

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY FOR AUTHORITY)
TO RECOVER LOST MARGINS ASSOCIATED)
WITH ITS ELECTRIC DEMAND SIDE)
MANAGEMENT PROGRAMS THROUGH ITS)
DSMA TRACKING MECHANISM IN)
ACCORDANCE WITH IND. CODE § 8-1-2-42(a) AND)
PURSUANT TO 170 IAC 4-8-6 AND CAUSE NO.)
43912 AND FOR AUTHORITY TO DEFER CERTAIN)
OF SUCH EXPENSES FOR FUTURE RECOVERY.)

CAUSE NO. 44154

APPROVED: AUG 08 2012

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On February 1, 2012, Northern Indiana Public Service Company (“Petitioner” or “NIPSCO”) filed a Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) for authority to: (1) recover lost revenues net of expenses (“lost margins”) associated with its electric demand side management (“DSM”) programs through its Rider 683 – Adjustment of Charges for Demand Side Management Adjustment (“DSMA”) approved in the Commission’s May 25, 2011 Order in Cause No. 43618, or any other mechanism approved by the Commission; and (2) defer certain of such lost margins for future recovery. On March 6, 2012, Petitioner prefiled the direct testimony and exhibits of Alison M. Becker, Manager, Regulatory Policy, Kevin A. Kirkham, Director, Regulatory Strategic Analysis, and Curt A. Westerhausen, Director of Rates and Contracts.

On February 23, 2012, the NIPSCO Industrial Group filed a Petition to Intervene, which was granted by Docket Entry dated March 8, 2012. On May 30, 2012, Petitioner prefiled revised direct testimony to reflect changes to Petitioner’s proposal based on discussions with its stakeholders. On May 31, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled the testimony of April M. Paronish, Senior Utility Analyst in the OUCC’s Resource Planning and Communications Division.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on July 3, 2012 at 1:30 p.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner, the OUCC and the NIPSCO Industrial Group participated in the hearing. At the hearing, the parties presented their respective evidence, without objection. No members of the general public appeared.

The Commission, having considered the evidence and being duly advised, now finds that:

1. Notice and Jurisdiction. Proper notice of the public hearing in this Cause was published as provided by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code ch. 8-1-2, and is subject to the jurisdiction of the Commission, in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics and Generating System. Petitioner is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is engaged in rendering electric public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public.

3. Background. On May 25, 2011, the Commission issued an Order in Cause No. 43618 ("43618 Order") approving NIPSCO's request for approval of the DSMA through Rule 52 of the General Rules and Regulations and Appendix G – Demand Side Management Adjustment Mechanism Factor. On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed Core and Core Plus programs and their projected budgets.

In the 43912 Order, the Commission denied NIPSCO's request for recovery of lost margins but found that:

. . . [T]he Commission remains willing to consider a request for lost margins provided NIPSCO can demonstrate the revenue margin rates are reasonably reflective of today's operations. The Commission notes NIPSCO has recently filed a new rate petition in Cause No. 43969. As a result, NIPSCO may consider filing with the Commission a request for the recovery of lost margins once rates and charges become effective in Cause No. 43969. The request should include data reflective of NIPSCO's rates and charges approved in that Cause.

43912 Order at 27.

On December 21, 2011, the Commission approved a new schedule of electric rates and charges for NIPSCO in Cause No. 43969 ("2011 Rate Case Order"). The tariffs submitted to the Commission in compliance with that Order became effective upon approval by the Commission's Electricity Division on December 27, 2011.

On January 2, 2012, the Core programs approved by the Commission in its December 9, 2009 Phase II Order in Cause No. 42693 ("Phase II Order"), and administered by the Third Party Administrator ("TPA") approved by the Commission in its July 27, 2011 Order on TPA & Evaluation, Measurement and Verification ("EM&V") Contracts in Cause No. 42693 S1, became available on a state-wide basis. NIPSCO's Core Plus programs approved in the 43912 Order are also available to NIPSCO's electric customers.¹

¹ All Core Plus programs are available with the exception of the Residential Energy Efficiency Rebates, which NIPSCO's Oversight Board elected not to offer at this time.

4. Relief Requested. Petitioner seeks authority from the Commission to recover lost margins associated with reduced sales attributable to Petitioner's Commission-approved electric DSM programs. Such lost margins would be recovered through the DSMA, or other mechanism approved by the Commission, to become effective with the beginning of the first billing cycle for the billing month of January 2013, or as otherwise approved by the Commission, and will be calculated based on the rates and charges approved by the Commission in the 2011 Rate Case Order.

Petitioner seeks authority to record lost margins associated with bills rendered for consumption during the months of February 2012 through such time as lost margins are recovered through the DSMA, or other mechanism approved by the Commission, as a regulatory asset. Petitioner also seeks authority to defer such amounts for future recovery through the DSMA, or other mechanism approved by the Commission. In its revised direct testimony filed with the Commission on May 30, 2012, NIPSCO clarified that it seeks to defer for future recovery the lost margins associated with the Core programs required in the Commission's Phase II Order from the date of the petition in this Cause until such time as an Order is received approving the authority to recover lost margins on Core programs in NIPSCO's rates, and recovery for the lost margins associated with the Core Plus programs from the date of an Order in this Cause approving the authority to recover lost margins on Core Plus programs in NIPSCO's rates.

5. Summary of Evidence.

A. Petitioner's Direct Evidence.

1. Alison M. Becker. Ms. Becker provided an overview of NIPSCO's request and explained why Commission approval is appropriate. She testified the most appropriate method to implement lost margins is to allow for lost margins to be forecasted and reconciled based on actual results, as determined through EM&V, thereby matching the accounting of the lost margin recovery with the timeframe of the program associated usage reduction. She explained that lost margins are calculated on net energy and demand savings, meaning they are calculated after adjusting for free riders. Ms. Becker stated these calculations will be evaluated and verified by an independent EM&V contractor.

Ms. Becker testified NIPSCO should receive lost margins for the net deemed kWh and net deemed kW savings of the measures installed because this calculation is independent of all other factors. She explained that in the event of an economic downturn or customer load reduction for other reasons, the DSMA calculation does not include additional lost margin to make the utility whole. Likewise, if a customer increases its load and implements energy efficiency measures at the same time, the DSMA calculation is including the increased load. She stated the lost margin calculation only considers the deemed net energy and net demand savings associated with the measures installed, not based on overall consumption. Therefore, it is conceivable and appropriate to have some customers with increasing loads while still calculating lost margins from the implementation of energy savings measures.

Ms. Becker testified NIPSCO will include an offset to remove variable operations and maintenance ("O&M") and fuel costs from the lost margin calculation. She also explained the lost margins recovered will be included in the FAC earnings test calculation.

Ms. Becker testified the rates approved in the 2011 Rate Case Order were based on a test year of July 1, 2009 to June 30, 2010, and thus are reasonably reflective of current operating conditions, and were found just and reasonable not more than two months before the date of filing the petition in this proceeding.

Ms. Becker testified NIPSCO is seeking lost margin recovery for both its Core and Core Plus programs. She stated because Core and Core Plus programs reduce the utility's margins, it is appropriate to receive lost margin recovery on both programs. NIPSCO is also seeking deferral of lost margins associated with Core programs for future recovery from February 1, 2012 and for all Core Plus programs from the date of an Order in this Cause until the implementation of the first DSMA tracker that includes lost margins.

2. Kevin A. Kirkham. Mr. Kirkham described the details relating to NIPSCO's request for recovery of lost margins, and provided specific information on how NIPSCO's lost margin recovery will be calculated and reconciled, as well as an update on NIPSCO's EM&V efforts.

Mr. Kirkham explained that this request utilizes the DSMA approved by the Commission in the 43618 Order. He stated the DSMA is an appropriate way to recover these costs for several reasons. First, it is a mechanism with which NIPSCO's Oversight Board members are already familiar. Second, the approved DSMA is already set up to track costs related to the DSM programs, so it also makes sense to include lost margin costs in that filing. He explained that because the DSMA is updated every six months, it provides a mechanism for constant communication, forecasting and reconciliation of the DSM program results, including associated lost margins. Finally, the Commission approved the DSMA mechanism in the 43618 Order inclusive of "net lost margins," subject to Commission approval.

Mr. Kirkham stated the schedules filed in support of each DSMA filing will show the estimated lost margins for the six month period during which the proposed factor will be in effect, and estimated lost margins will be included in the calculation of the proposed factor. Because of the timing of the EM&V results, estimated lost margins will be reconciled with actual results once per year, with any variance recovered over the succeeding twelve month period. Mr. Kirkham stated that estimating lost margins with a reconciliation mechanism is appropriate for several reasons. First, it allows lost margins to be collected at roughly the same time the reduction in sales occurs. Second, the estimation of lost margins is consistent with the way expenses are recovered through the DSMA for the DSM programs giving rise to the loss in sales, so there is alignment in the regulatory approach. Finally, both NIPSCO's program costs and lost margins will increase over time due to the aggressive savings goals in the Phase II Order, so the earlier recovery of projected lost margins will reduce the magnitude of the impact on customers in future periods that would occur if recovery were to be delayed. Mr. Kirkham stated because NIPSCO will reconcile estimated lost margins with actual data from its EM&V vendor, lost margin collections will ultimately always be based on actual energy savings, taking EM&V results into account. As NIPSCO receives successive years of EM&V data upon which to base its estimates, its forecasting accuracy is expected improve.

Mr. Kirkham explained NIPSCO anticipates its EM&V vendor will report annually with the result of DSM activities conducted during the previous January through December ("Program Year"). Reports will be provided in April for NIPSCO's Core programs and in June for its Core

Plus programs. For example, the April 2014 report will include EM&V results from NIPSCO's 2013 Program Year for the Core programs. NIPSCO will utilize that data to reconcile the Program Year 2013 estimated lost margins (in place for the January 2013 and July 2013 factors) in the DSMA factor that will go into effect beginning January 1, 2015. NIPSCO believes this is appropriate to assure it has the most accurate information regarding the impact of free-riders, the change in the number of program participants between base rate cases, the deemed savings per measure, and the revised estimate of program-specific load impact. Mr. Kirkham explained the lost margin reconciliation will also take into account differences between forecasted and actual participation by rate.

Mr. Kirkham next explained how lost margins related to measures installed prior to February 1, 2012 will be calculated. He stated that for Core programs, the net energy and net demand associated with those measures will be part of the cumulative net energy and net demand inputs that will be used to calculate lost margins on a going forward basis. He clarified NIPSCO is not seeking to recover the net energy and net demand that was lost prior to February 1, 2012, as a result of Core or Core Plus program measures installed prior to February 1, 2012. For Core Plus programs, NIPSCO will seek recovery of lost margins for net energy or net demand lost beginning with the date an Order granting the relief requested in this Cause. NIPSCO proposes that the calculation of lost margins from the date of an Order in this Cause through December 2015 would include the lost margins associated with a measure for the remaining years of that measure's useful life or until the lost margins are reset to zero as of the end of the test year used in NIPSCO's next rate case. For Core programs required by the Commission in the Phase II Order, the calculation would also include lost margins experienced from February 1, 2012 and deferred through the date of an Order in this Cause.

Mr. Kirkham testified NIPSCO's proposal to include lost margins associated with measures installed prior to the initiation of this proceeding through their useful lives is a reflection that the savings produced by individual measures exist regardless of the date of installation. NIPSCO recognizes that a portion of the useful lives of those measures will have taken place prior to authorization from the Commission for recovery of lost margins. As such, NIPSCO is requesting to defer lost margins for the Core programs effective February 1, 2012 and for Core Plus programs effective the date of the Order in this proceeding until the approved lost margin recovery mechanism is implemented. Mr. Kirkham stated deferral for the Core programs beginning February 1, 2012 is appropriate because those programs were required by the Phase II Order.

Mr. Kirkham explained that in determining the forecasted measures to be installed in a given time period on a going forward basis, NIPSCO assumed the measures (and therefore the associated energy and demand savings) will be installed evenly over the 12 months of each calendar year. In addition, a reduction of any savings from measures that were installed longer than their identified measure life will be removed from the cumulative savings. Cumulative measure savings will be reset to zero as of the test year in NIPSCO's next electric rate case.

Mr. Kirkham explained NIPSCO took the actual (unevaluated) installed measures to determine the deemed net energy and net demand savings through December 2011 and then utilized the forecasted net energy and net demand savings that were filed in Cause No. 43912. The deemed net energy and net demand savings were approved by NIPSCO's Oversight Board. As to reconciliation, Mr. Kirkham stated the projected net energy and net demand savings will be

reconciled with the actual deemed savings from actual installed measures. The projected net energy and net demand savings will be reconciled again once the EM&V results are received for the Program Year in question. The evaluated deemed savings, verified measure installations and evaluated net to gross ratios will be applied retroactively to the original projected savings figures for the purpose of reconciling lost margins.

Mr. Kirkham testified NIPSCO's electric rates approved in the 2011 Rate Case Order were used to calculate the projected lost margins. For each rate, with the exception of Rate 632, the tail block (lowest energy rate) was used to calculate the lost margins for reduced energy. The middle block rate was used for Rate 632 since this rate uses an inverted energy rate block structure. Lost margins for net demand reduction assumed each customer is on the transmission (or lowest) demand charge for each rate. Lost margins associated with reduced net energy also reflect the reduction of the energy rate by the variable O&M expense for generation expenses used to compute NIPSCO's currently approved rates.

Mr. Kirkham testified NIPSCO's intent is to forecast its net energy and net demand savings as accurately as possible by allocating by projected energy in its energy forecast for most rates. He stated NIPSCO used customer counts as the means for allocation in the following three programs: Air Conditioning Cycling Program, Appliance Rebate Program and the Conservation Program. Mr. Kirkham also testified NIPSCO is establishing an information technology data warehouse where vendors will provide detailed information for each installed measure. Where a customer is known for a given measure installation, the customer will be linked to the applicable rate by looking the customer up in NIPSCO's Customer Information System. For the current programs, only residential lighting will not have identifiable customers. Actual net energy and net demand savings will be reconciled to projections for each rate and adjustments will be made.

Mr. Kirkham provided an update relating to the EM&V process for NIPSCO's Core Plus programs. He stated that NIPSCO's Oversight Board issued a request for proposals on May 17, 2011 and received two bids. After review, including presentations by the bidders, the Oversight Board selected TecMarket Works as the EM&V vendor for NIPSCO's Core Plus programs. He testified that TecMarket Works was also selected as the vendor for the Core programs.

Mr. Kirkham testified EM&V will be used as the basis for the reconciliation of actual results with the forecasted net energy and net demand included in the projections that are inputs to the lost margin calculations. He stated the EM&V process will assess the effectiveness of program design and implementation, the program's influence on encouraging future energy efficiency projects and market transformation effects in the energy marketplace, and quantify the impacts on energy use. The results of the evaluations will be used to determine whether the measures to be installed and the deemed savings used for those projections were appropriate, and retrospective adjustments will be made.

Mr. Kirkham stated NIPSCO proposes the reconciliation that takes place in support of the factor implemented the January following the issuance of the EM&V results for the previous Program Year be used to calculate the reconciliation component of the lost margin portion of the DSMA factor for twelve months. In other words, the estimated lost margins would be reconciled once per year and the resulting variance would be recovered or refunded over the next twelve month period through the DSMA. Mr. Kirkham sponsored examples of the schedules supporting

the DSMA tracker approved in the 43618 Order showing how the recovery of lost margins will be documented in each filing.

With respect to NIPSCO's request for authority to defer for future recovery the lost margins associated with the Core programs, Mr. Kirkham stated NIPSCO proposes that the collection of the deferred amount be amortized over a twelve month period. He explained the 2011 Rate Case Order approved new electric base rates and charges upon which lost margins can be based. Consequently, deferral of lost margins from the date of the petition for future recovery is appropriate because it would allow NIPSCO to recover the lost margins based on its new rates for the period during the pendency of the regulatory process. He testified NIPSCO is not requesting recovery of carrying costs associated with this deferral. The collection of deferred lost margins would be amortized over a period of twelve months (two DSMA cycles) beginning, depending on the timing of an Order in this Cause, with the first DSMA tracker approved after an Order authorizing the recovery of lost margins. Mr. Kirkham explained that NIPSCO will reconcile the deferred amount utilizing the same process used to reconcile on-going collections, except that the reconciliation will be adjusted based on the previous Program Year EM&V report.

3. Curt A. Westerhausen. Mr. Westerhausen described the incorporation of lost margins into the calculation of the DSMA factors, the allocation of lost energy and demand margins across the rate classes and the estimated impact of lost margins on an average residential customer.

Mr. Westerhausen explained the methodology used to incorporate lost margins into the development of NIPSCO's DSMA filings. He stated the energy and demand lost margins will be projected semi-annually and reconciled to actual lost margins in a subsequent filing. The projected margins will be allocated by program to the individual rate classes based on forecasted sales in each eligible class. Once the program dollars have been allocated to the rate classes along with energy and demand lost margins and the prior period reconciliation, the DSMA factors are then calculated by dividing the cost per rate class by the respective forecasted usage. The resulting DSMA factors are then adjusted to reflect Utility Receipts Tax on Retail Sales.

Mr. Westerhausen stated the projected period's cumulative net demand and net energy savings will be allocated by program to the individual rate classes eligible to participate in the program, and the allocation will be based on the energy forecasts for those rate classes. For programs that are applicable only to a specific rate class, 100% of the energy and demand savings will be assigned to those classes. For programs applicable to more than one rate class, the percentage of energy and demand allocated to each rate class is based on the calculation of the forecasted energy in each rate class as a proportion of the total forecasted energy eligible for the program. He noted the two programs that are exceptions to these rules are the Energy Efficiency Rebate program² and the Air Conditioning Cycling program. Due to the nature of these programs, NIPSCO proposes to allocate by customer counts instead of forecasted energy.

Mr. Westerhausen described Petitioner's Exhibit No. KAK-2, Schedule 7 showing the calculation of the DSMA factors. He testified the DSMA is consistent with the DSM cost

² We note that Mr. Kirkham refers to this program in his testimony as the Appliance Rebate program.

recovery guidelines set forth in 170 IAC 4-8. For the period of January through June 2013, Mr. Westerhausen stated the estimated average monthly bill impact of NIPSCO's recovery of lost margins for a typical residential customer using 688 kWh per month is \$0.92, inclusive of deferral of lost margins from February 1 through December 31, 2012. This estimate is based on the current spending and deemed savings projections using the best information available at the time. The total impact of the DSMA (including both program costs and the lost margin projection) for the same customers in the same time period is estimated to be \$4.28.

B. OUCC's Evidence. Ms. April M. Paronish expressed the OUCC's support for NIPSCO's revised testimony and explained why those revisions better serve the interests of Indiana consumers. Citing to the Commission's recent Order in *Duke Energy Ind., Inc.*, Cause No. 43955 (IURC March 21, 2012) and 170 IAC 4-8, Ms. Paronish recommended the Commission approve recovery of lost margins resulting from Core DSM programs NIPSCO was required to offer under the Phase II Order from the date NIPSCO filed its petition in this Cause.

Ms. Paronish explained the changes outlined in NIPSCO's revised testimony require projected net energy and net demand savings for each DSM program to be reconciled with annual EM&V results for each program. Retrospectively using evaluated deemed savings, verified installations of measures and evaluated net-to-gross ratios to calculate lost margins will help ensure consumers ultimately pay no more for lost margins than NIPSCO actually experienced from energy savings directly resulting from its approved DSM programs. She explained that projections of lost margins can be high or low, leading to over- or under-recovery by NIPSCO and over- or under-payments by NIPSCO's customers. Consequently, she testified, the retrospective reconciliation process in NIPSCO's revised testimony will ensure fair treatment for NIPSCO and its customers.

Ms. Paronish noted that the lost margin recovery mechanism will be impacted by NIPSCO's next electric rate case because the cumulative measure savings will be reset to zero as of the test year in that case. She concluded by testifying that the OUCC recommends the Commission approve NIPSCO's lost margin recovery mechanism consistent with NIPSCO's revised testimony and NIPSCO's proposed deferral of Core program lost margins from February 1, 2012 to the date of an Order in this Cause.

6. Commission Discussion and Findings. The DSM Rule, 170 IAC 4-8, authorizes the Commission to consider the recovery of lost revenues associated with the implementation of a DSM program. Section 6 of the Commission's DSM Rule sets forth certain criteria that must be met to qualify for lost revenue recovery:

- (a) The commission may allow the utility to recover the utility's lost revenue from the implementation of a demand-side management program sponsored or instituted by the utility. The calculation of lost revenue must account for the following:
 - (1) The impact of free-riders.
 - (2) The change in the number of DSM program participants between base rate changes and on the revised estimate of a program specific load impact that result from the utility's measurement and evaluation activities under sections 4 and 5(e) of this rule.

(b) A utility seeking recovery of lost revenue shall propose for commission review a methodology or process for incorporating a lost revenue recovery mechanism which includes the following:

(1) The level of free-riders in a DSM program.

(2) A revised estimate of a DSM program specific load impact resulting from regular utility measurement and evaluation activities.

(c) The commission may periodically review the need for continued recovery of the lost revenue as a result of a utility's DSM program, and the approval of a lost revenue recovery mechanism shall not constitute approval of specific dollar amount, the prudence or reasonableness of which may be debated in a future proceeding before the commission.

As we have previously noted, recovery of lost margins is intended as a tool to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory. *Southern Ind. Gas & Elec. Co.*, Cause No. 43938 at 40-41 (IURC Aug. 31, 2012).

The DSM Rule requires that a utility seeking recovery of lost revenue propose a methodology or process for incorporating a lost revenue recovery mechanism which includes the level of free-riders in a DSM program and a revised estimate of a DSM program specific load impact resulting from regular EM&V. 170 IAC 4-8-6(b). As Mr. Kirkham testified, NIPSCO's Oversight Board selected TecMarket Works as the vendor to perform the EM&V of its Core Plus programs. TecMarket Works has also been engaged to provide EM&V for the Core programs created by the Commission in the Phase II Order. The EM&V performed by TecMarket Works will involve assessments of the performance and implementation of a program, assist in determining whether each program met its goals as a reliable energy resource, and allow NIPSCO to provide the Commission with updated information about free-ridership and load impacts as part of NIPSCO's proposed reconciliation mechanism.

The Commission has also required that the revenue margin rates upon which lost margins are based be reasonably reflective of the utility's operating conditions. 43912 Order at 27. In this instance, NIPSCO has begun, and is currently, implementing DSM programs approved by the Commission in Cause Nos. 43618, 43912 and 42693. The record demonstrates that NIPSCO's calculation of lost margins are based on those approved DSM programs and on recently approved base rates and charges from the 2011 Rate Case Order.

Based on the evidence of record, the Commission finds that the proposed lost revenue recovery methodology is reasonable, consistent with the requirements of 170 IAC 4-8-6, and should be approved. NIPSCO is accordingly authorized to recover lost margins associated with its approved DSM programs for the remainder of the useful lives of the program measures, as proposed, subject to our findings on deferral of DSM expenses below. At the conclusion of NIPSCO's next base rate case, the margin calculation will be updated and the cumulative measure savings reset to zero as of the close of the test year. NIPSCO will reconcile estimated lost margins with actual lost margins retrospectively using its EM&V results. The Commission also finds that actual lost margins should be included in the FAC earnings test consistent with NIPSCO's proposal. Consistent with the provisions of 170 IAC 4-8-6(c), the specific dollar amount for recovery shall be considered in subsequent semi-annual DSMA proceedings in which evidence concerning such amounts is to be presented.

Finally, as we have previously recognized, deferrals are extraordinary remedies and necessarily entail the balancing of the interests of the utility and its ratepayers. *Commission Investigation Into the Effectiveness of Demand Side Management Programs*, Cause No. 42693 S1, Order on Cost Deferral at 9 (IURC 1/26/11) (authorizing deferral and recovery of electric DSM Core program costs); *see also, Duke Energy Ind. Inc., et al*, Cause No. 43426, Phase I Order at 21-23 (IURC 8/13/08) (authorizing deferral and recovery of certain MISO costs). In the Phase II Order, the Commission established energy savings goals that utilities are required to meet through Commission approved DSM programs in an effort to remedy the shortcomings with respect to electric DSM program offerings in Indiana. NIPSCO's implementation of its DSM programs necessarily creates a reduction in sales, and the lost margins for which deferral is sought have been the direct result of implementing such Commission approved DSM programs. NIPSCO has not requested, nor do we authorize, carrying costs to be included in the deferred amounts. Accordingly, NIPSCO is authorized to record lost margins associated with its Core programs beginning February 1, 2012 through and including the date of implementation of its first DSMA tracker factor that includes lost margin recovery as a regulatory asset. Similarly, NIPSCO is authorized to record lost margins associated with its Core Plus programs beginning with the effective date of this Order through and including the date of implementation of its first DSMA tracker factor that includes lost margin recovery as a regulatory asset. We also approve NIPSCO's proposal for the recovery of deferred lost margin recovery through the DSMA tracker, beginning with DSMA 3.

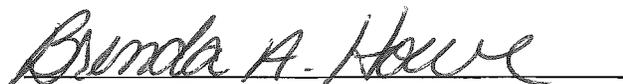
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner is hereby authorized to recover lost margins through Petitioner's DSMA, to become effective with the beginning of the first billing cycle for the billing month of January 2013.
2. Petitioner is authorized to defer lost margins associated with reductions in sales of electricity attributable to its Commission-approved DSM programs for future recovery, consistent with the findings in this Order.
3. This Order shall be effective on and after the date of its approval.

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

AUG 08 2012

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



Brenda A. Howe
Secretary to the Commission