

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

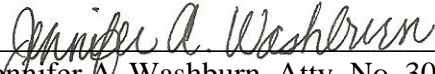
VERIFIED PETITION OF SOUTHERN )  
INDIANA GAS & ELECTRIC COMPANY D/B/A )  
VECTREN ENERGY DELIVERY OF INDIANA, )  
INC. REQUESTING THE INDIANA UTILITY )  
REGULATORY COMMISSION TO APPROVE )  
CERTAIN DEMAND SIDE MANAGEMENT )  
PROGRAMS AND GRANT COMPANY )  
AUTHORITY TO RECOVER COSTS, )  
INCLUDING PROGRAM COSTS, INCENTIVES )  
AND LOST MARGINS, ASSOCIATED WITH )  
THE DEMAND SIDE MANAGEMENT )  
PROGRAMS PURSUANT TO SENATE )  
ENROLLED ACT 412 AND 170 IAC 4-8-1 ET. )  
SEQ. VIA THE COMPANY'S DEMAND SIDE )  
MANAGEMENT ADJUSTMENT )

CAUSE NO. 44645

**SUBMISSION OF CAC'S REDACTED**  
**EXCEPTIONS TO PROPOSED ORDER OF VECTREN**

Citizens Action Coalition of Indiana, Inc. ("CAC"), by counsel, respectfully submits its Exceptions to Southern Indiana Gas & Electric Company d/b/a Vectren's Proposed Order both in Clean and Redline versions.

Respectfully submitted,

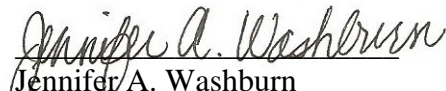
  
Jennifer A. Washburn, Atty. No. 30462-49  
Citizens Action Coalition of Indiana, Inc.  
603 East Washington Street, Suite 502  
Indianapolis, Indiana 46204  
Phone: (317) 735-7764  
Fax: (317) 290-3700  
[jwashburn@citact.org](mailto:jwashburn@citact.org)

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that the foregoing was served by electronic mail or U.S. Mail, first class postage prepaid, this 11<sup>th</sup> day of January, 2016, to the following:

Robert E. Heidorn  
P. Jason Stephenson  
Michelle Quinn  
Vectren Corporation  
One Vectren Square  
211 N.W. Riverside Drive  
Evansville, Indiana 47708  
[rheidorn@vectren.com](mailto:rheidorn@vectren.com)  
[jstephenson@vectren.com](mailto:jstephenson@vectren.com)  
[mquinn@vectren.com](mailto:mquinn@vectren.com)

A. David Stippler  
Randall Helmen  
Jeff Reed  
Karol Krohn  
Indiana Office of Utility Consumer  
Counselor  
115 W. Washington Street, Suite 1500  
South  
Indianapolis, Indiana 46204  
[dstippler@oucc.IN.gov](mailto:dstippler@oucc.IN.gov)  
[rhelmen@oucc.IN.gov](mailto:rhelmen@oucc.IN.gov)  
[jreed@oucc.IN.gov](mailto:jreed@oucc.IN.gov)  
[kkrohn@oucc.IN.gov](mailto:kkrohn@oucc.IN.gov)  
[infomgt@oucc.IN.gov](mailto:infomgt@oucc.IN.gov)

  
Jennifer A. Washburn  
Citizens Action Coalition

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**VERIFIED PETITION OF SOUTHERN )  
INDIANA GAS & ELECTRIC COMPANY D/B/A )  
VECTREN ENERGY DELIVERY OF INDIANA, )  
INC. REQUESTING THE INDIANA UTILITY )  
REGULATORY COMMISSION TO APPROVE )  
CERTAIN DEMAND SIDE MANAGEMENT )  
PROGRAMS AND GRANT COMPANY ) **CAUSE NO. 44645**  
AUTHORITY TO RECOVER COSTS, )  
INCLUDING PROGRAM COSTS, INCENTIVES )  
AND LOST MARGINS, ASSOCIATED WITH )  
THE DEMAND SIDE MANAGEMENT )  
PROGRAMS PURSUANT TO SENATE )  
ENROLLED ACT 412 AND 170 IAC 4-8-1 ET. )  
SEQ. VIA THE COMPANY'S DEMAND SIDE )  
MANAGEMENT ADJUSTMENT )**

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**

**Loraine Seyfried, Administrative Law Judge**

On June 29, 2015, Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner", "Company" or "Vectren South") filed a Verified Petition, Verified Direct Testimony and supporting exhibits of Robert C. Sears, Michael P. Huber, Richard G. Stevie, J. Cas Swiz, and Scott E. Albertson with the Indiana Utility Regulatory Commission ("Commission") establishing this Cause, constituting its case-in-chief and seeking approval of the Vectren South 2016 – 2017 Electric DSM Plan ("2016 – 2017 Plan" or "Plan"). The 2016 – 2017 Plan is to be effective during calendar years 2016 and 2017 and is designed to save 74,107,121 kWh of energy and to reduce demand by 15,442 kW over the two year period.

On July 6, 2015, the Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene and on August 3, 2015, the Commission issued a Docket Entry granting the request.

Pursuant to notice and as provided for in 170 IAC 1-1.1-15, a Prehearing Conference in this Cause was held in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana at 10:30 a.m., on August 5, 2015 and on August 19, 2015, the Commission issued an Order approving the procedural schedule in this Cause.

On August 14, 2015, Vectren South filed an Unopposed Motion for Interim Authority to Continue Offering Energy Efficiency Programs and Associated Cost Recovery requesting permission to spend up to \$2 million to continue offering its current portfolio of energy efficiency ("EE") programs through March 31, 2016 in the event a final order is not issued in the Cause prior to the December 31, 2015 expiration date of current electric EE programs in Vectren South's portfolio. On September 23, 2015, the Commission issued an Interim Order authorizing Vectren South to continue offering its current demand side management ("DSM") programs and

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

recovering the associated costs approved in the October 15, 2014 Order in Cause No. 44495 until such time as the Commission issues a final order in this Cause, but no later than March 31, 2016.

On October 7, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the Verified Direct testimony of April M. Paronish, Crystal L. Thacker and Edward T. Rutter constituting its case-in-chief in this proceeding. The OUCC also filed consumer comments on that same day.

On October 7, 2015, the CAC filed a motion requesting the Commission to take administrative notice of the 2014 the Energizing Indiana Evaluation Report: An Evaluation of the Core Final Year Energy Efficiency Programs, May 1, 2015 from Cause No. 42693-S1; Cause No. 44310 Final Order, May 20, 2015, Cause No. 44441, Phase II Order; and Indiana Evaluation Framework, October 9, 2012. On October 21, 2015, the Commission issued a Docket Entry granting the CAC's request to take administrative notice of those three (3) documents. On October 8, 2015, the CAC filed the Direct Testimony and Exhibits of Natalie Mims and on October 9, 2015, the CAC filed an Unopposed Motion for One Calendar Day Extension of Date to File Prepared Case in Chief of Citizens Action Coalition. On October 14, 2015, the Commission issued a Docket Entry granting the CAC's Motion.

On October 13, 2015, Vectren South filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information requesting that the Commission exempt from public disclosure certain information containing confidential and trade secret information provided by Vectren South to the OUCC and CAC during discovery pursuant to a nondisclosure agreement in place between Vectren South and each of the parties. On October 26, 2015, the Commission issued a Docket Entry that preliminarily found that the confidential information could be filed with the Commission under seal.

On October 20, 2015, Vectren South filed a correction to an exhibit of its witness, Michael P. Huber. On October 28, 2015, Vectren South filed the Verified Rebuttal Testimony of Robert C. Sears, Karl A. McDermott, Michael P. Huber, Richard G. Stevie and J. Cas Swiz. That same day, the CAC filed workpapers supporting its case-in-chief.

On November 10, 2015, CAC moved to strike portions of Petitioner's Rebuttal Testimony and deny admissibility of certain attachments. Vectren South responded to the Motion to Strike on November 12, 2015. The Presiding Officers denied CAC's motion to strike at the November 13, 2015 hearing.

On November 10, 2015, the OUCC filed a Notice of Corrections to Public's Redacted Exhibit No. 3. On November 12, 2015, Vectren South filed Submission of Corrections to Direct and Rebuttal Testimony. On November 13, 2015, CAC filed Submission of Inadvertently Omitted Complete Exhibit.

Pursuant to public notice duly given and published, proof of which was incorporated into the record by reference and placed in the Commission's official file, an evidentiary hearing was held in this Cause on November 13, 2015 at 9:30 a.m. EST in Hearing Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Vectren South, the OUCC and the CAC appeared by counsel and offered into the record their respective prefiled,

cases-in-chief, rebuttal testimony, corresponding exhibits, and administrative notice exhibits, which were admitted into evidence. No other party or members of the general public appeared.

Vectren filed its form of proposed order on December 7, 2015. OUCC filed its exceptions to Vectren's proposed order on January 8, 2016, and CAC filed its exceptions on January 11, 2016. Vectren filed its reply to exceptions on January 20, 2016.

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

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

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

**3. Background.** Vectren South first began offering electric DSM programs in 1992, including a direct load control ("DLC") program that was designed to reduce peak demand and thereby provide reliable electric service at the lowest reasonable cost to Vectren South's customers. The DLC program has been continuously offered by Vectren South since 1992. The Company began expanding available DSM programs in April 2010 pursuant to a Commission Order issued in Cause No. 43427 in order to meet the energy savings targets established by the Commission in its Order issued on December 9, 2009 in Cause No. 42693, captioned *In the Matter of the Commission's Investigation into the Effectiveness of Demand Side Management Programs* ("Phase II Order"). The Phase II Order, among other things, established energy savings targets for electric utilities subject to the Commission's jurisdiction.

On January 2, 2012, the core programs approved by the Commission in its Phase II Order and administered by the TPA approved by the Commission in its July 27, 2011 Order on TPA and evaluation, measurement and verification ("EM&V") contracts in Cause No. 42693-S1, became available on a statewide basis. Phase II Order core programs were administered by an independent Third Party Administrator ("TPA") in all electric public utility service territories. Various core plus programs have been administered by the Company and offered since April 2010. On August 31, 2011, the Commission approved a Stipulation and Settlement Agreement between the OUCC and Vectren South ("2011 Settlement") in Cause No. 43839, which authorized the Company to implement a set of core and core plus programs designed to deliver

enough energy savings for the Company to meet the targets established by the Commission in the Phase II Order. Vectren South continued to offer a set of core and core plus programs through calendar year 2014.

On March 28, 2014, the Indiana legislature passed Senate Enrolled Act 340, codified at Ind. Code § 8-1-8.5-9 ("SEA 340" or "Section 9"). SEA 340 provides that certain industrial customers may opt out of participation in Company sponsored EE programs and that after December 31, 2014, the Commission may not require an electricity supplier to meet a goal or target that was established in the Phase II Order. SEA 340 did not address any other findings the Commission made in the Phase II Order. The statewide core programs approved by the Commission in the Phase II Order were effective through December 31, 2014.

Vectren South entered into a Stipulation and Settlement Agreement with the OUCC dated August 13, 2014 (the "2014 Settlement Agreement") that allowed the Company to continue offering a cost effective portfolio of DSM programs during calendar year 2015 (the "2015 Plan"). We approved the 2014 Settlement Agreement in our October 15, 2014 Order in Cause No. 44495. The 2015 Plan contains cost effective DSM programs designed to achieve energy savings approximately equal to 1% of retail sales, adjusted for large customer opt-out. The 2015 Plan was designed assuming eighty percent (80%) of eligible customers would opt-out of participation in Company sponsored DSM programs. To date 76% of eligible load has opted out of participation and, despite Vectren South's claims that it has encouraged reentry, none of the customers that have opted-out have expressed an interest in opting back in.

On May 6, 2015, Indiana Governor Mike Pence signed into law Senate Enrolled Act 412 ("SEA 412"), which established Ind. Code § 8-1-8.5-10 ("Section 10"). SEA 412 was an effort by Governor Pence to address the change in delivery of energy efficiency programs in the State of Indiana and to reestablish certain savings goals for the electricity suppliers in the State of Indiana. Section 10 requires electricity suppliers to petition the Commission at least one time every three (3) years beginning not later than calendar year 2017 for approval of a plan that includes EE goals, EE programs to achieve the EE goals, program budgets and program costs, and independent EM&V. Furthermore, Section 10 sets forth ten (10) factors the Commission is required to consider in making a determination regarding the overall reasonableness of the EE plan. Pursuant to Section 10, if the Commission finds the EE plan reasonable, then the Commission is required to approve the plan in its entirety and allow the electricity supplier to recover all associated program costs, including reasonable lost revenues and reasonable financial incentives. If the Commission determines that an electricity supplier's plan is not reasonable because the costs of one or more programs in the plan exceed the projected benefits of the program or programs, the Commission may exclude such programs, approve the rest of the plan and allow the electricity supplier to recover program costs associated with the approved programs in the plan. If the Commission finds that a plan is not reasonable in its entirety, the Commission is required to issue an order setting forth the reasons supporting its determination and the electricity supplier is required to file a modified plan within a reasonable amount of time thereafter.

**4. Petitioner's Request.** In this proceeding, Vectren South requests Commission approval of its 2016 – 2017 Plan, the first plan submitted by Vectren South to be evaluated under Section 10. The 2016 – 2017 Plan includes Vectren's proposed EE goals, EE programs to

achieve the EE goals, program budgets and costs, and procedures for independent EM&V of programs included in the plan. The Plan has an estimated cost of \$16.7 million, with \$8.6 million to be spent in calendar year 2016 and \$8.1 million in 2017. Vectren South asserts that its 2016 – 2017 Plan includes a cost effective portfolio of programs designed to: (1) achieve energy savings of 74,107 megawatt hours (“MWh”), with 36,317 MWh to be saved in 2016 and 37,791 MWh in 2017; and (2) reduce total peak demand by 15,443 kilowatts (kW”), with 8,334 kW of peak demand reduction scheduled in 2016 and 7,109 kW in 2017. The 2016 – 2017 Plan includes both residential and commercial EE programs and two of the EE programs also have a demand response (“DR”) component. Vectren South requests authority to continue recovering all program costs, including lost margins and financial incentives via its existing Demand Side Management Adjustment (“DSMA”), which includes components for the recovery of program costs, lost margins for all customer classes and performance incentives. Vectren South is requesting that all of the components of the DSMA remain in place, unchanged, except that Vectren South requests approval for the recovery of annual depreciation and operating expenses associated with the proposed conservation voltage reduction (“CVR”) program investment via the DSMA. Vectren South is not requesting any changes to the performance incentive mechanism, but is seeking approval to earn a performance incentive on all programs included in the 2016 – 2017 Plan except for the CVR program and the income qualified weatherization (“IQW”) program. Vectren South has requested that the Vectren Oversight Board (“Oversight Board”) continue to remain in place unchanged during the 2016 – 2017 Plan period, with continued authority to exceed Commission-approved budgets for DSM programs by up to 10% without having to seek additional approval from the Commission and authority to continue shifting funds from sector to sector, provided gas and electric funds are not commingled.

**5. Vectren South 2016 – 2017 Plan.** The 2016 – 2017 Plan includes the following DSM programs, the majority of which are current programs and many of which are integrated with Vectren South's gas programs:

- | <b><u>Residential</u></b>                 | <b><u>Commercial &amp; Industrial (“C&amp;I”)</u></b> |
|---|---|
| • Residential Lighting                    | • C&I Custom  |
| • Home Energy Assessment & Weatherization | • C&I Prescriptive                                    |
| • Energy Efficient Schools (kits)         | • C&I New Construction                                |
| • Appliance Recycling                     | • Small Business Direct Install                       |
| • Behavior Savings                        | • Conservation Voltage Reduction                      |
| • Residential New Construction            | • Multi-Family Retrofit                               |
| • Multi-Family Direct Install             |   |
| • Residential Efficient Products          |   |
| • Conservation Voltage Reduction (CVR)    |   |
| • Smart Thermostat Demand Response        |   |

**6. Evidence.**

**A. Petitioner's Case-in-Chief.** Robert C. Sears, Vice President of Customer Energy Solutions, discussed DSM policy, including cost recovery, lost revenues, performance incentives and whether the plan is considered reasonable and in the public interest.

Mr. Sears testified that Vectren South, with direction from the Oversight Board, will implement the DSM programs included in the 2016-2017 Plan and will contract with program implementers, as necessary. He discussed the EM&V procedures currently used by Vectren South to evaluate existing programs and how those procedures may be impacted by adoption of a statewide framework at some point in the future.

Mr. Sears testified that customer participation in the Company sponsored EE programs impacts Vectren South's financial condition in three significant ways: 1) the Company incurs costs to develop and implement the EE programs; 2) the Company incurs lost contributions to fixed costs through reduced sales; and 3) the Company forgoes the opportunity to make supply side investments, which is the means under the current regulatory structure for a utility to make a profit. He testified that the Company plans to continue to use the DSMA to recover all costs associated with Vectren South's EE programs, including program costs, performance incentives, lost revenues and costs associated with the DLC program. Mr. Sears testified that there is support in state and federal law for Vectren South's cost recovery mechanism, specifically in Subsection (o) of SEA 412, and the Energy Independence and Security Act.

Mr. Sears testified that Vectren South projects lost margins resulting from customer participation in the Company's electric DSM programs in each DSMA period by recovering actual and projected lost margins. He testified that the Company takes a conservative approach to its projected lost margins in order to ensure the Company is not over-collecting lost margins from customers, and that any over/under collection variance will be recovered in the Company's next DSMA filing. He further testified that forecasted program costs will be reconciled against actual results based on EM&V of the EE programs under the plan.

Mr. Sears testified that the lost revenue adjustment mechanism currently approved for lost revenues does not make the Company whole since only "net" program savings costs that can be directly attributed to the programs through EM&V are recovered versus the gross program savings and usage reductions due to education and other energy savings efforts of customers that cannot be directly quantified as part of EM&V.

Mr. Sears testified that Vectren South is not requesting any changes to the performance incentive mechanism, which requires that Vectren South must attain at least 65% of its goal to avoid incurring a penalty and will not earn an incentive until the Company reaches 80% of its goal. He also testified that in no case shall the actual performance incentive the Company is allowed to earn exceed 10% of the program costs approved in the 2016-2017 Plan.

Mr. Sears testified that Vectren South's 2016-2017 Plan is in the public interest because it promotes the efficient use of energy by better aligning the Company's interests with those of



its customers, and will delay the need to build additional generation, help conserve natural resources and decrease emissions from generating units.

Michael P. Huber, Manager of Electric DSM & Conservation, discussed the DSM programs included in Vectren South's 2016-2017 Plan, the associated annual budget and Vectren South plans to implement and evaluate programs included in the Plan. Mr. Huber testified that the goal of the 2016 – 2017 Plan was to reduce energy usage by 1% of retail sales adjusted for an opt-out rate of 80% of eligible load and to introduce into the marketplace the CVR and Residential Smart Thermostat ("Smart Thermostat") programs, both of which have a DR component. This means that Vectren's proposed goal is 0.65% of sales or 36 GWh for 2016 and 0.67% of sales or 38 GWh for 2017. (CAC Exhibit 1, page 8).

Mr. Huber testified that CVR technology will reduce waste, increase reliability and save money for both the customer and the utility. He testified that Vectren South plans to complete installation on one substation in calendar year 2017 and complete installation on additional substations in future program years. He said that Vectren South seeks authority to recover the following CVR-related costs through the annual DSMA: carrying costs, depreciation expense, annual and ongoing Operation and Maintenance expense, a representative share of Vectren South's DSM support staff and administration costs, and related EM&V cost. Mr. Huber testified that the Smart Thermostat program will offer energy savings, increased load reduction, deliver verifiable DR and provide a platform for customer engagement.

Mr. Huber estimated participation costs of the 2016 – 2017 Plan to be \$16.7 million, with \$8.6 million in 2016 and \$8.1 million in 2017. Further, Vectren South is requesting authority to roll forward into the next program year any unused and approved budget funds from 2016 and 2017 that remain unspent at the end of the year. He also described the energy and demand savings to be achieved in the Plan.

Mr. Huber testified that evaluation for all programs in the 2016 – 2017 Plan will be conducted by an independent evaluator and identify how well programs are implemented. The impact evaluation will examine the more technical effects of the programs such as energy savings.

Richard G. Stevie, Vice President of Integral Analytics, described the cost effectiveness of its 2016 – 2017 Plan. Mr. Stevie testified that he performed the following tests required by the Indiana Utility Regulatory Commission using the DSMore model: the Utility Cost Test ("UCT"), the Total Resource Cost Test ("TRC"), the Ratepayer Impact Measure Test ("RIM") and the Participant Test. He concluded that all of the programs pass the TRC and UCT cost effectiveness tests but not the RIM test. Mr. Stevie testified that while the programs do not pass the RIM test, this should not be interpreted to mean the programs are not cost effective, and that in these cases one should look to the UCT test as a passage of the UCT test reveals whether or not one can expect the long-run revenue requirements for ratepayers would increase or decrease.

Mr. Stevie also testified regarding the long-term effect on rates and bills of participants as demonstrated through the Participant test and RIM test. He testified that all participants would benefit from the programs under the Participant test with the exception of those programs where the score could not be calculated because there were no costs to participants for participating in

the program. He further testified that although none of the programs passed the RIM test – meaning rates would likely increase over time – that a rate increase in and of itself should not be viewed negatively given that DSM programs create a demand side resource that allows utilities to avoid the cost of a supply side resource, which has its own costs that would increase rates. Mr. Stevie concluded that Vectren South's 2016 – 2017 Plan is cost effective. Mr. Stevie also testified that the two year implementation plan for the CVR program is cost effective under both the TRC and UCT tests.

J. Cas Swiz, Director of Regulatory Implementation and Analysis, described Vectren South's plans to account for carrying costs and depreciation expense associated with the capital expenditures the Company plans to make related to the CVR program. Witness Swiz testified that Vectren South is requesting recovery via the DSMA of annual depreciation and operating expenses associated with the proposed CVR investment along with recovery in the DSMA of the annual carrying costs on this capital investment. Mr. Swiz testified that the proposal is to recover the needed return on and of the CVR program investment in the DSMA until the Company's next base rate case. He testified that Vectren South will calculate the monthly carrying costs using its weighted average cost of capital ("WACC"), grossed up for income taxes, and multiplied by the net plant balance as of the end of the prior month. He explained that the Company will include in each annual DSMA filing a projected level of carrying costs on the approved CVR program investments. Mr. Swiz testified that the total level of expenses for the CVR Program investments by year are \$40,000 for 2016 and \$277,941 for 2017.

Scott E. Albertson, Vice President of Regulatory Affairs and Gas Supply, explained Vectren South's approach to evaluating the impact on electric rates and customer bills resulting from a proposed EE plan, focusing on the provision in Section 10(j)(7) which lays out what the Commission is required to consider when making a determination of the overall reasonableness of an EE plan. Mr. Albertson testified that the short term effect of the Plan for participating customers is reduced energy consumption, which can result in lower energy bills. Mr. Albertson also testified that after each of the program years, customers will no longer pay program costs or performance incentives associated with the Plan; however, the lost revenues attributed to the Plan will continue throughout the life of each of the EE measures that drove the lost revenues.

**B. OUCC's Case-in-Chief.** OUCC witness April M. Paronish, a Utility Analyst in the Resource Planning and Communications Division of the OUCC, opined on the adequacy of Vectren South's evidence and made several recommendations regarding the design of the 2016 – 2017 Plan. First, she contended that Vectren South needed to provide greater details regarding the cost and benefit inputs and formulae so stakeholders could replicate the model results. She said that because there is insufficient evidence in Vectren South's case-in-chief for either stakeholders or regulators to rely on Vectren South's benefit/cost test scores to assess the Plan's overall reasonableness as required by Section 10(j)(2), the 2016 – 2017 Plan should be found unreasonable in its entirety pursuant to Section 10(m).

Regarding the plan details, Ms. Paronish recommended that the Commission exclude the CVR program and the Smart Thermostat program from Vectren South's 2016 – 2017 Plan. Regarding the CVR program, she opined that it is not cost effective, the engineering study identifying a target circuit was not completed and Vectren South failed to address how it would handle cost recovery for opt-out customers who might be served by substations where the CVR

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

technology is installed. Ms. Paronish testified that the Smart Thermostat program is primarily a DR program designed to augment Vectren South's existing direct load control program and is not EE as defined in Section 10. She also testified that the Strategic Energy Management ("SEM") pilot program should not be included in the 2016 – 2017 Plan. Based on her concern about health and safety costs in the IQW program, Ms. Paronish recommended rejection of the program.

Edward T. Rutter, a Utility Analyst in the Resource Planning and Communications Division of the OUCC, pre-filed testimony on behalf of the OUCC. Mr. Rutter recommended that the Commission deny Vectren South's request for continued lost revenues, deny Vectren South's request to continue shareholder incentives and find that Vectren South's 2016 – 2017 Plan is unreasonable in accordance with Section 10(l) and/or Section 10(m). Mr. Rutter said that for every dollar spent on the 2016 – 2017 Plan, 57% are non-program costs, lost revenues and shareholder incentives.

Mr. Rutter acknowledged that the Commission has explained the purpose of lost margins recovery, which is to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory. But, he said Vectren South's case-in-chief demonstrates that promoting DSM within its service territory does not expose the Company to any disincentive that requires removal, but rather provides an economic incentive that exceeds what the Company would earn by selecting a supply-side option. He said that determining whether a disincentive exists can be viewed as a function of Vectren South's estimated cost-benefit results positively or negatively impacting the net operating income or return authorized under Vectren South's last base rate case, Cause No. 43839 (April 27, 2011). Mr. Rutter conducted an analysis that led him to conclude that if Vectren chose to meet demand with a supply-side option such as a new plant, it would earn a return on its investment of 7.29%. He said that would come with significant risk, including financing a massive capital investment, slower cost recovery and the possibility that the Commission may not find the project used and useful. He testified that by comparison, none of those risks apply to the 2016 – 2017 Plan; yet, if approved, Vectren South's effective overall rate of return and return on common equity will surpass its authorized levels. As a result, he said, Vectren South faces no disincentive to pursue EE.

Mr. Rutter discussed lost margins and cost effectiveness tests. He testified that when per kWh program costs are more than doubled only to pay for lost margins and shareholder incentives, it illustrates the serious imbalance between ratepayer and utility interests. He said that Vectren South's lost margins and shareholder incentives are unreasonable and should be denied. Mr. Rutter testified that Vectren South's lost margins request is unreasonable because the DSM lost sales are not preventing Vectren South from recovering its authorized fixed costs. He said that if a utility experienced a sales level less than implicit in base rates then the authorized fixed costs would not be recovered; however, if sales exceed the amount included in base rates, the utility will realize a boost to the authorized allowable rate of return. Mr. Rutter testified that while Vectren South has been collecting lost revenues, its total sales have been increasing and have exceeded sales experienced by Vectren South in the twelve months ended June 30, 2009, the test year adopted in setting Vectren South's current base rates. Mr. Rutter conducted an analysis that led him to conclude that Vectren South will have collected annually more fixed costs than authorized in base rates and he testified that providing lost margins for DSM for any year subsequent to the test year is not only unnecessary, but unreasonable.

Mr. Rutter then discussed his interpretation of SEA 412. He explained that while the TRC and UCT/Program Administrator Cost ("PACT") tests have been widely utilized by Indiana utilities, stakeholders and the Commission, the Indiana General Assembly and Governor Pence have made it plain in enacting SEA 412 that a different more inclusive analysis is required. Specifically, he contended that cost effectiveness must consider lost revenues, and that among the tests presented by Vectren South, only the RIM test satisfied SEA 412's new requirements.

Mr. Rutter said that Vectren South failed to provide information to show the long term and short term effects or potential effects of the DSM plan on customers that participate in the plan versus those that do not, as required by SEA 412. He also testified that Vectren South's case-in-chief does not include customer or customer representatives' comments, nor does it demonstrate other stakeholders have been solicited or other comments included in the plan, which he said SEA 412 requires.

Mr. Rutter also confirmed that the OUCC opposes Vectren South's request for performance incentives. He said that there is no compelling evidence demonstrating performance incentives are required to encourage cost-effective DSM. Furthermore, he testified that a performance incentive is inherently unreasonable when the utility chooses the energy savings targets, programs to achieve those targets, size, scope and funding of those programs, who will measure savings and how the savings will be calculated, and then receives shareholder incentives when it achieves only 80% of its self-developed program goals. He concluded by saying that it is unreasonable to provide for performance incentives to an electric utility that has adopted a cultural change and commits to continue to offer cost-effective DSM to assist customers in managing their energy bills and to meet future energy needs.

Crystal L. Thacker, a Utility Analyst in the OUCC's Electric Division, recommended changes to the computation of carrying costs for the CVR program. She urged Vectren South to calculate its WACC using the cost of equity approved in Petitioner's last rate case, but update the capital structure, zero cost capital and cost of debt in calculating the appropriate rate of return. She cited several cases where the OUCC's recommended approach was used and testified that the OUCC's recommended approach is the same approach required by 170 IAC 4-6-1 for Qualified Pollution Control Property.

### **C. CAC's Case-in-Chief.**

Ms. Natalie Mims, Principal Consultant at Mims Consulting, LLC, provided her expert opinion as to whether or not Vectren's 2016–2017 energy efficiency plan is reasonable under SEA 412. She recommended that Vectren's plan be rejected as unreasonable until all of her recommendations are incorporated into Vectren's plan. She recommended that while Vectren works to incorporate her recommendations into its plan, that Vectren continue to offer its DSM programs as it has under its 2015 plan for purposes of consistency, marketplace certainty, and for the benefit of Vectren's customers.

Ms. Mims testified that the major issue with Vectren's claim that its IRP supports its proposed level of energy efficiency is that it does not have and did not supply the information that would be necessary to understand how it modeled energy efficiency. She testified that without the requested modeling files, it is impossible for stakeholders like CAC to independently

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

assess and confirm or rebut, as the case may be, Vectren's claim that it evaluated additional energy efficiency and supply-side resources on "a consistent and comparable basis" and that no additional energy efficiency was cost-effective. *See* 170 IAC 4-7-8(b)(3),(4).<sup>1</sup> Without this minimum amount of information, She testified that she does not believe that Vectren can satisfy Section (c) in Ind. Code Section 8-1-8.5-10.

Ms. Mims testified that Vectren is proposing a residential and commercial Conservation Voltage Reduction ("CVR") program for the first time. Given Indiana utilities' limited energy efficiency budgets, she suggested, it may be more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills.

Ms. Mims testified that Vectren's Action Plan identified that the Company could achieve more than twice as much energy efficiency than what it is proposing here. She testified that these are much higher, reasonably achievable savings than what the Company is proposing in this application. She also testified that Vectren did not make reasonable adjustments to its Action Plan in response to SEA 340 and non-residential opt-outs, because it would be reasonable to maintain the Action Plan savings levels for all residential programs and non-residential programs from which customers cannot opt-out.

Ms. Mims recommended that Vectren should implement the residential and non-residential efficiency programs at the Action Plan levels, adjusted for opt-out, as shown in tables 3 & 4 of her testimony.<sup>2</sup> She testified that this would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost-effectively.

Ms. Mims recommended that Vectren implement an upstream efficiency program that is targeted at manufactured home producers. She testified that because of the amount of Indiana's housing stock that is comprised of manufactured homes, and the use of manufactured homes as affordable housing, it is critical that Vectren design successful programs to reach this market. She also testified that robust EE programs for low-and fixed-income households are essential to ensuring that all customers are able to afford basic utility service on a sustainable basis, particularly because low-income residents tend to live in less efficient housing. Ms. Mims recommended a program that is similar to a program offered by the Tennessee Valley Authority ("TVA"). In TVA's program, she testified, it pays the manufacturer of the homes to build homes with heat pumps instead of electric resistant heat. When the consumer purchases a new home, she testified, there is no cost differential between the heat pump version and the electric resistant heat version, yet there are tremendous energy savings. Ms. Mims recommended that Vectren should also consider Idaho Power's Rebate Advantage program, where customers that purchase new all-electric ENERGY STAR manufactured homes receive a \$1000 sales rebate and sales

---

<sup>1</sup> This reference is to the October 2012 revised draft of the proposed IRP rule in the IRP rulemaking, RM# 11-07. This draft was the starting point for further revisions in the IRP/EE rulemaking, RM # 15-06.

<sup>2</sup> CAC Exhibit 1, pages 11-12.

consultants receive a \$200 sales bonus every time they sell a new all-electric ENERGY STAR manufactured home to an Idaho Power customer.<sup>3</sup> Finally, Ms. Mims recommended that Vectren should clarify that its Smart Saver Residential, Residential Energy Assessment, Low-Income Weatherization, Low Income Neighborhood, Agency Assistance Portal, and Appliance Recycling program are available to manufactured home owners and renters. She testified that this may already be the case, but there is no information in the application indicating if a “single family home” is inclusive of a manufactured home.

Ms. Mims testified that A “Whole Home Plus” program was included as part of Vectren's 2013 Action Plan. She testified that Vectren is including the relevant portions of the Whole Home Plus program in its DSM plan for 2016-2017. However, she testified that it is not transparent what aspects of the program were included in the Home Energy Assessments program as there is no detail provided in the Action Plan about the Whole Home Plus program, such as the delivery mechanism, eligible measures, or participation. Further, she testified, that the Action Plan found that Vectren could save 2 GWh a year with its Whole Home Plus program, and an additional 3 GWh each year with its Home Energy Assessment program. But, she testified Vectren is not ramping up to meet the level of energy savings cost-effectively identified in the Company's Action Plan. She strongly encouraged Vectren to identify and pursue additional savings through these two programs, as suggested in its Action Plan.

Ms. Mims testified that Vectren should identify and implement a program that assists with providing rebates or direct installation of energy efficiency measures in schools. She testified that the School Audit Direct Install (“SADI”) program is different than Vectren's Energy Efficient School program because the SADI program focused on the installation of measures at the school, while Vectren's Energy Efficient School program focuses on student education and outreach. She testified that it seems Vectren should identify a program that will leverage the Energy Service companies (“ESCOs”) efforts and deepen savings to go beyond the industry's historically shallow lighting savings. She testified that instead of a direct install program that may compete with the ESCO contract, the use of rebates in a streamlined process may encourage the ESCOs to install energy efficiency measures they might not otherwise. An appropriate first step, she suggested, would be to engage with the ESCO to determine what grants they are currently receiving, if any, from the state or federal government, or utilities in other parts of the state or country. She testified that this could provide a model to begin building a successful and robust school program for Vectren's service territory.

Ms. Mims testified that in Cause No. 44310, a proceeding to investigate a self-direct program, the Commission found that “Based on the significant change in the statutory landscape and the resulting impact on the manner in which DSM programs are designed...we find that any further consideration of a structured self-direct DSM program for large customers should occur when an electricity supplier submits its plan for Commission approval.”<sup>4</sup> Ms. Mims testified that

---

<sup>3</sup> Idaho Power, 2014 DSM Annual Report, <http://www.puc.idaho.gov/fileroom/cases/elec/IPC/IPCE1404/20140317DSM%20ANNUAL%20REPORT%202013.PDF>.

<sup>4</sup> IURC Cause No. 44310 Order of the Commission, May 20, 2015, available at [https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed\\_Cases/ViewDocument.aspx?DoCID=0900b631801c712b](https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed_Cases/ViewDocument.aspx?DoCID=0900b631801c712b) (CAC Administrative Notice Exhibit 2).

energy efficiency is the lowest cost resource, and Vectren should look for reasonably achievable ways to attract and retain energy efficiency program participation from their large customers. Accordingly, she recommended that Vectren offer a self-direct program. She also testified that it is worth mentioning that without revisions to the net lost revenue recovery, and she did not think that any industrial customer would participate in an energy efficiency offering from any utility in Indiana.

Ms. Mims also recommended for the self-direct program that as discussed in CAC's comments in Cause No. 44310, (1) projects should generate capacity savings and not just time-shifting of energy consumption; (2) projects started prior to being approved as a self-direct project should not be eligible for funding or credit; and (3) self-direct customers should be required to share their plans with the administrator or other parties interested in implementing similar projects, subject to scrubbing the plans for confidentiality.

Ms. Mims recommended that third party evaluation, measurement and verification occur on a comparable schedule to Vectren's EM&V schedule and be required to use the same standards for data collection as Vectren's efficiency programs. She testified that important features of the EM&V are that it is consistent across customers, transparent and accountable. Without verification of energy efficiency savings, she testified, the reduction in load that occurs from these customers' energy efficiency projects will not be attributed to energy efficiency. She testified that this is important because it provides the utilities with an idea of how much energy their large customers are saving, and insight into how much they will save in the future. She also testified that this is useful for system-wide planning and ensuring that the Company can provide Indiana ratepayers with the lowest cost, reliable electricity system. In fact, she testified, this Commission has recognized energy efficiency as "the most cost effective way of meeting future energy supply needs and [that it] has the corresponding benefit of reducing the need to build additional generation capacity."<sup>5</sup> Further, she testified, without greater accountability, these customers that do not install energy efficiency measures on their own can act as "free riders" that receive, at no cost, the system-wide benefit of energy efficiency savings produced by participating customers.

Ms. Mims testified that consistent with prior CAC testimony, if recovery of lost revenues is allowed, because there is actual "lost" revenue, 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 the Company's authorized cost recovery. She testified that this would be consistent with Indiana's relevant definitions of "lost revenues" in Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10: "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." Furthermore, she testified, Ind. Code § 8-1-8.5-10(o) states that if the plan is found to be reasonable under subsection (h), the Commission shall allow "reasonable financial incentives" and "reasonable lost revenues." She recommended that the current structure of recovery of lost revenues for Vectren, however, is not reasonable and should be changed to conform to the statute. Finally, she testified, 170 IAC 4-8-6 already requires consideration of free riders. She further testified that Vectren should be required to include customer load growth, off-system sales, and changes

---

<sup>5</sup> IURC Cause No. 42693, Phase II Order at 30 (December 9, 2009).

in other revenue structures when proposing any lost revenue adjustment mechanism. And she testified that changes in these factors between rate cases provide the utility with additional cost recovery that should be offset in any lost revenue mechanism.

Ms. Mims testified that Vectren did not provide a breakdown of lost revenue by program, by year, as part of its application, or any discussion more than generalities in its application on the topic of lost revenues, and thus did not provide evidence that it will under recover authorized costs due to the impacts of its efficiency programs. She further testified that regardless of where or when the information is provided, it is unreasonable to recover lost revenues if there is no evidence that the revenues are actually lost. And she testified that this lack of quantitative support for lost revenue in the utilities' applications is why Indiana's lost revenue adjustment mechanism ("LRAM") is asymmetrical – the utility makes no adjustment for increases in revenues due to activities unassociated with DSM and appears to assume that lost revenues due to DSM always occur. She testified that Vectren's LRAM would be symmetrical if it took into account its actual revenues before and after the application of its lost revenue. If increased sales or other factors result in actual revenue plus lost revenues are pushing Vectren past its revenue needs, it should not collect any lost revenue at all. She also testified that Vectren could compare sales in its test year to the actual sales, and if there is a difference between that test year and the actual year, then Vectren may be eligible for lost revenues. If the actual sales, she testified, after the effects of EE are included, are still sufficient to allow the Company to recover its authorized revenue (for example, when sales are above forecasted levels), there is no legitimate rationale to use ratepayer money to compensate the Company for "lost" revenues that were not incurred. She then testified that this would be essentially asking utility ratepayers to guarantee excess revenues to the utility, and this is not reasonable. However, she testified, if the Company's sales, after the effects of EE, are insufficient to allow the Company to recover its authorized costs, then the Company would be eligible for lost revenues. She testified that lost revenue recovery is meant to be a short-term solution to address revenue loss in between rate cases. As noted below, she testified, if recovery of lost revenue is allowed, it should be limited to three years or the life of the measure, whichever is shorter, to avoid the "Pancake Effect." Further, she testified, based on ACEEE's recent LRAM research:

It is most common for states to limit recovery to one to three years, although many states allow utilities to recover lost revenues for an indefinite period of time...Respondents indicated that in these cases, although rules might not be in play...utilities tend to bring [rate cases] forward every two to three years.<sup>6</sup>

Ms. Mims testified that It appears that Vectren actually only had a two-year lost revenue recovery time period in Indiana prior to receiving lifetime recovery of lost revenue. *See* Cause No. 43938 (August 31, 2011) ("Vectren South-Electric's requests to defer up to \$1 million in lost margins associated with residential and small customer Core and Core Plus programs for the period of January 1, 2011 through December 31, 2011 and to recover, over a two year period, those deferred lost margins in a separately docketed proceeding, shall be and hereby are approved.").

---

<sup>6</sup> Exhibit NM-8, page 21.



Ms. Mims testified that as noted by the Minnesota Department of Public Service over fifteen years ago, lost revenue recovery is meant to be a short-term adjustment to address revenue losses in between rate cases. In the absence of requiring a rate case every 2-3 years, the amount of lost revenue the utilities recover should be limited.<sup>7</sup> It is also important to note that the utility is able, she testified, through integrated resource planning and rate cases, to adjust their longer term plans to avoid spending revenue unnecessarily if efficiency can defer or eliminate the need for additional capital expenditures, and thus lost revenues. However, she testified, at this time, Indiana's policy allows the utility to collect revenues that would not be "lost" through prudent planning. In Indiana, she testified, the rationale for a cap of 36 months of lost revenue can also be found in SEA 412, which requires the utilities to submit energy efficiency plans at least once every three years. Additionally, she testified, lost revenue recovery should be limited to the duration of the energy efficiency plan approved by the Commission under Indiana Code §8-1-8.5-10(h). In addition, she testified, there is a high risk that ratepayers will pay for revenues that are not actually "lost" if the Commission continues to allow Vectren to collect lost revenues for the life of the measure, or until it has a new rate case because the energy baseline will change in the future. She testified that this adds a layer of complexity and opacity that can largely be avoided by limiting the lost revenue recovery period. Currently, she testified, that there are significant inconsistencies in how NIPSCO, DEI and Vectren calculate their lost revenues. In addition, she testified, to using different methodologies, the utilities do not appear to be presenting the same information in their filings, nor are they presenting the information in a uniform fashion. She testified that while she was aware that each utility is unique, the Commission and interested stakeholders should be able to easily identify the annual and total lost revenues each utility is requesting in each application as well as the savings underlying those calculations. Under the current practice, this is nearly impossible. She recommended that a reasonable approach would require that: (1) the utility show that implementation of energy efficiency programs has prevented the Company from recovery of authorized fixed costs; then (2) use a standard methodology across the State of Indiana to determine how to uniformly calculate lost revenue for a measure, and finally, (3) calculate the lost revenue for three years or the life of measure, whichever is shorter. She testified that Vectren'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. In addition, she testified, it is unreasonable to request lost revenue for the life of the measure or until the utility returns to the Commission for a rate case.

Ms. Mims testified that the Commission did not approve Vectren's lost revenue adjustment mechanism ("LRAM") indefinitely, and, furthermore, the Commission's rules state that it may periodically review the need for continued recovery of the lost revenue as a result of the utility's DSM program, and that the approval of a lost revenue recovery mechanism shall not constitute approval of a specific dollar amount, the prudence, or reasonableness of which may be debated in a future proceeding before the Commission.<sup>8</sup> Also, she testified the newly enacted Senate Enrolled Act 412, in Section (o), now includes the term "reasonable" in front of the term lost revenues. She then testified that given the length of time between utility rate cases in

---

<sup>7</sup> Minnesota Public Utility Commission, Docket No.98-443, Order issued June 24, 1998, Page 8.

<sup>8</sup> 170 IAC 4-8-6 (c). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06.

Indiana, this could result in the utility recovering lost revenue for the life of the measures, which as discussed above is not reasonable. While Vectren has conducted more frequent rate cases than some of the other Indiana electric IOUs, as a statewide policy, she testified, allowing utilities to recover lost revenues until there is a rate case is not prudent.<sup>9</sup> Even with Vectren's last rate case in April 2011,<sup>10</sup> she testified, future rate case dates have not been established and there is no guarantee that the Company will return to the Commission in five, ten or even twenty years for its next rate case. In the absence of a rate case, she testified, Vectren will continue to add lost revenues from prior years to existing years for energy efficiency measures that are still in service, which ACEEE has dubbed the "Pancake Effect."<sup>11</sup> This, she testified, can become very expensive and dwarf the cost of the actual energy efficiency program implementation. It means that the utility, she testified, if it does not return to the Commission for a rate case, would recover lost revenues for the life of the measure.

Ms. Mims testified that currently, Vectren calculates a separate residential and commercial incentive. Programs must pass the UCT and the TRC in order for the utility to earn an incentive. The costs that are eligible for the incentive are the "actual program delivery costs not to exceed the total budget approved by the Oversight Board."<sup>12</sup> She testified that currently Vectren must achieve at least 80% of its goal in order to earn a performance incentive. This threshold is consistent with national best practices.<sup>13</sup> However, she testified, given that Vectren is setting its own energy efficiency goals, I recommend that if the Commission adopts a shared net benefit performance incentive, the Commission require that Vectren meet 100% of its goal as a threshold for a performance incentive. She also recommended that the Commission use multiple criteria to define the performance incentive, and cap the maximum amount of the incentive. And she also recommended that during the IRP/EE rulemaking (RM #15-06), the Commission and interested stakeholders define the performance criteria based on what is best for Indiana, and determine what the appropriate total incentive cap should be. In the interim, she suggested that the Commission move all of the utilities to a shared net benefit performance incentive that is calculated using the net present value of UCT benefits, and is tiered based on energy savings performance. Performance incentives are a critical tool in energy efficiency policy, however she testified, the performance incentive does not need to be extremely rich to motivate utilities to act. She additionally recommended that in the absence of: (1) requiring the utility to show that they have "lost" revenues; and (2) shortening the lost revenue recovery period to the shorter of 36 months or the life of the measure, or requiring the utility to return to the Commission for a rate case every three years, Vectren should not receive a performance incentive. However, she testified, if the lost revenue period is shortened to 36 months or the life of the measure, whichever is shorter, the Commission should allow a performance incentive.

Ms. Mims testified that Vectren is proposing to recover performance incentives for at least some of its proposed demand response programs.<sup>14</sup> She testified that she is not an attorney, but Senate Bill 412 does not appear to allow for that. She testified that Ind. Code Section 8-1-

---

<sup>9</sup> Exhibit NM-8, page 12, Figure 7.

<sup>10</sup> Cause No 43839 (2011).

<sup>11</sup> Exhibit NM-8, pages 7, 11-13.

<sup>12</sup> Petitioner's Exhibit 1 (Sears), page 24.

<sup>13</sup> ACEEE, Performance Incentive Review, 2015, page 7 (Exhibit NM-13).

<sup>14</sup> Petitioner's Exhibit No. 1 (Sears), p. 25.

8.5-10(d) defines “energy efficiency program” or “program” as a program that is (1) sponsored by an electricity supplier; and (2) designed to implement energy efficiency improvements. She further testified that it goes on to say that the term does not include a program designed primarily to reduce demand for limited intervals of time, such as during peak electricity usage or emergency conditions. And she testified that this is what demand response programs are. She testified that language regarding cost recovery in Senate Bill 412 just addresses recovery for energy efficiency programs or programs as defined by Section 10(d). She suggested that the fact that the legislature made the extra effort to exclude demand response from its definition of program costs seems to indicate its rejection of lost revenues and financial incentives for demand response. Thus, she recommended, the Commission deny Vectren's request for performance incentives for any of their demand response program.

Ms. Mims testified that performance incentives are part of the SEA 412 IRP/EE rulemaking, IURC RM # 15-06. As part of this effort, she strongly recommended that a workshop be held to discuss a cohesive state policy on performance incentives and calculation of lost revenues, as these areas seem to have the most diverse methodologies among Indiana utilities. In this workshop, she strongly recommended that the Commission and stakeholders consider the costs and benefits of designing a performance incentive that has multiple criteria, as well as identify appropriate criteria for a three-year EE cycle that will motivate the utility to pursue Indiana's EE policy goals.

Ms. Mims testified that Vectren states that their EM&V cost is five percent of program budget,<sup>15</sup> but based on discovery responses, it is 5.9-6.4%. Further, she testified that it appears that Vectren's EM&V costs have been trending upwards since 2012. These projected EM&V costs, she testified, in excess of five percent of program costs, do not comply with the Indiana Evaluation Framework as filed with the Commission in Cause No. 42693 S-1 on October 9, 2012 by the Demand Side Management Coordination Committee's (“DSMCC”) Evaluation Management and Verification Subcommittee, which was prepared for the DSMCC by the Indiana Statewide Core Program Evaluation Team (TecMarket Works, the Cadmus Group, Opinion Dynamics Corporation, Integral Analytics, Building Metrics, and Energy Efficient Homes Midwest).<sup>16</sup> In the event that the Commission does not alter Vectren's performance incentive to be calculated using net benefits of the UCT instead of program costs, she recommended, the Commission should only allow Vectren to include EM&V costs of up to 5% of the portfolio cost for the purposes of calculating the performance incentive. She testified that the Commission should be aware that the Indiana-specific, ratepayer-funded Technical Resource Manual (also known as Technical Reference Manual) was updated this past summer.<sup>17</sup> She also testified that the maintenance of documents such as these is crucial to having a solid baseline for which to conduct EMV in Indiana.

Ms. Mims testified that Mr. Sears references the State Utility Forecasting Group's (“SUFG”) publication of the *Indiana Electricity Projections: The 2013 Forecast*. However, she

---

<sup>15</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 13.

<sup>16</sup> Indiana Evaluation Framework, October 9, 2012, available at: [https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed\\_Cases/ViewDocument.aspx?DoCID=0900b6318019174a](https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed_Cases/ViewDocument.aspx?DoCID=0900b6318019174a) (CAC Administrative Notice Exhibit 4).

<sup>17</sup> Exhibit NM-16.

testified, it appears that this publication and the duties assigned to the SUFG only cover one of the five parts of the Commission's analysis in Ind. Code § 8-1-8.5-3(b)(1), which is the probable future growth of the use of electricity.<sup>18</sup> She also testified that Ind. Code § 8-1-8.5-3 requires four other parts to the Commission analysis and Ind. Code § 8-1-8.5-3.5 appears to direct the SUFG to do just one of the five parts of the above required analysis, the probable future growth of the use of electricity. She further testified that it is unclear if a comprehensive Commission analysis exists encompassing the other four requirements under Ind. Code § 8-1-8.5-3; however, the rulemaking (IURC RM # 15-06) that is currently pending could end up addressing this. Thus, it was her opinion that it is too soon to tell whether or not Vectren's 2016-2017 Plan is consistent with the Commission analysis as contemplated under Ind. Code § 8-1-8.5-10(j)(3)(A).

**D. Petitioner's Rebuttal.** Mr. Sears' rebuttal testimony responded to testimony filed by OUCC witness Edward T. Rutter, CAC witness Natalie Mims, and OUCC witness April P. Paronish.

Mr. Sears responded to Ms. Mims recommendation that Vectren South be required to demonstrate a net sales reduction from base rate case levels to qualify for recovery of lost revenues and all programs be subject to a three-year cut-off for lost revenues. Mr. Sears testified that this approach removes the incentive for Vectren South to pursue EE programs and without the lost margin recovery mechanism, the benefits associated with incremental sales would be lost – which is contrary to the Commission's stated purpose. He also testified that Vectren South's proposal to recover lost margins over the life of the measure is reasonable because it is directly related to the life of savings assumed in the benefit/cost analysis. He did not agree with Ms. Mims that the "Pancake Effect" warranted limiting lost revenues because the lost margins simply reflected a history of successful EE and DSM programs that produce significant savings each year. Mr. Sears testified that the average life of the weighted program savings in the Plan is 6.6 years with 31% of the program savings having an average life of 3 years or less for the residential sector; an average life of the weighted program savings of 10.9 years for the commercial sector and 8.5 years for the overall portfolio.

He also disagreed with Mr. Rutter's contention that the Plan should be considered unreasonable because it does not pass the RIM test. Mr. Sears testified that relying exclusively on the RIM test was never intended by the Commission or the General Assembly, and that instead, the application of several tests provides a more comprehensive analysis of the cost effectiveness of programs. He referenced legislative history that supported his conclusions.

Mr. Sears responded to Ms. Paronish's testimony that Vectren South did not ask for lost revenues or shareholder incentives associated with the CVR program by testifying that the Company proposed to exclude CVR from only the incentive mechanism in the DSMA, not the lost revenue component. He identified passages in his Direct Testimony where he explained Vectren South's request related to excluding CVR from the performance incentive component of the DSMA, but not the lost revenue component.

In response to Ms. Mim's claim that the Plan should implement EE programs at levels recommended in the MPS, Mr. Sears testified that the goals established under Section 10 should

---

<sup>18</sup> See <http://www.purdue.edu/discoverypark/energy/SUFG/about/about.php>

be based on needs shown in the IRP, not what might be achieved, and that the IRP is the process to determine how much DSM is appropriate. Mr. Sears also testified that Ms. Mims' analysis demonstrating that the Plan is unreasonable is misleading because she uses total retail sales as the basis of calculating the savings to arrive at a much lower percentage, when the appropriate way is to compare the Plan savings goals with the impact of reduced retail sales eligible to participate in the program because of large customer opt-out. In addition, Mr. Sears disagreed with Mr. Rutter's contention that Vectren South's plan is not reasonable because it does not include comments by customers and other stakeholders concerning the Plan, as Vectren South is not required to offer this as part of its case-in-chief.

Karl A. McDermott, PH.D., Ameren Professor of Business and Government at the University of Illinois-Springfield, responded to criticisms from Mr. Rutter and Ms. Mims. Mr. McDermott disagrees with Mr. Rutter's claim that the Company's proposed shareholder incentives are unnecessary and unreasonable and the claim made by both Mr. Rutter and Ms. Mims that the company's proposal for lost revenues is unreasonable. Mr. McDermott testified that the approach to lost revenues should not be predicated on overall recovery of allowed revenues, and that the OUCC's new policy of offsetting lost revenue from energy efficiency with new customer growth simply ignores the predicates for volumetric rate design, utility cost management and the utility's ability to fund new infrastructure needed to serve growth. He also testified in disagreement with Mr. Rutter's claims that any sales increase "flows directly to the bottom line resulting in the utility achieving a greater than authorized rate of return". Mr. McDermott testified that Mr. Rutter's claim is not true without making the unrealistic assumption that the cost structure does not change over time. He testified that fixed costs are called fixed costs not because such costs do not change, but because these costs are unrelated to output. Mr. McDermott also testified that the proposals of both Mr. Rutter and Ms. Mims would serve to reinstate, in full or in part, the disincentive inherent in the regulatory business model to promote energy efficiency and that the trend suggests that decoupling is the wave of the future.

Mr. Stevie responded to recommendations made by Ms. Paronish, Mr. Rutter, and Ms. Mims. Mr. Stevie responded to Ms. Paronish's concerns about the detail and transparency for benefit cost analyses, noting the language of SEA 412 does not require such information. He further explained that utilities have not historically submitted this information as part of their cases-in-chief, and that Vectren South has had programs approved multiple times without ever including this information in its case-in-chief. In addition, Mr. Stevie points out that the information sought by Ms. Paronish was provided in response to a data request.

Mr. Stevie responded to Mr. Rutter's contentions that Vectren South does not have a disincentive to implement DSM programs by explaining that Mr. Rutter's analysis is based upon several incorrect assumptions and a misapplication of the data from the Company's filing. For example, he explained that Mr. Rutter incorrectly assumes that the net benefit estimated by the UCT/PACT analysis represents cash earnings to the Company when they are actually the present value of future reductions in revenue requirements. He explained that the net benefits represent the savings that accrue to rate payers over the life of the measures being installed. He testified that if one were to accept Mr. Rutter's approach, the only component that could be added to net operating income is the utility incentive amount, and using Mr. Rutter's figures from ETR

Attachment 2, the annual return would rise from 7.29% to 7.32% - an increase in return so small that it does not remove the DSM disincentive.

Mr. Stevie also responded to Mr. Rutter's contention that Vectren South left out most of the lost revenues from its analysis, and that the Company is actually seeking recovery of \$38,969,652 over the period 2016 through 2017 and that only 43% of the cost recovery is for program costs – the rest is for recovery of lost revenues and the utility incentive. He explained that Mr. Rutter's estimate of the total lost revenues overlooks that this revenue is the present value for 25 years of lost revenues, and that the \$38,969,652 value created by Mr. Rutter is not the revenue request in this case for the period 2016-2017. He also explained that Mr. Rutter's claim that program costs only represent 43% of the Company's total revenue recovery request for the 2016-2017 period contains a mismatch between values that cover the two year period and a value that represents 25 years, and that the correct percentage is 80.5%.

Mr. Stevie responded to Ms. Mims' contention that the Company should increase the level of energy efficiency impacts it plans to achieve to be in alignment with its Market Potential Action Plan. Mr. Stevie countered that a market potential study will always be an over-estimate because the studies employ a static estimate of avoided costs in assessing program effectiveness. He further explained that the level of avoided costs decline as more and more energy efficiency impacts are achieved, although this statement contradicted Mr. Stevie's statement in Direct that "Avoided costs for energy efficiency tend to increase with increasing market prices and/or more extreme weather conditions due to the covariance between load and costs/prices." Petitioner's Exhibit No. 3, page 6, lines 15-17. Mr. Stevie testified that findings on cost-effectiveness of energy efficiency impacts within an IRP analysis should dictate the level of cost-effective energy efficiency since the IRP model handles dynamic changes in the avoided costs. Mr. Stevie also disagreed with Ms. Mims' contention that most states limit recovery of lost revenues to one to three years based on an ACEEE report, because the report does not claim that legislation or commission rules dictate shorter recovery periods. Mr. Stevie testified that he is familiar with the practices in several of the states reviewed in the report and that the results in those states were based on negotiated settlement agreements. Mr. Stevie concluded that it is inappropriate to rely on the results of settlement agreements as a basis for making a decision in an unrelated proceeding. Mr. Stevie also responded to Ms. Mims' contention that no incentive be allowed if Vectren South is allowed to recover lost revenues for the life of the measure. Mr. Stevie responded that incentives and lost revenue recovery serve very different purposes. He explained that lost revenue recovery is necessary to remove the disincentive an electricity supplier faces to promoting energy efficiency and that incentives are necessary to encourage electricity suppliers to pursue all cost-effective energy efficiency and DR impacts.

Mr. Huber responded to issues raised by Ms. Paronish and Ms. Mims. He testified that Vectren South made modifications to the Plan based on program design changes recommended by the OSB prior to filing the Plan for approval, and that the issues now being raised by Ms. Paronish and Ms. Mims were not raised prior to the Company filing its Plan. Mr. Huber disagreed with Ms. Paronish that health and safety costs are not an EE measure that should be borne by the Company's shareholders. He explained that health and safety improvements are indirect costs incurred by the Company in pursuing EE measures and therefore should be treated as a recoverable program cost. Mr. Huber also disagrees with Ms. Paronish's claim Smart Thermostats should be removed from the Plan because they are DR. He explained that while the

Smart Thermostat program has a DR component, it includes both EE and DR, and should remain in the Plan. Mr. Huber does agree with the OUCC's recommendation to voluntarily withdraw the SEM component of the C&I Custom program from the Plan. He indicated the funds would continue to be available for C&I Custom projects that arise through the ordinary course of business. Mr. Huber disagreed with Ms. Mims' recommendation to add a non-residential school audit direct install program to the Plan. He explained that Vectren South's decision to not include this program was primarily based upon lack of participation by the local school systems in 2012-2014. Mr. Huber also addressed Ms. Mims' contention that it was not prudent for Vectren South to use 2013 data in the formation of its Plan. Mr. Huber explained that development of the Plan began in late 2014 and was not finalized until May 2015. He further explained that in the development of the Operating Plan for 2016, the Company will utilize the final EM&V results from 2014 where available.

Mr. Swiz responded to recommendations made by Mr. Rutter and Ms. Thacker. Mr. Swiz disagreed with Mr. Rutter's analysis that purportedly demonstrated Vectren South faced no disincentive to pursue DSM. He noted that Mr. Rutter double-counted lost revenues in his analysis. Mr. Swiz also testified that Mr. Rutter's use of benefit test derived benefits as an implied adder is flawed, as those benefits represent costs that the utility will not have to incur in the future to meet demand. Mr. Swiz also testified that Mr. Rutter's calculation ignores any other factors that impact the recovery of fixed costs from customers. Mr. Swiz states in his testimony that the lost revenues the Company is seeking to recover do not include the effect of the other factors impacting fixed cost recovery.

Mr. Swiz also responded to Mr. Rutter's assertion that the information provided by Vectren South is insufficient for the Commission to conclude the 2016 – 2017 Plan meets the criteria in Section 10(j)(7). Mr. Swiz testified that SEA 412 does not specify how a utility should prepare and present the analysis of long term and short term effects of a plan in order to be sufficient, and that data presented by Vectren South through witness testimony and details supplied within the Company's annual DSMA filing under Cause No. 43405 (DSMA 13) sufficiently satisfies the statutory requirement.

Mr. Swiz also testified that he agrees with the recommendations made by Ms. Thacker that the proposed WACC applied to the Company's CVR program be adjusted to a current level with the return on equity rate fixed at the level authorized in the Company's last base rate case.

## **7. Discussion and Commission Findings.**

Ind. Code § 8-1-8.5-10(h) states that beginning not later than calendar year 2017, and not less than one (1) time every three (3) years, an electricity supplier shall petition the commission for approval of a plan. Ind. Code § 8-1-8.5-10(f) defines a "plan" as (1) energy efficiency goals; (2) energy efficiency programs to achieve the energy efficiency goals; (3) program budgets and program costs; and (4) evaluation, measurement, and verification procedures that must include independent evaluation, measurement, and verification.

Before we may begin our review as to whether or not Vectren's plan could receive a determination of overall reasonableness under Section 10(j), we must first evaluate whether Vectren's plan meets the statutory criteria laid out in Section 10(j). Vectren's plan must include (1) energy efficiency goals that are (a) reasonably achievable, (b) consistent with Vectren's most

recently filed IRP, and (c) designed to achieve an optimal balance of energy resources in Vectren's service territory; (2) energy efficiency programs to achieve the energy efficiency goals that are (a) sponsored by an electricity supplier and (b) designed to implement energy efficiency improvements; (3) program budgets and program costs which include (a) direct and indirect costs of energy efficiency programs, (b) costs associated with the EM&V of program results, and (c) recovery of lost revenues and performance incentives, and (4) EM&V procedures that involve an independent EM&V. We discuss each of these below.

(1) Energy Efficiency Goals. In order to meet the definition of "energy efficiency" goals as contemplated by Section 10(h), Vectren must show that its energy efficiency goals meet the criteria of all energy efficiency produced by cost effective plans that are (a) reasonably achievable, (b) consistent with Vectren's most recently filed IRP, and (c) designed to achieve an optimal balance of resources in Vectren's service territory. Vectren's plan fails to meet the definition of "energy efficiency goals" in several respects.

Vectren's 2014 IRP modeled three "portfolio themes": (1) Portfolio A or Base which is aimed at serving customers with existing resources & DSM; (2) Portfolio B or FB Culley 2 Unit Retirement Scenario; and (3) Portfolio C or the Renewable Portfolio Standard Scenario.<sup>19</sup> In his June 10, 2015 Report on Vectren's 2014 IRP, Electricity Director Dr. Brad Borum repeated his concerns raised in the Draft Report that, "[T]he IRP document does not offer a clear narrative to articulate how Vectren determined the three basic portfolio themes."<sup>20</sup>

Portfolio A/Base Theme

Vectren states in its 2014 IRP that for the Growth Scenario 1, which is its base set of assumptions, "no additional constraints were introduced that would prevent the planning model from selecting the set of future supply-side or demand-side resources that resulted in the lower NPV." However, as explained below, CAC Cross Exhibits 6C, 7C, 8C, and 9C directly contravene that statement.

CAC-CX-6C contains the PROVIEW Input Summary report for Portfolio A under Growth Scenario 1. As the submodule of Strategist that develops the expansion plan, many of the constraints on resource choices available to the model would be contained here. Page 7 of this confidential report shows that the First Year Available for Alternative Source Index # 28 – RFB2 or the retirement of FB Culley Unit 2 is [REDACTED], meaning that the option to retire Culley Unit 2 could not be chosen at all during the period analyzed, 2015 – 2034.

Also shown on page 7 of CAC-CX-6C are Alternative Source Indices #2 - EEB1, #3 – EEB2, #4 – EEB3, and #5 – EEB4, i.e. Energy Efficiency Block 1, Energy Efficiency Block 2, Energy Efficiency Block 3, and Energy Efficiency Block 4, representing blocks of energy efficiency that are being modeled. They are known as Load Groups as indicated by the Alternative Type designation of [REDACTED]. The First Years Available for the model to choose Energy Efficiency Blocks 1, 2, 3, and 4 are [REDACTED], respectively. This means that technically Strategist could have chosen EEB2, EEB3, or EEB4 at some point during the IRP analysis period with only EEB3 being available for the DSM planning period at issue in this

---

<sup>19</sup> Page 193 of the 2014 IRP (Petitioner's Exhibit 1, Attachment RCS-2).

<sup>20</sup> Page 40 of the Final Report.



CAC’s Exceptions to Vectren’s Proposed Order  
Redacted, Clean Version

proceeding, i.e. 2016 - 2017. However, as CAC-CX- 7C at page 24 shows, each of these load groups is completely missing from the Load Forecast Adjustment (LFA) submodule.<sup>21</sup> This means that no efficiency savings would have been attributed to these EE Blocks even if the PROVIEW submodule had chosen them.

Renewable Portfolio Standard/Theme

CAC-CX-8C shows the “Renewable Portfolio Standard”<sup>22</sup> theme’s input data for the Load Forecast Adjustment submodule. Load Groups 2, 3, 4, and 5 (which correspond to the same Alternative Source Index numbers in the Proview Input Summary Report (CAC-CX-9C)) are shown starting on page 24. However, Load Groups 2 and 5 (EEBLOCK1 and EEBLOCK4) do not contain any data at any point during the analysis period signifying that no savings are associated with these load groups. And Load Group 3 has no savings until [REDACTED], which is represented by the field Energy Sales on page 24 of CAC-CX-8C. Similarly, Load Group 4 has no savings until [REDACTED]. Because the field Penetration Factor on page 24 of CAC-CX-8C is set to [REDACTED] for these load groups, Energy Sales and Peak are treated as negative rather than positive load.

Turning to CAC-CX-9C, the PROVIEW Input Summary report for Portfolio C, at page 7, the only two load groups that provide energy savings, Load Groups 3 and 4 (Alternatives EEB2 and EEB3), have First Years Available of [REDACTED] and [REDACTED], respectively. Page 11 of CAC-CX-9C shows that the Minimum Number to Add, i.e. the minimum amount of EE required, was set to [REDACTED] for each of these two alternatives in [REDACTED] and [REDACTED]. This means that Strategist was forced to take these load groups in those two years. These energy savings were forced in along with supply-side additions that Vectren acknowledges were driven by “renewable energy constraints unique to the renewable portfolio scenario”.<sup>23</sup> Those renewable energy constraints are set forth by the field Minimum Renewable Energy (page 2 of CAC-CX-9C) as follows but do not mimic any renewable portfolio standard of which we are aware:

Year	Minimum Renewable Energy
2015	[REDACTED]
2016	[REDACTED]
2017	[REDACTED]
2018	[REDACTED]
2019	[REDACTED]
2020	[REDACTED]
2021	[REDACTED]
2022	[REDACTED]
2023	[REDACTED]

<sup>21</sup> The LFA submodule in Strategist contains the load forecast, which the expansion plan must be built to serve, as well as data such as energy savings for load groups (generally intended to represent energy efficiency or demand response) that may be available for selection by PROVIEW.

<sup>22</sup> Under Growth Scenario 1 assumptions, as well.

<sup>23</sup> Page 193 of the 2014 IRP (Petitioner’s Exhibit 1, Attachment RCS-2).

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		

Finally, we question whether Vectren's 2014 IRP realistically provides an optimal balance of resources simply because the Reserve Margin percentages of both plans, as shown in CAC-CX-3C and -5C, each beginning at page 2, is more than [REDACTED] the Minimum Reserve Margin requirement (shown at page 2 of CAC-CX-6C and -9C, respectively) in every year of the analysis.

Given these facts, we find that Vectren cannot demonstrate that its IRP process is designed to achieve an optimal balance of resources despite its claims to the contrary. Even setting aside all the constraints placed on the modeling, because no energy efficiency was allowed into Strategist until [REDACTED] at the earliest, Vectren cannot demonstrate that its IRP has any relationship to its proposed savings goals for 2016 and 2017 or that its plan is designed to achieve an optimal balance of energy resources. Vectren should be prepared to correct its IRP modeling and analysis based on the evidence presented in this case and based on the Director's Draft and Final Report on Vectren's IRP before it refiles with its revised plan.

We also note that Vectren's proposed goals are significantly lower than the prior Phase II goals, even if you subtract the savings from customers that have opted out and consider any changes in program implementation. In this proceeding, Vectren is proposing to offer ten residential programs and six non-residential programs, saving between 36-38 gigawatt-hours each year. Vectren also proposes nearly 8,300 kilowatts in peak reduction in 2016; however, the 2017 total drops down to 7,100 kilowatts in estimated peak demand reduction (Petitioner's Verified Petition, page 3). Yet, Vectren's 2013 Market Potential Study Recommended Action Plan ("2013 Action Plan") and the former Phase II goal are much greater than Vectren's proposed goal in this proceeding:

**Vectren Proposed Efficiency Goals and Former EERS**

	2016		2017	
	GWh	% of sales	GWh	% of sales
<b>Proposed Goal</b> <sup>24</sup>	36	0.65%	38	0.67%
<b>Action Plan</b> <sup>25</sup>	54	1.06%	60	1.15%
<b>Former State Target</b> <sup>26</sup>	84	1.5%	96	1.7%

The 2013 Action Plan identified seventeen cost effective programs, as defined by the UCT, TRC, and participant cost tests<sup>27</sup> and found that Vectren can achieve net energy savings of 54-73 GWh annually from 2015-2019.<sup>28</sup> These are much higher, reasonably achievable savings than what the Company is proposing in this application. Although the 2013 Action Plan did not take into account non-residential customers' ability to opt-out when evaluating Vectren's efficiency potential, all residential savings identified are still valid and yet Vectren does not propose to capture those savings.

**Recommended 2016-2017 Residential Goal (GWh)**

	<b>Action Plan</b>	<b>Proposed Goal</b>
<b>Res Lighting</b>	<i>20.4</i>	13.4
<b>Res Efficient Products</b>	<i>8.4</i>	2.2
<b>Res Income Qualified + Income Qualified Plus</b>	<i>3.6</i>	2.6
<b>Res New Construction</b>	<i>0.4</i>	0.3
<b>Multifamily Direct Install</b>	0.5	<i>0.8</i>
<b>Home Energy Assessments</b>	<i>6.0</i>	3.9
<b>Whole Home</b>	<i>4.2</i>	0
<b>Res School Kit</b>	<i>2.1</i>	1.4
<b>Appliance Recycling</b>	1.6	<i>2.0</i>
<b>Res Behavioral</b>	10.4	<i>11.8</i>
<b>TOTAL</b>	57.5	39.2
<b>Recommended Residential Goal (sum of italicized, bolded numbers)</b>	62.8	

<sup>24</sup> Petitioner's Exhibit No. 2 (Huber) page 23; Attachment MPH-2, page 21, Table 6-1. Savings as percent of annual sales.

<sup>25</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 34, Table 8-3; Attachment MPH-2, page 21, Table 6-1. Savings as percent of annual sales.

<sup>26</sup> Petitioner's Exhibit No. 2 (Huber) Attachment MPH-2, page 21, Table 6-1; Attachment MPH-2, page 30, Table 8-2.

<sup>27</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 35, Table 8-4.

<sup>28</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 36.

For Commercial and Industrial programs and savings identified by the 2013 Action Plan, CAC Witness Mims made adjustments to individual program savings levels to programs that could have customers over 1 MW and thus have the ability to opt out and found that Vectren's savings fall extremely short here too.

**Recommended 2016-2017 Commercial & Industrial Goal (GWh)<sup>29</sup>**

	<b>Action Plan</b>	<b>Proposed</b>	<b>Opt out Adjustment<sup>30</sup> (25% of MPS)</b>
<b>C&amp;I Prescriptive</b>	36.5	<i>13.8</i>	N/A
<b>C&amp;I Custom</b>	37.3	5.5	<i>9.3</i>
<b>Commercial Schools</b>	<i>2.1</i>	0	N/A
<b>Strategic Energy Management</b>	4.4	0	<i>1.1</i>
<b>C&amp;I New Construction</b>	<i>3.1</i>	1.0	N/A
<b>Small Business Direct Install</b>	4.4	<i>12.0</i>	N/A
<b>Multi- Family EE Retrofit</b>	0	<i>0.2</i>	N/A
<b>Res Thermostat DR</b>	0	<i>0.9</i>	N/A
<b>Res CVR</b>	0	<i>1.5</i>	N/A
<b>C&amp;I CVR</b>	0	<i>0.9</i>	N/A
<b>Recommended C&amp;I Goal (sum of italicized, bolded numbers)</b>	43.1		

Thus, Vectren's 2013 Action Plan modified for opt out would result in Vectren achieving an additional 15-16 GWh of cost-effective savings in 2016 and 2017, which would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost effectively.

Adopting the Action Plan modified for opt-out (as represented with the italicized, bolded numbers in Table 3 and Table 4) would result in Vectren achieving an additional 15-16 GWh of cost-effective savings in 2016 and 2017 as shown in Table 5 below. This would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost-effectively.

<sup>29</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 12.

<sup>30</sup> Opt out adjustment is the greater of: (1) 25% of the Action Plan or (2) the Proposed Goal. Currently, 75% of eligible load has opted out of Vectren's DSM programs. Cause No. 44645, Vectren Response to CAC Set 2.5. (attached as Exhibit NM-4); *see also* Petitioner's Exhibit No. 2 (Huber), p. 24, lines 13-14, which says approximately 76% of eligible load has opted-out.

**Vectren Action Plan Adjusted for Opt Out (2016-2017)**

	2016		2017	
	GWh	% of Sales	GWh	% of Sales
<b>Proposed Goal<sup>31</sup></b>	36.3	0.65%	37.8	0.67%
<b>Action Plan, adjusted for opt-out</b>	51.5	0.91%	54.1	0.95%
<b>Difference</b>	15.2		16.3	

The Commission would also note that Vectren witness Stevie’s argument is unconvincing that a market potential study will “always” be an over-estimate of savings because the studies employ a static estimate of avoided costs in assessing program effectiveness. Petitioner’s Exhibit 9, page 16, lines 6-9. The Commission warns utilities to not make such gross overgeneralizations. Market potential studies could underestimate savings by failing to evaluate certain customer groups like opt-out customers, by excluding measures like retro-commissioning, and by failing to account for improving efficiency measures in the future. Again, Vectren’s argument here is very unconvincing.

In conclusion, based upon the evidence of record, the Commission finds that Vectren’s proposed energy efficiency goals set forth herein are less than what is reasonably achievable, inconsistent with its own IRP let alone one that achieves an optimal balance of energy resources, and thus is not approved. Although the Commission does not need to go on from here, we will do so to help inform Vectren’s revised plan and the public.

(2) Energy Efficiency Programs. Vectren is proposing 10 residential programs and 6 commercial and industrial programs in this filing. However, Vectren’s 2013 Action Plan identified 17 efficiency programs, 11 of which are residential programs. It would be reasonable to maintain Vectren’s savings levels for all residential programs and non-residential programs from which customers cannot opt out.

The evidence of record demonstrates that Vectren can cost-effectively expand its energy efficiency savings and program offerings. Based on the expert opinion of CAC Witness Mims, she testified that Vectren could further increase savings by adopting an upstream manufactured home program and an enhanced whole home program for residential customers, as well as by modifying the Energizing Indiana Third Party Administrator’s school audit direct install program and offering a self-direct program. We agree that given the amount of Indiana’s housing stock that is comprised of manufactured homes and because the use of manufactured homes as affordable housing is prevalent among low- and fixed-income households, an upstream manufactured home program would be very beneficial for Vectren’s ratepayers. As for the enhanced whole home program, a “Whole Home Plus” program was included as part of Vectren’s 2013 Action Plan and was estimated to cost effectively save approximately 1.5 GWh a year in 2016-2017, in addition to savings from the Home Energy Assessment program. Although Vectren informed CAC that this program was incorporated into the Home Energy Assessment programs, it is not transparent what aspects of the program were included given the lack of detail in the 2013 Action Plan. Further, the 2013 Action Plan found that Vectren could save 2 GWh a year which its Whole Home Plus program and an additional 3 GWh a year with its

<sup>31</sup> Petitioner’s Exhibit No. 2 (Huber) page 23; Attachment MPH-2, p. 21, Table 6-1. Savings as percent of annual sales.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

Home Energy Assessment program. That would total 10 GWh from 2016-2017, rather than 3.9 GWh as proposed by Vectren. Regarding the non-residential school audit direct install program, over 425 net MWh were achieved by Vectren from that program in 2014. Even though Vectren noted to CAC that the school corporation that serves the majority of schools in Vectren's service territory already have energy service companies that they use, Vectren should identify a program that will leverage those companies' efforts and deepen savings to go beyond what those companies are achieving.

Vectren mentioned the opt-out of eligible commercial and industrial customers as a reason for not being able to achieve as many savings with this filing. Yet, CAC recommended several ways in which Vectren could bring back or mitigate the impact of the opt-out customers leaving. CAC Witness Mims explained that additional savings could be achieved by C&I customers through a self-direct program. We are reminded of our order in Cause No. 44310, which said:

Based on the significant change in the statutory landscape and the resulting impact on the manner in which DSM programs are designed and implemented from when this proceeding was initiated in 2013 to how it will be implemented under SEA 412, we find that any further consideration of a structured self-direct DSM program for large customers should occur when an electricity supplier submits its plan for Commission approval.

CAC Administrative Notice Exhibit 2, page 2. The Commission finds that Vectren should address the addition of a self-direct program for its C&I customers over 1 MW in its revised plan. Vectren is further advised that the Commission agrees with CAC's expert testimony in this cause that a self-direct program should require that: (1) projects should generate capacity savings and not just time-shifting of energy consumption; (2) projects started prior to being approved as a self-direct project should not be eligible for funding or credit; (3) self-direct customers should be required to share its plans with the administrator or other parties interested in implementing similar projects, subject to scrubbing the plans for confidentiality; and (4) self-direct EM&V should be done by a third party and occur on a comparable schedule to Vectren's EM&V schedule and be required to use the same standards for data collection as Vectren's efficiency programs.

75% of Vectren's eligible load and almost half of the eligible load for both NIPSCO and DEI have opted out of demand side management programs. In our order in Cause No. 44441, Phase 2, we found that the following issues raised by CAC "may be appropriate for consideration in other Commission proceedings, such as in a utility's IRP process for stakeholder input or an individual utility's DSMA tracker or program approval proceeding":

- Issue 1—the impact on regulated electric utilities and customers of a utility resource portfolio that does not include industrial energy efficiency resources;
- Issue 2—whether industrial customers that opt out should be considered “free riders” and continue paying the fixed costs of DSM programs;
- Issue 4—whether and how energy and demand savings from industrial customers that opt out can be used by regulated electric utilities in the IRP process;

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

- Issue 6—whether the Commission should adopt rules or guidelines to assist customers in complying with the opt out provision in SEA 340 or to require opt out customers to provide EM&V reports concerning the customers' own energy efficiency measures;
- Issue 7—whether an oversight board should be established to monitor and evaluate compliance with SEA 340;
- Issue 8—determination of a mechanism to be used by opt out customers to pay for the regulated electric utilities' administrative expenses related to implementing the opt out provisions; and
- Issue 9—establishment of criteria for determining “reasonable and cost effective” DSM programs and the role of various oversight boards in developing DSM programs.

Cause No. 44441, Phase II Order (CAC Administrative Notice Exhibit 3). We will consider some of these issues here.

CAC Witness Mims noted that Vectren has not taken any targeted action to bring industrial customers back into its programs, which the Commissions finds here to be unreasonable. In response to CAC's inquiry about what actions Vectren has taken, Vectren discussed a generic marketing campaign that is not targeted at industrial customers. CAC Witness Mims also noted that upon review of Vectren's opt out letter, the Company should modify the language to focus on the benefits the customer is declining when it opts out of efficiency programs. Currently, the language focuses on the ease with which the customer can opt out of the program.

We agree that Vectren should work with its oversight board to add another page to the letter with a case study of a successful energy efficiency program likely applicable to the customer as an example of the upside of the energy efficiency programs. We also agree that Vectren should consider additional programs that will entice opt out customers back into participation in the programs, such as a program geared towards plastic, chemical, and aluminum manufacturing; food and pharmaceutical production; oil drilling; and the case and dye/fabrication and automotive industries. Vectren should report back to the Commission on its progress with these items in its next DSMA filing.

Based upon the evidence of record, the Commission finds that Vectren's proposed energy efficiency programs are unreasonable. The Commission directs Vectren to address the Commission's findings here in its revised plan that it will submit within a reasonable time period.

(3) Program Budgets and Program Costs. Ind. Code § 8-1-8.5-10(h) provides for Vectren to petition the Commission for approval of a plan that includes both program budgets and program costs.

a. Program Budget. Program budget is an undefined term in Ind. Code § 8-1-8.5-10. In a sense, the Commission addressed our concerns with Vectren's program budget in our discussion of Vectren's proposed energy efficiency goals and the inadequate amount of savings offered by Vectren in this filing.

We will also note here the concerns raised by CAC about Vectren's significant allocation of its budget to behavioral programs and Vectren's CVR program. This is unreasonable, and

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

Vectren should work with its oversight board to find a better balance and incorporate that into its revised plan that it will submit within a reasonable time period.

Because Vectren's plan is rejected, we need not consider program budget any more than what is already discussed *supra*.

b. Program Costs. I.C. § 8-1-8.5-10(g) defines program costs to include (1) direct and indirect costs of energy efficiency programs; (2) costs associated with the evaluation, measurement, and verification of program results; and (3) other recoveries or incentives approved by the Commission, including lost revenues and financial incentives approved by the Commission under § 8-1-8.5-10(o).

Vectren states in Petitioner's Exhibit No. 2, Attachment MPH-1, page 13 that their EM&V cost is 5% of the program budget, but CAC presented evidence that it is 5.9-6.4%. Vectren's EM&V costs have been trending upwards since 2012 as noted in Table 16 of CAC Exhibit1 on page 54. While a 0.9-1.4% cost differential may seem inconsequential, Vectren's projected EM&V costs are over \$1.1 million higher than if they were 5% of costs in the 2015-2017 time period. The Indiana Evaluation Framework is a ratepayer-funded, statewide document that was filed with the Commission in Cause No. 42693-S1 on October 9, 2012 by the Demand Side Management Coordination Committee's EM&V Subcommittee. CAC Administrative Notice Exhibit 4, page 8.

Vectren shall work with its oversight board to get the EM&V costs down to 5% of the program budget and report back to the Commission on this matter when Vectren refiles.

c. Lost revenues. Lost revenues are within the definition of "program costs" as provided for in I.C. § 8-1-8.5-10(g). Ind. Code § 8-1-8.5-10(e) defines lost revenues as "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." The Commission's DSM Rules define lost revenues as "the revenue lost less the variable operating and maintenance costs saved as a result of not generating electricity because of a utility sponsored DSM program." 170 IAC 4-8-1(u).<sup>32</sup> Only after the utility creates a "plan" that is compliant with Section (h) of I.C. § 8-1-8.5-10 may the Commission then consider the "overall reasonableness of the plan." Section (j)(8) states that the Commission must consider the reasonableness of the plan based on many matters, one of which is the lost revenues and financial incentives associated with the plan and sought to be recovered or received by the electricity supplier. If the Commission determines the plan is overall reasonable, which is not the case here, Section (o) says that the Commission shall allow the electricity supplier to recover or receive only *reasonable* lost revenues. As discussed *supra*, Vectren does not meet the statutory requirements in Section (c) or (h), but the Commission will still provide reasoning for its rejection of Vectren's proposal for lost revenue recovery in its discussion of lost revenues under the Section (j) overall reasonableness analysis *infra*.

d. Performance Incentives. Financial incentives (i.e. performance incentive, as defined by industry) are within the definition of "program costs" as defined by the State Legislature in Ind. Code § 8-1-8.5-10(g). Ind. Code § 8-1-8.5-10 does not define financial or

---

<sup>32</sup> Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM # 15-06.



performance incentives like it does with lost revenues. The current Commission DSM Rules also do not specifically define financial or performance incentives except to say that a utility is allowed an opportunity for earnings from prudent investments (170 IAC 4-8-6) and that the Commission, when appropriate, may allow the utility an opportunity for a financial incentive to encourage participation in and promotion of a DSM program. 170 IAC 4-8-7.<sup>33</sup> Only after the utility creates a “plan” that is compliant with Section (h) of Ind. Code § 8-1-8.5-10 may the Commission then consider the reasonableness of the plan based on many matters, one of which is the amount of lost revenues and financial incentives associated with the plan and sought to be recovered or received by the electricity supplier. If the Commission determines the plan is overall reasonable, which is not the case here, Section (o) says that the Commission shall allow the electricity supplier to recover or *reasonable* financial incentives that (a) encourage implementation of cost effective energy efficiency programs; or (b) eliminate or offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources. As discussed *supra*, Vectren does not meet the statutory requirements in Sections (c) or (h), but the Commission will still provide reasoning for its rejection of Vectren's specific proposal for financial or performance incentives recovery under the Section (j) overall reasonableness analysis *infra*.

e. Independent Evaluation, Measurement, and Verification Procedures. The mandate for independent EM&V is contained within both Ind. Code §§ 8-1-8.5-10(h) and (j)(4). 170 IAC 4-8-4 also discusses demand-side management program evaluation, although this rule is currently undergoing revisions in IURC RM # 15-06. Ind. Code § 8-1-8.5-10(h) states that the plan must include “evaluation, measurement, and verification procedures that must include independent evaluation, measurement, and verification.” The Commission will discuss any of the distinct requirements of Ind. Code § 8-1-8.5-10(j)(4) *infra*.

Although Senate Bill 412 eliminated the statewide third party administration of energy efficiency programs, it did not eliminate any statewide maintenance of EM&V documents. In fact, it is the contrary. The State Legislature mandated that EM&V activities be independent, “including the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions.” Ind. Code § 8-1-8.5-10(j)(4). It is unclear as to whether or not Vectren is using and committing to continue its use of the ratepayer-funded Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4). The Commission must insist on the maintenance of the statewide framework for EM&V. Without it, the independence of EM&V is threatened. Any inconsistencies between utility-specific frameworks leave consumers too at risk. These documents are ratepayer funded and even more important with the enactment of Section 111(d) of the Clean Air Act or the Clean Power Plan. Thus, we order Vectren to update us in its revised filing on its commitment to use this ratepayer funded document. We also order Vectren to involve its EM&V vendor in this update development to maintain the integrity and independence of the statewide framework.

We are also unclear on whether Vectren is committing to use the most recent ratepayer-funded Indiana Technical Resource Manual (also known as Technical Reference Manual), which was finalized on July 28, 2015. CAC Exhibit 1, Attachment NM-16. Although Vectren did not

---

<sup>33</sup> Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM # 15-06.

use it to support the creation of this plan, Vectren is ordered to use it in its next reconciliation and in its revised plan.

The Commission is also concerned about Vectren's limited use of its 2014 EM&V here. Over 35% of Vectren's program impacts came from the Residential Behavioral Savings and the C&I Audit and Custom Efficiency programs, neither of which Vectren appears to have used 2014 EM&V data to forecast lost revenues. Vectren did not provided the non-residential component of the data request presented in Attachment NM-15 to CAC Exhibit 1 for the Commission to state whether or not the C&I program used 2013 or 2014 EM&V. The Commission orders Vectren to use the most recent EM&V for both program design and for the forecast of lost revenues.

Finally, as we addressed above in our discussion of program costs, the EM&V costs are above 5% of the overall program budget, which is directly contrary to the Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4). It is further concerning to the Commission that Vectren may be including this higher than permitted EM&V cost in the calculation of its performance incentive. Vectren is ordered to reduce its EM&V cost to 5 % or less of its portfolio costs.

Vectren's plan fails on this consideration and shall make these revisions when it files its revised plan with a reasonable time period.

f. Conclusion. Vectren's proposed plan is not in the public interest, because it fails to meet the requirements in Sections (c) and (h) of I.C. § 8-1-8.5-10. Based upon the evidence of record, the Commission finds that (1) Vectren's proposed energy efficiency goals set forth herein are less than what is reasonably achievable, inconsistent with an IRP that achieves an optimal balance of energy resources, and should not be approved; (2) Vectren's proposed energy efficiency programs are inadequate; (3) Vectren's program budgets are inadequate, and program costs are exorbitant when considering the inclusion of the excessive lost revenues and performance incentives; and (4) Vectren's evaluation, measurement, and verification procedures lack assurance of the continued use of the Indiana Evaluation Framework and the use of EM&V to inform the forecasting of lost revenues, which is especially important with the Clean Power Plan enactment. Although the Commission does not need to go on from here to do the Section 10(j) overall reasonableness analysis, we will do so to help inform Vectren's revised plan. The Commission has set forth the reasons why Vectren did not pass this initial threshold of Ind. Code § 8-1-8.5-10(h) so that Vectren can correct its plan in its revised filing within a reasonable time.

**(A) Ind. Code § 8-1-8.5-10(i) states that at the same time an electricity supplier petitions the commission under subsection (h), the electricity supplier shall (1) provide a copy of the petition and plan to the OUCC, and (2) post an electronic copy of the petition and plan on the electricity supplier's Internet web site.**

Vectren provided a copy of its petition, including the plan, to the OUCC at the same time Vectren petitioned the Commission under subsection (h). In addition, Vectren posted an electronic copy of the petition and plan on its Internet website.

**(B) Ind. Code § 8-1-8.5-10(j) sets out what the Commission shall consider in making a determination of the overall reasonableness of a plan as follows:**

**1. Projected changes in customer consumption of electricity resulting from the implementation of the plan.**

Vectren asserts that it has demonstrated energy savings resulting from the Plan in conjunction with its load forecast in its 2014 IRP enabling the Commission to consider projected changes in customer consumption of electricity resulting from the implementation of the Plan. (Petitioner's Proposed Order, page 19). This is insufficient. As noted above in our discussion of Vectren's failure to meet the definition of "plan" or "energy efficiency goal," Vectren's IRP is faulty and Vectren's plan is woefully inadequate in terms of capturing all reasonably achievable efficiency and in terms of achieving an optimal balance of energy resources within its service territory.

Furthermore, while Vectren has conducted more frequent rate cases than some of the other Indiana electric IOUs, it has not been almost five years since Vectren's last rate case in 2011.<sup>34</sup> And future rate case dates have not been established and there is no guarantee that the Company will return to the Commission in five, ten or even twenty years for its next rate case. This stale information provides the Commission with too distorted of a view to make this determination.

Finally, CAC Witness Mims noted the large amount of savings allocated to behavioral programs and Vectren's Conservation Voltage Reduction (CVR) program in Vectren's portfolio. Behavioral and CVR programs do not reduce energy consumption unless they are operated each year, thus the program requires annual funding and produces one year of savings. Given Indiana utilities' limited energy efficiency budgets, the Commission agrees that it is more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills. This is unreasonable.

Based on the evidence of record, we find that Vectren's projected changes in customer consumption of electricity resulting from the implementation of the plan are unreasonable and Vectren did not meet the threshold of this consideration.

---

<sup>34</sup> Cause No 43839 (2011).

**2. A cost and benefit analysis of the plan, including the likelihood of achieving the goals of energy efficiency programs included in the plan.**

The Commission understands the OUCC's preference for the use of the RIM test because of the changed definition of "program costs" in Ind. Code § 8-1-8.5-10; however, the Commission reiterates the importance of looking at all tests when making program selection decisions. No single test will be used as a trump card for resource selection. Furthermore, the Commission has addressed the unreasonableness of Vectren's lost revenue proposal *infra*, and hopes that this concern is now mitigated.

Tests like the UCT and the TRC are best used in DSM program planning (not in the IRP process) where the specifics of the program including its cost are better understood; however Vectren should continue to follow the Indiana Evaluation Framework and the California Standard Practice Manual for any cost and benefit analyses used in its filing and in future filings.

The likelihood of achieving the goals of energy efficiency programs was largely unaddressed by the Company. Rather, it became evident that there were many flaws in the ways in which Vectren determined its energy efficiency goals. The Commission finds it impossible to evaluate Vectren's likelihood of achieving the goals of the programs included in the plan.

Thus, the Commission finds Vectren's cost and benefit analysis of the plan, including likelihood of achieving the goals of the energy efficiency programs included, to be unreasonable.

**3. Whether the plan is consistent with (a) the state energy analysis developed by the Commission and (b) the electricity supplier's most recent long range integrated resource plan submitted to the Commission.**

Vectren claimed its plan is consistent with the State Utility Forecasting Group's analysis in the *Indiana Electricity Projections: The 2013 Forecast*, from the perspective of the impact of DSM programs on load projections, but admitting that the SUFG's 2013 Forecast's EE projections are higher than Vectren's energy efficiency goals. (Petitioner's Exhibit 1, page 27). This is irrelevant, however, because the SUFG Forecast is not the state energy analysis to be developed by the Commission as contemplated in I.C. § 8-1-8.5-3 or -10. This Commission analysis has not yet been conducted. Since CAC requested that the result of this proceeding be made subject to the outcome of the IURC RM #15-06, to the extent the Commission analysis calls for different results than what will be presented in Vectren's revised plan (if approved), then Vectren is hereby on notice that it will need to make a compliance filing. This compliance filing shall be submitted to the Commission in this Cause within ninety (90) days of the issuance of the final rules.

As we have discussed at length *supra*, Vectren's plan is based on a flawed IRP and is not even consistent with that flawed IRP. Even if Vectren's plan was consistent with its flawed IRP, the Commission cannot allow an interpretation of the statute which circumvents the statute's intent.

The Commission finds that Vectren's plan is not reasonable under these criteria.

**4. The inclusion and reasonableness of procedures to evaluate, measure, and verify the results of the energy efficiency programs included in the plan, including the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions.**

As noted above in our discussion of Section 10(h), the Commission has concerns about the independence of the EM&V procedures submitted by Vectren. The Commission finds that the EM&V procedures similarly fail a reasonableness review in Section 10(j). The Commission also notes that it would be unreasonable should Vectren attempt to not strictly follow the Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4) and the recently updated Indiana Technical Resource Manual (a.k.a. Indiana Technical Reference Manual)(CAC Exhibit 1, Attachment NM-16). This is particularly significant when considering the requirement here in Section (j) regarding the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions. As Indiana faces federal regulations on carbon, the Commission must ensure, especially now with this direction from the legislature, a consistent, statewide framework for EM&V and the utilities' proper use of EM&V results to put Indiana in a ready and able position to comply at the least cost.

It also does not seem prudent that Vectren designed its 2016-2017 plan with very limited use of its 2014 EM&V. Over 35% percent of Vectren's program impacts came from the Residential Behavioral Savings and the C&I Audit and Custom Efficiency programs, neither of which Vectren appears to have used 2014 EM&V data to forecast lost revenues.<sup>35</sup> In fact, based on the data provided, the 2014 EM&V was only used to calculate lost revenues for the one measure in the income qualified weatherization program.<sup>36</sup>

In addition, Vectren states that their EM&V cost is five percent of program budget,<sup>37</sup> but based on discovery responses, it is 5.9-6.4%. Further, it appears that Vectren's EM&V costs have been trending upwards since 2012. While a 0.9%-1.4% cost differential may seem inconsequential, Vectren's projected EM&V costs are over \$1.1 million higher than if they were 5% of costs in the 2015-2017 time period. It is unreasonable for Vectren not to align with the Indiana Evaluation Framework's instruction that "The evaluation cost in Indiana should be set at a level not to exceed approximately 5% of the portfolio budget without approval by the Subcommittee for any given cycle." CAC Administrative Notice Exhibit 4, page 8. Further, it is concerning that Vectren may be including this higher than permitted EM&V cost in the

---

<sup>35</sup> Vectren Response to CAC Data Request 1-11 (attached as Exhibit NM-15). Vectren did not provide the non residential component of this answer so I am unable to state whether or not the C&I program used 2013 or 2014 EM&V.

<sup>36</sup> *Id.* Vectren did not provide the non-residential component of this answer so I am unable to state whether or not the C&I program used 2013 or 2014 EM&V.

<sup>37</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 13.

calculation of its performance incentive. This is unreasonable, and Vectren should work to reduce its EM&V cost to five percent, or less, of its portfolio costs.

Vectren's proposed EM&V procedures in this plan are unreasonable, especially when the Commission considers the need for Indiana utilities to prepare for federal regulations concerning emission reduction and the need for statewide consistency. Vectren can make these corrections in its revised plan.

**5. Any undue or unreasonable preference to any customer class resulting, or potentially resulting, from the implementation of an energy efficiency program or from the overall design of a plan.**

Vectren's plan lacks a self-direct program and meaningful effort to address the larger customers in its service territory to possibly retain or regain their participation in the energy efficiency programs. These customer classes are, at least potentially, being underserved by the overall design of Vectren's plan as presented here.

The Commission finds that Vectren's plan is unreasonable under this consideration.

**6. Comments provided by customers, customer representatives, the Office of Utility Consumer Counselor, and other stakeholders concerning the adequacy and reasonableness of the plan, including alternative or additional means to achieve energy efficiency in the electricity supplier's service territory.**

The comments received by all consumer parties in this case have shown that Vectren's plan is both inadequate and unreasonable. This includes consideration of comments regarding alternative or additional means to achieve energy efficiency in the electricity supplier's service territory. As discussed *supra*, Vectren's IRP is flawed, its plan is lacking adequate program budget, and its plan is lacking any firm commitment to do the many programs and measures suggested by CAC Witness Mims.

Many of the consumer comments submitted to the OUCC also show a strong desire from Vectren's ratepayers for more robust programs and more savings overall, especially as a way to control bills. Public's Exhibit 4. Many also noted difficulty paying Vectren bills and their concern about lost revenues. *Id.*

The Commission finds that Vectren's plan is unreasonable under this consideration.

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

To address this requirement, Vectren points to the results of the RIM and Participant benefit cost tests. (Petitioner's Exhibit 3, pages 15-16). The Commission rejects, however, the use of the RIM test to satisfy this criterion as it does not tell the Commission anything about what bills would be without the plan; thus, it is not painting an accurate picture for this consideration. The Commission would note that more than 20 years ago, the Commission expressed concern with use of the RIM test. Specifically, the Commission found:

Strict adherence to the RIM test when evaluating DSM resource and using present worth revenue requirements (PWRR) to evaluate supply-side options, as was done by IPL, can also bias the resource planning process. This resource evaluation process would appear to be at odds with the Company's previously mentioned concern about having a level playing field when considering different resource options. The bias arises because difference cost effectiveness tests are being used to evaluate DSM and supply-side resources. The PWRR test for supply-side resource evaluation is the Utility test. Thus, the Company is using the RIM test to evaluate DSM options and the Utility test to evaluate supply-side options. Equity issues are being raised with respect to DSM resources without recognizing that similar equity concerns exist with supply-side resources. It must be recognized that all ratepayers pay for generation capacity additions even though the need for additional generation capacity might have been caused by particular subgroups of ratepayers. For example, it can be argued that the need for additional capacity is caused by those customers with growing electricity consumption and new customers to the service territory. But regulation of electric utilities does not generally make a distinction between new customers, customers with increasing demand for electricity and customers with steady or even falling demand for electricity. Rather, it only recognizes increased consumption on a system-wide basis which causes the need for additional capacity.

*In Re the Matter of the Petition of Indianapolis Power & Light Company for a Certificate of Public Convenience and Necessity for the Construction by it of Facilities for the Generation of Electricity and Submission and Request for Approval of Plan to Meet Future Needs for Electricity Within Service Area and Request for Inclusion Thereof as Part of Commission's Analysis and Plan Pursuant to I.C. 8-1-8.5, Cause No. 39236, 1992 Ind. PUC LEXIS 297, 62-63 (Ind. PUC 1992) dated September 2, 1992.*

CAC Witness Mims also noted the large amount of savings allocated to Vectren's Conservation Voltage Reduction (CVR) program in Vectren's portfolio (and behavioral programs). Behavioral and CVR programs do not reduce energy consumption unless they are operated each year, thus the program requires annual funding and produces one year of savings.

Given Indiana utilities' limited energy efficiency budgets, the Commission agrees that it is more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills. This is unreasonable under this criteria.

The discussion of lost revenues is also relevant here, but we will not repeat our discussion again except to say that Vectren's high lost revenue total is unreasonable.

Vectren's plan is unreasonable under this consideration.

**8. The lost revenues and performance incentives associated with the plan and sought to be recovered or received by the electricity supplier.**

LOST REVENUES

Vectren is requesting \$2.5 million in lost revenues. However, the \$2.5 million does not appear to include: (1) legacy lost revenues Vectren is requesting or receiving; (2) incremental or cumulative lost revenues Vectren is requesting or receiving for the year 2015; (3) incremental or cumulative lost revenue Vectren is requesting for 2016-2017; and (4) the total amount of lost revenues Vectren has recovered, and what the total lost revenue cost is if it continues to be allowed to recover lost revenues for the life of the measure.

Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10 defines lost revenues as "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." The IURC defines lost revenues as "the revenue lost less the variable operating and maintenance costs saved as a result of not generating electricity because of a utility sponsored DSM program."<sup>38</sup> Thus, 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 the Company's authorized cost recovery.

This would be consistent with Indiana's relevant definitions of "lost revenues" in Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10: "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." Furthermore, Ind. Code § 8-1-8.5-10(o) states that if the plan is found to be reasonable under subsection (h), the Commission shall allow "*reasonable* financial incentives" and "*reasonable* lost revenues" (emphasis added). The current structure of recovery of lost revenues for Vectren, however, is not reasonable and should be changed to conform to the statute.

We will go ahead and note that there are a few acceptable ways in which a utility may be eligible for lost revenues; otherwise, the utility will be denied under this Commission's

---

<sup>38</sup> 170 IAC 4-8-1, Section 1(u). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM #15-06.



CAC's Exceptions to Vectren's Proposed Order  
Redacted, Clean Version

jurisdiction. A utility could compare sales in its test year to the actual sales, and if there is a difference between that test year and actual year, then the utility may be eligible for lost revenues. If the actual sales, after the effects of EE are included, are still sufficient to allow the Company to recover its authorized revenue (for example, when sales are above forecasted levels), there is no legitimate rationale to use ratepayer money to compensate the Company for "lost" revenues that were not incurred. Otherwise, this would be asking the ratepayers to guarantee excess revenues to the utility, and this is not reasonable. However, if the Company's sales, after the effects of EE, are insufficient to allow the Company to recover its authorized costs, then the Company would be eligible for lost revenues.

Lost revenue recovery is meant to be a short-term solution to address revenue loss in between rate cases; thus, 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." Based on ACEEE's recent LRAM research:

It is most common for states to limit recovery to one to three years, although many states allow utilities to recover lost revenues for an indefinite period of time... Respondents indicated that in these cases, although rules might not be in play... utilities tend to bring [rate cases] forward every two to three years.

(CAC Exhibit 1, Sub-Exhibit NM-8, page 21.)

Vectren used to have two-year lost revenue recovery in Indiana. IURC Cause No. 43938, August 31, 2011 Final Order. Other states allowed lost revenue recovery for the life of the measure or until a base rate case and determined that the LRAM policy should change. After the Minnesota Public Utility Commission allowed the largest IOU (Northern States Power) to recover 50-75 percent of reported lost revenues, the Minnesota Department of Public Service expressed the following concerns:

- The period between rate cases is much longer than that envisioned when [the lost margin policies] were approved, significantly increasing the level of lost margins accrued.
- Lost margins increase rates without any tangible benefits to ratepayers.
- True lost margins are shrinking because, in the long run, "fixed" costs become variable costs.
- Utilities have growing opportunities to sell their saved energy on the wholesale market.
- [I]t has now been 12 years since Otter Tail Power filed a rate case, 5 years since NSP-Electric filed, 4 years since Minnesota Power filed, and 3 years since Interstate filed. The frequency of rate cases is an important issue. The longer time lag has increased lost margins significantly, thereby raising the costs of electric utilities' DSM investments to ratepayers.
- Clearly, [lost margin recovery was] intended to compensate utilities for short-term revenue losses between relatively frequent general rate proceedings. They were not intended to provide long-term windfall gains to shareholders.

As noted by the Minnesota Department of Public Service over fifteen years ago, lost revenue recovery is meant to be a short-term adjustment to address revenue losses in between rate cases. In the absence of requiring a rate case every 2-3 years, the Commission recognizes that the amount of lost revenue the utilities recover should be limited. It is also important to note that Vectren is able, through integrated resource planning and base rate cases, to adjust their longer term plans to avoid spending revenue unnecessarily if efficiency can defer or eliminate the need for additional capital expenditures, and thus lost revenues.

The rationale for 36 months of lost revenue can also be found in SEA 412, which requires the utilities to submit energy efficiency plans at least once every three years. Lost revenue recovery should be limited to the duration of the energy efficiency plan approved by the Commission under Ind. Code §8-1-8.5-10(h).

Even though a settlement agreement was reached that allowed Vectren's ability to recover lost revenues for the life of the measure, the Commission did not approve Vectren's LRAM indefinitely. The Commission did not put a time constraint on the methodology, and the Commission's rules state that it may periodically review the need for continued recovery of the lost revenue as a result of the utility's DSM program, and that the approval of a lost revenue recovery mechanism shall not constitute approval of a specific dollar amount, the prudent, or reasonableness of which may be debated in a future proceeding before the Commission.<sup>39</sup> Furthermore, the newly enacted Senate Enrolled Act 412, in Section (o), now includes the term "reasonable" in front of the term lost revenues and any legacy lost revenues must be reviewed in that context. Furthermore, subsequent to Vectren's lost revenue methodology being approved on June 20, 2012, Senate Bill 412 (2015) passed.

We will note that Vectren did not otherwise provide evidence that it has lost revenue due to EE program implementation. Vectren did not provide a breakdown of lost revenue by program, by year, as part of its application, or any discussion more than generalities in its application on the topic of lost revenues, and thus did not provide evidence that it will under recover authorized costs due to the impacts of its efficiency programs. Regardless of where or when the information is provided, it is unreasonable to recover lost revenues if there is no evidence the revenues are actually lost.

In addition, there is a high risk that ratepayers will pay for revenues that are not actually "lost" if the Commission continues to allow Vectren to collect lost revenues for the life of the measure, or until it has a new rate case because the energy baseline will change in the future. For example, the Energy Independence and Security Act ("EISA") of 2007 created a new baseline for lighting that had profound impacts on the DSM industry. If another lighting standard were introduced, the utility should not be able to recover lost revenue unless the measures go above the standard. In order to appropriately calculate lost revenues, the Company would need to track what types of lamps were installed in each year to determine if the measure continues to be above the baseline, and thus eligible for lost revenue recovery. This adds a layer of complexity and opacity that can largely be avoided by limiting the lost revenue recovery period.

---

<sup>39</sup> 170 IAC 4-8-6 (c). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06

The Commission finds that a reasonable approach to lost revenues would require that: (1) the utility show that implementation of energy efficiency programs has prevented the Company from recovery of fixed costs; then (2) use a standard methodology across the State of Indiana to determine how to uniformly calculate lost revenue for a measure and finally, (3) calculate the lost revenue for three years or the life of measure, whichever is shorter.

FINANCIAL (PERFORMANCE) INCENTIVES

The Commission finds that Vectren's proposal for performance incentives is not reasonable for many reasons. First, Vectren is proposing to recover performance incentives for at least some of its proposed demand response programs.<sup>40</sup> Senate Bill 412 does not appear to allow for that. Ind. Code Section 8-1-8.5-10(d) defines "energy efficiency program" or "program" as a program that is (1) sponsored by an electricity supplier; and (2) designed to implement to implement energy efficiency improvements. It goes on to say that the term does not include a program designed primarily to reduce demand for limited intervals of time, such as during peak electricity usage or emergency conditions. This is what demand response programs are. Language regarding cost recovery in Senate Bill 412 just addresses recovery for energy efficiency programs or programs as defined by Section 10(d). The fact that the legislature made the extra effort to exclude demand response from its definition of program costs seems to indicate its rejection of lost revenues and financial incentives for demand response. Thus, the Commission denies Vectren's request for performance incentives for any of their demand response program.

Vectren is proposing to achieve at least 80% of its goal in order to earn a performance incentive. Although this threshold is consistent with national best practices (CAC Exhibit 1, Attachment NM-13, page 7), Vectren is now setting its own energy efficiency goals. CAC Witness Mims suggested that Vectren be required to meet 100% of its goal as a threshold for a performance incentive and that Vectren earn 5-10% of the Net Present Value of the UCT benefits (rather than program costs), if Vectren chooses to pursue a shared net benefit performance incentive. We agree.

We also note that rather than using only efficiency (and demand) performance as the basis for an incentive, the Commission believes that the incentive proposed by CAC Witness Mims offers a better framework for performance incentives in the State, especially without a current Energy Efficiency Resource Standard: the multiple criteria performance structure, with criteria that is agreed upon by a diverse set of stakeholders. In the interim, however, the Commission provides notice that it intends to move all of the utilities to a shared net benefit performance incentive that is calculated using the net present value of UCT benefits, and is tiered based on energy savings performance; no incentive will be approved that is based on dollars spent and without a tier system, which is an imprudent structure and detrimental to ratepayers. The Commission further explains that creating a shared net benefit performance incentive based solely on the NPV of the net benefits of the UCT score creates an incentive for the Company to invest in only the most cost-effective programs rather than *all* cost-effective efficiency programs.

---

<sup>40</sup> Petitioner's Exhibit No. 1 (Sears), p. 25.

The Commission finds that Vectren's performance incentive proposal is unreasonable for the reasons set forth herein.

**9. The electricity supplier's current integrated resource plan and the underlying resource assessment.**

As discussed *supra* in the Commission's analysis of Section (h), Vectren's IRP and underlying resource assessment has serious fatal flaws. The Commission finds that Vectren's IRP and underlying resource assessment is unreasonable, and Vectren should correct those errors before returning to file its revised plan within a reasonable time.

- (C) **Ind. Code § 8-1-8.5-10(k) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is reasonable in its entirety, the Commission shall (1) approve the plan in its entirety; (2) allow the electricity supplier to recover all associated program costs on a timely basis through a periodic rate adjustment mechanism; and (3) allocate and assign costs associated with a program to the class or classes of customers that are eligible to participate in the program.**

Based on our findings under Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.

- (D) **Ind. Code § 8-1-8.5-10(l) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is not reasonable because the costs associated with one(1) or more programs included in the plan exceed the projected benefits of the program or programs, the Commission (1) may exclude the program or programs and approve the remainder of the plan; and (2) shall allow the electricity supplier to recover only those program costs associated with the portion of the plan approved under subdivision (1) on a timely basis through a periodic rate adjustment mechanism.**

Based on our findings under Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.

- (E) **Ind. Code § 8-1-8.5-10(m) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is not reasonable in its entirety, the Commission shall issue an order setting forth the reasons supporting its determination. The electricity supplier shall submit a modified plan within a reasonable time. After notice and hearing, the Commission shall issue an order approving or denying the modified plan. If the Commission approves the modified plan, the Commission shall allow the electricity supplier to recover program costs associated with the modified plan on a timely basis through a periodic rate adjustment mechanism.**

Based on our findings in Ind. Code §§ 8-1-8.5-10 (h) and (j), the Commission finds that Vectren's plan is not reasonable in its entirety. The Commission's Order herein sets forth the reasons supporting this determination. Vectren shall submit a modified plan within a reasonable time. We urge Vectren to carefully consider our findings in correcting its plan for the next submission. In the meantime, we also hope that Vectren will continue to offer programs for marketplace certainty and consistency for Vectren's ratepayers.

- (F) **Ind. Code § 8-1-8.5-10(o) states that if the commission finds a plan submitted by an electricity supplier under subsection (h) to be reasonable, the commission shall allow the electricity supplier to recover or receive (1) reasonable financial incentives that encourage implementation of cost effective energy efficiency programs or eliminate or offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources and reasonable lost revenues. A retail rate adjustment mechanism proposed by an electricity supplier under this section to implement the timely recovery of program costs (including reasonable lost revenues) may be based on a reasonable forecast, with consideration given to the electricity supplier's historical lost revenue forecasting accuracy. If forecasted data is used, the retail rate adjustment mechanism must include a reconciliation mechanism to correct for any variance between the forecasted program costs (including reasonable lost revenues and financial incentives) and the actual program costs (including reasonable lost revenues and financial incentives based on the evaluation, measurement, and verification of the energy efficiency programs under the plan).**

Based on our findings in Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.

(G) **Small Business Impact.** The Commission must consider in accordance with 170 IAC 4-8-8 the impact that Vectren's plan may have on small businesses and whether it would give an unfair competitive advantage to Vectren in the provision of energy efficiency programs. Because we have rejected Vectren's plan as unreasonable, we do not need to address this at this time.

**8. Confidential Information.** Petitioner filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was supported by an affidavit, showing the workpapers, testimony and exhibits of OUCC witness Rutter and CAC witness Mims contained trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2. The Presiding Officers issued a Docket Entry on October 26, 2015 finding such information confidential on a preliminary basis after which such information was entered into evidence under seal. Accordingly, we find that all such information should continue to be held confidential pursuant to Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2.

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

1. Vectren's proposed 2016-2017 Plan, and requested accounting and ratemaking treatment, including authority to recover associated program costs is hereby denied pursuant to Ind. Code § 8-1-8.5-10(m) for the reasons set forth herein.
2. With respect to Vectren's authority to recover costs including lost revenues associated with pre-2016 DSM programs, such authority is hereby terminated as of the lesser of thirty-six months or the life of the measure beginning the date by which an energy efficiency measure was installed.
3. To the extent, Vectren has not yet recovered costs incurred associated with the administration, implementation or EM&V of energy efficiency measures installed through March 31, 2016, specifically excluding lost revenues from previous program years, Vectren is authorized to continue using its DSMA mechanism for their recovery.
4. Vectren's request to utilize its existing Vectren Oversight Board to administer any modified plan, subsequently presented to and approved by the Commission is hereby approved.
5. Vectren is hereby directed to refile an energy efficiency plan, consistent with our findings herein, within a reasonable time following the date of this Order.
6. This Order shall be made subject to the outcome of the IURC Rulemaking #15-06.
7. This Order shall be effective on and after the date of its approval.

**STEPHAN, HUSTON, MAYS-MEDLEY, WEBER AND ZIEGNER CONCUR:**

**APPROVED:**

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

---

Brenda A. Howe, Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN )  
INDIANA GAS & ELECTRIC COMPANY D/B/A )  
VECTREN ENERGY DELIVERY OF INDIANA, )  
INC. REQUESTING THE INDIANA UTILITY )  
REGULATORY COMMISSION TO APPROVE )  
CERTAIN DEMAND SIDE MANAGEMENT )  
PROGRAMS AND GRANT COMPANY ) CAUSE NO. 44645  
AUTHORITY TO RECOVER COSTS, )  
INCLUDING PROGRAM COSTS, INCENTIVES )  
AND LOST MARGINS, ASSOCIATED WITH )  
THE DEMAND SIDE MANAGEMENT )  
PROGRAMS PURSUANT TO SENATE )  
ENROLLED ACT 412 AND 170 IAC 4-8-1 ET. )  
SEQ. VIA THE COMPANY'S DEMAND SIDE )  
MANAGEMENT ADJUSTMENT )

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**

**Loraine Seyfried, Administrative Law Judge**

On June 29, 2015, Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner", "Company" or "Vectren South") filed a Verified Petition, Verified Direct Testimony and supporting exhibits of Robert C. Sears, Michael P. Huber, Richard G. Stevie, J. Cas Swiz, and Scott E. Albertson with the Indiana Utility Regulatory Commission ("Commission") establishing this Cause, constituting its case-in-chief and seeking approval of the Vectren South 2016 – 2017 Electric DSM Plan ("2016 – 2017 Plan" or "Plan"). The 2016 – 2017 Plan is to be effective during calendar years 2016 and 2017 and is designed to save 74,107,121 kWh of energy and to reduce demand by 15,442 kW over the two year period.

On July 6, 2015, the Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene and on August 3, 2015, the Commission issued a Docket Entry granting the request.

Pursuant to notice and as provided for in 170 IAC 1-1.1-15, a Prehearing Conference in this Cause was held in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana at 10:30 a.m., on August 5, 2015 and on August 19, 2015, the Commission issued an Order approving the procedural schedule in this Cause.

On August 14, 2015, Vectren South filed an Unopposed Motion for Interim Authority to Continue Offering Energy Efficiency Programs and Associated Cost Recovery requesting permission to spend up to \$2 million to continue offering its current portfolio of energy efficiency ("EE") programs through March 31, 2016 in the event a final order is not issued in the Cause prior to the December 31, 2015 expiration date of current electric EE programs in Vectren South's portfolio. On September 23, 2015, the Commission issued an Interim Order authorizing Vectren South to continue offering its current demand side management ("DSM") programs and

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

recovering the associated costs approved in the October 15, 2014 Order in Cause No. 44495 until such time as the Commission issues a final order in this Cause, but no later than March 31, 2016.

On October 7, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the Verified Direct testimony of April M. Paronish, Crystal L. Thacker and Edward T. Rutter constituting its case-in-chief in this proceeding. The OUCC also filed consumer comments on that same day.

On October 7, 2015, the CAC filed a motion requesting the Commission to take administrative notice of the 2014 the Energizing Indiana Evaluation Report: An Evaluation of the Core Final Year Energy Efficiency Programs, May 1, 2015 from Cause No. 42693-S1; Cause No. 44310 Final Order, May 20, 2015, Cause No. 44441, Phase II Order; and Indiana Evaluation Framework, October 9, 2012. On October 21, 2015, the Commission issued a Docket Entry granting the CAC's request to take administrative notice of those three (3) documents. On October 8, 2015, the CAC filed the Direct Testimony and Exhibits of Natalie Mims and on October 9, 2015, the CAC filed an Unopposed Motion for One Calendar Day Extension of Date to File Prepared Case in Chief of Citizens Action Coalition. On October 14, 2015, the Commission issued a Docket Entry granting the CAC's Motion.

On October 13, 2015, Vectren South filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information requesting that the Commission exempt from public disclosure certain information containing confidential and trade secret information provided by Vectren South to the OUCC and CAC during discovery pursuant to a nondisclosure agreement in place between Vectren South and each of the parties. On October 26, 2015, the Commission issued a Docket Entry that preliminarily found that the confidential information could be filed with the Commission under seal.

On October 20, 2015, Vectren South filed a correction to an exhibit of its witness, Michael P. Huber. On October 28, 2015, Vectren South filed the Verified Rebuttal Testimony of Robert C. Sears, Karl A. McDermott, Michael P. Huber, Richard G. Stevie and J. Cas Swiz. That same day, the CAC filed workpapers supporting its case-in-chief.

On November 10, 2015, CAC moved to strike portions of Petitioner's Rebuttal Testimony and deny admissibility of certain attachments. Vectren South responded to the Motion to Strike on November 12, 2015. The Presiding Officers denied CAC's motion to strike at the November 13, 2015 hearing.

On November 10, 2015, the OUCC filed a Notice of Corrections to Public's Redacted Exhibit No. 3. On November 12, 2015, Vectren South filed Submission of Corrections to Direct and Rebuttal Testimony. On November 13, 2015, CAC filed Submission of Inadvertently Omitted Complete Exhibit.

Pursuant to public notice duly given and published, proof of which was incorporated into the record by reference and placed in the Commission's official file, an evidentiary hearing was held in this Cause on November 13, 2015 at 9:30 a.m. EST in Hearing Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Vectren South, the OUCC and the CAC appeared by counsel and offered into the record their respective prefiled,



CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

cases-in-chief, rebuttal testimony, ~~and~~ corresponding exhibits, and administrative notice exhibits, which were admitted into evidence. No other party or members of the general public appeared.

Vectren filed its form of proposed order on December 7, 2015. OUCC filed its exceptions to Vectren's proposed order on January 8, 2016, and CAC filed its exceptions on January 11, 2016. Vectren filed its reply to exceptions on January 20, 2016.

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

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

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

**3. Background.** Vectren South first began offering electric DSM programs in 1992, including a direct load control ("DLC") program that was designed to reduce peak demand and thereby provide reliable electric service at the lowest reasonable cost to Vectren South's customers. The DLC program has been continuously offered by Vectren South since 1992. The Company began expanding available DSM programs in April 2010 pursuant to a Commission Order issued in Cause No. 43427 in order to meet the energy savings targets established by the Commission in its Order issued on December 9, 2009 in Cause No. 42693, captioned *In the Matter of the Commission's Investigation into the Effectiveness of Demand Side Management Programs* ("Phase II Order"). The Phase II Order, among other things, established energy savings targets for electric utilities subject to the Commission's jurisdiction. ~~On August 31, 2011, the Commission approved a Stipulation and Settlement Agreement between the OUCC and Vectren South ("2011 Settlement") in Cause No. 43839, which authorized the Company to implement a set of core and core plus programs designed to deliver enough energy savings for the Company to meet the targets established by the Commission in the Phase II Order.~~

On January 2, 2012, the core programs approved by the Commission in its Phase II Order and administered by the TPA approved by the Commission in its July 27, 2011 Order on TPA and evaluation, measurement and verification ("EM&V") contracts in Cause No. 42693-S1, became available on a statewide basis. Phase II Order core programs were administered by an independent Third Party Administrator ("TPA") in all electric public utility service territories.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Various core plus programs have been administered by the Company and offered since April 2010. On August 31, 2011, the Commission approved a Stipulation and Settlement Agreement between the OUCC and Vectren South ("2011 Settlement") in Cause No. 43839, which authorized the Company to implement a set of core and core plus programs designed to deliver enough energy savings for the Company to meet the targets established by the Commission in the Phase II Order. Vectren South continued to offer a set of core and core plus programs ~~during~~ through calendar year 2014.

On March 28~~7~~, 2014, the Indiana legislature passed Senate Enrolled Act 340, codified at Ind. Code § 8-1-8.5-9 ("SEA 340" or "Section 9"). SEA 340 provides that ~~allowing certain large~~ industrial customers ~~to~~ may opt out of participation in Company sponsored EE programs and that after December 31, 2014, the Commission may not require an electricity supplier to meet a goal or target that was established in the Phase II Order. SEA 340 did not address any other findings the Commission made in the Phase II Order. The statewide core programs approved by the Commission in the Phase II Order were effective through December 31, 2014, eliminating the requirements from the Phase II Order for third party administration of statewide core programs effective December 31, 2014.

Vectren South entered into a Stipulation and Settlement Agreement with the OUCC dated August 13, 2014 (the "2014 Settlement Agreement") that allowed the Company to continue offering a cost effective portfolio of DSM programs during calendar year 2015 (the "2015 Plan"). We approved the 2014 Settlement Agreement in our October 15, 2014 Order in Cause No. 44495. The 2015 Plan contains cost effective DSM programs designed to achieve energy savings approximately equal to 1% of retail sales, adjusted for large customer opt-out. The 2015 Plan was designed assuming eighty percent (80%) of eligible customers would opt-out of participation in Company sponsored DSM programs. To date 76% of eligible load has opted out of participation and, despite Vectren South's claims that it has ~~recent efforts to~~ encouraged reentry, none of the customers that have opted-out have expressed an interest in opting back in.

On May 6, 2015, Indiana Governor Mike Pence signed into law Senate Enrolled Act 412 ("SEA 412"), which established Ind. Code § 8-1-8.5-10 ("Section 10"). SEA 412 was an effort by Governor Pence to address the change in delivery of energy efficiency programs in the State of Indiana and to reestablish certain savings goals for the electricity suppliers in the State of Indiana. Section 10 requires electricity suppliers to petition the Commission at least one time every three (3) years beginning not later than calendar year 2017 for approval of a plan that includes EE goals, EE programs to achieve the EE goals, program budgets and program costs, and evaluation, measurement and verification ("EM&V") procedures that must include independent EM&V. Furthermore, Section 10 sets forth ten (10) factors the Commission is required to consider in making a determination regarding the overall reasonableness of the EE plan. Pursuant to Section 10, if the Commission finds the EE plan reasonable, then the Commission is required to approve the plan in its entirety and allow the electricity supplier to recover all associated program costs, including reasonable lost revenues and reasonable financial incentives. If ~~The~~ the Commission determines that an electricity supplier's plan is not reasonable ~~may find that because~~ the costs of one or more programs in the plan exceed the projected benefits of the program or programs, the Commission may exclude such programs, approve the rest of the plan and allow the electricity supplier to recover program costs associated with the approved programs in the plan. If the Commission finds that a plan is not reasonable in

its entirety, the Commission is required to issue an order setting forth the reasons supporting its determination and the electricity supplier is required to file a modified plan within a reasonable amount of time thereafter.

**4. Petitioner's Request.** In this proceeding, Vectren South requests Commission approval of its 2016 – 2017 Plan, the first plan submitted by Vectren South to be evaluated under Section 10. The 2016 – 2017 Plan includes Vectren's proposed EE goals, EE programs to achieve the EE goals, program budgets and costs, and procedures for independent EM&V of programs included in the plan. The Plan has an estimated cost of \$16.7 million, with \$8.6 million to be spent in calendar year 2016 and \$8.1 million in 2017. Vectren South asserts that its 2016 – 2017 Plan includes a cost effective portfolio of programs designed to: (1) achieve energy savings of 74,107 megawatt hours (“MWh”), with 36,317 MWh to be saved in 2016 and 37,791 MWh in 2017; and (2) reduce total peak demand by 15,443 kilowatts (kW”), with 8,334 kW of peak demand reduction scheduled in 2016 and 7,109 kW in 2017. The 2016 – 2017 Plan includes both residential and commercial EE programs and two of the EE programs also have a demand response (“DR”) component. Vectren South requests authority to continue recovering all program costs, including lost margins and financial incentives via its existing Demand Side Management Adjustment (“DSMA”), which includes components for the recovery of program costs, lost margins for all customer classes and performance incentives. Vectren South is requesting that all of the components of the DSMA remain in place, unchanged, except that Vectren South requests approval for the recovery of annual depreciation and operating expenses associated with the proposed conservation voltage reduction (“CVR”) program investment via the DSMA. Vectren South is not requesting any changes to the performance incentive mechanism, but is seeking approval to earn a performance incentive on all programs included in the 2016 – 2017 Plan except for the CVR program and the income qualified weatherization (“IQW”) program. Vectren South has requested that the Vectren Oversight Board (“Oversight Board”) continue to remain in place unchanged during the 2016 – 2017 Plan period, with continued authority to exceed Commission-approved budgets for DSM programs by up to 10% without having to seek additional approval from the Commission and authority to continue shifting funds from sector to sector, provided gas and electric funds are not commingled.

**5. Vectren South 2016 – 2017 Plan.** The 2016 – 2017 Plan includes the following DSM programs, the majority of which are current programs and many of which are integrated with Vectren South's gas programs:

- | <u>Residential</u>                        | <u>Commercial &amp; Industrial (“C&amp;I”)</u> |
|---|--|
| • Residential Lighting                    | • C&I Custom                                   |
| • Home Energy Assessment & Weatherization | • C&I Prescriptive                             |
| • Energy Efficient Schools (kits)         | • C&I New Construction                         |
| • Appliance Recycling                     | • Small Business Direct Install                |
| • Behavior Savings                        | • Conservation Voltage Reduction               |
| • Residential New Construction            | • Multi-Family Retrofit                        |

- Multi-Family Direct Install
- Residential Efficient Products
- Conservation Voltage Reduction (CVR)
- Smart Thermostat Demand Response

**6. Evidence.**

**A. Petitioner's Case-in-Chief.** Robert C. Sears, Vice President of Customer Energy Solutions, discussed DSM policy, including cost recovery, lost revenues, performance incentives and whether the plan is considered reasonable and in the public interest.

Mr. Sears testified that Vectren South, with direction from the Oversight Board, will implement the DSM programs included in the 2016-2017 Plan and will contract with program implementers, as necessary. He discussed the EM&V procedures currently used by Vectren South to evaluate existing programs and how those procedures may be impacted by adoption of a statewide framework at some point in the future.

Mr. Sears testified that customer participation in the Company sponsored EE programs impacts Vectren South's financial condition in three significant ways: 1) the Company incurs costs to develop and implement the EE programs; 2) the Company incurs lost contributions to fixed costs through reduced sales; and 3) the Company forgoes the opportunity to make supply side investments, which is the means under the current regulatory structure for a utility to make a profit. He testified that the Company plans to continue to use the DSMA to recover all costs associated with Vectren South's EE programs, including program costs, performance incentives, lost revenues and costs associated with the DLC program. Mr. Sears testified that there is support in state and federal law for Vectren South's cost recovery mechanism, specifically in Subsection (o) of SEA 412, and the Energy Independence and Security Act.

Mr. Sears testified that Vectren South projects lost margins resulting from customer participation in the Company's electric DSM programs in each DSMA period by recovering actual and projected lost margins. He testified that the Company takes a conservative approach to its projected lost margins in order to ensure the Company is not over-collecting lost margins from customers, and that any over/under collection variance will be recovered in the Company's next DSMA filing. He further testified that forecasted program costs will be reconciled against actual results based on EM&V of the EE programs under the plan.

Mr. Sears testified that the lost revenue adjustment mechanism currently approved for lost revenues does not make the Company whole since only "net" program savings costs that can be directly attributed to the programs through EM&V are recovered versus the gross program savings and usage reductions due to education and other energy savings efforts of customers that cannot be directly quantified as part of EM&V.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Mr. Sears testified that Vectren South is not requesting any changes to the performance incentive mechanism, which requires that Vectren South must attain at least 65% of its goal to avoid incurring a penalty and will not earn an incentive until the Company reaches 80% of its goal. He also testified that in no case shall the actual performance incentive the Company is allowed to earn exceed 10% of the program costs approved in the 2016-2017 Plan.

Mr. Sears testified that Vectren South's 2016-2017 Plan is in the public interest because it promotes the efficient use of energy by better aligning the Company's interests with those of its customers, and will delay the need to build additional generation, help conserve natural resources and decrease emissions from generating units.

Michael P. Huber, Manager of Electric DSM & Conservation, discussed the DSM programs included in Vectren South's 2016-2017 Plan, the associated annual budget and Vectren South plans to implement and evaluate programs included in the Plan. Mr. Huber testified that the goal of the 2016 – 2017 Plan was to reduce energy usage by 1% of retail sales adjusted for an opt-out rate of 80% of eligible load and to introduce into the marketplace the CVR and Residential Smart Thermostat ("Smart Thermostat") programs, both of which have a DR component. This means that Vectren's proposed goal is 0.65% of sales or 36 GWh for 2016 and 0.67% of sales or 38 GWh for 2017. (CAC Exhibit 1, page 8).

Mr. Huber testified that CVR technology will reduce waste, increase reliability and save money for both the customer and the utility. He testified that Vectren South plans to complete installation on one substation in calendar year 2017 and complete installation on additional substations in future program years. He said that Vectren South seeks authority to recover the following CVR-related costs through the annual DSMA: carrying costs, depreciation expense, annual and ongoing Operation and Maintenance expense, a representative share of Vectren South's DSM support staff and administration costs, and related EM&V cost. Mr. Huber testified that the Smart Thermostat program will offer energy savings, increased load reduction, deliver verifiable DR and provide a platform for customer engagement.

Mr. Huber estimated participation costs of the 2016 – 2017 Plan to be \$16.7 million, with \$8.6 million in 2016 and \$8.1 million in 2017. Further, Vectren South is requesting authority to roll forward into the next program year any unused and approved budget funds from 2016 and 2017 that remain unspent at the end of the year. He also described the energy and demand savings to be achieved in the Plan.

Mr. Huber testified that evaluation for all programs in the 2016 – 2017 Plan will be conducted by an independent evaluator and identify how well programs are implemented. The impact evaluation will examine the more technical effects of the programs such as energy savings.

Richard G. Stevie, Vice President of Integral Analytics, described the cost effectiveness of its 2016 – 2017 Plan. Mr. Stevie testified that he performed the following tests required by the Indiana Utility Regulatory Commission using the DSMore model: the Utility Cost Test ("UCT"), the Total Resource Cost Test ("TRC"), the Ratepayer Impact Measure Test ("RIM") and the Participant Test. He concluded that all of the programs pass the TRC and UCT cost effectiveness tests but not the RIM test. Mr. Stevie testified that while the programs do not pass

the RIM test, this should not be interpreted to mean the programs are not cost effective, and that in these cases one should look to the UCT test as a passage of the UCT test reveals whether or not one can expect the long-run revenue requirements for ratepayers would increase or decrease.

Mr. Stevie also testified regarding the long-term effect on rates and bills of participants as demonstrated through the Participant test and RIM test. He testified that all participants would benefit from the programs under the Participant test with the exception of those programs where the score could not be calculated because there were no costs to participants for participating in the program. He further testified that although none of the programs passed the RIM test – meaning rates would likely increase over time – that a rate increase in and of itself should not be viewed negatively given that DSM programs create a demand side resource that allows utilities to avoid the cost of a supply side resource, which has its own costs that would increase rates. Mr. Stevie concluded that Vectren South's 2016 – 2017 Plan is cost effective. Mr. Stevie also testified that the two year implementation plan for the CVR program is cost effective under both the TRC and UCT tests.

J. Cas Swiz, Director of Regulatory Implementation and Analysis, described Vectren South's plans to account for carrying costs and depreciation expense associated with the capital expenditures the Company plans to make related to the CVR program. Witness Swiz testified that Vectren South is requesting recovery via the DSMA of annual depreciation and operating expenses associated with the proposed CVR investment along with recovery in the DSMA of the annual carrying costs on this capital investment. Mr. Swiz testified that the proposal is to recover the needed return on and of the CVR program investment in the DSMA until the Company's next base rate case. He testified that Vectren South will calculate the monthly carrying costs using its weighted average cost of capital ("WACC"), grossed up for income taxes, and multiplied by the net plant balance as of the end of the prior month. He explained that the Company will include in each annual DSMA filing a projected level of carrying costs on the approved CVR program investments. Mr. Swiz testified that the total level of expenses for the CVR Program investments by year are \$40,000 for 2016 and \$277,941 for 2017.

Scott E. Albertson, Vice President of Regulatory Affairs and Gas Supply, explained Vectren South's approach to evaluating the impact on electric rates and customer bills resulting from a proposed EE plan, focusing on the provision in Section 10(j)(7) which lays out what the Commission is required to consider when making a determination of the overall reasonableness of an EE plan. Mr. Albertson testified that the short term effect of the Plan for participating customers is reduced energy consumption, which can result in lower energy bills. Mr. Albertson also testified that after each of the program years, customers will no longer pay program costs or performance incentives associated with the Plan; however, the lost revenues attributed to the Plan will continue throughout the life of each of the EE measures that drove the lost revenues.

**B. OUC's Case-in-Chief.** OUC witness April M. Paronish, a Utility Analyst in the Resource Planning and Communications Division of the OUC, opined on the adequacy of Vectren South's evidence and made several recommendations regarding the design of the 2016 – 2017 Plan. First, she contended that Vectren South needed to provide greater details regarding the cost and benefit inputs and formulae so stakeholders could replicate the model results. She said that because there is insufficient evidence in Vectren South's case-in-chief for either stakeholders or regulators to rely on Vectren South's benefit/cost test scores to

assess the Plan's overall reasonableness as required by Section 10(j)(2), the 2016 – 2017 Plan should be found unreasonable in its entirety pursuant to Section 10(m).

Regarding the plan details, Ms. Paronish recommended that the Commission exclude the CVR program and the Smart Thermostat program from Vectren South's 2016 – 2017 Plan. Regarding the CVR program, she opined that it is not cost effective, the engineering study identifying a target circuit was not completed and Vectren South failed to address how it would handle cost recovery for opt-out customers who might be served by substations where the CVR technology is installed. Ms. Paronish testified that the Smart Thermostat program is primarily a DR program designed to augment Vectren South's existing direct load control program and is not EE as defined in Section 10. She also testified that the Strategic Energy Management ("SEM") pilot program should not be included in the 2016 – 2017 Plan. Based on her concern about health and safety costs in the IQW program, Ms. Paronish recommended rejection of the program.

Edward T. Rutter, a Utility Analyst in the Resource Planning and Communications Division of the OUCC, pre-filed testimony on behalf of the OUCC. Mr. Rutter recommended that the Commission deny Vectren South's request for continued lost revenues, deny Vectren South's request to continue shareholder incentives and find that Vectren South's 2016 – 2017 Plan is unreasonable in accordance with Section 10(l) and/or Section 10(m). Mr. Rutter said that for every dollar spent on the 2016 – 2017 Plan, 57% are non-program costs, lost revenues and shareholder incentives.

Mr. Rutter acknowledged that the Commission has explained the purpose of lost margins recovery, which is to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory. But, he said Vectren South's case-in-chief demonstrates that promoting DSM within its service territory does not expose the Company to any disincentive that requires removal, but rather provides an economic incentive that exceeds what the Company would earn by selecting a supply-side option. He said that determining whether a disincentive exists can be viewed as a function of Vectren South's estimated cost-benefit results positively or negatively impacting the net operating income or return authorized under Vectren South's last base rate case, Cause No. 43839 (April 27, 2011). Mr. Rutter conducted an analysis that led him to conclude that if Vectren chose to meet demand with a supply-side option such as a new plant, it would earn a return on its investment of 7.29%. He said that would come with significant risk, including financing a massive capital investment, slower cost recovery and the possibility that the Commission may not find the project used and useful. He testified that by comparison, none of those risks apply to the 2016 – 2017 Plan; yet, if approved, Vectren South's effective overall rate of return and return on common equity will surpass its authorized levels. As a result, he said, Vectren South faces no disincentive to pursue EE.

Mr. Rutter discussed lost margins and cost effectiveness tests. He testified that when per kWh program costs are more than doubled only to pay for lost margins and shareholder incentives, it illustrates the serious imbalance between ratepayer and utility interests. He said that Vectren South's lost margins and shareholder incentives are unreasonable and should be denied. Mr. Rutter testified that Vectren South's lost margins request is unreasonable because the DSM lost sales are not preventing Vectren South from recovering its authorized fixed costs. He said that if a utility experienced a sales level less than implicit in base rates then the

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

authorized fixed costs would not be recovered; however, if sales exceed the amount included in base rates, the utility will realize a boost to the authorized allowable rate of return. Mr. Rutter testified that while Vectren South has been collecting lost revenues, its total sales have been increasing and have exceeded sales experienced by Vectren South in the twelve months ended June 30, 2009, the test year adopted in setting Vectren South's current base rates. Mr. Rutter conducted an analysis that led him to conclude that Vectren South will have collected annually more fixed costs than authorized in base rates and he testified that providing lost margins for DSM for any year subsequent to the test year is not only unnecessary, but unreasonable.

Mr. Rutter then discussed his interpretation of SEA 412. He explained that while the TRC and UCT/Program Administrator Cost ("PACT") tests have been widely utilized by Indiana utilities, stakeholders and the Commission, the Indiana General Assembly and Governor Pence have made it plain in enacting SEA 412 that a different more inclusive analysis is required. Specifically, he contended that cost effectiveness must consider lost revenues, and that among the tests presented by Vectren South, only the RIM test satisfied SEA 412's new requirements.

Mr. Rutter said that Vectren South failed to provide information to show the long term and short term effects or potential effects of the DSM plan on customers that participate in the plan versus those that do not, as required by SEA 412. He also testified that Vectren South's case-in-chief does not include customer or customer representatives' comments, nor does it demonstrate other stakeholders have been solicited or other comments included in the plan, which he said SEA 412 requires.

Mr. Rutter also confirmed that the OUCC opposes Vectren South's request for performance incentives. He said that there is no compelling evidence demonstrating performance incentives are required to encourage cost-effective DSM. Furthermore, he testified that a performance incentive is inherently unreasonable when the utility chooses the energy savings targets, programs to achieve those targets, size, scope and funding of those programs, who will measure savings and how the savings will be calculated, and then receives shareholder incentives when it achieves only 80% of its self-developed program goals. He concluded by saying that it is unreasonable to provide for performance incentives to an electric utility that has adopted a cultural change and commits to continue to offer cost-effective DSM to assist customers in managing their energy bills and to meet future energy needs.

Crystal L. Thacker, a Utility Analyst in the OUCC's Electric Division, recommended changes to the computation of carrying costs for the CVR program. She urged Vectren South to calculate its WACC using the cost of equity approved in Petitioner's last rate case, but update the capital structure, zero cost capital and cost of debt in calculating the appropriate rate of return. She cited several cases where the OUCC's recommended approach was used and testified that the OUCC's recommended approach is the same approach required by 170 IAC 4-6-1 for Qualified Pollution Control Property.

**C. CAC's Case-in-Chief.**

Ms. Natalie Mims, Principal Consultant at Mims Consulting, LLC, provided her expert opinion as to whether or not Vectren's 2016-2017 energy efficiency plan is reasonable under SEA 412. She recommended that Vectren's plan be rejected as unreasonable until all of her



recommendations are incorporated into Vectren's plan. She recommended that while Vectren works to incorporate her recommendations into its plan, that Vectren continue to offer its DSM programs as it has under its 2015 plan for purposes of consistency, marketplace certainty, and for the benefit of Vectren's customers.

Ms. Mims testified that the major issue with Vectren's claim that its IRP supports its proposed level of energy efficiency is that it does not have and did not supply the information that would be necessary to understand how it modeled energy efficiency. She testified that without the requested modeling files, it is impossible for stakeholders like CAC to independently assess and confirm or rebut, as the case may be, Vectren's claim that it evaluated additional energy efficiency and supply-side resources on "a consistent and comparable basis" and that no additional energy efficiency was cost-effective. See 170 IAC 4-7-8(b)(3),(4).<sup>1</sup> Without this minimum amount of information, She testified that she does not believe that Vectren can satisfy Section (c) in Ind. Code Section 8-1-8.5-10.

Ms. Mims testified that Vectren is proposing a residential and commercial Conservation Voltage Reduction ("CVR") program for the first time. Given Indiana utilities' limited energy efficiency budgets, she suggested, it may be more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills.

Ms. Mims testified that Vectren's Action Plan identified that the Company could achieve more than twice as much energy efficiency than what it is proposing here. She testified that these are much higher, reasonably achievable savings than what the Company is proposing in this application. She also testified that Vectren did not make reasonable adjustments to its Action Plan in response to SEA 340 and non-residential opt-outs, because it would be reasonable to maintain the Action Plan savings levels for all residential programs and non-residential programs from which customers cannot opt-out.

Ms. Mims recommended that Vectren should implement the residential and non-residential efficiency programs at the Action Plan levels, adjusted for opt-out, as shown in tables 3 & 4 of her testimony.<sup>2</sup> She testified that this would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost-effectively.

Ms. Mims recommended that Vectren implement an upstream efficiency program that is targeted at manufactured home producers. She testified that because of the amount of Indiana's housing stock that is comprised of manufactured homes, and the use of manufactured homes as affordable housing, it is critical that Vectren design successful programs to reach this market. She also testified that robust EE programs for low-and fixed-income households are essential to

---

<sup>1</sup> This reference is to the October 2012 revised draft of the proposed IRP rule in the IRP rulemaking, RM# 11-07. This draft was the starting point for further revisions in the IRP/EE rulemaking, RM # 15-06.

<sup>2</sup> CAC Exhibit 1, pages 11-12.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

ensuring that all customers are able to afford basic utility service on a sustainable basis, particularly because low-income residents tend to live in less efficient housing. Ms. Mims recommended a program that is similar to a program offered by the Tennessee Valley Authority ("TVA"). In TVA's program, she testified, it pays the manufacturer of the homes to build homes with heat pumps instead of electric resistant heat. When the consumer purchases a new home, she testified, there is no cost differential between the heat pump version and the electric resistant heat version, yet there are tremendous energy savings. Ms. Mims recommended that Vectren should also consider Idaho Power's Rebate Advantage program, where customers that purchase new all-electric ENERGY STAR manufactured homes receive a \$1000 sales rebate and sales consultants receive a \$200 sales bonus every time they sell a new all-electric ENERGY STAR manufactured home to an Idaho Power customer.<sup>3</sup> Finally, Ms. Mims recommended that Vectren should clarify that its Smart Saver Residential, Residential Energy Assessment, Low-Income Weatherization, Low Income Neighborhood, Agency Assistance Portal, and Appliance Recycling program are available to manufactured home owners and renters. She testified that this may already be the case, but there is no information in the application indicating if a "single family home" is inclusive of a manufactured home.

Ms. Mims testified that A "Whole Home Plus" program was included as part of Vectren's 2013 Action Plan. She testified that Vectren is including the relevant portions of the Whole Home Plus program in its DSM plan for 2016-2017. However, she testified that it is not transparent what aspects of the program were included in the Home Energy Assessments program as there is no detail provided in the Action Plan about the Whole Home Plus program, such as the delivery mechanism, eligible measures, or participation. Further, she testified, that the Action Plan found that Vectren could save 2 GWh a year with its Whole Home Plus program, and an additional 3 GWh each year with its Home Energy Assessment program. But, she testified Vectren is not ramping up to meet the level of energy savings cost-effectively identified in the Company's Action Plan. She strongly encouraged Vectren to identify and pursue additional savings through these two programs, as suggested in its Action Plan.

Ms. Mims testified that Vectren should identify and implement a program that assists with providing rebates or direct installation of energy efficiency measures in schools. She testified that the School Audit Direct Install ("SADI") program is different than Vectren's Energy Efficient School program because the SADI program focused on the installation of measures at the school, while Vectren's Energy Efficient School program focuses on student education and outreach. She testified that it seems Vectren should identify a program that will leverage the Energy Service companies ("ESCOs") efforts and deepen savings to go beyond the industry's historically shallow lighting savings. She testified that instead of a direct install program that may compete with the ESCO contract, the use of rebates in a streamlined process may encourage the ESCOs to install energy efficiency measures they might not otherwise. An appropriate first step, she suggested, would be to engage with the ESCO to determine what grants they are currently receiving, if any, from the state or federal government, or utilities in other parts of the state or country. She testified that this could provide a model to begin building a successful and robust school program for Vectren's service territory.

---

<sup>3</sup> Idaho Power, 2014 DSM Annual Report,  
<http://www.puc.idaho.gov/fileroom/cases/elec/IPC/IPCE1404/20140317DSM%20ANNUAL%20REPORT%202013.PDF>.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Ms. Mims testified that in Cause No. 44310, a proceeding to investigate a self-direct program, the Commission found that "Based on the significant change in the statutory landscape and the resulting impact on the manner in which DSM programs are designed...we find that any further consideration of a structured self-direct DSM program for large customers should occur when an electricity supplier submits its plan for Commission approval."<sup>4</sup> Ms. Mims testified that energy efficiency is the lowest cost resource, and Vectren should look for reasonably achievable ways to attract and retain energy efficiency program participation from their large customers. Accordingly, she recommended that Vectren offer a self-direct program. She also testified that it is worth mentioning that without revisions to the net lost revenue recovery, and she did not think that any industrial customer would participate in an energy efficiency offering from any utility in Indiana.

Ms. Mims also recommended for the self-direct program that as discussed in CAC's comments in Cause No. 44310, (1) projects should generate capacity savings and not just time-shifting of energy consumption; (2) projects started prior to being approved as a self-direct project should not be eligible for funding or credit; and (3) self-direct customers should be required to share their plans with the administrator or other parties interested in implementing similar projects, subject to scrubbing the plans for confidentiality.

Ms. Mims recommended that third party evaluation, measurement and verification occur on a comparable schedule to Vectren's EM&V schedule and be required to use the same standards for data collection as Vectren's efficiency programs. She testified that important features of the EM&V are that it is consistent across customers, transparent and accountable. Without verification of energy efficiency savings, she testified, the reduction in load that occurs from these customers' energy efficiency projects will not be attributed to energy efficiency. She testified that this is important because it provides the utilities with an idea of how much energy their large customers are saving, and insight into how much they will save in the future. She also testified that this is useful for system-wide planning and ensuring that the Company can provide Indiana ratepayers with the lowest cost, reliable electricity system. In fact, she testified, this Commission has recognized energy efficiency as "the most cost effective way of meeting future energy supply needs and [that it] has the corresponding benefit of reducing the need to build additional generation capacity."<sup>5</sup> Further, she testified, without greater accountability, these customers that do not install energy efficiency measures on their own can act as "free riders" that receive, at no cost, the system-wide benefit of energy efficiency savings produced by participating customers.

Ms. Mims testified that consistent with prior CAC testimony, if recovery of lost revenues is allowed, because there is actual "lost" revenue, 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 the Company's authorized cost recovery. She testified that this would be consistent with Indiana's relevant definitions of "lost revenues" in Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10: "the difference, if any,

---

<sup>4</sup> IURC Cause No. 44310 Order of the Commission, May 20, 2015, available at [https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed\\_Cases/ViewDocument.aspx?DoCID=0900b631801c712b](https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed_Cases/ViewDocument.aspx?DoCID=0900b631801c712b) (CAC Administrative Notice Exhibit 2).

<sup>5</sup> IURC Cause No. 42693, Phase II Order at 30 (December 9, 2009).

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs.” Furthermore, she testified, Ind. Code § 8-1-8.5-10(o) states that if the plan is found to be reasonable under subsection (h), the Commission shall allow “reasonable financial incentives” and “reasonable lost revenues.” She recommended that the current structure of recovery of lost revenues for Vectren, however, is not reasonable and should be changed to conform to the statute. Finally, she testified, 170 IAC 4-8-6 already requires consideration of free riders. She further testified that Vectren should be required to include customer load growth, off-system sales, and changes in other revenue structures when proposing any lost revenue adjustment mechanism. And she testified that changes in these factors between rate cases provide the utility with additional cost recovery that should be offset in any lost revenue mechanism.

Ms. Mims testified that Vectren did not provide a breakdown of lost revenue by program, by year, as part of its application, or any discussion more than generalities in its application on the topic of lost revenues, and thus did not provide evidence that it will under recover authorized costs due to the impacts of its efficiency programs. She further testified that regardless of where or when the information is provided, it is unreasonable to recover lost revenues if there is no evidence that the revenues are actually lost. And she testified that this lack of quantitative support for lost revenue in the utilities' applications is why Indiana's lost revenue adjustment mechanism (“LRAM”) is asymmetrical – the utility makes no adjustment for increases in revenues due to activities unassociated with DSM and appears to assume that lost revenues due to DSM always occur. She testified that Vectren's LRAM would be symmetrical if it took into account its actual revenues before and after the application of its lost revenue. If increased sales or other factors result in actual revenue plus lost revenues are pushing Vectren past its revenue needs, it should not collect any lost revenue at all. She also testified that Vectren could compare sales in its test year to the actual sales, and if there is a difference between that test year and the actual year, then Vectren may be eligible for lost revenues. If the actual sales, she testified, after the effects of EE are included, are still sufficient to allow the Company to recover its authorized revenue (for example, when sales are above forecasted levels), there is no legitimate rationale to use ratepayer money to compensate the Company for “lost” revenues that were not incurred. She then testified that this would be essentially asking utility ratepayers to guarantee excess revenues to the utility, and this is not reasonable. However, she testified, if the Company's sales, after the effects of EE, are insufficient to allow the Company to recover its authorized costs, then the Company would be eligible for lost revenues. She testified that lost revenue recovery is meant to be a short-term solution to address revenue loss in between rate cases. As noted below, she testified, if recovery of lost revenue is allowed, it should be limited to three years or the life of the measure, whichever is shorter, to avoid the “Pancake Effect.” Further, she testified, based on ACEEE's recent LRAM research:

It is most common for states to limit recovery to one to three years, although many states allow utilities to recover lost revenues for an indefinite period of time...Respondents indicated that in these cases, although rules might not be in play...utilities tend to bring [rate cases] forward every two to three years.<sup>6</sup>

---

<sup>6</sup> Exhibit NM-8, page 21.

Ms. Mims testified that It appears that Vectren actually only had a two-year lost revenue recovery time period in Indiana prior to receiving lifetime recovery of lost revenue. See Cause No. 43938 (August 31, 2011) ("Vectren South-Electric's requests to defer up to \$1 million in lost margins associated with residential and small customer Core and Core Plus programs for the period of January 1, 2011 through December 31, 2011 and to recover, over a two year period, those deferred lost margins in a separately docketed proceeding, shall be and hereby are approved.").

Ms. Mims testified that as noted by the Minnesota Department of Public Service over fifteen years ago, lost revenue recovery is meant to be a short-term adjustment to address revenue losses in between rate cases. In the absence of requiring a rate case every 2-3 years, the amount of lost revenue the utilities recover should be limited.<sup>7</sup> It is also important to note that the utility is able, she testified, through integrated resource planning and rate cases, to adjust their longer term plans to avoid spending revenue unnecessarily if efficiency can defer or eliminate the need for additional capital expenditures, and thus lost revenues. However, she testified, at this time, Indiana's policy allows the utility to collect revenues that would not be "lost" through prudent planning. In Indiana, she testified, the rationale for a cap of 36 months of lost revenue can also be found in SEA 412, which requires the utilities to submit energy efficiency plans at least once every three years. Additionally, she testified, lost revenue recovery should be limited to the duration of the energy efficiency plan approved by the Commission under Indiana Code §8-1-8.5-10(h). In addition, she testified, there is a high risk that ratepayers will pay for revenues that are not actually "lost" if the Commission continues to allow Vectren to collect lost revenues for the life of the measure, or until it has a new rate case because the energy baseline will change in the future. She testified that this adds a layer of complexity and opacity that can largely be avoided by limiting the lost revenue recovery period. Currently, she testified, that there are significant inconsistencies in how NIPSCO, DEI and Vectren calculate their lost revenues. In addition, she testified, to using different methodologies, the utilities do not appear to be presenting the same information in their filings, nor are they presenting the information in a uniform fashion. She testified that while she was aware that each utility is unique, the Commission and interested stakeholders should be able to easily identify the annual and total lost revenues each utility is requesting in each application as well as the savings underlying those calculations. Under the current practice, this is nearly impossible. She recommended that a reasonable approach would require that: (1) the utility show that implementation of energy efficiency programs has prevented the Company from recovery of authorized fixed costs; then (2) use a standard methodology across the State of Indiana to determine how to uniformly calculate lost revenue for a measure, and finally, (3) calculate the lost revenue for three years or the life of measure, whichever is shorter. She testified that Vectren'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. In addition, she testified, it is unreasonable to request lost revenue for the life of the measure or until the utility returns to the Commission for a rate case.

Ms. Mims testified that the Commission did not approve Vectren's lost revenue adjustment mechanism ("LRAM") indefinitely, and, furthermore, the Commission's rules state

---

<sup>7</sup> Minnesota Public Utility Commission, Docket No.98-443, Order issued June 24, 1998, Page 8.

that it may periodically review the need for continued recovery of the lost revenue as a result of the utility's DSM program, and that the approval of a lost revenue recovery mechanism shall not constitute approval of a specific dollar amount, the prudence, or reasonableness of which may be debated in a future proceeding before the Commission.<sup>8</sup> Also, she testified the newly enacted Senate Enrolled Act 412, in Section (o), now includes the term "reasonable" in front of the term lost revenues. She then testified that given the length of time between utility rate cases in Indiana, this could result in the utility recovering lost revenue for the life of the measures, which as discussed above is not reasonable. While Vectren has conducted more frequent rate cases than some of the other Indiana electric IOUs, as a statewide policy, she testified, allowing utilities to recover lost revenues until there is a rate case is not prudent.<sup>9</sup> Even with Vectren's last rate case in April 2011,<sup>10</sup> she testified, future rate case dates have not been established and there is no guarantee that the Company will return to the Commission in five, ten or even twenty years for its next rate case. In the absence of a rate case, she testified, Vectren will continue to add lost revenues from prior years to existing years for energy efficiency measures that are still in service, which ACEEE has dubbed the "Pancake Effect."<sup>11</sup> This, she testified, can become very expensive and dwarf the cost of the actual energy efficiency program implementation. It means that the utility, she testified, if it does not return to the Commission for a rate case, would recover lost revenues for the life of the measure.

Ms. Mims testified that currently, Vectren calculates a separate residential and commercial incentive. Programs must pass the UCT and the TRC in order for the utility to earn an incentive. The costs that are eligible for the incentive are the "actual program delivery costs not to exceed the total budget approved by the Oversight Board."<sup>12</sup> She testified that currently Vectren must achieve at least 80% of its goal in order to earn a performance incentive. This threshold is consistent with national best practices.<sup>13</sup> However, she testified, given that Vectren is setting its own energy efficiency goals, I recommend that if the Commission adopts a shared net benefit performance incentive, the Commission require that Vectren meet 100% of its goal as a threshold for a performance incentive. She also recommended that the Commission use multiple criteria to define the performance incentive, and cap the maximum amount of the incentive. And she also recommended that during the IRP/EE rulemaking (RM #15-06), the Commission and interested stakeholders define the performance criteria based on what is best for Indiana, and determine what the appropriate total incentive cap should be. In the interim, she suggested that the Commission move all of the utilities to a shared net benefit performance incentive that is calculated using the net present value of UCT benefits, and is tiered based on energy savings performance. Performance incentives are a critical tool in energy efficiency policy, however she testified, the performance incentive does not need to be extremely rich to motivate utilities to act. She additionally recommended that in the absence of: (1) requiring the utility to show that they have "lost" revenues; and (2) shortening the lost revenue recovery

<sup>8</sup> 170 IAC 4-8-6 (c). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06.

<sup>9</sup> Exhibit NM-8, page 12, Figure 7.

<sup>10</sup> Cause No 43839 (2011).

<sup>11</sup> Exhibit NM-8, pages 7, 11-13.

<sup>12</sup> Petitioner's Exhibit 1 (Sears), page 24.

<sup>13</sup> ACEEE, Performance Incentive Review, 2015, page 7 (Exhibit NM-13).

period to the shorter of 36 months or the life of the measure, or requiring the utility to return to the Commission for a rate case every three years, Vectren should not receive a performance incentive. However, she testified, if the lost revenue period is shortened to 36 months or the life of the measure, whichever is shorter, the Commission should allow a performance incentive.

Ms. Mims testified that Vectren is proposing to recover performance incentives for at least some of its proposed demand response programs.<sup>14</sup> She testified that she is not an attorney, but Senate Bill 412 does not appear to allow for that. She testified that Ind. Code Section 8-1-8.5-10(d) defines "energy efficiency program" or "program" as a program that is (1) sponsored by an electricity supplier; and (2) designed to implement to implement energy efficiency improvements. She further testified that it goes on to say that the term does not include a program designed primarily to reduce demand for limited intervals of time, such as during peak electricity usage or emergency conditions. And she testified that this is what demand response programs are. She testified that language regarding cost recovery in Senate Bill 412 just addresses recovery for energy efficiency programs or programs as defined by Section 10(d). She suggested that the fact that the legislature made the extra effort to exclude demand response from its definition of program costs seems to indicate its rejection of lost revenues and financial incentives for demand response. Thus, she recommended, the Commission deny Vectren's request for performance incentives for any of their demand response program.

Ms. Mims testified that performance incentives are part of the SEA 412 IRP/EE rulemaking, IURC RM # 15-06. As part of this effort, she strongly recommended that a workshop be held to discuss a cohesive state policy on performance incentives and calculation of lost revenues, as these areas seem to have the most diverse methodologies among Indiana utilities. In this workshop, she strongly recommended that the Commission and stakeholders consider the costs and benefits of designing a performance incentive that has multiple criteria, as well as identify appropriate criteria for a three-year EE cycle that will motivate the utility to pursue Indiana's EE policy goals.

Ms. Mims testified that Vectren states that their EM&V cost is five percent of program budget,<sup>15</sup> but based on discovery responses, it is 5.9-6.4%. Further, she testified that it appears that Vectren's EM&V costs have been trending upwards since 2012. These projected EM&V costs, she testified, in excess of five percent of program costs, do not comply with the Indiana Evaluation Framework as filed with the Commission in Cause No. 42693 S-1 on October 9, 2012 by the Demand Side Management Coordination Committee's ("DSMCC") Evaluation Management and Verification Subcommittee, which was prepared for the DSMCC by the Indiana Statewide Core Program Evaluation Team (TecMarket Works, the Cadmus Group, Opinion Dynamics Corporation, Integral Analytics, Building Metrics, and Energy Efficient Homes Midwest).<sup>16</sup> In the event that the Commission does not alter Vectren's performance incentive to be calculated using net benefits of the UCT instead of program costs, she recommended, the Commission should only allow Vectren to include EM&V costs of up to 5%

---

<sup>14</sup> Petitioner's Exhibit No. 1 (Sears), p. 25.

<sup>15</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 13.

<sup>16</sup> Indiana Evaluation Framework, October 9, 2012, available at: [https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed\\_Cases/ViewDocument.aspx?DoCID=0900b6318019174a](https://myweb.in.gov/IURC/eds/Modules/Ecms/Cases/Docketed_Cases/ViewDocument.aspx?DoCID=0900b6318019174a) (CAC Administrative Notice Exhibit 4).

of the portfolio cost for the purposes of calculating the performance incentive. She testified that the Commission should be aware that the Indiana-specific, ratepayer-funded Technical Resource Manual (also known as Technical Reference Manual) was updated this past summer.<sup>17</sup> She also testified that the maintenance of documents such as these is crucial to having a solid baseline for which to conduct EMV in Indiana.

Ms. Mims testified that Mr. Sears references the State Utility Forecasting Group's ("SUFG") publication of the *Indiana Electricity Projections: The 2013 Forecast*. However, she testified, it appears that this publication and the duties assigned to the SUFG only cover one of the five parts of the Commission's analysis in Ind. Code § 8-1-8.5-3(b)(1), which is the probable future growth of the use of electricity.<sup>18</sup> She also testified that Ind. Code § 8-1-8.5-3 requires four other parts to the Commission analysis and Ind. Code § 8-1-8.5-3.5 appears to direct the SUFG to do just one of the five parts of the above required analysis, the probable future growth of the use of electricity. She further testified that it is unclear if a comprehensive Commission analysis exists encompassing the other four requirements under Ind. Code § 8-1-8.5-3; however, the rulemaking (IURC RM # 15-06) that is currently pending could end up addressing this. Thus, it was her opinion that it is too soon to tell whether or not Vectren's 2016-2017 Plan is consistent with the Commission analysis as contemplated under Ind. Code § 8-1-8.5-10(j)(3)(A).

~~Natalie Mims, the Principal at Mims Consulting, LLC, pre filed Direct Testimony on behalf of the CAC. Ms. Mims recommended that the Commission reject Vectren South's 2016—2017 Plan because it does not meet the requirements of either Section 10(e) or Section 10(h). Furthermore, Ms. Mims testified that even if the 2016—2017 Plan was reasonable under those code sections, it does not include reasonable financial incentives or lost margins as required under Section 10(e) and it includes incentives for DR, which, she argues, are precluded under Section 10(d). Instead, Ms. Mims testified that the Commission should require Vectren South to present a DSM plan that is consistent with an integrated resource plan ("IRP") that reasonably balances energy resources through comparable consideration of both supply and demand side resources and increase the goals for those programs unaffected by opt out customers to levels its market potential study ("MPS") indicates are reasonably achievable. Ms. Mims also recommended revisions to Vectren South's programs to add a residential new construction program, a manufactured home program, a direct install for schools program and a non-residential self direct program. She also contended that the Company should modify its opt-out letter to include details on the benefits of EE to encourage customers to participate rather than opt out.~~

~~Regarding Vectren South's proposed lost revenues, Ms. Mims contended Vectren South should demonstrate that it is experiencing lost revenues before recovery is permitted. She also advocated for limiting lost revenue recovery to the shorter of thirty six (36) months or life of the measures. She also recommended that performance incentives be authorized only if her limitations on lost margin recovery are accepted. Ms. Mims further urged modifications to the performance incentive calculation. Ms. Mims advocated for elimination of financial incentives~~

---

<sup>17</sup> Exhibit NM-16.

<sup>18</sup> See <http://www.purdue.edu/discoverypark/energy/SUFG/about/about.php>



~~for DR programs and recommended Vectren South's EM&V costs be limited to no more than approximately five (5) percent of the portfolio cost.~~

**D. Petitioner's Rebuttal.** Mr. Sears' rebuttal testimony responded to testimony filed by OUCC witness Edward T. Rutter, CAC witness Natalie Mims, and OUCC witness April P. Paronish.

Mr. Sears responded to Ms. Mims recommendation that Vectren South be required to demonstrate a net sales reduction from base rate case levels to qualify for recovery of lost revenues and all programs be subject to a three-year cut-off for lost revenues. Mr. Sears testified that this approach removes the incentive for Vectren South to pursue EE programs and without the lost margin recovery mechanism, the benefits associated with incremental sales would be lost – which is contrary to the Commission's stated purpose. He also testified that Vectren South's proposal to recover lost margins over the life of the measure is reasonable because it is directly related to the life of savings assumed in the benefit/cost analysis. He did not agree with Ms. Mims that the "Pancake Effect" warranted limiting lost revenues because the lost margins simply reflected a history of successful EE and DSM programs that produce significant savings each year. Mr. Sears testified that the average life of the weighted program savings in the Plan is 6.6 years with 31% of the program savings having an average life of 3 years or less for the residential sector; an average life of the weighted program savings of 10.9 years for the commercial sector and 8.5 years for the overall portfolio.

He also disagreed with Mr. Rutter's contention that the Plan should be considered unreasonable because it does not pass the RIM test. Mr. Sears testified that relying exclusively on the RIM test was never intended by the Commission or the General Assembly, and that instead, the application of several tests provides a more comprehensive analysis of the cost effectiveness of programs. He referenced legislative history that supported his conclusions.

Mr. Sears responded to Ms. Paronish's testimony that Vectren South did not ask for lost revenues or shareholder incentives associated with the CVR program by testifying that the Company proposed to exclude CVR from only the incentive mechanism in the DSMA, not the lost revenue component. He identified passages in his Direct Testimony where he explained Vectren South's request related to excluding CVR from the performance incentive component of the DSMA, but not the lost revenue component.

In response to Ms. Mim's claim that the Plan should implement EE programs at levels recommended in the MPS, Mr. Sears testified that the goals established under Section 10 should be based on needs shown in the IRP, not what might be achieved, and that the IRP is the process to determine how much DSM is appropriate. Mr. Sears also testified that Ms. Mims' analysis demonstrating that the Plan is unreasonable is misleading because she uses total retail sales as the basis of calculating the savings to arrive at a much lower percentage, when the appropriate way is to compare the Plan savings goals with the impact of reduced retail sales eligible to participate in the program because of large customer opt-out. In addition, Mr. Sears disagreed with Mr. Rutter's contention that Vectren South's plan is not reasonable because it does not

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

include comments by customers and other stakeholders concerning the Plan, as Vectren South is not required to offer this as part of its case-in-chief.

Karl A. McDermott, PH.D., Ameren Professor of Business and Government at the University of Illinois-Springfield, responded to criticisms from Mr. Rutter and Ms. Mims. Mr. McDermott disagrees with Mr. Rutter's claim that the Company's proposed shareholder incentives are unnecessary and unreasonable and the claim made by both Mr. Rutter and Ms. Mims that the company's proposal for lost revenues is unreasonable. Mr. McDermott testified that the approach to lost revenues should not be predicated on overall recovery of allowed revenues, and that the OUCC's new policy of offsetting lost revenue from energy efficiency with new customer growth simply ignores the predicates for volumetric rate design, utility cost management and the utility's ability to fund new infrastructure needed to serve growth. He also testified in disagreement with Mr. Rutter's claims that any sales increase "flows directly to the bottom line resulting in the utility achieving a greater than authorized rate of return". Mr. McDermott testified that Mr. Rutter's claim is not true without making the unrealistic assumption that the cost structure does not change over time. He testified that fixed costs are called fixed costs not because such costs do not change, but because these costs are unrelated to output. Mr. McDermott also testified that the proposals of both Mr. Rutter and Ms. Mims would serve to reinstate, in full or in part, the disincentive inherent in the regulatory business model to promote energy efficiency and that the trend suggests that decoupling is the wave of the future.

Mr. Stevie responded to recommendations made by Ms. Paronish, Mr. Rutter, and Ms. Mims. Mr. Stevie responded to Ms. Paronish's concerns about the detail and transparency for benefit cost analyses, noting the language of SEA 412 does not require such information. He further explained that utilities have not historically submitted this information as part of their cases-in-chief, and that Vectren South has had programs approved multiple times without ever including this information in its case-in-chief. In addition, Mr. Stevie points out that the information sought by Ms. Paronish was provided in response to a data request.

Mr. Stevie responded to Mr. Rutter's contentions that Vectren South does not have a disincentive to implement DSM programs by explaining that Mr. Rutter's analysis is based upon several incorrect assumptions and a misapplication of the data from the Company's filing. For example, he explained that Mr. Rutter incorrectly assumes that the net benefit estimated by the UCT/PACT analysis represents cash earnings to the Company when they are actually the present value of future reductions in revenue requirements. He explained that the net benefits represent the savings that accrue to rate payers over the life of the measures being installed. He testified that if one were to accept Mr. Rutter's approach, the only component that could be added to net operating income is the utility incentive amount, and using Mr. Rutter's figures from ETR Attachment 2, the annual return would rise from 7.29% to 7.32% - an increase in return so small that it does not remove the DSM disincentive.

Mr. Stevie also responded to Mr. Rutter's contention that Vectren South left out most of the lost revenues from its analysis, and that the Company is actually seeking recovery of \$38,969,652 over the period 2016 through 2017 and that only 43% of the cost recovery is for program costs – the rest is for recovery of lost revenues and the utility incentive. He explained that Mr. Rutter's estimate of the total lost revenues overlooks that this revenue is the present

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

value for 25 years of lost revenues, and that the \$38,969,652 value created by Mr. Rutter is not the revenue request in this case for the period 2016-2017. He also explained that Mr. Rutter's claim that program costs only represent 43% of the Company's total revenue recovery request for the 2016-2017 period contains a mismatch between values that cover the two year period and a value that represents 25 years, and that the correct percentage is 80.5%.

Mr. Stevie responded to Ms. Mims' contention that the Company should increase the level of energy efficiency impacts it plans to achieve to be in alignment with its Market Potential Action Plan. Mr. Stevie countered that a market potential study will always be an over-estimate because the studies employ a static estimate of avoided costs in assessing program effectiveness. He further explained that the level of avoided costs decline as more and more energy efficiency impacts are achieved, although this statement contradicted Mr. Stevie's statement in Direct that "Avoided costs for energy efficiency tend to increase with increasing market prices and/or more extreme weather conditions due to the covariance between load and costs/prices." Petitioner's Exhibit No. 3, page 6, lines 15-17. Mr. Stevie testified that findings on cost-effectiveness of energy efficiency impacts within an IRP analysis should dictate the level of cost-effective energy efficiency since the IRP model handles dynamic changes in the avoided costs. Mr. Stevie also disagreed with Ms. Mims' contention that most states limit recovery of lost revenues to one to three years based on an ACEEE report, because the report does not claim that legislation or commission rules dictate shorter recovery periods. Mr. Stevie testified that he is familiar with the practices in several of the states reviewed in the report and that the results in those states were based on negotiated settlement agreements. Mr. Stevie concluded that it is inappropriate to rely on the results of settlement agreements as a basis for making a decision in an unrelated proceeding. Mr. Stevie also responded to Ms. Mims' contention that no incentive be allowed if Vectren South is allowed to recover lost revenues for the life of the measure. Mr. Stevie responded that incentives and lost revenue recovery serve very different purposes. He explained that lost revenue recovery is necessary to remove the disincentive an electricity supplier faces to promoting energy efficiency and that incentives are necessary to encourage electricity suppliers to pursue all cost-effective energy efficiency and DR impacts.

Mr. Huber responded to issues raised by Ms. Paronish and Ms. Mims. He testified that Vectren South made modifications to the Plan based on program design changes recommended by the OSB prior to filing the Plan for approval, and that the issues now being raised by Ms. Paronish and Ms. Mims were not raised prior to the Company filing its Plan. Mr. Huber disagreed with Ms. Paronish that health and safety costs are not an EE measure that should be borne by the Company's shareholders. He explained that health and safety improvements are indirect costs incurred by the Company in pursuing EE measures and therefore should be treated as a recoverable program cost. Mr. Huber also disagrees with Ms. Paronish's claim Smart Thermostats should be removed from the Plan because they are DR. He explained that while the Smart Thermostat program has a DR component, it includes both EE and DR, and should remain in the Plan. Mr. Huber does agree with the OUCC's recommendation to voluntarily withdraw the SEM component of the C&I Custom program from the Plan, He indicated the funds would continue to be available for C&I Custom projects that arise through the ordinary course of business. Mr. Huber disagreed with Ms. Mims' recommendation to add a non-residential school audit direct install program to the Plan. He explained that Vectren South's decision to not include this program was primarily based upon lack of participation by the local school systems in 2012-2014. Mr. Huber also addressed Ms. Mims' contention that it was not prudent for

Vectren South to use 2013 data in the formation of its Plan. Mr. Huber explained that development of the Plan began in late 2014 and was not finalized until May 2015. He further explained that in the development of the Operating Plan for 2016, the Company will utilize the final EM&V results from 2014 where available.

Mr. Swiz responded to recommendations made by Mr. Rutter and Ms. Thacker. Mr. Swiz disagreed with Mr. Rutter's analysis that purportedly demonstrated Vectren South faced no disincentive to pursue DSM. He noted that Mr. Rutter double-counted lost revenues in his analysis. Mr. Swiz also testified that Mr. Rutter's use of benefit test derived benefits as an implied adder is flawed, as those benefits represent costs that the utility will not have to incur in the future to meet demand. Mr. Swiz also testified that Mr. Rutter's calculation ignores any other factors that impact the recovery of fixed costs from customers. Mr. Swiz states in his testimony that the lost revenues the Company is seeking to recover do not include the effect of the other factors impacting fixed cost recovery.

Mr. Swiz also responded to Mr. Rutter's assertion that the information provided by Vectren South is insufficient for the Commission to conclude the 2016 – 2017 Plan meets the criteria in Section 10(j)(7). Mr. Swiz testified that SEA 412 does not specify how a utility should prepare and present the analysis of long term and short term effects of a plan in order to be sufficient, and that data presented by Vectren South through witness testimony and details supplied within the Company's annual DSMA filing under Cause No. 43405 (DSMA 13) sufficiently satisfies the statutory requirement.

Mr. Swiz also testified that he agrees with the recommendations made by Ms. Thacker that the proposed WACC applied to the Company's CVR program be adjusted to a current level with the return on equity rate fixed at the level authorized in the Company's last base rate case.

## **7. Discussion and Commission Findings.**

Ind. Code § 8-1-8.5-10(h) states that beginning not later than calendar year 2017, and not less than one (1) time every three (3) years, an electricity supplier shall petition the commission for approval of a plan. Ind. Code § 8-1-8.5-10(f) defines a "plan" as (1) energy efficiency goals; (2) energy efficiency programs to achieve the energy efficiency goals; (3) program budgets and program costs; and (4) evaluation, measurement, and verification procedures that must include independent evaluation, measurement, and verification.

Before we may begin our review as to whether or not Vectren's plan could receive a determination of overall reasonableness under Section 10(j), we must first evaluate whether Vectren's plan meets the statutory criteria laid out in Section 10(j). Vectren's plan must include (1) energy efficiency goals that are (a) reasonably achievable, (b) consistent with Vectren's most recently filed IRP, and (c) designed to achieve an optimal balance of energy resources in Vectren's service territory; (2) energy efficiency programs to achieve the energy efficiency goals that are (a) sponsored by an electricity supplier and (b) designed to implement energy efficiency improvements; (3) program budgets and program costs which include (a) direct and indirect costs of energy efficiency programs, (b) costs associated with the EM&V of program results, and (c) recovery of lost revenues and performance incentives, and (4) EM&V procedures that involve an independent EM&V. We discuss each of these below.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

(1) Energy Efficiency Goals. In order to meet the definition of "energy efficiency" goals as contemplated by Section 10(h), Vectren must show that its energy efficiency goals meet the criteria of all energy efficiency produced by cost effective plans that are (a) reasonably achievable, (b) consistent with Vectren's most recently filed IRP, and (c) designed to achieve an optimal balance of resources in Vectren's service territory. Vectren's plan fails to meet the definition of "energy efficiency goals" in several respects.

Vectren's 2014 IRP modeled three "portfolio themes": (1) Portfolio A or Base which is aimed at serving customers with existing resources & DSM; (2) Portfolio B or FB Culley 2 Unit Retirement Scenario; and (3) Portfolio C or the Renewable Portfolio Standard Scenario.<sup>19</sup> In his June 10, 2015 Report on Vectren's 2014 IRP, Electricity Director Dr. Brad Borum repeated his concerns raised in the Draft Report that, "[T]he IRP document does not offer a clear narrative to articulate how Vectren determined the three basic portfolio themes."<sup>20</sup>

Portfolio A/Base Theme

Vectren states in its 2014 IRP that for the Growth Scenario 1, which is its base set of assumptions, "no additional constraints were introduced that would prevent the planning model from selecting the set of future supply-side or demand-side resources that resulted in the lower NPV." However, as explained below, CAC Cross Exhibits 6C, 7C, 8C, and 9C directly contravene that statement.

CAC-CX-6C contains the PROVIEW Input Summary report for Portfolio A under Growth Scenario 1. As the submodule of Strategist that develops the expansion plan, many of the constraints on resource choices available to the model would be contained here. Page 7 of this confidential report shows that the First Year Available for Alternative Source Index # 28 – RFB2 or the retirement of FB Culley Unit 2 is [REDACTED], meaning that the option to retire Culley Unit 2 could not be chosen at all during the period analyzed, 2015 – 2034.

Also shown on page 7 of CAC-CX-6C are Alternative Source Indices #2 - EEB1, #3 – EEB2, #4 – EEB3, and #5 – EEB4, i.e. Energy Efficiency Block 1, Energy Efficiency Block 2, Energy Efficiency Block 3, and Energy Efficiency Block 4, representing blocks of energy efficiency that are being modeled. They are known as Load Groups as indicated by the Alternative Type designation of [REDACTED]. The First Years Available for the model to choose Energy Efficiency Blocks 1, 2, 3, and 4 are [REDACTED], respectively. This means that technically Strategist could have chosen EEB2, EEB3, or EEB4 at some point during the IRP analysis period with only EEB3 being available for the DSM planning period at issue in this proceeding, i.e. 2016 - 2017. However, as CAC-CX- 7C at page 24 shows, each of these load groups is completely missing from the Load Forecast Adjustment (LFA) submodule.<sup>21</sup> This

<sup>19</sup> Page 193 of the 2014 IRP (Petitioner's Exhibit 1, Attachment RCS-2).

<sup>20</sup> Page 40 of the Final Report.

<sup>21</sup> The LFA submodule in Strategist contains the load forecast, which the expansion plan must be built to serve, as well as data such as energy savings for load groups (generally intended to represent energy efficiency or demand response) that may be available for selection by PROVIEW.

CAC’s Exceptions to Vectren’s Proposed Order  
Redacted, Redline Version

means that no efficiency savings would have been attributed to these EE Blocks even if the PROVIEW submodule had chosen them.

Renewable Portfolio Standard/Theme

CAC-CX-8C shows the “Renewable Portfolio Standard”<sup>22</sup> theme’s input data for the Load Forecast Adjustment submodule. Load Groups 2, 3, 4, and 5 (which correspond to the same Alternative Source Index numbers in the Proview Input Summary Report (CAC-CX-9C)) are shown starting on page 24. However, Load Groups 2 and 5 (EEBLOCK1 and EEBLOCK4) do not contain any data at any point during the analysis period signifying that no savings are associated with these load groups. And Load Group 3 has no savings until [REDACTED], which is represented by the field Energy Sales on page 24 of CAC-CX-8C. Similarly, Load Group 4 has no savings until [REDACTED]. Because the field Penetration Factor on page 24 of CAC-CX-8C is set to [REDACTED] for these load groups, Energy Sales and Peak are treated as negative rather than positive load.

Turning to CAC-CX-9C, the PROVIEW Input Summary report for Portfolio C, at page 7, the only two load groups that provide energy savings, Load Groups 3 and 4 (Alternatives EEB2 and EEB3), have First Years Available of [REDACTED] and [REDACTED], respectively. Page 11 of CAC-CX-9C shows that the Minimum Number to Add, i.e. the minimum amount of EE required, was set to [REDACTED] for each of these two alternatives in [REDACTED] and [REDACTED]. This means that Strategist was forced to take these load groups in those two years. These energy savings were forced in along with supply-side additions that Vectren acknowledges were driven by “renewable energy constraints unique to the renewable portfolio scenario”.<sup>23</sup> Those renewable energy constraints are set forth by the field Minimum Renewable Energy (page 2 of CAC-CX-9C) as follows but do not mimic any renewable portfolio standard of which we are aware:

<u>Year</u>	<u>Minimum Renewable Energy</u>
<u>2015</u>	[REDACTED]
<u>2016</u>	[REDACTED]
<u>2017</u>	[REDACTED]
<u>2018</u>	[REDACTED]
<u>2019</u>	[REDACTED]
<u>2020</u>	[REDACTED]
<u>2021</u>	[REDACTED]
<u>2022</u>	[REDACTED]
<u>2023</u>	[REDACTED]
<u>2024</u>	[REDACTED]
<u>2025</u>	[REDACTED]
<u>2026</u>	[REDACTED]
<u>2027</u>	[REDACTED]
<u>2028</u>	[REDACTED]
<u>2029</u>	[REDACTED]

<sup>22</sup> Under Growth Scenario 1 assumptions, as well.

<sup>23</sup> Page 193 of the 2014 IRP (Petitioner’s Exhibit 1, Attachment RCS-2).

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

<u>2030</u>		
<u>2031</u>		
<u>2032</u>		
<u>2033</u>		
<u>2034</u>		

Finally, we question whether Vectren's 2014 IRP realistically provides an optimal balance of resources simply because the Reserve Margin percentages of both plans, as shown in CAC-CX-3C and -5C, each beginning at page 2, is more than [REDACTED] the Minimum Reserve Margin requirement (shown at page 2 of CAC-CX-6C and -9C, respectively) in every year of the analysis.

Given these facts, we find that Vectren cannot demonstrate that its IRP process is designed to achieve an optimal balance of resources despite its claims to the contrary. Even setting aside all the constraints placed on the modeling, because no energy efficiency was allowed into Strategist until [REDACTED] at the earliest, Vectren cannot demonstrate that its IRP has any relationship to its proposed savings goals for 2016 and 2017 or that its plan is designed to achieve an optimal balance of energy resources. Vectren should be prepared to correct its IRP modeling and analysis based on the evidence presented in this case and based on the Director's Draft and Final Report on Vectren's IRP before it refiles with its revised plan.

We also note that Vectren's proposed goals are significantly lower than the prior Phase II goals, even if you subtract the savings from customers that have opted out and consider any changes in program implementation. In this proceeding, Vectren is proposing to offer ten residential programs and six non-residential programs, saving between 36-38 gigawatt-hours each year. Vectren also proposes nearly 8,300 kilowatts in peak reduction in 2016; however, the 2017 total drops down to 7,100 kilowatts in estimated peak demand reduction (Petitioner's Verified Petition, page 3). Yet, Vectren's 2013 Market Potential Study Recommended Action Plan ("2013 Action Plan") and the former Phase II goal are much greater than Vectren's proposed goal in this proceeding:

**Vectren Proposed Efficiency Goals and Former EERS**

	<u>2016</u>		<u>2017</u>	
	<u>GWh</u>	<u>% of sales</u>	<u>GWh</u>	<u>% of sales</u>
<b><u>Proposed Goal</u></b> <sup>24</sup>	<u>36</u>	<u>0.65%</u>	<u>38</u>	<u>0.67%</u>
<b><u>Action Plan</u></b> <sup>25</sup>	<u>54</u>	<u>1.06%</u>	<u>60</u>	<u>1.15%</u>
<b><u>Former State Target</u></b> <sup>26</sup>	<u>84</u>	<u>1.5%</u>	<u>96</u>	<u>1.7%</u>

<sup>24</sup> Petitioner's Exhibit No. 2 (Huber) page 23; Attachment MPH-2, page 21, Table 6-1. Savings as percent of annual sales.

<sup>25</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 34, Table 8-3; Attachment MPH-2, page 21, Table 6-1. Savings as percent of annual sales.

The 2013 Action Plan identified seventeen cost effective programs, as defined by the UCT, TRC, and participant cost tests<sup>27</sup> and found that Vectren can achieve net energy savings of 54-73 GWh annually from 2015-2019.<sup>28</sup> These are much higher, reasonably achievable savings than what the Company is proposing in this application. Although the 2013 Action Plan did not take into account non-residential customers' ability to opt-out when evaluating Vectren's efficiency potential, all residential savings identified are still valid and yet Vectren does not propose to capture those savings.

**Recommended 2016-2017 Residential Goal (GWh)**

	<b><u>Action Plan</u></b>	<b><u>Proposed Goal</u></b>
<b><u>Res Lighting</u></b>	<b><u>20.4</u></b>	<b><u>13.4</u></b>
<b><u>Res Efficient Products</u></b>	<b><u>8.4</u></b>	<b><u>2.2</u></b>
<b><u>Res Income Qualified +Income Qualified Plus</u></b>	<b><u>3.6</u></b>	<b><u>2.6</u></b>
<b><u>Res New Construction</u></b>	<b><u>0.4</u></b>	<b><u>0.3</u></b>
<b><u>Multifamily Direct Install</u></b>	<b><u>0.5</u></b>	<b><u>0.8</u></b>
<b><u>Home Energy Assessments</u></b>	<b><u>6.0</u></b>	<b><u>3.9</u></b>
<b><u>Whole Home</u></b>	<b><u>4.2</u></b>	<b><u>0</u></b>
<b><u>Res School Kit</u></b>	<b><u>2.1</u></b>	<b><u>1.4</u></b>
<b><u>Appliance Recycling</u></b>	<b><u>1.6</u></b>	<b><u>2.0</u></b>
<b><u>Res Behavioral</u></b>	<b><u>10.4</u></b>	<b><u>11.8</u></b>
<b><u>TOTAL</u></b>	<b><u>57.5</u></b>	<b><u>39.2</u></b>
<b><u>Recommended Residential Goal (sum of italicized, bolded numbers)</u></b>	<b><u>62.8</u></b>	

For Commercial and Industrial programs and savings identified by the 2013 Action Plan, CAC Witness Mims made adjustments to individual program savings levels to programs that could have customers over 1 MW and thus have the ability to opt out and found that Vectren's savings fall extremely short here too.

**Recommended 2016-2017 Commercial & Industrial Goal (GWh)<sup>29</sup>**

	<b><u>Action Plan</u></b>	<b><u>Proposed</u></b>	<b><u>Opt out Adjustment<sup>30</sup> (25% of MPS)</u></b>

<sup>26</sup> Petitioner's Exhibit No. 2 (Huber) Attachment MPH-2, page 21, Table 6-1; Attachment MPH-2, page 30, Table 8-2.

<sup>27</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 35, Table 8-4.

<sup>28</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-2, page 36.

<sup>29</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 12.



CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

<b><u>C&amp;I Prescriptive</u></b>	<u>36.5</u>	<b><u>13.8</u></b>	<u>N/A</u>
<b><u>C&amp;I Custom</u></b>	<u>37.3</u>	<u>5.5</u>	<b><u>9.3</u></b>
<b><u>Commercial Schools</u></b>	<b><u>2.1</u></b>	<u>0</u>	<u>N/A</u>
<b><u>Strategic Energy Management</u></b>	<u>4.4</u>	<u>0</u>	<b><u>1.1</u></b>
<b><u>C&amp;I New Construction</u></b>	<b><u>3.1</u></b>	<u>1.0</u>	<u>N/A</u>
<b><u>Small Business Direct Install</u></b>	<u>4.4</u>	<b><u>12.0</u></b>	<u>N/A</u>
<b><u>Multi- Family EE Retrofit</u></b>	<u>0</u>	<b><u>0.2</u></b>	<u>N/A</u>
<b><u>Res Thermostat DR</u></b>	<u>0</u>	<b><u>0.9</u></b>	<u>N/A</u>
<b><u>Res CVR</u></b>	<u>0</u>	<b><u>1.5</u></b>	<u>N/A</u>
<b><u>C&amp;I CVR</u></b>	<u>0</u>	<b><u>0.9</u></b>	<u>N/A</u>
<b><u>Recommended C&amp;I Goal (sum of italicized, bolded numbers)</u></b>	<u>43.1</u>		

Thus, Vectren's 2013 Action Plan modified for opt out would result in Vectren achieving an additional 15-16 GWh of cost-effective savings in 2016 and 2017, which would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost effectively.

Adopting the Action Plan modified for opt-out (as represented with the italicized, bolded numbers in Table 3 and Table 4) would result in Vectren achieving an additional 15-16 GWh of cost-effective savings in 2016 and 2017 as shown in Table 5 below. This would result in Vectren reasonably achieving savings of 0.91% - 0.95% of 2014 electricity sales each year, cost-effectively.

**Vectren Action Plan Adjusted for Opt Out (2016-2017)**

	<b><u>2016</u></b>		<b><u>2017</u></b>	
	<b><u>GWh</u></b>	<b><u>% of Sales</u></b>	<b><u>GWh</u></b>	<b><u>% of Sales</u></b>
<b><u>Proposed Goal<sup>31</sup></u></b>	<u>36.3</u>	<u>0.65%</u>	<u>37.8</u>	<u>0.67%</u>
<b><u>Action Plan, adjusted for opt-out</u></b>	<u>51.5</u>	<u>0.91%</u>	<u>54.1</u>	<u>0.95%</u>
<b><u>Difference</u></b>	<u>15.2</u>		<u>16.3</u>	

<sup>30</sup> Opt out adjustment is the greater of: (1) 25% of the Action Plan or (2) the Proposed Goal. Currently, 75% of eligible load has opted out of Vectren's DSM programs. Cause No. 44645, Vectren Response to CAC Set 2.5. (attached as Exhibit NM-4); see also Petitioner's Exhibit No. 2 (Huber), p. 24, lines 13-14, which says approximately 76% of eligible load has opted-out.

<sup>31</sup> Petitioner's Exhibit No. 2 (Huber) page 23; Attachment MPH-2, p. 21, Table 6-1. Savings as percent of annual sales.

The Commission would also note that Vectren witness Stevie's argument is unconvincing that a market potential study will "always" be an over-estimate of savings because the studies employ a static estimate of avoided costs in assessing program effectiveness. Petitioner's Exhibit 9, page 16, lines 6-9. The Commission warns utilities to not make such gross overgeneralizations. Market potential studies could underestimate savings by failing to evaluate certain customer groups like opt-out customers, by excluding measures like retro-commissioning, and by failing to account for improving efficiency measures in the future. Again, Vectren's argument here is very unconvincing.

In conclusion, based upon the evidence of record, the Commission finds that Vectren's proposed energy efficiency goals set forth herein are less than what is reasonably achievable, inconsistent with its own IRP let alone one that achieves an optimal balance of energy resources, and thus is not approved. Although the Commission does not need to go on from here, we will do so to help inform Vectren's revised plan and the public.

(2) Energy Efficiency Programs. Vectren is proposing 10 residential programs and 6 commercial and industrial programs in this filing. However, Vectren's 2013 Action Plan identified 17 efficiency programs, 11 of which are residential programs. It would be reasonable to maintain Vectren's savings levels for all residential programs and non-residential programs from which customers cannot opt out.

The evidence of record demonstrates that Vectren can cost-effectively expand its energy efficiency savings and program offerings. Based on the expert opinion of CAC Witness Mims, she testified that Vectren could further increase savings by adopting an upstream manufactured home program and an enhanced whole home program for residential customers, as well as by modifying the Energizing Indiana Third Party Administrator's school audit direct install program and offering a self-direct program. We agree that given the amount of Indiana's housing stock that is comprised of manufactured homes and because the use of manufactured homes as affordable housing is prevalent among low- and fixed-income households, an upstream manufactured home program would be very beneficial for Vectren's ratepayers. As for the enhanced whole home program, a "Whole Home Plus" program was included as part of Vectren's 2013 Action Plan and was estimated to cost effectively save approximately 1.5 GWh a year in 2016-2017, in addition to savings from the Home Energy Assessment program. Although Vectren informed CAC that this program was incorporated into the Home Energy Assessment programs, it is not transparent what aspects of the program were included given the lack of detail in the 2013 Action Plan. Further, the 2013 Action Plan found that Vectren could save 2 GWh a year with its Whole Home Plus program and an additional 3 GWh a year with its Home Energy Assessment program. That would total 5 GWh from 2016-2017, rather than 3.9 GWh as proposed by Vectren. Regarding the non-residential school audit direct install program, over 425 net MWh were achieved by Vectren from that program in 2014. Even though Vectren noted to CAC that the school corporation that serves the majority of schools in Vectren's service territory already have energy service companies that they use, Vectren should identify a program that will leverage those companies' efforts and deepen savings to go beyond what those companies are achieving.

Vectren mentioned the opt-out of eligible commercial and industrial customers as a reason for not being able to achieve as many savings with this filing. Yet, CAC recommended several ways in which Vectren could bring back or mitigate the impact of the opt-out customers leaving. CAC Witness Mims explained that additional savings could be achieved by C&I

customers through a self-direct program. We are reminded of our order in Cause No. 44310, which said:

Based on the significant change in the statutory landscape and the resulting impact on the manner in which DSM programs are designed and implemented from when this proceeding was initiated in 2013 to how it will be implemented under SEA 412, we find that any further consideration of a structured self-direct DSM program for large customers should occur when an electricity supplier submits its plan for Commission approval.

CAC Administrative Notice Exhibit 2, page 2. The Commission finds that Vectren should address the addition of a self-direct program for its C&I customers over 1 MW in its revised plan. Vectren is further advised that the Commission agrees with CAC's expert testimony in this cause that a self-direct program should require that: (1) projects should generate capacity savings and not just time-shifting of energy consumption; (2) projects started prior to being approved as a self-direct project should not be eligible for funding or credit; (3) self-direct customers should be required to share its plans with the administrator or other parties interested in implementing similar projects, subject to scrubbing the plans for confidentiality; and (4) self-direct EM&V should be done by a third party and occur on a comparable schedule to Vectren's EM&V schedule and be required to use the same standards for data collection as Vectren's efficiency programs.

75% of Vectren's eligible load and almost half of the eligible load for both NIPSCO and DEI have opted out of demand side management programs. In our order in Cause No. 44441, Phase 2, we found that the following issues raised by CAC "may be appropriate for consideration in other Commission proceedings, such as in a utility's IRP process for stakeholder input or an individual utility's DSMA tracker or program approval proceeding":

- Issue 1—the impact on regulated electric utilities and customers of a utility resource portfolio that does not include industrial energy efficiency resources;
- Issue 2—whether industrial customers that opt out should be considered "free riders" and continue paying the fixed costs of DSM programs;
- Issue 4—whether and how energy and demand savings from industrial customers that opt out can be used by regulated electric utilities in the IRP process;
- Issue 6—whether the Commission should adopt rules or guidelines to assist customers in complying with the opt out provision in SEA 340 or to require opt out customers to provide EM&V reports concerning the customers' own energy efficiency measures;
- Issue 7—whether an oversight board should be established to monitor and evaluate compliance with SEA 340;
- Issue 8—determination of a mechanism to be used by opt out customers to pay for the regulated electric utilities' administrative expenses related to implementing the opt out provisions; and
- Issue 9—establishment of criteria for determining "reasonable and cost effective" DSM programs and the role of various oversight boards in developing DSM programs.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Cause No. 44441, Phase II Order (CAC Administrative Notice Exhibit 3). We will consider some of these issues here.

CAC Witness Mims noted that Vectren has not taken any targeted action to bring industrial customers back into its programs, which the Commissions finds here to be unreasonable. In response to CAC's inquiry about what actions Vectren has taken, Vectren discussed a generic marketing campaign that is not targeted at industrial customers. CAC Witness Mims also noted that upon review of Vectren's opt out letter, the Company should modify the language to focus on the benefits the customer is declining when it opts out of efficiency programs. Currently, the language focuses on the ease with which the customer can opt out of the program.

We agree that Vectren should work with its oversight board to add another page to the letter with a case study of a successful energy efficiency program likely applicable to the customer as an example of the upside of the energy efficiency programs. We also agree that Vectren should consider additional programs that will entice opt out customers back into participation in the programs, such as a program geared towards plastic, chemical, and aluminum manufacturing; food and pharmaceutical production; oil drilling; and the case and dye/fabrication and automotive industries. Vectren should report back to the Commission on its progress with these items in its next DSMA filing.

Based upon the evidence of record, the Commission finds that Vectren's proposed energy efficiency programs are unreasonable. The Commission directs Vectren to address the Commission's findings here in its revised plan that it will submit within a reasonable time period.

(3) Program Budgets and Program Costs. Ind. Code § 8-1-8.5-10(h) provides for Vectren to petition the Commission for approval of a plan that includes both program budgets and program costs.

a. Program Budget. Program budget is an undefined term in Ind. Code § 8-1-8.5-10. In a sense, the Commission addressed our concerns with Vectren's program budget in our discussion of Vectren's proposed energy efficiency goals and the inadequate amount of savings offered by Vectren in this filing.

We will also note here the concerns raised by CAC about Vectren's significant allocation of its budget to behavioral programs and Vectren's CVR program. This is unreasonable, and Vectren should work with its oversight board to find a better balance and incorporate that into its revised plan that it will submit within a reasonable time period.

Because Vectren's plan is rejected, we need not consider program budget any more than what is already discussed *supra*.

b. Program Costs. I.C. § 8-1-8.5-10(g) defines program costs to include (1) direct and indirect costs of energy efficiency programs; (2) costs associated with the evaluation, measurement, and verification of program results; and (3) other recoveries or incentives approved by the Commission, including lost revenues and financial incentives approved by the Commission under § 8-1-8.5-10(o).

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Vectren states in Petitioner's Exhibit No. 2, Attachment MPH-1, page 13 that their EM&V cost is 5% of the program budget, but CAC presented evidence that it is 5.9-6.4%. Vectren's EM&V costs have been trending upwards since 2012 as noted in Table 16 of CAC Exhibit1 on page 54. While a 0.9-1.4% cost differential may seem inconsequential, Vectren's projected EM&V costs are over \$1.1 million higher than if they were 5% of costs in the 2015-2017 time period. The Indiana Evaluation Framework is a ratepayer-funded, statewide document that was filed with the Commission in Cause No. 42693-S1 on October 9, 2012 by the Demand Side Management Coordination Committee's EM&V Subcommittee. CAC Administrative Notice Exhibit 4, page 8.

Vectren shall work with its oversight board to get the EM&V costs down to 5% of the program budget and report back to the Commission on this matter when Vectren refiles.

c. Lost revenues. Lost revenues are within the definition of "program costs" as provided for in I.C. § 8-1-8.5-10(g). Ind. Code § 8-1-8.5-10(e) defines lost revenues as "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." The Commission's DSM Rules define lost revenues as "the revenue lost less the variable operating and maintenance costs saved as a result of not generating electricity because of a utility sponsored DSM program." 170 IAC 4-8-1(u).<sup>32</sup> Only after the utility creates a "plan" that is compliant with Section (h) of I.C. § 8-1-8.5-10 may the Commission then consider the "overall reasonableness of the plan." Section (j)(8) states that the Commission must consider the reasonableness of the plan based on many matters, one of which is the lost revenues and financial incentives associated with the plan and sought to be recovered or received by the electricity supplier. If the Commission determines the plan is overall reasonable, which is not the case here, Section (o) says that the Commission shall allow the electricity supplier to recover or receive only *reasonable* lost revenues. As discussed *supra*, Vectren does not meet the statutory requirements in Section (c) or (h), but the Commission will still provide reasoning for its rejection of Vectren's proposal for lost revenue recovery in its discussion of lost revenues under the Section (j) overall reasonableness analysis *infra*.

d. Performance Incentives. Financial incentives (i.e. performance incentive, as defined by industry) are within the definition of "program costs" as defined by the State Legislature in Ind. Code § 8-1-8.5-10(g). Ind. Code § 8-1-8.5-10 does not define financial or performance incentives like it does with lost revenues. The current Commission DSM Rules also do not specifically define financial or performance incentives except to say that a utility is allowed an opportunity for earnings from prudent investments (170 IAC 4-8-6) and that the Commission, when appropriate, may allow the utility an opportunity for a financial incentive to encourage participation in and promotion of a DSM program. 170 IAC 4-8-7.<sup>33</sup> Only after the utility creates a "plan" that is compliant with Section (h) of Ind. Code § 8-1-8.5-10 may the Commission then consider the reasonableness of the plan based on many matters, one of which is

---

<sup>32</sup> Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM # 15-06.

<sup>33</sup> Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM # 15-06.

the amount of lost revenues and financial incentives associated with the plan and sought to be recovered or received by the electricity supplier. If the Commission determines the plan is overall reasonable, which is not the case here, Section (o) says that the Commission shall allow the electricity supplier to recover or *reasonable* financial incentives that (a) encourage implementation of cost effective energy efficiency programs; or (b) eliminate or offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources. As discussed *supra*, Vectren does not meet the statutory requirements in Sections (c) or (h), but the Commission will still provide reasoning for its rejection of Vectren's specific proposal for financial or performance incentives recovery under the Section (j) overall reasonableness analysis *infra*.

e. *Independent Evaluation, Measurement, and Verification Procedures.* The mandate for independent EM&V is contained within both Ind. Code §§ 8-1-8.5-10(h) and (j)(4). 170 IAC 4-8-4 also discusses demand-side management program evaluation, although this rule is currently undergoing revisions in IURC RM # 15-06. Ind. Code § 8-1-8.5-10(h) states that the plan must include "evaluation, measurement, and verification procedures that must include independent evaluation, measurement, and verification." The Commission will discuss any of the distinct requirements of Ind. Code § 8-1-8.5-10(j)(4) *infra*.

Although Senate Bill 412 eliminated the statewide third party administration of energy efficiency programs, it did not eliminate any statewide maintenance of EM&V documents. In fact, it is the contrary. The State Legislature mandated that EM&V activities be independent, "including the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions." Ind. Code § 8-1-8.5-10(j)(4). It is unclear as to whether or not Vectren is using and committing to continue its use of the ratepayer-funded Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4). The Commission must insist on the maintenance of the statewide framework for EM&V. Without it, the independence of EM&V is threatened. Any inconsistencies between utility-specific frameworks leave consumers too at risk. These documents are ratepayer funded and even more important with the enactment of Section 111(d) of the Clean Air Act or the Clean Power Plan. Thus, we order Vectren to update us in its revised filing on its commitment to use this ratepayer funded document. We also order Vectren to involve its EM&V vendor in this update development to maintain the integrity and independence of the statewide framework.

We are also unclear on whether Vectren is committing to use the most recent ratepayer-funded Indiana Technical Resource Manual (also known as Technical Reference Manual), which was finalized on July 28, 2015. CAC Exhibit 1, Attachment NM-16. Although Vectren did not use it to support the creation of this plan, Vectren is ordered to use it in its next reconciliation and in its revised plan.

The Commission is also concerned about Vectren's limited use of its 2014 EM&V here. Over 35% of Vectren's program impacts came from the Residential Behavioral Savings and the C&I Audit and Custom Efficiency programs, neither of which Vectren appears to have used 2014 EM&V data to forecast lost revenues. Vectren did not provided the non-residential component of the data request presented in Attachment NM-15 to CAC Exhibit 1 for the Commission to state whether or not the C&I program used 2013 or 2014 EM&V. The Commission orders Vectren to use the most recent EM&V for both program design and for the forecast of lost revenues.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

Finally, as we addressed above in our discussion of program costs, the EM&V costs are above 5% of the overall program budget, which is directly contrary to the Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4). It is further concerning to the Commission that Vectren may be including this higher than permitted EM&V cost in the calculation of its performance incentive. Vectren is ordered to reduce its EM&V cost to 5 % or less of its portfolio costs.

Vectren's plan fails on this consideration and shall make these revisions when it files its revised plan with a reasonable time period.

f. **Conclusion.** Vectren's proposed plan is not in the public interest, because it fails to meet the requirements in Sections (c) and (h) of I.C. § 8-1-8.5-10. Based upon the evidence of record, the Commission finds that (1) Vectren's proposed energy efficiency goals set forth herein are less than what is reasonably achievable, inconsistent with an IRP that achieves an optimal balance of energy resources, and should not be approved; (2) Vectren's proposed energy efficiency programs are inadequate; (3) Vectren's program budgets are inadequate, and program costs are exorbitant when considering the inclusion of the excessive lost revenues and performance incentives; and (4) Vectren's evaluation, measurement, and verification procedures lack assurance of the continued use of the Indiana Evaluation Framework and the use of EM&V to inform the forecasting of lost revenues, which is especially important with the Clean Power Plan enactment. Although the Commission does not need to go on from here to do the Section 10(j) overall reasonableness analysis, we will do so to help inform Vectren's revised plan. The Commission has set forth the reasons why Vectren did not pass this initial threshold of Ind. Code § 8-1-8.5-10(h) so that Vectren can correct its plan in its revised filing within a reasonable time.

**(A) Ind. Code § 8-1-8.5-10(i) states that at the same time an electricity supplier petitions the commission under subsection (h), the electricity supplier shall (1) provide a copy of the petition and plan to the OUCC, and (2) post an electronic copy of the petition and plan on the electricity supplier's Internet web site.**

Vectren provided a copy of its petition, including the plan, to the OUCC at the same time Vectren petitioned the Commission under subsection (h). In addition, Vectren posted an electronic copy of the petition and plan on its Internet website.

**(B) Ind. Code § 8-1-8.5-10(j) sets out what the Commission shall consider in making a determination of the overall reasonableness of a plan as follows:**

**1. Projected changes in customer consumption of electricity resulting from the implementation of the plan.**

Vectren asserts that it has demonstrated energy savings resulting from the Plan in conjunction with its load forecast in its 2014 IRP enabling the Commission to consider projected changes in customer consumption of electricity resulting from the implementation of the Plan. (Petitioner's Proposed Order, page 19). This is insufficient. As noted above in our discussion of Vectren's failure to meet the definition of "plan" or "energy efficiency goal," Vectren's IRP is faulty and Vectren's plan is woefully inadequate in terms of capturing all reasonably achievable efficiency and in terms of achieving an optimal balance of energy resources within its service territory.

Furthermore, while Vectren has conducted more frequent rate cases than some of the other Indiana electric IOUs, it has not been almost five years since Vectren's last rate case in 2011.<sup>34</sup> And future rate case dates have not been established and there is no guarantee that the Company will return to the Commission in five, ten or even twenty years for its next rate case. This stale information provides the Commission with too distorted of a view to make this determination.

Finally, CAC Witness Mims noted the large amount of savings allocated to behavioral programs and Vectren's Conservation Voltage Reduction (CVR) program in Vectren's portfolio. Behavioral and CVR programs do not reduce energy consumption unless they are operated each year, thus the program requires annual funding and produces one year of savings. Given Indiana utilities' limited energy efficiency budgets, the Commission agrees that it is more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills. This is unreasonable.

Based on the evidence of record, we find that Vectren's projected changes in customer consumption of electricity resulting from the implementation of the plan are unreasonable and Vectren did not meet the threshold of this consideration.

**2. A cost and benefit analysis of the plan, including the likelihood of achieving the goals of energy efficiency programs included in the plan.**

The Commission understands the OUCC's preference for the use of the RIM test because of the changed definition of "program costs" in Ind. Code § 8-1-8.5-10; however, the Commission reiterates the importance of looking at all tests when making program selection decisions. No single test will be used as a trump card for resource selection. Furthermore, the Commission has addressed the unreasonableness of Vectren's lost revenue proposal *infra*, and hopes that this concern is now mitigated.

Tests like the UCT and the TRC are best used in DSM program planning (not in the IRP process) where the specifics of the program including its cost are better understood; however Vectren should continue to follow the Indiana Evaluation Framework and the California Standard Practice Manual for any cost and benefit analyses used in its filing and in future filings.

The likelihood of achieving the goals of energy efficiency programs was largely unaddressed by the Company. Rather, it became evident that there were many flaws in the ways in which Vectren determined its energy efficiency goals. The Commission finds it impossible to evaluate Vectren's likelihood of achieving the goals of the programs included in the plan.

<sup>34</sup> Cause No 43839 (2011).



Thus, the Commission finds Vectren's cost and benefit analysis of the plan, including likelihood of achieving the goals of the energy efficiency programs included, to be unreasonable.

**3. Whether the plan is consistent with (a) the state energy analysis developed by the Commission and (b) the electricity supplier's most recent long range integrated resource plan submitted to the Commission.**

Vectren claimed its plan is consistent with the State Utility Forecasting Group's analysis in the *Indiana Electricity Projections: The 2013 Forecast*, from the perspective of the impact of DSM programs on load projections, but admitting that the SUFG's 2013 Forecast's EE projections are higher than Vectren's energy efficiency goals. (Petitioner's Exhibit 1, page 27). This is irrelevant, however, because the SUFG Forecast is not the state energy analysis to be developed by the Commission as contemplated in I.C. § 8-1-8.5-3 or -10. This Commission analysis has not yet been conducted. Since CAC requested that the result of this proceeding be made subject to the outcome of the IURC RM #15-06, to the extent the Commission analysis calls for different results than what will be presented in Vectren's revised plan (if approved), then Vectren is hereby on notice that it will need to make a compliance filing. This compliance filing shall be submitted to the Commission in this Cause within ninety (90) days of the issuance of the final rules.

As we have discussed at length *supra*, Vectren's plan is based on a flawed IRP and is not even consistent with that flawed IRP. Even if Vectren's plan was consistent with its flawed IRP, the Commission cannot allow an interpretation of the statute which circumvents the statute's intent.

The Commission finds that Vectren's plan is not reasonable under these criteria.

**4. The inclusion and reasonableness of procedures to evaluate, measure, and verify the results of the energy efficiency programs included in the plan, including the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions.**

As noted above in our discussion of Section 10(h), the Commission has concerns about the independence of the EM&V procedures submitted by Vectren. The Commission finds that the EM&V procedures similarly fail a reasonableness review in Section 10(j). The Commission also notes that it would be unreasonable should Vectren attempt to not strictly follow the Indiana Evaluation Framework (CAC Administrative Notice Exhibit 4) and the recently updated Indiana Technical Resource Manual (a.k.a. Indiana Technical Reference Manual)(CAC Exhibit 1, Attachment NM-16). This is particularly significant when considering the requirement here in Section (j) regarding the alignment of the procedures with applicable environmental regulations, including federal regulations concerning credits for emission reductions. As Indiana faces federal regulations on carbon, the Commission must ensure, especially now with this direction from the

legislature, a consistent, statewide framework for EM&V and the utilities' proper use of EM&V results to put Indiana in a ready and able position to comply at the least cost.

It also does not seem prudent that Vectren designed its 2016-2017 plan with very limited use of its 2014 EM&V. Over 35% percent of Vectren's program impacts came from the Residential Behavioral Savings and the C&I Audit and Custom Efficiency programs, neither of which Vectren appears to have used 2014 EM&V data to forecast lost revenues.<sup>35</sup> In fact, based on the data provided, the 2014 EM&V was only used to calculate lost revenues for the one measure in the income qualified weatherization program.<sup>36</sup>

In addition, Vectren states that their EM&V cost is five percent of program budget,<sup>37</sup> but based on discovery responses, it is 5.9-6.4%. Further, it appears that Vectren's EM&V costs have been trending upwards since 2012. While a 0.9%-1.4% cost differential may seem inconsequential, Vectren's projected EM&V costs are over \$1.1 million higher than if they were 5% of costs in the 2015-2017 time period. It is unreasonable for Vectren not to align with the Indiana Evaluation Framework's instruction that "The evaluation cost in Indiana should be set at a level not to exceed approximately 5% of the portfolio budget without approval by the Subcommittee for any given cycle." CAC Administrative Notice Exhibit 4, page 8. Further, it is concerning that Vectren may be including this higher than permitted EM&V cost in the calculation of its performance incentive. This is unreasonable, and Vectren should work to reduce its EM&V cost to five percent, or less, of its portfolio costs.

Vectren's proposed EM&V procedures in this plan are unreasonable, especially when the Commission considers the need for Indiana utilities to prepare for federal regulations concerning emission reduction and the need for statewide consistency. Vectren can make these corrections in its revised plan.

**5. Any undue or unreasonable preference to any customer class resulting, or potentially resulting, from the implementation of an energy efficiency program or from the overall design of a plan.**

Vectren's plan lacks a self-direct program and meaningful effort to address the larger customers in its service territory to possibly retain or regain their participation in the energy efficiency programs. These customer classes are, at least potentially, being underserved by the overall design of Vectren's plan as presented here.

The Commission finds that Vectren's plan is unreasonable under this consideration.

<sup>35</sup> Vectren Response to CAC Data Request 1-11 (attached as Exhibit NM-15). Vectren did not provide the non residential component of this answer so I am unable to state whether or not the C&I program used 2013 or 2014 EM&V.

<sup>36</sup> Id. Vectren did not provide the non-residential component of this answer so I am unable to state whether or not the C&I program used 2013 or 2014 EM&V.

<sup>37</sup> Petitioner's Exhibit No. 2 (Huber), Attachment MPH-1, page 13.

**6. Comments provided by customers, customer representatives, the Office of Utility Consumer Counselor, and other stakeholders concerning the adequacy and reasonableness of the plan, including alternative or additional means to achieve energy efficiency in the electricity supplier's service territory.**

The comments received by all consumer parties in this case have shown that Vectren's plan is both inadequate and unreasonable. This includes consideration of comments regarding alternative or additional means to achieve energy efficiency in the electricity supplier's service territory. As discussed *supra*, Vectren's IRP is flawed, its plan is lacking adequate program budget, and its plan is lacking any firm commitment to do the many programs and measures suggested by CAC Witness Mims.

Many of the consumer comments submitted to the OUC also show a strong desire from Vectren's ratepayers for more robust programs and more savings overall, especially as a way to control bills. Public's Exhibit 4. Many also noted difficulty paying Vectren bills and their concern about lost revenues. Id.

The Commission finds that Vectren's plan is unreasonable under this consideration.

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

To address this requirement, Vectren points to the results of the RIM and Participant benefit cost tests. (Petitioner's Exhibit 3, pages 15-16). The Commission rejects, however, the use of the RIM test to satisfy this criterion as it does not tell the Commission anything about what bills would be without the plan; thus, it is not painting an accurate picture for this consideration. The Commission would note that more than 20 years ago, the Commission expressed concern with use of the RIM test. Specifically, the Commission found:

Strict adherence to the RIM test when evaluating DSM resource and using present worth revenue requirements (PWRR) to evaluate supply-side options, as was done by IPL, can also bias the resource planning process. This resource evaluation process would appear to be at odds with the Company's previously mentioned concern about having a level playing field when considering different resource options. The bias arises because difference cost effectiveness tests are being used to evaluate DSM and supply-side resources. The PWRR test for supply-side resource evaluation is the Utility test. Thus, the Company is using the RIM test to evaluate DSM options and the Utility test to evaluate supply-side options. Equity issues are being raised with respect to DSM resources without recognizing that similar equity concerns exist with supply-side resources. It must be recognized that all ratepayers pay for generation capacity additions even though the need for additional generation capacity might have been caused by particular subgroups

of ratepayers. For example, it can be argued that the need for additional capacity is caused by those customers with growing electricity consumption and new customers to the service territory. But regulation of electric utilities does not generally make a distinction between new customers, customers with increasing demand for electricity and customers with steady or even falling demand for electricity. Rather, it only recognizes increased consumption on a system-wide basis which causes the need for additional capacity.

*In Re the Matter of the Petition of Indianapolis Power & Light Company for a Certificate of Public Convenience and Necessity for the Construction by it of Facilities for the Generation of Electricity and Submission and Request for Approval of Plan to Meet Future Needs for Electricity Within Service Area and Request for Inclusion Thereof as Part of Commission's Analysis and Plan Pursuant to I.C. 8-1-8.5, Cause No. 39236, 1992 Ind. PUC LEXIS 297, 62-63 (Ind. PUC 1992) dated September 2, 1992.*

CAC Witness Mims also noted the large amount of savings allocated to Vectren's Conservation Voltage Reduction (CVR) program in Vectren's portfolio (and behavioral programs). Behavioral and CVR programs do not reduce energy consumption unless they are operated each year, thus the program requires annual funding and produces one year of savings. Given Indiana utilities' limited energy efficiency budgets, the Commission agrees that it is more appropriate for Vectren to use their energy efficiency dollars to allow increased participation in existing programs (through higher program budgets) rather than use a supply side technology to reduce energy consumption, especially because CVR programs do not allow customers to take action to reduce their energy consumption and bills. This is unreasonable under this criteria.

The discussion of lost revenues is also relevant here, but we will not repeat our discussion again except to say that Vectren's high lost revenue total is unreasonable.

Vectren's plan is unreasonable under this consideration.

**8. The lost revenues and performance incentives associated with the plan and sought to be recovered or received by the electricity supplier.**

**LOST REVENUES**

Vectren is requesting \$2.5 million in lost revenues. However, the \$2.5 million does not appear to include: (1) legacy lost revenues Vectren is requesting or receiving; (2) incremental or cumulative lost revenues Vectren is requesting or receiving for the year 2015; (3) incremental or cumulative lost revenue Vectren is requesting for 2016-2017; and (4) the total amount of lost revenues Vectren has recovered, and what the total lost revenue cost is if it continues to be allowed to recover lost revenues for the life of the measure.

Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10 defines lost revenues as "the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." The IURC defines lost revenues as "the revenue lost less the variable operating and maintenance costs saved as a result of not generating electricity because of a utility sponsored

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

DSM program.”<sup>38</sup> Thus, 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 the Company's authorized cost recovery.

This would be consistent with Indiana's relevant definitions of “lost revenues” in Senate Enrolled Act 412 (2015) as codified in Ind. Code § 8-1-8.5-10: “the difference, if any, between: revenues lost; and the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs.” Furthermore, Ind. Code § 8-1-8.5-10(o) states that if the plan is found to be reasonable under subsection (h), the Commission shall allow “reasonable financial incentives” and “reasonable lost revenues” (emphasis added). The current structure of recovery of lost revenues for Vectren, however, is not reasonable and should be changed to conform to the statute.

We will go ahead and note that there are a few acceptable ways in which a utility may be eligible for lost revenues; otherwise, the utility will be denied under this Commission's jurisdiction. A utility could compare sales in its test year to the actual sales, and if there is a difference between that test year and actual year, then the utility may be eligible for lost revenues. If the actual sales, after the effects of EE are included, are still sufficient to allow the Company to recover its authorized revenue (for example, when sales are above forecasted levels), there is no legitimate rationale to use ratepayer money to compensate the Company for “lost” revenues that were not incurred. Otherwise, this would be asking the ratepayers to guarantee excess revenues to the utility, and this is not reasonable. However, if the Company's sales, after the effects of EE, are insufficient to allow the Company to recover its authorized costs, then the Company would be eligible for lost revenues.

Lost revenue recovery is meant to be a short-term solution to address revenue loss in between rate cases; thus, 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.” Based on ACEEE's recent LRAM research:

It is most common for states to limit recovery to one to three years, although many states allow utilities to recover lost revenues for an indefinite period of time...Respondents indicated that in these cases, although rules might not be in play...utilities tend to bring [rate cases] forward every two to three years.

(CAC Exhibit 1, Sub-Exhibit NM-8, page 21.)

Vectren used to have two-year lost revenue recovery in Indiana. IURC Cause No. 43938, August 31, 2011 Final Order. Other states allowed lost revenue recovery for the life of the measure or until a base rate case and determined that the LRAM policy should change. After the Minnesota Public Utility Commission allowed the largest IOU (Northern States Power) to

---

<sup>38</sup> 170 IAC 4-8-1, Section 1(u). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06. CAC is requesting that the outcome of this proceeding be made subject to the outcome of IURC RM #15-06.

recover 50-75 percent of reported lost revenues, the Minnesota Department of Public Service expressed the following concerns:

- The period between rate cases is much longer than that envisioned when [the lost margin policies] were approved, significantly increasing the level of lost margins accrued.
- Lost margins increase rates without any tangible benefits to ratepayers.
- True lost margins are shrinking because, in the long run, "fixed" costs become variable costs.
- Utilities have growing opportunities to sell their saved energy on the wholesale market.
- [I]t has now been 12 years since Otter Tail Power filed a rate case, 5 years since NSP-Electric filed, 4 years since Minnesota Power filed, and 3 years since Interstate filed. The frequency of rate cases is an important issue. The longer time lag has increased lost margins significantly, thereby raising the costs of electric utilities' DSM investments to ratepayers.
- Clearly, [lost margin recovery was] intended to compensate utilities for short-term revenue losses between relatively frequent general rate proceedings. They were not intended to provide long-term windfall gains to shareholders.

As noted by the Minnesota Department of Public Service over fifteen years ago, lost revenue recovery is meant to be a short-term adjustment to address revenue losses in between rate cases. In the absence of requiring a rate case every 2-3 years, the Commission recognizes that the amount of lost revenue the utilities recover should be limited. It is also important to note that Vectren is able, through integrated resource planning and base rate cases, to adjust their longer term plans to avoid spending revenue unnecessarily if efficiency can defer or eliminate the need for additional capital expenditures, and thus lost revenues.

The rationale for 36 months of lost revenue can also be found in SEA 412, which requires the utilities to submit energy efficiency plans at least once every three years. Lost revenue recovery should be limited to the duration of the energy efficiency plan approved by the Commission under Ind. Code §8-1-8.5-10(h).

Even though a settlement agreement was reached that allowed Vectren's ability to recover lost revenues for the life of the measure, the Commission did not approve Vectren's LRAM indefinitely. The Commission did not put a time constraint on the methodology, and the Commission's rules state that it may periodically review the need for continued recovery of the lost revenue as a result of the utility's DSM program, and that the approval of a lost revenue recovery mechanism shall not constitute approval of a specific dollar amount, the prudent, or reasonableness of which may be debated in a future proceeding before the Commission.<sup>39</sup> Furthermore, the newly enacted Senate Enrolled Act 412, in Section (o), now includes the term "reasonable" in front of the term lost revenues and any legacy lost revenues must be reviewed in

<sup>39</sup> 170 IAC 4-8-6 (c). Please note, however, that a rulemaking involving both 170 IAC 4-8 and 170 IAC 4-7 is currently underway in IURC RM # 15-06

that context. Furthermore, subsequent to Vectren's lost revenue methodology being approved on June 20, 2012, Senate Bill 412 (2015) passed.

We will note that Vectren did not otherwise provide evidence that it has lost revenue due to EE program implementation. Vectren did not provide a breakdown of lost revenue by program, by year, as part of its application, or any discussion more than generalities in its application on the topic of lost revenues, and thus did not provide evidence that it will under recover authorized costs due to the impacts of its efficiency programs. Regardless of where or when the information is provided, it is unreasonable to recover lost revenues if there is no evidence the revenues are actually lost.

In addition, there is a high risk that ratepayers will pay for revenues that are not actually "lost" if the Commission continues to allow Vectren to collect lost revenues for the life of the measure, or until it has a new rate case because the energy baseline will change in the future. For example, the Energy Independence and Security Act ("EISA") of 2007 created a new baseline for lighting that had profound impacts on the DSM industry. If another lighting standard were introduced, the utility should not be able to recover lost revenue unless the measures go above the standard. In order to appropriately calculate lost revenues, the Company would need to track what types of lamps were installed in each year to determine if the measure continues to be above the baseline, and thus eligible for lost revenue recovery. This adds a layer of complexity and opacity that can largely be avoided by limiting the lost revenue recovery period.

The Commission finds that a reasonable approach to lost revenues would require that: (1) the utility show that implementation of energy efficiency programs has prevented the Company from recovery of fixed costs; then (2) use a standard methodology across the State of Indiana to determine how to uniformly calculate lost revenue for a measure and finally, (3) calculate the lost revenue for three years or the life of measure, whichever is shorter.

#### *FINANCIAL (PERFORMANCE) INCENTIVES*

The Commission finds that Vectren's proposal for performance incentives is not reasonable for many reasons. First, Vectren is proposing to recover performance incentives for at least some of its proposed demand response programs.<sup>40</sup> Senate Bill 412 does not appear to allow for that. Ind. Code Section 8-1-8.5-10(d) defines "energy efficiency program" or "program" as a program that is (1) sponsored by an electricity supplier; and (2) designed to implement to implement energy efficiency improvements. It goes on to say that the term does not include a program designed primarily to reduce demand for limited intervals of time, such as during peak electricity usage or emergency conditions. This is what demand response programs are. Language regarding cost recovery in Senate Bill 412 just addresses recovery for energy efficiency programs or programs as defined by Section 10(d). The fact that the legislature made the extra effort to exclude demand response from its definition of program costs seems to indicate its rejection of lost revenues and financial incentives for demand response. Thus, the Commission denies Vectren's request for performance incentives for any of their demand response program.

---

<sup>40</sup> Petitioner's Exhibit No. 1 (Sears), p. 25.

Vectren is proposing to achieve at least 80% of its goal in order to earn a performance incentive. Although this threshold is consistent with national best practices (CAC Exhibit 1, Attachment NM-13, page 7), Vectren is now setting its own energy efficiency goals. CAC Witness Mims suggested that Vectren be required to meet 100% of its goal as a threshold for a performance incentive and that Vectren earn 5-10% of the Net Present Value of the UCT benefits (rather than program costs), if Vectren chooses to pursue a shared net benefit performance incentive. We agree.

We also note that rather than using only efficiency (and demand) performance as the basis for an incentive, the Commission believes that the incentive proposed by CAC Witness Mims offers a better framework for performance incentives in the State, especially without a current Energy Efficiency Resource Standard: the multiple criteria performance structure, with criteria that is agreed upon by a diverse set of stakeholders. In the interim, however, the Commission provides notice that it intends to move all of the utilities to a shared net benefit performance incentive that is calculated using the net present value of UCT benefits, and is tiered based on energy savings performance; no incentive will be approved that is based on dollars spent and without a tier system, which is an imprudent structure and detrimental to ratepayers. The Commission further explains that creating a shared net benefit performance incentive based solely on the NPV of the net benefits of the UCT score creates an incentive for the Company to invest in only the most cost-effective programs rather than *all* cost-effective efficiency programs.

The Commission finds that Vectren's performance incentive proposal is unreasonable for the reasons set forth herein.

#### **9. The electricity supplier's current integrated resource plan and the underlying resource assessment.**

As discussed *supra* in the Commission's analysis of Section (h), Vectren's IRP and underlying resource assessment has serious fatal flaws. The Commission finds that Vectren's IRP and underlying resource assessment is unreasonable, and Vectren should correct those errors before returning to file its revised plan within a reasonable time.

**(C) Ind. Code § 8-1-8.5-10(k) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is reasonable in its entirety, the Commission shall (1) approve the plan in its entirety; (2) allow the electricity supplier to recover all associated program costs on a timely basis through a periodic rate adjustment mechanism; and (3) allocate and assign costs associated with a program to the class or classes of customers that are eligible to participate in the program.**

Based on our findings under Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.



**(D) Ind. Code § 8-1-8.5-10(l) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is not reasonable because the costs associated with one(1) or more programs included in the plan exceed the projected benefits of the program or programs, the Commission (1) may exclude the program or programs and approve the remainder of the plan; and (2) shall allow the electricity supplier to recover only those program costs associated with the portion of the plan approved under subdivision (1) on a timely basis through a periodic rate adjustment mechanism.**

Based on our findings under Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.

**(E) Ind. Code § 8-1-8.5-10(m) states that if, after notice and hearing, the Commission determines that an electricity supplier's plan is not reasonable in its entirety, the Commission shall issue an order setting forth the reasons supporting its determination. The electricity supplier shall submit a modified plan within a reasonable time. After notice and hearing, the Commission shall issue an order approving or denying the modified plan. If the Commission approves the modified plan, the Commission shall allow the electricity supplier to recover program costs associated with the modified plan on a timely basis through a periodic rate adjustment mechanism.**

Based on our findings in Ind. Code §§ 8-1-8.5-10 (h) and (j), the Commission finds that Vectren's plan is not reasonable in its entirety. The Commission's Order herein sets forth the reasons supporting this determination. Vectren shall submit a modified plan within a reasonable time. We urge Vectren to carefully consider our findings in correcting its plan for the next submission. In the meantime, we also hope that Vectren will continue to offer programs for marketplace certainty and consistency for Vectren's ratepayers.

**(F) Ind. Code § 8-1-8.5-10(o) states that if the commission finds a plan submitted by an electricity supplier under subsection (h) to be reasonable, the commission shall allow the electricity supplier to recover or receive (1) reasonable financial incentives that encourage implementation of cost effective energy efficiency programs or eliminate or offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources and reasonable lost revenues. A retail rate adjustment mechanism proposed by an electricity supplier under this section to implement the timely recovery of program costs (including reasonable lost revenues) may be based on a reasonable forecast, with consideration given to the electricity supplier's historical lost revenue forecasting accuracy. If forecasted data is used, the retail rate adjustment mechanism must include a reconciliation mechanism to correct for any variance between the forecasted program costs (including reasonable lost revenues and financial incentives) and the actual program costs (including reasonable lost revenues and financial incentives based on**

**the evaluation, measurement, and verification of the energy efficiency programs under the plan).**

Based on our findings in Ind. Code §§ 8-1-8.5-10(h), (j), and (m), this section is not applicable.

**(G) Small Business Impact.**

The Commission must consider in accordance with 170 IAC 4-8-8 the impact that Vectren's plan may have on small businesses and whether it would give an unfair competitive advantage to Vectren in the provision of energy efficiency programs. Because we have rejected Vectren's plan as unreasonable, we do not need to address this at this time.

~~Newly enacted SEA 412 requires electricity suppliers to petition this Commission not less than one time every three years for approval of an EE plan that includes (1) EE goals; (2) EE programs to achieve EE goals; (3) program budgets and program costs; and (4) EM&V procedures. Section 10(h). Vectren South initiated its Petition to satisfy the requirements set forth in Section 10h and we find that Vectren South has complied with these requirements.~~

~~Our task is not complete, however, with submission of an EE plan. We must weigh whether Vectren South's Plan is "overall reasonable" pursuant to Section 10(j) and address recovery of costs. Because Section 10 does not address DR programs, we may also be required to evaluate whether DR programs, as authorized pursuant to 170 IAC 4-8-1 *et seq.* (the "DSM Rules"), comply with those Rules. For the reasons we provide below, we conclude that Vectren South's 2016—2017 Plan is overall reasonable and should be approved. Because the programs in the 2016—2017 Plan that include DR components are not primarily DR, we find it unnecessary to reach a conclusion about the reasonableness of those plans pursuant to our DSM Rules and will review those programs under Section 10.~~

~~**Plan Compliance with SEA 412.** In order to approve the 2016—2017 Plan, we must determine whether the Plan is a plan as contemplated by the Indiana legislature in Section 10(h), including EE goals, EE programs to achieve the EE goals, program budgets and program costs and independent EM&V procedures.~~

~~*i.*—*The Plan.* According to Section 10(h)(1), a plan must have EE goals, which must include all EE produced by cost effective plans that are reasonably achievable, consistent with Vectren South's IRP and designed to achieve an optimal balance of energy resources in Vectren South's service territory. CAC has encouraged the Commission to reject the 2016—2017 Plan, arguing the Plan does not capture what is "reasonably achievable" and that Vectren South's most recent IRP may not have properly evaluated DSM on a "consistent and comparable basis." CAC Exhibit 1, p. 4. Ms. Mims contends Vectren South's MPS demonstrates that Vectren South is not pursuing all reasonably achievable EE. We do not focus only on what an MPS says is reasonably achievable—we must balance this against the need for energy efficiency in the service territory. Vectren South's 2014 IRP concluded that DSM at a level of 1% of eligible retail sales was cost effective even though more energy efficiency was theoretically available. The fact that the MPS shows that more cost effective energy efficiency is available in the service territory is irrelevant if the IRP shows no additional DSM is needed. The goals established pursuant to Section 10 should be based on needs shown in the IRP, not what might be achieved pursuant to the MPS, if additional resources are not needed.~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~CAC also sought to attack the goals that were established in Vectren South's 2014 IRP. Specifically, the CAC claims that there was no reason to limit the selection of additional energy efficiency to 0.5% blocks over the 1% base. CAC Exhibit 1, p. 6. But the fact remains that Vectren South's IRP did not select the 0.5% blocks beyond the 1% goal. Regardless of whether Vectren South could have modeled more, there would appear to be no reason to do so if the additional 0.5% increment was not selected. CAC also asserted that Vectren South did not provide the detail required to allow stakeholders to independently assess the modeling done in the IRP. Vectren South ultimately worked to re-create the information sought by the CAC and the evidence was admitted into the record. Vectren South's IRP also went through a public stakeholder process and a comment period without significant criticism of the Company's approach to modeling DSM. We find nothing in the submitted information that challenges the credibility of Vectren South's 2014 IRP. In fact, it is clear that energy efficiency was considered as a resource in the Company's IRP.~~

~~Therefore, the 2016—2017 Plan is consistent with Petitioner's 2014 IRP and Section 10(j)(3)(B) is satisfied. Vectren South's 2016—2017 Plan includes EE goals that are reasonably achievable, as confirmed by the MPS; consistent with its 2014 IRP, as it is based on the Company's needs shown in the most recent IRP; and is designed to achieve an optimal balance of energy resources in Vectren South's service territory. Moreover, the Plan has a two year term. Vectren South's next IRP will again consider appropriate EE goals and will provide direction on the future level of EE to be pursued.~~

~~According to Section 10(h), a plan must include EE programs to achieve the EE goals. The 2016—2017 Plan includes ten (10) residential programs and six (6) C&I programs designed to achieve the EE goals set forth therein. All of the programs in the 2016—2017 Plan, except the CVR and Smart Thermostat programs, are included in the MPS.~~

~~OUCC witness Paronish recommended excluding the CVR program from the 2016—2017 Plan based on conflicting cost effectiveness statements in Vectren South's testimony, the Company's failure to address allocating CVR costs to opt out customers and because Vectren South did not provide its engineering study performed to identify circuits that could benefit from CVR. Public's Exhibit No. 1, pp. 5 and 7. Vectren South clarified that its CVR program was cost effective, so this concern has been resolved. As to the engineering study, identification of the preferable circuit is not necessary to our evaluation of the reasonableness of CVR. The Company has committed to properly evaluate the location on its system where CVR will be installed. Finally, we do not believe it is necessary to address CVR cost allocation to opted out customers prior to finding the CVR is an appropriate program. This will not become an issue until CVR is installed on a circuit that serves an opted out customer. The cost allocation can be addressed in a DSMA proceeding. CAC witness Mims testified that with limited energy efficiency budgets, it is more appropriate to use funding designated for the CVR program to increase participation in other existing programs. We disagree. We find that the CVR program is an emerging technology that offers both energy savings as well as peak demand reduction benefits and is appropriately included in the 2016—2017 Plan. It is reasonable for Vectren South to engage in a program that will provide Company specific information on the use of this technology. We authorize Vectren South to proceed with installation of the CVR technology on one substation.~~

~~OUCC witness Paronish also recommended excluding the Smart Thermostat program from the 2016—2017 Plan. She said that Section 10(d)(2) does not apply to programs that are~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~“designed primarily to reduce demand” and concluded the Smart Thermostat is designed primarily to reduce demand as it cycles air conditioners on and off during periods of peak demand. Public's Exhibit No. 1, p. 10. Vectren South anticipates capturing more than 850,000 kWh of EE savings and 1,800 kW of demand savings in 2016 from the Smart Thermostat programs and almost over 2.3 million kWh in EE savings and 671 kW in demand reduction from the CVR program in 2017. Given the significant amount of EE savings associated with those two programs in 2016 and 2017, we are not persuaded that those two programs are primarily DR.<sup>44</sup> We find that the Smart Thermostat program is appropriately included in the Vectren South 2016—2017 Plan.~~

~~The OUC raised concerns about the health and safety component as well as the refrigerator replacement component of the IQW program; however, Vectren South's current IQW program includes both a health and safety component and a refrigerator replacement component. The evidence of record confirms that Vectren South has not suggested any changes for the IQW program included in the 2016—2017 Plan compared to the IQW program that currently exists and the OUC has not offered any evidence to indicate that these two components are not working as intended. Vectren South has demonstrated that these two components are essential to assisting this vulnerable population of customers, and, as a result, we find the continuation of the health and safety component, which enables implementation of the energy efficiency measures, and the refrigerator replacement component to be reasonable and in the public interest.~~

~~OUC witness Paronish recommended removing the SEM program from the 2016—2017 Plan. Vectren South has agreed to remove the SEM program from the 2016—2017 Plan.~~

~~CAC witness Mims encouraged the Commission to add several programs to the 2016—2017 Plan, including an upstream manufactured home program and an enhanced whole home program for residential customers, as well as a school audit direct install program and a self-direct program for C&I customers. In his testimony in this proceeding, Petitioner's witness Huber confirmed that Vectren South is always willing to consider new programs as part of its EE portfolio and wants to ensure that all customer segments have the opportunity to benefit from its programs. Petitioner's Exhibit No. 8, p. 16. He also stated that under Section 10, raising programmatic changes for the first time during the Commission approval proceeding is inefficient and places the seamless continuation of EE programs at risk. Petitioner's Exhibit No. 8, p. 6. We agree. Vectren South submitted evidence that the Company presented the 2016—2017 Plan to the Oversight Board well in advance of filing a Petition for approval of the Plan with the Commission and sought feedback from the Oversight Board. The Company made revisions to the 2016—2017 Plan based upon feedback received from the Oversight Board and nothing in the record indicates that the Company is unwilling to consider timely raised issues or concerns. However, requesting that the Commission require the addition of new programs to a~~

---

<sup>44</sup> Pursuant to our existing DSM rules, we can authorize cost recovery for DR programs under 170 IAC 4-8-5 and SEA 412 does nothing to change that. For many years, DR programs have been effectively used as a resource in Indiana and are regionally recognized as a capacity resource by the Midcontinent Independent System Operator. It is unnecessary here to resort to our Rules because we are not persuaded that the CVR and Smart Thermostat programs are primarily DR-excluded by Section 10 given the amount of EE expected to be saved by the Company with implementation of these two programs.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~plan submitted for approval is contrary to Section 10, which requires the Commission to either approve a plan as reasonable or reject it and list the reasons why. Here, Vectren South has presented a reasonable plan consistent with its IRP. As a result, we will approve the plan as presented by the Company. CAC's recommendations can be considered by the OSB for future years. We encourage the OUCC and CAC to take advantage of its membership on the Oversight Board and timely raise program issues with Vectren South in advance of Commission proceedings.~~

~~Section 10(h)(3) requires a plan submitted for approval to include program budgets and program costs, which the 2016—2017 Plan includes. In addition, the 2016—2017 Plan includes EM&V with a process for independent evaluation of the programs. Vectren South's 2016—2017 Plan meets all of the requirements of a plan as set forth in Section 10(h).~~

~~ii.——*Reasonableness of the 2016—2017 Plan.* This proceeding marks Vectren South's initial EE plan filing pursuant to SEA 412. As such, we must conduct a review of the Plan to determine whether it is reasonable based on the criteria set forth in Section 10(j), which explicitly identifies ten (10) factors the Commission must consider when determining reasonableness. There was considerable discussion in pre filed testimony regarding cost effectiveness; therefore, the Commission will take this opportunity to analyze this issue in more detail. If we determine Vectren South's EE Plan is reasonable, then approval of the Plan shall include: (1) recovery of reasonable financial incentives that eliminate the recognized utility financial bias against engaging in EE, and (2) recovery of reasonable lost revenues. Section 10(o).~~

~~In approving an energy efficiency plan, we are required to consider a cost and benefit analysis of the plan, including the likelihood of achieving the goals of the EE programs included in the plan. The OUCC has taken the position that the Legislature intended that SEA 412 be interpreted as radically altering the methodology to be used to evaluate the cost effectiveness of EE programs. According to OUCC witness Rutter, Vectren South's evidence shows that its EE programs pass the TRC, UCT and Participant Cost tests, but fail the RIM test, and that as a result the programs cannot be approved because the General Assembly and Governor have "made it plain that Indiana law now requires a different, more inclusive analysis." Public's Exhibit No. 3, p.15. The OUCC explained that this analysis means that lost revenue recovery should be part of the cost effectiveness test (which only the RIM test factors in) used to assess EE programs, and lost revenue recovery should be eliminated if it causes EE programs to fail this test. Based on this interpretation of the new law, the OUCC opposes offering EE programs that it has otherwise supported in the past.~~

~~In response to the OUCC's position, Vectren South submitted testimony of a number of witnesses disputing the OUCC's position and pointing out that exclusive use of the RIM test would essentially end the offering of EE programs in Indiana. This testimony cited the 2014 Energy Center of Wisconsin Report ("ECW Report"), prepared for the Commission and presented to the General Assembly, with respect to the cost effectiveness of EE programs offered in Indiana from 2012-2013. In discussing this topic, the ECW Report stated in part, "As a rule,~~

~~energy efficiency programs across the country, not just in Indiana, do not pass the RIM test because energy efficiency programs attempt to minimize bills, not rates.”<sup>42</sup>—The ECW Report relied on the TRC, UCT and Participant Cost tests to demonstrate that Indiana’s EE programs have been cost effective for customers.~~

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

~~In support of its interpretation of SEA 412 Vectren South also accessed the General Assembly’s hearing archives and submitted transcripts of the House and Senate final debates preceding the votes on SEA 412 that demonstrated beyond doubt that the General Assembly considered arguments made by the bill’s opponents that lost revenues should either not be recovered, or their recovery be limited in some manner, and in response the bill sponsors disagreed, stating that under SEA 412 the cost effectiveness of EE programs, as well as the recoverability of lost revenues would continue to be evaluated by the Commission in the same manner as they had in the past. This bill history further supports our interpretation of the statutory terms.~~

~~Based on the record which includes reference to independent EE experts such as the ECW which call into question the efficacy of the RIM test, as well as our reading of the statute’s requirements as set forth in Section 10(j), and evidence of the bill sponsors’ understanding of the meaning of SEA 412, we do not agree with the OUCC that SEA 412 requires the Commission to depart from the EE cost effectiveness tests we have used in the past to evaluate program cost effectiveness as part of our reasonableness review.~~

~~The OUCC also asserted that Vectren South was required to present comments provided by customers, customer representatives, the OUCC, and other stakeholders concerning the adequacy and reasonableness of the Plan to satisfy Section 10(j)(6).—The OUCC has misconstrued Section 10. This Section identifies factors we must consider in evaluating the reasonableness of an energy efficiency plan—not the evidence that must be presented by an~~

---

<sup>42</sup>~~Indiana’s Core and Core Plus Energy Efficiency Programs: Benefits, Costs and Savings,  
Energy Center of Wisconsin, Aug. 14, 2014, p. 5~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~electricity supplier. Comments by the OUCC, customers and other stakeholders have been presented to us and we have considered this input. Consequently, this requirement of Section 10(j) has been considered.~~

~~Section 10(j)(7) requires us to consider:~~

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

~~Vectren South submitted evidence of short term bill impacts on customers as well as various cost effectiveness tests—some of which are designed specifically to evaluate the long term effect of the EE programs on the electric rates and bills of both participating and non-participating customers. The OUCC asserts that Vectren South failed to present adequate evidence to support our consideration of these criteria, but offers no explanation as to why the evaluation Vectren South presented was insufficient. We disagree that the information Vectren South has presented is inadequate to allow us to consider the short and long term impact of the plan. Having reviewed this information, we find EE programs appropriately weigh the long term benefits against the short and long term bill impacts.~~

~~We have also considered the other factors identified in Section 10(j). Vectren South's demonstrated energy savings resulting from the Plan in conjunction with its load forecast in its 2014 IRP enable us to consider projected changes in customer consumption of electricity resulting from the implementation of the Plan. Section 10(j)(1). The cost/benefit analysis presented in Petitioner's Exhibit No. 2, Attachment MPH 1 in conjunction with Vectren South witness Stevie's explanation of the costs and benefits of the plan were sufficient for us to consider the cost and benefit analysis of the Plan. OUCC witness Paronish suggested this consideration could not be satisfied because Vectren South did not submit the formulae and inputs for its cost and benefit analysis. Public's Exhibit No. 1, p. 3. However, we do not agree that the formulae and inputs are necessary for our consideration of the cost and benefit analysis. We have long evaluated energy efficiency programs without this information and there is nothing in the language of SEA 412 that requires this information to be filed as part of its case-in-chief. Parties are free to seek this information from Vectren South and, in fact, the Company provided the formulae and inputs to the OUCC in informal discovery. The OUCC raised no specific concerns about the inputs and formulae.~~

~~We find that Vectren South has proposed reasonable EM&V procedures to verify the results of the EE programs it is proposing. No undue or unreasonable preference to any customer class resulting, or potentially resulting, from the implementation of an energy efficiency program or from the overall design of a plan has been identified.~~

~~Based upon the evidence submitted into the record and having considered the factors identified in Section 10(j)(1), we find Vectren South's 2016–2017 Plan to be reasonable.~~

~~**B. Recovery of Program Costs.** SEA 412 provides that once an electricity supplier's EE plan is approved, the Commission shall allow the electricity supplier to recover all associated program costs on a timely basis through a periodic rate adjustment mechanism. Section 10(k). We have previously approved Vectren South's EE Plan and therefore find that Vectren South shall be authorized to recover associated program costs. Vectren South has proposed to recover those costs through its approved DSMA mechanism.~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~Vectren South did agree to modify its proposed methodology for recovering costs associated with its CVR program. Vectren South requests approval of annual depreciation and operating expenses associated with the proposed CVR Program investment, along with the recovery in the DSMA of the annual carrying costs on this capital investment. Pursuant to the recommendation of OUCC witness Thacker, Vectren South agreed that the WACC used to determine the carrying costs on the CVR program investment will be adjusted to a current level with the return on equity ("ROE") rate fixed at the level authorized in its last base rate case.~~

~~No party objected to Vectren South's proposal to recover Program Costs through its DSMA. Vectren South agreed to adopt the OUCC's recommendation to utilize an adjusted WACC that reflects then current level, and we find this recommendation shall be adopted. With this modification, we find that Vectren South shall be authorized to utilize its DSMA mechanism to recover all Plan costs.~~

~~**C.—Reasonableness of Lost Revenues and Performance Incentives.—**If the Commission finds that an electricity supplier's EE plan is reasonable, SEA 412 requires us to allow an electricity supplier to recover:~~

~~(1) Reasonable financial incentives that:~~

~~——(A) encourage implementation of cost effective energy efficiency programs; or~~

~~——(B) eliminate or offset regulatory or financial bias:~~

~~——(i) against energy efficiency programs; or~~

~~——(ii) in favor of supply side resources.~~

~~(2) Reasonable lost revenues.~~

~~Section 10(o). We have found that Vectren South's 2016—2017 Plan is reasonable. Consequently, SEA 412 requires us to authorize Vectren South to recover *reasonable* financial incentives and lost revenues. The issue, therefore, is what level of performance incentives and lost revenue recovery is "reasonable."~~

~~The term reasonable is not defined by SEA 412; consequently we afford the term its plain and ordinary meaning. *E.N. v. Rising Sun Ohio County Community School Corp.*, 720 N.E.2d 447, 452 (Ind. Ct. App. 1999) ("Words and phrases are taken in their plain, ordinary and usual meaning unless a different purpose is manifested by the statute.") The term reasonable is defined as "within the bounds of common sense" or "not extreme or excessive." Webster's II New Riverside University Dictionary 980 (1984). Therefore, in considering Vectren South's proposed lost revenue and incentive request, we evaluate whether its request is extreme or excessive or beyond the bounds of common sense.~~

~~*i.—Vectren South's Lost Revenue Recovery Mechanism Is Reasonable.* We begin with the recognition that the lost revenue mechanism Vectren South has proposed in this proceeding is identical to the mechanism we have previously found to be reasonable—in other words we have already found this structure is within the bounds of common sense and not extreme or excessive. Vectren South witness Sears testified that the Company plans to continue using its DSMA to recover lost margins. We approved this mechanism in our October 15, 2014 Order in Cause No. 44495 (the "44495 Order") over objections of the CAC to the recovery of lost revenues. In our 44495 Order, we expressly found that the DSMA is "just and reasonable, and in the public interest." 44495 Order, p. 10. We specifically rejected the CAC's argument~~



CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~that Vectren South's recovery of lost revenues should be limited to the first two years of the DSM measure life.<sup>43</sup> While SEA 412 was enacted after the 44495 Order, nothing in the statute changes our assessment of reasonableness. Because we have previously found Vectren South's lost revenue mechanism to be reasonable, we must be presented with some justification to change our conclusion. *Indiana Bell Tel. Co. v. Indiana Util. Regulatory Comm'n*, 810 N.E.2d 1179, 1186 (Ind.Ct.App. 2004) ("[A]n agency may change its course and is not forever bound by prior policy or precedent. That is, where a policy or precedent is flawed and needs to be changed, the agency may change the course as long as it explains the reasons for doing so.") Several of the CAC and OUCC contentions about reasonable lost revenues have been raised and rejected in prior proceedings and no new compelling reasons have been offered for us reach a different conclusion here.~~

~~We begin by addressing the purpose of permitting a utility to recover lost margins. We have recognized in prior orders that "the recovery of lost revenues is a tool to assist in removing the disincentive a utility may have in promoting DSM in its service territory." 44495 Order, p. 10; see also *Southern Indiana Gas & Elec. Co.*, Cause No. 43938, pp. 40-41 (IURC August 31, 2012) and 170 IAC 4-8-6(e). As Vectren South witness McDermott testified, "[e]nergy efficiency programs hit straight at the heart of the traditional utility business model, since revenues traditionally depend to a large extent on the kWh of electricity sold, and the purpose of energy efficiency programs is to decrease the kWh of electricity sold." Petitioner's Exhibit No. 7, p. 12. Vectren South witness Sears explained that Petitioner recovers a portion of its Commission approved fixed costs through variable rates. Petitioner's Exhibit No. 1, p. 23. Mr. Sears explained that lost revenue recovery "assists the utility in recovering fixed operating costs that do not vary as a result of lower usage driven by [energy efficiency]." Petitioner's Exhibit No. 1, p. 21. No party disputes this is the purpose of lost revenue recovery.~~

~~Instead, the OUCC and CAC contended the recovery of lost revenues is not reasonable. First, the OUCC contends the magnitude of Vectren South's lost revenue recovery is too great. OUCC witness Rutter contrasted the 2016-2017 Plan budget (\$16.7 million) to the estimated lost revenues resulting from the life of the measures in the Plan (\$20.7 million) to contend that the lost revenue recovery is unreasonable. Public's Exhibit No. 3, pp. 10-11. This comparison misunderstands the nature of the lost revenues, however. Vectren South's lost revenues are intended to recover its fixed costs that do not vary by usage. Characterizing these lost revenues as a cost to customers fails to recognize that they represent a cost that customers would bear with or without EE programs. Petitioner's Exhibit No. 6, p. 7. These fixed costs are still incurred by the utility when the customer is incented to utilize less energy. Lost revenue recovery simply makes the utility whole with regard to its fixed costs recovery. The size of the lost margin recovery is an indication of the success of Vectren South's EE efforts and, more importantly, a quantification of the disincentive Vectren South would experience not to pursue EE absent lost revenue recovery.~~

---

<sup>43</sup> ~~We acknowledge the 44495 Order approved a settlement between the OUCC and Vectren South and specifically recognized that future citation of the settlement agreement shall not be deemed as precedent. However, the dispute over lost revenues was not resolved by a settlement agreement and required us to specifically find the proposed mechanism to be reasonable and is not subject to our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459 at \*19-22 (IURC March 19, 1997).~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~Mr. Rutter's focus on the lost revenue cost also disregards the savings that inure to customers from avoided fuel and variable costs and avoided future fixed costs. Mr. Sears noted that in a single year (2016), residential and industrial customers will avoid \$2.6 million and \$3.2 million, respectively, in variable production costs. Petitioner's Exhibit No. 6, p. 7. Regarding the avoidance of future fixed costs, all programs passed the UCT. Vectren South witness Stevie explained that passing the UCT test indicates that revenue requirements would be expected to increase faster than if one were to implement the EE program. Petitioner's Exhibit No. 9, p. 10. In short, over the long run, customers experience a net benefit as a result of Vectren South's promotion of demand side management programs.~~

~~Similarly, CAC witness Mims seeks to limit lost revenue recovery to a three year period to avoid a "pancaking effect" in which Vectren South continues to add lost revenues from prior years to existing years for EE measures that are still in service. CAC Exhibit 1, p. 42. The fact remains, however, that once Vectren South succeeds in implementing an EE measure, the energy savings endure for the life of the measure and Vectren South is deprived of selling that energy to the customer and recovering the fixed costs that would have been recovered through that revenue for the life of the measure. Absent the DSM measure, customers would have continued to pay the fixed costs. Lost revenue recovery simply ensures customers will continue to pay the same fixed costs they would have otherwise paid while incenting the utility to pursue the measure that results in energy savings and future fixed cost avoidance that also pancake over time. Perhaps more importantly from a policy perspective, the disincentive to pursue lost revenue recovery would still exist if the recovery period is capped for particular measures which could incent an electricity supplier to limit programs to measures with shorter lives. Our purpose for allowing lost revenue recovery is to remove the utility's disincentive to pursue EE programs. Arbitrarily capping the recovery of lost margins to a three year life of measure creates new disincentives that may deprive customers of measures with longer term savings potential.~~

~~CAC witness Mims raises four specific arguments for capping the recovery of lost margins to three years, all of which we find unpersuasive. First, she cites to ACEEE research concluding that it is most common for states to limit recovery to one to three years of measure life. CAC Exhibit 1, p. 31. Vectren South witness Stevie, however, testified that the ACEEE-identified states represent settlement agreements, not rules or regulatory orders imposing a three year limit as a matter of policy. Petitioner's Exhibit 9, p. 18.~~

~~Second, Ms. Mims urges us to follow the Minnesota Department of Public Service in limiting recovery of lost margins to encourage more frequent rate cases. However, we find no support for this approach in SEA 412. The Indiana Legislature has demonstrated it knows how to enact legislation requiring a utility to file more frequent rate cases. Specifically, recently enacted Ind. Code chpt. 8-1-39 requires electing utilities to initiate a base rate proceeding before the expiration of a seven year plan. Ind. Code § 8-1-39-9(d). The Legislature's decision not to include a similar provision in SEA 412 (enacted two years after Ind. Code chpt. 8-1-39), indicates that "reasonable lost revenue" recovery is not intended to drive more frequent rate cases. Ms. Mims' third argument, that the requirement to submit EE plans every three years indicates an intention to limit recovery to three years, is similarly not supported by the statutory language. SEA 412's language does not require initiation of a base rate case. *United Farm Bureau Mut. Ins. Co. v. Steele*, 622 N.E.2d 557, 561 (Ind. Ct. App. 1993) ("In construing a statute, it is just as important to recognize what a statute does not say as it is to recognize what it does say.")~~

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

~~Finally, Ms. Mims' contention that Vectren South's current lost revenue structure allows it to collect revenues that would not be lost through prudent planning is mistaken. CAC Exhibit 1, pp. 32-33. If a utility is able to defer or eliminate the need for additional capital expenditures, customers benefit by avoiding rate increases to pay for that additional investment.<sup>44</sup> Electricity suppliers, in contrast, lose out on the opportunity to invest capital for beneficial return.~~

~~OUCC witness Rutter presented an analysis adding the UCT/PACT net benefit, lost margins and incentives to Vectren South's authorized net operating income ("NOI") to claim there is no disincentive for Vectren South to pursue demand side management programs if lost revenues and performance incentives are denied. Public's Exhibit No. 3, pp. 4-5 and ETR Attachment 2. We are not persuaded by Mr. Rutter's analysis because several of the assumptions are flawed. Vectren South witness Stevie explained that Mr. Rutter's analysis erroneously attributed the benefits of the UCT/PACT analysis as a cash benefit to Vectren South (in fact these benefits are a future savings to customers) and incorrectly accounted for lost revenues. Petitioner's Exhibit No. 9, pp. 5-6.~~

~~OUCC and the CAC both contend that Vectren South should be required to demonstrate that other energy sales increases have not offset the losses attributable to energy efficiency. We have previously rejected this argument. Our August 31, 2011 Order in Cause No. 43938 concluded that:~~

~~The C&I Group also opposed recovery of lost margins when sales are higher than the levels used to establish the current base rates in effect. The purpose of recovery of lost margins on verified energy savings from DSM programs is to return the utility to the position it would have been in absent implementation of a DSM measure. Eliminating recovery of lost margins when sales are higher than the levels used to develop the current base rates is contrary to this objective. As the C&I Group itself notes, utilities are incented to promote economic development in their service territories by the regulatory paradigm to increase revenues between rate cases.~~

~~*Southern Ind. Gas & Elec. Co.*, Cause No. 43938, p. 41 (IURC Aug. 31, 2011). We responded to this argument again in the 44495 Order, there rejecting arguments by the CAC that lost revenues should only be recovered if sales have generally increased. 44495 Order, p. 10. Nothing presented in this proceeding causes us to change our mind regarding that conclusion.~~

~~We acknowledge that OUCC witness Rutter presented evidence that Vectren South's sales had increased for calendar years 2009 through 2014. Public's Exhibit No. 3, p. 13, ETR Attachment 3. Vectren South pointed out that the increase in sales was attributable to industrial customers who have opted out of EE (Petitioner's Exhibit No. 9, p. 12) and this trend will reverse in 2016 when Vectren South loses a substantial portion of the load from its largest industrial customer (Petitioner's Exhibit No. 6, p. 18). More importantly, however, permitting recovery of lost margins only if retail sales remain the same or decline does not address the fundamental disincentive to pursue EE measures. An electricity supplier would still prefer to~~

---

<sup>44</sup>Ms. Mims suggests that Vectren South had a two-year lost revenue recovery time period in Indiana prior to receiving lifetime recovery of lost revenues. CAC Exhibit 1, p. 31. This conclusion misunderstands the referenced order. Our August 31, 2011 Order in Cause No. 43938, authorized Vectren South to defer its lost revenues and recover *the deferral* over a two-year period. We did not limit Vectren South's recovery of lost margins to two years of the measure life.

~~terminate demand side management programs if the resulting sales decreases offset the increased sales generated by the utilities economic development objectives. Moreover, to the extent revenues increase, the increases are often used to fund the cost related to facility extensions. This is part of a utility's economic development efforts which we have recognized in the past as being beneficial, and our approach to lost revenue recovery should not discourage economic development.~~

~~We also agree with Vectren South that Indiana's existing statutory structure addresses concerns that lost margins combined with increased sales will enable a utility to over earn. Under Ind. Code § 8-1-2-42 the fuel adjustment clause mechanism is used to protect customers against a utility earning more than its authorized return.~~

~~We continue to believe that Vectren South's lost revenue mechanism is reasonable. The proposal is within the bounds of reasonableness and not excessive or extreme. SEA 412 has not changed our analysis and the arguments presented by the OUCC and CAC do not support elimination of or arbitrarily capping lost revenue recovery. We are mindful that lost revenue recovery is not perfect. Other jurisdictions and stakeholders (including the Natural Resource Defense Council) have embraced a decoupled rate design as an alternative method of aligning an energy supplier's economic interest with the pursuit of energy efficiency. While not at issue in this proceeding, future rate design proposals to better align the utility with its customers on energy efficiency may be considered.~~

~~ii. *Vectren South's Performance Incentive Mechanism Is Reasonable.* We also conclude that Vectren South's proposed performance incentive mechanism is reasonable. As we noted above, SEA 412 states that we "shall allow" reasonable financial incentives that (1) encourage implementation of cost effective energy efficiency programs or (2) offset regulatory or financial bias against energy efficiency programs or in favor of supply side resources.~~

~~The evidence presented in this proceeding supported the importance of performance incentives. CAC witness Mims agreed that performance incentives are part of a "three legged stool that supports ratepayer funded EE." CAC Exhibit 1, p. 45. Vectren South witness Sears testified that investments in capital assets like power plants provide a return on investment under the traditional business model, while investments in EE and DSM drive down the need for those capital investments without providing a return. Without a reasonable performance incentive, an electricity supplier has no means of replacing the opportunity to earn a return on supply side investments.~~

~~OUCC witness Rutter raises several objections to authorizing Vectren South to continue recovering performance incentives. He first claims that his analysis set forth in Attachment ETR 2, demonstrates that financial incentives are not necessary to offset regulatory or financial bias. Public's Exhibit No. 3, p. 16. We have previously addressed the short comings with Mr. Rutter's analysis in Attachment ETR 2 and conclude that with those short comings addressed, Attachment ETR 2 fails to refute the need for performance incentives.~~

~~Mr. Rutter also opines that Vectren South should not receive performance incentives when it chooses the energy savings targets; the programs to achieve those targets; the size, scope and funding of those programs; who will measure the savings and how the savings will be calculated. Public's Exhibit No. 3, pp. 16-17. SEA 412, however, does not permit us to deny performance incentives on this basis. Moreover, Mr. Rutter's concern overlooks that Vectren South must present its Plan to this Commission for approval and that stakeholders have an~~

~~opportunity to comment on Vectren South's proposal, as the OUCC and CAC have done in this case. The goals established by Vectren South resulted from analysis in its IRP, consistent with SEA 412.~~

~~Mr. Rutter also opines that "it is unreasonable to provide for performance incentives to an electric utility that has adopted a cultural change and commits to continue to offer cost effective DSM to assist customers in managing their energy bills and meet future energy needs." Public's Exhibit No. 3, pp. 17-18. SEA 412 does not support Mr. Rutter's opinion. No language supports his contention that awarding performance incentives is dependent on corporate culture. We also agree with Vectren South witness Stevie's observation that the Company's cultural change was facilitated by the alignment of its interests with customers created when we approved recovery of performance incentives.~~

~~The CAC recommended revisions to Vectren South's performance incentive mechanism. We decline to impose these modifications. CAC witness Mims recommendations are inconsistent she recommends performance incentives only if Vectren South achieves 100% of its goals (CAC Exhibit 1, p. 46) but later supports a less restrictive approach (CAC Exhibit 1, p. 48, Table 14). Her recommendations are also not consistent with SEA 412, which does not include any language suggesting an intent to encourage electricity suppliers to exceed goals.~~

**8. Confidential Information.** Petitioner filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was supported by an affidavit, showing the workpapers, testimony and exhibits of OUCC witness Rutter and CAC witness Mims contained trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2. The Presiding Officers issued a Docket Entry on October 26, 2015 finding such information confidential on a preliminary basis after which such information was entered into evidence under seal. Accordingly, we find that all such information should continue to be held confidential pursuant to Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2.

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

1. Vectren's proposed 2016-2017 Plan, and requested accounting and ratemaking treatment, including authority to recover associated program costs is hereby denied pursuant to Ind. Code § 8-1-8.5-10(m) for the reasons set forth herein.
2. With respect to Vectren's authority to recover costs including lost revenues associated with pre-2016 DSM programs, such authority is hereby terminated as of the lesser of thirty-six months or the life of the measure beginning the date by which an energy efficiency measure was installed.
3. To the extent, Vectren has not yet recovered costs incurred associated with the administration, implementation or EM&V of energy efficiency measures installed through March 31, 2016, specifically excluding lost revenues from previous program years, Vectren is authorized to continue using its DSMA mechanism for their recovery.

CAC's Exceptions to Vectren's Proposed Order  
Redacted, Redline Version

4. Vectren's request to utilize its existing Vectren Oversight Board to administer any modified plan, subsequently presented to and approved by the Commission is hereby approved.
5. Vectren is hereby directed to refile an energy efficiency plan, consistent with our findings herein, within a reasonable time following the date of this Order.
6. This Order shall be made subject to the outcome of the IURC Rulemaking #15-06.
- ~~7. This Order shall be effective on and after the date of its approval.~~
- ~~1. Having considered the criteria established in Ind. Code § 8-1-8.5-10(j), the 2016—2017 Plan presented by Vectren South is hereby found to be reasonable.~~
- ~~2. The 2016—2017 Plan presented by Vectren South includes (i) energy efficiency goals; (ii) energy efficiency programs to achieve the energy efficiency goals; (iii) program budgets and costs; and (iv) evaluation, measurement, and verification procedures that include independent evaluation, measurement, and verification.~~
- ~~3. Vectren South has satisfied its obligations under Ind. Code § 8-1-8.5-10(h) through July 1, 2018.~~
- ~~4. Vectren South's 2016—2017 Plan and its respective proposed costs and budgets are approved as set forth herein.~~
- ~~5. Vectren South's request for timely recovery of all costs, including program costs, lost revenues and financial incentives associated with the 2016—2017 Plan, through its DSMA is hereby approved, consistent with the terms of the Commission's Order herein.~~
- ~~6. Vectren South's request for continued authority to use deferred accounting on an ongoing basis until such costs are reflected in retail rates through its DSMA is hereby approved.~~
- ~~7. Vectren South' request for authority to recover, via its DSMA, annual depreciation and operating expenses associated with the proposed CVR Program investment along with recovery in the DSMA of the annual carrying costs on this capital investment shall be and hereby is approved consistent with the terms of the Commission's Order herein.~~
- ~~8. This Order shall be effective on and after the date of its approval.~~

**STEPHAN, HUSTON, MAYS-MEDLEY, WEBER AND ZIEGNER CONCUR:**  
**APPROVED:**

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

---

Brenda A. Howe, Secretary to the Commission