STATE OF INDIANA

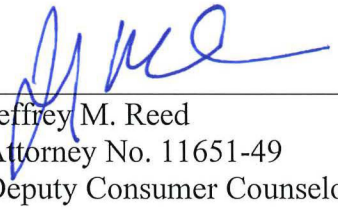
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, LLC FOR APPROVAL OF (1) AN ADJUSTMENT TO ITS RATES THROUGH ITS STANDARD CONTRACT RIDER NO. 66-A FOR DEMAND SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAM COST RECOVERY, INCLUDING RECONCILIATION OF COSTS IN ACCORDANCE WITH THE FINAL ORDERS IN CAUSE NOS. 43955, 43955 DSM-1, 43955 DSM-2, 43955 DSM-3, 43955 DSM-4, 43955 DSM-5 AND 43955 DSM-6	)	**CAUSE NO. 43955 DSM-07**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
EXCEPTIONS TO DUKE ENERGY INDIANA, LLC's PROPOSED ORDER

The Office of Utility Consumer Counselor ("OUCC"), by counsel, hereby submits its Exceptions to Duke Energy Indiana LLC's Proposed Order.

Respectfully submitted,



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ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
David E. Veleta, Senior Administrative Law Judge

The OUCC adopts the entirety of Petitioner's Proposed Order for the following sections:

Introduction

Section 1 - Notice

Section 2 – Petitioner's Characteristics

Section 3 – Relief Requested

Section 4 – Petitioner's Case-in Chief

Section 6 – Petitioner's Rebuttal Testimony

EXCEPT the following should be added at the end of Section 6:

In lieu of cross-examination of Ms. Holbrook by OUCC, DEI and the OUCC agreed to the following Stipulation of Facts:

1. The 800 MW figure shown in Ms. Holbrook's Rebuttal Testimony at page 4, line 22 is a rounded average number from the 2015 IRP Table 8-M which shows the annual summer projections of load, capacity and

reserves. The Energy Efficiency and Demand Response lines for the years 2017, 2018 & 2019 average 800 MW.

2. Of the 800 MW, there are approximately 150 MW that are attributable to energy efficiency and demand response programs included for cost recovery in this proceeding. The remaining approximately 650 MW are attributable to Power Share and Interruptible programs that are recovered outside of this proceeding in Rider 70 or via special contracts.

A copy of Table 8-M from the 205 IRP was attached to the Stipulation.

Section 8 – Confidential Information

The OUCC proposes to replace the entirety of Section 5, OUCC's Case-in-Chief, with the following:

5. OUCC's Case-in-Chief. The OUCC presented the testimony of Caleb R. Loveman, Utility Analyst and John E. Haselden, Senior Utility Analyst, both from the OUCC's Electric Division.

A. Mr. Loveman's Testimony. Mr. Loveman testified nothing in Petitioner's exhibits or workpapers came to his attention that would indicate Duke Energy Indiana's mathematical calculations were incorrect, but he offered no opinion on the veracity of DEI's underlying data nor the appropriateness of Duke's methodology. Mr. Loveman testified that his Attachment CRL-1 outlines his calculations regarding DEI's proposed reconciliations and shows that they match Petitioner's calculations of a $2.16 bill decrease for the DSM adjustment factor on Petitioner's Exhibit 2-C (KCL). Regarding the TJCA, he had no objections to DEI's updated its revenue conversation factor to reflect the 21% federal income tax rate in the previous DSM-6 filing. He also explained that if any of Mr. Haselden's recommendations were approved by the Commission, DEI would be required to modify its proposed 2020 DSM Adjustment Factor reflecting the impact of approved changes.

B. Mr. Haselden's Testimony. Mr. Haselden testified the inputs Duke Energy Indiana used to calculate the UCT, and ultimately shareholder incentives, are not correct for the following reasons:

1. DEI applied the wrong values for avoided capacity costs in its calculations;
2. Avoided Transmission and Distribution ("T&D") capacity costs estimates included in the calculations are excessive (they should be zero), and
3. DEI uses halogen bulbs as the baseline to project future energy and demand savings.

Mr. Haselden testified that DEI's UCT calculations are inflated because they are incorrectly based on DEI's 2015 IRP's estimated escalated costs of purchasing future supply-side capacity, as opposed to DEI's actual cost of avoided capacity. He testified DEI's UCT calculation should

properly value avoided capacity at zero ($0) for years 2018-2022 because DEI has a capacity surplus, and is unlikely to need additional capacity until 2023.

Regarding DEI's proposed avoided T&D capacity costs, Mr. Haselden testified that because T&D capacity benefits are created when they relieve specific circuits with capacity congestion, and because none of Petitioner's DSM programs target specific circuits (DEI's TDSIC Volt-Var program is not part of the DSM portfolio), DSM programs cannot take credit for DEI's proposed avoided T&D benefits, especially those created by TDSIC projects. He further testified DEI's "avoided" T&D capacity costs due to DSM should be set to zero in the UCT calculation for this case for all years because DEI's proposed amounts are unreasonable. Mr. Haselden opposed DEI basing avoided T&D capacity costs on expected T&D construction costs associated with load growth, divided by expected growth in peak load. He said this method artificially inflates T&D avoided capacity cost estimates.

Mr. Haselden also opposed DEI's continuing to use halogen bulbs as a baseline for residential GSL measures. He testified the 15-year, A-Line, GSL LED bulb will soon become, if it has not already, the baseline for this measure. He said using halogen bulbs artificially inflates the UCT, the NPV of energy savings and, in turn, shareholder incentives. Mr. Haselden recommended DEI's UCT calculations and subsequent shareholder incentive calculations be recalculated using appropriate values, dates, and calculation methodology.

The OUCC proposes to replace the entirety of Section 7, Commission Discussion and Findings, with the following:

7. Commission Discussion and Findings. This filing is to reconcile costs incurred in 2018 in accordance with the Order in Cause No. 43955 DSM-4. In that proceeding, we reviewed the reasonableness of the Plan presented and each of the factors set forth in Ind. Code § 8-1-8.5-10(h) and (k), including: program goals, budgets, cost-effectiveness, and EM&V processes. Our review concluded that Petitioner's EE Plan was consistent with its 2015 IRP, as required by statute, and that the Plan satisfied the applicable cost effectiveness tests including the UCT. As to cost recovery, we concluded:

> Program Cost Recovery. Petitioner requests that it be authorized to recover program costs through its approved DSM Rider. 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)(2). The DSM Rules also provide authorization for the recovery of such program costs. 170 IAC 4-8-5. Having found Petitioner's Plan to be reasonable in its entirety, we therefore find that Petitioner shall be authorized to recover its associated program costs.

Page 45.

The record shows while the OUCC took no position regarding the accuracy or validity of DEI's underlying data, Mr. Loveman found nothing in Petitioner's exhibits or workpapers that

would indicate the mechanics of DEI's mathematical calculations to for the proposed DSM Rider factors were incorrect. The OUCC identified multiple concerns it asserts warrant a recalculation of the UCT and, therefore, the performance incentives, which are a percentage of the net benefits under the UCT. As discussed in further detail below, we conclude some OUCC's concerns must be addressed and order a recalculation of both the UCT and performance incentive.

A. Petitioner's Calculation of the UCT.

1. Avoided Generation Capacity Benefits. OUCC witness Haselden objected to DEI's calculation of avoided capacity benefits associated with both avoided generation and avoided T&D included within the UCT. Regarding generation avoided capacity benefits, the evidence of record shows DEI has a capacity surplus in 2018 and 2019, and is unlikely to need additional capacity until 2023.[1] In addition, Duke Energy Indiana will have an additional 100 MW of capacity available in 2021, which is currently under contract to another Indiana utility.[2] If made available to customers, this capacity could further delay the need for additional generating capacity beyond 2023. Duke Energy Indiana did not make any capacity purchases in 2018 or 2019.[3] DEI's proposed avoided generation capacity costs are come from Petitioner's 2015 IRP and are based upon the cost of a simple cycle combustion turbine escalated at an annual rate of 2.5%.[4] These IRP estimated prices are not only several years removed from the 2015 IRP, but more importantly, are prices for supply-side capacity, *should capacity be acquired in those years listed*. They are not *avoided* capacity costs despite Petitioner labeling them as such.

The California Standard Practice Manual ("CSPM") is a foundational treatise on EE program evaluation. Page 23 of the 2001 edition defines benefits under the UCT (called the Program Administrator Cost Test in the CPSM) as:

> …the *avoided* supply costs of energy and demand, the reduction of transmission, distribution, generation, and capacity valued at marginal costs *for the period when there is a load reduction*.

Emphasis added. DEI's *avoided* supply costs will not begin until 2023 or later, despite there being a demand reduction due to DSM efforts in 2018. The language, "... valued at the marginal costs for the period when there is a load reduction" refers to that period when capacity is needed, but reduced by DSM (2023 and thereafter in this case) for the life of the measure or program. The definition's inclusion of "avoided" as modifying "supply costs" should not be ignored. Avoided generation capacity cost benefits can be calculated using the following formula:

$$B_{pa} = \sum_{t=1}^{N} \frac{UAC_t}{(1+d)^{t-1}} + \sum_{t+1}^{N} \frac{UAC_{at}}{(1+d)^{t-1}}$$

[1] Duke Energy Indiana 2018 Final Integrated Resource Plan, Volume 1, page 20. Table I.I.
[2] Attachment JEH-6, excerpt from Cause No. 45253, Testimony of Duke Energy Indiana witness John A. Verderame, page 15, lines 3 and 4 of Petitioner's Exhibit 23.
[3] Attachment JEH-1, Duke Energy Indiana's response to OUCC DR 1-6.
[4] Attachment JEH-1, Duke Energy Indiana's response to OUCC DR 4-5.

where the value for UACt for years t=0 (2018) through 4 (2022) is zero for each year. Beginning in t=5 (2023), and *thereafter through the life of the measure or program*, the formula is used to calculate the present value of the future benefits of avoided capacity.[5]

While DEI's rebuttal claimed DSM programs avoided the "need to install over 800 MW of generation capacity" between 2017 – 2019, the parties' Stipulation of Fact makes it clear that the 800 MW was a three-year average of both demand response programs and the EE programs at issue in this case. While the stipulation states 650 of the 800 MW "were attributable to Power Share and Interruptible programs that are recovered outside of this proceeding in Rider 70 or via special contracts", even that number overstates the estimated impact of the DSM programs. Any claimed avoided generation capacity benefits attributable to the Demand Response Programs, collected via Rider 70 and special contracts, have no relation to the DSM programs at issue in this case. A review of Table 8M, Line 3 shows the 2015 IRP's estimated 2017-2019 total MW for those Demand Response Programs was 696 in 2017, 720 in 2018 and 735 in 2019, or an average of 717 MW / yr. In comparison, Line 2 from Table 8M shows the 2015 IRP's estimated 2017-2019 total MW for DSM programs was only 56 in 2017, 83 in 2018, and 110 in 2019, an average of 83 MW/yr, or 45% *less* than the amount attributed to the DSM programs in the Stipulation. Considering the age of the IRP estimates, the absence of 2018 or 2019 capacity purchases and DEI's continued capacity excess, coupled with the absence of evidence the DSM programs actually avoided any generation capacity in 2017, 2018 or 2019, let alone 83 MW/yr, we find no basis to conclude that DEI's DSM programs produced actual avoided generation capacity benefits 2017 – 2019.

During years when a utility has excess generation, and makes no capacity purchases, DSM programs do not create avoided capacity *in that year* nor do not save customers money *in that year*. Those DSM program savings may well push off the need to build a plant or make a purchase in a future year when the utility would otherwise be required to build or purchase, but those future savings must be discounted to reflect their value *in the current year*. The utility is neither penalized nor disincented from pursuing DSM in years where it has excess capacity. In such years, the utility will still recover both the program costs and EM&V costs of all approved programs, as well as shareholder incentives. The Net Present Value (NPV) element of the UCT properly recognizes any future avoided generation capacity benefit in the year it originates (and future years, for the effective life of the program) and provides the utility and its shareholders compensation for those future benefits *in the current year and future years*.

As demonstrated above, properly recognizing actual avoided capacity costs does not ignore the long-term nature of DSM efforts as reflected in the IRP, nor does it devalue EE efforts in years where there is capacity surplus. As DEI's DSM programs are funded 100% by ratepayers, and DEI recovers 100% of all approved, reasonable, program-related costs, the only economic impact of this change is to the shareholder incentive calculation, equitably rewarding shareholders, both now

[5] With the exception of general service lighting ("GSL"), the benefits of avoided energy are appropriately calculated by Petitioner for the entire life of the measure or program beginning in 2018, because the production costs of energy due to DSM are actually avoided in all years. A formula demonstrating this concept for avoided capacity appears in 170 IAC 4-4.1-9(b). Duke Energy Indiana applies this concept to its annual avoided cost filings for its Standard Contract Rider 50.

and in future years, for the true savings impact of the DSM programs. We find that, for purposes of the UCT calculation in this proceeding, avoided generation costs in the UCT shall be set at zero dollars ($0) for the years 2018 through 2022.

2. Avoided T&D Capacity Benefits. As shown in Public's Exhibit No. 1, Attachment JEH-1, page 21 and Confidential Attachment JEH-2C, DEI's proposed calculation of its proposed avoided T&D capacity costs benefit is based on "a study of T&D investments required to accommodate load growth. These costs were provided in 2016 dollars and then escalated into future years using the Handy Whitman Electric Plant Forecast index." DEI used expected construction costs associated with load growth, then divided those costs by the expected growth in peak load to produce the proposed avoided T&D capacity benefit.

It is important to understand the nature of T&D capacity benefits. They are circuit specific, realized when congestion problems on that particular circuit are relieved. Quantifying T&D capacity benefits created by DEI's DSM programs is difficult, because none of these programs target specific circuits. Any T&D capacity benefits created by DEI's circuit–specific Integrated Volt-Var Control Program ("IVVC") are irrelevant to this Cause, and the DSM programs cannot claim those benefits, as that program is part of DEI's TDSIC Plan approved in Cause No. 44720.

DEI's proposed avoided T&D capacity benefit calculation fails because there is simply no rational relationship between construction costs to serve now load and the effectiveness of DEI's DSM programs. There is no logical, demonstrable connection between the price of a new substation, or some amount of new poles and wire installed to serve a new subdivision or factory, to the circuit-specific, congestion-relieving benefits, if any, of programs such as residential light bulb giveaways or low-income weatherization. While the values DEI plugged into its formula may be the same as approved in the initial filing of the 2017 - 2019 portfolio in Cause 43955 DSM-4, there is no evidentiary basis supporting their continued use. This is highlighted further by the fact DEI's proposal produces "avoided" T&D capacity cost estimates for 2018 which are 96% of estimated generation capacity.

Overstating avoided capacity costs artificially increases the calculated NPV of benefits. DEI's shareholder incentive is calculated as a percentage of the NPV of benefits under the UCT. Based on the evidence of record, avoided T&D capacity costs for all years, should be valued at zero dollars ($0) in DEI's UCT calculation for this Cause.

B. Petitioner's Assumption of a 15-Year Life for Energy and Capacity Savings for LED Bulbs. Mr. Haselden recommended Petitioner apply a sunset date of 2021 for recognizing LED GSLs as the baseline for those programs utilizing LED GSL bulbs. Mr. Haselden argued the GSL market has changed sufficiently to make LED bulbs the current baseline. Mr. Haselden provided a study sponsored by the Northeast Energy Alliance and a photograph of a retailer's shelf with various lightbulbs to support his argument that LED GSLs are more prevalent and should be used as the baseline. Mr. Haselden also discussed how assuming a halogen baseline for general service lighting for an extended period, also contributes to excessive shareholder

incentives. Mr. Haselden described how customers can purchase non-Energy Star bulbs at retail for a price comparable to halogen equivalents.

While much of Mr. Haselden's evidence offers support for his position, evidence supporting DEI's position cannot be ignored. Most importantly, we recognize DEI has already filed for approval of its next DSM Plan in Cause No. 43955 DSM 8. That is the forum best suited to address changing the issue of the appropriate baseline bulb. Upon our consideration of the evidence, and in recognition of Cause No. 43955 DSM 8, we find it is premature to change the baseline of Petitioner's lighting program.

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The OUCC proposes to replace the entirety of the Ordering Paragraphs with the following:

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

1. Duke Energy Indiana is directed to recalculate its UCT for the reconciliation period. As described above, avoided generation costs in the UCT shall be set at zero dollars ($0) for the years 2018 through 2022, and avoided T&D capacity costs for all years shall be set at zero dollars ($0). Duke Energy Indiana shall provide both the Commission and all parties with the revised results and all supporting calculations.

2. Duke Energy Indiana shall use the revised UCT calculations to recalculate its requested shareholder incentive applicable to the reconciled period in this Cause. Duke Energy Indiana shall provide both the Commission and all parties all supporting calculations.

3. Duke Energy Indiana's requested EE Rider Adjustment, as set forth in the Testimony and Exhibits of witnesses Karen K. Holbrook and Kathryn C. Lilly, which includes reconciliation of 2018 actual costs and energy savings achievements with amounts billed to customers in 2018 in accordance with previous Commission Orders; along with the re-reconciliations for the application of EM&V to lost revenue recovery for 2015, 2016, and 2017 is hereby approved with the exception of any portions that are impacted by the revised UCT calculation and revised shareholder incentive.

4. Duke Energy Indiana's requested continued authority to defer the over and under recoveries of projected DSM/EE program costs, pending reconciliation in subsequent rider periods and approval to defer any costs incurred in implementing the DSM/EE programs prior to the time the Commission issues an Order authorizing Duke Energy Indiana to recognize these costs through the ratemaking process is hereby approved, with the exception of any portions that are impacted by the revised UCT calculation and shareholder incentive.

5. Duke Energy Indiana is authorized to implement its requested Rider No. 66-A adjustment factors after recognizing any required adjustments resulting from the revised UCT calculation and shareholder incentive.

6. Duke Energy Indiana may begin billing new Rider No. 66-A factors on all bills rendered beginning with the first billing cycle for the first full billing month following the date of this Order, if later, subject to its filing of the updated Rider No. 66-A with the Commission's Electricity Division. To the extent the proposed Rider No. 66-A factors include amounts that will be impacted by the revised UCT calculation and shareholder incentive, Duke Energy Indiana shall remove those amounts and submit revised Rider 66-A factors. Any additional amounts subsequently approved after review of the revised UCT and shareholder incentives may be included in a subsequent Rider 66-A factor revision, trued-up to reflect the same effective start date as the original Rider 66-A factors.

7. The material submitted to the Commission under seal shall be and hereby is declared to contain trade secret information as defined in Ind. Code § 24-2-3-2, and therefore, is exempt from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29.

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

FREEMAN, HUSTON, KREVDA, OBER AND ZIEGNER CONCUR:

APPROVED:

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

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Brenda A. Howe
Secretary to the Commission

CERTIFICATE OF SERVICE

Indiana Office of Utility Consumer Counselor Exceptions to Duke Energy Indiana, LLC's Proposed Order has been served upon the following parties of record in the captioned proceeding by electronic service on February 5, 2020.

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