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-7**

SUBMISSION OF PETITIONER'S PROPOSED FORM OF ORDER

Duke Energy Indiana, LLC ("Duke Energy Indiana"), by counsel, respectfully submits its Proposed Form of Order in the above-captioned Cause to the Indiana Utility Regulatory Commission ("Commission").

Respectfully submitted,

DUKE ENERGY INDIANA, LLC

By: _____
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Submission of Petitioner's Proposed Form of Order was electronically delivered this 21st day of January, 2020, to:

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ORDER OF THE COMMISSION

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

On October 4, 2019, Petitioner, Duke Energy Indiana, LLC ("Duke Energy Indiana") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") initiating this Cause. In its Petition, Duke Energy Indiana requested approval of an adjustment to its rates through Duke Energy Indiana's Standard Contract Rider No. 66-A ("Rider 66-A" or "EE Rider") recovering the costs associated with its Demand Side Management ("DSM")/Energy Efficiency ("EE") Programs, as approved most recently in Cause No. 43955 DSM-6 ("DSM-6"), with rate factors to be effective with the first billing cycle for the billing month following the Commission's Order.

Contemporaneous with its Petition, Petitioner filed its Direct Testimony, Exhibits, and its Public Workpapers, along with a Motion for Protection of Confidential and Proprietary Information. On October 17, 2019, the Commission issued a Docket Entry finding that Petitioner's confidential and proprietary information should be held as confidential on a preliminary basis. On October 17, 2019, Petitioner filed its Notice of Submission of Confidential Exhibit and Workpapers.

On December 4, 2019, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief. On December 18, 2019, Duke Energy Indiana filed its rebuttal testimony. On January 14, 2020, the OUCC and Duke Energy Indiana filed a Joint Motion for Submission of Stipulation of Testimony as to Duke Energy Indiana's witness, Karen Holbrook's Testimony.

Pursuant to public notice given and published as required by law, proof of which was incorporated into the record by reference, a public evidentiary hearing was held in this Cause on

January 16, 2020, at 9:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the parties offered their respective pre-filed testimony and exhibits, which were admitted into the evidentiary record without objection. No members of the public appeared.

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

1. Notice and Commission Jurisdiction. Due, legal and timely notice of the hearing in this Cause was given as required by law. Petitioner Duke Energy Indiana is a public utility within the meaning of that term as used in Indiana Code §§ 8-1-2-1 and 8-1-8.5-1, and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana, including Indiana Code § 8-1-2-1 *et seq*. and Indiana Code Ch. 8-1-8.5. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. Duke Energy Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office in Plainfield, Indiana, and is a second tier wholly-owned subsidiary of Duke Energy Corporation. Petitioner is engaged in rendering electric utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public. Duke Energy Indiana directly supplies electric energy to approximately 830,000 customers located in 69 counties in the central, north central and southern parts of the State of Indiana. It also sells electric energy for resale to other public utilities that in turn supply electric utility service to numerous customers in areas not served directly by Petitioner.

3. Relief Requested. In its Petition, Duke Energy Indiana requested approval to update its EE Rider adjustment factors to be billed to customers. The proposed factors updated the EE Rider factors to reflect the reconciliation of 2018 actual costs and energy savings achievements with amounts billed to customers in 2018 in accordance with previous Commission Orders. The filing also included re-reconciliations for the application of evaluation, measurement and verification ("EM&V") to lost revenue recovery for 2015, 2016, and 2017. In addition, Duke Energy Indiana 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.

Finally, Petitioner sought confidential treatment of certain information submitted in its Testimony, Exhibits and Workpapers.

4. Petitioner's Case-in-Chief. Duke Energy Indiana presented the testimony of two (2) witnesses in its case-in-chief: Ms. Karen K. Holbrook, Director, Portfolio Regulatory Strategy and Support, and Ms. Kathryn C. Lilly, Rates & Regulatory Strategy Manager.

A. Ms. Holbrook's Testimony. Ms. Holbrook presented the various calculations performed for this filing and the processes and testified regarding the sources used to develop

actual costs of providing programs in this reconciliation for 2018. She also presented an update of programs that were previously used in the 2015, 2016, and 2017 reconciliations.

Ms. Holbrook testified regarding previous DSM orders in cases relevant to this filing. They are:

1. Cause No. 43955 – The Commission approved programs for 2012 and 2013 and established the basic paradigm for Duke Energy Indiana programs. Specifically, this order approved recovery of program costs, performance incentives and lost revenues for three (3) years.
2. Cause No. 43955 DSM-1 ("DSM-1") - The Commission approved a Settlement Agreement between Duke Energy Indiana and the OUCC, which modified the basic paradigm in Cause No. 43955. DSM-1 approved programs for 2014 and lost revenues for the life of the measure dating back to 2012. Duke Energy Indiana also agreed to reconcile estimated lost revenues with actual lost revenues with evaluation, measurement and verification ("EM&V") applied retrospectively to the previous reconciled period for each program.
3. Cause No. 43955 DSM-2 ("DSM-2") - The Commission again approved a Settlement Agreement between Duke Energy Indiana and the OUCC for 2015 programs, which made minor modifications to the Settlement Agreement approved in DSM-1, including changes to the calculation of 2015 performance incentives.
4. Cause No. 43955 DSM-3 ("DSM-3") - Although the Company requested approval of Duke Energy Indiana's portfolio of programs for 2016-2018 under Ind. Code § 8-1-8.5-10 ("Section 10"), the Commission approved the portfolio under Ind. Code § 8-1-8.5-9. In doing so, the Commission did not grant a performance incentive and limited the recovery of lost revenues for programs approved in DSM-3 to four (4) years. Performance incentives and lost revenues approved in previous proceedings were unchanged. In June 2017, in its order in Cause No. 43955 DSM-3 S1 ("DSM-3 S1"), the Commission approved additional funding and associated lost revenues for the Company's Smart $aver Non-Residential Prescriptive program.
5. Cause No. 43955 DSM-4 ("DSM-4") – Issued on December 28, 2017, the Commission approved the Company's revised 3-year portfolio of EE programs consistent with its 2015 Integrated Resource Plan ("IRP"), consisting of programs to be offered during calendar years 2017 – 2019. The Commission's Order approved lost revenues for the life of the measure and a shared savings performance incentive for programs to be offered during the 2017 - 2019 calendar years, the calculation of which was further explained in Ms. Holbrook's testimony. It is this Order upon which this reconciliation is based.
6. Cause No. 43955 DSM-5 ("DSM-5") – On July 25, 2018, the Commission approved Duke Energy Indiana's reconciliation of the costs incurred, including lost revenues, for programs for 2016 with amounts actually collected from customers. The Commission approved Petitioner's revenue

requirements associated with the forecast for the 2018 programs previously approved as part of the 2017 - 2019 Plan.

7. Cause No. 43955 DSM-6 ("DSM-6") - On December 19, 2018, the Commission approved, Duke Energy Indiana's forecasted 2019 program costs, including lost revenues and performance incentives, as well as, reconciliation of the 2017 costs incurred and re-reconciliations of prior years.

Ms. Holbrook testified that her group gathered actual program costs and calculated cost recovery revenue, performance incentive amounts and lost revenue for the 2018 reconciliation and updates to the 2015 – 2017 reconciliations accounting for lost revenue updates from subsequent EM&V.

Ms. Holbrook testified that this reconciliation is made pursuant to the Order in DSM-4, in which the Commission approved the recovery of program costs, lost revenues for the life of the measure, and the following shared savings performance incentive structure tied to tiered levels of energy savings achieved versus the as filed target and the net present value of the net benefits for the Utility Cost Test ("UCT") for each of its programs.

Performance Incentives	
Achievement Level (kWh)	**Incentive Level (NPV of net benefits of UCT)**
110%	10%
100-109.99%	8%
90-99.99%	7%
80-89.99%	6%
75-79.99%	5%
0-74.99%	0%

Ms. Holbrook sponsored exhibits showing the calculations of the revenue requirement provided to Ms. Lilly for her rate calculations. As to the reconciliation, Ms. Holbrook testified that all relevant costs (expenses) for the programs are recorded in the Company's General Ledger as they are incurred, including program costs, EM&V and administrative overhead costs by program and type of cost. For purposes of the 2018 reconciliation, Ms. Holbrook's group took all relevant charges recorded to the programs in 2018 from the General Ledger.

Ms. Holbrook testified that the amount spent in excess of the amount approved for Power Manager for Business Program was removed for cost recovery and the amount provided to Ms. Lilly for her use in ratemaking does not include this overage

Ms. Holbrook testified that her group made several adjustments to costs, kWh achievement and avoided costs to calculate the shared savings performance incentive. They also removed costs that exceeded the Company's DSM-4 budget. This gave her group the adjusted costs to be used in incentive calculations. To calculate the shared savings incentive approved in DSM-4, the next step was to take the percentage reduction in total recorded costs by program and apply that reduction to kWh/kW achievement. This served to adjust achievement levels to more appropriately align with the as filed targets. The final adjustment was to take the same

percentage reduction and apply it to the Avoided Costs to ensure that they lined up with the kwh/kw achievement.

Ms. Holbrook further testified regarding that calculation of the shared savings performance incentives in accordance with the Final Order in DSM-4.

Ms. Holbrook also testified that 2018 lost revenues were calculated by using impacts for each participant (kWh and kW) at the meter, net of free riders. Her group applied all EM&V received by March 31, 2019, and then applied the EM&V retrospectively for the purposes of calculating lost revenue, per the Agreement approved in DSM-1. The table below shows what EM&V has been applied retroactively to lost revenue calculations in 2018, and what years were impacted.

Program / Product	**Date Complete**	**Years Effective for Lost Rev.**
Multifamily EE Products & Svcs	12/11/2017	2015 – 2018
Smart $aver Res/HVAC	05/03/2018	2016 – 2018
Smart $aver Res/Save Energy & Water Kit	05/03/2018	2016 – 2018
Small Business Energy Saver	05/03/2018	2016 – 2018
My Home Energy Report	08/10/2018	2016 – 2018
Agency Assisted Portal/LED	08/10/2018	2016 – 2018
Smart $aver Non-Res/Custom	08/10/2018	2016 – 2018
Power Manager	10/31/2018	2016 – 2018
Smart $aver Res/Free LED	10/31/2018	2016 – 2018
Smart $aver Res/Online Savings Store	10/31/2018	2016 – 2018
Smart $aver Non-Res/Prescriptive	03/06/2019	2016 - 2018

Actual participation was captured by rate schedule in Petitioner's participation database and confirmed by Program Managers. Her group then multiplied the impacts per participant by the participation in each measure to calculate annual and monthly kWh and kW. They then applied the appropriate lost revenue rate, provided by Ms. Lilly, to the monthly kWh and kW to derive the lost revenue amount for each program.

Ms. Holbrook also testified as to what adjustments her group made to the 2015, 2016 and 2017 reconciliations. Petitioner's Exhibits 1-A, 1-B, and 1-C, show the impact of the application of EM&V to lost revenues. Mr. Holbrook further testified as to the adjustment to 2018 costs for purposes of proper ratemaking for opted out groups. All adjustments are shown on Petitioner's Exhibit 1-E.

B. Ms. Lilly's Testimony. Ms. Lilly testified as to how this filing was different than the prior reconciliation filings. As she explained, the Company's prior reconciliation filings incorporated both a reconciliation of prior calendar year costs and revenues and the previously approved plan forecast for the upcoming calendar year. Because of a delay in the Company's 2018 IRP filing, the Company did not have Programs and Costs approved for 2020. Nonetheless, to update its approved 2019 rates to replace the 2017 reconciliation with the 2018

reconciliation as soon as practical, the Company proposes to mitigate rate volatility due to continued collection of the 2017 reconciliation in 2020 rather than the 2018 reconciliation. The current DSM- 6 rates, implemented with the first billing cycle of 2019, included the 2017 reconciliation that should be fully collected or refunded by the end of 2019. Ms. Lilly also summarized the customer impact of this filing, testifying that replacing the 2017 reconciliation amounts with the 2018 reconciliation will result in a reduction to residential rates. For non-residential customers, it provides for lower rates for the majority of the opt-out/opt-in groupings.

Ms. Lilly provided a summary to the Commission on how customers are charged for EE programs under the EE Rider pursuant to the various Commission Orders relevant to this proceeding. She explained, that as approved in the Commission's Order in Cause No. 43955 ("EE Order") and subsequent Orders in Cause Nos. 43079 DSM-6, 44441 ("Opt Out Order"), DSM-1, DSM-2, DSM-3, DSM-4, DSM-5, and DSM-6 (collectively, the Company's EE Orders), all customers and rate classes are charged for the cost of a vintage year's EE programs to the extent they are or were eligible to participate in the programs offered for that period.[1] The ratemaking model approved by the Commission for the EE Rider provides that residential customers, as a group, pay for the cost of residential programs (*i.e.*, all customers in the residential group pay the same rate per kWh) and non-residential customers, as a group, pay for the cost of non-residential programs for which they are or were eligible to participate in (*i.e.*, all participating customers in the non-residential group pay the same rate per kWh and all customers in each of the opt-out/opt-in groups pay the same rate per kWh).

Ms. Lilly described the ratemaking concepts and cost recovery that have been approved in the Company's EE Orders for use in the EE Rider as including the following:

- Cost assignment to residential and non-residential rate groups based on the programs offered to each group and, within the non-residential rate group, based on whether and when customers were eligible to participate in the programs or whether and when customers opted out (or in) of participation;[2]
- Inclusion of all customers in paying for the programs, including interruptible load to the extent not specifically excluded by contract language for customers with special contracts; and
- Rate development methodologies that include the use of kWh sales as billing determinants.

[1] Costs for a vintage year's programs may extend beyond that vintage year or the time customers were eligible to participate in the programs, such as in the case of persisting lost revenues or for the costs of EM&V performed in a subsequent year for a prior vintage year's programs.

[2] The enactment of SEA 340 in 2014 allows qualifying customers with a load of more than one megawatt measured at a demand meter at a single site to opt out of participation. An opted-out customer will not be responsible for paying for current and future energy efficiency programs, but will be responsible for any costs (or entitled to any credits) related to programs offered up to the effective date of opt out. SEA 340 also allows qualifying customers to opt back in to EE program participation, but they must pay participant rates for three program years before being eligible to opt out again. This will require the development of rates for multiple groups of non-residential customers based on their opt out/opt in status. The rates will be developed using the same methodology and concepts explained in Ms. Lilly' testimony, but the costs and billing determinants used will be specific to each group of customers.

Ms. Lilly testified as to Duke Energy Indiana's experience with customer opt outs. She explained that since the enactment of SEA 340, codified at Ind. Code § 8-1-8.5-9, the Company has received opt-out notifications from customers in all opt-out windows and opt-in notices in the four most recent windows. Proposed Tariff rates have been developed in this proceeding for each of the resulting opt-out groups using the 2018 kWh for each group to allocate applicable costs and the revenues associated with each group to perform the 2018 reconciliation.

Ms. Lilly further testified as to what costs customers who opt out are responsible for paying. Consistent with the requirements of Indiana Code § 8-1-8.5-9(f), although an eligible customer who opts out is not responsible for costs of current or future EE programs, the customer remains responsible for EE program costs, including lost revenues, shareholder incentives and related reconciliations, that accrued or were incurred or relate to EE investments made before the date on which the opt out is effective, regardless of the date on which the rates are actually assessed.

Non-Residential	2012, 2013, and Jan-Mar 2014 Recons & Persisting Lost Revenues (1)	Apr-Dec 2014 Recons & Persisting Lost Revenues (1)	2015 Recons & Persisting Lost Revenues (1)	2016 Recons & Persisting Lost Revenues (1)	2017 Recons & Persisting Lost Revenues (1)	2018 Recons & Persisting Lost Revenues (1)	2019 Recons & Persisting Lost Revenues (1)
Participants	X	X	X	X	X	X	X
4/1/14 Opt Outs	X						
1/1/15 Opt Outs	X	X					
1/1/16 Opt Outs	X	X	X				
1/1/17 Opt Outs	X	X	X	X			
1/1/18 Opt Outs	X	X	X	X	X		
1/1/19 Opt Outs	X	X	X	X	X	X	
4/1/14 Opt Outs, 1/1/16 Opt In	X			X	X	X	X
4/1/14 Opt Outs, 1/1/17 Opt In	X				X	X	X
1/1/15 Opt Outs, 1/1/17 Opt In	X	X			X	X	X
1/1/16 Opt Outs, 1/1/17 Opt In	X	X	X		X	X	X
1/1/15 Opt Outs, 1/1/18 Opt In	X	X				X	X
4/1/14 Opt Outs, 1/1/19 Opt In	X						X
1/1/15 Opt Outs, 1/1/19 Opt In	X	X					X
1/1/16 Opt Outs, 1/1/19 Opt In	X	X	X				X
1/1/17 Opt Outs, 1/1/19 Opt In	X	X	X	X			X
1/1/18 Opt Outs, 1/1/19 Opt In	X	X	X	X	X		X
4/1/14 Opt Outs, 1/1/16 Opt In, 1/1/19 Opt Out	X			X	X	X	

1/ X represents groups that are responsible for their proportionate share of each period's costs.

As approved by the Commission in the Company's EE Orders, the lost revenues associated with the 2012 – 2015 program years will be included in EE Rider rates until the measure life is expired for the individual programs or until rates are effective from a base rate case. As approved by the Commission in DSM-3, the lost revenues associated with the 2016 program year will be included in EE Rider rates for the lesser of four (4) years or measure life, or until rates are effective from a base rate case. As approved by the Commission in DSM-4, for 2017 – 2019 program years lost revenue will be included in EE Rider rates until the end of the measure life for the individual programs or until rates are effective from a base rate case. As approved in DSM-1, the lost revenues for all these years are also subject to additional reconciliations in future years due to retrospective application of EM&V. Any qualifying customers new to Duke Energy Indiana's system who sign a demand contract of more than one (1) megawatt and provide notice of opt out under the terms of the Tariff will not be responsible for any EE Rider costs (*i.e.*, will have a zero Tariff rate).

Ms. Lilly testified as to how the opt out requirements affected the calculation of the rates proposed for revised 2019. She explained it was necessary to calculate separate rates for each opt-out group, because each opt-out group is responsible for a different set of costs based on effective dates of their opt outs or opt ins.

Ms. Lilly explained that the proposed revised 2019 rates were developed to include a 2018 reconciliation component as provided by Ms. Holbrook, updated lost revenue amounts for the re-reconciliation of 2015, 2016, and 2017; and adjustments applicable to 2014, 2015, 2016, and 2017 opt-out groups. For revised 2019 rates, 2019 estimated program cost, EM&V costs, lost revenues and incentives previously approved in DSM-6 were used. As Ms. Holbrook explained, the costs included in the rates incorporate the results of EM&V for calculating lost revenues and performance incentives, pursuant to the approved Settlement Agreements in DSM-1 and DSM-2 and the Commission's Orders in 43955 through 43955 DSM-6. The 2018 kWh and billed revenues for 2018 reconciliation were obtained from the Company's accounting records.

Petitioner's Exhibit 2-B, Pages 1 – 12, included a series of schedules developing the rates that are presented for Commission approval in this proceeding. The costs and revenues for Non-Residential customers were shown at a more granular level of detail than for Residential customers to facilitate the ratemaking required for those who opted out/in, resulting in allocation of revenue requirements based on what period the costs relate to and using the billed revenues for each group.

Ms. Lilly testified that the reconciliation amounts reflect a full year's benefits of the Tax Act's impact on the revenue requirements included in DSM-7. The lost revenues calculated by Ms. Holbrook assumed the lower lost revenue pricing resulting from the lower base rates due to the Tax Act, which were effective September 2018, were in effect for all of 2018. Therefore, these reconciliation amounts include the Tax Act benefits the Company deferred from January through August 2018 for the EE Rider in compliance with the Commission's in Cause No. 45032-S2 in addition to other reconciliation items. Ms. Lilly further testified that the amount of

the January through August 2018 Tax Act benefit being refunded to customers as part of this reconciliation filing is approximately $1 million.

Ms. Lilly explained the drivers of the 2018 reconciliation variances for both Residential and Non-Residential customer groups, explaining the factors that resulted in an over-billing reconciliation variance for 2018 for Residential customers, which will reduce rates from current levels when the proposed rates are approved by the Commission, and an under-billing reconciliation variance for 2018 for Non-Residential customers. However, the under-billing position is less than the amount filed in DSM-6, resulting in a decrease to the majority of the proposed rates for 2019 for Non-Residential customers.

The resulting revenue requirement for the costs to be recovered via the EE Rider is as follows:

Revised 2019 Revenue Requirement
(in millions)

Residential	**$**	**23.0**
Non-Residential		
Participants	$	39.3
4/1/14 Opt Outs		1.9
1/1/15 Opt Outs		0.2
1/1/16 Opt Outs		0.3
1/1/17 Opt Outs		0.1
1/1/18 Opt Outs		0.7
1/1/19 Opt Outs		1.1
4/1/14 Opt Outs, 1/1/16 Opt In		0.1
4/1/14 Opt Outs, 1/1/17 Opt In		0.3
1/1/15 Opt Outs, 1/1/17 Opt In		0.2
1/1/15 Opt Outs, 1/1/18 Opt In		0.0
1/1/15 Opt Out, 1/1/19 Opt In		0.0
Total Non-Residential	**$**	**44.2**

Petitioner's Exhibit 2-C provides information regarding the rate impact of the rate adjustment factors developed. Ms. Lilly explained that should the Commission approve the proposed Revised 2019 Rider 66-A rates, rates for Residential customers and most Non-Residential customer groups will decrease as compared to the current DSM-6 rates. Page 2 shows the monthly impact on the bill of a typical residential customer using 1000 kWh of the change in the Rider 66-A rates should the Commission approve the revised 2019 rates.

Ms. Lilly testified as to what amendments to Duke Energy Indiana's rate schedules were being proposed in this proceeding. She explained that upon Commission approval, the Company is proposing to update its Standard Contract Rider No. 66-A, Twelfth Revised Sheet No. 66-A, Pages 1 through 18 (Petitioner's Exhibit 2-A, Pages 1 through 18) subject to Duke Energy Indiana's filing of the updated Rider 66-A Tariff Sheet with the Commission's Electricity Division and begin billing the revised 2019 rates effective with the first billing cycle of the month following the Commission's Order in this proceeding.

Ms. Lilly explained the method used to determine the prices used to develop the amount of actual lost revenues included in this filing. Ms. Lilly testified that the Company's general methodology for developing lost revenue prices is as follows:

- For rate schedules designed to recover all fixed charges via a demand rate, the Tariff demand rate was used to price kW savings impacts.
- For rate schedules designed to recover a portion of the fixed charges in the demand rate and a portion in the energy rate, the Tariff demand rate was used to price kW savings impacts, and the Tariff energy rate was adjusted to remove the fuel and other variable O&M included in the Tariff rate and then used to price kWh savings impacts.
- For rate schedules designed to recover all fixed charges in the energy rate, the Tariff energy rate was adjusted to remove fuel and other variable O&M and then used to price kWh savings impacts.
- For rate schedules designed with no demand charge and using a block energy rate structure, base rate revenues (with no Rider revenues included) were adjusted to remove customer charges and the amount of fuel and variable O&M included (based on the amount per kWh that was included in base rates), then this remaining fixed charge amount was divided by kWh sales to get an average fixed charge rate realization, which was applied to kWh sales.

Support for the pricing used for the 2018 reconciliation was filed in Ms. Lilly's Workpaper 6.

Ms. Lilly testified as to how the lost revenue rates she developed for use by Ms. Holbrook will change with the issuance of the Final Order in Cause No. 45253. Ms. Lilly testified that the Company intends to adjust the lost revenue pricing rates at the time new base rates are approved and implemented.

Ms. Lilly concluded her testimony by stating that the Company intends to continue using the deferral accounting treatment discussed and approved in Cause No. 43955 to minimize the timing difference between cost or revenue recognition on the Company's books and actual cost recovery.

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

A. Mr. Haselden's Testimony. Mr. Haselden addressed whether Duke Energy Indiana's inputs to its shared saving incentive calculations are appropriate and recommended several revisions. Mr. Haselden testified that the formula utilized by Duke Energy Indiana to calculate the proposed shared savings financial incentive was previously approved in Duke Energy Indiana's Cause No. 43955 DSM-4. Mr. Haselden testified that the OUCC finds Petitioner is authorized to recover as follows:

Performance Incentives	
Achievement Level (kWh)	Incentive Level (NPV of net benefits of UCT)
110%	10%
100-109.99%	8%
90-99.99%	7%
80-89.99%	6%
75-79.99%	5%
0-74.99%	0%

Mr. Haselden testified that he has concerns with the method Duke Energy Indiana used to calculate the DSM tracker adjustments in this proceeding. Mr. Haselden testified that Duke Energy Indiana used the correct accounting methodology to calculate the amounts as shown in Confidential Exhibit 1-F (KKH); however, the inputs Duke Energy Indiana used to calculate the UCT are not correct. Mr. Haselden's issues with Duke Energy Indiana's UCT calculations are as follows:

1. Duke Energy Indiana 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. Using halogen bulbs as the baseline to project future energy and demand savings.

Mr. Haselden explained the issues he has with the avoided capacity costs Duke Energy Indiana used to calculate the UCT. Mr. Haselden testified that avoided capacity costs should only be considered avoidable when there is a planning reserve margin deficit that would otherwise need to be met through a new capacity resource. He stated that Petitioner has a capacity surplus, and is unlikely to need additional capacity until 2023.[3] 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.[4] 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.[5] Mr. Haselden further testified that Petitioner's UCT calculations should value avoided capacity at zero ($) for years 2018-2022. The confidential avoided costs used to calculate the benefit/cost ("B/C") tests in Cause No. 43955

[3] Duke Energy Indiana 2018 Final Integrated Resource Plan, Volume 1, page 20. Table I.I.

[4] 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.

[5] Attachment JEH-1, Duke Energy Indiana's response to OUCC DR 1-6.

DSM-4 were originally provided in response to a data request by the Citizens Action Coalition in 2017 in that case.[6] These costs were also provided to the OUCC in this proceeding.[7] The costs are listed by year and are from Petitioner's 2015 IRP. The avoided capacity costs Petitioner used in its calculations are based upon the cost of a simple cycle combustion turbine escalated at an annual rate of 2.5%.[8] These are prices for supply-side capacity, should capacity be acquired in those years listed, and are not *avoided* capacity costs despite Petitioner labeling them as such. Mr. Haselden testified that Duke Energy Indiana assumed the supply-side cost of capacity in any year to be *avoided* capacity costs and gave its DSM capacity savings full value in the current and subsequent years the DSM measures are implemented; even though, Duke Energy Indiana will not actually avoid any additional capacity costs until 2023 or later and this is an incorrect application. Mr. Haselden refers to page 23 of the 2001 California Standard Practice Manual ("CSPM"), stating benefits under the Program Administrator Cost Test, also known as the Utility Cost Test, are defined as:

> The benefits of the Program Administrator Cost Test are 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.

Mr. Haselden testified that in terms of generating capacity for Duke Energy Indiana, the avoided supply costs will not begin until 2023 or later, despite there being a demand reduction due to DSM efforts in 2018. The second part of the sentence, "... 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. It is a common error to rely on the last part of the definition and ignore the important first part containing the key word "avoided". Mr. Haselden calculates the formula for benefits as:

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

Mr. Haselden explains his calculations as follows: The appropriate values 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.

Mr. Haselden further testified that 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.

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[6] Attachment JEH-2C, Duke Energy Indiana's response to CAC DR 3.6 in DSM-4.
[7] Attachment JEH-lC, Duke Energy Indiana's response to OUCC DR 4.3.
[8] Attachment JEH-1, Duke Energy Indiana's response to OUCC DR 4-5.

Mr. Haselden testified that the OUCC had issues with Duke Energy Indiana's avoided T&D capacity costs and advised that quantifying T&D capacity benefits created by DSM is difficult. He testified that T&D capacity benefits are created when they relieve specific circuits with capacity problems and none of Petitioner's DSM programs target specific circuits. Mr. Haselden testified that certain circuits are being addressed though the Integrated Volt-Var Control Program ("IVVC"), which Petitioner is implementing as part of its $1.4 billion TDSIC Plan pursuant to Cause No. 44720. Petitioner's TDSIC Plan projects could impact both current and future T&D capacity issues and that DSM programs cannot take credit for benefits obtained through TDSIC projects. In view of the likelihood the seven-year TDSIC Plan will be completed prior to Petitioner needing additional generating capacity in 2023, the "avoided" T&D costs due to DSM should be set to zero in the UCT calculation for this case. Mr. Haselden further testified that Petitioner's values for avoided T&D capacity costs are not reasonable. As shown in Petitioner's responses to OUCC discovery requests, avoided T&D capacity costs are based upon Petitioner's expected T&D construction costs associated with load growth, divided by expected growth in peak load. This results in "avoided" T&D capacity cost estimates for 2018 which are 96% of estimated generation capacity. Mr. Haselden claims that Petitioner offers no evidence this method of estimating avoided T&D capacity costs relates to avoided T&D capacity costs caused by DSM programs and thus, Petitioner is artificially inflating both its generating and T&D avoided capacity cost estimates.

Mr. Haselden testified that the effect of overstating avoided capacity costs is that the higher the avoided costs, the more it increases the calculated NPV of benefits. Mr. Haselden testified that Duke Energy Indiana takes a percentage of the NPV of benefits under the UCT as a shareholder incentive, which artificially inflates the UCT, which artificially inflates the incentive paid for by customers. Mr. Haselden claims that Petitioner's calculation of the NPV benefit of capacity savings wrongly includes years when capacity is not needed (2018-2022). Avoided capacity costs for the years 2018 through 2022, and avoided T&D capacity costs for all years, should be valued at zero. The UCT calculations and subsequent shareholder incentive calculations should be recalculated using appropriate values, dates, and calculation methodology as he describes above.

Mr. Haselden also testified that the OUCC had concerns with the extended application of halogen bulbs as a baseline for residential GSL measures. He testified that Petitioner uses a 15-year life for calculating savings for a standard GSL A- Line LED bulb, compared to a baseline halogen bulb. Petitioner then credits savings for standard LED lights delivered through its DSM programs for the full 15 years of the assumed life of the LED bulb, as measured against the halogen baseline and this is an incorrect assumption based upon the significant changes in the lighting market for this measure. The standard GSL LED bulb will soon become, if it has not already, the baseline for this measure. Consequently, savings attributed to GSL LED bulbs delivered through DSM programs will cease within the next few years due to this changed baseline.

Mr. Haselden testified that his baseline for this particular lighting measure is influenced by the following measure choices:

1. Price;
2. Life of bulb;
3. Performance;
4. Warm-up time (in the case of CFL bulbs, there is often a delay in reaching full lumen output);
5. Waste heat (e.g., heat from lighting can increase air conditioning needs during warm weather);
6. Dimming (unless designed to do so, some LED or CFL bulbs are not capable of dimming or can only be dimmed within a limited range);
7. General appearance;
8. Size;
9. Shape;
10. Fit in fixtures; and
11. Color rendering.

Mr. Haselden further testified that GSL LED bulbs have evolved and improved to rate high in most of the above considerations, including price. Mr. Haselden testified that the market is influenced by the impending backstop provisions of the Energy Independence and Security Act ("EISA") due to take effect in January 1, 2020 and that in September 2019, the Department of Energy ("DOE") issued a Notice of Proposed Rulemaking ("NOPR") to rescind the Final Rule in the GSL matter. Even though the NOPR is not yet final, the bottom line is the market for GSLs has transformed due to the threat of government mandate and real market transformation in which LED lamps have become the baseline due to price and performance. Mr. Haselden estimates approximately 70-80% of shelf space of GSLs is occupied by LED bulbs on store shelves. He testified that this is an easily observable change in the market. In the 2015 Indiana TRM, the incremental cost of an LED bulb was $30.41/bulb.[9] There has been a rapid and significant change in pricing in a market continuing to evolve. Recognizing the LED general service A-line bulb as the new baseline is the only reasonable alternative for GSLs.

Mr. Haselden testified as to his Attachment JEH-4. Unsubsidized, the non-Energy Star LED purchase price is competitive with a halogen equivalent and is far more cost effective for customers in view of the fact a customer would need to purchase five halogens to obtain an equivalent life of an LED, and additionally will obtain the benefits of nine years of significant energy savings. The non-Energy Star LED is far less expensive on a life-cycle basis. The fact that Energy-Star LED GSLs have an initial cost premium is not so relevant to some consumers, because an LED, regardless of its Energy Star rating, has the best life-cycle cost. Mr. Haselden further claims that Duke Energy Indiana is economically incented to subsidize or buy down the cost for higher priced Energy Star LED bulbs for two reasons: (1) is to increase the NPV of benefits of the UCT by extending the assumed saved energy and capacity for 15 years instead of 9 years; and (2) is because the pricing of the non-Energy Star GSL LED bulbs is already on par with halogen bulbs and there is no opportunity for a utility to intervene via price subsidization and subsequently claim energy and capacity savings. Therefore, recognizing the non-Energy Star LED GSL as the baseline means the utility would realize no shareholder incentive and no lost revenues. If Petitioner's UCT calculations accounted for this market change, it would cost Petitioner millions

[9] Indiana Technical Reference Manual v 2.2, page 131.

of dollars each year in shareholder incentives and lost revenues but save customers much more. Duke Energy Indiana customers will additionally save on their bills by not having to pay for the direct costs of the Energy Star LED GSL bulb subsidies as well.

Mr. Haselden testified that EM&V reports make recommendations for GSLs on a limited basis. Duke Energy Indiana's 2018 EM&V report by Opinion Dynamics recommended Duke Energy Indiana adjust the installation trajectory to account for the EISA 2020 truncation. A 12-year measure life was recommended for the Free LED program and a 5-year measure life was recommended for the Low Income Agency Assistance Program. Mr. Haselden also testified that Opinion Dynamics did not calculate benefit/cost test results for the programs as Duke Energy Indiana runs the DSMore model to calculate those and net present values for all DSM programs which does not allow for transparency of the modeling results.

Mr. Haselden testified that the OUCC has discussed the issue of changing the baseline for GSLs with Duke Energy Indiana and that Duke Energy Indiana clings to the notion that a legal mandate is necessary to change the baseline, when it is not. Mr. Haselden testified that he has reviewed DOE's Uniform Methods Project (2017)("UMP") and the Illinois Technical Reference Manual v8.0 (2019), which have led him to believe that LED bulbs will soon become the baseline for GSLs. Mr. Haselden testified that Duke Energy Indiana's use of halogen bulbs as the baseline for general service lighting will have an impact on the shared savings Duke Energy Indiana seeks in this proceeding as it will be significantly overstated. Mr. Haselden testified that this is problematic because the assumption that savings will persist 15 years for this measure is inappropriate as it is unlikely savings will be realized for more than the next few years. Mr. Haselden further testified that because these "savings" are a basis for calculating shared savings financial incentives, Duke Energy Indiana will recover these incentives from ratepayers in the next year with complete certainty and with no future true-up. Taken together with the excessive "avoided cost" of capacity issues identified earlier, if this is permitted, Duke Energy Indiana will collect millions each year going forward in excessive shareholder incentives.

Mr. Haselden also testified that Duke Energy Indiana will continue to recover direct, indirect cost, and lost revenues associated with this measure in 2018, 2019, and possibly 2020, if Duke Energy Indiana's interim plan is approved. The OUCC is not denying recovery of these costs. Mr. Haselden points out that if the benefit/cost calculations were done properly, it is likely these lighting measures would be found not cost effective, and the offering terminated. Consequently, residential customers would have saved millions each year net of the "free" LED bulbs some received. Mr. Haselden further testified that the OUCC recommends Duke Energy Indiana use LEDs as the baseline bulb with a sunset date for market baseline transformation effective January 1, 2021, to allow a burnout period for existing halogen bulbs. All GSL bulbs with installation verified via EM&V prior to 1/1/20 would continue to earn lost revenues through 12/31/20. However, GSLs installed on or after 1/1/20 would no longer be eligible for lost revenue recovery. No GSLs regardless of installation date, would be eligible for lost revenues effective 1/1/21.

Mr. Haselden concluded his testimony by recommending the Commission deny Duke Energy Indiana's' shared savings recovery request until Duke Energy Indiana recalculates the UCT scores and shared savings amount using revised *avoided* costs and a January 1, 2020

effective date for considering LEDs as the baseline for programs containing general service lighting. The OUCC requests staff have the opportunity to actively participate in the recalculation of the DSM Adjustment factors and to review and comment on the results prior to Duke Energy Indiana submitting them to the Commission.

B. Mr. Loveman's Testimony. Mr. Loveman testified that the purpose of his testimony is to provide an overview of Duke Energy Indiana's retail electric rates through its Standard Contract Rider No. 66A DSM Adjustment Factor. Mr. Loveman verified the accuracy of Duke Energy Indiana's calculation methodology used to derive its proposed DSM Adjustment Factors, but explained that Mr. Haselden challenges some of the values Duke Energy Indiana used to calculate its proposed DSM Adjustment Factors for 2020. Mr. Loveman had additional recommendations concerning the projected costs used in 2020.

Mr. Loveman explained why 2019 forecasted costs were used rather than 2020 forecasted costs in this filing as, at the time of this filing, Duke Energy Indiana did not have approved projected costs for program year 2020. Duke Energy Indiana's current plan expires on December 31, 2019. Duke Energy Indiana, the OUCC, and the CAC are having discussions regarding Duke Energy Indiana's proposed interim authority for program year 2020. The 2019 approved rates are being used in place of 2020 rates until an agreement is met and/or a ruling is made in this matter. Mr. Loveman testified that the 2019 forecasted costs were set in Cause No. 43955 DSM-7 with the total residential and non-residential costs, which include 2019 program costs, 2019 EM&V costs, incentives for 2019, and lost revenues for 2012 through 2019.

Mr. Loveman explained the reconciliation process in this proceeding and stated that this reconciliation amount is an over-collation of $13,268,890 for residential customers and an under-collection of $12, 970,659 for non-residential customers. As for the 2015, 2016, and 2017 reconciliations for lost revenues, Mr. Loveman testified that in 43955 DSM-7, lost revenue amounts were revised from the amounts included in the 2015, 2016, and 2017 reconciliation filed in 43955 DSM-6. For the residential rate group, the revenue requirement to be refunded is ($3,872) for 2015, ($651,907) for 2016, and ($1,521,482) for 2017. Duke Energy Indiana proposes to recover a total of $23,062,317 for residential customers and $44,150,434 for non-residential customers. Mr. Loveman further testified that his Attachment CRL-1, outlines his calculations and show that they match Petitioner's calculations of a $2.16 bill decrease for the DSM adjustment factor on Petitioner's Exhibit 2-C (KCL).

Mr. Loveman testified as to how TCJA affects this filing. Petitioner updated its revenue conversation factor to reflect the 21% federal income tax rate in the previous DSM-6 filing. In this filing, Petitioner calculated a residential refund of ($7,39,695) and a non-residential refund of ($3,56,552) for the period of January through August 2018. Mr. Loveman further testified that the retail rates proposed in this proceeding will become effective during the first billing cycle after the Commission issues a final order. The proposed billing factors shall remain in effect until replaced by different factors approved in a subsequent filing.

Mr. Loveman concluded his testimony by stating nothing in Petitioner's exhibits or workpapers came to his attention that would indicate Duke Energy Indiana's calculations were incorrect; however, the OUCC recommends Duke Energy Indiana modify its proposed 2020

DSM Adjustment Factor or reflect the impact of Mr. Haselden's recommended changes. Mr. Loveman also recommended that Petitioner update its schedules based on any future agreement and/or ruling regarding projected costs used in 2020.

6. Petitioner's Rebuttal Testimony. Petitioner provided the rebuttal testimony of one witness, Karen K. Holbrook. Ms. Holbrook testified that this was not the first reconciliation since the Commission approved the Company's Plan in DSM-4. She further testified that the Commission approved the Company's reconciliation of 2016 costs with rates set using the 2018 forecast approved in DSM-4 in DSM-5 and the reconciliation of 2017 costs (and 2019 forecast approved in DSM-4) in DSM-6. Ms. Holbrook testified that Petitioner has not changed the manner in which it calculates its revenue requirements since the Final Order in DSM-4, as all calculations, including the avoided costs used in determining the shared savings incentive, are consistent with what was approved in DSM-4 and as applied to the reconciliation approved in DSM-6. Ms. Holbrook further testified that aside from program cost recovery, the Commission approved lost revenues for the life of the measure and a shared savings shareholder incentive. The shared savings incentive approved was a tiered shared savings mechanism. To calculate the shared savings incentive, the Company takes the net benefits as calculated by the UCT of the programs, then receives a percentage of that net benefit, while the Company's customers retain the remainder of the benefit. Ms. Holbrook further testified that the Commission found that the Plan approved in DSM-4 was consistent with its IRP and the avoided cost assumptions for calculating shared savings incentive was consistent with the Commissions DSM-4 Order. She also noted that the OUCC did not raise any of these issues with avoided cost calculations in that proceeding, nor in the DSM-5 or DSM-6 reconciliation proceedings, both of which used forecasts from DSM-4 and that Petitioner used the same methodology in DSM-6, which again the OUCC did not raise any issues with in that proceeding.

Ms. Holbrook testified that she did not agree with Mr. Haselden's position that avoided capacity costs should be valued at zero for purposes of calculating the UCT. Ms. Holbrook explained why she did not agree with Mr. Haselden as he believes that the Company's avoided capacity costs should be set to zero because the Company's 2018 IRP shows one specific future scenario where the Company has a surplus of generation capacity until 2023. However, the 2018 IRP is not the IRP that is tied to the 2018 program costs and performance under DSM-4 as discussed above. The 2015 IRP is the appropriate IRP to use for this analysis, which clearly shows that the Company had an expectation of a need to add capacity resources over and above the EE and DR programs in each year during 2017–2019. The 2015 IRP assumed the inclusion of peak reductions from DSM programs that greatly exceeded the required reserve margin. This means that without these programs, the Company would have had an immediate need to install over 800 MW of generation capacity. It is completely illogical to conclude that these DSM programs do not represent a tangible capacity resource that is clearly being "avoided". In any event, whether the Company has a planning reserve margin deficit is of no consequence in how it should calculate its avoided costs. To follow the OUCC's argument to its conclusion would have the Company frequently changing the avoided costs used in analyzing its programs and would not provide for a consistent set of energy efficiency programs, which is one key to a successful program. The Company needs consistency in how it applies avoided costs to its programs for those programs to provide value to customers on an ongoing basis.

Ms. Holbrook also testified that she did not agree with Mr. Haselden's argument that T&D savings created by DSM programs may not exist. Mr. Haselden attempts to justify this contention by stating that DSM programs only provide value when they relieve capacity problems on specific circuits and that none of the Company's DSM programs target specific circuits. The Company's methodology to determine the value of avoided T&D is based on a system average spending associated with investments to accommodate load growth divided by expected load growth. It is reasonable to assume that customers adopt DSM programs across the system in a manner that will result in load reduction across all circuits, including those with and without immediate capacity concerns. Therefore, by utilizing a calculation that is an average across the system, it can be relied upon to be reflective of the adoption of DSM programs. Mr. Haselden further argues that certain projects under its TDSIC Plan could impact both current and future T&D capacity issues. This argument ignores the nature of the TDSIC projects and the impacts to the Company's system that can occur over the longer term, which is the focus of the IRP and the EE plan. The purpose of many of the TDSIC projects is to replace assets that have served their useful life. These projects do not necessarily address future load growth or changing demands on the system over time. Mr. Haselden makes the statement that "DEI is artificially inflating both its generating and T&D avoided capacity cost estimates" with no supporting facts. The Company has been transparent with its calculations and maintained continuity and consistency with approved assumptions in DSM-4.

Mr. Haselden also recommended adjustments to the Company's financial incentives related to cost effectiveness and shared savings incentives calculations. Ms. Holbrook testified in response to Mr. Haselden's recommendation that the inputs into the calculations of the Company's shared savings incentive are consistent with those approved in DSM-4. Changing those inputs would make these calculations inconsistent with the 2015 IRP and inconsistent with the Commission's ruling that relied upon the underlying calculations and assumptions of cost effectiveness in the plan. Therefore, the 2018 reconciliation must continue to rely on these approved inputs and assumptions as it has for every other reconciliation under DSM-4. The reliance on the avoided cost assumptions approved in DSM-4 is of tantamount importance. If the Company were to change underlying avoided cost assumptions while executing the portfolio, there would be the potential for continual program disruption which would deprive customers of the opportunity to participate.

Ms. Holbrook also testified that she did not agree with Mr. Haselden's concerns regarding the Company's calculations of benefit/cost test results. Mr. Haselden states that there is "no transparency and the modeling results cannot be replicated or verified by any other party." First, the DSMore software is a widely accepted industry standard, which Duke Energy Indiana has used for many years. This program is available for OUCC's review and use onsite at Duke Energy Indiana's offices. It is used in approximately 30 states and by several independent evaluators. Second, the OUCC has not requested access to Duke Energy Indiana's DSMore program for independent validation of the Company's calculations, despite offers of assistance by both Integral Analytics and the Company.

Ms. Holbrook testified that Mr. Haselden took issue with the benefits used in calculating the UCT and subsequent shared savings incentive for standard GSL A-line LED bulbs. Mr. Haselden argues that there have been significant changes in the lighting market and therefore

savings attributable to GSL LED bulbs delivered through DSM programs will cease within the next few years due to this changed baseline. Ms. Holbrook testified that she did not agree with Mr. Haselden as his proposal changes the useful life and modeling approach for these bulbs to something different than what was used in the 2015 IRP and approved in DSM-4. As explained above, these assumptions were approved in the Company's Plan under DSM-4, as well as, subsequent reconciliations under this mechanism. Additionally, Ms. Holbrook disagreed with Mr. Haselden's premise that LED lamps have become the baseline due to price and performance as well as the Energy Independence and Security Act EISA backstop. The backstop provision established in EISA essentially said that if the DOE did not issue new energy conservation standards by a certain date, a backstop energy conservation standard of 45 lumens/W would apply, which would effectively eliminate the sale of halogen and incandescent A lamps on January 1, 2020. Retail stores continue to offer incandescent, halogen and CFL bulbs in the Company's service territory. Mr. Haselden attempts to show minimal price differential between halogen and LED bulbs. However, this is misleading in that he is comparing the halogen bulbs to non-Energy Star certified LEDs that do not have the same performance or measure life as Energy Star certified LEDs. The Company's programs offer incentives on the Energy Star certified LEDs only. These bulbs have longer lives, offer greater energy savings, and have a larger price differential than what he is showing in his photograph attached to his testimony as OUCC Attachment JEH-4.

Ms. Holbrook also did not agree with Mr. Haselden's concern with the extended application of halogen bulbs as a baseline for residential GSL measures. Mr. Haselden contends that Duke Energy Indiana is inaccurately recognizing a 15-year measure life (which was updated to a 12-year measure life in 2018 through the EM&V process) associated with a GSL LED bulb because the GSL baseline has changed. However, many of the facts underlying his position have fundamentally changed due to actions taken by the US DOE regarding the implementation of GSL lighting efficiency standard. Ms. Holbrook further testified that on September 4, 2019, the DOE issued a Final Order withdrawing the 2017 DOE expanded definition of GSL that covered specialty bulbs. In the Order, which is a Final Order, not a Notice of Proposed Rulemaking as indicated in Witness Haselden's testimony, the DOE made clear that the backstop requirement that would have prohibited the sale of GSL bulbs that exceed 45 lumens per watt effective January 1, 2020, is not triggered. For this reason, many of the documents cited by Mr. Haselden that assumed the backstop requirement would be triggered on January 1, 2020, are no longer current. The studies referenced by Mr. Haselden refer to the impending January 1, 2020, backstop requirement as a key driver toward the market transformation that he believes justifies a change in the baseline. However, the fact is that backstop requirement will not go in place January 1, 2020, and customers will still be able to purchase GSL bulbs that are below the 45 Lumen per watt efficiency standard.

Ms. Holbrook testified as to examples of studies cited by Mr. Haselden that have been impacted by the DOE's final decision to not trigger the January 1, 2020 backstop requirement for GSL bulbs. Ms. Holbrook testified that the UMP Chapter 6, Section 4.3.2, referenced on page 14 of Mr. Haselden's testimony is a document that was clearly written under the pretense that the January 1, 2020, backstop requirement was going to occur. Section 4.3.2 is entitled "Calculating Post 2020 Savings" and begins with the statement, "Bulbs expected to be in use in 2020 and beyond will be affected by the EISA backstop provision mentioned in Section 1." In other

words, the UMP recommendation to set a sunset date that was referenced was based on the presumption that the backstop requirement would no longer allow alternatives to LED bulbs to be available for purchase. Additionally, in the very information that Mr. Haselden presents regarding the Illinois Technical Reference Manual v8.0, it states: "that lamps *subject to the EISA backstop* provision shall have measure life of two years." (emphasis added). Since the lamps are no longer "subject to the EISA backstop provision" his argument is moot.

Ms. Holbrook also testified that she did not agree with Mr. Haselden's contention that the market has transformed, and that whether the government mandate exists or not, the baseline for GSLs should change. Ms. Holbrook testified that other than the 2018 NEEA Study which appears to be from a different region of the country, and Mr. Haselden's anecdotal evidence and estimate of shelfing stock, he has not provided any conclusive evidence that the baseline has shifted. The reality is that both the study performed by Northwest Energy Efficiency Alliance ("NEEA") and his own anecdotal evidence were likely greatly influenced by retailers believing the backstop requirement would be triggered on January 1, 2020. With the DOE ruling, the market transformation that Mr. Haselden believes is occurring could revert to prior market conditions. The DOE ruling that the backstop requirement was not triggered will likely serve as a green light for retailers that had planned on no longer being able to sell bulbs that are below the 45 lumen per watt standard after December 31, 2019 to start restocking and selling these bulbs. Ms. Holbrook further testified that after the DOE's final rule was issued on September 4, 2019, Noah Horowitz, Director of the Center for Energy Efficiency Standards at the National Resource Defense Council said, "Today's action sets the United States up to become the world's dumping ground for inefficient incandescent and halogen bulbs being phased out around the world."[10] Clearly this efficiency expert is concerned that the finding that the backstop requirement not being triggered will lead to low cost inefficient bulbs flooding into the U.S. Market, including Indiana, for sale to the public.

Ms. Holbrook also testified that she did not agree with Mr. Haselden's contention that the Company should not have been incentivizing energy star LEDs. Ms. Holbrook testified that, although she does agree that by incentivizing Energy Star LEDs with longer measure lives the program's UCT benefit is higher, she disagrees this is done to increase the utility incentives. Increasing the UCT benefit of a program, by definition, makes the program more cost effective. Therefore, all customers benefit given that approximately 90% of the benefit accrues to the customer base via decreased net system costs. Additionally, Mr. Haselden appears to ignore the fact that there are multiple benefits of installing an Energy Star LED in lieu of a low cost (value line) LED. According to EnergyStar.gov, Energy Star LED lighting must be certified to display the following characteristics:

- Brightness is equal to or greater than existing lighting technologies (incandescent or fluorescent) and light is well distributed over the area.
- Light output remains constant over time, only decreasing towards the end of the rated lifetime (at least 35,000 hours or 12 years based on use of 8 hours per day).
- Excellent color quality. The shade of white light appears clear and consistent over time.
- Efficiency is as good as or better than fluorescent lighting.

[10] DOE Rollback of Energy Savings Light Bulb Standards is Senseless and Illegal, NRDC Press Release September 4, 2019.

- Light comes on instantly when turned on.
- No flicker when dimmed.
- No off-state power draw. The fixture does not use power when it is turned off, with the exception of external controls, whose power should not exceed 0.5 watts in the off state.

In addition to providing a more cost-effective program than if it incentivized the cheaper non-Energy Star LED, by incentivizing Energy Star LEDs, the Company's program provides an efficient and quality light that will make customers want to continue to adopt LEDs, rather than reverting back to less efficient options. In fact, in Chapter 6, Section 4.4 of the Uniform Methods Project that was referenced by Witness Haselden, it specifically discusses the differences between Value Line and Energy Star LEDs. In the discussion the UMP points out that "the vast majority of program administrators have incented Energy Star LEDs and have not chosen to include non-Energy Star -referred to as "value line" LEDs in their programs." It then goes on to explain, "This is typically in response to some of the earlier quality challenges with CFLs and concern that if customers have a negative experience (due to poor quality or shorter-than-expected lifetimes) as they first try and then increasingly adopt LEDs that this could lead to backsliding and negative impressions of this burgeoning technology." Clearly Duke Energy Indiana's decision to incentivize the more cost-effective Energy Star LEDs is not unique and is intended to benefit customer efficiency and improve the customer experience.

Ms. Holbrook concluded her rebuttal testimony testifying that aside from the policy positions discussed above, the OUCC did not take exception with the reconciliation proposed in this proceeding. Specifically, that Mr. Cable Loveman had testified that there was nothing that came to his attention that would indicate the Company's calculation (based on its current proposal) is incorrect. Ms. Holbrook concluded by stating, Duke Energy Indiana is using the same methodology to calculate its avoided costs as was used in the 2015 IRP and as approved in DSM-4. The avoided cost methodology is unchanged from that used in DSM-5 and DSM-6. This reconciliation proceeding is not the appropriate proceeding to argue policy issues such as inputs to the avoided cost calculation. Duke Energy Indiana recently filed its next EE Plan filing for 2020 through 2023, and it is currently pending.

7. <u>Commission Discussion and Findings</u>. 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.

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The record shows the OUCC agrees that Petitioner used the correct methodology, as approved in DSM4 to calculate the DSM Rider factors proposed in this proceeding. However, the OUCC identified two concerns that 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 the OUCC' s concerns do not warrant a change to the approved performance incentive structure and are more appropriately addressed In Petitioner's pending Plan proceeding, docketed as Cause No. 43955 DSM-8.

A. Petitioner's Calculation of the UCT. In terms of additional capacity, Mr. Haselden, on behalf of the OUCC, stated the appropriate methodology is to discount the value of capacity from the year additional capacity is first needed back to the year that the DSM was deployed. He reasoned that DSM capacity savings are not worth as much in the present because they do not save customers anything until some years in the future when Petitioner has a capacity need. The OUCC recommended that the avoided generation costs in the UCT be calculated at zero from 2018 to 2022, because Petitioner has no capacity need until 2022.

The OUCC did not provide statutory support specific to DSM for their recommendations. We note that adopting the OUCC's recommendations would create a disincentive for electric utilities to invest in EE in years when they have capacity surplus. Furthermore, that it is neither practical nor prudent to implement EE Programs only in years when the Petitioner has a capacity deficit. In addition, focusing solely on a utility's current capacity needs ignores the long-term nature of DSM efforts as reflected in the IRP and devalues EE efforts in years when there is capacity surplus. These outcomes conflict with the purposes of EE Programs and their inclusion in a long-term resource acquisition plan; therefore, we reject the OUCC's recommendations.

Regarding avoided T&D capacity costs, Mr. Haselden stated a variation on his testimony regarding Petitioner's capacity position. He stated that the value for T&D capacity costs should be set at zero because the company is not avoiding T&D capacity costs so long as it is long on capacity. Mr. Haselden also testified that Petitioner's DSM programs do not provide value because they do not relieve capacity on specific circuits. Ms. Holbrook testified that Duke Energy Indiana uses a system average calculation that is reflective of the adoption of DSM programs. Upon our consideration of the evidence, Petitioner's methodology to calculate T&D capacity cost is reasonable and we decline to reset avoided T&D capacity costs to zero. Therefore, the OUCC's recommendation to reset the avoided T&D capacity cost to zero is rejected.

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. Attached to his testimony, Mr. Haselden offered 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. Upon our consideration of the evidence, we find that a photograph of a retailer's shelf and Mr. Haselden's arguments are insufficient to support Mr. Haselden's ultimate recommendation, and it is premature to change the baseline of Petitioner's lighting program. In the next EE plan period, Petitioner will give consideration to federal regulations and current and anticipated market conditions; however, it would be inappropriate at this juncture to change the EE Plan approved in DSM-4, particularly in light of the record evidence in this proceeding.

C. OUCC's Verification of Petitioner's DSM Factors. In the OUCC's case- in-chief, Mr. Loveman testified he found no irregularities in the mathematical calculation of Petitioner's DSMA factors; he did, however advise modifying the DSMA factors to reflect Mr. Haselden's specific recommendations. The OUCC stated that it did not have access to the information used in the DSMore modeling software so that it could check Petitioner's calculations; therefore, the OUCC advocated that the Commission deny Petitioner's requested shareholder performance incentive.

Neither the Indiana Administrative Code nor Indiana statutes require a Petitioner in a DSMA case to file its modeling software with the Commission. Based upon the testimony and evidence submitted in this Cause, we find that the weight of evidence favors the Petitioner and our ultimate approvals in this Cause are consistent with our Order in Cause NO. 44927. Therefore, Petitioner's proposed changes to the calculation of the DSMA and allocation of costs and expenses on an interim basis are approved. Accordingly, Petitioner's requested DSMA rates as provided in its case-in-chief and described herein are approved.

8. Confidential Information. Duke Energy Indiana filed a Motion for Protection of Confidential and Proprietary Information, which was supported by affidavits, showing workpapers filed in this proceeding were trade secret information within the scope of Ind. Code §§ 5-14-3-4 and 24-2-3-2. The Presiding Officers made rulings from the bench 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 I.C. § 5-14-3-4 and I.C. § 24-2-3-2.

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

1. 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.

2. 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.

3. Duke Energy Indiana is authorized to implement its requested Rider No. 66-A adjustment factors.

4. 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.

5. 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.

6. 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