ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN SOUTH") FOR APPROVAL OF A DEMAND SIDE MANAGEMENT ADJUSTMENT FOR ELECTRIC SERVICE IN ACCORDANCE WITH THE ORDER OF THE COMMISSION IN CAUSE NO. 43111 EFFECTIVE AUGUST 15, 2007 PURSUANT TO I.C. § 8-1-2-42(a)	)	CAUSE NO. 43405 DSMA 11 APPROVED: SEP 11 2013

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On July 16, 2013, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") filed with the Indiana Utility Regulatory Commission ("Commission") its Application in this Cause for approval of its Demand Side Management Adjustment ("DSMA") for the twelve month period of September 1, 2013 through August 31, 2014 (the "DSMA 11 Period") as authorized by the Orders issued by the Commission in Cause Nos. 43111, 43427, 43839 and 43405 DMSA 9 S1.

Applicant filed the direct testimony of Robert C. Sears and Shawn M. Kelly on July 16, 2013. The Indiana Office of the Utility Consumer Counselor ("OUCC") filed the direct testimony of Wes R. Blakley on August 20, 2013.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on August 28, 2013 at 9:30 A.M., in Room 224, PNC Bank Center, 101 West Washington Street, Indianapolis, Indiana. At that time, the prefiled testimony and exhibits of Applicant and the OUCC were admitted into evidence. No members of the general public appeared or sought to participate.

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

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published as required by law. Vectren South is a public utility as that term is defined in Indiana Code § 8-1-2-1. In the Commission's August 15, 2007 Order in Cause No. 43111 ("43111 Order"), the Commission approved an adjustment mechanism for Vectren South's recovery of costs associated with its Demand Side Management ("DSM") program through a DSMA mechanism. Under Indiana Code § 8-1-2-42, the Commission has jurisdiction over changes in Vectren South's schedules of rates and charges. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicant's Characteristics.** Applicant is a corporation organized and existing under the laws of the State of Indiana, and has its principal office at One Vectren Square, Evansville, Indiana. Applicant is engaged in rendering electric utility service to the public and owns and operates an electric generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. **Requested Relief.** The 43111 Order authorized Applicant to seek approval of a DSMA on a semi-annual basis to allow for the recovery of differences between actual DSM program costs and the amount of those costs included in base rates, including Direct Load Control ("DLC") billing credits and any other DSM costs approved for recovery by the Commission. In its December 16, 2009 Order in Cause No. 43427, the Commission authorized Applicant to include both Core and Core Plus Program Costs and related incentives in the DSMA. Pursuant to the April 27, 2011 Order in Cause No. 43839, Applicant also recovers through the DSMA the costs of a direct use pilot program and a DLC inspection and maintenance ("I&M") program. The Commission's Order in Cause No. 43938 authorized Applicant to include in the DSMA both Core and Core Plus Program Costs associated with the implementation of Applicant's Second Revised Initial Plan, lost margins related to Large Customer participation in Vectren South's DSM programs and performance incentives. The Order also authorized a transition from semi-annual DSMA filings to annual DSMA filings. The June 20, 2012 Order in Cause No. 43405 DSMA 9 S1 approved the Small Customer Lost Margin Component of the DSMA, the mechanism to recover lost margins associated with residential and general service customers' ("Small Customers") participation in Applicant's DSM programs. In this Cause, Applicant seeks approval of a DSMA for the twelve month period September 1, 2013 through August 31, 2014.

4. **Calculation of the DSMA Rates.**

a. **Applicant's Evidence.** Applicant's witness Shawn M. Kelly, Director of Regulatory Affairs for Vectren Utility Holdings, Inc. ("VUHI") sponsored Exhibit No. SMK-3, which consists of the schedules calculating the proposed DSMA rates and associated bill impacts. He stated that consistent with the Commission's Orders in Cause Nos. 43111, 43427, 43839, 43938 and 43405 DSMA 9 S1, the DSMA includes five components: (a) DLC component, (b) I&M component (c) Energy Efficiency Funding Component ("EEFC"), (d) Large Customer Lost Margin Component and (e) Small Customer Lost Margin Component. The DLC and I&M components were determined by adding the estimated incremental DLC billing credits and I&M costs for the DSMA 11 period and the prior period variances applicable to those components. The DLC component is a credit in this filing because the projected DLC billing credits are less than the base rate amount. The DLC credit and I&M balance were then allocated to the Rate Schedules using the demand allocation percentages approved in Cause No. 43839. The amounts allocated to each Rate Schedule were then divided by the projected sales quantities for the DSMA 11 period to determine the DSMA DLC and I&M components, which were then adjusted for the recovery of Indiana Utility Receipts Tax.

The EEFC is designed to recover the costs of DSM programs approved by the Commission in Cause Nos. 43938 and 43427. Mr. Kelly stated that the EEFC was calculated by first assigning energy and demand values to projected Core and Core Plus Program Costs ("Program Costs") as defined by Applicant's witness Robert C. Sears in Table RCS-1 of his Direct Testimony in this Cause. These values were then used to derive an appropriate percentage split between energy and demand related costs. The energy portion was allocated to the Rate Schedules based on projected energy sales (adjusted for line losses) and the demand portion was allocated to the Rate Schedules based upon the demand allocation percentages approved in Cause No. 43839. The program costs allocated to Rates RS, B and SGS are recovered through a per kWh charge and program costs allocated to Rates DGS/MLA, OSS, LP and HLF are recovered through demand (per kW) and energy (per kWh) charges. Mr. Kelly said that this methodology was approved in Applicant's compliance filing in Cause No. 43427.

Mr. Kelly stated that the variance attributable to the DLC component and the EEFC was allocated to energy and demand based upon the DSMAs in effect during the reconciliation period. The total demand variance was then allocated to the Rate Schedules on the basis of the demand allocation percentages approved in Cause No. 43839. The total energy variance was allocated to the Rate Schedules on the basis of the projected kWh usage for each Rate Schedule. For Rate Schedules with both energy and a demand component of the EEFC, the energy component will recover the portion of the variance attributed to energy and the demand component will recover the portion of the variance attributed to demand.

The Large Customer Lost Margin Component recovers revenues lost from large customer participation in electric DSM programs. Mr. Kelly stated that the estimated energy sales to each Rate Schedule are used to project the number of participants (or in the case of lighting programs, the number of measures) in each DSM program by Rate Schedule. The projected number of participants is multiplied by the projected energy savings per participant, resulting in the projected level of kWh savings by Rate Schedule. The total projected kWh savings by Rate Schedule is then multiplied by the applicable, currently-effective tariff charge. Mr. Kelly said that a multiplier of 0.5 is then applied in order to reflect the fact that Large Customers will implement DSM programs at different times throughout the projection period. Mr. Kelly explained that this calculation assumes that, on average, all programs are implemented at the mid-point of the projection period. He further explained that, prospectively, lost margins will be reconciled based upon independent evaluation, measurement and verification ("EM&V") According to Mr. Kelly, projected demand-related lost margins are calculated using the same methodology as is used to determine energy-related lost margins. Total projected Large Customer Lost Margins to be recovered during the DSMA 11 period were divided by projected energy sales to Large Customers during the DSMA 11 period to determine the Large Customer Lost Margin Component, which was then adjusted for Indiana Utility Receipts Tax.

The Small Customer Lost Margin Component recovers revenues lost from Small Customers' participation in the Applicant's electric DSM programs. Small Customers are divided into two customer groups: residential and general service. A common lost margin component charge per kWh is used for all customers in each customer group. Mr. Kelly said that projected energy savings by Rate Schedule applicable to the projection period are multiplied by the currently-effective tariff rate applicable to the lost energy sales for each Rate Schedule to determine the projected lost margins associated with identified energy savings. For Rate Schedules with one energy block, that single energy block charge is used. For Rate Schedules with more than one energy block, the last block energy charge is used to determine projected lost margins. For customers taking service under the Demand General Service Rate Schedule ("Rate DGS"), Applicant applied a weighted average energy charge to lost energy sales to determine lost margins. The basis of the weighted average energy charge, as Mr. Kelly explained, is that only 5% of non-first block energy sales to DGS-1 and DGS-2 customers fall in the last block, so it is reasonable to expect that only a similar percentage of lost energy sales will come from the last block. Total projected lost margins to be recovered from Small Customers during the DSMA 11 period were divided by projected energy sales to Small Customers during the DSMA 11 period to determine the Small Customer Lost Margin Component, which was then adjusted for Indiana Utility Receipts Tax.

The DLC, I&M, EEFC, Large Customer Lost Margin and Small Customer Lost Margin Components (including all variances and inclusive of the adjustment for recovery of Indiana Utility Receipts Tax) were combined, resulting in the total DSMA Rate, as shown on Applicant's Exhibit No. SMK-3, Schedule 6.

Mr. Kelly's exhibits showed the derivation of the DSMA for each Rate Schedule for the DSMA 11 Period. The proposed rates for each Rate Schedule are as follows:

Rate Schedule	DSMA Rate ($ per KW or kVa)	DSMA Rate ($ per kWh)
RS	N/A	0.006532
B	N/A	0.005984
SGS	N/A	0.004278
DGS/MLA-1,2	0.126	0.003371
DGS/MLA-3	0.126	0.001134
OSS	0.091	0.003374
LP	0.169	0.001110
HLF	0.241	0.001074

Applicant's Exhibit No. SMK-2 consists of the tariff sheets with the proposed DSMA Rates (Sheet No. 66, Fourth Revised Page 1 of 2 and Fourth Revised Page 2 of 2). Based on the foregoing, the monthly bill of a residential customer using 1,000 kWh per month during the DSMA 11 period would increase by $0.86 per month or .54%.

Robert C. Sears, Applicant's Director of Conservation, described the Core and Core Plus DSM programs offered by Vectren South during 2012 and 2013 and discussed the DSM programs Vectren South plans to offer in 2014. Mr. Sears discussed the status and performance of current DSM programs, including changes to the Second Revised Initial Plan ("DSM Plan") authorized by the Vectren South Electric Oversight Board ("Oversight Board") in 2012 and 2013. Mr. Sears described the DSM programs used to make the projections for the DSMA 11 projection period. Mr. Sears explained how the performance incentive mechanism works and that the 2012 performance incentive was not finalized in time to include it in DSMA 11; however, the Oversight Board agreed that once approved, the 2012 performance incentive should be recovered in DSMA 12. Mr. Sears discussed the system Applicant uses to track lost margins and how lost margins are calculated. He discussed the results of Applicant's 2011 I&M program of switches used to remotely control equipment subject to Applicant's DLC Program. He indicated that there is a regulatory requirement to file an annual report regarding the status and performance of the DLC program and that Vectren South filed its annual DLC report with the Commission as part of its DSMA 11 Application.

b. **<u>OUCC's Evidence.</u>** Mr. Wes R. Blakley testified on behalf of the OUCC that the figures used in Applicant's calculation of its DMSA rates are supported by the exhibits filed by Applicant. Mr. Blakley attached a schedule to his testimony using information provided by Applicant in its exhibits to derive the overall adjustment factor of $0.006532 per kWh for the Residential Class ("Rate RS") including DLC credits and variances, EEFC program, administrative costs, incentives and lost margins. Mr. Blakley recommended approval of Applicant's DSMA rates.

5. **<u>Commission Findings</u>.** The evidence of record supports approval of Vectren South's proposed DSMA rates as shown in Applicant's exhibits submitted with its testimony. Accordingly, the Commission finds the requested DSMA rates described herein should be approved. In addition, the Commission finds that it is reasonable for Applicant to include the 2012 performance incentive approved by the Oversight Board in DSMA 12, to be filed in 2014.

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

1. The Application of Vectren South for approval of changes in its DSMA rates is approved.

2. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the DSMA rates herein approved, a revised Tariff Sheet No. 66 consistent with the findings set forth herein.

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

<u>ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING</u>:

APPROVED SEP 11 2013

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