ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, INC. FOR APPROVAL AND RECONCILIATION OF DEMAND SIDE MANAGEMENT ("DSM") PROGRAM COST RECOVERY THROUGH DUKE ENERGY INDIANA, INC. STANDARD CONTRACT RIDER NO. 66, APPROVAL OF ADDITIONAL CORE PROGRAM, MODIFIED ALLOCATION OF APPROVED BUDGET DOLLARS BETWEEN PROGRAMS, AND CONTINUED COST RECOVERY	))))))))))	**CAUSE NO. 43079 DSM 5** **APPROVED:** NOV 30 2010

BY THE COMMISSION:
David E. Ziegner, Commissioner
Angela Rapp Weber, Administrative Law Judge

On August 11, 2010, Duke Energy Indiana, Inc. ("Duke Energy Indiana" or "Petitioner") filed its Petition and supporting case-in-chief testimony and exhibits with the Indiana Utility Regulatory Commission ("Commission"). The Petition sought approval and reconciliation of Demand Side Management ("DSM") program cost recovery through Duke Energy Indiana's Standard Contract Rider No. 66, approval of an additional Core Program, as that term is defined in the final Order in Cause No. 42693 (Phase II) ("Phase II Order"), modified allocation of approved budget dollars between programs, and continued cost recovery. On October 12, 2010, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its testimony.

Pursuant to notice as provided by law, proof of which was incorporated into the record and placed into the official files of the Commission, a public evidentiary hearing in this Cause was held on October 19, 2010 at 9:30 a.m. in Room 224 of the PNC Center, Indianapolis, Indiana. At the evidentiary hearing, evidence was submitted by Petitioner and the OUCC. No other members of the public participated in the hearing.

Based on the applicable law and evidence herein, the Commission now finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code § 8-1-2 *et seq*. Petitioner is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Petitioner requests relief pursuant to Ind. Code § 8-1-8.5 *et seq*. and 170 IAC 4-8 *et seq*. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics and Business. Petitioner is a public utility organized and existing under the laws of the State of Indiana with its principal place of business located at 1000 East Main Street, Plainfield, Indiana. It is engaged in rendering electric utility service to the State of Indiana and owns, operates, manages, and controls, among other things, plants, properties, and equipment within the State of Indiana used and useful for the production, transmission, delivery, and furnishing of such electric service to the public. Petitioner directly supplies electric energy to approximately 780,000 customers located in sixty-nine counties in the central, north central, and southern parts of Indiana and supplies steam service to one customer from its Cayuga Generating Station.

3. **Requested Relief.** In the Commission's May 25, 2005 Order in Cause No. 42612, Petitioner was authorized to continue Standard Contract Rider No. 66 ("Rider 66") to track recovery of actual DSM program costs and to continue to offer its existing portfolio of DSM programs and funding levels until the latter of the approval of a new DSM proposal or December 31, 2009. Pursuant to the Order in Cause No. 43079 DSM 4 ("DSM 4"), Petitioner received authority to continue to offer its customers the benefits of Petitioner's approved DSM programs through Rider 66 beyond December 31, 2009, to reallocate the approved budget, and to continue cost recovery until such time as another cost recovery mechanism is approved by the Commission.

In the Commission's Phase II Order, all jurisdictional electric utilities in the State of Indiana were directed to offer five Core Programs, as established in that Order, ultimately to be administered through a statewide third-party administrator. Consistent with Petitioner's evidence in Cause No. 42612, the Petitioner initiated this proceeding to reconcile Rider No. 66 for the calendar year 2009 and provide for continued cost recovery via Rider No. 66 for 2010 and through such time as (a) the third-party administrator, established in the Phase II Order, assumes responsibilities for Core Programs, and (b) programs and a cost recovery mechanism are approved for Core Plus Programs.[1] Petitioner currently offers four of the five Core Programs[2] established by this Commission in the Phase II Order and is seeking approval to offer a Residential Lighting Program until such time as the Core Programs are transitioned to the third-party administrator.

Petitioner also seeks approval of an expanded budget for the Core Programs that it currently has authority to offer as well as for the additional Core Program that Petitioner is seeking approval of in this proceeding. Furthermore, Petitioner requests approval to continue to offer the currently-approved programs that are designated as Core Plus Programs in the Phase II Order, until such time that it receives approval in its pending DSM proceeding (Cause No. 43955).

4. **Petitioner's Case-in Chief Evidence.** Petitioner presented its case-in-chief testimony and exhibits of Mr. Michael Goldenberg, Director, Products and Services; Ms. Diana L. Douglas, Director, Rates; and Ms. Ashlie J. Ossege, Manager, Market Analytics.

Mr. Goldenberg sponsored Petitioner's DSM Year End Report for 2009. The report summarizes Petitioner's 2009 DSM program activities. Mr. Goldenberg testified that the Company currently offers the following programs: Home Energy House Call, Low Income

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[1] On September 28, 2010, Petitioner filed for approval to offer additional EE programs as well as for approval of a cost recovery mechanism in Cause No. 43955.

[2] Petitioner previously received authority to offer a school education program but had not planned to offer it in the Fall of 2010. In this filing, Petitioner notified the Commission that it will resume offering this program.

Programs, Smart $aver®, ENERGY STAR®, Small Commercial and Industrial Programs, and Power Manager. He also stated that in 2009 the Company offered a Customer-Sited Photovoltaic Program, but discontinued it until such time as the program would become cost-effective.

Mr. Goldenberg summarized the levels of DSM spending per program for 2009 and approved for ongoing recovery by the Commission in Cause No. 42612, as modified by the Final Order in DSM 4. Mr. Goldenberg stated he provided this information to Ms. Douglas for calculation of Petitioner's Rider No. 66. Those programs and costs are as follows.

Duke Energy Indiana DSM Programs	**2009 Year-End Expenditures**	**2009 Budget**
Home Energy House Call		$500,000
Audits	$598,938	
NEED	$8,065	
Low-Income Programs		
Weatherization	$328,265	$350,000
Refrigerator Replacement	$28,848	$50,000
Smart Saver® (includes air conditioning and heat pumps)	$1,368,493	$1,400,000
ENERGY STAR® Homes	$44,395	$50,000
Small Commercial and Industrial ("C&I")(lighting, HVAC, motors, pumps)	$458,400	$500,000
Power Manager	$2,117,400	$3,125,000
Photovoltaic (residential and commercial)	$43,772[3]	$100,000
TOTAL:	**$4,996,575**	**$6,075,000**

Mr. Goldenberg also described Duke Energy Indiana's request to continue offering its current portfolio of programs until such time as (1) the third-party administrator assumes responsibility for Core Programs and (2) new Core Plus Programs and a new cost recovery mechanism are approved. (Petitioner filed for such approval on September 28, 2010 in Cause No. 43955.) He explained that because the Petitioner does not currently offer all Core Programs as defined by the Phase II Order, it is requesting authority and cost recovery to offer a Residential Lighting Program until such time as the third-party administrator assumes responsibility for the Core Programs.

Mr. Goldenberg provided details on the proposed Residential Lighting Program. He said it will be retail-based, and Duke Energy Indiana's customers will receive bar coded coupons at

[3] On November 19, 2009 in Cause No. 43079 DSM 4, the Commission approved the Company's request to discontinue this program until it becomes more cost effective.

their mailing address that can be redeemed at participating retail stores. The bar code will enable the tracking of customer participation.

He also stated that Duke Energy Indiana will resume offering its K-8 school education/NEED program until the third-party administrator is able to take over the administration of that program. He testified that the K-8 curriculum distributes energy efficiency kits to the students as part of the lesson plan. Petitioner originally received approval for the program in Cause No. 42612 and offered it until the Spring of 2009. However, in anticipation of approval of Petitioner's proposal in Cause No. 43374, Duke Energy Indiana suspended the program with the intent of launching a replacement program for the new school year beginning in August 2009. Mr. Goldenberg stated that in order to comply with the Phase II Order and to achieve the impacts established in that Order, Duke Energy Indiana will not wait for Commission approval to offer the Residential Lighting Program. Rather, it will begin offering the Residential Lighting Program[4] and resume the education/NEED program in the Fall of 2010.

Mr. Goldenberg next explained the Petitioner's proposal to expand its currently authorized budget among its programs. He stated that the inclusion of the Residential Lighting Program increases the budget by $500,000 for the remainder of 2010 and $41,667 per month thereafter until the establishment of a third-party administrator. The other budget expansion is for the Residential Smart $aver® Program, which is generating exceptional results because of the Federal ARRA tax incentive and the Indiana Heating and Air Conditioning Incentive Program, which provided incentive dollars for the purchase of high efficiency Energy Star HVAC. The two programs together with Duke Energy Indiana incentives have resulted in tremendous increases in customer installation of high efficiency HVAC equipment. Therefore, Petitioner requested in this Cause approval to increase Smart $aver® funding of $1,200,000 for the remainder of 2010, and $191,667 per month thereafter until it receives approval of its pending DSM proceeding.

He testified that the following chart summarizes the ongoing levels of funding for ongoing recovery approved in Cause No. 42612, as well as the amount being requested for recovery in 2010. He also stated that he provided the program expenditures to Ms. Douglas for calculation of Rider 66.

[4] Duke Energy Indiana began offering the Residential Lighting Program on October 1, 2010.

		Budget	YE Forecast	Difference
Residential Programs				
	Home Energy Audit	500,000	511,000	11,000
	K-8 Education/NEED Program	41,500	60,000	18,500
	Low Income Programs -Weatherization	400,000	603,125	203,125
	-Refrigerator Replacement	100,000	54,000	(46,000)
	Residential Smart $aver®	1,100,000	2,300,000	1,200,000
	ENERGY STAR® New Home	100,000	41,700	(58,300)
	Power Manager	3,275,000	3,275,000	0
C&I Programs				
	Prescriptive Incentives (lighting, HVAC, motors/pumps)	500,000	465,994	(34,006)
Proposed Program				
	Residential Lighting	0	500,000	500,000
Total		$6,016,500	$7,810,819	$1,794,319

Mr. Goldenberg stated that the total budget for which Petitioner seeks approval, which includes the budget for existing programs and the addition of the Residential Lighting Program, is $7,810,819. Mr. Goldenberg also explained Petitioner does not know when its pending DSM proceeding will be approved. Therefore, Petitioner is requesting authority to recover six months of program costs, and continue month to month, if necessary, as identified in the table below.

Program	Monthly amount	Six-month amount
Home Energy Audits	41,667	250,000
K-8 Education/NEED	15,000	90,000
Low-Income Programs -Weatherization	50,260	301,563
-Refrigerator Replacement	8,333	50,000
Residential Smart $aver®	191,667	1,150,000
ENERGY STAR® New Home	3,500	21,000
Power Manager	272,917	1,637,500
Residential Lighting	41,667	250,000
C&I Prescriptive Incentives (lighting, HVAC, motors/pumps)	41,667	250,000
Total	$666,678	$4,000,063

Mr. Goldenberg concluded his testimony by explaining Petitioner is requesting authority to recover actual incurred costs for 2011. Once the Duke Energy Indiana's new portfolio of programs and cost recovery mechanism are approved, Petitioner will file a reconciliation of incurred costs.

Ms. Diana Douglas testified regarding the reconciliation of DSM expenses incurred during calendar year 2009 and the recovery of estimated expenses for 2010. The expenses include dollars spent to date on pre-approved programs, as well as estimated expenses for the remainder of 2010 and continuing for the first part of 2011 and month-to-month, if necessary, under Rider 66. Ms. Douglas explained that the previous annual reconciliation DSM filings for Rider 66 up through and including the filing in Cause No. 43079 DSM 3 developed the DSM adjustment rates to cover the costs of the annual reconciliation of the prior year's actual DSM expenditures to approved budget amounts, as well as a budgeted amount of expenditures for the current calendar year. In these prior proceedings, the proposed DSM adjustment factors were assumed to be in effect for a full year and were developed using twelve months of kWH sales. Last year's filing, DSM 4, developed the DSM adjustment factors in the same way, but in anticipation of a Commission Order in Petitioner's then-pending energy efficiency proceeding in Cause No. 43374 and in light of an expected over-billing situation for 2009 for Rider 66, the DSM adjustment factors proposed in DSM 4 only included a reconciliation amount and did not include any budgeted program costs.

Ms. Douglas explained that depending on when Duke Energy Indiana receives an Order in its pending DSM proceeding, the DSM adjustment factors being proposed in this Rider 66 proceeding are likely to be in effect for less than a full year. Accordingly, to prevent a large over- or under-billing situation from occurring, Petitioner proposed to develop the DSM adjustment factors in this proceeding based on the kWH for the maximum period Petitioner anticipates the rates will be in effect, November 2010 through June 2011, rather than the normal twelve-month period. Ms. Douglas testified that the underlying assumption is that the earliest the rates proposed in this proceeding can be approved and implemented is November 1, 2010, and that the rates proposed in the pending DSM proceeding are approved for implementation on July 1, 2011. In addition, to further prevent large over- or under-billings for 2010 and for the months the rates proposed in this proceeding will be in effect in 2011, Duke Energy Indiana included the amounts already refunded to customers through June 2010 and amounts expected to be refunded to customers in July through October 2010, as well as the amount of program expenses Petitioner anticipates incurring for these programs for the first half of 2011 before the pending DSM proceeding rates will take effect.

Ms. Douglas testified that a final reconciliation of amounts billed under Rider 66 will be required once an Order is received in the pending DSM proceeding. But, Petitioner believes its proposed ratemaking treatment will help minimize the amount of the final reconciliation. Further, it will better match the timing of collection of costs from customers with the period in which the costs are incurred.

Ms. Douglas stated Duke Energy Indiana proposes to include in rates a DSM program expense level of $7.8 million for 2010 and $4.0 million for the period of January through June 2011 with each rate class assigned the ongoing costs of programs applicable to that rate class. She stated that customers (or accounts) with an annual peak demand of 500 kW or less are eligible to participate in the DSM programs and thus ongoing reconciled expenses are only recovered from those eligible customers on a class-specific assignment basis. Ms. Douglas presented the details of revenues collected from each retail rate group and the total collected from all retail customers. She stated the total collected from retail customers is $3,817,715, excluding Indiana Utility Receipts Tax; the total returned to retail customers for the January through June 2010 is $4,092,766; and the amount projected to be returned to customers for the period of July through October 2010 is $2,742,587.

Ms. Douglas detailed the reconciliation of expenditures and collections for calendar year 2009. Ms. Douglas explained the amounts which should have been collected for 2009 and that the budgeted program costs for 2009 were not included in the development of the 2009 recovery due to the forecasted over-collection in 2009. Therefore, no reconciliation of the budget to actual is necessary. She testified that the reconciliation shows there was an over-collection for 2009 in the amount of $6,779,450.

Ms. Douglas further explained the net revenue requirements proposed for recovery in this proceeding and the DSM adjustment factors by rate class. Under Rider 66, Petitioner proposes a net amount to be recovered of $11,866,785, with each rate class being assigned the cost of programs applicable to that rate class. Petitioner's proposed DSM factor for Rate RS is 0.001787 and for Rates CS, FOC, LLF, and HLF is 0.000216.

She explained that once this filing is approved, the monthly bill of a residential customer using 1,000 kilowatt-hours, excluding the effect of other various tracking mechanisms, will increase by approximately $2.44 or 3.3% when compared to the last approved factor. Finally, she described Petitioner's proposal to update Rider 66, Ninth Revised Sheet No. 66, Pages 1 through 4, to begin billing new Rider 66 factors on all bills rendered after the effective date of the Commission's Order in this proceeding subject to Petitioner's filing of the updated Rider with the Commission's Electricity Division.

Ms. Ashlie Ossege explained the process by which Petitioner evaluates its DSM programs. She stated Petitioner's DSM programs' cost effectiveness evaluations are updated annually through several steps. First, the avoided costs against which DSM programs are valued are updated using the most current forecasts of information. The projection of avoided costs is obtained from Duke Energy's Resource Planning Department, which uses an integrated resource planning modeling process to evaluate supply side resources. By using the same source for avoided costs, Petitioner ensures that supply-side options will be comparably evaluated with demand-side options. Second, customer load profiles (on which energy and demand savings are based) are updated. This load modeling process ensures that a customer's weather sensitivity and hourly load impacts are appropriately estimated. Third, customer specific assumptions, including estimated load or peak savings, incremental customer costs for participating in the program, estimated free ridership, and expected measure life for the program technologies, are updated. Fourth, any changes that have occurred with respect to tariffs, riders, utility discount rates, the utility costs for administration, rebates, or other program implementation charges are updated.

She explained that having established estimates for the above inputs, the net present value of the financial stream of costs versus benefits is assessed (i.e. the costs to implement the measure are valued against the savings or avoided costs) to determine program cost effectiveness. The resulting benefit/cost ratios, or tests, provide a summary of the measure's cost effectiveness relative to the benefits of its projected load impacts. She stated the main criteria for screening DSM measures are the Utility Cost Test ("UCT"), the Total Resource Cost Test ("TRC"), and the Ratepayer Impact Test ("RIM"). A Participant Test is also reviewed to make sure the program makes sense for the individual customer. Although Petitioner performs several cost-effectiveness tests and reviews the results, it typically relies upon the UCT because it believes it is the most appropriate and reasonable test for comparing the cost effectiveness of demand-side programs to supply-side resource additions. In addition to the standard tests, Petitioner conducts additional cost-effectiveness studies that incorporate a more complete analysis of the range of expected values for DSM programs across alternate load and weather impacts. Ms. Ossege also discussed that impact and process evaluations are conducted by consultants and third-party evaluation consultants and program reviewers. She concluded her testimony by presenting a summary of the cost effectiveness test results for each of Petitioner's current DSM programs. All the DSM programs are cost effective under the UCT, except the residential and commercial Customer-Sited Photovoltaic Systems.[5]

On October 15, 2010, Duke Energy Indiana submitted its response to the Commission's October 13, 2010 Docket Entry. In its response, Petitioner explained the TRC result for Smart $aver located on Exhibit C-1 was erroneous because it included an assumption that the kWh and kW impacts were per-unit, rather than per-ton. When the underlying kWh impacts are corrected,

[5] In Cause No. 43079 DSM 4 Order issued on November 19, 2009, the Commission approved the Company's request to discontinue this program until it becomes more cost effective.

the resulting TRC score for Smart $aver is 1.46. Petitioner also stated in its response to the October 13, 2010 Docket Entry that it will continue to evaluate the cost effectiveness of this program, considering barriers to customer participation and changes to standards. Attached to the response was a corrected Exhibit C-1.

5. <u>OUCC's Case-in-Chief Evidence</u>. Mr. Wes R. Blakley, Senior Utility Analyst, testified on behalf of the OUCC. Mr. Blakley testified that he reviewed Petitioner's prior and current cases-in-chief, and also discussed the requested relief with other OUCC staff members. Mr. Blakley expressed agreement with Petitioner's requested relief. He stated Petitioner's request to continue the current DSM program offerings, to add a Residential Lighting Program (until such time as new program offerings are made and a new recovery mechanism is approved), and Petitioner's proposal to utilize an eight-month recovery period instead of the usual twelve-month recovery period is reasonable. Petitioner's 2011 budget for DSM expenditures is much larger than its previous DSM program. Mr. Blakley also calculated the DSM adjustment factor for this adjustment proceeding. His result matched the Petitioner's calculation of the proposed DSM adjustment factors. Mr. Blakley testified that the figures used in the calculation of Petitioner's DSM adjustment factors are supported by the evidence filed by Petitioner. Mr. Blakley offered no opposition to implementation of Petitioner's proposed DSM adjustment factor.

6. <u>Commission Findings</u>. Petitioner's evidence adequately demonstrates that Petitioner is seeking to meet the dictates established in the Phase II Order, including offering all Core Programs until such time as the third-party administrator assumes responsibility for overseeing and meeting the annual targets established therein. Petitioner has adequately established, with the OUCC's agreement, that its calculation of its Rider No. 66 DSM adjustment factors is appropriate and accurate, including the addition of costs for the Residential Lighting Program and costs to continue offering its existing programs until Duke Energy Indiana receives approval to offer other Core Plus programs and a cost recovery mechanism.[6] Similarly, Petitioner's proposal to expand its currently-approved annual DSM budget among its approved programs as described above should be approved. Petitioner's proposal to update its Rider No. 66, Ninth Revised Sheet No. 66, pages 1–4, to begin billing new Rider No. 66 factors on all bills rendered after the effective date of the Commission's Order in this proceeding, subject to Petitioner's filing of the updated Rider with this Commission's Electricity Division, is reasonable. Accordingly, the Commission finds that Petitioner's requested relief in this Cause should be granted.

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

1. Petitioner has satisfied its obligation to file its DSM report containing updated information on the success of its current programs and the development of any new programs.

[6] The Commission notes that if Petitioner's pending request to offer additional programs and for a cost recovery mechanism in Cause No. 43955 are denied, or if for any reason the issuance of an Order in that Cause becomes unreasonably delayed, Petitioner should file to update its existing Rider 66 under this Cause in its next DSM filing.

2. Petitioner is authorized to implement its requested Rider No. 66 DSM adjustment factors.

3. Petitioner is authorized to offer a Residential Lighting Program with cost recovery until such time as this program can be transitioned to the third-party administrator.

4. Petitioner is authorized to continue to offer and receive cost recovery of its previously-approved Core Programs until such time as those programs can be transitioned to the third-party administrator.

5. Petitioner is authorized to continue to offer and receive cost recovery for those Core Plus Programs that it currently offers.

6. Petitioner is authorized to expand its currently-approved aggregate annual DSM budget and to modify the allocation of the budget among its approved programs.

7. Petitioner may begin billing new Rider No. 66 factors on all bills rendered after the effective date of this Order subject to its filing of the updated Rider with the Commission's Electricity Division.

8. This Order shall be effective on and after the date of its approval.

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 30 2010

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission