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 BILLING CYCLES FOR THE MONTHS OF JULY THROUGH DECEMBER 2014 IN ACCORDANCE WITH THE ORDERS OF THE COMMISSION IN CAUSE NOS. 43618, 43912, 44154 AND 44363.	)	**CAUSE NO. 43618 DSM 6** **APPROVED:** JUN 18 2014

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On March 27, 2014, 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 factors ("DSMA Factors") for electric service to be effective for the period of July through December 2014. On March 28, 2014, 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 May 9, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and schedules of Wes R. Blakley.

An evidentiary hearing was held in this matter on June 5, 2014 at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prefiled evidence of NIPSCO and the OUCC was admitted into the record without objection and the parties waived cross-examination of all witnesses. No members of the general public appeared or participated at the hearing.

Based upon the evidence presented and applicable law, 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 Ind. Code § 8-1-2-1. In the Commission's May 25, 2011 Order in Cause No. 43618, the Commission approved an adjustment mechanism for NIPSCO's recovery of costs associated with its Demand Side Management ("DSM") program through a demand side management adjustment ("DSMA") mechanism. 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 Petitioner and the subject matter of this Cause.

2. **<u>Petitioner's Characteristics</u>.** 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. **<u>Background</u>.** 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 ("DSMA Mechanism"). On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed DSM 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 DSM programs through the DSMA Mechanism. On December 18, 2013, the Commission issued an Order in Cause No. 44363 ("44363 Order") approving NIPSCO's DSM programs for the period January through December 2014 and recovery of associated program costs pursuant to 170 IAC 4-8-5 and lost margins pursuant to 170 IAC 4-8-6 through its DSMA Mechanism. The 43912 Order and 44363 Order are collectively referred to herein as the "DSM Orders."

4. **<u>Implementation of DSM Programs</u>.** NIPSCO witness Victoria A. Vrab described the performance of the DSM programs through December 2013 as follows:

A. <u>School Education Program</u>. This program is intended to produce cost-effective electric savings by influencing students and their families to focus on conservation and the efficient use of electricity. At the end of 2013, this program achieved 100% of its savings goal. The under-collection of program costs during the July through December 2013 period was driven by more aggressive implementation that drove the addition of 1,031 school kits over the historical period. These additional kits are largely responsible for the strong performance of the program.

B. <u>Residential Home Energy Assessment Program</u>. This program is intended to produce long-term, cost-effective electric savings in the residential market sector by helping customers analyze and understand their energy use, recommending appropriate weatherization measures, and facilitating the direct installation of specific low-cost energy saving measures. At the end of 2013, this program achieved 97% of its savings goal. The contributing factor to the under-collection of this program was due to improvements in marketing through contractor promotions and increased canvassing coverage in 2013 versus 2012. Since the projected program costs had been based on 2012 actual costs, the projections did not capture the improved performance of the program and the consequent increase in program costs. By comparison, in July through December 2013, this program achieved 14,113 gross MWh savings and for the same period in 2012, the program only achieved 5,854 gross MWh savings.

C. <u>Residential Lighting Program</u>. This program is intended to increase the penetration of ENERGY STAR qualified lighting products utilized in residences located in each participating utility's service territory. At year-end 2013, this program achieved 100% of its savings goal.

D. Residential Income Qualified Weatherization ("IQW") Program. This program is intended to generate energy savings for qualifying low-income residential customers by providing energy efficiency measures and improvements tailored to participating customer homes as well as providing education to reduce energy consumption. At the end of 2013, this program achieved 100% of its savings goal. The under-collection of program costs during the July through December 2013 period was related to gas overlay transfers that should not have occurred. To clarify, while savings occur for both gas and electric for every IQW kit that is installed, the entire cost of the kit is funded within NIPSCO first by the electric program and then a charge is made to the gas program afterward based on gas savings. An adjustment was made in this filing to reflect the correction.

E. Prescriptive Rebate Program Commercial. This program provides a prescriptive incentive structure that rewards with monetary incentives based on the installation of energy efficient equipment upgrades such as energy efficient light fixtures and ballasts as well as energy efficient pumps, motors and variable speed drives. At year-end 2013, this program achieved 37% of its savings goal. The contributing factor to the under-collection of program costs was a double incentive rebate offering. As a result of this promotion, $1,000,000 more in incentive checks were paid to customers during July through December 2013 than the same time period in 2012. Even though more incentive dollars were paid to NIPSCO's customers in 2013, several adjustments were made to the savings which contributed to the low savings achievement.

F. School Audit Direct Install Program. This program is designed to produce electric savings by providing technical assistance to schools in the form of building energy audits, as well as provide access to prescriptive rebates programs. At year-end 2013, this program achieved 229% of its savings goal.

G. Residential Energy Efficiency Rebate Program. This program, administered by CLEAResult, is intended to increase demand for energy efficient products through cash-back rebates that cover a portion of the incremental cost to upgrade to efficient technologies. At year-end 2013, this program achieved 100% of its savings goal. NIPSCO continues to work with CLEAResult through a variety of channels, including a quarterly meeting to go through each program, and with its Oversight Board ("OSB") to address participation issues and to make appropriate adjustments.

H. Residential Home Weatherization Program. This program, also administered by CLEAResult, is intended to produce long-term savings in the residential market sector. Savings are achieved by educating customers about opportunities to improve the energy efficiency of their homes and by buying down the cost of recommended improvements through pre-selected installation contractors trained and monitored by the program. Customers can receive instant incentives for up to 40% of the cost to insulate their homes. These incentives can be no greater than $3,000 for each residential customer. At the end of 2013, this program achieved 18% of its savings goal.

I. Residential New Construction Program. Administered by CLEAResult, this program is intended to produce long-term natural gas and electric energy savings by encouraging the construction of single-family homes and duplexes that meet one of three energy efficiency standards through the installation of high-efficiency mechanical equipment. This program has been adversely affected by the slow recovery in the housing market and therefore ran short of its projected savings goal for 2012. The new structure was successful. At year-end 2013, this program achieved 100% of its savings goal.

J. Residential Multifamily Direct Install Program. This program, which in Cause No. 44363 is titled Direct Install Program (Multi-family), is administered by CLEAResult and intended to produce low-cost electric and natural gas savings in multi-family buildings through the direct installation of energy-saving measures within individual living units as well as common areas. At year-end 2013, this program achieved 100% of its savings goal.

K. Appliance Recycling Program. This program, administered under contract with American Recycling Company of American, has been in place since August 2010. NIPSCO increased marketing such as radio spots, a sweepstakes, direct mailers, and community outreach events to improve participation for the remainder of 2013. At the end of 2013, this program achieved 53% of its savings goal. NIPSCO and the OSB approved a rebate increase from $35 to $50 per unit to begin January 2014 through June 2014 to encourage customer participation.

L. Energy Conservation Program. This program continues to be offered through Opower in conjunction with NIPSCO's gas energy efficiency programs. At year-end 2013, this program achieved 87% of its savings goal. To encourage engagement and increased savings from the existing customer base, NIPSCO has worked with Opower to incorporate an additional two reports to the 165,000 customers.

M. A/C Cycling Program. The program continues to be administered by GoodCents using Cooper technology. When there is sufficient strain on the electric system, this program gives NIPSCO the ability to cycle the internal compressors of those customers who participate in the program in exchange for a credit on their monthly bills during the June through September period. This program began in October 2011. Through June 2013, NIPSCO had 5,706 customer installations, which is an increase of over 2,000 customers from 2012 participation during the same six-month period. Although the program continues to enroll new participants each month, and by year-end 2013 had achieved 10,539 enrollments, NIPSCO continues to work with GoodCents on ways to improve participation.

N. Commercial & Industrial ("C&I") Custom Electric Incentive Program. This program is being administered by Franklin Energy. One of the lessons learned about this program is the long lead time between application for the program and the completion of the proposed project. The lead time frequently exceeds 18 months based on customer budgeting and construction cycles. Therefore, while funding under the program is reserved in advance, the savings associated with a project may not materialize until the project is physically completed well into the future. Franklin Energy continues to enroll the anticipated energy savings into the program. NIPSCO created a "pipeline" of anticipated savings to better align the program expectations. At year-end 2013, NIPSCO had an approximate 70,000 MWh in savings from current work in progress from 2012 and 2013 combined in the program and had paid out incentives for an approximate 48,000 MWh. The under-collection of program costs was due to the completion of a long-term project for one of NIPSCO's large industrial customer's facility, which yielded high savings and a large incentive in the July through December 2013 period.

O. C&I Electric New Construction Incentive Program. This program is also being administered by Franklin Energy. Franklin Energy has worked with customers and trade allies to determine appropriate program improvements. At the end of 2013, this program achieved 68% of its savings goal. Savings to date are low due to measures being installed that have a long project completion time and savings are not recognized until projects are complete.

5. Recovery of Costs. In the DSM Orders, the Commission approved NIPSCO's request to recover the costs associated with its approved DSM 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 and 44363 Orders, 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 Exhibit A, Schedule 1 attached to NIPSCO's Exhibit 1 (the Verified Petition), which shows a breakdown of projected and reconciled costs for the recovery period of July through December 2014 for the DSM programs approved by the Commission and the NIPSCO OSB. This filing reconciles costs incurred for the period July through December 2013 and includes projected costs for the period July through December 2014. Ms. Vrab testified the projected costs for the period July through December 2013 were $8,774,604 and the actual costs during this period were $13,213,753 resulting in an under-collection of $4,439,149. She stated that the majority of the under-collection is associated with the following four programs: C&I Custom Electric Incentive Program, Prescriptive Rebate Program-Commercial, Residential Home Energy Assessment Program and Residential Income Qualified Weatherization Program.

With regard to projections, Ms. Vrab explained that NIPSCO used two sources for its projections in this proceeding. First, for programs that were offered in 2013, NIPSCO used the actual costs for the period July through December 2013. Ms. Vrab 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.

Second, for programs that were not offered in 2013, NIPSCO used the projections detailed by NIPSCO's witness Karl Stanley in Cause No. 44363. She explained that these projections use the Action Plan[1] with some modifications to provide greater specificity to NIPSCO's projections. She described the modifications as follows: (1) administrative and evaluation, measurement, and verification costs are allocated to each program (whereas the

[1] As the basis for its proposed electric programs for 2014, NIPSCO utilized an Action Plan that was completed by Morgan Marketing Partners with input from the 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.

Action Plan allocates the cost at the C&I and Residential portfolio levels); and (2) NIPSCO used the "pipeline" (i.e., anticipated projects) to forecast spending and savings for the C&I Custom Incentive and Non-Residential New Construction programs due to the long lead time between application and completion of the project. She testified these projections provide an even more accurate estimation of expenses for each program. She explained that NIPSCO then reduced those projections by 24% (the difference between the July through December 2013 actual program costs and the July through December 2014 projected program costs detailed in Cause No. 44363) to better align the program cost projections of its current programs with its programs that were not offered in 2013.

Ms. Vrab sponsored Exhibit A, Schedule 3 attached to Petitioner's Exhibit 1, 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 July through December 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 new electric DSM programs approved in the 44363 Order, NIPSCO used the projected savings detailed by NIPSCO's witness Karl Stanley in Cause No. 44363 and reduced these savings by a risk factor by program.

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 July through December 2013 reconciled against the prior forecast for the same period and includes projected expenses for the period July through December 2014. Workpaper VAV-1 consists of 12 tabs showing: (1) a summary by program of both the actual expenses and projected expenses, (2) a detailed account of planned expenses expected in the period July through December 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 July through December 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 adjust the forecasted expense for the two new programs approved in the 44363 Order based on the program portfolio for the July through December 2013 actual expenses versus the July through December 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 nine tabs showing: (1) source data and measures used to determine monthly incremental savings; (2) cumulative savings; (3) expected savings by program; (4) calculation of risk factors; (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. <u>Reconciliation of Projected and Actual Expenses and Revenue</u>. The proposed DSMA Factors reconcile projected and actual expenses for the period July through December 2013. NIPSCO witness Derric J. Isensee testified that the first reconciliation of projected and actual lost margins will occur in NIPSCO's next DSM tracker filing. However, he noted, this filing does include the reconciliation of actual lost margin revenues collected compared to lost margins forecasted for the period of July through December 2013.

Mr. Isensee explained the adjustments to reconcile the program cost variances from DSM 3 and DSM 4 to the appropriate customer classes and explained that NIPSCO will reconcile the lost margins back to the previously-impacted rate classes in its next DSM filing.

7. <u>Resulting DSMA Factors</u>. Mr. Isensee testified the calculations of the proposed DSMA Factors were prepared in conformity with the 43618, 43912, 44154 and 44363 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 Commission's Orders. 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 Exhibit B to the Verified Petition showing the calculation of the proposed DSMA Factors, as follows:

Rate 611	A charge of $0.007645 per kwh used per month
Rate 612	A charge of $0.006199 per kwh used per month
Rate 613	A charge of $0.009859 per kwh used per month
Rate 620	A charge of $0.006868 per kwh used per month
Rate 621	A charge of $0.006557 per kwh used per month
Rate 622	A charge of $0.006726 per kwh used per month
Rate 623	A charge of $0.005210 per kwh used per month
Rate 624	A charge of $0.000695 per kwh used per month
Rate 625	A charge of $0.000170 per kwh used per month
Rate 626	A charge of $0.000362 per kwh used per month
Rate 632	A charge of $0.000646 per kwh used per month
Rate 633	A charge of $0.000063 per kwh used per month
Rate 634	A charge of $0.000218 per kwh used per month
Rate 641	A charge of $0.004983 per kwh used per month
Rate 644	A charge of $0.000162 per kwh used per month
Rider 676	A charge of $0.000000 per kwh used per month

The DSMA 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 $5.26. He noted this is a $2.58 increase when compared to what a customer would pay using the current DSMA Factors.

Wes R. Blakley, Senior Utility Analyst with the OUCC, testified that he had verified Petitioner's calculations and the calculations were supported by Petitioner's evidence.

8. **Commission Findings.** The DSMA Factors presented for approval include projected costs for the period July through December 2014 associated with NIPSCO's 2014 electric DSM plan as approved in 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 July 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 DSMA 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.

STEPHAN, MAYS AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: JUN 18 2014

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