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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF DEMAND SIDE MANAGEMENT ADJUSTMENT FACTORS FOR ELECTRIC SERVICE FOR THE MONTHS OF JULY THROUGH DECEMBER 2013 IN ACCORDANCE WITH THE ORDERS OF THE COMMISSION IN CAUSE NOS. 43618, 43912 AND 44154.	)	CAUSE NO. 43618 DSM 4 APPROVED: JUN 26 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
David E. Veleta, Administrative Law Judge

On April 15, 2013, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its semi-annual request for approval of Demand Side Management Adjustment ("DSMA") Factors for electric service to be effective for the period of July through December 2013. On April 16, 2013, Petitioner filed its case-in-chief, including direct testimony and exhibits supporting the proposed DSMA Factors and the underlying costs for which cost recovery is requested. On May 22, 2013, NIPSCO filed corrected testimony and exhibits. On May 31, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and schedules of Wes R. Blakley.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, an evidentiary hearing was held in this matter on June 13, 2013 at 1:00 p.m., local time, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prefiled evidence of NIPSCO and the OUCC were admitted into the record without objection and all parties waived cross-examination of all witnesses. No members of the general public appeared or participated at the hearing.

Based upon the applicable law and being duly advised in the premises, the Commission now finds as follows:

1. **Notice and Jurisdiction**. Due, legal and timely notice of the public hearing conducted herein was given and published by the Commission as required by law. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes in Petitioner's schedules of rates and charges. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics**. Petitioner is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 East 86th Avenue,

Merrillville, Indiana. Petitioner provides electric public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of electric power to the public.

3. **Background.** On May 25, 2011, the Commission issued an Order in Cause No. 43618 ("43618 Order") approving NIPSCO's request for approval of Rule 52 of the General Rules and Regulations and Appendix G – Demand Side Management Adjustment Mechanism Factor. On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed Core and Core Plus energy efficiency programs and their projected budgets. On August 8, 2012, the Commission issued an Order in Cause No. 44154 ("44154 Order") authorizing NIPSCO to recover lost margins associated with its approved Core and Core Plus programs through the DSMA Rider.

4. **Implementation of DSM Programs.** NIPSCO Witness Karl E. Stanley provided an overview of the performance of NIPSCO's Core and Core Plus programs. As to the Core programs, he explained that in developing estimates for the second half of 2013, NIPSCO was confronted with limited information regarding the performance of the Core programs. He stated that building on the start of the program in 2012, GoodCents (the Home Energy Audit provider, which is used for the Weatherization program) and the Demand Side Management Coordination Committee ("DSMCC") continue to address issues related to (a) spending the allocated budget dollars that were approved in the Third Party Statement of Work ("SOW") and (b) reaching the targeted energy savings goals. He stated that while steps have been taken to address customer penetration issues, such as neighborhood canvassing, community-based outreach measures, and more targeted marketing, not enough evidence allows one to conclude that these measures will increase customer participation to the levels expected in the SOW. For this reason, Mr. Stanley explained that NIPSCO has taken a conservative approach related to forecasted spending on the Core programs.

Mr. Stanley described the performance of the Core Plus programs as follows:

The Residential Energy Efficiency Rebate Program struggled during 2012 to achieve the desired penetration in a variety of areas. NIPSCO has worked with its Oversight Board ("OSB") and CLEAResult (the Weatherization provider) to address these issues for 2013, which has included reduced reliance on heat pumps and additional marketing strategies for both trade allies and consumers.

The Residential Home Weatherization Program was launched in August 2012, which was later than the other programs. Thus, the number of audits did not ramp up until the fourth quarter of 2012. Because of these issues, not enough history is available to adequately assess program performance. NIPSCO continues to work with CLEAResult and GoodCents to assure timely flow of data and to also determine how best to market to customers.

Additionally, the Residential New Construction Program has been adversely affected by the slow recovery in the housing market. As a result, it ran short of its projected savings goals for 2012. To address this for 2013, and based on feedback from program participants, NIPSCO and the OSB recently approved a new structure to simplify the program for greater understanding on the part of builders.

The Residential Multifamily Direct Install Program was highly successful in 2012. In 2013, NIPSCO looks to continue providing this well received program to apartment complexes as well as manufactured homes.

The Appliance Recycling Program did not achieve the original targeted participation of 4,000 units during 2012. Therefore, NIPSCO is focusing on increased marketing to improve participation in 2013 and is also working with the OSB to determine the appropriate incentive level.

The Air Conditioning ("AC") Cycling Program began in October 2011. Although this program is achieving a steady increase in participation each month, it did not meet the expected level of customer participation for 2012. NIPSCO is working with GoodCents on ways to improve participation such as having the canvassers for the Core programs also offer the AC Cycling program.

During 2011 and 2012, Franklin Energy enrolled the anticipated energy savings into the Commercial & Industrial ("C&I") Custom Electric Incentive Program. However, due to capital budgeting requirements on the part of C&I customers, there can be a time lag between enrollment and project completion. Because NIPSCO only counts energy savings once the project is completed the savings that NIPSCO was able to report in 2011 and 2012 was far lower than the savings goal. Going forward, NIPSCO has created a "pipeline" of anticipated savings to better align program expectations.

The C&I Custom Electric New Construction Incentive Program continues to struggle with customer participation and therefore did not spend the budgeted dollars and did not achieve the expected energy savings goals for 2012. Franklin Energy is working with customers and trade allies to determine appropriate program improvements. However, much of the success of this program depends on economic factors that drive decisions related to new C&I construction projects.

5. **Recovery of Costs.** In the 43912 Order, the Commission approved NIPSCO to recover the costs associated with its approved Core and Core Plus programs through the DSMA Rider. NIPSCO will make semi-annual filings for factors to be effective January through June and July through December of each year. These filings will reflect estimated costs and DSMA Factors, and recovery will be over a six-month period to coincide with the estimation period. Reconciliation of actual expenditures will be made in a subsequent semi-annual filing. NIPSCO's immediate request reconciles costs incurred from July 2012 through December 2012 and includes projected costs for July 2013 through December 2013.

In the 44154 Order, the Commission approved NIPSCO to collect lost margins on its net energy and demand reductions resulting from its energy efficiency programs. NIPSCO was authorized to defer lost margins associated with its Core programs from February 2012 through

December 2012 and associated with its Core Plus programs from the date of the order (August 8, 2012) through December 2012. NIPSCO's immediate request includes projected lost margins for the period July 2013 through December 2013 and the remaining half of the deferred amounts (with the other half included for recovery in DSM 3).

Mr. Stanley discussed the costs NIPSCO included in its factor calculations. He sponsored Revised Schedule 1 of Exhibit 1 attached to the Company's Verified Petition, which shows a breakdown of projected and reconciled costs for the recovery period of July through December 2013 for the programs approved by the Commission and the OSB. Mr. Stanley sponsored Schedule 3 of Exhibit 1 attached to the Company's Verified Petition, which shows the energy and demand forecasts used in the calculation of lost margins. Mr. Stanley testified the projected costs for the period July to December 2012 were $13,954,227 and the actual costs during this period were $8,774,604 resulting in an over-collection of $5,179,622. He stated that the majority of the over-collection is associated with four (4) programs: the C&I Custom Program, the C&I Prescriptive Program, the Energy Efficiency Rebate Program and the AC Cycling Program.

Mr. Stanley provided an explanation of Workpaper Revised KES-1, which supports Revised Schedule 1. He stated that Workpaper Revised KES-1 is the work product that feeds into Schedule 1. This workpaper provides the actual costs incurred from July 2012 through December 2012 reconciled against the prior forecast for the same period in DSM-2. This workpaper also includes projected expenses for the July 2013 through December 2013 period and includes: (1) summary information that directly feeds Schedule 1 for the actual costs; (2) detailed information providing actual costs by program for the period July 2012 through December 2012; (3) background information for the sales tax adjustment; (4) background information for the adjustments that were made to the residential and commercial and industrial programs as it pertains to the allocation of evaluation, measurement, and verification ("EM&V") costs; (5) background information for the Energy Conservation Program adjustment related to program cost allocations between the electric and gas programs; (6) detail supporting the gas therm purchase that the NIPSCO gas utility made from the NIPSCO electric utility; (7) a detailed look at each program's actual costs with dollar amounts broken down into categories; (8) NIPSCO's forecasted expenses; and (9) the contract amounts that NIPSCO has with its vendors that also include NIPSCO's internal administrative cost projections.

Mr. Stanley provided an explanation of Workpaper KES-2, which supports Schedule 3. He explained that Workpaper KES-2 is the work product that feeds into Schedule 3 and provides the detailed calculations supporting the energy and demand savings.

6. **Reconciliation of Estimated and Actual Expenses and Revenue.** Mr. Stanley testified the proposed DSMA Factors recover projected costs from July 1, 2013 through December 31, 2013. Mr. Stanley testified that in 2012 each of the Core and Core Plus programs either just met or lagged behind in both projected spend and energy savings goals. He explained that considering that there are only two data points (January and February) so far in 2013, there is not enough information to determine if the trend is reversing and if it is reasonable to expect that the program spend in 2013 will be greater than what was achieved in 2012. Consequently,

he stated NIPSCO decided to keep the forecasted expense estimates for the July through December 2013 period conservative by using the actual spending results of the July through December 2012 period. He stated that while NIPSCO anticipates that the programs will be more successful in meeting the goals in 2013, using the actual spending for the same period in 2012 is known and measurable.

7. **Resulting DSMA Factors.** NIPSCO Witness Derric J. Isensee testified the calculations of the proposed DSMA Factors were prepared in conformity with the 43618, 43912 and 44154 Orders. Mr. Isensee testified NIPSCO allocated the projected costs by program to the individual rate classes based on the number of customers in each eligible class. He stated NIPSCO allocated the projected lost margins by program to the individual rate classes based on either the number of customers in each eligible class or the energy forecasts related to each eligible rate class consistent with the methodology approved by the 44154 Order. He stated that in future filings any lost margin reconciliation amounts will also be included in this allocation. Once NIPSCO allocates the program expenditures and lost margins to the individual rate classes, and it has performed a reconciliation of revenue collection, NIPSCO then calculates the DSMA Factors by dividing the cost per rate class by the respective forecasted usage. NIPSCO then adjusts the resulting DSMA Factors to reflect Utility Receipts Tax on Retail Sales. Mr. Isensee sponsored Revised Exhibit 2 to the Verified Petition showing the calculation of the proposed DSMA Factors, as follows:

Rate 611	A charge of $0.003390 per kwh used per month
Rate 612	A charge of $0.002434 per kwh used per month
Rate 613	A charge of $0.003579 per kwh used per month
Rate 620	A charge of $0.001366 per kwh used per month
Rate 621	A charge of $0.000671 per kwh used per month
Rate 622	A charge of $0.001099 per kwh used per month
Rate 623	A credit of $0.001493 per kwh used per month
Rate 624	A charge of $0.000388 per kwh used per month
Rate 625	A charge of $0.000184 per kwh used per month
Rate 626	A credit of $0.000087 per kwh used per month
Rate 632	A charge of $0.000541 per kwh used per month
Rate 633	A charge of $0.000069 per kwh used per month
Rate 634	A charge of $0.000176 per kwh used per month
Rate 641	A charge of $0.000776 per kwh used per month
Rate 644	A charge of $0.000098 per kwh used per month
Rate Code 647	A charge of $0.000000 per kwh used per month
Rider 676	A charge of $0.000000 per kwh used per month

The Rate Code 647 Demand Side Management Adjustment Mechanism (DSMA) Factor is applicable to all customers billed under this rate code under contracts approved by the Commission.

The DSM adjustment factor for Rider 676 will be the adjustment factor associated with the appropriate firm service rate schedule, either Rate 632, 633, or 634, being used in conjunction with this Rider.

Mr. Isensee said the estimated average monthly bill impact for a typical residential customer using 688 kilowatt-hours per month is $2.33. He noted this is a $2.10 decrease when compared to what a customer would pay using the current DSMA factors.

Wes Blakley, Senior Utility Analyst with the OUCC testified that the corrected exhibits filed by Petitioner support the figures used in calculating the DSMA Factor.

8. <u>Other Issues</u>. In addition to his discussion of the DSM programs and costs, Mr. Stanley addressed changes since prior filings that NIPSCO has made to provide a full accounting and basis for the factors being proposed. He explained that as part of its case-in-chief, NIPSCO included Workpapers KES-1, providing a detailed accounting of the actual costs for the reconciliation period. He discussed the basic premise of the labeling associated with NIPSCO's workpapers, and indicated that NIPSCO includes in its testimony a reference to each workpaper by name and a full description of the information that is located within each workpaper.

Mr. Stanley described steps NIPSCO has taken to include worksheets that clearly provide a basis and foundation for the data. He explained that Workpaper KES-1 provides a basis and foundation for the data included in Schedule 1 and Workpaper KES-2 provides a basis and foundation for the data included in Schedule 3. Mr. Stanley also described the steps NIPSCO has taken to provide consistent and complete revisions to testimony that accompany changes or corrections to the proposed factors. He explained that while every effort will be made to produce a complete and accurate initial filing, if a change or correction is necessary, NIPSCO will ensure that there is sufficient time to reconcile the testimony, schedules and workpapers prior to making the filing so the revisions are presented in a way that provides clarity and understanding of the revisions.

Mr. Stanley also provided a high level summary of NIPSCO's initiative to rework its DSM reporting process. He stated the purpose of the rework was to eliminate errors, improve transparency, and give a full cost accounting of all factors being proposed. For example, he explained that NIPSCO is undergoing an internal initiative to assess and redesign its DSM reporting processes. He stated this initiative will simplify and streamline the filing process, including schedules and workpapers. Additionally, Mr. Stanley testified that NIPSCO is committed to continual process improvement that removes error traps, clarifies roles and responsibilities, and sufficiently explains and documents all data included in NIPSCO's DSM and GDSM adjustment filings.

9. <u>Commission Discussion and Findings</u>. The evidence presented in this Cause supports approval of Petitioner's proposed DSMA Factors as reasonable. Accordingly, we find that the DSMA Factors requested herein should be approved. Pursuant to Ind. Code § 8-1-2-42(a), the resulting DSMA Factors will become effective for the beginning of the first billing cycle for the billing month of July, 2013.

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

1. The Verified Petition of Northern Indiana Public Service Company for approval of Demand Side Management Adjustment Factors, as set forth in Finding No. 7 above, shall be and is hereby approved.

2. Northern Indiana Public Service Company shall file with the Electricity Division of this Commission, prior to placing in effect the DSMA Factors herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such charge is applicable to all of its filed rate schedules, as shown in Revised Exhibit 2 to the Verified Petition.

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

ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:

APPROVED: JUN 26 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