of the approved federally mandated costs incurred in connection with the CIP Compliance Project through the proposed FMCA Mechanism pursuant to Ind. Code § 8-1-8.4-7, including capital, O&M, depreciation, taxes, financing, and carrying costs based on the current overall WACC and AFUDC. NIPSCO is authorized to utilize CWIP ratemaking treatment for the CIP Compliance Project through the proposed FMCA Mechanism. NIPSCO is authorized to accrue AFUDC relating to the CIP Compliance Project until such time as the CIP Compliance Projects are placed into service or receive ratemaking treatment. NIPSCO is authorized to defer post-in service costs of the CIP Compliance Project, including carrying costs based on the current overall WACC, depreciation, taxes and operating and maintenance expenses on an interim basis until such costs are recognized for ratemaking purposes through NIPSCO's proposed FMCA Mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case. NIPSCO is authorized to defer and recover through NIPSCO's proposed FMCA Mechanism any federally mandated costs, including but not limited to federally mandated costs incurred prior to and after approval of a Final Order in this proceeding to the extent that such costs are reasonable and consistent with the scope of the CIP Compliance Project described in NIPSCO's evidence. NIPSCO's proposed cost allocation factors are approved.

3. Accounting and Ratemaking Treatment for Deferred Costs. Ind. Code § 8-1-8.4-7 allows NIPSCO to defer 20% of the approved federally mandated costs, including depreciation, AFUDC, and post in service carrying costs, based on the overall cost of capital most recently approved by the Commission, to be recovered as part of its next general rate case.

Ms. Camp testified that NIPSCO proposes to defer, as a regulatory asset, 20% of all federally mandated costs, including, but not limited to, capital costs, O&M expenses, depreciation expenses, tax expenses, and financing costs associated with its CIP Compliance Project, including expenses incurred prior to receiving a final Order in this Cause, for recovery as part of NIPSCO's next general rate case. She stated that NIPSCO also proposes to record ongoing carrying charges based on the overall cost of capital approved by the Commission in Cause No. 43969 on the deferred federally mandated costs until the deferred federally mandated costs are included for recovery in NIPSCO's base electric rates in its next general rate case.

Ms. Gruca testified that the OUCC proposes that NIPSCO be allowed to defer accrued pre-in-service AFUDC on 20% of the construction costs, post-in-service AFUDC on 20% of the construction costs net of depreciation (which includes accrual of the pre- and post-in-service AFUDC, and (3) depreciation, O&M, and variance expenses without carrying charges. Ms. Gruca testified that when the project is complete, post-in-service AFUDC/carrying charges should be calculated on the 20% of construction costs net of depreciation based on NIPSCO's most current AFUDC rate until the next rate case. She also testified that the 20% Bucket should not be grossed up for taxes. Instead, when the deferred balance is reflected in rates to earn a cash return, it would then be appropriate to gross the return up for taxes.

In rebuttal, Ms. Isensee stated the OUCC's proposal provides for accrual of ongoing post-in-service AFUDC at the AFUDC rate which means the prior period AFUDC is added to the balance upon which the current period AFUDC is calculated. He testified it appears there is no dispute that NIPSCO should receive ongoing carrying charges on the deferred financing costs, but the OUCC's proposal for calculating ongoing carrying charges (i.e. post-in-service AFUDC) differs from NIPSCO's proposal. Mr. Isensee testified that the two methods yield similar results and then explained the differences in the two methods: (1) NIPSCO proposes to use its WACC rate in order to calculate post-in-service carrying charges whereas the OUCC is proposing to calculate post-in-service carrying charges using NIPSCO's AFUDC rate; and (2) NIPSCO proposes to recover all post-in-service carrying charges incurred in connection with all federally mandated compliance projects, including those incurred in connection with incurred O&M expenses. At the hearing, Mr. Isensee testified that another difference between the OUCC's position and NIPSCO's position relates to the treatment of carrying charges on the deferred depreciation expense. He stated NIPSCO's position is that NIPSCO should be authorized to calculate ongoing carrying charges on the deferred depreciation expense because the statute provides for recovery of federally mandated costs and NIPSCO will incur post-in-service carrying charges on the deferred depreciation expense.

Mr. Isensee testified that the OUCC's proposed method of calculating the financing costs related to capital expenditures for the deferred 20% is not appropriate because it does not allow for the recovery of carrying charges of the depreciation expense regulatory asset and also leads to inconsistent treatment related to the recovery of financing costs. He stated it is important to follow NIPSCO's approach as it is tied directly to the related accounting construct that will be used for these projects. He testified that the OUCC's position does not take into consideration that as each capital project is depreciated, 20% of the gross value will be expensed and subsequently deferred as a regulatory asset on the balance sheet in accordance with Ind. Code § 8-1-8.4-7(c)(1) as discussed above. This accounting methodology is the basis for NIPSCO's position that it is appropriate to recover post-in-service carrying charges on 20% of the net book value of each asset in addition to the post-in-service carrying charges related to the depreciation regulatory asset.

Mr. Isensee testified the OUCC's proposed method calculates the financing costs related to 80% of the capital expenditures differently than it calculates the financing costs related to 20% of the capital expenditures. This leads to inconsistent treatment of the recovery of financing costs between the FMCA and the deferred costs. He stated the OUCC's method uses the AFUDC rate to calculate the financing costs to be deferred in the 20% Bucket while the financing costs to be recovered via the FMCA Mechanism is calculated using the WACC rate. This approach is inconsistent with the rule of thumb that once an asset is placed into service, the WACC rate should apply.

Finally, with respect to the OUCC's suggestion that it is inappropriate for the AFUDC and post-in-service AFUDC that will be deferred to be grossed up for taxes, Mr. Isensee testified that Ind. Code § 8-1-8.4-7(c)(2) provides that an energy utility shall defer and recover 20% of the approved federally mandated costs related to approved compliance projects, including, but not limited to, post-in-service carrying charges and tax costs. He explained that when a utility defers for future recovery 20% of post-in-service carrying charges, the utility will record a journal entry that credits the income statement and debits a regulatory asset. Mr. Isensee stated this journal entry creates income on the utility's books, which triggers the need to record a tax expense accrual related to such amounts. Mr. Isensee explained that when NIPSCO seeks a gross-up for taxes on the AFUDC, NIPSCO is simply seeking to defer on the balance sheet the tax expense recorded as a

result of deferring 20% of the post-in-service carrying charges. He stated the deferral of this expense is simply a bookkeeping adjustment and has no impact on the amount customers will pay. Mr. Isensee stated NIPSCO will seek recovery for these amounts in its next general rate case and will adjust these amounts upward or downward if there is a change in the statutory tax rates related to the amounts. Therefore, Mr. Isensee testified NIPSCO is seeking approval to defer as a regulatory asset and recover in NIPSCO's next general rate case all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs.

Based on the evidence presented, we find that NIPSCO's approach, which builds a revenue requirement on 100% of the capital expenditures in order to calculate a revenue requirement for the financing costs and then splits that revenue requirement 80/20, is the better approach because it leads to consistent treatment of the 80% Bucket and 20% Bucket. It is more appropriate to split the revenue requirement 80/20 rather than each individual CIP Compliance Project asset. Further, similar to our findings above, we find that the OUCC's proposal to accrue post-in-service AFUDC is not permitted by FERC or GAAP accounting rules and should not be adopted for the 20% deferred amount. We find that once a CIP Compliance Project asset is placed into service, AFUDC should cease and carrying charges at the WACC rate should apply.

With respect to whether NIPSCO should be authorized to calculate ongoing carrying charges on the deferred depreciation and O&M expenses, we find that the evidence presented supports NIPSCO's request to calculate ongoing carrying charges on deferred depreciation and O&M expenses. The federally mandated cost statute provides for ongoing carrying charges on the deferred federally mandated costs. This statutory policy makes sense because, as the evidence shows, NIPSCO will have to acquire additional capital on an ongoing basis to carry (and continue carrying) the uncollected 20% deferred balance. Consistent with the statute, NIPSCO would carry those costs at its WACC. Mr. Isensee testified during the evidentiary hearing that NIPSCO incurs post-in-service carrying charges on the deferred depreciation expense. He testified that it represents 20 percent of NIPSCO's initial cash outlay related to the investments and as long as that cash is tied up on the balance sheet, NIPSCO is incurring and paying real carrying charges on that amount until those amounts are recovered through rates. If NIPSCO were not permitted to record ongoing carrying charges on the deferred depreciation and O&M expenses, NIPSCO would recover something less than all of the federally-mandated costs, which would be inconsistent with the statute. Therefore, we approve NIPSCO's request to calculate ongoing carrying charges on deferred depreciation and O&M expenses.

Finally, with respect to whether deferred post-in-service carrying costs should be grossed up for taxes, we find the evidence demonstrates that NIPSCO should be authorized to defer as a regulatory asset and recover in NIPSCO's next general rate case all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs. This is appropriate because deferring 20% of post-in-service carrying charges for future recovery will cause NIPSCO to record a journal entry that credits the income statement and debits a regulatory asset which will create income on NIPSCO's books and will trigger the need to record a tax expense accrual related to such amounts. Ms. Gruca acknowledged that, in NIPSCO's next rate case, the return would be grossed up for taxes. The evidence demonstrates that NIPSCO will make a bookkeeping adjustment now to defer the tax expense on the balance sheet, but NIPSCO will not gross up the deferred carrying charges again in the next rate case (other than making any necessary adjustments to these amounts if there is a change in the statutory tax rates related to the amounts).

NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the CIP Compliance Project and NIPSCO may recover the deferred costs in its next general rate case as allowed by Ind. Code § 8-1-8.4-7(c)(2). NIPSCO is authorized to record ongoing carrying charges based on the current overall WACC on all deferred federally mandated costs including deferred depreciation and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case. NIPSCO is authorized to defer as a regulatory asset and recover in its next general rate case all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs.

4. **Depreciation Treatment.** NIPSCO requests authority to depreciate the individual projects included in the CIP Compliance Project according to proposed depreciation lives and rates set forth in the testimony of Mr. Gutierrez and Ms. Camp. Ms. Camp testified that NIPSCO does not have any similar assets to the assets being placed into service related to the CIP Compliance Project. Therefore, these types of assets were not studied by NIPSCO's depreciation witness in Cause No. 43969, NIPSCO's last general electric rate case. She testified that the proposed depreciation rates for each class of asset are based on the useful life determined by Mr. Gutierrez. She stated that all federally mandated capital assets included in the CIP Compliance Project will be classified in an electric plant account and depreciated based on the following rates:

Asset Group	Useful Life	Depreciation Rate
Communication Equipment –Video	3 years	33.33%
Communication Equipment -Door locks	5 years	20.00%
Structure and Improvements	7 years	14.29%
Hardware	4 years	25.00%

Ms. Gruca testified that NIPSCO's determination of useful lives and depreciation rates calculation based on these useful lives seems reasonable.

Based on the evidence presented, we find that NIPSCO's proposal to depreciate the individual projects included in the CIP Compliance Project based on the depreciation rates set forth above is reasonable.

C. **Ongoing Review.** NIPSCO requests ongoing review of the CIP Compliance Project as part of its FMCA Mechanism semi-annual filings. Mr. Caister testified that NIPSCO plans to include the following information in its FMCA Mechanism semi-annual filings: (1) information supporting proposed revised FMCA Mechanism factors including actual capital expenditures during the relevant period, forecasted expenses for the relevant period, and a reconciliation of prior period revenues and costs; (2) updated information regarding project list and scope, schedules, and costs for the individual projects included in the CIP Compliance Project or other approved projects; and (3) other information that the Commission finds important for purposes of explaining the progress of the CIP Compliance Project. Mr. Caister explained that NIPSCO expects this information to be comparable to the information provided in its progress reports in its environmental project updates in its Cause No. 42150-ECR filings.

Ms. Gruca noted the nature of this proceeding is entirely different from other CPCN proceedings due to the security issues involved. She stated NIPSCO's CIP Compliance Project

information requires highly confidential treatment and changes to federal CIP guidelines and requirements are forthcoming, which may require changes within an adjustment mechanism. Ms. Gruca testified the OUCC and NIPSCO have agreed to conduct at least one face-to-face meeting to develop a standard audit package for the FMCA Mechanism, similar to what has been done in other tracker filings, which may include additional supporting information and/or work papers.

Based on the evidence presented, we approve NIPSCO's request for ongoing review of the CIP Compliance Project as part of its FMCA Mechanism semi-annual filings. While Ind. Code ch. 8-1-8.4 does not contain an explicit provision for ongoing review, we find that the proposed ongoing review described by Mr. Caister is reasonable and will provide useful information to the Commission and the OUCC.

D. Reporting Requirements. Mr. Keen testified that the OUCC recommends the Commission adopt a three-phase reporting and monitoring concept for CIP-related programs and projects, which should be applicable to all utilities.

Phase I would include the creation of a checklist detailing mandatory regulatory compliance requirements and activities utilities must complete. The checklist would be a Yes/No/Not Applicable style checklist. He stated checklist steps would be developed to ensure the utility has accomplished key components of contingency and/or emergency operations planning, threat analysis and/or compliance with additional federal and/or state critical infrastructure protection mandates on an annual basis. He opined that the utility industry would see value in this type of checklist as an aid in validating that all activities and requirements are accomplished in the face of increasing compliance requirements from multiple agencies at the federal, state and even local levels.

Phase II would include the development of a certification form in a collaborative effort by the Commission and other interested parties to be completed by the utility on an annual basis for each asset that has mandated (federal, state, and/or local) CIP compliance requirements imposed on it. The completed form would be provided to the Commission electronically and would certify that the utility has completed the checklist described in Phase I and is in compliance with all applicable CIP requirements. Mr. Keen recommended that a minimum of five individuals within each utility should sign the Phase II certification form.

Phase III would include the development of a semi-annual reporting mechanism to afford the Commission and other agencies awareness of the status of each utility's CIP assets without providing specific information about that asset that could be deemed valuable to adversarial entities. The OUCC's proposed reporting mechanism concept is based on a Threat vs. Vulnerability matrix format with a multi-input-based Green (100% compliance), Yellow (a threat or vulnerability issue does exist), and Red (the asset is not secure or the threat environment is at an increased or dangerous level) reporting scheme. The matrix would take into account a variety of factors such as Facility Security, Threat Environment (Local, Regional, National and International), Upstream/Downstream Factors, NERC Compliance Issues, etc. Mr. Keen testified that the OUCC believes it is important that the Commission maintain some type of minimal oversight of programs and projects it approves for CIP-related activities. He opined that the OUCC's proposed Phase III reporting concept is a simple, logical, and well designed balance between necessary oversight and the utility's need to respond to compliance requirements without undue and burdensome regulatory reporting.

In rebuttal, Mr. Gutierrez stated that NIPSCO's compliance with the CIP requirements is already subject to a comprehensive federal monitoring and enforcement program that includes: annual self-certifications, periodic compliance audits, spot checks, self-reporting obligations for potential non-compliance, periodic data submittals, and potential compliance investigations. In addition, NIPSCO, like any other public utility, is potentially subject to audit of compliance with the reliability standards by FERC under FERC's general auditing powers. Reporting and auditing requirements under the NERC Compliance Monitoring and Enforcement Program already create a substantial burden on NIPSCO's resources.

Mr. Gutierrez stated that if the Commission believes it would be useful and necessary to have an annual update on the status of CIP compliance, NIPSCO would propose an annual compliance filing in this Cause that does not create an additional burden on NIPSCO's resources and does not potentially conflict with the existing extensive federal monitoring and enforcement program. In particular, NIPSCO proposes an annual compliance filing on a schedule coordinated with the existing reporting requirements under the NERC Compliance Monitoring and Enforcement Program so that the reporting does not overly burden resources necessary to meet federal program requirements. NIPSCO further requests that the Commission not impose a reporting requirement that could potentially conflict with FERC regulations and NERC rules on the nondisclosure of CIP information. Mr. Gutierrez explained that absent specific direction from FERC, NIPSCO is prohibited from disclosing information regarding potential or alleged violations of the CIP standards under 18 C.F.R. §39.7 (2013). He stated that a reasonable annual compliance filing on the status of CIP compliance would be an annual compliance filing that answers three questions: (1) Are you aware of any incidents or observations of noncompliance relating to the CIP Compliance Project approved in Cause No. 44340 during the Reporting Period? (2) Have there been any changes to the NERC CIP Reliability Standards during the Reporting Period impacting the CIP Compliance Project? (3) Did NIPSCO pay any fines or penalties relating to the CIP Compliance Project approved in Cause No. 44340 during the Reporting Period? He explained that this annual compliance filing would be completed and signed by NIPSCO's CIP Senior Manager. Mr. Gutierrez testified these three questions reasonably update the Commission on NIPSCO's compliance status without revealing confidential information about critical cyber assets. He stated in combination with the information that NIPSCO will provide in the FMCA Mechanism semi-annual filings, these questions will allow the Commission to maintain oversight over the proposed federally mandated CIP Compliance Project.

Mr. Gutierrez testified that NIPSCO opposes all three proposed phases of the OUCC's reporting and monitoring concept because they are burdensome, unnecessary, and unworkable. NIPSCO has committed to provide updated information regarding project list or scope, schedules and costs for the individual projects included in the CIP Compliance Project in its FMCA Mechanism semi-annual filings. He stated this will provide the Commission with the same level of oversight of these projects as is provided for NIPSCO's qualified pollution control property in Cause No. 42150-ECR-X. Further, to the extent the Commission believes it is necessary to have an annual update on the status of CIP compliance, Mr. Gutierrez testified that NIPSCO would propose a three-question annual compliance filing to meet that need.

Based on the evidence presented, we decline to adopt the OUCC's proposed three-phase reporting and monitoring concept. The evidence demonstrates that NIPSCO is already subject to a comprehensive monitoring and enforcement program by FERC, NERC, and ReliabilityFirst Corporation, NIPSCO's Regional Entity. The proposed three-phase reporting and monitoring

concept would create a significant additional burden on NIPSCO. However, we do believe the Commission and stakeholders should be kept informed as to the status of the CIP Compliance Project. We find that NIPSCO's proposal to include updated information regarding the project list and scope, schedules, and costs for the individual projects included in the CIP Compliance Project in its FMCA Mechanism semi-annual filings is an appropriate way to accomplish this.

E. **First FMCA Filing.** NIPSCO shall file its first FMCA on May 1, 2014, under Cause No. 44340 FMCA 1. The filing will be based on capital costs actually incurred through March 31, 2014 and forecasted expenses through January 31, 2015. The first FMCA Mechanism factors would become effective on August 1, 2014.

F. **Confidentiality.** NIPSCO filed a motion for protective order which was supported by affidavit showing documents to be submitted to the Commission contained records or parts of records, the public disclosure of which would have a reasonable likelihood of threatening public safety by exposing vulnerability to terrorist attack and therefore may be exempted from public disclosure in accordance with Ind. Code §§ 5-14-3-4(b)(19)(A) and 8-1-2-29. The Presiding Officers issued a Docket Entry on May 28, 2013 finding such information to be preliminarily confidential, and the confidential information was submitted under seal. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. NIPSCO is issued a Certificate of Public Convenience and Necessity for the CIP Compliance Project pursuant to Ind. Code ch. 8-1-8.4. This Order constitutes the Certificate.
2. The NERC Critical Infrastructure Protection Reliability Standards as approved by the FERC constitute federally mandated requirements as defined by Ind. Code § 8-1-8.4-5.
3. The CIP Compliance Plan Projects constitute compliance projects as that term is defined in Ind. Code § 8-1-8.4-2, and the costs incurred in connection with the CIP Compliance Plan Projects are federally mandated costs as that term is defined in Ind. Code § 8-1-8.4-4. The federally mandated costs are eligible for the ratemaking treatment described in Ind. Code § 8-1-8.4-7.
4. NIPSCO's cost estimates for the CIP Compliance Plan Projects set forth above are approved.
5. NIPSCO is hereby authorized to implement its FMCA Mechanism pursuant to Ind. Code §§ 8-1-8.4-7 and 8-1-2-42 to effectuate the timely and periodic recovery of 80% of the federally mandated costs.
6. NIPSCO's proposed changes to its electric service tariff relating to the proposed FMCA Mechanism, including the proposed Rider 687 and Appendix I and the proposed changes to Appendix A are approved.

7. NIPSCO is authorized to recover 80% of the approved federally mandated costs incurred in connection with the CIP Compliance Plan Projects through the proposed FMCA Mechanism pursuant to Ind. Code § 8-1-8.4-7 including capital, operating, maintenance, depreciation, taxes, financing, and carrying costs based on its current overall weighted average cost of capital and AFUDC rate.
8. NIPSCO is authorized to utilize construction work in progress ratemaking treatment for the CIP Compliance Project through the proposed FMCA Mechanism.
9. NIPSCO is authorized to accrue AFUDC relating to the CIP Compliance Project until such time as the CIP Compliance Projects are placed into service or receive ratemaking treatment.
10. NIPSCO is authorized to defer post-in-service costs of the CIP Compliance Project, including carrying costs based on its current overall weighted average cost of capital, depreciation, taxes, and operating and maintenance expenses on an interim basis until such costs are recognized for ratemaking purposes through NIPSCO's proposed FMCA Mechanism or otherwise included for recovery in NIPSCO's base rates in its next general rate case.
11. NIPSCO is authorized to defer and recover through NIPSCO's proposed FMCA Mechanism any federally mandated costs, including but not limited to federally mandated costs incurred prior to and after approval of a final Order in this proceeding to the extent that such costs are reasonable and consistent with the scope of the CIP Compliance Project described in NIPSCO's evidence.
12. NIPSCO is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the CIP Compliance Project for purposes of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42(g)(3) as allowed under Ind. Code § 8-1-8.4-7(c)(1).
13. NIPSCO's proposed cost allocation factors are approved.
14. NIPSCO is authorized to defer 20% of the federally mandated costs incurred in connection with the CIP Compliance Project for recovery in its next general rate case.
15. NIPSCO is authorized to record ongoing carrying charges based on its current overall weighted average cost of capital on all deferred federally mandated costs including deferred depreciation and O&M expenses until the deferred federally mandated costs are included for recovery in NIPSCO's base rates in its next general rate case.
16. NIPSCO is authorized to defer all tax expenses recorded as a result of the deferral of 20% of all federally mandated costs for recovery in its next general rate case.
17. NIPSCO is authorized to depreciate the individual projects included in the CIP Compliance Project according to depreciation rates set forth above.

18. NIPSCO's request for ongoing review of the CIP Compliance Plan Projects as part of NIPSCO's FMCA Mechanism semi-annual filings is approved.
19. The information filed by NIPSCO in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.
20. This Order shall be effective on and after the date of its approval.

ATTERHOLT, MAYS, AND ZIEGNER CONCUR:

APPROVED: **JAN 29 2014**

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


Brenda A. Howe
Secretary to the Commission