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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS)
POWER & LIGHT COMPANY FOR APPROVAL)
OF DEMAND SIDE MANAGEMENT)
ADJUSTMENT FACTORS FOR ELECTRIC)
SERVICE FOR THE MONTHS OF JULY TO)
DECEMBER, 2012 IN ACCORDANCE WITH THE)
ORDERS OF THE COMMISSION IN CAUSE)
NOS. 43623 AND 43960 AND FOR APPROVAL OF)
THE FIRST AMENDMENT TO THE)
SETTLEMENT AGREEMENT APPROVED IN)
CAUSE NO. 43960.)

CAUSE NO. 43623 DSM 5

APPROVED:

JUN 20 2012

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On March 16, 2012, Indianapolis Power & Light Company (“IPL” or “Petitioner”) filed its Verified Petition for Approval of Demand Side Management (“DSM”) Adjustment Factors (“DSM Adjustment Factors”) for electric service for the months of July through December, 2012. IPL’s petition was filed in accordance with the Orders issued by the Indiana Utility Regulatory Commission (“Commission”) in Cause No. 43623, Phase I, dated February 10, 2010 (“43623 Order”) and Cause No. 43960 dated November 22, 2011 (“43960 Order”) and the provisions of Standard Contract Rider No. 22, Core and Core Plus Demand Side Management Adjustment approved therein (“Rider 22”). IPL further requested approval of the First Amendment to the Settlement Agreement approved in the 43960 Order. On March 16, 2012, IPL also prefiled its direct testimony and exhibits in this proceeding. On April 26, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled its direct testimony and exhibits. On May 7, 2012, IPL filed its rebuttal testimony.

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 May 17, 2012, at 10:00 a.m. in Room 224, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. The OUCC and IPL were represented by counsel at the hearing. The prefiled testimony and exhibits of IPL and the OUCC were admitted into evidence without objection and all parties waived cross-examination of witnesses. No member of the general public appeared or sought to testify at the hearing.

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

1. **Notice and Jurisdiction.** Due, legal and timely notice of the public hearing conducted by the Commission was given and published as required by law. IPL is a “public utility” within the meaning of the Indiana Public Service Commission Act, as amended, Ind. Code ch. 8-1-2, and is subject to the jurisdiction of the Commission. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause in the manner and to the extent provided by the laws of the State of Indiana.

2. **Petitioner’s Characteristics.** IPL is an electric generating utility and a corporation organized and existing under the laws of the State of Indiana, with its principal place of business located in Indianapolis, Indiana. IPL is lawfully engaged in rendering electric public utility service in the State of Indiana. IPL owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public.

3. **Implementation of DSM Programs.** IPL Witness Lester H. Allen explained IPL’s actions to deliver the Core and Core Plus Programs approved in the 43623 and 43960 Orders. He also described the timing and the forecasted spending related to the implementation of the Core and Core Plus Programs for the six-month period beginning July 1 through December 31, 2012. Mr. Allen described the formation and functioning of IPL’s DSM Oversight Board and provided estimated demand and energy savings for all programs from July 1 through December 31, 2012. He also described IPL’s plan to fund a market potential study (“MPS”) with administrative funds included in the budget for DSM programs approved in Cause No. 43960.

4. **Recovery of Costs.** Mr. Allen testified that the costs at issue in this proceeding straddle a transition from DSM Programs approved in the 43623 Order and the Commission’s November 4, 2010 Order in Cause No. 43911 (“43911 Order”) to those approved in the 43960 Order. In its 43623 Order, the Commission authorized IPL to recover the cost of implementing and delivering approved Core and Core Plus DSM Programs through Rider 22. IPL was given the authority to make semi-annual filings to recover the forecasted costs of approved Core and Core Plus Programs over six-month periods that match the billing periods of the Rider 22 tracker – *i.e.*, from July through December and January through June. IPL’s semi-annual forecasts of Core and Core Plus Program expenditures will be reconciled to actual expenditures in subsequent semi-annual filings. The Rider 22 cost recovery mechanism will remain in effect until all approved DSM costs and incentives are properly recognized.

Mr. Allen sponsored Petitioner’s Exhibit LHA-1 showing the implementation schedule by program. IPL Witness Craig A. Forestal sponsored Petitioner’s Exhibit CAF-2 showing the Projected DSM Expenditures (by Cost Type and Customer Charge Type) for each Core and Core Plus DSM Program for the six-month period between July 1 and December 31, 2012 for recovery under Rider No. 22. Mr. Forestal also stated that in the 43911 Order, the cost recovery methodology approved in the 43623 Order was preserved and the Commission authorized IPL’s timely recovery of the costs of its approved School Audits program through Rider No. 22. Mr. Allen testified that the forecast includes costs for an MPS. He said IPL intends to engage a third party to conduct an MPS to help IPL evaluate future DSM programs necessary to meet the energy savings targets set forth in the Commission’s Phase II Order dated December 9, 2009 in Cause No. 42693 (“Generic DSM Order”). IPL is currently developing a request for proposals to aid it in selecting a vendor. Mr. Allen stated the MPS would be funded by administrative costs included in the budget for the DSM programs approved in the 43960 Order.

Mr. Forestal explained that in the 43960 Order, the Commission approved a settlement agreement authorizing IPL to recover the costs incurred to implement the Core and Core Plus Programs approved as part of IPL’s Modified DSM Plan, including costs incurred under the contracts for the Third Party Administrator (“TPA”) and Evaluation, Measurement and Verification (“EM&V”) Administrator, through Rider No. 22. IPL was further authorized to defer recovery of up to \$1,053,000 in electric vehicle supply equipment costs to its next rate case.

5. **Performance Incentives.** In its 43623 Order, the Commission authorized certain tiered performance incentives for IPL’s approved Core Plus Programs, excluding the following programs, which are not eligible for performance incentives: (i) IPL’s Residential Low and Moderate Income Weatherization Program, (ii) the Commercial and Industrial Renewables Incentive Program, (iii) educational funding and (iv) indirect costs that are not related to specific DSM programs, or any portions thereof, regardless of whether they are found to be Core or Core Plus Programs. Following is the approved tiered performance incentive schedule:

% of Target	Pre-tax Incentive
< 40%	-4%
≥ 40 < 60%	0%
≥ 60 < 80%	6%
≥ 80 < 90%	8%
≥ 90 < 100%	10%
≥ 100 < 110%	12%
≥ 110%	15%

Mr. Allen testified the 43623 Order permits IPL to receive incentives on selected Core Plus Programs based on achieving targeted demand and energy savings. Mr. Forestal stated the Commission approved a settlement agreement in its 43960 Order authorizing IPL to recover performance incentives on the Core Plus Programs being offered as part of the Modified DSM Plan approved in that Cause, except with regard to the Peer Comparison Program. He said the performance incentive reconciliation for the period will follow the same methodology utilized in Cause No. 43623, and that energy savings budgets in subsequent years will be adjusted to reflect prior final year determinations by the EM&V Administrator.

Mr. Allen explained how IPL calculated the incentives on the forecast spending for the Core Plus Programs. He provided an estimate of the savings in Petitioner’s Exhibit LHA-2, which he said were generally consistent with the energy savings estimates requested and approved in Cause No. 43960. He said the incentive amounts forecasted for the period July 1 through December 31, 2012, were calculated by conservatively assuming performance in the 80% to 90% range and applying the corresponding 8% multiplier to the projected spend of the appropriate Core Plus Programs.

Mr. Allen also sponsored Petitioner’s Exhibit LHA-3, which provided the true-up of the incentive calculation for the 23-month period that Core Plus Programs were delivered pursuant to the Commission Orders in Cause No. 43623. As shown on Petitioner’s Exhibit LHA-3, IPL achieved 95% of the Residential Core Plus performance and approximately 150% of the Commercial and Industrial (“C&I”) Core Plus performance, resulting in actual incentives of 10% and 15% respectively.

OUCC witness Brendon Baatz testified the energy savings included in Petitioner's Exhibit LHA-3 are the energy savings reported to IPL by its program administrator and have not been evaluated by an independent third party to determine the validity of the estimates. He said the initial deemed savings values and the net-to-gross adjustments for these savings figures have also not been evaluated by an independent third party. He explained that IPL and the IPL DSM Oversight Board worked collaboratively to select an independent third party evaluator to conduct this work, but the EM&V results are not expected until sometime in May 2012. He stated that IPL should reconcile these performance incentives only after the evaluation results have been completed. Accordingly, the OUCC recommended the Commission deny IPL recovery of \$135,761 for the true-up of target performance incentives until IPL has completed EM&V results from an independent third party vendor and files those results with the Commission.

Mr. Baatz also described the importance of evaluating the net-to-gross ratios for the true-up of shareholder incentives. He explained that during IPL's program planning process, Petitioner made assumptions regarding the deemed savings per measure and the net-to-gross ratio for all programs. For example, he said that IPL assumed a 1.0 net-to-gross ratio for the C&I Custom program for planning purposes, meaning that IPL assumed that all the participants for the C&I Custom program would not have installed any of the rebate measures without the program. He stated that in his experience, C&I Custom programs do not generally have a 1.0 net-to-gross ratio and that he was aware another Indiana electric utility recently calculated a net-to-gross ratio of 0.83 for a similar program. Mr. Baatz stated the assumed net-to-gross ratios used by IPL for planning purposes could change after the EM&V and could change the performance incentive IPL would receive. He said IPL should reconcile performance incentives for Core Plus Programs under the 43623 Order only after the evaluation results have been completed and the performance incentive should be awarded based on the evaluated net savings from the evaluation report. He said the evaluated net savings will be adjusted for free ridership and undergo a deemed savings review to ensure the performance incentive paid to IPL is based on the actual savings attributable to the programs.

OUCC witness Wes Blakley's Schedule 1 displayed the calculation of Petitioner's proposed DSM Adjustment Factors with the removal of the true-up target performance incentives, as recommended by Mr. Baatz. He indicated he applied Petitioner's estimated sales in MWh to the recalculated costs to arrive at new adjustment factors for DSM 5.

In rebuttal, IPL witness John Haselden stated IPL understands the OUCC's desire to have the performance incentives be reconciled after the evaluation results have been completed. He said IPL is willing to remove the true-up of target performance incentives from the calculation of IPL's DSM Adjustment Factors in this proceeding. He explained that the convention, which IPL has consistently stated and is also now being used by the statewide TPA, is that all adjustments to deemed savings and net-to-gross ratios are made prospectively. He said the deemed savings and net-to-gross ratios were laid out in Cause Nos. 43623 and 43960 and were to be used until an evaluation was done. At that point, new deemed savings and net-to-gross ratios will be applied prospectively. He explained that part of the work being done by the EM&V contractor is verification on the tracked (scorecard) volume of measures installed or participants. It is also a review of custom incentives for which the energy savings are forecast through engineering calculations. Mr. Haselden said IPL does agree that the true-up of the performance incentives should reflect any difference between the verified volume and the tracked (scorecard) volume of measures or participants and errors that may be discovered in engineering calculations for the

custom incentives. As to Mr. Baatz' characterization of the deemed savings and net-to-gross ratios as assumptions used for planning purposes, Mr. Haselden explained that these numbers are more than assumptions and are carefully calculated numbers that are the best estimates of the expected performance of the measures and programs available at the time. He said these numbers are used for planning purposes, determining cost effectiveness and determining performance towards goals.

Mr. Haselden also responded to Mr. Baatz' discussion of the 1.0 net-to-gross ratio used for the C&I Custom program. He said it was inappropriate to assume that because the evaluation of one utility's program resulted in a specific net-to-gross ratio that other similar programs offered by other utilities should have the same result. He said there are differences in programs from one utility to another, and he described the financial qualifying criteria used in IPL's program to limit free ridership. Mr. Haselden stated that regardless of the results of the EM&V, the revisions to net-to-gross and deemed savings should be applied in a prospective manner consistent with other utilities.

Mr. Allen testified in rebuttal that IPL had included the true-up of performance incentives in order to reflect in rates the expected amount of incentives to be earned in DSM 5 in a time period as close as practical to the period when the incentives were earned. He said the EM&V process may result in some additional adjustments to the target performance incentives, which could result in the final amount of the target performance incentives being slightly more or slightly less than the amount originally included in this proceeding. Mr. Allen added that although IPL has agreed to remove the reconciliation of incentives from this proceeding, it should not be taken to mean that IPL does not expect to receive target performance incentives at a later time. He pointed out that through the collaborative efforts of the IPL Oversight Board, IPL was able to achieve approximately 130% of its approved energy savings while spending only about 67% of its approved DSM budget. He further stated that Mr. Blakley's Schedule 1 correctly calculates the revised DSM Adjustment Factors if the true-up target performance incentives in the amount of \$135,761 are removed.

Given the agreement between the parties, we find that the DSM Adjustment Factors to be approved in this filing should reflect the removal of \$135,761 associated with the true-up of target performance incentives. We note that while there appears to be a disagreement between the parties regarding the method by which the true-up of target performance incentives should be calculated, the parties agree this issue does not need to be resolved at this time and that they will address the issue of how to calculate the true-up of target performance incentives in a subsequent DSM Adjustment Factor filing. Accordingly, we make no determinations at this time as to how the true-up of target performance incentives should be calculated.

6. Reconciliation of Estimated and Actual Expenditures, Revenues and Performance Incentive Targets. For the period of July through December, 2012, Grand Total Costs to be recovered include a reconciliation of actual DSM Program expenditures to estimated costs for that period (Petitioner's Exhibit CAF-3), an update of the target performance incentives for that period, calculated by subtracting the projected incentive from the target incentive on actual expenditures incurred for each program (Petitioner's Exhibit CAF-4), reconciliation of actual DSM Adjustment Factor revenues collected from customers from that period to the approved amount for that same period (Petitioner's Exhibit CAF-5), and inclusion of \$4,973 in

deferred costs incurred under the required contracts with the statewide TPA and EM&V Administrator.

7. **Resulting DSM Adjustment Factors.** The Grand Total Costs to be Recovered through Rider 22 for the months of July through December 2012, modified by the removal of the true-up of target performance incentives, is \$12,391,940, which is the Grand Total Core and Core Plus DSM Programs projected costs (including the target performance incentives) of \$12,683,160 (Petitioner's Exhibit CAF-2, Page 1, Line 41), adjusted for Reconciliation of Expenditures of \$(314,939) (Petitioner's Exhibit CAF-2, Page 2, Line 2), Update of Target Performance Incentives of \$16,859 (Petitioner's Exhibit CAF-2, Page 2, Line 3), Reconciliation of Revenues of \$1,887 (Petitioner's Exhibit CAF-2, Page 2, Line 4), and Deferred Statewide Program costs of \$4,973 (Petitioner's Exhibit CAF-2, Page 2, Line 5). Dividing the Grand Total Costs to be Recovered for each customer charge type for the period from July to December 2012 by the estimated megawatt hour sales for the respective customer charge types (7,162,168 MWh as shown on Petitioner's Exhibit CAF-2, Page 2, Line 9) results in, after modification for the recovery of the Indiana Utility Receipts Tax, a factor for Rates RS and CW (with associated Rate RS service) of \$0.003215 per kWh; for Rates SS, SH, OES, UW and CW (with associated Rate RS service) of \$0.001463 per kWh; for Rate SL of \$0.000784 per kWh; and for Rates PL, PH and HL of \$0.000841 per kWh (OUCC Schedule 1, Line 9).

Pursuant to Ind. Code § 8-1-2-42(a), the resulting DSM Adjustment Factors will be effective for all bills rendered for electric service beginning with the first billing cycle for the July 2012 billing period in Regular Billing District 41 and Special Billing District 01. The DSM Adjustment Factors will remain in effect for approximately six (6) months or until replaced by different adjustment factors approved in subsequent filings. Based on the foregoing, a typical residential customer using 1,000 kWh per month will experience a rate impact of \$3.215 per month during the period covered herein.

8. **Approval of First Amendment to 43960 Settlement Agreement.** Mr. Allen testified that the First Amendment to the Settlement Agreement approved in the 43960 Order was necessitated by changes in the implementation schedule of DSM programs contemplated in the Generic DSM Order. He explained that due to delays in the availability of the Core Programs, the 3-year budget approved in the 43960 Order was no longer appropriate and needed to be revised to reflect the 2-year period from January 2, 2012 through December 31, 2013. More specifically, he said the revised year 1 and year 2 budgets for Core Plus Programs in the First Amendment are the same numbers used in calculating the year 1 and year 2 budget periods in the Settlement Agreement. The activities originally contemplated in year 3 will be re-evaluated in IPL's proposal for the 3-year plan to cover the period from January 1, 2014 to December 31, 2016. The overall effect was a reduction of \$8.565 million in the budget established in the Settlement Agreement. Mr. Allen said the First Amendment was reasonable and necessary to ensure that the budgets agreed to in the Settlement Agreement match the actual mechanism of implementing the DSM programs required by the Commission. He said absent these amendments, IPL would be faced with an Order in Cause No. 43960 that conflicts with the procedures imposed by the Commission to implement these Core Programs in Cause No. 42693 S1.

The evidence shows that due to delays in the availability of the Core Programs contemplated in the Commission's Generic DSM Order the original 3-year budget approved in

Cause No. 43960 is no longer appropriate. As explained by Mr. Allen, implementation of the Core Programs was delayed in order to accept evidence and conduct a hearing to address a disagreement by one member of the DSM Coordination Committee as to the selection of the statewide TPA. As a result of these delays, the availability of the Core Programs did not commence until January 2, 2012, and the provision of the Core Programs by the TPA was effectively shortened to two years. Given that the Settlement Agreement, as approved and modified in Cause No. 43960, was predicated on the belief that the Core Programs would be implemented over a 3-year period, the Commission finds it reasonable and appropriate to modify the Settlement Agreement to reflect the delayed implementation of the Core Programs. Accordingly, the Commission finds the First Amendment is reasonable and should be approved.

9. **Commission Findings.** The evidence presented in this Cause supports approval of Petitioner's proposed DSM Adjustment Factors, as modified by the removal of \$135,761 associated with the true-up of target performance incentives. Accordingly, we find that the DSM Adjustment Factors requested herein, as modified, should be approved.

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

1. The Petition of Indianapolis Power & Light Company for approval of Demand Side Management Adjustment Factors for electric service as set out in Finding No. 7 above is approved.

2. IPL shall file with the Electricity Division of this Commission, prior to placing in effect the Core and Core Plus Demand Side Management Adjustment 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.

3. The First Amendment to the Settlement Agreement that was approved and modified in Cause No. 43960 is approved.

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

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

APPROVED: JUN 20 2012

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



Brenda A. Howe
Secretary to the Commission