ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF ELECTRIC DEMAND SIDE MANAGEMENT PROGRAMS TO BE EFFECTIVE JANUARY 1, 2015 THROUGH DECEMBER 31, 2015, FOR AUTHORITY TO RECOVER ASSOCIATED START-UP, IMPLEMENTATION AND ADMINISTRATIVE COSTS ALONG WITH COSTS ASSOCIATED WITH THE EVALUATION, MEASUREMENT AND VERIFICATION OF THOSE PROGRAMS ("PROGRAM COSTS") AND LOST REVENUES THROUGH ITS DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM IN ACCORDANCE WITH IND. CODE § 8-1-2-42(a) AND PURSUANT TO 170 IAC 4-8-5 AND 170 IAC 4-8-6 AND FOR AUTHORITY TO DEFER PROGRAM COSTS AND LOST REVENUES FOR FUTURE RECOVERY.	)	CAUSE NO. 44496 APPROVED:

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On May 29, 2014, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its Verified Petition for approval of electric demand side management ("DSM") programs to be effective January 1, 2015 through December 31, 2015, for authority to recover associated start-up, implementation, and administrative costs along with costs associated with the evaluation, measurement, and verification ("EM&V") of those programs ("Program Costs") and lost revenues through its Demand Side Management Adjustment ("DSMA") Mechanism, and for authority to defer Program Costs and lost revenues for future recovery. NIPSCO prefiled its direct testimony and exhibits on May 30, 2014. Citizens Action Coalition of Indiana, Inc. ("CAC") filed a petition to intervene on June 10, 2014 and the NIPSCO Industrial Group ("Industrial Group") filed a petition to intervene on June 18, 2014, which were granted on June 23, 2014 and July 1, 2014 respectively. The Indiana Office of Utility Consumer Counselor ("OUCC") and CAC both prefiled testimony on July 7, 2014. NIPSCO prefiled rebuttal testimony on July 18, 2014.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause on July 31, 2014 at 9:30 a.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, NIPSCO, the OUCC, CAC, and the Industrial Group appeared by counsel. NIPSCO, the OUCC, and CAC offered their respective prefiled testimony and exhibits into evidence, which were admitted without objection. No members of the general public attended.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a public utility within the meaning of Indiana Code § 8-1-2-1. Pursuant to Indiana Code §§ 8-1-2-4 and 8-1-2-42 and 170 IAC 4-8, the Commission has jurisdiction over NIPSCO's DSM programs and associated cost recovery. Thus, the Commission has jurisdiction over NIPSCO and the subject matter of this Cause.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO renders electric public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution, and furnishing of such service to the public.

3. **Background.** On May 25, 2011, the Commission issued an Order in Cause No. 43618 approving NIPSCO's request for approval of its DSMA Mechanism. On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed Core and Core Plus energy efficiency programs ("43912 Programs") and their projected budgets, timely recovery of DSM-related costs, the formation of an oversight board ("OSB"), and an EM&V program for its Core Plus Programs.

On January 2, 2012, the Core Programs approved by the Commission in its Order in Cause No. 42693, Phase II ("Phase II Order") and administered by the Third Party Administrator ("TPA") approved by the Commission in its July 27, 2011 Order on TPA & EM&V Contracts in Cause No. 42693-S1, became available on a statewide basis. The contract for implementation of these programs was executed at that time to cover 2012 and 2013. The statewide Core programs approved by the Commission in the Phase II Order are in effect through December 31, 2014 by virtue of the Commission's August 15, 2012 Order in Cause No. 42693-S1 granting an extension of one year to the underlying TPA and EM&V contracts.

On August 8, 2012, the Commission issued an Order in Cause No. 44154 ("44154 Order") approving, among other things, NIPSCO's request for approval to recover lost revenues associated with reduced sales attributable to NIPSCO's Commission-approved electric DSM programs.

On December 18, 2013, the Commission issued an Order in Cause No. 44363 ("44363 Order") approving NIPSCO's request for approval of a portfolio of electric DSM programs through December 31, 2014 along with the authority to recover Program Costs and lost revenues associated with those programs. The portfolio of DSM programs for which approval was granted included the continuation of the 43912 Programs with the addition of two new Commercial and Industrial ("C&I") Core Plus programs. The Commission also authorized the continuation of the NIPSCO OSB.

On March 27, 2014, Senate Enrolled Act 340 ("SEA 340") became law. Among other things, SEA 340 states as follows:

> The commission may not: (1) extend, renew, or require the establishment of an energy efficiency program under; or (2) after December 31, 2014, require an electricity supplier to meet a goal or target established in; the DSM order issued by the commission on December 9, 2009. An electricity supplier may not renew or extend an existing contract or enter into a new contract with a statewide third party administrator for an energy efficiency program established or approved by the DSM order issued by the commission on December 9, 2009.
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> After December 31, 2014, an electricity supplier may continue to timely recover energy efficiency program costs that: (1) accrued or were incurred under or relate to an energy efficiency program implemented under the DSM order issued by the commission on December 9, 2009; and (2) are approved by the commission for recovery.
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> After December 31, 2014, an electricity supplier may offer a cost effective portfolio of energy efficiency programs to customers. An electricity supplier may submit a proposed energy efficiency program to the commission for review. If an electricity supplier submits a proposed energy efficiency program for review and the commission determines that the portfolio included in the proposed energy efficiency program is reasonable and cost effective, the electricity supplier may recover energy efficiency program costs in the same manner as energy efficiency program costs were recoverable under the DSM order issued by the commission on December 9, 2009. The commission may not: (1) require an energy efficiency program to be implemented by a third party administrator; or (2) in making its determination, consider whether a third party administrator implements the energy efficiency program.

4. **Relief Requested.** NIPSCO requests (1) approval of its portfolio of electric DSM and energy efficiency programs to be effective from January 1, 2015 through December 31, 2015 ("2015 Electric DSM Program"); (2) authority to recover Program Costs associated with its 2015 Electric DSM Program through its DSMA Mechanism consistent with the provisions of 170 IAC 4-8-5 as authorized in the 43912 Order and 44363 Order; (3) authority to defer expenses associated with the 2015 Electric DSM Program that are incurred prior to and subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates; (4) authority to recover lost revenues associated with its 2015 Electric DSM Program, as well as lost revenues associated with previous program years, including those lost revenues associated with prior programs that are not included in the 2015 Electric DSM Program, through its DSMA Mechanism consistent with the provisions of 170 IAC 4-8-6 as authorized in the 44154 Order and 44363 Order; (5) authority to defer lost revenues associated with the 2015 Electric DSM Program and lost revenues for previous program years, including DSM programs previously offered but subsequently discontinued, through Petitioner's DSMA Mechanism, until such amounts are recovered through rates; (6) approval to continue to utilize its existing NIPSCO

OSB to assist in the administration of the 2015 Electric DSM Program; (7) approval to continue the same EM&V for its 2015 Electric DSM Program, consistent with the provisions of 170 IAC 4-8-1, as authorized in the 43912 Order and 44363 Order; (8) approval of necessary tariff changes to effectuate approval of the 2015 Electric DSM Program; and (9) approval to continue to utilize the same reporting requirement to file monthly scorecards detailing program performance for the 2015 Electric DSM Program.

5. Evidence Presented.

A. NIPSCO's Case-In-Chief. Alison M. Becker, Manager of Regulatory Policy for NIPSCO, testified NIPSCO recognizes the benefits of DSM and wants to provide those benefits to its customers, while maintaining an appropriate balance between costs and benefits. Ms. Becker testified that the enactment of SEA 340 presented unique challenges in the development of a portfolio of programs for 2015 from both a substantive and timing perspective. She explained that the development of a portfolio of programs that no longer include statewide Core offerings has allowed NIPSCO to craft a mix of programs that fit its service territory and customer mix well, but the short time frame presents challenges to ensure that the transition in programs and vendors is seamless and transparent to customers. She said NIPSCO appreciates the insights and input of the NIPSCO OSB in addressing these challenges, and NIPSCO will continue to work with its OSB to work through any ongoing implementation, budgeting and transition issues that may arise.

Ms. Becker testified NIPSCO seeks authority to recover, pursuant to 170 IAC 4-8-5, the Program Costs associated with its 2015 Electric DSM Program through its DSMA Mechanism. She stated the total estimated costs, including lost revenue, of the 2015 Electric DSM Program for the period January 1, 2015 through December 31, 2015 are projected to be approximately $21.2 million.

Ms. Becker testified that NIPSCO recognizes that performance incentives are allowed by the Commission's rules and that NIPSCO is not seeking performance incentives given the time constraints associated with this proceeding. She stated NIPSCO may seek performance incentives for its approved DSM programs in the future.

With regard to collection of lost revenues, Ms. Becker explained that lost revenues associated with DSM measures that were previously installed as part of programs NIPSCO is planning to discontinue do not cease when the program ends. She explained that the Commission approved recovery of lost revenues associated with measures installed through NIPSCO's approved DSM programs for the remainder of their useful lives in Cause No. 44154, so it is appropriate to continue to collect lost revenues associated with those approved programs in the same manner they would be collected if the program had continued.

Ms. Becker explained how SEA 340 impacted NIPSCO's 2015 Electric DSM Program. First, in putting together its budgets and program offerings, NIPSCO projected an amount of eligible C&I load that would opt out of participation in NIPSCO's 2015 Electric DSM Program. She noted that while NIPSCO will not know the total number of customers and load that will opt out of participation in 2015 until November 15, 2014, for purposes of this filing NIPSCO made the assumption that its largest sixteen eligible customers by demand as well as the customer on

Rate 644 would elect to opt out, which equates to about 54% of NIPSCO's C&I load and 43% of NIPSCO's total load. Second, rather than having a portfolio of programs administered on a statewide basis by a single third party and a portfolio of programs administered by NIPSCO, NIPSCO will administer the entire portfolio of DSM programs so that it best meets the needs of its service territory. Finally, because of the elimination of the savings goal imposed in the Phase II Order, and as discussed in greater detail below, NIPSCO structured its 2015 Electric DSM Program to spend approximately 2% of total revenue from 2013 after removing the load associated with customers projected to opt out of NIPSCO's DSM program. Ms. Becker stated that if actual opt out elections exceed NIPSCO's expectations, NIPSCO does not plan to adjust its proposed budget for 2015 but would make adjustments to its DSM budget going forward.

Ms. Becker explained why NIPSCO determined the 2% of total revenue to be an appropriate target for DSM spending. She stated that there is a cost associated with the implementation of energy efficiency programs. NIPSCO is mindful of the budgetary constraints facing many of its customers, and has therefore decided to limit energy efficiency program spending to 2% of the total revenue from 2013 from those customers expected to participate in the 2015 Electric DSM Program. She stated this provides a projected savings of 119,621,000 megawatt hours ("MWh") for NIPSCO's customers while providing a balance of specific savings for individual customers, fuel savings for all customers and a manageable monthly bill impact. Ms. Becker noted that NIPSCO's proposed 2% of total revenue compares favorably with other states in the Midwest and provides a good balance for customers.

Ms. Becker testified NIPSCO's goal in implementing an electric DSM program is to implement cost effective energy efficiency and demand response programs that reduce NIPSCO's peak demand and its energy requirements. She stated NIPSCO hopes to be able to reduce energy consumption through the 2015 Electric DSM Program by 1% and that NIPSCO is proposing a cost effective portfolio of programs that will reduce customers' energy costs and also reduce regulated air emissions.

Ms. Becker generally described how DSM relates to NIPSCO's Integrated Resource Plan ("IRP") process. She stated that it is important to note that while NIPSCO is considering demand-side in addition to supply-side resources to develop its IRP, the programs requested in this proceeding are established outside of the IRP process due to the unique substantive and timing challenges regarding the enactment of SEA 340. She stated that NIPSCO is committed to having an efficient DSM program, balancing the needs of all customers.

Ms. Becker described the DSM-related costs the Commission's rules allow to be recovered by a utility. She stated that 170 IAC 4-8 ("Rule 8") sets forth guidelines for DSM recovery (the "DSM Rules"). 170 IAC 4-8-7 states that a utility is entitled to recover the reasonable cost of planning and implementing a DSM program and 170 IAC 4-8-8 permits a utility to recover lost revenue from the implementation of a DSM program and states that a utility is allowed an opportunity for earnings from prudent investments in both supply- and demand-side resources.

Ms. Becker testified that with the exception of the A/C Cycling Program, NIPSCO proposes to allocate its Program Costs for all programs on a per kilowatt hour ("kWh") basis based on the six month kWh sales forecast for each rate schedule. NIPSCO proposes to continue to allocate Program Costs for the A/C Cycling Program based on the number of customers by rate class.

She explained why NIPSCO proposes to change its allocation methodology for all of the programs with the exception of the A/C Cycling Program. She stated that there are several C&I customer classes where a small number of customers account for a large portion of NIPSCO's load. For example, in NIPSCO's most recent DSMA tracker filing (Cause No. 43618-DSM-6), Rate 632 (Industrial Power Service) had nine customers with forecasted load of 1.2 million MWh and Rate 633 (High Load Factor Industrial Power Service) had four customers with forecasted load of 1.5 million MWh. By comparison, Rate 623 (General Service Medium) had 3,772 customers with forecasted load of 764,000 MWh. She stated that allocating based on load rather than customer count allows NIPSCO to better associate Program Costs with the customers who are benefiting from the energy savings associated with the 2015 Electric DSM Program. She noted that the A/C Cycling Program only saves kW, not kWh and therefore, NIPSCO proposes to continue to allocate the A/C Cycling Program Costs based on the number of customers in each class.

Ms. Becker testified NIPSCO is not proposing to change the way it allocates costs associated with lost revenues. She stated that NIPSCO currently forecasts lost revenues by forecasting net energy and net demand savings by allocating projected energy savings in its energy forecast for most rates. She noted there are two programs where NIPSCO uses customer count as the means for allocation: the A/C Cycling and Residential Home Energy Conservation programs, which are forecasted based on customer count because this is the most accurate way to allocate savings across the applicable rates to minimize the reconciliation adjustment.

Ms. Becker stated that NIPSCO is proposing to update the formula and definitions used in Rider 683 to effectuate these changes, as well as to clarify the process for collection of lost revenues. She stated that NIPSCO is proposing to update the formula to indicate that, for each rate schedule, for programs that are allocated based on energy, the total amount of Program Costs for a six month period for that rate schedule, including applicable reconciliation, will be divided by the six month kWh sales forecast for that rate schedule. The total of the three components, Program Costs, projected lost revenues and reconciled lost revenues, will make up the factor for each Rate Class.

She explained that customers who elect to opt out of NIPSCO's DSM program will continue to have a charge or credit for program costs, either for costs accrued or incurred while the customer was participating in the DSM program or for reconciliation of costs for the time period during which the customer was participating in the DSM program. In addition, those customers will continue to have a charge or credit for projected lost revenues as well as reconciliation of lost revenues for the appropriate time period (i.e. the life of the measure or a base rate case).

Ms. Becker testified the current OSB structure and process has been beneficial to both NIPSCO and its stakeholders and NIPSCO proposes to maintain, without change, its NIPSCO OSB as approved in the Commission's 43912 Order. She stated the NIPSCO OSB will continue to have authority to modify program design or program funding amounts. Specifically, once the 2015 Electric DSM Program has been approved by the Commission, the NIPSCO OSB will have the flexibility to shift costs within a program budget as needed, shift funds among programs so long as the overall 2015 Electric DSM Program budget is not exceeded and design and implement new programs as long as they pass the Total Resource Cost ("TRC") test and the overall 2015 Electric DSM Program budget is not exceeded.

Ms. Becker testified NIPSCO proposes to maintain its EM&V process as approved in the 43912 Order.

Ms. Becker stated that in its 2014 IRP, NIPSCO is including DSM programs as resource options. While the IRP will not be finalized until later in 2014, current projections indicate that NIPSCO has sufficient existing energy resources, including DSM programs, to meet customer needs through 2022. The plan also anticipates that NIPSCO will require additional electric generation capacity in 2023. She stated that with more information produced by EM&V efforts now available on the effectiveness of individual DSM programs, NIPSCO will have sufficient data to model and evaluate the merits of each individual program within the overall supply portfolio.

Ms. Becker testified a hallmark of the IRP process is the application of cost benefit tests. NIPSCO has run the cost benefit tests on its proposed 2015 Electric DSM Program and the entire portfolio, the Residential portfolio, and the C&I portfolio pass as cost effective. NIPSCO will model the programs as demand-side resource options in its 2014 IRP.

Ms. Becker testified NIPSCO's 2015 Electric DSM Program is in the public interest because it is designed to reduce load and benefit customers by providing opportunities for them to manage current energy costs and reduce or defer future generation needs. Additionally, NIPSCO's program continues to provide revenue protection. The portfolio of programs and rate design are linked together to provide benefits to customers and NIPSCO.

Karl E. Stanley, Vice President, Commercial Operations for NIPSCO, stated that NIPSCO worked with CLEAResult (administrator of the proposed Residential programs except the Residential Home Energy Conservation Program and the A/C Cycling Program), OPower (administrator of the Residential Home Energy Conservation Program) and Franklin Energy (administrator of the proposed C&I program) to design programs and program budgets for 2015. Mr. Stanley noted that because the proposed 2015 Electric DSM Program is only for one year, it is more cost effective to work with these existing vendors rather than pay the startup costs that would likely be required with a new vendor. In addition, it is generally more expensive to contract for a single year of service with a new vendor and often difficult to find vendors willing to sign a one year contract that is not a renewal. NIPSCO provided CLEAResult, Franklin Energy and OPower with a framework for the programs and asked them to design programs that would have the greatest potential kWh savings. He noted that NIPSCO will maintain the A/C Cycling Program internally in 2015, with a budget based on the 2014 contracts and projections.

Mr. Stanley described the benefits in utilizing one vendor for most Residential programs and one vendor for C&I programs. As an example, he stated the current Home Energy

Assessment ("HEA") program is frequently utilized as a direct lead into the current Home Weatherization program. Because the HEA program and the Home Weatherization program are currently administered by different vendors, according to the 2012 EM&V of the program, communication gaps between the vendors resulted in lower participation rates for the Home Weatherization program. A combined HEA and Weatherization program will streamline the provision of the measures previously provided under two programs and should increase the number of customers receiving weatherization benefits after having an energy audit. Another example of the benefits of utilizing one vendor will be the elimination of any customer confusion on who is actually implementing the program. Under the existing structure, C&I customers do not have "one-stop shopping" for the Prescriptive Rebates and Custom programs. Because Franklin Energy will be running all facets of the C&I program, this barrier will be eliminated.

Mr. Stanley testified that while NIPSCO is committed to the program portfolio as requested herein and has worked with the NIPSCO OSB to obtain feedback on the program offerings, considering the time constraints, NIPSCO is providing program descriptions that are based on the vendor proposals. He stated NIPSCO will continue to work with its OSB to refine the program offerings so that they deliver the greatest value to its customers.

Mr. Stanley testified where savings accrue to both natural gas and electric usage, the programs will be offered as a portfolio of offerings to NIPSCO's combination customers to make sure they are aware of the several ways they can become more energy efficient. This also means more cost effective delivery of programs because a single vendor can visit a home and install both gas and electric measures in homes with both gas and electric service. In addition, offering the same programs in both the gas and electric service territory promotes administrative efficiency for all customers. Additionally, it will be beneficial to have one vendor for Residential programs and one vendor for C&I programs in offering the programs to the combination customer. Because CLEAResult will be the only vendor for the Residential programs (with the exception of the Residential Home Energy Conservation Program and the A/C Cycling Program) and Franklin Energy will be the only vendor for the C&I programs, their network of providers will be able to more effectively market both gas and electric programs to NIPSCO's combination customer.

Mr. Stanley testified the vendors were aware that they could market both gas and electric programs to combination customers and took this under consideration when designing the programs and formulating the budgets. Mr. Stanley detailed NIPSCO's proposed 2015 Electric DSM Program, summarized as follows:

<u>Residential Lighting</u>: Program provides incentives and marketing support to increase usage of energy star and other energy efficient lighting products.

<u>Residential Low Income Weatherization</u>: Program provides assistance to low-income customers to reduce their energy consumption by installing energy efficient technologies.

<u>Residential Home Energy Audit and Weatherization</u>: Program attempts to capture savings in existing single-family homes.

Residential Energy Efficiency Rebates: A rebate program offered to residential customers associated with the purchase of energy efficient equipment.

Residential New Construction: Incentives available to builders for a whole-home energy efficiency rating and specific measures associated with residential new construction.

Residential Home Energy Conservation: Program administered by OPower and designed to significantly increase energy efficient behavior through increased customer engagement across a selected population within the NIPSCO service territory.

A/C Cycling: Installation of radio controlled programmable switches on central air-conditioning units providing for direct load control with participating residential and non-residential customers receiving a credit on their utility bill.

C&I Custom: Incentive is paid as $/kWh saved for site specific systems or equipment efficiency improvement.

C&I Prescriptive: Program provides monetary incentives for specific measures based on the installation of energy efficient equipment upgrades.

C&I Small Business Direct Install: Program targets small commercial customers who may not have the expertise, time, or available capital to make energy efficiency upgrades.

School Audit Direct Install: Program educates school officials on benefits of energy efficiency and the associated savings.

Mr. Stanley discussed programs NIPSCO is currently offering in 2014 that are not included in its 2015 Electric DSM Program. NIPSCO is discontinuing the Residential Appliance Recycling Program for 2015. Now in its third year, this program is struggling to meet its 2014 savings goal. Earlier this year, NIPSCO increased the customer incentive from $35 to $50 to encourage increased participation/savings. So far this increased incentive has shown a limited impact. Much like the A/C Cycling Program, NIPSCO plans to spend the next year determining if this program can be administered in a way to be an effective energy efficiency resource for its customers. In addition, NIPSCO is eliminating the Multi-Family Direct Install ("MFDI") program for 2015 as it redesigns the program to address the types of multi-family units that have not already been served. NIPSCO has already done MFDI in most of the apartment complexes in its service territory. The next tier to be considered is smaller apartment buildings and other residential facilities that are not billed under an individual meter. NIPSCO's OSB has communicated that this is an important program and NIPSCO plans to continue to work with its OSB as well as vendors and other stakeholders on a program design.

Mr. Stanley also discussed programs that NIPSCO currently offers in 2014 that will be absorbed in another program in the 2015 Electric DSM Program. NIPSCO proposes to absorb the C&I Guest Room Energy Management ("GREM") and New Construction programs into the C&I Prescriptive and Custom programs. This provides the same benefits to customers but streamlines the offerings to decrease customer confusion. Franklin Energy can work with customers on their unique energy efficiency needs so customers do not need to worry about qualifying for a certain program.

Mr. Stanley described how NIPSCO addressed the ability of industrial customers to opt out of utility DSM programs ("Industrial Opt Out") in its planning for 2015 programs. He stated that NIPSCO adjusted the budget and the projected savings based on the customers it expects to opt out by January 1, 2015. In addition, NIPSCO and Franklin Energy are anticipating more participation in the C&I Prescriptive program as opposed to the C&I Custom program because smaller C&I customers are more likely to utilize the rebate program. NIPSCO will continue working with Franklin Energy to revise program design and keep the OSB apprised of developments.

Mr. Stanley testified NIPSCO proposes a projected budget of $8,788,097 for its Residential programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V, and NIPSCO administration costs.

Mr. Stanley testified NIPSCO proposes a projected budget of $9,851,981 for its C&I programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V costs, and NIPSCO administrative costs but without lost revenues.

Mr. Stanley's testimony includes NIPSCO projected gross energy savings for 2015. Mr. Stanley stated that the savings projections are estimates provided by the vendors given the projected budget that was provided by NIPSCO. Each vendor was provided with a budget and then was asked to develop an energy savings plan based on the given dollar amount. The projected budgets and associated energy savings are NIPSCO's best projections at this time. However, specific cost recovery will be handled in NIPSCO's DSMA proceedings, which are filed semi-annually.

Mr. Stanley testified NIPSCO does not expect program designs and projected budgets to change drastically. However, the program designs and projected budgets are not final. NIPSCO will continue to work with its OSB on program and budget design and, if approvals outside of the authority of its OSB are necessary, NIPSCO will request approval of those changes in its semi-annual DSMA tracker proceedings.

Mr. Stanley testified lost revenues are very difficult to project into 2015 because of the uncertainty surrounding the impact of the opt out provided for in SEA 340 and the transition of programs to an integrated offering by NIPSCO. NIPSCO projects approximately $3.4 million of lost revenues associated with the implementation of the 2015 Electric DSM Program, $2.4 million for Residential customers and $1 million for C&I customers. These estimated lost revenues are in addition to lost revenues previously approved for recovery and reconciliation in NIPSCO's DSMA semi-annual proceedings consistent with the Commission's Order in Cause

No. 44154. Given the changes occurring with the Industrial Opt Out and NIPSCO's proposed allocation change, as well as the reconciliation of lost revenues that is set to take effect with the factor that goes into effect January 1, 2015, NIPSCO is continuing to refine the lost revenue number. Mr. Stanley stated that NIPSCO will file DSM-7 in September 2014 and will have discussions with stakeholders related to these changes and proposed updates to the schedules and workpapers in advance of that filing.

Mr. Stanley testified NIPSCO utilized the same methodology to project lost revenues used to build its program budgets for 2015, subject to the uncertainties described above. NIPSCO assumed that the 17 customers described above would opt out of the program by the end of 2014 and based its estimate on the projected kWh savings estimate for 2015 as provided by the vendors. The customers assumed to have opted out will still contribute to the recovery and reconciliation of previously approved lost revenues carried forward into 2015 but would not contribute any incremental lost revenues associated with the 2015 program.

Mr. Stanley stated the Commission's IRP Rules (170 IAC 4-7-7(b)) require that one of the following four tests be used to evaluate the cost effectiveness of a demand-side resource option: (1) Participant Test; (2) Utility Cost Test ("UCT"); (3) Ratepayer Impact Measure ("RIM") Test; and (4) TRC Test. Mr. Stanley testified NIPSCO ran all of the standard cost benefit tests for its proposed 2015 Electric DSM Program and the entire portfolio, the Residential portfolio, the C&I portfolio, and, with the exception of the Residential New Construction Program, each of the individual programs passed the TRC Test. As another data point, NIPSCO compared the fuel savings over the life of the program with its cost, which Mr. Stanley referred to as the Fuel Savings Test.

Mr. Stanley explained that the TRC Test is a cost benefit test that compares the costs of energy efficiency measures and program activities necessary to deliver them to the value of avoided energy production, transmission, distribution and power plant construction. In calculating the TRC, the net present value of the program impact over the life cycle of the impact is determined. Over time, using the results from the EM&V, values of the components within the TRC Test are refined.

Mr. Stanley testified NIPSCO's IRP does not indicate the need for additional generation until 2023. Therefore, NIPSCO's customers will find a more immediate benefit from those programs that reduce fuel consumption and/or purchased power costs than those programs that defer the need for additional generation, transmission, or distribution. Mr. Stanley stated that NIPSCO currently has more capacity than required to cover its reserve margin. Consequently, NIPSCO sold capacity in the Midcontinent Independent System Operator, Inc.'s capacity auction and received $16 per MW-day for the June 2014 through May 2015 planning year. Since the benefits of this capacity sale will flow back to customers through NIPSCO's Resource Adequacy ("RA") tracker, any realized capacity savings from energy efficiency programs will find its way back to the customer.

Mr. Stanley testified that in order to fully validate the value of the proposed programs, NIPSCO has conducted three different iterations of the standard cost benefit tests. Within the "avoided cost" benefits section of the test, it has one test run with all avoided costs included, another test run with transmission and distribution costs excluded, and a final test run with capacity, transmission, distribution, and all other ancillary costs excluded. The only avoided cost that remains within this final test is the fuel cost savings and represents the Fuel Savings Test mentioned previously.

Mr. Stanley explained that in the IRP process programs that are determined to be cost effective are evaluated as potential resources. The IRP modeling simulates the operation of generation, distribution and transmission in an integrated market. This simulation is intended to determine the effects of adding supply-side resources to the system or of modifying load through DSM programs. The results of the modeling identify the number of occurrences that a resource option is selected in the most optimal plans. NIPSCO also evaluates risks associated with future uncertainty through scenario and sensitivity analysis. Key market and non-market drivers are identified to define plausible future scenarios which bookend the potential future business climate range. A base case scenario is developed to establish the expected view of the future. Sensitivity analyses are performed in order to evaluate the impacts when different assumptions in key drivers are assumed. Mr. Stanley stated that NIPSCO's objective is to minimize the net present value revenue requirements over the study period.

Mr. Stanley testified the process used to evaluate and determine the proposed DSM programs within this filing will be consistent with the next IRP process. He stated that while NIPSCO performed various cost benefit analyses for the proposed programs in this filing, NIPSCO uses the TRC Test to determine a program's cost effectiveness as part of the IRP. As previously discussed, this test determines the present value of the program impact over the life cycle of the impact. Programs that pass the TRC Test with a score of 1 or more will then be used as demand-side resources within the IRP process and assessed with supply-side resources to explore and evaluate the various combinations of available demand-side and supply-side options to reliably and cost effectively meet customers' future electricity service needs over the next twenty years. NIPSCO will assume that demand-side resource options with costs and energy savings similar to the proposed 2015 Electric DSM Program will be representative of demand-side resource options for the 20-year planning horizon.

B. OUCC's Case-In-Chief. Edward T. Rutter, Utility Analyst in the Resource Planning and Communications Division of the OUCC, testified the OUCC recommends the Commission approve NIPSCO's 2015 Electric DSM Program without change. He summarized SEA 340 and explained its impact on NIPSCO's 2015 Electric DSM Program. He stated that NIPSCO's proposal includes a forecast of the eligible C&I load that may opt out of participation in the 2015 Electric DSM Program and stated NIPSCO's forecast appears reasonable and is reflected in the 2015 Electric DSM Program. Mr. Rutter stated the OUCC generally supports NISPCO's proposed 2015 Electric DSM Program. He stated NIPSCO's proposal captures the majority of the current Core and Core Plus programs approved by the Commission. He indicated the OUCC supports the proposed modification in large part because NIPSCO makes every effort through its OSB to ensure stakeholders are fully informed and participate directly at all states of program development and modification. He noted that NIPSCO proposes to keep OSB and governance intact. Mr. Rutter stated it is particularly important to retain the OSB stakeholder oversight because Core programs are now under the utility's supervision and GoodCents is no longer involved. He stated NIPSCO's Electric 2015 DSM Program will continue NIPSCO's efforts in support of DSM and energy efficiency.

Mr. Rutter testified NIPSCO's 2015 Electric DSM Program will serve the public interest. Additionally, NIPSCO's proposal does not seek authority to begin calculating and recovering a shareholder incentive. He stated the OUCC believes such incentives are no longer appropriate in the post-SEA 340 world and that NIPSCO's proposed program offerings should provide NIPSCO the opportunity to meet the energy savings targets included in the plan.

Mr. Rutter did express the OUCC's serious concerns about the ongoing level of lost revenues in NIPSCO's proposal and with each of the other utilities' proposed 2015 DSM plans. He stated that while NIPSCO's proposed portfolio passes both the TRC and the UCT, these tests exclude lost revenues and incentives paid by ratepayers. The RIM Test includes both, and as a result, the portfolio fails at 0.64, meaning the total cost to ratepayers exceeds the avoided cost benefits they are receiving. Mr. Rutter stated that considering the current uncertainty of the DSM landscape in Indiana, and single year nature of NIPSCO's program, the OUCC is not recommending lost revenue denial or modification in 2015 but that lost revenue recovery and shareholder incentives should be re-examined and either addressed generically or in the individual utilities' 2016 DSM filings.

C. CAC's Case-In-Chief. Kerwin L. Olson, Executive Director of CAC, recommended the Commission approve the NIPSCO DSM programs with CAC's recommendations reflected therein, as well as the program budgets; approve the continuation of NIPSCO's OSB; reject the use of the "Fuel Savings Test"; and disallow the collection of lost revenues at this time. He also stated that before approving the collection of lost revenues in this or any other proceeding, the Commission should commence an investigation into establishing a consistent and transparent methodology and mechanism for the calculation and the validation of lost revenue amounts per 170 IAC 4-8-6(c) – which mechanism should be a finding that revenues were actually lost.

CAC supported NIPSCO's commitment to their low income residential customer noting that NIPSCO is including in its budget "an average of $500 per home to allow for remediation of health and safety measures that impeded the ability to complete weatherization" to address health and safety issue barriers to low income weatherization delivery. CAC stated NIPSCO's proposed pilot program with the Holistic Community Coalition is worthy of much praise noting that this is exactly the type of creative program offering that CAC will happily support. He indicated his hope that NIPSCO will work with its OSB, the Holistic Community Coalition and its vendor to increase the range of possible energy efficiency measures from just compact fluorescent lamps, pipe wrap and water saving devices. CAC appreciated NIPSCO efforts to target those hard to reach communities.

Mr. Olson stated CAC is disappointed that NIPSCO is choosing not to offer a multi-family program. He stated the CAC believes tremendous opportunity exists in the multi-family sector if NIPSCO would offer more substantive measures to multi-family units because only limited measures have been offered to this sector in past DSM programs. Mr. Olson opined that renters typically have far less household income than do owners and a higher percentage of income going towards living expenses, therefore lacking the financial means to make energy efficiency improvements on their own. Additionally, he asserted that renters typically have little desire to invest in property they do not own, and landlords frequently have little interest investing in energy efficiency when they do not pay the electric bills. Mr. Olson did note that NIPSCO has committed to working with CAC, its vendors and the OSB in redesigning the multi-family programs to be offered in their next filing.

Mr. Olson also raised concern that NIPSCO is not offering new enrollments in the A/C Cycling Program. He stated that CAC is hopeful that NIPSCO reconsiders its position and commits to working through any issues with its OSB this year so that the program can accept new enrollments next year.

Mr. Olson stated CAC remains skeptical of behavior management programs. He stated CAC expressed its concerns to NIPSCO, and Petitioner arranged a meeting with OPower. He stated that despite that meeting, CAC's position remains unchanged. CAC's main concern with OPower (and similar behavior programs) is that it can be used to displace more tangible "hardware" DSM programs, take money away from actual installations of hardware that truly drive energy savings, and decrease the number of jobs that come from DSM delivery. Mr. Olson considers behavior management the "easy way out" by allowing the utilities to mail out thousands of reports and claim significant savings as a result. Mr. Olson stated that increasing program participation in other energy efficiency and DSM programs should clearly be a marketing expense, while increasing customer satisfaction has nothing to do with energy efficiency or DSM and everything to do with customer service. Mr. Olson recommended that behavior management programs be categorized differently. He recommended they be treated as an enhancement to the billing system and a marketing expense paid out of normal utility operation accounts, rather than detracting from the budget, or savings goals, established for energy efficiency DSM programs wherein actual hardware is being installed that truly drive the energy savings.

CAC supported NIPSCO's commitment to the OSB and acknowledged NIPSCO for its inclusive and informative OSB meetings and process. He indicated his appreciation of the collaborative working relationship and willingness of NIPSCO to allow for input, ideas and questions. Mr. Olson stated NIPSCO's process should be a model for the other investor-owned utilities to follow.

Mr. Olson stated that if recovery of lost revenues is allowed (1) it should be limited to decreases in sales that are directly attributable to implementation of Commission approved DSM programs and only to the extent it actually impacts sales (and is independently verified) and (2) they should be limited to the first two years of the measure life, except in the case of the OPower program which should be limited to a one year measure life. He stated that after that time, if a utility's sales are below forecast and it is under-recovering its authorized costs, the utility can file a new rate case and re-set rates.

Mr. Olson testified calculating lost revenues is complex and time consuming. He stated that despite NIPSCO being generous with their time and providing an explanation of lost revenues at CAC's request, CAC is not confident of its understanding of the calculations and needs more time to digest the information. Mr. Olson testified NIPSCO is certainly eligible for lost revenue recovery, but it is not entitled. He noted that while SEA 340 does define lost revenues as a program cost, SEA 340 clearly states a utility "may recover" program costs, not "shall." The Commission's DSM Rule also states that the Commission "may allow the utility to recover the utility's lost revenue."

Mr. Olson stated CAC is very concerned that NIPSCO's Fuel Savings Test is a slippery slope, which could cause misunderstanding about DSM as a resource and could be relied upon in future filings and plans by NIPSCO and other investor-owned utilities. First, he asserted that it does not matter that NIPSCO's forecast shows that it has no need for capacity additions until 2023. He asserted that NIPSCO should still pursue all available, cost effective DSM in its service territory as DSM is far cheaper than running fossil fuel power plants. He noted that DSM could prevent the need to build that additional generation in 2023. Second, he stated that the Fuel Savings Test is effectively saying that there is no capacity, transmission and distribution, or operations and maintenance that is deferred by DSM within this snapshot in time in which NIPSCO is looking. Lastly, although NIPSCO did not use the Fuel Savings Test to calculate lost revenues here, if the Commission allows this calculation to go unchallenged and used for future calculations of lost revenues, lost revenues will be inflated because all avoided costs are not netted out. All of the avoided costs should be netted out to ensure that utilities are not over collecting and that DSM programs are being fairly evaluated against all system costs, not just fuel.

D. NIPSCO's Rebuttal Testimony. Ms. Becker explained that NIPSCO only seeks lost revenues directly attributable to NIPSCO's Commission-approved DSM programs and independently verified by the EM&V vendor, which is selected by NIPSCO's OSB and the final results of the EM&V vendor's findings are accepted by the OSB. NIPSCO specifically developed a mechanism to collect lost revenues based upon demonstrated energy savings as confirmed by an independently completed measurement and verification of the programs' success. The EM&V report, which strives to separate program-related savings from other potential drivers, provides NIPSCO, its OSB and the Commission with a nationally-used, statistically-relevant means to determine and verify the savings created by NIPSCO's DSM programs. One additional point of clarification is the difference between "revenue" and "margin." NIPSCO uses the terms interchangeably, but is truly collecting, based on Commission approval in Cause No. 44154, the margins NIPSCO would have collected in the absence of the DSM program. Sales are going to change for a variety of reasons: new customers, economic conditions, federal codes and standards, etc. However, the EM&V report provided to and accepted by the OSB provides a mechanism to determine how NIPSCO's sales are impacted by its DSM programs. It is also important to note that NIPSCO has a mechanism in place to reconcile lost revenues based on the results of the EM&V report.

In response to Mr. Olson's argument that recovery of lost revenues should be limited to the first two years of the measure life, or the actual measure life, whichever is less, Ms. Becker stated that only allowing lost revenues to be collected for two years does not allow for parity in the causation and collection of lost revenues. If a measure is installed that has an expected useful life of five years, the customer receives those benefits for that time period and NIPSCO loses the lost revenues for that same time period. It is appropriate, then, to allow NIPSCO to collect the lost revenues for the same time period the measure provides a benefit.

In response to Mr. Olson's solution to the shortened time frame for collection of lost revenues is that the utility can file a new rate case and re-set rates, Ms. Becker stated that Mr. Olson's solution to the shortened time frame for collection of lost revenues would mean utilities would be seeking new rates every two years. This endeavor would be administratively burdensome for the Commission, the OUCC, the utility and other intervenors. She noted that rate cases are expensive for all parties with most costs ultimately getting passed on to the utility's customers. She concluded that the ability to collect lost revenues for the life of the measure promotes administrative efficiency. In addition, utilities, including NIPSCO, who have trackers through the Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") already have a seven-year window during which they are required to file a rate case. Therefore, the lost revenues are guaranteed to be re-set during that rate case.

In response to Mr. Olson's concern that NIPSCO's lost revenue calculation may not be consistent with the Commission's rules regarding recovery of lost revenues. Ms. Becker stated that the Commission approved NIPSCO's methodology for the collection of lost revenues in Cause No. 44154, stating "based on the evidence of record, the Commission finds that the proposed lost revenue recovery methodology is reasonable, consistent with the requirements of 170 IAC 4-8-6, and should be approved.". NIPSCO is not proposing any changes to the lost revenue recovery methodology approved by the Commission in that Cause. Ms. Becker concluded that while NIPSCO will continue to work with the CAC and other members of its OSB to provide a better understanding of its calculation and recovery of lost revenues, the Commission has already found NIPSCO's lost revenue recovery methodology to be consistent with its rules.

In response to Mr. Olson questioning of NIPSCO's decision to not offer a multi-family program in 2015, Mr. Stanley stated that NIPSCO recognizes the value of the MFDI program, and notes the recommendation provided in the 2014 Action Plan and highlighted by Mr. Olson in his testimony. The 2013 Draft EM&V report ("2013 Draft Report") provided to the OSB in June 2014 notes that the program is "beginning to experience some saturation in the marketplace, especially among all-electric properties." It was not possible to undergo the level of redesign necessary in the time allotted, particularly allowing sufficient time for the OSB to provide its input. Furthermore, because of the way this program is marketed, taking a one-year break from providing it will not harm efforts to secure participants once a program revision is complete. Given that the request is only for one year, the amount of time it would take to redesign and get the program up and running would mean a hiatus of likely six months. Therefore, it seems more appropriate to suspend the program for 2015 as the redesign takes place. Mr. Stanley stated that NIPSCO understands the CAC's concern and is committed to working with the CAC and other members of the OSB on a program redesign for 2016.

In response to Mr. Olson's questioning of NIPSCO's decision to suspend enrollments for the A/C Cycling Program in 2015, Mr. Stanley stated that NIPSCO's A/C Cycling Program has struggled to reach its enrollment targets since the inception of the program. Although NIPSCO originally forecasted to have 33,000 switches installed by the end of 2014, that number has been challenging to achieve under the current program structure. As of May 2014, enrollment in the program stands at approximately 22,000. Similar to the MFDI program, Mr. Stanley noted that this program requires a significant redesign, which is most likely best accomplished through a request for proposals ("RFP"). Because the 2015 request is only for one year, NIPSCO was hesitant to put out any single year RFPs because the results can be more expensive and generate less interest from potential contractors. Furthermore, as noted by TecMarket Works in the 2013 Draft Report, there are several issues with the data collected by the switches currently utilized in the program. Therefore, NIPSCO is requesting to not add new enrollments in 2015 while it administers the program itself and works with the OSB and potential vendors to develop a program and hardware to best meet the needs of its service territory.

In response to Mr. Olson's questioning of the validity of including the Home Energy Conservation Program as a program offering within the Energy Efficiency portfolio, Mr. Stanley stated that the Home Energy Conservation program as run by Opower has been proven to be a successful way to help NIPSCO's customers become more energy efficient. NIPSCO's 2013 Draft Report noted that the Home Energy Conservation program delivered the largest amount of energy savings in the Residential portfolio (69% of total residential savings) and that savings were higher than those from the previous year. In addition to generating energy savings through changing behavior, the program also channels NIPSCO's customers to other DSM programs through cross marketing in the home energy reports. He noted that the TecMarket Works team found that participants in the Home Energy Conservation program have a higher participation rate in other programs when compared to customers in the control group. In 2013, the program channeled 2,178 customers to other NIPSCO programs, which was consistent with the 2012 findings of channeling approximately 2,200 customers to other programs. Considering that the EM&V provider selected by the OSB continues to verify the savings amounts generated by the program and the program offers the added benefit of pointing customers to other energy efficiency programs that provide hardware to assist customers in conserving energy, it is appropriate for NIPSCO to continue offering the Home Energy Conservation program.

In response to Mr. Olson's questioning of NIPSCO's rationale of including the Fuel Savings Test iteration of the standard benefit cost tests, Mr. Stanley explained that the intent of the Fuel Savings Test iteration was to demonstrate the net benefit to customers from fuel savings alone. Mr. Stanley noted that NIPSCO's intention was simply to provide an additional point of reference for policy makers as decisions are made, and NIPSCO continues to recognize the importance of the standard tests when making decisions related to the portfolio of programs for both DSM as well as in the context of the IRP.

6. **Commission Discussion and Findings.**

A. Approval of NIPSCO's 2015 Electric DSM Program. Indiana Code Ch. 8-1-8.5 ("CPCN statute"), was passed in 1983, to ensure that electric utility services would be provided to Indiana citizens at the lowest reasonable cost consistent with reliable service. This law requires utilities to demonstrate the construction, purchase, or lease of any electric generation facility to service its customers is in the public interest. The Commission has developed a regulatory framework that allows a utility to meet long-term resource needs with both supply-side and demand-side resource options in a least cost manner. In 1995, 170 IAC 4-

7, Guidelines for Integrated Resource Planning by an Electric Utility (the "IRP Rule") was adopted to help utilities comply with the CPCN statute. The IRP Rule requires an electric utility to develop a resource plan having evaluated a selection of both demand side and supply side resources on a consistent and comparable basis. An electric utility must consider an array of demand side measures that provide an opportunity for all ratepayers to participate in DSM, including low-income residential ratepayers. 170 IAC 4-7-6(b). Furthermore, 170 IAC 4-7-7(b) includes the following four tests to evaluate the cost effectiveness of a demand-side resource option: (1) Participant Test; (2) UCT; (3) RIM Test; and (4) TRC Test.

Indiana Code Ch. 8-1-8.5, the statutory authority for the Commission's IRP and DSM Rules, establishes a least-cost standard for issuances of certificates of public convenience and necessity prior to construction of electric generation facilities. We have previously defined "least-cost planning" as a "planning approach which will find the set of options most likely to provide utility services at the lowest cost once appropriate service and reliability levels are determined." *Joint Petition of PSI Energy, Inc.,* Cause No. 42145, 2002 Ind. LEXIS PUC 544, at *10 (IURC December 19, 2002) (quoting *Petition of Southern Indiana Gas & Electric Co.,* Cause No. 38738, 1989 Ind. PUC LEXIS, at *10 (IURC October 25, 1989)). Public utilities are thus to exercise reasonable judgment as to how best to meet the obligation to serve within the context of the least cost standard. *See Petition of PSI Energy, Inc.,* Cause No. 39175, 1992 Ind. PUC LEXIS 251, at *34 (IURC May 13, 1992).

NIPSCO requests approval for a one-year term of January 1, 2015 through December 31, 2015 for its 2015 Electric DSM Program. NIPSCO also proposed budgets associated with each component of its DSM Program. NIPSCO's proposed 2015 Electric DSM Program is projected to be cost effective based on benefit cost analyses. Mr. Stanley stated that aside from the A/C Cycling Program (which had a TRC above 2.0, but a UCT below 1.0) and the Residential New Construction Program (which had a UCT above 1.0 but a TRC below 1.0), all of the other Residential and C&I programs had a UCT and TRC Test score greater than 1 when all of the avoided costs (fuel, capacity, and transmission, and distribution) were included as benefits. Because the A/C Cycling Program does not provide kWh savings, this result is not uncommon. Given that New Construction is a market transformation program, it is not unusual for that program to have test scores right at or below 1.0.

While the Commission is aware that CAC opposes NIPSCO's decision to not include its MFDI program, and is disappointed with NIPSCO's decision to suspend enrollment in its A/C Cycling Program in its 2015 DSM Program, we note that Mr. Olson did acknowledge that NIPSCO has committed to working with CAC, its vendors and the OSB in redesigning the multi-family programs and its A/C Cycling Program to be offered in its next filing. Given Mr. Stanley's explanation of the issues related to the MFDI program and the A/C Cycling Program, the Commission accepts NIPSCO's decision to work with its OSB to redesign the programs for consideration in its next DSM filing.

Mr. Olson stated that CAC remains skeptical of behavior management programs, due to the concern that these programs can be used to displace more tangible "hardware" DSM programs and decrease the number of jobs that come from DSM delivery. However, the independent EM&V results demonstrate the current successes achieved by the OPower program in NIPSCO's service territory, and the Commission does not find CAC's concerns a basis to exclude the OPower program from NIPSCO's 2015 DSM Plan.

Based on the evidence presented, the Commission finds that NIPSCO's proposed 2015 Electric DSM Program is cost effective, and is reasonable for a one year plan. With the exception of the A/C Cycling Program and the Residential New Construction Program, all of the Residential and C&I programs had a UCT and TRC test score greater than 1 when all avoided costs (fuel, capacity and transmission, and distribution) were included as benefits. Further, NIPSCO appropriately considered customer service impact in planning their transition of programs from the statewide TPA in response to SEA 340.

B. Timely Recovery of Program Costs and Lost Revenues. The Commission approved NIPSCO's DSMA Mechanism in the 43618 Order as a mechanism to recover any costs and lost revenues associated with Commission-approved DSM programs. The underlying programs and associated costs and lost revenues were approved in the 43912 Order. In this Cause, NIPSCO seeks approval to continue timely recovery of DSM-related costs pursuant to 170 IAC 4-8-5 and lost revenue recovery pursuant to 170 IAC 4-8-6 through its DSMA Mechanism. Indiana Code § 8-1-2-42(a) requires Commission approval for changes in schedules.

The Commission adopted Rule 8 providing guidelines for DSM cost recovery. Rule 8 was specifically designed to assist the Commission in its administration of the Utility Powerplant Construction Act, Indiana Code Ch. 8-1-8.5, and to facilitate increased use of DSM as part of the utility resource mix. As further set forth in 170 IAC 4-8-3(a), the purpose of Rule 8 is to:

> (a). . . [provide] a regulatory framework that allows a utility an incentive to meet long term resource needs with both supply-side and demand-side resource options in a least-cost manner and ensures that the financial incentive offered to a DSM program participant is fair and economically justified. The regulatory framework attempts to eliminate or offset regulatory or financial bias against DSM, or in favor of a supply-side resource, a utility might encounter in procuring least-cost resources. The commission, where appropriate, will review and evaluate the existence and extent of regulatory or financial bias.
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> * * *
>
> (c) To ensure a utility's proposal is consistent with acquiring the least-cost mix of demand side and supply-side resources to reliably meet the long term electric service requirements of the utility's customers, the commission, where appropriate, will review and evaluate, as a package, the proposed DSM programs, DSM cost recovery, lost revenue, and shareholder DSM incentive mechanisms.

This regulatory framework acknowledges the possibility of financial bias against DSM, recognizes the need to evaluate the extent of any bias, and provides ways for the Commission to eliminate any bias through adoption of a package of cost recovery and incentive mechanisms designed to facilitate the use of DSM to meet the long-term resource needs of customers

In this Cause, NIPSCO requests approval for the recovery of costs associated with its proposed 2015 Electric DSM Program pursuant to 170 IAC 4-8-5. NIPSCO proposed a projected budget of $8,788,097 for its Residential programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V, and NIPSCO administration costs, but without lost revenues. Mr. Stanley testified NIPSCO proposed a projected budget of $9,851,981 for its C&I programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V costs, and NIPSCO administrative costs but without lost revenues.

With the exception of the A/C Cycling Program, NIPSCO proposed to allocate its program costs for all programs on a per kWh basis based on the six month kWh sales forecast for each rate schedule. NIPSCO proposed to continue to allocate program costs for the A/C Cycling Program based on the number of customers by rate class.

NIPSCO does not expect the projected budgets for the 2015 Electric DSM Program to change drastically. Accordingly, should actual costs deviate from NIPSCO's projections, NIPSCO will utilize its semi-annual DSMA Mechanism to reconcile any differences.

Based upon the evidence of record, the Commission finds that the proposed program costs and the proposed recovery methodology is reasonable, is consistent with the requirements of 170 IAC 4-8-5, and should be approved. NIPSCO proposes to spend about 2% of adjusted total revenue from 2013 which is 41% of 2013 sales for the same customer base after removing load associated with projected customer opt outs. Thus, we find these adjustments to be reasonable. NIPSCO is authorized to recover program costs associated with the programs in its approved 2015 Electric DSM Program for the period of January 1, 2015 through December 31, 2015.

Regarding lost revenues, 170 IAC 4-8-6 authorizes the Commission to consider the recovery of lost revenues associated with the implementation of a DSM program. Section 6 sets forth certain criteria that must be met to qualify for lost revenue recovery:

> (a) The commission may allow the utility to recover the utility's lost revenue from the implementation of a demand-side management program sponsored or instituted by the utility. The calculation of lost revenue must account for the following:
>
> > (1) The impact of free-riders.
> > (2) The change in the number of DSM program participants between base rate changes and on the revised estimate of a program specific load impact that result from the utility's measurement and

> evaluation activities under sections 4 and 5(e) of this rule.
>
> (b) A utility seeking recovery of lost revenue shall propose for commission review a methodology or process for incorporating a lost revenue recovery mechanism which includes the following:
>
> (1) The level of free-riders in a DSM program.
> (2) A revised estimate of a DSM program specific load impact resulting from regular utility measurement and evaluation activities.
>
> (c) The commission may periodically review the need for continued recovery of the lost revenue as a result of a utility's DSM program, and the approval of a lost revenue recovery mechanism shall not constitute approval of specific dollar amount, the prudence or reasonableness of which may be debated in a future proceeding before the commission.

As we have previously noted, recovery of lost revenues is intended as a tool to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory. *Southern Ind. Gas & Elec. Co.*, Cause No. 43938 at 40-41 (IURC 8/31/12).

The DSM Rules require that a utility seeking recovery of lost revenue propose a methodology or process for incorporating a lost revenue recovery mechanism which includes the level of free-riders in a DSM program and a revised estimate of a DSM program specific load impact resulting from regular EM&V. 170 IAC 4-8-6(b). The Commission has also required that the revenue margin rates upon which lost revenues are based be reasonably reflective of the utility's operating conditions. 43912 Order at 27. The record demonstrates that NIPSCO's calculation of lost revenues are based on approved DSM programs and on recently approved base rates and charges from Cause No. 43969.

The CAC requested the Commission reject, or make subject to refund, NIPSCO'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 NIPSCO's request should be rejected because NIPSCO failed to provide any evidence that its proposed DSM programs will result in NIPSCO 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.* Therefore, the Commission declines to open an investigation at this time concerning lost revenue calculations.

The Commission approved NIPSCO's methodology for the collection of lost revenues in Cause No. 44154. For each DSM Rider filed by NIPSCO under Cause No. 43618 that includes collection of lost revenues NIPSCO has presented a methodology that is consistent with what was approved in Cause No. 44154.

Based on the evidence of record, the Commission finds that the proposed lost revenue recovery methodology is reasonable, consistent with the requirements of 170 IAC 4-8-6, and should be approved. NIPSCO is authorized to recover lost revenues associated with its approved DSM programs for the remainder of the useful lives of the program measures. At the conclusion of NIPSCO's next base rate case, the margin calculated will be updated and the cumulative measure savings reset to zero as of the close of the test year. NIPSCO shall reconcile estimated lost revenues with actual lost revenues retrospectively using its EM&V results. Consistent with the provisions of 170 IAC 4-8-6(c), the specific dollar amount for recovery shall be considered in subsequent semi-annual DSMA proceedings in which evidence concerning such amounts is to be presented.

C. <u>Oversight Board</u>. NIPSCO requests approval to continue to utilize its existing NIPSCO OSB to assist in the administration of the 2015 Electric DSM Program. The Commission has previously approved OSBs to oversee and monitor energy efficiency programs for both gas and electric utilities. *See, e.g., Indiana Michigan Power Co.,* Cause No. 43959,2011 Ind. PUC LEXIS, (IURC Apr. 27, 2011); *Southern Indiana Gas and Elec. Co.,* Cause No. 43427, 2009 Ind. PUC LEXIS 495, (IURC Dec. 16, 2009). No party to this proceeding opposed the continuation of NIPSCO's currently approved OSB to administer NIPSCO's 2015 Electric DSM Program. Likewise, there was no opposition to the parameters for program flexibility within that administration as proposed. The Commission accordingly finds that NIPSCO's proposal for the continuation of its currently approved OSB and its proposed parameters for flexible program administration should be approved.

D. <u>Evaluation, Measurement, and Verification</u>. NIPSCO requested approval to continue the same EM&V for its 2015 Electric DSM Program, consistent with the provisions of 170 IAC 4-8, as authorized in the 43912 Order and 44363 Order. No party to this proceeding opposed the continuation of NIPSCO's currently approved EM&V program for its 2015 Electric

[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.

DSM Program. The Commission accordingly finds that NIPSCO's proposal for the continuation of its currently approved EM&V program should be approved.

However, in accordance with 170 IAC 4-8-4 and to ensure that we receive timely and sufficient information, we find that NIPSCO 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.

E. Rider 683 Revisions. NIPSCO requested approval of necessary tariff changes to effectuate approval of the 2015 Electric DSM Program. No party to this proceeding opposed NIPSCO's proposal to update the formula and definitions used in Rider 683 – Demand Side Management Adjustment Factors to effectuate these changes, as well as to clarify the process for collection of lost revenues. The Commission accordingly finds that NIPSCO's proposed changes to its tariff should be approved.

F. Reporting Requirements. NIPSCO requested approval to continue to utilize the same reporting requirement to file monthly scorecards detailing program performance for the 2015 Electric DSM Program. No party to this proceeding opposed NIPSCO's proposal. In Cause No. 43912, NIPSCO proposed to file a monthly scorecard detailing program performance, which was subsequently approved in the 43912 Order as an informational filing. Thus, this filing was never a reporting requirement by the Commission, but instead was intended as an informational filing. However, this informational filing is no longer necessary with the addition of the above EM&V report.

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

1. NIPSCO's 2015 Electric DSM Program, for the term of January 1, 2015 through December 31, 2015 is hereby approved.

2. NIPSCO is granted continued authority to recover Program Costs associated with the 2015 Electric DSM Program through Petitioner's DSMA Mechanism;

3. NIPSCO is granted authority to defer expenses associated with the 2015 Electric DSM Program that are incurred subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates;

4. NIPSCO is granted continued authority to recover lost revenues associated with the 2015 Electric DSM Program, as well as lost revenues associated with previous program years, including those lost revenues associated with prior programs that are not included in the 2015 Electric DSM Program, through Petitioner's DSMA Mechanism;

5. NIPSCO is granted continued authority to defer lost revenues associated with the 2015 Electric DSM Program and lost revenues for previous program years, including DSM programs previously offered but subsequently discontinued, through Petitioner's DSMA Mechanism, until such amounts are recovered through rates;

6. NIPSCO is granted continued approval to utilize its existing NIPSCO OSB to administer the 2015 Electric DSM Program;

7. NIPSCO is granted authority to continue the same EM&V process for its 2015 Electric DSM Program;

8. NIPSCO's necessary tariff changes to effectuate approval of the 2015 Electric DSM Program are hereby approved; and

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

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

APPROVED: NOV 12 2014

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

Brandy Darlington
Acting Secretary to the Commission