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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A REVISED GREEN POWER RIDER RATE TO BE APPLICABLE FOR BILLS RENDERED DURING THE BILLING CYCLES OF JANUARY THROUGH JUNE 2015, PURSUANT TO CAUSE NO. 44198.	)))))))	CAUSE NO. 44198 GPR 4 APPROVED: DEC 30 2014

ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commission Chair
Jeffery A. Earl, Administrative Law Judge

On September 30, 2014, Northern Indiana Public Service Company ("NIPSCO") filed a Verified Petition in this Cause. Also on September 30, 2014, NIPSCO filed the direct testimony and exhibits of the following:

- Timothy R. Caister, Director of Regulatory Policy for NIPSCO;
- David Joseph Mays, Manager of Rates and Contracts for NIPSCO; and
- Patrick J. Pluard, Director of Portfolio Optimization in the Energy Supply and Trading Department for NIPSCO.

On November 14, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Cynthia M. Armstrong, Senior Utility Analyst in the OUCC's Electric Division.

The Commission held evidentiary hearings in this Cause at 1:30 p.m. on December 1, 2014, and at 10:00 a.m. on December 11, 2014, both in Hearing Room 224, 101 W. Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared at and participated in the hearings. No members of the general public attended or sought to participate.

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

1. **Notice and Jurisdiction.** Notices of the hearings in this Cause were given and published as required by law. NIPSCO is a "public utility" as that term is defined in Ind. Code § 8-1-2-1(a). The Commission approved NIPSCO's Green Power Rider ("GPR") and GPR Rate in the December 19, 2014 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. **NIPSCO's Characteristics.** NIPSCO 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. NIPSCO renders 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.** 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 required NIPSCO to reconcile the previous estimated Green Power Rider Rate with actual costs and estimate a new Green Power Rider Rate for the upcoming six months. By the terms of the 44198 Order, the Green Power Rider Rate was set to expire on December 31, 2014.

On July 31, 2014 NIPSCO filed a request in Cause No. 44520 for approval of an extension of its Green Power Rider program, with certain modifications and its incorporation as a component of NIPSCO's approved tariff on a non-pilot basis. Since this tracker filing requests approval of a revised Green Power Rider Rate to be applicable and made effective for bills rendered during the billing cycles of January through June 2015, NIPSCO's GPR 4 tracker filing incorporated the relief requested in Cause No. 44520. On December 3, 2014, the Commission issued its Order in Cause No. 44520 (the "44520 Order") approving NIPSCO's request.

4. **Commission Discussion and Findings.**

A. **Extension and Modification of Green Power Rider Program.** Mr. Caister described NIPSCO's request for approval of an extension of its GPR program, with certain modifications, and its incorporation as a component of NIPSCO's approved tariff on a non-pilot basis. NIPSCO proposes to continue to offer the GPR program to all NIPSCO electric customers, allowing customers to designate all or some of their electricity usage to be attributable to a renewable source, or "Green Power." Residential customers will continue to have the option to designate 25%, 50%, or 100% of their total monthly usage to be attributable to Green Power. Commercial & Industrial ("C&I") customers will also continue to have the option to designate 5% or 10% of their electricity to be attributable to a renewable source. NIPSCO also proposes that the GPR rate would compensate NIPSCO for a portion of GPR marketing and certification expenses that NIPSCO expects to incur to maintain and grow its GPR program.

B. **Requested GPR Rate.** NIPSCO requests Commission approval of a revised Green Power Rider Rate of $0.001238 per kilowatt-hour ("kWh") to be applicable for bills rendered during the billing cycles of January through June 2015 or until replaced by a different rate the Commission approves in a subsequent filing.

Mr. Mays described the schedules supporting NIPSCO's request as follows:

- Schedule 1 shows the calculation of the GPR rate by taking the maximum allowable Marketing & Certification expense (using the capped factor of $0.001150 per kWh), the projected REC cost for the period of January through June 2015, and the prior period reconciliation for the period of January through June 2014 and dividing those costs by the estimated total kWh of Green Power Rider sales for the billing period. Those individual factor components are then added to get the total factor, which is then adjusted for the Utility Receipts Tax on Retail Sales ("URTRS").
- Schedule 2 shows the calculation of the over- or under-collection of the actual program expenses for the period January through June 2014. This was based on the actual Green Power Rider revenue billed and the eligible marketing and REC costs incurred. Schedule 2 also shows the program's first prior period variance, which is the reconciliation for the period January through June 2014.
- Schedule 2A shows an example to demonstrate the calculation of the over- or under-collection using the new methodology of capping the Marketing & Certification expenses.
- Schedule 3 shows the projection of total Marketing & Certification expenses along with the calculation of the maximum that can be recovered based on a capped Marketing & Certification expenses factor of $0.001150 per kWh.
- Schedule 4 shows the actual REC cost for the period January through June 2014 and the estimated REC costs for the period January through June 2015.

Cynthia M. Armstrong, Senior Utility Analyst in the Electric Division of the OUCC, testified NIPSCO's estimated and actual REC costs are reasonable.

C. <u>Enrollment and Consumption</u>. Mr. Mays stated that as of September 22, 2014, there were 875 customers enrolled in NIPSCO's GPR program (855 residential and 20 commercial). He explained that NIPSCO reviewed the participants' usage for the periods of February through June 2013 and January through June 2014 and used that data to calculate a monthly average Green Power usage amount. This calculation was based on actual total monthly usage and GPR program participation rates.

Mr. Mays explained that the average Green Power consumption for residential was approximately 644 kWh per customer and for commercial was approximately 3,061 kWh. The forecasted residential and commercial customer counts are based on NIPSCO's operational goals for the Green Power Program. Using the customer enrollment projections, along with the new average-usage levels, NIPSCO calculated the total, estimated Green Power sales for the period January through June 2015 of 4,173,087 kWh.

Mr. Mays testified NIPSCO's proposed GPR rate is $0.001238 per kWh. He stated that the estimated monthly bill impact to a Green Power residential customer (based on an average monthly usage of 644 kWh) is $0.80, which is a $0.08 decrease from what a Green Power residential customer pays under NIPSCO's current GPR rate.

D. <u>Administrative Costs</u>. Mr. Mays testified that 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 GPR rate adjustment.

E. <u>Marketing Costs</u>. Mr. Caister stated that NIPSCO is proposing to incorporate a specific component of the GPR rate that would compensate NIPSCO for a portion of its GPR estimated marketing and certification expenses to maintain and grow its GPR program. This will help to address some comments received from stakeholders, better align the interests of NIPSCO and its GPR customers and send an improved pricing signal to customers for the costs associated with the program.

Mr. Caister explained that increasing the number of enrollments can reduce the cost per unit to each participating GPR customer. NIPSCO supports this goal and supports marketing of this program to do just that, but expenditures are required to market the program. NIPSCO currently spends more than $500 per year—which is the annual amount included for recovery in its current GPR rate—to market the program. In 2013 NIPSCO spent $205,210 on marketing for the Green Power program, which includes $106,637 on media placement and $98,573 on development. NIPSCO expects to spend $187,000 for these items in 2014 to continue to market the program.

Mr. Caister explained that in addition to marketing, NIPSCO incurred approximately $13,800 in certification costs related to Green-e® and over $8,000 to facilitate a certification audit for Green-e®. Going forward, NIPSCO expects to incur this level of certification expenses annually. Mr. Caister said that NIPSCO will analyze the costs relative to the benefits of this certification, since the continued certification of the program will cause NIPSCO to incur real expenses.

Mr. Caister explained that in Cause No. 44520, NIPSCO proposed to incorporate a component under the GPR rate that would compensate for these marketing and certification costs at a level greater than $500. NIPSCO is not requesting to immediately recover the entire amount of these expenses; however, he feels that it is appropriate to incorporate a level of recovery greater than $500. NIPSCO proposes to cap the recovery of these expenses at $0.001150 per kWh in order to limit the effect on the overall GPR rate and due to concern that it would increase the factor to an unattractive level for customer enrollments. Given the modest enrollment in the early stages of the GPR program, capping such recovery will help ensure that the rate does not increase too much to drive cancellations. NIPSCO will continue to analyze this balance in the future to see if enrollments increase enough in the future to support an increase to this component to provide greater cost recovery. Nonetheless, a per-kWh component to recover these expenses would align the interests of NIPSCO and its customers insofar as enrollments increase, the expense recovery also increases.

Mr. Caister stated that NIPSCO is not proposing to recover anything greater than the actual marketing and certification expenses. Under the current pace of enrollments and expected level of expenses, this situation is not anticipated to occur, but in the unlikely event that NIPSCO did collect more than its actual marketing and certification expenses, the over-collection would be refunded to customers through the reconciliation process in its next GPR tracker filing. In addition, NIPSCO would reduce the component on a going-forward basis if actual marketing and certification expenses are less than $0.001150 per kWh to limit GPR cost recovery to the actual level of those expenses.

Mr. Mays testified NIPSCO is including Marketing and Certification expenses of $4,799.05 in this GPR tracker filing, which is calculated by multiplying the estimated sales by the capped Marketing and Certification expenses component factor ($0.001150 per kWh). Schedule 3 shows an itemization of the estimated and actual Marketing and Certification expenses and the amount of Marketing and Certification expenses to be included in the calculation of the overall factor (calculated by multiplying the estimated sales by the capped Marketing and Certification expenses component factor of $0.001150 per kWh).

Ms. Armstrong testified that the OUCC reviewed NIPSCO's forecasted marketing costs for 2015 in Cause No. 44520 and that, while the projected marketing expenses are high, the OUCC did not oppose their recovery since increased marketing could vastly improve customer participation levels. Ms. Armstrong stated that the OUCC will continue to review NIPSCO's future marketing costs alongside the benefits of increased customer participation in its GPR program.

F. <u>Reconciliation</u>. Mr. Mays stated that the over-collection for the reconciliation period January through June 2014 was driven by actual REC prices being lower than the estimated price for RECs during that period. Mr. Pluard confirmed that the price NIPSCO paid for the RECs it purchased was different than the price NIPSCO estimated in its filing in Cause No. 44198 GPR 2. Mr. Pluard stated that, overall, the market price for Midcontinent Independent System Operator ("MISO") sourced RECs has decreased from the time of the original estimate. The primary reason for the difference in price is the transfer from the FAC-customer inventory at large-lot pricing versus the estimate, which was based on an open-market purchase at small-lot pricing.

Mr. Mays described how NIPSCO proposes to calculate the reconciliation starting with GPR 6. The reconciliation will consist of three components: (1) Marketing and Certification expenses; (2) REC costs; and (3) Prior Period Variance. The Marketing and Certification expenses will be reconciled annually to capture the total Marketing and Certification expenses for the previous year. Based on previous experience, NIPSCO expects the majority of Marketing and Certification expenses to occur in the second half of the year. Reconciling annually will reduce the impact of the variation of expenses across the year. Under the new capped Marketing and Certification methodology, NIPSCO will not have an under-collection and will only have an over-collection if the actual annual Marketing and Certification expenses are below the amount of Marketing and Certification revenues collected, based on the $0.001150 per kWh capped factor.

Second, REC costs will be reconciled by taking the actual REC costs for the reconciliation period and subtracting the REC revenues collected for the reconciliation period. The REC revenues consist of the actual sales for the reconciliation period, multiplied by the estimated REC price ($/kWh) for the reconciliation period.

Third, the Prior Period Variance—Under/Over Collection is the difference between the prior period variance and the amount of the prior period variance that was actually under or over collected. The prior period variance that was actually under/over collected is calculated by multiplying the actual sales by the prior period variance factor of ($0.000026/kWh).

G. <u>Renewable Energy Credits (RECs)</u>. Mr. Pluard testified NIPSCO transferred 3,426 RECs from the FAC-customer inventory at the market value at the time of the transfer. The transfer was made at the market price established by a large-lot sale from the FAC-customer inventory in August 2014. NIPSCO chose this option because it was the most cost-effective option of acquiring RECs for the GPR customers while maintaining compliance with the Green-e® certification requirement.

Mr. Pluard stated the GPR customers paid \$0.965 per REC, which includes the unit purchase value and a Midwest Renewable Energy Tracking System ("MRETS") REC retirement fee. The transfer was done in conjunction with a large-lot FAC sale of 50,000 RECs. The GPR customers paid, and the FAC customers received, large-lot pricing. The transfer enabled the GPR customers to obtain RECs at the lowest reasonable cost while both avoiding additional brokerage fees and allowing the FAC customers to receive fair market value for the RECs.

Mr. Pluard stated that the sources of the RECs are from the Barton and Buffalo Ridge wind units—located in Iowa and South Dakota, respectively—both of which generate under Purchase Power Agreements and are located within the MISO balancing area.

Mr. Pluard testified that prior to the transfer, NIPSCO requested pricing for Indiana sourced RECs. At that time, Indiana RECs were trading in a broad range of values based on renewable source, market qualification, and specific state requirements. There is no published market, with typical bid-offer spreads, but recent indicative quotes show values from several dollars to as much as \$10 per REC, which was higher than the price NIPSCO was able to obtain through the FAC-customer inventory. NIPSCO will continue to explore the option of acquiring RECs sourced in Indiana during its semi-annual GPR purchase process.

Mr. Pluard testified that future REC prices are unknown. The method of acquisition will influence the costs incurred for future REC purchases. Purchases made in the open market may be subject to small-lot size premiums, brokerage fees, and minimum-transaction fees while transfers from the FAC inventory will continue to be at the prevailing large-lot market price, generally reducing costs included in the GPR factor. It is anticipated that future transfers will be in the \$1.00 to \$1.25 price range, and NIPSCO will continue to explore all options prior to making any purchase or transfer decisions. While the exact sources of future RECs will not be known until after a purchase or transfer option has been fully evaluated and purchase transactions have been completed, RECs purchased by NIPSCO for its GPR program will come from sources in the MISO balancing area.

Mr. Pluard testified that NIPSCO intends to purchase or perform a transfer of RECs during the 1st Quarter of 2015, after actual values for the period of July through December 2014 have been confirmed, and during the 3rd Quarter of 2015, after actual values for the period of January through June 2015 have been confirmed.

5. <u>Commission Conclusion</u>. Based on the evidence presented, we find that NIPSCO 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. 44520. We also find that the proposed Green Power Rider Rate of \$0.001238 per kWh was properly calculated. Therefore, we approve the

Green Power Rider Rate contained in NIPSCO's Exhibit A, Schedule 1, effective the first billing cycle of January 2015.

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

1. NIPSCO's requested Green Power Rider Rate of $0.001238 per kWh is approved to be applicable to bills rendered during the billing cycles of January through June 2015.

2. Prior to placing the approved Green Power Rider Rate in effect, NIPSCO shall file with the Electricity Division of the Commission 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. This Order shall be effective on and after the date of its approval.

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT:

APPROVED: DEC 30 2014

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission