ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE COMMISSION'S INVESTIGATION, PURSUANT TO IC § 8-1-2-58, INTO THE EFFECTIVENESS OF DEMAND SIDE MANAGEMENT ("DSM") PROGRAMS CURRENTLY UTILIZED IN THE STATE OF INDIANA, INCLUDING AN EXAMINATION OF ISSUES THAT COULD IMPROVE THE EFFECTIVENESS OF DEMAND SIDE MANAGEMENT PROGRAMS IN THE STATE INCLUDING CONSIDERATION OF THE ESTABLISHMENT OF AN INDEPENDENT DSM ADMINISTRATOR MODEL ON A STATE-WIDE BASIS	CAUSE NO. 42693 S1
	ORDER ON ONE-YEAR EXTENSION OF THE EXISTING TPA & EM&V CONTRACTS
	APPROVED: AUG 15 2012
RESPONDENTS: ALL JURISDICTIONAL ELECTRIC AND GAS UTILITIES IN THE STATE OF INDIANA	

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

The Indiana Utility Regulatory Commission ("Commission") established this subdocket to address the implementation of the Commission's December 9, 2009 Order in Phase II of Cause No. 42693 ("Phase II Order"). The Phase II Order established energy savings targets for all jurisdictional electric utilities ("Respondents") and required Respondents to contract with a single independent third-party administrator (the "TPA") for the purpose of jointly administering and implementing certain Core Programs required by the Phase II Order.[1] Phase II Order at 38 and 41. In the Phase II Order (at 42-43, 52), the Commission created the DSM Coordination Committee ("DSMCC")[2] and directed it to undertake efforts for the preparation and submission

[1] Since the Phase II Order, certain rural electric membership corporations have withdrawn from Commission jurisdiction (i.e., Harrison County REMC and Marshall County REMC) or had an alternative regulatory plan approved concerning participation in the Core Programs. *See Harrison County REMC and Jackson County REMC*, Cause No. 44040 (IURC Feb. 22, 2012) and *Marshall County REMC*, Cause No. 44041 (IURC Feb. 22, 2012).

[2] The DMSCC members are: Citizens Action Coalition of Indiana, Inc. ("CAC"); Duke Energy Indiana, Inc. ("Duke"); Hoosier Energy; Indiana Industrial Group ("Indusrial Group"); Indiana Michigan Power Company ("I&M"); Indiana Municipal Power Agency ("IMPA"); Indiana Office of Utility Consumer Counselor ("OUCC"); Indianapolis Power & Light Company ("IPL"); Northern Indiana Public Service Company ("NIPSCO"); Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South"); and Wabash Valley Power Association.

of two joint requests for proposals ("RFPs") for the selection of the TPA and a statewide evaluation, measurement and verification ("EM&V") Administrator to evaluate the Core Programs. The DSMCC issued the RFPs, selected parties to negotiate TPA and EM&V agreements with and submitted the resulting agreements to the Commission for approval. On July 27, 2011, the Commission issued an Order on TPA & EM&V Contracts approving the proposed TPA and EM&V agreements.

The August 19, 2011 Docket Entry in this proceeding confirmed that the term of the TPA and EM&V contracts would expire on December 31, 2013 as originally negotiated. In accordance with the October 21, 2011 Docket Entry in this proceeding, Core Programs were first offered through the TPA on January 2, 2012. Since the Programs have been implemented, the DSMCC TPA Subcommittee has submitted various media and marketing materials and responded to questions raised by the Commission.

On May 18, 2012, the DSMCC moved for a one-year extension of the existing TPA and EM&V contracts (the "Motion") supported by testimony from April M. Paronish, Michael Goldenberg, Nick Hall and Robert A. Nuss. Pursuant to notice, duly published as required by law, an Evidentiary Hearing was held in this Cause on July 3, 2012 at 9:30 a.m. in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the Evidentiary Hearing, the parties' evidence was admitted into the record without objection. No members of the ratepaying public were present at the Evidentiary Hearing.

The Commission, based upon applicable law and being duly advised in the premises, now finds as follows.

1. **Notice and Jurisdiction.** Due, legal and timely notice of the Evidentiary Hearing in this Cause was given and published as required by law. Respondents are jurisdictional electric utilities within the State of Indiana as identified in Title 8 of the Indiana Code and subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana.

2. **Relief Requested.** The DSMCC requests the Commission approve a one-year extension of the existing TPA and EM&V contracts with GoodCents Solutions ("GoodCents") and TecMarket Works ("TecMarket"), respectively, to allow the DSMCC to gain more experience with and conduct EM&V of the Core Programs to facilitate a more informed decision before moving forward with a new multi-year RFP for a TPA and EM&V Administrator.

3. **Evidence Presented.** The DSMCC submitted testimony in support of its proposed one-year extension from Michael D. Goldenberg, April M. Paronish, Nick Hall and Robert Nuss. Michael Goldenberg, who works for Duke Energy Business Services LLC as Director, Products & Services and who serves as the Co-Chair of the DSMCC TPA Subcommittee, testified that the DSMCC is requesting a one-year extension of the contracts with GoodCents and TecMarket. He stated the DSMCC voted on whether to extend the contracts and that there were no votes against the proposed one-year extension; however, the CAC and Industrial Group abstained from the vote.

Mr. Goldenberg explained the request in this proceeding is primarily motivated by two concerns: (1) due to delays in implementation, there has not been enough time to evaluate the current portfolio of Core Programs, and (2) an extension will provide the DSMCC the opportunity to incorporate EM&V program input and data into going-forward operations. Absent an extension, he stated the DSMCC would be required to commence work on preparing an RFP for new-multiyear TPA and EM&V contracts in the summer of 2012 for the period of 2014-2016. Allowing time for the EM&V results will enable the DSMCC and the Commission to modify the portfolio of demand side management programs if necessary to promote achieving the energy savings targets as efficiently as possible, Mr. Goldenberg noted. Moving forward without the EM&V results could lead to scope changes and cost increases that would be avoided if the DSMCC waits until after the first year EM&V results are available and creates an RFP and contract that take into account the information gleaned from the EM&V results. Mr. Goldenberg stated that extensions of the contract terms are specifically supported by the Statement of Work entered into between the contractors and the utilities and approved by the Commission on July 27, 2011.

Mr. Goldenberg testified a one-year contract extension benefits Indiana customers, both residential and commercial and industrial ("C&I") sectors, by providing certainty around planning and budgeting for their energy efficiency projects. Mr. Goldenberg stated there are specific benefits for non-residential customers because they require the flexibility to budget for significant expenditures. He testified that energy efficiency projects for C&I customers often must be budgeted for one or two years in advance. Mr. Goldenberg stated that knowing the program will not change through 2014 will better equip C&I customers in their financial planning.

Mr. Goldenberg stated the extension of the vendor contracts will aid in the monitoring and consideration of new programs in the portfolio as needed. He testified it is important that the Core Program portfolio be able to generate substantive impacts from field-tested programs in order to achieve the targeted mandates established in the Phase II Order, as well as permit judicious oversight over the expenses of the program. Inserting programs with minimal EM&V, he said, would be problematic. Mr. Goldenberg testified an additional year will allow all interested stakeholders to pull together a potential list of programs to include in the next RFP.

Mr. Goldenberg described how a one-year contract extension will assist the DSMCC in crafting the next RFP by providing a full year of EM&V to help determine program performance. He also explained that a one-year extension will facilitate better coordination with natural gas programs because the additional time will allow the parties to have a Commission-approved plan to incorporate into the RFP. Another benefit of an additional year before going through the RFP process is that the DSMCC hopes to have a final Technical Resource Manual ("TRM") in place to facilitate the design of cost-effective programs. Mr. Goldenberg testified that the other options considered (including an extension for more than one year or a mid-year implementation) lack the merit of a simple extension requested here.

Mr. Goldenberg concluded his testimony by providing specific details of the one-year extension regarding price and schedule for bidding the next RFP. For a one-year extension with GoodCents, the costs incurred will be $76,413,703, which reflects a 3% cost of living increase but no increase in the kWh costs from 2013. For a one-year extension with TecMarket, the costs are $934,805, that when added to the present budget for 2012/2013 equals the original three-year bid with the addition of updated management costs for the market effects baseline study at a cost of $440,000.

April M. Paronish, Senior Utility Analyst at the OUCC, testified regarding the OUCC's support of the one-year extension. Ms. Paronish reviewed the 2014 Schedules C and E proposed by GoodCents and the 2014 budget information supplied by TecMarket. Ms. Paronish cited three reasons for the DSMCC's vote to extend the contracts through December 31, 2014. First, the extension would allow for a full year of EM&V results, which would provide insight on vendor and program performance for planning for the next three year cycle. Second, an extension would allow C&I customers a better opportunity to plan for and participate in large DSM projects, which usually are planned two years in advance. Third, the extension would allow time for the planning and development of joint gas and electric DSM programs. Ms. Paronish explained the one-year extension is in the best interest of customers because it would likely reduce confusion in the marketplace that could result from switching vendors just two years after the programs were launched. Moreover, according to Ms. Paronish, the extension would allow the EM&V results that come out in April 2013 to impact program planning for the next three year DSM cycle, which she said is also in the best interest of customers. Ms. Paronish concluded her testimony by saying the OUCC recommends the Commission approve the one-year extension of the GoodCents and TecMarket contracts, as requested by the DSMCC.

Robert A. Nuss, Managing Director of the Indiana Core Program Initiative operated by GoodCents testified that GoodCents was amendable to a one-year extension of the TPA contracts. He testified an additional year will allow GoodCents to establish critical run rates, and will permit the leveraging of the considerable funding invested in start-up costs for the benefit of utility ratepayers. He noted an extension will benefit Indiana ratepayers and participants in the Core Programs because it will provide consistency for participating Indiana residents leading to increased participation and customer satisfaction.

Mr. Nuss characterized the launch of the Core Programs as very positive, both from the perspective of collaboration with the DSMCC and product acceptance in the market. He indicated that outreach and branding efforts have added value to the Core Plus programs and are generating involvement from non-utility partners such as SustainIndy, the Fort Wayne Office of Housing and Neighborhood Services, Habitat for Humanity, and Purdue Extension as well as corporate partners such as Cummins and Brightpoint. Mr. Nuss also detailed several of the program accomplishments to date, noting that the reporting portal is operational, statewide coverage of all Core Programs has been implemented and technology transfer between Respondents and GoodCents is fully functional. He testified that GoodCents has learned of the need to have multiple enrollment strategies to achieve program goals within the compressed timeline, the importance of balance between achieving individual Core Program savings goals and overall utility savings goals and the differing dynamic of interaction between Core and Core-Plus programs.

Mr. Nuss explained that a bottom-up analysis was conducted based on year-to-date experience to develop a budget for the extension term. GoodCents worked collaboratively with each utility to finalize individual utility program savings targets that were reflective of all aspects of the experience to date and unique circumstances faced by each utility. He explained GoodCents was satisfied that the existing pricing remained valid. He indicated that GoodCents projects that the five Core Programs will remain cost-effective through the extension term with a Total Resource Cost score that exceeds 1.00. He explained the Core Programs remain consistent with 2012 and 2013 offerings, that unit and branding costs are unchanged from 2012 and 2013, and that a 3% cost of living multiplier on personnel costs is the only increase for 2014.

Nick Hall, owner of TecMarket, testified concerning the impact of the addition of program year 2014 on the evaluation efforts and budget. Mr. Hall explained that because the evaluation efforts were initially planned for a three-year period and subsequently moved to a two-year cycle, going back to a three-year period would be a fairly straightforward task. He testified that extending the EM&V contract one-year would add approximately $494,805 in EM&V costs and that the drivers of those additional costs are additional reporting requirements, travel expenses and evaluation management resources. Mr. Hall testified that adding a year to the current two-year cycle and making it a three-year cycle instead of two is preferable to having a one-year stand-alone evaluation because the budget for a stand-alone, single-year study would need to increase by 5% of the added year's portfolio budget. Furthermore, Mr. Hall said that changing the duration of the programs from two years to three years does not proportionally impact the evaluation budget because the one year change in term does not have a significant impact on the level of evaluation effort. Mr. Hall testified that in order to move from a two-year cycle to a three-year cycle, TecMarket will move sample and analysis efforts from the first two years into year three, which will decrease the funding needed in years one and two, but increase the funding needed for year three. Mr. Hall went on to say that if the confidence level and precision level can be for the three-year cycle instead of the two-year cycle, the evaluation effort for the three years can be accomplished within the three-year budget originally approved by the DSMCC.

Mr. Hall also recommended the DSMCC conduct a second market effects baseline study at the end of the three-year cycle. He testified that a second market effects baseline study would allow market effect impacts to be estimated in early 2015, during the same time that the evaluation efforts from the current cycle are concluding, and would include an assessment to estimate the energy savings associated with how the programs changed market practices. Mr. Hall testified that the cost of a second market effects baseline study is $440,000 and would allow the DSMCC to have savings estimates at the beginning of the next three-year DSM program cycle.

4. <u>Commission Discussion and Findings.</u> Based on the evidence presented, we find it reasonable for the Respondents to extend their agreements with GoodCents and TecMarket to December 31, 2014. No party submitted evidence opposing this extension. The evidence of record establishes several benefits resulting from this extension.

A significant benefit of a one-year extension identified by both Mr. Goldenberg and Ms. Paronish is that additional experience with the TPA administration of the Core Programs will provide important guidance in developing the next phase of Core Programs. Absent a one-year extension, the existing TPA and EM&V agreements will terminate on December 31, 2013. Based on the expected time necessary to prepare and issue an RFP, evaluate responsive bids and negotiate a contract, the DSMCC would need to commence work on a new RFP for the next multi-year phase of the Core Programs during the summer of 2012. The availability of the Core Programs through the TPA did not begin until January 1, 2012 and the DSMCC is still gaining experience about the Core Programs' reception in the marketplace. The first detailed EM&V will not be available until April 2013. There has been insufficient time for meaningful EM&V of the Programs. Were the DSMCC to move forward with an RFP for new Core Programs in 2012, the RFP could not incorporate the results of the EM&V to evaluate the effectiveness of the Programs or other lessons learned by the DSMCC in implementing the Core Programs.

A one-year extension will also benefit Indiana customers by providing certainty around planning and budgeting for energy efficiency projects. Mr. Goldenberg explained that energy efficiency projects for C&I customers often need to be budgeted one or two years in advance. Knowing the Core Programs will be consistent through 2014 will better equip C&I customers in their financial planning.

Another benefit of the proposed extension is that the TRM is expected to be completed in time for inclusion in a 2013 RFP. TecMarket is working to develop an Indiana-specific TRM that will update the Ohio TRM with Indiana-specific data. Finalization of this TRM will enable the RFP to be better tailored to Indiana-specific circumstances and enable bidders to better design cost-effective energy efficiency programs.

The DSMCC, in conjunction with GoodCents and TecMarkets, has worked to minimize the cost impacts of the one-year extension. The proposed extension with GoodCents includes no increase in the per kWh cost. GoodCents and the DSMCC did agree on a 3% cost of living increase in labor costs, but we conclude that such an increase is reasonable based on the extension of the contract to December 31, 2014. The total cost for GoodCents for 2014 will be $76,413,703.

The total cost for the one-year extension of the EM&V contract with TecMarket is $934,805. Mr. Hall explained that $494,805 of the increase was attributable to additional travel expense, reporting requirements and management oversight during the additional year. The remaining amount reflects the cost of preparation of a second market effects baseline study that would allow market baseline effects to be estimated in early 2015. We find these costs to be reasonable and appropriate for recovery through Respondents' specific DSM cost recovery mechanisms.

For the foregoing reasons, we find that the existing agreements with GoodCents and TecMarket should be extended by one-year as proposed by the DSMCC.

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

1. The Respondents shall be and hereby are authorized to extend their agreements with GoodCents for an additional year.

2. The cost increases for the one-year extension of the agreements with GoodCents are reasonable and shall be and hereby are approved.

3. The Respondents shall be and hereby are authorized to extend their agreements with TecMarket for an additional year.

4. The cost increases for the one-year extension of the agreements with TecMarket are reasonable and shall be and hereby are approved.

5. The additional costs incurred by the one-year extensions are appropriate for recovery through Respondents' specific DSM cost recovery mechanisms.

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; BENNETT AND MAYS NOT PARTICIPATING:

APPROVED: AUG 1 5 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