

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA)
MICHIGAN POWER COMPANY ("I&M") FOR)
THE TIMELY RECOVERY OF LOST)
REVENUES PURSUANT TO 170 IAC 4-8-6)
AND SHAREHOLDER INCENTIVES)
PURSUANT TO 170 IAC 4-8-7 RELATED TO)
I&M'S DEMAND-SIDE MANAGEMENT AND)
ENERGY EFFICIENCY PROGRAMS AND)
FOR APPROVAL OF MODIFICATION OF)
THE FUEL ADJUSTMENT CLAUSE)
EARNINGS TEST IN ACCORDANCE WITH)
IND. CODE §§ 8-1-2.5-1 ET SEQ. AND 8-1-2-)
42(a).)

CAUSE NO. 43827

ORDER ON RECONSIDERATION

APPROVED: DEC 07 2010

BY THE COMMISSION:

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

On November 16, 2009, Indiana Michigan Power Company ("Petitioner," "Company" or "I&M") filed a Petition with the Indiana Utility Regulatory Commission ("Commission") for the timely recovery of lost revenues and shareholder incentives related to I&M's Demand-Side Management and Energy Efficiency Programs and for approval of modification of the Fuel Adjustment Clause ("FAC") earnings test. Petitioner and the Office of Utility Consumer Counselor ("OUCC") ultimately negotiated a Settlement Agreement for approval by the Commission. On September 22, 2010, the Commission issued its Order ("September 22 Order") approving the Settlement Agreement in part, but rejecting the shared benefit approach proposed in the Settlement. On October 12, 2010, Petitioner filed its Petition for Reconsideration.

With respect to the shared benefit approach, the Commission made the following findings:

The Commission notes that a Shared Benefit approach differs from the tiered structures approved for IPL and SIGECO, and while there may be some benefit to having an alternative approach to what we have previously approved, we do not reach the point of discussing the purported merits of the Shared Benefit approach in this Cause. We note that the decision to approve a proposal for shareholder incentives under our DSM rules is permissive, and not mandatory. After further consideration of the role of shareholder incentives in the DSM process, we are not convinced that a utility should need an incentive to begin to implement DSM programs as part of its regulatory compact, whether those programs are Core or Core Plus. This is especially true in this case, where the DSM programs are unproven. The Commission believes that the appropriate time to consider granting a shareholder incentive, if one is to be granted at all, is through the demonstration of benefits upon successful implementation of the programs.

Order at 11-12.

The Commission notes that under the Phase II DSM Order in Cause 42693, the Commission imposed an aggressive two percent reduction target for electric utilities to achieve by 2019. While our conclusion in the September 22 Order provided that I&M could seek a shareholder incentive upon the successful implementation of DSM programs, upon further consideration, we find that the Shared Benefit approach contained in the Settlement Agreement is based on an on-going demonstration of net benefits to the utility's customers as the DSM programs are implemented. The Shared Benefit mechanism, based on information known at the time the incentive is calculated, will reflect the value to the utility's customers of the supply-side resource cost avoided by the utility's DSM program minus the utility-incurred costs of the DSM programs. This ongoing analysis is consistent with our approvals of settlements with IPL and SIGECO, versus a review occurring after implementation.

Accordingly, we enter the following findings and conclusions on reconsideration in place of the corresponding findings and conclusions made in the September 22 Order:

B. Shareholder Incentives. The Commission's DSM Rules at 170 IAC 4-8-7(a) authorize the Commission to "provide the utility with a shareholder incentive to encourage participation in and promotion of a demand side management program" when the Commission determines it is appropriate to do so. With respect to the Core Programs, the Commission found in its Phase II Order that jurisdictional electric utilities should have a standard group of core DSM programs as part of its basic utility service offering. As the Core Programs are required offerings, we find the structure of the regulatory compact in Indiana provides the necessary incentive to encourage the implementation and administration of such programs.

The Settlement Agreement provides for the creation of a Shared Benefit approach to the implementation of I&M's Core Plus programs, as follows:

- Calculated net benefits for measurable DSM programs are shared between customers and company. Net benefit is the difference between avoided costs (capacity and energy) and utility incurred program costs.
- The Company will receive no shared benefit if actual benefits are less than 50% of the annual targets for the sector portfolio. Once the 50% threshold is met, the shared benefit component will be 15% of the net benefit on a pretax basis.
- Shared Benefit incentive will be capped at 15% of the total annual program costs for each core plus program. Program costs will be identical to those used to calculate the net benefit.
- The Company's share of Shared Benefit will be included in the determination of earnings for ratemaking purposes.

The Commission notes that a Shared Benefit approach differs from the tiered structures approved for IPL and SIGECO. We believe that using a two year pilot on a different performance incentive mechanism will allow this Commission to evaluate the alternate approaches based upon actual experiences

over the lives of the programs. The Shared Benefit should incent I&M to keep program costs as low as possible because the incentive mechanism is tied to net benefits. However, like the IPL and SIGECO programs, there is a cap on total incentives that may be achieved. Finally, the Settlement Agreement provides that any incentive payments will be included in the earnings test.

C. Conclusion. In this proceeding, the Commission carefully analyzed the evidence and the Settlement Agreement to determine that it properly balances the interests of the utility, the customers and the overall public interest. The Parties' testimony in support of the Settlement and their responses to our questions have enabled the Commission to better understand the mechanics of the Settlement provisions and to determine that the Settlement Agreement, as a whole, is amply supported by the evidence of record, and we so find. The Commission further finds that the Settlement is reasonable and in the public interest and should be approved in its entirety. Pursuant to the terms of the Settlement, the pilot program shall continue for two years from the date of this Order, at which point it shall terminate.

9. Effect of the Settlement Agreement. The Settlement Agreement sets forth the Parties' agreement with respect to its non-precedential effects. As noted above, the Commission has reviewed these provisions and concludes that the agreements contained therein, as modified, are reasonable and should be approved. With regard to future citation of the Settlement Agreement, we find the Settlement Agreement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (March 19, 1997).

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

1. The May 7, 2010 Settlement, attached to the September 22, 2010 Order in this Cause, is approved in its entirety, and the September 22, 2010 Order is modified as set forth herein.
2. Petitioner shall be, and hereby is, authorized to implement the accounting procedures necessary to implement the requested recovery of net lost revenues and shareholder incentives.
3. Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved Environmental Compliance Cost Rider rate in the form of Exhibit DMR-S5.
4. This Order shall be effective on and after the date of its approval.

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: DEC 07 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**