

ORIGINAL  
STATE OF INDIANA

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**INDIANA UTILITY REGULATORY COMMISSION**

VERIFIED JOINT PETITION OF THE CITY OF )  
INDIANAPOLIS, AS SUCCESSOR TRUSTEE OF A )  
PUBLIC CHARITABLE TRUST, d/b/a CITIZENS )  
GAS AND WESTFIELD GAS CORPORATION, d/b/a )  
CITIZENS GAS OF WESTFIELD FOR APPROVAL )  
OF THE EXTENSION OF THE PROVISION OF )  
PORTFOLIOS OF DEMAND SIDE MANAGEMENT )  
PROGRAMS AND CONTINUATION OF ENERGY )  
EFFICIENCY ADJUSTMENT RIDERS PREVIOUSLY )  
APPROVED IN CAUSE NOS. 42767 AND 43624, )  
RESPECTIVELY, PURSUANT TO IND. CODE § 8-1- )  
2-42(a) AND TO THE EXTENT NECESSARY AS )  
ALTERNATIVE REGULATORY PLANS UNDER )  
IND. CODE § 8-1-2.5. )

CAUSE NO. 44124

APPROVED: APR 10 2013

**ORDER OF THE COMMISSION**

**Presiding Officers:**  
**James D. Atterholt, Chairman**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On November 29, 2011, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, d/b/a Citizens Gas (“Citizens”) and Westfield Gas Corporation d/b/a Citizens Gas of Westfield (“Westfield”) (collectively, “Joint Petitioners”) filed their Verified Joint Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking an Order approving, to the extent necessary as an alternative regulatory plan under Ind. Code ch. 8-1-2.5, the extension of Joint Petitioners’ respective gas energy efficiency programs, with certain limited modifications, through December 31, 2015, as well as continuation of their respective energy efficiency rate adjustment mechanisms. On December 27, 2011, Joint Petitioners filed in support of their Verified Joint Petition the direct testimony and exhibits of Gregory A. Sawyers, Krista Jackson and Jill A. Phillips.

Pursuant to notice and as provided for in 170 IAC 1-1.1-15, a Prehearing Conference in this Cause was held at 9:45 a.m. on January 4, 2012 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the Prehearing Conference were incorporated into the record and placed in the official files of the Commission. Joint Petitioners and the Indiana Office of Utility Consumer Counselor (“OUCC”) appeared and participated at the Prehearing Conference. On January 18, 2012, the Commission issued a Prehearing Conference Order, which established procedural and scheduling matters in this Cause.

On May 2, 2012, the OUCC filed the direct testimony and exhibits of Brendon J. Baatz and Mark H. Grosskopf. On June 1, 2012, Joint Petitioners filed the rebuttal testimony and exhibits of Gregory A. Sawyers, LaTona S. Prentice, Krista Jackson and Steven M. Fetter. On November 2,

2012, the OUCC filed notice that April M. Paronish would be adopting the testimony of Brendon J. Baatz. Also on November 2, 2012, the OUCC filed the substitute testimony of Ms. Paronish.

Pursuant to notice given and published as required by law, proof of which was incorporated into record and placed in the Commission's official files, an evidentiary hearing was held on November 9, 2012 at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Joint Petitioners and the OUCC appeared and participated in the evidentiary hearing. No member of the public appeared or sought to testify at the hearing. At the hearing, the testimony and exhibits of Joint Petitioners and OUCC were admitted into the record without objection.

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

**1. Joint Petitioners' Characteristics.** Citizens is a municipally owned gas utility operating under Ind. Code ch. 8-1-11.1. Citizens is a "gas utility" within the meaning of Ind. Code § 8-1-2-42(g), and an "energy utility" within the meaning of Ind. Code § 8-1-2.5-2. Citizens is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Citizens has the power and authority to engage in, and is engaged in, the business of rendering gas distribution service under the terms of Ind. Code ch. 8-1-11.1. Citizens owns, operates, manages, and controls, among other things, plant, property, equipment and facilities, which are used and useful for the production, storage, transmission, distribution and furnishing of gas service to approximately 261,000 residential, commercial and industrial customers in and around Marion County, Indiana.

Westfield is a public utility within the meaning of that term in the Indiana Public Service Commission Act, Ind. Code ch. 8-1-2, a "gas utility" within the meaning of Ind. Code § 8-1-2-42(g), an "energy utility" within the meaning of that term in Ind. Code § 8-1-2.5-2, 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. Westfield owns, operates, manages and controls plant, property and equipment used and useful to provide gas utility service to approximately 3,470 retail customers in and around the City of Westfield, Indiana.

**2. Background.** The Commission in its August 29, 2007 *Order on Rehearing* in Cause No. 42767 approved a Settlement Agreement entered into among Citizens, the OUCC and a group of Citizens' industrial customers (the "2007 Settlement Agreement") that, among other things, authorized Citizens to implement a portfolio of natural gas energy efficiency programs ("Portfolio") in Citizens' service territory as well as an Energy Efficiency Adjustment rate adjustment mechanism ("EEA"). The EEA consists of: (i) the Energy Efficiency Funding Component ("EEFC"); and (ii) the Sales Reconciliation Component ("SRC"). The SRC effectuated the decoupling of Citizens' fixed cost recovery from sales of natural gas to its customers. The EEFC and SRC were modeled after similar tariff mechanisms approved for Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (collectively, "Vectren Energy") in Consolidated Cause Nos. 42943 and 43046 (approved December 1, 2006).

In the 2007 Settlement Agreement, Citizens committed to be a proactive sponsor of energy efficiency and align its interests with the interests of customers in terms of encouraging reduced natural gas usage. In addition, the 2007 Settlement Agreement provided for the: (i) creation of an

Oversight Board (“OSB”) to govern the administration of the Portfolio, review the effectiveness of programs and make potential changes to program design and funding; (ii) selection of a third party administrator to implement the Portfolio; and (iii) creation of an evaluation, measurement and verification (“EM&V”) process to measure program results. The 2007 Settlement Agreement also established an initial funding level for the Portfolio and provided for potential incremental increases to that funding level of up to 15% annually over the five year term at the discretion of the OSB, with a maximum funding level in the fifth year of \$3,802,188. Of this amount, \$470,588 is recovered through base rates and the remainder is recovered through the EEFC.

Pursuant to the 2007 Settlement Agreement, the five-year term of the Portfolio and EEA expires on August 31, 2012. However, the 2007 Settlement Agreement provides that, “no later than nine (9) months prior to the conclusion of the initial five (5)” year term, Citizens “will file for a three (3) year extension of the Portfolio and EEA, or propose to discontinue or modify the current Portfolio and EEA.” The 2007 Settlement Agreement further provides that if its term “expires prior to the Commission entering a final order on a subsequent filing as outlined above, the Settling Parties agree that the Portfolio and the EEA shall continue in effect until final action by the Commission.”

On March 10, 2010, the Commission issued an Order in Cause No. 43624 authorizing Westfield to implement an Energy Efficiency Rider modeled after the EEA the Commission approved in Cause No. 42767. Like the EEA, Westfield’s Energy Efficiency Rider includes: (i) a component to recover costs incurred to implement a Portfolio of energy efficiency programs; and (ii) an SRC to decouple Westfield’s fixed cost recovery from sales of natural gas to its residential and commercial customers. The approved initial funding level for the Westfield Portfolio was \$23,700, to be increased by up to 15% annually at the discretion of the OSB. The Commission further authorized the Citizens’ OSB and same third party administrator to oversee the Portfolio of programs for Westfield. However, funding, evaluation and reporting related to the Westfield Portfolio was to be separate from the Citizens’ Portfolio. The term of the Westfield Portfolio was intended to be commensurate with the Citizens’ Portfolio.

**3. Relief Requested.** In this proceeding, Joint Petitioners sought an extension through December 31, 2015 of their respective Portfolios, as well as continuation of their energy efficiency rate adjustment mechanisms. Joint Petitioners’ proposed extension period coincides with the continuation of the energy efficiency portfolios and energy efficiency riders of Vectren Energy approved in Cause No. 44019 on August 18, 2011.

Joint Petitioners also proposed certain minor modifications to their respective Portfolios, which generally include: (i) modifying Citizens’ residential low-income program to allocate all base rate funding to that particular program and using the Societal Cost Test (“SCT”) to determine cost effectiveness of the program and excluding the program from the Total Resource Cost (“TRC”) calculation used to determine cost effectiveness for the overall Portfolio; (ii) extending the end date of the current program year from August 31, 2012 to December 31, 2012 and further changing future program year reporting periods to calendar years to make reporting clearer; (iii) including Citizens Action Coalition (“CAC”) as a voting member of the OSB; and (iv) further integrating the Westfield Portfolio into the Citizens’ Portfolio, so that both Portfolios would be funded, evaluated and reported on collectively.

The Verified Joint Petition indicates that if the Commission grants Joint Petitioners' requested extension, Citizens intends to continue its collaborative efforts with Indianapolis Power & Light Company ("IPL") and other organizations in order to share costs to otherwise benefit customers when possible.

4. **Joint Petitioners' Case-in-Chief.** Mr. Sawyers, Citizens' Director of Customer Relationships, described Joint Petitioners' current natural gas energy efficiency programs and proposed modifications thereto. Mr. Sawyers stated that, in general, Citizens' Portfolio includes: (i) residential and general service prescriptive programs designed to provide incentives to customers to replace inefficient equipment with energy efficient technologies; (ii) a residential retro-fit program to provide insulation and air sealing measures to improve aging homes with respect to energy usage; (iii) a business custom program to motivate commercial customers to implement high efficiency technologies; (iv) a residential low-income program designed to provide resources to customers that otherwise could not afford to install energy efficiency measures; and (v) a multi-family direct install program to promote the installation of energy-efficient, high performance water heater fixtures in rental units. Mr. Sawyers stated that during the three-year period extending from September 1, 2008 to August 31, 2010, the energy efficiency programs have achieved combined estimated savings of 5,054,886 net therms, or 101.39% of Citizens' goal for the period.

Mr. Sawyers stated that the Westfield portfolio includes residential and general service prescriptive programs, which provide incentives for furnaces, programmable thermostats, storage tank water heaters and tankless water heaters comparable to the incentives offered under Citizens' residential and general prescriptive programs.

Mr. Sawyers testified that the 2007 Settlement Agreement set forth an initial funding level of \$2.5 million for the Citizens portfolio and provided for incremental 15% increases to that funding level over the term of the portfolio, subject to approval of the OSB. The current annual funding level of the Citizens portfolio is \$3,802,188, and, of that amount, \$470,588 is recovered through Citizens' base rates, while the remainder is recovered through the EEFC. Currently, the annual funding level for the Westfield Portfolio is \$31,343. Mr. Sawyers stated that, if the Commission authorizes continuation of the utilities' respective Portfolios, Joint Petitioners propose that the annual budget initially be at the current level. Thereafter, Joint Petitioners propose the OSB determine the feasibility of increasing the funding levels by up to 15% annually based on Portfolio results and the amount of excess funds from prior years that remain available to be spent.

Mr. Sawyers stated that the Annual Energy Efficiency Report prepared by the Wisconsin Energy Conservation Corporation ("WECC") for Program Year 1 of Westfield's Portfolio found it "was not cost-effective due to the small scale." He noted, however, that in Program Year 2 the Portfolio was found to be cost effective and yielded a net therm savings of 13,785 therms, which was nearly 93% of its goal. Mr. Sawyers believes complete integration of the administration of Joint Petitioners' respective Portfolios will significantly improve the benefit-to-cost ratio of the Westfield Portfolio.

Mr. Sawyers indicated that, aside from offering the Portfolios, Joint Petitioners also support proactive conservation efforts. Mr. Sawyers stated the 2007 Settlement Agreement was a significant milestone for Citizens, its employees and customers. The 2007 Settlement Agreement aligned Citizens' interests with its customers' interests and, as a result, Citizens is able to wholeheartedly embrace a culture of energy efficiency and conservation. Mr. Sawyers observed

that, along with the Portfolios, Citizens has developed an outreach and messaging program, referred to as the “Citizens Energy Savers” program, which targets customers and provides them with information about rebates and conservation tips. He testified that messaging for the Citizens Energy Savers program includes a combination of television, radio, print, and internet messaging, and Citizens also has incorporated the Citizens Energy Savers messages in its general customer outreach campaigns. Citizens Energy Savers outreach efforts are also directed to Westfield customers.

Mr. Sawyers stated that the pursuit of gas use reductions is still in the public interest as it was in 2007. Mr. Sawyers believes gas vehicles and electric generation using gas may become more prevalent in the next decade, and using natural gas wisely ensures its availability for these new uses. He further stated that natural gas energy efficiency efforts lower the gas bills of consumers and businesses that adopt these measures, and provide broader societal benefits including reducing natural gas imports, reducing the risk of gas shortages, and putting downward pressure on natural gas prices. Mr. Sawyers stated customers look to their utility as a trusted source for information, services and programs to reduce energy consumption and manage their energy bill.

Mr. Sawyers also explained Joint Petitioners’ proposal to align the end date of Joint Petitioners’ and Vectren Energy’s respective programs to December 31, 2015, which will provide the utilities an opportunity to collaborate with respect to the future extensions and program offerings and potentially establish a more consistent State-wide framework for offering gas efficiency programs. Mr. Sawyers stated that if the Commission approves the proposed extension of the utilities’ respective energy efficiency portfolios, Joint Petitioners propose to further integrate the administration of the Westfield Portfolio into the administration of the Citizens Portfolio. Mr. Sawyers noted the Citizens and Westfield energy efficiency portfolios are partially integrated. However, administration and reporting related to the Westfield Portfolio are performed separately from the Citizens Portfolio. Joint Petitioners propose the Portfolios be administered and reported on collectively. In Mr. Sawyers’ opinion integrating planning, evaluation and reporting will decrease administrative costs and consequently make both Portfolios more cost effective.

Mr. Sawyers next discussed Citizens proposal that the \$470,588 of energy efficiency program funding recovered through Citizens’ base rates (as opposed to funding under the EEFC) be allocated entirely to the residential low-income weatherization program, and that low-income weatherization accomplished through base rate funding be excluded from the TRC Test calculation used to determine cost effectiveness for the overall portfolio. Mr. Sawyers stated that the primary difference between the TRC Test and SCT is that the SCT includes non-energy benefits and costs that are not taken into account under the TRC analysis. Mr. Sawyers testified that some non-energy benefits that may be factors in the SCT analysis include: enhanced property value and extended lifetime of the dwelling, reduced fires, reduced arrearages, income generated from employment, avoided costs of unemployment benefits and environmental externalities.

Mr. Sawyers stated the low-income weatherization program is not likely to be determined cost effective using the TRC Test in an environment where natural gas prices are either low or moderate. According to Citizens’ Annual Energy Efficiency Year End Report for the period extending from September 1, 2009 through August 31, 2010, the benefit-to-cost ratio of Citizens’ residential low-income weatherization program is .5 using the TRC Test. Mr. Sawyers stated that this ratio does not provide a clear or accurate picture of the benefits provided by the low-income weatherization program. Mr. Sawyers believes that by taking into account other benefits, like reduced arrearages, the SCT would provide a more accurate assessment of the benefits of the

program.

Mr. Sawyers stated Joint Petitioners are proposing to change future program year reporting periods to calendar years to align their reporting periods with the Vectren Energy and NIPSCO reporting periods. Mr. Sawyers believes aligning reporting periods will allow the programs offered by each utility to be more effectively evaluated and compared. Mr. Sawyers noted the reporting periods will coincide with many electric utility reporting periods and, therefore, may facilitate coordinated energy efficiency efforts with the electric utilities.

Mr. Sawyers then discussed Joint Petitioners' proposal to add the CAC as a voting member of the OSB. Mr. Sawyers stated that CAC currently is an active member of the OSB and that its input over the years has been valuable. In Mr. Sawyers' opinion, adding CAC as a voting member of the OSB would create additional value to both the OSB and the utilities' customers.

Ms. Jackson, Joint Petitioners' Energy Efficiency Portfolio Manager, testified that Citizens began implementing its portfolio of energy efficiency programs immediately after the Commission issued its *Order on Rehearing* in Cause No. 42767. Ms. Jackson noted that the five-year term of the Portfolio included two separate Phases. During Phase I, which ran from September 1, 2007 through August 31, 2008, Citizens offered only low-income and working poor weatherization and school education programs. Phase II, which began on October 1, 2008, includes a Portfolio of a wide variety of programs that the OSB has determined to be best suited to the needs of customers in Citizens' service territory. Ms. Jackson stated the mix of programs included in the Portfolio is based on the results of a Market Potential Study ("MPS") completed in 2008 for Citizens and IPL. In addition, the programs were modeled after already established Vectren Energy programs since the markets are similar and there is a cross over among customers and trade allies in the service territories.

In Ms. Jackson's opinion, Citizens has made energy conservation a priority among its workforce since implementation of the Portfolio. Citizens also has focused its customer outreach efforts on the promotion of energy efficiency. Ms. Jackson noted that Citizens hosts the annual "Be Winterwise" energy fair to provide information on home heating safety, energy conservation and energy assistance. Citizens uses bill inserts and other forms of customer communication and outreach, including television, radio, print and social media to advocate the importance of energy efficiency. Ms. Jackson added that Citizens has designed a customer web portal, to provide information on its Portfolio, energy saving tips for homes and businesses, as well as interactive tools. Citizens also sponsors a student poster contest for kindergarten through 8th grade students to illustrate ways to use energy efficiently in their homes or community.

Ms. Jackson testified that Program Year 1 of Phase II (October 1, 2008 to August 31, 2009) was very successful. The portfolio achieved an estimated net savings of 1,276,132 therms and exceeded the plan goal by 40%. During Program Year 2 of Phase II (September 1, 2009 to August 31, 2010), the portfolio realized an increase in net therm savings of 36% over Program Year 1. Ms. Jackson stated that over the first three years of Phase II, Citizens' Portfolio has collectively produced more savings than the goal over the three-year period.

Ms. Jackson stated that, whenever possible, the OSB has attempted to partner with IPL to jointly implement programs. However, she noted that in 2012, several programs previously offered jointly such as the low-income weatherization and school education programs will be implemented

separately as IPL begins offering the Statewide Electric DSM core programs. She stated that the OSB is exploring ways to continue to partner with IPL and design programs to complement the Statewide Electric DSM core programs.

Ms. Jackson also described Westfield's Portfolio. Westfield began implementing efficiency programs in March of 2010. According to Ms. Jackson, the programs offered in Westfield's service territory were based on Citizens' programs with modifications to meet the needs of Westfield customers. Ms. Jackson explained that Westfield's service area is in the same media market as Citizens and, therefore, the marketing of the programs is designed to "piggyback" on the outreach efforts made for the larger Citizens' portfolio. Ms. Jackson stated that Westfield customer relations efforts are focused on energy efficiency and promotion of energy efficiency takes place through a variety of communication and information channels.

Ms. Jackson also described the overall results of Westfield's Portfolio. Ms. Jackson noted that, due to start-up costs, the small scale of the programs, and the timing of implementation, Westfield's programs were not cost-effective during the first six-month period. However, in Program Year 2, the Portfolio was cost effective and yielded net savings of 13,785 therms, which was nearly 93% of the goal. Based on the results to date, Ms. Jackson believes that the programs will continue to be successful in the future.

Ms. Jackson stated that, based on the most recent projections, Citizens' efficiency programs are expected to result in natural gas savings of nearly 6.7 million net therms. Ms. Jackson stated that if the proposed extension of Joint Petitioners' Portfolios is approved, Citizens intends to provide the same programs it currently offers, but that, as has been the case in the past, during the operation and evaluation of the programs, the OSB may determine some programs need to be modified or eliminated from the portfolio. Ms. Jackson stated the OSB will continue to look for new programs that will achieve energy savings and benefit customers. Ms. Jackson stated that Westfield also will continue to provide the existing programs, unless the OSB determines modifications to the portfolio are necessary.

Ms. Jackson testified that Joint Petitioners believe it is essential for the OSB to continue to have the same level of program funding flexibility. Ms. Jackson stated in the event results exceed the targets for a specific program, the OSB should have the flexibility to allocate additional funds to that program. Accordingly, Joint Petitioners are proposing the OSB continue to have the flexibility to modify program budgets so long as the energy efficiency portfolios pass the applicable cost effectiveness test and the overall annual portfolio budget is not exceeded. Ms. Jackson stated the OSB also should continue to have the flexibility to consider appropriate modifications to programs based upon EM&V results.

Ms. Jackson stated that Citizens intends to continue collaborating with IPL. Ms. Jackson noted that Citizens has partnered with IPL with respect to several programs, including: the residential new construction program, the school education program, low-income weatherization, the online assessment and energy kit program, the business custom program, and the multi-family direct install program. Ms. Jackson stated that if the Commission approves continuation of Citizens' Portfolio, it intends to continue these collaborative efforts.

Ms. Jackson believes that in the future integrated gas and electric energy efficiency programs will be beneficial. Ms. Jackson stated an integrated approach provides greater benefits to

the customer, lowers program delivery costs and improves the cost effectiveness of the programs. As an example, Ms. Jackson noted that installing CFL light bulbs in apartments at the same time energy efficient water fixtures are installed as part of Citizens' direct install program provides additional benefits to customers without adding significant implementation costs.

Ms. Jackson noted that Citizens has worked with other organizations to provide energy efficiency programs to its customers. She stated that Citizens has collaborated with organizations such as Indianapolis Neighborhood Housing Partnership ("INHP") and the City of Indianapolis (the "City") on "Better Buildings" programs, and with the Indiana Housing and Community Development Authority ("IHCDA"). According to Ms. Jackson, partnering with IHCDA on low-income weatherization has allowed Citizens to provide expanded services to a larger number of customers needing assistance in Marion County. She observed that the partnership had secured a matching grant of nearly \$2.2 million of federal stimulus dollars from the American Recovery and Reinvestment Act ("ARRA") that may not otherwise have been available to Marion County residents. This partnership provided weatherization services to more than 500 low-income families in Marion County.

Ms. Jackson also stated Joint Petitioners' work with the natural gas Joint Oversight Board has been beneficial. Ms. Jackson testified the Joint Oversight Board worked together to select a single EM&V administrator for gas programs across the State of Indiana.

Ms. Phillips, Citizens Energy Group's Manager, Rates & Regulatory Affairs testified regarding the timing of filing modifications to Joint Petitioners' respective energy efficiency rate adjustment mechanisms. Ms. Phillips testified that Joint Petitioners are not proposing changes to the manner in which Citizens' EEA and Westfield's Energy Efficiency Rider are calculated. Rather, Joint Petitioners only propose to change the timing of filing adjustments. Ms. Phillips stated that neither the 2007 Settlement Agreement nor the Order in Cause No. 43624 prescribes the timing of filing the EEFC Component of Citizens' EEA or the Westfield Energy Efficiency Rider. She explained that only the timing of the filing of the SRC is specifically prescribed by the 2007 Settlement Agreement.

Ms. Phillips stated that during the proposed extension period, Joint Petitioners propose to file for modifications to the EEFC and SRC on March 31st each year, with the changes to become effective on May 1st. She observed that Joint Petitioners propose to change future program periods to calendar years to make reporting clearer and comparable to the Vectren Energy reporting periods approved in Cause No. 44019. Ms. Phillips stated that, assuming program years are changed to calendar year periods instead of periods that extend from September 1st to August 31st, Joint Petitioners could not continue to file the EEFC component of their respective energy efficiency rate adjustment mechanisms on December 1st each year, to be effective January 1st. Joint Petitioners would need time after each program year end to calculate and compile the EEA and Energy Efficiency Rider.

Ms. Phillips explained that if the Commission approves the relief requested, Joint Petitioners would make annual compliance filings for the EEFCs on March 31st, with the first annual filing on March 31, 2013 to become effective May 1, 2013. Ms. Phillips stated that the May 1, 2013 EEFC would recover energy efficiency program year costs for the period extending from January 1, 2013 through December 31, 2013, and will include a reconciliation of the period from September 1, 2010 through August 31, 2011. She stated that if the proposed energy efficiency extension is not

continued beyond December 31, 2015, any outstanding prior period EEFC variances associated with the time period extending from January 1, 2014 through December 31, 2015 will be rolled into Joint Petitioners' respective GCAs by August 1, 2016.

Ms. Phillips stated Joint Petitioners also would file adjustments to the SRC on March 31st of each year with an effective date of May 1st. She pointed out that this differs from the timing of the current SRC filings, which currently are made by December 1st of each year to be effective January 1st. According to Ms. Phillips, Joint Petitioners' current SRCs are effective January 1, 2012 through December 31, 2012, and are designed to recover the difference between actual margin and adjusted order granted margin each month for the period of October 1, 2010 through September 30, 2011. Ms. Phillips stated the proposed filing dates are consistent with the dates approved for Vectren Energy in Cause No. 44019. Ms. Phillips stated that the May 1, 2013 SRCs will be designed to recover the difference between actual margin and adjusted order granted margin each month for the period extending from October 1, 2011 through December 31, 2012 and will include a reconciliation for the months of October 1, 2009 through September 30, 2010.

Ms. Phillips stated that, in her opinion, aligning the timing of filing adjustments to the EEFC and SRC reduces the administrative burden for all parties involved. In her view, aligning the adjustments also reduces administrative costs and the number changes in the rate.

5. **OUC's Case-in-Chief.** Ms. Paronish, Senior Utility Analyst in the Resource Planning and Communications Division, testified that the OUC supports the addition of CAC as a voting member of the Citizens OSB. Ms. Paronish stated the CAC's expertise in energy efficiency matters makes it a beneficial contributor to the energy efficiency OSBs and the OUC expects CAC to continue to play an important role as a voting member of Joint Petitioners' OSB.

Ms. Paronish testified that the OUC also supports changing Joint Petitioners' program years to match the calendar year. Ms. Paronish stated aligning the program year with the calendar year will simplify reporting, accounting and evaluation cycles, and observed that this modification also will align Joint Petitioners' program year with IPL's program year.

Ms. Paronish testified that the OUC further supports the integration of the Citizens and Westfield Portfolios for the purposes of reporting and administration. Ms. Paronish testified that integrating the administration of the programs should allow the Joint Petitioners to take advantage of cost savings through economies of scale. Ms. Paronish stated, however, that the OUC recommends Joint Petitioners still report budgets and results separately, itemized by company, "to determine any concerns specific programs may be having in the respective service territories and to monitor possible cross-subsidization of program budgets."

Ms. Paronish next addressed Joint Petitioners' proposed changes to the low-income weatherization program cost effectiveness testing. Ms. Paronish observed that neither Citizens nor Westfield has performed the Societal Cost Test ("SCT") on energy efficiency programs to date. Citizens and Westfield historically have performed three tests to measure cost effectiveness of programs: the TRC test, the Utility Cost Test ("UTC") and the Participant Cost Test ("PCT"). The TRC is the summation of the UTC and the PCT. Ms. Paronish testified the OUC does not support any program being measured outside of the portfolio under a different cost effectiveness standard. Ms. Paronish testified the low-income program should be included in the program portfolio for the purposes of cost effectiveness tests. According to Ms. Paronish, removing this program from the

portfolio for the purpose of cost effectiveness testing eliminates any incentive to improve the efficiency of the low-income program.

Ms. Paronish noted the low-income weatherization program received a 0.49 on the TRC in the Program Year 4 Operating Plan, which means for every \$1.00 spent on this program, only \$0.49 of benefits are realized. Ms. Paronish stated the OUCC supports continuation of the low-income weatherization program, even though the program received a low score on the TRC test. Ms. Paronish explained that the OUCC believes the OSB can work to improve the future cost effectiveness of this program. Ms. Paronish further stated the low-income weatherization program promotes the policy objective of assisting families with weatherization services at no cost, and that families eligible for this program have household incomes of no more than 200% of the poverty guidelines.

Ms. Paronish went on to indicate that the OUCC does not reject the use of a SCT as a measure of cost effectiveness, and that the OUCC does not object to the concept of performing a SCT on the program portfolio and individual programs to supplement other cost effectiveness tests. Ms. Paronish testified, however, the SCT as proposed by Mr. Sawyers is vague and unclear. Ms. Paronish suggested that, if electric and gas utilities are determined to use the SCT as a measure of cost effectiveness, the Commission should consider using a common methodology with uniform assumptions for all utilities in the state.

Ms. Paronish testified the OUCC has supported, and continues to support, cost effective energy efficiency programs to reduce the consumption of natural gas. Ms. Paronish stated that although natural gas prices have declined recently, natural gas is still a finite resource and should be conserved, and conservation of natural gas will reduce future prices and preserve fossil fuel supplies for future generations. Ms. Paronish testified, however, that Joint Petitioners have not presented a Market Potential Study (“MPS”) and Action Plan for the program portfolio during the extension period of January 1, 2013 to December 31, 2015.

Ms. Paronish stated the OUCC does not support the extension of a 15% annual budget increase without an Action Plan outlining Joint Petitioners’ intention of how to spend these funds. Ms. Paronish suggested that, even with an Action Plan in place, 15% is an excessive amount for an annual budget increase for an established program portfolio. Ms. Paronish stated that, in the 2007 Settlement Agreement, an annual budget increase of 15% was allowed because Citizens was just beginning to offer energy efficiency programs. Ms. Paronish indicated that the OUCC supports limiting the Joint Petitioners’ budget increases to 10% of the prior year’s budget, subject to OSB approval.

Ms. Paronish testified that the SRC is a revenue decoupling mechanism that allows Joint Petitioners to recover lost margins from reduced sales, regardless of the reason for the usage decline. The purpose of the SRC is to remove or decouple the linkage between revenues and sales for Joint Petitioners’ residential and general service customers. Ms. Paronish stated that a Normal Temperature Adjustment (“NTA”) was approved by the Commission in Cause No. 43202 and protects Joint Petitioners’ revenue streams from changes in weather – shifting risk of weather variations from the company to customers. Ms. Paronish testified that the OUCC does not support the extension of the decoupled rate design in combination with utility-led energy efficiency programs for the Joint Petitioners. Ms. Paronish stated that during the period of 2008 to 2011, Citizens was authorized to recover \$21,788,845 through the SRC, while lost base revenues from the

decline in sales attributed to the net savings from the energy efficiency portfolio totaled \$3,088,657 – a difference of \$18,700,188. Ms. Paronish further observed that Westfield was authorized to recover \$617,400 through the SRC between 2010 and 2011, while lost base revenue from the decline in sales attributed to the net savings from the energy efficiency portfolio totaled \$5,772 – a difference of \$611,628.

Ms. Paronish explained that a number of states adopted natural gas revenue decoupling between 2007 and early 2010 because of concerns with a projected shortage in supply, which is no longer the case. Supply of natural gas is projected to meet demand over the next several years, and the abundance of natural gas has caused significant downward pressure on prices. Ms. Paronish also suggested that the economic recession has impacted customers' natural gas usage, as customers will tend to conserve gas in attempt to lower bills – even in the absence of energy efficiency programs. In traditional ratemaking, Petitioners would have shouldered the risk for the recession's effect on gas sales. Ms. Paronish testified that with a decoupled rate design, the risk is shifted to consumers, as they will pay Petitioners' lost revenue in the next period, regardless of the cause.

Ms. Paronish concluded that extension of the SRC as designed is not in the public interest, and that it would not serve the public interest to extend the life of the current Joint Petitioners' decoupling mechanism. Ms. Paronish stated that, as designed, the SRC does not sufficiently protect the public. In Ms. Paronish's opinion the SRC has shifted significant risk from the utility to its customers. Ms. Paronish stated only 14% of the revenue collected through the SRC can be attributed to the net benefits of the energy efficiency programs.

Ms. Paronish testified that the OUCC would support an alternative to the decoupling mechanism currently in place. Ms. Paronish suggested an alternative could include a modified decoupling mechanism or a lost revenue adjustment.

At the hearing, Ms. Paronish acknowledged that the OUCC had entered into a settlement in Cause No. 43995 authorizing eight small LDCs to implement SRC, which was approved on November 30, 2011. (Tr. at A-10.) Ms. Paronish stated: "When we agreed to pilot those programs, this started back around February of 2011, . . . there was still speculation about where gas prices may be, and since that time, we've seen that gas prices have continued to decline, and we also would note that all of these other gas utilities are in a different position than what Citizens Gas is; it is a Public Charitable Trust, and so we believe that making that Trust whole through lost margins should be enough." (Tr. at A-10 through A-11.)

Mr. Grosskopf, Senior Utility Analyst for the OUCC, testified that the SRC is used to recover operating margins lost as a result of reduced sales caused by declining customer usage. Mr. Grosskopf stated that Joint Petitioners annually make a compliance filing with the Commission, requesting recovery of the difference between actual margins for the most recent fiscal year and adjusted order granted margins approved in the most recent rate case. According to Mr. Grosskopf, the SRC compensates gas utilities for lost revenue from any source, including usage reductions resulting from energy efficiency programs promoted by the utility, declining usage attributable to a customer's own reaction to higher utility bills, replacement of older appliances with more energy efficient ones, or any other factors influencing customer usage.

Mr. Grosskopf noted that the Energy Efficiency Adjustment also includes an Energy Efficiency Funding Component ("EEFC") to recover the cost of energy efficiency efforts from

customers. He noted that, along with the SRC, the total EEFC amount is applied to projected sales volumes for the upcoming year to develop a per therm factor for each component. He stated the SRC and EEFC components are added together to come up with an Energy Efficiency Adjustment Rate applicable to Citizens Rate Schedules D1, D2, D3, and D4 (Residential and General rate classes) and Westfield Rate Schedules D20 and D40 (Residential and Commercial classes).

Mr. Grosskopf sponsored Public's Exhibit MHG-2, containing a cost benefit analysis of authorized SRC revenue recovery and EEFC recovery compared to gas cost savings since the inception of these recovery mechanisms for Joint Petitioners. He stated that two key elements of this exhibit are shown as Authorized SRC Recovery and Lost Base Revenue. He explained that Authorized SRC Recovery is the monetary benefit to the utility through the SRC decoupling mechanism, totaling \$21,788,845 for Citizens and \$617,400 for Westfield. Mr. Grosskopf stated that the Authorized SRC Recovery reflects the actual monetary value to the utilities for the overall declining margin per customer for the respective periods indicated on Public's Exhibit MHG-2, whether caused by Joint Petitioners' energy efficiency efforts or resulting from consumer behaviors outside the utilities' control. Mr. Grosskopf further stated that Lost Base Revenue, as shown on the exhibit, reflects the value of the margins lost as a direct result of Joint Petitioners' energy efficiency programs, totaling \$3,188,008 for Citizens and \$5,772 for Westfield.

Mr. Grosskopf summarized that, to date, Joint Petitioners have benefited from decoupling with increased sales margins of \$21,788,845 and \$617,400. In comparison, he stated, as a result of energy efficiency programs, Joint Petitioners have lost base revenues in the amount of \$3,188,008 and \$5,772. Mr. Grosskopf stated that this indicates a significant difference between the benefits of decoupling, and lost margins through energy efficiency programs.

Mr. Grosskopf explained that another portion of Exhibit MHG-2 shows the average gas costs for the applicable periods, calculated from GCA factors and therm sales used in GCA filings as shown in MHG-3. Mr. Grosskopf stated that the authorized program funding to date of \$12,483,438 for the Citizens' Portfolio and \$58,598 for the Westfield Portfolio can be compared to the total estimated net margin and gas cost savings resulting from the programs of \$9,173,515 for Citizens and \$14,590 for Westfield Gas. He stated that the total energy efficiency funding of \$12,483,438 and \$58,598 are also recovered from ratepayers, in addition to the total SRC recovered amounts of \$21,788,845 and \$617,400.

Mr. Grosskopf concluded that the net margin savings and gas cost savings to the ratepayer fall far short of the costs paid by the ratepayer. The costs to the ratepayer exceed the savings to the ratepayer from energy efficiency programs. The benefits to the utility from recovery of SRC (decoupling) revenue exceed the cost to the utility from lost margin by an even larger comparative amount. Accordingly, Mr. Grosskopf stated the OUCC recommends the Commission deny Joint Petitioners' request for continuation of the SRC mechanism used in decoupling, as it is currently designed.

During the evidentiary hearing, Mr. Grosskopf stated that "[o]ur Office is not embracing the straight fixed variable. I think there's room for review of that in the future. I think we would make arguments against that." (Tr. at A-18.)

**6. Joint Petitioners' Rebuttal Evidence.** In rebuttal, Mr. Sawyers stated that the OUCC appears to be under a misconception that Joint Petitioners do not currently have an MPS and

Action Plan in place, which is the basis for its recommendation that the Commission authorize only a temporary extension of the programs. Mr. Sawyers testified that Citizens does have an MPS and Action Plan supporting the energy efficiency program portfolio through August 31, 2013, which is the first full year of the proposed extension period. He explained that the existing and still effective MPS and Action Plan were completed by Forefront Economics, Inc. and H. Gil Peach & Associates, LLC on July 31, 2008 subsequent to the Commission's August 29, 2007 *Order on Rehearing* in Cause No. 42767 approving funding levels for the initial five year term of Citizens' Portfolio.

Mr. Sawyers noted that the OUCC does not allege there is something wrong with the existing MPS and Action Plan. Mr. Sawyers also observed that the OUCC does not dispute that Joint Petitioners' existing programs are cost effective. He noted that the existing programs were designed with the aid of the existing MPS and Action Plan and presumably will be continued during at least the initial portion of the extension term, if not longer.

Mr. Sawyers stated there would not be a time during the extension period when the OSB does not have an MPS and Action Plan available to use as a basis for decisions. Mr. Sawyers stated that at the outset of the extension period, Joint Petitioners anticipate the OSB will use the existing MPS and Action Plan as a guide to determine what programs will be offered in conjunction with recommendations from the third party administrator, as has been past practice. He stated a new MPS and Action Plan is being prepared jointly for Citizens and IPL, and he expects it will be completed by the end of 2012. This means there will be an approximately 8-month period during the proposed extension term when the OSB will have two Action Plans on which to base decisions.

Mr. Sawyers noted the Commission did not require the currently effective MPS and Action Plan be submitted for review or approval in Cause No. 42767, nor did the Commission require an MPS and Action Plan be prepared and filed before approving the Westfield Portfolio in Cause No. 43624. Mr. Sawyers stated, however, that Joint Petitioners are willing to provide a copy of the new MPS and Action Plan to the Commission.

In Mr. Sawyers' opinion it is not in the public interest for the Commission to effectively discontinue the program, as proposed by the OUCC. According to Mr. Sawyers, if the Commission were to accept the OUCC's proposal, the effect would be a discontinuance of natural gas energy efficiency offerings in Indianapolis and Westfield for six months to a year. In Mr. Sawyers' opinion such a result is unsound, particularly given the fact that the assumed premise for the OUCC's recommendation is wrong – there is an existing MPS and Action Plan and there will be a replacement MPS and Action Plan in place well before the existing Plan expires. Mr. Sawyers added that discontinuance of Joint Petitioners' Portfolios is inconsistent with the 2007 Settlement Agreement, which was intended to ensure the Portfolio would continue uninterrupted. (*Id.* at 13-14.) Mr. Sawyers recommended the programs be extended through December 31, 2015, as proposed by Joint Petitioners.

Mr. Sawyers stated the OUCC's recommendation that Joint Petitioners' budget increase be limited to 10% of the final year's budget is again based on the apparent misconception that Citizens does not have an MPS and Action Plan. Mr. Sawyers pointed out, however, that Joint Petitioners' proposed 15% increase for the first year of the extension period is recommended in the existing and currently effective MPS and Action Plan. Mr. Sawyers disagreed with the OUCC's suggestion that a 15% increase is an excessive amount for an annual budget increase for an established portfolio. Mr. Sawyers described the annual budget increases authorized for IPL and I&M as well as the

authority granted to their OSBs to overspend the budget by 10% without prior Commission approval. Mr. Sawyers noted that Joint Petitioners are not proposing the OSB be given the flexibility to overspend the annual budget by any amount, but are simply proposing that the OSB have the authority to increase the annual budget, if warranted, by up to 15% from year-to-year. In Mr. Sawyers' opinion, compared to the increases approved for IPL and I&M, Joint Petitioners are proposing modest year-to-year increases.

Mr. Sawyers went on to note that he anticipates the joint MPS and Action Plan that will be completed in late 2012 will show the need for budget increases of 15% or greater for Years 2 and 3 of the proposed extension period. Mr. Sawyers ultimately recommended the Commission authorize the OSB to increase Joint Petitioners' energy efficiency budgets by up to 15% annually without further Commission approval during the extension period, beginning in Year 1, when the budget could be increased to \$4.4 million as recommended in the currently effective MPS and Action Plan. He noted that, to the extent the OSB wishes to increase the annual budget of any year in an amount exceeding 15% of the prior year's budget (based on the results of the new MPS and Action Plan, or otherwise) further Commission approval would be required.

Mr. Sawyers noted that the OUCC does not support use of the SCT to determine the cost effectiveness of residential low-income weatherization performed with the \$470,588 of funding recovered through Citizens' base rates. Mr. Sawyers stated that, despite the considerable value of the residential low-income weatherization program in Citizens' service territory, the program is not likely to be determined cost effective using the TRC Test. Therefore, he explained, when the low-income program is evaluated as part of the entire portfolio using the TRC Test, its low cost-to-benefit ratio potentially could result in the OSB being placed in the position of having to limit the residential low-income weatherization program or decide not to offer other valuable energy efficiency programs that are just marginally cost effective. Mr. Sawyers observed that although the OUCC states that the OSB can work to improve the future cost effectiveness of the low-income weatherization program, the OUCC has not identified any ways to improve the TRC score of the program. Mr. Sawyers believes the only viable solution for accurately measuring the value of low-income weatherization is the SCT. Mr. Sawyers noted that measuring non-energy benefits in considering the cost-to-benefit ratio of low-income programs is not a new concept, and he does not foresee that an EM&V specialist would have any difficulty developing or performing an SCT.

Mr. Sawyers further stated that he sees no benefit of performing a TRC Test and SCT to measure the cost effectiveness of residential low-income weatherization. According to Mr. Sawyers, applying two tests will result in duplicative administrative costs, which ultimately will limit funds available for energy efficiency programs.

Mr. Sawyers next addressed the OUCC's recommendation regarding the SRC. Mr. Sawyers stated that Public's Exhibit MHG-2 presents an inappropriate comparison that understates margin losses attributable to Joint Petitioners' energy efficiency programs. He testified it is not appropriate to compare savings attributable to the energy efficiency programs to the amount of lost margins recovered through the SRC. Mr. Sawyers indicated such a comparison was never intended to be made. The SRC was designed in response to the fact that volumetric pricing makes it difficult for an Indiana gas utility to earn its authorized return, or in Citizens' case recover its approved revenue requirements, because usage per customer is declining.

Mr. Sawyers stated that comparing savings attributable to the energy efficiency programs to

the amount of lost margins recovered through the SRC understates energy savings achieved by a utility actively promoting energy conservation. Mr. Sawyers explained there is a substantial amount of savings attributable to both the programs themselves and efforts made by the utility outside the energy efficiency programs that cannot be accurately measured, if measured at all. Mr. Sawyers stated “it is entirely possible, if not probable, that the entire amount of the lost margins recovered through Joint Petitioners’ SRCs can be attributed to their energy efficiency efforts.”

Mr. Sawyers went on to observe that the OUCC and Vectren Energy jointly filed in Consolidated Cause Nos. 42943 and 43046 a *Memorandum in Support of Approval of Efficiency Settlement and Adoption of Proposed Order* (the “Memorandum”), in which they identified a number of flaws with attempts to measure lost margins caused by efficiency programs. (*Id.*) In the Memorandum, the OUCC and Vectren identified four main flaws: (i) the approach “simply ignores the value in all the energy efforts beyond formal programs that are difficult to measure, but clearly provide value;” (ii) “It also ignores the overriding goal of changing the utility culture for the long-term – a utility cannot be expected to permanently transform itself to a non-sales oriented entity absent clear and complete cost recovery terms;” (iii) “[L]ost margin recovery is a contentious issue that can be exceedingly difficult to resolve;” and (iv) “[U]ltimately, many of the utility’s supportive efficiency efforts, such as media campaigns, which have value, cannot be measured very easily in terms of outcome.” Mr. Sawyers noted that, in its Order in Consolidated Cause Nos. 42943 and 43046, the Commission accepted these arguments and rejected the CAC’s proposed lost revenue adjustment.

Mr. Sawyers stated that the OUCC now has attempted to undertake the precise analysis it and Vectren Energy argued should not and could not be accurately performed in Consolidated Cause Nos. 42943 and 43046. He pointed out that, while the OUCC appears to accept as a fact that the energy savings deemed through EM&V to be attributable to Joint Petitioners’ energy efficiency programs represent the entire amount of margin losses experienced as a result of the programs, the Memorandum reflects that the amount of lost margins attributable to energy efficiency programs is a “contentious issue” that can be “exceedingly difficult to resolve.” Mr. Sawyers indicated the OUCC’s analysis also ignores the value in all the energy efforts beyond formal programs that are difficult to measure, but clearly provide value.

Mr. Sawyers stated that the therm savings used to derive the estimated \$3 million of “Lost Base Revenue” shown on Public’s Exhibit MHG-2 generally are “deemed” savings based on modest estimates which significantly understate the margin losses actually caused by Joint Petitioners’ energy efficiency programs. Mr. Sawyers also indicated that the \$3 million does not include gas cost savings customers have achieved through the Portfolio. He noted that Public’s Exhibit MHG-2 estimates the programs have achieved an additional \$5.8 million of gas cost savings, and that, while these savings are not “lost margins,” they should not be overlooked in any discussion of the value of the Portfolio.

Mr. Sawyers stated that the residential prescriptive rebate program for gas furnaces is an example of an energy efficiency program for which margin losses are understated. Mr. Sawyers explained that the amount of energy savings deemed generated by the program is based on the difference between the annual fuel utilization efficiency (“AFUE”) value of the gas furnace purchased through the rebate program and the AFUE value of a current minimum efficiency furnace in the market. At present, he stated, the minimum efficiency furnace in the market has an AFUE value of approximately 80% and Petitioner’s programs incented furnaces with an AFUE value of

92%. Based on program data collected by Joint Petitioner's program contractor, Mr. Sawyers expects that very few of the furnaces replaced in Citizens' territory have AFUE values as high as 80% and that, therefore, the gas savings and corresponding margin losses that actually result from the rebate program are significantly understated.

Mr. Sawyers noted that the savings estimates for the other prescriptive rebate programs are similarly understated. He noted, for example, that Joint Petitioners offer rebates to customers that purchase Energy Star water heaters. According to Mr. Sawyers, the amount of energy savings deemed generated by the prescriptive rebate program for water heaters has been based on the difference between the gas consumed by a water heater with an EF of .59 (the current market minimum) and a water heater with an EF of .62. He noted, however, that due to the age of the housing stock in Citizens' service territory, water heaters being replaced likely have EFs of less than .5, which means the program is generating far more savings and margin loss than is "deemed" to have occurred.

Mr. Sawyers stated that energy savings and margin losses attributable to the commercial prescriptive rebate programs are similarly understated. He believes the disparity between actual savings and margin losses and the deemed savings for commercial programs may be even greater since commercial customers typically use more gas than residential customers. He also stated the same issues would affect savings estimates for the Westfield prescriptive programs, but possibly to a lesser extent due to newer housing stock.

Mr. Sawyers testified that the most significantly understated savings estimates are those attributed to the low-income and working poor weatherization programs. The deemed savings for the low-income and working poor weatherization programs are reported at 295 therms per household. Mr. Sawyers stated the Indiana Community Action Association conducted a post-completion assessment on low-income and working poor homes in Indianapolis weatherized during Citizens' 2007 and 2008 program years, and the assessment found energy savings resulting from weatherizing low-income homes was 631 therms (+/- 94 therms). He further noted that energy savings gained from weatherization of working poor homes was 402 therms (+/- 44 therms). By using these under-estimated savings values, Mr. Sawyers believes the understatement of energy savings and resulting margin losses is compounded each year.

Mr. Sawyers also testified that Citizens offers energy efficiency programs that are not among the formal programs evaluated and included in the savings used as the source for Public's Exhibit MHG-2. He noted, for instance, that Citizens has made significant efforts to promote the use of available ARRA weatherization funds among its customers that receive Universal Service Program assistance. As a result of those efforts, WECC, on behalf of Citizens and IPL, weatherized 430 homes in the City of Indianapolis over the last three years. Mr. Sawyers also observed that there are other entities weatherizing low-income and working poor homes in Indianapolis and that, since January 1, 2008, a number of groups have weatherized a substantial number of homes in Indianapolis using ARRA funds.

Finally, Mr. Sawyers testified that Public's Exhibit MHG-2 fails to reflect the savings and corresponding margin losses resulting from Citizens' educational outreach initiatives. Mr. Sawyers stated that, in his opinion, the most significant savings Joint Petitioners have achieved were accomplished through outreach efforts, in some cases made through media campaigns and in other cases made by employees individually. Mr. Sawyers described in detail Joint Petitioners'

conservation outreach efforts, which include using a wide variety of media to promote conservation (e.g., the internet, bill stuffers, radio, television and communications at various events). Mr. Sawyers noted that Joint Petitioners' employees also regularly promote and assist customers in conserving natural gas. He noted that, since September of 2007, Citizens has devoted approximately \$1.5 million on messaging and outreach intended to promote conservation, apart from any messaging provided through the energy efficiency portfolio.

Mr. Sawyers believes the outreach efforts have been effective, resulted in substantial energy savings and would not have occurred absent the SRC. In Mr. Sawyers' opinion a large portion of the lost margins Joint Petitioners have experienced over the past four years are directly attributable to the efforts Joint Petitioners have made to encourage and teach customers how to conserve energy. While he acknowledged that the precise amount of the savings from the outreach efforts cannot be measured, he concluded by echoing the language from the OUCC's and Vectren Energy's Joint Memorandum which states "ultimately, many of the utility's supportive efficiency efforts, such as media campaigns, which have value, cannot be measured very easily in terms of outcome."

Ms. Prentice, Vice President, Regulatory Affairs of Citizens Energy Group, testified regarding the OUCC's recommendations with respect to the SRC. Ms. Prentice stated the OUCC recommends the Commission deny Joint Petitioners' request to continue the SRC decoupling mechanism "in its present form," but does not specifically suggest what form, if any, the decoupling mechanism should be continued in. Ms. Prentice noted that the OUCC suggests an alternative could include either a "modified decoupling mechanism" or some sort of a "lost revenue adjustment". She pointed out that no explanation was offered to describe what the OUCC means by "modified decoupling mechanism," and the Commission rejected the lost revenue adjustment when it approved Vectren Energy's SRC in Consolidated Cause Nos. 42943 and 43046, in part, based on the OUCC's opposition.

Ms. Prentice stated it appears the OUCC is either under the misconception the SRCs were designed purely to recover lost revenues that can be attributed to the energy efficiency programs or, alternatively, has changed its position since the SRCs were approved in 2007 and 2010. Responding to Witness Grosskopf's conclusion that there is a "significant difference between the benefits of decoupling, and lost margins through energy efficiency programs," Ms. Prentice pointed out that the SRC was never intended to recover just lost margins caused by Joint Petitioners' energy efficiency programs, and that Mr. Grosskopf's analysis does not measure the true benefits of decoupling, which include sustained bond credit ratings and improved ability to meet operational requirements.

Ms. Prentice explained the SRC was approved because the Commission found "volumetric pricing makes it difficult for an Indiana gas utility to earn its authorized return, or in Citizens' case, recover its approved revenue requirements, because usage per customer is declining" creating an "asymmetrical risk for gas utilities." Ms. Prentice stated that the difficulties declining usage pose for natural gas utilities have not gone away since Citizens' and Westfield's SRCs were approved in 2007 and 2010, respectively. She testified that the OUCC's recommendation in this proceeding is an attempt to require Joint Petitioners to again bear the "asymmetrical risk" for declining usage without regard to the adverse impact that might have on their ability to meet operational requirements or maintain credit ratings.

Ms. Prentice expressed her view that it is not appropriate to redefine the purpose and scope

of the SRC as proposed by the OUCC. She noted that, aside from mitigating “asymmetrical risk,” the Settlement Agreement in Cause No. 42767 was designed to change Citizens’ culture to one of actively promoting conservation. To that end, she observed, Citizens agreed to direct all of its employees to advocate energy efficiency. She stated that Joint Petitioners made the cultural changes envisioned in Cause No. 42767 to the benefit of their customers and notwithstanding the detriment to their margins. She testified that it would be unfair and inconsistent with the spirit of the Settlement Agreement in Cause No. 42767 to change the purpose and scope of the SRC after the desired outcome has been achieved. She also stated that a retroactive change of course could adversely impact Citizens’ credit rating, as well as those of other utilities in the State of Indiana.

Ms. Prentice stated that in her opinion the decline in natural gas prices does not make the SRC unnecessary. According to Ms. Prentice, regardless of whether natural gas supply may or may not be more abundant and less expensive in coming years, Public’s Exhibit MHG-2 shows that usage per customer continues to decline, in large part as a result of Joint Petitioners’ conservation efforts. Thus, she noted, absent the SRCs, Joint Petitioners would not have the opportunity to recover their authorized revenue requirements. Ms. Prentice further noted that the Commission recently found natural gas prices continue to be volatile and unpredictable. Ms. Prentice also noted the possibility that EPA policies may force a shift from coal generation to gas generation in the near future, which may drive higher demand for natural gas and potentially higher prices.

Ms. Prentice stated that the Commission considered and rejected the OUCC’s “lost revenue adjustment” suggestion in Consolidated Cause Nos. 42943 and 43046. The CAC in that matter testified it supported the SRC to the extent it would allow recovery by the utility of revenues lost due to the energy efficiency program, which, Ms. Prentice observed, is in essence the equivalent of the OUCC’s proposed “lost revenue adjustment.” Ms. Prentice stated that a lost revenue adjustment does not address the impact of declining sales volumes on fixed cost recovery, which was a significant reason for the Commission’s approval of Vectren’s SRC in Consolidated Cause Nos. 42943 and 43046. Ms. Prentice stated that Joint Petitioners having changed their culture to sponsorship of reduced gas usage, turned over energy efficiency efforts to an independent OSB, and continued to be affected by reduced usage reductions, as shown in Public’s Exhibit MHG-2.

Ms. Prentice added that a lost revenue adjustment would continue to involve difficulties and contentiousness in measuring lost margins attributable to particular programs and non-program conservation efforts as the Commission found in Consolidated Cause Nos. 42943 and 43046. Ms. Prentice pointed out that the OUCC opposed the CAC’s proposed lost margin recovery mechanism in Consolidated Cause Nos. 42943 and 43046. In the Memorandum, the OUCC referred to a lost margin adjustment as the: “approach of, ‘give us all the efficiency and trust that ultimately you will get some measure of lost margin recovery,’ [which] simply ignores the value in all the efficiency efforts beyond formal programs that are difficult to measure, but clearly provide value. It also ignores the overriding goal of changing the utility culture for the long-term - a utility cannot be expected to permanently transform itself to a non-sales oriented entity absent clear and complete cost recovery terms. . . .”

Ms. Prentice stated that in this proceeding, well after Joint Petitioners have transformed themselves to non-sales oriented entities, the OUCC essentially is taking back the above statements. Instead of continuing to support the clear and complete cost recovery terms of the SRC, the OUCC proposes a “give us all the efficiency and trust that ultimately you will get some measure of lost margin recovery” approach that ignores the value of all the Joint Petitioners’ efficiency efforts

beyond formal programs that are difficult to measure. Ms. Prentice noted that the OUCC has not explained why it is changing its position and adopting the position CAC took in Consolidated Cause Nos. 42943 and 43046, which the OUCC opposed, and which the Commission ultimately rejected. She noted that, nonetheless, while the OUCC's change in position is troubling, it would be far more distressing if the Commission were to likewise abruptly reverse its previous findings -- less than two years after it approved the Westfield SRC.

Ms. Prentice then discussed Citizens' SRC, noting that as with the Vectren Energy SRC, the Commission's findings cited two primary reasons supporting its approval. First, the SRC "aligns Citizens' interest with its customers' interest in reducing usage through more efficient energy usage." Second, the SRC ensures "Citizens' ability to recover its non-gas costs, meet its operational requirements, and avoid the adverse consequences for its credit ratings that could result without decoupling." Ms. Prentice stated that both the Order in Cause No. 42767 and the 2007 Settlement Agreement are clear that the SRC was designed to allow Citizens to fully recover its Commission-approved margins.

Addressing Ms. Paronish's statements that "Joint Petitioners already are protected from the risk of weather variations through the NTA[,]" and that "[t]he NTA shifts the risk of weather variations from the company to its customers[,]" Ms. Prentice noted that in Cause No. 42767 the Commission found the SRC was an appropriate companion to the NTA, but emphasized that existence of an NTA was not intended to nor does it obviate the need for the SRC (a circumstance which Ms. Prentice noted the OUCC recognized in comments filed in 2007 in Cause No. 43180).

Ms. Prentice also addressed Ms. Paronish's testimony that, in a recessionary period, customers tend to conserve gas, even in the absence of energy efficiency programs, and that, with a decoupled rate design, the risk of an economic recession's effect on gas sales is shifted to consumers. Ms. Prentice noted that Ms. Paronish's argument regarding customers' independent efforts to conserve during a recession is analogous to an argument made by a CAC witness in Cause No. 42767, which the Commission rejected.

Ms. Prentice stated that the OUCC's recommendation in this proceeding is that Joint Petitioners again should assume the "asymmetrical risk" the Commission mitigated through its approval of SRCs in Cause No. 42767 and Cause No. 43624. Ms. Prentice stated that absent the NTA and SRC, Joint Petitioners do not have the opportunity to recover their authorized revenue requirements, which places them in a financially critical situation to meet their operational requirements.

Ms. Prentice noted that the Commission's October 21, 2009 order in Cause No. 43180 found that "[r]ate design alternatives to traditional volumetric rate design offer solutions to declining usage and increasing demand for energy efficiency and conservation[,]" and "[t]he impacts of decoupling on ratepayers should be analyzed through a rate case with protective measures and conservation alternatives recommended." Ms. Prentice further noted that, in that Cause, the OUCC recognized the importance of providing natural gas utilities the opportunity to fully recover their Commission-approved revenue requirements. The OUCC commented in that cause that "[d]ecoupling enables gas utilities to recover fixed costs with much greater certainty even in a market with declining sales volumes. To the extent this increased certainty reduces the utility's business risk, ratepayers will see benefits in the form of reduced cost of capital."

Ms. Prentice noted that the Commission recently approved the SRC again on August 18, 2011, when the Commission approved a Settlement Agreement entered into between Vectren Energy and the OUCG authorizing Vectren Energy to extend its SRC through December 31, 2015. Ms. Prentice indicated the OUCG testified that decoupling remains “an appropriate rate design to promote the energy efficiency efforts of Vectren Energy” because it “enables a utility . . . to pursue reductions in customer usage, while ensuring recovery of appropriate operating costs.” She noted that the Settlement Agreement in that proceeding provided for a cap on the SRC charge imposed on the residential class, designed to protect customer bills from “large variations in individual bills as a result of an SRC rate change.” However, Ms. Prentice explained that the cap does not impact Vectren’s opportunity to earn a reasonable return, notwithstanding declines in customer usage, and that, at most, it may delay some recovery to future energy efficiency rider filings or future rate cases.

Ms. Prentice further testified that the SRC has positively impacted Citizens’ credit rating. Ms. Prentice stated Moody’s Investor Services (“Moody’s”) consistently lists as a strength the fact that “[n]ew rate policies include weather normalization and decoupling of rates for conservation, [which have] helped further stabilize cash flow.” She also indicated Standard & Poor’s Rating Service (“S&P”) regularly cites as a gas system credit strength Citizens’ “newly adopted mechanisms to mitigate weather variation and preserve gross margins.”

Ms. Prentice noted that S&P reports further state Citizens’ “stable outlook reflects our assessment of Citizens’ stable service area economy, stable operations, adequate projected debt service coverage and high commodity-cost-recovery certainty from recently approved weather normalization and decoupling mechanisms. . . .” She also observed that, in describing Citizens’ “business risk profile,” S&P notes that “Citizens’ experience with the IURC has improved. . . . [A]lthough the IURC initially rejected Citizens’ request for decoupling gross margins from sales, it did ultimately approve it in August 2007. . . .” Ms. Prentice further related the S&P reports’ statement that “[t]he GCA, NTA, and decoupling mechanism are all very favorable to credit quality. . . . [T]he decoupling mechanism makes it possible for the utility to encourage energy conservation and maintain margins approved by the commission.” Ms. Prentice is concerned that if the Commission were to change course with respect to decoupling, such a change might adversely impact Citizens’ credit rating.

At the hearing, Ms. Prentice stated that she believes “the customers have seen tremendous savings as a result of the energy efficiency programs as well as the efforts that Citizens agreed in the Settlement Agreement to undertake which was basically to transform the culture of the utility into one that embraces and encourages energy efficiency, and as a result of that, our customers have taken that into consideration, and they are, in fact, conserving, and we see that.” (Tr. at A-82.) Ms. Prentice testified that “[b]ecause the customers have taken conservation efforts into consideration, based upon the sales volumes under which our rates -- our base rates were calculated, looking at that as a baseline, and what customers have actually used, customers have saved in gas costs alone \$99 million during the course of the time that the SRC has been in place.” (Tr. at A-83.)

Ms. Prentice recommended that the Commission approve Joint Petitioners’ alternative regulatory plan as proposed, and specifically recommended the SRC be continued commensurate with the extension of the energy efficiency programs.

Mr. Fetter, President of Regulation UnFettered, also provided rebuttal testimony on behalf

of Joint Petitioners. Mr. Fetter stated regulation is a critical factor in assessing the utility's credit profile because a public utility commission determines rate levels and the terms of conditions and service. Mr. Fetter stated that rating agencies look for the consistent application of sound economic regulatory principles by utility regulators. According to Mr. Fetter, if a regulatory body encourages a company to make investments based upon an expectation of the opportunity to earn a reasonable return (or here, with Citizens' charitable trust structure, receive timely recovery of prudent expenditures) and then does not apply regulatory principles in a manner consistent with such expectations, investor interest in providing funds to such a utility declines, debt ratings suffer, the utility's cost of capital increases and, correspondingly, so do rates.

Mr. Fetter stated that the rating agencies view Citizens positively, with strong ratings from both Moody's and S&P. Mr. Fetter observed that Moody's has rated Citizens' gas distribution system 'A2' with a Stable outlook, and commended supportive Commission policies related to weather normalization and decoupling (through the SRC), which have helped stabilize cash flow. S&P rates Citizens' gas utility system 'A-', one notch lower than Moody's, also with a Stable outlook. He further noted that, similar to Moody's, S&P highlights as positive rating factors "newly adopted [in 2010] mechanisms to mitigate weather variation and preserve gross margins [though the SRC]."

Mr. Fetter stated that rating agency mentions of decoupling are significant. Mr. Fetter noted that decoupling has spread significantly during the past decade. Gas decoupling has been authorized in 29 states. He noted that use of decoupling is becoming more and more the norm with each passing year, and he expressed his view that if the Commission were to hold steady with the Citizens and Westfield SRCs, such action would be wholly consistent with mainstream regulatory thinking in the United States.

Mr. Fetter testified that he expects the rating agencies would view continuation of the SRC very favorably, and quoted from a recent Special Comment released by Moody's which stated: "Prospectively, we see utilities and regulators increasingly working together to find solutions that accomplish two key objectives: providing timely cost recovery for utilities and managing the all-in rate increases for consumers. To that end . . . increasing acceptance of various revenue decoupling mechanisms accompanying energy efficiency/conservation programs, would be widely viewed to be credit positive."

Mr. Fetter also cautioned that a pullback on decoupling could have a negative effect on other utilities within the state. He suggested that a retreat on decoupling in this proceeding, particularly for a utility like Citizens that does not even benefit from the SRC on behalf of profit-seeking shareholders, would be viewed as a major step away from constructive ratemaking, and could cast doubt on the ability of other utilities within the state to be able to continue to rely upon the financial stability that decoupling mechanisms provide.

Ms. Jackson testified in rebuttal that the new MPS and Action Plan is anticipated to be completed in November 2012. Ms. Jackson stated that completion of the new MPS and Action Plan in November of 2012 should allow for a seamless transition from the old MPS and Action Plan to the new joint MPS and Action Plan. Ms. Jackson stated that Joint Petitioners learned of IPL's intention to complete a new MPS and Action Plan and thereafter, Citizens' OSB approved Joint Petitioners' participation in the MPS and Action Plan. The RFP was issued by Citizens and IPL on March 30, 2012. Working collectively, she stated, IPL, Citizens, and the OUCC reviewed the

responses and interviewed finalists. She indicated that Joint Petitioners are in the process of finalizing contracts, and that the study will begin in early June 2012, with draft reports being available in early-November, and the final report due in late-November.

Ms. Jackson indicated that Joint Petitioners believe completing the MPS and Action Plan jointly with IPL is in the best interest of customers because Joint Petitioners are able to share costs that otherwise would be duplicated if separate studies were done. The total cost of the joint MPS and Action Plan will be split equally between Citizens and IPL and Joint Petitioners will pay for their portion with unallocated funds from the program year 4 budget. Ms. Jackson concluded by expressing her view that completing the joint MPS and Action Plan will benefit Joint Petitioners' customers, and that the joint MPS and Action Plan will provide the OSB with the information it needs to continue making program decisions and identify opportunities to partner with IPL.

7. **Commission Discussion and Findings.** Joint Petitioners request that the Commission approve, to the extent necessary as an alternative regulatory plan under Ind. Code ch. 8-1-2.5, the: (i) extension of their respective gas energy efficiency programs, with certain limited modifications described herein through December 31, 2015; and (ii) continuation of their respective energy efficiency rate adjustment mechanisms.

Pursuant to Ind. Code § 8-1-2.5-6(a)(1), the Commission may adopt alternative regulatory practices, procedures and mechanisms, and establish rates and charges that: (a) are in the public interest as determined by a consideration of the factors listed in Indiana Code § 8-1-2.5-5; and (b) enhance or maintain the value of the energy utility's retail energy services or property, including practices, procedures, and mechanisms focusing on the price, quality, reliability and efficiency of the service provided by the energy utility. Pursuant to Indiana Code § 8-1-2.5-5(b), the Commission, in determining whether the public interest will be served by approving alternative regulatory mechanisms must consider:

(1) Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise, in whole or in part, of jurisdiction by the commission unnecessary or wasteful.

(2) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility's customers, or the state.

(3) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency.

(4) Whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.

Thus, the Commission considers the evidence presented in light of these factors to determine whether the public interest will be served in approving the requested ARP.

A. **Continuation of Energy Efficiency Programs and EEFC Component.** Citizens' Portfolio and EEA have been in place since August 2007. Westfield has had its Portfolio

and energy efficiency rate adjustment mechanism in place since March 2010. Joint Petitioners proposed to extend their respective Portfolios and energy efficiency rate adjustment mechanisms through December 31, 2015, which coincides with the extension of the energy efficiency portfolios and energy efficiency riders of Vectren Energy approved in Cause No. 44019.

Initially, we note the Commission previously has found the provision of natural gas energy efficiency programs with accompanying funding to be appropriate and in the public interest for nearly every jurisdictional gas utility in the State of Indiana. On August 18, 2011, in Cause No. 44019, we approved a settlement agreement reached between the OUCC and Vectren Energy to extend Vectren Energy's efficiency programs. On December 28, 2011, we approved the expansion of NIPSCO's natural gas energy efficiency program in Cause No. 44001. On November 30, 2011 in Cause No. 43995, we authorized eight small gas utilities to implement energy efficiency programs similar to those being offered by Vectren Energy, contingent upon approval of new rates.

Accordingly, we have consistently "approved, and expressed support for, specific utility portfolios of energy efficiency programs that are designed for specific customer classes and shown to be cost effective through regulatory review and appropriate EM&V." *Midwest Natural Gas, et al.*, Cause No. 43995 at 8 (IURC Nov. 30, 2011). Joint Petitioners' programs are overseen by an independent OSB charged with ensuring that the programs are cost effective and designed to meet the needs of Joint Petitioners' customer classes. As we found in our Order on Rehearing in Cause No. 42767, the OSB "monitor[s] the effectiveness of all of the efficiency programs and [has] the ability to make expeditious and focused adjustments to ensure that Energy Efficiency Portfolio funds are well spent." (*Citizens Gas*, Cause No. 42767 (IURC Aug. 29, 2007)

The record of evidence shows that Joint Petitioners have demonstrated increasing energy savings over the course of the implementation of their respective energy efficiency programs. Through the 2011 program year, Citizens has realized 5.986 million therms saved, while Westfield, in its first full program year in 2011, realized over 14,000 therms saved.

While we are cognizant of the fact the EE program funding has exceeded the value of the verified savings, we believe that gas utilities should continue to promote energy efficiency during this current period of relatively inexpensive natural gas. Doing so will position customers to be better able to mitigate future price spikes at a time when the additional cost of efficiency programs is partially offset by the low natural gas cost. This is consistent with OUCC Witness Paronish's statement that "Although natural gas prices have declined recently, natural gas is still a finite resource and should be conserved. Conservation of natural gas will reduce future prices and preserve fossil fuel supplies for future generations." (Public's Ex. AMP/BJB-1 at 9.)

Similarly, Joint Petitioners' witness Sawyers stated:

Natural gas energy efficiency programs reduce natural gas consumption by improving the energy efficiency of homes and businesses, space heating systems, water heating, and other gas appliances. This lowers the gas bills of consumers and businesses that adopt these measures, and provides broader societal benefits including reducing natural gas imports, reducing the risk of gas shortages, and putting downward pressure on natural gas prices.

(Pet. Ex. GAS at 12.)

To keep the Commission apprised of program results, Joint Petitioners file with the Commission: (i) an annual operating plan and quarterly performance updates; (ii) an annual final year report; and (iii) annual evaluation, measurement, and verification results. In this proceeding, Joint Petitioners' witness Jackson further discussed the results of Joint Petitioners' programs. According to Ms. Jackson, Joint Petitioners' programs, with the exception of the low-income and working poor weatherization programs, generally have been cost effective and in many cases have exceeded the savings goals set for the programs. During the three-year period extending from September 1, 2008 to August 31, 2011, Citizens' programs achieved combined estimated savings in excess of the goal for that same period.

The Commission recognizes the OUCC's concern that a new MPS and Action Plan was not completed prior to the filing of the Verified Petition in this Cause seeking Commission approval to continue the energy efficiency programs. In Cause No. 44019, Vectren Energy presented a new MPS and Action Plan along with its request to extend its energy efficiency programs. However, Citizens' previous MPS and Action Plan supported the energy efficiency program portfolio through August 31, 2013. This MPS and Action Plan was completed in 2008 subsequent to the Commission's August 29, 2007 *Order on Rehearing* in Cause No. 42767. The joint MPS and Action Plan will not only allow for the cost of completing the plan to be shared, but also provide opportunities for Citizens and IPL to offer programs jointly to the benefit of their mutual customers.

The MPS and Action Plan are designed to provide the planning foundation to determine the optimal mix of cost effective programs to be offered during the extension term. These are decisions that we have delegated to the OSB. To the extent there is a dispute among the members of the OSB with regard to how to implement the recommendations made in the new joint MPS and Action Plan, "the Commission will be available to resolve disputes upon filing a motion with the Commission," consistent with our January 23, 2009 Docket Entry in Cause No. 42767.

For the foregoing reasons, we find Joint Petitioners' proposed extension of the energy efficiency portfolio through December 31, 2015 should be approved. In approving the extension of Joint Petitioners' energy efficiency portfolio, we also extend the reporting requirement established in Cause Nos. 42767 and 43624. We will treat the MPS and Action Plan filed in this Cause after the record closed as a compliance filing to this Cause. Accordingly, Joint Petitioner's Motion to Reopen the Record is moot.

Consistent with the Settlement Agreement approved in Cause No. 42767, we find that Citizens should file for a three year extension of the Portfolio, or propose to discontinue or modify the current Portfolio, no later than March 31, 2015. If the extension term expires prior to the Commission entering a final order on a subsequent filing, the Portfolio and the EEFC shall continue in effect until final action by the Commission.

**B. Continuation and Modification of the SRC Component.** The SRC is a decoupling mechanism that allows Joint Petitioners to recover their non-gas costs as authorized in their most recent base rate case orders. The Commission first approved Citizens' SRC on August 29, 2007 in its *Order on Rehearing* in Cause No. 42767. The *Order on Rehearing* approved the terms of a Settlement Agreement entered into among Citizens, the OUCC and Citizens Industrial Group. The Commission authorized Westfield to implement its SRC by Order dated March 10, 2010 in Cause No. 43624.

Joint Petitioners' modeled their SRCs after a similar mechanism the Commission approved for use by Vectren Energy in Consolidated Cause Nos. 42943 and 43046 (Order approved December 1, 2006). In that proceeding, we cited multiple factors underlying our decision to approve decoupling for natural gas utilities, including: (i) departure from volumetric pricing was endorsed by the National Association of Regulatory Utility Commissioners, the American Gas Association, the National Resources Defense Council, the American Council for an Energy Efficient Economy and the Midwest Gas Initiative; (ii) a number of State Commissions had approved rate decoupling for gas utilities; (iii) "failure of gas utilities to move to appropriate decoupling may . . . be harmful to their credit ratings, a consequence that could be injurious to both the utility and its customers;" (iv) decoupling margin recovery from sales volumes is necessary to enable a partnership to reduce usage through energy efficiency; and (v) "volumetric pricing makes it difficult for an Indiana gas utility to earn its authorized return because usage per customer is declining." *Id.* at 36-40; and 42-43. Ultimately, we concluded that "[t]raditional ratemaking provides utilities an opportunity to earn a reasonable return. Existing volumetric rate design hampers that opportunity and therefore, [we found Vectren's] proposal to address this issue [through the SRC to be] reasonable." *Id.* at 44.

We reiterated the foregoing findings in our August 29, 2007 *Order on Rehearing* in Cause No. 42767 approving Citizens' SRC. We found: "[w]ithout the SRC, all else being equal, if Citizens' sales volume decreases from the level used to design rates in its last rate case, it may not fully realize the revenues found necessary to recover its costs." (p. 22.) We also noted "decoupling margin recovery from sales volume is necessary to enable a partnership to reduce usage through energy efficiency" and "aligns Citizens' interest with its customers' interest in reducing usage through more efficient energy usage." Cause No. 42767 (*Order on Reh'g*) at 22. In addition, the SRC ensures "Citizens' ability to recover its non-gas costs, meet its operational requirements, and avoid the adverse consequences for its credit ratings that could result without decoupling." *Id.* at 23. To that end, we discussed the need for natural gas utilities to move away from the traditional volumetric pricing model in the face of declining usage per customer:

Consistent with our findings in Consolidated Cause Nos. 42943 and 43046, there are important distinctions between the volumetric gas utility rate design originally requested by gas companies and implemented by the Commission and the circumstances surrounding the use of natural gas today. The LDC business is a fixed cost business. Citizens' non-gas costs do not vary with the amount of gas it sells. . . . In the past, rapidly increasing sales had the effect of lowering average unit costs through increased economies of scale without driving up commodity prices. . . . Likewise, in the past, volumetric prices afforded gas utilities the opportunity to earn their authorized returns, even in the face of rising costs, because sales (and hence fixed cost recovery) were increasing. Today, volumetric pricing makes it difficult for an Indiana gas utility to earn its authorized return, or in Citizens' case, recover its approved revenue requirements. . . .

*Id.* at 20-21.

We have subsequently approved SRCs for four other gas utilities (Westfield, Indiana Utilities, Midwest Natural Gas, and Boonville Natural Gas) and approved the process for five additional gas utilities to implement SRC decoupling mechanisms.. In authorizing Indiana Utilities to implement the SRC, we found it will "allow the Petitioner to decouple its operating margins from

usage to eliminate financial risks that might block the implementation and continued offering of effective gas energy efficiency programs.” *Indiana Utilities*, Cause No. 44062 at 26 (IURC Sept. 5, 2012). We also noted that “in our investigation in Cause No. 43180, we encourage[d] utilities to continue to move toward straight-fixed variable rate design, and the [implementation] of the SRC is a step in that direction.” *Id.*

In this proceeding, the OUCC recommended denial of Joint Petitioners’ request to continue their SRC decoupling mechanisms. The OUCC’s testimony indicates its recommendation is based on the difference between amounts recovered by Joint Petitioners through the SRCs in order to recover their Commission-approved margins and the “lost margins through energy efficiency programs.” (Public’s Ex. MHG-1 at 7.) OUCC Exhibit MHG-2 compares amounts collected through Joint Petitioners’ SRCs as opposed to savings deemed by EM&V to be attributable to the formal efficiency programs. Citizens has recovered \$21.7 million through the SRC in order to recover revenues sufficient to meet its Commission-approved revenue requirements. The deemed energy savings attributed to the programs through EM&V are \$3.1 million, not including gas cost savings. Based on the foregoing difference, the OUCC proposed Joint Petitioners’ SRCs be replaced with “lost revenue adjustment[s]” or “modified” in some undefined manner to limit Joint Petitioners’ recovery to savings achieved through their efficiency programs. (Public’s Ex. AMP/BJB-1 at 15.)

As reflected in the Order in Consolidated Cause Nos. 42943 and 43046 and the Order on Rehearing in Cause No. 42767, the SRC was not designed to recover just lost margins caused by the energy efficiency program. The SRC was intended to ensure full margin recovery in the wake of declining “usage per customer.” *Citizens Gas*, Cause No. 42767, Order on Reh’g at 20-21. Paragraph 26 of the Settlement Agreement Citizens entered into in Cause No. 42767 makes clear the SRC was intended to: “break[] the linkage between Citizens’ customer sales volumes and recovery of its predominantly fixed non-commodity costs.” Accordingly, we found that the SRC should ensure “full recovery of the margin difference,” between actual margins and the margins authorized in the utility’s base rate case. *Id.* at 23.

As a result of the SRC providing a utility with the opportunity to recover its Commission approved margins, we found the “SRC and the resulting departure from volumetric pricing will benefit customers, not only because of the savings they will experience as a result of the Energy Efficiency Portfolio, but also from Citizens’ ability to recover its non-gas costs, meet its operational requirements, and avoid the adverse consequences for its credit ratings that could result without decoupling.” *Id.* at 23. The evidence presented in this proceeding demonstrates that the SRC has functioned as intended.

The SRCs have improved Joint Petitioners’ ability to recover their non-gas costs, meet operational requirements and avoid the adverse consequences for Citizens’ credit rating. However, we do recognize the OUCC’s concerns with respect to excessive recovery through the SRC, and note that the Commission addressed those concerns in approving Vectren’s continuation of its SRC in Cause No. 44019. In that Cause, the Commission approved the Settlement Agreement that adopted recovery and deferral caps on recovery of lost margins through the SRC. We believe that similar caps should be put in place for Joint Petitioners’ SRC, not only to be consistent with our treatment with Vectren’s SRC, but because those limits help reduce the impact and bill volatility on residential ratepayers. We would further note that the percentage caps and dollar limits on deferrals were negotiated by Vectren and the OUCC, and ultimately approved by the Commission.

Because we have no record evidence on which we can determine an appropriate cap/dollar limit, we direct Joint Petitioners and the OUCC to engage in discussions concerning appropriate cap/limits for each of the Joint Petitioners, and within 60 days from the date of this Order, in the event the parties can agree, direct Joint Petitioners to file revised SRC tariff pages using the 30-day administrative process for Commission approval. In the event the parties cannot agree on SRC cap/limits, Joint Petitioners shall, within 60 days of this Order, file notice under this Cause requesting a subdocket to address this issue.

Further, as we have previously stated, “[t]he impacts of decoupling on ratepayers should be analyzed through a rate case with protective measures and conservation alternatives recommended.” *Investigation into Rate Design Alternatives*, Cause No. 43180 at 10; *see also*, *Midwest Natural Gas Corp.*, Cause No. 44063 at 25. If Joint Petitioners, the OUCC, or any other party wishes to propose modifications to Joint Petitioners’ SRCs, the proper forum to propose such changes is in a base rate case where alternatives to the current rate design can be proposed as a substitute for the SRC or to potentially supplement a modified SRC. To that end, we encourage Joint Petitioners to make additional movement toward a straight-fixed variable rate design in their next respective rate case. *See* Cause No. 43180, Order at 10. Accordingly, we approve a continuation of the SRC through December 30, 2015. Inasmuch as Joint Petitioners wish to continue the SRC beyond that date, such proposals shall be included as part of the requested relief in their respective base rate cases, which must be filed by December 30, 2015 in order for the SRCs not to lapse. If a rate case is not filed by Citizens and Westfield by December 30, 2015, the SRCs authorized in this Cause will terminate and will not be considered by this Commission outside the context of a base rate case.

**C. Program Budget During Extension Period.** Joint Petitioners proposed that during the proposed extension period their respective portfolios be funded initially at the then current levels (\$3,802,188 for Citizens and \$31,343 for Westfield). Thereafter, Joint Petitioner proposed the OSB determine the feasibility of increasing the funding levels by up to 15% annually based on portfolio results and the amount of excess funds from prior years that remains available to be spent. The OUCC, on the other hand, recommended: “limiting the Joint Petitioners’ budget increase to 10% of the final year’s budget.”

We agree with the parties that the OSB should have flexibility to make funding decisions concerning efficiency programs, including the ability to increase the portfolio budget from year-to-year. The issue is how much flexibility is reasonable and necessary under the circumstances. In our *Order on Rehearing* in Cause No. 42767, we authorized the OSB to increase the overall funding level for Citizens’ energy efficiency portfolio by up to 15% per year during the initial term. The OUCC contends 15% is an “excessive amount for an annual budget increase for an established program portfolio.”

OUCC witness Paronish noted that in *Indianapolis Power & Light Company*, Cause No. 43960 (approved Nov. 22, 2011), we declined to approve an agreement between the OUCC and IPL under which the OSB could “authorize, if needed to meet energy savings targets established by the Commission, an increase to the Year 3 budget of \$6,310,400.” *Id.* at 40. IPL’s DSM program budget already increased year-over-year by approximately 15%. The approved annual budgets for Years 1, 2 and 3 were \$18,319,000, \$20,744,000 and \$24,041,000, respectively. In addition to these year-over-year budget increases, the OUCC and IPL proposed that the OSB be authorized to overspend the Year 3 budget by \$6,310,400, or by approximately 26%. We found:

Generally, the OSB should have flexibility to make certain funding decisions concerning DSM programs, including the ability to increase the budget and to permit the carry over of funds from a previous year to a subsequent year. However, we find in this case the possible 26% Year 3 budget increase (or more, if funds from Years 1 and 2 are rolled over to Year 3) to be excessive and inappropriate without prior Commission approval. Commission approval of such a large expenditure in excess of a previously-approved amount is necessary to ensure the budget increase is justified. . . .

We . . . find IPL should be permitted to spend up to 10% above its Year 3 budget for the Core Plus programs without first seeking Commission approval. This will provide the OSB with the necessary flexibility concerning program budgets and the Commission opportunity to monitor program performance and expenditures.

*Id.* at 40-41.

Unlike the relief sought in Cause No. 43960, Joint Petitioners are not proposing that the OSB be given the flexibility to overspend the annual budget by any amount. Joint Petitioners are proposing the OSB have the authority to increase the annual budgets year-over-year, if warranted by up to 15%, without seeking prior Commission approval. Any proposed increase in excess of 15% would require Commission approval.

Further, in dollar terms, a 15% annual increase to the Westfield budget equates to \$4,701, as compared to the OUCC's 10% increase, which would be \$3,134. For comparison purposes, Joint Petitioners noted that it costs approximately \$4,000 to weatherize a single home. With respect to Citizens, a 15% annual increase to the annual budget equates to approximately \$570,000. As reflected above, the budget for IPL's DSM portfolio increases from Year 2 to Year 3 by approximately \$3.3 million and the OSB has the discretion to overspend the Year 3 budget by an incremental \$2.4 million. Standing alone, the \$5.9 million of increases to IPL's DSM program exceed the entire cost of Citizens energy efficiency program.

In addition, there are other distinct factors that support authorizing the OSB to increase the annual portfolio budget by up to 15% without receiving prior Commission approval. First, Joint Petitioners have filed a new joint MPS and Action Plan. We believe it is important that the OSB have the flexibility to make program decisions based on the results of the joint MPS and Action Plan. Moreover, discussions currently are underway among the Joint Gas Oversight Board and electric Demand Side Management Coordination Committee to integrate the gas utilities into the existing electric utility demand side management efforts. Mr. Sawyers testified that in order for Citizens to fully participate in just joint gas and electric programs offering home energy assessments, income qualified weatherization and school kits, as is currently being discussed, Citizens would need to invest a total of \$4,421,423, which does not include programs for commercial customers, nor does it include any gas-only programs that Citizens would need to offer independently.

Based on the foregoing, we find the OSB should be authorized to approve annual increases to the budgets for Joint Petitioners' respective energy efficiency portfolios by up to 15% based on portfolio results and the amount of excess funds from prior years that remains available to be spent,

without seeking prior Commission approval. To the extent the OSB desires to increase the annual budget from year-to-year by an amount exceeding 15%, the OSB must seek prior Commission approval. This finding does not require the budget to be increased by 15% annually; rather the OSB has the discretion to increase the annual budget by that amount. The OSB may decide a lower year-to-year increase is appropriate. To the extent there is a dispute among the OSB with regard to the amount by which to increase the annual budget, “the Commission will be available to resolve disputes upon filing a motion with the Commission,” consistent with our January 23, 2009 Docket Entry in Cause No. 42767.

**D. Modifications to the Energy Efficiency Portfolio.** Joint Petitioners proposed certain modifications to their respective energy efficiency Portfolios during the extension period, each of which is considered below.

*i. Addition of CAC as a Voting Member.* Joint Petitioners proposed that CAC be added as a voting member to the OSB. Mr. Sawyers testified that CAC has been an active member of the OSB and its input over the years has been valuable. Accordingly, “Joint Petitioners believe adding CAC as a voting member of the [OSB] would create additional value to both the [OSB] and the Utilities’ customers.” The OUCC supported Joint Petitioners’ proposal. OUCC witness Paronish stated: “CAC’s expertise in energy efficiency matters makes it a beneficial contributor to each of the above oversight boards.” Based on the foregoing, the Commission finds the CAC should be added as a voting member of the OSB.

*ii. Integration of the Administration and Reporting for the Westfield Program into the Citizens’ Program.* Joint Petitioners further proposed that the Citizens and Westfield programs be administered and reported on collectively. Each of the utilities would be allocated administrative costs based on the respective customer participation levels in each program. In Mr. Sawyers’ opinion, “integrating planning, evaluation and reporting will decrease administrative costs and consequently make both programs more cost effective.” The OUCC supported Joint Petitioners’ proposal and OUCC witness Paronish stated: “[i]ntegrating the administration of the programs should allow the Joint Petitioners to take advantage of cost savings through economies of scale.”

The OUCC, however, recommended Joint Petitioners “still report budgets and results separately, itemized by company, to determine any concerns specific programs may be having in the respective service territories and to monitor possible cross-subsidization of program budgets.” Mr. Sawyers indicated that within the consolidated reports, Joint Petitioners are willing to report program budgets and results separately.

Based on the evidence presented, we find Joint Petitioners’ proposal that the Citizens and Westfield programs be administered and reported on collectively should be approved subject to the separate presentation of program budgets and results in the consolidated report. Further, Joint Petitioners shall allocate the administrative costs based on the respective customer participation levels for each utility.

*iii. Changing future program year periods to calendar years.* Joint Petitioners proposed to change future program year reporting periods to calendar years to make reporting clearer and consistent with other utilities. The current reporting periods for both Joint Petitioners extend from September 1<sup>st</sup> to August 31<sup>st</sup>. The change to calendar year reporting periods

will align Joint Petitioners' reporting periods with both the Vectren Energy and NIPSCO reporting periods. Mr. Sawyers testified "aligning the end date of Joint Petitioners' and Vectren Energy's respective programs, will provide the utilities an opportunity to collaborate with respect to future extensions and program offerings and potentially establish a more consistent State-wide framework for offering gas energy efficiency programs." In order to change to calendar year periods, Joint Petitioners proposed to file changes to both the EEFC and SRC on March 31<sup>st</sup> of each year, with the changes to become effective on May 1<sup>st</sup>. The OUCC supported Joint Petitioners' proposal to modify the reporting periods and EEFC/SRC filing dates. Ms. Paronish testified: "[a]ligning the program year with the calendar year will simplify reporting, accounting and evaluation cycles."

Based on the evidence presented, we find Joint Petitioners' proposal to change to calendar year reporting periods should be approved. Alignment of reporting periods also should ease the administrative burden for both the OUCC and Commission staff members. In addition, the reporting periods will coincide with many electric utility reporting periods and therefore, may facilitate coordinated energy efficiency efforts with the electric utilities.

In addition, during the evidentiary hearing, the Presiding Officers questioned Ms. Phillips about the possibility of shortening the length of time between the reconciliation for the SRC and the period being reconciled. (Tr. at A-26.) Once this Cause is no longer pending, as set forth at 170 IAC 1-1.5-2, we direct Joint Petitioners to work with Commission Staff and the OUCC to determine whether it is possible to reduce the length of time between the reconciliation for the SRC and the period being reconciled and if so, determine the best way to implement any necessary changes to the reconciliation period.

*iv. Using the Societal Cost Test to Evaluate the Low-Income Weatherization Program.* Joint Petitioners proposed to modify Citizens' residential low-income program to allocate all base rate funding to that program and use the SCT to determine cost effectiveness of the residential low-income program and exclude that program from the Total Resource Cost calculation used to determine cost effectiveness for the overall portfolio. The OUCC did not support use of the SCT to determine the cost effectiveness of residential low-income weatherization performed with the \$470,588 of funding recovered through Citizens' base rates. OUCC witness Paronish testified the "low income program should be included in the program portfolio for the purposes of cost effectiveness tests." (Public's Ex. AMP/BJB-1 at 7.) The OUCC also indicated it does not "object to the concept of performing" the SCT to supplement other cost effectiveness tests. (*Id.* at 8.)

Over two-thirds of the single family housing stock in Citizens' service territory was constructed prior to 1980. (Pet. Ex. GAS at 19.) Moreover, the level of poverty among Citizens' customer base continues to rise, with over 25,000 households being enrolled in the Universal Service Program in 2009. The average age of the housing stock and high incidence of poverty in Citizens' service territory make residential low-income weatherization a particularly constructive endeavor. Citizens' prior MPS and Action Plan indicates residential low-income weatherization should be a key component of the energy efficiency portfolio.

However, as the OUCC acknowledged, the low-income weatherization program "received a 0.49 on the [Total Resources Cost Test ("TRC")] in the Program Year 4," which would mean that for every \$1 spent on the program, the TRC test recognizes only \$0.49 of benefits. (*Id.* at 8.) This low benefit-to-cost ratio reduces the benefit-to-cost ratio of the remainder of Citizens' portfolio.

Accordingly, the detrimental impact to the benefit-to-cost ratio for the entire portfolio could place the OSB in the position of having to limit the residential low-income weatherization program, or determine not to offer other valuable programs that are just marginally cost effective.

Having reviewed Citizen's proposal and the OUCC's response, we believe it is appropriate to allocate Citizens' base rate funding to the low-income weatherization program and exclude the program from the TRC calculation used to determine cost effectiveness for the overall Portfolio on a pilot basis. Rather than adopting the SCT for weatherization, we believe that Joint Petitioners, through the OSB, should work with the EM&V administrator to develop efficiencies in implementing weatherization in a more-cost-effective manner. Until the cost-effectiveness of Citizens' weatherization efforts can be demonstrated, the Commission finds that no additional funding through the EEA should be made.

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

1. The proposed extension of Joint Petitioners' respective energy efficiency programs and rate mechanisms, with modifications described herein, shall be and is hereby approved.
2. Within 60 days from the date of this Order, Joint Petitioners shall file revised tariff pages setting forth agreed-upon caps and deferral limits, or request that the Commission open a Sub-Docket in this Cause.
3. Joint Petitioners shall comply with the reporting requirements set forth above.
4. Citizens shall pay the following itemized charges within twenty (20) days of the date of this Order to the Secretary of the Commission:

Commission Charges:	\$ 6,057.52
OUCC Charges:	\$ 22,302.25
Legal Advertising Charges:	\$ <u>103.52</u>
Total	\$ 28,463.29

5. This Order shall become effective upon and after the date of its approval.

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

APPROVED: **APR 10 2013**

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

  
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**Shala M. Coe**  
**Acting Secretary to the Commission**