ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY (I&M), AN INDIANA CORPORATION, FOR (1) APPROVAL OF CORE AND CORE PLUS DEMAND SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS; (2) FOR RATEMAKING RECOGNITION OF SUCH COSTS, INCLUDING TIMELY RECOVERY OF ASSOCIATED COSTS, NET LOST REVENUES, SHAREHOLDER INCENTIVES, VIA I&M'S DSM/EE PROGRAM COST RIDER; (3) ASSOCIATED ACCOUNTING AUTHORITY, INCLUDING AUTHORITY TO DEFER COSTS PENDING APPROVAL AND (4) APPROVAL OF A NEW PEAK DEMAND REDUCTION TARIFF.	)	CAUSE NO. 43959 APPROVED: APR 27 2011

BY THE COMMISSION:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On October 12, 2010, Indiana Michigan Power Company ("I&M") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition and Request for Administrative Notice for approval of demand side management ("DSM") programs and for associated ratemaking and accounting treatment, including recovery of program costs, net lost revenues, and shareholder incentives via I&M's Demand-Side Management / Energy Efficiency ("DSM/EE") Program Cost Rider. I&M sought administrative notice to be taken of I&M's 2008 Market Potential Study in Commission Cause No. 43769, which was granted at the evidentiary hearing.

Pursuant to notice as provided by law, proof of which was incorporated into the record, an evidentiary hearing in this Cause was held on January 26, 2011 at 9:30 a.m. in Room 224, PNC Center, Indianapolis, Indiana. The parties appeared and participated at the hearing. 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.** Due, legal, and timely notice of the public hearing in this Cause was given and published by the Commission as provided by law. I&M is a public utility within the meaning of the Public Service Commission Act, as amended. The Commission has jurisdiction over I&M and the subject matter of this proceeding in the manner and to the extent provided by the law of the State of Indiana.

2. **Background.** The instant proceeding was filed to comply with the Commission's December 9, 2009 Order in Phase II of Cause No. 42693 (the "Phase II Order"). This order established energy savings targets "to be achieved by jurisdictional electric utilities in the State of Indiana within 10 years, with interim savings goals . . . to be achieved in years one through nine." Phase II Order at 53. The energy savings requirements were established "as statewide objectives and represent a savings floor to be achieved in Indiana." *Id.* at 32. The Phase II Order also directed how these goals would be achieved. The Phase II Order delineated DSM programs into Core and Core Plus Programs. The Phase II Order recognizes that utilities will need to implement both Core and Core Plus programs to achieve the energy savings required by the Phase II Order. The Phase II Order directs that DSM/EE programs shall be offered to all market segments, including large industrial customers. *Id.* at 28.

The Phase II Order requires all jurisdictional electric utilities in Indiana, including I&M, to implement five statewide Core Programs using an independent third party administrator ("TPA") and to have those programs measured by a statewide independent evaluator. In the Phase II Order (at 42-43, 52), the Commission created the DSM Coordination Committee ("DSMCC") and directed it to undertake efforts for the preparation and submission of two joint requests for proposals ("RFPs") on behalf or, or issued by, the jurisdictional utilities.[1] The Phase II Order explained that the first RFP was to be issued for the selection of the TPA. The second RFP required by the Phase II Order was to be issued for the selection and utilization of a statewide evaluation, measurement and verification Administrator ("EM&V").

3. **I&M's Request.** In accordance with the Phase II Order, I&M requests Commission approval of a Three Year DSM Plan, which is a plan to implement Core and Core Plus programs designed to comply with the DSM energy savings goals set forth in the Phase II Order. The Three Year DSM Plan includes the five Core Programs that will be administered by the TPA through the statewide program, and I&M's portfolio of Core Plus DSM Programs. The proposal expands the DSM programs the Commission authorized I&M to implement in Cause No. 43769 and adds additional programs, including programs for large commercial and industrial customers.

I&M requests the Commission find that the costs incurred to comply with the Phase II Order are reasonable and necessary and recognizable for ratemaking purposes. I&M requests approval of the associated ratemaking and accounting treatment, including recovery via its existing DSM/EE Program Cost Rider of the costs of the Three Year DSM Plan, including lost revenues and shared benefits. Although I&M's Petition requested accounting authority to defer certain costs, that relief was addressed in Cause No. 42693-S1 and granted by the Commission in an Order issued on January 26, 2011. The specific programs included in the Three Year DSM Plan are:

Core Programs:
Residential Lighting

[1] The DMSCC members are: Citizens Action Coalition of Indiana, Inc. ("CAC"); Duke Energy Indiana, Inc. ("Duke"); Hoosier Energy; Indiana Industrial Group ("Industrial Group"); Indiana Michigan Power Company ("I&M"); Indiana Municipal Power Agency; Indiana Office of Utility Consumer Counselor ("OUCC"); Indianapolis Power & Light Company ("IPL"); Northern Indiana Public Service Company ("NIPSCO"); Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South"); and Wabash Valley Power Association.

Residential Home Energy Audit
Residential Low Income Weatherization
Energy Efficient Schools
C&I Prescriptive

Core Plus Programs:
Residential Appliance Recycling
Residential On-Line Audit
Residential New Construction
Residential Solar Siting
Residential Home Weatherization
Residential Home Energy Reporting
Residential Peak Reduction Program and Tariff
Renewables & Demonstration
C&I Incentives
C&I Retro-Commissioning Lite
C&T HVAC Optimization
C&I Audit
C&I New Construction

4. I&M's Case-In-Chief. I&M presented the testimony and exhibits of Jon C. Walter, Manager of Regulatory Support of I&M, William K. Castle, Director of Resource Planning and DSM of American Electric Power Services Corporation ("AEPSC"), Jeffrey L. Brubaker, Director of Regulatory Accounting Services of AEPSC and David M. Roush, Director-Regulated Pricing and Analysis of I&M.

A. Jon C. Walter. Mr. Walter explained I&M's current DSM/EE offerings and presented I&M's Three Year DSM Plan, including the program descriptions, expected level of energy savings from the proposed Core and Core Plus Programs, and funding requirements. Mr. Walter explained the development process for I&M's Three Year DSM Plan. He stated that I&M originally contracted in 2008 with Forefront Economics and H. Gil Peach & Associates ("Forefront and Peach") to perform a market potential study ("MPS") for I&M's Indiana jurisdiction and to create a MPS Action Plan, which formed the basis for the programs I&M is currently implementing. Walter Direct at 14. He explained that subsequent to the Commission's Phase II Order, I&M worked with the Electric Power Research Institute ("EPRI") and Forefront and Peach to reexamine the MPS Action Plan in light of the level of energy savings set in the Phase II Order and to incorporate any updated or new technologies in order to create a Modified Action Plan ("MAP") that would contain a three year plan for I&M to either achieve or exceed the energy savings goals set by the Commission. Mr. Walter stated that the MAP is the basis for I&M's Three Year DSM Plan, with the exception of the impacts and costs for 2010 where I&M utilized projections based upon actual vendor projections instead. Walter Direct at 14-15. Mr. Walter also explained how I&M took into consideration the ongoing efforts of the DSMCC to engage a statewide TPA and statewide EM&V Administrator. Walter Direct at 16-18.

Mr. Walter stated that I&M has prepared its Three Year DSM Plan consistent with the Phase II Order, and that I&M has incorporated opportunity for all customer classes to participate,

including I&M's industrial customers. Walter Direct at 8-9. He stated the allocation of costs contained in this filing are consistent with the cost allocations agreed upon and utilized in the Stipulation and Settlement Agreement approved in Cause No. 43769, with the exception of the allocation limit on industrial customers as discussed by I&M witness Mr. Roush.

Mr. Walter explained that the Residential Peak Reduction Program stemmed from the Settlement Agreement approved in Cause No. 43769 wherein I&M agreed to consider a summer peak reduction program based on experience gained from I&M's smart meter pilot. Walter Direct at 10. He stated that a number of considerations, including participation from all customer classes, future load forecasts and increasing participation in I&M's smart meter pilot indicate that I&M should offer a direct load control program to the residential class of customers.

Mr. Walter also described the proposed Residential Home Energy Reporting Program. He stated that although this program was not recommended by the MAP, it is intended to influence customer use of electricity to reduce the amount of energy consumed by a customer, improve the customer's energy efficiency, and to produce a desired change in I&M's retail load. Walter Direct at 19. Accordingly, and in order to meet the goals and timeline required by the Phase II Order, he believed it was prudent to undertake this type of program to proactively pursue these potential savings and gain experience with customer behavior considerations. Walter Direct at 20.

Mr. Walter explained why the Residential Home Weatherization Program was being split into three programs, one Core Program and two Core Plus Programs and described the features of the programs. Walter Direct at 20-21.

Mr. Walter discussed the specific efforts made by I&M to be able to transition the already implemented Core Programs to the TPA for implementation as a statewide program. He stated that I&M has been fully engaged and contributing to the statewide Core Program process by serving on the DSMCC and its sub-committees for both the TPA RFP and the EM&V RFP. Walter Direct at 23-24. Accordingly, he believes I&M is knowledgeable of the details of the Core Program development and can utilize this knowledge to aid in the orderly transition to the TPA.

Mr. Walter explained that I&M will serve as the Core Plus Program Administrator, but plans to utilize third parties to implement the programs in a phased approach. He said that I&M may consider utilizing the statewide TPA for some Core Plus programs if the third party firms can accommodate the work and if expected cost efficiencies can be achieved. Walter Direct at 24. Mr. Walter confirmed that I&M intends to utilize the same Oversight process, reporting procedures, program management responsibilities and program budget capabilities as detailed in the Stipulation and Settlement Agreement approved in Cause No. 43769. Walter Direct at 26.

Mr. Walter described the EM&V provisions, indirect Program costs and internal DSM staffing included in I&M's Three Year DSM Plan. He stated that the MAP includes provisions for EM&V services in the program design for all programs in the MAP, and that I&M will utilize the statewide EM&V Administrator for all Core Program EM&V. Walter Direct at 26. He stated that the MAP recommended certain levels of indirect costs, and that umbrella marketing indirect costs have increased to support the increased participation of the programs. Walter Direct at 27. He added that other indirect costs that are not throughput dependent have remained the same from the

original MPS Action Plan to the MAP because both reflect the same number of programs. Mr. Walter stated that a total of five internal staff members are recommended for the 15 programs contained in the MAP. Walter Direct at 28. He also included funding for one additional staff position for the three programs designed by I&M.

Mr. Walter stated that I&M is seeking approval to spend up to and including 10% above the Core Program budgets, consistent with what the DSMCC has set forth in the TPA RFP, to help provide for the continuation of a Core Program that is projected to exceed the yearly program budget. Walter Direct at 29. He recommended that the Commission grant similar authority to the DSMCC for program management as that granted to I&M's Program Implementation Oversight Board ("PIOB"), as the basic abilities granted to the I&M PIOB, allow for efficient and appropriate program implementation. Walter Direct at 29.

Mr. Walter testified that the proposed TPA and EM&V Administrator with whom the DSMCC is currently negotiating with have indicated that each must incur start up costs in order to meet the specified timeline in the TPA and EM&V Administrator RFPs.

Mr. Walter next discussed the energy savings estimates set forth in I&M's July 2010 DSM Progress Report. He stated that although the estimates of energy savings to be achieved during 2010 with the programs implemented during 2010 will fall short of the goal specified by the Commission's Phase II Order, I&M has adjusted program scope and levels for 2011, 2012 and 2013 to evenly spread the energy savings shortfall for 2010 across those years so that the shortfall will be made up by the end of 2013. Accordingly, the program budgets were similarly adjusted to accommodate the funding needed in 2011, 2012 and 2013 to make up the shortfall. Walter Direct at 30-31.

B. William K. Castle. Mr. Castle discussed the economic tests performed on the portfolio of DSM programs set forth in the MAP and identified the benefits likely to occur as a result of implementing these programs, and the cost effectiveness of the programs. Castle Direct at 2. Mr. Castle stated that the five main economic tests used to determine the cost effectiveness of DSM programs and measures, are the Total Resource Cost ("TRC"), Utility Cost, Participant, Ratepayer Impact Measure ("RIM") and Societal Cost tests. He testified that these tests are widely accepted in the industry as the basis for describing the economic merits of DSM programs from various perspectives and are defined in the Commission's DSM rules at 170 IAC 4-7-1. Castle Direct at 2. He explained that these tests seek to measure the costs and benefits from different perspectives. Castle Direct at 3. Mr. Castle stated that the MPS analyzed program cost effectiveness using these five tests and that the MAP recalculated the scores with the modified inventive levels necessary to achieve the target levels required by the Phase II Order. Mr. Castle presented the test results for the programs and the total portfolio. He explained that the test results for the recommended programs indicate that the portfolio is cost-effective from a TRC perspective and that Utility Cost test results indicate that the portfolio of programs will serve to lower revenue requirements over time. Castle Direct at 3.

Mr. Castle explained that certain factors might affect the ultimate results of the programs. More specifically, he stated that because these programs have not yet been competitively bid, actual costs may vary from the costs estimated in the MAP. Additionally, adjustments may be made to

allocations to Core Plus programs once final bids are received. Castle Direct at 3. He said that similarly, actual prices and impacts for the Core programs have not been finalized with the TPA. Lastly, Mr. Castle stated actual participation in these programs may differ from the assumptions made even after the programs are finalized. He discussed the results of a sensitivity analysis he performed which showed the portfolio results are robust and that a balance was struck in the design of the programs. Castle Direct at 4; Petitioner's Exhibit WKC-2. He added that although including the shared benefit as part of the administrative costs reduces the cost effectiveness of the Core Plus Portfolio, the shared benefit sensitivity included in Petitioner's Exhibit WKC-2 demonstrates that the portfolio remains cost effective from all perspectives.

He next discussed the Residential Peak Reduction Program's cost effectiveness. He stated that this program receives most of its benefit from the value of avoided capacity. He explained that in the short-term, the capacity value in the regional PJM market is relatively low. Mr. Castle stated that if the same analysis is run with the value of peaking supply capacity (PJM net cost of new entry, or peaking generation less energy sales) in all years, the TRC score improves to 0.8. Castle Direct at 4-5. He stated that reducing the ongoing management costs for 2014 and beyond by 50% has a similar impact, and combining a cost reduction with a full capacity value pulls the TRC score up to 1.0.

Mr. Castle also discussed the inputs and assumptions used in the cost effectiveness analysis. He said that the cost effectiveness tests were performed using PJM market-based avoided cost estimates and implicit in the estimates for avoided energy costs are the costs of compliance with environmental mandates in the form of allowances for SO_2, NO_x, and CO_2 (starting in 2015). He added that estimates of measure and program impacts were provided by Forefront Economics and are described in the MPS. Mr. Castle said that the measure characteristics were fitted to I&M load shapes, resulting in impacts tailored to I&M's service territory. Additionally, indirect and administrative costs were also estimated in the MPS and further refined by the Collaborative. Castle Direct at 5.

Finally, Mr. Castle discussed the potential impact from changes in the budgets for individual DSM programs or the overall portfolio. He explained that changing the amount or timing of resources dedicated to a program may affect not only the cost effectiveness of the individual program, but the cost-effectiveness of the portfolio. He stated that while expanding or contracting a Core program by up to 10% as allowed in the third-party RFP would not impact the test scores of individual programs, the overall portfolio score may be impacted as the programs that compose the portfolio would be weighted differently. Castle Direct at 6.

C. Jeffrey L. Brubaker. Mr. Brubaker addressed the accounting to be employed for I&M to properly account under GAAP and the FERC USofA for the program costs, net lost revenues and shared benefits. In particular, Mr. Brubaker explained that I&M is requesting to use traditional regulatory deferral over/under recovery true-up accounting for any over/under recovery of Core Program costs. Mr. Brubaker also testified regarding I&M's proposed accounting for the net lost revenue and shared benefits components included in its proposed changes to the rates under the DSM/EE Program Cost Rider. He explained that I&M's request is the same type of accounting relief approved in Cause No. 43769. He explained that I&M is currently recording a regulatory asset to recognize the DSM Phase I Program net lost revenues, and is requesting to record a

regulatory asset and recognize revenues for Phase II net lost revenues and shared benefits in the accounting period that the revenues are actually lost. Brubaker Direct at 6-7.

Mr. Brubaker explained that in order to record a regulatory asset for net lost revenues and shared benefits, the requirements of FASB ASC 980-605-25 must be met. More specifically, he stated that I&M can recognize such additional revenues to be billed in the future as a regulatory asset if all of the following conditions are met: 1) the DSM program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates to recover lost revenues; 2) the amount of recoverable lost revenues for the period is objectively determinable and is probable of recovery; and 3) the additional revenues will be collected within 24 months following the end of the annual period in which they are recognized. Brubaker Direct at 7. Mr. Brubaker stated that the requirements of FASB ASC 980-605-25 apply only to the net lost revenues and shared benefits but not to incurred costs, which are deferrable as a regulatory asset in accordance with FASB ASC 980-10-15-2 if it is probable that the resultant deferred incurred cost regulatory assets or regulatory liabilities will be recovered, or returned to customers, through future rates.

He stated that if the proposed changes to the rates under the DSM/EE Program Cost Rider are approved as filed, the rates under the DSM/EE Program Cost Rider will meet the requirements of FASB ASC 9800-605-25. Thus, I&M would be able to record a regulatory asset and recognize revenues for net lost revenues and shared benefits for Phase II in the accounting period that the revenues are actually lost. Brubaker Direct at 8-9.

D. David M. Roush. Mr. Roush testified regarding the modified DSM/EE Program Cost Rider associated with the upgraded total funding levels for the 2011 DSM/EE programs proposed in this filing and the net lost revenue and shared benefits associated with these programs. He explained that the modified rider will help I&M meet the DSM energy savings goals as set forth in the Commission's Phase II Order. He also provided the calculation of I&M's proposed rates under the DSM/EE Program Cost Rider and provided the resulting rate impacts on I&M's customers.

Mr. Roush explained that I&M is requesting net lost revenues and shared savings to help mitigate the negative consequences on I&M of offering DSM programs, while still providing significant benefits to I&M's customers. Roush Direct at 3. He stated that net lost revenues are the revenues lost less the costs saved as a result of a DSM program. He stated that actual net lost revenues will be calculated monthly based upon the number of measures installed at the beginning of each month times the monthly deemed kWh savings times the average fixed cost per kWh for customers eligible for each program based upon I&M's then current rates. Deemed savings per participant would be adjusted, if warranted, for future participants. Roush Direct at 3-4.

Mr. Roush next described shared savings, which I&M considers as a compensation for successful implementation of DSM programs. He explained that shared savings consists of two components: Shared Benefit and Program Incentive. The proposed Shared Benefit component shares the calculated net benefits for measurable DSM programs between customers and I&M. Mr. Roush stated that the net benefit as calculated on a Utility Cost basis is the difference between the costs avoided by implementing the DSM programs (avoided electric capacity and energy) and the

utility-incurred costs of the DSM programs (program costs). He said that the Program Incentive component is calculated by applying a fixed percentage to the program costs for those programs that are primarily educational, have a negative net benefit as determined in the screening using the TRC test, or whose immediate benefits may be difficult to quantify using estimated kWh or kW savings. Roush Direct at 4.

Mr. Roush testified that I&M proposes a sharing mechanism wherein I&M receives, before taxes, 15% of the shared benefit and no program incentive, consistent with the methodology approved in Cause No. 43827. He provided a calculation of total shared savings as Petitioner's Exhibit DMR-2 and explained the details of the calculation. Roush Direct at 4-5. He stated that the Shared Benefit component shares the calculated net benefits for measurable DSM programs between customers and I&M and, for each year, I&M will receive no Shared Benefit component if actual benefits are less than 50% of the annual Targets for the sector portfolio. In addition, for each year, the Shared Benefit component will be capped at 15% of the total annual program costs for each sector portfolio of I&M's Core Plus Programs. I&M's share of shared benefit will be included in the determination of earnings for ratemaking purposes. Roush Direct at 5-6.

Mr. Roush explained that the Residential Peak Reduction program was excluded from the calculation of the shared benefit because this program is different from an energy efficiency program. He stated that this program requires substantial front-loaded costs to install the necessary infrastructure along with on-going, multi-year marketing and consumer incentives to maintain the multi-year peak reduction benefits. Roush Direct at 6. He stated that a peak reduction program would not be contemplated for a single year and, consequentially, the cost and benefit profile does not lend itself to a net benefit calculation that only includes single (initial) year costs and benefits.

Mr. Roush also discussed the allocation and calculation of program costs. He stated that direct program costs were allocated as provided in the DSM/EE Program Cost Rider and consistent with Section G, Paragraph 2 of the Settlement Agreement approved in Cause No. 43769. Renewables & Demonstration were allocated 75% to the residential class and 25% to the commercial and industrial classes. Roush Direct at 6. He opined that this allocation methodology is reasonable and fairly allocates the indirect costs among the customer classes. Mr. Roush stated that the Settlement Agreement approved in Cause No. 43769 provides that with the exception of a direct load control program, additional direct and indirect DSM/EE costs will not be allocated to industrial customers during the four year period set forth in the Settlement Agreement approved in Cause No. 43306. In turn, the Settlement Agreement in Cause No. 43306 provided that in the event a direct load control program is proposed, the cost allocation for such program may be presented to the Commission for decision. Mr. Roush stated that I&M has maintained the limited cost allocation to industrial customers in order to abide by the terms of the Settlement Agreements approved in Cause Nos. 43769 and 43306, and that any shortfall created by these limitations was allocated among the remaining commercial and industrial tariff classes. Roush Direct at 7-8. He also presented an alternative Rider rate calculation without such limitation to be used if the Commission determines that the Phase II Order supersedes the terms of the Settlement Agreement in Cause No. 43306 regarding limited cost allocations to industrial customers. Roush Direct at 8.

Mr. Roush presented the proposed Rider rates to be incorporated into the company's DSM/EE Program Cost Rider in Petitioner's Exhibit DMR-4. Roush Direct at 8. According to Mr.

Roush, if I&M's proposed DSM/EE Program Cost Rider rates are approved, overall rates will increase by approximately $1.87 or 2.2% for the typical residential customer using 1,000 kWh per month. He also provided exhibits showing the percentage increase 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. He also explained how the rider rates would be placed into effect and the manner in which subsequent rider rates would be established. Roush Direct at 9. He stated that upon Commission approval 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 rates may be placed into effect beginning, if administratively possible, with the first day of the first billing month following the entry of a Commission order. He explained that subsequent rider rates will be identified in I&M's annual DSM/EE Program Cost Rider proceedings at which time the rider rates will be reconciled as provided in the DSM/EE Program Cost Rider. He explained that the reconciliation process will include a true-up of actual program cost expenditures and actual net lost revenues and shared savings based upon achieved program participation. Deemed savings per participant for DSM programs would be adjusted, if warranted, for future participants.

Mr. Roush concluded that I&M's proposed ratemaking treatment is consistent with the Commission's rules regarding the recovery of DSM-related costs and consistent with the approval of the DSM/EE Program Cost Rider in Cause Nos. 43306 and 43769. He further opined that I&M's proposal provides a balanced approach to sharing the benefits of DSM/EE between I&M and its customers. Roush Direct at 10.

5. **OUCC's Testimony.** OUCC Utility Analyst April Paronish provided an overview of I&M's existing and proposed DSM programs and discussed recommended modifications to I&M's proposed DSM portfolio. She discussed the OUCC's involvement in the creation of existing I&M DSM Programs. She explained that the proposed portfolio now contains some programs from the settlement in Cause No. 43769, some modified programs and some new programs. Paronish Direct at 4.

Ms. Paronish expressed concern regarding I&M's proposal to split the Residential Whole House Program into three separate programs – one Core (Residential Home Energy Audit) and two Core Plus (Residential Home Weatherization and Residential On-Line Audit). She stated that according to responses provided by I&M in discovery, the proposed split would increase administrative, marketing and other costs. Paronish Direct at 5. She opined that had the OUCC been invited to participate in modifying this program, it could have better understood the rationale for the split and added input during the process that may have led to a more efficient program design. Paronish Direct at 6.

Ms. Paronish next discussed the cost effectiveness of the Core Plus Programs. She stated that the Residential Peak Reduction and Renewables & Demonstration Programs do not pass the TRC test. Paronish Direct at 6. She indicated that absent some overriding public policy reason, ratepayer dollars should be spent on programs that produce real benefits. She did not believe, however, that all programs must pass the TRC test to be included in a utility's DSM portfolio. She indicated that the OUCC understands that, within reason, some programs may take a year or two to become cost effective due to the upfront costs or the nature of the program and that the Oversight

Board ("OSB") may determine through research, consultants and other evidence that the program should be piloted for a period of time. Paronish Direct at 7.

Ms. Paronish recommended that the Commission deny the Residential Peak Reduction Program. She stated that this program did not pass the TRC test and was not recommended within the MAP. She also believed that the purpose of direct load control is to shave or otherwise shift peak demand, rather than reduce overall usage, and therefore did not satisfy the Commission's directive in the Phase II Order that utilities focus on energy efficiency. Paronish Direct at 8. Ms. Paronish also recommended that the Commission deny the Renewables & Demonstration Program. She acknowledged that this program was recommended in the MAP for inclusion in I&M's DSM portfolio, but argued that as DSM costs continue to rise, there is a need to be cognizant of the impact adding new programs would have on ratepayers, particularly those programs that are not cost effective. Paronish Direct at 8.

With respect to the Residential Home Energy Reporting Program, Ms. Paronish recommended that I&M pilot the program without shareholder benefit for at least one year to allow EM&V to be performed and the OSB an opportunity to gauge results. According to Ms. Paronish, the OUCC is not convinced that this program should be considered more than simply customer education which, when coupled with marketing of I&M's DSM portfolio of programs, may lead customers to take advantage of those offerings. She also expressed concern about how this program will be evaluated and measured to ensure that reductions in usage are not a result of influences other than the Home Energy Reporting Program. Paronish Direct at 9.

Ms. Paronish commented that increased OSB involvement in the MAP process would have been extremely valuable to all parties. She explained that earlier, active, in-depth involvement in the process would have improved the OUCC's ability to fully assess the merits of the proposed DSM portfolio, helped to resolve inconsistencies between the MAP and I&M's exhibits and offer potentially beneficial input into the MPS-to-MAP update process. Paronish Direct at 9-10. She believed that more OSB involvement earlier in the MAP study process, and participation in making decisions to vary from the calculations and recommendations contained in the MAP would have improved transparency. Paronish Direct at 11.

Ms. Paronish next discussed the OUCC's concerns regarding cost recovery, lost revenue recovery and deemed savings. She testified that the calculation of lost revenue must net out the impact of free-riders and that any "actual" calculations performed by I&M to derive net lost revenue must be reconciled once annual EM&V is performed by an independent third party. Paronish Direct at 13. She stated that with respect to the process for modifying deemed savings, it was the OUCC's understanding that the Statewide EM&V contractor will utilize, where possible, the Ohio Technical Resource Manual ("TRM") to determine deemed savings for utilities' Core Programs. However, it is also contemplated that an Indiana TRM will be developed over the next few years, once enough Indiana-specific data has been collected. Ms. Paronish expressed the OUCC's expectation that the decision regarding whether deemed savings should be modified, and the modification process itself, would involve input from the DSMCC and/or OSB (depending on whether the program is Core or Core Plus), as well as the EM&V vendor(s) and possibly Third Party Evaluators, as appropriate. She indicated that any change in deemed savings would be used on a prospective basis and would not be retroactive. Paronish Direct at 14.

Finally, Ms. Paronish testified regarding Special Contracts and C&I program cost recovery. She stated that according to I&M, special contract customers would share in the C&I program costs and share in the 25% Renewable & Demonstration program costs unless precluded by the terms of the special contract. Paronish Direct at 14. While she agreed that I&M must abide by terms of its current contracts, Ms. Paronish opined that all customers should share the cost of I&M's programs. She therefore recommended that the Commission inform I&M that future special contract DSM cost sharing exclusions will not be approved. Paronish Direct at 14.

6. **I&M's Rebuttal Testimony.** Mr. Walter responded to the concerns raised by Ms. Paronish. He explained that one benefit of the proposed split of the Residential Whole House Program into three programs is that a combined single program would mask the slightly cost effective Residential Weatherization Program's TRC score with the Online Audit Program that has a more cost effective TRC score and give the appearance that the Weatherization Program is more cost effective than it is expected to be. Walter Rebuttal at 1-2. He stated that managing the program based on its own merit is prudent to ensure that the program funds are truly spent cost effectively. In addition, he indicated that the potential for operating the Weatherization Program as a joint electric and gas program adds to implementation and program tracking complexity where cost effectiveness can again be negatively impacted if not managed and assessed appropriately. Walter Rebuttal at 2. While Mr. Walter acknowledged that creating three programs instead of two from the Whole House Program increased administrative cost, he believed the increase was justified by the expected more than tripling of the yearly participation rates (total of all three programs) in the MAP compared to the MPS Action Plan. Walter Rebuttal at 2-3.

Mr. Walter next discussed OSB involvement in the MAP process. He said that since inception, I&M has met regularly with the OSB and has worked closely on Phase I program implementation concerns. As a result, I&M views the OSB as a beneficial means to gain operational insight and perspective through the positive contributions from the OSB. Walter Rebuttal at 3. At the same time, Mr. Walter explained that I&M and other members of the OSB have been heavily involved with the DSMCC regarding implementation of the Phase II Order and Core Program development and implementation. Walter Rebuttal at 3-4. This work was in addition to the work necessary and appropriate to finalize, roll out and continue to implement I&M's DSM programs approved by the Commission's March 17, 2010 Order in Cause No. 43769. Walter Rebuttal at 4. Mr. Walter testified that this significant work load created time constraints for both I&M and other members of the OSB and made scheduling of meetings very difficult and slowed responses to other communications. He said that as a result, although I&M offered progress updates towards the July 1 DSM Report and the Three Year DSM Plan with the OSB during OSB meetings, OSB members did not inquire or comment regarding the manner in which I&M was developing plans. He stated that I&M realizes that interaction with the OSB regarding plan development could have led to greater transparency, and as a result will endeavor to increase collaboration in such areas in the future. Walter Rebuttal at 4.

Mr. Walter also testified regarding the Residential Peak Reduction Program. While he recognized that the Peak Reduction Program is not as cost effective as other proposed DSM Core Plus Programs, he stated that the program was proposed for several reasons that the MAP did not foresee or recognize. For example, Mr. Walter pointed out that the Stipulation and Settlement

Agreement in Cause No. 43769 required that I&M consider such a program, based, in part, on lessons learned from the South Bend Smart Meter Pilot Project. Walter Rebuttal at 5. He also pointed out that the Phase II Order recognized that load management and direct load control initiatives will count toward energy efficiency goals, and that such energy savings could potentially parlay into more cost effective savings opportunities in the future. Third, he noted that in OSB meetings during the spring of 2010, the OSB urged I&M to consider such a program. In subsequent meetings, I&M stated the intent to include the Peak Reduction Program in its Three Year DSM Plan filing and did not receive any guidance to the contrary from the OSB. Mr. Walter explained that I&M's proposed DSM program portfolio is cost effective with the Peak Reduction Program included, and that experience gained with this type of program would be beneficial for I&M and will position I&M to take advantage of potential energy savings opportunities in the future. He proposed that should the Commission not accept this program as part of the portfolio, I&M should not be precluded or foreclosed from seeking approval for the program in the future as circumstances warrant. Walter Rebuttal at 6.

With respect to the concerns expressed by Ms. Paronish regarding the Residential Home Energy Reporting Program, Mr. Walter testified that the program offers a cost effective means to engage targeted customers in energy efficiency and the implementation vendor that I&M will utilize for the program will be expected to deliver cost effective and verifiable savings that is no different than what is expected from any other DSM program vendor. Walter Rebuttal at 6. He stated that the OSB oversight process provides for ongoing management of program implementation progress and provides avenues to affect change to ineffective programs. Nonetheless, Mr. Walter agreed to call the program a pilot and to work closely with the OSB to evaluate the program after one year. Walter Rebuttal at 7. He disagreed, however, with Ms. Paronish's suggestion that I&M forego the opportunity for shareholder benefit, as by definition the opportunity for shareholder benefit incents I&M to run cost effective and verifiable programs and would move I&M to improve cost effectiveness, discern and accept the value of the program within the portfolio, or remove the program from the portfolio in a more expedient fashion if the program is deemed ineffective. Walter Rebuttal at 7.

Mr. Walter next addressed Ms. Paronish's recommendation that the Commission deny the Renewables and Demonstrations Program. He acknowledged that the TRC score is low for this program, but noted that both the MPS Action Plan and the MAP recommend the program to help spur interest in DSM and green initiatives and to help keep I&M staff current with such technology. Walter Rebuttal at 7. He said that I&M has also recently received a few customer inquiries regarding incentives for technologies contained in this proposed program. While Mr. Walter agreed that current economic conditions for ratepayers warrant the most beneficial spend of available funds, he believed that the relatively low cost of this program compared to other programs in the portfolio, and pursuit of the Phase II Order savings goals, both now and in the future, requires I&M engagement in seed programs such as this one. Walter Rebuttal at 7.

Finally, Mr. Walter responded to concerns stated by Ms. Paronish regarding cost recovery, lost revenue recovery and deemed savings. He stated that lost revenues should be calculated with the approved measure impacts, and the actual participation levels and timing. He said that the measure impacts, including estimates for free-ridership, are made available for the review and vetting process and, once approved, these "per measure" impacts should not be subject to revision

in that same period. Walter Rebuttal at 8. He explained that results that are subject to continuous revision not only complicate the lost revenue process, but also affect the utility's benchmark results and negatively impact the planning process. Mr. Walter further testified that while I&M agrees that it must abide to the terms of existing Special Contracts, even where exclusions from cost sharing of DSM programs exist, the Commission should not in this case make decisions about future contracts. He recommended that the decision to approve or deny exclusionary cost sharing DSM program provisions should be evaluated in the context of the contract at the time when it is presented for approval by the Commission. Walter Rebuttal at 9.

7. **Discussion and Commission Findings.**

A. I&M's Three Year DSM Plan. This proceeding stems from the requirements imposed by the Commission's Phase II Order. I&M seeks relief necessary for the Company's compliance with that Order. In the Phase II Order (at 31), the Commission directed Indiana jurisdictional utilities to file three-year DSM plans "indicating their proposals and projected or actual progress in reaching the annual stepped savings targets" required by the Phase II Order. The evidence of record shows that I&M's proposed Three Year DSM Plan contains all of the required Core Programs, provides for the transition of these programs to the TPA and incorporates Core Plus programs in order to achieve the energy savings required by the Phase II Order. The OUCC raised concerns regarding I&M's Core Plus Programs, which we discuss below:

(1) Residential Whole House Program. In its filing, I&M proposed to split the Residential Whole House Program into three programs, a Core Program (Residential Home Energy Audit) and two Core Plus Programs: Residential Home Weatherization and Residential On-Line Audit. The OUCC challenged the split because, according to the OUCC, I&M had not satisfactorily explained the benefits thereof. Furthermore, Ms. Paronish testified that it appeared the proposed split would increase administrative, marketing and other costs. Paronish Direct at 5-6. In rebuttal, I&M witness Mr. Walter explained the benefits of the proposed split and justified the increase in administrative costs. He explained that combining the program components would give the appearance that the Residential Weatherization Program is more cost effective than it is expected to be. Walter Rebuttal at 2. He stated that because the Weatherization component is marginally cost effective at a TRC of 1.1, managing this aspect of the program based on its own merit is prudent to ensure that the program funds are spent cost effectively. *Id.* He also explained that separating the components into three programs may facilitate a joint or coordinated offering with a natural gas program, consistent with the Phase II Order. *See* Phase II Order at 42. Mr. Walter also explained that the cost increase is justified by the expectation that yearly participation rates will more than triple those in the MAP. Walter Rebuttal at 3. He added that the On-Line Audit Program requires internal staff to mail the energy kits to the participants. With such a large increase in participant kit mailings, additional staff beyond that reflected in the original program design is required to coordinate and perform the manual mailing of these kits.

We agree that it is beneficial to maintain separate programs so that the cost effectiveness of each particular program can be monitored, enabling more transparent and accurate evaluation and measurement of each program's performance. With respect to the increase in administrative costs, we also agree with Mr. Walter's rebuttal testimony that such increase is justified by the expected more than tripling of the yearly participation rates in the MAP compared to the MPS Action Plan.

Accordingly, we find that I&M's proposed split of the Residential Whole House Program into three distinct programs is appropriate and should be approved.

(2) Residential Peak Reduction Program. Ms. Paronish recommended that the Commission deny I&M's request to implement this program because it does not pass the TRC Test and was not recommended within the MAP. Paronish Direct at 7. Moreover, Ms. Paronish opined that the Commission's Phase II Order directed utilities to focus on energy efficiency, not peak reduction efforts. In rebuttal, Mr. Walter explained the reasons why I&M proposed the Residential Peak Reduction Program and stated that the OSB urged I&M to consider such a program in light of the Settlement Agreement approved in Cause No. 43769.

We find that the Residential Peak Reduction Program should be approved as part of I&M's DSM portfolio. As indicated by Mr. Walter, the overall portfolio remains cost effective with this program included. Walter Rebuttal at 6. Moreover, we recognize that I&M does not currently offer such a program to residential customers. We agree that it would be beneficial for I&M to gain experience in this area beyond that being acquired as part of I&M's South Bend Smart Meter Pilot Project. We also disagree with the OUCC's reading of the Phase II Order. The Phase II Order expressly states (at 32) that "[l]oad management and direct load control initiatives, including peak shaving, which result in net energy savings will count toward efficiency goals." Accordingly, we find it is appropriate to consider load management programs as a component of a utility's DSM program portfolio.

(3) Residential Home Energy Reporting Program. Ms. Paronish expressed concern that this program was simply customer education and that there may be difficulties in how this program will be evaluated and measured to ensure that reductions in usage are not a result of influences other than this program. Paronish Direct at 9. Ms. Paronish recommended that the Commission approve this program as a pilot and that I&M not be entitled to shareholder benefit for at least one year to allow EM&V to be performed. In rebuttal, Mr. Walter explained that the program is designed to trigger a specific response in consumption by those customers who may not be reached or moved to act by generalized or specific marketing efforts. He testified that the program offers a cost effective means to engage targeted customers in energy efficiency. He added that the OSB process provides for ongoing management of the program implementation. Mr. Walter agreed to call the program a pilot and to work with the OSB to evaluate the program after one year. However, he did not agree with Ms. Paronish's suggestion that I&M forego the opportunity of shareholder benefit during this period. He explained that by definition, the opportunity for shareholder benefit incents I&M to run cost effective and verifiable programs and would move I&M to improve cost effectiveness, discern and accept the value of the program within the portfolio, or remove the program from the portfolio in a more expedient fashion if the program is deemed ineffective.

We find that I&M should include the Residential Home Energy Reporting Program as a pilot program and work with the OSB to evaluate the program after one year. We agree with Ms. Paronish that this program should not be eligible for the shared benefit performance incentive. I&M's own MAP describes the documented percentage of behavioral savings as "quite small" and as lacking "a substantial history of measurement to show what happens to behavioral savings over time." Paronish at 8-9, citing Petitioner's Exhibit JCW-3, at 11. The MAP further notes issues with

reliability and measurement. Coupled with lack of evidence demonstrating how influences other than the program might be accounting for energy savings, we find that it would be inappropriate to award an incentive to this program absent more complete EM&V study and OSB review.

(4) Renewables & Demonstration Program. The OUCC recommended that the Commission deny the Renewables & Demonstration Program at this time due to the impact adding new programs would have on ratepayers. I&M acknowledged that the TRC score is low for this program, but explained that the MPS Action Plan and the MAP both recommended the program to help spur interest in DSM and green initiatives and to help keep I&M staff current with such technology. Mr. Walter noted that I&M has recently received a few customer inquiries regarding incentives for technologies contained in this proposed program. Mr. Walter stated that the cost of the program is relatively low compared to other programs in the portfolio and the pursuit of the Phase II Order savings goals, both now and in the future, requires I&M to engage in seed programs such as this one. Walter Rebuttal at 7.

This program is less cost effective than other programs proposed in I&M's DSM portfolio. However, we note that this program was recommended by both the MPS and MAP. *See* Petitioner's Exhibit JCW-3 at 15. Therefore, we find that I&M should include the Renewables & Demonstration Program as a pilot program and work with the OSB to evaluate the program after one year. This program should not be eligible for the shared benefit performance incentive or lost revenue recovery. We find that it would be inappropriate to award an incentive to this program absent more complete OSB review.

(5) Conclusion Regarding Three Year DSM Plan. The record demonstrates that the portfolio of programs approved by the Commission passes the TRC test and that I&M's Three Year DSM Plan, including the budgets for the approved programs, complies with the Phase II Order mandates. Thus, we find that the record in this Cause shows that I&M's Three Year DSM Plan should be approved as modified above. We further find that the budget flexibility requested by I&M is consistent with authority we have granted in the past and with what the DSMCC has set forth in the TPA RFP. Accordingly, we authorize I&M to spend up to and including 10% above the Core Program budgets set forth in I&M's plan. The Commission also recognizes that the outcome of the pending issues in Cause No. 42693-S1 could impact the forecasted costs in future years for recovery through the DSM/EE Program Cost Rider and could affect the compliance plan in ways that cannot be determined at this time. Therefore, we further find that if necessary or appropriate, the parties may request that the Three Year DSM Plan approved herein be reviewed and revised on a prospective basis to comply with the Commission's decision in Cause No. 42693-S1.

B. Accounting and Ratemaking.

(1) Recovery of Costs Associated with Core and Core Plus Programs. 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, which was approved in Cause No. 43306. I&M currently recovers DSM program costs through the DSM/EE Program Cost Rider in accordance with the Settlement Agreement approved in Cause No. 43769. I&M presented substantial evidence demonstrating that the methodology by which costs are to be allocated to I&M's customer classes is reasonable, fair and consistent with the program cost allocation approved

in Cause No. 43769 and compliant with the cost allocation provisions of the Settlement Agreement approved in Cause No. 43306. Furthermore, we note that the OUCC had no objections to I&M's proposed cost recovery and allocation methodology, with the exception of the treatment of future special contract customers, which we address below. We find that I&M's proposed ratemaking treatment is consistent with the Commission's rules and our Orders in Cause Nos. 43306 and 43769. Accordingly, we further find that I&M is authorized to recover costs incurred to implement the Core and Core Plus programs authorized herein through its DSM/EE Program Cost Rider. We further find that I&M should be granted all necessary accounting authority to defer the over and under recoveries of projected Core and Core Plus costs pending reconciliation in subsequent rider periods.

With respect to whether future special contracts should be permitted to include terms which would preclude the special contract customer from sharing in commercial and industrial DSM program costs, we find that this issue should be addressed on a case-by-case basis in the context of the special contract at the time when it is presented for approval by the Commission. However, I&M is on notice that we look upon these types of clauses with some disfavor and their inclusion will require sufficient justification of the reasonableness of any such clause.

(2) Recovery of Costs Incurred to Comply with the Phase II Order. In its initial filing, I&M requested accounting authority to defer any costs associated with its programs that I&M incurs to implement the Core Programs until such time as the Commission issues an order authorizing I&M to recoup these costs. This request was considered in Cause No. 42693-S1 instead of this proceeding. On January 26, 2011, the Commission issued its Order on Cost Deferral in Cause No. 42693-S1, approving the request from I&M and other utilities to defer, for subsequent recovery through rates, the start-up and operation costs and any additional costs reasonably and appropriately assessed by the TPA and EM&V Administrator after Commission approval of the selected TPA and EM&V Administrator, but prior to the individual utility's individual cost-recovery proceeding.

(3) Net Lost Revenues and Shared Benefits. When the Commission adopted the mandates set forth in the Phase II Order we expressly recognized that our existing regulations permit the timely recovery of demand-side costs incurred by electric utilities, including lost revenue. (170 IAC 4-8-5 through 170 IAC 4-8-7). Phase II Order at 49. This rule recognizes that the Commission may award full and timely cost recovery, including lost revenues, in order to remove the negative financial impact on utilities of DSM programs such as those required by the Phase II Order. *See* 170 IAC 4-8-3(a).

In this proceeding, I&M requests the Commission continue to authorize the same accounting for net lost revenues and shared benefits as was approved by the Commission in Cause No. 43827. I&M presented testimony describing the method by which net lost revenues and shared benefits are calculated and the accounting standards applicable to the relief sought by I&M. I&M explained that net lost revenues would be calculated monthly based upon the number of measures installed at the beginning of each month times the monthly deemed kWh savings times the average fixed cost per kWh for customers eligible for each program based upon I&M's then current rates. Roush Direct at 3-4. No party objected to I&M's recovery of lost revenues or the use of the DSM/EE Program Cost Rider for this purpose.

While the OUCC did not object to the recovery of lost revenues or shared benefits (with the exception of shared benefits in association with the Residential Home Energy Reporting Program), it did stress that any "actual" net lost revenue calculations performed by I&M to derive net lost revenue would need to be reconciled once annual EM&V is performed by an independent third party. The OUCC further stated that any change in deemed savings would be used on a prospective basis. In rebuttal, Mr. Walter stated that measure impacts, including estimates for free-ridership, are made available for the review and vetting process and, once approved, these "per measure" impacts should not be subject to revision in that same period. Mr. Walter agreed that revisions to the "per measure" impacts should only apply in prospective periods. Walter Rebuttal at 8. We find that to the extent changes are made in the "per measure" impacts, such changes should only be applied in a prospective manner, so long as I&M can demonstrate to the OSB and the Commission that its decisions to invest in programs were made based upon the best available information at the time.

The Commission has authorized other Indiana electric utilities to recover lost revenues. *See, e.g.*, *Re Duke Energy Indiana. Inc.*, Cause No. 43374, 2010 Ind. PUC LEXIS 50 (IURC 2/10/10); *Re Indianapolis Power & Light Co.*, Cause No. 39672, 1993 Ind. PUC LEXIS 303 (IURC 9/8/1993); *Re Southern Indiana Gas & Elec. Co.*, Cause No. 39201, 1991 Ind. PUC 360 (IURC 10/23/1991); *Re PSI Energy, Inc.* Cause No. 38986, 1991 Ind. PUC 368 (IURC 10/16/1991). The Commission also approved the recovery of lost revenues associated with I&M's current DSM Programs in Cause No. 43827. Accordingly, based upon the evidence presented, we find that I&M should be authorized to recover net lost revenues associated with Core and Core Plus programs as discussed and modified above, through its DSM/EE Program Cost Rider. We further find that I&M should be granted all necessary accounting authority to effectuate such recovery.

Regarding I&M's request to recover shared benefit 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 No. 43827. In our Order in that Cause, we explained 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." Ind. Michigan Power Co., Cause No. 43827 (IURC 12/7/2010) Order on Reconsideration at 2. More specifically, under the Shared Benefit approach: (a) I&M shares the calculated net benefits for measurable DSM programs between customers and I&M; (b) for each year, I&M will receive no Shared Benefit component 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; (c) for each year, the Shared Benefit component will be capped at 15% of the total annual program costs for each sector portfolio of I&M's Core Plus Programs; and (d) I&M's share of the shared benefit will be included in the determination of earnings for ratemaking purposes. Roush Direct at 5-6. As the Commission previously recognized in Cause No. 43827, the Shared Benefit approach is consistent with our approval of DSM performance incentives for IPL and SIGECO. Ind. Michigan Power Co., Cause No. 43827 (IURC 12/7/2010) Order on Reconsideration at 2. Accordingly, the Commission finds 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 and should be approved for the programs as discussed and modified above.

(4) DSM/EE Cost Rider. As noted above, I&M witness Roush presented the proposed Rider rates to be incorporated into I&M's DSM/EE Program Cost Rider in Petitioner's Exhibit DMR-4. Roush Direct at 8. Consistent with our discussion above, we find the proposed Rider rates should be approved.

C. Oversight of I&M's DSM Programs. The OUCC expressed concerns regarding what it perceived as the under-utilization of the OSB in the development of I&M's Three Year DSM Plan. The OUCC obviously places great value in an effective, functional and collaborative DSM Oversight Board, given that OSBs have been included as part of each electric (and gas) DSM settlement or requested by OUCC in litigated DSM cases. While the record shows that I&M is an active participant in the DSMCC and developed the Three Year DSM Plan in accordance with the Phase II Order, these actions do not address the OUCC's issue. The OSB was established to oversee the implementation of the programs approved in Cause No. 43837. Decisions such as modifying the MAP, selecting programs not recommended by the MAP, the ramifications of splitting one program into multiple programs, requesting authority to move forward with programs that are grossly ineffective (as measured by TRC scores) would all appear to be exactly the types of items that the OSB should have addressed so that all positions could be fully vetted and all parties would have a clear understanding of the pros and cons. Given I&M's pledge to redouble its efforts to keep the OUCC in the loop, we expect that this will not be an issue in the future. Accordingly, at this time we encourage I&M to work more collaboratively with OUCC in an open and cooperative fashion on these matters.

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

1. I&M's proposed Three Year DSM Plan, including the Core and Core Plus programs and proposed budgets, shall be and hereby is approved as modified and discussed above.

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, Management and Verification Administrator through I&M's DSM/EE Program Cost Rider shall be and hereby is approved.

3. I&M's request for recovery of net lost revenues associated with its Core and Core Plus programs through I&M's DSM/EE Program Cost Rider shall be and hereby is approved as modified and discussed above.

4. I&M's request for recovery of shared benefits associated with its Core Plus programs through I&M's DSM/EE Program Cost Rider shall be and hereby is approved, except for the Residential Home Energy Reporting Program pilot and the Renewable & Demonstration program as modified above.

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 Three Year DSM Plan shall be and hereby is approved.

6. The Rider R.P.R. (Residential Peak Reduction Rider), Tariff I.U.R.C. No. 15, Original Sheet No. 7D shall be and hereby is approved.

7. I&M shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved Demand-Side Management / Energy Efficiency (DSM/EE) Program Cost Rider, Tariff I.U.R.C. No. 15, Third Revised Sheet No. 51, in the form of Petitioner's Exhibit DMR-4, but reflecting the modifications made in this Order.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT NOT PARTICIPATING:

APPROVED: APR 27 2011

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

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission