STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A VOLUNTARY GREEN POWER RIDER PILOT PROGRAM.	)))))	CAUSE NO. 44198 APPROVED:

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Jeffery A. Earl, Administrative Law Judge

On May 7, 2012 Northern Indiana Public Service Company ("NIPSCO") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") for approval of a voluntary Green Power Rider ("GPR") pilot program. Also on May 7, 2012, NIPSCO prefiled the direct testimony and exhibits of Timothy R. Caister and Curt A. Westerhausen. On July 17, 2012, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony of Cynthia M. Armstrong on July 17, 2012. On July 31, 2012, NIPSCO prefiled the rebuttal testimony of Mr. Caister.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause, the Commission conducted an Evidentiary Hearing at 9:30 a.m. on August 30, 2012, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC appeared at the hearing and offered their respective prefiled testimony and exhibits into evidence. No member of the general public participated at the hearing.

Having considered the evidence and applicable law, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the public hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a "public utility" within the meaning of Ind. Code § 8-1-2-1(a) of the Public Service Commission Act, as amended. The Commission has jurisdiction over NIPSCO's rates and charges pursuant to Ind. Code § 8-1-2-4 and NIPSCO's schedules of rates pursuant to Ind. Code § 8-1-2-42. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this proceeding.

2. **NIPSCO's Characteristics.** NIPSCO is a public utility corporation organized and existing under the laws of the State of Indiana with its principal place of business at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO renders electric and gas 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 production, transmission, distribution, and furnishing of such services to the public. NIPSCO provide electric service to approximately 456,000 residential, commercial, industrial, wholesale, and other customers in all or part of Benton, Carroll, DeKalb, Elkhart, Fulton, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Newton, Noble, Porter, Pulaski, Saint Joseph, Starke, Steuben, Warren, and White Counties in northern Indiana.

3. **<u>Relief Requested</u>.** NIPSCO requests approval to offer a voluntary GPR program to its electric customers on a pilot basis through December 31, 2014. NIPSCO's proposal would allow any electric customer to designate 25%, 50%, or 100% of the customer's total monthly electricity usage to be attributable to green power. The proposal would also allow a commercial and industrial ("C&I") customer to designate 5% or 10% of its total monthly electricity usage. NIPSCO proposes a Green Power Rider rate equal to $0.002163/kWh under proposed Rider 686 for the first six months of the GPR pilot program. No later than six months after the effective date of the proposed Green Power Rider and every six months thereafter, NIPSCO proposes to file a petition for approval of a revised Green Power Rider rate ("GPR Filing").

4. **<u>NIPSCO's Direct Evidence</u>.** Timothy R. Caister, Director of Electric Regulatory Policy, described NIPSCO's GPR pilot program. The program allows customers the option to designate all or some of their electricity usage to be attributable to green power. NIPSCO defines green power as sources that meet the Green-e® National Standard for Renewable Electricity Products in all regions of the United States, which include: solar; wind; geothermal; hydropower that is certified by the Low Impact Hydropower Institute; solid, liquid, and gaseous forms of biomass; and co-firing of biomass with non-renewables. NIPSCO would purchase a sufficient amount of certified renewable energy credits ("RECs") on a dollar-for-dollar pass-through basis to cover all green power designated by its participating customers. NIPSCO's REC purchases would guarantee that participants' electricity usage would be attributable to green power. Mr. Caister stated that Green-e®, a recognized, national organization that ensures RECs are created from the proper sources and are properly claimed, would certify these RECs.

Mr. Caister testified that the GPR pilot program achieves three objectives. First, the GPR pilot program provides an additional customer-focused option in its tariff that satisfies a customer expectation or desire that does not exist today. Second, the GPR pilot program supports Indiana's statewide goals to promote renewable and homegrown energy. Lastly, the GPR pilot program supports NIPSCO's mission to invest in clean, modern, and affordable energy solutions that support Indiana's long-term economic growth.

Mr. Caister explained that a customer can elect to participate in the program or cancel participation in the program by calling a NIPSCO customer service representative or through the customer's secure online account on NIPSCO's website. A customer seeking to enroll in the program will begin the program with the next billing cycle, and would see a separate "Green Power" line item on his or her bill. A customer seeking to withdraw from the program would remain on the GPR program through the then-current billing cycle in order to allow NIPSCO to account for RECs on a month-to-month basis. Participating residential and C&I customers have the option to designate 25%, 50%, or 100% of their total monthly electricity usage to be attributable to green power. C&I customers have the additional option to designate 5% or 10% of their total monthly electricity usage, because those customers have greater average usage levels than residential customers and a minimum election of 25% may prevent some of these customers from participating in the program. The 25% minimum for residential customers is based on a Green-e® requirement for the program's certification.

Mr. Caister testified that for the first six months of the program, NIPSCO proposes a GPR rate of $0.002163/kWh. Therefore, for the first six months of the program, an average customer using 1,000 kWh per month who chooses the 100% option would pay an additional $2.16 per month for green power. Mr. Caister explained how NIPSCO estimated the initial GPR rate. First, NIPSCO estimated the cost of the RECs (including all brokerage fees and trading commissions) and the incremental cost of marketing. NIPSCO then calculated the GPR rate by dividing the total costs by the estimated GPR sales in kWh and adjusting for Utility Receipts Tax. The costs and revenues would be subject to a true up in the next GPR filing via a reconciliation mechanism. At the time of Mr. Caiser's testimony, RECs for the Midwestern U.S. were trading at roughly $0.85 per megawatt-hour ("MWh") including brokerage fees. This price assumes a minimum purchase of 50,000 RECs, and the price has the potential to increase significantly with smaller purchases. NIPSCO projects to purchase less than 50,000 RECs for the first year of the program, so NIPSCO estimated $2.00 per REC.

To estimate sales, NIPSCO estimated that for each month of the first year of the program twenty-five new residential customers and two new C&I customers on average would enroll in the GPR. Because of the difficulty in estimating the level of usage each new customer would designate, NIPSCO used the average use per customer from IPL's 2010 Green Power Tariff Rider Annual Report. In future filings, NIPSCO would have a better understanding of average usage per customer in its own territory and would adjust the GPR accordingly.

Mr. Caister discussed how NIPSCO plans to keep the program economically attractive. Mr. Caister testified NIPSCO is working with the Center for Resource Solutions to obtain Green-e® certification for the GPR pilot program. The annual fee for Green-e® certification would be $10,125, and certification should take no longer than three months. Including a fixed annual fee of $10,125 to certify the program would increase the GPR costs to customers. Because a significant cost increase could potentially deter customers from participating in the program, NIPSCO has decided not to seek recovery for the certification costs at this time. As the program matures and more customers join the program, NIPSCO might seek to recover ongoing certification costs.

With respect to REC purchases, Mr. Caister said that initially, NIPSCO will purchase RECs as necessary to match participation levels and limit transaction costs. As participation grows, NIPSCO anticipates making semi-annual REC purchases. NIPSCO would acquire RECs at the lowest available cost. Purchasing all Indiana-sourced RECs could place upward pressure on the price of Indiana RECs, ultimately increasing the GPR cost and making the program unattractive to participating customers. However, in order for the GPR to be Green-e® certified, REC purchases must come from sources within the footprint of the Midwest Independent Transmission System Operator ("MISO"). Although purchasing RECs from within the MISO footprint is not a guarantee that the renewable energy will be generated in Indiana, it increases the possibility that the RECs would be attributable to green power generated in Indiana. Mr. Caister indicated that in-state only REC purchases might be something NIPSCO considers in the future, but at this time NIPSCO believes it should move forward as proposed. During the hearing, Mr. Caister clarified that, all other things being equal, NIPSCO could instruct brokers to select Indiana RECs over out-of-state RECs at the same price.

Mr. Caister also testified that NIPSCO would use a variety of low-cost marketing approaches to advertise the GPR program to customers, including utilizing NIPSCO's Internet website, bill inserts, and social media, among others. NIPSCO intends to use these types of approaches because they are low-cost methods that will allow the marketing expense to remain low in the initial stages of the program. NIPSCO will not initially seek recovery above the low semi-annual amount of $250 for advertising costs.

Mr. Caister stated that NIPSCO does not know the administrative costs for the program or the effect on employee workload. Therefore, NIPSCO is not seeking recovery of incremental administrative costs included in the GPR calculation. Similarly, although NIPSCO expects that costs resulting from the changes in the Customer Information System could occur, it is not seeking recovery of these costs through the GPR.

Next, Mr. Caister discussed the GPR filings. NIPSCO proposes to revise the GPR rate approximately six months after the effective date of the initial GPR and every six months thereafter. NIPSCO would calculate the revised rate using the same methodology and would provide for reconciliation of any over- or under-recovery of program costs during a prior period. NIPSCO proposes to file a petition requesting approval of the revised GPR rate in an expedited docketed proceeding under a subdocket in this Cause. NIPSCO believes that periodic updates would make the GPR program more responsive to price changes, thereby benefiting customers.

Mr. Caister testified the proposed pilot period would begin the date the Commission approves and stamps the tariff sheets proposed in this Cause. The pilot and Rider would continue through December 31, 2014. If NIPSCO believes the program should continue, it would submit a request by July 1, 2014, requesting approval for an extension or modification of the program.

Curt A. Westerhausen, Director of Rates and Contracts, sponsored proposed Rider 686 – Green Power Rider, Original Sheet No. 199.3 of NIPSCO's IURC Electric Service Tariff, Original Volume No. 12; necessary revisions to the Table of Contents, Second Revised Sheet No. 3; and Appendix A – Applicable Riders, Second Revised Sheet No. 201, of NIPSCO's IURC Electric Service Tariff, Original Volume No. 12.

Mr. Westerhausen also explained the billing aspects of the program. NIPSCO would continue to bill participants under their current applicable rate with a separate line item showing the premium to participate in the GPR. NIPSCO would calculate this premium by multiplying the GPR rate by the kilowatt-hours the customer specifies to be subject to the GPR.

Mr. Westerhausen testified that customers would not need to sign any contract to participate in NIPSCO's GPR program. If customers notify NIPSCO that they want to withdraw from the program the next billing cycle would reflect any withdrawal. All customer classes (Residential, Commercial, and Industrial) taking service under Rates 611, 612, 613, 620, 621, 622, 623, 624, 625, 626, 632, 633, 634, 641, 642, 644, 647, 650, 655, 660, and Rider 676 would be eligible to participate. NIPSCO plans to place no limit on customer purchases since REC purchases are administrative functions and do not impact the integrity of the electric distribution system.

Mr. Westerhausen testified the GPR program would be revenue neutral. NIPSCO intends for the GPR rate to cover all costs associated with the program, including the cost of RECs (which includes all brokerage fees and trading commissions), marketing, and all applicable taxes. He explained the costs and revenues would be subject to a "true up" in a subsequent GPR filing through a reconciliation mechanism.

Mr. Westerhausen testified the proposed GPR might result in greater expansion of electricity generated from Indiana-based wind, solar, and biomass facilities. NIPSCO has a current REC inventory from wind power purchase agreements and the total cost of generation under the power purchase agreements is currently recoverable through Fuel Adjustment Clause proceedings. The

GPR program would not alter this treatment and all RECs created from NIPSCO's wind purchases would be separate from the GPR program.

5. **<u>OUCC's Evidence</u>.** Cynthia M. Armstrong, a Senior Utility Analyst in the OUCC's Electric Division, testified that the OUCC generally supports NIPSCO's GPR program. Ms. Armstrong believes NIPSCO's forecasted cost of RECs at $2.00 per MWh is reasonable. Ms. Armstrong reviewed the most recent state REC market prices, and said that NIPSCO's purchases appear to be within the appropriate range of REC market prices. She also believes NIPSCO's estimate is within the range of other Midwestern utility green power rates.

Ms. Armstrong testified that the OUCC recognizes NIPSCO might incur additional annual administrative fees to maintain Green-e® certification for its GPR program. NIPSCO's program must undergo an annual certification audit in order for the program to remain Green-e® certified. Green-e® certification will add to NIPSCO's administrative costs for the GPR program, but the OUCC views this as a worthwhile expenditure. The certification process provides additional transparency and verification to GPR participants that NIPSCO has purchased RECs from suitable, local, renewable power producers.

Ms. Armstrong testified about the distinction between NIPSCO's GPR proposal and NIPSCO's current wind purchase power agreements. The RECs that NIPSCO receives from its wind purchase power agreements would not be included in the RECs purchased for the GPR program. Ms. Armstrong noted the importance of keeping those inventories separate in order to remain consistent with past Commission rulings regarding utility green power programs.

Ms. Armstrong testified the OUCC has two concerns about NIPSCO's proposed GPR pilot program. The OUCC's first concern involves the marketing and administrative budgets. $250 might not adequately allow NIPSCO to advertise the GPR program to its customers, resulting in standard service customers subsidizing the costs for GPR participants. The OUCC will evaluate NIPSCO's low-cost methods of marketing and administration during the first six months of the GPR program before making any recommendation to increase the GPR rate. The OUCC recommends that NIPSCO internally track the marketing and administrative resources the GPR program requires and report on these costs in subsequent GPR filings and annual reports. The OUCC is also concerned that the administration of the GPR program could affect the existing workload of employees serving all of NIPSCO's customers.

The OUCC's second concern involves tariff language for disconnection. NIPSCO's tariff contains no language preventing NIPSCO from disconnecting customers for failure to pay the GPR portion of their bills. NIPSCO would treat a GPR program participant that fails to pay for any part of standard service like any other past due customer. Ms. Armstrong understands that NIPSCO's current billing system is not programmed to differentiate the payment for the GPR premium and the rest of the bill and NIPSCO anticipates that these changes to its billing system would be cost-prohibitive for the GPR program. She also noted that the GPR portion of an average residential customer's bill would likely be small enough so that several months would pass before triggering the disconnection process. Based on this, the OUCC is not recommending that NIPSCO change its billing system to differentiate between the GPR premium and billing for standard service.

Mr. Armstrong testified that the OUCC recommends that NIPSCO file an annual report, detailing the performance and activities of the GPR program over the program's duration to provide useful information to the OUCC and the Commission in their ongoing review of the GPR program.

Ms. Armstrong testified the OUCC applauds NIPSCO's effort to offer a green power program to its customers. Ratepayers benefit from having access to the option to purchase renewable power at an affordable price. As a result, the OUCC recommends the Commission approve of NIPSCO's proposed GPR pilot program and NIPSCO's rate calculation of the initial factor at $0.002163/kWh.

6. **NIPSCO's Rebuttal Evidence.** Mr. Caister submitted rebuttal testimony addressing the comments and limited concerns expressed by Ms. Armstrong and said that Mr. Caister testified that NIPSCO agreed to file an annual report in this Cause as requested by the OUCC.

In response to the OUCC's first concern that NIPSCO's initial allotment for marketing costs may not adequately allow the NIPSCO to advertise to its customers, Mr. Caister testified that NIPSCO would utilize various low-cost and no-cost marketing approaches, which NIPSCO believes will effectively inform and alert customers about the GPR Program. NIPSCO prefers a conservative approach to the expenses included in the marketing budget. A lower budget would likely be the most effective in the initial stages of the program and NIPSCO wants to increase this budget only as needed. Any additional costs in the early stages of the program, when participation is low, might significantly increase the GPR premium to a level that customers may view unattractive.

Mr. Caister also responded to the OUCC's subsidy worry. NIPSCO understands the concern to the extent any subsidy would exist. However, NIPSCO believes changes caused by the GPR program's administration would not be material, and NIPSCO will monitor the costs and workloads to address this concern. NIPSCO will provide observations on this issue within the annual report. If administrative costs and workloads turn out to be greater than NIPSCO expected, it would reconsider recovery of these costs through the GPR subject to the same caution about increasing the GPR premium to an unattractive level.

Mr. Caister also addressed the OUCC's second concern regarding tariff language. Due to the particular billing protocols in NIPSCO's system, specific tariff language would be unnecessary. If a customer did not pay only that portion attributable to the GPR premium, many months would pass before a customer's account would reach the point where the disconnection process begins because NIPSCO does not initiate the disconnection process for a residential customer until the customer is delinquent by at least $75. NIPSCO designed its GPR Program for simple enrollment and withdrawal procedures. Customers can easily withdraw participation from the program by contacting NIPSCO directly through telephone or Internet.

7. **Commission Discussion and Findings.** Based on the evidence, the Commission finds that NIPSCO's GPR pilot program is designed to allow customers to voluntarily designate a percentage of their electricity usage to be green power. NIPSCO will purchase certified RECs in an amount equal that designated to be green power by its customers. Through the GPR rate, NIPSCO will pass the costs of the RECs, including brokerage fees and trading commissions, and minimal administrative and marketing costs to participating customers. Thus, the program allows

participating customers to support the development of clean energy resources but will have a minimal impact on non-participating customers.

In addition, NIPSCO proposed that the program be created on a pilot basis until December 31, 2014, and has agreed to file regular reports assessing the program. As a result, the Commission and the OUCC will have sufficient opportunity to further review the program and to work with NIPSCO to make any necessary modifications. Therefore, we approve NIPSCO's proposed GPR pilot program effective with the first billing cycle of the January 2013 billing month. We commend NIPSCO for initiating this pilot program that allows its customers to voluntarily support the use of renewable energy sources.

For the initial six-month period of the GPR pilot program, NIPSCO estimated a rate of \$0.002163/kWh to charge participants. The evidence shows that NIPSCO took reasonable measures to estimate the cost of RECs based on estimated purchases for the first six months. We also find that NIPSCO has taken reasonable steps to mitigate the early costs of the program by keeping initial marketing costs low and by excluding the costs of Green-e® certification for the program. Therefore, we approved NIPSCO's initial GPR rate of \$0.002163/kWh subject to reconciliation in the first GPR filing. However, we are concerned with the sufficiency of NIPSCO's marketing budget to properly inform customers about the GPR pilot program. We encourage NIPSCO to review the sufficiency of its marketing budget and to investigate additional marketing opportunities for the program prior to its first GPR adjustment filing.

Beginning six months after the effective date of this Order and every six months thereafter, NIPSCO proposes to submit a GPR adjustment filing. In each GPR adjustment, NIPSCO will reconcile the previous estimated GPR rate with actual costs and estimate a new GPR rate for the upcoming six months. NIPSCO's proposal is similar to our treatment of green power tariffs for other regulated utilities. Therefore, we approve NIPSCO's proposed reconciliation process and we authorize NIPSCO to amortize the amount of over- or under-collections associated with its GPR over a six-month period. NIPSCO shall file its first GPR adjustment filing under Cause No. 44198 GPR 1 six months after the effective date of this Order.

Finally, NIPSCO agreed to file an annual report under this Cause that will contain an assessment of administrative resources along with the following information:

- the number of customers enrolled in the Program per month, including a breakdown of residential and commercial and industrial ("C&I") customers by participation level;
- the suppliers of renewable energy certificates ("RECs") purchased for the Program;
- the quantity of the RECs purchased for the Program;
- the price and costs of RECs purchased for the Program;
- the administrative costs of the program by major category;
- the marketing costs by major category;
- a summary of Program activities, results, and observations; and
- a copy of any marketing materials sent to customers.

At the August 30, 2012 evidentiary hearing, in response to questions from the bench, Mr. Caister stated that NIPSCO would also include in the annual report a discussion of customer opinion or information regarding the availability of REC sources based in Indiana relative to other locations. We strongly encourage NIPSCO, when it is fiscally prudent, to purchase RECs from Indiana-based sources. In addition, NIPSCO shall include in its annual report the location of the source of each REC purchased through the pilot program. We believe this additional information will allow NIPSCO and the Commission to more fully understand the feasibility of purchasing RECs sourced in the state.

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

1. NIPSCO's Rider 686 – Green Power Rider (Original Sheet No. 199.3 of its IURC Electric Service Tariff, Original Volume No. 12) is approved for a pilot period ending December 31, 2014, to become effective upon its filing with the Electricity Division of the Commission.

2. NIPSCO's requested Green Power Rider rate as set forth at Finding Paragraph No. 7 is approved to be effective with the first billing cycle of the January 2013 billing month. The Green Power Rider rate approved herein, upon becoming effective, shall remain in effect until a new revised rate is approved.

3. Within six months after the effective date of this Order, NIPSCO shall file its first Green Power Rider rate adjustment proceeding with the Commission under Cause No. 44198 GPR 1. NIPSCO is authorized to include a reconciliation mechanism to ensure that any over- or under-recovery of program costs will be reflected in each revised rate and to collect any gross receipts or revenue-related tax occasioned by such Green Power Rider revenues.

4. NIPSCO shall file in this Cause a status report stating its intent to continue the Green Power Rider, modify the Green Power Rider, or terminate the Green Power Rider on or before July 1, 2014.

5. NIPSCO shall file in this Cause an annual report containing an assessment of administrative resources along with the additional information discussed in Paragraph No. 7 above on January 31, 2014, covering calendar year January to December 2013 and on January 31, 2015, covering calendar year January to December 2014.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: DEC 1 9 2012

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission