

**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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IN THE MATTER OF THE VERIFIED PETITION )  
OF INDIANA MICHIGAN POWER COMPANY FOR )  
APPROVAL OF AN ADJUSTMENT TO ITS RATES )  
THROUGH ITS DEMAND SIDE MANAGEMENT )  
AND ENERGY EFFICIENCY PROGRAM COST )  
RIDER COMMENCING WITH THE BILLING )  
MONTH OF JANUARY 2016 AND FOR APPROVAL )  
OF ALTERNATIVE REGULATORY PLAN FOR )  
DEMAND SIDE MANAGEMENT (DSM) AND )  
ENERGY EFFICIENCY (EE) PROGRAMS FOR 2016 )  
AND ASSOCIATED ACCOUNTING AND )  
RATEMAKING MECHANISMS, INCLUDING )  
TIMELY RECOVERY THROUGH I&M'S DSM/EE )  
PROGRAM COST RIDER OF ASSOCIATED )  
COSTS, INCLUDING ALL PROGRAM COSTS, NET )  
LOST REVENUE, SHAREHOLDER INCENTIVES )  
AND CARRYING CHARGES, DEPRECIATION ON )  
CAPITAL EXPENDITURES AND OPERATIONS )  
AND MAINTENANCE EXPENSE. )

CAUSE NO. 43827 DSM 5

APPROVED: JUN 22 2016

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Jeffery A. Earl, Administrative Law Judge**

On September 11, 2015, Indiana Michigan Power Company ("I&M") filed its Verified Petition and Request for Administrative Notice in this Cause. I&M also filed the direct testimony and exhibits of the following witnesses:

- Jon C. Walter, Manager of Regulatory Support for I&M;
- Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation ("AEPSC"); and
- Jason M. Stegall, Regulatory Consultant Principal in Regulated Pricing and Analysis for AEPSC.

Citizens Action Coalition of Indiana, Inc. ("CAC") and the I&M Industrial Group intervened in this Cause.

On November 18, 2015, the Commission issued a Prehearing Conference Order, which established a procedural schedule and authorized I&M to continue to offer its 2015 DSM Plan and to continue to recover costs consistent with the Commission's Order in Cause No. 44486 pending a final order in this Cause.

On January 13, 2016, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled written comments from the public and the direct testimony and exhibits of the following witnesses:

- Crystal L. Thacker, Utility Analyst in the OUCC’s Electric Division
- April M. Paronish, Senior Utility Analyst in the OUCC’s Resource Planning and Communications Division; and
- Edward T. Rutter, Utility Analyst in the OUCC’s Resource Planning and Communications Division.

Also on January 13, 2016, the CAC filed a Request for Administrative Notice and the direct testimony and exhibits of Natalie A. Mims of Mims Consulting, LLC. The Industrial Group did not prefile any evidence.

On January 27, 2016, I&M filed the rebuttal evidence from Mr. Walter and Marc E. Lewis, Vice President, Regulatory and External Relations for I&M.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on February 10, 2016, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana. I&M, the OUCC, CAC, and the Industrial Group appeared and participated at the hearing. During the hearing, the Presiding Officers took administrative notice of the documents filed by I&M on September 15, 2015, and CAC on January 13, 2016. No members of the general public attended the hearing.

Based on applicable law and evidence presented, the Commission finds:

**1. Notice and Jurisdiction.** Notice of the hearings in this Cause was given and published as required by law. I&M is a *public utility* as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, Ind. Code ch. 8-1-8.5, and 170 IAC 4-8, the Commission has jurisdiction over I&M’s demand side management (“DSM”) and energy efficiency (“EE”) program offerings and associated cost recovery. Therefore, the Commission has jurisdiction over I&M and the subject matter of this proceeding.

**2. I&M’s Characteristics.** I&M, a wholly-owned subsidiary of American Electric Power, is a corporation organized and existing under the laws of the State of Indiana, with its principal office at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M renders electric utility service in the State of Indiana, and owns, operates, manages, and controls properties, plant, and equipment within the State of Indiana that are used for the generation, transmission, delivery, and furnishing of electric utility service to the public.

**3. Relief Requested and Overview of 2016 DSM Plan.** I&M requests approval of updated DSM/EE Rider factors for 2016. The proposed factors reflect a reconciliation of DSM/EE program costs, net lost revenue, and Shared Savings and a projection of DSM/EE program costs, net lost revenue, and Shared Savings incurred in accordance with the Commission’s orders. I&M also requests to include a gross revenue conversion factor in the calculation of the revenue requirement. I&M seeks to make the new DSM/EE Rider factors effective commencing with the first billing cycle for the billing month of January 2016 or the first billing cycle of the first full billing month following a Commission Order in this Cause. As further discussed below, I&M also requests Commission approval of a cost-effective portfolio of DSM/EE programs for calendar year 2016 and associated ratemaking and accounting mechanisms (“2016 DSM Plan”).

**4. Overview of 2016 DSM Plan.** I&M's 2016 DSM Plan continues the same programs approved by the Commission in Cause No. 44486 and Cause No. 43827 DSM 4 for 2015 implementation but with revised program names:

- Home Energy Products
- Income Qualified Weatherproofing
- Schools Energy Education
- Home Appliance Recycling
- Home New Construction
- Home Weatherproofing
- Home Online Energy Checkup
- Home Energy Reports
- Residential Peak Reduction
- Work Prescriptive Rebates
- Work Custom Rebates
- Work Direct Install
- Electric Energy Consumption Optimization (“EECO”).

The 2016 DSM Plan also includes two pilot programs: the Home Comfort & Efficiency Pilot and the Small Business Efficiency Pilot. The 2016 DSM Plan includes offerings to all customer classes, including low income customers, and allows industrial customers to opt out in accordance with Ind. Code § 8-1-8.5-9.

Mr. Walter discussed the 2016 DSM Plan programs, budgets, energy savings, demand savings, the cost of conserved energy for each program, portfolio level costs, verified energy savings and implementation, and administration plans. He explained that I&M developed the program descriptions with information and detail from the prior consultant-developed Action Plan, with program design changes made based on historical program implementation and from direct program implementation experience.

With regard to cost recovery, Mr. Walter testified that the 2016 DSM Plan would continue cost recovery through the DSM/EE Rider, including all program and portfolio level costs, net lost revenue, Shared Savings, and evaluation, measurement and verification (“EM&V”) costs. He explained that approval of the 2016 DSM Plan would also continue I&M's accounting authority to implement the cost recovery for the Plan, including authority to: (1) defer and subsequently recover through the DSM/EE Rider carrying charges and depreciation on capital expenditures and operations and maintenance expense associated with the EECO Program, (2) defer the over and under recoveries of projected DSM/EE Program costs through the DSM/EE Rider pending reconciliation in subsequent rider periods, and (3) defer any costs incurred in implementing the DSM/EE programs prior to the time the Commission issues an order authorizing I&M to recognize these costs through the ratemaking process.

Mr. Walter testified that approval of I&M's proposal would provide I&M the ability to spend up to and including 10% above the costs set forth in this filing for its proposed 2016 DSM Plan. This flexibility would help provide for the continuation of a program that is projected to exceed the yearly program budget. He added that I&M also seeks Commission approval to transfer up to 25% of unencumbered program costs between programs in the same customer class. He said that the ability to transfer unencumbered funds will allow I&M to better achieve DSM savings within the overall

authorized budget because it will provide additional funds if a particular program is realizing better results. Mr. Walter said that I&M will discuss I&M's use of this spending flexibility with stakeholders as part of the oversight board ("OSB") process. Finally, the 2016 DSM Plan also provides for EM&V and stakeholder input. Because the opt out customers effective January 1, 2016, were unknown at the time of I&M's case-in-chief, Mr. Walter explained that I&M proposes that if any additional customers apply and qualify for Opt Out effective January 1, 2016, I&M will perform the necessary cost responsibility reassignments through a supplemental DSM Program Cost Rider compliance filing after the customers are known to be qualified for Opt Out. He added that this proposal is similar to the process utilized by I&M in Cause No. 43827 DSM 4.

## **5. Discussion and Findings on the 2016 DSM Plan.**

**A. Statutory Framework.** Ms. Mims argued that I&M has not satisfied the requirements of the Alternative Utility Regulation ("ARP") Statute (Ind. Code ch. 8-1-2.5). The ARP Statute provides the Commission with authority to adopt alternative practices, procedures, and mechanisms from those contained in its rules. Mr. Lewis testified that I&M sought relief under the ARP statute only in the alternative. We find that sufficient authority exists under the Commission's DSM rules and other statutes, including Ind. Code §§ 8-1-8.5-9 and 8-1-2-42, to consider I&M's proposed 2016 DSM Plan and related cost recovery request. Therefore, we need not consider adoption of an alternative regulatory plan in this Order.

Both CAC and the OUCC questioned whether I&M sought relief under Ind. Code § 8-1-8.5-10 ("Section 10"), which requires electricity suppliers to file a petition for approval of an energy efficiency plan not later than calendar year 2017. As explained in the Commission's Final Order in Cause No. 44634, until 2017 an electricity supplier may elect to file either under Section 10 or under Section 9 and the DSM rules when seeking approval of DSM/EE plans and cost recovery. Mr. Lewis testified that I&M is not seeking recovery under Section 10. Therefore, we need not consider I&M's compliance with Section 10 in this Order.

## **B. Energy and Demand Savings in the 2016 DSM Plan.**

**1. I&M's Evidence.** Mr. Walter testified that I&M achieved over 478 million kWh of verified energy savings during the five year period 2010 through 2014. The 2016 DSM Plan provides for approximately 30.29 MW of demand reduction. As shown in Attachment JCW-2, the 2016 DSM Plan targets energy savings of 141,380,484 kWh. The estimated energy savings are 0.91% of I&M's Indiana utility GWh sales and approximately 1.23% of I&M's Indiana utility retail revenues. These energy savings levels are consistent with those approved by the Commission for 2015 in Cause No. 44486 and the level of DSM that I&M factored into its forecast of energy sales when preparing its 2013 Integrated Resource Plan ("IRP").

**2. CAC's Evidence.** Ms. Mims argued that the proposed 2016 DSM Plan is unreasonable because the targeted energy savings are less than the estimated savings reflected in I&M's 2013 Updated Action Plan. She also said that the 2016 goal is lower than the 2015 DSM Plan goal. Ms. Mims asserted that leaving savings unrealized could make it harder for the State of Indiana to comply with the Clean Power Plan ("CPP").

**3. I&M's Rebuttal.** Mr. Walter testified that the estimated savings for I&M's proposed 2016 DSM Plan for residential customers (including the residential EECO program)

is approximately 16 GWhs higher than what was in the Updated Action Plan. He explained that the 2016 DSM Plan levels for commercial and industrial (“C&I”) are lower than the Updated Action Plan because the forecasted C&I savings are based on actual experience with the programs in I&M’s service territory and the impact of the ability of large C&I customers to opt out of the program, which was not considered in the Updated Action Plan. Mr. Walter said that because the State of Indiana’s CPP compliance is unknown at this time, it is difficult to predict how EE will be factored into the State’s plan, but that the ability to harvest unclaimed energy savings in the future may aid compliance, not harm it.

4. **Discussion and Finding.** The evidence demonstrates that the EE goals in the 2016 DSM Plan are consistent with I&M’s IRP and 2015 DSM Plan. In addition, the evidence shows that I&M gave consideration to past experience with the programs and to the ability of large C&I customers to opt out of the 2016 DSM Plan in setting the EE goals. Ind. Code § 8-1-8.5-9(m) requires an electricity supplier’s DSM plan to be reasonable: it does not require that it achieve all EE savings that could possibly be achieved. In light of the evidence, we find the energy savings level reflected in I&M’s 2016 DSM Plan are reasonable.

C. **Cost-effectiveness and Operating Cost per kWh in the 2016 DSM Plan.**

1. **I&M.** Mr. Walter testified that the 2016 DSM Plan portfolio is cost effective from both a Total Resource Cost (“TRC”) test and Utility Cost Test (“UCT”) perspective. He said that all programs pass both the TRC test and the UCT except for the Income Qualified Weatherproofing Program, the Residential Peak Reduction Program, and the two pilots. He explained that it is reasonable to include these incumbent programs and the two pilots in the 2016 Plan and that the total portfolio remains cost effective at a TRC of 1.93 and a UCT of 2.69 with these two incumbent programs and the two pilots included. Mr. Walter calculated that the 2016 IN DSM Program Operating Cost on a cents/kwh saved basis is \$0.10 as shown in Attachment JCW-2.

2. **OUCC.** Mr. Rutter calculated the average cost of the 2016 DSM Plan using program costs, lost revenue recovery, and Shared Savings divided by the energy savings for 2016 in kWh. He said that this calculation results in an average cost per kWh of \$0.34. He described the cost-effectiveness tests and said that four of I&M’s proposed programs did not pass the UCT and TRC tests and that all of the programs failed the Ratepayer Impact Measure (“RIM”) test.

3. **I&M Rebuttal.** Mr. Walter testified that lost revenue and Shared Savings should not be reflected in the calculation of program costs (*i.e.* operating cost). He clarified that because both components of Mr. Rutter’s calculation utilize total cost, the result is a total cost, not an average cost as stated by Mr. Rutter. Mr. Walter said that Mr. Rutter confuses whether I&M’s 2016 DSM Plan passes the cost benefits test relied upon by I&M by focusing on individual programs, not the portfolio. He explained that evaluating cost-effectiveness at the portfolio level is the method used by the Commission in prior I&M cases and is the appropriate method to apply in this proceeding.

4. **Discussion and Findings.** There is no dispute that I&M’s 2016 DSM Plan is cost-effective when evaluated at the portfolio level under the TRC and UCT. While Mr. Rutter focused on the cost-effectiveness of certain DSM programs individually, the Commission has

consistently assessed and approved specific utility portfolios of DSM/EE programs.<sup>1</sup> Ind. Code § 8-1-8.5-9 (“Section 9”), which became law on March 27, 2014, also focuses on the cost-effectiveness of the portfolio. I&M’s proposed 2016 DSM Plan meets this standard.

While the Commission has generally required the consideration of the four different tests to provide a comprehensive analysis of cost-effectiveness, we have not required the portfolio to pass all tests. The TRC test helps in determining whether energy efficiency is cost-effective overall, whereas the Participant Cost Test (“PCT”), UCT, and RIM tests help to determine whether the program design and efficiency measures provided by the program are balanced from the perspectives of the participant, the utility, and nonparticipants. The evidence demonstrates that I&M’s portfolio is cost-effective under the TRC and UCT. While the portfolio does not pass the RIM test, the Commission has not previously required a portfolio to pass this test. The RIM test is heavily influenced by lost revenues that are not a true cost, but are considered a transfer payment between program participants and non-participants. As a result, over-reliance on this single test can result in the rejection of large amounts of energy savings. Therefore, we find I&M’s proposed portfolio is cost-effective.

As shown by the Commission’s DSM rules, lost revenue and Shared Savings are distinct from the operating costs of the DSM/EE programs. More specifically, the Commission’s rules do not include lost revenue or the shareholder incentive in the definition of “program cost.” 170 IAC 4-8-1(aa). The rules address lost revenue and shareholder incentive separately from the cost of planning and implementing a demand-side management program. 170 IAC 4-6-8 and 4-8-7. As stated in the NIPSCO Order at 38, net lost revenue cost recovery serves to make a utility whole and therefore is not a program cost. Shared Savings is a sharing of benefits between customers and I&M, when I&M successfully facilitates those customer benefits. Accordingly, we further find that Mr. Walter’s calculation of the DSM program cost on a kWh basis is consistent with the Commission’s DSM rules; Mr. Rutter’s calculation is not. We discuss recovery of lost revenue and Shared Savings below.

#### **D. Peak Reduction Program.**

1. **I&M.** Mr. Walter testified that although the Residential Peak Reduction Program does not pass either the TRC test or the UCT, the program provides a means for I&M to engage residential customers during peak demand periods, when utility generation, transmission, and distribution systems are stressed by peak demand, and complements the primarily energy-based portfolio. Mr. Walter explained that the program has been successful in that a majority of the originally targeted 9,000 customers continue to participate in the program and EM&V results indicate that customers are satisfied with the program. With respect to cost effectiveness, he explained

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<sup>1</sup> *Northern Indiana Public Service Company*, Cause No. 44634 (IURC 12/30/2015) at 36 (“The portfolio of programs provide energy efficiency opportunities for all customers, both residential and C&I customers, and are similar to programs offered by other utilities that have been successful in meeting their goals. We find that the public interest is also served by the continuation of cost-effective DSM programs until NIPSCO files a plan that complies with the newly enacted requirements of Section 10(h).”); *Indianapolis Power & Light Co.*, Cause No. 44497 (IURC 12/17/2014) at 19 (“we find that IPL’s proposed portfolio of DSM programs is cost-effective, reasonable and should be approved.”); *Indiana Michigan Power Co.*, Cause No. 44486 (IURC 12/3/2014) at 12 (“Based on the evidence presented in this case, we find that I&M’s proposed portfolio of DSM programs is cost-effective...”); *Indiana Michigan Power Co.*, Cause No. 43827 DSM-3 (IURC 12/30/2013) at 14 (“we find that I&M’s proposed portfolio of Core and Core Plus Programs is cost-effective...”); *S. Ind. Gas & Elec. Co.*, Cause No. 44318 (IURC 7/31/2013) at 8 (“Since April 2010, Vectren South has been offering a portfolio of cost-effective DSM programs ...”); *Citizens Gas and Westfield Gas*, Cause No. 44124 (IURC 4/10/2013) at 23 (“we have consistently ‘approved, and expressed support for, specific utility portfolios of energy efficiency programs’”) citing *Midwest Natural Gas et al*, Cause No. 43995 (IURC 11/30/2011) at 8.

that the program is subject to annual weather patterns (e.g., cooler summers with fewer cooling degree days) that impact the level of peak demand and the need to call peak demand reduction events. He said that it is reasonable to continue the program because of the number of participants and its potential to help I&M evolve into other aspects of customer engagement. Mr. Walter testified that the program provides I&M the ability to test differing cycling strategies to improve the demand reductions of each participant, to investigate customer behavior response to cycling events, to investigate customer response to utility managed consumption programs, and to engage with I&M's customers whose homes have the potential for further efficiency improvements as a result of participation in this program. Finally, Mr. Walter testified that the program serves as a hedge against higher capacity prices, should they materialize. For these reasons, Mr. Walter testified that the Residential Peak Reduction Program remains in I&M's proposed DSM portfolio of program offerings for 2016.

2. **OUC**. Ms. Paronish recommended the Residential Peak Reduction Program be removed from I&M's 2016 DSM Plan and cost recovery denied because the program continues to fail benefit/cost tests. She testified that the OUC is concerned that, after having had five years to gain experience and test cycling strategies, I&M still cannot make the program cost-effective. She added that the program does not qualify as "energy efficiency" under Section 10.

3. **CAC**. Ms. Mims also noted that this program does not pass the RIM test and considered this unusual for a demand response ("DR") program as DR programs typically save capacity without saving much energy and therefore there are relatively few lost revenues. Ms. Mims noted that the Updated Action Plan showed a TRC of 1.5 for this program. She said that even with this program, the proposed DSM portfolio remains cost-effective. She testified that it would be beneficial if I&M provided more detail as to why this program is not cost-effective and also sought clarification as to whether the program has energy savings.

4. **I&M Rebuttal**. Mr. Walter provided additional information regarding the cost-effectiveness of the Residential Peak Reduction Program. He explained that an analysis of the cost-effectiveness of this program and any comparison to other utility programs requires consideration of three factors: (1) the annual program cost-effectiveness is driven by how much I&M system coincident peak demand is saved at the meter compared to the cost to implement the demand response events; (2) the program's avoided demand cost is based on PJM capacity market prices; and (3) annual weather patterns vary, meaning some summers are hotter than others and peak demand levels vary as a result.

Mr. Walter explained that in I&M's calculation, avoided demand cost is based on PJM capacity market prices and this impacts cost-effectiveness because market prices vary. He said I&M's use of PJM market prices is appropriate and reasonable for I&M because I&M is currently long on capacity and the use of marginal PJM capacity and energy prices better reflects the framework in which I&M is situated. He added that in this respect, I&M's calculation differs from the practice of using the equivalent cost of an avoided natural gas peaker unit and said that this may explain the difference between I&M's calculation and that of Indiana utilities that are members of the Midcontinent Independent System Operator.

Mr. Walter and Mr. Lewis testified that dropping this program simply because it is not primarily an "energy efficiency" program fails to recognize the load management objective of this program and would mean that over 8,000 customers who have received the annual \$40 bill reduction

would no longer receive this benefit. In their view, an appropriate timeline to discern the future of this program is when I&M files a plan compliant with Section 10. Mr. Walter explained that this would provide I&M time to determine if other new technology can replace the existing air conditioner switches for the participating customers and the appropriate cost recovery mechanism for that type of program.

5. **Discussion and Finding.** I&M's evidence shows that the cost effectiveness of the Residential Peak Reduction Program is subject to annual weather patterns (e.g., cooler summers with fewer cooling degree days) that impact the level of peak demand and the need to call peak demand reduction events. I&M's calculation of cost-effectiveness is reasonably based on the PJM capacity market and I&M's capacity position. As indicated by Mr. Walter, the overall portfolio remains cost effective with the Peak Reduction Program included. The evidence establishes that this program has over 8,000 participants and serves as a hedge against higher capacity prices should they materialize. Neither the Commission's DSM rules nor the Powerplant Construction Act limits DSM to "energy efficiency". Both include load management as part of DSM. Additionally, the program has the potential to help I&M evolve into other aspects of customer engagement. Therefore, based on the evidence of record we find it is reasonable to continue this program as part of this one year DSM Plan. Accordingly, we find that the Residential Peak Reduction Program should be approved as part of I&M's 2016 DSM portfolio. We will further consider the future of this program when I&M files a plan in accordance with Section 10.

#### E. **Pilots.**

1. **I&M.** I&M's proposed cost-effective portfolio of DSM programs includes two pilot programs: the Home Comfort & Efficiency Pilot Program and the Small Business Efficiency Pilot. Mr. Walter discussed the two proposed pilots and presented the cost benefit scoring for the pilots. He explained that I&M included pilot cost benefit scoring in order to provide a rough, high level estimate for the new technologies, but the estimates are immature and need refinement. Mr. Walter testified that although neither of the two pilot programs are cost effective under either the TRC or UCT, they are reasonable to include in the portfolio because the portfolio is still cost-effective with them included and I&M believes they have the potential to be a "step-beyond" DSM solution for certain customers. He explained that actual deployment of the pilots will enable further research and discernment of the pilot's viability as a potential program in I&M's service territory.

2. **OUC.** Ms. Paronish said that the proposed pilots should not be approved because they are not cost-effective and I&M has not indicated whether or when either program is expected to be cost-effective. She also expressed concern that EM&V results would not be available before the end of 2016. Ms. Paronish testified that if the Commission approves the pilots, it should require the same type of collaboration that was used a number of years ago in I&M's Smart Meter Pilot Project.

3. **CAC.** Ms. Mims applauded I&M for exploring additional program offerings, and encouraged I&M to strive to make the program cost-effective as it gains experience with program implementation.

4. **I&M Rebuttal.** Mr. Walter testified that the pilots are reasonable in scope and cost and that I&M's 2016 DSM portfolio remains cost-effective with these pilots included. He said that DSM potential needs actual investigation in I&M's service territory. He said I&M

proposed the pilots for 2016 to begin collecting data now on whether new technologies and approaches can help improve I&M's existing offerings and identify new programs. He said the Home Comfort Pilot should improve the way I&M engages in demand response and offers EE programs and ultimately could help make the Peak Reduction program more cost-effective or provide an alternative to it. He explained the Small Business Efficiency Pilot can help the Small Business Direct Install Program become more cost effective by further engaging small business customers. He explained that approving the pilots as part of a cost-effective DSM portfolio is reasonable and consistent with the Commission's approach to assessing DSM plans. He added that I&M has and will continue to seek stakeholder input on these initiatives.

Mr. Walter also responded to Ms. Paronish's concerns regarding the timing of EM&V results. He explained that I&M has already engaged its EM&V vendor in the development of EM&V plans for the pilots and plans to have the vendor provide concurrent EM&V results as the year progresses. He said I&M expects that the progress of the pilots could be discussed in the context of I&M's next DSM plan filing.

5. **Discussion and Findings.** The CAC supported inclusion of the two pilots as part of I&M's 2016 DSM Plan. The OUCC did not specifically challenge the design or purpose of the two pilots, but did question their cost-effectiveness and the availability of EM&V results. With respect to the cost-effectiveness of the programs, Mr. Walter noted that pilots often are not cost-effective individually. I&M proposes to include these pilot programs in order to undertake further research through actual deployment and to discern their viability before proposing their inclusion as future DSM measures or programs. This approach provides benefits to customers. With respect to the availability of EM&V results, the record reflects that I&M has already taken steps to obtain concurrent EM&V results as the year progresses to allow I&M to begin to assess the pilots more quickly. Finally, we see no need to create a separate collaborative process to address the pilot programs; issues related to their implementation can be discussed as part of I&M's existing OSB process. Given this, we approve the Home Comfort and Small Business Efficiency Pilots as a reasonable part of I&M's cost-effective DSM portfolio.

F. **Lost Revenue.**

1. **I&M.** Mr. Walter addressed the lost revenue component of the 2016 DSM Plan; he explained how net lost revenue is calculated and discussed the net lost energy savings and net lost revenue forecast for the proposed 2016 DSM Plan.

2. **OUCC.** Mr. Rutter opposed the continuation of lost revenue recovery for I&M's 2016 DSM Plan. He said a UCT result greater than one indicates that the implementation of a DSM program or group of programs is more cost beneficial to the utility than a typical supply side resource. He said that since I&M's own calculation of the UCT net benefit demonstrates that there is a positive impact in implementing the 2016 DSM Plan over what a typical supply-side resource would provide, there is no disincentive realized through the implementation of the 2016 DSM Plan and therefore no need for recovery of lost revenues.

3. **CAC.** Ms. Mims said that, in theory, she supported allowing I&M to recover lost revenue if there is actual "lost" revenue. She said if recovery of lost revenues is allowed, it should be limited to the amount associated with decreases in sales that are directly attributable to the implementation of Commission-approved EE programs and only to the extent it impacts I&M's

authorized cost recovery. She said I&M should also be required to include customer load growth, off-system sales, and changes in other revenue structures when proposing any lost revenue adjustment mechanism. She discussed the theoretical potential for over-earning with a lost revenue adjustment mechanism and said I&M should compare sales in its test year to the actual sales to be eligible for lost revenues. She said if the actual sales, after the effects of EE are included, are still sufficient to allow I&M to recover its authorized revenue (for example, when sales are above forecasted levels), there is no legitimate rationale to use ratepayer money to compensate I&M. However, if I&M's sales, after the effects of EE, are insufficient to allow I&M to recover its authorized costs, then I&M would be eligible for lost revenues.

Ms. Mims said that if lost revenue recovery is allowed, it should be limited to three years or the life of the measure, whichever is shorter, to avoid the "pancake effect." She summarized that a reasonable approach to calculating lost revenue would require that the utility: (1) show that implementation of energy efficiency programs has prevented the utility from recovery of authorized fixed costs; (2) use a standard methodology across the State of Indiana to determine how to uniformly calculate lost revenue for a measure, and (3) calculate the lost revenues for three years or the life of the measure, whichever is shorter. She said I&M's current methodology for calculating lost revenues appears to be unreasonable because it does not start with step one, determining if there are actual lost revenues.

**4. I&M Rebuttal.** Mr. Lewis disagreed with Mr. Rutter's contention that there is no financial disincentive to I&M from offering DSM Programs. He testified that I&M's pursuit of DSM/EE focuses on reducing the sale of electricity. He said the reduction in sales reduces the recovery of fixed costs designed into the volumetric energy charge, which negatively impacts I&M's ability to recover the fixed cost of service previously approved by the Commission for ratemaking purposes. He explained that losing the opportunity to recover fixed costs found to be reasonable and designed to be recovered is a real and substantial disincentive to offering DSM/EE. He added that this in turn dilutes I&M's ability to earn its Commission authorized return. He explained that in contrast, if the Commission approves a supply-side investment in a new generating unit, the return of and on that investment through rates does not cause I&M to lose ratemaking recognition of other fixed costs of service. Mr. Lewis testified that the OUCC fails to recognize that because the demand-side resource is not on a level playing field with supply-side resources, there is a disincentive to use demand-side resources. He said this is why the Commission's policy has been and should continue to be that an electric utility is allowed to recognize the full cost of DSM/EE, including lost revenue and a shareholder incentive, in the DSM rate adjustment mechanism. He said, simply put, the recovery of net lost revenues and Shared Savings helps to mitigate the negative consequences on I&M of offering DSM/EE programs, while still providing significant benefits to I&M's customers.

Mr. Walter said that Mr. Rutter's UCT test analysis does not justify a departure from the Commission's current practice of recognizing lost revenue (and a shareholder incentive) in the ratemaking process. Mr. Walter disagreed with Mr. Rutter that the UCT net benefits calculation captures the benefits to the utility. He said under the UCT, net benefits reflect only that future utility supply-side investments are lower than they otherwise would be, making the programs good candidates for implementation in I&M's portfolio. He said the UCT analysis does not capture the return on investment that a utility receives on a supply-side capital investment and also does not include the cost of a shareholder return. Accordingly, he said the "opportunity" cost of foregone new investment is not reflected in the analysis of either the supply-side or the demand-side resource. He

said that because the UCT does not capture the adverse impact of the energy savings on the utility's ability to recover the level of fixed costs and authorized return on its prior investment reflected in its basic rates and charges, the UCT is unable to provide the information that answers the question of whether a financial disincentive exists.

Mr. Walter also responded to Ms. Mims. He said that I&M is not, nor should it be, required to demonstrate actual aggregated electric sales reductions in order to recover the cost of lost revenue resulting from the DSM programs. He explained that I&M's net lost revenue is based on actual sales reductions, because I&M's net lost revenue process and methodology is based on EM&V actual results. He said that this practice was relied upon by I&M, previously agreed upon by the OSB, and approved by the Commission in I&M's DSM/EE Program Cost Rider reconciliation filings. He said I&M's net lost revenue calculation reasonably identifies the lost revenues directly attributable to the DSM/EE Program and properly separates this from actual aggregate sales.

Mr. Walter disagreed with Ms. Mims' proposal to arbitrarily limit lost revenue recovery to the shorter of 36 months or the life of the measure. He said measure life based tracking recognizes that lost revenue is not limited to the year the measure is installed, but rather it persists over the life of the measure just as the energy savings do. He said recognizing the energy savings from a DSM measure on a lifetime basis places the DSM measure on a common footing with supply-side resource options. He also discussed the potential unintended consequences if the life of a DSM measure is prematurely reduced for regulatory purposes.

Mr. Lewis disagreed with Ms. Mims' views on lost revenue cost recovery, including her concern about the potential for over-earning. He explained that the Commission should decline the CAC's invitation to create and apply an additional DSM/EE earnings test to I&M.

He said that the hypothetical offered by Ms. Mims is not reflective of I&M's situation because, in I&M's case, sales are decreasing, not increasing and I&M is not earning in excess of its authorized return. He presented a table showing that I&M has experienced a reduction in sales in every year since its last rate case. He said this situation is not expected to reverse itself, and presented evidence showing that I&M continues to significantly under-earn its Commission authorized return. He said that the nearly \$300 million shortfall in authorized earnings significantly exceeds the \$32.1 million in lost revenues reflected in the DSM-5 factor, which Ms. Mims acknowledged includes legacy lost revenues from DSM/EE measures approved in previous Commission orders. He said these facts demonstrate that the illustration in Ms. Mims' testimony is not representative of the circumstances here, and that there is no legitimate concern that continuing lost revenue recovery for the one-year 2016 DSM Plan will allow I&M to over-earn its authorized return.

With respect to Ms. Mims' proposal to limit the duration of lost revenue recovery, Mr. Lewis said that I&M has voluntarily sought to continue its DSM/EE programs, but this effort depends on full cost recovery, including Shared Savings and lost revenue, being approved by the Commission. He explained that it would be inappropriate to determine the need for and timing of a basic rate case based on an arbitrary time limit for lost revenue recovery. That said, he explained that Ms. Mims' opposition rests on the incorrect premise that I&M will proceed without a general rate case for ten or more years. Mr. Lewis testified that to address significant cost increases, I&M may need to file a request to increase its basic rates and charges this year. Finally, Mr. Lewis explained that this proceeding is not a DSM rulemaking docket, and the sweeping changes proposed by the OUCC and CAC are based on industry issues not present in I&M's case.

5. **Discussion and Findings.** 170 IAC 4-8-6 provides that the Commission may allow a utility to recover its lost revenue from the implementation of DSM programs. Recovery of lost revenues is intended as a tool to remove the disincentive utilities would otherwise face as a result of promoting DSM in their service territory. We have previously approved I&M's recovery of lost revenues associated with its DSM programs in Cause Nos. 43959, 43827, 43827 DSM-3 and 44486.

The record does not support the elimination of lost revenue recovery. The record demonstrates that I&M's approach to the lost revenue calculation is based on actual sales reductions based on EM&V actual results and aligns the net lost revenue calculation with the costs reflected in the revenue requirement used to establish I&M's basic rates. Ms. Thacker acknowledged the advantage of a reconciliation process based on actual results as verified by the EM&V process. We have previously explained that because the purpose of lost revenue recovery is to return the utility to the position it would have been in absent implementation of DSM, simply eliminating lost revenue recovery when sales are higher than the levels used to develop a utility's current base rates would be contrary to this purpose. The same is true when sales are lower, as they are for I&M.

Ms. Mims raised concerns about pancaking and the length of time between rate cases. I&M has had two general rate proceedings in recent years, and Mr. Lewis testified that it may need to file another rate proceeding this year. Despite this trend, there is no guarantee that I&M will file a rate case in the near future. Therefore, we find that it is appropriate to limit the lost revenue recovery to four years, the life of the measure, or until rates are implemented pursuant to a final order in I&M's next base rate case, whichever occurs earlier. With this limitation, we authorize I&M to recover lost revenues resulting from its 2016 DSM Plan through its DSM/EE Program Cost Rider. We also grant I&M all necessary accounting authority to effectuate such recovery for its 2016 DSM Plan.

#### **G. Shared Savings.**

1. **I&M.** Mr. Walter testified that the 2016 DSM Plan continues the Shared Savings construct from the settlement agreement approved in Cause No. 44486. He discussed the Shared Savings cap and estimated that, based on each sector's net benefits and program costs, the forecast Shared Savings performance is \$1.78 million.

2. **OUCC.** Mr. Rutter opposed I&M's request for performance incentives. He testified that based on the net benefit to I&M realized through the UCT result provided by I&M in this proceeding there is no disincentive and therefore no bias against DSM. He noted that in the NIPSCO proceeding, Cause No. 44634, the Commission found that based on the circumstances in that case financial incentives should not be authorized. He said that absent any bias against DSM the Commission should deny any performance incentives under Section 9. He further said that if there is a financial bias against DSM programs, shareholder incentives should be allowed when the level of savings realized by a DSM program is equal to or greater than 100% of the self-developed program goals.

3. **CAC.** Ms. Mims agreed that performance incentives are an effective tool to increase energy efficiency adoption and are part of the three-legged stool that supports customer-funded energy efficiency. Ms. Mims contended that I&M's Shared Savings mechanism is not reasonable primarily because it is an incentive that is not based on achieving any level of savings. Given that I&M is setting its own energy efficiency goals, she recommended that if the Commission

approves a shared net benefit performance incentive, the Commission should require that I&M meet 100% of its goal as a threshold for a performance incentive. She also recommended that a new method for determining the performance incentive be imposed. She proposed that I&M use multiple performance metrics to define the performance incentive, and cap the maximum amount of the incentive through a financial incentive cap. She said that a lower net benefit percentage is more appropriate for I&M and suggested a tiered performance incentive, with a cap on the total incentive level. She recommended against any performance incentive mechanism if the lost revenue adjustment mechanism is not revised as she proposed.

4. **I&M Rebuttal.** Mr. Walter disagreed with the OUCC's and CAC's recommendations. He said the fact that I&M filed a voluntary plan does not mean that I&M filed a plan with a low hurdle or goal. He said the energy savings goals in I&M's 2016 DSM Plan reflect the market potential study and EM&V analysis conducted by an independent expert, the impact of opt out and actual program participation and experience in I&M's service area.

Mr. Walter reiterated that I&M's Shared Savings construct is based on cost-effective DSM results, and the incentive is earned up to a capped amount when a program becomes cost-effective under the UCT. He said that it is important to base incentives on the appropriate measure, and that arbitrary goals or forecasts only provide an incentive to spend money to get to a certain level of savings, regardless of cost-effectiveness. With respect to Ms. Mims' proposal to adopt a performance incentive approved by the Michigan Commission, Mr. Walter noted that I&M's Shared Savings structure is actually very similar, although the cap amounts are different. He noted that the legislated structure in Michigan was further modified in practice through agreements with other Michigan utilities to include qualitative criteria created by the Michigan Commission. He said that I&M's current Shared Savings construct for Indiana programs is appropriate because it is more straightforward and simple, and addresses the financial bias faced by a utility to offer DSM programs. He added that this construct also mitigates the financial disincentive to I&M to engage in DSM instead of investing in other capital-based supply-side assets.

Mr. Lewis disagreed with Mr. Rutter's position that I&M faces no disincentive from offering DSM programs. He explained that absent Commission approval of the proposed DSM/EE programs and associated ratemaking, including ratemaking recognition of the DSM/EE program costs, lost revenue, and Shared Savings, I&M will not have cost recovery assurance comparable to what is available for a supply-side resource under the Powerplant Construction Act. Mr. Lewis responded to Mr. Rutter's suggestion that the NIPSCO Order establishes that I&M is not entitled to a reasonable financial incentive. He said that in the NIPSCO Order, the Commission found that NIPSCO filed under Section 10, but because it did not submit a qualifying plan under Section 10, it was not entitled to a financial incentive under Section 10. He said that I&M is not seeking relief under Section 10 of this statute, and disagreed that the reasonable shareholder incentive proposed by I&M should be denied because of that fact.

5. **Discussion and Findings.** The DSM Rules at 170 IAC 4-8-7(a) authorize the Commission to "provide the utility with a shareholder incentive to encourage participation in and promotion of a demand side management program" when the Commission determines it is appropriate to do so. We have previously approved a shareholder incentive in the form of shared savings for many of I&M's DSM programs. I&M does not propose any changes to the performance incentive mechanism currently in place, which provides a cap on incentives and is

based on verified energy savings. The OUCC and CAC propose either rejection of performance incentives or material changes to the performance incentive mechanism.

The evidence establishes that the Shared Savings incentive is unnecessary. As the Commission discussed in its March 9, 2016 Order in Cause No. 43955 DSM 3, significant changes have occurred in the offering of DSM programs over the past several years. Beginning in 2010, the Phase II Order in Cause No. 42693 required utilities to offer DSM programs designed to meet an overall goal of 2% annual cost-effective DSM savings within ten years. This energy savings goal was aggressive, and we recognized that as a reason for awarding performance incentives. *E.g., S. Ind. Gas & Electric Co.*, Cause No. 43427 (IURC Dec. 16, 2009). That 2% goal was eliminated in 2014, and beginning no later than calendar year 2017, utilities will be required to establish energy efficiency goals under Section 10. Section 10 authorizes a utility to recover reasonable financial incentives that encourage implementation of cost-effective energy efficiency programs, or eliminate or offset regulatory or financial bias against either energy efficiency programs or in favor of supply-side resources. However, I&M has not submitted a plan under Section 10, therefore, it is not entitled to the reasonable financial incentives authorized by Section 10. Therefore, we deny I&M's request to continue the Shared Savings mechanism.

#### **H. Oversight and Stakeholder Input.**

1. **I&M.** I&M proposed to continue in 2016 the oversight and stakeholder input approach that was approved by the Commission in Cause No. 44486 for implementation in 2015.

2. **OUCC.** The OUCC recommended the process revert to the previous structure based on concerns about program oversight and the ability to receive information within a desired timeframe.

3. **CAC.** Ms. Mims recommended the Oversight Board revert to its previous structure but added that CAC sees value in the public participation and recommends that aspect remain. She added that CAC sees great value in the Commission staff being involved in the Oversight Board.

4. **I&M Rebuttal.** Mr. Lewis and Mr. Walter discussed the benefits of the expanded stakeholder process implemented in 2015 and proposed the parties work to improve the process rolled out in 2015 instead of tossing the benefits of the public participation aside. Mr. Walter testified that I&M could adapt its method of delivering information to best fit the OSB member operations. I&M also asked the OUCC and others to use the tools already provided by the existing process and inform I&M of concerns during the implementation year.

5. **Discussion and Finding.** The record reflects that the public participation included in the revamped oversight and stakeholder process rolled out in 2015 has been beneficial. Any member of the Oversight Board has the ability to ask for information on any issue, the ability to add topics to meeting agendas, and the ability to seek additional meetings if necessary. The 2015 process also provides the opportunity for issues to be escalated to member management to ensure concerns are addressed. We find that it is reasonable to allow the existing system to continue during 2016. We encourage the parties to continue to work together to improve the Oversight Board

process and to address issues as they arise. Accordingly, I&M's proposal to continue in 2016 the oversight and stakeholder input approach approved in Cause No. 44486 is approved.

**I. EM&V.**

1. **I&M.** Mr. Walter explained that EM&V results to date support the proposed DSM Plan and discussed the EM&V for the 2016 DSM Plan.

2. **CAC.** Ms. Mims expressed concern that I&M's forecasted EM&V costs and past year EM&V costs were inconsistently reported and recommended that I&M strive for more consistent and clear reporting.

3. **I&M Rebuttal.** Mr. Walter said that I&M's presentation of information in this docket is consistent with the presentation in prior dockets. He explained that Table 20 in Ms. Mims' testimony is not accurate, and clarified that I&M's EM&V reports were consistent. He said that if CAC or its witness has a question about the documents, the discovery and stakeholder processes are available to help resolve the issue.

4. **Discussion and Finding.** The record reflects that I&M proposes to continue the use of an outside EM&V review and that the 2016 DSM Plan provides for a similar level of EM&V as used in prior administration and implementation efforts. Mr. Walter identified inaccuracies in Ms. Mims' testimony and explained how I&M uses the EM&V data discussed by Ms. Mims. We find that I&M's EM&V proposal is consistent with the DSM rule and with the EM&V process approved in previous orders.

**J. Cost Recovery.** Mr. Walter discussed the accounting and ratemaking relief sought by I&M. He said that I&M is requesting cost recovery through the DSM/EE Rider of all program and portfolio level costs, including net lost revenue recovery, Shared Savings recovery, program related EM&V cost recovery, and EECO Program cost recovery consistent with that approved by the Commission in Cause No. 44486. He said I&M also requests continued authority to defer the over- and under-recoveries of projected DSM/EE Program costs through the DSM/EE Rider 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 I&M to recognize these costs through the ratemaking process. He explained I&M's cost recovery proposal is consistent with the cost recovery currently in place.

With the exception of lost revenue and Shared Savings recovery, no party took issue with I&M's cost recovery proposal. Consistent with our discussion above, we find I&M's cost recovery proposal, including limited recovery of lost revenue and excluding Shared Savings, is reasonable, and we approve the recovery with that modification.

**K. Conclusion Regarding the 2016 DSM Plan.** As noted above, we find sufficient authority exists under the Commission's DSM rules and governing statutes, including Ind. Code § 8-1-8.5-9 and § 8-1-2-42, to consider I&M's proposed 2016 DSM Plan and related accounting and ratemaking request. Based on the evidence presented in this case, we find and conclude that I&M's proposed portfolio of programs is cost-effective, offers opportunities for all customer classes, and appropriately builds on I&M's historical program experience. We further find that I&M's proposed accounting and ratemaking are reasonable and consistent with the DSM rules and

Commission practice. Therefore, we approve the 2016 DSM Plan as proposed by I&M and as discussed above.

**L. DSM Rider Factors.**

1. **I&M.** Mr. Walter discussed the methodology and provided the calculations used to develop the DSM/EE Rider factors, including the reconciliation (over/under recovery) of DSM/EE Rider revenues against actual program costs, verified net lost revenue and verified Shared Savings performance. He explained the inclusion of the Gross Revenue Conversion Factor (“GRCF”) used in the calculation of the Rider revenue requirement and discussed the impact and treatment of large customer opt out under SEA 340.

Mr. Brubaker discussed I&M’s accounting for the DSM/EE Rider and presented a comparison of I&M’s revenues collected through its DSM/EE Rider to actual DSM/EE program costs, net lost revenues, Shared Savings, residential Peak Reduction bill credits and depreciation expense and carrying costs on I&M’s capital expenditures related to the EECO program as recorded on I&M’s books during the reconciliation period of July 2014 through December 2014. Mr. Brubaker also presented the calculations of forecasted January 1, 2016, through December 31, 2016, depreciation expense and carrying costs on I&M’s actual capital expenditures related to the EECO Program.

Mr. Stegall provided the calculation of I&M’s proposed DSM/EE Rider factors, explained the methodology used in the calculation and provided the rate impacts on customers.

2. **OUC.** Ms. Thacker testified that the design and mechanics of the DSM/EE Rider are reasonable and have the advantage of a reconciliation process based on actual results as verified by the EM&V process. She said that while the design and mechanics of the tracker are reasonable, the OUC has concerns about Petitioner’s lost revenue and shareholder incentive proposals as discussed by Mr. Rutter. She concluded that if the Commission agrees with all or part of the recommendations offered by Mr. Rutter, the Commission should require I&M to re-calculate its proposed DSM adjustment based on the Commission’s findings and require I&M to make a compliance filing prior to implementation of the new factor.

3. **CAC.** While Ms. Mims addressed issues related to cost recovery, she did not specifically address the calculation of the DSM/EE Rider factors.

4. **Commission Discussion and Findings.** The DSM/EE Rider provides for the timely ratemaking recognition of I&M’s DSM/EE program costs, net lost revenue and Shared Savings. I&M presented evidence demonstrating that the methodology by which the DSM/EE Rider factors are calculated is reasonable, fair and in accordance with the Commission’s orders. I&M’s proposed DSM/EE Rider factors as shown on Attachment JMS-2 reflect the reconciliation of its historical costs and a forecast of 2016 costs, including program costs, net lost revenue and Shared Savings. I&M’s evidence established that its treatment of large customer opt out under Ind. Code § 8-1-8.5-9 and the inclusion of the GRCF in I&M’s calculation of these factors are reasonable. The OUC’s testimony supported the design and mechanics of the DSM/EE Rider. Accordingly, we find I&M’s DSM/EE Rider factors are supported by substantial evidence. We further find the forecast revenue requirement for the 2016 DSM Plan shall be recovered through the DSM/EE Rider subject to any further revision made as part of the supplemental filing discussed by Mr. Walter to revise the DSM/EE Rider tariff to reflect additional opt-out customers. In addition our approval is subject to

I&M filing revised rider factors to reflect the removal of Share Savings. To that end, within 10 days after the effective date of this Order, I&M shall file under this Cause revised DSM/EE Rider factors, which reflect the exclusion of Shared Savings recovery.

We grant I&M all necessary accounting authority to defer (1) the over- and under-recoveries of projected costs pending reconciliation in subsequent rider periods and (2) any costs incurred in implementing the DSM/EE programs prior to the time the Commission issues an order authorizing I&M to recognize these costs through the ratemaking process.

Pursuant to the Commission's November 18, 2015 Prehearing Conference and Interim Order, I&M was authorized to continue to offer its 2015 DSM plan and continue to recover the associated costs consistent with the Order in Cause No. 44486 pending further Commission Order. We find that I&M shall include a reconciliation of the costs recovered pursuant to the Interim Order as part of its future DSM reconciliation filings.

**M. Scorecard.** Beginning with the next DSM filing, I&M should submit a scorecard which includes for each program: gross MWh savings at the meter and gross MW savings at the meter. The savings to be reported are to include: ex ante savings, audited savings, and verified savings as these numbers become available. The scorecard should also include budgeted and actual program expenditures excluding lost revenues and performance incentives. After the next DSM filing, future scorecards should be submitted on a quarterly basis with the fourth quarter scorecard also including the information for the full year.

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

1. Indiana Michigan Power Company's proposed 2016 DSM Plan, including the proposed budgets, is approved.

2. I&M's request for timely recovery of costs associated with its 2016 DSM Plan, including program costs, portfolio level costs, lost revenues, and EM&V costs through I&M's DSM/EE Program Cost Rider and the carrying charges, depreciation and O&M expense on the capital expenditures incurred for the EECO program is approved as discussed above. I&M's request to recover Shared Savings is denied.

3. I&M's requested accounting and ratemaking treatment, including the authority to include a gross revenue conversion factor in the calculation of the revenue requirement for the DSM/EE Program Cost Rider, authority to continue to defer and subsequently recover through the DSM/EE Program Cost Rider carrying charges and depreciation expenditures and operations and maintenance expense associated with the EECO Program, authority to defer the over- and under-recoveries of projected DSM/EE program costs through the DSM/EE Program Cost Rider 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 I&M to recognize these costs through the ratemaking process, is approved. The accounting procedures necessary to implement the requested recovery of lost revenues is also approved as discussed above.

4. Indiana Michigan Power Company is authorized to implement its requested DSM/EE Cost Program Rider factors subject to further revision based upon any supplemental filing made by I&M to reflect additional opt-out customers and to remove Shared Savings.

5. Prior to implementing the DSM/EE factors approved above, Indiana Michigan Power Company shall file a revised DSM/EE Program Cost Rider and applicable rate schedules under this Cause for approval by the Commission's Energy Division.

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

**STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:**

**APPROVED:**

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

  
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**Mary M. Becerra**  
**Secretary of the Commission**