ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF DEMAND SIDE MANAGEMENT ADJUSTMENT FACTORS FOR ELECTRIC SERVICE FOR THE BILLING CYCLES FOR THE MONTHS OF JANUARY THROUGH JUNE 2016 IN ACCORDANCE WITH THE ORDER OF THE COMMISSION IN CAUSE NO. 44496. | ) | CAUSE NO. 43618 DSM 9<br><br>APPROVED: DEC 16 2015 |

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## ORDER OF THE COMMISSION

**Presiding Officers:**
**James F. Huston, Commissioner**
**Loraine L. Seyfried, Administrative Law Judge**

On September 28, 2015, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its semi-annual request for Commission approval of Demand Side Management Adjustment ("DSMA") factors for electric service to be applicable for bills rendered during the billing cycles of January through June 2016. On September 28, 2015, Petitioner filed its case-in-chief including direct testimony and exhibits supporting the proposed DSMA factors and the underlying costs for which Petitioner seeks cost recovery.

On November 9, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief testimony. Petitioner filed rebuttal testimony and exhibits on November 19, 2015.

An evidentiary hearing was held on December 1, 2015 at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the evidence of NIPSCO and the OUCC was admitted into the record without objection and all parties waived cross-examination of witnesses. No members of the general public appeared or participated at the hearing.

Based upon the applicable law and the evidence presented, the Commission finds as follows:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. NIPSCO is a public utility as that term is defined in Ind. Code § 8-1-2-1. The Commission's May 25, 2011 Order in Cause No. 43618 authorized NIPSCO to seek recovery of costs associated with its Demand Side Management ("DSM") program through a semi-annual adjustment mechanism. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes in Petitioner's schedules of rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

**2.** **Petitioner's Characteristics.** Petitioner is a public utility organized and existing under the laws of the State of Indiana and having its principal office at 801 East 86th Avenue, Merrillville, Indiana. Petitioner 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 used for the generation, transmission, distribution, and furnishing of electric public utility service to the public within its assigned service territories.

**3.** **Background.** On May 25, 2011, the Commission issued an Order in Cause No. 43618 approving NIPSCO's request for approval of Rule 52 of the General Rules and Regulations (now Rider 683 – Adjustment of Charges for Demand Side Management Adjustment Mechanism and Appendix G – Demand Side Management Adjustment Mechanism Factor ("DSMA Mechanism").

On November 12, 2014, the Commission issued an Order in Cause No. 44496 granting NIPSCO's request for (1) approval of electric DSM programs for the term of January 1, 2015 through December 31, 2015 ("2015 DSM Program"), (2) 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") associated with the 2015 DSM Program through the DSMA Mechanism, (3) authority to defer expenses associated with the 2015 DSM Program that are incurred until such amounts are recovered through rates; (4) authority to recover lost revenues associated with the 2015 DSM Program as well as lost revenues associated with previous programs years, including those lost revenues associated with prior programs that are not included in the 2015 DSM Program through the DSMA Mechanism, and (5) authority to defer lost revenues associated with the 2015 DSM Program and lost revenues for previous program years, including DSM programs previously offered by subsequently discontinued, through the DSMA Mechanism, until such amounts are recovered through rates.

**4.** **Requested Relief.** Petitioner requests Commission approval of DSMA factors to be effective for bills rendered during the billing cycles of January through June 2016. The initial factors proposed in this proceeding included estimated costs from January through June 2016 and reconciled the actual costs for the period January through June 2015. The initially proposed factors also included recovery of projected lost margins and performance incentives for the period January through June 2016 and the annual reconciliation of lost margins for the period January 2014 through December 2014, half of which will be recovered in this filing and the other half will occur in NIPSCO's next DSM filing (i.e., Cause No. 43618 DSM 10). For purposes of calculating the estimated costs for January through June 2016, NIPSCO assumed approval of its pending request in Cause No. 44634 concerning its proposed electric DSM programs ("2016 DSM Program") and associated cost recovery. In its rebuttal filing, Petitioner modified its request to remove its request for recovery of estimated DSM program costs for the period January through June 2016 and the projected lost margins and performance incentives related to the proposed 2016 DSM Program.

Petitioner also requests continued authority to defer as a regulatory asset or regulatory liability the over- and under-recoveries of projected DSM program costs and lost margins incurred implementing the DSM programs prior to the time the Commission issues an order authorizing Petitioner to recognize these costs through the ratemaking process. NIPSCO will defer these costs on the balance sheet as a regulatory asset in Account 182.3 – Regulatory Asset or a regulatory liability in Account 254 – Other Regulatory Liabilities depending on the net balance of program costs.

5. **Implementation of DSM Programs.** NIPSCO's witness Victoria A. Vrab, Director of Demand Side Management Programs, sponsored Petitioner's Exhibit No. 2-B, the scorecard for NIPSCO's DSM program for the period January 2015 through June 2015 and described the performance as follows:

- Residential Lighting Program – As of June 30, 2015, this program achieved 41% of its savings goal. As of August, NIPSCO forecasted that this program is on track to achieve 100% of its savings goal by year end.

- Residential Home Energy Assessment & Weatherization Program – As of June 30, 2015, this program achieved 22% of its savings goal. As of August, NIPSCO forecasted this program to achieve 75% of its savings goal by year end. NIPSCO continues to work with CLEAResult and its Oversight Board ("OSB") to encourage customer participation and specific areas of the service territory in which to focus these efforts.

- Residential Income Qualified Weatherization Program – As of June 30, 2015, this program achieved 26% of its savings goal. As of August, NIPSCO forecasted this program will achieve 90% of its savings goal by year end. In July, the OSB elected to introduce programmable thermostats to the program to assist with achievement of the goal.

- Energy Efficiency Rebate Program – As of June 30, 2015, this program, which has been highly successful because of the measure list included for rebates, achieved 63% of its savings goal. As of August, NIPSCO forecasted this program to achieve 100% of its savings goal by year end.

- School Education Program – As of June 30, 2015, this program achieved 101% of its savings goal.

- Residential New Construction Program – As of June 30, 2015, this program achieved 29% of its savings goal. As of August, NIPSCO forecasted this program to achieve 90% of its savings goal by year end. In response to feedback from the OSB, NIPSCO lifted the per-builder cap on the program, which has increased participation.

- Residential Home Energy Conservation Program – As of June 30, 2015, this program achieved 54% of its savings goal. NIPSCO forecasted that this program is on track to achieve 100% of its savings goal by year end.

- Commercial and Industrial ("C&I") Prescriptive Rebate Program – As of June 30, 2015, this program achieved 2% of its savings goal. As of August, NIPSCO forecasted this program to achieve 50% of its savings goal by year end.

NIPSCO continues to work with Franklin Energy and its OSB to facilitate goal attainment by year end and is already working with Lockheed Martin to prevent such a delay in program offerings in 2016.

- C&I Custom Program – NIPSCO uses a "pipeline" of anticipated savings to better align the program expectations. As of June 30, 2015, this program achieved 8% of its savings goal. Based on on-going evaluation of the progress of projects in the pipeline, as of August, NIPSCO forecasted this program to achieve 100% of its savings goal by year end.

- C&I Small Business Direct Install Program – As of June 30, 2015, this program achieved 9% of its savings goal. Because of an increase in interest in the program by trade allies, as of August, NIPSCO forecasts this program to achieve 100% of its savings goal.

- School Audit and Direct Install Program – As of June 30, 2015, this program achieved 0% of its savings goal. However, many of the school audits took place during the summer months when classes were not in session as well as at the beginning of the school year. Because of this, as of August, NIPSCO forecasted this program to achieve 100% of its savings goal by year end.

- A/C Cycling Program – As of June 30, 2015, this program achieved 0% of its savings goal because no events had been called and NIPSCO only accrues savings once an event is called. The A/C Cycling Program was closed to new participants in 2015.

6. **Inclusion of Cost Related to 2016 DSM Program.** OUCC witness Crystal Thacker, Utility Analyst in the OUCC's Electric Division, suggested that NIPSCO should not include in the calculation of its proposed DSMA factors any costs related to the 2016 DSM Program currently pending approval in Cause No. 44634 until after the Commission issues an order in that Cause.

In his rebuttal testimony, NIPSCO witness Thomas S. Sibo, Manager, Regulatory Support and Analysis in the Rates and Regulatory Finance Department, testified NIPSCO is willing to comply with this recommendation. Mr. Sibo testified NIPSCO recalculated its DSMA factors to include reconciliation of 2014 lost margins and 2015 program costs. In addition, NIPSCO included in the factor calculations the projected lost margins relating to measures installed on or before December 31, 2015, as previously approved by the Commission in its Orders in Cause Nos. 44154 and 44496. Mr. Sibo sponsored Petitioner's Exhibit No. 2-A, Revised Attachment A.

Mr. Sibo testified once an order is received in Cause No. 44634, NIPSCO proposes to file Phase 2 schedules in this Cause that recalculate the factors to include 2016 approved DSM program costs. All parties would be permitted to review the revised schedules, perform discovery, and file comments on the proposed DSMA factors on an expedited basis. Then, a hearing would be scheduled, after which new DSMA factors would be approved.

Mr. Sibo testified NIPSCO revised the schedules to remove any costs relating to the associated energy efficiency costs included in its proposed 2016 DSM Program currently pending in Cause No. 44634. Specifically, NIPSCO adjusted Schedule 1.1 to remove the projected program costs during the period January through June 2016 totaling $3,973,531. NIPSCO adjusted Schedule 1.2 to remove the projected performance incentives relating to the period January through June 2016 totaling $265,795. The effect of these two changes removes all costs from Schedule 2.1 and brings the allocation of these costs to zero. NIPSCO adjusted Schedule 3.4 to remove 1,468 of kW demand savings and 4,702 of MWh energy savings associated with the projected measures to be installed for the period January through June 2016. The removal of the demand and energy savings from Schedule 3.4 brings the projected lost margins (for measures projected to be installed from January through June 2016) shown in Schedules 4.4 and 5.4 to zero. The overall effect of these changes on the proposed DSMA factors is shown on Schedule 7. Columns (c), (j), and (n) now show there are no allocation included in the Total Allocation of DSM Costs shown in Column (p). This results in the overall revenue requirement changing from $13,051,849 to $8,487,113.

7. **Recovery and Reconciliation of Program Costs and Revenues.** Petitioner's Exhibit No. 2-A, Revised Attachment A, Schedule 1.1 shows a breakdown of projected and reconciled costs for the recovery period of January through June 2015. The DSMA factors proposed in this proceeding reconcile program costs incurred for the period January through June 2015.

Ms. Vrab provided an explanation of the exhibit supporting Schedule 1. She stated that Petitioner's Exhibit No. 2-C is the work product that feeds into Schedule 1 showing the actual costs incurred from January through June 2015 reconciled against the prior forecast for the same period in Cause No. 43618 DSM 7 ("DSM 7").

Ms. Vrab testified the projected costs for the period January through June 2015 were $8,889,288 and the actual costs incurred were $6,079,966 resulting in an over-recovery of $2,809,322. She stated that the majority of the over-recovery is associated with the C&I Prescriptive Rebate Program and the Residential Home Energy Assessment and Weatherization Program contributed as well.

Ms. Vrab testified that for those customers who opted out effective July 1, 2014 ("Opt Out 1") or effective January 1, 2015 ("Opt Out 2"), NIPSCO removed their volumes from the program when determining potential participation. She noted the deadline for the next opt out period is November 15, 2015. Since the deadline for Opt Out 3 had not passed at the time of filing, NIPSCO worked with its largest customers to gauge potential interest and made adjustments to remove any volumes where there was high probability that the customer would opt out. NIPSCO also removed any customers who had submitted opt out forms prior to the November 15, 2015 deadline. In Mr. Sibo's rebuttal testimony, NIPSCO created an Opt Out 3 category for those customers who had submitted opt out forms prior to the November 15, 2015 deadline and made changes to all schedules where volumes or customer counts were used to allocate costs.

As shown on Petitioner's Exhibit No. 2-A, Revised Attachment A, Schedule 1.1, taking the actual EM&V costs for the period January through June 2015 of $315,401 and subtracting the over-recovery of projected costs for the period January through June 2015 of ($2,809,322), results in total program costs of $2,493,921 to be collected in this filing.

Mr. Sibo stated that in Cause No. 43618 DSM 8, NIPSCO transitioned from collecting EM&V costs on a "projected" basis, with appropriate reconciliation (as done in previous DSMA filings), to collecting EM&V costs on an "actual" basis. He explained that as part of the DSM 7 revenue reconciliation, NIPSCO adjusted the original revenue requirement to exclude the original projected costs for EM&V creating a reduction to the January through June 2016 revenue requirement and effectively crediting those projected costs back to the customers. Additionally, NIPSCO broke out the actual EM&V costs from the total program costs on Schedule 1.1 for clarity. Mr. Sibo sponsored Petitioner's Exhibit No. 1-A showing the revised DSM 7 revenue requirement.

Mr. Sibo testified regarding NIPSCO's request for continued authority to defer as a regulatory asset or regulatory liability the over- and under-recoveries of projected DSM program costs and lost margins incurred implementing the DSM programs prior to the time the Commission issues an order authorizing Petitioner to recognize these costs through the ratemaking process. He stated that NIPSCO will defer these costs on the balance sheet as a regulatory asset in Account 182.3 – Regulatory Asset or a regulatory liability in Account 254 – Other Regulatory Liabilities depending on the net balance of program costs.

**8. <u>Calculation and Reconciliation of Lost Margins</u>.** Petitioner's Exhibit No. 2-A, Revised Attachment A, Schedules 3.1, 3.2, 3.3, and 3.4 shows the energy and demand savings used in the calculation of lost margins and Schedule 3A provides a summary of the reconciliation of the previous reconciliation period. NIPSCO's request in this filing includes projected lost margins for the period January through December 2015 and includes the annual reconciliation of lost margins, which will be split between this Cause and NIPSCO's next DSM proceeding.

Ms. Vrab provided an explanation of the exhibits supporting Schedule 3. She stated that (1) Petitioner's Exhibit No. 2-D summarizes the actual EM&V related charges by month and by program that directly feed to Schedule 1, (2) Petitioner's Exhibit No. 2-E is the work product that feeds into Schedule 3 showing the detailed calculations supporting the energy and demand savings, (3) Petitioner's Exhibit No. 2-F showing the performance incentives that feeds into Schedule 1.2, and (4) Petitioner's Exhibit No. 2-G showing the update to program titles on the Schedules.

Ms. Vrab testified NIPSCO forecasted lost margins for measures to be installed in 2015 utilizing the deemed savings value provided by the net ex-post value from the most recent EM&V report as approved by the OSB. This is the same process NIPSCO used and uses for measures previously installed. If a measure is not included in the EM&V report approved by the OSB or the OSB has adopted a value different from that included in the EM&V report approved by the OSB, NIPSCO will forecast the lost margins utilizing the deemed savings value approved by the OSB.

According to Schedule 3A, the projected lost revenues for the period ending December 31, 2014 were $10,611,178 and after the reconciliation, the actual revenues for the period ending December 31, 2014 should have been $15,943,465 resulting in an under-collection of

$5,332,288. Taking the total demand recovery of $30,472 plus the energy recovery of $5,332,288, results in a total under-collection of $5,362,760. Ms. Vrab stated that because NIPSCO reconciles lost margins once per year and spreads that amount over twelve months, NIPSCO will collect half of that amount, or $2,681,379 from January 1 through June 30, 2016 and will collect the second half of that amount, or $2,681,379 from July 1 through December 31, 2016. Ms. Vrab explained that the under-collection of lost margins was due to the high activity seen at the end of Program Year 2 (i.e., 2013) for the Core programs in Energizing Indiana. She said there was a significant amount of savings accrued in 2014, resulting in a larger amount of savings achieved in 2014 than anticipated.

**9. Resulting DSMA Factors.** Mr. Sibo explained the calculation of NIPSCO's proposed DSMA factors. He sponsored Petitioner's Exhibit No. 2-A, Revised Attachment A, Schedules 2, 4, 5, 6 and 7 showing (1) projected program costs allocated to each rate schedule, (2) the allocation of lost margins based on energy and demand by rate schedule and by opt out period, (3) reconciliation of revenues by rate class, and (4) the calculation of DSMA factors by rate schedule. Mr. Sibo testified that consistent with the Order in DSM 7, NIPSCO allocated the projected program costs by program to the individual rate classes based on energy allocators for all costs incurred related to measures installed after December 31, 2014 and based on customer counts for all costs incurred related to measures installed up through December 31, 2014. NIPSCO allocated the projected lost margins by program to the individual rate classes based on energy allocators. He stated that the lost margin reconciliation amounts are included in this allocation. Once NIPSCO allocated the program costs and lost margins to the individual rate classes, and performed a reconciliation of revenue collection, NIPSCO then calculated the DSMA factors by dividing the cost per rate class by the respective forecasted usage. NIPSCO then adjusted the resulting DSMA factors to reflect Utility Receipts Tax on Retail Sales.

Petitioner's Revised Exhibit No. 1-C reflects the proposed DSMA factors for recovery in the period January through June 2016. This exhibit also shows the opt out program DSMA factors effective with the first billing cycle for the month of January 2016 for qualifying customers electing to opt out of participation in Petitioner's energy efficiency program and Rider 683 effective July 1, 2014 (i.e., Rate Class XXX.1), effective January 1, 2015 (i.e., Rate Class XXX.2), and effective January 1, 2016 (i.e., Rate Class XXX.3).

Petitioner's Revised Exhibit No. 1-D shows the estimated average monthly bill impact for a typical residential customer using (1) 688 kilowatt-hours ("kWh") per month is $1.20 (a $1.89 decrease in comparison to what a customer would pay today using the current DSMA factors) and (2) 1,000 kWh per month is $1.74 (a $2.75 decrease in comparison to what a customer would pay today using the current DSMA factors).

**10. Commission Findings.** The evidence presented in this Cause as discussed above supports approval of Petitioner's proposed revised DSMA factors as reasonable. Accordingly, we approve the requested DSMA factors. The resulting DSMA factors will be effective beginning the first billing cycle for the billing month of January 2016.

The Commission further finds that upon issuance of a final Order in Cause No. 44634, NIPSCO is directed to file revised schedules along with any additional supporting evidence in a subdocket to this Cause, i.e., Cause No. 43618 DSM 9 S 1, recalculating the factors to include any 2016 approved DSM program costs ("Phase 2 Schedules"). All parties will be permitted to review the Phase 2 Schedules and perform discovery. NIPSCO shall also confer with the OUCC and other interested parties and file an agreed proposed procedural schedule for the submission of comments and a hearing when it files its Phase 2 Schedules.

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

1. NIPSCO's request for approval of its revised DSMA factors is approved as set forth herein.

2. NIPSCO is granted continued authority to defer as a regulatory asset or regulatory liability the over- and under-recoveries of projected DSM program costs incurred implementing the DSM programs prior to the time the Commission issues an order authorizing Petitioner to recognize these costs through the ratemaking process.

3. NIPSCO shall file with the Energy Division of this Commission, prior to placing in effect the DSMA factors herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such charge is applicable to all of its filed rate schedules, as shown in Petitioner's Revised Exhibit No.1-C.

4. A subdocket, Cause No. 43618 DSM 9 S 1, is created for the purpose of submission and review of NIPSCO's Phase 2 Schedules.

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

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

**APPROVED:** DEC 16 2015

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

Shala M. Coe

**Shala M. Coe, Acting**
**Secretary to the Commission**