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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY FOR APPROVAL OF AN ADJUSTMENT TO ITS RATES THROUGH ITS DEMAND SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAM COST RIDER COMMENCING WITH THE BILLING MONTH OF JANUARY 2014 AND FOR APPROVAL OF CORE AND CORE PLUS DEMAND SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS FOR 2014 AND ASSOCIATED ACCOUNTING AND RATEMAKING RECOGNITION, INCLUDING TIMELY RECOVERY OF ASSOCIATED COSTS, INCLUDING NET LOST REVENUE, SHAREHOLDER INCENTIVES AND CARRYING CHARGES AND DEPRECIATION EXPENSE ON CERTAIN CORE PLUS CAPITAL EXPENDITURES THROUGH I&M'S DSM/EE PROGRAM COST RIDER.	)	CAUSE NO. 43827 DSM 3 APPROVED: DEC 30 2013

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On July 1, 2013, Indiana Michigan Power Company ("I&M") filed its Verified Petition and Request for Administrative Notice with the Indiana Utility Regulatory Commission ("Commission"), requesting approval of an adjustment to its rates through its Demand Side Management ("DSM") and Energy Efficiency ("EE") Program Cost Rider beginning with the billing month of January 2014. I&M also requests approval of Core and Core Plus DSM and EE programs for 2014 and associated accounting and ratemaking recognition.

The I&M Industrial Group ("Industrial Group") and Citizens Action Coalition of Indiana ("CAC") both intervened in this Cause. On July 10, 2013, I&M filed its case-in-chief and supporting workpapers. On October 1, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") and Industrial Group filed their respective cases-in-chief. On October 15, 2013, I&M filed its rebuttal evidence.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on October 24, 2013, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana. I&M, the OUCC, the Industrial Group and the CAC appeared and participated at the hearing. No members of the general public attended the hearing.

Based upon applicable law and evidence presented, the Commission finds:

1. **Notice and Jurisdiction.** Notices of the hearings in this Cause were given and published as required by law. Proofs of publication of the notices are contained in the official files of the Commission. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a) and an electric utility as defined in Ind. Code § 8-1-2.5-2. In the March 4, 2009 Order in Cause No. 43306, the Commission approved an adjustment mechanism for I&M's recovery of costs associated with its DSM program through a tracker mechanism. Under Indiana Code § 8-1-2-42, the Commission has jurisdiction over changes in I&M's schedules of rates and charges. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. **I&M's Characteristics and Business.** I&M, a wholly-owned subsidiary of American Electric Power ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal office at One Summit Square, Fort Wayne, Indiana. I&M is a member of the East Zone of the AEP System. I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to approximately 458,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley.

3. **Relief Requested.** I&M requests approval of updated DSM/EE Program Cost Rider factors for 2014. The proposed factors reflect a reconciliation of DSM program costs, net lost revenue, and shared savings and a projection of DSM program costs, net lost revenue, and Shared Savings for 2014 incurred in accordance with the Commission's Orders. I&M also requests Commission approval of a 2014 DSM Plan, which is a plan to implement Core and Core Plus programs in 2014 in compliance with the December 9, 2009 Order in Phase II of Cause No. 42693 (Phase II Order) and associated ratemaking and accounting relief.

4. **I&M's Direct Evidence.**

A. **Overview.** Jon C. Walter, I&M's Manager of Regulatory Support presented I&M's current DSM/EE programs and achievements relevant to meeting the Commission's DSM/EE goals. He also discussed I&M's performance and challenges regarding compliance with the energy savings goals for the Three Year Plan authorized by the Commission in Cause No. 43959. Mr. Walter presented the Action Plan, which was prepared by a consultant and explains the rationale, participation and measures, marketing plans, program tracking considerations and budget assumptions for each program. The Action Plan also assesses the cost-effectiveness of the portfolio. Mr. Walter also presented the third party EM&V reports for the period April 2011 through April 2012 and the period May 2012 through December 2012. These reports provided additional information regarding the cost-effectiveness of the programs evaluated.

B. **2014 DSM Plan.** Mr. Walter explained that the 2014 DSM Plan is a straightforward continuation of many of the same programs approved in Cause No. 43959 but at projected levels for 2014. He provided a program summary, proposed funding levels, and revenue requirements for the following programs:

Core Programs
- Residential Lighting
- Home Energy Audit
- Income Qualified Weatherization
- Energy Efficient Schools
- C&I Prescriptive

Core Plus Programs
- Residential Appliance Recycling
- Residential Online Audit
- Residential Home Energy Reports
- Residential Weatherization
- Residential New Construction
- Residential Peak Reduction
- Residential Energy Efficient Products
- Renewables & Demonstrations
- C&I Custom
- C&I Retro Commissioning Lite
- C&I HVAC & Refrigeration
- C&I Audit
- Electric Energy Consumption Optimization Program.

Mr. Walter explained how the Consultant was used to develop the Action Plan for 2014-2016. Mr. Walter explained why approval was sought for a one-year plan and discussed how the 2014 DSM Plan reflects the Consultant's recommendations. Mr. Walter discussed the new program proposals, including the Residential EE Products Program as well as a new Electric Energy Consumption Optimization ("EECO") Program.

Mr. Walter explained the Residential EE Products Program, the Company's cost recovery proposal, and associated cost benefit analysis. Mr. Walter also discussed the EECO technology and the Company's cost recovery proposal, the associated cost benefit analysis and future deployment of EECO. He explained that the energy savings benefits for the EECO program are based on demonstrated, measured results. Mr. Walter also addressed the indirect costs or "portfolio level costs" contained in the 2014 DSM Plan.

Mr. Walter explained that I&M seeks approval to spend up to and including 10% above Core Program budgets set forth in this filing as approved with respect to the programs filed in Cause No. 43959. He stated that this is consistent with what the DSMCC has set forth in the Third Party Administrator ("TPA") Request for Proposal ("RFP").

C. **Cost-Effectiveness.** Mr. Walter presented the cost-effectiveness analysis performed by the Consultant, as modified by I&M and as impacted by the EM&V vendor's report. William K. Castle, Director of Resource Planning and DSM for AEP Service Corporation ("AEPSC") also presented an analysis of the cost-effectiveness of the portfolio of proposed DSM programs. He discussed the standard economic tests, inputs and assumptions used in the cost-effectiveness analysis. Mr. Castle discussed the risk of lighting programs due to the new lighting standards taking effect.

D. **Shared Benefits.** Mr. Walter explained that I&M proposed to continue the Shared Savings mechanism for programs already eligible for this mechanism. He testified that I&M proposed to add the Residential Home Energy Reports Program to the programs eligible for Shared Savings. I&M also proposed to add the Residential EE Products Program to programs eligible for Shared Savings.

E. **Cost Recovery and DSM/EE Rider Factors.** Mr. Walter explained that I&M requests cost recovery through the DSM Rider of forecast program cost, forecast Net Lost Revenue, and forecast Shared Savings for 2014. Mr. Walter explained that I&M proposes to use the reconciliation procedures currently in place with a slight modification of the methodology used to determine Net Lost Revenue. Mr. Walter added that if unforeseen circumstances should happen to delay the Commission's approval of this request to a point beyond the timeframe of the authorized recovery granted in I&M's Three Year DSM Plan in Cause No. 43959, I&M respectfully requests deferral authority for all program costs, Net Lost Revenue, and Shared Savings incurred in the continuation of program operation in the same fashion as programs are operated today.

Mr. Walter also presented the calculations used to reconcile and update the DSM/EE Program Cost Rider factors for 2014, including the Company's proposed treatment of past over-recoveries. He discussed the methodology used to develop the "Expected Performance Forecast" and explained how it differed from prior proceedings. He noted that while the revised forecast methodology may still result in a variance, including a potential under-recovery that will need to be addressed in the reconciliation process, the use of actual experience in the forecast is reasonably expected to increase accuracy over the longer term and this benefits customers and I&M.

Jeffrey L. Brubaker, AEPSC Director of Regulatory Accounting Services, presented the reconciliation calculation and discussed I&M's requested deferral accounting authority. He added that the deferral accounting requested is the same deferral accounting that the Commission has previously approved for I&M. Mr. Brubaker calculated the carrying charge and depreciation expense on I&M's capital expenditures related to the EECO program and explained how I&M will account for any over or under recovery of carrying charges and depreciation expense.

Nancy A. Heimberger, AEPSC Senior Regulatory Consultant in Regulated Pricing and Analysis, calculated the updated DSM/EE Rider factors. She presented the proposed revenue requirement and explained how it was used in calculating the proposed Rider factors. Ms. Heimberger also provided the resulting rate impacts on I&M's customers. Ms. Heimberger explained how the program costs are allocated and discussed the forecast period used in the rate design process. She testified that because the commercial and industrial tariff class factors are all negative, I&M proposes to make the commercial and industrial factors $0.000000 for this program year rather than create credit factors. She explained that while still providing each commercial and industrial class a decrease in their bill for Program Year 5, it will serve to stabilize rates, making the expected increase for Program Year 6 less dramatic. Ms. Heimberger stated that I&M seeks to make the Rider factors effective with the first day of the billing month of January 2014 (December 31, 2013) or the first day of the first billing month following the entry of a Commission order. She explained that the Rider factors and proposed ratemaking are consistent with the previous year reconciliation and the Commission's rules and are reasonable.

5. **OUCC's Evidence.** The OUCC presented the testimony of three witnesses. April M. Paronish, Senior Utility Analyst in the OUCC Resource Planning and Communications Division, discussed: (1) I&M's request to continue its current residential Renewables & Demonstrations Program;(2) the request to continue several programs that do not pass the Total Resource Cost (TRC) test; (3) the request to continue Shared Savings for the Residential Peak Reduction Program; and (4) I&M's request to expend DSM funds on Code Compliance. Ronald L. Keen, Senior Analyst within the OUCC Resource Planning and Communications Division, discussed the OUCC's recommendation that the

Renewables & Demonstrations and EECO programs not be considered DSM programs. Wes R. Blakley, OUCC Senior Utility Analyst, discussed issues concerning I&M's DSM tracker mechanism.

6. **Industrial Group's Evidence.** Nicholas Phillips, Jr., Managing Principal of Brubaker & Associates, Inc., reviewed the Company's DSM-3 filing including the associated ratemaking. Mr. Phillips explained that I&M's proposed 2014 costs reflect the expiration of the prior limitations on the Industrial class and the Small General Service class. He noted that other than the expiration of the limitations, the 2014 costs are recovered in the same manner as previous DSM/EE Program cost filings. He stated that the recovery of costs is consistent with the Commission's approved method in Cause Nos. 43306, 43827, 43769, and 43959.

Mr. Phillips raised a concern regarding the costs associated with the EECO program. He stated that the EECO is a new program that currently involves nine distribution circuits. I&M is proposing to add 15 new circuits per year to this program. Mr. Phillips noted that many large industrial customers are served from higher voltages and do not take service at the distribution voltage level. Mr. Phillips stated that in the future, it would be appropriate to refine the allocation of EECO costs to reflect voltage level of service. Based on the level of costs involved in this filing, he did not recommend any change to I&M's allocation in this proceeding.

Finally, Mr. Phillips testified that I&M's recommendation to not have credit factors for this class in this proceeding is reasonable. He concluded that assuming Commission approval of I&M's proposals, I&M's proposed cost recovery method and resulting DSM-3 factors are reasonable, consistent with the previous Commission findings, and should be approved.

7. **I&M Rebuttal.** I&M presented rebuttal testimony from Mr. Walter, Mr. Castle, Mr. Brubaker, and Ms. Heimberger regarding cost-effectiveness raised by the OUCC and each of the OUCC's recommendations.

8. **Commission Discussion and Findings.** I&M presents a 2014 DSM plan to comply with the Phase II Order. I&M proposes to extend the current program implementation and add new programs to aid in the catch up of achieving the energy savings goals imposed by the Phase II Order. With regard to cost recovery, I&M generally proposes to continue with the existing approved methodology. I&M acknowledges that actual DSM/EE expenditures were less than those assumed and approved in the current DSM/EE Rider factors. As a result, I&M has over-collected from all rate classes. The resulting over-recovery from the previous plan offsets the costs of continuing the programs in I&M's proposed DSM/EE Rider factors in this Cause. The DSM/EE Rider rate design consists of various components including the forecast of program costs for 2014, forecasts of Net Lost Revenues and Shared Savings, a forecast of the remainder of 2013, and the reconciliation of prior program years.

The Commission has directed I&M to use an independent consultant to develop a DSM/EE Plan, and the Company did so here. The Company also collaborated with the other members of the I&M DSM/EE Program Implementation Oversight Board ("PIOB"). I&M's case-in-chief includes cost-effectiveness tests performed by the Consultant for the Action Plan, I&M witness Castle's independent scoring of the Consultant's Action Plan performed to verify the Consultant's work, and I&M witness Castle's scoring of I&M's 2014 Plan. I&M also presented cost-effectiveness test results for the programs that have been evaluated by the EM&V vendor. Mr. Castle presented additional analysis in his rebuttal testimony.

As an initial matter we note that the OUCC recommendations focused on the Core Plus programs, not the Core Program proposal for 2014. We also note that the OUCC and Industrial Group witnesses did not testify in opposition to I&M's proposal regarding Net Lost Revenues or the mechanics of the Shared Benefits. Rather, the OUCC's testimony focused on excluding certain programs from the Shared Benefits mechanism. We discuss the concern raised by the Industrial Group's witness Phillips and the OUCC's recommendations below.

A. **Dual Test.** Ms. Paronish discussed the Dual Test used in California and requested that the Commission instruct I&M to include the projected cost of Shared Benefits that will be paid by ratepayers when calculating cost-effectiveness at the program portfolio level.

Mr. Castle explained that it is not standard industry practice to include utility performance incentives based on a Shared Benefit for purposes of determining cost-effectiveness. He explained that the Dual Test is a non-standard test that combines the TRC and UCT tests with the inclusion of other items not otherwise included in either test as calculated in California. He identified differences between Indiana and California and other considerations which could lead one to the conclusion that the Dual Test is unnecessary in Indiana. Mr. Castle applied the Dual Test and showed the portfolio still proves to be cost effective.

Mr. Castle's presentation of the Dual Test results renders Ms. Paronish's recommendation moot for purposes of this proceeding. This test is not required by the Commission's promulgated DSM rules. To the extent Ms. Paronish seeks a Commission-required use of this test going forward, we decline to require such a test.

B. **Residential Online Audit.** Ms. Paronish recommended the Commission deny I&M's request to continue the Residential Online Audit Program because the program is not cost-effective. She added that the statewide Core Residential Home Energy Audit Program is designed to provide information to the customer on how to save energy.

Mr. Walter explained that this program which provides an opportunity for I&M customers to take part in self-engaged energy audits, serves to influence and educate customers in a different manner than the Core Home Energy Audit Program. He explained that the Online Energy Audit program is, in part, dependent upon the level of throughput to achieve cost effective delivery. He added that the program operated cost effectively in 2012, with a TRC score of 1.07 as calculated by I&M's Core Plus EM&V vendor. Mr. Walter testified that using the 2012 evaluated deemed savings results prospectively, I&M estimates the Online Audit Program is operating at increased participation levels beyond those estimated by the Consultant and I&M in its forecast and is currently estimated to be cost effective. He said, I&M found that direct mail marketing can help drive increased participation in this program. He stated that the challenge for I&M, and the PIOB, is to find ways to continue the increased participation.

The record reflects that this program passed the Consultant's TRC test and came close to passing Mr. Castle's performance of the TRC test, except when EM&V and overhead costs were analyzed at the program level instead of at the portfolio level. The record also shows that the independent EM&V vendor scored this program to pass the TRC test based on actual program results. Finally, the record shows that this program does not unnecessarily duplicate the Core Home Energy Audit Program. As such, we find this program is worthy of continued operation during 2014 and Shared Benefit eligibility. The program's continued success depends upon I&M's ability to drive increased participation in this program. As discussed below, I&M is incented to undertake such activity by I&M's Shared Benefit mechanism.

Moreover, because the Shared Benefit mechanism is based on evaluated results, I&M will not earn the Shared Benefit performance incentive if the relevant cost effectiveness criteria are not satisfied.

C. **Home Energy Reports Program.** Ms. Paronish recommended the Commission deny I&M's request to continue the Home Energy Reports Program because the program is not cost-effective.

Mr. Walter explained that the same factors that impact the Online Audit program cost effectiveness also affect the Residential Home Energy Reports Program test scores presented by Mr. Castle. He added that Exhibits WKC-1 and WKC-2 (Revised), reflect the use of Ex Ante energy savings. Conversely, as shown on Table 1 of Mr. Walter's rebuttal, this program passes the TRC test using Ex Post evaluated results and reflects the use of a two-year measure life. He stated that this shows that the program operated cost effectively in 2012 with a TRC score of 1.27 as calculated by I&M's Core Plus EM&V vendor. Mr. Walter also explained that on May 30, 2013, the PIOB reviewed the EM&V results for this program and accepted the program as a standard offer, moving it from pilot status to a regular program offering.

Because the program is part of an overall cost effective portfolio and has been shown to be cost effective on an individual program basis during the course of its implementation, we authorize I&M to continue its implementation of this program as part of the 2014 DSM Plan. Consistent with our discussion above and below regarding Shared Benefits, we further find that the program is eligible for the Shared Benefit mechanism and for Net Lost Revenue recovery.

D. **Residential New Construction Program.** Ms. Parsonish compared Mr. Castle's TRC result for I&M's proposed program to the TRC test result for other Indiana utility programs. She recommended the Commission require I&M to work with the PIOB to determine if the Residential New Construction Program can be made cost effective. She added that if the program cannot be made cost effective, the program should either be discontinued or, if the Commission permits the program to remain in the DSM portfolio, it should be excluded from I&M's Shared Benefit calculation.

Mr. Walter and Mr. Castle explained that Ms. Paronish did not provide sufficient information to compare I&M's cost effectiveness test result to the test results performed by other utilities using different assumptions regarding their respective programs. Mr. Castle explained that I&M is a PJM member while other Indiana utilities are MISO members and this leads to the use of different avoided cost assumptions. Mr. Castle also discussed other factors that can influence the cost effectiveness tests. Mr. Walter explained that I&M welcomes PIOB involvement in program implementation.

The Consultant scored the Residential New Construction Program to pass the TRC test. In his analysis, which assessed EM&V and overhead costs at the program level, Mr. Castle scored this program to have a 0.9 TRC. He showed that the program passes the TRC test when EM&V and overhead costs are assessed at the portfolio level and when the avoided cost of a gas peaker is used in place of the PJM capacity market results. The record reflects that this program is continually challenged by the baseline savings estimates determined by any current or future residential building code requirements in place, and the number of home builders willing to comply with increased and more costly standards. The record also reflects that residential new home construction activity has increased during the past year. This program is intended to help move the market toward code compliance with higher energy savings building standards. We find that it is appropriate to continue to include this program as a Core Plus Program offering in I&M's 2014 portfolio of programs. I&M shall work with the other members of the PIOB to improve the cost-effectiveness of this program.

We find it unnecessary to exclude this program from the Shared Benefits mechanism. Shared Benefits are a function of the net benefit as calculated by the Utility Cost Test. I&M does not receive the performance incentive unless the program produces verified energy savings.

E. Residential EE Products. Ms. Paronish recommended that the Commission approve the Residential EE Products Programs for a one-year pilot period, during which time the program would be excluded from the Shared Benefit calculation because the program is not cost effective. She added that after one year the PIOB may review cost-effectiveness to determine whether the program should continue.

Mr. Walter explained that the Residential EE Products Program was calculated by the Consultant to have a TRC score of 1.5. He explained that Mr. Castle calculated the program to have TRC scores of 0.8 and 0.8 when EM&V and overhead are assessed at the program level and a TRC score of 0.9 when such costs are assessed at the portfolio level. Mr. Walter explained that Mr. Castle's analysis was undertaken because I&M wanted to directionally confirm the veracity of the Consultant's analysis with a different look. He said it was not intended to exactly replicate the Consultant's work.

The Residential EE Products is a new program, which the Consultant found to show promise and thus recommended as part of the Consultant's Action Plan. The proposed program provides incentives for residential customers in the purchase of energy efficient electric appliances. This program passed the TRC test in the Consultant's analysis and came close to passing this test in the other analyses. Ms. Paronish's recommendation that this program be excluded from Shared Benefits focuses on Mr. Castle's score in isolation. Reliance on the Action Plan developed by a third party Consultant is consistent with the direction given by the Commission in the past and the portfolio I&M has presented is cost-effective under all the analyses presented. The energy savings goals mandated in the Phase II Order are aggressive. To achieve the Commission's goals, it is reasonable to work to make, and keep, a comprehensive set of programs cost-effective plus develop new EE programs and concepts.

Both parties essentially agree this program should be authorized as part of the 2014 DSM Plan. The dispute boils down to whether the program should be eligible for Shared Benefits. We decline to exclude this program from the Shared Benefits based on the TRC test score identified by Ms. Paronish. To conclude otherwise would prematurely judge the program as unworthy of the utility incentive. Shared Benefits are premised upon the sharing of program benefits of DSM programs between I&M's customers and I&M. This mechanism incentivizes I&M to make its DSM programs as fruitful and beneficial to customers as possible, within agreed upon practices and policies overseen by the PIOB and approved by the Commission. As explained above, under the Shared Benefit mechanism, I&M does not receive an incentive if the program as evaluated by the EM&V vendor proves not to be cost effective. Accordingly, we approve the Residential EE Products Program as part of the 2014 DSM Plan and further find that this program will be eligible for Net Lost Revenue recovery and Shared Benefits.

F. C&I HVAC & Refrigeration Program. Ms. Paronish recommended the Commission approve the C&I HVAC & Refrigeration Program for a one-year pilot period, during which time the program will be excluded from the Shared Benefit calculation since the program is not cost effective. She added that after one year the PIOB may review cost-effectiveness to determine whether the program should continue.

Mr. Walter explained that the C&I HVAC & Refrigeration Program passed the TRC test in the Consultant's analysis with a score of 1.2. Mr. Castle's independent scoring of the Consultant's Action Plan showed this plan to have a TRC score of 0.8. His analysis of the 2014 DSM Plan scored this program to have a 0.6 TRC score. Mr. Walter explained that I&M's additional cost effective analysis presents a different perspective, particularly with regard to assessing performance (*i.e.,* used the Expected Performance Forecast) and EM&V and overhead (*i.e.,* assessed such costs at the program specific level). Mr. Walter stated that the Consultant recommended this program because it has been successful and cost-effective in other states.

Both I&M and the OUCC essentially agree that this program should be approved as part of the one-year 2014 DSM Plan. They disagree on whether the program should be eligible for Shared Benefits. The OUCC contends the program should be excluded from Shared Benefits because it is not cost-effective under Mr. Castle's analysis. As discussed above, cost-effectiveness for purposes of Shared Benefits is based on actual program results, which may vary from the analysis conducted by the Consultant and Mr. Castle. Put another way, I&M will not receive Shared Benefits for this program if the relevant cost effectiveness test is not satisfied. In this way, the Shared Benefit mechanism reasonably addresses Ms. Paronish's concern. Accordingly, we approve this program as part of the 2014 DSM Plan. For the reasons discussed above, we further find this program is eligible for Shared Benefits. We find that I&M shall continue to work with the other members of the PIOB to improve the program's cost-effectiveness.

G. <u>Residential Peak Reduction Program</u>. Ms. Paronish recommended the Commission deny I&M's request to continue to count energy savings from its Residential Peak Reduction Program toward compliance with the Phase II Order and exclude the program from I&M's Shared Benefit calculation.

Mr. Walter explained that this program, which was approved in Cause No. 43959, passed the TRC test, has been very successful in terms of customer participation, and is well on its way to achieve full targeted participation. Mr. Walter recognized that this program receives most of its benefit from the value of avoided capacity but explained why the Peak Reduction Program also creates the potential for energy savings from air conditioning cycling events. Mr. Walter explained that I&M called its first cycling events for the Peak Reduction Program during 2013. He explained that zero energy savings were reflected in the forecast herein because the program has not yet been evaluated by I&M's Core Plus EM&V vendor. Mr. Walter stated that energy savings may be produced by this program either through the current design or modifications to that design and noted that the technology I&M is using for this program provides reasonable flexibility for future program enhancements. In his view, it is premature to discontinue this program or to disregard it as a means of achieving the Phase II Order energy savings goal. He said doing so will essentially waste the costs incurred to get this program up and running for purposes of compliance with the Phase II Order. Finally, Mr. Walter explained that this program is not currently included in the Shared Benefit incentive and I&M did not propose in this case to include it.

The Residential Peak Reduction Program has a TRC score over 1 in both Mr. Castle's and the Consultant's analysis. In the April 27, 2011 Order in Cause No. 43959, the Commission authorized I&M to implement this program as part of I&M's DSM program portfolio. We decline to change our prior decision. It is premature to judge the I&M program as not producing energy savings because it has not yet been evaluated.

The record reflects that I&M has engaged its Core Plus EM&V vendor to review a sampling of interval metering data from the first 2013 cycling events in the evaluation of demand and energy savings, as both benefits drive the cost effectiveness test. Although the Peak Reduction Program has yet to be independently evaluated to yield verifiable energy savings, we find the program meets the definition of DSM in that it alters the load shape of the customer through utility intervention. During the hearing, Ms.

Paronish agreed that the OUCC encourages consumers to participate in the Peak Reduction Program. Because the program provides cost-effective demand savings, we find it is appropriate for the Commission to continue to authorize I&M to offer it and to continue to recognize the program costs in the DSM Program Cost Rider. To the extent the program produces verified energy savings, it is logical to count the savings (*de minimus* or not) toward the Commission's energy savings goals. To conclude otherwise overlooks the fact that the program costs are being reflected in rates through the DSM Program Cost Rider.

Finally, as noted by I&M, this program is not currently included in the Shared Benefit mechanism and I&M did not propose to include it in this case. Therefore, Ms. Paronish's recommendation on this issue is moot.

H. <u>EECO Program</u>. Ms. Paronish recommended the Commission find that I&M's proposed EECO Program is not DSM. Mr. Keen described the EECO program concept and recognized that this new technology will both conserve energy and reduce consumer demand. He testified that this technology offers benefits to customers and is a Smart Grid technology. He explained his viewpoint as to why the proposed program is not consistent with the definition of DSM and pointed out that the program does not require customer participation. He stated that if the Commission finds that this type of program constitutes DSM, despite the lack of ratepayer awareness and/or participation, there would be no limit to the types of capital projects that could be classified as DSM.

Mr. Phillips stated that in the future, it would be appropriate to refine the allocation of EECO costs to reflect voltage level of service. Based on the level of costs involved in this filing, he did not recommend any change to I&M's allocation in this proceeding.

Mr. Walter discussed the EECO program in light of the issues raised by Mr. Keen. He noted that Mr. Keen recognizes that the new technology that would be used in the EECO program provides for better control and minimizes reactive power. Mr. Walter also noted that Mr. Keen agrees that the EECO program improves efficiency and constitutes Smart Grid technology. Mr. Walter disagreed that the program does not constitute DSM. He explained that I&M's proposed EECO Program will cause a change in customer electricity usage levels. He also explained his view that the Commission's DSM rules are not limited to programs with participatory action of customers. He explained that the rules focus on utility intervention that alters load shape and includes technology at the utility's energy delivery system. Mr. Walter explained the program benefits and discussed how approval of I&M's proposal is consistent with the Phase II Order, the governing statutory framework and the Commission's Order regarding Smart Grid technologies.

In the Phase II Order, the Commission recognized that new technologies will likely play an important role in DSM strategies of the future. The record reflects that the EECO program takes advantage of new technology to reduce customer electric energy consumption. The technology causes a change in load shape through the use of remote communicating field devices. By using the EECO technology to intervene in the use of electricity at targeted distribution circuits in I&M's Indiana service territory, cost effective energy and demand savings can be achieved. But, as Mr. Keen points out, the technology does not rely on any customer participation—in fact, the technology works without the customer's knowledge.

The record also reflects that based on the expected benefit stream from program operation, the EECO Program is projected to perform as well as, or better than, other programs in I&M's portfolio, with a TRC of 2.3. The addition of this program to the portfolio for 2014 is expected to help overcome the previous year's under performance of verified energy savings and thus help catch up I&M on achieving the Commission's goals. The record also reflects that the energy savings benefits associated with the EECO program are based on demonstrated, measured results. As proposed by I&M, the EM&V vendor will utilize standard energy efficiency EM&V methods, practices, and protocols to evaluate the results in an effort to provide annual verified end use energy savings experienced by customers on the EECO pilot circuits.

170 IAC 4-8-5 and 170 IAC 4-8-6 entitle a utility to recover the costs of and lost revenue from a demand-side management program. The issue before us is whether the EECO program constitutes a demand-side management program. 170 IAC 4-8-1(g) defines a demand-side management program as "a utility program designed to implement a demand-side measure." 170 IAC 4-8-1(f) defines a demand-side measure as "a particular end-use device, technology, service, or rate design at a targeted customer's premises or a utility's energy delivery system for a specific DSM program." 170 IAC 4-8-1(e) defines DSM as "the planning, implementation, and monitoring of a utility activity designed to influence customer use of electricity that produces a desired change in a utility's load shape. DSM includes only an activity that involves deliberate intervention by a utility to alter load shape."

The DSM rules do not prohibit us from finding that the EECO program constitutes DSM. The DSM rule focuses on utility intervention that alters load shape and includes technology at the utility's energy delivery system. Mr. Walter provided more detail about the EECO program in response to questions from the Presiding Officers. Mr. Walter explained that the EECO devices allow I&M to deliver energy within a tighter bandwidth of voltage levels around 120 Hz. Mr. Walter referred to studies that have shown that electric motors operate more efficiently when the supplied voltage is closer to the nameplate rating of the motor. For example, an air conditioning unit at a customer's home or business would operate more efficiently if an EECO device was installed on the system and would, therefore, use less electricity. Mr. Walter clarified that although some of the energy savings under the EECO would be due to reduced line loss, the majority of the savings would come from reduced usage as a result of greater efficiency. In light of Mr. Walter's testimony, we are convinced that the EECO program is a deliberate intervention and would produce a desired change in I&M's load shape.

Mr. Keen argues, however, that the EECO program is not DSM because it does not involve a change in customer behavior. Mr. Keen directs us to the requirement that a DSM measure must "influence customer use of electricity." Mr. Keen is correct that many DSM programs are targeted at changing customer behavior, for example usage of electricity, or incenting customers to purchase more efficient appliances. However, the definition of a DSM measure does not require a change in customer behavior—only a change in customer usage. I&M presented evidence demonstrating that the EECO program would reduce energy consumption through increased efficiency. Therefore, we find that the EECO program meets the requirements for DSM under 170 IAC 4-8, and we approve the EECO program as part of the 2014 DSM Plan.

I. <u>Revenue Requirement for the EECO Program</u>. Mr. Blakley testified that if the Commission approves I&M's request to apply a weighted average cost of capital to DSM equipment in a tracker proceeding, it should require I&M to use an updated capital structure with only the return on equity static to the last rate case when calculating the weighted cost of capital.

Mr. Walter testified that Mr. Blakley's proposal is acceptable. Mr. Brubaker and Ms. Heimberger implemented this acceptance in their respective rebuttal testimonies.

I&M seeks authority to recover through the DSM Program Cost Rider: (1) third party EM&V costs, (2) a representative share of I&M DSM support staff and administration costs, (3) ongoing incremental operation and maintenance costs that stem from annual EECO operation, and (4) Net Lost Revenue attributed to EECO evaluated energy savings. The record demonstrates that Net Lost Revenue recovery is reasonable and necessary to eliminate the disincentive that would otherwise exist and to make I&M whole for the fixed cost recovery that is eroded when energy conservation is achieved via utility intervention. Because EECO deploys capital assets to reduce energy and demand consumption by customers and I&M is requesting recovery of carrying costs and depreciation expense, I&M is not seeking to include this program in the Shared Benefits mechanism.

The one recommendation made by Mr. Blakley is acceptable to I&M and the record evidence shows this approach to be reasonable. Accordingly, we approve Mr. Blakley's recommendation. The record reflects that this recommendation is properly reflected in the 2014 Rider factors calculated in Ms. Heimberger's rebuttal. Therefore, we further find that I&M shall continue to use an updated capital structure with only the return on equity static to the last rate case when calculating the weighted cost of capital in future DSM/EE Rider proceedings which reflect carrying costs on the EECO program.

J. Renewables and Demonstration Program. Ms. Paronish recommended the Commission find that I&M's proposed Renewables & Demonstrations Programs is not DSM. Mr. Keen explained his view that a customer's use of energy supplied by an on-site renewable energy resource does not constitute DSM. He discussed a Commission finding regarding renewable energy under IPL's Feed-In Tariff ("FIT") in Cause No. 44018 and contended that the supply of renewable energy to one or more customers through net metering, FIT, or another mechanism does not reduce the energy used or eliminate waste by ratepayers. Mr. Keen explained that while the OUCC supports cost effective renewable energy generation, the OUCC opposes the consideration of renewable energy development programs or counting kWh supplied by a renewable energy resource as "energy savings" required under the Phase II Order, regardless of whether compensation is made to the customer through direct payment (through a program such as a FIT) or as an energy credit (through net metering by a reduction in kWh billed by the kWh supplied by renewable energy) against a customer's energy usage.

Mr. Walter explained why the Consultant included this program in the Action Plan. He added that continuation of this program is warranted by the relatively low cost of this program compared to other programs in the portfolio and the need to achieve the EE goals in the Phase II Order. Mr. Walter explained that the program has been offered since 2010 and I&M expects to provide incentives to eight participants for 2013, just one shy of the nine participant target. Mr. Walter disagreed that the program does not constitute DSM because the activities are undertaken to influence customer usage of electricity that produces a desired change in the utility's load shape. He explained that when a customer uses photovoltaic, solar hot water, ground source heat pumps or LED streetlights the customer's use of utility provided electricity is either offset or decreases (depending on the technology), both of which produces a desired change in the utility's load shape. Mr. Walter also disagreed with Mr. Keen's view that customer-owned renewables are "supply-side" resources, noting among other things the differences between a utility wholesale purchase under a Feed-in-Tariff (which focuses on providing electricity to the utility) and customer use of renewables per the net metering tariff (which focuses on the customer's self-provision of electricity). With respect to Mr. Keen's contention that customer-sited renewables do not change the utility load, Mr. Walter's pointed out that PJM recognizes 38% of nameplate capacity for solar generation which demonstrates that such generation has capacity value.

The Renewable and Demonstration Program funds technology demonstration projects and incentivizes photovoltaic, solar hot water, ground source heat pumps, and LED streetlights to promote interest in energy efficiency. Each of these program elements push technology beyond current cost effective limits, but, at the same time, present coherent pathways towards the future of energy efficiency applications.

The record reflects that I&M began implementation of this pilot program during the latter part of 2011 per the plan approved in April 27, 2011 Order in Cause No. 43959. This program was recommended by both the Market Potential Study and the Modified Action Plan presented in Cause No. 43959 and as part of the Consultant's Action Plan in this case. The Ex Ante energy savings from the pilot program are already being counted toward the Phase II Order goals because the program was authorized for this purpose in Cause No. 43959. The record shows that the Renewables and Demonstration program is designed to influence customers to reduce their usage of utility provided electricity. Given the relatively small scale of the program and the desirability of promoting exploration of different technologies and new programs, we find that approval of the program for an additional year is reasonable and the energy savings shall continue to count toward compliance with the Phase II Order goals. As a result, we approve the program as proposed by I&M for inclusion in the 2014 DSM Plan. We further approve I&M's proposed cost recovery for this program. The availability of EM&V analysis of this program will be helpful to any future determination of the program's effectiveness.

K. <u>Code Compliance</u>. Ms. Paronish stated that I&M's proposal to develop expertise to work on the development of a potential Core Code Compliance Program could duplicate the DSMCC's efforts. She recommended the Commission deny I&M's request to spend DSM funds on Code Compliance in 2014.

Mr. Walter explained the potential Core program under consideration by the DSMCC has not yet been developed and is not expected to be introduced until 2015. He stated that both the Consultant who developed the 2014-2016 Action Plan for I&M and the Consultant who developed the 2015-2019 Core Program portfolio for the DSMCC reflect that this is a new concept for a DSM/EE program. He added that because such a program can conceivably create both quantifiable and verifiable energy savings both Consultants recommended the provision of funding to develop this program. He explained that neither I&M nor I&M's support organization, AEPSC, have in-house expertise regarding the development of such a program as such activity requires code compliance knowledge and expertise.

The record reflects that this is a new, albeit undeveloped, program concept recommended by both I&M's and the DSMCC's Consultant. We believe the development of new EE concepts is consistent with the objective of the Phase II Order. As explained by Mr. Walter during the hearing, a code compliance program would need to be developed based on conditions in Indiana and such conditions vary county by county. We find it is reasonable for I&M to develop expertise regarding code compliance so that it may work to develop the proposed program. Therefore, approve I&M's proposal as part of the 2014 DSM Plan.

L. <u>Updated DSM Budget</u>. Ms. Paronish recommended the Commission require I&M to submit a revised DSM program budget for 2014 reflective of any changes to the plan approved by the Commission in this Cause.

I&M did not address this recommendation in its rebuttal testimony but pointed out in the post hearing filing that the updated budget is not necessary based on I&M's view that the 2014 DSM Plan should be approved.

Because we approve the 2014 DSM Plan as proposed by I&M we find the OUCC's request for an updated budget to be moot.

9. **Conclusion Regarding the 2014 DSM Plan.** Based on the evidence presented in this case, we find that I&M's proposed portfolio of Core and Core Plus Programs is cost-effective and reasonably designed to meet the requirements of the Phase II Order. I&M requests the Commission continue to authorize the same accounting for Net Lost Revenues with slight modification unchallenged by the parties and Shared Benefits as approved by the Commission in Cause Nos. 43959 and 43827. No party objected to I&M's recovery of lost revenues or the use of the DSM/EE Program Cost Rider for this purpose. Therefore, we authorize I&M to recover Net Lost Revenues associated with Core and Core Plus programs through its DSM/EE Program Cost Rider. We grant I&M all necessary accounting authority to effectuate such recovery.

Regarding I&M's request to recover Shared Benefits associated with its Core Plus programs, I&M's evidence demonstrated that the proposed Shared Benefit component would be calculated consistent with the method approved by the Commission in Cause Nos. 43959 and 43827. We find that the Shared Benefit approach is reasonable, adequately balances the interests of I&M and its customers, promotes the development and implementation of cost-effective DSM programs. Therefore, we approve the 2014 Core Plus programs as proposed by I&M.

10. **Accounting and Ratemaking.** I&M requests Commission approval of the timely recovery of costs associated with its Core and Core Plus Programs through its existing DSM/EE Program Cost Rider. I&M presented evidence demonstrating that the methodology by which costs are to be allocated to I&M's customer classes is reasonable and fair. With the exception of the weighted average cost of capital calculation, we note that the OUCC and Intervenor's witnesses had no objections to I&M's proposed cost recovery or allocation methodology. Accordingly, we authorize I&M to recover costs incurred to implement the Core and Core Plus programs authorized in this Order through its DSM/EE Program Cost Rider. We grant I&M all necessary accounting authority to defer the over- and-under recoveries of projected Core and Core Plus costs pending reconciliation in subsequent rider periods.

11. **DSM-3 Revenue Requirement, Reconciliation and Proposed Factors.** As shown in Petitioner's Exhibit JCW-5 (Revised), the updated revenue requirement for 2014 is $6,211,502 which reflects a residential class revenue requirement of $8,969,525 and a Commercial and Industrial class revenue requirement of ($2,758,022). The total requirement reflects 2014 Expected Performance Forecast Program cost, 2014 EECO Program cost, Program Year Forecast Net Lost Revenues, Program Year Shared Benefits, reconciliation of the over-/under-collection amount from Program Year 1 through Program Year 3, and other adjustments as reflected on this exhibit. The forecast revenue requirement for 2014 shall be recovered through the DSM/EE Program Cost Rider. Ms. Heimberger sponsored Petitioner's Exhibit NAH-R2, which sets forth the proposed DSM/EE Program Cost Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.2031
GS (Excluding Unmetered), GS-TOD and GS-TOD2	0.0000
LGS and LGS-TOD	0.0000
IP, CS-IRP and CS-IRP2	0.0000
MS	0.0000
WSS	0.0000
IS	0.0000
EHG	0.0000

Using currently effective rates, as shown on Petitioner's Exhibit NAH-R3, the bill of a typical customer using 1,000 kWh per month will decrease by approximately $0.73 or 0.7%. Also, I&M proposes to make the commercial and industrial factors $0.000000 for 2014 rather than create credit factors, since the commercial and industrial tariff class factors are all negative. While still providing each commercial and industrial class a decrease in their bill for 2014, it will serve to stabilize rates, making the expected increase for 2015 less dramatic. Mr. Phillips agreed that this recommendation is reasonable. Therefore, we authorize I&M to apply its requested DSM/EE Program Cost Rider adjustment to its Indiana retail tariffs commencing with the billing month of January 2014.

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

1. Indiana Michigan Power Company's proposed 2014 DSM Plan, including the Core and Core Plus programs and proposed budgets is approved.

2. I&M's request for timely recovery of costs associated with its Core and Core Plus programs, including costs incurred under the contracts with the Third Party Administrator and Evaluation, Measurement and Verification Administrator through I&M's DSM/EE Program Cost Rider and the carrying charges and other costs incurred for the EECO program is approved, consistent with our finding above regarding the use of an updated weighted average cost of capital.

3. I&M's request for recovery of Net Lost Revenues associated with its Core and Core Plus programs, including the Residential Home Energy Reports Program and the EECO Program but excluding the Renewables & Demonstrations Program, through I&M's DSM/EE Program Cost Rider is approved.

4. I&M's request for recovery of Shared Benefits associated with specified Core Plus programs, excluding the Renewables & Demonstrations Program, through I&M's DSM/EE Program Cost Rider is approved.

5. I&M's request for approval of the associated ratemaking and accounting treatment, including recovery via its existing DSM/EE Program Cost Rider of the costs of the 2014 DSM Plan is approved.

6. Indiana Michigan Power Company is authorized to implement its requested DSM/EE Program Cost Rider factors.

7. I&M shall place into effect the DSM/EE Program Cost Rider factors approved in this Order, applicable to bills rendered beginning with the later of the first billing cycle for the billing month of January 2014, or upon filing with the Electricity Division of this Commission, Tariff Sheet No. 38 as set forth in Petitioner's Exhibit NAH-R2.

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

ATTERHOLT, MAYS, AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 30 2013

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission