ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF GDSM FACTORS FOR GAS SERVICE FOR THE MONTHS OF JULY THROUGH DECEMBER 2013 IN ACCORDANCE WITH THE ORDER OF THE COMMISSION IN CAUSE NO. 44001.	))))))	**CAUSE NO. 44001 GDSM 3** **APPROVED:** JUN 26 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Marya E. Jones, Administrative Law Judge

On April 15, 2013, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition for Approval of GDSM Factors ("Petition") for gas service to be effective for the period of July through December 2013. On April 16, 2013, Petitioner prefiled its case-in-chief, which included the direct testimony of Karl E. Stanley, Vice President of Commercial Operations, the direct testimony of Derric J. Isensee, Manager, Regulatory Support and Analysis, as well as exhibits and workpapers supporting the proposed Gas Demand Side Management Factors ("GDSM Factors") and the underlying costs for which Petitioner requests recovery. On May 22, 2013, NIPSCO filed corrected testimony, exhibits and workpapers.[1] On May 30, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and schedules of Sherry L. Beaumont, Utility Analyst in the Natural Gas Division of the OUCC. The Presiding Officers issued a Docket Entry on June 7, 2013 and Petitioner responded on June 10, 2013.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, an evidentiary hearing was held in this matter on June 13, 2013 at 1:00 p.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prefiled evidence of NIPSCO and the OUCC was admitted into the record without objection and all parties waived cross-examination of all witnesses. No members of the general public appeared or participated at the hearing.

Based upon the applicable law and being duly advised in the premises, the Commission now finds as follows:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the public hearing conducted herein was given and published by the Commission as required by law. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a), and is subject to the jurisdiction of the Commission. Petitioner elected to become and remains subject to Ind. Code § 8-1-2.5-6 for approval of its tracking mechanism for the gas efficiency programs approved by the Commission

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[1] NIPSCO filed revisions to correct non-trackable employees' expenses that had been incorrectly included in the trackable expenses. This error affected the GDSM costs for July through December 2012 and the projected costs for July through December 2013, but did not change the requested factors.

in its May 9, 2007 Order in Cause No. 43051 and continued under Cause No. 43894 to provide for semi-annual reconciliations to coincide with similar filings made for Petitioner's electric Demand Side Management ("DSM") programs. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding in the manner and to the extent provided by the laws of the State of Indiana.

2. **Petitioner's Characteristics.** Petitioner is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 East 86th Avenue, Merrillville, Indiana. Petitioner renders natural gas and electric public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana. The plant and equipment is used for the distribution and furnishing of natural gas utility service to the public and for the generation, transmission, distribution, and furnishing of electric utility service to the public within its assigned service territories.

3. **Background.** In this proceeding, Petitioner requests Commission approval of GDSM Factors for gas service for the months of July through December 2013 in accordance with the Commission's December 28, 2011 Order in Cause No. 44001 ("44001 Order"). In that Order, the Commission approved, among other things, Petitioner's:

(1) proposed gas efficiency/demand side management programs and projected budgets ("Gas Programs");

(2) request to recover all start-up, implementation (program) and administrative costs associated with the Gas Programs, along with costs associated with the evaluation, measurement and verification of those programs through Rider 472 – Energy Efficiency Rider, including associated ratemaking treatment of those costs, including authority to defer certain expenses through the date of the 44001 Order for future recovery under Rider 472;

(3) request to modify the tracking mechanism for the gas efficiency programs approved by the Commission in Cause No. 43051 and continued under Cause No. 43894 to provide for semi-annual reconciliations to coincide with similar filings made for NIPSCO's electric DSM programs; and

(4) request to implement Rider 472 – Energy Efficiency Rider, Appendix A – Applicable Riders, and Appendix C – Gas Efficiency Factor.

4. **Implementation of DSM Programs.** Karl E. Stanley provided the following description of and status update on NIPSCO's Gas Programs. Mr. Stanley described the status of the Gas Programs as follows:

> Residential Energy Efficiency Rebate Program. Mr. Stanley state that this program struggled during 2012 to achieve the desired penetration in a variety of areas. NIPSCO and its Energy Efficiency Oversight Board ("OSB") therefore reallocated some of the budget dollars associated with this program to the Multifamily Direct Install Program to improve overall performance in meeting the energy savings targets for 2012. NIPSCO has worked with its OSB and CLEAResult to address these issues for 2013, which has included reduced reliance on heat pumps and additional marketing strategies for both trade allies and consumers.

Residential Home Weatherization Program. This program was launched in August 2012, which was later than the other programs. In addition, the number of audits did not ramp up until the fourth quarter of 2012. Because of these issues, not enough history is available to adequately forecast program performance. NIPSCO continues to work with CLEAResult (the Weatherization provider) and GoodCents (the Home Energy Audit provider, which is used for the Weatherization program) to assure timely flow of data and to also determine how best to market to customers.

Residential New Construction Program. This program has been adversely affected by the slow recovery in the housing market and therefore ran short of its projected savings goals for 2012. To address this for 2013, based on feedback from program participants, NIPSCO and the OSB recently approved a new structure to simplify the program for greater understanding on the part of builders.

Residential Multifamily Direct Install Program. This program, which produces low-cost electric and natural gas savings to multi-family buildings through direct installation of energy saving measures in both individual living units and common areas, was highly successful in 2012. As a result, the OSB approved moving budget dollars and savings goals from the Residential New Construction Program and the Energy Efficiency Rebate Program to the Multifamily Direct Install Program. In 2013, NIPSCO looks to continue providing this program to apartment complexes and will add manufactured (mobile) homes because of the similarity of the living units and the ability to achieve significant energy savings, particularly through duct sealing.

Energy Conservation Program. This program, currently offered through OPower in conjunction with NIPSCO's electric energy efficiency programs, achieved its expected performance targets in 2012, therefore, no changes are anticipated in 2013.

Home Energy Assessment Program, School Energy Education Program, and Income Qualified Weatherization Program. These programs underperformed in both budget and energy savings goals in 2012 due to the delayed start of the Home Energy Assessment Program and implementation of joint programs with other electric utilities. NIPSCO will continue to work with electric utilities to offer these programs.

Commercial and Industrial ("C&I") Incentive Program. This program, which began on May 1,2012, offers rebates to C&I non transport only customers electing to purchase and install energy efficient equipment in their facilities. Despite an aggressive outreach to spur enrollment of eligible customers launched during September 2012, the program did not meet its energy savings goal for 2012.

Commercial New Construction Incentive Program. This program exceeded its energy savings goal in 2012 based on enrollments, but did not achieve its goals if project completions are considered. Due to project lead times, no projects were completed during 2012 but are expected to be completed in 2013.

5. **Recovery of Costs.** In its 44001 Order, the Commission approved NIPSCO's request to recover all start-up, program implementation and administrative costs associated with

the Gas Programs, along with costs associated with the evaluation, measurement and verification of those Programs through Rider 472 – Energy Efficiency Rider. The 44001 Order approved associated ratemaking treatment of those costs, including authority to defer certain expenses through the date of the 44001 Order for future recovery. On an ongoing basis, NIPSCO will make semi-annual filings for factors to be effective January through June and July through December of each year. These filings will reflect estimated costs and GDSM Factors, and recovery will be over a six-month period to coincide with the estimation period. Reconciliation of actual expenditures will be made in a subsequent semi-annual filing.

Mr. Stanley discussed the costs NIPSCO included in its factor calculations. He testified that Schedule 1 (revised) of Exhibit 1 attached to the Petition ("Schedule 1"), shows a breakdown of projected and reconciled costs for the recovery period of July through December 2013 ("Projected Period") for the programs approved by the Commission and NIPSCO's OSB. He stated that this filing reconciles costs incurred from July 2012 through December 2012 ("Reconciliation Period") and includes the Projected Period costs. Mr. Stanley testified the projected amounts for the Reconciliation Period were $7,520,762 and the actual expenses during this period were $4,011,588 resulting in an over-recovery of $3,509,174. He explained that NIPSCO was in the process of transitioning its gas energy efficiency programs between vendors and used the estimates provided by the new vendor in its forecast. He noted that when the vendor was unable to achieve those estimates, the variance resulted. Mr. Stanley stated that while the impact of the over-collection will reduce the dollars required for the Projected Period this over-collection will be offset by an under-collection of $2,496,098 that was caused by a variance in expected versus actual revenue collection. Derric J. Isensee testified further that the under-collection variance related to revenue and the over-collection variance related to program costs combine for a total net over-collection variance of $1,013,076 for the Reconciliation Period.

6. **<u>Reconciliation of Estimated and Actual Expenses and Revenue.</u>** Mr. Stanley stated the proposed GDSM Factors recover Projected Period costs and reconcile revenue for the Reconciliation Period. Mr. Stanley testified the estimated program costs are based on NIPSCO's best knowledge of the residential program costs that will be incurred for the Projected Period. He explained that while NIPSCO still uses its vendor contracts as its guide for the Projected Period expenses, it should be noted that these projected expenses are either less than or close to the actual expenses that were incurred in the Reconciliation Period. Mr. Stanley noted one exception to this comparison is the Residential Home Weatherization Program which NIPSCO expects to outperform in 2013 compared to 2012.

Mr. Stanley testified that NIPSCO expects its Home Energy Assessment, School Energy Education and Income Qualified Weatherization gas programs will be integrated into the electric programs that overlap NIPSCO's gas territory during the Projected Period. Mr. Stanley explained that due to the performance of the C&I Incentive Program and the Commercial New Construction Incentive Program in 2012, NIPSCO decided to the use the actual expenses incurred in the Reconciliation Period as its cost estimate for the C&I energy efficiency programs in the Projected Period. Mr. Stanley noted that deferred expenses in the amount of $304,813, previously approved in Cause No. 44001 GSM 1 have now been recovered since NIPSCO recovered $152,407 of deferred expenses in GDSM-1 and $152,406 of deferred expenses in GDSM-2.

Mr. Stanley next provided an explanation of Workpaper KES-1 (revised) ("Workpaper KES-1"), which determines the actual costs and forecasts the expenditures that feed to Schedule 1. He testified Workpaper KES-1 includes: (1) a summary by program of both the actual expenses incurred in the Reconciliation Period and the forecasted expenses by program for the Projected Period; (2) a detailed account of actual expenses incurred in the Reconciliation Period (according to NIPSCO's general ledger) along with adjustments that were included to get to a final total; (3) a detailed account of an adjustment to the Energy Conservation Program; (4) a detailed account of the adjustments to the Income Qualified Weatherization Program, Home Energy Assessment Program, and School Energy Education Program; (5) a breakdown of costs that are contained within each program; (6) a summary of the forecasted expenses for the July Projected Period; and (7) a breakdown of the forecasted expenses for the Projected Period including the forecasted components for each of the programs.

7. **Resulting GDSM Factors.** Mr. Isensee provided testimony regarding the calculation of NIPSCO's proposed GDSM Factors. He noted the calculations of the proposed GDSM Factors were prepared in conformity with the 44001 Order. Mr. Isensee testified that Schedules 2 (revised), 3, and 4 (revised) of Exhibit 1 of the Petition show respectively (1) the allocation of Gas Program expenditures to each rate class, (2) the previous period reconciliation, and (3) the calculation of the proposed GDSM Factors. Mr. Isensee explained the GDSM Factors are calculated by allocating the projected costs by program to the individual rate classes based on the number of customers in each eligible class. He explained that once NIPSCO allocates the program expenditures to the individual rate classes and has performed a reconciliation of revenue collection, NIPSCO then calculates the GDSM Factors by dividing the cost per rate class by the respective forecasted usage. He further testified that NIPSCO then adjusts the resulting GDSM Factors to reflect Utility Receipts Tax on Retail Sales.

Mr. Isensee next testified that Exhibit 2 ("Exhibit 2") to the Petition is the redline version of Appendix C-Gas Efficiency Rider (" GDSM Rider") to become effective for the beginning of the first billing cycle for the month of July, 2013. Mr. Isensee stated the GDSM Factors are as follows:

Residential Service: Rate 411
(with associated Rate 451, Rider 480 and Rider 481)
A charge of $0.014622 per therm per month

Multiple Family Housing Service: Rate 415
(with associated Rate 451, Rider 480 and Rider 481)
A charge of $0.005761 per therm per month
General Service: Rates 421 and 425
(with associated Rate 451, Rider 480 and Rider 481)
A credit of $0.005454 per therm per month

Mr. Isensee explained the estimated average monthly bill impact for a typical residential customer using 72 therms per month is $1.05. He noted this is a $0.02 decrease when compared to what a customer would pay today using the current GDSM Factors.

Sherry L. Beaumont testified that based on her review of NIPSCO's testimony, exhibits, workpapers and supporting documentation NIPSCO has accurately calculated its proposed

GDSM-3 factors. She stated the OUCC recommends approval of the proposed GDSM Factors for the Projected Period.

8. **Other Issues.** In its Order issued in Cause No. 44001 GDSM 2 on December 27, 2012, the Commission expressed concern that NIPSCO needed to thoroughly review its request before filing due to the numerous errors in the financial schedules and testimony. In response, Mr. Stanley addressed changes NIPSCO made in this filing to provide a full accounting and basis for the proposed factors. Mr. Stanley stated that as part of its Case-In-Chief, NIPSCO included Workpaper KES-1 which provided a detailed accounting of the actual costs for the Reconciliation Period. He discussed the basic premise of the labeling associated with NIPSCO's workpapers, and indicated that NIPSCO included in its testimony a reference to each workpaper by name and a full description of the information that is located within each workpaper. He explained that in making these adjustments NIPSCO was providing a clearer and more transparent accounting of program costs and reconciliation.

Mr. Stanley also provided testimony regarding NIPSCO's initiative to rework its DSM reporting process. He stated this initiative will simplify and streamline the filing process, including schedules and workpapers. Finally, Mr. Stanley testified that NIPSCO is committed to continual process improvement that removes error traps, clarifies roles and responsibilities, and sufficiently explains and documents all data included in NIPSCO's GDSM filings.

9. **Commission Findings.** Based on the evidence presented in this Cause, the Commission approves Petitioner's proposed GDSM Factors.

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

1. The Verified Petition for Approval of GDSM Factors, as set forth in Finding No. 7 above, is hereby approved.

2. Northern Indiana Public Service Company shall file with the Commission under this Cause, prior to placing in effect the GDSM Factors as approved, a separate amendment to its rate schedules with a reasonable reference reflecting that such charge is applicable to all of its filed rate schedules, as shown in Exhibit 2 to the Petition.

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

ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:
APPROVED: JUN 26 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