ORIGINAL

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 JANUARY THROUGH JUNE 2014 IN ACCORDANCE WITH THE ORDERS OF THE COMMISSION IN CAUSE NOS. 43618, 43912 AND 44154.	)	CAUSE NO. 43618 DSM 5 APPROVED: DEC 30 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
David E. Veleta, Administrative Law Judge

On September 26, 2013, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its semi-annual request for Commission approval of Demand Side Management Adjustment ("DSMA") Factors for electric service to be effective for the period of January through June 2014. On September 27, 2013, Petitioner filed its case-in-chief, including direct testimony, exhibits and workpapers supporting the proposed DSMA Factors and the underlying costs for which Petitioner requests cost recovery. On November 12, 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 December 5, 2013 at 9:30 a.m., local time, in Room 224 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.** Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as that term is defined in Indiana Code § 8-1-2-1. In the Cause No. 43618 Order, the Commission approved an adjustment mechanism for NIPSCO'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 Petitioners' schedules of rates and charges. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

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 renders electric public utility service in the State of Indiana and

owns, operates, manages and controls, among other things, plant and equipment within the State used for the generation, transmission, distribution and furnishing of electric public utility service to the public within its assigned service territories.

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.

On December 18, 2013, in Cause No. 44363, the Commission approved NIPSCO's electric DSM programs for the period January 1, 2014 through December 31, 2014 ("2014 DSM Program"). As the basis for its 2014 DSM Program, NIPSCO utilized an Action Plan that was completed by Morgan Marketing Partners with input from the Oversight Board ("OSB"). The Action Plan was included in NIPSCO's case-in-chief filed in Cause No. 44363. The Action Plan is the roadmap for NIPSCO to achieve its energy savings and load control goals cost effectively. Morgan Marketing Partners worked with NIPSCO and its OSB to determine the programs, savings levels and costs to meet those saving levels in order to achieve the goals established by the Commission in its Phase II Order in Cause No. 42693.

4. **Implementation of DSM Programs.** NIPSCO Witness Victoria A. Vrab provided an overview of the performance of NIPSCO's Core and Core Plus programs. As to the Core programs, she explained that NIPSCO continues to work GoodCents and the Demand Side Management Coordination Committee ("DSMCC") to address issues related to (a) spending the allocated budget dollars that were approved in the Third Party Statements of Work and (b) reaching the targeted energy savings goals. She stated that success has been realized by the steps taken to address customer penetration issues, such as neighborhood canvassing, community-based outreach measures, and more targeted marketing. She explained that because GoodCents is currently finishing the second year of program implementation, NIPSCO has taken a conservative approach in this filing related to forecasted spending on the Core programs. Ms. Vrab described the performance of the Core Plus programs through June 2013 as follows:

A. The Residential Energy Efficiency Rebate Program is at approximately 35% of its revised goal. NIPSCO and its OSB have worked to adjust the measures in this program and is on-track to meet its goal for 2013. NIPSCO and its OSB reallocated some of the budget dollars associated with this program to the Multifamily Direct Install Program to improve overall performance in meeting the energy savings targets for 2013. NIPSCO continues to work with CLEAResult through a variety of channels, including a quarterly meeting to go through each program and its OSB to address participation issues and to make appropriate adjustments.

B. The Residential Home Weatherization Program has traditionally relied on the home audit program to provide a complement to the incentives offered through this program. However, with home energy assessments ("HEAs") not being provided through the Core program, CLEAResult needed to adjust its delivery model. As such, a revised Weatherization pilot rolled out in July 2013. This pilot provides a less comprehensive home audit, and is specifically marketed to customers looking to install weatherization measures (rather than those looking for the assessment and direct-install measures provided by the HEA). NIPSCO, CLEAResult and the OSB will monitor this pilot and make determinations how best to handle the program in 2014.

C. The Residential New Construction Program achieved 6% of its goal through June 2013. The new structure implemented July 1, 2013, has been successful, with the program achieving 26% of its goal through July, 2013 and is on track to overachieve the goal. Because a New Construction program has the ability to transform the market, NIPSCO will continue to look for ways to encourage builder participation.

D. The Residential Multifamily Direct Install Program is at 40% of its revised goal through June 2013, and NIPSCO anticipates the targeted savings will be achieved.

E. The Appliance Recycling Program has been successful in 2013, with 67% of the year's saving achieved through June 2013. NIPSCO looks to continue the success of this program.

F. The Energy Conservation Program achieved through June 2013, 44% of its targeted savings for the year. Although the cooler summer has decreased air conditioning use, Opower anticipates achieving the anticipated savings for the year.

G. The A/C Cycling Program had 5,706 customer installations through June 2013, which is an increase of over 2,000 customers from 2012 participation during the same 6 months. Although the program continues to enroll new participants each month, it is likely to fall short of expected participation in 2013. NIPSCO is working with GoodCents on ways to improve participation and the canvassers for the Core program are also offering the A/C Cycling program through multiple channels such as direct mail, community outreach and enrichment, school outreach/fundraiser, etc. In addition, NIPSCO is reviewing its current participation goals to assure they continue to be appropriate.

H. The C&I Custom Electric Incentive Program has an approximate 59,000 megawatt-hours ("MWh") in savings from current work in progress from 2012 and 2013 combined in the program and has paid out incentives for 64,768 kilowatt-hours ("kWh").

I. The C&I Custom Electric New Construction Incentive Program is expected to outperform the goal for 2013, with 100% of the funding currently allocated.

Franklin Energy has worked with customers and trade allies to determine appropriate program improvements. NIPSCO is working with its OSB to assure additional savings may be obtained through this program by possibly using unspent funding from previous program years.

5. **Recovery of Costs.** In the 43912 Order, the Commission approved NIPSCO's request to recover the costs associated with its approved Core and Core Plus programs through the DSMA Rider. NIPSCO makes semi-annual filings for factors to be effective January through June and July through December of each year. These filings reflect estimated costs and DSMA Factors, and recovery is over a six-month period to coincide with the estimation period. Reconciliation of actual expenditures is made in a subsequent semi-annual filing. In the 44154 Order, the Commission approved NIPSCO's request to collect lost margins on its net energy and demand reductions resulting from its energy efficiency programs.

Ms. Vrab sponsored Schedule 1 of Exhibit 1 attached to NIPSCO's Verified Petition, which shows a breakdown of projected and reconciled costs for the recovery period of January through June 2014 for the programs approved by the Commission and the NIPSCO OSB. This filing reconciles costs incurred for the period January through June 2013 and includes projected costs for the period January through June 2014. Ms. Vrab testified the projected costs for the period January through June 2013 were $15,773,526 and the actual costs during this period were $10,104,376 resulting in an over-collection of $5,669,150. She stated that the majority of the over-collection is associated with three (3) programs: the C&I Custom Electric Incentive Program, the Prescriptive Rebate Program – Commercial, and Residential New Construction.

With regard to projections, Ms. Vrab explained that NIPSCO used two sources for its projections in this proceeding. First, NIPSCO used the actual costs for the period January through June 2013. Second, for the two new programs included in the 2014 DSM Program (SBDI and GREM), as well as for projections of lost margins, NIPSCO used projections detailed by NIPSCO Witness Karl Stanley in Cause No. 44363. She explained that these projections use the Action Plan with some modifications to provide greater specificity to NIPSCO's projections. She described the modifications as follows: (1) administrative and evaluation, measurement and verification ("EM&V") costs are allocated to each program (whereas the Action Plan allocates the cost at the Commercial and Industrial and Residential portfolio levels); and (2) NIPSCO used the "pipeline" to forecast spending and savings for the C&I Custom Incentive and Non-Residential New Construction programs. She summarized that these projections, then, provide an even more accurate projection of expenses for each program. She explained that NIPSCO then reduced the projected expenses for the two new programs by 42% (the difference between the January through June 2013 actual program expenses and the January through June 2014 projected expenses detailed in Cause No. 44363) to better align the program cost projections of its current programs with the two new programs. Ms. Vrab testified that to the extent necessary, NIPSCO will make any adjustments to this filing once a Final Order has been received in Cause No. 44363.

Ms. Vrab sponsored Schedule 3 of Exhibit 1 attached to NIPSCO's Verified Petition, which shows the energy and demand forecasts used in the calculation of lost margins. NIPSCO's immediate request includes projected lost margins for the period January through

June 2014. Ms. Vrab stated for this filing there is no reconciliation to actual lost energy or demand.

With regard to projections for lost margins, Ms. Vrab explained that with respect to the two new electric DSM programs (currently pending approval in Cause No. 44363) where NIPSCO did not have expenditures in 2013 (GREM and SBDI), NIPSCO utilized projections detailed by NIPSCO Witness Karl Stanley in Cause No. 44363 and reduced them by 42% (the difference between the January through June 2013 actual program expenses and the January through June 2014 projected expenses detailed in Cause No. 44363).

Ms. Vrab provided an explanation of the workpapers supporting Schedules 1 and 3. She stated that Workpaper VAV-1 is the work product that feeds into Schedule 1 showing the actual costs incurred from January through June 2013 reconciled against the prior forecast for the same period and includes projected expenses for the period January through June 2014. Workpaper VAV-1 consists of 22 tabs showing (1) summary by program of both the actual expenses and projected expenses; (2) a detailed account of planned expenses expected in the period January through June 2014 along with a detailed explanation of the adjustments included to get to a final total that directly feeds Schedule 1; (3) a detailed account of the actual expenses incurred in the period January through June 2013 along with a detailed explanation of the adjustments included to get to a final total that directly feeds Schedule 1; (4) the calculations used to determine the lost margin reduction factor which is based on the January through June 2013 actual expenses versus the January through June 2014 projected expenses; and (5) a detailed account of specific corrections and adjustments.

Ms. Vrab stated that Workpaper VAV-2 is the work product that feeds into Schedule 3 showing the detailed calculations supporting the energy and demand savings. Workpaper VAV-2 consists of 8 tabs showing (1) source data; (2) measures used to determine monthly incremental savings; (3) cumulative savings; (4) expected savings by program; (5) expected incremental savings by month for future periods; (6) demand reductions by program; (7) energy savings by program; and (8) demand reductions and energy savings that directly feed to Schedule 3.

6. Reconciliation of Projected and Actual Expenses and Revenue. Ms. Vrab testified the proposed DSMA Factors reconcile projected and actual expenses for the period January through June 2013. The first reconciliation of projected and actual lost margins will occur in NIPSCO's DSM-7 filing. However, this filing does include the reconciliation of actual lost margin revenues collected compared to lost margins forecasted for the period of January through June 2013.

Ms. Vrab described NIPSCO's rationale for using the actual expenses incurred for the period January through June 2013 for each of the programs as the projected expenses for the period January through June 2014. She explained that because NIPSCO's entry into the field of electric DSM is somewhat recent, NIPSCO continues to work toward the best way to forecast costs. She stated that since the program costs are ultimately reconciled, NIPSCO is using the actual program costs of the same time period in 2013 to project program costs for the same time period in 2014. She stated that while it is anticipated that the programs will continue to grow in

2014, using the actual spending for the same period in 2013 is known and measurable.

With regard to cost allocations, Ms. Vrab explained that while NIPSCO used the new proposed cost allocations in this filing, NIPSCO did not reconcile any of the program costs from DSM-3 to the previously-impacted rate classes. Rather, if NIPSCO receives approval from the Commission to allocate the Energy Efficiency Rebates and School Audits and Direct Install as requested, NIPSCO will reconcile for program expenses for DSM-3 and DSM-4 in DSM-6 and will reconcile for lost margins in DSM-7 (which is when NIPSCO will reconcile lost margins for DSM-1 through DSM-4). Ms. Vrab testified that to the extent necessary, NIPSCO will make any adjustments to this filing once a Final Order has been received in Cause No. 44363.

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, on an annual basis, 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 Exhibit 2 to the Verified Petition showing the calculation of the proposed DSMA Factors, as follows:

Rate 611	A charge of $0.003900 per kwh used per month
Rate 612	A charge of $0.001914 per kwh used per month
Rate 613	A charge of $0.002123 per kwh used per month
Rate 620	A charge of $0.000131 per kwh used per month
Rate 621	A charge of $0.000917 per kwh used per month
Rate 622	A charge of $0.000133 per kwh used per month
Rate 623	A charge of $0.002738 per kwh used per month
Rate 624	A charge of $0.000538 per kwh used per month
Rate 625	A charge of $0.000111 per kwh used per month
Rate 626	A charge of $0.000217 per kwh used per month
Rate 632	A charge of $0.000625 per kwh used per month
Rate 633	A charge of $0.000040 per kwh used per month
Rate 634	A charge of $0.000167 per kwh used per month
Rate 641	A credit of $0.000094 per kwh used per month
Rate 644	A charge of $0.000106 per kwh used per month
Rider 676	A charge of $0.000000 per kwh used per month

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 explained NIPSCO's revision to Appendix G – Demand side management Adjustment mechanism (DSMA) Factor tariff sheet. He explained that Rate Code 647 is an internal NIPSCO rate code designation for Commission approved special contracts that were subject to the DSMA Factor. He stated that all special contracts have now expired and these customers were migrated to other rates. Thus, all references to Rate Code 647 were removed from the text and the list of Rate Schedules.

Mr. Isensee said the estimated average monthly bill impact for a typical residential customer using 688 kilowatt-hours per month is $2.68. He noted this is a $0.35 increase when compared to what a customer would pay using the current DSMA factors.

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

8. **Commission Findings.** The DSMA Factors presented for approval include projected costs for the period January through June 2014 associated with NIPSCO's 2014 Electric DSM Plan as approved in the Order for Cause No. 44363. The evidence presented in this Cause as discussed above supports approval of Petitioner's proposed DSMA Factors as reasonable. Accordingly, we approve the requested DSMA Factors. The resulting DSMA Factors will become effective for the beginning of the first billing cycle for the billing month of January, 2014.

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 schedule, as shown in Exhibit 2 to the Verified Petition.

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

ATTERHOLT, MAYS, AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 30 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