

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 12

APPROVED:

DEC 10 2014

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

David E. Veleta, Administrative Law Judge

On August 25, 2014, 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 January 1, 2015 through December 31, 2015 (the "DSMA 12 Period") as authorized by the Orders issued by the Commission in Cause Nos. 43111, 43427, 43839, and 44495.

Applicant filed the direct testimony of Michael P. Huber and Shawn M. Kelly on August 28, 2014. The Indiana Office of the Utility Consumer Counselor ("OUCC") filed the direct testimony of Wes R. Blakley on October 3, 2014.

The Commission held an Evidentiary Hearing in this Cause on October 16, 2014 at 10:00 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. **Background.** 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.

4. **Relief Requested.** In this Cause, Applicant seeks approval of a DSMA for the DSMA 12 Period. Applicant also seeks approval to carry forward into 2014 unused funds to address expenses associated with 2013 programs that did not get reconciled prior to the end of the 2013 budget year.

5. **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 12 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 12 Period, and then adjusted for Indiana Utility Receipts Taxes, to determine the DSMA DLC and I&M components.

The EEFC is designed to recover the costs of Commission-approved DSM programs. In Cause Nos. 43938 and 43427, the Commission approved recovery of DSM program costs via the EEFC. Mr. Kelly stated that the EEFC was calculated by first assigning energy and demand values to projected 2015 DSM program costs as defined by Applicant's witness Michael P. Huber in Table MPH-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. The demand portion historically was allocated to the rate schedules based upon the demand allocation percentages approved in Cause No. 43839. For DSMA 12, the same methodology was used, except that since all HLF customers have opted-out of participation in DSM programs, the demand related costs previously allocated to HLF customers (10.53% of such costs) was distributed on a pro-rata basis among the remaining rate schedules. 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, and LP are recovered through demand and energy 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 resulting in projected energy-related lost margins by rate schedule. 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 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 energy and demand-related Large Customer Lost Margins to be recovered during the DSMA 12 Period were divided by projected energy sales to Large Customers participating in DSM programs during the DSMA 12 Period, and then adjusted for Indiana Utility Receipts Taxes, to determine the Large Customer Lost Margin Component.

Mr. Kelly said that as a result of large customer opt-outs, as allowed by the enactment of SEA 340, Vectren South has made some modifications to the way its Large Customer Lost Margin Component is calculated. He explained that Vectren South has created separate DSMA charges for opt-out groups, which required Applicant to separate projected lost margins from lost margins that have accumulated over the life of the DSM programs for which opt-out groups remain responsible. He went on to explain that, in making these modifications, Applicant discovered an omission in its previous calculations of projected lost margins for large customers. The omission resulted in Vectren South not including historical lost margins in its DSMA 11 filing. Mr. Kelly testified that in DSMA 12, Vectren South is appropriately including all historical lost margins, similar to the calculation of small customer lost margins. He said, that Vectren South has also included in this filing \$363,225 of historical large customer lost margins that were not included in DSMA 11, and that same amount was removed from the variance since it is now included in the Large Customer Lost Margin Component. Mr. Kelly confirmed that all customers who opt-out effective January 1, 2015 will have the same lost margin component in DSMA 12 as those customers who opted out effective July 1, 2014 since this component is comprised of actual lost margins for 2012 and 2013 and both opt-out groups were participating in DSM program throughout 2013. He confirmed that no projected lost margins are included in DSMA 12 for opt-out groups.

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 12 Period were divided by projected energy sales to small customers during the DSMA 12 Period, and then adjusted for Indiana Utility Receipts Taxes, to determine the Small Customer Lost Margin Component.

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 12 Period. The proposed rates for each rate schedule are as follows:

DSMA CHARGES

<u>Rate Schedule</u>	<u>DSMA Rate (\$ per KW or kVa)</u>	<u>DSMA Rate (\$ per kWh)</u>
RS	N/A	0.007482
B	N/A	0.007063
SGS	N/A	0.004702
DGS/MLA-1,2	0.253	0.003918
DGS/MLA-3	0.253	0.002173
OSS	0.178	0.003924
LP	0.270	0.002212

DSMA OPT OUT CHARGES (GROUP 2014)

<u>Rate Schedule</u>	<u>DSMA Rate (\$ per KW or kVa)</u>	<u>DSMA Rate (\$ per kWh)</u>
SGS	N/A	0.002813
DGS-1 & 2/MLA-2	0.102	0.002496
DGS-3/MLA-3	0.102	0.000912
OSS	0.073	0.002502
LP	0.071	0.000951
HLF	0.093	0.000948

DSMA OPT OUT CHARGES (Group 2015)

<u>Rate Schedule</u>	<u>DSMA Rate (\$ per KW or kVa)</u>	<u>DSMA Rate (\$ per kWh)</u>
SGS	N/A	0.002813
DGS-1 & 2/MLA-2	0.102	0.002496
DGS-3/MLA-3	0.102	0.000912
OSS	0.073	0.002502
LP	0.071	0.000951
HLF	0.093	0.000948

Applicant's Exhibit No. SMK-2 consists of the tariff sheets reflecting the proposed DSMA Rates (Sheet No. 66, Sixth Revised Page 2 of 6 and First Revised Page 3 of 6). Based on the foregoing, the monthly bill of a residential customer using 1,000 kWh per month during the DSMA 12 Period would increase by \$0.95 per month or .60%.

Michael P. Huber, Applicant's Manager of Electric DSM & Conservation, described Applicant's 2013 DSM programs and explained that, in January 2014, Applicant received 113 rebate applications from GoodCents, the statewide, third party administrator for core programs in Indiana, which totaled \$1.5 million. According to Mr. Huber, there were expenses associated with 2013 programs that did not get reconciled prior to the end of the 2013 budget year. Vectren South and other DSMCC members were notified in mid January 2014 by the statewide program administrator, GoodCents, that participation in the Core C&I Prescriptive double rebate

promotion had increased late in 2013 and there was a backlog of rebates received prior to December 31, 2013 that would not be processed until 2014. A total of 113 Vectren South applications were received prior to December 31, 2013. These projects were completed in calendar year 2013 but the rebates were not processed until early to mid-first quarter of 2014. The total customer incentive amount was \$1,459,745.58. Mr. Huber went on to explain that although, Vectren South had approximately \$3.1 million in approved, but unused funding for DSM programs implemented in 2011-2013, Vectren South did not have authority from the Commission to roll-over that excess funding into future program years. As a result, Vectren South requested that the Commission allow it to use a portion of the \$3.1 million dollars in approved but unallocated 2011-2013 funds in 2014 to cover the 2013 double rebate program, up to, but not to exceed, \$1.5 million and to count the related energy savings towards meeting the Commission's energy savings targets in 2014.

Mr. Huber then described how Applicant's 2014 DSM programs are currently performing and identified the DSM programs to be offered by Vectren South during calendar year 2015. He explained the impact of Senate Enrolled Act No. 340 ("SEA 340") on Vectren South's 2015 DSM planning efforts and confirmed that the Applicant's 2015 DSM Plan is based upon an assumption that, by January 1, 2015, approximately 80% of eligible customers would opt out of participation in Vectren South's DSM program. Mr. Huber described the DSM programs used to make the projections for the DSMA 12 Period. He explained how the performance incentive mechanism is calculated and testified that the 2012 performance incentive was not finalized in time to include in DSMA 11; therefore, the 2012 and 2013 performance incentives are both included for recovery in DSMA 12. He indicated that the Oversight Board has approved the 2012 and 2013 performance incentives and Vectren South has included both for recovery in DSMA 12. Mr. Huber then discussed the system the Applicant uses to track lost margins and how lost margins are projected and calculated. Mr. Huber confirmed that Vectren South updates the lost margins tracking system each month in order to track the magnitude of applicable lost energy and demand sales throughout the year. He said that the updated tracking system reflects the participation and net energy and demand savings per customer determined by the independent evaluation.

Mr. Huber then described the two components of the DLC I&M program for 2015, which include: (1) completion of the four-year DLC I&M program as approved in Cause No. 43839; and (2) the ongoing I&M program. Mr. Huber testified that the first component of the DLC I&M program will be completed in early 2015 and discussed the importance of the ongoing I&M component. He said that in order to continue to obtain peak demand reduction benefits from the DLC program, Vectren South is proposing ongoing maintenance on a five year cycle, with approximately 20% of DLC switches inspected annually. Mr. Huber said that both Vectren South and its customers have achieved significant benefits from the existing DLC programs, but that the benefits will decrease over time absent an ongoing I&M program. He said that customers receive an incentive payment for their continued participation in the program and that Vectren South relies on the expected peak demand reduction to be available under the DLC program when called upon, which means Vectren South needs to inspect and replace switches as necessary to ensure that the DLC peaking capacity is available when needed. Mr. Huber testified 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 12 Application.

b. OUCC's Evidence. 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 \$0.007482 per kWh for the Residential Class including DLC credits and variances, EEFC program costs, administrative costs, incentives and lost margins. Mr. Blakley recommended approval of Applicant's DSMA rates.

6. Commission Findings. The evidence of record supports approval of Applicant's proposed DSMA rates as shown in Applicant's exhibits submitted with its prefiled testimony. Accordingly, the Commission finds the requested DSMA rates described herein should be approved.

Applicant has requested authority to carry forward into 2014 up to \$1.5 million dollars in approved but unused funds to pay double rebates for the Core C&I prescriptive program and to count the savings from the program towards the Commission's 2014 energy savings targets. Since the budget reallocation is needed to cover actual C&I customer rebate claims and no party objected to the Applicant's request, we find that under the unique circumstances of this case, the public interest will best be served by allowing the requested budget reallocation to be made. We approve Applicant's request and the energy savings may be counted toward the energy savings targets.

Further, Applicant has stated that the four-year DLC program approved in Cause No. 43839 ends in early 2015 and has requested authority to continue its DLC I&M program on a five year cycle with approximately 20% of DLC switches inspected each year. Applicant has stated the DLC program benefits both Applicant and its customers and we agree. Applicant's customers receive the incentive payments associated with allowing switches to be installed so that their electric service can be interrupted or curtailed when demand is at its peak. Applicant receives the many benefits associated with the flexibility of reducing demand and ensuring system reliability when demand is at its peak. Applicant has stated that DLC benefits diminish over time in the absence of a continuous I&M program. For this reason, we find that ongoing inspection and maintenance of DLC switches is in the public interest and agree that Vectren South shall continue its I&M program on a five year cycle and shall inspect 20% of DLC switches each year.

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. Applicant is authorized to allocate up to \$1.5 million in approved but unused funds from 2011-2013 to pay C&I prescriptive rebates in 2014 and to count the energy savings gained toward the Commission's 2014 energy savings targets.

4. Applicant is authorized to continue its DLC I&M program on a five year cycle and shall inspect 20% of DLC switches each year.

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

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED

DEC 10 2014

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



Brenda A. Howe
Secretary to the Commission