ORIGINAL

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 APPLICABLE FOR THE BILLING MONTHS OF JANUARY 2015 THROUGH DECEMBER 2015	)	CAUSE NO. 43827 DSM 4 APPROVED: DEC 30 2014

ORDER OF THE COMMISSION

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

On October 2, 2014, Indiana Michigan Power Company ("I&M") filed its Verified Petition and Request for Administrative Notice in this Cause. I&M also filed the direct testimony and exhibits of the following witnesses:

- Joe C. Walter, Manager of Regulatory Support for I&M;
- Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation ("AEPSC"); and
- Nancy A. Heimberger, Principal Regulatory Consultant in Regulated Pricing and Analysis for AEPSC.

On November 17, 2014 the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Crystal L. Thacker, Utility Analyst in the OUCC's Electric Division.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on December 2, 2014, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared at and participated in 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.** Notice of the hearing in this Cause was given and published by the Commission as required by law. I&M is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). 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 Ind. 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 proceeding.

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 engaged in

rendering electric service in the State of Indiana, and owns, operates, manages, and controls, among other properties, plant and equipment within the State of Indiana that are used for the generation, transmission, delivery, and furnishing of such service to the public.

3. **Relief Requested.** I&M requests approval of an adjustment to its rates through its Demand Side Management ("DSM") and Energy Efficiency ("EE") Program Cost Rider ("DSM/EE Rider"), effective with the first billing cycle for the billing month of January 2015. The proposed factors reflect (1) a reconciliation of DSM/EE program costs, including depreciation expense and carrying cost on capital expenditures associated with the Electric Energy Consumption Optimization ("EECO") Program, net lost revenue and shared savings; and (2) a projection of DSM/EE program costs, including depreciation expense and carrying costs on capital expenditures associated with the EECO Program, net lost revenue and shared savings incurred in accordance with the Commission's orders. I&M's current DSM/EE Rider factors were approved in the Commission's December 30, 2013 Order in Cause No. 43827 DSM 3. I&M requested approval of its 2015 DSM Plan in Cause No. 44486, along with associated cost recovery and ratemaking treatment. I&M seeks to make the new DSM/EE Rider factors effective commencing with the first billing cycle for the billing month of January 2015.

4. **I&M's Direct Evidence.** Mr. Walter explained the DSM/EE Rider reconciliation consists of two components, a reconciliation component and a projection component. For the reconciliation component, I&M seeks to reconcile DSM/EE Rider revenues for calendar year 2013 or Program Year 4 ("2013 PY 4") against actual DSM/EE programs costs, verified net lost revenue performance, and verified shared savings performance for 2013 PY 4. The reconciliation also extends into the first half of 2014 or partial Program Year 5 ("2014 PY 5") with actual program costs, reported net lost revenue, and estimated shared savings for January 1, 2014 through June 30, 2014.

Mr. Walter explained that the reconciliation component consists of three main categories: (1) DSM cost reconciliation; (2) net lost revenue reconciliation; and (3) shared savings reconciliation. For the 2013 PY 4 cost reconciliation category, Mr. Walter sponsored attachments JCW-1, JCW-2, and JCW-3, which provided 2013 PY 4 DSM/EE actual program costs, verified net lost revenues, and verified shared savings, respectively.

Mr. Walter provided the forecast component of the DSM/EE Rider reconciliation, which includes a projection or forecast of partial 2014 PY 5 costs. Mr. Walter stated that he has revised the forecast for 2014 PY 5 in order to account for reduced levels of program participation due to Senate Enrolled Act 340 ("SEA 340") and costs and increased net lost revenue resulting from the unanticipated significant energy savings from the Commercial and Industrial ("C&I") Prescriptive double rebate promotion in 2013. Mr. Walter sponsored attachments JCW-4, JCW-5, and JCW-6, which provide the 2014 PY 5 revised forecast for DSM/EE programs costs, net lost revenues, and shared savings.

Mr. Walter also sponsored the 2015 Program Year 6 ("2015 PY 6") forecast of DSM/EE program costs, net lost revenues, and shared savings as shown on attachments JCW-8, JCW-9 and JCW-10. He stated the 2015 PY 6 forecasted components are consistent with the pending Settlement Agreement in Cause No. 44486.[1] Mr. Walter believes that the 2015 PY 6 forecast is reasonable.

[1] The Commission approved the settlement agreement in its December 3, 2014 Order in Cause No. 44486.

Mr. Walter provided a reconciliation of the DSM/EE Rider based on actual amounts booked for the January 2013 through June 2014 time period, along with adjustments for 2014 expected performance. Mr. Walter factored in the 2015 PY 6 forecast of DSM/EE program costs, net lost revenue, and shared savings to arrive at a net amount of revenues required for the DSM/EE Rider factors for 2015. The result of Mr. Walter's 2013 PY 4 reconciliation of estimates to actuals, 2014 PY 5 revised forecast, and 2015 PY 6 forecast is provided in attachment JCW-7 as follows:

Program Year	**Program Costs**	**Net Lost Revenues**	**Shared Savings**	**Total**
2013 PY 4-Actual	31,597,626	9,839,423	963,161	42,400,210
2014 PY 5-Revised Forecast	16,787,349	21,141,925	1,292,242	39,221,515
2015 PY 6-Forecast/Projection	17,328,387	28,588,345	1,702,499	47,619,231

Mr. Walter testified that I&M has an overall reconciliation period, 2013 PY 4 actual and 2014 PY 5 revised over-recovery of $1,273,696. To determine the revenue requirement for the DSM/EE Rider for 2015, Mr. Walter netted the over-recovery of $1,273,696 with the 2015 PY 6 forecast of costs of $47,619,231 for a total DSM/EE Rider revenue requirement of $46,345,535.

Mr. Walter discussed the impact of the SEA 340 Large Customer Opt Out provision on I&M's DSM/EE programming. Mr. Walter testified that SEA 340 states that large customers can opt out of utility energy efficiency program participation effective either July 1, 2014 or January 1, 2015. According to Mr. Walter, ten I&M large customers applied for the July 1, 2014 effective date opt out. These ten customers all have sites that qualify, but some customer sites applied for did not qualify because the sites either did not meet the 1MW/1MVA equivalency threshold or the contiguous site requirement. Mr. Walter testified that, of the qualified opt out sites, the qualifying main accounts are spread across various I&M large customer tariff classes. These different qualifying tariff classes cause additional opt out customer cost allocations to be addressed in the cost allocation methodology.

Mr. Walter stated I&M has not received any additional opt out applications for the January 1, 2015 effective date. Mr. Walter stated that since these potential opt out customers are unknown at the time of I&M's filing, I&M proposes that if any additional customers apply and qualify for opt out effective January 1, 2015, I&M will perform the necessary cost responsibility reassignments through a supplemental DSM/EE Rider filing after the customers are known to be qualified for opt out. Mr. Walter indicated that I&M anticipates that any such revision to the DSM/EE Rider tariff would be filed during the early part of 2015.

Mr. Walter discussed opt out customer cost responsibility for the EECO program. Mr. Walter testified I&M has allocated both 2014 and 2015 EECO program costs to qualified opt out customers since these costs are not subject to the previously described SEA 340 energy efficiency program cost responsibility assignment. Per Mr. Walter, since I&M does not earn shared savings on the EECO program, qualified opt out customers will not incur any shared savings costs derived from EECO program performance. Mr. Walter testified that EECO program net lost revenue will be allocated to qualified opt out customers consistent with how net lost revenue costs are applied to non-opt out customers.

Mr. Brubaker compared I&M's revenues collected through its DSM/EE Rider to actual DSM/EE program costs, net lost revenues, shared savings, residential peak reduction bill credits, and EECO costs as recorded on I&M's books during the reconciliation period of January 2013 through

June 2014. Mr. Brubaker testified that for the reconciliation period, I&M has an under-recovery balance of $17,984,383 as shown on attachment JLB-1.

Mr. Brubaker also calculated the forecasted depreciation expense and carrying costs on I&M's actual and estimated expenditures related to the EECO program for July 1, 2014 through December 31, 2015. He explained that the calculation of I&M's weighted average cost of capital is consistent with Cause No. 44075 and the Settlement Agreement approved by the Commission in Cause No. 43774 PJM 4.

Ms. Heimberger calculated I&M's proposed DSM/EE Rider factors and the resulting rate impacts on I&M's customers. The revenue requirement for 2015 PY 6 is $46,345,535. Ms. Heimberger stated that the DSM/EE Rider rate design uses the component pieces of the revenue requirement to allocate costs to the various classes to determine the proposed factors charged to each class. Ms. Heimberger outlined the various components utilized; the first component is a listing of the forecasted total program costs by DSM/EE program for 2015 PY 6; the next two components are 2015 PY 6 forecasts for net lost revenue and shared savings; the fourth component is a forecast of the remainder of 2014 PY 5; and the final component is the reconciliation of prior program years.

Ms. Heimberger testified that she made modifications to the rate design process for 2015 PY 6 as a result of the passage of SEA 340. Ms. Heimberger stated that program costs, net lost revenue, and shared savings are tracked according to the pre- and post-opt out periods to ensure that the appropriate amounts are paid by and assigned to the C&I customers based upon their opt out status.

Ms. Heimberger testified that DSM/EE program costs are fully allocated to each class of customers. The projected 2015 PY 6 program costs are designated as Residential or C&I with the exception of the indirect program costs and the EECO program. The indirect programs costs are allocated to the classes based upon the relationship to the direct programs costs without the EECO program. The EECO program costs are allocated between Residential and C&I based upon the relationship of the number of applicable customers served on the 34 distribution circuits, which equates to Residential of 91% and C&I of 9%. The EECO program costs are then allocated across all customer classes based upon the number of applicable customers in those classes, excluding non-metered customers. Ms. Heimberger testified that the overall bill increase for a residential customer using 1,000 kWh per month is approximately $2.71 or 2.7%.

Ms. Heimberger sponsored the proposed DSM/EE Rider tariff sheets and testified that I&M's DSM/EE Rider tariffs include clarifying language for a new customer that opts out.

5. **<u>OUCC's Evidence</u>.** Ms. Thacker recommended approval of the proposed DSM/EE Rider factors, subject to further adjustment pending the Commission's ruling in Cause No. 44486. Ms. Thacker testified that I&M's 2015 DSM programs were proposed in Cause No. 44486, which is pending before the Commission. Ms. Thacker noted that I&M's inclusion and calculation of net lost revenues in Cause No. 44486 has been opposed by another party in that Cause. Ms. Thacker further noted that I&M's reconciliation calculations were consistent with calculation methodologies used in previous cases. The OUCC recommended approval of the proposed DSM/EE Rider factors, subject to adjustment pending the outcome of Cause No. 44486.

Ms. Thacker stated that I&M has reconciled 2013 program costs, net lost revenue, and shared savings and has revised the 2014 forecast for the same. The 2013 reconciliation and 2014 revised forecast results in a $1,273,696 decrease in I&M's DSM/EE Rider recovery.

6. **Commission Discussion and Findings.** The DSM/EE Rider provides for the timely ratemaking recognition of I&M's DSM/EE program costs, net lost revenue, and shared savings. I&M presented evidence demonstrating that the methodology by which the DSM/EE Riders factors are calculated is reasonable, fair, and in accordance with the Commission's orders. I&M's proposed DSM/EE Rider factors as shown on Petitioner's Exhibit 3, Attachment NAH-2 reflect the reconciliation of its 2013 DSM/EE program costs, net lost revenue, and shared savings, a revised forecast of 2014 PY 5 program costs, net lost revenue, and shared savings and a forecast of 2015 PY 6 program costs, net lost revenue, and shared savings. The DSM/EE Rider factors include program costs, net lost revenue, and shared savings for DSM/EE programs outlined in I&M's 2015 DSM Plan in Cause No. 44486. The Commission's December 3, 2014 Order in Cause No. 44486 approved I&M's request for timely recovery of costs associated with its 2015 DSM Plan, as modified by the Settlement Agreement approved in that Cause, through the DSM/EE Rider.

As shown in I&M's attachment JCW-7, the revenue requirement for 2015 PY 6 is $46,345,535 which reflects a residential class revenue requirement of $21,615,043 and a C&I class revenue requirement of $24,730,492. The total revenue requirement includes the reconciliation of the over- or under-collection amount from 2013 PY 4 and a revised forecast for 2014 PY 5 and 2015 PY 6 forecasted DSM program costs, net lost revenue, and shared savings. Therefore, we find that I&M's I&M's DSM/EE Rider factors are supported by substantial evidence, and we approve the factors. We further find the forecast revenue requirement for 2015 PY 6 shall be recovered through the DSM/EE Rider subject to any further revision made as part of the supplemental filing discussed by Mr. Walter to revise the DSM/EE Rider tariff to reflect additional opt-out customers. We grant I&M all necessary accounting authority to defer the over- and under-recoveries of projected costs pending reconciliation in subsequent rider periods.

Ms. Heimberger sponsored Petitioner's Exhibit 3, Attachment NAH-2, which sets forth the proposed DSM/EE Rider factors for each customer class as follows:

	All Other Customers	Opt Out Customers as of July 1, 2014
Tariff Class	¢/kWh	¢/kWh
RS, RS-TOD, RS-TOD2, and RS-OPES	0.4742	
GS (Excluding Unmetered), GS-TOD, and GS-TOD2	0.8627	0.0307
LGS and LGS-TOD	0.0461	
IP, CS-IRP and CS-IRP2	0.0030	0.0001
MS	0.4576	
WSS	0.1583	0.0058
IS	2.5185	
EHG	0.7802	

Using currently effective rates, as shown on Petitioner's Exhibit 3, Attachment NAH-3, the bill of a typical residential customer using 1,000 kWh per month will increase by approximately

$2.71 or 2.7%. Therefore, we authorize I&M to apply its requested DSM/EE Rider adjustment to its Indiana retail tariffs commencing as set forth below.

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

1. Indiana Michigan Power Company is authorized to implement its requested DSM/EE Cost Program Rider factors subject to further revision based upon any supplemental filing made by I&M to reflect additional opt-out customers.

2. Indiana Michigan Power Company 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 full billing cycle for the billing month of January 2015, or upon filing with and approval by the Electricity Division of this Commission, Tariff Sheet No. 38, as shown in Petitioner's Exhibit 3, Attachment NAH-2.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT:

APPROVED: DEC 30 2014

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission