STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

September 25, 2017

INDIANA UTILITY

REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. REQUESTING THE INDIANA UTILITY REGULATORY COMMISSION TO APPROVE CERTAIN DEMAND SIDE MANAGEMENT PROGRAMS AND GRANT COMPANY AUTHORITY TO RECOVER COSTS, INCLUDING PROGRAM COSTS, INCENTIVES AND LOST MARGINS, ASSOCIATED WITH THE DEMAND SIDE MANAGEMENT PROGRAMS VIA THE COMPANY'S DEMAND SIDE MANAGEMENT ADJUSTMENT	**)**	**CAUSE NO. 44927**

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.'S SUBMISSION OF PROPOSED ORDER

Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Petitioner"), by counsel, hereby submits its proposed order in this proceeding.

Respectfully submitted,

/s/ *Michelle D. Quinn*

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 25th day of September, 2017 a copy of Petitioner's proposed order was served by electronic mail transmission upon the following counsel of record:

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/s/ *Michelle D. Quinn*
Michelle D. Quinn

STATE OF INDIANA

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<u>BY THE COMMISSION</u>:
David E. Ziegner, Commissioner
Loraine Seyfried, Administrative Law Judge

On April 10, 2017, Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner", "Company" or "Vectren South") filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition and the Verified Direct Testimony, including attachments, of Rina H. Harris, Richard G. Stevie, Matthew E. Lind, J. Cas Swiz and Scott E. Albertson establishing this Cause, constituting its case-in-chief and seeking approval of Vectren South's 2018 – 2020 Energy Efficiency Plan ("2018 – 2020 Plan" or "Plan"). The 2018 – 2020 Plan is to be effective during calendar years 2018, 2019 and 2020 and is designed to save 111 million kilowatt hours ("kWh") of energy and to reduce demand by 26 thousand kilowatts ("kW") over the three year period.

On April 10, 2017, the Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene and on May 2, 2017, the Commission issued a Docket Entry granting the request.

On July 5, 2017, Vectren South filed the Verified, Supplemental Direct Testimony of Rina H. Harris and M. Sami Khawaja. On July 18, 2017, Vectren South filed Corrections to the Direct Testimony of Rina H. Harris and J. Cas Swiz.

On July 26, 2017, the Indiana Office of Utility Consumer Counselor filed the Verified Direct Testimony of Edward T. Rutter and Crystal L. Thacker. The next day, the CAC filed the Verified Direct Testimony, including attachments, of Anna Sommer, Karl Rábago, and Elizabeth Stanton.

On July 31, 2017, the CAC filed an Agreed Motion for a One Day Extension and August 3, 2017, the Commission issued a Docket Entry granting the Motion.

On July 31, 2017, Vectren South filed a Motion for Protection of Confidential and Proprietary Information seeking a determination that designated confidential information

("Confidential Information") involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The Confidential Information was granted protection on a preliminary basis through a docket entry on August 10, 2017 and submitted by the CAC on August 21, 2017.

On August 7, 2017, the CAC filed corrections to CAC Exhibit 1 and Attachment EAS-2.

On August 16, 2017, Vectren South filed the Verified Rebuttal Testimony, including Attachments, of witnesses Harris, Albertson, Stevie and Lind, K. Chase Kelley and Gary Vicinus. On August 29, 2017, Vectren South filed corrections to the Rebuttal Testimony of witnesses Harris and Stevie.

On September 5, 2017, the CAC filed corrections to CAC Exhibit No. 3.

Pursuant to public notice duly given and published, proof of which was incorporated into the record by reference and placed in the Commission's official file, an evidentiary hearing was held in this Cause on September 6, 2017 at 9:30 a.m. EST in Hearing Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Vectren South, the OUCC and the CAC appeared by counsel and offered into the record their respective prefiled, cases-in-chief, supplemental testimony and rebuttal testimony and corresponding attachments, which were admitted into evidence. No other party or members of the general public appeared.

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

1. Notice and Jurisdiction. Proper notice of the hearing in this Cause was given as required by law. Vectren South is a "public utility" within the meaning of Ind. Code § 8-1-2-1 of the Public Service Commission Act, as amended, an electricity supplier pursuant to Ind. Code § 8-1-8.5-10 and is subject to the jurisdiction of the Commission. The Commission has jurisdiction over Petitioner and the subject matter of this Cause in the manner and to the extent provided by the laws of the State of Indiana.

2. Petitioner's Organization and Business. Petitioner is an operating public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Petitioner is subject to regulation by the Commission in the manner and to the extent provided by the laws of the State of Indiana. Petitioner has both a gas division and an electric division. Vectren South provides electric utility service to approximately 140,000 customers in six (6) counties in southwestern Indiana. Vectren South renders such electric utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of electricity.

3. Applicable Rules and Statutes. 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. As part of its Integrated Resource Plan ("IRP"), an electric utility must consider alternative methods of meeting future demand for electric service, including a comprehensive array of demand-side measures that provide an opportunity for all customers to participate in demand side management ("DSM"), including low-income residential customers. 170 IAC 4-7-6(b). The Commission adopted 170 IAC 4-8 providing guidelines for DSM cost recovery ("DSM Rules"). The DSM Rules were specifically designed to assist the Commission in its administration of the Utility Powerplant Construction Act, Ind. Code ch. 8-1-8.5, and to facilitate increased use of DSM as part of the utility resource mix. 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.

Ind. Code ch. 8-1-8.5, the statutory authority for both 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." *PSI Energy, Inc.*, Cause No. 42145, at 4 (IURC Dec. 19, 2002) (quoting *Southern Indiana Gas & Electric Co.*, Cause No. 38738, at 5 (IURC Oct. 25, 1989)). Public utilities are thus to exercise reasonable judgement as to how best to meet the obligation to serve within the context of the least-cost standard. *PSI Energy, Inc.*, Cause No. 39175, at 3-4 (IURC May 13, 1992).

Ind. Code § 8-1-8.5-9 ("SEA 340" or "Section 9"), which became law on March 27, 2014, allows an electric utility to offer a cost-effective portfolio of energy efficiency ("EE") programs to customers, and, if the Commission determines that the portfolio is reasonable and cost effective, to recover EE program costs in the same manner as such costs were recoverable under the Commission's Phase II Order dated December 9, 2009 in Cause No. 42693. It also creates the ability for certain industrial customers to opt out of participation in an electric utility's EE program.

Vectren South entered into a Stipulation and Settlement Agreement with the OUCC dated August 13, 2014 (the "2014 Settlement Agreement") that allowed the Company to continue offering a cost effective portfolio of DSM programs during calendar year 2015 (the "2015 Plan"). We approved the 2014 Settlement Agreement in our October 15, 2014 Order in Cause No. 44495. The 2015 Plan contains cost effective DSM programs designed to achieve energy savings approximately equal to 1% of retail sales, adjusted for large customer opt-out. The 2015 Plan was designed assuming eighty percent (80%) of eligible customers would opt-out of participation in Company sponsored DSM programs. To date 74% of eligible load has opted out of participation and, despite Vectren South's recent efforts to encourage reentry, none of the customers that have opted-out have expressed an interest in opting back in. In our original Order issued in Cause No. 44645 on March 23, 2016, we approved Vectren South's 2016 – 2017 Plan pursuant to Ind. Code § 8-1-8.5-10 ("Section 10"). The Order was vacated and remanded back to us for additional findings, but Vectren South has been implementing programs pursuant to that order since March 2016.

Section 10, which became law on May 6, 2015 through Senate Enrolled Act 412 ("SEA 412"), mandates the periodic filing, beginning no later than 2017 and not less than once every three years, of EE plans by electricity suppliers that includes EE goals, EE programs to achieve the goals, program budgets and program costs, and evaluation, measurement and verification

("EM&V") procedures that must include independent EM&V. Upon submittal of a plan, the Commission is required to consider ten factors in determining the overall reasonableness of a plan. This review includes reference to the utility's most recent IRP. If the Commission finds a plan to be reasonable in its entirety, the Commission shall: (1) approve the plan in its entirety, (2) allow the electricity supplier to recover all associated program costs on a timely basis through a periodic rate adjustment mechanism, (3) allocate and assign costs associated with a program to the class or classes of customers that are eligible to participate in the program, and (4) allow recovery of reasonable performance incentives and lost revenues. If the Commission finds that a plan is not reasonable because costs associated with one or more programs included in the plan exceed the projected benefits of the program(s), the Commission may exclude the program(s) and approve the remainder. And, if the Commission finds the plan is not reasonable in its entirety, then the Commission's order shall set forth the reasons for its determination and the electricity supplier shall submit a modified plan within a reasonable amount of time.

It is against this backdrop of the Commission's rules and Indiana statutes that we consider the DSM programs and ratemaking proposals made by Vectren South in this Cause.

4. <u>Petitioner's Request.</u> In this proceeding, Vectren South requests Commission approval of its 2018 – 2020 Plan. The 2018 – 2020 Plan includes EE goals, EE programs to achieve the EE goals, program budgets and costs, and procedures for independent EM&V of programs included in the plan. The Plan has an estimated cost of $28.6 million, with $9.5 million in 2018, $9.6 million in 2019, and $9.5 million in 2020. The Vectren South 2018 – 2020 Plan includes a cost effective portfolio of programs designed to achieve 111 million kWh in energy savings and 26 thousand kW in demand reduction during the three-year period. The 2018 – 2020 Plan includes both residential and commercial EE programs, some of which include a demand response ("DR") component. The Plan's goals were modeled as part of the Company's 2016 IRP. Vectren South requests authority to continue recovering all program costs, including lost margins and financial incentives via its existing Demand Side Management Adjustment ("DSMA"), which includes components for the recovery of program costs, lost margins for all customer classes and performance incentives. Vectren South is requesting that all of the components of the DSMA remain in place, unchanged, except that Vectren South requests approval to recover lost revenues based upon the weighted average measure life ("WAML") of measures included in the 2018 – 2020 Plan less a 10% saving reduction, as discussed below, and annual depreciation and operating expenses associated with the proposed conservation voltage reduction ("CVR") program investment via the DSMA. Vectren South is proposing a performance incentive mechanism consistent with the methodology approved in the Commission Order dated March 23, 2016 in Cause No. 44645[1], applicable to all programs included in the 2018 – 2020 Plan except for the CVR program, the smart thermostat program[2] and the income qualified weatherization ("IQW") program. Vectren South has requested that the Vectren Oversight Board ("Oversight Board") continue to remain in place unchanged during the 2018 – 2020 Plan period, with authority to roll forward unused funds from year to year, exceed Commission-approved budgets for DSM programs by up to 10% without having to seek

[1] Although this Order was vacated by the Court of Appeals and remanded back to this Commission for additional findings, this methodology is not one of the issues on remand.
[2] The smart thermostat program is separate and distinct from the SmartDLC – Wifi DR/DLC Change-out program for which Vectren South is seeking an incentive.

additional approval from the Commission and authority to continue shifting funds from sector to sector, provided gas and electric funds are not commingled.

5. Vectren South 2018 – 2020 Plan. The 2018 – 2020 Plan includes the following DSM programs, the majority of which are current programs and many of which are integrated with Vectren South's gas programs:

Residential

- Residential Lighting
- Residential Prescriptive
- Residential New Construction
- Home Energy Assessment & Weatherization
- Income Qualified Weatherization
- Food Bank – LED Bulb Distribution
- Energy Efficient Schools
- Residential Behavioral Savings
- Appliance Recycling
- Smart Thermostat
- Conservation Voltage Reduction (CVR)
- SmartDLC – WiFi DR/DLC Change-out
- BYOT (Bring Your Own Thermostat)

Commercial & Industrial ("C&I")

- Commercial Prescriptive
- Commercial Custom
- Small Business Direct Install
- Commercial New Construction
- Building Tune-up
- Multi-Family Retrofit
- CVR Commercial

6. Evidence.

A. Petitioner's Case-in-Chief. Rina H. Harris, Director of Energy Efficiency for Vectren Utility Holdings, Inc. ("VUHI"), testified that Vectren South is requesting authority to implement the EE and DR programs defined in the 2018 – 2020 Plan beginning January 1, 2018 through December 31, 2020 ("Plan Period"), with the goal of achieving approximately 111 million kWh in energy savings and 26 thousand kW in demand reduction during the three-year period. She said this level of energy savings is roughly equal to a one percent (1%) reduction in eligible energy consumption from current customer usage levels and that this amount excludes the approximately seventy four percent (74%)[3] of large C&I customer load that has opted out of participation in Company sponsored EE programs. She said that along with approval of the 2018 – 2020 Plan, the Company seeks to recover all costs associated with offering the DSM programs in the 2018-2020 Plan, consistent with the provisions of Section 9, Section 10 and the

[3] In 2015, Vectren South reported that approximately 80% of eligible load had opted out of participation in Company sponsored EE programs. The 74% opt-out level reported herein reflects the impact of a large customer conversion to a combined heat and power system.

Commission's DSM Rules. She testified that the 2018-2020 Electric EE Program cost recovery includes a request for accounting and ratemaking procedures to recover, through Vectren South's DSMA Mechanism, all program costs, including direct and indirect program costs, lost revenues and financial incentives, consistent with Section 10 and the Commission's DSM Rules. Ms. Harris testified that the 2018-2020 Plan has an estimated cost of $28.6 million, with $9.5 million in 2018, $9.6 million in 2019, and $9.5 million in 2020. These amounts include anticipated evaluation costs. In addition, she confirmed that the Company is proposing to capitalize and defer for future recovery the costs associated with installing CVR technology and to recover through the annual DSMA filings carrying costs and annual depreciation expense on CVR program investments.

Witness Harris testified that Vectren South anticipates that approximately $4 million of incremental lost revenues is associated with the 2018-2020 Plan during the three year Plan term and that Vectren South initially was seeking authority in this Cause to collect lost revenues for the life of the measure. Witness Harris subsequently filed supplemental direct testimony in which she requested approval for the Company to implement lost revenue recovery based upon the WAML of all measures included in the 2018 – 2020 Plan, with a 10% reduction in savings to account for measure persistence. Witness Harris testified that using this method, Vectren South would recover the reasonable amount of lost revenues associated with the WAML of its EE programs or the measure life, whichever is less. She said that the WAML is the average life, weighted by savings in years, of all the various measures installed or actions taken in a portfolio of programs. She said that capping recovery of lost revenues based upon WAML is reasonable because it limits lost revenue recovery based on the average equipment life and measure persistence of the entire program plan. In addition, only 90% of annual savings would be recovered, reflecting the statistical certainty EM&V providers can obtain for lost revenues. She said that as explained by witness Khawaja, the EM&V process utilizes at minimum a 90% confidence interval (an industry accepted standard). She testified that all inputs in the WAML (less 10% for statistical certainty) are grounded on evaluation and Technical Reference Manuals ("TRM") and provide a methodical cap to lost revenue recovery.

In response to a pending alternative proposal by CAC in Cause No. 44645, the 2016-2017 remand case, witness Harris testified a three- or four-year cap is arbitrary and is not tied to EM&V, cost effectiveness or any economic study suggesting a four-year cap is a reasonable time period. Furthermore, Ms. Harris testified that for the 2018-2020 Plan, a four-year cap would cause approximately $52M of financial harm to Vectren South in lost revenues over the life of the programs, which equates to approximately 70% of lost revenues. She said that a four-year cap would incent utilities to offer programs with a shorter measure life, as it is in the utility's best interest to recover its fixed costs associated with the life of the measure. For those reasons, allowing a utility to collect lost revenues based upon verified savings for the life of the measure is reasonable given it links to estimated savings, but providing a cap based upon the WAML, with a 10% reduction in savings to account for the verification uncertainty that exists simply provides even greater assurance of a reasonable recovery approach. Ms. Harris testified that for the 2018-2020 Plan, the WAML approach would reduce lost margin recovery by approximately $18.8M over the life of the programs included in the 2018-2020 Plan as compared to recovery using full measure life. She said that under the WAML approach, lost revenues would be reduced by 26% with a 12-year weighted average cap plus 10% savings reduction.

Ms. Harris described all of the programs included in the Plan and said that the Plan is a plan as defined by Section 10 in that it includes EE goals, EE programs to achieve the goals, program budgets and program costs and procedures for EM&V that include independent EM&V. Ms. Harris confirmed that approval of the 2018-2020 Plan is in the public interest and approving it will allow Vectren South to continue providing opportunities for customers to reduce their energy usage and make more educated choices about how they consume energy. Ms. Harris testified that the 2018-2020 Plan meets the criteria set forth in Section 10 for the Commission to find it reasonable.

Richard G. Stevie, Vice President, Forecasting, at Integral Analytics, Inc. ("IA"), presented the results of the cost-effectiveness analysis of the 2018 - 2020 Plan and confirmed that the Plan is cost effective. He described each of the tests and the costs considered and information provided by each of the tests. In addition, he reviewed and commented on the long-term impact of the 2018-2020 Plan on the rates and bills of participants and non-participants. Dr. Stevie said that the long-term effect on rates and bills of participants are demonstrated through the Participant Test, which compares the benefits to the participant through bill savings plus incentives from the utility relative to the incremental costs to the participant for implementing the energy efficiency measure. A score greater than 1 indicates the customer is saving more money than expended, thus reducing the participant's energy bill over the life of the measure. All of the programs included in Vectren South's 2018-2020 Plan have a Participant Test score greater than 1, except for those programs where the Participant Test score could not be calculated because there were no costs to participants for participating in the program.

Dr. Stevie discussed the process used to project the cost of Vectren South's energy efficiency portfolio for use in the development of the Company's IRP. Dr. Stevie testified that Vectren South chose to make available up to 2% of eligible retail sales as DSM resource options for selection in the IRP process for each year beginning in 2018 and explained the rationale behind the decision. He said that to facilitate the IRP resource selection process, the 2% of eligible retail sales was broken into 8 blocks of 0.25% each. Taking this over the 18 year horizon means that over 144 incremental blocks of 0.25% each were available to be selected in the IRP process. From this structure, Vectren South expected that the appropriate IRP determined cost-effective level of EE would be identified. He then discussed how Vectren South projected the cost of its DSM resource options over a 20-year horizon with increasing market penetration. He said that the energy efficiency literature does not provide adequate guidance. He said that based upon his research into this issue, he provided Vectren South with a methodology to estimate how the cost to achieve an increment of EE could change as the cumulative EE market penetration rises. He testified that the study found that EE program costs per kWh increase as the cumulative penetration of EE increases, as measured by the percent of retail sales. He then explained how EE costs were projected over the 20 year planning horizon.

Matthew E. Lind, Associate Project Manager within the Business & Technology Services global practice of Burns & McDonnell provided background for and an explanation of Vectren South's modeling of EE programs within its 2016 IRP through the use of the optimization software program Strategist. He said that Strategist is a dynamic optimization program which uses reserve margin requirement logic to identify portfolios of electric supply resources based on an identified objective function. For purposes of the 2016 IRP analysis, the objective function was to minimize cost to customers. He confirmed that EE was included as an electric demand side resource that Strategist could select to serve customer energy requirements. He testified that at a high level, up to a maximum of 2% per year of eligible retail sales were considered for possible conservation through an incremental block of EE which was divided into eight (8) equal blocks (0.25% per block). The savings associated with each block was initially based on the characteristics associated with current EE programs with consideration for changes over time. He described the EE modeling assumptions and how EE competes with supply side resources in the model. Mr. Lind testified that once Strategist selects EE, it assumes that level of EE throughout the study horizon. This was required to consider the many power supply alternatives evaluated in the IRP including EE, new power supply and individual unit plant retirement decisions. He said there could be eight (8) different possible combinations of EE blocks that could possibly be selected in an individual year over the course of nineteen (19) years (2018-2036). Mr. Lind testified that after an October 14, 2016 meeting with the Vectren Oversight Board and staff from the Commission, Vectren South requested that Burns & McDonnell conduct additional analyses whereby EE was not held constant throughout the applicable IRP planning period. Burns & McDonnell evaluated selecting EE blocks for only a three (3) year period beginning in 2018. This would align with the timeframe the next EE Plan would cover and indicate whether increasing costs over time would discourage the economic selection of EE blocks in a shorter duration. He said the results of this analysis are provided in Vectren South's 2016 IRP and confirmed that the additional analysis did not change the results of the low cost portfolio identified under base assumptions.

J. Cas Swiz, Director, Rates and Regulatory Analysis for VUHI, discussed the Company's proposed accounting and rate making treatment, and bill impacts of Vectren South's 2018-2020 Plan. Specifically, he addressed how Vectren South will account for carrying costs and depreciation expense associated with the capital expenditures the Company plans to make related to the CVR program and the associated deferral authority related to CVR requested by the Company. He testified that Vectren South will calculate the monthly carrying costs using its approved weighted average cost of capital ("WACC"), grossed up for income taxes, and multiplied by the net plant balance (gross investment less accumulated depreciation) as of the end of the prior month. The WACC rate used will be based upon the current capital structure balances, with the cost of equity fixed at the 10.40% approved in Cause No. 43839. This calculation reflects the incremental pre-tax cost, both debt and equity, of financing the investment. Finally, he addressed the Section 10 requirement specific to the short term impact on electric rates and customer bills resulting from a proposed EE plan. Mr. Swiz testified that Vectren South plans to continue using its DSMA to recover costs associated with customer participation in Company sponsored EE and DR programs, including direct load control ("DLC") programs. Mr. Swiz then discussed the estimated rates and bill impacts of the 2018 – 2020 Plan on Vectren South's Rate Schedules and how the estimated rates were derived.

Scott E. Albertson, Vice President, Regulatory Affairs and Gas Supply, summarized the legislative and regulatory foundation supporting the recovery of lost revenues associated with the implementation of utility-sponsored EE programs and measures. Mr. Albertson testified that in simple terms, lost revenues (sometimes referred to as "lost margins") are the fixed costs previously approved by the Commission and included in rates that are not recovered as a result of the implementation of EE programs. He said that this definition is consistent with his understanding of Indiana Code § 8-1-8.5-10. He testified that in Cause No. 43938, the Company's initial three-year DSM plan ("2011 Plan"), the Company requested, and the Commission found, that "…recovery of lost margins is intended as a tool to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory." The Commission went on to say, "the purpose of recovery of lost margins on verified energy savings from DSM programs is to *return the utility to the position it would have been in absent implementation of a DSM measure.*" 43938 Order at 41 (Emphasis added).

Mr. Albertson described the history of lost revenue recovery approved by the Commission for Vectren South and testified that from the 1990's through program year 2015, the Commission has consistently found in every case involving approval for Vectren South to offer EE Programs, that in order to remove the disincentive associated with EE-driven sales reductions, Vectren South should recoup all lost revenues for the life of each utility-sponsored EE measure that has been implemented. He said the last of these orders, approving the Company's Revised DSM Plan for 2015, explicitly rejected a proposal to artificially cap such lost revenue recovery at two years versus relying on the life of each EE measure (see Cause No. 44495).

Mr. Albertson discussed Section 10 and said that in the 2015 Indiana Legislative session, the Legislature passed SEA 412 which required electric utilities to submit EE plans to the Commission at least every three years, and confirmed that IRPs must assess DSM in meeting service requirements. For the first time, the Legislature also made the recovery of lost revenue associated with EE Programs mandatory. He said that in 2016, after the Legislature mandated recovery of lost revenues, the Commission for the first time placed a four (4) year recovery cap on Vectren South's lost revenue adjustment mechanism ("LRAM"). (Cause No. 44645, March 23, 2016).[4] He described the implications of the cap. He explained that the statute does not provide for a cap on lost revenues. Rather, the Statute provides for the EE cost recovery mechanism, if based on a forecast, to be reconciled to ensure only the recovery of "actual program costs," which it goes on to define as "including reasonable lost revenues and financial incentives based on the evaluation, measurement, and verification of the energy efficiency programs under the plan." Section 10(o). He said that far from an arbitrary recovery cap, the Legislature envisions that lost revenue will be determined using EM&V for the specific EE programs implemented by customers. Mr. Albertson then discussed the legislative history associated with the passage of Section 10 which explicitly supports continued reliance on EM&V for purposes of determining lost revenue recovery.

Mr. Albertson discussed the concept of pancaking and testified that the pancaking of lost revenues is not inappropriate and should not be viewed in a negative light. He said EE benefits *and* lost revenues build over time (i.e. they "pancake"), and so too should the corresponding levels of lost revenue recovery. He then discussed the relationship between rate case frequency and lost revenues. He said that while the costs recovered via an LRAM would be lessened if rate cases were filed more frequently, the revenues lost as a result of EE are included in base rates each time the utility files a rate case. In either case, the appropriate level of fixed costs will be

[4] The Order was vacated and remanded to this Commission by the Court of Appeals for additional findings with respect to reasonable lost revenue recovery.

included in customers' bills. Thus, via an LRAM or new base rates, the utility should recover the revenues needed to recover the approved level of fixed costs.

Dr. M. Sami Khawaja, Chief Economist at The Cadmus Group ("Cadmus"), an EE evaluation firm, testified that confidence and precision energy program evaluation is typically based on estimating energy impacts using a representative sample of program participants to determine how measures are installed and used. The results of these efforts are used to estimate savings for the program. For Vectren South, program evaluations are in line with the industry standard of obtaining estimates with a confidence level of 90% with a relative precision of ±10%. Dr. Khawaja testified that it is appropriate to recover lost revenues for the life of the measure because as long as the measure is installed and is saving energy, the utility is losing revenue. He acknowledged that measures may be removed for many reasons, but that effective useful life ("EUL") estimates account for measure removal and failure.

Dr. Khawaja testified that it is appropriate to cap lost revenues based upon the WAML of a plan. He said that lost revenues will take place for the duration of the measure life. That is the time upon which recovery should be based. He said that it is important to appreciate that EUL is not an actual end of life metric for a measure. It is simply the median of life. In fact, 50% of all measures will fail before that date. But, 50% will also live long after the EUL. The survival rate of measures is not linear. Most of the 50% that will fail by the EUL will actually be operational for the great majority of the EUL. During that time period, revenues are lost almost consistently. For a time period after the EUL, revenues will continue to be lost for some period of time. As such, EUL is a conservative estimate of the length of revenue lost period. The EULs currently used by Vectren South are conservative.

Dr. Khawaja testified that the EM&V impacts were estimated at 90% confidence and ±10% precision. He recommended going to the low end of the confidence interval and using those estimated savings to calculate the WAML. He said this approach will, in essence, conservatively use values that have a 95% chance of being at that level or higher. This will reduce the WAML calculation by 10%.

Dr. Khawaja discussed his concerns with a three (3) or four (4) year measure life cap. He said that utilities should be allowed a reasonable opportunity to recover their program cost and lost revenues. Otherwise, demand side and supply side options are not comparable from a financial perspective (the playing fields are not level). He said that failure to recover these costs will reduce utility earnings. Also, a three or four-year cap will incent utilities to pursue measures with short lives at the expense of more deep reaching long lasting measures (e.g. insulation).

B. OUCC's Case-in-Chief. Edward T. Rutter, Chief Technical Advisor in the Resource Planning and Communications Division of the OUCC pre-filed direct testimony on behalf of the OUCC. Mr. Rutter testified Vectren South's 2018-2020 Plan is unreasonable and should be rejected by the Commission for several reasons. He described the cost per kWh saved of the Plan and concluded that a residential customer using 1,000 kWh at an average cost of $0.16 who saves 10% a month or 100 kWh will experience a bill savings of approximately $16.00. However, the cost of those savings, based on the overall cost to the customer of $0.65 per kWh saved, would be $65.00. He said that legacy DSM costs are creating an enormous disincentive to participate in the energy savings programs proposed by Vectren South in the 2018 – 2020 Plan.

Mr. Rutter testified that the definition of "lost revenue" is established in Section 10 and provides recovery of both fixed costs and net operating income not realized by the electricity supplier. He testified that the Section 10 definition generously allows the utility to recover fixed costs for unrealized sales despite the fact that the fixed costs approved in the last rate case do not vary with an increase or decrease in the amount of energy sold. He testified that the Commission should not continue to allow recovery of fixed costs associated with DSM energy saved, which he says is unreasonable and seriously imbalances the relationship between the ratepayer interest and the investor interest. Mr. Rutter testified that in order to return the utility to the position it would have been in absent the implementation of a DSM measure, the utility should be entitled to recover the "lost margin" associated with the lost sale, not the revenue associated with the lost sale. He said that if lost revenue recovery provides the utility with anything more than the return opportunity, or margin lost, this creates a bias in favor of DSM over what would be experienced by the utility if it were to build, own and operate a supply-side resource.

Mr. Rutter testified that fixed costs embedded in base rates have been audited, vetted and approved as being instrumental and appropriate in the delivery of energy service. Fixed costs do not change with an increase or decrease in the amount of energy sold. Fixed costs are expenses that must be paid by Vectren South independent of any business activity. He testified that when Vectren South's fixed costs rise, the utility may find it more difficult to achieve its authorized return and that the traditional remedy for a utility not achieving the authorized rate of return is to file a base rate case, not thru a DSM lost revenue tracker. Mr. Rutter discussed his analysis of Vectren South's fixed costs approved in the Company's most recent base rate case compared to actual past and forecasted future sales. He concluded that Vectren South has historically been able to recover all fixed costs approved by the Commission in Cause No. 43829 and should continue to recover all approved fixed costs through the term of the 2018 – 2020 DSM Plan.

Mr. Rutter concluded that Vectren South's proposed recovery of lost revenues is unreasonable and should be denied. He said a reasonable method of balancing ratepayer and shareholder interests would be to share the Utility Cost Test ("UCT") net benefit 50-50. He said that program costs, lost revenue recovery and financial incentives awarded should not total more than $19,334,837. He said that it is only fair that the consumers and the utility receive their benefits at the same time. He said that a 50-50 split does a better job of balancing the interests of the investor and customer and results in a sharing of the benefits produced through investments in DSM. He testified that Vectren South is seeking to collect 97.44% of the UCT net benefit from implementation of the 2018 – 2020 Plan. He said that does not balance the interests of the consumer and the shareholder and that given the imbalance, the rates and charges sought by Vectren South in this proceeding are skewed in Vectren South's favor and are not just and reasonable.

Mr. Rutter testified that the OUCC supports the concept of performance incentives, but not the amount proposed by Vectren South. He said that it may not be unreasonable to award some financial incentive to programs that meet or exceed savings goals approved by the Commission, but that there is no logical reason to award an incentive that is greater than the weighted average cost of capital approved in Vectren South's last rate case. In addition, he testified that financial incentives should not be calculated at the portfolio level, but rather on the savings achieved at the program level, and only for programs achieving 100% of the estimated savings contained within the Plan. Mr. Rutter testified that the Commission is required to determine whether the Plan is consistent with Vectren South's most recent IRP and that this requirement impacts the OUCC's recommended financial incentive treatment. He said that given that the 2016 IRP has selected a DSM energy savings level of 1% of eligible retail sales as part of its preferred portfolio plan, to reward Vectren South for achieving something less than what was selected in the 2016 IRP and what the future generation mix is based upon is irresponsible.

Mr. Rutter testified that Vectren South's Plan does not comply with Section 10's reasonableness requirements set forth in subsection (j). He said that the proposed Plan does not provide a cost and benefit analysis provided for in subsection (j)(2) that includes program costs defined in subsection (g). Furthermore, Mr. Rutter testified that the Plan does not consider the long-term and short-term effect on non-residential customers that participate in energy efficiency programs compared to non-residential customer that do not participate in energy efficiency programs, which is required under subsection (j)(7). He said that lack of compliance with this subsection is another reason the proposed Plan is unreasonable in its entirety.

Crystal Thacker, a utility analyst in the OUCC's Electric Division pre-filed direct testimony on behalf of the OUCC. Ms. Thacker testified that the design and mechanics of Vectren South's DSM tracker are reasonable.

C. CAC's Case-in-Chief. The CAC pre-filed the testimony of Elizabeth Stanton, Anna Sommer and Karl Rábago. Each witness urged the Commission to find that Vectren South's 2018-2020 Plan is unreasonable and therefore should be rejected. They recommended the Commission allow the Company time to submit a modified plan. Elizabeth Stanton and Anna Sommer both claim that the Plan is unreasonable because the IRP does not provide an optimal balance of energy resources. The basis for Dr. Stanton's claim is that the projected increases in EE costs modeled in the Plan are the result of an analysis performed by Petitioner's witness Stevie that "is based upon faulty data, an incorrect interpretation of statistical results and a deeply flawed application of those results to predicted costs." While she agrees with Dr. Stevie that current EE literature does not provide guidance on how EE costs change over time as the size of EE programs/market penetration increases, she disagrees with Dr. Stevie's analysis. In her testimony, she makes the following four claims regarding Dr. Stevie's analysis: (1) his analysis is not replicable (a fundamental expectation of such analysis); (2) he used incorrect data and correcting his data changes his results; (3) correcting his data also renders his results statistically insignificant (that is not discernable from happenstance) and (4) his analysis is not robust (his data are of low quality and removing inaccurate entries changes the results). She then goes on to discuss errors in application of regression findings to EE cost projections and makes the following four claims: (1) the basis for his efficiency cost growth factors are artificially inflated; (2) he uses his regression results selectively, ignoring certain findings; (3) his EE costs are erroneously based on expected cumulative savings in 2036, and (4) he confuses the effects of changes over time with the effects of differing policy choices within a single year. Ultimately, Dr. Stanton concludes that Dr. Stevie's methodology is not sound and that the flaws in his analysis undermine Vectren South's 2016 IRP and its usefulness in guiding DSM decisions. She said that instead of the increasing EE cost assumptions used by Vectren in its DSM modeling within the IRP, the correct cost assumption is that inflation-adjusted EE costs remain constant over time.

CAC witness Sommer's recommendation to the Commission is also based on challenges to the IRP. She said that Vectren South's DSM Plan is based upon a flawed IRP. She criticized Vectren for not having a better, more detailed explanation of the iterative process within the IRP document. She said that rather than being a "well developed and reasoned IRP," Vectren South's IRP lacks the background information that would let stakeholders understand Vectren South's reasoning. She said the IRP gives no insight into why Vectren kept some resources but not others; how and in what order each resource was evaluated, or how one should interpret the results of any these scenarios. She then challenged Vectren South's scorecard analysis. She said that use of a scorecard approach is not the problem, but the metrics Vectren chose to use in the development of the preferred plan is the issue. She said that a scorecard analysis must be deployed in a logical and coherent manner. She called the metrics Vectren South chose to use "non-sensical and ill defined." She said the chosen metrics should have a direct relationship to costs and reliability. She then claimed that the deal to keep Alcoa open until 2024 undermines the validity of all of the Vectren 2016 IRP modeling because every scenario produced assumed that Vectren exits joint operations of Warrick starting in 2020. She said that continued operation of Warrick puts Vectren in a position of significant excess capacity that is not modeled in the IRP. She also claims that Vectren did not take seriously some important near-term decisions, including whether to retire uneconomic units and whether to build renewables before the sun setting of the renewable tax credits. She reiterated some claims made by Dr. Stanton related to EE costs and said the EE programs do not simply reduce the dispatch of existing units on the margins, but can also avoid the need to add new capacity or add less capacity in the future. She said that Vectren South's DSM Plan does not reconcile proposed DSM savings with savings in its 2016 IRP and the Commission should reject Vectren South's DSM plan.

CAC witness Rábago's basis for encouraging the Commission to reject Vectren South's DSM Plan is based upon his conclusion that lost revenues associated with the plan are unreasonable, which means the Plan cannot be found reasonable pursuant to Section 10. He said that an LRAM proposal must be designed and approved to collect rates that are in magnitude and impact just and reasonable. He discussed rate making principles. He discussed the perils of pancaking and single-issue rate making and recommended a four-year cap on lost revenue recovery. He encouraged the Commission to make findings rejecting Vectren South's DSM Plan as unreasonable due to its unreasonable lost revenue mechanism. He said the Commission should find that the range of reasonable for lost revenues is four years. He said that Vectren South's claim that a four-year cap would result in a perverse incentive for the Company not to include longer lived measures is not credible and deserves no weight. He said Vectren South's new approach to lost revenues (weighted average measure life, less 10%) is not appropriate for consideration or adoption. He said it potentially creates greater problems in terms of rate fairness. He then discussed the fact that Dr. Khawaja submitted testimony on behalf of Vectren in this Cause and called it a conflict of interest. He said the Company should be directed to seek a new firm to serve as an independent evaluator for its EE programs and plans on a going forward basis. In the alternative he suggested adoption of a third party Independent Evaluation Monitor model, like the one in Arkansas.

D. Petitioner's Rebuttal. Petitioner's witness Harris pre-filed rebuttal testimony to respond to claims by the OUCC and CAC (collectively, "Intervenors") that the Commission should reject the Plan. She testified that the Intervenors have not provided a basis to find the Plan unreasonable and that, despite their protests, the Plan is consistent with the IRP. She discussed flaws with the OUCC's lost revenues proposal and addressed the Intervenors' criticisms of Vectren South's WAML proposal. She said the following two key factors make it a superior approach to other recommendations: (1) lost revenue recovery remains connected to measure life; and (2) lost revenue recovery remains connected to EM&V, which has been relied upon for decades in the determination of lost revenues.

Ms. Harris discussed witness Rábago's misrepresentation of program costs, performance incentives and lost revenues for the 2018-2020 Plan. She said that while there are no concerns with the mathematical calculation of the figures, there is an inherent bias in the illustrations, as they compare the program costs and performance incentive for the plan period (2018-2020) to various other periods of LRAM, without acknowledgement of lifetime/ongoing savings. She then provided an accurate illustration of the costs associated with the Plan.

Ms. Harris discussed witness Rutter's inconsistency and flaws related to the proposed 50% UCT cap. She said the proposal is flawed, as the UCT net benefits have already accounted for program costs, thus capping the recovery of program costs based on the UCT net benefits is a form of double counting. In other words, since program costs are already accounted for in the calculation, the net benefits of the UCT reflect the difference between the costs avoided and costs incurred by DSM. She states that his approach also ignores the other benefits to customers including bill savings that occur as part of program implementation and incentives paid to encourage customer participation.

Ms. Harris then described Vectren South's current performance incentive mechanism and said it is reasonable and should remain in place, unchanged. She said it is based on a shared savings approach, as it is tied to both a tiered level of energy savings achieved and the net present value of UCT benefits. The OUCC's recommended approach creates a disincentive to offer new programs, which the performance incentives under Section 10 were meant to avoid and that it discourages the utility allocating resources toward hard to reach markets due to the difficulty in reaching goals within those markets.

Mr. Albertson pre-filed rebuttal testimony where he addressed issues raised by CAC witness Rábago regarding the recovery of lost revenues associated with Vectren South's 2018-2020 Plan. Mr. Albertson said that CAC witness Rábago does not explain why Vectren South's continued reliance on EM&V to determine the amount of lost revenues associated with Vectren South's DSM programs is unreasonable. In other words, the CAC does not dispute that EM&V appropriately measures the amount of energy that a customer will not consume as a direct result of implementation of an EE measure. Instead, witness Rábago contends that it is not reasonable for Vectren South to recover lost revenues that are demonstrated to result from implementation of DSM measures.

Mr. Albertson testified that Vectren South's modified LRAM proposal sets a reasonable limit on the collection of lost revenues. He said that unlike an arbitrary cap not linked to measure life, the Company's WAML proposal is EM&V-based, and thus inherently takes into account the corresponding savings being provided to customers via the EE measures implemented. Second, it limits recoveries to the weighted average life of the EE programs by rate class, and in turn limits the time period for lost revenue recovery to a period less than the full life of some of the measures – in many cases about 6-7 years for residential programs. Third, by reducing the results of the EM&V calculation by 10% to reflect statistical uncertainty in the EM&V process, it produces a conservative calculation of savings to be used to determine lost revenue. In this manner, the objective of addressing the throughput incentive is properly balanced with the need to establish a reasonable level of revenue recovery that still has a logical and important relationship to the lost sales driven by EE programs.

Mr. Albertson testified that since 2011[5], customers have seen a very slow and relatively small increase in average monthly bills and a proportionately small and steady increase in the DSM component of the monthly bill. The data shows that the year-over-year impact on the average monthly residential customer bill as a result of Vectren South's DSMA averaged (or is expected to average) an increase of \$1.15 per month during the period 2011-2018, and an increase of \$0.43 per month during the period 2019-2020.[6] Neither the average total bill nor the DSM Component of the average bill has been erratic during this period. Mr. Albertson testified that witness Rábago has not provided any factual support demonstrating that a four year cap will allow Vectren South to recover reasonable lost revenues as provided in Indiana Code § 8-1-8.5-10(o).

K. Chase Kelley, Vice President, Marketing and Communications for VUHI, pre-filed testimony responding to allegations by CAC witness Rábago that Dr. Khawaja and the Cadmus Group are no longer independent. Ms. Kelley testified that Vectren South did not seek to influence Dr. Khawaja's testimony and that he and the The Cadmus Group remain independent. She explained that Vectren South maintains an arms-length relationship with Cadmus, that Cadmus does not benefit from the findings of the evaluation and that Vectren South is not influencing Cadmus' evaluation. She said that Vectren South approached Dr. Khawaja to address concerns that had been raised about the reliability of the EM&V results for purposes of determining lost revenues. Dr. Khawaja's conclusions on the effective useful lives of EE measures support Vectren South's decision to self-impose a cap tied to the WAML of the EE measures proposed in the Plan. Additionally, Vectren South decided to modify its proposal even further based on Dr. Khawaja's conclusions on statistical EM&V confidence level/uncertainty. Ms. Kelley then explained the reasons she disagrees with the CAC regarding implementation of an Independent Evaluation Monitor.

Petitioner's witness Stevie pre-filed rebuttal testimony to respond to criticisms of Vectren South's methodology for modeling EE in its IRP asserted by CAC witnesses Dr. Stanton and

[5] 2011-2017 Average Bill detail as reflected in the IURC Electric Residential Bill Survey results. http://www.in.gov/iurc/2761.htm

[6] Based on average usage of 1,000 kWh per month.

Sommer. He said the CAC's criticisms of his methodology are misplaced and that Vectren South acted reasonably in modeling EE as becoming more expensive as greater quantities are called for in any one year. Dr. Stevie testified that CAC witnesses Stanton and Sommer made several faulty and unfounded assertions and conclusions about his research and cost projection. He said their concerns are largely based on their inability to replicate his analysis, which failure was driven by two errors in their attempt to replicate his analysis. One, they did not utilize the same econometric technique he utilized. Two, they included the wrong data from the sources he relied upon. Dr. Stevie responded to criticisms made by CAC witness Stanton regarding application of his regression analysis. In addition, Dr. Stevie responded to claims made by CAC witness Sommer related to Vectren South's decision to model EE at 40% of retail sales and he responded to her proposed alternative approach to determining whether a DSM Plan is consistent with an IRP.

Petitioner's witness Lind pre-filed rebuttal testimony to respond to criticisms made by CAC witnesses Sommer and Stanton regarding certain aspects of the modeling of EE programs within Vectren South's 2016 IRP. CAC witnesses Sommer and Stanton both asserted their belief that the 2016 IRP does not provide an optimal balance of energy resources. Witness Lind responded to claims that Vectren South constrained Strategist from selecting certain resource options. In addition, he addressed the three questions raised by CAC witness Sommer related to the iterative process and other specific questions related to EE modeling in the IRP. Witness Lind responded to criticisms made by the CAC related to Warrick Unit 4 and testified that extending operation of the plant by approximately 3 to 4 years is not a material change. Witness Lind responded to claims that Vectren South did not take seriously decisions regarding whether to retire uneconomic units or whether to build renewables before the sun setting of the renewable tax credits. He testified that Vectren South considered the earliest retirement dates for all of its coal facilities with the exception of Warrick Unit 4 based on the availability of replacement capacity and the time needed for transmission reliability upgrades that would be required with retirements. He stated resources that could take advantage of renewable tax credits were considered as early as possible based on construction timelines. Moreover, the preferred portfolio adds 54 MWs of solar resources early on in the resource plan.

Gary Vicinus, Regional Director at Pace Global, a Siemens business ("Pace Global"), testified on rebuttal and responded to the following three issues raised by CAC witness Anna Sommer: (1) the use of a balanced scorecard to select the preferred portfolio; (2) the selection of metrics; and (3) the manner of differentiation of the metrics for making recommendations.

Witness Vicinus testified that Pace Global is a leading consultant for integrated resource planning, with extensive experience in structuring and facilitating IRPs for utilities throughout the United States and Caribbean. He said utilities have multiple objectives in planning that include competitive costs, stability of costs, reliability, environmental stewardship and diversity among others and that a balanced scorecard approach allows the utility to find the right balance between competing objectives. He then explained the balance scorecard methodology and color rankings. He discussed the selection of metrics and testified that each utility has its own objectives, priorities, and metrics for judging the success of meeting its objectives, every utility views the risks to its business differently. He testified that the business process that Pace Global follows in developing an IRP is the same for all clients, but the selection of objectives and metrics will always vary from utility to utility. He testified that the metrics selected by Vectren South are generally consistent with those used by other utilities.

Witness Vicinus testified that cost and risk are not the only appropriate measures that should be considered and that the metrics were not "distorted to create nonexistent differences." He said there are clear differences between groups of portfolios for nearly every metric. Ms. Sommer only provided criticism of the use of a balanced scorecard, of the selection of the metrics, and of the significance of the differences between portfolios. He testified that even in her flawed, rounded, ordinal ranking, the Stakeholder portfolios (I and J) are ranked lower than the preferred portfolio (L). Portfolio L is still in the top group.

7. <u>Discussion and Commission Findings.</u> Section 10 requires electricity suppliers to petition this Commission not less than one time every three years for approval of an EE plan that includes (1) EE goals; (2) EE programs to achieve EE goals; (3) program budgets and program costs; and (4) EM&V procedures, including independent EM&V. Section 10(h). To the extent Vectren South's Plan is consistent with the requirements of 10(h), we must weigh whether Vectren South's Plan is "overall reasonable" pursuant to Section 10(j) including recovery of costs.

Because Section 10 does not address DR programs, we may also be required to evaluate whether DR programs, as authorized pursuant to the DSM Rules, comply with those Rules. For the reasons we provide below, we conclude that Vectren South's 2018 – 2020 Plan is reasonable and should be approved. Because the programs in the 2018 – 2020 Plan that include DR components are not primarily DR, we find it unnecessary to reach a separate conclusion about the reasonableness of those plans pursuant to our DSM Rules and will review those programs under Section 10.

A. Section 10(h)—Plan Components. In order to approve the 2018 – 2020 Plan, we must determine whether the Plan is a plan as contemplated by the Indiana Legislature in Section 10(h). Specifically, we must determine whether the Plan includes EE goals, EE programs to achieve the EE goals, program budgets and program costs and independent EM&V procedures.

According to Section 10(h)(1), a plan must have EE goals, which must include all EE produced by cost effective plans that are reasonably achievable, consistent with Vectren South's IRP and designed to achieve an optimal balance of energy resources in Vectren South's service territory. A key question before us in this proceeding is whether Vectren South's 2018 – 2020 Plan includes EE goals as defined by Section 10. The CAC contends the Plan does not include EE goals as required by Section 10 and should be rejected. CAC asserts that Vectren South's IRP has errors and therefore the level of EE supported by that IRP fails to achieve an optimal balance of energy resources. The CAC contends the errors include mis-pricing EE, inappropriately constraining resources in the IRP modeling, and improperly weighting the risks and benefits of various options.

First, CAC alleges the EE modeling is faulty because it assumes each incremental block of EE savings costs more than the preceding block. Vectren South modeled generic EE savings in 0.25% blocks as a resource in its IRP modeling, enabling Strategist to select each block over the modeling period as a resource. Notably, CAC supports this resource modeling approach that is unique to Vectren South. The price of each block increased because Vectren

South concluded that as EE goals become more aggressive, it costs more money to induce more customers to install EE measures. This conclusion was based on a study conducted by Dr. Stevie using Energy Information Administration ("EIA") data to evaluate whether utilities had to spend more to induce more customers to install EE measures. Dr. Stanton dismisses this study because she could not reproduce its results and her own results contradicted Dr. Stevie's analysis. However, her inability to reproduce Dr. Stevie's analysis, according to evidence submitted on rebuttal by Vectren South and undisputed by CAC, stemmed from errors in her data and the use of a different econometric technique. *See* Petitioner's Exhibit CX-2, Petitioner's Exhibit No. 12, pp. 6. These mistakes explain her inability to reproduce Dr. Stevie's results. CAC produced no studies of its own to support Dr. Stanton's assumption that no change in cost occurs to drive greater EE savings. We find Dr. Stevie's study at a minimum supports the common sense conclusion and Vectren South's own experiences that a utility that sets aggressive EE goals must spend more to convince growing numbers of customers to adopt EE programs. Dr. Stanton also criticized Vectren South's cost change for EE expenditures between blocks 4 and 5 (1% to 1.25%). However, even if it could be shown that such a cost escalation assumption is on the high side, Vectren South conducted sensitivities to determine whether a lower price would result in the selection of more EE. Those sensitivities did not result in the selection of more EE and CAC did not effectively undercut such modeling. Based on this record, CAC has not established that price escalation improperly limited the IRP's selection of EE as a resource.

Second, the CAC made several allegations regarding IRP modeling within Strategist as support for its claim that Vectren South's 2016 IRP is flawed. The CAC claimed that the Strategist model inappropriately constrained the selection of resources, such as varying levels of wind, solar, DR and EE, from consideration within the model; that Vectren South's decision to continue operating Warrick Unit 4 until 2020 completely undermines the validity of the 2016 IRP, and that Vectren South did not take seriously some important near-term decisions, including whether to retire uneconomic units and whether to build renewables before the sun-setting of the renewable tax credits. Vectren South witness Lind of Burns and McDonnell conducted the modeling for the IRP. He testified that the Strategist runs did not unduly constrain resources. He explained that CAC's contrary conclusion was based on Ms. Sommer's misunderstanding of the output files and the iterative process necessary to evaluate many different resources. CAC's other contentions, even if true, fail to address the central issue in this case of whether the IRP produces the optimal level of EE goals. While the definition of energy efficiency goals in Section 10(c) includes plans that are "designed to achieve an optimal balance of energy resources in an electricity suppliers service territory" (Section 10(c)(3)), the language must be construed within its proper context—establishing reasonable energy efficiency goals that can be achieved as part of a reliable IRP approach. The decision to continue operating Warrick Unit 4 or decline to allow earlier selection of other resources has not been shown to negatively impact the EE goals that are optimal for Vectren South's customers. Rather, as set forth above, the modeling process using sensitivity analysis validated the EE goals. Consequently, we conclude these criticisms would not impact our determination of whether Vectren South is proposing reasonable energy efficiency goals designed to achieve an optimal balance of energy resource in its service territory.

Third, the CAC discounted the value of Vectren South's IRP risk analysis. Specifically, the CAC leveled three main criticisms at Vectren South's risk analysis: (1) the use of the scorecard to support selection of the preferred portfolio, (2) the selection of metrics; and (3) the manner of differentiation of the metrics for purposes of making recommendations. Over the last few IRP cycles, the Commission has encouraged utilities to perform more risk analysis and sensitivities testing. Vectren South responded to those recommendations and engaged Pace Global, a world-wide leader in planning and risk analysis to assist with this effort. By its nature, this type of risk analysis is a qualitative part of the IRP that reflects some level of judgment and expertise on the part of the utility as it ventures beyond strict net present value ("NPV") analysis to consider other relevant issues. Here, Vectren South, with Pace's assistance, presented an evaluation of factors such as risk of reliance on off system generation, impacts of resource options to the local economy, portfolio diversity, regulatory risk, and exposure to market pricing. On its face, these are relevant issues that should be vetted in the IRP. We find Vectren South's use of the scorecard, including manner of differentiation of the metrics, is an acceptable approach to presenting these issues. The scorecard is a visual representation of risk that assists lay persons in understanding difficult, technical concepts that are sometimes hard to explain with words and even harder to understand if you do not have a technical background. Rather than being "non-sensical" and "illogical" the metrics Vectren South selected represent the risks the Company has identified to its business and its customers and we see no reasonable basis for discounting the metrics Vectren South selected. As confirmed by Petitioner's witness Vicinus, Vectren South selected metrics that are generally consistent with those used by other utilities. The IRP represents a fluid process that evolves over time. Here, Vectren South may continue to adjust its review of risk. Certainly none of CAC's criticisms undercut the effort taken to present a review of pertinent issues, and most importantly, CAC never explains how a different approach would drive more cost effective EE. We find that Vectren South's risk analysis is not only much improved over the last IRP, but also a reasonable part of the basis for establishing the validity of Vectren South's 2016 IRP.

We must now determine whether the 2018 – 2020 Plan is consistent with Vectren South's 2016 IRP. The CAC claims that since the 2016 IRP gross savings, 2016 IRP net savings and Plan savings and costs are not all the exact same, the Plan is not consistent with the IRP. Both Vectren South and the OUCC agree that the 2016 IRP and the Plan are consistent. The preferred portfolio in the IRP includes EE at approximately 1% of eligible retail sales and the Plan includes EE at approximately 1% of eligible retail sales. In addition, the levelized cost for the Plan is $.032/kWh without performance incentives and $.036/kWh with performance incentives. The levelized cost of EE in the Plan is $.036/kWh. The costs are consistent. We agree with the OUCC and Vectren South that the 2016 IRP is consistent with the 2018 – 2020 Plan.

We find that Vecten South's 2018 – 2020 Plan includes EE goals. The Plan is reasonably achievable, consistent with the 2016 IRP and designed to achieve an optimal balance of energy resources in Vectren South's service territory. Moreover, the Plan has a three year term. Vectren South's next IRP will again consider appropriate EE goals and will provide direction on the future level of EE to be pursued.

According to Section 10(h), a plan must include EE programs to achieve the EE goals. The 2018 – 2020 Plan includes thirteen (13) residential programs and seven (7) C&I programs designed to achieve the EE goals set forth therein. Section 10(h)(3) requires a plan submitted for approval to include program budgets and program costs, which the 2018 – 2020 Plan includes. In addition, the 2018 – 2020 Plan includes EM&V with a process for independent evaluation of the programs. Vectren South's 2018 – 2020 Plan meets all of the requirements of a plan as set forth in Section 10(h).

B. Section 10(j)—Plan Reasonableness. Vectren South is requesting approval of the 2018 – 2020 Plan pursuant to Section 10. As such, we must conduct a review of the Plan to determine whether it is reasonable based upon the criteria set forth in Section 10(j), which explicitly identifies ten (10) factors the Commission must consider when determining reasonableness. If we determine Vectren South's EE Plan is reasonable, then approval of the Plan shall include: (1) recovery of reasonable financial incentives that eliminate the recognized utility financial bias against engaging in EE, and (2) recovery of reasonable lost revenues. Section 10(o).

The OUCC has suggested that the 2018 – 2020 Plan fails to meet three of the ten factors the Commission is required to consider to find the Plan reasonable. Therefore, the OUCC has recommended that the Commission find the 2018 – 2020 Plan unreasonable in its entirety, issue an order explaining the reasons supporting its findings and provide Vectren South a reasonable time to file a modified plan. Specifically, the OUCC said that Vectren South failed to meet the criteria established in Ind. Code § 8-1-8.5-10(j)(2), (7), and (8). In addition, the CAC claimed that Vectren South did not meet the requirements of Ind. Code § 8-1-8.5-10(j)(9). On the other hand, Vectren South presented evidence showing that it has met all ten (10) factors and the Plan should be found reasonable and approved as presented. No party disputed whether Vectren South met the criteria established in Ind. Code § 8-1-8.5-10(j)(1), (3) through (6), and (10).

i. Section 10(j)(2)—Cost and Benefit Analysis. Ind. Code §8-1-8.5-10(j)(2) requires a cost and benefit analysis of the plan, including the likelihood of achieving the goals of EE programs included in the plan. Vectren South claims that its 2018 – 2020 Plan includes a cost and benefit analysis; however, the OUCC disagrees. OUCC witness Rutter said the Plan does not provide a cost and benefit analysis provided for in subsection (j)(2) that includes program costs defined in Section 10(g). The OUCC contends that a cost benefit analysis compliant with subsection (j)(2) means that lost revenue recovery should be part of the cost effectiveness tests (which only the RIM test factors in) used to assess EE programs.

In response to the OUCC's position, Vectren South submitted testimony of a number of witnesses disputing the OUCC's position and pointing out that exclusive use of the RIM test would essentially end the offering of EE programs in Indiana. This testimony cited the 2014 Energy Center of Wisconsin Report ("ECW Report"), prepared for the Commission and presented to the General Assembly, with respect to the cost effectiveness of EE programs offered in Indiana from 2012-2013. In discussing this topic, the ECW Report stated in part, "As a rule, energy efficiency programs across the country, not just in Indiana, do not pass the RIM test because energy efficiency programs attempt to minimize bills, not rates."[7] The ECW Report relied on the TRC, UCT and Participant Cost tests to demonstrate that Indiana's EE programs have been cost effective for customers.

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[7] <u>Indiana's Core and Core Plus Energy Efficiency Programs: Benefits, Costs and Savings</u>, Energy Center of Wisconsin, Aug. 14, 2014, p. 5

With respect to the role of the RIM test, as well as other DSM cost benefit tests, Vectren South provided a review of the provisions of Section 10(j) setting forth the ten (10) factors the Commission is to assess in reviewing the reasonableness of proposed EE plans, and showed that no language had been included to modify the long standing cost/benefit analysis to be performed, and that the focus of the law was to ensure consistency of utility EE plans with the results of integrated resource planning. Specifically, while the statute does include lost revenues in the definition of EE "program costs," that defined term is not used anywhere in Section 10(j). Instead, the Commission is directed to consider under Section 10(j)(2), "[a] cost and benefit analysis of the plan, including the likelihood of achieving the goals of the energy efficiency programs included in the plan," and to determine per Section 10(j)(3) whether the plan is consistent with the utility's IRP. Under Section 10(j)(8), as part of this overall reasonableness review, we also consider the lost revenues and financial incentives associated with the Plan, which we discuss below. We agree with Petitioner that our view of these elements of the Plan can continue to rely on the established cost effectiveness tests we have used in the past to assess EE plans, and that there is no basis to find that the General Assembly has dictated exclusive reliance on the RIM test. Given ECW's statement that EE programs struggle to ever pass that test, we find that reliance only on RIM results would seriously impair future use of EE in Indiana. With the likely future need to address carbon emissions, all available tools to mitigate carbon should be readily available. We therefore reject this OUCC position.

ii. Section 10(j)(7)—Bill Impacts. Ind. Code §8-1-8.5-10(j)(7) requires us to consider:

> The effect, or potential effect, in both the long term and the short term, of the plan on the electric rates and bills of customers that participate in energy efficiency programs compared to the electric rates and bills of customers that do not participate in energy efficiency programs

Vectren South submitted evidence of short term bill impacts for all Rate Schedules and provided a bill impact analysis for a Residential Standard Customer using 1,000 kWh per month. In addition, Vectren South presented various cost effectiveness tests—some of which are designed specifically to evaluate the long term effect of the EE programs on the electric rates and bills of both participating and non-participating customers. The OUCC asserts that Vectren South totally ignored the long-term and short-term effect on non-residential customers that participate in EE programs compared to non-residential customers that do not participate in EE programs, but that assertion is not supported by the evidence of record. In response to Mr. Rutter's testimony, Petitioner's witness Albertson pointed out that Vectren South provided bill impacts to all rate schedules. The fact that Vectren South provided an additional break out of the bill impact to a residential customer using 1,000 kWh per month should not be viewed as a requirement to do the same for non-residential customers that participate compared to non-residential customers that do not participate. We disagree with the OUCC. Vectren South did not totally ignore the impact of the Plan on non-residential customers. Having reviewed the bill impact information provided by Vectren South, we find the 2018 – 2020 Plan appropriately weighs the long term benefits against the short and long term bill impacts. We now will address 10(j)(8).

iii. Section 10(j)(8)—Lost Revenues Lost Revenues and Performance Incentives. In evaluating the reasonableness of an EE plan, we must consider "the lost revenues and financial incentives associated with the plan and sought to be recovered or received by the electricity supplier." The Indiana Court of Appeals has clarified that recovery of lost revenues must be considered in the Section 10(j)(8) reasonableness inquiry. *Southern Indiana Gas & Electric Co. v. Ind. Util. Reg. Commission*, 2017 Ind. App. Unpub. LEXIS 263 at *17 (2017). If the Commission finds that an electricity supplier's EE plan is reasonable under section 10(j), the electricity supplier must be authorized to recover:

> (1) Reasonable financial incentives that:
> (A) encourage implementation of cost effective energy efficiency programs; or
> (B) eliminate or offset regulatory or financial bias:
> (i) against energy efficiency programs; or
> (ii) in favor of supply side resources.
> (2) Reasonable lost revenues.

Section 10(o). The issue as part of the overall plan reasonableness review, and the ultimate amount of lost revenue recovery, is a determination of what is reasonable. This involves both a policy decision as well as an economic analysis, both of which must be done consistent with the statutory provisions.

The term reasonable is not defined by Section 10; consequently we afford the term its plain and ordinary meaning. *E.N. v. Rising Sun-Ohio County Community School Corp.*, 720 N.E.2d 447, 452 (Ind. Ct. App. 1999) ("Words and phrases are taken in their plain, ordinary and usual meaning unless a different purpose is manifested by the statute.") The term reasonable is defined as "within the bounds of common sense" or "not extreme or excessive." Webster's II New Riverside University Dictionary 980 (1984). Therefore, in considering Vectren South's proposed lost revenue and incentive request, we evaluate whether its request is excessive or beyond the bounds of common sense. Again, we do this in the context of the policy to address the inherent financial disincentive that exists when a utility acts to reduce its own sales and fixed cost recovery.

First, we turn to Vectren South's proposed recovery of lost revenues. Vectren South initially requested that the Commission approve lost revenue recovery for the life of each EE measure implemented pursuant to the 2018 – 2020 Plan. However, Petitioner subsequently proposed to recover lost revenues based upon the WAML of the Plan, with a 10 % reduction in savings to account for measure persistence. We note this same modified proposal was made in the 2016-2017 EE remand case. OUCC did not present an alternative to Vectren South's modified WAML approach in that proceeding. Historically, lost revenues in Indiana have been recovered based on measure lives and savings confirmed by EM&V. However, the CAC has continued to advocate some recovery limit to blunt the effect of pancaking costs, a situation where between rate cases recoveries build over time and only drop off when a measure life ends.

We begin by addressing the purpose of permitting a utility to recover lost margins. We have recognized in prior orders 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." 44495 Order, p.

10; *see also Southern Indiana Gas & Elec. Co.*, Cause No. 43938, pp. 40-41 (IURC August 31, 2012) and 170 IAC 4-8-6(c). In Cause No. 44495, we said, "the purpose of recovery of lost margins on verified energy savings from DSM programs is to return the utility to the position it would have been in absent implementation of a DSM measure." *Id.* CAC witness Rábago referenced Section 10(e) and 170 IAC 4-8-6 as supporting a change to that stated purpose. He claims "the purpose of lost revenue recovery is to provide reasonable mitigation of the direct and causally-connected revenue losses resulting from utility sponsored EE programs and measures." CAC Exhibit 3, p. 7. We disagree. Neither Section 10 nor our DSM Rules support the purpose statement advocated by the CAC and we decline to adopt it. Numerous Commission orders, as well as a decade or more of state and national public policy support the fact that the purpose of permitting a utility to recover lost revenues is to assist in removing the disincentive a utility may have in promoting DSM in its service territory and to return the utility to the position it would have been in absent implementation of a DSM measure. Nothing in Section 10 changes that purpose.

Given this policy objective, we must consider the financial impact of a lost revenue recovery proposal on the utility, *i.e*. does it reasonably address the inherent EE disincentive and provide a reasonable level of recovery. As pointed out by Vectren South, until rate design is changed, a utility that recoups most of its fixed costs via volumetric rates is particularly exposed to lost sales driven by EE. Over time, rate design changes can be considered—as pointed out by the ACEEE, an LRAM is a "bridge" solution to lost revenues that does relate to broader rate design issues—a bridge solution mandated by Section 10(o). Both the OUCC and CAC have encouraged the Commission to reject Vectren South's WAML proposal; each proposes an alternative, but neither supports that alternative with robust analysis demonstrating that the resulting lost revenues recovery is reasonable in nature. Moreover, as we discuss below, the statute emphasizes use of EM&V and neither alternative to the WAML proposal appears to be based on EM&V.

CAC witness Rábago encouraged the Commission to make specific findings to support an overall finding that a four-year cap on lost revenue recovery is reasonable, but fails to explain how a four year cap allows Vectren South to recover reasonable lost revenues. Petitioner's witness Harris testified that implementing a four-year cap on the 2018-2020 Plan would cause approximately $52M of financial harm to Vectren South in lost revenues over the life of the programs, which equates to approximately 70% of lost revenues. Petitioner's Exhibit No. 6, p. 8. Witness Rábago suggested the Commission rely on the ACEEE report related to pancaking to support imposition of a cap. He said that pancaking can result in unreasonable rates due to the cumulative effects of lost revenue collections through an LRAM in later years of an efficiency portfolio. CAC Exhibit No. 3 at 18. He went on to say, "…a growing and significant component of rates…would be large, erratic, unpredictable and increasingly difficult for customers to understand." *Id.* However, Petitioner's witness Albertson said the year over year impact on the average monthly bill as a result of Vectren South's DSMA averaged an increase of $1.15 per month during the period 2011 through 2018 and an increase of $0.43 per month during the period 2019 thought 2020. Petitioner's Exhibit 10, p 4. He said the data further shows that neither the average total bill nor the DSM Component of the average bill has been erratic during this period. *Id.* Notably, Mr. Rábago ignores the financial effect of his proposed cap on the Company. The WAML proposal further blunts the potential pancaking issue. Moreover, while CAC claims rate cases are/less frequent, Vectren South submitted evidence that undercut the factual basis for such an argument. As stated by the Court of Appeals, "[A] four year cap may have the superficial virtues of simplicity and uniformity," but there must be findings that "…the cap would allow Vectren South to recover reasonable lost revenues as provided in Section 10(o)." *Southern Indiana Gas & Electric Co. v. Ind. Util. Reg. Commission*, 2017 Ind. App. Unpub. LEXIS 263 at *18 (2017). It is difficult to find a 4 year cap comports with use of EM&V processes required by statute.

The OUCC encouraged the Commission to adopt a cap based upon the UCT. OUCC witness Rutter recommended the Commission cap recovery of all costs associated with the 2018 – 2020 Plan, including lost revenues and shareholder incentives, at 50% of the UCT net benefit. Public's Exhibit No. 1, p. 2. He said a reasonable method of balancing shareholder and customer interests would be to share the UCT net benefit 50-50. Id at 14. He said it is only fair that consumers and the utility receive their benefits at the same time. Petitioner's witness Harris said that the UCT compares a future steam of benefits of avoided cost to an annual cash return and does not provide the utility with cash funds. Petitioner's Exhibit No. 9, p. 8. She said that under the OUCC's approach, Vectren South would recover only 21% of the incremental lost revenues and shared incentives associated with the 2018 – 2020 Plan. *Id.* OUCC never explains how this 50% cap on all EE cost recovery appropriately addresses lost sales in a reasonable manner from the utility perspective, nor how such a cap would incorporate reliance on EM&V to fairly influence such a calculation. There is also some debate on whether the UCT test captures the total long term benefit of avoided generation costs associated with EE. Ultimately, the OUCC's proposal simply fails to yield a reasonable result. With respect to this proposed EE Plan, witness Rutter (Public Exhibit No. 1, p. 14) said program costs, lost revenue recovery and financial incentives awarded should not total more than $19,334,837 for the 3-year plan. Vectren South's program costs alone for the 3-year plan are $28.6 million; as such, under witness Rutter's proposal, Vectren South would not be able to completely recover program costs let alone lost revenues and incentives associated with the Plan. This outcome does nothing to support EE, much less pass the statutory reasonableness test.

According to Petitioner's witness Harris, Vectren South's WAML proposal is the only approach that allows Vectren South to recover reasonable lost revenues. She said there are two key factors associated with Vectren South's WAML proposal that make it a superior approach and they are: (1) lost revenue recovery remains connected to measure life; and (2) lost revenue recovery remains connected to EM&V, which has been relied upon for decades in the determination of lost revenues. Petitioner's Exhibit No. 9, p. 7. We agree. Vectren South's WAML proposal, which includes a 10% reduction in savings to account for precision is reasonable. It not only fits with the legislative policy expressed by adoption of Section 10, and the Commission's stated purpose of lost revenue recovery, but it also relies on EM&V and remains connected to measure life. Only Vectren South's proposal properly takes into account the financial effects on the Company. According to Ms. Harris, under the WAML proposal, Vectren South would lose and, in the short-term, customers would avoid paying, $18.8M in lost revenues, which is 26% of total lost revenues. Petitioner's Exhibit No. 6, p 11. While the 100% recovery initially proposed by Vectren South is reasonable because the evidence shows Vectren South actually loses revenues over the full measure life, the Company's modified proposal resulting in a 26% reduction in verified lost revenues is more reasonable than the 70% reduction that would be experienced under the 4 year cap proposed by the CAC, or the 79% reduction that would be experienced under the OUCC's 50% of UCT cap approach.

Next, we turn to Vectren South's proposal to implement performance incentives. We also conclude that Vectren South's current performance incentive mechanism is reasonable and shall continue. As we noted above, Section 10 states that we "shall allow" reasonable financial incentives that (1) encourage implementation of cost effective energy efficiency programs or (2) offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources.

OUCC witness Rutter recommended that the Commission require performance incentives be calculated at the program level and be awarded only if Vectren South achieves 100% or more of the program's goal. He testified that performance incentives should never be greater than the WACC approved in Vectren South's last rate case and that any "reasonable" performance incentive should be subject to an overall 50% of UCT cap on the sum of lost revenues recovered and incentives.

For nearly a decade, we have allowed Vectren South and other utilities to calculate performance incentives at the portfolio level, with a tiered structure. Nothing in Section 10 requires the Commission to reverse course and demand that utilities meet 100% of the goal before earning a performance incentive or that the incentive be calculated at the program level. The stated goal of awarding performance incentives is to "encourage implementation" not stifle innovation. Petitioner's witness Harris testified that the OUCC's performance incentive approach creates a disincentive to offer new programs, and discourages the utility to allocate resources toward hard to reach markets due to the difficulty in reaching goals within those markets. We agree and find that the limitations recommended by the OUCC stifle innovation. Ms. Harris further testified that the OUCC's recommended approach does not promote a well-balanced portfolio and fails to recognize the utility's primary objective, which is to achieve overall portfolio savings goal that aligns with its IRP. We agree. Encouraging implementation of cost effective EE is the express goal of Section 10(o). OUCC witness Rutter failed to explain how placing the recommended limitations on performance incentives meet that goal and we decline to adopt those limitations.

iv. Section 10(j)(9)—IRP. Section 10(j)(9) requires consideration of "[t]he electricity supplier's current integrated resource plan and the underlying resource assessment." We have already considered the criticisms leveled at Vectren South's IRP in the context of our analysis under Section 10(h). Having found that the IRP reasonably identified energy efficiency goals, no further analysis is required.

C. Recovery of Program Costs. Section 10 provides that once an electricity supplier's EE plan is approved, the Commission shall allow the electricity supplier to recover all associated program costs on a timely basis through a periodic rate adjustment mechanism. Section 10(k). We have previously approved Vectren South's EE Plan and therefore find that Vectren South shall be authorized to recover associated program costs. Vectren South has proposed to recover those costs through its approved DSMA mechanism.

Both the OUCC and the CAC discuss the requirement for rates produced by the 2018 – 2020 Plan to be just and reasonable, and we agree. However, the CAC goes further and calls LRAMs piece-meal ratemaking, which indicates a fundamental lack of understanding regarding statutory authority and the origins of Vectren South's proposed treatment. We have approved

LRAMs for Vectren South and other Indiana utilities pursuant to our DSM rules for nearly a decade, and now pursuant to Section 10, which expressly contemplates timely recovery through a periodic rate adjustment mechanism. Section 10(m) and (o). We find Vectren South's DSMA, as presented herein, to be reasonable and authorize the Company to collect all program costs, including direct and indirect program costs, lost revenues, based upon the WAML, less a 10% reduction in savings, and performance incentives through the DSMA.

8. Confidential Information. Petitioner filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was supported by an affidavit, showing the testimony and exhibits of CAC witness Sommer contained trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2. The Presiding Officers issued a Docket Entry on August 10, 2017 finding such information confidential on a preliminary basis after which such information was entered into evidence under seal. Accordingly, we find that all such information should continue to be held confidential pursuant to Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2.

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

1. Having considered the criteria established in Ind. Code § 8-1-8.5-10(j), the 2018 – 2020 Plan presented by Vectren South is hereby found to be reasonable.

2. The 2018 – 2020 Plan presented by Vectren South includes (i) energy efficiency goals; (ii) energy efficiency programs to achieve the energy efficiency goals; (iii) program budgets and costs; and (iv) evaluation, measurement, and verification procedures that include independent evaluation, measurement, and verification.

4. Vectren South's 2018 – 2020 Plan and its respective proposed costs and budgets are approved as set forth herein.

5. Vectren South's request for timely recovery of all costs, including program costs, reasonable lost revenues based upon weighted average measure life less a 10% savings reduction and reasonable financial incentives associated with the 2018 – 2020 Plan, through its DSMA is hereby approved, consistent with the terms of the Commission's Order herein.

6. Vectren South's request for continued authority to use deferred accounting on an ongoing basis until such costs are reflected in retail rates through its DSMA is hereby approved.

7. Vectren South's request for authority to recover, via its DSMA, annual depreciation and operating expenses associated with the proposed CVR Program investment along with recovery in the DSMA of the annual carrying costs on this capital investment shall be and hereby is approved consistent with the terms of the Commission's Order herein.

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

<u>ATTERHOLT, FREEMAN, HUSTON, WEBER AND ZIEGNER CONCUR:</u>

APPROVED:

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

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Mary Becerra, Secretary to the Commission