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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 (1) APPROVAL OF A DEMAND SIDE MANAGEMENT ADJUSTMENT FOR ELECTRIC SERVICE IN ACCORDANCE WITH ORDERS OF THE COMMISSION IN CAUSE NO. 43111 DATED AUGUST 15, 2007, CAUSE NO. 43427 DATED DECEMBER 16, 2009 AND CAUSE NO. 43839 DATED APRIL 27, 2011; AND (2) ESTABLISHMENT OF A MECHANISM FOR RECOVERY OF LOST MARGINS.	)	CAUSE NO. 43405 DSMA 9 S1 APPROVED: JUN 20 2012

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On February 17, 2012, the Indiana Utility Regulatory Commission ("Commission") issued a Docket Entry in Cause No. 43405 DSMA 9 establishing this Subdocket to consider the request of Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") to approve a modification to the Demand Side Management Adjustment ("DSMA") to recover lost margins resulting from the participation of residential and small commercial customers ("Small Customers") in Vectren South's electric demand side management ("DSM") programs. On March 16, 2012, Applicant filed the direct testimony of Robert C. Sears and Scott E. Albertson and on May 4, 2012, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony of Wes R. Blakley.

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 June 5, 2012 at 9:30 a.m., in Room 224, PNC 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**. Due, legal and timely notice of the commencement of the public hearing in this Cause was given and published by the Commission as required by law.

Applicant is a "public utility" as defined in Ind. Code § 8-1-2-1 and as such, is subject to the jurisdiction of the Commission as provided in the Public Service Commission Act, and the provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over Applicant and the subject matter herein.

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 Commission's August 31, 2011 Order in Cause No. 43938 authorized Vectren South to defer up to $1 million in lost margins resulting from the participation of Small Customers in Applicant's electric DSM programs, subject to conditions contained therein. One such condition in the Stipulation and Settlement Agreement ("Settlement Agreement") approved in Cause No. 43938 provided that ultimate recovery of those Small Customer lost margins would be subject to approval of a recovery mechanism to be proposed in a subsequent proceeding. In this Subdocket, Applicant seeks authority to modify its DSMA to include a Small Customer Lost Margin Component to recover lost margins resulting from the participation of Small Customers in its electric DSM programs.

4. **Small Customer Lost Margin Component.**

A. **Applicant's Evidence.** Applicant's witness Robert C. Sears, Director of Conservation for Vectren Utility Holdings, Inc. ("VUHI"), discussed Vectren South's electric DSM program portfolio, including DSM programs for Small Customers. He described the Core and Core Plus DSM programs that Vectren South began offering in April 2010 pursuant to the authority granted by the Commission in its Order in Cause No. 43427, which portfolio was expanded to include additional DSM programs once the Commission approved Vectren South's Initial Three Year DSM Plan in Cause No. 43938. He testified that the preliminary results showed the 2011 DSM programs achieved approximately 224% of their gross energy savings goals approved by the Vectren South Oversight Board, but noted that the results were still subject to evaluation, measurement and verification ("EM&V"). According to Mr. Sears, participation by Small Customers in Applicant's electric DSM programs yielded the majority of the energy and demand savings in 2011. In his testimony, Mr. Sears described the Settlement Agreement and highlighted the fact that ultimate recovery of deferred lost margins would be subject to an EM&V process as well as approval of a recovery mechanism. He indicated that the independent evaluation of 2011 DSM programs was underway and should be concluded in the second quarter of 2012. According to Mr. Sears, Applicant contracted with TecMarket Works, the independent third party evaluator selected by the Demand Side Management Coordination Committee ("DSMCC"), to evaluate Core Programs. He said Vectren South recognizes the value of having the same type of EM&V process for its Core Plus Program components as will exist for Core Programs.

Mr. Sears described how Vectren South proposes to recover lost margins resulting from Small Customers' participation in Applicant's electric DSM programs. He said the method used to recover lost margins resulting from Small Customers' participation in electric DSM programs will be similar to the methodology approved in Cause No. 43938 to recover lost margins resulting from large customers' participation in such programs. According to Mr. Sears, recovery will be based upon net energy and demand savings, as verified by independent evaluation. He went on to describe how both projected and actual lost margins will be calculated and stated that Vectren South updates the lost margin tracking system each month in order to track the magnitude of applicable lost energy and demand sales throughout the year.

Applicant's witness Scott E. Albertson, Director of Regulatory Affairs for VUHI, testified that Vectren South proposed to include Small Customer lost margins in the calculation of the Lost Margin Component of the DSMA and to allocate such Small Customer lost margins to Small Customers. Mr. Albertson explained that, just as the Large Customer Lost Margin component includes projections, the Small Customer Lost Margin component will also include projected lost margins associated with projected DSM program costs in each DSMA beginning with DSMA10. Mr. Albertson sponsored Applicant's Exhibit No. SEA-2 and testified that it reflects the calculation of the Small Customer Lost Margin Component. According to Mr. Albertson, the calculation illustrated in Applicant's Exhibit SEA-2 uses the same annual projection period to be reflected in DSMA10. Vectren South proposed that the Small Customer Lost Margin Component be implemented at the same time approved rates in DSMA10 are implemented or immediately following Commission approval if such approval is granted after DSMA10 is implemented.

In describing how lost margins will be recovered, Mr. Albertson began by indicating that Small Customers are divided into two customer groups – "Residential" and "General Service", resulting in a common Lost Margin Component charge per kWh for all customers in each customer group. "Residential" customers are those customers receiving service under Rates RS and B, and "General Service" customers are those customers receiving service under Rates SGS, DGS-1, DGS-2, MLA-2, and OSS. In his testimony, he then provided a step by step analysis of the schedules associated with Applicant's Exhibit No. SEA-2.

Mr. Albertson described the calculation of the Small Customer Lost Margin Component in detail, including how actual and projected energy savings are determined, how program participation by Rate Schedule is estimated, and how energy-related projected Small Customer lost margins are determined based on that estimate.

Mr. Albertson also described how the variance from prior periods (by customer group) is determined. As illustrated in Applicant's Exhibit No. SEA-2, the variance is an under recovery and is equal to 50% of Small Customer lost margins deferred in 2011. As provided in the Settlement Agreement, the remaining 50% of the 2011 deferral will be included in DSMA11.

Mr. Albertson further discussed demand-related Small Customer Lost Margins applicable to General Service customers with demand meters, including a detailed description of how actual and projected demand savings are determined, how program participation by Rate Schedule is estimated, and how demand-related Small Customer lost margins are determined based on that estimate.

Mr. Albertson testified that the Lost Margin Component of the DSMA is determined by dividing the sum of projected energy and demand related lost margins and applicable variances by the total projected energy sales for each customer group, and then adjusting the charge applicable to each customer group for Indiana Utility Receipts Tax.

Mr. Albertson also described the reconciliation process, including how the Small Customer Lost Margin Component variance is determined. He explained that while actual energy and demand related Small Customer lost margins deferred in 2011 are identified in Applicant's Exhibit No. SEA-2, actual lost margins will not be deferred in future annual DSMA filings since the DSMA billed to customers will include a projection of lost margins. He further explained that actual lost margins in 2011 are identified in Applicant's workpapers and are based on actual energy and (for demand-metered General Service customers) demand savings by program, by Rate Schedule.

In his testimony, Mr. Albertson explained that Vectren South proposes to defer Small Customer lost margins in 2012 until such time as the DSMA includes a Small Customer Lost Margin Component. He said that projected lost margins to be recovered through the Small Customer Lost Margin Component for 2012 total $3 million and that recovery of the 2012 deferred Small Customer lost margins would be amortized over two (2) years in the approved recovery mechanism. According to Mr. Albertson, half of the total deferred lost margins will be included in DSMA11, to be filed in June 2013, and the other half will be included in DSMA12, to be filed in June 2014. He said that once the Small Customer Lost Margin Component is included in the DSMA, Vectren South will include projected lost margins associated with Small Customer participation in DSM programs in each annual DSMA filing.

Mr. Albertson testified that it will be necessary to modify the language on the DSMA tariff sheet to indicate that Small Customer lost margins are recoverable in the DSMA. He said that Vectren South will strike the reference to "Large Customer" DSM programs and add a reference to this Subdocket if the Small Customer Lost Margin Component is approved in this proceeding. Vectren South will provide clean and redline versions reflecting the necessary changes in DSMA10, including a reference to the previously approved change from semi-annual to annual filings.

B. **<u>OUCC's Evidence</u>.** Mr. Wes R. Blakley testified on behalf of the OUCC and said that the lost margin component to be implemented by Vectren South for residential and general service customers appears to be reasonable in its method; however, the OUCC reserves the right in future DSMA filings to reexamine Vectren South's method of calculating lost margins.

5. **<u>Commission Findings</u>.** We have previously authorized Applicant to recover lost margins from large customers pursuant to 170 IAC 4-8. Consistent with the Settlement Agreement, Applicant now seeks to recover deferred lost margins, as well as future lost margins, from Small Customers through its DSMA mechanism. No party opposed this relief. The evidence of record supports approval of Applicant's Small Customer Lost Margin Component as described herein by Applicants' witnesses Messrs. Sears and Albertson. Accordingly, the Commission finds the requested DSMA mechanism as described herein should be approved and shall be reflected in Applicant's DSMA10.

Applicant requested authority to continue deferring Small Customer lost margins incurred after December 31, 2011 until such time as projected Small Customer lost margins are reflected in the DSMA. The Applicant proposed to amortize the recovery of lost margins accrued in 2012 over two (2) years, with half to be recovered in DSMA 11, to be filed in June 2013 and the other half to be recovered in DSMA 12, to be filed in June 2014. We find this accounting treatment to be reasonable and appropriate.

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

1. The Small Customer Lost Margin component of the Demand Side Management Adjustment as proposed herein by Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. is approved.

2. Vectren South's request to defer lost margins associated with Small Customer participation in DSM programs incurred and accrued in 2012 and to recover those deferred lost margins in future DSMAs is approved.

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

BENNETT, LANDIS, AND ZIEGNER CONCUR; ATTERHOLT ABSENT; MAYS NOT PARTICIPATING:

APPROVED JUN 20 2012

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