

2008 NIPSCO Electric Rate Case Frequently Asked Questions

It has been more than two decades since NIPSCO initiated a rate proceeding for review of its electric rates, so we understand that our customers may have questions about the rate case process – what it is, and what it may mean for their electric bill. We would like to provide facts to address common questions about our rate review. As you will see, this is a comprehensive and open process, with ample opportunity for customer and public input.

1. **What kind of increase is NIPSCO asking for?** Under the company's modified proposal on December 18, 2008, NIPSCO is seeking an overall 9.8 percent base rate increase to reflect the increased cost of operating the utility since its last electric rate case, as well as the addition of Sugar Creek electric generating facility.
2. **Why is NIPSCO requesting a change to its base rates?** It has been more than 20 years since NIPSCO has changed its electric base rates. Since that time we have managed costs to continue providing safe and reliable service for our customers, but the demand for electricity has continued to rise and the cost to provide service has increased.
3. **Why did NIPSCO remove the second step from the initial filing in August?** Since the Sugar Creek electric generating facility became available to serve customers sooner than the expected June 1, 2010 timeframe, a second step was no longer necessary. Instead, NIPSCO amended its proposal to include only one overall rate adjustment.
4. **How will residential customer bills change?** If approved by the IURC, a typical NIPSCO residential electric customer using 735 kilowatt-hours (kWh) would see an increase of approximately \$12.76 in their monthly electric bill.
5. **How long does a rate case last?** While NIPSCO's request will be filed in December, the IURC may not rule on the case for 12 to 18 months.
6. **When will the new rates go into effect?** After thorough review, which can take 12 to 18 months, the Indiana Utility Regulatory Commission (IURC) will make approve the new rates which would be effective in late 2009 or early 2010. In the previous two-step filing, the second step would have been implemented in June 2010, a short time after the first step
7. **In general, what are NIPSCO's goals for the rate case?** NIPSCO has three key policy objectives for the rate case:
 - **The charge for any service rendered is just and reasonable.** There should be a balance between the customer's desire for reasonable rates and the ability of the company to earn a reasonable return on its investment.

- **Rates should be easy to understand and administer.** Complicated tariffs and complex tariff options often require customers to find specialists to help them determine the most beneficial rate. NIPSCO proposes reducing the number of rate schedules and making them easier to understand.
- **Final rates need to consider broader public policy issues.** Today's public policy concerns are focused on the efficient use of energy and environmental concerns associated with the production of electricity. This rate case attempts to send customers accurate price signals about the cost implications of their consumption decisions. As we have seen with the rising cost of gasoline, customers are more careful with their use of their automobile when prices reach a certain level.

8. How will the IURC decide what NIPSCO's rates should be? In deciding how much revenue NIPSCO is allowed to earn, the IURC will have the opportunity to review NIPSCO's entire operation. A rate case includes all interested parties, including the Indiana Office of Utility Consumer Counselor (OUCC) which represents all customers, industrial customers, consumer advocates, political leaders and others who together review NIPSCO's filing and additional information that they request.

9. What types of costs is NIPSCO looking to recover in the rate case? Costs associated with generating, transmitting and delivering electricity to our customers' homes, providing a 24-hr customer service center, maintaining existing facilities, building new facilities like substations in growing areas and adding environmental equipment to comply with air and water quality standards, to name a few.

10. What is a current typical residential electric customer bill? A typical monthly bill for a residential electric customer is presently approximately \$81.68, based on using 735 kWh.

11. How do NIPSCO rates compare with those of other electric utilities? When you look at the average cost for residential electric service in the United States, NIPSCO's residential rates are consistent with the national average. Our rates are much lower than utilities in the east and west coasts of the United States, and we are among the lower rates for coal-powered utilities in the United States.

When comparing our rates to neighboring utilities in Indiana, there are a number of reasons why our costs may be somewhat higher, including:

- **The cost of transportation to deliver fuel (coal) to our generating facilities.** The cost of railroad transportation has risen dramatically, and NIPSCO doesn't benefit from having coal mines located nearby, like some of the other downstate Indiana utilities. Since there are no rail lines that extend north and south in Indiana to provide us access to the coal mines in the southern part of the state, we have to transport much of our coal supply from the Powder River Basin of Wyoming, where it has to pass through a congested Chicago market.

- **Two of our three coal-fired generating stations are located on Lake Michigan**, which means NIPSCO must meet more stringent environmental air and water quality control standards. We currently meet, and exceed these standards, however there is cost associated with meeting the requirements.
- **Timing of construction is another factor.** In response to growing customer demands for power, NIPSCO built additional capacity at Michigan City and Wheatfield in the 1980s, when the cost of capital was high, and interest rates were in the double digits.

12. Why has my electric bill gone up over time, when you say you haven't changed your rates? While you may notice fluctuations or changes in your bill over time, the base rate for electric service has not changed. Electric bill increases have been due to rising fuel costs, which are a direct pass-through to our customers, and overall increase in energy usage by customers.

13. Do industrial and commercial customers spend more or less for electric than residential customers? Each customer class (industrial, commercial and residential) has different rates because there are different costs associated with providing service. Because of the extensive distribution network necessary to serve residential customers, the per unit cost for residential customers is higher; therefore, NIPSCO industrial and commercial customer rates do reflect a lower per unit cost for electricity.

14. Are there plans for NIPSCO to build a nuclear generating facility? No. No new nuclear plants have been built in the United States by any utility in more than 30 years.

15. Why did you close D.H. Mitchell and now decide there is a need for Sugar Creek? Operations at the Mitchell Station were suspended in 2002 after a significant downturn in the economy as a whole, and in the steel industry specifically. When the steel industry rebounded and additional capacity was needed, the environmental upgrades required to bring Mitchell back online were cost prohibitive. It would have been much more expensive to make those enhancements than it was for NIPSCO to purchase Sugar Creek and add wind power to NIPSCO's capacity portfolio.

16, Will D.H. Mitchell be removed from the rate base with this filing? Yes, that is the company's request.

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