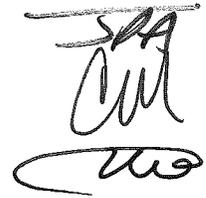


ORIGINAL



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA MICHIGAN)
POWER COMPANY, INDIANA OFFICE OF)
UTILITY CONSUMER COUNSELOR,)
INDIANA MICHIGAN POWER COMPANY)
INDUSTRIAL GROUP, CITIZENS ACTION)
COALITION OF INDIANA, INC. AND CITY)
OF FORT WAYNE FOR APPROVAL OF)
I&M'S DEMAND SIDE MANAGEMENT AND)
ENERGY EFFICIENCY PROGRAMS AND)
FOR TIMELY RATEMAKING TREATMENT)
FOR ASSOCIATED COSTS)

CAUSE NO. 43769

APPROVED:

MAR 17 2010

BY THE COMMISSION:

David E. Ziegner, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On August 31, 2009, Indiana Michigan Power Company ("I&M"), Indiana Office of Utility Consumer Counselor ("OUCC"), Indiana Michigan Power Company Industrial Group ("Industrial Group"), Citizens Action Coalition of Indiana, Inc. ("CAC") and the City of Fort Wayne ("Fort Wayne") (referred to herein as the "Parties") filed with the Indiana Utility Regulatory Commission ("Commission") their Joint Petition for approval of I&M's demand side management and energy efficiency ("DSM") programs and for timely ratemaking treatment for associated costs. Attached to the Joint Petition was a Stipulation and Settlement Agreement ("Settlement Agreement") entered into by all of the Parties. On September 18, 2009, the Parties submitted an agreement regarding procedural matters in lieu of a prehearing conference. Said agreement was approved by the Presiding Officers on September 22, 2009. Pursuant to the agreed procedural schedule, Parties filed their direct testimony and exhibits in support of the Settlement Agreement on October 7, 2009.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public evidentiary hearing was held on October 20, 2009 at 9:00 a.m. in Room 222, National City Center, Indianapolis, Indiana. The Parties appeared and participated at the hearing. At the hearing, the direct testimony and exhibits of the Parties were admitted into evidence. No members of the general public appeared.

The Commission, based upon the applicable law and the evidence of record, now finds as follows:

- 1. Notice and Jurisdiction.** Proper notice of the public hearing in this Cause was published as provided by law. I&M is a public electric generating utility within the meaning of the Public Service Commission Act, as amended. I&M is an Indiana corporation engaged in

rendering electric public utility service in the State of Indiana and the Commission has jurisdiction over the parties and the subject matter of this proceeding.

2. **Relief Requested.** The Parties seek Commission approval of their Settlement Agreement setting forth the conditions for approval of I&M's DSM programs. A copy of the Settlement Agreement is attached hereto and incorporated herein by reference.

3. **Parties' Evidence.** I&M Witness Marc E. Lewis testified regarding the collaborative processes which resulted in the Market Potential Study ("MPS") and the Settlement Agreement, and provided an overview of the Settlement Agreement, which together with the other Settling Parties' witnesses he sponsored as Joint Exhibit 1. Mr. Lewis indicated that I&M is continually evaluating all factors that contribute to the cost-effectiveness of its services, including DSM and supply-side options. Lewis Direct at 5. Mr. Lewis stated that I&M and its parent company, American Electric Power, have set energy efficiency goals to meet the challenges facing customers and the electric industry and that I&M will be looking to expand its portfolio of energy efficiency programs in the next phase of collaboration among the parties, subject to review and approval by the Commission. Lewis Direct at 5-6.

Mr. Lewis described I&M's past and present efforts to influence customer use of electricity to produce a desired change in I&M's load shape, including its interruptible tariff offerings and other tariff options with DSM features, as summarized on I&M Exhibit MEL-1. Lewis Direct at 6-7. He noted that in addition to these tariff options, I&M is also engaged in a Smart Metering Pilot Program ("Pilot") created pursuant to a collaborative effort between I&M and the OUCC. Lewis Direct at 8.

Mr. Lewis testified that, as authorized by the Commission in Cause No. 43231, I&M and the OUCC collaborated on the design and completion of a request for proposal for a MPS for I&M's Indiana service territory. Lewis Direct at 9. Mr. Lewis stated that Forefront Economics Inc. and H. Gil Peach & Associates ("Forefront/Gil Peach") were selected to prepare a long-term DSM market potential assessment and action plan for residential and non-residential electric customers in the Indiana portion of I&M's service area. Lewis Direct at 9. Following the completion of the MPS, Mr. Lewis stated that the Parties worked collaboratively to review the MPS and to develop the initial set of DSM offerings identified in the Settlement Agreement. Lewis Direct at 10. Mr. Lewis testified that numerous collaborative meetings took place both before and after the issuance of the Commission's order in Cause No. 43306 and that the collaborative discussions produced a meaningful slate of programs that will provide a good foundation for the next phase of programs. Lewis Direct at 10. He further testified that the program development process was consistent with the Commission's DSM and IRP Rules. Lewis Direct at 13-14.

Mr. Lewis summarized the Settlement Agreement, noting that Appendix A to the Settlement Agreement sets forth the plan for the DSM Phase I Programs, including goals, objectives, strategic initiatives and performance metrics as well as budget and implementation plans. Lewis Direct at 11. The DSM Phase I Programs include:

Residential Programs

- Residential Low and Moderate Income Weatherization Program
- Residential Appliance Recycling Program
- Residential Rebate Program
- Residential Whole House Program

Non-Residential Programs

- Commercial and Industrial Incentive Program
- Commercial and Industrial Rebate Program

Lewis Direct at 11; Settlement Agreement, p. 2. The Settlement Agreement also provides for energy education and customer awareness programs. Lewis Direct at 11; Settlement Agreement, p. 2.

Mr. Lewis stated that the Settlement Agreement provides for a two-year term for the DSM Phase I Programs, although cost recovery will continue beyond the two-year period as described more fully by I&M Witness Roush. Lewis Direct at 11. Mr. Lewis testified that I&M expects that the Collaborative will work together during the two years to evaluate the DSM Phase I programs and to develop the Phase II programs intended to be in place at the end of that time period. Lewis Direct at 11-12. He stated that I&M will act as program administrator with the DSM programs and funding levels specified in Section A of the Settlement Agreement and in Appendix A. Lewis Direct at 12. During the term of the Settlement Agreement, the Parties will continue to work together in a collaborative process much the same as the process used in reaching the Settlement Agreement and will strive to optimize the DSM Phase I Programs based on actual experience with the programs. Lewis Direct at 12.

Mr. Lewis stated that the Settlement Agreement provides for a DSM/Energy Efficiency Program Implementation Oversight Board (“Implementation Oversight Board”) which will consist of one representative from each Party. Lewis Direct at 12. Additional voting or advisory members may be added only by unanimous vote, and such members must agree to and abide by the terms of the Settlement Agreement and any future Commission orders applicable to the Settlement Agreement. Lewis Direct at 17. The Settlement Agreement provides that the Implementation Oversight Board will use good faith efforts to reach consensus on matters subject to the Board’s oversight and that, in the event such efforts fail to yield a consensus, the Implementation Oversight Board will reach decisions through a majority decision of its voting members. Lewis Direct at 15. Mr. Lewis explained that the Implementation Oversight Board will oversee the high level implementation of the DSM Phase I Programs, while I&M will be responsible for the day to day program management, delivery and implementation. Lewis Direct at 15. More specifically, the following items will be discussed by the Implementation Oversight Board: 1) appropriate customer incentive levels; 2) appropriate customer rebate eligibility periods; 3) addition or deletion of measures for any particular program; 4) evaluation of overall program and selection of independent third-party evaluator in accordance with Section F; 5) monitor program implementation; 6) monthly and annual reports to the Commission in accordance with Section E; and 7) changes in program budgets as provided in Section C.4. Lewis Direct at 15-16. Mr. Lewis explained that the Implementation Oversight Board applies to

implementation issues, and specifically does not include matters pertaining to any federal, state or local mandates, future discussions to review and modify I&M's DSM programs nor discussions regarding lost revenues and performance incentives. Lewis Direct at 17; Settlement Agreement, D.4, H, and J.3.

Mr. Lewis explained that, consistent with the MPS (p. 78), the Settlement Agreement provides for flexibility in the administration of DSM program funding. Lewis Direct at 16. During the implementation of the DSM Phase I Programs, unspent funds within program budgets may be rolled over to categories within the same program in the next year, funds may be reallocated across line items within a program, and up to 25 percent of total budget may be shifted among approved programs at any time within a program year, provided that the budget for the Commercial and Industrial ("C&I") programs shall not be increased above the direct and indirect cost levels for C&I programs set forth in the Settlement Agreement. Lewis Direct at 16. Mr. Lewis stated that the Settlement Agreement also provides that the Implementation Oversight Board may authorize an increase in expenditures for residential programs of up to 15 percent of annual costs, without specific review or approval by the Commission. Lewis Direct at 16.

Mr. Lewis next discussed the Settlement Agreement provisions regarding Evaluation, Measurement and verification ("EM&V"). The Settlement Agreement provides that the members of the Implementation Oversight Board will work together in a collaborative process to retain an independent third-party evaluator to perform EM&V for the DSM Phase I Programs. Lewis Direct at 17. Mr. Lewis stated that the first step of this process will be the preparation and issuance of a Request-For-Proposal ("RFP") for a Third Party Evaluator; once the responses have been evaluated, the Implementation Oversight Board will select the Third Party Evaluator. Lewis Direct at 17-18. Mr. Lewis testified that the provisions regarding EM&V are consistent with the approach taken by other Indiana utilities, including Duke Energy Indiana, Vectren Energy Delivery of Indiana and Indianapolis Power & Light, who all plan to retain a Third Party Evaluator for the evaluation, measurement and verification of their DSM programs. Lewis Direct at 18.

Mr. Lewis testified that the recovery of lost revenues and performance incentives are important to I&M and that I&M considers them to be essential components of an effective energy efficiency program. Lewis Direct at 19. However, as part of the negotiating process and to promote the timely deployment of I&M's DSM Phase I Programs, I&M agreed that the DSM/EE Program Cost Rider factors set forth in the Settlement Agreement would not include lost revenues and/or incentives. Lewis Direct at 19. He stated that the Settlement Agreement provides that the Settling Parties may discuss lost revenues and incentives and present any agreement to the Commission for review and approval or, regardless of any discussion, I&M may individually present a proposal regarding the recovery of lost revenues and/or incentives to the Commission. Lewis Direct at 18. Mr. Lewis expected the parties will represent their respective positions on lost revenues and incentives in the collaborative discussions or Commission proceeding as they see fit. Lewis Direct at 18. Mr. Lewis testified that I&M anticipates presenting a proposal for the recovery of lost revenues and performance incentives in the near future and that the Settlement Agreement provides that upon Commission approval, the DSM/EE Program Cost Rider factors shall be revised to reflect the inclusion of lost revenues and/or incentives. Lewis Direct at 18-19.

Mr. Lewis stated that I&M intends to pursue DSM beyond what is provided for in the Settlement Agreement, and that I&M is not precluded from petitioning the Commission individually at any time for approval of DSM and energy efficiency programs and associated cost recovery. Lewis Direct at 19. He testified that with the exception of a direct load control program and subject to the Commission's Order in Cause No. 43306, additional direct and indirect DSM/EE costs included in the DSM/EE Program Cost Rider or otherwise recognized for ratemaking purposes will not be allocated to industrial customers during the four year period set forth in the Settlement Agreement approved in Cause No. 43306. Lewis Direct at 19-20. Mr. Lewis stated that one near term item the Settling Parties intend to further consider is a summer peak reduction program for residential and commercial customers, including a further analysis of the use of two-way versus one-way communication devices for such a program in light of experience gained from I&M's ongoing Smart Metering Pilot Program. Lewis Direct at 20. Additionally, the Settling Parties contemplate working collaboratively to develop a plan to review and modify I&M's DSM programs beyond the two-year implementation of the DSM Phase I Programs, with further collaborative meetings expected to occur following the end of the first year of the DSM Phase I Programs so that experience under the Settlement Agreement may be taken into consideration. Lewis Direct at 20. Mr. Lewis explained that any agreement reached regarding a summer peak reduction program or regarding I&M's DSM programs and associated cost recovery would be submitted to the Commission for review and approval. Lewis Direct at 20.

Mr. Lewis opined that the Settlement Agreement is a product of serious bargaining among capable and knowledgeable parties and is consistent with the Commission's Order in Cause No. 43306. Lewis Direct at 20-21. Mr. Lewis noted that the Collaborative represents a diverse group of constituents with differing views on the complicated issues raised in the proceeding, and that the Settlement Agreement is the result of substantial negotiations and investigations which included experts and legal counsel. Lewis Direct at 20-21. He stated that many hours were devoted by all parties to settlement negotiations both before and after the agreement in principle was reached. Lewis Direct at 21.

Mr. Lewis explained that the Commission's Order in Cause No. 43306 directed that the initial DSM and energy efficiency programs shall be those recommended as a result of the DSM/EE Collaborative and the MPS. Lewis Direct at 21. The Order added that the initial programs must be documented in a rigorously prepared business plan which reflects goals and objectives, strategic initiatives and appropriate performance metrics for each proposed element. Lewis Direct at 21. Mr. Lewis stated that the Settlement Agreement was developed through the Collaborative and used the MPS as the foundation for the collaborative effort. Lewis Direct at 21. The MPS sets forth a long-term vision of what may be achieved within I&M's assigned service area; the Collaborative reviewed this vision in light of I&M's IRP, current conditions and consideration of how this vision may be launched in a timely and practical manner. Lewis Direct at 21. He stated that the Settlement Agreement sets forth the budget for the initial two years of DSM/EE programs and includes detailed descriptions of each program, including program goals, objectives, target markets, program duration and strategy, performance metrics and evaluation, measurement and verification. Lewis Direct at 21.

Mr. Lewis indicated that the business plan set forth in the Settlement Agreement and attachments thereto, together with the MPS provide the roadmap for the initial two-year term of

I&M's DSM Phase I Programs. Lewis Direct at 22. This roadmap sets forth the Initial Assessment – it answers the key question of “what are the business opportunities related to DSM and energy efficiency within I&M's assigned service area.” Lewis Direct at 22. This roadmap also provides the framework used to design the DSM Phase I Programs, including an explanation of the cost/benefit analysis, appropriate scale for initial program launch, modifications to MPS recommendations necessary to reflect current conditions, and consideration of resources necessary for program implementation. Lewis Direct at 22. Together with the MPS, the Settlement Agreement maps out the initial phase of a systematic approach to achieving cost-effective DSM and energy efficiency, intended to permit the more timely roll out of programs. Lewis Direct at 22.

Mr. Lewis stated that the roadmap also determined the organizational structure that will be used to implement and achieve the benefits intended by the Settlement Agreement. Lewis Direct at 22. He testified that I&M, as program administrator, is accountable for achieving the results envisioned by the Settlement Agreement. Lewis Direct at 22. He stated that the Implementation Oversight Board, whose members have experience with other DSM and energy efficiency programs, will assist I&M in this effort. Lewis Direct at 22-23. Mr. Lewis stated that the Settlement Agreement provides sufficient resources to enable the objectives and goals to be achieved and further provides for periodic review and updating of goals, objectives and resource commitments. Lewis Direct at 23. The Settlement Agreement permits the Implementation Oversight Board to modify the programs within certain pre-defined perimeters to reflect market conditions and program experience and preserves I&M's right to petition the Commission for recovery of lost revenues and performance incentives and provides that the Settling Parties may further discuss these matters. Lewis Direct at 23-24.

Mr. Lewis concluded that the Settlement Agreement is in the public interest and provides benefits to I&M and its customers by facilitating the timely deployment of I&M's DSM Phase I Programs. Lewis Direct at 24. He stated that I&M recognizes that its energy efficiency efforts are capable of being expanded from their current levels to become a greater resource for I&M and its customers and that expanded demand side options can help ameliorate the significant challenges I&M faces in the continued use of its current portfolio of supply side resources. Lewis Direct at 24. Mr. Lewis testified that I&M is anxious to build the foundation of programs that will allow its customers and the company to meet their collective energy efficiency goals in a cost effective manner, and believed that the Settlement Agreement is an important first step. Lewis Direct at 24.

I&M Witness Kimberly J. Reeder discussed the plans for the DSM Phase I Programs and support for these programs provided by the MPS. Reeder Direct at 2. Ms. Reeder also discussed the reporting requirements contained in the Settlement Agreement. Reeder Direct at 2. Ms. Reeder briefly described each component proposed for the DSM Phase I Programs and noted that the proposed programs are similar to those either in place or being proposed by other Indiana electric utilities. Reeder Direct at 2-4. She further noted that the DSM Phase I Programs are consistent with the findings from the MPS, a copy of which was provided as I&M Exhibit KJR-1. Reeder Direct at 4.

Ms. Reeder explained that the findings from the MPS, including budgets, projected participation, and energy and demand savings, served as the foundation for the DSM Phase I

Programs. Reeder Direct at 4. She testified that the MPS developed the set of recommended programs based upon, among other things, a market assessment of electric usage and characteristics across customer groups, a review of a comprehensive list of DSM technologies and consideration of the cost effectiveness of the designed programs, including costs to the utility and to participating customers. Reeder Direct at 4. Ms. Reeder stated that for the initial roll-out of the DSM Phase I Programs the Settling Parties selected six of the MPS-recommended programs that: (1) were relatively quick to launch; (2) were “core” programs similar to programs offered by other utilities; and (3) which would provide opportunities for participation by all customer classes. Reeder Direct at 5. She testified that the Settling Parties agreed that focusing on a smaller set of DSM programs was a common-sense approach that provided a number of benefits and recognized that it is not practical to roll out all programs in the MPS all at once. Reeder Direct at 5. Ms. Reeder stated that this approach will allow I&M an opportunity to gain additional experience implementing DSM programs in its service area, provide an opportunity to train the additional internal staff members contemplated by the Settlement Agreement and should reduce customer confusion. Reeder Direct at 5-6.

Ms. Reeder next summarized certain modifications made to the MPS recommendations as part of the MPS review process. Reeder Direct at 6. She testified that the few differences between the MPS and the DSM Phase I Programs include:

- The Low and Moderate Income Weatherization Program budget was modified to reflect additional state weatherization funds being made available pursuant to the American Recovery and Reinvestment Act of 2009.
- The Year 2 Program Monitoring and Evaluation budgets for the Residential Rebates and Residential Appliance Recycling programs were set at the Year 1 level, rather than at zero dollars, to permit ongoing program evaluation, measurement and verification.
- The Year 2 C&I Rebates Program budget retained the Year 1 budget for customer incentives and delivery costs.
- Indirect program costs for Staff Development and Marketing were adjusted to reflect the selection of a more focused portfolio for the DSM Phase I Programs than was identified in the MPS.

Ms. Reeder also described how the Settling Parties took Cause No. 42693 into consideration in the development of the Phase I Programs. Reeder Direct at 6. In particular, she noted that the DSM Phase I Programs include several core programs, such as lighting, audit and low income weatherization programs that were identified in the Phase II Report filed by Susan Stratton (“Stratton Phase II Report”). Reeder Direct at 6-7. Furthermore, the Settlement Agreement provides that I&M will comply with any final order issued by the Commission in Cause No. 42693 (Phase II) and the Settling Parties will work together to facilitate such compliance, including discussing the possibility of an expedited procedural schedule if a Commission proceeding is necessary to effectuate or implement such compliance. Reeder Direct at 7. Finally, Ms. Reeder stated that the DSM Phase I Programs are designed to provide DSM

opportunities for all rate classes, consistent with the Stratton Phase II Report. Reeder Direct at 7-8.

The Settlement Agreement provides annual funding of \$3.46 million in Year 1 and \$4.15 million in Year 2. Reeder Direct at 8; Settlement Agreement, A.1. Ms. Reeder stated that these annual amounts include the cost of individual customer incentives and other program specific expenses, evaluation, staffing and other indirect costs. Reeder Direct at 8; MPS pp. 78, 81. She stated that the indirect costs include an umbrella DSM marketing and customer awareness program, which is provided to support the DSM programs and help customers become aware of the programs. Reeder Direct at 8. Ms. Reeder also stated that the Settlement Agreement includes a school education program, which was recommended by the MPS to help educate students and teachers on the efficient use of energy, and which includes the provision of energy efficiency kits. Reeder Direct at 9.

Ms. Reeder discussed the administration of the DSM Phase I Programs and the additional internal staff that I&M intends to hire. Reeder Direct at 9. She testified that I&M will be the program administrator, and will utilize independent contractors when necessary to support the implementation of selected DSM programs. Reeder Direct at 9. For example, the MPS recommends (p. 60) that a program vendor be used to help implement the Residential Rebates Program, as the vendor can provide contact with the national offices of big-box and other chain stores. Reeder Direct at 9. Ms. Reeder testified that I&M anticipates hiring two additional internal staff to assist in the implementation of the DSM Phase I Programs, as provided for in the "DSM Staffing Budget" for each program. Reeder Direct at 10; MPS, p. 78.

Finally, Ms. Reeder discussed the monthly and annual reporting requirements provided in the Settlement Agreement. Reeder Direct at 10. She stated that the Implementation Oversight Board will develop a monthly progress report similar to the "scorecards" provided to the Commission in accordance with the orders in Cause Nos. 43051 and 43046, and that I&M will start submitting the monthly progress reports to the Commission and Settling Parties contemporaneous with the roll out of the DSM Phase I Programs. Reeder Direct at 10. With regard to annual reports, Ms. Reeder stated that the Implementation Oversight Board will receive and review data related to program cost and performance from I&M and will provide input to I&M for purposes of an annual written report to be provided to the Commission and Parties. Reeder Direct at 10. Ms. Reeder indicated that each annual report should include monthly, year-to-date, and targeted expenditures, number of customers participating and estimated kW and kWh savings for each program, as well as an overview narrative discussing the ongoing cost-effectiveness of the programs and any material program modifications. Reeder Direct at 10.

I&M Witness William K. Castle testified regarding the cost-effectiveness of the DSM Phase I Programs. Mr. Castle sponsored I&M Exhibit WKC-1 which shows the results of standard cost-benefit tests for the DSM Phase I Programs as set forth in the Settlement Agreement. Castle Direct at 2. He explained that DSM programs and measures are typically evaluated with one or more standard economic tests, which include the Total Resource Cost ("TRC"), Utility Cost (also called the Program Administrator Cost or Revenue Requirements test), Participant, Ratepayer Impact Measure ("RIM") and Societal Cost (a variation of the TRC). Castle Direct at 2. These tests are reproduced from the California Standard Practice Manual, which has been in use since 1983, and are widely accepted in the industry as the basis for

describing the economic merits of DSM programs from various perspectives. Castle Direct at 2. Mr. Castle further stated that these tests are defined in the Commission's Integrated Resource Planning rules at 170 IAC 4-7-1. Castle Direct at 3.

Mr. Castle reviewed the cost-effectiveness tests used in the MPS and concluded that the methodology used in the MPS is reasonable. Castle Direct at 3. He testified that his analysis is consistent with that reflected in the MPS and that the recommended programs are cost-effective from a TRC perspective, with the exception of the Residential Low and Moderate Income Weatherization program. Castle Direct at 3. Additionally, Utility Cost test results indicate that the programs are expected to lower revenue requirements over time. Castle Direct at 3.

Mr. Castle next summarized the cost-effectiveness calculations of the DSM Phase I Programs. Mr. Castle testified that using the same assumptions contained in the MPS he was able to materially replicate the TRC results presented in the MPS, given allowances for the adjustments made by the Collaborative and the effects of evaluating programs during the first two years versus the five years in the MPS. Castle Direct at 4. All of the recommended programs were cost-effective from a TRC perspective with the exception of the Residential Low and Moderate Income Weatherization program, a result that Mr. Castle stated is not unusual for programs that serve this demographic. Castle Direct at 4. Based on mean Participant Cost and Utility Cost test scores of 2.4, Mr. Castle concluded that the programs are sufficiently attractive to participants while the overall level of incentives and administrative costs are sufficiently low enough to result in a reduced revenue requirement over time. Castle Direct at 4.

Mr. Castle also discussed the inputs and assumptions used in the cost-effectiveness analysis of the DSM Phase I Programs. Castle Direct at 5. Mr. Castle testified that the cost-effectiveness analysis was performed consistent with the Commission's DSM rules and relied upon data contained within the Settlement Agreement and Appendix A, as well as information provided in the MPS. Castle Direct at 5. The avoided costs assumptions are explained and referenced on page 79 of the MPS. Castle Direct at 5. More specifically, the marginal cost of capacity is based upon a natural gas peaking unit, which is a generally accepted proxy for the avoided cost of capacity when quantifying the benefits of DSM programs as it is the unit that is built to satisfy peaking and reserve margin requirements. Castle Direct at 5. I&M used AEP East's marginal cost of production to approximate the marginal cost of energy. Castle Direct at 5. Mr. Castle stated that implicit in the estimates for avoided energy costs are the costs of compliance with environmental mandates in the form of allowances for SO₂ and NO_x. Castle Direct at 5.

Finally, Mr. Castle discussed the potential cost-effectiveness impact from the budget flexibility set forth in the Settlement Agreement. Castle Direct at 6. He indicated that reallocating up to 25% of the total budget to an approved residential program would not result in material changes to the cost-effectiveness of the affected programs, provided the administrative costs are similarly reallocated. Castle Direct at 6. Similarly, increasing an approved residential program's budget will not materially affect the cost-effectiveness results, provided the budget is spent proportionately on participant incentives. Castle Direct at 6. Mr. Castle explained that to the extent that program budgets are shifted from less cost-effective programs to more cost-effective programs, one would expect the overall portfolio's cost-effectiveness to improve.

Allocations of overhead costs, while affecting individual program results, would have no impact on overall portfolio cost-effectiveness. Castle Direct at 6.

I&M Witness David M. Roush explained the ratemaking provisions set forth in the Settlement Agreement and supported the calculation set forth in Appendix B to the Settlement Agreement and the initial rider rates set forth in Appendix C to the Settlement Agreement. Roush Direct at 2. Mr. Roush also sponsored I&M Exhibit DMR-1 which presents typical bill impacts for the proposed rider rates. Roush Direct at 2. He testified that the Settlement Agreement provides for timely recovery of the direct and indirect costs of the DSM Phase I Programs through the Demand-Side Management / Energy Efficiency (DSM/EE) Program Cost Rider, Tariff I.U.R.C. No. 15, Original Sheet No. 51, approved in accordance with the Commission's Order in Cause No. 43306. Roush Direct at 3. Pursuant to the Settlement Agreement, cost recovery will continue beyond the two year period of the program implementation to permit completion of the cost recovery, including reconciliation of the variance from year two program cost recovery through the DSM/EE Program Cost Rider in year three. Roush Direct at 3. Mr. Roush stated that the Settlement Agreement also provides that I&M shall be granted accounting authority to implement the cost recovery provided therein. Roush Direct at 3.

Mr. Roush next summarized how the program costs are to be allocated. He testified that direct program costs shall be allocated as provided in the DSM/EE Program Cost Rider. Roush Direct at 3. With the exception of the school energy education program, which is allocated 100% to the residential class, all other indirect costs will be allocated 75% to the residential class and 25% to the commercial and industrial classes. Roush Direct at 3. Mr. Roush testified that based upon the nature of these indirect costs, this allocation methodology is reasonable and fairly allocates the indirect costs among the customer classes. Roush Direct at 3-4. He described how the calculation set forth in Appendix B to the Settlement Agreement allocates direct and indirect program costs among the customer classes and stated that, in recognition of the limited ability of SGS tariff class customers to take advantage of all components of the proposed commercial and industrial programs, the allocation of costs to that class was limited to approximately 10% of DSM/EE program costs assigned to the commercial and industrial tariff classes. Roush Direct at 4. According to Mr. Roush, any shortfall created by that limitation was allocated among the remaining commercial and industrial tariff classes. Roush Direct at 4. He noted that the DSM/EE Program Cost Rider was modified to include this limitation on the allocation to the SGS tariff class and to reflect the results of the calculation set forth in Appendix B. Roush Direct at 4.

Mr. Roush testified regarding the initial rates for the DSM/EE Program Cost Rider set forth in Appendix C to the Settlement Agreement. Roush Direct at 4. Mr. Roush stated that, if approved, overall rates will increase by approximately \$0.51 or 0.6% for the typical residential customer using 1,000 kWh per month, as shown on I&M Exhibit DMR-1 which includes the percentage increases at various "typical" usage levels for I&M's major tariff classes, based upon I&M's current rates in effect at the time of this filing. Roush Direct at 5. Mr. Roush explained that, if approved, I&M will promptly submit its revised DSM/EE Program Cost Rider tariff sheet to the Commission Staff for review and approval and that, in accordance with Section G., Paragraph 6 of the Settlement Agreement, subsequent rider rates shall be identified in I&M's

annual DSM/EE Program Cost Rider proceedings at which time the initial rider rates will be reconciled as provided in the DSM/EE Program Cost Rider. Roush Direct at 5.

Mr. Roush testified that the Commission's DSM rules, 170 IAC 4-8-1 *et seq.*, set forth guidelines for DSM cost recovery and that, pursuant to 170 IAC 4-8-5, a utility is entitled to recover the reasonable cost of planning and implementing a DSM program. Roush Direct at 5-6. He stated that the ratemaking treatment provided in the Settlement Agreement is consistent with the Commission's rules, in that the DSM/EE Program Cost Rider provides for the recovery of the cost incurred in excess of the cost that is included in base rates, and further provides for a reconciliation of actual costs and actual collection under the rider. Roush Direct at 6. Mr. Roush concluded that the ratemaking treatment provided in the Settlement Agreement is consistent with Commission rules, consistent with the approval of the DSM/EE Program Cost Rider in Cause No. 43306, includes a reasonable modification to address the impact of the rider on the SGS tariff class and should be approved. Roush Direct at 6.

OUCC Witness April M. Paronish discussed the OUCC's support for the proposed DSM Phase I Programs and the Settlement Agreement. Ms. Paronish explained that she participated in a number of collaborative meetings, both to discuss the development of the MPS and to review the completed MPS and discuss various implementation options with the other Parties. Paronish Direct at 3. Ms. Paronish also discussed other aspects of the Settlement Agreement, including the Implementation Oversight Board and evaluation, measurement and verification of program participation, energy savings and demand reduction. Paronish Direct at 4. She discussed the collaborative process and the extensive review and discussion of the MPS which resulted in the Settlement Agreement. Paronish Direct at 4-5.

Ms. Paronish stated that implementing six, rather than all twelve DSM programs recommended in the MPS, was an acceptable deviation from the MPS. Paronish Direct at 5. Ms. Paronish indicated that the OUCC agrees with the phased approach to implementing DSM programs, which will provide I&M an opportunity to build experience and skills with DSM program implementation, consumer education and other marketing outreach efforts. Paronish Direct at 5. She also indicated that the phased approach will allow I&M to meet projected DSM staffing needs before ramping up additional DSM programs. Paronish Direct at 5. Ms. Paronish believed that the Settlement Agreement allows the programs expected to be most effective in reducing energy usage or demand to be quickly implemented, which will allow I&M's customers to enjoy the benefits of DSM programs sooner, with the expectation that additional DSM programs will be implemented soon thereafter. Paronish Direct at 5.

Ms. Paronish identified the six agreed DSM Phase I Programs and observed that the proposed portfolio includes programs the OUCC considers "core" DSM programs (i.e., lighting, energy audits and low-income weatherization), as well as related outreach and consumer education. Paronish Direct at 6. Ms. Paronish testified that the DSM Phase I Programs will provide energy-saving options for I&M's residential customers and its commercial and industrial customers. Paronish Direct at 6.

Ms. Paronish next discussed the cost effectiveness of the proposed programs. Ms. Paronish noted that the Collaborative agreed to use the California Standard Practice Methodology, which includes a variety of tests, with emphasis placed on the TRC Test. Paronish

Direct at 7. She stated that in order to be considered cost-effective, a program must pass the TRC with a score greater than one (1.0). Paronish Direct at 7. Ms. Paronish testified that all programs except the Low-Income Weatherization program scored greater than 1.0. She further testified that although the Low-Income Weatherization program was not shown to be cost-effective based on the TRC, as referenced in the testimony of Ms. Susan E. Stratton in Cause No. 42693, “[s]ome policy objectives may warrant special consideration be given to low-income customers. . . .” Paronish Direct at 7. According to Ms. Paronish, the OUCC believes DSM programs should be available to all customers, including low-income customers, and thus the Low-Income Weatherization program should remain a component in the proposed DSM portfolio. Paronish Direct at 7.

Ms. Paronish discussed the DSM portion of the Commission’s Order in Cause No. 43306 and opined that the DSM Phase I proposal satisfactorily addresses the concerns the IURC raised in that case. Paronish Direct at 8. Ms. Paronish testified that I&M has presented a detailed Market Potential Study with timelines for program deployment and goals for program spending and energy and demand savings over a multi-year implementation schedule. She stated that she attended a number of DSM planning meetings with I&M before a settlement was reached in Cause No. 43306 and presented for Commission approval. Paronish Direct at 8. She further stated that several OUCC staff members were invited to work collaboratively with I&M in reviewing work proposals from MPS vendors, establishing study parameters and identifying information to include in an MPS report to provide the type of information needed to properly evaluate proposed DSM offerings, and the relative costs and expected energy and demand savings for different DSM programs. Paronish Direct at 8. That information would, in turn, be used to establish baseline data upon which to build a solid DSM Action Plan and upon which to set baseline performance standards for DSM program portfolios. Paronish Direct at 8.

Ms. Paronish testified that there will be an Implementation Oversight Board consisting of one voting member from each of the Settling Parties. Paronish Direct at 9. The Implementation Oversight Board will monitor program progress and effectiveness and make decisions regarding program creation, modification, funding and discontinuation, as permitted under the Settlement Agreement. Paronish Direct at 9. The Implementation Oversight Board will also select an independent third-party to perform EM&V. Paronish Direct at 9. Ms. Paronish noted that several Indiana gas utilities, including Northern Indiana Public Service Company, Vectren and Citizens Gas have successfully implemented DSM Oversight Boards, and that the Commission has stated in its Phase I DSM Order in Cause No. 42693 that “Oversight Boards by gas utilities have shown promise as an approach that can provide the foundation for a more uniform approach to DSM between utilities and across the state.” Paronish Direct at 10. She stated that members of the Implementation Oversight Board could propose changes to the DSM Phase I programs and program budgets, which would then be considered and voted on by all members. Paronish Direct at 10. The Settlement Agreement outlines the process for Implementation Oversight Board members to vote on proposals and challenge decisions made by a majority of (but not all) members. Those types of decisions would be discussed by the Implementation Oversight Board and put to a vote under the procedures outlined in the Settlement Agreement. Paronish Direct at 10. Ms. Paronish believed that the role of the Implementation Oversight Board is sufficient to protect consumer interests, and that the OUCC could not support the level of flexibility provided in the Settlement Agreement without an Implementation Oversight Board. Paronish Direct at 11. Ms. Paronish stated that the OUCC would not have agreed to allow allotted funds to be moved

between different DSM Phase I Programs or different program years without the opportunity to review and possibly alter proposed changes to protect the interests of the public. The Implementation Oversight Board structure allows the parties to move forward through consensus, within pre-approved agreed boundaries of change, while leaving final decisions to the Commission if Implementation Oversight Board members fail to reach a consensus. Paronish Direct at 11.

Ms. Paronish next discussed the proposed EM&V process for the DSM Phase I Programs. She stated that the EM&V program evaluation will be conducted by an independent third-party selected by the DSM Implementation Oversight Board. Paronish Direct at 11. The DSM program evaluations will include both: 1) Process Evaluations – which focus on program design and delivery, and 2) Impact Evaluations – to examine technical aspects of programs, such as demand and energy reductions, actual program participation in comparison to goal, net-to-gross ratios, persistence of savings over a period of time, and analyses of how programs may be modified to increase participation and further reduce energy demand and consumption. Paronish Direct at 11.

Ms. Paronish stated that EM&V is an important risk management strategy tool used to measure and verify estimated savings in terms of energy and demand, and that the EM&V plan includes several components that define the criteria upon which the program will be measured. Paronish Direct at 12. Ms. Paronish testified that an EM&V plan benefits both I&M and its customers by establishing pre-determined standards against which performance will be measured and by providing objective information upon which management performance incentive levels can be rationally based. Paronish Direct at 12. She further testified that the OUCC believes the program evaluation approach described by I&M is adequate, and that the OUCC envisions the Implementation Oversight Board working with the selected independent EM&V contractor to determine the appropriateness of using the International Performance Measurement Verification Protocol (“IPMVP”) for evaluation of the six proposed DSM Phase I Programs. Paronish Direct at 12. Ms. Paronish stated that the IPMVP is a widely-accepted standard on energy efficiency M&V that compares measured energy use or demand before and after implementation of an energy savings program. Paronish Direct at 12. She noted that I&M will report actual energy efficiency participation to the Implementation Oversight Board for review monthly, and will report annual information related to estimated rate impact, actual net-to-gross ratio experiences and EM&V results. Paronish Direct at 13.

With respect to cost recovery issues, Ms. Paronish testified that the Settlement Agreement provides for timely program cost recovery, including recovery of direct and indirect program costs not already included in base rates, and provides a reconciliation of collected and actual costs under I&M’s DSM/EE Program Cost Rider. Paronish Direct at 13. Ms. Paronish agreed that the modifications to the original MPS DSM program budgets discussed by I&M Witness Reeder appear to be reasonable and that Ms. Reeder’s testimony clearly explains the reasons for each modification made to the original MPS budgeted amounts. Paronish Direct at 13. The OUCC also accepted I&M Witness Roush’s proposed allocation of indirect costs among the six DSM Phase I Programs as reasonable for purposes of the Settlement Agreement. Paronish Direct at 13.

Ms. Paronish observed that in order to simplify the proposal and accelerate DSM program implementation, the Settlement Agreement does not include recovery of incentives and lost revenues at this time and, as a result, the cost of the proposed DSM Phase I Programs is reduced for I&M's customers. Paronish Direct at 13, 8. Ms. Paronish believed that the decision to move forward with deployment, albeit on a limited basis, before receiving Commission approval of possible future performance incentives or allowances for lost margin recovery, signals a commitment to achieving DSM energy savings and demand reduction goals. Paronish Direct at 8-9. Ms. Paronish indicated that the Settlement Agreement provides that incentives and lost revenues may be discussed by the Settling Parties and any agreement reached may be presented to the Commission for approval. Paronish Direct at 14. The Settlement Agreement further provides that at any time I&M may individually present a proposal regarding the recovery of lost revenues and/or incentives to the Commission for review and approval by separate petition. Paronish Direct at 14.

Ms. Paronish testified that Commission approval of the Settlement Agreement would serve the public interest and would provide benefits to both I&M and the customers it serves. Paronish Direct at 14. Specifically, Ms. Paronish stated that the deployment of the DSM Phase I programs has the potential to reduce energy demand by an estimated 12,175 kW and to reduce energy usage by a projected 58,413 MWh over the next two years, thereby furthering the public interest in promoting energy efficiency and DSM. Paronish Direct at 14. Ms. Paronish testified that the OUCC believes that both I&M and its customers can expect to benefit from Commission approval of the Settlement Agreement, as discussed by Mr. Lewis and Ms. Reeder, and that other benefits will accrue to the general public as energy efficiency levels increase, forestalling or reducing environmental harm. Paronish Direct at 14.

Ms. Paronish believed that the consumer safeguards built into the Settlement Agreement will adequately protect Indiana consumer interests. She noted that in addition to ongoing regulatory oversight provided by the Commission, the Settlement Agreement creates an additional, less formal layer of oversight by an Implementation Oversight Board that will monitor I&M's performance under the Settlement Agreement and ensure that ratepayer funds collected for DSM Phase I Programs are spent prudently and in a manner designed to maximize benefits to Indiana consumers. Paronish Direct at 15. She further noted that the periodic reporting requirements provided in the Settlement Agreement will also protect consumer interests by motivating I&M to keep the implementation of its DSM Phase I Programs on track and by preventing any unreasonable program or budget changes. Paronish Direct at 15. Finally, Ms. Paronish pointed out that the Settlement Agreement recognizes that the agreement reached therein is subject to change in order to remain compliant with the Commission's anticipated Phase II Order in its generic investigation of DSM in Cause No. 42693. Paronish Direct at 15.

Ms. Paronish concluded that the OUCC recommends the Commission approve the Joint Stipulation and Settlement Agreement covering the proposed DSM Phase I Programs and related matters. Approval of the EM&V process will help ensure that I&M's DSM Phase I Programs meet appropriate energy savings and demand reduction goals. Approval of the Implementation Oversight Board will help reduce ratepayer risk by providing a streamlined way to make future adjustments to the DSM Phase I Programs, within Commission approved parameters, to ensure that all DSM funding continues to be used in the most cost-effective manner possible during the

life of the programs, based on actual market experience and in response to future changes. Paronish Direct at 15-16.

4. Discussion and Commission Findings. “It is the policy of the Commission to review and accept appropriate settlements.” 170 IAC 1-1.1-17(a). As we previously explained, “[a]s in other litigation contexts, negotiated settlements of administrative proceedings can help advance legal and policy objectives with far greater speed and certainty, and far less drain on public and private resources, than litigation or other adversarial proceedings.” *Re Petition of Southern Indiana Gas & Electric Company*, Cause No. 42861 (IURC 2/22/2006) at 16. Accordingly, the Commission may approve a settlement agreement if it is supported by substantial evidence, and the Commission finds it to be in the public interest. *Id.*

A. Legal Consideration of DSM Proposals. The Commission has developed a regulatory framework that allows a utility to meet long term resource needs with both supply-side and demand side resource options in a least-cost manner. As part of its IRP, an electric utility must consider alternative methods of meeting future demand for electric service, including a comprehensive array of demand side measures that provide an opportunity for all ratepayers to participate in DSM, including low-income residential ratepayers.¹

In 1995, the Commission adopted the DSM Rules providing guidelines for DSM cost recovery. The DSM Rules were specifically designed to assist the Commission in its administration of the Utility Powerplant Construction Act, Ind. Code § 8-1-8.5 *et seq.*, and to facilitate increased use of DSM as part of the utility resource mix. As further set forth in 170 IAC 4-8-3(a), the purpose of the DSM Rules was to:

(a) ...[provide] a regulatory framework that allows a utility an incentive to meet long term resource needs with both supply-side and demand-side resource options in a least-cost manner and ensures that the financial incentive offered to a DSM program participant is fair and economically justified. The regulatory framework attempts to eliminate or offset regulatory or financial bias against DSM, or in favor of a supply-side resource, a utility might encounter in procuring least-cost resources. The commission, where appropriate, will review and evaluate the existence and extent of regulatory or financial bias....

(c) To ensure a utility’s proposal is consistent with acquiring the least-cost mix of demand-side and supply-side resources to reliably meet the long term electric service requirements of the utility’s customers, the commission, where appropriate, will review and evaluate, as a package, the proposed DSM programs, DSM cost recovery, lost revenue, and shareholder DSM incentive mechanisms.

This regulatory framework acknowledges the possibility of financial bias against DSM, recognizes the need to evaluate the extent of any bias, and provides ways for the Commission to eliminate any bias through adoption of a package of cost recovery and incentive mechanisms designed to facilitate the use of DSM to meet the long-term resource needs of customers.

¹ 170 IAC 4-7-6(b).

B. Commission Order in Phase II of the DSM Investigation. On December 9, 2009, the Commission issued its Phase II Order in Cause No. 42693, *In the Matter of the Commission's Investigation into the Effectiveness of Demand Side Management Programs* ("Phase II Order"). In this Order, the Commission found that jurisdictional electric utilities, of which I&M is one, are required to offer certain Core DSM programs ("Core Programs") to all customer classes and market segments. The Core Programs are to include the following: (1) Home energy audit program, (2) Low income weatherization program, (3) Residential lighting program, (4) Energy efficient schools program, and (5) Commercial and Industrial program. To implement these programs, electric utilities are required to pursue coordinated marketing, outreach and consumer education strategies on a statewide basis.

The Commission also determined that an Independent Third Party Administrator should be utilized by the electric utilities to oversee the administration and implementation of the Core Programs. In addition, a DSM Coordination Committee is to be formed to address DSM program oversight generally within the State of Indiana. The Commission also found that a single statewide evaluation protocol was necessary in order to track achievement with DSM goals. Consequently, jurisdictional electric utilities are required to contract with an independent entity to conduct the EM&V with respect to the Core Programs.

Finally, the Commission found that the associated ratemaking and cost recovery issues associated with an electric utility's DSM programs should be addressed on a case by case basis in individual utility proceedings.

C. I&M's Proposed DSM Program. As Mr. Lewis observed, the Settling Parties represent a diverse group of constituents with differing views on the issues presented in this proceeding. The proposed two-year DSM Phase I Programs provide a reasonable foundation of DSM programs upon which I&M can build, using experience gained under the Settlement Agreement and through further discussions with the Collaborative. I&M's proposed two-year DSM Program contains many of the programs determined by the Commission in its Phase II Order to be Core Programs. As we have already found that these Core DSM programs are required offerings for jurisdictional electric utilities, the Commission approves I&M's offering of DSM programs that are considered and determined to be Core Programs in accordance with the requirements of the Phase II Order.

As we noted in *Verified Petition of Southern Ind. Gas & Elec. Co.*, Cause No. 43427 (Dec. 16, 2009), proposed programs that go beyond the Core Programs discussed in the Commission's Phase II Order in Cause 42693 will be considered "Core Plus Programs." Order at 32. I&M's proposed programs include Core and Core Plus Programs, and the Commission approves I&M's offering of these programs consistent with the findings set forth below.

The Settlement Agreement also utilizes the Market Potential Study developed by Forefront/Gil Peach, independent energy efficiency experts, and was prepared as a result of a settlement agreement approved in Cause No. 43231. The Settlement Agreement provides for the use of a Program Implementation Oversight Board and an independent third party EM&V evaluator, which should provide additional benefits to I&M and its customers by helping to ensure the successful implementation of the DSM Phase I Programs and accurate verification of the savings achieved. This Commission has approved advisory committees or oversight boards

in other DSM proceedings and we have found them to be an effective mechanism for managing programs and resolving issues. The Commission also notes the monthly and annual reporting provided under the Settlement Agreement will provide opportunities for periodic review of the DSM programs by the Commission and other stakeholders.

The Commission stated in its Order in Cause No. 43306 that “[t]he initial programs approved shall be those recommended as a result of the DSM/EE collaborative and Market Potential Study, provided that they are properly documented in a rigorously prepared business plan which reflects goals and objectives, strategic initiatives and appropriate performance metrics for each proposed element.” *In re Indiana Michigan Power Company*, Cause No. 43306 (IURC 3/04/2009) at 46-47. As the record evidence shows, the Settlement Agreement provides for an initial set of DSM programs which have been recommended as a result of the DSM/EE collaborative and the Market Potential Study. The Settlement Agreement, together with the evidence submitted by the Parties, demonstrates a collaborative business plan that reflects goals and objectives, strategic initiatives and appropriate performance metrics for each proposed element of the DSM Phase I Programs. Thus, we find that approval of the Settlement Agreement is consistent with our findings in Cause No. 43306.

The Parties have agreed that the terms and conditions of the Settlement Agreement represent a fair, just, and reasonable resolution of the issues in this proceeding, that the evidence provided in support of this Settlement Agreement constitutes substantial evidence sufficient to support the Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for approval of the Settlement Agreement. Settlement Agreement, pp. 1, 12-13. After reviewing the Settlement Agreement and based upon the evidence of record, we find the Settlement Agreement resolves all matters pending before the Commission in this proceeding and that the Settlement Agreement is supported by substantial evidence of record and is in the public interest. Therefore, we find that the Settlement Agreement shall be approved.

D. DSM Program Cost Recovery. The DSM Rules provide that the Commission will determine the cost recovery mechanism for a DSM program when the DSM program is submitted for Commission approval. This is also consistent with the Commission’s findings in the Phase II Order.

In this proceeding, I&M proposes to recover DSM program costs and related incentives through the DSM/EE Program Cost Rider to reflect the addition of these costs and incentives. Pursuant to the settlement approved in Cause No. 43306, the DSM/EE Program Cost Rider was created to specifically recover I&M’s DSM costs. No party opposed this proposal, and based upon the evidence presented, the Commission finds that I&M shall be authorized to include both the Core and Core Plus Program costs in its DSM/EE Program Cost Rider, as set forth in the Settlement Agreement.

5. Effect of Settlement Agreement. With regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC 3/19/1997).

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

1. The Settlement Agreement, a copy of which is attached hereto, is hereby approved in its entirety and without change and the terms and conditions thereof shall be and are hereby incorporated herein by reference as part of this Order.

2. I&M shall file with the Electricity Division of the Commission its first revised tariff sheet for I.U.R.C. No. 15, Sheet No. 51 (the "DSM/EE Program Cost Rider") and shall be and hereby is authorized to place into effect the rate adjustment and billing factors agreed to in the Settlement Agreement and contained in Appendix C to the Settlement Agreement upon approval by the Division.

3. I&M shall be, and hereby is, authorized to implement the accounting procedures necessary to implement the ratemaking and tracking mechanisms agreed to in the Settlement Agreement.

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

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

APPROVED: MAR 17 2010

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


Brenda A. Howe
Secretary to the Commission

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is made and entered into as of the 20th day of August, 2009 by and among Indiana Michigan Power Company ("I&M" or "Company"), Citizens Action Coalition of Indiana, Inc., City of Fort Wayne, Indiana Michigan Power Company Industrial Group and the Indiana Office of Utility Consumer Counselor (collectively the "Parties" and individually "Party"):

WHEREAS, the Parties have reviewed the Indiana Market Assessment and Action Plan for Electric Demand Side Management (DSM) Programs: Final Report prepared for I&M (hereinafter referred to as the "Market Potential Study");

WHEREAS, in accordance with the Order of the Indiana Utility Regulatory Commission ("Commission") in Cause No. 43306 dated March 4, 2009, the Parties have continued their collaboration on the demand-side management and energy efficiency ("DSM") programs to be offered by I&M; and

WHEREAS, the Parties believe that this Agreement is in the public interest and the terms and conditions set forth herein are a fair, just and reasonable resolution regarding I&M's DSM Programs and the ratemaking treatment of associated costs, subject to their incorporation by the Commission into a final, non-appealable order ("Final Order") without modification or further condition that may be unacceptable to any Party.

NOW, THEREFORE, the Parties having been duly advised by their respective staff, experts and counsel, stipulate and agree as follows:

A. DSM Programs.

1. The Commission shall approve and authorize I&M to implement the following programs (collectively referred to herein as the “DSM Phase I Programs”) for a two-year term and to timely recover the direct and indirect costs thereof as set forth below and as described more fully in Appendix A, which is incorporated herein by reference:

I&M DSM PHASE I PROGRAMS

PROGRAM	YEAR 1	YEAR 2
DIRECT COSTS		
Residential Low and Moderate Income Weatherization Program	\$808,351	\$913,812
Residential Appliance Recycling Program	726,850	931,745
Residential Rebate Program	403,173	634,011
Residential Whole House Program	196,510	299,020
Commercial and Industrial Rebates Program	731,520	679,020
Commercial and Industrial Incentive Program	198,200	292,400
<u>Total Direct Costs</u>	\$3,064,604	\$3,750,008
INDIRECT COSTS		
School energy education program	\$100,000	\$100,000
Computer systems development, including household energy audit capability	150,000	150,000
Staff development and professional organizations	50,000	50,000
Umbrella DSM marketing and customer awareness	100,000	100,000
<u>Total Indirect Costs</u>	\$400,000	\$400,000
TOTAL COSTS	\$3,464,604	\$4,150,008

2. This Agreement is designed to expand DSM within I&M's assigned service area based on the Market Potential Study. The DSM Phase I Programs provided for herein take a significant step toward achieving the potential DSM identified in the Market Potential Study. This Agreement provides the flexibility for actual experience with the programs to be taken into account in the program implementation and melded into future phases of I&M's DSM program. This Agreement also provides for ongoing review by the I&M DSM/Energy Efficiency Program Implementation Oversight Board (as described below) (hereinafter "Implementation Oversight Board") and the Commission.

B. Term of I&M's DSM Phase I Programs.

This Agreement shall apply to the costs incurred by I&M to implement the DSM Phase I Programs in accordance with Section A above, including Appendix A, for a two-year period, which programs shall terminate at the end of this term without further Commission action. The cost recovery provided by this Agreement shall continue beyond the two-year period of the program implementation to permit the completion of the timely cost recovery provided under this Agreement, including the reconciliation of the variance from year two program cost recovery through the DSM/EE Program Cost Rider in year three.

C. Program Portfolio Implementation.

1. I&M will act as program administrator with the DSM programs and funding levels specified in Section A of this Agreement and in Appendix A.

2. During the term of this Agreement, the Parties will continue to work together in a collaborative process much the same as the process used in reaching this

Agreement and will strive to optimize the DSM Phase I Programs based on actual experience with the programs. This work will be performed by the Implementation Oversight Board which will consist of one representative from each Party. The Implementation Oversight Board will be responsible for monitoring and administering the progress and effectiveness of the DSM Phase I Programs.

3. The Implementation Oversight Board will meet as necessary on an ongoing monthly basis as programs are being implemented and evaluated.

4. Consistent with the Market Potential Study (p. 78) and subject to Section D of this Agreement, during the implementation of the DSM Phase I Programs: (a) funds within program budgets that remain unspent at the end of the year may be rolled over to categories within the same program in the next year; (b) funds may be reallocated across line items within a program; and (c) up to 25 percent of total budget may be shifted among approved programs at any time within a program year, provided however that the budget for the Commercial and Industrial (“C&I”) programs identified in Section A shall not be increased above the direct and indirect cost levels for C&I programs set forth in this Agreement. In accordance with Section D.1 and subject to Section D.2, the Implementation Oversight Board may also authorize an increase in expenditures for residential programs of up to 15 percent of annual costs, without specific review or approval by the Commission.

5. The Parties recognize that the Implementation Oversight Board shall oversee the high level implementation of the DSM Phase I Programs and that I&M will be responsible for the day to day program management, delivery and implementation. More specifically, the following items regarding the implementation of the DSM Phase I

Programs will be discussed with the Implementation Oversight Board and decided in accordance with Section D.1 and subject to Section D.2:

- Appropriate customer incentive levels;
- Appropriate customer rebate eligibility periods;
- Addition or deletion of measures for any particular program;
- Evaluation of overall program and selection of independent third-party evaluator in accordance with Section F;
- Monitor program implementation;
- Monthly and annual reports to the Commission in accordance with Section E; and
- Changes in program budgets as provided in Section C.4.

D. Operation of the Implementation Oversight Board During Two-Year Administration of DSM Phase I Programs.

1. The Implementation Oversight Board will use good faith efforts to reach consensus on matters set forth in Sections C.4, C.5 and F of this Agreement. In the event such efforts fail to yield a consensus, the Implementation Oversight Board will reach decisions through a majority decision of its voting members. Each Party to this Agreement shall have one vote.

2. With respect to matters set forth in Sections C.4, C.5, and F of this Agreement, to the extent the Implementation Oversight Board cannot reach a

consensus after a good faith effort by all members, and as a result a decision is reached by a mere majority, any individual member can raise objections to a majority decision by filing such objections with the Commission.¹ Regardless of a pending formal objection, decisions made by the majority of the Implementation Oversight Board will be implemented until such time as the Commission issues an order or docket entry providing further direction. The Implementation Oversight Board may agree to, or as part of a filed objection the member may ask the Commission for, a brief stay of implementation of a decision to enable the Commission to rule on the objection. In the event the Implementation Oversight Board deadlocks on a voting issue the members of the Implementation Oversight Board may present their positions to the Commission for a decision.

3. Notwithstanding any other provision of this Agreement, the Implementation Oversight Board may add voting or advisory members only by unanimous vote. Such members must agree to and abide by the terms of this Agreement and any future Commission orders applicable to this Agreement.

4. Notwithstanding any other provision of this Agreement, matters pertaining to any federal, state or local mandates shall not be subject to Sections D. 1 and D.2.

E. Reports to the Commission.

1. The Implementation Oversight Board will develop a monthly progress report similar to the “scorecards” provided to the Commission in accordance with the orders in Cause Nos. 43051 and 43046. I&M will start submitting the monthly progress

¹ The Parties will request the Commission to maintain an open docket for this purpose.

reports to the Commission and Parties contemporaneous with the roll out of the DSM Phase I Programs.

2. The Implementation Oversight Board will receive and review data related to program cost and performance from I&M and will provide input to I&M for purposes of an annual written report to be provided to the Commission and Parties. Each annual report should include monthly, year-to-date, and targeted expenditures, number of customers participating and estimated kW and kWh savings for each program. Each annual report should also include an overview narrative discussing the ongoing cost-effectiveness of the programs and any material program modifications.

F. Measurement & Verification.

The members of the Implementation Oversight Board will work together in a collaborative process to retain an independent third-party evaluator to evaluate, measure, and verify the results of the DSM Phase I Programs. Based on input from the other members of the Implementation Oversight Board, I&M will prepare and issue a Request-For-Proposal ("RFP") for a Third Party Evaluator. The Implementation Oversight Board will work in accordance with Sections D.1 and D.2 to select a Third Party Evaluator.

G. Program Cost Recovery.

1. I&M shall be entitled to recover the direct and indirect costs incurred by I&M for the development, implementation, approval and oversight of the DSM Phase I Programs in accordance with the expenditures set forth above and in Appendix A, including, but not limited to, administration, marketing, evaluation, outside services, consultants, equipment purchases, and information systems modification and/or

development costs (the "DSM Costs"). The DSM Costs shall be recovered through the DSM/EE Program Cost Rider, Tariff I.U.R.C. No. 15, Original Sheet 51, approved in accordance with the Commission's Order in Cause No. 43306, and as set forth in First Revised Sheet 51 attached hereto as Appendix C.

2. Direct program costs shall be allocated as provided in the DSM/EE Program Cost Rider. Indirect costs set forth in Section A of this Agreement for the school energy education shall be allocated 100% to the residential class. All other indirect costs set forth in Section A of this Agreement shall be allocated 75% to the residential class and 25% to the C&I class.

3. I&M shall be granted accounting authority by the Commission to implement the cost recovery provided by this Agreement.

4. As shown by the calculation set forth in the attached Appendix B, the initial factors for the DSM/EE Program Cost Rider shall be as set forth in the attached Appendix C, both of which are incorporated herein by reference.

5. Upon Commission approval of this Agreement and consistent with established Commission practice, I&M will promptly submit its revised DSM/EE Program Cost Rider tariff sheet to the Commission Staff for review and approval so that the DSM/EE Program Cost Rider factors may be placed into effect beginning, if administratively possible, with the first billing month following the entry of a Commission order approving this Agreement.

6. Subsequent factors shall be identified in I&M's annual DSM/EE Program Cost Rider proceedings at which time the initial factors shall be reconciled as provided in the DSM/EE Program Cost Rider.

H. Lost Revenues and Incentive.

The DSM/EE Program Cost Rider factors for year one of the DSM Phase I Programs set forth in this Agreement do not include recovery for lost revenues or incentives. Lost revenues and incentives may be discussed by the Parties and any agreement presented to the Commission for review and approval. Such discussions shall not be subject to Sections D.1 and D.2. Additionally, at any time, I&M may individually present a proposal regarding the recovery of lost revenues and/or incentives to the Commission for review and approval by separate petition. Upon Commission approval, the DSM/EE Program Cost Rider factors shall be revised to reflect the inclusion of lost revenue and/or incentives.

I. Cause No. 42693.

I&M will comply with any final order issued by the Commission in Cause No. 42693 (Phase II). The Parties will work together to facilitate such compliance, including discussing the possibility of an expedited procedural schedule if a Commission proceeding is necessary to effectuate or implement such compliance.

J. Additional DSM Matters.

1. During the term of this Agreement, the Parties will further consider a summer peak reduction program for residential and commercial customers and the use of two-way versus one-way communication devices for such a program in light of experience gained from I&M's ongoing smart metering pilot project. Any agreement

regarding a summer peak reduction program will be presented to the Commission for review and approval.

2. The Parties contemplate working collaboratively to develop a plan to review and modify I&M's DSM programs beyond the two-year implementation of the DSM Phase I Programs provided for herein. With the exception of the summer peak reduction discussions, further collaborative meetings in accordance with this Section J are expected to occur following the end of the first year of the DSM Phase I Programs so that experience under this Agreement may be taken into consideration. To the extent a subsequent agreement is reached regarding I&M's DSM, such agreement will be submitted to the Commission for review and approval.

3. Discussions conducted under this Section J shall not be subject to Sections D.1 and D.2.

4. Notwithstanding the foregoing, I&M shall not be precluded from petitioning the Commission individually in a separate Cause at any time for approval of DSM and energy efficiency plans and associated cost recovery, including lost revenues and incentives.

5. With the exception of a direct load control program and subject to the Commission's Order in Cause No. 43306, additional direct and indirect DSM/EE costs included in the DSM/EE Program Cost Rider or otherwise recognized for ratemaking purposes will not be allocated to industrial customers during the four year period set forth in the Settlement Agreement approved in Cause No. 43306.

K. Presentation of the Agreement to the Commission.

1. The Parties shall support this Agreement before the Commission and request that the Commission expeditiously accept and approve the Agreement. This Agreement is not severable and shall be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to any Party. If the Commission does not approve this Agreement, in its entirety, the entire Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

2. The Parties shall jointly petition the Commission for approval of this Agreement and shall provide supporting evidence that is agreed to by all Parties, which shall include the Market Potential Study and other evidence supporting the Agreement. Such evidence shall be admitted into the evidentiary record without objection and the Parties hereby waive cross-examination.

3. A Final Order approving this Agreement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Parties as an Order of the Commission.

4. The Parties shall agree on the form, wording and timing of public/media announcement (if any) of this Agreement and the terms thereof. No Party will release any information to the public or media prior to the aforementioned announcement. The Parties may respond individually without prior approval of the other Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Parties. Nothing in this Agreement

shall limit or restrict the Commission's ability to comment publicly regarding this Agreement or any Order affecting this Agreement.

L. Effect and Use of the Agreement.

1. It is understood that this Agreement is reflective of a negotiated settlement and neither the making of this Agreement nor any of its provisions shall constitute an admission by any Party to this Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Agreement is in consideration and support of each and every other term.

2. Neither the making of this Agreement (nor the execution of any of the other documents or pleadings required to effectuate the provisions of this Agreement), nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Agreement, shall establish any principles or legal precedent applicable to other Commission proceedings.

3. This Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce this Agreement.

4. This Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

5. The evidence provided in support of this Agreement constitutes substantial evidence sufficient to support this Agreement and provides an adequate

evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Agreement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible following the filing of the joint petition seeking Commission approval of this Agreement and the pre-filing of supporting testimony.

6. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

7. The undersigned Parties have represented and agreed that they are fully authorized to execute the Agreement on behalf of their designated clients, and their successor and assigns, which will be bound thereby.

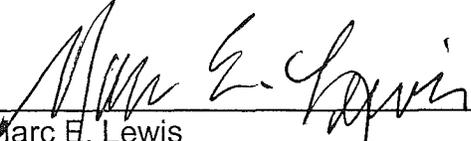
8. The Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Agreement in its entirety and without change or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Agreement). The Parties shall support or not oppose this Agreement in the event of any appeal or a request for a stay by a person not a party to this Agreement or if this Agreement is the subject matter of any other state or federal proceeding.

9. The provisions of this Agreement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

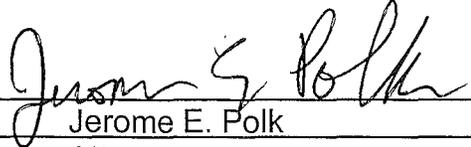
10. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED this 28th day of August, 2009.

INDIANA MICHIGAN POWER COMPANY


Name: Marc E. Lewis
Its: Vice President External Relations

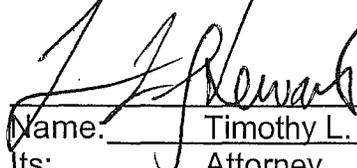
CITIZENS ACTION COALITION OF INDIANA, INC.


Name: Jerome E. Polk
Its: Attorney

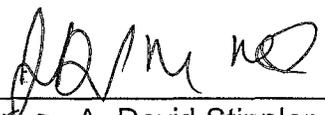
CITY OF FORT WAYNE


Name: Michael B. Cracraft
Its: Attorney

INDIANA MICHIGAN POWER COMPANY INDUSTRIAL GROUP


Name: Timothy L. Stewart
Its: Attorney

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR


Name: A. David Stippler
Its: Utility Consumer Counselor