ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A REVENUE NEUTRAL PROPOSAL TO TRANSITION RESIDENTIAL SPACE HEATING CUSTOMERS FROM RATES 611, 612 AND 613 TO RATE 611.	)	CAUSE NO. 44436	
	)	APPROVED:	SEP 03 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On December 20, 2013 Northern Indiana Public Service Company ("Petitioner," "Company" or "NIPSCO") filed its Petition for approval of its revenue neutral proposal to transition residential space heating customers from Rates 611,[1] 612, and 613 to Rate 611 over a 5-year period in accordance with the Commission's December 21, 2011 Order approving a Stipulation and Settlement Agreement (the "Settlement") in Cause No. 43969 ("43969 Order"). NIPSCO also filed its direct testimony and exhibits constituting its case-in-chief on December 20, 2013. The Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits on May 8, 2014.

An evidentiary hearing was held on June 18, 2014 at 9:30 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prefiled evidence of NIPSCO and the OUCC was admitted into the record without objection. No members of the general public appeared or participated at the hearing.

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

1. **Notice and Jurisdiction**. Due, legal and timely notices of the public hearings in this Cause were given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner's rate schedules. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding..

2. **Petitioner's Characteristics**. Petitioner is a public utility with its principal place of business located at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is authorized by the Commission to provide electric and gas utility service to the public in northern Indiana and

[1] Rate 611 includes a provision for customers (as of the date of the 43969 Order) that utilize permanently installed electric space heating equipment which operates as the primary heating of the residence (referred to herein as "Rate 611 Space Heating").

owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such services to the public.

3. **Background and Relief Requested.** Pursuant to the Commission's 43969 Order, NIPSCO requests Commission approval of its revenue neutral proposal to transition residential space heating customers from Rates 611 Space Heating, 612 and 613 to Rate 611 over a five-year period. As part of the Settlement approved in NIPSCO's most recent electric rate case (Cause No. 43969), NIPSCO agreed to file for the Commission's consideration a rate design analysis for its residential space heating rates that provides revenue neutral transition plans to discontinue discounts from standard rates for space heating customers and any required alterations to the rates of the standard customers on these rate schedules. NIPSCO's request in this proceeding fulfills NIPSCO's obligation under the Settlement.

4. **NIPSCO's Evidence.** Timothy R. Caister, Director of Regulatory Policy for NIPSCO, testified NIPSCO's current electric space heating customers are served under Rates 611 Space Heating, 612 and 613. He explained that Rate 611, which is also available for non-space heating residential customers, provides a discount for those customers, as of the date of the 43969 Order, that utilize permanently installed electric space heating equipment which operates as the primary heating of the residence and that Rates 612 and 613, which also provide that the customer must have an accepted heat pump as of the date of the 43969 Order, are rate schedules for single family residential heat pumps and multiple family residential housing heat pumps, respectively.

Mr. Caister testified that those customers with qualifying equipment presently served under these space heating options would ultimately move to standard service under Rate 611 at the end of five years. This would discontinue the use of discounts to the energy rates for space heating customers at the end of that five-year period. He stated that during the five years, NIPSCO would evenly increase the impact to space heating customers' bills each year in order to smoothly transition them to full service tariff rates. NIPSCO would also make corresponding changes to the energy rates for non-space heating customers on Rate 611. He stated these adjustments will achieve revenue neutrality such that NIPSCO is not designing rates for an opportunity to recover a revenue requirement greater than that supporting the currently effective rates.

Mr. Caister explained that in terms of the implication on adjustment mechanisms or trackers that apply to these rate schedules, NIPSCO is proposing to collapse the allocators for Rates 611, 612 and 613 into one allocation for all these customers in Year 1 of the transition. He stated this is a straight-forward application of the trackers and provides a transparent approach.

Mr. Caister testified that although NIPSCO also considered a three-year transition period as well as a plan to transition commercial space heating rates, NIPSCO selected a five-year transition plan because it achieves an appropriate balance between impact on space heating customers' bills while not extending the plan so far out in time so as to make it uncertain or ineffective. He stated that the five-year time horizon is also appropriate in context of the potential for NIPSCO's next electric base rate case. He explained that if NIPSCO's request for approval of its Seven-Year Plan for Eligible Transmission, Distribution and Storage System

Improvements (which was then currently pending before the Commission in Cause No. 44370) is approved, NIPSCO would be required to file a base rate case within seven years. He stated the proposed five-year horizon in this proceeding would allow a full (or nearly full) transition from current space heating discounts to full tariff rates before NIPSCO is required to file a base rate case. Moreover, this time horizon provides another five years for customers that still operate qualifying space heating equipment to enjoy some amount of discount on the energy rate consistent with the structure that they assumed when they acquired the equipment.

Mr. Caister testified NIPSCO is not proposing to transition commercial space heating rates at this time for two main reasons. First, the Settlement (specifically Joint Exhibit D), only prescribes a transition plan filing for residential customers. Second, the demand rate element present in the general or commercial class is a complicating factor that is better addressed in its next base rate case.

Mr. Caister testified that NIPSCO plans to reach out to customers impacted by the space heating transition plan in the following ways: (1) NIPSCO will provide talking points to NIPSCO call center representatives, preparing the representatives to acknowledge changes and answer any questions from customers; (2) NIPSCO will have communication on its website (NIPSCO.com) that will include applicable frequently asked questions ("FAQ"); (3) letters and e-mail notifications will be sent to space heating customers, including FAQ and fact sheet documentations; and (4) reminder notification letters and emails, reiterating changes will be sent to NIPSCO space heating customers in October 2014.

Mr. Caister testified NIPSCO offers other programs and incentives for customers that install energy efficient heating technologies (i.e., Energy Efficiency Rebates Program and a one-time credit of $25 per permanently installed space heating unit for customers participating in Rates 611 Space Heating, 612, 613, 620 or 622 that convert from electric space heating to natural gas due to the fact that natural gas is more efficient).

Mr. Caister testified NIPSCO's space heating transition plan serves the public interest. He stated that not only is it consistent with the approved Settlement, it also serves appropriate public policy in regard to pricing signals and appropriate rate design for space heating. He stated that using electricity as a primary space heating energy source is typically less efficient and more expensive compared to other fuel sources, including natural gas. Moreover, NIPSCO's electric residential rate design should move to a design that matches the fixed and variable nature of the costs incurred to provide the service rather than dependent upon the specific nature of the customer's use or appliance that consumes the electricity. He testified that there should not ultimately be a discount on the energy rates specifically for space heating relative to other uses. Mr. Caister testified that although NIPSCO is not proposing to change the monthly customer charge, a revenue neutral transition to energy rates that are the same for all residential customers is in the public interest. He stated that other non-space heating residential customers should not be subsidizing the space heating discount through energy charges for residential customers that have such equipment. For these reasons, it is in the public interest to implement the 5-year transition plan to eliminate the discount for residential space heating customers.

David Joseph Mays, Manager of Rates and Contracts for NIPSCO, sponsored Petitioner's Exhibit No. DJM-1, a redlined version of the proposed revised tariff sheets for Rates 611, 612 and 613, to be effective beginning with the first billing cycle for the billing month of January 2015, Petitioner's Exhibit No. DJM-2, a Residential Transition that demonstrates NIPSCO's proposal to transition residential space heating customers from Rates 611 Space Heating, 612 and 613 to Rate 611 over a five-year period, and Petitioner's Exhibit No. DJM-3, showing the actual calculations for NIPSCO's estimated revenues for each space heating rate for each of the five years to make sure that the rate design is revenue neutral (Proof of Revenue Neutrality).

Mr. Mays described NIPSCO's current space heating rates and provided the number of customers and average usages for each. He stated that NIPSCO currently has four space heating rates, two residential (Rates 612 and 613) and two commercial (Rates 620 and 622), as well as a provision in Rate 611 Space Heating (for customers, as of the date of the 43969 Order, that utilize permanently installed electric space heating equipment which operates as the primary heating of the residence).

Mr. Mays testified the transition plan would take place over a five-year period, and would evenly increase the customers' bills each year until all customers are paying the Rate 611 Energy Charges at the end of the five-year period. He stated that in the first year of the transition, the trackers applicable to Rates 612 and 613 would be combined with the trackers for Rate 611, effectively creating one set of tracker factors for the three rates. The five-year residential transition was illustrated in Petitioner's Exhibit No. DJM-2 (Residential Transition). He stated that NIPSCO proposes to begin the transition with the first billing cycle for the billing month of January 2015.

Mr. Mays testified NIPSCO estimated revenues for each space heating rate for each of the five years to make sure that the rate design is revenue neutral. Actual calculations for NIPSCO's estimated revenues for each space heating rate for each of the five years to make sure that the rate design is revenue neutral were shown in Petitioner's Exhibit No. DJM-3.

Mr. Mays described the approach used and the resulting estimated bill impacts of NIPSCO's proposed transition of residential space heating customers from Rate 611 Space Heating, 612 and 613. He stated that for each of these rates, NIPSCO used the respective rate's current Energy Charge per kWh in Year 0, and the proposed Rate 611 non-space heating Energy Charge per kWh in Year 5. The difference over the five-year period was divided evenly, so that each year reflects a 20% increment. He stated that in 2015, a $0.000001 adjustment factor will be added to ensure revenue neutrality (illustrated in Petitioner's Exhibit No. DJM-2). He testified this approach resulted in an increase to the Energy Charge paid by space heating customers over the five years (above 700 kWh), and a decrease to the Energy Charge paid by non-space heating customers for those amounts below 700 kWh. Mr. Mays testified that the Energy Charge for the Rate 611 non-space heating customers would decrease slightly each year. Each year's decrease is based on 20% of the difference between the current and proposed Year 5 Energy Charge.

Mr. Mays discussed the alternative transition plan options that NIPSCO considered and described the challenges the alternative transition plan options presented. He explained that NIPSCO evaluated a three-year period for the residential rate transition, and also conducted a study on transitioning commercial space heating customers (i.e., Rates 620 and 622) over both a three-year and five-year period. He stated that transitioning customers over a shorter three-year period resulted in a greater annual rate impact than NIPSCO's proposed five-year transition plan and that the commercial and general service transition analysis was complex. He explained that Rate 620 customers would be migrating to Rates 621, 623 and 624 and Rate 622 customers would be migrating to Rates 621 and 623. He stated the migration would be dependent upon which non-space heating base rate each customer is on in the summer months and that while both space heating rates have the same Customer Charge ($20), in the migrations, some customers would be moving from a rate with a Customer Charge and Energy Charge to a Demand Charge and Energy Charge. He also stated that the block structures create a significant level of complexity.

Mr. Mays explained that NIPSCO does not currently have demand meters on the energy-only space heating customers that would be transitioning to a demand rate. If NIPSCO had elected to pursue a transition plan for its commercial and general service customers, it would need to install demand meters during the transition period and, for the third year of the transition, recalculate rates based upon actual demands. He stated approximately 100 demand meters would be needed for customers under Rates 620 and 622 moving to Rates 623 and 624. For all these reasons, NIPSCO does not recommend transitioning out the commercial and general service space heating rates at this time.

Mr. Mays testified NIPSCO proposes to begin implementation of the residential rate transition beginning with the first billing cycle for the billing month of January 2015. He stated that the proposed space heating transition rates shown on Petitioner's Exhibit No. DJM-2 do not reflect the elimination of certain rate case amortizations that will also take effect with the first billing cycle for the billing month of January 2015. He explained that once those calculations are prepared, the two would need to be combined.[2]

Mr. Mays testified that based on NIPSCO's revenue neutral transition proposal, all electric space heating customers from Rates 611 Space Heating, 612 and 613 will be fully transitioned to Rate 611 by December 31, 2019. He explained that at that point in time, the tariff sheets would be revised to remove the discount for the space heating Energy Charge.

5. <u>OUCC's Evidence</u>. Eric M. Hand, Utility Analyst in the OUCC's Electric Division, testified the OUCC agrees with NIPSCO's proposed non-transitioning of commercial and general services space heating customers at this time. He stated the 43969 Order did not differentiate between or exclude certain customer classes and agreed there are differences within the commercial and general services classes and rate structures that would make the task considerably more complex than within the residential classes. He explained that commercial and general services customers on electric space heating rates represent only about 1% of NIPSCO's total customers but approximately 2% of these space heating customers would require additional costs for demand metering and customer information system programming changes.

[2] The rate case amortizations are shown documented on Page 6, Paragraph 8(b) of the Settlement approved by the 43969 Order. The space heating rates proposed herein would be further adjusted for the amortization adjustments, effective with the first billing cycle for the billing month of January 2015. Both the non-space heating and space heating Energy Charge in Rates 611 Space Heating, 612 and 613 would be affected. Each charge would be adjusted by the same amortization-related amount.

He noted that NIPSCO's discounted rates are seasonable for heating (not cooling) and have been closed to new customers since the 43969 Order.

Mr. Hand testified that through discussions with NIPSCO, the OUCC agrees that the proposed five-year revenue neutral transition is a reasonable approach to eliminating electric space heating discounts for residential customers. He stated the transition period was increased from three to five years to smooth the billing impact yet enable reasonable and timely completion. He stated that approximately 6.5% of NIPSCO's residential customers are electric space heating customers, so they will have gradually reduced seasonal discounts during heating months. He stated that non-space heating residential customers will have slight rate reductions in order to achieve overall revenue neutrality.

Mr. Hand testified the OUCC is supportive of the overall Commission goal of gradual elimination of discounts for electric space heating and space cooling customers. He stated that although the OUCC was not supportive of Vectren's transition plan in Cause No. 43839 due to the method and potential impact on customers, NIPSCO's circumstances are somewhat less complex because the discounts and the fraction of customers receiving discounts are small. He noted that NIPSCO closed its discounted space heating rates to new customers effective with the 43969 Order and proposes a five-year linear phase-out of the discounts starting January 2015. He testified the end result is a total timeline of eight years to completion with the discount elimination being gradualized over the last five years. He stated this eight-year plan is reasonable and conducive to enabling impacted customers to benefit from heating equipment investments made prior to the 43969 Order.

6. **<u>Commission Discussion and Findings</u>.** As part of the Stipulation and Settlement Agreement approved in the 43969 Order, NIPSCO agreed to file "a rate design analysis for its residential space heating rates that provides revenue neutral transition plans to discontinue discounts from standard rates for space heating customers and any required alterations to the rates of the standard customers on these rate schedules." Cause No. 43969, Stipulation and Settlement Agreement - Joint Exhibit D. This proceeding was filed in compliance with that provision. We find that the transition plan for the phase out of residential space heating discounts proposed by NIPSCO is consistent with the public interest and should be approved. We further find that NIPSCO should implement this residential rate transition beginning with the first billing cycle for the billing month of January 2015 and combine it with the elimination of certain rate case amortizations that will also take effect with the first billing cycle for the billing month of January 2015. NIPSCO's proposed five-year transition plan accomplishes the goal of eliminating discounted rates in a fashion that fairly balances the expectations of customers receiving service under the current discounted rates and manages any rate shock associated with the transition, especially since the rates in question have been closed to new enrollment since December of 2011. The proposal is revenue neutral as both the space heating and non-space heating rates are adjusted by the same amounts over the course of the transition period such that overall revenues remain constant. We also agree that the demand component of some commercial rates would unnecessarily complicate the revenue neutral transition process for Rates 620 and 622, and a transition for those rates would be best accomplished in the context of Petitioner's next general rate proceeding.

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

1. NIPSCO's proposed mechanism for the phase-out of residential space heating discounts under Rates 611, 612, and 613 over a five-year period is hereby approved.

2. NIPSCO shall submit revised tariffs to the Commission's Electricity Division to adjust the rates and charges for Rates 611, 612, and 613 on or before January 1, 2015 and annually for four years thereafter in compliance with this Order.

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

STEPHAN, MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR:
APPROVED: SEP 03 2014

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

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission