

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

**IN RE THE COMMISSION'S INVESTIGATION)
OF THE RATES AND CHARGES FOR ELECTRIC)
SERVICE PROVIDED BY NORTHERN INDIANA)
PUBLIC SERVICE COMPANY PURSUANT TO)
INDIANA CODE 8-1-2 ET SEQ., INCLUDING,)
BUT NOT LIMITED TO, I.C. 8-1-2-42.5, 8-1-2-58,)
8-1-2-59, 8-1-2-68 AND 8-1-2-73.)**

CAUSE NO. 41746

REPLY TESTIMONY

OF
BRUCE EDWARD BIEWALD,
PRESIDENT OF SYNAPSE ENERGY ECONOMICS, INC.

ON BEHALF OF
CITIZENS ACTION COALITION OF INDIANA

Filed: July 17, 2002

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION
CAUSE NO. 41746**

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OF
BRUCE EDWARD BIEWALD**

Background and Experience

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Bruce Edward Biewald. I am owner and president of Synapse Energy Economics Inc., a consulting firm located at 22 Pearl Street in Cambridge, Massachusetts.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying on behalf of Citizens Action Coalition of Indiana (CACI).

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.

A. I have twenty years of experience advising state agencies, consumer and environmental advocates, utilities and others on issues related to the production and consumption of energy. I have testified in more than eighty cases in utility regulatory proceedings in twenty-five states, and two Canadian provinces. I have co-authored approximately one hundred reports, including studies for the Electric Power Research Institute, the U.S. Department of Energy, the U.S. Environmental Protection Agency, the Office of Technology Assessment, the New England Governors' Conference, the New England Conference of Public Utility Commissioners, and the National Association of Regulatory Utility Commissioners. My papers have been published in the Electricity Journal, Energy Journal, Energy Policy, Public Utilities Fortnightly, and numerous conference proceedings.

My work in the last five years includes consulting projects dealing with electric industry restructuring, stranded costs, system benefits, market power, mergers and acquisitions, generation asset valuation and divestiture, rate cases, power plant costs and performance, power supply contracts and performance standards, electric power system reliability, and electricity market simulation modeling for price forecasting and market power analysis.

Prior to founding Synapse, I was with Energy Systems Research Group

(later Tellus Institute) where I consulted on a wide range of electric system regulatory and economic issues. I have a B.S. from the Massachusetts Institute of Technology where I studied Architecture, Building Technology, and Energy Use in Buildings.

My consulting work in the last year has included projects for the U.S. Department of Justice, the U.S. Environmental Protection Agency, Utility Regulatory Commissions (in Arizona and Nevada), Attorneys General (in Maine, Massachusetts, and Rhode Island), State Consumer Advocates (in Connecticut, Delaware, District of Columbia, Maryland, New Hampshire, New Jersey, Pennsylvania, and Vermont), and others. My complete resume is provided as Exhibit BEB-1.

Summary

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. My testimony addresses particular aspects of the Settlement Agreement that are discussed in the Supplemental Direct Testimony of David J. Vajda, of Northern Indiana Public Service Company (“NIPSCO”), dated July 8, 2002. I also comment on the Testimony of Timothy J. Geswein for the Office of Utility Consumer Counselor (“OUCC”).

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS WITH REGARD TO MR. VAJDA’S TESTIMONY.

A. There are specific aspects of the Settlement Agreement that are quite problematic from a customer perspective. Mr. Vajda’s presentation fails to present a full and accurate picture of the Settlement. Specifically, the Settlement:

- jeopardizes service quality,
- does not provide for stable prices,
- does not guarantee the bill credit,
- undermines over earnings protection,
- is not traditional regulation, and
- reflects no extraordinary or exemplary commitment to the environment or economy of NIPSCO’s service territory.

I will explain each of these points below.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS WITH REGARD TO MR. GESWEIN’S TESTIMONY?

A. Mr. Geswein’s testimony in support of the Settlement Agreement discusses his risk analysis regarding expected outcomes of the case. At

this late stage of the case, such an analysis is of limited probative value. Moreover, Mr. Geswein's analysis is quite simplistic and takes a rather unrealistic and decidedly pessimistic view of the likely outcomes. Moreover, it treats the bill credit as if it were an actual rate reduction and guaranteed. It also overlooks completely the potential value that there would be in a NIPSCO rate investigation during the next four years, particularly an investigation addressing the NiSource merger with Columbia Energy Group. I will address these flaws in Mr. Geswein's testimony, after addressing each of the points relevant to Mr. Vajda's testimony.

The Settlement Jeopardizes Service Quality

Q. IS THE SETTLEMENT AGREEMENT LIKELY TO AFFECT SERVICE QUALITY FOR NIPSCO'S CUSTOMERS?

A. Yes, the Settlement Agreement is likely to jeopardize service quality for NIPSCO customers. On page 10, beginning at line 11, Mr. Vajda discusses the Settlement Agreement's provisions for an Electric Service Reliability Incentive Ratemaking Mechanism ("ESRIM"). The Settlement Agreement calls for a meeting and attempt to cooperatively design an ESRIM within 180 days. This hypothetical ESRIM proposal would then be submitted to the IURC for approval. If the parties do not agree, then the Settlement Agreement calls for NIPSCO to file its own proposal 45 days thereafter.

There is very little of substance here. According to Mr. Vajda if NIPSCO and the OUCC do not agree about the ESRIM, then the Parties will have the right to react to NIPSCO's proposal in any manner they choose (page 10). Mr. Vajda also acknowledges (p. 10) that there have "not been any discussions to date regarding the structure of ESRIM." Thus, this provision of the Settlement can offer no current comfort to those who may be concerned about NIPSCO's service quality and reliability. There is no assurance that even seven months from now any more will have been accomplished than the filing for further litigation of an incentive proposal designed by NIPSCO and unacceptable to its customers.

Q. WHAT REASONS ARE THERE TO BE CONCERNED ABOUT NIPSCO SERVICE QUALITY AND RELIABILITY IF THE SETTLEMENT IS APPROVED?

A. Synapse Energy Economics prepared a November 1997 report for the National Association of Regulatory Utility Commissioners on "Performance-Based Regulation in a Restructured Electric Industry." In that report, we stated that "Unfettered incentives to reduce costs could result in unacceptable declines in service quality" (page 37) and discussed

the need for performance-based regulation plans to include customer-specific rebates for events such as missed appointments and service quality indices related to customer complaints, outage frequency, outage duration, major outage recovery, momentary outage frequency, and employee safety (pages 46 and 47).

The structure of the Settlement Agreement is such that NIPSCO will have a strong incentive to cut costs and increase revenues. During the 49 month period of the Settlement, it appears that any reductions realized in NIPSCO's costs or increases experienced in its revenues could be paid to its parent NiSource as dividends. With NiSource's financial situation following the Columbia Energy acquisition, there is considerable pressure for this to occur. Indeed, NIPSCO has already announced facility closings and personnel reductions that have been widely perceived to have negative quality of service implications. The Settlement simply provides no comparable pressure or incentive for NIPSCO to provide acceptable levels of customer service and reliability.

Q. WHY DOES NISOURCE'S FINANCIAL SITUATION PUT PRESSURE ON NIPSCO TO PAY DIVIDENDS TO ITS PARENT?

A. There are several inter-related reasons. First, NiSource paid a very substantial premium above book value and issued considerable debt – much of it relatively short term – to acquire Columbia Energy Group in November, 2000. While NiSource has sold certain assets, notably the Indianapolis Water Company, to generate cash to pay down this debt, it is still quite large in relation to the NiSource earnings and cash flow available to service it. The major debt security rating agencies have recognized this recently.¹

Second, NiSource has previously announced plans to issue additional equity to generate cash to retire debt, but market conditions for new stock issues are decidedly unfavorable at present and are likely to remain so for the foreseeable future.

Finally, in conjunction with the Columbia Energy acquisition, NiSource booked \$3.8 billion in goodwill. This represents approximately 22% of its assets. Subsequently, in June 2001, the Financial Accounting Standards Board changed the rules for accounting for goodwill with the issuance of SFAS No.142. NiSource adopted the new rules effective January 1, 2002.

As a result, NiSource no longer amortizes good will. Instead, it must periodically evaluate whether the good will it has on its books is impaired. While NiSource management has apparently yet to make any such determination, the changed accounting rules have resulted recently in a number of energy industry companies – including AES, the parent of Indianapolis Power & Light Company – declaring large good will

¹NiSource 2001 Annual Report, at p. 18.

impairment losses.²

In combination, these factors put considerable pressure on NiSource to maximize the payment of dividends from NIPSCO.

The Settlement Does Not Provide for Stable Prices

Q. WILL THE SETTLEMENT PROVIDE FOR STABLE PRICES?

- A. No. On page 12 of his testimony, beginning at line 1, Mr. Vajda states that the Settlement Agreement “will give NIPSCO and its customers base rate stability for four years, at a minimum” and goes on to extol the benefits of price stability for customers’ ability to plan. This is greatly overstated, since the Settlement only stabilizes base rates, leaving open the possibility of increases in bills that customers would pay through the fuel adjustment clause, the purchased power tracker, and the environmental tracker. In order to actually provide stable prices, it would be important to cap all or at least more of the costs that NIPSCO might attempt to collect from its customers. The costs in the fuel adjustment clause, purchased power tracker, and environmental tracker could be quite large.

²Electric Utility Week, April 29, 2002, “ 'Goodwill' Proves Ill as Impairment Charges Hit \$ 2.03b in First Quarter.”

For example, NIPSCO's environmental compliance costs have been estimated at up to \$280 million over the next several years.³ Most recently, the Company has projected in its testimony in Cause No. 42150 near-term compliance costs of approximately \$235 million.⁴ The NiSource 2001 Annual Report states that the Company projects NOx SIP Call compliance capital costs, alone, to amount to \$200 to \$300 million over the next two years.⁵

Or, if NIPSCO were to sell some of its owned generating capacity along the lines of proposals reported in the trade press⁶ and purchase the replacement power that would then be required, the costs recovered through the purchased power tracker could increase dramatically. Similarly, volatility in the fuel or wholesale power markets could cause significant increases in the fuel adjustment clause and purchase power tracker, respectively.

Q. ARE YOU AWARE OF ANY SITUATIONS IN WHICH THE COSTS OF WHOLESALE POWER PURCHASES CAUSED DRAMATIC RATE INCREASES?

A. Yes. Recently I was hired to testify in two cases in Nevada in which purchased power costs were quite large. Specifically, Nevada Power Company and Sierra Pacific Power Company (two operating companies of Sierra Resources) incurred purchased power costs in excess of \$1 billion during the period March 1, 2001 through September 30, 2001. Even with a large portion of these costs disallowed by regulators, customers in Nevada have experienced significant increases in rates.

The Settlement's Bill Credit is not Guaranteed

³Utility Environmental Report, January 11, 2002, "NIPSCO Seeks Environmental Cost Tracker to Recoup Emissions Upgrades."

⁴Direct Testimony of Robert D. Cook, Ex. RDC-1, p. 15 of 15, l. 1 to 5.

⁵NiSource 2001 Annual Report, at pp. 38-39.

⁶Global Power Report, March 14, 2002, "Duke Energy Bids to Buy 3,000 MW in Indiana from NIPSCO for \$ 1.9-bil."

Q. IS THE CREDIT IN THE SETTLEMENT AGREEMENT GUARANTEED?

A. No. Mr. Vajda refers to the \$225 million bill credit over the term of the Settlement Agreement as “guaranteed” (page 3, line 16; page 5, line 3; page 5, line 19; and page 10, line 15). It is not, in fact, guaranteed. First, the Settlement provides for NIPSCO to initiate an emergency filing (page 3 of the Settlement Agreement). Second, NIPSCO may collect additional funds from customers as a result of the fuel adjustment clause, the purchased power tracker, and the environmental tracker. These could offset, in part, in whole, or even more than in whole, the total dollar amount of the bill credit. Finally, while the total dollar amount of the bill credit for all customers is fixed, the bill credit for any individual customer can vary both in absolute size and percentage depending on changes in the total revenues to which it is applied.

Q. IS AN EMERGENCY FILING BY NIPSCO A POSSIBILITY DURING THE NEXT FOUR YEARS?

A. Obviously, NIPSCO considers it a possibility, or it would not have negotiated such a contingency into the Settlement as the basis for terminating the bill credit. This contingency seems particularly noteworthy because the Settlement has no comparable provision to allow its consumer parties to claim an emergency as the basis for seeking any additional credit or rate reduction over the next four years. In light of NiSource’s financial condition, the depressed state of the capital markets, and the recent volatility of the energy markets, such a contingency must be considered more than a remote possibility over the next four years.

The Settlement Undermines Over Earning Protection

Q. DOES THE SETTLEMENT AFFECT CUSTOMER PROTECTIONS AGAINST NIPSCO OVER EARNING?

A. Yes, it does. Indeed, the Settlement appears designed to eliminate essentially any protection for customers against over earning by NIPSCO for at least the next four years. It does this in three ways.

In the first place, it precludes the signatory customer parties from either initiating themselves or assisting any other person or entity in initiating a proceeding to reduce NIPSCO rates or increase the bill credit during the next 49 months. Second, it allows NIPSCO to use the net operating income authorized in the Commission’s July 15, 1987 order in Cause No. 38075 for purposes of the “earnings test” in fuel adjustment charge (“FAC”) proceedings. Third, the settlement permits NIPSCO to retain for FAC purposes the “earnings bank” (over \$300 million) it has accumulated over the past fifteen years.

Q. WHY IS THE PROHIBITION ON SIGNATORY PARTIES INITIATING OR ASSISTING IN A RATE INVESTIGATION SIGNIFICANT?

A. This prohibition apparently applies irrespective of any other circumstance which may occur during that time, even an emergency, and irrespective of the actual level of NIPSCO over earning during the period. This prohibition is particularly significant because it applies to the OUCC. While a non-signatory to the Settlement, such as CACI, could still in theory initiate a proceeding to reduce NIPSCO rates, the current case illustrates how critical the role and resources of the OUCC are as a practical matter to prosecuting such a case successfully to conclusion.

Q. WHAT IS THE SIGNIFICANCE OF THE SETTLEMENT'S STIPULATION FOR FAC PURPOSES OF THE NET OPERATING INCOME AUTHORIZED IN THE JULY 15, 1987 ORDER IN CAUSE NO. 38075?

A. There is an "earnings test" in the Indiana fuel cost adjustment procedure which requires reduction of a proposed FAC to the extent it would result in cumulative over earnings by a utility. The first step in this "earnings test" is a determination of whether the utility's actual net operating income for the prior twelve months exceeded the authorized net operating income in the utility's last rate case. Authorized net operating income for "earnings test" purposes would be significantly lower if new rates were established in this proceeding than if the 1987 rates continued to be used. For example, the authorized net operating income level recommended by the IURC Staff (\$156 million) is approximately \$69 million less than the 1987 level (\$225 million). Even if the proposed bill credit of \$55 million annually was converted into a rate reduction, authorized net operating income for FAC purposes would be reduced by approximately \$33 million per year.

Q. WHY IS THE RETENTION FOR FAC PURPOSES OF THE "EARNINGS BANK" ACCUMULATED UNDER THE 1987 ORDER SIGNIFICANT?

A. The second step in the "earnings test" employed in the FAC process is to determine whether any over earnings during the prior twelve months results in cumulative over earnings for the "relevant period." The "relevant period" is the five preceding years or the entire period since a utility's last rate case, whichever is longer. In NIPSCO's case, the choice of the "relevant period" is very significant. If the last five years are used, NIPSCO has cumulative over earnings of approximately \$311 million. By contrast, if the past fifteen years are used, NIPSCO has cumulative under earnings of approximately \$306 million.

Q. WHAT IS THE BASIS FOR YOUR STATEMENT THAT THE CURRENT "EARNINGS BANK" HAS ACCUMULATED \$306 MILLION OF NET

UNDER EARNINGS OVER THE PAST FIFTEEN YEARS?

- A. That figure is based upon NIPSCO's Exhibit 2-C in Cause No. 38706-FAC55, the Company's most recent fuel adjustment clause case. I have reproduced that exhibit and attach it as Exhibit BEB-2 for convenience.

Q. AND WHAT IS THE BASIS FOR THE FIGURE OF \$311 MILLION IN NET OVER EARNINGS OVER THE LAST FIVE YEARS?

- A. That figure is my calculation based upon the quarterly information from NIPSCO in Exhibit BEB-2. I simply entered the fuel clause under and over earnings information for each FAC period beginning with FAC 36 in 1997, and recomputed the cumulative amount. This calculation is presented in Exhibit BEB-3. Because NIPSCO shows under earnings in the FAC cases up through the beginning of 1998, and significant over earnings after that point, the starting point for the bank is quite significant.

Q. COULD YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE DIFFERENCE IN FUTURE CUSTOMER RATES RESULTING FROM DIFFERENCES IN LEVEL OF AUTHORIZED NET OPERATING INCOME AND THE SIZE AND SIGN OF THE "EARNINGS BANK" WHICH YOU HAVE DESCRIBED?

- A. Yes, I can. Assume that, in its next FAC proceeding, NIPSCO reports actual net operating income for the prior twelve months of \$235 million (as it did in its most recent FAC, FAC-55). Using the 1987 net operating income of \$225 million, NIPSCO would have over earnings for the prior year of \$10 million but would refund none of it during the next FAC period to its customers because the most recent over earnings would still leave cumulative net under earnings of \$296 million in NIPSCO's "earnings bank." By contrast, using the Staff-recommended net operating income of \$156 million,⁷ NIPSCO would have annualized over earnings of \$79 million and would refund \$19.75 million (one-fourth of the annual amount) during the next quarterly FAC period because its "earnings bank" for the "relevant period" would have a positive balance. Similarly, using the authorized net operating income of approximately \$192 million implied by converting the bill credit to a \$55 million annual rate reduction, NIPSCO would have over earnings of \$43 million and would refund \$11.75 million to its customers if its rates were reset and its "earnings bank" recalculated in this cause.

In light of NIPSCO's over earning experience over the past four years, this example could be repeated again and again over the next four years. In my opinion, it would be realistic to expect that setting new rates and

⁷Direct Testimony of Michael E. Gallagher, at p. 4.

recalculating the “earnings bank” could actually make a difference of \$300 million in the amount of over earning NIPSCO refunds to its customers over the next four years.

The Settlement is Not Traditional Regulation

Q. IS THE REGULATION AS PROVIDED FOR IN THE SETTLEMENT “TRADITIONAL REGULATION”?

- A. No. The Settlement Agreement cannot reasonably be called “traditional regulation” as Mr. Vajda does at page 8, lines 15 to 19, of his testimony. Traditional regulation would generally set rates based upon a utility’s current, allowable cost of service, not its allowed cost of service fifteen years ago. By keeping the base rates and other ratemaking parameters from the Commission’s July 15, 1987 Order in Cause No. 38045, the Settlement does not follow traditional regulation. It bases rates not on a recent, representative test year, but rather upon a test year ending December 31, 1985 – almost seventeen years ago.

Moreover, with the Settlement, NIPSCO’s rates are subject to various one-sided provisions favoring the utility that cannot reasonably be called “traditional.” These include the preclusion of customer parties, including the OUCC, from filing for a rate decrease for a four-year period, no matter what the circumstances, while permitting the Company to seek substantial rate increases during the same period through such provisions as the environmental and purchased power cost trackers. “Traditional” regulation requires a more even-handed balancing of customer and utility interests.

NIPSCO’s Commitment to the Economy and Environment under the Settlement is Not Extraordinary or Exemplary

Q. IS NIPSCO’S COMMITMENT UNDER THE SETTLEMENT AGREEMENT TO THE ECONOMY AND ENVIRONMENT OF ITS SERVICE TERRITORY IN ANY WAY EXTRAORDINARY OR EXEMPLARY?

- A. No. On page 13, at line 17, Mr. Vajda states that “it was the goal of the Parties to reiterate NIPSCO’s commitment to the economic growth and environmental well being of its service territory.” I really do not see anything about NIPSCO’s behavior or “commitment” to its customers that is extraordinary or exemplary in benefitting either the economy or the environment. Rather, NIPSCO has merely agreed to comply with the law, installing only emission controls as required, while recovering all of its costs plus a bonus on its return for using local coal.

What is extraordinary about the Settlement is NIPSCO's insistence upon over recovery relative to its actual cost-of service, by basing rates upon cost of service from the mid-1980s. What would actually promote economic growth in the NIPSCO service territory would be to set electricity prices at reasonable, current, cost-based levels.

The OUC's Risk Analysis is Simplistic, Unrealistic and Pessimistic

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF MR. GESWEIN'S TESTIMONY IN SUPPORT OF THE SETTLEMENT.

A. Mr. Geswein, Director of the Electric Division of the OUC, presents a very simple risk analysis of the possibilities in the event that the Commission entered its own rate order rather than accepting the Settlement. He assigns probabilities to the Commission adopting each of the rate reductions recommended by the four parties, and computes a weighted average as follows:

·	NIPSCO Position	24.5% increase x 20% probability = 4.9% increase
·	IURC Staff Position	11.6% decrease x 40% probability = 4.6% decrease
·	OUC Position	16% decrease x 20% probability = 3.2% decrease
·	CAC Position	19% decrease x 20% probability = 3.8% decrease
·		Expected Outcome

Mr. Geswein compares what he computes to be the Settlement Agreement credit of 6.5% (page 4, line 10) with his estimate of the expected outcome of the case – a decrease of 6.7% – and concludes that the Settlement is reasonable (page 11, line 8).

Mr. Geswein also provides a table of “some possible IURC rulings” that include the following (page 8):

- Averaging the high and low positions (impact = 2.7% increase)
- Averaging all positions (impact = 7.2% decrease)
- Averaging high position versus the average revenue decrease (impact = 4.7% increase)

And finally, Mr. Geswein also presents a sensitivity analysis with other probability weightings (page 10) which range from a decrease of 5.3% to a decrease of 6.2%. From these he concludes that “One should realize that regardless of how one might reasonably assign probabilities to the various positions, the Agreement's revenue reduction amount is reasonable.”

(Page 10, lines 4 to 6)

Q. DO YOU AGREE WITH THIS ANALYSIS OF EXPECTED OUTCOMES?

A. No. At this late stage of the case, which has been fully litigated and pending Commission order since January, an expected outcome analysis like that performed by Mr. Geswein should have limited probative value to the Commission. After all, the Commission would reasonably be expected to have prepared and reviewed, probably more than once, preliminary drafts of its final order. Indeed, I understand from Mr. Williams' testimony that a final order was posted on an agenda for consideration at a Commission conference in May, then pulled in deference to the ongoing settlement discussions among the parties. Thus, at this stage, the Commission should not have to guess with Mr. Geswein about the range and probabilities of possible outcomes for its own order. But, aside from its usefulness at this stage of the case, Mr. Geswein's analysis has other problems.

Mr. Geswein computes expected outcomes for nine different scenarios (his recommended approach, the three "possible IURC rulings," and the five sensitivity cases). All of these outcomes are evaluated by calculating weighted averages of the total positions of the parties, so do not address the values or probabilities associated with particular issues individually, the way that the IURC would actually prepare an order in the case. This is simply an incorrect application of decision analysis methodology.

Moreover, the weighted averages calculated by Mr. Geswein all put a substantial probability on NIPSCO prevailing with its entire request for a 24.5% rate increase. This outcome would appear to be very unlikely, given that NIPSCO's position entailed the application of a market-based cost-of-capital to a fair value ratebase, an approach to the return issue which OUCC witnesses Kaufman and Sheehan testified earlier in the case was not only unsound but had also been repeatedly rejected by the Commission. Mr. Geswein provides no empirical basis for now assigning a 20% probability to such an unlikely outcome. Indeed, it would appear that, to be consistent with prior OUCC testimony, the probability assigned to an outcome of NIPSCO receiving a 24.5% rate increase should be at or near zero. This would substantially increase Mr. Geswein's weighted average rate reduction.

In addition, Mr. Geswein's analysis of the Settlement ignores any potential customer benefits from a future rate investigation, particularly one relating to the NiSource merger with Columbia Energy Group. The Settlement would effectively preclude such an investigation. However, given recent Commission precedent, such as the AEP-CSW merger case in Cause No. 41210, it would appear plausible to expect that the Commission would require at least a 50-50 sharing with customers of merger savings and

synergies. CEO Gary Neale's Letter to Stockholders accompanying the 2001 NiSource Annual Report claims \$100 million in such savings and synergies on a total company basis for 2001 alone,⁸ the first full year following the merger. And, typically, annualized merger savings and synergies do not peak until the third year after a merger is consummated. So, such an investigation should have significant expected value to NIPSCO customers.

Mr. Geswein also fails to consider in any way a scenario in which NIPSCO invokes the emergency provision of the Settlement and the bill credit is terminated, even though this contingency is expressly contemplated by the Settlement. Such a scenario would reduce the expected value to customers of the settlement.

And, finally, Mr. Geswein's testimony makes some of the same mistakes that Mr. Vajda's testimony does. These include the failure to recognize the substantial difference in value to customers between the bill credit and a true rate reduction, assertion of rate stability (Geswein testimony, page 11, line 1) even though rates will almost certainly increase during the Settlement period, and characterization of the credit as "guaranteed" (Geswein testimony, page 4, line 9). Each of these factors reduce the value of the Settlement to NIPSCO customers. However, I will not describe these points in detail again, since I have already discussed them in the context of replying to Mr. Vajda's testimony.

Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?

A. Yes.

⁸At p. 3.