

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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VERIFIED PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR APPROVAL OF)
ENERGY EFFICIENCY AND DEMAND-SIDE) CAUSE NO. 44001
MANAGEMENT PROGRAMS APPLICABLE TO ITS)
NATURAL GAS SERVICE AND FOR AUTHORITY)
TO DEFER START-UP AND PROGRAM COSTS) APPROVED:
ASSOCIATED WITH THOSE PROGRAMS FOR) DEC 28 2011
SUBSEQUENT RECOVERY PENDING APPROVAL.)

ORDER OF THE COMMISSION

Presiding Officers:

Kari A. E. Bennett, Commissioner

Angela Rapp Weber, Administrative Law Judge

On March 1, 2011 the Northern Indiana Public Service Company (“Petitioner” or “NIPSCO”) filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) for approval of energy efficiency and demand-side management (“DSM”) programs applicable to its natural gas service. NIPSCO also requested authority to defer start-up and program costs associated with those programs for subsequent recovery pending approval. Petitioner filed its direct testimony and exhibits on April 7, 2011. The Office of Utility Consumer Counselor (“OUCC”) filed its direct testimony and exhibits on July 8, 2011. Petitioner filed its rebuttal testimony and exhibits on August 1, 2011. On August 17, 2011, the Presiding Officers issued a Docket Entry, to which NIPSCO and the OUCC responded on August 18, 2011.

Pursuant to notice of hearing given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an Evidentiary Hearing was held on August 19, 2011 at 9:30 a.m. in Room 222, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the hearing, and their respective evidence was admitted into the record without objection.

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

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the public hearing in this Cause was given and published as required by law. Petitioner is a public utility as defined in Indiana Code § 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner’s Characteristics.** NIPSCO is a public utility corporation organized and existing under the laws of the State of Indiana. Its principal office is located at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO provides 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 used for the storage and distribution of natural gas and the production, transmission, delivery, and furnishing of electric power to the public. NIPSCO provides natural gas utility service to more than 802,000 customers in twenty-eight counties in northern Indiana.¹

3. Background. NIPSCO currently offers a range of energy efficiency and DSM programs to its natural gas utility customers as approved by the Commission's May 9, 2007 Order in Cause No. 43051 ("Current Gas Programs"). In Cause No. 43894, the Commission approved a settlement that provided, among other things, for the extension of the Current Gas Programs through November 9, 2012 to allow for the preparation of a gas Market Potential Study and Action Plan ("MPS") in support of revised energy efficiency and DSM offerings. NIPSCO's currently-effective gas energy efficiency and DSM programs have been governed by an Oversight Board in accordance with the Commission's Order in Cause No. 43051, and the Oversight Board meets monthly to discuss issues related to NIPSCO's Programs. Costs associated with NIPSCO's current gas energy efficiency and DSM programs are recovered through a tracking mechanism approved by the Commission in Cause No. 43051, with estimated and actual costs reconciled on an annual basis.

4. Relief Requested. Petitioner requests Commission approval (a) of revised and expanded gas energy efficiency and DSM programs ("Proposed Gas Programs"); (b) to recover all start-up, implementation, and administrative costs associated with the Proposed Gas Programs, in addition to costs associated with the evaluation, measurement, and verification ("EM&V") of those Programs; (c) to modify the existing tracking mechanism to provide for semi-annual reconciliation to coincide with similar filings made for NIPSCO's electric DSM programs; and (d) to defer costs, as of the date of the Petition in this Cause, related to the start-up, implementation, and administrative costs associated with the Proposed Gas Programs for future recovery in order to enable the optimization of savings associated with the timing of implementation.

5. Petitioner's Case-In-Chief.

A. Alison M. Becker. Alison M. Becker, Senior Analyst for Regulatory Policy for NIPSCO, described the relief NIPSCO is seeking in this Cause and explained the proposed tariff modifications related to implementation of the Proposed Gas Programs. Ms. Becker testified the total estimated cost of the Proposed Gas Programs through December 31, 2014 (the proposed term) is approximately \$42.4 million. Ms. Becker explained that while NIPSCO's Current Gas Programs could extend through November 9, 2012, it is prudent and appropriate to provide NIPSCO's customers with access to the improved products as soon as they have been approved, rather than implementing them once an Order has been issued in this Cause. She noted this is particularly significant for the new commercial and industrial ("C&I") programs, which have not previously been offered. These programs could potentially be available before the Order in this Cause is issued, which would allow NIPSCO to provide energy

¹ Since filing its Verified Petition in this Cause, the Commission approved a merger between Petitioner, Northern Indiana Fuel & Light Company, and Kokomo Gas & Fuel Company in Consolidated Cause Nos. 43941, 43942, and 43943, which added approximately 81,000 additional customers and four additional counties to NIPSCO's service territory.

efficiency resources in concert with the electric programs that are beginning to be offered.

Ms. Becker testified that by allowing deferral of the start-up, implementation, and administrative costs associated with the Proposed Gas Programs, the Commission would permit NIPSCO to maximize customer savings during the 2011–2012 heating season, a full year prior to the expiration of the Current Gas Programs, by enabling the expenditure of set-up and implementation dollars in advance of an Order. NIPSCO is implementing a joint gas/electric Conservation Program by partnering with OPOWER. She said as a part of that effort, NIPSCO is sending selected combination gas and electric customers reports containing essential information about their energy usage to help them save energy.

Ms. Becker stated the Conservation Program began in March 2011 in order to help NIPSCO meet the electric energy savings goals established in the Commission’s December 9, 2009 Phase II Order in Cause No. 42693 (“Phase II Order”). To maximize the impact of this combined Conservation Program, the reports contain gas consumption information that will be provided in time for savings to be gained until the 2011–2012 heating season, and it is therefore appropriate to provide NIPSCO with the opportunity to recover the costs associated with those reports. She stated that by granting deferral, the Commission would permit NIPSCO to maximize the opportunity the Conservation Program reports will provide by allowing customers to identify and change behavior in time to garner savings during the 2012–2013 heating season.

Ms. Becker said NIPSCO proposes to recover the deferred costs in its first semi-annual Energy Efficiency Rider proceeding following the issuance of an Order in this Cause to synchronize its gas tracker proceedings with its electric tracker proceedings. The deferred costs would be recovered over six months and would be supported and quantified in testimony for recovery at that time. She explained if costs are incurred for a program that is ultimately not approved by the Commission in this proceeding, NIPSCO would not seek to recover those costs.

Ms. Becker testified NIPSCO seeks to recover the start-up, implementation, and administrative costs of the Proposed Gas Programs through Rider 472 – Energy Efficiency Rider. The Energy Efficiency Rider will be applicable to Rates 411, 415, 421, 425, 451, and Riders 480 and 481 (as shown in Appendix A – Applicable Riders). NIPSCO proposes to modify Appendix C – Gas Efficiency Factor to reflect a Residential Gas Efficiency Factor and a General Services Gas Efficiency Factor. Appendix C has been updated to clarify that the factors apply to Rates 415 and 451 and Riders 480 and 481 as shown in Rider 472. The tariff will also be updated to indicate which rates apply to the updated charge. She explained the charge under the Energy Efficiency Rider will be the rate stated in Appendix C – Gas Efficiency Factor.

Mr. Becker testified NIPSCO is requesting approval to modify its Energy Efficiency Rider to provide for semi-annual reconciliation of program revenues and expenses. She stated each Gas Efficiency Factor will be applicable for six months until superseded by a subsequent factor. Each semi-annual filing will include the calculation of the proposed Gas Efficiency Factor, including adjustment of the proposed factor for taxes, plus the reconciliation of estimated and actual costs from the same six-month period from the previous year.

Ms. Becker testified a semi-annual reconciliation is consistent with the mechanism proposed by NIPSCO for its electric DSM programs. For administrative efficiency and to

effectuate the coordination of data between the electric and gas DSM programs, a similar mechanism is appropriate for the Proposed Gas Programs.

B. Kevin A. Kirkham. Kevin A. Kirkham, Director of the Energy Efficiency Group for NIPSCO described NIPSCO's current energy efficiency programs, described the Proposed Gas Programs, explained how the gas and electric program offerings provide a seamless program offering to NIPSCO's customers, provided the proposed funding level, provided the savings targets for each of the programs, and explained how NIPSCO envisions the Oversight Board will continue to function.

Mr. Kirkham testified that with the extension of the Current Gas Programs to November 9, 2012, programs can be expanded to NIPSCO's non-transportation-only C&I customer base (*Choice* customers will be allowed to participate). He stated NIPSCO's Current Gas Programs include the (1) Prescriptive Rebate Program, (2) Home Retrofit Program, (3) Elementary Education Program, (4) Multi-family Direct Install Program, (5) Low Income Furnace Replacement Program, and (6) New Construction Program. Mr. Kirkham added NIPSCO intends to make these Programs available throughout the combined NIPSCO service territory.

Mr. Kirkham testified NIPSCO's requests for approval of electric energy efficiency programs are currently pending in Cause Nos. 43618 and 43912.² He stated in Cause No. 43912, NIPSCO sought approval of the following programs ("Current Electric Programs"):

Core Programs:

- Residential Lighting Program
- Residential Low Income Weatherization Program
- Home Energy Audit Program
- Energy Efficient Schools Program
- Non-Residential Prescriptive Program

Core Plus Programs:

- Energy Efficiency Rebates Program
- New Construction Program
- Weatherization Program
- Appliance Recycling Program
- Multi-family Direct Install Program
- Conservation Program
- A/C Cycling Program
- C&I New Construction Program
- C&I Custom Incentive Program

² In Cause No. 43618, NIPSCO proposed approval of its Demand Side Management Adjustment tracking mechanism ("DSMA") through which costs associated with its electric DSM programs (Core and Core Plus) would be recovered from customers. An Order was issued in this Cause on May 25, 2011 approving NIPSCO's proposal. In Cause No. 43912, NIPSCO sought approval of specific DSM programs and cost recovery for associated costs, including approval of Core Programs, consistent with achieving the energy savings goals found in the Phase II Order. An Order was issued in this Cause on July 27, 2011 approving NIPSCO's electric DSM programs and cost recovery for associated costs ("43912 Order").

Mr. Kirkham testified that because of KEMA, Inc.'s ("KEMA") work on the Electric MPS, NIPSCO enlisted it to develop the Gas MPS. A number of the tasks KEMA completed as a part of the Electric MPS process were useful in crafting the Gas MPS. Additionally, KEMA's knowledge of the service territory helped it understand NIPSCO's unique characteristics. He stated KEMA's familiarity with NIPSCO's systems and personnel, as well as its experience in developing the Electric MPS, was advantageous and reduced the need for duplicate work, especially given the possible interaction between NIPSCO's gas and electric programs.

Mr. Kirkham testified that in evaluating the potential for new energy efficiency measures, NIPSCO examined current technologies and various emerging technologies, such as domestic solar water heating, tankless (instant or on-demand) water heaters, and conservation approaches. He stated NIPSCO requested that KEMA determine the potential under three cost scenarios (1) current, (2) base, and (3) high. NIPSCO also asked KEMA to review NIPSCO's Current Gas Programs, along with the potential synergy with NIPSCO's Current Electric Programs. He explained the first scenario consists of only the Current Gas Programs, along with estimated budgets for future years. The second scenario consists of modest programs for all cost-effective residential measures, as well as the addition of all cost-effective measures for the C&I sectors, and overlaps with NIPSCO's Current Electric Programs. Mr. Kirkham stated the third scenario consists of more aggressive programs for all three sectors (residential, commercial, and industrial) and is designed to grow each year and ultimately achieve and sustain roughly 1% savings per year, per sector.

Mr. Kirkham testified the Gas MPS was developed by KEMA, along with input from NIPSCO and various stakeholders, including the OUCC and Citizens Action Coalition of Indiana, Inc. ("CAC"). Other parties invited to participate include the Office of Energy Development, NIPSCO's Industrial Group, the City of Hammond, and the State Utility Forecasting Group. Mr. Kirkham described in detail the way the MPS was developed.

According to Mr. Kirkham, NIPSCO started by developing the scope of the Gas MPS, research plan, and timeline needed to incorporate stakeholder review and comments. A list of energy efficiency measures to include in the analysis was developed, along with information regarding associated costs and potential energy savings with each measure. NIPSCO then provided KEMA with economic parameters such as avoided costs, gas rates, and inflation rates. NIPSCO then identified and developed the 2010 baseline end-use estimates in order to establish a benchmark against which the impacts of various types of energy efficiency measures and programs could be measured. KEMA created the baseline using the results of customer end-use surveys, current customer usage data, and information regarding building characteristics.

Building on the information collected as part of the Electric MPS, customer surveys conducted by Research America provided data regarding the existing saturation of energy efficiency measures within NIPSCO's service territory, along with information used to determine the technical potential for various measures. Mr. Kirkham said KEMA then estimated the technical, economic, and achievable potential for each measure. The results were reviewed with stakeholders in order to obtain feedback and input. In creating the portfolio scenarios to be developed into action plans, KEMA reviewed the Current Gas Programs, along with the Current Electric Programs, to determine the achievable potential under the three cost scenarios identified previously. Mr. Kirkham explained the final step was to develop an action plan to review with

stakeholders.

To develop the economic data supplied to KEMA, NIPSCO relied on the NiSource Forecasting department to provide information on forecasted sales, as well as projected gas losses. Mr. Kirkham explained the avoided cost of natural gas was created using the NYMEX Spot at Henry Hub and the United States Energy Information Administration's ("EIA") 2010 Annual Energy Outlook. He stated the general inflation rate was derived from EIA's Global Energy Outlook, and the current gas rates were from Cause No. 43894.

Mr. Kirkham testified NIPSCO proposes that the term for the Proposed Gas Programs be from January 1, 2012 through December 31, 2014. Similar to its Current Electric Programs, NIPSCO proposes to provide a three-year program cycle to allow contractors to have sufficient time throughout the Programs' life to make necessary changes. He explained this proposed term would also assure that NIPSCO is constantly updating its programs to best meet the needs of its customers and achieve the most savings. Mr. Kirkham stated NIPSCO's Current Gas Programs are planned to continue through 2011 with the addition of the Conservation Program.

Mr. Kirkham testified NIPSCO requests approval to continue and expand its Current Gas Programs, with some modifications, and to recover start-up, implementation, and administrative costs. He stated these Programs include the following:

Current Gas Programs:

- Residential Low Income Weatherization
- Residential New Construction
- Residential Energy Efficiency Rebates
- Residential Audit/Retrofit (to be divided into a Home Audit and Weatherization Program to coincide with the electric offerings)
- School Energy Education Program (expanded to coincide with the electric offering)

New Programs:

- Residential Conservation
- C&I Rebates
- Commercial New Construction

Mr. Kirkham provided Table KAK-1, which depicts the proposed yearly budgets for the individual Proposed Gas Programs, as well as the total Proposed Gas Programs budget. The total three-year budget for the Proposed Gas Programs is \$42,407,920. Mr. Kirkham stated the funding amount shown in 2011 only reflects the addition of the Conservation Program. NIPSCO will continue to implement the Current Gas Programs at their current funding levels through the mechanism approved in Cause No. 43894.

Mr. Kirkham testified, in general, the proposed budgets are designed and modeled for stand-alone gas program implementation. He stated that as much as possible, NIPSCO plans to implement these Programs with their electric counterparts to allow for streamlined implementation for NIPSCO, as well as the customer, which will lead to lower costs for the ratepayer. He stated that ultimately, NIPSCO hopes to participate with electricity providers in portions of the service territory where NIPSCO does not also provide electric service.

Mr. Kirkham described in detail the individual Proposed Gas Programs. With respect to the Residential Low Income Weatherization Program, he stated NIPSCO proposes to integrate it with its electric Low Income Program as part of the Core Programs to be implemented by the Third Party Administrator (“TPA”). Customers in a particular geographic area who meet qualifying income levels will be able to participate in the Program. Qualifying customers will receive the improvement measures, such as gas water heater insulation wrap, insulation for targeted areas of the home, and Energy Star programmable thermostats.

Mr. Kirkham testified the Residential New Construction Program will provide education that will identify measures and actions to assist new home builders to surpass a pre-determined energy efficiency rating. NIPSCO proposes to make the incentives available to builders on a whole-home basis and also for specific measures, where appropriate. He said this Program will be integrated with NIPSCO’s electric Residential New Construction Program, where possible.

Mr. Kirkham stated the Residential Energy Efficiency Rebates Program will provide a wide range of rebate offers to residential customers. The portfolio of specified efficiency rebates currently being offered will continue to be available. However, with approval of the Oversight Board, the Program retains the flexibility to add to or adjust the portfolio of rebates as appropriate to influence the marketplace. NIPSCO will contract for market coordination services, as well as the rebate processing services. Marketing and Program educational materials will clearly define the products that are available for rebates, as well as any Program requirements. He explained the Program will include retailer coordination and ongoing trade-ally efforts.

According to Mr. Kirkham, the Residential Home Audit Program and Residential Weatherization Program will be integrated with the electric Core Home Energy Audit Program and Core Plus Weatherization Program. The proposed Residential Home Audit Program will provide each participating customer with an audit to identify all gas (and electric) energy saving measures. He explained the customer will be referred to the proposed Weatherization Program, where an independent contractor will provide the weatherization and other measures to be installed in the home. This Program will provide an up-front rebate to encourage the customer to install the identified energy saving measures.

Mr. Kirkham stated the School Energy Education Program will provide elementary school kits, and the high school components that are provided through the Electric Energy Efficient Schools Program will be integrated and expanded to include gas energy efficiency education and measures. If the electric TPA cannot provide this integration, NIPSCO will provide these services in close proximity to those Programs. One goal of this Program is to influence students and their families to focus on conservation and the efficient use of natural gas. High school students who participate in the Eco-Stewards Program will be eligible for a scholarship that will be funded by NIPSCO.

The Residential Conservation Program is a direct intervention, peer comparison platform that will help NIPSCO engage and motivate its customers to become more energy efficient. Utilizing OPOWER as the vendor, this Program will provide specific and relevant energy efficiency recommendations to each customer, including information about other key energy efficiency programs offered by NIPSCO. Mr. Kirkham stated the main elements of the Residential Conservation Program are directly-mailed Home Energy Reports and a Customer

Service Portal that includes a dashboard for each customer, providing immediate access to information. The Residential Conservation Program also includes periodic reports to allow NIPSCO to measure Program performance and make adjustments as necessary. The directly-mailed Home Energy Reports tailor energy efficiency recommendations for specific households in a confidential manner. He explained every customer who receives the Home Energy Reports will also receive access to the Customer Service Portal and be provided a detailed description of the web portal.

Mr. Kirkham testified the C&I Rebates Program will identify efficiency opportunities for C&I customers through a custom approach, including site-specific or specialty equipment upgrades. These large projects will require pre- and post-installation inspections at a particular size limit (to be determined), as well as on a sampling basis. He explained C&I customers on NIPSCO's *Choice* program are eligible for the C&I Rebates Program, and this Program will not be offered to industrial transport-only customers.

Mr. Kirkham stated the C&I New Construction Program will provide (or co-fund) value-added services such as technical assistance studies of the appropriateness and cost-effectiveness of identified technologies or design techniques, direct technical assistance to design teams, and commissioning services. Similar to the Residential New Construction Program, NIPSCO will provide incentives to influence the energy efficiency of individual buildings. He explained that over time, the goal is to change standard building design and equipment specification practices to maximize energy efficiency. As with the C&I Rebate Program, this Program will not be offered to industrial transport-only customers.

Mr. Kirkham testified NIPSCO plans to use TPAs to implement the Proposed Gas Programs. He noted many of the Proposed Gas Programs will be combined, if possible, into the Current Electric Programs to provide the most comprehensive and simplest approach for customers and trade allies. Further, combining the Current Electric Programs and Proposed Gas Programs will make the Proposed Gas Programs more cost-effective to implement since much of the infrastructure will already be in place. He stated NIPSCO has filled several internal staff positions over the past three years to help facilitate the implementation of the Proposed Gas Programs.

Mr. Kirkham testified NIPSCO will work with the Oversight Board to enter into a contract with an independent EM&V Administrator. He stated the Oversight Board will continue to be a part of the Joint Gas Oversight Board ("JOSB") (comprised of all investor-owned gas utilities in Indiana) and thereby will have a role in identifying appropriate efficiencies that can be gained by incorporating an overall EM&V Administrator for all gas utilities. Mr. Kirkham stated NIPSCO intends to have its Programs evaluated by the EM&V vendor selected by the JOSB. The EM&V Administrator will evaluate programs that are common across all of the investor-owned gas utilities. He stated the EM&V Administrator should conduct impact evaluations, process evaluations, market effects evaluations, and related studies in relation to the NIPSCO-specific gas programs. He stated the process evaluation will provide feedback for future program design.

As to when the Proposed Gas Programs will be available to customers, Mr. Kirkham testified the proposed residential programs are either continuations of, or adaptations to, the

residential programs already being offered in the Current Gas Programs. NIPSCO began delivery of its Conservation Program to customers in March 2011. He stated NIPSCO plans to be ready to implement the C&I Programs once approval is received.

Mr. Kirkham testified NIPSCO is requesting approval to recover all start-up, implementation, and administrative costs associated with its Proposed Gas Programs, along with costs associated with the EM&V of those programs. Although NIPSCO recommends an integrated approach where possible for implementation of its Proposed Gas Programs, the exact cost allocation percentages between gas and electric customers have yet to be determined. He stated that, in addition, the budgeted amounts depicted in Table KAK-1 reflect KEMA's and NIPSCO's best estimate of the cost to provide these programs. He stated it is NIPSCO's intent to revise these budgets once NIPSCO receives firm quotes from the various vendors to combine the gas portion of these programs with electric programs. At the present time, NIPSCO is requesting approval of the projected budgets. Mr. Kirkham described the budgets as conservative. Once the final cost and allocation percentages are known, NIPSCO expects the overall budgets for implementing joint programs to decrease.

Mr. Kirkham testified NIPSCO proposes to recover through its Energy Efficiency Rider the direct and indirect costs incurred for the development, implementation, approval, and oversight of its Proposed Gas Programs expenditures as approved by the Commission. These costs include, but are not limited to, administration, marketing, evaluation, outside services, consultants, equipment purchases, and information system modifications and/or developmental costs. He stated the Gas Efficiency Factor for each rate will be calculated by directly assigning costs to either residential customers or non-transport-only C&I customers. These costs will then be collected by dividing the expected costs by the forecasted sales volumes to calculate an expected dollar-per-therm charge for each customer class. The forecasted volumes and expected program costs will be reconciled semi-annually to actual costs.

Mr. Kirkham testified the Gas Efficiency Factor for each rate will be adjusted to provide for the recovery of utility receipts taxes and any other revenue-based tax charges occasioned by the Energy Efficiency Rider revenues. The Gas Efficiency Factor will also be adjusted to reflect reconciliation of the difference between the actual and estimated DSM costs and customer participation levels.

Mr. Kirkham testified NIPSCO has calculated an expected charge that would go into effect based on assumptions on current program spending and collection for the Current Gas Programs. The current program year under the Current Gas Program runs from May through April and is reconciled only annually. The Proposed Gas Programs would change to run on a calendar-year basis with the first expected charge to go into effect on January 1, 2012. Therefore, there will be a carry-over amount from the Current Gas Programs.

Mr. Kirkham sponsored Petitioner's Exhibit KAK-2 and Exhibit K, which show the Gas Efficiency Factor by class per therm. He stated the average residential customer using 863 therms per year would see an annualized charge of \$1.01 per month. He explained NIPSCO will provide an updated Gas Efficiency Factor, if necessary, in its compliance filing with updated calculations.

Mr. Kirkham testified NIPSCO's projection of energy savings in gross therms over the three-year program term is \$48,436,568 (Table KAK-2). NIPSCO's projection of energy savings in net therms over the three-year program term is \$40,128,415 (Table KAK-3). Mr. Kirkham testified these savings targets are estimates that draw from the MPS. He explained that as contracts are finalized, and if program budgets or designs are modified, the budgets and savings estimates may change.

Mr. Kirkham testified NIPSCO recommends continuing the Oversight Board with NIPSCO, the OUCC, and the CAC as members. He stated the Oversight Board should have authority to modify program design or funding amounts. NIPSCO will utilize the experience of implementation partners to design the most cost-effective programs to meet the program objectives. Mr. Kirkham stated NIPSCO expects that actual results will not vary significantly from the estimates. Use of an Oversight Board has proven effective in modifying program design and funding amounts in the past and should be allowed to continue. In Mr. Kirkham's opinion, the Oversight Board should have the flexibility to make the following changes summarized below:

1. Shift costs within a program budget as needed.
2. Shift funds among programs.
3. Increase funding by program by up to 5%.
4. Modify programs based on a review of initial program results as reported by an independent third party evaluator.
5. Design and implementation of new programs as long as they pass the Total Resource Cost ("TRC") test and the overall DSM budget is not changed.

Mr. Kirkham testified NIPSCO proposes to continue to file a monthly scorecard detailing program performance, as well as providing updates on any program modifications that take place. He explained this will provide the Commission with a means of following NIPSCO's progress, as well as following up with any questions or concerns as appropriate.

C. **Elizabeth G. Hicks.** Elizabeth G. Hicks, Senior Principal Consultant for KEMA, Inc., testified that after working on NIPSCO's Electric MPS, KEMA was engaged by NIPSCO to develop a Gas MPS. KEMA participated in regular meetings with the stakeholders to present interim results. She stated the analysis included primary data collection, survey results, and the modeling of the market potential using the KEMA DSM ASSYST™ model.

Ms. Hicks testified that the study to create the Gas MPS identified and developed baseline end-use and measure data and estimates of future energy efficiency impacts under various scenarios. She stated the baseline characterization allowed KEMA to identify the types and approximate sizes of the various market segments that are the most likely sources of DSM potential in NIPSCO's gas service territory. She said these characteristics then served as inputs to a modeling process that incorporated NIPSCO cost parameters and specific energy efficiency measure characteristics (such as costs, savings, and existing penetration estimates) to provide more detailed potential estimates. To aid in the analysis, KEMA utilized the KEMA DSM

ASSYST™ model, a proprietary model that provides a thorough, clear, and transparent documentation database, as well as an efficient data processing system for estimating technical, economic, and achievable potential. She explained the estimate was conducted for the residential, commercial, and industrial sectors, with a focus on energy efficiency impacts over the next ten years.

Ms. Hicks testified the overall result of the Gas MPS is that there are cost-effective gas energy efficiency resources in NIPSCO's gas service territory. The technical potential is 41% for energy compared to the baseline usage. The economic potential is 25% for energy. She noted these percentages are within the range of other results of other potential studies conducted in the industry. The portfolio of potential programs modeled for NIPSCO has an overall TRC test result of 1.72.

Ms. Hicks summarized the analytical steps used in the Gas MPS. She testified in the Gas MPS, three types of energy efficiency potential are estimated: technical, economic, and achievable program potential. In addition, naturally-occurring energy efficiency impacts are estimated, which are savings that result from normal market forces. She stated achievable program potential reflects savings that are projected beyond and including those which naturally would occur in the absence of any market intervention. The method used for estimating potential is a "bottom-up" approach in which energy efficiency costs and savings are assessed by the building type (for example, hospitals) and at the energy efficiency measure level. She explained that for cost-effective measures, program achievable savings potential is estimated as a function of the individual measure economics, rebate levels, and the program marketing and education efforts.

Ms. Hicks testified KEMA conducted primary research for all of NIPSCO's customer classes except transport-only industrial customers (*Choice* customers are included across all customer segments), as well as to develop the data specifically for NIPSCO's gas service territory, including baselines. She stated the market actors interviewed for this study included heating, ventilation and air conditioning vendors, appliance dealers, and plumbers. The data collected included market trends for key measures, market saturations for key measures, market penetration for key measures, customer interest in program offerings, customer attitudes on energy efficiency, and customer purchasing habits. She stated KEMA also utilized data collected as part of the development of the Electric MPS.

Ms. Hicks explained there are two types of baseline activities in an MPS. The first is to develop a baseline of energy and demand usage by building type and end-use by sector. The second activity is to identify typical existing baselines by measure for all customer classes. For example, the study first considers what percentage of a customer class has technology X (market penetration) and then examines the use of technology X per year or per square foot (baseline usage). This determines the baseline against which savings per year is estimated. She explained KEMA used NIPSCO's actual usage data by class, along with surveys KEMA conducted with NIPSCO customers and market actors to determine the baselines for NIPSCO gas service territory. KEMA was provided gas rates, avoided costs, discount rates, and inflation rates for types and sources of economic data. She stated KEMA considered over 200 energy efficiency measures in the analysis.

Ms. Hicks testified that typically, energy savings are determined using a technical resource manual adopted by the state. This document is developed using the most current data available and provides a means for all utilities in the state to use the same numbers when determining savings. She stated that because Indiana does not yet have an official Technical Resource Manual specifically for Gas, KEMA used a variety of sources for the measure level of energy efficiency savings. She testified KEMA used its DSM ASSYST™ model to determine the economic potential of various measures.

Ms. Hicks testified KEMA did not include any program-related measures such as EM&V costs, and KEMA did not include marketing or administrative costs at the measure level. It is typical industry practice to base economic savings on only the costs and savings of the measures. She further said it is standard practice to consider program costs such as EM&V in benefit/cost analysis at the program or program portfolio level, and this was done for NIPSCO.

Ms. Hicks explained “achievable potential” and how KEMA determined the economic achievable potential of DSM within NIPSCO’s gas service territory. She stated measures that are determined to be cost-effective are included in the achievable program analysis and are grouped into programs. For these measures, KEMA estimated program potential and naturally-occurring potential as a function of availability, awareness, and adoption. She stated naturally-occurring potential is estimated using benefit/cost ratios assuming no program incentive. Program potential reflects the increase in achievable potential over naturally-occurring potential that results from increases in customer benefit/cost ratios due to the provision of incentives.

Ms. Hicks testified in order to complete the achievable program potential analysis, KEMA first gathered and developed program costs for administration and marketing and historic program savings. KEMA relied on program cost savings relationships developed from other areas, as well as NIPSCO’s experience with gas measures. KEMA then developed estimates of customer adoption as a function of measure economics, barriers to adoption, and the effects of program intervention. KEMA next combined the results in the KEMA model to estimate preliminary naturally-occurring and achievable program potentials. Finally, KEMA calibrated the model to available program and market data by adjusting program marketing effectiveness rates and measure adoption curves.

Ms. Hicks testified a comparison of the benefits of the programs (the therm savings valued at NIPSCO’s avoided costs) to the cost of the programs was used to determine the cost-effectiveness of each program considered in determining NIPSCO’s achievable DSM potential over the period 2011–2020. The primary benchmark was the TRC test.

Ms. Hicks summarized the overall results of the achievable DSM potential for the period 2011–2020. She explained KEMA developed three scenarios for achievable potential: (1) current spending, (2) a base case, and (3) a high case based on more aggressive spending. She testified that with the exception of the Residential New Construction Program, all of the programs have a TRC greater than 1.0 if considered over the three-year period. While the Residential New Construction Program did not pass the TRC test in the early years, it is projected to become cost-effective in later years because electric savings were not included, and this Program typically does not pass the TRC test in the early years due to anticipated low participation. The projections for the stand-alone audit program indicate it is also not cost-effective in all years, and typically

this type of activity would be combined with a weatherization program to achieve cost-effectiveness. She stated KEMA modeled this as a stand-alone program to reflect the difference in the electric Core and Core Plus programs, which include Low Income Weatherization as a Core Program, but the Residential Home Audit Program is anticipated to be a Core Plus offering. She stated the Residential Conservation Program is also not projected to be cost-effective in the first year due to start-up costs and the way the savings accrue in the Program. However, it is projected to be cost-effective in years two and three.

Ms. Hicks testified for each program, after considering NIPSCO's previous efforts, assumptions were made about the initial marketing and administration costs along with an assumption about what percent of incremental costs the customer incentives would be and how these costs would change over time. She stated when data was available, KEMA also made assumptions about the percentage of naturally-occurring conservation that would be counted as "free riders," or customers who would have installed these measures on their own, but participate in the programs because they are available. She stated the measure costs and savings are the same ones used in the technical and economic potential. Ms. Hicks presented the net benefits and associated demand and energy savings projected for the period 2011–2019 (Petitioner's Exhibit EGH-4).

Ms. Hicks defined DSM Action Plan and explained its content. She said a DSM Action Plan presents additional data on each selected program and typically presents program objectives; program theory; target market; measures, products, and services; program description; marketing; incentives; implementation; quality control; evaluation plan; keys to program success; and a budget and savings summary. She stated KEMA developed detailed plans such as those listed above for the programs that will be implemented by NIPSCO. The detailed plans were reviewed by NIPSCO and its stakeholders who provided suggestions, which were then incorporated into the detailed plans. Ms. Hicks presented the programs included in NIPSCO's DSM Action Plan (Petitioner's Exhibit EGH-3).

Ms. Hicks testified the portfolio of programs KEMA developed in the DSM Action Plan for NIPSCO covers all market sectors except the transport-only industrial customers and assumes significant coordination with NIPSCO's electric DSM programs. The overall program is cost-effective and provides significant energy savings to customers. She identified some of the potential barriers to customer adoption of DSM programs and key program strategies to address those barriers. She stated the programs were designed with these strategies in mind.

Ms. Hicks explained KEMA's role in assisting NIPSCO in the development of its 3-Year Gas DSM Implementation Plan. She stated KEMA used the budgets, savings estimates, and benefits developed from the DSM ASSYST™ model as the starting point for the budgets and savings in NIPSCO's 3-Year Gas DSM Implementation Plan (Petitioner's Exhibit EGH-5). She stated the 3-Year Gas DSM Implementation Plan includes an annual detail of savings and costs for each program, the benefits of the programs, and annual and summary TRC test results as modeled. The 3-Year Gas DSM Implementation Plan was used by NIPSCO as a starting point for formulating its budget request. She explained the analysis includes administrative, marketing, evaluation, and planning costs, which are costs already in rate base that should be allocated to the program and measure costs.

Ms. Hicks described the process used to determine the appropriate amount of customer incentives. She stated KEMA based the modeled customer incentives on a percentage of incremental cost. KEMA chose the cost based on the sector, existing market penetration, and data from similar programs.

Ms. Hicks provided the following specific recommendations and observations from the MPS for the residential and C&I sectors relevant for NIPSCO's 3-Year Gas DSM Implementation Plan or for the planning of future programs:

- Coordinate closely with NIPSCO electric activities to ensure programs are operated as effectively as possible.
- Consider combining the audit program with the weatherization program to have a cost-effective program.
- Evaluate the education program to assess how many aerators and showerheads are installed in homes.
- Work jointly with other utilities through the JOSB, NIPSCO's Electric Oversight Board, and/or the Demand Side Management Coordination Committee to develop a consistent state-wide approach for cost sharing across electric and gas sectors.

6. OUCC's Case-in-Chief. April M. Paronish, a Utility Analyst in the OUCC's Resource Planning and Communications division, testified on behalf of the OUCC. Ms. Paronish provided an overview of the Proposed Gas Programs and the OUCC's general support for those Programs; discussed the OUCC's concerns regarding the Petitioner's proposal for deferral of Proposed Gas Programs costs; and discussed the OUCC's concerns regarding three Proposed Gas Programs that are not projected to be cost-effective part or all of the proposed three-year term.

Ms. Paronish testified that beginning in 2010, staff from the CAC, NIPSCO, and the OUCC met on a regular basis to review and discuss documents related to the development of NIPSCO's MPS. Ms. Paronish stated three of the proposed DSM programs do not pass the TRC in one or all of the program years: Residential New Construction (TRC of 0.95 during Program Year 1), Residential Home Audit (TRC of 0.74 in Program Year 1), and Residential Conservation (TRC of 0.93 in Program Year 1).

Ms. Paronish testified that since the proposed Residential New Construction Program is not expected to have a TRC score that exceeds 1.0 for the first time until 2020, the OUCC does not agree the Program should remain a part of NIPSCO's ratepayer-funded DSM portfolio. She stated that while the OUCC understands a decision to not implement the Residential New Construction Program could result in lost opportunity costs, nine years is too long to wait for a customer-supported DSM program to become cost-effective. Ms. Paronish stated that ideally, TRCs for DSM programs should be greater than 1.0 during the first year of a customer-supported DSM program and during each subsequent year in which the program is offered.

Ms. Paronish testified the proposed Residential Home Audit Program is not expected to be cost-effective in the first year, and the TRC score fluctuates from 1.01 in the second year, back to 1.0 in the third year. She states that while over a longer term the Program is projected to be cost-effective (1.05 by the fourth year), the TRC score steadily declines each year thereafter,

falling to 0.50 in 2020.

With regard to NIPSCO's proposed Residential Conservation Program, Ms. Paronish testified the Program is essentially a customer education program aimed at achieving changes in customer behavior. She stated according to NIPSCO's MPS, the Program is not expected to be cost-effective in the first year. She said customer-funded DSM programs must be cost-effective and should be designed to achieve immediate and continuing, long-term cost-effective results whenever possible. Ms. Paronish stated there is no historical data for this Program to establish that conservation messages communicated to utility customers during the first program year will continue to produce energy savings in subsequent years.

Ms. Paronish also noted NIPSCO's gas utility customers will have other available DSM programs. Therefore, if reductions in energy usage are observed after the Residential Conservation Program is introduced, measured reductions would have to persist over time to demonstrate that the reductions were not the result of other influences. For these reasons, she recommended NIPSCO should not be permitted to recover program costs from its gas utility customers for its proposed Residential Conservation Program. Ms. Paronish admitted the OUC has permitted some electric utilities to recover program costs for similar programs on a pilot basis for a limited one-year period, but that has only been in cases where the projected TRC was greater than 1.0 for the first year of the program. She stated that in those cases, if EM&V conducted at the end of the first year fails to confirm a positive TRC, the program will not be ratepayer-funded if offered in future years.

Ms. Paronish testified that unlike the electric utility programs for which the OUC has supported recovery of program costs, NIPSCO's proposed Residential Conservation Program does not pass the TRC in program year one. Therefore, based on (1) the failing TRC in year one, (2) the OUC's concerns regarding the length or continuation of any energy savings impacts shown to result from this Program, (3) the relative cost of the Program when compared to other customer education programs, and (4) the extra cost and complexity of EM&V required to monitor actual energy savings attributable to this Program, the OUC recommends the Commission deny cost recovery for NIPSCO's proposed Residential Conservation Program.

Ms. Paronish testified that while the OUC previously agreed to deferred cost recovery for NIPSCO's Current Electric Programs, it did so only because NIPSCO had no approved electric DSM programs in place, making it extremely unlikely NIPSCO could meet the newly-mandated annual electric savings required under the Commission's Phase II Order for regulated Indiana electric utilities. She noted that no such Order has been issued for Indiana's gas utilities. NIPSCO already has gas DSM programs in place. Ms. Paronish testified the OUC finds no compelling reason to allow deferred cost recovery for NIPSCO's Proposed Gas Programs, which have not yet been approved by the Commission.

Ms. Paronish recommended that the Commission (1) deny cost recovery for NIPSCO's proposed Residential New Construction Program, Residential Home Audit Program, and Residential Conservation Program; and (2) deny NIPSCO's proposal to allow deferred recovery of Proposed Gas Programs costs incurred before the Commission has approved NIPSCO's Proposed Gas Programs and associated budgets.

7. Petitioner's Rebuttal Evidence.

A. Alison M. Becker. Ms. Becker responded to Ms. Paronish concerning recovery of deferred costs associated with NIPSCO's proposed Residential Conservation Program. She stated that in compiling the proposal for its next generation of gas DSM programs, NIPSCO wanted to take a holistic approach and consider its electric DSM programs as part of its filing. She explained NIPSCO intended to offer a combined gas/electric Conservation Program from the outset, and as part of the Gas MPS, NIPSCO clearly indicated its plan to combine the gas and electric Residential Conservation Programs. She explained the OUCC was a stakeholder and participated in several meetings prior to the submission of the Gas MPS.

Ms. Becker stated NIPSCO began implementation of the Residential Conservation Program prior to receipt of an Order approving the proposed Program for two reasons: (1) to assist NIPSCO in meeting the goals established by the Commission in its Phase II Order, and (2) because the OPOWER reports are sent to customers quarterly. In order to help customers achieve savings during the 2011–2012 heating season, it was important to start providing information so customers could have sufficient time to react to the reports prior to the heating season. She explained it was with these two goals in mind that NIPSCO sought deferral of the costs associated with the proposed Residential Conservation Program.

Ms. Becker explained NIPSCO is only requesting deferral of those costs incurred subsequent to the filing of the Petition in this Cause (March 1, 2011). She stated the OUCC did not oppose recovery of deferred costs for NIPSCO's electric Conservation Program proposed in its electric DSM proceeding (Cause No. 43912). Further, in that same Cause, Ms. Paronish testified that, while the OUCC generally opposes request for recovery of deferred expenses, it supported NIPSCO's ability to recover reasonable and prudent program costs associated with the implementation of annual energy savings goals required under the Phase II Order. Ms. Paronish provided four reasons for this: (1) the requirements of the Phase II Order, (2) the extent to which NIPSCO has continued to work with stakeholders during the past year on the development of the MPS, (3) the relatively small costs contemplated for deferral, and (4) the agreement of NIPSCO to form an Oversight Board. Ms. Becker explained all four of these reasons apply in this proceeding as well: (1) NIPSCO began implementation of its gas Residential Conservation Program prior to receipt of an Order in this Cause in order to assist in complying with the goals established in the Phase II Order, (2) NIPSCO worked with the OUCC and other stakeholders throughout the development of the Gas MPS, (3) NIPSCO has had a gas Oversight Board for the past four years and looks to continue that positive relationship, and (4) the Residential Conservation Program budget for 2011 is relatively small in comparison to the other program budgets.

In addition to the foregoing reasons, Ms. Becker testified that if a program and its costs are determined to be reasonable and prudent upon issuance of an Order approving them, the program and its costs do not become unreasonable or imprudent simply because the costs were incurred prior to issuance of the Order. She referred to the testimony provided by Mr. Kirkham that the Residential Conservation Program is a reasonable and prudent Program that passes the TRC test over the three-year period, as well as when considered with the electric Conservation Program. Ms. Becker stated deferral of the costs associated with this Program so that it could be offered concurrent with the electric Conservation Program is appropriate.

Ms. Becker disagreed with Ms. Paronish's recommendation that deferral should not be allowed because NIPSCO already has gas programs in place. She stated she would agree with that recommendation if NIPSCO were seeking deferral of costs associated with gas programs already being offered. However, NIPSCO is only seeking deferral of costs relating to a new program, not a gas program already being offered.

B. Kevin A. Kirkham. Mr. Kirkham addressed the specific contentions raised by Ms. Paronish. He emphasized the extent to which the proposed portfolio of gas DSM programs works in concert with NIPSCO's electric DSM programs. He testified the three Programs the OUCC has recommended to be denied are proposed to be provided in concert with similar electric offerings for which approval has already been granted. He stated NIPSCO believes it is in its customers' best interests to offer energy efficiency programs on a coordinated basis to provide customers with a set of tools to reduce their energy consumption as a whole, and thereby also reduce their utility bills. Mr. Kirkham testified that, when considered as a whole, the gas programs proposed in this Cause are cost-effective.

In response to Ms. Paronish's assertion that the Residential New Construction Program will not become cost-effective until 2020, Mr. Kirkham agreed the data from the Gas MPS shows TRC results marginally lower than 1.0 during that period. However, he disagreed the Residential New Construction Program will not be cost-effective. He said it is one of several programs NIPSCO plans to implement for gas and electric service. He explained the Gas MPS was prepared without any assumptions about the ability to reduce costs through the provision of combination gas and electric programs because the timing of Commission approval of the Current Electric Programs was unknown at the time the Gas MPS was prepared. Mr. Kirkham testified that on July 27, 2011, the Commission issued Orders approving NIPSCO's Current Electric Programs in Cause No. 43912 and the contracts for the provision of the Core electric programs in Cause No. 42693-S1. He stated as a result, NIPSCO now can begin to quantify the extent of the synergies that may be achieved through the provision of the Residential New Construction Program on a combined gas and electric basis.

Mr. Kirkham explained that as part of NIPSCO's Current Gas Program Year 5 (May 1, 2011 through April 30, 2012), NIPSCO's current TPA for gas programs, Wisconsin Energy Conservation Corporation ("WECC"), calculated a proposed combined TRC calculation for a shared gas and electric Residential New Construction Program - Program Year 5 Gas Operating Plan (Petitioner's Exhibit KAK-R2). He noted the Program Year 5 Gas Operating Plan was approved by the Oversight Board pending a revision to incorporate the latest EM&V information. Mr. Kirkham testified the combined TRC score prepared by WECC in the report shows a gas TRC score of 1.6 and a corresponding electric TRC score of 1.8. Therefore, the TRC for a program such as the Residential New Construction Program may be different when a vendor makes a proposal for offering the program. Mr. Kirkham stated this is where the Oversight Board is an effective resource because it can look at a program as proposed by the vendor and the program's EM&V in making decisions about whether it should be offered.

Mr. Kirkham also disagreed with Ms. Paronish that TRC scores above 1.0 are the only way to determine cost-effectiveness. He stated that while TRC scores are an undoubtedly useful metric in evaluating program cost-effectiveness, it is important to recognize limitations of that metric in terms of the data inputs used to develop the scores, as well as how the TRC score can

be interpreted in light of other objective criteria. He explained TRC scores are a calculated metric that compare total program costs with total savings. Total savings are estimates of the cost of natural gas as an input to the TRC calculation. He stated the cost of natural gas fluctuates over time. In time periods where the cost of natural gas is low, the TRC savings will be much lower. He explained that because of the volatility, TRC scores may be below 1.0 at times and above 1.0 at others. Mr. Kirkham testified it is important to recognize that fact to avoid disruptive starts and stops in programs, which decrease the program effectiveness going forward.

Mr. Kirkham testified that while TRC test results should be used to evaluate cost-effectiveness, drawing absolute conclusions about cost-effectiveness based solely on individual, annual TRC calculations may exclude some overall cost-effective programs or cause operational disruptions that limit the overall effectiveness of a program over time. He testified NIPSCO is currently operating a combined gas and electric Residential New Construction Program that is cost-effective.

Mr. Kirkham testified that although the Program as being administered by WECC is cost-effective, NIPSCO is always looking for ways to improve a program's performance. The JOSB recently met and agreed to a plan to perform EM&V on the current Residential New Construction Program. He stated NIPSCO will review the EM&V report when complete and make recommendations to its Oversight Board based on that information. In addition, NIPSCO, in conjunction with its Oversight Board, will issue a request for proposal for future Program implementation and will use this process as a means to capture any additional recommendations that other bidders may provide to improve performance.

In response to Ms. Paronish's assertion that the Residential Home Audit Program will not be cost-effective, Mr. Kirkham testified that similar to the Residential New Construction Program, the Residential Home Audit Program will be offered in conjunction with the electric program going forward. He explained this Program was modeled as a free-standing program in the Gas MPS and is one of five Core Programs mandated by the Commission. The incremental cost of adding gas measures to the Program is very small. The Demand Side Management Coordinating Committee has already agreed that the TPA will be installing water heating measures in homes even if the water heater is natural gas-fired. He stated the administration of this Program by the electric TPA for gas and electric programs will result in a reduction in the cost of both programs because the gas program will be allocated a portion of the overall program cost (which is lower than the free-standing program assumed in the Gas MPS), and that allocation will also reduce the cost paid by the electric Core Programs.

Mr. Kirkham testified that from a practical perspective, the Residential Audit and the Weatherization Programs are frequently delivered to customers together because weatherization measures are often identified as an appropriate part of the Residential Home Audit Program. He stated that when the costs and savings of the two programs are combined, the TRC for the combined programs is increased to 1.22 for the first two years and 1.26 for the third. He testified it is reasonable to assume that further efficiencies will occur as a result of providing the overall programs together for gas and electric service.

In response to Ms. Paronish's assertion that the Residential Conservation Program is not cost-effective, Mr. Kirkham testified that while he agrees the TRC score for the Residential

Conservation Program is projected to be below 1.0 for the first year of implementation, the MPS projects TRC values of 1.43 for the second year and 1.33 for the third year. He stated that when viewed through the three-year life of the proposed Program, it clearly is cost-effective according to the TRC scores. Moreover, similar to the Residential New Construction and Residential Home Audit Programs, the Residential Conservation Program has been approved by the Commission and is being offered to electric customers. Because the incremental cost of including gas data with the electric data on OPOWER customer reports is minimal, the overall TRC for the combined gas and electric program is above 1.0 for all three years. He explained that since there would be little to no reduction in cost if the currently-proposed combined gas and electric Residential Conservation Program was changed to an electric-only program, it is appropriate to include natural gas energy comparisons on the reports to help NIPSCO's combination customers save overall energy consumption. As a result, it is appropriate to split the costs between the gas and electric programs.

In response to Ms. Paronish's concern about the ability to effectively verify the results of the Residential Conservation Program, Mr. Kirkham stated Ms. Paronish raises reasonable concerns about the ability to conduct EM&V in a way that savings from the OPOWER mailings can be verified as independent from those from other programs. He explained that although the OPOWER program is comparatively new, with EM&V results only now beginning to be received from existing programs, NIPSCO's electric Oversight Board recently selected an EM&V vendor for its electric DSM programs. The winning bidder was able to demonstrate a way to measure OPOWER. Mr. Kirkham testified that under the OUCC's approach, Indiana utilities would never be in a position to implement cutting-edge programs because such programs by definition will never be supported by years of verification data. The innovative approach to behavior modification embodied in the OPOWER approach should be pursued because of its potential to produce meaningful and long-lasting behavioral changes that reduce energy consumption.

Mr. Kirkham testified the OUCC did not oppose the Residential Conservation Program in NIPSCO's electric program filing. He also testified the Residential Conservation Program is more than a customer education program. He stated any effective DSM effort, by necessity, relies on customer education as one component of success, but the Residential Conservation Program is a means for customers to proactively track their consumption in comparison to similar households on an ongoing basis. To the extent Ms. Paronish contends the Residential Conservation Program is too expensive compared to other customer education programs, her criticism is misplaced. He explained that simple bill inserts, web pages, or other traditional means of customer education cannot provide the customer-level of ongoing information provided by OPOWER. While a bill insert providing information about the benefits of switching to a programmable thermostat may drive customer behavior to a certain extent, a report generated specifically for a customer about his or her particular usage patterns is more likely to encourage behavior modification.

Mr. Kirkham testified NIPSCO has received customer feedback on its OPOWER mailing, which contained gas and electric conservation information, in support of the Residential Conservation Program. Less than 1% of the 150,000 recipients have responded directly to NIPSCO through calls (approximately 400), letters (approximately thirty), and emails (approximately fifty). He stated that, as expected, the topics of direct feedback received so far

have varied in nature, but customers have been generally appreciative of the information that is being provided in the reports. Customer feedback around this type of program typically includes appreciation for the information in the reports, questions about the report calculations and data, opt-out requests, privacy concerns, general questions about energy usage, and general questions about NIPSCO. In this instance, the call volume and opt-out rate have been very low, while the activation of new web accounts to enable online tracking has been brisk. He stated that as of the date of his testimony, NIPSCO had received 122 opt-out requests. In contrast, 491 web accounts have been created to enable customer monitoring of consumption data.

Mr. Kirkham disagreed with Ms. Paronish's distinction between the gas and electric Residential Conservation Program as a basis for opposing recovery of deferred expenses. He testified that from a program implementation perspective, such a distinction ignores the budgetary savings and customer impact aspects of a coordinated initiation of the Program for gas and electric services. He noted a second mailing campaign to the same households targeting gas customers would be confusing and potentially irritating, and it is much more logical to provide each household with an integrated conservation package encouraging gas and electric savings. In addition, NIPSCO wants to get reports into the customers' homes in order to have an impact for the 2011–2012 heating season, which is when customers are most likely to see the impact of the Conservation Program on their gas usage. In order to be the most successful, NIPSCO needed to start delivering reports in the quarters leading up to the 2011–2012 heating season.

C. Elizabeth G. Hicks. Ms. Hicks provided additional information concerning the TRC generally, and as it relates to NIPSCO's proposed Residential Home Audit Program and Residential New Construction Program specifically. She explained when gas and electric programs are delivered together, the combined expenses associated with the programs are generally decreased over the summation of gas and electric program expenses if implemented separately (stand-alone), but the savings level remains the same. This means that the TRC results will typically be higher for combined gas and electric programs than for stand-alone programs.

Ms. Hicks testified that frequently, programs have costs which are higher either at the beginning or end of the program, but the savings are sufficient throughout to make the program cost-effective for the duration of the program. While savings in many cases last over ten years, TRC results can vary from year to year especially as programs are initially implemented. She stated that looking at only one single year can sometimes provide an inaccurate picture of the program's benefits. She testified the same is not necessarily true for programs that are cost-effective in the earlier years and not cost-effective in later years (those after the three-year period proposed in this filing). Programs can be redesigned to include new measures in later years, so the TRC scores may change in value. As such, it is important to view the TRC scores over the life of the proposal because changes can be made to the program in subsequent years.

Mr. Hicks testified it is expected that the Residential Home Audit Program will be operated in conjunction with the Weatherization Program, and by doing so, the administrative costs to offer the Program are lowered, but the savings are maintained. She stated it is appropriate to consider these two Programs together because the same person who performs the audit can also install the recommended weatherization measures. This means fewer people need to go to the customer's home in order to obtain the same savings.

Mr. Hicks testified to determine the combined TRC for the Residential Home Audit and Weatherization Programs, she added the combined costs of the Programs. The TRC was then performed using this new cost with the same projected savings. Based on this methodology, the TRC for the combined Programs is projected to be 1.22 for the first two years and 1.26 in the third year.

Ms. Hicks testified the TRC for the Residential New Construction Program is primarily based on two factors: (1) the costs of administrating the Program, and (2) the measures chosen. She stated one way to lower the costs would be for NIPSCO to have a single vendor provide a variety of programs, which would likely reduce the administrative expenses. Similarly, the measures chosen for the Residential New Construction Program can change the TRC based on a given level of projected savings. Ms. Hicks testified NIPSCO should offer the Residential New Construction Program even if it does not pass the TRC after these changes because of the benefits provided by installing measures in the home from the beginning. She stated that while the lost opportunity costs of not installing the measures at the time of construction cannot be included in the TRC, these costs should not be overlooked.

Ms. Hicks testified that given the structure of the Residential Conservation Program (it is a three-year program with costs and savings determined based on the same population participating for all three years), it is most appropriate to look at the TRC score for the full three-year time period. She stated when that is considered, the TRC result is 1.08 for the life of the Program looking at gas savings on a stand-alone basis. Because this Program is combined with the electric Residential Conservation Program, it is also appropriate to consider the combination of the two. She said when the costs and savings of the two Programs are considered together, the TRC results for the three-year period are 2.7 in Year 1, 1.4 in Year 2, 1.3 in Year 3, and 1.8 for the combined three-year period.

Ms. Hicks testified it is often difficult to know how to allocate the costs and savings of a particular program until the program has been up and running. In her experience, utilities frequently rely on recommendations from the vendors until EM&V is complete. She stated that once the EM&V is complete, the utility can make changes on a going-forward basis.

8. Commission Discussion and Findings. We note at the outset that NIPSCO is one of two Indiana utilities in a position to directly integrate its gas and electric initiatives throughout the footprint of a common service territory. The Proposed Gas Programs consist of eight individual gas DSM and energy efficiency initiatives, five of which are extensions of existing Programs approved by the Commission in Cause No. 43051 (Residential Low Income Weatherization, Residential New Construction, Residential Energy Efficiency Rebates, Residential Audit/Retrofit, and School Energy Education Programs). Three of the Proposed Gas Programs are new Programs (Residential Conservation, C&I Rebates, and Commercial New Construction Programs). The three new Programs proposed in this proceeding have electric DSM counterparts approved by the Commission in Cause No. 43912.

A. Uncontested Programs. The evidence is undisputed that five of the Proposed Gas Programs are projected to be cost-effective. The Gas MPS sponsored by Ms. Hicks shows that the Residential Low Income Weatherization, Residential Energy Efficiency Rebates, School Energy Education, C&I Rebates, and Commercial New Construction Programs carry

TRC scores above 1.0 for each year of the three-year proposed term. The residential Programs are a continuation of existing Programs offered by NIPSCO since 2008, and, as such, are components of ongoing energy efficiency efforts within NIPSCO's service territory. The C&I Rebates and Commercial New Construction Programs build upon those residential Programs. The Commission has previously encouraged the development of energy efficiency opportunities for customers from all sectors. *See* Phase II Order at 29. We accordingly find that the proposed Residential Low Income Weatherization, Residential Energy Efficiency Rebates, School Energy Education, C&I Rebates, and Commercial New Construction Programs are in the public interest and should be approved as proposed.

B. Contested Programs. The OUCG opposes three of the Proposed Gas Programs because it believes the Programs are not cost-effective. In opposing these Programs, the OUCG relies primarily on the TRC test to determine cost-effectiveness. With respect to a request by several small gas utilities to jointly implement an energy efficiency program, the Commission stated, “[W]e note that the mere fact that a TRC score indicates a program is not cost effective is not conclusive evidence that the program will not be cost effective based upon particular circumstances or otherwise in the public interest to implement.” *Midwest Natural Gas Corp.*, Cause No. 43995, 2011 Ind. PUC LEXIS 356, *24, n.1 (IURC Nov. 30, 2011)(citation omitted).

When determining a standard for approval of DSM programs based on cost-effectiveness, one test may not be the most practical to determine cost-effectiveness because it may not be the best test for a particular program. Importantly, the Oversight Board uses several tests before recommending programs; the decision process includes the utilization of different variables and parameters to determine cost-effectiveness.

The OUCG opposes the proposed Residential New Construction and Residential Home Audit Programs as not cost-effective because TRC scores are projected to be below 1.0 during one or more of the three-year proposed Program terms. With respect to the Residential Home Audit Program, Mr. Kirkham explains in his direct testimony that TRC scores for the Proposed Gas Programs were presented on a stand-alone basis because NIPSCO's electric programs were pending before the Commission, and additional savings were likely to be realized through the joint administration of overlapping gas and electric programs. Ms. Hicks testifies on rebuttal that the TRC score for the Residential Home Audit Program would be 1.22 in Years 1 and 2, and 1.26 in Year 3 when budgets for the gas and electric Residential Home Audit and Weatherization Programs are combined, which is consistent with the way the Programs will be administered. The Commission approved NIPSCO's Current Electric Programs pursuant to the Order issued in Cause No. 43912, and because the combination of the gas and electric Programs will result in increased TRC scores, we find that the proposed Residential Home Audit Program should be approved.

With respect to the Residential New Construction Program, the Commission first notes we approved NIPSCO's electric Residential New Construction Program even though the Program would not achieve a TRC score in excess of 1.0 until later years. In Cause No. 43912, the OUCG did not oppose approval of this Program or cost recovery for it until the Oversight Board decided to discontinue the Program. 43912 Order at 13. Ms. Paronish noted in Cause No. 43912 that the Oversight Board could monitor the electric Residential New Construction

Program's progress to determine cost-effectiveness, and the Program could be discontinued if not cost-effective. *Id.* The same is true in this Cause. The gas Residential New Construction Program is projected to become cost-effective in later years. Additionally, the gas Oversight Board can monitor the cost-effectiveness of the gas Residential New Construction Program. If the Program is not cost-effective, it can be discontinued.

We also agree with Mr. Kirkham and Ms. Hicks that the lost opportunity costs associated with measures undertaken at construction are not captured in the TRC but are nevertheless relevant to our evaluation of the long-term cost-effectiveness of the Residential New Construction Program. Measures installed subsequent to construction, or retrofitted, could result in higher costs in the future than if the measures had been installed during construction. Thus, the benefits of undertaking programs intended to provide new residences with the advantages of energy efficiency at construction, and thereby years of reductions in energy usage, outweigh the potential for the Program to demonstrate less than optimal cost-effectiveness as measured by the TRC test.

As a result of the combined gas and electric TRC results, the ability of the Oversight Board to measure and monitor the Program's progress, and the costs associated with retrofitting measures, we find that the Residential New Construction Program should be approved, subject to ongoing EM&V and direction to be provided by NIPSCO's Oversight Board, which will be based on actual savings and performance data.

The OUCC also opposes approval of the proposed Residential Conservation Program on multiple grounds. In addition to concern about a low projected TRC for the first year of implementation, Ms. Paronish likened the Residential Conservation Program to an expensive customer education program for which EM&V would be exceedingly complex. While certain aspects of the proposed Residential Conservation Program resemble customer education, the evidence presented by Mr. Kirkham demonstrates that the Program provides proactively targeted information on an individualized basis, along with interactive web-based information, intended to directly incent energy savings in ways not possible through basic customer education.

With respect to the cost-effectiveness of the Residential Conservation Program, as noted above, the TRC test is only one way to determine the cost-effectiveness of a program. Nevertheless, Ms. Hicks indicates that when combined with the corresponding electric Program approved by the Commission in the 43912 Order (without OUCC opposition), it achieves TRC results in excess of 1.0 for the three-year period (2.7 in Year 1, 1.4 in Year 2, 1.3 in Year 3, and 1.8 for the combined three-year period). In the event that the Residential Conservation Program proves ineffective in the future, NIPSCO and its Oversight Boards have the option not to renew the Program.

Since the Commission approved an electric Conservation Program in Cause No. 43912, NIPSCO can easily add gas usage information to the electric information already being mailed to customers. Otherwise, NIPSCO would send separate gas and electric mailings, which the Commission finds to be inefficient and not cost-effective. Combining NIPSCO's gas and electric Residential Conservation Programs would comply with the Commission's desire for utilities to pursue an integrated approach to energy efficiency programs. *See* Phase II Order at 42, 47. We therefore approve the Residential Conservation Program as proposed.

However, the Commission has some concerns with regard to NIPSCO's incentive to achieve maximum possible reduction in gas usage. Importantly, the Commission was unable to find an annual savings goal with respect to gas consumption in NIPSCO's evidence, including the MPS. Instead, NIPSCO provided only estimates of net and gross savings. As a result, in its next Petition concerning its gas DSM programs, NIPSCO will present evidence regarding an annual gas usage savings goal.

C. Deferral of Gas Energy Efficiency Expenses. NIPSCO requested authority to defer start-up, implementation (program), and administrative costs associated with its Proposed Gas Programs for future recovery to promote the prompt availability of those Programs in association with its electric DSM programs. The evidence of record indicates that most, if not all, of the costs for which deferral is sought are associated with its Residential Conservation Program whereby additional gas data would be provided to customers already scheduled to receive data pertaining to their electric service. This achieves the Commission's desire to integrate gas and electric offerings when possible, as discussed previously. The OUCC opposes authority to defer such expenses as unnecessary in the absence of a savings mandate from the Commission such as that imposed for electricity by the Phase II Order.

We have previously authorized deferral of costs while recognizing that deferrals are extraordinary remedies and necessarily entail the balancing of the interests of the utility and its ratepayers. *Duke Energy Ind. Inc.*, Cause No. 43426, Phase I Order (IURC 8/13/08) (authorizing deferral and recovery of certain Midwest Independent System Operator costs); *The Commission's Investigation Into the Effectiveness of Demand Side Management Programs*, Cause No. 42693-S1, Order on Cost Deferral (IURC 1/26/11) (authorizing deferral and recovery of electric Core Program costs). In this instance, the balance between the utility and its customers favors deferral. The costs in question have been incurred solely to expand energy efficiency opportunities available to NIPSCO's customers with no lost margin or performance incentive dollars proposed for recovery; therefore, the requested deferral provides no benefit to NIPSCO other than recovery of the costs it has incurred. The Commission notes the same NIPSCO combination gas and electric customers who will benefit from the deferral of dollars in this Cause are the same customers who benefitted from deferral of electric Residential Conservation Program dollars, which the OUCC supported in Cause No. 43912. Further, as Ms. Becker correctly notes on rebuttal, the same four factors offered by the OUCC in support of deferral of NIPSCO's electric DSM expenses are also present here. We accordingly authorize the deferral of start-up, implementation (program), and administrative costs from the date of the filing of the Petition in this Cause for future recovery as proposed by NIPSCO.

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

1. NIPSCO's Proposed Gas Programs, and the projected budgets associated with them, are approved consistent with the findings in this Order.
2. NIPSCO is authorized to recover all start-up, implementation (program), and administrative costs associated with the Proposed Gas Programs, along with costs associated with the evaluation, measurement, and verification of those Programs through Rider 472 – Energy Efficiency Rider as proposed in the Petition, including the associated ratemaking

treatment as proposed.

3. NIPSCO is authorized to modify the existing tracking mechanism previously approved in Cause No. 43051 to provide for semi-annual reconciliation to coincide with similar filings made for NIPSCO's electric DSM programs.

4. The structure and authority of NIPSCO's Oversight Board is approved as proposed. NIPSCO shall file in this Cause the quarterly scorecards as proposed.

5. NIPSCO shall continue to comply with the reporting requirements established in the May 24, 2011 Docket Entry issued in Cause No. 43051. All future informational reports or scorecards shall be filed under this current Cause.

6. Petitioner is hereby authorized to implement Rider 472 – Energy Efficiency Rider, Appendix A – Applicable Riders, and Appendix C – Gas Efficiency Factor, consistent with the findings in this Order and place such programs in effect after filing tariff sheets with the Commission's Natural Gas Division.

7. In its next Petition concerning its gas DSM programs, NIPSCO shall present evidence regarding an annual gas usage savings goal as discussed in this Order.

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

ATTERHOLT, BENNETT AND MAYS CONCUR; LANDIS AND ZIEGNER ABSENT:

APPROVED: DEC 28 2011

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



Sandra K. Gearlds
Acting Secretary to the Commission