

ORIGINAL



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**VERIFIED PETITION OF SOUTHERN INDIANA GAS &)
ELECTRIC COMPANY D/B/A VECTREN ENERGY)
DELIVERY OF INDIANA, INC. REQUESTING)
APPROVAL TO OFFER CERTAIN ENERGY)
EFFICIENCY AND DEMAND SIDE MANAGEMENT)
PROGRAMS IN 2015 AND TIMELY RECOVERY OF)
COSTS THROUGH THE DEMAND SIDE)
MANAGEMENT ADJUSTMENT, INCLUDING)
PROGRAM COSTS, LOST REVENUES AND)
PERFORMANCE INCENTIVES AND AUTHORITY TO)
INCUR AND DEFER FOR FUTURE RECOVERY)
PLANNING COSTS FOR DSM PROGRAMS TO BE)
OFFERED IN 2016 AND BEYOND)**

CAUSE NO. 44495

APPROVED:

OCT 15 2014

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On May 29, 2014, Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (“Petitioner,” “Company” or “Vectren South”) filed with the Indiana Utility Regulatory Commission (“Commission”) a Verified Petition initiating this Cause and the testimony and exhibits constituting its case-in-chief seeking approval of a portfolio of demand side management (“DSM”) programs during calendar year 2015 and recovery of associated costs.

On June 10, 2014, the Citizens Action Coalition of Indiana, Inc. (“CAC”) filed a Petition to Intervene, which was granted by the Presiding Officers on June 20, 2014.

On July 23, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a Notice of Settlement, informing the Commission that Petitioner and the OUCC had reached an agreement in principle and would file a settlement agreement at least ten business days prior to the previously established September 3, 2014 evidentiary hearing date. On August 4, 2014, the CAC filed its case-in-chief in this Cause.

On August 13, 2014, the OUCC and Petitioner entered into and filed with the Commission a Stipulation and Settlement Agreement (“Settlement Agreement”) setting forth the agreement between the OUCC and Petitioner (collectively the “Settling Parties”). That same day, the Settling Parties filed testimony in support of the Settlement Agreement. The CAC filed its response to the Settlement Agreement on August 21, 2014. The next day, Vectren South filed rebuttal testimony.

A public hearing was held on September 3, 2014 at 9:30 a.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Vectren South, the OUCC, and the CAC appeared by counsel and offered into the record their respective prefiled testimony and exhibits, which were admitted into evidence without objection. No other party or members of the general public appeared.

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

1. **Notice and Jurisdiction.** Proper notice of the hearing in this Cause was given as required by law. Vectren South is a “public utility” within the meaning of Ind. Code § 8-1-2-1. Pursuant to Ind. Code §§ 8-1-2-4, -42, -68, -69, Ind. Code ch. 8-1-8.5 and 170 IAC 4-8, the Commission has jurisdiction over Petitioner’s DSM program offerings and associated cost recovery. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner’s Organization and Business.** Petitioner is a public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Vectren South provides electric utility service to approximately 140,000 customers in six counties in southwestern Indiana. Vectren South renders such electric utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of electricity.

3. **Background.** Vectren South first began offering electric DSM programs in 1992 through a direct load control (“DLC”) program that was designed to reduce peak demand. The DLC program has been continuously offered by Vectren South since 1995. The Company began expanding available DSM programs in 2010 pursuant to a Commission Order in Cause No. 43427. On August 31, 2011, the Commission approved a Stipulation and Settlement Agreement between the OUCC and Vectren South in Cause No. 43938, which authorized the Company to implement a set of core and core plus DSM programs designed to deliver enough energy savings for the Company to meet the targets established by the Commission in its December 9, 2009 Order in Cause No. 42693 (“Phase II Order”).

Since January 1, 2012, core programs have been administered by an independent Third Party Administrator (“TPA”) selected by the Demand Side Management Coordination Committee (“DSMCC”) after a competitive bidding process and an evidentiary hearing approving the selection. Various core plus programs have been administered by the Company and offered since April 2010. The DSMCC also selected a state-wide Evaluation, Measurement and Verification (“EM&V”) administrator through a competitive bidding process and received Commission approval for the selected vendor to evaluate core programs.

Pursuant to the authority granted in Cause No. 44318, Vectren South currently offers a portfolio of core and core plus DSM programs; however, Vectren South’s authority to offer these DSM programs ends on December 31, 2014. In addition, during the 2014 Legislative Session, the Indiana Legislature passed Senate Enrolled Act 340 (“SEA 340”) eliminating the core programs and the energy savings goals established in the Phase II Order as of December 31, 2014 and allowing industrial customers to opt-out of a utility’s DSM programs.

4. Petitioner's Request. In its Petition, Vectren South requests Commission approval to offer a portfolio of DSM programs ("2015 Plan") designed with the goal of reducing, residential, commercial and industrial customer energy usage by 1% from current usage levels. Vectren South also requests authority to recover all costs associated with offering the 2015 Plan, including recovery of DSM program costs, net lost revenues related to the DSM programs, and implementation of a shared savings incentive mechanism. Approval for certain changes to Petitioner's Oversight Board and authority to incur and defer for subsequent recovery no more than \$200,000 for the development of DSM programs to be offered in 2016 - 2018 were also requested.

5. Petitioner's Case-In-Chief. Robert C. Sears, Vice President, Customer Energy Solutions for Vectren Utility Holdings, Inc. ("VUHI"); Michael P. Huber, Manager, Electric DSM & Conservation at VUHI; and Richard A. Morgan, President, Morgan Marketing Partners, LLC ("MMP") testified in support of Vectren South's request.

Mr. Sears discussed the current programs offered by Petitioner and the impact of SEA 340 on future DSM programs in Vectren South's territory. He said that the passage of SEA 340 not only allows large commercial and industrial ("C&I") customers who meet certain criteria to opt-out of participation in Company sponsored DSM programs, but it also ends third party administration of core programs as of December 31, 2014 and prohibits the Commission from requiring utilities to meet the Phase II Order energy saving goals.

He explained Vectren South has established a process to assist qualifying customers in opting out of participation in Company sponsored DSM programs. With respect to energy savings, he said that Vectren South's 2015 Plan is based upon achieving energy savings equal to 1% of annual retail sales, adjusted for opt-out participation. He explained that the 2015 Plan was designed based upon an assumption that approximately 50% of qualifying customers would opt-out.

Mr. Sears discussed Vectren South's commitment to offering energy efficiency programs in 2015 and said that although Vectren South is experiencing flat to modest load growth in its service territory, the Company considers DSM a fundamental part of what it does to serve customers and help manage their energy bills. He explained how the 2015 Plan is consistent with Petitioner's Integrated Resource Plan and the reasons behind Petitioner's request to incur and defer in 2015 planning costs for 2016 and beyond. Mr. Sears also discussed Vectren South's plans to evaluate, measure and verify the results of the Company's 2015 Plan as implemented.

Regarding cost recovery, Mr. Sears discussed the components of the Demand Side Management Adjustment mechanism ("DSMA") and requested that all of the components remain in place, unchanged, except the performance incentive mechanism. He explained the changes Vectren South was requesting to the performance incentive and the public policy support for the requested changes.

As for changes to the Oversight Board, he explained that Vectren South was requesting authority to combine the Vectren South electric Oversight Board with the natural gas oversight boards currently in place at Vectren South and Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North"), establishing the Vectren Oversight Board ("VOB"). He testified that combining the boards would allow for more efficient use of time and better

delivery of integrated gas and electric programs. He then discussed some additional changes Vectren South was requesting related to governance and oversight, including authority for the VOB to increase budgeted funding by up to 10% over approved levels, if necessary to support program adoption.

Mr. Sears concluded that approval of the 2015 Plan is in the public interest, as it will delay the need to build additional generation, help conserve natural resources, and decrease emissions from generating units.

Mr. Huber discussed the details of the 2015 Plan and explained the similarities and differences between Vectren South's current DSM program offerings and those programs included in the 2015 Plan. He testified that Vectren South is eliminating the audit component of the School Energy Efficiency Program and the multi-family direct install program. He testified that the 2015 Plan offers DSM programs to all customer classes, including customers served under rate tariffs RS, B, SGS, DGS, MLA, OSS, LP and HLF and confirmed that Vectren South has an opt-out process in place for qualifying customers to opt-out of participation in Company sponsored DSM programs. He explained that the estimated cost of the 2015 Plan is \$8.6 million, which includes \$3.5 million for residential programs and \$5.1 million for C&I programs. Mr. Huber discussed the process Vectren South engaged in to design the 2015 Plan and how the market potential study completed by EnerNoc was used in developing the 2015 Plan. He noted SEA 340 could impact the 2015 Plan, once actual opt-out levels are known. Mr. Huber explained Vectren South's plans to implement and administer the 2015 Plan.

Mr. Morgan described the efforts undertaken by Vectren South to design the 2015 Plan, including the cost/benefit analysis, which was developed by MMP. He described the process used to develop the 2015 Plan, including the various cost-effectiveness tests performed by MMP. He identified the two goals Vectren South had in developing the 2015 Plan as: (1) to save electric energy and reduce electric demand to cost-effectively reduce energy use by approximately 1% of available retail sales; and (2) provide programs that are cost-effective when compared to supply-side options. He testified that the 2015 Plan provides Vectren South a path to reach those two goals. He testified that the projected portfolio total savings is 42,114,912 kWh and that the 2015 Plan passes the Total Resource Cost ("TRC") test with a total portfolio TRC average score of 1.98, a residential TRC average score of 1.38 and a C&I TRC average score of 2.25. He concluded by explaining the process employed by MMP to determine that the 2015 Plan is cost-effective.

6. Settlement Agreement. Vectren South and the OUCC entered into a Settlement Agreement, a copy of which is attached hereto, resolving their disputes concerning Petitioner's request. The key terms of the Settlement Agreement include:

a. *Revised 2015 Plan.* The VOB approved a Revised 2015 Plan, which the Settling Parties agreed is reasonable and should be approved.

b. *Governance.* The Settling Parties agreed that combining the Vectren South electric Oversight Board with the natural gas oversight boards in place at Vectren North and Vectren South is appropriate and would result in the VOB overseeing both electric and natural gas DSM and conservation programs. They also agreed upon the governance provisions for the VOB. In addition, the Settling Parties agreed that, if necessary to support program

adoption, the VOB should have the authority to increase approved funding by up to 10% over the approved budget.

c. *Cost Recovery.* The Settling Parties agreed that the previously approved components of the DSMA should remain in place and continue to be used to recover the costs associated with the Revised 2015 Plan.

d. *Performance Incentive Mechanism.* The Settling Parties agreed that the performance incentive mechanism currently in place will remain in place for 2015 and that performance incentives will not be available for programs that were previously core programs administered by the TPA. The Performance Incentive Matrix was revised so that the cap was lowered and the performance level Vectren South has to achieve to earn a performance incentive was increased.

e. *Cost Allocation Methodology.* The Settling Parties agreed that the cost allocation methodology approved by the Commission in Cause No. 43405 DSMA 12 will be used to allocate costs associated with the Revised 2015 Plan.

f. *Planning Costs.* The Settling Parties agreed that the Company should be allowed to incur and defer up to \$200,000 in planning costs for planning DSM initiatives for 2016 and beyond.

g. *International Organization for Standardization (“ISO”) 50001.* The Settling Parties agreed that Vectren South would work with the VOB to assess ISO 50001 or other similar strategic management system for C&I customers and consider implementing a pilot program.

7. **Vectren South Revised 2015 Plan.** The Revised 2015 Plan includes the following DSM programs:

Residential

- Residential Lighting
- Home Energy Assessments
- Income Qualified Weatherization
- Appliance Recycling
- Energy Efficient Schools & Education
- Efficient Products
- Residential New Construction
- Behavioral Savings

Commercial & Industrial

- Small Business Direct Install
- Commercial & Industrial Prescriptive Rebates
- Commercial & Industrial New Construction
- Commercial & Industrial Custom

8. **Testimony in Support of the Settlement Agreement.**

A. **Vectren South’s Testimony.** Mr. Huber provided an overview of the Settlement Agreement. He discussed the impact of SEA 340 on the 2015 Plan, explaining that the 2015 Plan was designed based upon an assumption that approximately 50% of eligible retail

sales would opt-out of participation in Petitioner's DSM programs. However, as of July 1, 2014, more than 70% of eligible retail sales had actually opted-out, with another opt-out period on the horizon. Mr. Huber testified that Vectren South revised the 2015 Plan based upon an 80% opt-out rate, instead of the 50% opt-out rate originally contemplated by the Company.

He said that the Revised 2015 Plan is identical to the original 2015 Plan in every way, except that the following two programs were modified: (1) the C&I prescriptive program budget changed from \$1,780,514 to \$769,573 and the energy savings associated with the program changed from 12,051,363 MWh to 5,103,942 MWh; and (2) the C&I custom program budget changed from \$1,076,949 to \$488,274 and the energy savings associated with the program changed from 5,029,080 MWh to 2,095,450 MWh. He stated no other program budget or energy savings level was impacted by the revised assumption. He also discussed other ancillary modifications reflected in the Revised 2015 Plan.

Mr. Huber testified that the Revised 2015 Plan was presented to the VOB for a vote on August 7, 2014 and the VOB voted to approve the Revised 2015 Plan. He explained that the Revised 2015 Plan may need to be further refined by the VOB depending upon the number of opt-out requests the Company receives for the next round of opt-out, which is effective January 1, 2015. Mr. Huber testified that Vectren South will know the exact level of opt-out after November 15, 2014 and the VOB can adjust the Revised 2015 Plan accordingly. Mr. Huber testified that the Revised 2015 Plan is cost-effective and allows Vectren South's customers to continue saving energy, which supports that the Revised 2015 Plan is reasonable and in the public interest.

B. OUCC's Testimony. April M. Paronish, Utility Analyst with the OUCC's Resource Planning and Communications Division, discussed the OUCC's general support of Vectren South's Revised 2015 Plan and other conditions in the Settlement Agreement. Ms. Paronish testified that although the Revised 2015 Plan continues the majority of its current DSM programs, there are some agreed upon changes that will better serve the public interest. The first change being the combining of the natural gas oversight boards at Vectren North and Vectren South with Petitioner's electric Oversight Board to form the VOB. She testified that coordinated oversight should help reduce administrative costs and encourage more joint gas and electric DSM offerings. She stated the increased coordination allows for greater flexibility, including the VOB's ability to increase program funding by up to 10% and to shift program funds between sectors and programs, while avoiding commingling of gas and electric DSM funds or resulting energy savings.

She noted that Vectren South would continue to be eligible for a performance incentive mechanism, but outlined the changes agreed to in the Settlement Agreement and confirmed that the performance incentive will continue to be unavailable for DSM programs formerly categorized as core programs. She also testified that four components of the DSMA shall remain in place and be used to recover costs associated with the Revised 2015 Plan, noting that the methodology for allocating costs associated with the Revised 2015 Plan will be established in Cause No. 43405 DSMA 12.

Ms. Paronish said the OUCC supports the Settlement Agreement. She said that the Revised 2015 Plan was presented to and approved by the VOB and that the VOB will remain

intact with more financial flexibility and greater efficiency as a result of the merger of the natural gas and electric oversight boards. According to Ms. Paronish, the VOB is important since all DSM programs are now directly under the utility's supervision, without oversight and guidance from the DSMCC. She further testified that the modifications to the performance incentive mechanism provide concrete benefits to Vectren South's customers. She concluded with the OUCC's recommendation that the Commission approve the Settlement Agreement as in the public interest.

9. CAC's Case-in-Chief. CAC's Executive Director, Kerwin L. Olson, testified in opposition to Vectren South's recovery of lost revenues in 2015. Mr. Olson also requested the Commission open an investigation to examine lost revenue calculations for DSM to ensure that ratepayers are not being overcharged, which would also include an evaluation of the reasonableness of awarding lost revenues for the life of the measure. Mr. Olson testified that Vectren South did not provide any evidence that its proposed DSM programs will result in the Company failing to receive sufficient revenues to recover its authorized costs or that the Company experienced a reduction in sales that resulted in Vectren South not receiving sufficient revenues to recover its authorized costs because of its previous DSM programs. In addition, Mr. Olson testified that awarding lost revenues for the entire life of the measure is excessive and that, if lost revenue recovery were to be allowed, it should be limited to the first two years of the measure life, except in the case programs with a one year measure life, which should be limited to one year of lost revenues. Mr. Olson recommended Petitioner file a new rate case to reset rates after that two year period, if the Company is not recovering its authorized costs. Mr. Olson concluded by recommending the Commission reject or make subject to refund Vectren South's request for lost revenues until the Commission concludes an investigation into lost revenue calculations for DSM to ensure that customers are not being overcharged.

10. Vectren South's Rebuttal Testimony. Mr. Sears responded to the issues raised by Mr. Olson. He said that the purpose of lost revenue recovery is to eliminate or significantly reduce a utility's disincentive to implement energy efficiency programs. Mr. Sears testified that the Commission's rules at 170 IAC 4-8-3 allow for the recovery of lost revenues to enable a utility to recover the fixed costs that might otherwise be unrecovered when energy efficiency programs reduce sales. Mr. Sears testified that Vectren South recovers lost revenues that are directly attributable to its Commission approved DSM programs, as verified by an independent third party EM&V administrator selected by the Oversight Board. He confirmed that the basis for lost revenue recovery in the DSMA is limited to the fixed cost components of Vectren South's base rates; variable cost components, like fuel and variable production costs, are not considered.

Mr. Sears testified that recovery of lost revenues should not be driven by whether a utility fails to receive sufficient revenues to recover its authorized costs in a given year because the purpose of lost revenue recovery is to return the utility to the position in which it would have been in the absence of utility offered energy efficiency programs. Doing so, Mr. Sears contends, puts the implementation of energy efficiency programs on par with other supply side resources. Mr. Sears testified that the lost revenue recovery mechanism does not completely sever the link between revenue and sales, as increases and decreases in sales due to other factors (e.g. weather, economic conditions, other energy efficiency efforts not directly linked to net reductions from utility sponsored DSM programs) will continue to affect utility revenue. According to Mr. Sears,

Vectren South's fixed cost recovery remains at risk due to factors that impact sales volumes, so the Company must continue to manage its costs in order to achieve its authorized returns. He testified that the CAC's position, which focuses on a utility's level of revenue, would disincent economic development and customer growth, which over time spread fixed costs over more customers.

Mr. Sears also discussed the reasons that lost revenues should continue to be collected during the entire measure life. He testified that when a measure is installed, the customer continues to receive the benefit of the measure throughout the measure life. He said that Mr. Olson's recommendation to limit lost revenue recovery to the first two years of the measure life is arbitrary and does not recognize that the measure life used to recover lost revenues is the same measure life used in the cost benefit analysis of potential DSM programs. If Mr. Olson believes the savings generated from DSM programs do not provide benefits over the life of the measure, then many of the DSM programs would possibly not pass the benefit cost analysis. Mr. Sears testified that filing rate cases every two or three years would be expensive, time consuming and administratively burdensome. He said that lost revenue recovery for the measure life promotes administrative efficiency.

Finally, Mr. Sears testified that an investigation to examine lost revenue calculations and the reasonableness of the recovery of lost revenues for the entire measure life is not warranted. He said that the Commission's DSM rules outline the criteria that must be met to recover lost revenues. He also noted that the Commission has already reviewed Vectren South's lost revenue component and determined that it complies with the requirements set forth in the statute. He said the fact that programs have been successful is not a basis to automatically and arbitrarily cap lost revenues, as they are real costs the utility is incurring.

11. Commission Discussion and Findings. Since April 2010, Vectren South has been offering a portfolio of cost-effective DSM programs. Vectren South is authorized to offer its current portfolio of DSM programs through December 31, 2014, which is also the date that the TPA's administration of core programs ends pursuant to SEA 340. Petitioner initiated this proceeding to obtain approval to continue offering a portfolio of DSM programs during calendar year 2015. Vectren South's Revised 2015 Plan includes essentially the same programs that are currently offered, except for the multi-family direct install program and the audit portion of the school energy efficiency program. The Revised 2015 Plan is based upon an assumption that 80% of eligible load will opt-out of participation in Vectren South sponsored DSM programs. The VOB approved the Revised 2015 Plan. The Revised 2015 Plan includes cost-effective DSM programs designed to reduce energy usage by 1% of eligible retail sales and will allow Vectren South to continue to partner with its customers to reduce energy usage. Many of the programs included in the Revised 2015 Plan have already been implemented in Vectren South's service territory pursuant to our Order issued in Cause No. 44318. Vectren South and the OUCC have presented for approval a Settlement Agreement, which resolves all issues between them in this proceeding.

In evaluating the Settlement Agreement, we recognize that settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Ind. Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, the settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.*

(quoting *Citizens Action Coalition of Ind., Inc. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406.

The Commission may also consider a settlement that is not supported by all of the parties. We have noted in evaluating non-unanimous settlements that:

[I]n agency proceedings settlements are frequently suggested by some, but not necessarily all, of the parties; if on examination they are found equitable by the regulatory agency, then the terms of the settlement form the substance of an order binding on all the parties, even though not all are in accord as to the result.

Northern Ind. Public Serv. Co., Cause No. 41746, p. 24 (IURC 9/23/2002) citing *Penn. Gas & Water Co. v. Fed. Power Comm’n*, 463 F.2d 1242, 1246 (D.C. Cir. 1972). However, in all cases, the Commission decision, ruling, or order—including approval of a settlement—must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition of Ind., Inc. v. Public Serv. Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the agreement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2, and that such agreement serves the public interest.

The witnesses for the Settling Parties explained why they believe the Settlement Agreement is in the public interest. The Settling Parties testified that approval of the Settlement Agreement will allow Vectren South to continue to work towards reducing energy usage in Vectren South’s territory. In addition, the Settlement Agreement provides for greater oversight of DSM implementation by not only combining the natural gas and electric oversight boards into one governing body, but also approving the governance document that sets forth the terms pursuant to which the VOB will operate. The Settlement Agreement allows for the shifting of costs among programs subject to necessary approvals from the VOB and prohibits the commingling of gas and electric funds. The VOB will also have authority to increase budgeted funding by up to 10% over the budget. Having considered the testimony filed by the OUCC and Vectren South in support of the Settlement Agreement, we agree that the program implementation terms of the Settlement Agreement represent a reasonable resolution of the issues raised by the OUCC and Vectren South in this case.

The Settlement Agreement also provides for timely recovery of costs associated with the Revised 2015 Plan through the DSMA mechanism, that program costs will be allocated in a manner consistent with the allocation methodology to be approved in Cause No. 43405 DSMA 12, and that Vectren South shall reconcile costs recoverable and costs recovered on a Rate Class basis, as previously approved. Pursuant to the Settlement Agreement, the DSMA largely remains intact, with the exception of changes to the performance incentive mechanism. The changes agreed to in the Settlement Agreement reduce the maximum amount of performance incentives the Company can earn and raises the level at which Vectren South can receive an incentive. No party objected to the Settlement Agreement’s modification to the performance incentive. Therefore, based on the evidence presented, we find that the modifications to the

performance incentive mechanism is consistent with our DSM rules and is just, reasonable, and in the public interest.

The CAC requested the Commission reject, or make subject to refund, Vectren South's request for recovery of lost revenues until the Commission conducts and concludes an investigation into lost revenue calculations for DSM to ensure ratepayers are not being overcharged. CAC argues Petitioner's request should be rejected because Vectren South failed to provide any evidence that its proposed DSM programs will result in Vectren South failing to receive sufficient revenues to recover its authorized costs. And, even if the Commission should decide to authorize recovery of lost revenues, such recovery should be limited to the first two years of the measure life.

While we agree with the CAC that a utility's ability to recover lost revenues is not automatic and may be periodically reviewed, we have also previously explained that the recovery of lost revenues is a tool to assist in removing the disincentive a utility may have in promoting DSM in its service territory.¹ See 170 IAC 4-8-6(c); *Southern Ind. Gas & Elec. Co.*, Cause No. 43938 at 40-41 (IURC August 31, 2012). We also explained that because the purpose of lost revenue recovery is to return the utility to the position it would have been in absent implementation of DSM, simply eliminating lost revenue recovery when sales are higher than the levels used to develop a utility's current base rates would be contrary to this purpose. *Id.*

The Commission's DSM rules require utilities seeking lost revenue recovery to propose a methodology that addresses the level of free-riders and provides for revised estimates of load impact from the DSM program based upon EM&V. 170 IAC 4-8-6(b). We have also required that the revenue margin rates upon which lost revenues are based be reasonably reflective of its operating system today. See *Northern Ind. Public Serv. Co.*, Cause No. 43912 at 27 (IURC July 27, 2011). Vectren South's DSMA is consistent with Commission requirements.

Nor do we find that Vectren South's recovery of lost revenues should be limited to the first two years of the DSM measure life. CAC failed to present any evidence that such a limit is reasonable or justified. Therefore, finding that Petitioner's proposed DSMA is consistent with the DSM rules, is just and reasonable, and in the public interest, the Commission declines to open an investigation at this time concerning lost revenue calculations. The lost revenue component of Vectren South's DSMA shall continue to recover lost revenues associated with customer participation in the Company's 2015 DSM programs.

Finally, in accordance with 170 IAC 4-8-4 and to ensure that we receive timely and sufficient information, we find that Vectren South shall file under this Cause its independent EM&V report concerning its 2015 DSM programs no later than July 1, 2016. The EM&V report must include the completed cost/benefit analysis that identifies the total costs, total benefits, and associated benefit cost ratios for the utility cost test, total resource cost test, ratepayer impact measure test, and the participant cost test. It shall also identify the discount rate used in the cost/benefit calculations.

¹ SEA 340 provides that a utility "may recover energy efficiency programs cost in the same manner as energy efficiency programs costs were recoverable under" the Phase II Order. The Phase II Order (at p. 49) recognized that the Commission's DSM rules addressed cost recovery, including lost revenues and incentives, and declined to make any additional findings.

Based on the evidence presented in this Cause, the Commission finds that the 2015 Settlement Agreement is in the public interest, is just and reasonable, and should be approved in its entirety. The terms of the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our findings in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459 at *19-22 (IURC March 19, 1997).

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

1. The Settlement Agreement is approved.
2. Vectren South's Revised 2015 Plan as set forth in the evidence and discussed above is approved.
3. Vectren South's request for timely recovery of costs associated with the Revised 2015 Plan, including program costs, lost revenues and performance incentives, through Vectren South's existing DSMA mechanism is approved.
4. The performance incentive mechanism shall be revised as described in the Settlement Agreement.
5. Vectren South shall be authorized to incur and defer in 2015 for future recovery up to \$200,000 in planning costs for DSM initiatives for 2016 and beyond.
6. Vectren South shall file its EM&V report in this Cause on or before July 1, 2016 in accordance with Finding Paragraph 11 above.
7. This Order shall be effective on and after the date of its approval.

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

APPROVED: OCT 15 2014

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



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

STATE OF INDIANA

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STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (“Settlement Agreement”) is made and entered into as of this 13th day of August 2014, by and between Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (“Vectren South”, “Petitioner” or “Company”) and the Indiana Office of Utility Consumer Counselor (“OUCC”) solely for purposes of compromise and settlement. Vectren South and OUCC may be referred to hereinafter individually as a “Party” or collectively as the “Parties”.

WHEREAS, the Parties have met, reviewed and discussed the initial and revised draft of the Vectren South 2015 Electric DSM Plan; and

WHEREAS, the OUCC has agreed to support approval by the Indiana Utility Regulatory Commission (“Commission”) of the Revised Vectren South 2015 Electric DSM Plan dated July 24, 2014 (the “Revised 2015 Plan”), subject to the negotiated terms set forth herein.

NOW THEREFORE, the Parties, having been duly advised by their respective staff experts and counsel, agree that the following terms and conditions represent a fair, just and reasonable resolution of the matters raised in this Cause, subject to their incorporation by the Commission into a final, non-appealable order ("Final Order") without modification or further condition that may be unacceptable to the settling Parties:

1. **The Revised 2015 Plan.** The Parties agree that the Revised 2015 Plan attached to the Settlement Testimony of Petitioner's witness Michael P. Huber as Petitioner's Exhibit MPH-S2, should be approved as presented. The original plan filed with the Commission on May 29, 2014 assumed 50% of eligible retail sales would opt-out of participation in the Company's DSM programs; however, as of July 1, 2014 more than seventy percent of eligible retail sales have opted-out and the remaining eligible retail sales have until November to opt-out effective January 1, 2015. Therefore, the Parties have agreed that the Company's original 2015 plan should be revised to assume that 80% of eligible retail sales will opt-out of participation in the Company's DSM programs.

2. **Governance.** The Parties agree that Vectren South's electric oversight board shall be combined with Vectren South and Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc.'s ("Vectren North") natural gas oversight board to form one governing body, the Vectren Oversight Board ("VOB"). The VOB Governance Provisions document, which is attached to Mr. Huber's Settlement Testimony as Petitioner's Exhibit MPH-S4, shall become effective upon issuance of a Final Order by the Commission. The Vectren Oversight Board shall continue to have the authority granted to the Vectren electric and gas oversight boards by the Commission in past Orders, including the authority to manage DSM program funds as necessary, considering the impact on the affected rate classes. The VOB shall have the

authority to increase budgeted funding by up to ten percent (10%) over the budget, if necessary to support program adoption without having to go back to the Commission to seek additional approval. The VOB shall have the authority to shift funds from sector to sector and program to program, but shall not commingle gas and electric funds. The VOB shall vote to select vendors to implement the Revised 2015 Plan without issuing a request for proposals. The VOB shall vote to determine the most appropriate method for selecting an evaluator to measure and verify the programs included in the Revised 2015 Plan.

3. **Program Cost Recovery.** The Parties agree the following four previously approved components of the Demand Side Management Adjustment mechanism (“DSMA”) that recover costs associated with current electric DSM programs shall remain in place and shall be used to recover the costs associated with the Revised 2015 Plan:

- a. The Energy Efficiency Funding Component, which is used to recover program costs associated with electric DSM programs (approved in Cause No. 43427);
- b. The Large Customer Lost Margin Component, which is used to recover verified lost margins associated with the participation of large customers in DSM programs (approved in Cause No. 43938), will continue to be reconciled against actual net energy savings based on results of evaluation, measurement and verification (“EM&V” or “evaluation”);
- c. The Small Customer Lost Margin Component, which is used to recover lost margins associated with the participation of residential and small general service customers in DSM programs (approved in Cause No. 43405 DSMA 9 S1), will continue to be reconciled against actual net energy savings evaluation results.

d. The Performance Incentive Mechanism, which is used to reconcile performance incentives associated with the Company's program performance (first approved in Cause No. 43427).

4. **Performance Incentive Mechanism.** The performance incentive mechanism currently in place shall remain in place for 2015. The Parties agree that the Company shall not earn performance incentives on programs that were formerly core programs. The performance incentive mechanism shall be based upon the performance of programs measured in terms of their actual, independently verified, net energy (kWh) and demand (kW) savings compared to projected net energy and demand savings. To earn an incentive, the savings must be measured and verified by an independent third party. The Company cannot earn an incentive unless the programs, with the incentive payout, pass the Total Resource Cost Test ("TRC") and Utility Cost Test ("UCT") cost-effectiveness tests. Based upon this methodology, there are two separately calculated incentives: the Residential Sector Incentive and the Commercial/Industrial Sector Incentive. The incentive amount for each of these sectors is dependent on the amount of combined savings from each of the sector's individual programs. For purposes of calculating the performance incentive, the program costs eligible for the incentive are defined as the actual program costs not to exceed the total program budget approved by the Oversight Board. The program costs will include outreach and education program costs allocated equally between the residential and commercial/industrial sectors minus performance incentives. The performance incentive levels shall be modified as follows, except that, in no case, shall the actual performance incentive the Company is allowed to earn exceed 10% of the program costs approved in the Revised 2015 Plan budget:

2015 Performance Incentive Matrix	
Performance Levels	Incentive Levels
0% - 64%	-4%
65% - 79%	0%
80% - 89%	4%
90% - 99%	8%
100%+	10%

5. **Cost Allocation Methodology.** The Parties agree that Vectren South's methodology for allocating program costs as defined in the Revised 2015 Plan shall be as approved in DSMA 12. The Parties explicitly recognize and agree that the appropriate proceeding within which to address cost allocation is Cause No. 43405 DSMA 12 and agree that costs associated with the Revised 2015 Plan shall be allocated based upon the methodology approved by the Commission in Cause No. 43405 DSMA 12. The OUCC reserves for itself the right to challenge proposed cost allocation methodologies in Cause No. 43405 DSMA 12 and agrees that the cost allocation methodologies approved by the Commission in Cause No. 43405 DSMA 12 shall be applied to recovery of the program costs defined in the Revised 2015 Plan.

6. **Planning Costs.** The Parties agree that the Company shall be authorized to incur up to \$200,000 in planning costs for planning DSM initiatives for 2016 and beyond. No more than \$200,000 in planning costs shall be deferred for subsequent recovery through the DSMA. Company shall not be allowed to earn carrying costs on the deferred balance and shall not be allowed to include those costs in calculating the 2015 performance incentive. Prior to incurring planning costs, the Company shall consult with the VOB.

7. **International Organization for Standardization 50001.** The Parties agree that the Company shall work with the VOB to assess the International Organization for

Standardization's ("ISO") 50001 energy management system, the Department of Energy's Better Buildings Initiative or other similar strategic energy management programs for commercial and industrial ("C&I") customers. Upon the completion of the analysis, Vectren South shall make a recommendation to the VOB for consideration of a cost-effective strategic energy management pilot program for its C&I customers.

8. The Parties agree to file the Settlement Agreement and testimony supporting the Settlement Agreement. The Parties shall not object to the admission of this evidence. The Parties propose to submit this Settlement Agreement and evidence conditionally, such that, if the Commission fails to approve this Settlement Agreement in its entirety, or approves it with any changes or conditions unacceptable to either Party, the Settlement Agreement and supporting evidence shall be withdrawn.

9. If the Commission does not approve this Settlement Agreement in its entirety or imposes conditions different from the terms of the Settlement Agreement, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

10. The Parties agree that time is of the essence in this proceeding and will request prompt Commission acceptance and approval of this Settlement Agreement in its entirety, without any change or condition that is unacceptable to either party to this Settlement Agreement. This Settlement Agreement is not severable and shall be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to either Party.

11. The Parties agree to waive cross-examination of each other's witnesses in this proceeding.

12. The Parties will work together to finalize and file with the Commission testimony in support of the Settlement Agreement, as well as an agreed upon proposed order. The Parties will support the Settlement Agreement and proposed order in this proceeding and will request that the Commission issue an order accepting and approving this Settlement Agreement in accordance with its terms as soon as possible.

13. The Parties will support, or not oppose, on reconsideration, rehearing or appeal a Commission Order accepting and approving this Settlement Agreement in accordance with its terms.

14. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of the Settlement Agreement nor any of its provisions shall constitute an admission by either Party to the Settlement Agreement in this or any other litigation or proceeding except as necessary to implement or enforce this Settlement Agreement. It is also understood that each and every term of the Settlement Agreement is in consideration and support of each and every other term.

15. Neither the making of the Settlement Agreement (nor the execution of any of the other documents or pleadings required to effectuate the provisions of the Settlement Agreement), nor the provisions thereof, nor the entry by the Commission of a Final Order approving the Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

16. The Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that either of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

17 The evidence in support of the Settlement Agreement constitutes substantial evidence sufficient to support it and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Settlement Agreement, as filed.

18. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning the Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of either Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

19. The undersigned Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successor and assigns, who will be bound thereby.

20. The provisions of the Settlement Agreement shall be enforceable by either Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

21. The Settlement Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[SIGNATURE BLOCK ON NEXT PAGE]

ACCEPTED AND AGREED this 13th day of August 2014.

SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY D/B/A
VECTREN ENERGY DELIVERY OF
INDIANA, INC.



INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR

