

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & )  
LIGHT COMPANY REQUESTING THE INDIANA )  
UTILITY REGULATORY COMMISSION TO APPROVE )  
(1) DEMAND SIDE MANAGEMENT AND ENERGY )  
EFFICIENCY PROGRAMS; (2) RATEMAKING )  
RECOGNITION OF SUCH COSTS, INCLUDING TIMELY )  
RECOVERY OF ASSOCIATED COSTS, INCLUDING )  
PERFORMANCE INCENTIVES PURSUANT TO )  
STANDARD CONTRACT RIDER NO. 22 IN )  
ACCORDANCE WITH INDIANA CODE 8-1-2-42(a) AND )  
170 IAC 4-8-1 ET SEQ.; AND (3) REVISIONS TO )  
STANDARD CONTRACT RIDER NO. 13'S PARTICIPANT )  
CREDITS AND PERFORMANCE INCENTIVES. )

CAUSE NO. 44328

APPROVED: NOV 25 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**Kari A.E. Bennett, Commissioner**

**Loraine L. Seyfried, Chief Administrative Law Judge**

On March 28, 2013, Petitioner Indianapolis Power & Light Company ("IPL") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition for approval of demand side management and energy efficiency ("DSM") programs and associated ratemaking and accounting treatment required to comply with the Commission's December 9, 2009 Phase II Order in Cause No. 42693 ("Generic DSM Order") and the August 15, 2012 Order on One-Year Extension in Cause No. 42693 S1 ("Extension Order").

On April 17, 2013, IPL filed its direct testimony and exhibits constituting its case-in-chief. On June 7, 2013, IPL filed the revised direct testimony of John Haselden. On June 19, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") submitted its direct testimony and exhibits constituting its case-in-chief. On July 12, 2013, IPL filed its rebuttal testimony and exhibits.

On May 2, 2013, the Citizens Action Coalition of Indiana ("CAC") filed a Petition to Intervene, which was granted by Docket Entry dated May 13, 2013. On July 12, 2013, the CAC filed its Motion for Leave to File Cross-Reply Testimony. On July 22, 2013, IPL filed Petitioner's Response to the CAC's Motion for Leave to File Cross-Reply Testimony. On July 22, 2013, the OUCC filed its Motion to Postpone Evidentiary Hearing and to Approve Agreed Post-Hearing Filing Schedule. By Docket Entry dated July 24, 2013, the Presiding Officers accepted for filing the CAC's cross-reply testimony, established a schedule for the OUCC and IPL to file their respective responses to the testimony, revised the date for the evidentiary hearing and established the post-hearing filing schedule. On August 26, 2013, IPL responded to

questions posed in an August 22, 2013 Docket Entry.

Pursuant to notice duly published as required by law, a public Evidentiary Hearing was held in this Cause on August 28, 2013 at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the Evidentiary Hearing were incorporated into the record and placed into the official files of the Commission. IPL, the OUCC and CAC attended the Evidentiary Hearing at which their respective prefiled testimony and exhibits were admitted into the record without objection and witnesses were subject to cross examination. No members of the public attended the hearing.

The Commission, having considered the evidence of record and applicable law, finds as follows:

**1. Commission Jurisdiction and Notice.** Proper notice in this Cause was given as required by law. IPL is a “public utility” as that term is defined in Ind. Code § 8-1-2-1. In accordance with the Generic DSM Order and pursuant to Ind. Code §§ 8-1-2-4 and 8-1-2-42 and 170 IAC 4-8, the Commission has jurisdiction over IPL’s DSM programs and associated cost recovery. Therefore, the Commission has jurisdiction over IPL and the subject matter of this Cause.

**2. IPL’s Organization and Business.** IPL is an operating public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business at One Monument Circle, Indianapolis, Indiana. IPL renders retail electric utility service to approximately 470,000 retail customers located principally in and near the City of Indianapolis, Indiana, and in portions of the following Indiana counties: Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Owen, Putnam and Shelby Counties. IPL owns, operates, manages and controls electric generating, transmission and distribution plant, property and equipment and related facilities, which are used and useful for the convenience of the public in the production, transmission, delivery and furnishing of electric energy, heat, light and power.

**3. Background.** The Commission’s Generic DSM Order established mandatory energy savings goals and other requirements regarding the implementation of five Core Programs constituting a mandatory minimum offering to be made by all utilities on a uniform basis through the State. The Core Programs must be offered through a statewide Third Party Administrator (“TPA”) and evaluated by a statewide evaluation, measurement and verification (“EM&V”) administrator. The Generic DSM Order acknowledged that the required energy savings and timeline mandated by the Commission’s Order could not be met solely through Core Programs and that non-Core utility-specific DSM programs (“Core Plus Programs”) would also be needed.

The Commission’s November 22, 2011 Order in Cause No. 43960 (“43960 Order”) authorized IPL to implement a portfolio of DSM programs and approved ratemaking to provide cost recovery for its Core and Core Plus Programs through Standard Contract Rider No. 22 (Core and Core Plus Demand-Side Management Adjustment) (“Rider 22”). IPL implemented Core and Core Plus Programs on January 1, 2011 and transitioned delivery and administration of the Core Programs to the selected TPA, GoodCents Solutions (“GoodCents”), on January 2, 2012.

4. **Relief Requested.** IPL requests Commission approval to continue providing Core and Core Plus Programs through December 31, 2014 to achieve the energy savings mandated by the Generic DSM Order. IPL proposes a one-year program period because of the uncertainty about the scope and design of the Core Programs to be provided after January 1, 2015. For program year 2014, Core Programs identified in the Generic DSM Order will continue to be provided by GoodCents in accordance with the Extension Order. IPL proposes to continue providing Core Plus Programs, but seeks approval of some revisions to its Core Plus Programs to continue achieving energy savings cost effectively. IPL also asks the Commission to find that IPL's costs incurred to comply with the Generic DSM Order are reasonable and necessary and recognizable for ratemaking purposes. IPL asks the Commission to approve the associated ratemaking and accounting treatment, including timely recovery through Rider 22, of the costs incurred to comply with the Generic DSM Order. These costs include the direct and indirect costs associated with these DSM programs, the costs incurred under the contracts with the statewide TPA and EM&V administrator and performance incentives related to certain of the Core Plus Programs.

IPL also seeks Commission approval to modify Standard Contract Rider No. 13 ("Rider 13") to allow recovery of all program costs, participant credits and associated incentives associated with the Air Conditioning Load Management ("ACLM") program through Rider 22. The proposed revision would eliminate the need to file a separate proceeding for recovery of ACLM costs through Rider 13 and allow the costs to be recovered through semi-annual Rider 22 filings that IPL is already making.

5. **IPL's Proposed 2014 DSM Plan.** IPL's proposed 2014 DSM programs ("2014 DSM Plan") includes the following components:

**Core Programs**

- Residential Lighting
- Home Energy Assessment
- Low Income Weatherization
- Commercial and Industrial ("C&I") Prescriptive
- Energy Efficient Schools
  - Education
  - Audit & Direct Install

**Core Plus Residential Programs**

- Residential New Construction
- Online Energy Assessment with Kit
- Multifamily Direct Install
- Appliance Recycling
- Peer Comparison Report
- PowerView® Online Energy Feedback
- CoolCents® Residential ACLM
- Renewable Energy Incentives

### **Core Plus C&I Programs**

- Business Energy Incentives
  - Custom
  - Prescriptive
- CoolCents® ACLM
- Renewable Energy Incentives

Pet.'s Ex. ZE-2.

### **6. IPL's Case-In-Chief.**

**A. Lester H. Allen.** Lester H. Allen, DSM Program Development Manager of IPL, summarized IPL's request for approval of the 2014 DSM Plan and associated ratemaking and accounting treatment, the current status of IPL DSM programs, and why the relief sought by IPL is consistent with the Generic DSM Order and serves the public interest.

Mr. Allen explained that the Generic DSM Order establishes an annual electric energy savings goal for jurisdictional Indiana electric utilities to be achieved through both Core Programs and Core Plus Programs. He noted that IPL has demonstrated a long standing history of implementing successful DSM programs and sponsored Petitioner's Exhibit LHA-4, which included a history of prior IPL efforts. He testified IPL is currently offering DSM programs pursuant to the approvals in the 43960 Order, which approvals will expire on December 31, 2013 without further action by the Commission.

Mr. Allen testified that IPL is making progress to achieve the energy savings targets and currently expects to achieve the cumulative goals by the end of 2013, with such success highly dependent on the Core Programs achieving the majority of the 2012-2013 targets. He stated that recent results, as shown in Petitioner's Exhibit LHA-3, indicate IPL has achieved approximately 50% of the Commission's cumulative target of 341,558 megawatt hours for the first reporting period that runs through the end of 2013 and that IPL was not able to achieve targets in 2010 and 2011, due primarily to regulatory approvals of the TPA following issuance of the Generic DSM Order. Mr. Allen further testified that the C&I Prescriptive program is expected to be below planned achievement for IPL's service territory and that GoodCents has also indicated that it will be challenging to meet the 2012/13 target for the Home Energy Assessment program.

Mr. Allen testified that another emerging issue relating to the achievement of the Core Program targets is the possibility that the evaluated energy efficiency savings will be less than the original deemed values. He explained that the new deemed values, as agreed to by the Demand Side Management Coordination Committee ("DSMCC"), would be applied on a prospective basis to the incremental participants in the respective programs. If the new deemed values are significantly less, it will have an impact on 2014 DSM Plan achievement. Mr. Allen stated that, to account for the possibility the TPA will not achieve the projected energy savings, IPL is proposing DSM programs that will result in over-compliance.

Mr. Allen explained that the aforementioned concerns with meeting the energy savings targets have been partially off-set by the success IPL has achieved with its Core Plus Programs, which have exceeded the projected energy savings for the 2012/2013 program years. Mr. Allen

testified that through the end of 2012, IPL has achieved significantly more energy efficiency reductions for less cost than originally planned and approved by modifying programs or identifying new programs, such as the Multifamily Direct Install program. These modifications were made possible by working with its implementation contractors and collaboration with the IPL Oversight Board (“OSB”).

Mr. Allen testified that IPL is seeking approval to implement DSM programs during calendar year 2014 to comply with the Generic DSM Order. He described IPL’s 2014 DSM Plan, identifying the programs that are designated as Core Programs and Core Plus Programs. Mr. Allen explained that the 2014 DSM Plan is essentially a reflection of the previously approved Core Program extension with GoodCents and a continuation of the majority of IPL’s current Core Plus Program offerings. IPL is proposing to continue the Renewables Energy Incentives program as a “market transformation” program even though it has a Total Resource Cost (“TRC”) score of less than 1.0. He stated that the offering of a renewable energy program is consistent with the Generic DSM Order where the Commission indicated that renewables could be among other DSM offerings to be considered. He also testified that IPL completed a joint Market Potential Study (“MPS”) with Citizens Energy, and to the extent possible IPL will continue to offer DSM programs jointly with Citizens Energy. Mr. Allen testified that IPL leveraged the results of the MPS and the Action Plan, along with the knowledge IPL has gained through DSM program delivery, to develop the 2014 DSM Plan.

Mr. Allen testified that the total estimated cost of the 2014 DSM Plan, prior to recovery of any performance incentive payment, is \$24,818,721. He stated that IPL is requesting approval to spend up to an additional 15% of the 2014 DSM Plan budget because preliminary EM&V results indicate that the deemed savings of Core Programs may be lower for 2014 than originally assumed. If those preliminary results remain unchanged, IPL will need to increase its investment in either existing programs or alternative programs to replace the lower energy savings from Core Programs and will work through its OSB to either increase the scale of programs or identify new programs. Mr. Allen also testified that IPL requests authority to increase the 2014 DSM Plan budget by any unspent funds from its 2012/2013 plan years to fund additional DSM measures necessary to make-up for energy savings not realized in 2013. The amount of the Core Program funds to be rolled over to 2014 will not be known until after the conclusion of 2013 Core Program delivery. Mr. Allen also clarified IPL’s understanding that overachievement in energy efficiency savings in a given program year that results in cumulative energy efficiency savings above the Commission’s targets will be credited to IPL’s future achievement and will reduce the amount of the target in a future year.

Mr. Allen testified that the 2014 DSM Plan budget is \$5.6 million less than the budget for the DSM measures IPL implemented in 2013 primarily because there are many fewer Home Energy Assessments planned in 2014 than were included in the 2012/2013 plan. He stated that IPL does not expect compliance with the Generic DSM Order to decrease in cost in future years, but anticipates the cost will grow significantly as the targets become increasingly difficult to achieve. He also stated that the MPS conducted by IPL demonstrates that beyond year 2017, achieving the Commission’s energy savings targets will be extremely difficult.

Mr. Allen explained that IPL sought similar authority to recover program costs and performance incentives as the 43960 Order granted. He testified that IPL is now proposing to

modify performance incentives to be calculated on energy only to better align with the Generic DSM Order. Mr. Allen explained that the 43960 Order authorized performance incentives for IPL's Core Plus Programs, except for the Peer Comparison Report, the Residential Renewables Incentives program and the C&I Renewables Incentives program as well as educational funding and indirect costs that are unrelated to specific programs. Mr. Allen stated that the incentive structure, as modified, for its Core Plus Programs continues to appropriately provide a financial incentive for achieving specific energy savings goals that is aligned with customer interests. He opined that reducing the level of incentives previously approved would send a negative signal that reducing energy usage is less valuable than was previously the case, the result of which would be contrary to the conclusions in the Generic DSM Order.

Citing to the Commission's Order in Cause No. 43827 involving Indiana Michigan Power Company's request to recover lost revenues and performance incentives, Mr. Allen noted the Commission stated, "that the appropriate time to consider granting a performance incentive, if one is to be granted at all, is through the demonstration of benefits upon successful implementation of the programs." He testified that IPL's results in implementing Core Plus Programs in 2012 and 2013 qualifies as successful implementation of DSM programs as IPL exceeded the projected energy savings for these programs within the approved budgets approved in the 43960 Order.

Mr. Allen expressed his belief that Commission approval of the relief sought by IPL in this proceeding is consistent with the Generic DSM Order, regulatory policy and the public interest. He stated that the 2014 DSM Plan is necessary and appropriate for IPL to achieve the energy savings goals established by the Commission and is consistent with the Commission's DSM Rules and Commission practice. Specifically, Mr. Allen testified that the Generic DSM Order requires an increasing role for DSM. He noted that the Guidelines for Integrated Resource Planning contained in 170 IAC 4-7 outlines many requirements for a utility to consider when analyzing future resources of energy supply, including the requirement that an electric utility must consider DSM as a source of new supply. He further testified that as part of the selection of new energy resources like DSM, 170 IAC 4-7-7 requires the utility to conduct cost-benefit analyses utilizing several tests to make sure the proposed sources are cost-effective. Mr. Allen stated that all of the analyses contained in the MPS, as well as subsequent work performed by IPL to develop the 2014 DSM Plan, were performed in the context of the DSM rules.

Mr. Allen testified that regulatory policy supportive of timely cost recovery, including incentives, through rider and adjustment mechanisms, will encourage the growth of DSM in Indiana. He also noted that the Environmental Protection Agency's National Action Plan for Energy Efficiency and the National Energy Policy Act of 1992 support the creation of incentives and the removal of financial or regulatory bias in order to promote the use of DSM.

**B. John E. Haselden.** John E. Haselden, Principal Engineer in IPL's Regulatory Affairs Department, addressed IPL's 2014 DSM Plan, the cost effectiveness of the DSM programs, and IPL's proposal to continue performance incentives and plan for conducting ongoing EM&V.

Mr. Haselden stated that DSM, by definition, seeks to influence a customer's demand or consumption of energy in a manner such that the cost of doing so is more economic than

satisfying customer needs through supply-side resources. He noted that more recently, the additional goal of meeting the Commission's targets for energy savings has influenced the scale of DSM programs and the types of programs being offered. Mr. Haselden explained that IPL is proposing to continue funding the Core Programs identified in the Generic DSM Order provided by GoodCents, as well as additional Core Plus Programs. He testified that, together, these programs are designed to achieve the energy savings targets established in the Generic DSM Order.

Mr. Haselden explained that IPL has evaluated the cost-effectiveness of the proposed 2014 DSM programs. He testified that IPL used the current evaluated results for the programs performed by its independent evaluator, TecMarket Works ("TecMarket"), to quantify impacts and other characteristics such as free ridership and market transformation. IPL then modeled the programs using the DSMore™, a software tool commonly used in Indiana and other states to evaluate the costs and benefits of energy efficiency programs and measures. Mr. Haselden testified that the results of the cost effectiveness analysis showed that the portfolio of programs proposed by IPL is cost effective in regards to the TRC test.

Mr. Haselden said the general costs to IPL and its customers of implementing a DSM program include program implementation, administration, EM&V, marketing, and lost revenue, including those costs incurred by the TPA. Additionally, if programs are found to be successful in reducing demand and energy, the general costs would also include performance incentive costs applicable to certain Core Plus Programs.

Mr. Haselden opined that the performance incentive being proposed by IPL should be included as a cost of implementing DSM in determining cost-effectiveness. He testified that the Commission's rules at 170 IAC 4-8-7(f) provide that "a shareholder incentive mechanism must reflect the value to the utility's customers of the supply-side resource cost avoided or deferred by the utility's DSM program minus incurred utility DSM program costs." Mr. Haselden stated IPL is proposing to apply a performance incentive mechanism similar to that previously approved in Cause Nos. 43623 and 43960, except that the goals are measured against energy reductions only. He explained IPL, consistent with past practice, has included an 8% performance incentive that correlates to achieving 80 - 90% of the energy goals. This cost was also included in the benefit-cost analyses prepared by IPL at the portfolio level.

Mr. Haselden testified IPL utilized the DSMore™ computer program to model the cost-effectiveness of each component of the 2014 DSM Plan. The modeling approach included capturing the economics from various perspectives reflecting the California Standard Practice Methodology, including the Participant Test, Utility Cost Test ("UCT"), Rate Impact Measure ("RIM") Test and the TRC.

Although IPL does not expect actual costs and results to vary drastically from the estimates, Mr. Haselden explained that IPL recognizes in the current economic climate, it may be difficult for customers to make investments in energy efficiency improvements and this could have an impact on those programs that require some form of customer funding. He said this is one of the reasons that IPL is requesting flexibility to alter the implementation of programs to make the overall 2014 DSM Plan as successful as possible. Mr. Haselden stated that IPL believes it should have the flexibility to shift costs within a program budget as needed and to shift funds

between programs. The funding between budgets could be shifted with the approval of IPL's OSB as long as the DSM programs still pass the TRC and the overall DSM budget is not exceeded. Mr. Haselden also testified IPL believes it should retain flexibility to shift program funding among Core and Core Plus Programs budgets if the DSMCC approves revisions to Core Programs that transform former Core Plus Programs into Core Programs.

Mr. Haselden described IPL's proposal to extend the performance based incentive mechanism approved in Cause Nos. 43623 and 43960 and the Core Plus Programs to which IPL proposes a performance incentive be applied. The proposed incentive mechanism is based on estimates or deemed savings of the proposed measures. The pre-tax performance incentive will be determined by multiplying the percentage associated with the target kilowatt-hour ("kWh") by the amount of IPL expenditures for the applicable programs and will be trued-up.

With respect to whether the performance incentive will be based upon the results of ongoing EM&V, Mr. Haselden testified that revisions to the impact estimates of measures and/or programs will be incorporated prospectively at specific intervals. He explained, at times, the results from ongoing EM&V may show that the actual energy savings per measure or per participant are different from these estimates, which is useful in deciding how to make future investments in DSM. He testified that these discoveries should not, however, form the basis for determining whether a utility's efforts met or exceeded expectations on a particular program. Mr. Haselden further explained that the purpose of an incentive is to create a mechanism that overcomes a utility's economic disincentive to make investments in DSM (which reduce its sales), not a mechanism that penalizes a utility because reasonable assumptions about the result of the program proved inaccurate or changed as the market transformed. For these reasons, the performance incentive is determined prospectively and by the portfolio of the programs, not by individual programs.

With respect to how revised energy savings from ongoing EM&V will be used to determine achievement of kWh savings goals for Core Plus Programs, Mr. Haselden explained the energy savings per measure or per participant in the proposed DSM Plan are based upon the evaluated results of recent EM&V with the exception of new programs such as the Peer Comparison Reports program that will be evaluated during 2013. Results from the ongoing EM&V will be applied prospectively to the 2014 programs beginning January 1, 2014 and continuing through December 31, 2014.

Mr. Haselden stated IPL's OSB selected TecMarket to conduct EM&V of the Core Plus Programs offered during 2010-2012. He testified these results are now available and the deemed savings and other results have been incorporated into the 2014 DSM Plan. IPL and the OSB have not yet finalized contracting for services to evaluate the 2012-2014 DSM programs.

**C. Kimberly Berry.** Kimberly Berry, Research Analyst in Regulatory Affairs for IPL, described the impact of the 2014 DSM Plan on the approved cost recovery mechanism utilized in IPL's semi-annual filings (Cause No. 43623-DSM-X), including the allocation of cost recovery among the customer classes. Ms. Berry introduced revisions to Rider 13 as indicated in Petitioner's Exhibit KB-2.

Ms. Berry said the cost recovery mechanism for the 2014 DSM Plan is essentially the

same as that authorized in Cause Nos. 43623 and 43960. IPL would continue to prepare semi-annual filings to recover under Rider 22 the forecasted costs of the 2014 DSM Plan over six month periods that match the billing periods of the tracker. The semi-annual periods of January to June and July to December would continue to be utilized. The 2014 DSM Plan expenditures will continue to be forecasted semi-annually and reconciled to actual expenditures in a subsequent semi-annual filing. Finally, the 2014 DSM Plan amounts actually recovered from customers will continue to be reconciled with 2014 DSM Plan amounts intended for recovery from customers for such period reflecting differences in estimated and actual kWh consumption.

Ms. Berry explained that pursuant to Rider 13, IPL currently files on an annual basis a request to collect a portion of the credits paid to ACLM participants for the preceding year. She explained IPL proposes to transfer the recovery of these credits into Rider 22 and recover all program costs and participant credits in the same manner, which will improve program administrative efficiency by eliminating the need for an annual Rider 13 filing. Ms. Berry stated Rider 13 will remain active (with specific language deleted) since it defines the parameters of the ACLM program and provides the mechanism to pay all associated customer credits. In addition, since Rider 13 recovered participant credits on a retrospective basis and Rider 22 is prospective, the annual Rider 13 filing made in 2013 to recover 2012 credits will be the final annual filing for Rider 13. Participant credits for 2014 will be estimated and recovered in Rider 22 in the manner previously described. Participant credits for 2013 will be recovered when the 2013 forecast expenditures are reconciled with actual expenditures in future Rider 22 filings. Performance incentives will be calculated on the ACLM related program costs and participant credits in the same manner as all other Core Plus Programs that are incentive eligible.

Ms. Berry testified that expenditures for each component of the 2014 DSM Plan will continue to be recorded in IPL's accounting system using individual project numbers to separate costs for accounting and reporting purposes. She stated IPL's work management and timekeeping systems will facilitate this segregation for labor, materials, and other expenses incurred to implement the individual programs.

Ms. Berry testified that IPL is not requesting carrying charges on the costs incurred for the 2014 DSM Plan since the costs will continue to be recovered on a forecasted basis coincident with the billing to customers. However, IPL would propose to recover carrying charges on the unrecovered balance of these costs if recovery is altered to a post-incurrence structure.

Ms. Berry prepared Petitioner's Exhibit KB-3, which presents the cost allocation basis to the customer classes for each component of the 2014 DSM Plan. She stated that since the forecasted and actual costs of the Residential DSM programs will be maintained by program, no allocation is required and all costs will be recovered from the Residential rate class. For the C&I DSM programs, Ms. Berry stated the rate class allocation factors are based on each class' share of the twelve monthly average system peaks from the cost of service study in Cause No. 39938, IPL's last rate case. The allocation factors shown are also based upon the relationship of the Small C&I and Large C&I allocation factors in Cause No. 39938.

Finally, Ms. Berry stated that the performance incentive earned should continue to be included in the FAC earnings test, consistent with the 43960 Order.

**D. Zac Elliot.** Zac Elliot, DSM Program Administrator for IPL, described the MPS which provided the basis for IPL's DSM planning. He also described IPL's planning approach which led to the development of Core and Core Plus Program offerings in the proposed 2014 DSM Plan.

Mr. Elliot explained the 2014 DSM Plan is designed to achieve the energy impacts necessary to meet the energy savings goals established by the Generic DSM Order for calendar year 2014, including closing the potential gap in cumulative energy savings from previous years. He also explained that IPL proposed a one year program to coincide with expiration of the current TPA contract on December 31, 2014. While IPL initially contemplated submitting a multi-year plan to comply with the Generic DSM Order, the DSMCC voted to approve a one year extension of GoodCents' agreement ("TPA SOW") to permit time to prepare a Request For Proposals ("RFP") to select a TPA for the period after 2014. He explained the DSMCC has engaged a third party consultant to develop Core Program recommendations for calendar year 2015 and beyond. Mr. Elliot stated the third party consultant is expected to deliver the final report to the DSMCC on June 1, 2013, making it difficult for IPL to estimate the programs and costs for Core and Core Plus Programs beyond December 31, 2014. Mr. Elliot testified instead, IPL will initiate another multi-year proposal to provide DSM that will seek an effective date of January 1, 2015.

Mr. Elliot provided a description of the planning process IPL undertook and stated that the 2014 DSM Plan is designed to exceed the 2014 target to capture cost effective savings opportunities that are currently available and to minimize the potential for IPL to fall behind the cumulative 2014 target. He also described the stakeholder involvement in the development of the 2014 DSM Plan and to begin planning for the period 2015-2017, which included working collaboratively with Citizens Energy, the OUCC, and CAC to complete the MPS and to circulate the draft 2014 DSM Plan.

Mr. Elliot explained that in connection with the DSM planning process, IPL expanded on the MPS by reviewing and updating key assumptions pursuant to the results of 2010-2011 EM&V and the Indiana Technical Resource Manual ("IN TRM"). Mr. Elliot explained that the most significant variance between the MPS and the 2014 DSM Plan pertains to eligible measures and deemed savings. He stated the timing of the MPS delivery did not allow for inclusion of IPL EM&V results, the Indiana Baseline Reports, nor measure specific assumptions in the IN TRM. In lieu of utilizing the measures recommended in the MPS for 2014 Core Plus Programs, IPL updated measure specific assumptions as appropriate per EM&V and the IN TRM as results became available. For Core Program measures, specific assumptions were agreed upon in the TPA RFP process, and are carried through to the 2014 DSM Plan. Mr. Elliot stated that as IPL receives EM&V results for Core and Core Plus Programs, measure offerings and relative assumptions will be updated on a prospective basis to reflect the best available information.

Mr. Elliot explained that the target energy impacts for the Core Programs are reflected in Schedule E of the TPA SOW and that IPL compensates GoodCents for the savings achieved using a predetermined per kWh amount by program. The budget also includes IPL's expected internal costs for contract administration and interaction with the TPA. With respect to IPL's Core Plus Programs, Mr. Elliot stated that the target energy impacts were developed using a variety of sources, including leveraging the results of the MPS; using historical savings

information proportioned to forecasted 2014 activity as the 2014 DSM Plan to a large degree reflects current programs; updated savings assumptions to align with the third party impact analysis where applicable pursuant to 2010-2011 EM&V results; and updated measure assumptions utilizing the recently completed IN TRM where applicable. Mr. Elliot also explained how the budgets for the Core Plus Programs were developed using a bottom up approach.

With respect to the results of the cost-effectiveness analysis, Mr. Elliot testified that on a portfolio level basis, the TRC benefit to cost ratio is 5.25, meaning that for every dollar spent to deliver DSM programs, 5.25 dollars in benefits are returned to society.

Mr. Elliot sponsored Petitioner's Exhibit ZE-2, which provides a description of the 2014 DSM Plan, including the expected participation, costs and demand and energy impacts. Mr. Elliot testified IPL requests authority to incur and recover through Rider 22 all costs incurred to provide the 2014 DSM Plan, including the costs allocated to IPL by all third party vendors and IPL's internal costs to administer the 2014 DSM Plan up to \$24,818,721, which amount includes costs for Portfolio Planned Budget, Indirect Budget and Allowance for 15% Spending Flexibility.

Mr. Elliot testified that pursuant to the recommendations in the MPS, IPL has significantly increased the participation, savings, and budgets forecasted for the Business Energy Incentive program in the 2014 DSM Plan. He explained that increased reliance on the C&I sector to achieve savings goals is more cost efficient, and aligns with achievable potential as established in the MPS. Mr. Elliot also described the proposed modifications to the CoolCents® Residential ACLM program, which include (1) forecasting a decrease in the number of incremental residential ACLM participants; (2) reporting load reductions and energy savings of the total enrolled participant population pursuant to the results of 2010-2011 EM&V; and (3) moderately altering IPL's cycle strategy for the Residential ACLM program. Additionally, he stated that the proposed modifications to the CoolCents® C&I ACLM program include: (1) reporting savings resulting from load reductions of the entire enrolled C&I participant population; and (2) moderately altering IPL's cycle strategy for the C&I ACLM program. With respect to the PerfectCents® Residential HVAC program, Mr. Elliot explained IPL is proposing to discontinue delivery of that program, stating that from the TRC perspective, it did not pass the cost effectiveness screen.

With respect to 2014 Core Plus Program changes as a result of EM&V, Mr. Elliot testified IPL has updated In Service Rates, deemed savings, and net-to-gross ratios for the Residential New Construction program, Multifamily Direct Install program, Online Energy Assessment with Kit program, and Appliance Recycling program. For the CoolCents® ACLM program, IPL will begin reporting energy and demand impacts for the total participant population to conform to the recommendation set forth in the EM&V report. Mr. Elliot stated IPL will continue to update impact assumptions on a prospective basis as EM&V results are available.

Mr. Elliot stated IPL's intention is to continue joint delivery of DSM programs with Citizens Energy where appropriate. He also stated that for Core Programs, GoodCents has proposed the administration of a system of banking therm savings ("Therm Bank"), whereby gas companies may purchase therm savings as a result of Core Program implementation. He also

testified that given the uncertainty surrounding joint delivery, the 2014 DSM Plan reflects IPL programs on a stand-alone basis to ensure a cost effective portfolio in absence of joint delivery. If contiguous gas companies receive approval to jointly participate in DSM programs, IPL will work through the OSB to coordinate joint electric and gas program delivery. Mr. Elliot indicated that to realize administrative efficiencies IPL intends to extend Core Plus Program implementation contracts through 2014.

Mr. Elliot explained the need to have flexibility in the 2014 DSM Plan, noting IPL has successfully worked with the OSB to modify budgets as necessary throughout the course of previous program years. In the event that Core and Core Plus Programs are underachieved at the end of 2013, IPL requests that unspent funds from the current approvals in the 43960 Order be rolled forward to the 2014 DSM Plan. IPL requests spending flexibility of 15% at the portfolio level in 2014. If spending flexibility is necessary, the budget in excess of the 2014 DSM Plan would be allocated per the direction of the OSB. Mr. Elliot testified this flexibility is of particular importance given the uncertainty around EM&V impact analysis results, which may require IPL to achieve additional units to deliver the target impacts.

Mr. Elliot testified implementation of the Core and Core Plus Programs requires significant investment in internal and external resources, and identified the general requirements for DSM program administration and implementation. He also described the indirect costs of the DSM programs, which are estimated to total approximately \$1,021,670 in 2014.

Mr. Elliot stated that IPL will continue to utilize an internal tracking system to monitor and provide a uniform reporting of program results, which may include participants by program, number of units installed by measure, program expenditures, ex ante estimates of energy and demand impacts by program, and footnotes of program changes. He also stated these metrics largely are being tracked and reported by third party implementers delivering the individual programs on IPL's behalf, but it will be IPL's responsibility to compile the reports by each of these entities and the programs IPL continues to manage and prepare a summary report of the program results.

## **7. OUCC's Case-In-Chief.**

**A. April M. Paronish.** April M. Paronish, Senior Utility Analyst in the OUCC's Resource Planning and Communications Division, provided an overview of the Core Plus Programs included in IPL's proposed 2014 DSM Plan, and addressed IPL's request to (1) continue current residential and C&I Renewable Energy programs; (2) allow ACLM switches installed before the Commission's February 10, 2010 Order in Cause No. 43623 ("Phase I Order") to be eligible for shareholder incentives; and (3) modify the current shareholder incentive mechanism by eliminating the current demand reduction target.

Ms. Paronish noted that not all of IPL's proposed DSM programs pass the TRC test. She stated it is important for DSM programs to pass the TRC test because ratepayer dollars should only be spent on DSM programs that produce real benefits, absent some overriding reason such as public policy or market-transforming programs. The TRC reflects the total benefits and costs to all customers, including both participants and non-participants. She further indicated a passing TRC score is especially important given that utilities are proposing program portfolios with

increasing budgets to meet the savings goals in the Generic DSM Order. Ms. Paronish also noted that the California Public Utilities Commission's Energy Efficiency Policy Manual provides that it uses the TRC as the primary indicator of an energy efficiency program's cost effectiveness.

Ms. Paronish expressed concern about providing ratepayer funding for Core Plus Programs that do not pass the TRC test, specifically the Residential and C&I Renewable Incentive programs. She stated that although the OUCC recognized the TRC results for both of these programs have increased (from 0.50 to 0.83 for the residential program and from 0.49 to 0.51 for the C&I program), the C&I Renewable Incentive program score remains nearly unchanged and both programs still are not cost effective. She also stated the OUCC expects programs to be above 1.0 before considering them to be cost-effective, and a TRC of 1.0 is simply breaking even and not providing net economic benefits.

Ms. Paronish stated IPL has not provided sufficient support for its contention that the Renewable Energy Incentives program is effecting a market transformation. She noted that the 2011 EM&V results indicate the residential customers, of which there were only two, could be considered early adopters and were most likely free-riders. Ms. Paronish stated that market transformation is typically a strategy to intervene or influence a market to create a lasting change in that market's behavior by removing barriers or exploiting opportunities to accelerate adoption of cost effective energy efficiency. She said the availability of incentives can be considered a strategy to influence a market, but IPL has provided no data to support a market transformation is occurring.

Ms. Paronish testified the OUCC agrees that sometimes it is beneficial to allow programs that do not pass the TRC test to be offered to facilitate market transformation, but a timeframe for transformation of the market or for the program to prove itself to be cost-effective (*i.e.*, to pass the TRC test) should be established. She stated that in the case of IPL's Renewable Energy Incentives program, the OUCC recommends the programs be removed from the Residential and C&I DSM portfolios after 2013 because they are not DSM programs and, even if they were, they continue to have failing TRC scores. In addition, because they are supply-side resources, cost recovery under IPL's DSM Rider should not be granted, nor should energy produced with renewable resources be counted as energy savings for purposes of meeting the required energy reduction targets adopted in the Generic DSM Order.

With respect to IPL's ACLM program, Ms. Paronish noted that the OUCC took the position in Cause No. 43623 that IPL should not intermingle new participants with existing participants when calculating program costs or incentives because the Commission had not authorized incentives for previously installed ACLM switches. She also noted that IPL had indicated that it did not intend to seek recovery of lost margins and performance incentives for energy savings attributable to previously installed ACLM devices. Ms. Paronish stated that shareholder incentives are used to reward excellent performance in DSM programs, but most of IPL's performance occurred prior to being authorized to collect incentives. In addition, the shareholder incentives were developed as an incentive for future performance, not as a means to include previous DSM efforts. Consequently, the OUCC disagreed with IPL's proposal to count the energy savings and related performance incentives realized from ACLM switches installed prior to the Phase I Order.

Ms. Paronish testified the OUCC also disagreed with IPL's proposal to modify the current shareholder incentive mechanism to remove current demand-related goals for several reasons. First, the incentive mechanism was originally agreed upon with both energy and demand goals in mind and should not be modified simply because the Commission's main focus is to save energy. Second, programs that save demand can be valued differently by the utility because they have potential to allow it to avoid producing energy or purchasing energy on the market during times when energy costs are high. Third, IPL is offering programs, such as ACLM, that are demand focused, but save little energy. Fourth, allowing IPL to forgo accountability with regard to demand-related savings by removing a component of the goal while allowing all costs, including those programs that mainly save demand, would serve only to make it easier for IPL to achieve savings goals and, therefore, easier to obtain shareholder incentives.

Ms. Paronish also questioned why IPL did not estimate demand savings for its Energy Efficient Schools Education program and its Energy Efficient Schools Audit and Direct Install program since both programs contain measures that have associated demand savings. She noted the OUCC also recommended that a corresponding kWh and kW goal be assigned to any program spending resulting from: (1) exceeding the originally approved 2014 budget, (2) leftover funding from the 2012/2013 program year, and/or (3) unallocated funds in the approved 2014 budget. Otherwise, she stated, IPL would have the ability to utilize additional funding or previously "unassigned" dollars to meet or exceed its kWh and kW goals, potentially allowing IPL to earn a higher shareholder incentive.

In addition to the recommendations above, Ms. Paronish said the OUCC also recommended that the Commission require IPL to wait until EM&V results are available before permitting any recovery of performance incentives; or, in the alternative, allow the recovery of estimated performance incentives and require IPL to reconcile estimated to actual performance incentives following EM&V.

**B. Wes R. Blakley.** Wes R. Blakley, Senior Utility Analyst for the OUCC, discussed IPL's recovery of performance incentives. Citing to IPL testimony in prior DSM tracker proceedings, Mr. Blakley testified that he understands IPL does not plan to reconcile and adjust its estimated performance incentives with actual performance incentives confirmed through EM&V. He testified this methodology would not adjust for over- or under-collection of performance incentives recovered before EM&V, so EM&V results would not be reconciled.

Mr. Blakley stated that until the actual level of performance achieved in a given period is confirmed through EM&V, IPL will not know whether it is entitled to receive any incentives or the correct percentage to use in calculating the performance incentives actually earned. To prevent IPL from over- or under-collecting shareholder incentives, Mr. Blakley said IPL could be required to wait until actual energy savings have been verified through EM&V before authorizing recovery of DSM performance incentives. He also stated another way would be to allow recovery of estimated incentives only if IPL fully reconciles any amounts collected for estimated shareholder incentives based on actual performance results confirmed through EM&V. Mr. Blakley stated that if the Commission continues to allow the recovery of shareholder incentives based on estimated performance levels, a full reconciliation must be made once actual performance results are confirmed through EM&V.

Citing to Cause Nos. 43623 DSM 5 (“DSM 5”) and 43623 DSM 7, Mr. Blakley discussed IPL’s calculation of actual performance incentives in its DSM adjustment tracker filings and described how IPL treated the recovery of estimated performance incentives. He said that IPL’s calculation of “actual” performance incentives was based on savings reported to IPL by its program administrator without confirmation through independent EM&V, which the OUCC recommended should be required. He noted that in DSM 5, IPL confirmed that a subsequent reconciliation was needed, but disagreed with the OUCC’s methodology. He said Mr. Haselden discussed IPL’s plan to limit the application of EM&V results to prospective adjustments, without reconciling estimates to actual results based on EM&V. Mr. Blakley also testified that although IPL did perform an initial reconciliation in DSM 5, it indicated that it would not be able to reconcile estimated to actual EM&V verified results, because that would be adjusting deemed savings retroactively. However, Mr. Blakley stated that EM&V is not limited to “deemed savings” and that it also considers other relevant factors, such as the number of participants, measures installed and net-to-gross ratios.

Mr. Blakley testified the OUCC does not oppose allowing utilities to bill for estimated costs in trackers when an agreed reconciliation process is used. He further explained that if IPL bills its customers for an estimated performance incentive, but EM&V later reveals that estimate was either too high or too low, it should reconcile estimated to actual performance incentives.

Mr. Blakley recommended that if IPL preferred not to reconcile estimated performance incentives, then they should not be recovered until after estimated performance is confirmed through EM&V. He testified that program costs can be estimated, billed and later reconciled against actual expenditures and sales volume, without EM&V. However, successful implementation cannot be confirmed until performance results have been independently verified through EM&V. Therefore, he recommended the Commission reject IPL’s proposed recovery of estimated shareholder incentives without any reconciliation of the differences between performance estimates used and performance levels subsequently confirmed through EM&V.

Finally, Mr. Blakley noted his disagreement with IPL’s intent to request carrying charges on performance incentives ultimately awarded after EM&V if the Commission does not permit recovery of estimated performance incentives before EM&V. Mr. Blakley testified that carrying charges should not be allowed on incentives because not only are carrying charges not awarded on claimed incentives (since they are not expenditures), the amount of performance incentives due, if any, has not been established or confirmed through EM&V.

**C. Ray L. Snyder.** Ray L. Snyder, Utility Analyst in the Resource Planning and Communications Division of the OUCC, discussed IPL’s request to treat renewable energy produced by an IPL customer (in this case under a net metering arrangement, rather than a feed in tariff) as “energy savings” for purposes of meeting the Commission’s energy savings requirements established in the Generic DSM Order.

Mr. Snyder described IPL’s net metering (“Contract Rider 9”) and feed in tariff (“Rate REP”), which are the mechanisms available to IPL customers with their own renewable energy resources. Mr. Snyder testified an electric utility customer’s use of energy supplied on-site using

renewable energy resources does not constitute DSM as defined in 170 IAC 4-8-1.1(e).<sup>1</sup> He stated that the electricity supplied by a renewable energy resource is a source of electricity and therefore is a supply side resource, as defined in 170 IAC 4-8-1(ff)(5). He stated that electricity supplied by renewable energy resources results in an increase in the supply of electricity, not a decrease in a customer's energy consumption. Mr. Snyder testified that for these reasons, the OUCC no longer supports IPL's requested treatment of renewable energy supply as if it were DSM.

Mr. Snyder testified that in Cause No. 44018 the OUCC similarly opposed treating renewable energy supplied under IPL's Rate REP as DSM for purposes of measuring energy savings achieved under the Generic DSM Order. He stated that IPL's purchase of renewable energy produced and supplied by others under Rate REP does not influence or cause customers to change the amount of electricity consumed. Mr. Snyder stated the Commission accepted the OUCC's position in Cause No. 44018, finding that energy supplied by renewable energy resources under Rate REP was a supply side resource, not DSM.

Mr. Snyder testified that, as in Cause No. 44018, the OUCC opposes counting kWh supplied by a renewable energy resource as "energy savings" required under the Generic DSM Order, regardless of whether compensation is made to the customer through direct payment (through Rate REP) or as an energy credit (reduction in bill) against a customer's energy usage. He testified a renewable energy resource is not DSM because it does not, in and of itself, influence or cause customers to reduce the amount of electricity they consume or waste. He testified the OUCC recommends the Commission again deny IPL's request to characterize renewable energy supplies as DSM programs.

**8. CAC's Cross Reply.** Kerwin L. Olson, Executive Director of CAC, addressed IPL's proposal for Renewable Energy Incentives for both the residential and C&I customer classes. Mr. Olson stated CAC is supportive of encouraging investment in renewable energy and distributed generation, particularly on-site, customer owned resources. He opined that from a broad policy perspective, renewable energy and distributed generation achieve many of the same objectives as energy efficiency programs. Mr. Olson also testified CAC believes it is imperative to deploy non-carbon sources of energy as rapidly as possible to mitigate climate change impacts. He recommended the Commission consider renewable generation incentives as a viable program within DSM programs.

Mr. Olson also testified that all renewable energy generation facilities should not be considered within DSM programs. He explained that renewable energy facilities that sell all of their energy to the utility, through mechanisms such as power purchase agreements or IPL's Rate REP, should not be considered within DSM portfolios because they are supply side resources and ineligible to qualify within the context of DSM. He noted CAC agrees with the Commission findings in Cause No. 44018 in which the Commission denied IPL's request to include purchases made through Rate REP in their energy savings goals established by the Generic DSM Order.

He further testified that on-site, renewable energy systems designed to meet all or part of a customer load that are using Contract Rider 9 should be considered as part of a DSM portfolio

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<sup>1</sup> The correct cite is 170 IAC 4-8-1(e).

as these systems do reduce both energy usage by IPL's customers and IPL's load. Mr. Olson said on-site customer owned renewable energy systems have significant impacts on customers' behavior and their energy usage. He provided anecdotal information concerning the motivation of those installing and owning renewable energy systems.

Mr. Olson testified that another objective of DSM programs is to transform the market with new products and new innovations. He stated he would agree that market transformation should indeed be an expected result of utility investment when selecting, designing, and implementing DSM programs. However, in order to transform the market, a program must be accompanied with advertising, aggressive roll-out and marketing, and active attempts to seek participants. He testified it is his belief the proposed IPL program is too small to meet this objective.

With respect to whether IPL should receive any incentives if the Commission approves IPL's proposed Renewable Energy Incentive program, Mr. Olson testified CAC has consistently opposed shareholder incentives unless and until the utility has achieved 100% of their mandated savings goals. He further stated that IPL is required to achieve the targets the Commission mandated in the Generic DSM Order with or without incentives. He explained that if IPL underperforms and fails to achieve the Commission mandated targets, they have not met regulatory requirements and should not receive an incentive for this program or any other program. If IPL overachieves and realizes savings in excess of the Commission mandated targets, incentives may be appropriate. Mr. Olson stated incentives should only be approved if they are based on independently verified net savings actually achieved as a result of IPL's DSM programs.

Mr. Olson recommended the Commission approve IPL's proposed Renewable Energy Incentive program as part of their DSM portfolio with the following conditions: (1) the system must be on the customer premises; (2) the system must be owned or leased by the customer; (3) the system must be sized to meet all or part of the customer's load; (4) the customer must be eligible for IPL's net metering tariff; (5) the customer must have a home energy audit or similar audit done of the premises as part of an approved program under IPL's Core Program offerings prior to receiving approval to participate; (6) all applications are reviewed and approved by IPL's OSB; and (7) the program is thoroughly reviewed by an independent party and a report is submitted to the OSB and the Commission for analysis and review.

## **9. IPL's Rebuttal.**

**A. Lester H. Allen.** Mr. Allen addressed Ms. Paronish's proposed process for modification of the kWh and kW savings goals for spending above the 2014 DSM Plan budget. He stated IPL does expect to continue to work with the OSB to modify the kW and kWh levels that Core Plus program performance will be measured against. He explained the OSB has consistently made these modifications when appropriate as funds were moved into a program, which has typically resulted in more kWh savings per dollar spent and a more cost efficient program.

Mr. Allen provided additional explanation regarding the 2014 kW and kWh levels and the 2014 budget. He explained that in the current proceeding, the 2014 DSM program budget is

the amount of funding for which IPL is requesting Commission approval for the delivery of Core and Core Plus Programs in 2014. He stated the majority of the 2014 request is identified with specific Core and Core Plus Programs that have an associated estimate of kWh savings. For the Core Plus Programs that are performance incentive eligible, Mr. Allen explained this provides the initial savings target that IPL will be measured against for achievement of savings and performance incentive payments. He further stated that the 2014 budget request also includes a request for indirect program dollars; additional dollars for spending flexibility; and the rollover of previously unspent approved funds.

Mr. Allen explained that during the course of the program delivery, the OSB may identify market opportunities to approve additional funding for a Core or Core Plus Program in order to improve the opportunity to meet the Commission targets. He explained IPL has identified three scenarios where additional funding is likely to be moved to a Core or Core Plus Program. One scenario relates to funds that were previously unallocated to a specific Core or Core Plus Program that are identified in the 2014 DSM Plan as proposed to the Commission (“non-program” funds). He explained these non-program funds include the indirect funds and the 15% Spending Flexibility funds and stated non-program funds do not have a kWh savings associated with them. If the OSB approves moving some or all of the non-program funds to a Core or Core Plus Program, there will be an increase in the program savings targets commensurate with the amount of savings expected to be realized by the additional spending. Mr. Allen described another scenario involving funds moved from one DSM program to another in order to take advantage of market opportunities. He explained in this instance, the savings targets used for the purpose of calculating the performance incentives remain unchanged because the program from which the funds were being moved had savings associated with it. The third scenario involves previously unspent funds that are rolled over from a prior program year(s) and which also have a kWh savings amount associated with them. Mr. Allen said if the OSB approves moving some or all of these funds to a Core or Core Plus Program as the current program year plan is being developed, the savings targets used for the purpose of calculating the performance incentives remain unchanged because the program from which the funds were being moved had savings associated with it.

Finally, Mr. Allen responded to Ms. Paronish’s concern that moving funds from one program to another potentially places IPL in a position to earn a higher incentive. He agreed that in some cases the movement of funds may allow IPL the opportunity to earn a higher performance incentive, but this is in no way assured. Mr. Allen opined that, in reality, these are precisely the efforts that performance incentives are intended to encourage. He testified that the OSB should actively manage and consider moving dollars from programs that appear to be less successful or have more limited opportunities to programs that appear to have the opportunity to be more successful because any other course of action would not be in the best interest of customers. He explained that if the programs that receive the additional funding are also more cost efficient (in terms of cost per kWh of savings achieved), the result may be an opportunity for utilities to earn a higher performance incentive than otherwise would have been earned by taking no action and continuing to fund the less successful programs at the same level.

**B. John E. Haselden.** Mr. Haselden addressed issues raised by the OUCC concerning IPL’s proposed performance incentives for the entire ACLM participant population, IPL’s proposal to modify the current shareholder performance incentive mechanism to focus on

energy-only goals, the OUCC's recommendation to apply all EM&V results retrospectively to estimated performance results and why the Renewable Energy Incentives programs are DSM and should be continued.

Mr. Haselden disagreed with the OUCC's position that IPL should not intermingle new ACLM program participants with existing participants. Mr. Haselden testified the application of the savings to the entire population of ACLM participants was determined to be appropriate by the independent evaluator, TecMarket. He further explained that the specific year in which Load Control Receivers ("LCR") were installed has neither bearing on the program costs incurred nor savings generated in a given program year. He stated that participants who enrolled in a previous program year continue to participate in the events of subsequent program years. In each subsequent year, there are incremental costs to maintain the existing population of ACLM participants, and there are incremental savings each year resulting from initiating cycling events.

Mr. Haselden testified that IPL should be eligible to receive performance incentives on expenditures made to support the entire participant population because IPL continues to incur significant costs and retains administrative obligations for the active participant population regardless of installation date and will continue to record savings for the entire participant population in every subsequent year. He also stated the ACLM program is among the most cost effective program offerings in the 2014 DSM Plan, noting that the Residential ACLM program scored a 22.08 in the TRC and the C&I ACLM program scored a 5.15 in the TRC. He reaffirmed that IPL recognizes the increasing importance of load response programs and continues to work to optimize the performance of the ACLM program. Efforts made for continued process improvement, retaining existing participants, and increasing load reductions applies to the entire active participant population.

Mr. Haselden responded to OUCC witness Paronish's contentions that the proposed ACLM treatment amounted to an opportunity to recover performance incentives for past program years. He testified that, consistent with the accepted practice of applying EM&V results prospectively, IPL is not requesting retroactive recovery of performance incentives based on costs incurred and savings realized in past program years. Instead, IPL is requesting recovery of performance incentives based only on program costs and savings incurred in 2014. He stated that, as noted by TecMarket, every program year results in incremental program costs and incremental savings applicable to the entire active participant population.

Mr. Haselden disagreed with the rationale of OUCC witness Paronish for opposing structuring performance incentives on only energy savings rather than on energy and demand savings. He indicated that agreement in a prior proceeding does not warrant ignoring aligning IPL's goals with those of the Commission's DSM targets outlined in the Generic DSM Order. He testified that since the Generic DSM Order focuses on saving energy, it makes sense that IPL's performance incentives are aligned with this focus.

Concerning Ms. Paronish's second reason, Mr. Haselden agreed that IPL's ACLM program can be valued differently from programs that are designed primarily to reduce electricity consumption, but stated he does not believe that fact over-rides the merits of basing performance incentives on the ACLM program on energy rather than demand savings. Mr. Haselden testified that avoiding high energy costs is a basic premise and benefit of programs like

IPL's ACLM programs and IPL has proposed to include these programs in the list of programs upon which the performance incentive is based. He stated it is not clear why Ms. Paronish feels the demand component associated with the ACLM and other programs is a necessary component for the performance incentive. Mr. Haselden stated IPL is not backing away from these programs and testified they are very cost effective for IPL and its customers.

With respect to Ms. Paronish's third reason that IPL's ACLM programs are demand focused and save little energy, Mr. Haselden testified her observation is correct, but not a reason for including demand in the performance incentive criteria. He explained the change proposed by IPL is designed to align IPL's incentives with the Commission's focus on energy. Mr. Haselden also stated that while the energy savings per participant are relatively low, the high number of ACLM program participants results in significant energy savings.

Finally, Mr. Haselden disagreed with Ms. Paronish that the proposed arrangement would allow IPL to forgo accountability for demand-related savings and result in making it easier for IPL to achieve its savings goals as they relate to performance incentives. He explained that while IPL is accountable for energy savings, it is unclear why Ms. Paronish believes IPL must also be accountable for demand-related savings through performance incentives. The targets laid out by the Commission are clearly measured in terms of energy and cost effectiveness. Mr. Haselden explained that IPL recognizes demand savings are important and are not ignored because they are a key component in cost effectiveness. Furthermore, movement of funds between programs for any reason is always proposed to the OSB.

Mr. Haselden next challenged OUCC witness Blakley's recommendation that performance incentives be based on EM&V results being applied retrospectively. Mr. Haselden explained EM&V has three basic components: (1) evaluation, which includes among other things, net-to-gross calculations; (2) measurement, which includes the estimation of deemed savings per measure or participant and; (3) verification activities, which verify that measures were actually delivered or participation occurred. He stated IPL and others, including the OUCC until recently, have consistently maintained that any changes resulting from evaluation or measurement be applied prospectively as is provided for in the DSM rules at 170 IAC 4-8-7(h). Mr. Haselden testified IPL agrees that the verification process, in this case defined as Audited Deemed Savings, should occur to make sure incentives are paid only on the basis of measures installed or participation that did occur. He explained this verification will be performed by the independent EM&V contractor and included in the reconciliation process.

Mr. Haselden testified the purpose of providing performance incentives is to attempt to put an investment in DSM by a utility on a level playing field with investments in supply side resources. He stated such efforts should be incentivized for things that the utility can reasonably control and that performance incentives should not provide a windfall for utilities if things turn out better than expected regarding evaluated savings. Mr. Haselden opined that the OUCC's perspective on applying EM&V to performance incentives may derive from its incomplete view of the purpose of performance incentives. He explained that incentives are designed to overcome a utility's disincentive to promote efforts that reduce customers' use of its product and encourage the utility to manage the DSM programs well. He further stated that focusing only on achievement of energy savings, particularly when based in part on factors the utility cannot control, is contrary to the fundamental purpose of performance incentives.

Mr. Haselden disagreed with OUCC witness Blakley's recommendation that IPL wait until actual energy savings have been verified through EM&V before authorizing recovery of performance incentives. Noting that Mr. Blakley's use of the word "actual" can mean different things, Mr. Haselden testified it may be instructional for all parties to refer to the definitions adopted by the EM&V Subcommittee of the DSMCC in the Indiana Evaluation Framework. In addition, for the purpose of determining performance incentives IPL proposes quantification in terms of Audited Deemed Savings, which most accurately quantifies the effort put forth in delivering the programs. In contrast, he stated, the OUCC is proposing to apply total net savings, which represents the application of all EM&V results retrospectively. Mr. Haselden testified such an approach would be appropriate for quantifying lost revenues, because a utility should only be compensated for energy sales actually lost, but not performance incentives which are designed to encourage a utility to manage factors within its control to generate the best DSM results.

Mr. Haselden also disagreed with Mr. Blakley's suggestion that IPL not be allowed to collect estimated performance incentives until EM&V is completed and applied retrospectively. He noted that the current practice, approved in IPL's previous two DSM proceedings and in other Indiana utility DSM proceedings, was put into place to smooth rate impacts and in recognition of the relatively long period of time incentives might accrue. Mr. Haselden testified the OUCC's suggestion is not in the best interest of customers and is unfair to IPL. Mr. Haselden explained IPL fully reconciles any amounts collected for estimated performance incentives based on Audited Deemed Savings results. He explained this would be done after the implementation cycle is completed, which for this proceeding would be done after 2014.

Mr. Haselden disagreed with the OUCC's recommendation that the Residential and C&I Renewable Energy Incentives programs not be approved because they are neither cost effective nor meet the definition of DSM. With respect to the cost effectiveness issue, he noted that the OUCC recognizes that in some cases, a market transformation program that initially does not pass the TRC test may be justified. He stated that Ms. Paronish cites 2010 and 2011 participation in these start-up programs and ignores the fact that these programs, midway through 2013, are fully subscribed and a waiting list has been developed. Mr. Haselden also testified that coupled with declining PV panel costs and reinforced by the visual presence of an increasing number of Rate REP projects, participation in the Renewable Energy Incentives programs is increasing and may be transforming the market in the Indianapolis area.

Mr. Haselden stated the primary reason that these programs do not presently pass the TRC test is because of the participant's cost. In other words, the principal cost that led to a TRC score of less than one will only be borne by the participant, not the entire customer base. Mr. Haselden explained it is IPL's perspective that this means other customers are not subsidizing a less than cost effective program to the benefit of the participant. He also noted that incentives are transfer costs and are not counted in the TRC test and other administrative costs associated with the programs are very low. He stated failure to pass the TRC test tends to imply that the programs are not a good use of money, but that is not the driver in this instance. Despite IPL's incentive and federal and state tax advantages, these projects are still costly but these costs are borne by the participants.

Mr. Haselden also addressed the OUCC's opinion that the renewable energy produced by

these projects are not energy savings for the purpose of meeting DSM targets and do not meet the definition of a DSM program. He noted OUCC witness Snyder's reliance on the reasoning of the Commission in Cause No. 44018, but explained that Rate REP is fundamentally different from the Renewable Energy Incentive program. With respect to the definition of DSM, Mr. Haselden explained that the definition holds several key requirements: Is the measure (activity) designed to influence customer behavior? Does it produce a desired change in a utility's load shape? Is there direct intervention by a utility to alter load shape? He stated that the answer to all of these questions in regards to the Renewable Energy Incentives programs is "yes." He further stated the basic purpose of DSM is to cost effectively alter the consumption of electricity by customers in a way to more efficiently meet customer demands and that it is part of the integrated resource planning process.

Mr. Haselden pointed out that, ignoring the over-arching purpose of DSM, Mr. Snyder instead focuses on end uses of electricity and correctly notes that these end uses may not be affected by renewable energy production and considers renewable energy just another supply source. However, a "supply side resource" means a resource that provides a supply of electrical energy or capacity, or both, to a utility. Mr. Haselden explained that in contrast to the energy produced under Rate REP, energy provided from these projects is not sold to the utility, no money changes hands and the energy is consumed almost entirely on the premises by the customer. He further clarified that from time to time there could be some production in excess of a customer's requirement, but it is not sold to IPL because the amount is credited to the customer. Mr. Haselden testified the majority of IPL customers who have net metering renewable energy systems consume all or nearly all of the power they produce, in contrast to Rate REP projects that sell all of their production to IPL and are often connected directly to the IPL distribution system. Mr. Haselden stated this as an important distinction, noting the Commission's statement in the Generic DSM Order that, "[i]n addition, the utilities may also consider incentives for customer-sited renewable energy technologies which reduce electric use." He also stated that the Commission has approved these types of programs as DSM programs numerous times.

**10. OUCC's Cross-Reply.** Mr. Snyder responded to the CAC's contention that IPL's Renewable Energy Incentives program constitutes DSM. Mr. Snyder emphasized that the OUCC is generally supportive of renewable energy initiatives but does not consider IPL's program to be DSM. He reiterated that the Commission concluded IPL's Rate REP was not DSM in Cause No. 44018.

Mr. Snyder urged the Commission to consider the fact that (1) renewable energy generates electricity; (2) DSM tools do not produce or supply electricity; and (3) the use of renewable energy to generate and supply electricity does not reduce electrical usage by customers or eliminate waste. He concluded that renewable energy does not qualify as DSM.

**11. IPL's Sur-Rebuttal.** Mr. Haselden responded to CAC witness Olson's testimony concerning the Renewable Energy Incentives program. First, he noted that contrary to Mr. Olson's suggestion, IPL is not proposing to recover performance incentives on the Renewable Energy Incentives program. He next explained why IPL's performance incentives should not be restricted to the portion of energy savings achieved by IPL in excess of the Generic DSM Order's energy savings targets. He referenced the Commission's March 21, 2012 Order in Cause

No. 43955 authorizing Duke Energy Indiana, Inc. to recover performance incentives notwithstanding similar arguments. He explained that the purpose of performance incentives is to overcome a utility's disincentive to invest in DSM. Mr. Haselden pointed out that the DSM rules also recognize that performance incentives encourage electric utilities to pursue DSM rather than generation, transmission or distribution.

Citing to the Generic DSM Order, Mr. Haselden explained the purpose of that Order was to ramp-up DSM "to allow Indiana customers to benefit from a richer array of programs and services to help them save energy, in a manner that ensures that DSM programs play an active role in Indiana's energy future." He testified that eliminating performance incentives because the energy savings targets are not fully met inhibits this overall goal by leaving utilities little incentive to support DSM beyond satisfying the Generic DSM Order targets. Whereas, permitting performance incentives on programs the utilities are responsible for designing, offering and managing supports the Generic DSM Order's objective of DSM being available in Indiana's energy future.

Responding to CAC's recommended conditions for the Renewable Energy Incentive program, Mr. Haselden explained that limiting the program to customers eligible for IPL's net metering tariff is an unnecessary condition because not all customers need to qualify for net metering to install renewable energy facilities. Some customers use all of the output of the facility in their operations. In addition, conditioning participation on having a home energy or similar audit is an unnecessary complication that could be a barrier to participation. Mr. Haselden testified that requiring all Renewable Energy Incentive applications to be reviewed by the OSB is inconsistent with its oversight role and would unduly burden the OSB. Finally, he stated that providing a detailed report of the Renewable Energy Incentives program to the Commission is unnecessary as the EM&V results are already provided to the OSB and the Commission receives annual reports concerning net metering and distributed generation.

**12. Commission Discussion and Findings.** The Commission's Generic DSM Order requires jurisdictional electric utilities to achieve a 2% annual cost-effective DSM savings within ten years from the date of that Order. Generic DSM Order at 30. Pursuant to the 43960 Order, IPL is currently offering a portfolio of DSM programs that were designed to achieve the savings goals set forth in the Generic DSM Order. IPL is authorized to implement certain Core and Core Plus Programs through December 31, 2013. Consequently, IPL initiated this proceeding to obtain approval of its 2014 DSM Plan, which is necessary to comply with the Generic DSM Order.

IPL's proposed 2014 DSM Plan includes the Core Programs mandated by the Generic DSM Order as well as certain Core Plus Programs that are designed to produce sufficient energy savings to achieve the goals established by the Generic DSM Order. Except as discussed herein, IPL is largely proposing to continue its existing DSM programs for an additional year. IPL will then propose new measures to be offered after December 31, 2014 consistent with the results of the RFP seeking a TPA to provide Core Programs for 2015 and beyond.

**A. Proposed DSM Programs.** IPL's 2014 DSM Plan includes the Core Programs currently being provided by GoodCents in accordance with the Generic DSM Order and the Core Plus Programs, with a few proposed revisions, that were approved in the 43960 Order. IPL's proposed revisions include: (1) discontinuation of the PerfectCents<sup>®</sup> Residential

HVAC program because updated deemed savings assumptions resulting from the IN TRM resulted in the program not passing the cost effectiveness screen; (2) significantly increasing the budgets forecasted for the Business Energy Incentive program in the 2014 DSM Plan in response to recommendations in the MPS; and (3) two changes for the Residential and C&I ACLM programs. With regard to the ACLM programs, IPL first proposes to count the energy savings of the total enrolled population. Second, IPL proposes to moderately alter its cycle strategy for the ACLM programs.

No party took issue with IPL's decision to discontinue the PerfectCents<sup>®</sup> Residential HVAC program or to increase the budget for the Business Energy Incentive program, but the OUCC objected to IPL's proposal to count the energy savings of the total enrolled population in the Residential and C&I ACLM programs. The OUCC also recommended that the Commission eliminate the Renewable Energy Incentives program from IPL's 2014 DSM Plan. However, the CAC recommended that the Commission only impose certain conditions on the Renewable Energy Incentives program.

**1. Residential and C&I ACLM programs.** IPL launched its residential ACLM program in 2003 and its C&I ACLM program in 2010. Since the Phase I Order, IPL has only counted annual incremental energy savings resulting from the residential and C&I ACLM program participants enrolling in that particular year towards achievement of the Generic DSM Order's energy savings goals. IPL's independent evaluator, TecMarket, challenged this practice, concluding that "reported values were significantly underreported when compared with actual values given that savings should have been applied to the entire participant population." Pet.'s Ex. JEH-R2 at 92. Mr. Elliot explained this new understanding led IPL to conclude the specific year in which LCRs were installed has neither bearing on the program costs incurred nor the savings generated in a given year. Participants who enrolled in a previous program year continue to participate in the events of subsequent program years and, in each subsequent year, IPL incurs incremental costs (*e.g.*, ongoing maintenance, customer call center, and bill credits) to maintain the existing population of ACLM participants. Consequently, IPL proposes to count all energy savings generated in a specific year from the Residential and C&I ACLM programs as incremental energy savings towards the goals established by the Generic DSM Order.

Although Ms. Paronish indicated that the OUCC disagreed with IPL's proposal to count energy savings realized from ACLM switches installed prior to the Phase I Order, her arguments principally focused on the OUCC's opposition to IPL's proposal to earn performance incentives for energy savings achieved from pre-Phase I Order installed ACLM switches. OUCC's Ex. 1 at 10-12. The OUCC's opposition concerning performance incentives is discussed further below. With respect to IPL's energy savings proposal, we agree with IPL that when calculating energy savings for a given year it is reasonable and appropriate to apply the energy savings from all participants, including those that may have enrolled prior to February 2010, who participated in the controlled events during that year. Therefore, we approve IPL's proposal to begin including the incremental energy savings achieved by all ACLM participants during the year when calculating its achieved energy savings.

**2. Residential and C&I Renewable Energy Incentives programs.** The OUCC recommended the Commission eliminate the Renewable Energy Incentives programs from IPL's 2014 DSM Plan. These programs provide an incentive to residential and C&I

customers to install a small scale renewable energy project, the energy from which is used to meet the customer's own needs. Customers may also qualify for IPL's net metering program. The OUCC opposed the programs for primarily two reasons. First, the programs do not qualify as DSM because they result in an increase in supply, as opposed to a decrease in a customer's energy usage, and renewable energy is a supply side resource. The OUCC also noted the Commission's Order in Cause No. 44018 denying IPL's request to include renewable energy purchases pursuant to Rate REP in meeting its energy savings goals. Second, the programs generate a TRC score of less than 1.0 and they have low participation. In addition, IPL has failed to provide sufficient evidence that the programs are effecting a market transformation so as to justify continued implementation of programs that are not cost-effective for ratepayers.

The CAC, on the other hand, supports continuation of IPL's Renewable Energy Incentives programs, but recommended they be modified to include the following conditions: (1) the system must be on the customer premises; (2) the system must be owned or leased by the customer; (3) the system must be sized to meet all or part of the customer's load; (4) the customer must be eligible for IPL's net metering tariff; (5) the customer must have a home energy audit or similar audit done of the premises as part of an approved program under IPL's Core Programs prior to receiving approval to participate; (6) all applications are reviewed and approved by the OSB; and (7) the programs are thoroughly reviewed by an independent party and a report is submitted to the OSB and the Commission for analysis and review.

IPL argues that its Renewable Energy Incentives programs do constitute DSM because they encourage customers to invest in renewable resources for their homes or businesses, the primary purpose of which is to reduce the amount of electricity that must be acquired from IPL. Small scale renewable facilities also alter a utility's load shape by reducing the amount of electric energy customers require from IPL during peak periods. The programs differ from IPL's Rate REP where the energy is purchased by IPL and does not reduce usage by IPL's customers because all of the power is provided to IPL. Furthermore, the renewable energy facilities from the Renewable Energy Incentives program are not supply-side resources as defined in 170 IAC 4-7-1(mm)(5) because they do not supply electrical energy or capacity "to the utility."

With regard to the programs' TRC score of less than 1.0, IPL explained that the programs are being offered as market transformation programs to encourage customers to consider the installation of small scale renewable energy systems. Mr. Haselden also explained that the primary reason the programs do not presently pass the TRC test is because of the costs borne by the participant, not the entire customer base.

As we noted in our March 7, 2012 Order (at p. 37) in Cause No. 44018, "properly sited distributed generation can provide distribution system benefits that could support the DSM goals established by the Generic DSM Order." We previously approved this program in our 43960 Order and a similar program offered by Indiana Michigan Power Company in Cause No. 43959. Given the relatively small portion of IPL's budget allocated to this program and the cost-effectiveness of IPL's entire portfolio of Core Plus Programs, we find that offering the Residential and C&I Renewable Energy Incentives programs for an additional year is reasonable. However, we do find merit in the OUCC's concerns regarding the cost-effectiveness of the programs and whether they are causing a market transformation. Therefore, should IPL seek to continue the Renewable Energy Incentive programs in the future and the TRC score for the

programs remain less than 1.0, IPL shall be prepared to offer evidence demonstrating the programs are effecting a market transformation or are otherwise in the public interest to continue.

Finally, with regard to the CAC's recommendations, IPL did not object to the first three conditions proposed by the CAC. Consequently, IPL shall offer incentives under the Renewable Energy Incentive programs only for (1) systems located on the customer premises; (2) a system owned or leased by the customer, and (3) systems sized to meet all or part of the customer's load. We decline to impose the remaining four conditions. Not all customers need to qualify for net metering to install these facilities. Some larger institutions, such as schools, install renewable facilities with a capacity less than their minimum usage. Although requiring a customer to obtain an audit under IPL's Core Program may provide additional energy savings for IPL, it could be a barrier to participation. However, we fully expect IPL to seize all opportunities to inform its customers of other DSM offerings. With regard to requiring IPL's OSB to review all applications to participate in the Renewable Energy Incentives programs, the purpose of the OSB is to oversee programs, not make day-to-day decisions about program eligibility. Tasking the OSB in such a manner will likely take away from the oversight role it is intended to play. Finally, IPL already performs EM&V of these measures and provides a report to the OUCC. We also receive annual reports concerning net metering and distributed generation. Therefore, additional reporting is unnecessary.

**B. 2014 DSM Budget.** IPL proposed a budget for the 2014 DSM Plan of \$24,818,721. The budget included an allowance for spending flexibility equivalent to 15% of the portfolio planned budget. IPL explained that the additional flexibility was necessary because the preliminary EM&V results for some of the Core Programs suggested that deemed savings would be significantly lower than projected. IPL also seeks authority to roll-over any unspent DSM funds from the 2012/2013 period to increase the 2014 DSM Plan budget. IPL explained this authority was necessary because GoodCents was unable to implement all of the measures projected for the 2012/2013 period, but was still projecting to make-up for the shortfall in 2014.

In Cause No. 43960, the Commission disapproved of an agreed upon potential increase of 26% (or more if funds from prior years were rolled over) in IPL's Year 3 DSM budget. The Commission recognized that the OSB should generally have the flexibility to increase the budget and permit the carry-over of funds from a previous year to a subsequent year, but found 26% to be excessive and inappropriate without prior Commission approval. Consequently, we limited IPL's spending flexibility to the equivalent of 10% of the portfolio planned budget. While IPL believes it is likely that it will need to expand other DSM measures based on recent EM&V results, a 15% budget increase, along with the roll-over of any unspent funds from a prior year, is a significant increase and one that should require Commission review and approval. Therefore, we find it reasonable and appropriate to limit IPL's spending flexibility to 10% of its planned budget.

Accordingly, we find IPL's 2014 DSM Plan Budget should be approved, but only with an allowance for spending flexibility equivalent to 10% of the portfolio planned budget. IPL's OSB shall approve allocation of any expenditures using this flexibility. In addition, we find that IPL should be authorized to roll-over any unspent funds from the budget approved in our 43960 Order for the 2012/2013 period.

**C. Performance Incentives.** We first approved performance incentives for IPL in Cause No. 43623 and again in Cause No. 43960. IPL proposes to continue the previously approved structure for performance incentives as part of the 2014 DSM Plan except for two changes. First, IPL proposes to base its goals solely on energy savings, rather than both demand and energy reduction achievements to better align the incentive with the Generic DSM Order's focus on energy savings. Second, as noted earlier, IPL proposes to use the annual energy savings and program costs of all ACLM participants to calculate the performance incentive. IPL proposes to earn performance incentives on the following programs:

- Residential New Construction;
- Online Energy Assessment with Kit;
- Multifamily Direct Install;
- Business Energy Incentives;
- Appliance Recycling;
- CoolCents® Residential and C&I ALCM, inclusive of the credits paid to participants.

The Commission's DSM rules at 170 IAC 4-8-7(a) recognize the usefulness of financial incentives for energy efficiency; these rules authorize shareholder incentives and state that, "[w]hen appropriate, the commission may provide the utility with a shareholder incentive to encourage participation in and promotion of a demand side management program." No party here opposes awarding performance incentives to IPL. However, the CAC and OUCC both propose modifications to IPL's performance incentive mechanism.

**1. Awarding Incentives For Savings Beyond Targets.** The CAC contends that IPL should only be awarded performance incentives if it achieves savings in excess of the targets established in the Generic DSM Order. A similar argument was raised by an industrial customer in Cause No. 43955 to oppose the adoption of performance incentives for Duke Energy Indiana, Inc. ("Duke"). In approving performance incentives for Duke, we noted that:

Under traditional regulation, investor-owned utilities are provided an opportunity to earn returns on capital invested in generation, transmission, and distribution. There is a clear financial incentive to prefer investment in supply-side assets, given that these investments contribute to enhanced shareholder value, unless given the opportunity to earn a return from energy efficiency investments.

*Duke Energy Indiana, Inc.*, Cause No. 43955, p. 38 (IURC March 21, 2012). We also noted that the National Association of Regulatory Utility Commissioners had issued Joint Resolutions supporting the need to address utility disincentives to pursue DSM. *Id.* at pp. 38-39. The energy savings targets were not intended to simply set a goal to achieve through 2019, but rather to provide a framework for a richer array of DSM programs to be available in Indiana's future. Generic DSM Order, p. 30. The targets were an important component of jump-starting DSM availability in Indiana, but addressing utilities' disincentive to pursuing DSM is an important and recognized component of a long-term commitment to DSM. Consequently, we reject the CAC's proposal to allow performance incentives only after a utility exceeds the Generic DSM Order's savings targets.

2. **Measuring Performance Incentives on an Energy Basis.** IPL's current performance incentive mechanism incents it to achieve both demand and energy savings. IPL proposed to modify the mechanism to focus only on energy savings in order to better align incentives with the Generic DSM Order's focus on energy savings. The OUCC opposed removing demand considerations from the incentive mechanism because some measures focus on demand, raising concern that IPL is forgoing accountability with regard to demand savings and differences in valuing measures with a demand component. IPL responded that the OUCC's concerns did not override the objective of aligning IPL's incentives mechanism with the Generic DSM Order's goal of achieving energy, not demand, savings. While we agree that demand reduction programs are an important aspect of utility operations, the Generic DSM Order focused on achieving energy savings. We have also previously approved performance incentive mechanisms based only on energy savings achieved. *See Duke Energy Indiana, Inc.*, Cause No. 43955 (IURC March 21, 2012). Accordingly, we approve IPL's proposal to modify its performance incentive mechanism to be based on energy savings alone.

3. **ACLM Vintage Switches.** IPL proposes to collect performance incentives on energy saved from cycling air conditioners using ACLM switches, irrespective of when the ACLM switches were installed. The OUCC opposes IPL's proposal to collect performance incentives on energy saved from cycling air conditioners where the ACLM switch was installed prior to February 10, 2010 on the basis that most of IPL's ACLM related "performance" occurred with regard to these switches before IPL was authorized to collect shareholder incentives.<sup>2</sup> Ms. Paronish described performance incentives as a tool to incent future performance, not as a means to recover performance incentives on previous DSM program efforts undertaken by IPL. She opposed requiring IPL's ratepayers to pay more for the same level of effort by IPL.

We agree with the OUCC that the purpose of performance incentives is to incent future performance. However, the OUCC's concerns disregard the unique nature of IPL's ACLM program. Regardless of when a measure was installed and customers enrolled, all currently participating customers continue to participate in the events of subsequent program years. This is not a program where IPL previously installed a measure and now passively recognizes energy savings because of the continued operation of the measure. IPL must continue to maintain switches and, most importantly, manage and call events in order for energy savings to occur. The action that generates energy savings must be intentionally taken by IPL each year in which the energy savings occur. In effect, the customer could eliminate the effectiveness of the installed measure if they chose not to participate. The importance of IPL's role in managing this program each year is apparent from its proposal to modify its cycle strategy to generate increased energy savings. IPL has not simply installed these devices and sought to reap the energy and demand reductions, but instead is working to manage the entire ACLM participant group to maximize results. Consequently, we find IPL's proposal to earn performance incentives on the energy saved from all ACLM participants should be approved.

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<sup>2</sup> As noted earlier, IPL launched its residential ACLM program in 2003 and its C&I ACLM program in 2010. The OUCC does not dispute that ACLM switches installed after February 10, 2010 should be eligible for performance incentives. Because all C&I ACLM switches were installed after this date, the OUCC did not dispute that the C&I ACLM program should be eligible for performance incentives.

4. **Performance Incentive Reconciliation.** IPL has been authorized to recover performance incentives on certain Core Plus Programs since the Phase I Order. The performance incentives afford IPL the opportunity to earn a percentage of the total dollars invested in qualifying Core Plus Programs. The percentage IPL is authorized to earn varies depending on the level of energy savings achieved and includes a component that penalizes IPL for achieving less than 40% of targeted energy savings.

IPL contemporaneously recovers its performance incentives in its semi-annual filings by forecasting its total costs incurred on incentive eligible programs and assuming achievement of 80-90% of energy savings targets. In subsequent semi-annual filings, IPL reconciles its performance incentives by comparing its actual DSM costs on Core Plus Programs to estimates and initial results of energy savings achieved. There are two steps in this reconciliation process. First, IPL performs a reconciliation to account for differences in its projected spending on Core Plus Programs eligible for performance incentives and amounts actually spent over the semi-annual period and then known differences in energy savings achieved by IPL. Second, IPL performs a final reconciliation once EM&V results are available to reflect the EM&V administrator's verification of measures delivered and participation.

The OUCC contends that "a full reconciliation must be made once actual performance results are confirmed through EM&V." OUCC's Ex. 2 at 3. Mr. Blakley appears to contend that net-to-gross ratios and other components of EM&V, such as deemed savings, should be retrospectively applied to determine the energy savings IPL achieved for performance incentive purposes. IPL maintains that the purpose of performance incentives is to incent a utility to effectively offer DSM by rewarding the utility for the management of factors it can reasonably control. IPL contends that the evaluation and measurement components of EM&V verify results of DSM measures that are beyond the utility's control.

The Commission is authorized to provide a utility with performance incentives "to encourage participation in and promotion of a demand-side management program." 170 IAC 4-8-7(a). As IPL noted, EM&V has three basic components: 1) evaluation, which includes among other things, net-to-gross calculations; 2) measurement, which includes the estimation of deemed savings per measure or participant; and 3) verification activities, which verify that measures were actually delivered or participation occurred. The verification component verifies that claimed results match actual results, and would identify instances when a utility or its contractor claimed that more measures were installed or that participation was higher than was actually the case. We find that the reconciliation of performance incentives should reflect the verification component of EM&V. A utility should not earn performance incentives on claimed participants who did not actually participate or asserted measures that were not installed. IPL acknowledged that a reconciliation of performance incentives should account for the verification results of EM&V.

Evaluation and measurement are critical components in making decisions about future availability of DSM measures. For example, EM&V might demonstrate that a DSM measure produced greater energy savings than assumed at the planning stage, warranting continued availability or expansion of the measure. A utility has limited, to no, ability to control the deemed savings a measure actually produces or other components of evaluation and measurement. This is the reason our DSM rules, in authorizing the use of "prespecified demand and energy savings" in shareholder incentives, requires prospective use of EM&V results once

they become available. 170 IAC 4-8-7(h). Performance incentives are designed to incentivize a utility to offer cost-effective DSM programs to its customers. They are not intended to arbitrarily penalize or reward a utility because the measures in practice generated energy savings that differed from initial assumptions.

Accordingly, we agree with IPL that only the verification results of the EM&V work should be retrospectively applied to determine IPL's performance incentive reconciliation.

**D. DSM Program Cost Recovery.** The DSM rules provide the Commission will determine the cost recovery mechanism for a DSM program when the DSM program is submitted for Commission approval. 170 IAC 4-8-5(b). This is also consistent with the Commission's findings (at p. 49) in the Generic DSM Order.

1. **Rider 22.** IPL's Rider 22 was first approved in the Phase I Order and has continued to provide for recovery of DSM costs through Cause No. 43960. IPL forecasts its DSM costs to be incurred over the next six months in establishing the Rider 22 rate. Over and under recoveries are deferred pending reconciliation in subsequent proceedings. No party opposed IPL's proposal to continue contemporaneously recovering the DSM costs incurred to offer the 2014 DSM Plan through Rider 22 in the same manner previously approved in Cause Nos. 43623 and 43960. In addition, as discussed above, IPL may continue to forecast its performance incentives subject to reconciliation. Based on the evidence presented, the Commission finds that IPL shall be authorized to include the costs of the 2014 DSM Plan in Rider 22.

2. **Rider 13.** IPL's Rider 13 sets forth the terms and conditions for IPL's ACLM programs. The ACLM program was created before approval of IPL's Rider 22. Currently, IPL recovers the costs of incentives paid to ACLM participants that enrolled before February 10, 2010 through Rider 13 and incentives paid to ACLM participants that enrolled after this date (and all other DSM costs) through Rider 22. IPL has proposed to improve program administration efficiency by eliminating the annual Rider 13 filing. IPL's proposal removes language from Rider 13 permitting recovery of costs through a Rider 13 adjustment and will treat the costs as DSM costs recoverable through Rider 22. Since Rider 13 recovers participant credits on a retrospective basis and Rider 22 is prospective, the annual Rider 13 filing made in 2013 to recover 2012 credits will be the final annual filing for Rider 13. Participant credits for 2013 will be recovered when the 2013 forecast expenditures are reconciled with actual expenditures in Rider 22 2013 filings.

IPL's proposal results in greater regulatory efficiency. It eliminates the need to have a separate proceeding to recover pre-February 10, 2010 ACLM participant incentives. Therefore, we find IPL should be authorized to recover all program costs, participant credits and associated incentives associated with the ACLM program through Rider 22 and that the changes to the Rider 13 tariff set forth in Petitioner's Exhibit KB-2 should be approved.

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

1. IPL's 2014 DSM Plan, including the Core and Core Plus Programs, is hereby approved as set forth herein.

2. IPL's costs incurred pursuant to the 2014 DSM Plan to comply with the Commission's Generic DSM Order are reasonable and necessary and recognizable for ratemaking purposes.

3. IPL's request for timely recovery of costs associated with the Core and Core Plus Programs, including costs incurred under the contracts for the Third Party Administrator and Evaluation, Management and Verification Administrator through IPL's Rider No. 22 shall be and hereby is approved.

4. IPL's request for recovery of a performance incentive associated with the Core Plus Programs as identified in this Order through Rider No. 22 shall be and hereby is approved.

5. IPL's request for authorization of changes to Rider No. 13 to transfer the recovery of certain credits into Rider No. 22 and to recover all ACLM program costs and participant credits in the same manner shall be and hereby is approved.

6. IPL's request for accounting and ratemaking treatment, including the authority to defer the over and under recoveries of projected Core and Core Plus costs through Rider No. 22 pending reconciliation in subsequent rider periods shall be and hereby is approved.

7. IPL shall file with the Electricity Division, prior to placing into effect, the revised and new tariff sheets of IPL's Tariff for Electric Service reflecting the approval of the above changes to Rider No. 13 and Rider No. 22.

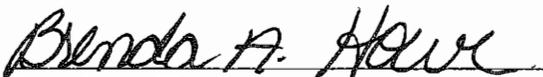
8. This Order shall be effective on and after the date of its approval.

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

**APPROVED:**

**NOV 25 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**