

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC )  
 SERVICE COMPANY FOR APPROVAL OF A )  
 REVISED GREEN POWER RIDER RATE TO ) CAUSE NO. 44198 GPR 2  
 BE APPLICABLE FOR BILLS RENDERED )  
 DURING THE BILLING CYCLES OF ) APPROVED:  
 JANUARY THROUGH JUNE 2014, )  
 PURSUANT TO CAUSE NO. 44198. )

DEC 30 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**James D. Atterholt, Chairman**

**Jeffery A. Earl, Administrative Law Judge**

On September 30, 2013, Northern Indiana Public Service Company (“NIPSCO” or “Petitioner”) filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) for approval of a revised Green Power Rider (“GPR”) Rate. NIPSCO also filed its Case-in-Chief on September 30, 2013. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed testimony on November 14, 2013. NIPSCO filed rebuttal testimony on November 22, 2013.

The Commission held an evidentiary hearing in this Cause at 1:30 p.m. on December 2, 2013, in Hearing Room 224, 101 W. Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared at and participated in the hearing. No members of the general public attended the hearing.

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

**1. Notice and Jurisdiction.** Proper notice of the hearing in this Cause was given and published as required by law. Petitioner is a “public utility” as that term is defined in Ind. Code § 8-1-2-1(a). The Commission approved NIPSCO’s GPR and GPR Rate in the December 19, 2012 Order in Cause No. 44198 (“44198 Order”). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes in NIPSCO’s schedules of rates and charges. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this Cause.

**2. Petitioner’s Characteristics.** NIPSCO is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office at 801 East 86th Avenue, Merrillville, Indiana. Petitioner renders electric 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 and Requested Relief.** In the 44198 Order, the Commission approved NIPSCO’s currently effective Rider 686 – Green Power Rider and NIPSCO’s

Appendix H – Green Power Rider Rate.” The 44198 Order specified that through NIPSCO’s Green Power Rider Rate, NIPSCO will pass the costs of the Renewable Energy Certificates (“RECs”), including brokerage fees and trading commissions, and minimal administrative and marketing costs to participating customers. The 44198 Order specified that the Green Power Rider Rate will be adjusted semi-annually. The 44198 Order also approved the inclusion of a reconciliation mechanism in NIPSCO’s Green Power Rider Rate and that NIPSCO should reconcile the previous estimated Green Power Rider Rate with actual costs and estimate a new Green Power Rider Rate for the upcoming six (6) months.

The current Green Power Rider Rate is \$0.002012 per kilowatt-hour (“kWh”). In this proceeding, Petitioner requests Commission approval of a revised Green Power Rider Rate of \$0.002301 per kWh to be applicable for bills rendered during the billing cycles of January through June 2014 or until replaced by a different rate that is approved in a subsequent filing, pursuant to the provisions of the Public Service Commission Act, as amended, and the 44198 Order. Petitioner also requests approval of the option to transfer at market price to the GPR program the RECs obtained in conjunction with wind energy purchases under NIPSCO’s wind purchase power agreements with Barton and Buffalo Ridge I Wind Farms and held in an account for NIPSCO’s customers who pay the fuel adjustment clause (“FAC RECs”).

#### **4. Commission Discussion and Findings.**

**A. Participation in the Green Power Rider Pilot Program.** Timothy R. Caister, Director of Regulatory Policy for NIPSCO, discussed how the Green Power Rider pilot program has operated since approved by the Commission. He testified that NIPSCO has found customers have responded well and NIPSCO continues to move forward in effective implementation and continues to learn from the new program offering. He stated that as of September 3, 2013, NIPSCO had 436 participants, which includes 420 residential and 16 commercial customers. He noted that customer enrollment is increasing at a greater rate than what NIPSCO originally forecast in its initial semi-annual adjustment filing (Cause No. 44198-GPR-1). Mr. Caister testified that in addition to the customer participation growth, NIPSCO has also noted an increase in the prices for the RECs, which increases the proposed factor.

**B. Request for Approval of the Option to Transfer FAC RECs.** Mr. Caister stated NIPSCO has gained further experience in operating its GPR program, and a result of this experience, NIPSCO is requesting approval of the option to implement a new REC procurement measure – transferring at market price the FAC RECs from the account for FAC customers to the GPR program. Mr. Caister expressed this option may help mitigate upward pressure from increasing REC prices.

Mr. Caister explained that in the 44198 Order (at 7) the Commission stated the Green Power Rider pilot program would allow the Commission and the OUCC to work with NIPSCO to “further review the program and to work with NIPSCO to make any necessary modifications.” In this proceeding, NIPSCO proposes an option to transfer RECs obtained in conjunction with wind energy purchases under NIPSCO’s wind purchase power agreements with Barton and Buffalo Ridge I Wind Farms and held in an account for NIPSCO’s FAC customers to the GPR program. He stated that approval of this transfer option would provide an additional way to acquire RECs on behalf of NIPSCO’s Green Power Rider customers, especially when the

ultimate costs of transferring these RECs are lower than what NIPSCO can have brokered on the REC open market. Mr. Caister explained that NIPSCO feels this additional cost-mitigation option is an important modification to its Green Power Rider pilot program.

Patrick J. Pluard, Director of Portfolio Optimization in the Energy Supply and Trading Department for NIPSCO, testified NIPSCO can fulfill future GPR REC requirements using either of two options. Option 1 is to purchase on the open market in small lot quantities as was the case in GPR-1 and as NIPSCO is doing in this proceeding. Option 2 is what Mr. Caister discussed, and would be to transfer at market price from the FAC wind REC inventory.

With regard to Option 2, Mr. Pluard explained the benefit to NIPSCO's GPR customers and the impact to NIPSCO's FAC customers. He testified that GPR customers will realize two direct benefits from transferring FAC RECs at market price. The first stems from large block pricing because RECs associated with the wind purchased power agreements are sold in large bulk quantities. GPR customers will purchase small lot volumes at large block market prices that are estimated to be approximately half the cost of small lot quantities. Second, GPR customers will be able to purchase exact odd lot quantities based on actual usage as compared to an over- or under-purchase due to cut off sizes associated with small quantity purchases.

Mr. Pluard explained that large lot transactions of RECs are done at the wholesale level and at wholesale pricing. The last actual FAC large block sale price was \$1.07. The FAC customers have and will continue to sell large lots at the wholesale level and will continue to receive wholesale pricing. Small lot pricing is limited to distributors of RECs that service small lot customers. The last small block price premium was approximately twice the large block price plus minimum brokerage fees. He noted that NIPSCO anticipates that the FAC customers will never sell at small lot distributor pricing due to the volume of RECs received from the wind production. He explained that FAC customers will receive current large block market pricing and will realize a savings on brokerage fees because no broker is engaged to sell these RECs at open market. He stated the transfer would be done on or near the date of a sale of FAC RECs. Mr. Pluard noted the transfer option would allow GPR customers to purchase RECs more economically while ensuring FAC customers are receiving prevailing market prices.

Mr. Pluard sponsored Petitioner's Exhibit No. PJP-1, which is an analysis that shows a scenario by which transfer of available FAC RECs to GPR customers could make economic sense (as compared to purchasing RECs for GPR use from the open market). The analysis quantifies a comparison between a direct small lot purchase and a FAC transfer at large block market prices. The summary and the savings are based on the next estimated large block sale price of \$1.10 which does not include broker commission and retirement fees. The volumes used for the FAC sale is based on a standard large block of 50,000 RECs. The GPR purchase volume of 3,000 is based on the approximate balance for 2013. Line 1 shows a standard FAC sale with broker's commission. Line 2 is the amount the GPR customers would pay with a FAC transfer; this price includes the base cost plus retirement fee. The total cost to the GPR customers is \$3,345. Line 3 shows the amount the FAC customers would receive from the transfer. It is important to note that FAC customers receive the prevailing market price with a saving on brokerage commission. Line 4 shows the total that GPR customers would pay with a small-lot purchase. The total cost of \$6,755 includes a minimum brokerage commission and a retirement

fee. Line 5 highlights the savings of \$3,410 that GPR customers would realize from a transfer versus a small-lot purchase.

Mr. Pluard stated NIPSCO compared the price at which it would pay for RECs from the vintage pool with the price it will pay for RECs on the open market. Mr. Caister stated the analysis shows that the transfer of vintage FAC RECs would be cheaper than having its broker buy from the open market due to the avoidance of brokerage fees and the ability to capitalize on high-volume pricing. Given this, Mr. Caister stated that NIPSCO realizes it could provide RECs at lower overall costs to its customers participating in the Green Power Rider pilot program if given the option to have another venue from which to buy the RECs. Mr. Caister testified NIPSCO will track each side of this transaction separately, including any RECs transferred from the account for the FAC. He explained that as is currently NIPSCO's practice when RECs are sold to a third party in the FAC, NIPSCO will pass the proceeds from the sale of the RECs back to the FAC customers in the quarterly tracker filings.

Mr. Caister reiterated NIPSCO is requesting to utilize this additional procurement option for the benefit of GPR (and FAC) customers. He stated this approach fits in line with the nature of the Green Power Rider pilot program. He explained that in this proceeding NIPSCO wanted to provide the analysis to the Commission and interested parties before making any affirmative decision to buy vintage RECs for the GPR-2 period, set to occur in Quarter 1 of 2014. He stated that NIPSCO also expects to request authorization for this option in its next FAC filing to make sure both sides of the transaction are addressed in each of their respective forums.

Mr. Caister testified that a scenario could arise in which market RECs are in fact cheaper than the FAC RECs. He stated NIPSCO is not suggesting that transferring at market price from the pool of vintage FAC RECs will always be the cheaper option. He testified the Company noticed that the FAC RECs are the more cost-effective purchase at the time for the GPR-2 period, and believes the option to transfer at market price utilizing FAC RECs may be cheaper than acquiring market RECs again in the future.

Mr. Caister explained how the transfer would work. He explained that an accounting entry will be made to transfer the RECs at market price to the Green Power Rider program cost account and an offsetting credit will be recorded in an account for the cost of FAC RECs for FAC customers. He stated this ensures that the proceeds from the transaction will be credited back to FAC customers and assures FAC customers who elect to be in the GPR program will not pay twice. He noted this also ensures that FAC customers who elect not to be in the GPR program will receive the value of the transfer as they would with any other sale of the FAC RECs.

Cynthia M. Armstrong, Senior Utility Analyst in the Electric Division of the OUCC, discussed a similar request by Vectren that we denied. Ms. Armstrong explained the Commission's ruling in Cause No. 43259-S1 wherein we denied Vectren South Electric's Voluntary Green Power Rider ("Vectren GP program") because it relied heavily on retiring RECs received from Vectren's purchased power agreement ("PPA") with the Benton County Wind Farm. As Ms. Armstrong discussed, Vectren based its proposal on separating the physical electricity received under the PPA from the RECs it also received under the PPA. She summarized that because Vectren would retain the RECs and retire them on behalf of the

Vectren GP program participants, Vectren did not plan to credit FAC customers for retirement or sale of the RECs to the Vectren GP program customers. As Ms. Armstrong noted, the Commission found that the purchase price of the wind energy from the PPA included the RECs associated with the energy, and the RECs could not be separated from the approved costs of the PPA. She stated the Commission found that Vectren GP program participants would be paying the renewable PPA costs twice because both the costs of the wind power and RECs received from the PPA were passed on to all customers through Vectren's FAC. She added the Commission also found the Vectren GP program to be confusing to Vectren's customers because the customers were likely to believe they were purchasing renewable energy by enrolling in the program, when in fact they were paying Vectren to retire the RECs that are associated with the renewable energy they had already paid for in FAC charges included in their bills. Ms. Armstrong iterated that because the Vectren GP program costs included Vectren's administrative costs for the program, the Commission found that Vectren GP program participants were essentially paying for Vectren to advertise the benefits of renewable energy to its customers.

Ms. Armstrong distinguished NIPSCO's request from Vectren's request in Cause 44259-S1. She testified the two major differences between NIPSCO's proposal and that of Vectren are (1) NIPSCO plans to credit all FAC customers for the sale or transfer of RECs to GPR customers – thus, GPR customers will not pay twice for the same RECs; and (2) unlike Vectren, NIPSCO is not seeking to recover GPR administrative costs through its GPR.

Ms. Armstrong testified that as long as FAC customers are credited with the revenues from those subsequent sales, the OUCC does not object to NIPSCO's proposal for the duration of NIPSCO's GPR pilot program (through December 31, 2014). She stated the OUCC agrees that it is beneficial to GPR customers to keep program costs as low as reasonably possible, since a lower GPR rate will encourage more participation in the program. Ms. Armstrong suggested that this arrangement should be reevaluated once NIPSCO's GPR program gains enough participants to allow NIPSCO to cost-effectively make large block purchases from separate Green-e certified REC markets. She stated that the current voluntary REC market requires multiple buyers and sellers in order to become robust and that the development of the REC market could be negatively impacted over time if utilities sell their own FAC RECs to their own green power customers.

Mr. Caister testified that if approval for the transfer option is granted in this proceeding, NIPSCO will request authority to utilize the option to transfer FAC RECs at market price in NIPSCO's next FAC filing. He stated that once NIPSCO has received approval in both proceedings, NIPSCO will evaluate which REC procurement option has the best benefit for GPR customers. He stated that at the time NIPSCO makes a request to transfer FAC RECs, it will provide an explanation and accounting of why its request is reasonable. He testified that inside of the applicable GPR proceeding, NIPSCO would fully support the information relating to the transfer and provide an analysis supporting use of the FAC REC transfer at market price option rather than purchasing from the open market.

C. **Requested Revised Green Power Rider Rate.** Curt A. Westerhausen, Director of Rates and Contracts in the Rates and Regulatory Finance Department for NIPSCO, provided details about NIPSCO's proposed rate adjustment. He stated this proceeding is for the

billing cycles of January through June 2014 and includes a reconciliation of over- or under-collection of program expenses for the period January through June 2013.

Mr. Westerhausen also discussed the schedules that support NIPSCO's request for a revised Green Power Rider Rate. He explained that Schedule 1 shows the calculation of the GPR rate by taking the total projected costs for the period January through June 2014 and dividing those costs by the estimated Green Power sales in kWh over that time period. He also noted that the total projected costs include the projected marketing costs, the projected cost to purchase RECs and the prior period reconciliation. Mr. Westerhausen explained that Schedule 2 shows the calculation of the over- or under-collection of the actual program expenses from January through June 2013. He stated this was based on the actual Green Power revenue billed and the marketing and REC costs incurred.

Mr. Westerhausen also described NIPSCO's usage calculations. He stated that there are now seven full months of historical operating results (February 2013 through August 2013). He testified that as of September 3, 2013, there were 436 customers enrolled, of which 420 are residential and 16 are commercial, including one large commercial customer which makes up the majority of present Green Power usage. He stated that NIPSCO reviewed these participants' 2013 year-to-date usage, and used that data to calculate a monthly average Green Power usage amount for residential, commercial, and the single large commercial customer: 648 kWh for the average residential participant; 2,454 kWh for the average commercial participant; and 363,314 kWh for the single large commercial participant. He explained that this calculation was based on actual total monthly usage and by applying their Green Power participation rate (e.g. 25%, 50%, or 100%). Mr. Westerhausen stated that NIPSCO started with the actual customer enrollment of 420 residential customers and applied a growth rate of 75 new customers per month through the remainder of 2013 and for January through June 2014. He stated that NIPSCO started with the actual customer enrollment of 15 commercial customers and applied a growth rate of 1 new customer per month. Using that enrollment projection, along with the new average usage levels, NIPSCO calculated the total estimated Green Power sales from January through June 2014 of 6,025,258 kWh.

Mr. Westerhausen stated NIPSCO's proposed GPR rate is \$0.002301 per kWh. He stated the average monthly participation rate for the current Green Power residential customers is approximately 648 kWh. He testified that at this monthly participation rate the estimated monthly bill impact to a Green Power residential customer is \$1.49. He stated this is a \$0.09 increase from what a Green Power residential customer would pay today using the current GPR rate.

Mr. Caister stated that, at this time, NIPSCO does not yet know the full impact this program will have on employee workload, so no recovery of incremental administrative costs is included in NIPSCO's proposed Green Power Rider Rate adjustment in this proceeding. Mr. Caister stated that NIPSCO is not seeking to adjust the level of semi-annual marketing expenses included in this filing and that NIPSCO will continue to monitor its ongoing level of marketing expenses and propose any changes at a later time, if such changes are warranted.

Ms. Armstrong testified that NIPSCO calculated its proposed GPR-2 factor in this case based on prevailing market prices for small block purchases of RECS and agrees that based on that calculation, the proposed rate is reasonable and accurate.

Ms. Armstrong testified that based on Petitioner's calculation of the GPR rate a residential customer electing for the first time to supplement 100% of its electricity use with RECs who consumes 694 kWh would expect to pay an additional \$1.60 on their monthly bill. She agreed that an existing residential GPR customer using 694 kWh per month who supplements 100% of its electricity usage with RECs would expect to pay an additional \$0.20 per month under the new GPR-2 rate, a 14.3% increase from the current rate.

Ms. Armstrong stated that NIPSCO's proposed factor in this proceeding does not take into account the cost savings from the proposed FAC REC transfer. She testified that if the Commission approves NIPSCO's proposal to sell FAC RECs to the GPR program, then the OUCC proposes that NIPSCO lower its GPR rate to account for the change in the forecasted cost of RECs. Ms. Armstrong testified that since the OUCC does not oppose NIPSCO's proposal during the remaining life of the pilot program, the OUCC recommended that the GPR factor for the months of January through June 2014 be reduced to \$0.001148 per kWh to take into account the reduced forecasted cost of RECs.

In rebuttal testimony, Mr. Caister stated that it would be premature to reduce the proposed GPR factor at this time. He clarified that NIPSCO is not seeking approval to transfer FAC RECs at market price in this proceeding, but, rather, seeks approval for the option. He explained that the discussion and examples that were provided in direct testimony were intended to demonstrate why such an option may make sense in the future. Mr. Caister clarified that the analysis NIPSCO provided in this proceeding related to the transfer was to illustrate an additional way to acquire RECs on behalf of NIPSCO's GPR Program customers.

**D. Renewable Energy Credits ("RECs").** In the 44198 Order, the Commission strongly encouraged NIPSCO to purchase RECs from Indiana-based sources when fiscally prudent. Mr. Caister testified that although NIPSCO has not yet purchased any Indiana-based RECs because they are still notably more expensive, NIPSCO would continue to request from its broker pricing for Indiana-sourced RECs, and will evaluate both price benefits and geographic location to determine the best value for participating customers.

Mr. Pluard also addressed this issue. He testified that in an effort to keep the pool of potential sellers reasonably large and to comply with Green-e certification requirements, NIPSCO specified the RECs needed to be sourced from within the MISO footprint, with a preference for an Indiana source. He stated that NIPSCO found in the past that it was more cost effective to purchase RECs that are from sources within the MISO footprint, but not within Indiana. He stated that Indiana-sourced RECs, due to limited supply and high demand in other markets, have traded at a premium compared to MISO-sourced RECs. He stated that the last recorded price for Indiana RECs was approximately 5-times the price of MISO sourced RECs. He stated that NIPSCO has no indication of a change in the spread between Indiana-sourced RECs and MISO-sourced RECs. He testified NIPSCO will continue to explore the option of purchasing RECs sourced in Indiana during the bi-annual GPR purchase process.

Mr. Pluard described NIPSCO's REC purchases generally, as well. He testified NIPSCO did not purchase any RECs from July 2013 through the date of NIPSCO's filing. He stated that NIPSCO will purchase RECs for the balance of 2013 in the first quarter of 2014, after actual 2013 values have been confirmed. He stated that NIPSCO's current estimated level of 2013 annual sales under the GPR Program is approximately 5,200 megawatt-hours. The quantity of RECs purchased to date is 2,000 and was based on estimated sales for the period ending June 2013. He stated NIPSCO intends to base its purchase volume on the actual 2013 metered values and will acquire RECs with a 2013 vintage date. He testified that the REC purchase price used for this filing was an estimated price of \$2.25 per REC and that the total estimated price includes the base cost of the REC plus commission and retirement fees. Mr. Pluard explained that NIPSCO based the estimated price on actual large block market prices with a small-lot premium.

Mr. Pluard testified that future prices are unknown. He stated that the method of purchase will influence the price paid for future RECs. He explained that purchases made in the open market will be subject to small-lot size premiums and minimum transaction fees while transfers from the FAC inventory would be at the prevailing large block market price, thus reducing costs included in the GPR factor. He testified that the exact sources of future RECs will not be known until after a purchase option has been determined and transactions are completed.

**5. Commission Conclusion.** Based on the evidence presented, the Commission finds that Petitioner has complied with the rules and procedures applicable to its request and in accordance with the provisions of NIPSCO's Rider 686 – Green Power Rider and Appendix H – Green Power Rider Rate, as approved by the Commission in Cause No. 44198. The Green Power Rider Rate contained in Petitioner's Exhibit A, Schedule 1 should be approved to be effective with the first billing cycle of the January 2014 billing month. Thus, the Commission finds that the proposed Green Power Rider Rate of \$0.002301 per kWh is properly calculated and should be approved.

In addition, having reviewed the evidence before us on the additional REC procurement option, the Commission finds NIPSCO's request in this proceeding for approval of the option to transfer at market price to the GPR program the FAC RECs reasonable and should be and is hereby approved. This additional option will give NIPSCO additional flexibility to keep its program responsive to customers and program growth.

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

1. Petitioner's requested Green Power Rider Rate to be effective with the first billing cycle of the January 2014 billing month, set forth in Paragraph 4(b) above, is hereby approved. The Green Power Rider Rate approved herein, upon becoming effective, shall remain in effect until a new revised rate is approved.

2. Petitioner shall file with the Electricity Division of the Commission, prior to placing in effect, the revised Green Power Rider Rate herein approved, an amendment to its rate schedule with reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

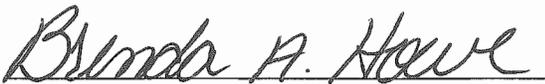
3. Petitioner's request for approval of the option to transfer at market price to the GPR program the RECs obtained in conjunction with wind energy purchases under NIPSCO's wind purchase power agreements with Barton and Buffalo Ridge I Wind Farms and held in an account for NIPSCO's customers who pay the fuel adjustment clause shall be and is hereby approved.

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

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

APPROVED:      **DEC 30 2013**

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

  
**Brenda A. Howe**  
**Secretary to the Commission**