VERIFIED DIRECT TESTIMONY OF DENNIS S. RACKERS

Q1. Please state your name, business address and title.

A1. My name is Dennis S. Rackers. My business address is 801 E. 86th Avenue, Merrillville, Indiana 46410. I am Director, Fuel Supply, for Northern Indiana Public Service Company ("NIPSCO" or "Company").

Q2. Please describe your educational and employment background.

A2. I graduated from the University of Missouri at Rolla with a Bachelor of Science in civil engineering, and I am a registered professional engineer in the state of Missouri. I started my employment as Director, Fuel Supply, for NIPSCO in September 2014. Prior to that I had similar roles and responsibilities for other electric utilities that own and operate coal-fired generation. I was Director of Solid Fuels from 2008 to 2009 for Entergy Services Inc., an electric utility with about 4000 MW of coal capacity in Arkansas and Louisiana. Before that, I was Director of Procurement for Dairyland Power Cooperative of LaCrosse, Wisconsin, from 2001 to 2008,

and Fuels Manager for Associated Electric Cooperative of Springfield, Missouri, from 1987 to 1998.

Q3. What are your responsibilities as Director, Fuel Supply?

A3. As Director, Fuel Supply, I am responsible for supervising the purchase and transport of coal to be used for generating electric energy, including administration of the fuel contracts and the pricing provisions of these contracts.

Q4. Are you familiar with the Company's Verified Petition, including the schedules attached thereto, initiating this proceeding, a copy of which has been marked Attachment 1-A?

A4. Yes.

Q5. What is the purpose of your testimony in this proceeding?

A5. The purpose of my testimony is to (1) describe NIPSCO's coal procurement process; (2) provide the prices NIPSCO paid for coal in the reconciliation period and explain the factors that affected those prices; (3) provide NIPSCO's estimated coal prices for the forecast period and explain the factors that support NIPSCO's forecast; and (4) provide an overview of NIPSCO's coal inventory situation and the use of price

decrements in our Midwest Independent System Operator, Inc. ("MISO") offer prices to minimize our customer's fuel and purchase power costs.

Q6. Are you sponsoring any attachments to your direct testimony?

A6. I am sponsoring Attachments 4-A (Confidential) and 4-B (Confidential), both of which were prepared by me or under my direction and supervision.

Q7. Please describe Attachments 4-A (Confidential) and 4-B (Confidential).

A7. Attachment 4-A (Confidential) summarizes the evaluation of alternatives to address the current oversupply of coal for several of NIPSCO's coal-fired generating units. Attachment 4-B (Confidential) illustrates the application of the decrement pricing concept.

Q8. Has NIPSCO made every reasonable effort to acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible?

A8. Yes.

Q9. What fuels are used to power NIPSCO's generating units?

A9. For the three months ended March 31, 2016, NIPSCO's fuel requirements for its generating units were supplied by coal (55.90%) and the remainder by natural gas (44.10%), including the Sugar Creek Generating Station. NIPSCO uses a blend of Powder River Basin ("PRB") coal and Pittsburgh #8 ("Pitt8") coal in Unit 12 at its Michigan City Generating Station; Illinois Basin ("ILB") coal in Units 7 and 8 at its Bailly Generating Station; a blend of PRB coal and Pitt8 coal in Unit 14; PRB coal in Unit 15, and ILB coal in Units 17 and 18 at its R. M. Schahfer Generating Station.

Q10. Since most of NIPSCO's electric generating capacity is fired by coal, what factors must be considered in purchasing coal for those generating units?

A10. Factors that are considered in purchase evaluations for a specific generating unit include the delivered cost plus the related costs of emissions control and management of coal combustion byproducts. Coal quality parameters (especially moisture, ash, sulfur, mercury, arsenic, and fouling and slagging characteristics) can be go/no-go criteria because they affect the unit's operational reliability and ability to comply with environmental emission limits. The schedule flexibility and reliability of

individual coal supply sources and related transportation carriers are also considered in NIPSCO's fuel procurement practices.

Q11. How did NIPSCO purchase its coal supplies during the reconciliation period?

A11. NIPSCO purchased all coal for the period under five (5) term supply contracts as follows: Arch Coal Sales Company (PRB coal); Peabody COALSALES, LLC (PRB coal); Peabody COALSALES, LLC (ILB coal); Sunrise Coal, LLC (ILB coal); and Consol Pennsylvania Coal Company (Pitt 8 coal).

Q12. How does NIPSCO procure its term coal contracts?

A12. NIPSCO solicits bids from suppliers to provide the Company with the coal it desires to procure via term agreements. Term agreements are those with terms that are one year or longer. NIPSCO prepares a Request for Proposal ("RFP") and sends it to bidders the Company believes can supply the type of coal required. Bidders return their proposals to the Corporate Auditor and a formal bid opening is held with Auditing and Fuel Supply representatives present. NIPSCO prepares a preliminary evaluation sheet incorporating bidder information such as mine origin,

Btu, sulfur, ash, available tons per year, and price on both a per ton and $ per million Btu basis. NIPSCO creates a final evaluation sheet that ranks bidders on a total cost basis. The final evaluation makes the selection on the basis of total cost including coal commodity, transportation, emissions control, and coal combustion byproducts. NIPSCO then negotiates commercial terms and conditions with the lowest bidder(s). NIPSCO enters into a term contract with the successful bidder(s) after the contract receives legal and executive approval.

Q13. Does NIPSCO have a financial interest in any of the coal producers currently under contract?

A13. No.

Q14. Do all of NIPSCO's term coal contracts have price adjustments?

A14. All but one of the term contracts have price adjustments. The single-year contract has a firm price with no adjustments. Two (2) of the contracts have firm prices that increase each year as specified in the contract. One (1) contract has prices that are adjusted annually based on the average weekly indexed prices of that particular coal in the previous year, and one (1) contract has an annual market price reopener that determines the

contract coal price for the next year. The actual price paid for each coal shipment is adjusted (up or down) by the shipment's variance in the heat content (in Btu per pound) from the contract specification.

Q15. What is the purpose of price adjustments in term coal contracts?

A15. With the volatility in the coal markets, producers and customers are reluctant to execute fixed price term contracts without some type of market price adjustment mechanism. Maintaining a market price balance is beneficial to both parties. NIPSCO's coal contracts are usually for a term of three (3) to five (5) years, and typically the price is adjusted each contract year.

Q16. How does NIPSCO decide whether to pay price adjustments requested by its suppliers?

A16. NIPSCO's Fuel Supply Department, which is responsible for administering all coal contracts, verifies that all changes to mine and transportation prices are consistent with the terms of the relevant contract. Before a price adjustment is made, NIPSCO requests supporting evidence in the form of actual invoices and records and published government data to justify the requested price adjustment. NIPSCO will not agree to a

price adjustment until it is satisfied that the charges are in accordance with the contract, or are justified by actual costs or changes in cost indices.

Q17. What was the delivered cost of coal for NIPSCO for the twelve months ending March 31, 2016 and for the reconciliation period of January, February and March 2016?

A17. The delivered cost of coal for the twelve months ending March 31, 2016 was $ $50.28 per ton or $2.469 per million Btu. The delivered cost of coal for all coal shipments during the reconciliation period of January, February and March 2016 was $48.53 per ton or $2.389 per million Btu. The delivered cost of coal for contract coal shipments during the reconciliation period was $48.28 per ton or $2.398 per million Btu. There were no spot coal shipments during the reconciliation period.

Q18. Did NIPSCO make any new commitments for coal purchases during the reconciliation period of January, February and March 2016?

A18. No.

Q19. What was the average spot market price of coal during the reconciliation period?

A19. The average spot market price of coal (for delivery in the prompt quarter—2Q2016) during the reconciliation period was $9.77 per ton for PRB coal, $28.28 per ton for ILB coal and $36.18 per ton for Pitt8 coal. NIPSCO tracks spot market pricing by reviewing various daily and weekly coal publications. These prices do not include transportation charges.

Q20. What market factors do you believe affected the market for coal and transportation during the reconciliation period?

A20. Low natural gas prices, increased renewable generation, and mild temperatures continue to depress demand for coal-fired generation. Consequently, inventory stocks continue to be well above targets. The total nation-wide coal inventory at the end of February 2016 was reported at about 95 days-burn as measured by consumption in the trailing 12 months. Rail carriers recently reported that their coal volumes are down as much as 35% and 40% year over year. Additional coal unit retirements ahead of the April 2016 deadline for compliance with the Mercury and Air Toxics Standard (MATS) rule are also reducing demand for coal. Generators with coal plants are contemplating compliance options for

EPA's Clean Power Plan. As a result of all these factors, both spot and term prices across all coal regions are very soft.

Q21. Have any of NIPSCO's coal suppliers filed for Chapter 11 bankruptcy protection?

A21. Yes. Arch Coal filed on January 11, 2016 and Peabody Energy on April 13, 2016. While it is early in their respective proceedings, these bankruptcies are not expected to impact NIPSCO's fuel cost or coal shipments. However, we continue to monitor the situation closely.

Q22. What factors affected NIPSCO's delivered cost of coal during the reconciliation period?

A22. NIPSCO's delivered cost of coal during the reconciliation period was $48.53 per ton and $2.389 per million Btu. This decreased $1.13 per ton and $0.034 per million Btu from $49.66 per ton and $2.423 per million Btu when compared to the fourth quarter of 2015. The cost decrease was primarily due to a change in the mix of coals received and a decrease in the contract prices for PRB and Pitt8 coals. Specifically, the volume of lower cost PRB coal shipments increased relative to higher cost ILB coal shipments. Shipments under a new one year agreement for Pitt8 coal with

a significantly lower contract price also helped lower the overall delivered cost.

Q23. What is NIPSCO's estimate for the cost of coal to be used for power generation during the forecast period of July, August and September 2016?

A23. NIPSCO anticipates that the cost of coal to be burned for generation in the forecast period of July, August and September 2016 will be approximately $50.38 per ton or an estimated $2.457 per million Btu.

Q24. What are the current average spot market prices for coal?

A24. The average spot market prices for delivery in the third quarter of 2016 as of April 25 2016, are currently $9.32 per ton for PRB coal, $26.09 per ton for ILB coal and $32.75 per ton for Pitt8 coal. These average spot market prices do not include the cost of transportation.

Q25. What information does NIPSCO use to develop the estimate for the forecast period?

A25. In developing the estimate for the forecast period, NIPSCO incorporates all current coal contract prices, estimates of any coal contract price adjustments that might be warranted, transportation contract prices, an

assessment of the pricing impact of fuel surcharges on the delivered cost based on current price of crude oil, and projections of the spot market prices of coal. These inputs are provided to NIPSCO's Generation Dispatch & Marketing Group for use in the PROMOD projection for the forecast period.

Q26. Please describe the factors NIPSCO believes will impact the supply, demand and cost of the coal commodity to be purchased and shipped to its plants during the forecast period?

A26. The new contract for Pitt8 coal has pricing substantially less than that delivered under the contract that expired at the end of 2015. Contract prices for PRB coal are also lower after being indexed to 2016 market prices in the fourth quarter of 2015.

Q27. Please describe the factors NIPSCO believes will impact coal transportation or the cost of transportation during the forecast period.

A27. NIPSCO has coal and transportation agreements in effect for 2016 with firm pricing (exclusive of fuel surcharges), and that pricing has been included in the projected pricing for the forecast period. If relatively low prices of domestic crude oil and highway diesel fuel continue, fuel

surcharges for rail transportation of NIPSCO's coal will remain low. Rail carrier performance is expected to be adequate to meet NIPSCO's coal transportation needs in the forecast period.

Improved rail cycle time performance for NIPSCO coal movements is expected to continue in 2016 due to sluggish demand for rail transportation of all products and commodities. This performance along with reduced demand for coal-fired generation means that NIPSCO currently has idle equipment in its rail car fleet. Leases for five of NIPSCO's twelve train fleet will expire by January 1, 2017, and NIPSCO will continue to assess its future need for rail cars as it determines whether to renew these leases.

Q28. Do you have any concerns for fuel supplies and fuel costs during the forecast period?

A28. NIPSCO does not anticipate any issues in securing coal or transportation during the forecast period. The large nation-wide inventory of natural gas in storage plus improved pipeline access for the upper-midwest region to the natural gas production from the Marcellus-Utica Shale region suggests that natural gas supply in MISO-North will be greater than that in 2015.

Greater natural gas supply generally means lower natural gas and power prices, and more displacement of coal-fired generation. All this signals continued soft demand for generation from NIPSCO's coal fleet, and new dispatch projections indicate that NIPSCO has more coal under contract than it will to consume during the forecast period and the balance of 2016.

Q29. How long has this oversupply condition existed?

A29. In first quarter of 2015, low natural gas prices started to displace coal and coal consumption underperformed projections. The problem grew worse throughout 2015, but larger coal inventories and small volume deferrals to 2016 sufficed to satisfy fuel contract obligations in 2015.

In 2016, NIPSCO's coal-fired generating units continue to significantly under-consume projections and the plant inventories are already full. The stations cannot carry additional inventory; therefore, NIPSCO has explored options to relieve the oversupply condition.

Q30. Please provide a summary of NIPSCO's current coal inventory situation.

A30. Soft demand for coal generation over the last year has pushed NIPSCO coal inventories well above the target level of 40 max-burn days at our generating stations. Where coal pile height is not limited by fugitive dust

concerns, the average maximum burn measure for NIPSCO coal inventories was 73 days at the end of March 2016. The maximum burn represents the average daily burn tons for each unit in the month with the highest consumption over the last 10 years. This max-days burn measure has less relevance when compared with the low burn rates in recent months. When measured using the average daily consumption over the last 12 months, NIPSCO's system coal inventory was actually at 154 days at the end of March 2016.

Q31. What options has NIPSCO explored to mitigate the oversupply situation?

A31. NIPSCO has investigated reselling excess coal on the market at a loss, buying out coal supply contracts, storing coal at off-site locations (either at the supplier's mine or at remote locations after delivery), paying suppliers to defer tonnage into 2017, paying coal and transportation suppliers to reduce tonnage commitments and using price decrements in the MISO offers to increase coal consumption.

Q32. What is a price decrement?

A32. A generation offer is usually equal to the sum of the incremental costs the company will incur if the generating unit produces power. A price decrement is a cost that will be avoided if the unit produces power. When a company includes a decrement in its offer, the offer price is reduced and the unit is more likely to be called by MISO to operate. Increased operation will increase coal consumption and decrease the likelihood that FAC customers will incur additional costs associated with the oversupply situation.

Q33. Which option is the most economical for NIPSCO's customers?

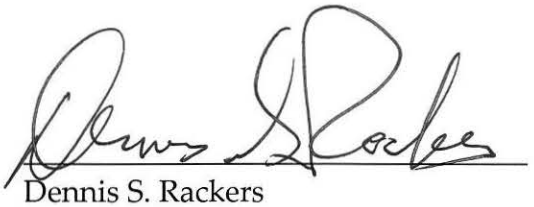
A33. NIPSCO believes that it should begin to add a price decrement to its MISO generation offers in order to provide its customers with the lowest fuel cost reasonably possible. NIPSCO Witness Campbell explains the coal price decrement process and how it minimizes customer cost. All the other options are either not practical over the long run and/or will increase costs for the customer.

Q34. Does this complete your prepared direct testimony?

A34. Yes.

VERIFICATION

I, Dennis S. Rackers, Director, Fuel Supply for Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



Dennis S. Rackers

Dated: May 2, 2016