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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED)
PETITION OF INDIANA MICHIGAN POWER)
COMPANY FOR APPROVAL OF)
ALTERNATIVE REGULATORY PLAN FOR)
DEMAND SIDE MANAGEMENT (DSM) AND)
ENERGY EFFICIENCY (EE) PROGRAMS FOR)
2015 AND ASSOCIATED ACCOUNTING AND)
RATEMAKING MECHANISMS, INCLUDING)
TIMELY RECOVERY THROUGH I&M'S)
DSM/EE PROGRAM COST RIDER OF)
ASSOCIATED COSTS, INCLUDING ALL)
PROGRAM COSTS, NET LOST REVENUE,)
SHAREHOLDER INCENTIVES AND)
CARRYING CHARGES, DEPRECIATION AND)
OPERATIONS AND MAINTENANCE)
EXPENSE ON CAPITAL EXPENDITURES.)

CAUSE NO. 44486

APPROVED: DEC 03 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On May 5, 2014, Indiana Michigan Power Company ("I&M") filed its Verified Petition and Request for Administrative Notice with the Indiana Utility Regulatory Commission ("Commission"), requesting approval of a plan for Demand Side Management and Energy Efficiency ("DSM/EE") Programs for 2015 and associated accounting and ratemaking recognition.

The I&M Industrial Group ("Industrial Group"), Citizens Action Coalition of Indiana ("CAC") and the City of Fort Wayne ("Fort Wayne" or "City") intervened in this Cause. On May 7, 2014, I&M filed its case-in-chief and supporting workpapers. On July 24, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") and CAC filed their respective cases-in-chief. On July 28, 2014, Fort Wayne filed its case-in-chief. On August 5, 2014, I&M filed its rebuttal evidence.

The Commission held an evidentiary hearing in this Cause on August 15 and 25, 2014 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. I&M, the OUCC, the Industrial Group, CAC and Fort Wayne appeared and participated at the hearing. No members of the general public attended the hearing. At the August 25, 2014 evidentiary hearing, I&M and the OUCC reported that they had reached an agreement in principle and required time to document their proposed settlement. On the same date, I&M and the OUCC filed a Joint

Motion for Leave to Submit Settlement Agreement and requested the procedural schedule be set to allow for the presentation of evidence and hearing on the Settlement Agreement. The Joint Motion was granted and the hearing was continued until September 29, 2014.

On September 3, 2014, I&M and the OUCC filed testimony and exhibits in support of their Settlement Agreement. On September 16, 2014, Fort Wayne filed responsive testimony. I&M filed additional testimony on September 22, 2014, rebutting Ft. Wayne's filing.¹ The Commission held a settlement hearing on September 29, 2014 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. I&M, the OUCC, the Industrial Group, CAC and Fort Wayne appeared and participated at the hearing. No members of the general public attended the settlement hearing.

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

1. Notice and Jurisdiction. Notices of the hearings in this Cause were given and published as required by law. Proofs of publication of the notices are contained in the official files of the Commission. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code §§ 8-1-2-4, -42, -68, -69, Ind. Code ch. 8-1-8.5 and 170 IAC 4-8, the Commission has jurisdiction over I&M's DSM/EE program offerings and associated cost recovery. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. I&M's Characteristics and Business. I&M, a wholly-owned subsidiary of American Electric Power ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal office at One Summit Square, Fort Wayne, Indiana. I&M is a member of the East Zone of the AEP System. I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to approximately 458,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley.

3. Relief Requested. I&M requests Commission approval of a 2015 DSM Plan, which is a plan to implement a cost-effective portfolio of DSM/EE programs for the calendar year 2015 and associated ratemaking and accounting relief.

4. I&M's Direct Evidence.

A. 2015 DSM Plan. Jon C. Walter, Manager of Regulatory Support for I&M, explained that the 2015 DSM Plan continues many of the same DSM/EE programs approved in the Commission's Orders in Cause Nos. 43959 and 43827 DSM 3. Mr. Walter provided a program summary, proposed funding levels, and related information for the following programs:

¹ Fort Wayne also filed a Response to Joint Motion of I&M and OUCC Regarding Settlement Agreement. As the Presiding Officers previously granted the Joint Motion and recognizing Fort Wayne's September 29, 2014 decision not to offer its responsive testimony, we find the City's Response to be moot.

- Residential EE Products
- Residential Low Income Weatherization
- Schools Energy Education
- Residential Appliance Recycling
- Residential New Construction
- Residential Weatherization
- Residential Online Audit
- Residential Home Energy Reports
- Residential Peak Reduction
- Commercial & Industrial (“C&I”) Prescriptive
- C&I Custom (a.k.a. C&I Incentives)
- C&I Audit & Small Business Direct Install (“SBDI”)
- Electric Energy Consumption Optimization (“EECO”)

Mr. Walter explained how a consultant was used to develop the Action Plan for 2014-2016. He also explained why approval was sought for a one-year plan and discussed how the 2015 DSM Plan optimized the consultant’s recommendations to reflect Senate Enrolled Act (“SEA”) 340, reflect I&M’s experience with the existing program offerings, improve cost-effectiveness and program design, and reflect factors unique to I&M.

B. Cost-Effectiveness. Mr. Walter presented the cost-effectiveness analysis performed by I&M’s consultant. In addition, William K. Castle, Director of Resource Planning and DSM for AEP Service Corporation (“AEPSC”), presented an analysis of the cost-effectiveness of the portfolio of proposed DSM programs. He discussed the standard economic tests, inputs and assumptions used in the cost-effectiveness analysis. He explained the differences between I&M’s 2015 DSM Plan portfolio and its current DSM portfolio that materially impacts cost-effectiveness and discussed the risks to the cost-effectiveness of the portfolio.

C. Shared Savings. David M. Roush, Director-Regulated Pricing and Analysis for AEPSC, testified that I&M proposes a sharing mechanism wherein I&M receives, before taxes, 15 percent of the shared savings. He said I&M is not seeking shared savings for the Low Income Weatherization or EECO programs. I&M’s share of the shared savings would be treated as above-the-line for ratemaking purposes and included in the earnings test under the fuel adjustment clause (“FAC”).

D. Cost Recovery. Mr. Roush explained the calculation of future DSM/EE Program Cost Rider rates. He explained that in addition to program costs, the revenue requirement for the DSM/EE Program Cost Rider will include net lost revenues,² shared savings, an adjustment (if needed) based on the year-to-date experience for the current program year, and a reconciliation of prior program years. He added that I&M is not proposing to revise the Rider

² Lost revenues, which were also referred to by the parties in this proceeding as “net lost revenues” or “lost margins,” are those revenues lost less the costs saved as a result of a DSM program as contemplated by 170 IAC 4-8-6. To determine net lost revenues, the net, verified kWh impacts of each program are multiplied by the average fixed cost per kWh for customers eligible for each program based upon I&M’s current rates.

rates at this time but instead will propose new rates at the time of its annual true-up/reconciliation proceeding. He explained how subsequent Rider rates will be established and why I&M's requested ratemaking treatment is consistent with the Commission's rules.

E. Stakeholder Input. Mr. Walter explained that I&M proposes an Advisory Board process similar to the process used to elicit stakeholder input to the I&M 2013 Integrated Resource Plan ("IRP"). He proposed that I&M solicit stakeholder input into DSM planning and program implementation via quarterly Advisory Board meetings. I&M can then discuss and respond to stakeholder input regarding future direction of programs planned and discuss current and ongoing program implementation progress so that interested stakeholders can stay informed on I&M DSM program performance.

5. OUCC's Evidence. The OUCC presented the testimony of three witnesses. April M. Paronish, Senior Utility Analyst in the OUCC Resource Planning and Communications Division, discussed I&M's shared savings mechanism and proposed changes to I&M's current DSM/EE Program Implementation Oversight Board ("OSB"). Ronald L. Keen, Senior Analyst within the OUCC Resource Planning and Communications Division, discussed the EECO Program. Edward T. Rutter, Utility Analyst in the OUCC Resource Planning and Communications Division, testified regarding I&M's proposed shared savings mechanism, lost revenues and EECO program cost recovery.

Ms. Paronish recommended the Commission deny I&M's proposal to modify the structure and operation of the current OSB and deny I&M's requested spending flexibility unless the current OSB structure is maintained. She further recommended the Commission deny I&M's proposed shared savings mechanism and not allow incentives for savings generated by programs previously designated as statewide Core programs under the Commission's Phase II Order in Cause No. 42693.

Mr. Keen discussed the fact that the EECO Program affects all customers served on a specific circuit in the same manner, regardless of whether the customer opts-out of participation in future DSM programs under SEA 340.

Mr. Rutter recommended that no shareholder incentive be approved for 2015. He testified that the shareholder incentive proposed destroys the proper balance between the interests of the utility, its shareholders, utility customers and the public interest under the regulatory compact. However, if the Commission decides to authorize I&M's receipt a shareholder incentive despite the OUCC's opposition, Mr. Rutter testified that:

- No shareholder incentive should be allowed unless I&M achieves 100 percent of its target energy savings after evaluation, verification and measurement ("EM&V");
- No additional incentive should be permitted for achieving more than 100 percent of the utility's self-imposed energy savings target; and
- Shareholders' incentives should be capped at 10 percent of total eligible DSM program costs by customer sector.

Mr. Rutter also recommended that EECO program costs and corresponding lost revenue recovery not be permitted through the DSM/EE Program Cost Rider, but rather considered in

I&M's next base rate case or through a transmission, distribution, storage system improvement charge ("TDSIC") filing. Finally, Mr. Rutter emphasized that, due to the magnitude of lost revenues and shareholder incentives recovered through I&M's DSM/EE Program Cost Rider, it is important that the Commission re-examine both lost revenue recovery and shareholder incentives, either generically or in future individual investor-owned electric utilities' DSM plan filings.

6. CAC's Evidence. The CAC presented the testimony of Kerwin L. Olson, its Executive Director, who testified regarding I&M's request to recover lost revenues, I&M's 2013 IRP and I&M's proposed changes to its OSB. Mr. Olson opposed I&M's recovery of lost revenues because I&M did not demonstrate that it will fail to receive sufficient revenues to recover authorized costs as a result of implementing the 2015 DSM Plan and requested the Commission open an investigation to examine lost revenue calculations for DSM to ensure that ratepayers are not being overcharged. He stated that if recovery of lost revenues is allowed, it should be limited to the first two years of the measure life, except in the case of programs with a one year measure life which should be limited to one year of lost revenues.

Mr. Olson noted that although I&M stated its 2015 DSM Plan is consistent with its 2013 IRP, I&M has not made any adjustments to its IRP to address Dr. Borum's finding that the IRP fails to meet the requirement that energy efficiency and supply-side resources be evaluated in a consistent and comparable manner. He recommended the Commission order I&M to make adjustments to its 2015 DSM Plan to reflect comments received by I&M on its 2013 IRP or provide the OSB with authority to work on expanded or new program offerings to be delivered starting early in 2015.

Mr. Olson also opposed I&M's proposed stakeholder process. He noted that meaningful stakeholder participation depends in large part on utility receptivity to feedback and requests for information and identified several issues CAC encountered with I&M through the IRP stakeholder process. Mr. Olson recommended that the OSB continue as it has to ensure adequate stakeholder input.

7. Fort Wayne's Evidence. Douglas J. Fasick, Senior Program Manager, Utilities Energy Engineering and Sustainability Service for Fort Wayne's City Utilities Division, expressed the City's concern that I&M's proposed 2015 DSM Plan does not recognize the unique nature of the energy requirements for the City's wastewater and water systems and the opportunities for substantial reductions in energy consumption and electric demand through the City's combined heat and power ("CHP") project and DSM initiatives. He explained that the CHP project at the City's wastewater facility did not fit within any particular DSM/EE program offering and added that the City chose to participate in this proceeding to encourage I&M and the Commission to adopt a DSM program that will provide flexibility to consider projects that will capture these energy savings opportunities. He proposed that I&M's C&I Custom Program should allow customers to present their own analysis of the economics for consideration by I&M in determining whether a project is of "high value" and that the program should not be limited to buildings or operational efficiencies. Finally, Mr. Fasick stated the C&I Custom Program should provide the flexibility to design DSM projects specific to facilities and operations and that the

City should be given the opportunity to work with I&M to develop a project that provides value to both the City and I&M.

8. I&M's Rebuttal Evidence. Mr. Walter responded to the concerns raised by the other parties regarding shared savings, lost revenues, EECO program cost recovery, the OSB structure, I&M's 2013 IRP and I&M's C&I Custom Program. With respect to shared savings, Mr. Walter explained that eliminating shareholder incentives would abandon an important aspect of DSM programs – to incent the utility to offer robust and impactful programs rather than focusing solely on the provision of retail electric service. He reiterated that I&M's shared savings model applies a simple and straightforward benefit cost test result and provides 85 percent of the benefits produced by I&M's DSM programs to I&M's customers. He also explained why I&M believes the OUCC's proposed modifications to the shared savings mechanism to include a "floor" and "ceiling" would result in an unfair sharing of program benefits and incent unintended adverse consequences.

Mr. Walter responded to Mr. Rutter's recommendation concerning recovery of EECO Program costs and corresponding lost revenues. He explained why he disagreed with Mr. Rutter that SEA 340 creates a concern with including the EECO program in the 2015 DSM Plan. He also testified that acceptance of Mr. Rutter's alternative recommendation for a TDSIC filing would effectively deny I&M timely cost recovery for the EECO Program and possibly cause the program and its associated benefits to be discontinued at least until such time as a TDSIC filing could be prepared and considered by the Commission. He said the Commission and the parties have had an opportunity to investigate this particular program in two cases and it is providing cost-effective benefits for customers. Accordingly, he concluded it would be unreasonable to deny or delay ongoing cost recovery of the EECO Program through the DSM/EE Program Cost Rider. Mr. Walter added that while Mr. Rutter did not identify any specific concerns about the EM&V for the EECO Program, I&M is interested in working with the OUCC and other industry stakeholders and has already met with the OUCC to discuss EECO Program results and ongoing EM&V.

Regarding lost revenues, Mr. Walter testified that Mr. Olson's comparison of actual sales to forecast sales was not a meaningful comparison for the purposes of evaluating the impact of DSM programs or the appropriateness of lost revenue recovery. He explained why I&M believes it is reasonable and appropriate to provide lost revenue recovery for the life of the measure, and not require utilities to file general rate cases on an arbitrary schedule. Mr. Walter disagreed with Mr. Olson's request that I&M's lost revenue recovery be made subject to refund pending further investigation. He testified that I&M is in compliance with current Commission rules and Orders regarding lost revenue reporting and recovery, and that I&M is also in compliance with the agreed upon treatment conventions with industry stakeholders. He explained that I&M has consistently trued up any lost revenue recovery to independent EM&V annual results.

Mr. Walter responded to the OUCC and CAC recommendations regarding the OSB. He emphasized that I&M is not proposing to dismantle stakeholder input, but rather to allow for broader stakeholder input beyond the members of the current OSB and to recognize that the utility is responsible for its DSM programs. He explained how I&M will work with stakeholders to keep them updated and aware of program progress. He said I&M is supportive of an open

advisory process that will help stimulate a free exchange of ideas as opposed to the old model that by its mere structure carried the inherent risk that members could hold veto power of issues through voting blocks. He also stated that I&M's proposed spending flexibility remains reasonable without the current OSB structure because it recognizes the need of the utility to retain management control of the matters for which the utility has responsibility.

With regard to CAC's concerns with I&M's IRP, Mr. Walter noted that Dr. Borum's comments would be taken into account in I&M's ongoing planning. He further testified that an IRP optimization model cannot determine the practical amount of energy efficiency resources to be implemented during a particular time period. Rather, an optimization model will simply select all cost-effective energy efficiency resources that are made available in a given period without regard to the level of programs that can be practically implemented.

In response to Fort Wayne's concerns, Mr. Walter reiterated his direct testimony that the C&I Custom Program provides incentives for non-prescriptive, non-deemable (variable operating characteristics) C&I sector measures and projects. He added that the program supports projects that require a customized, more complex engineering analysis to determine the level of energy savings possible from projects. He stated that the C&I Custom Program was combined with the Retro Commissioning Lite Program because the delivery aspects required for both are similar and would cause less application confusion to customers. He said Mr. Fasick interpreted the Retro Commissioning Lite component of the newly combined C&I Custom program as the only potential route for his energy savings projects and clarified that this is not the case.

With regard to the City's CHP project, Mr. Walter explained I&M is not opposed to discussing how CHP incentive programs may be feasible in the future but pointed out that this is not a simple issue. He testified that CHP projects were not planned as potential projects within the scope of the C&I Custom Program. He explained that while I&M is committed to providing cost effective DSM, the cost-effectiveness of CHP projects is untested because they are site specific and complex in nature, and have the potential to interconnect and sell their generation resource into electric markets. He recognized that the cost and benefit of CHP can be significant but stated that the Commission has previously ruled that generation sold back to the utility would not count toward energy efficiency savings targets. Mr. Walter proposed I&M and the City work together to try to identify a CHP project that qualifies for the C&I Custom Program as currently structured.

9. Settlement Agreement. The Settlement Agreement between I&M and the OUCC (jointly "Settling Parties"), a copy of which is attached to this Order and incorporated herein, provides that:

- The 2015 DSM Plan as filed by I&M should be approved as proposed, including the timely recovery of program costs, lost revenues and shared savings, with certain modifications outlined in the Settlement Agreement.
- I&M should be authorized to receive a shareholder incentive in the form of a shared savings mechanism as set forth in the Settlement Agreement.

- The OSB for I&M's 2015 DSM Plan will include five voting members: I&M, the Industrial Group, CAC, Fort Wayne and the OUCC. The Settlement Agreement enumerates the specific list of issues that will be decided by a vote of the OSB members and includes a quarterly meeting requirement for the OSB and dispute resolution provisions.

10. Settlement Evidence. Mr. Walter and Ms. Paronish both sponsored and provided an overview of the Settlement Agreement.

Mr. Walter testified that the Settlement Agreement captures the Settling Parties' agreement concerning implementation of the proposed 2015 DSM Plan, with specific enumerated modifications. Mr. Walter described each of the key Settlement Agreement provisions in detail and explained that the Settlement Agreement, taken as a whole, represents the result of arms-length negotiations on the issues raised.

More specifically, he explained that the Settlement Agreement provides the agreed upon methodology to govern shared savings. He said the Settling Parties agreed that the savings eligible for recovery will be determined by the amount of the net benefits from the programs that achieve Utility Cost Test ("UCT") benefit-cost scores at or above 1.0 at the program level excluding savings from the EECO Program. The Settling Parties agreed I&M would receive 15 percent of 90 percent of the total shared savings at the sector level (excluding EECO savings and programs that are not cost-effective under the UCT). He stated that I&M will not be eligible to recover shared savings beyond 15 percent of sector program costs, effectively serving as the cap on I&M shared savings earnings. He explained that the Settling Parties agreed that I&M may still forecast the amount of shared savings to be reflected in the DSM/EE Program Cost Rider factor based on energy savings projections, but those forecasts are subject to reconciliation based on the verified net benefits determined by the independent EM&V vendor.

Mr. Walter explained that the oversight or stakeholder process in the Settlement Agreement provides for five voting members on the I&M OSB, namely I&M, the Industrial Group, CAC, Fort Wayne, and the OUCC. He stated that the OSB will hold meetings at least on a quarterly basis, with agendas distributed no less than five days before the meeting. He explained the quarterly meetings are intended to provide I&M an opportunity to seek input and gather feedback from members on program performance to date and, when required, conduct voting on upcoming issues.

Mr. Walter explained that the Settlement Agreement enumerates the specific list of issues to be decided by a vote of the OSB members. He also discussed the voting procedures as well as the plan for communications between quarterly meetings and the steps that will be taken to protect confidential information. Mr. Walter stated the agreed upon dispute resolution process includes an escalation mechanism where critical issues can be elevated to the attention of OSB members' management as a safeguard to ensure communication is clear. He stated that I&M agreed to delay implementation of any contested items that do not require immediate action so that OSB member management personnel can discuss matters within a three business day period. He clarified that this process is not intended to replace the ability of the Commission to act as final arbiter on any matter, but was included to provide an avenue for OSB members to ensure

proper consideration of important issues if there is not agreement among the members. The Settlement Agreement also makes clear that nothing in the agreement limits I&M from seeking input on its programs and DSM activity from interested stakeholders beyond the members of the OSB.

Mr. Walter explained why he believes Commission approval of the Settlement Agreement is in the public interest. He stated the Settlement Agreement incorporates considerable concessions by the Settling Parties. He noted that I&M's proposed sharing mechanism did not cap the amount of shared savings received by I&M beyond the 15/85 percent sharing allocation between I&M and customers, respectively. However, the Settlement Agreement provides that I&M customers will not only receive the benefit of 85 percent of the net benefits but also that I&M's 15 percent share will be based on only 90 percent of the net benefits, as opposed to the proposed 100 percent in I&M's plan. He stated that the Settlement Agreement further benefits customers because another cap will be applied so that I&M will be constrained to only collect its already capped 15 percent share of net benefits up to another separate 15 percent cap based on program costs by sector. He stated that these layered caps provide more potential savings for customers from I&M's originally proposed 2015 DSM Plan.

Mr. Walter also explained that customers are advantaged by the new OSB process. He said the clarification on the issues eligible for voting will allow I&M to obtain input on the provision of these programs while also managing their implementation. He explained the Settlement Agreement also provides a clear path to govern the OSB interactions and involves member management if there are concerns in need of greater attention. The Settlement Agreement also makes it clear that I&M may seek other stakeholder input beyond members of the OSB.

Ms. Paronish testified that under the Settlement Agreement, I&M's proposed 2015 DSM Plan portfolio continues the majority of its 2014 DSM programs but with some agreed program changes that should improve the cost-effectiveness of I&M's DSM portfolio. She stated the Settlement Agreement includes OSB provisions for improved operational efficiencies without sacrificing ratepayer protections. It also allows I&M to continue to earn performance incentives with greater ratepayer protections.

Regarding performance incentives, she explained that rather than basing shared savings on goals or projections, I&M will calculate final actual shared savings based on the verified savings determined by the independent EM&V vendor using the UCT benefit-cost scores. She stated that the UCT score must be at least 1.0 at the program level to count associated energy or demand reductions in I&M's shared savings calculation. In addition, the EECO program will be excluded from I&M's shared savings calculation. She explained that I&M will not receive shared savings on the first 10 percent of benefits calculated by the UCT, but will receive 15 percent of the remaining savings at the sector level (excluding shared savings attributable to the EECO program and any programs that do not score at least 1.0 under the UCT at the program level), subject to a shared savings cap. Shared savings shall be capped at 15 percent of I&M's total annual eligible program costs, by sector, excluding the EECO program and any other programs that do not score at least 1.0 under the UCT at the program level and I&M shall not be eligible to collect shared savings in excess of the agreed cap for each sector. She stated that I&M will

forecast the amount of 2015 shared savings and include its authorized share of the forecasted amount in its DSM/EE Program Cost Rider factor, but such estimates will be reconciled and tried-up to I&M's final EM&V results.

Ms. Paronish identified the five OSB voting members and noted that unless otherwise agreed by the OSB members, I&M will provide notice of any voting need to the OSB at least five business days in advance of the vote. Ms. Paronish reviewed the list of issues subject to the voting process and discussed the OSB meeting procedures. She explained that I&M will also provide pertinent material to OSB members not less than five business days before the vote. She stated that the OSB members will act in good faith and will not use requests for information to unnecessarily delay a vote. She stated that should an OSB member fail to vote within the required timeframe, that failure to act will reduce the number of votes on that issue. She testified that all votes will be determined by a simple majority of voting members participating in a particular vote (except votes to add new OSB members, which would require a unanimous vote).

Ms. Paronish also discussed the Settlement Agreement provisions regarding communications between quarterly meetings. She added that to allow for a reasonable opportunity for discussion and input from OSB members, I&M will notify OSB Members before making future DSM plan or reconciliation filings. Ms. Paronish discussed the additional dispute resolution procedure available under the Settlement Agreement and noted that the Settlement does not limit stakeholders' ability to take disputes to the Commission for resolution; nor does the agreement limit I&M's ability to seek input from other interested stakeholders beyond OSB members.

Finally, Ms. Paronish explained why she believes Commission approval of the Settlement Agreement will serve the public interest. She testified that the proposed 2015 programs are designed to provide cost effective benefits to both I&M and its customers. She stated that I&M's shareholder incentives remain tethered, with the first 10 percent of shared savings allocated to I&M ratepayers, along with 85 percent of the remaining 90 percent of shared savings, with I&M's recovery limited to the agreed cap on shareholder incentives. She added that while the OSB will be altered, it will retain current members and voting rights critical to ratepayer protection.

11. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition of Ind., Inc. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition of Ind., Inc. v. Public Service Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require

that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before we can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2, and that such agreement serves the public interest.

A. 2015 DSM Plan. As an initial matter, we note that I&M originally sought approval of its 2015 DSM Plan as an alternative regulatory plan under Ind. Code ch. 8-1-2.5, which provides the Commission with authority to adopt under certain conditions alternative practices, procedures and mechanisms from those contained in its rules. Because we find that sufficient authority exists under the Commission's DSM rules to consider I&M's proposed 2015 DSM Plan and related modifications under the Settlement Agreement, we need not consider adoption of an alternative regulatory plan.

In addition, we also note that throughout this proceeding I&M supported its proposed changes to its current DSM program by asserting that with the passage of SEA 340 its proposed energy efficiency offerings for 2015 are voluntary offerings. Mr. Walter testified that SEA 340 "ended the programs in place and the utilities have voluntarily filled the void left for 2015." Pet.'s Ex. JCW-R at 3. While it appears I&M recognizes that "utility sponsored DSM is a critical component to help address the question of how best to supply the future energy needs of I&M's customers," it also views the pursuit of energy efficiency as "a business service rather than a regulatory requirement." *Id.* at 2-3.

Although we agree that SEA 340 removed any explicit regulatory requirement for I&M to offer DSM programs or to pursue specific energy savings goals, it did not alter the Commission's statutory obligation under Ind. Code ch. 8-1-8.5 to consider DSM when determining whether to approve the issuance of a certificate of public convenience and necessity when a utility seeks to build new generation or a utility's obligation under 170 IAC 4-7 to consider DSM in its IRP when determining how to meet future demand for electric service. Consequently, consideration and implementation of cost-effective DSM as an alternative to other supply side resources is embedded in Indiana's regulatory framework. As such, it necessarily follows that the provision of electric service at just and reasonable rates is not as removed from such consideration as may be suggested by I&M's testimony.

The Settlement Agreement in this Cause provides for the Settling Parties' agreement concerning I&M's implementation of its proposed 2015 DSM Plan, which consists of a portfolio of cost-effective programs designed to offer a broad mix of DSM measures to I&M's customers. We note that, with the exception of the City's suggestions for I&M's C&I Custom Program, no parties questioned the cost-effectiveness or need for the programs included in I&M's 2015 DSM Plan. At the September 29, 2014 hearing, the City expressed its support for the Settlement Agreement, leaving no opposition to the 2015 DSM Plan except for the CAC's concerns regarding the adequacy of the plan due to the deficiencies in I&M's IRP as identified by Dr. Borum.

Regarding I&M's IRP, Mr. Walter testified that although I&M's generation resources currently exceed I&M's customer load requirements, I&M is committed to a diverse generation fleet and DSM is an important aspect. He explained how I&M's 2015 DSM Plan is consistent

with its 2013 IRP, which utilizes cost-effective DSM as a resource to help offset the need for future generation and provides for a level of programs that is achievable and consistent with the level of DSM factored into I&M's forecast of energy sales. Although Dr. Borum's report discussed I&M's failure to adequately demonstrate how the level of energy efficiency included in the IRP through 2019 was determined, it did not raise concerns about the cost-effectiveness of the DSM programs included in the preferred resource plan. Given I&M's current position with generation resources, the cost-effectiveness of the proposed DSM programs, and lack evidence demonstrating I&M's proposed DSM offerings are inadequate for 2015, we decline to accept the CAC's recommendations.

Based on the evidence presented in this case, we find that I&M's proposed portfolio of DSM programs is cost-effective, offers opportunities for all customer classes, and appropriately builds on I&M's historical program experience. Therefore, we approve the 2015 DSM Plan as proposed by I&M and modified under the Settlement Agreement. We further authorize the timely recovery of program costs, lost revenues, and shared savings proposed by I&M, with the modifications set forth in the Settlement Agreement as discussed below.

B. EECO Program Cost Recovery. I&M requested the continued recovery of capital, depreciation, and operation and maintenance ("O&M") costs associated with the EECO program through the DSM/EE Program Cost Rider using over/under deferral accounting. I&M also requested authority to begin deferral, for subsequent recovery, of carrying charges and depreciation expense, after each additional EECO circuit is placed in-service, based on the actual in-service date for each circuit. As noted above, the Settlement Agreement provides for the timely recovery of approved EECO program costs as proposed by I&M in its filing.

At the evidentiary hearing, Mr. Walter was cross-examined by the Industrial Group as to whether the EECO program reduced demand for electricity, whether it provided less energy at a comparable level of energy service, and the potential impact on other customers should C&I customers be permitted to opt out of the EECO program under SEA 340. Mr. Walter explained that the EECO program was, in many respects, designed primarily to reduce demand. He stated that it reduces demand because, while it operates for the entire year, the EECO system is operational during the time of I&M's peak and results on average in a three percent reduction in both demand and energy. Mr. Walter explained this is different from many DSM programs, which focus on offering energy efficiency improvements. Further, the record reflects that the EECO program provides peak demand reduction, as opposed to the general demand reduction that may be associated with decreased energy usage from other types of DSM programs. SEA 340 defines an energy efficiency program from which an industrial customer may opt out as one that is not designed primarily to reduce demand. Ind. Code § 8-1-8.5-9(c) and (f). The record establishes that the EECO program is designed primarily to reduce demand.

Furthermore, SEA 340 limits opt out to a program that is designed to implement energy efficiency improvements as defined in 170 IAC 4-8-1(j) for customers. Our DSM rules define an "energy efficiency improvement" to mean "reduced energy use for a comparable level of energy service." 170 IAC 4-8-1(j). "Energy service," in turn, is defined as "the light, heat, motor drive, and other service for which a customer purchases electricity from the utility." 170 IAC 4-8-1(k). Thus, an energy efficiency improvement offers a consumer a particular end-use service (e.g.,

heating, cooling) at a reduced energy usage. For example, to make one's home or office more efficient, consumers may install Energy Star appliances, energy-efficient pumps or variable speed motors. By implementing these energy efficiency improvements, individuals and companies may obtain a comparable level of heating, cooling, refrigeration, motor drive or other energy service while reducing their energy usage.

The record reflects that the EECO program is different from the types of energy efficiency improvements defined in our DSM rules. The EECO program provides demand reduction, thereby altering I&M's load shape. The EECO program does not provide incentives to buy end-use devices like appliances, pumps or motors that offer comparable levels of energy service at reduced energy usage. In our December 30, 2013 Order in Cause No. 43827 DSM 3 (at 11) we explained how approval of the EECO program as DSM is consistent with the definitions set forth in 170 IAC 4-8-1(e), (f) and (g). We conclude, as we did in that Cause, that the EECO program is a deliberate intervention that produces a desired change in I&M's load shape through technology at I&M's energy delivery system. Based on the record, we find, therefore, that the EECO program is DSM as defined in 170 IAC 4-8-1(e), (f) and (g) and not an "energy efficiency program" as defined in 170 IAC 4-8-1(j).

Based on the evidence presented, we find that continued timely cost recovery of the costs associated with the EECO program through the DSM/EE Program Cost Rider as provided for in the I&M proposal as adopted by the Settlement Agreement is appropriate and reasonable. We further grant I&M authority to begin deferral, for subsequent recovery, of the carrying charges and depreciation expense once each additional EECO circuit is placed in-service based on the actual in-service date for each circuit.

C. Shared Savings. The DSM Rules at 170 IAC 4-8-7(a) authorize the Commission to "provide the utility with a shareholder incentive to encourage participation in and promotion of a demand side management program" when the Commission determines it is appropriate to do so. We have previously approved a shareholder incentive in the form of shared savings for many of I&M's current DSM programs. *See Indiana Michigan Power Company*, Cause No. 43827 DSM 3 (IURC Dec. 30, 2013). The Settlement Agreement approved in this Order provides that I&M shall calculate final actual shared savings based on the verified savings determined by the EM&V vendor, rather than on projections or goals proposed by the utility. The savings eligible for sharing will be determined by the amount of savings resulting from programs that achieve UCT benefit-cost scores at or above 1.0 at the program level, excluding savings from the EECO program and any DSM programs that are not cost-effective. I&M will receive a 15 percent share of 90 percent of the total shared savings at the sector level (excluding any shared savings attributed to EECO and any programs that are not cost-effective under the UCT). I&M will not be eligible to recover shared savings beyond 15 percent of sector program costs, effectively serving as a cap on I&M shared savings. The Settlement Agreement provides that I&M may still forecast the amount of shared savings to be reflected in the DSM/EE Program Cost Rider based on energy savings projections, but those forecasts are subject to reconciliation based on the verified net benefits determined by the independent EM&V vendor.

The Commission finds the proposed shared savings mechanism set forth in the Settlement Agreement to be reasonable and in the public interest. As noted in the Settling Parties' settlement

testimony, the sharing mechanism set forth in the Settlement Agreement provides additional benefits to I&M's customers beyond those proposed in I&M's initial shared savings mechanism. I&M customers will not only receive the benefit of 85 percent of the net benefits produced by the 2015 DSM programs, but will also benefit because I&M's 15 percent share will be based on only 90 percent of the net benefits. As Mr. Walter explained, the Settlement Agreement further benefits customers because an additional cap will be applied so that I&M will be constrained to only collect its already-capped 15 percent share of 90 percent of the total net benefits up to a separate 15 percent cap based on eligible program costs, by sector. Accordingly, we authorize I&M to implement its shared savings mechanism consistent with the terms of the Settlement Agreement.

D. Lost Revenues. 170 IAC 4-8-6 authorizes the Commission to consider the recovery by a utility of lost revenues as a result of the implementation of DSM programs. We have previously approved I&M's recovery of lost revenues associated with its DSM programs in Cause Nos. 43959, 43827 and 43827 DSM 3. We have similarly approved recovery of lost revenues for other utilities. Mr. Roush explained that I&M requests the Commission authorize the continued recovery of lost revenues through I&M's DSM/EE Program Cost Rider. The Settlement Agreement provides that the Settling Parties agree that I&M should be authorized to recover lost revenues as originally proposed by I&M.

CAC opposed lost revenue recovery based on I&M's actual sales in 2012 and 2013 and suggested that if recovery of lost revenues is allowed, it should be limited to the first two years of the measure life, or one year in the case of programs with a one-year measure life. CAC also recommended the Commission open an investigation to examine lost revenue calculations and the reasonableness of awarding lost revenues for the life of the measure.

Mr. Walter explained that lost revenues are not a cost of the DSM programs themselves but instead are reasonable and necessary costs of providing retail electric service that, absent the DSM program energy savings, would have been recovered through the just and reasonable rates established by the Commission. He stated that Mr. Olson's comparison of I&M's actual sales to forecast sales is not a meaningful comparison for the purposes of evaluating the impact of DSM programs for a number of reasons. First, a comparison of actual sales to a weather-normalized forecast of sales may simply indicate the impact of weather in a given year. Second, I&M's forecasts incorporate a projection of the effects of DSM programs. Third, actual sales are subject to fluctuations for reasons other than DSM and weather, such as overall economic conditions. Mr. Walter also disagreed with Mr. Olson's proposal to limit lost revenue recovery to the first two years of a measure life, or one year in the case of measures with a one-year life. He testified that it is inappropriate and incorrect to determine the need and timing of basic rate cases using this arbitrary time limit because it ignores the fact that a utility's actual sales are determined by a confluence of external factors outside the realm of DSM.

As noted above, the Commission has previously approved I&M's recovery of lost revenues associated with its DSM programs. The record does not support the CAC's proposed elimination of lost revenue recovery. While we agree with the CAC that a utility's ability to recover lost revenues is not automatic and may be periodically reviewed, we have also previously explained 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.³ See 170 IAC 4-8-6(c); *Southern Ind. Gas & Elec. Co.*, Cause No. 43938 at 40-41 (IURC August 31, 2012). We also explained that because the purpose of lost revenue recovery is to return the utility to the position it would have been in absent implementation of DSM, simply eliminating lost revenue recovery when sales are higher than the levels used to develop a utility's current base rates would be contrary to this purpose. *Id.* Further, I&M's recovery of lost revenues is subject to reconciliation based on independent EM&V results and such revenues are included in the FAC earnings test.

The CAC also suggested that the Commission open an investigation to examine lost revenue calculations to ensure that ratepayers are not being overcharged and to evaluate the reasonableness of awarding lost revenues for the life of the measure. We decline to do so. The CAC's testimony on this point was speculative in nature, did not provide a basis for limiting lost revenues to the first two years of the DSM measure life, and failed to present a compelling need to evaluate these issues on a generic basis. No evidence was presented to demonstrate that I&M (or any other utility) has overcharged its customers for DSM programs. We therefore decline to open an investigation into I&M's or any other utilities' lost revenue calculations at this time, and decline to make I&M's recovery of lost revenues subject to refund pending such an investigation.

Accordingly, I&M is authorized to continue to recover lost revenues resulting from its 2015 DSM Plan through its DSM/EE Program Cost Rider, as approved herein, consistent with the terms of the Settlement Agreement. We therefore grant I&M all necessary accounting authority to effectuate such recovery for its 2015 DSM Plan.

E. Oversight Board. The Settlement Agreement provides for an OSB with five voting members: I&M, I&M Industrial Group, CAC, Fort Wayne, and the OUCC. I&M agrees to hold meetings with its OSB at least quarterly to provide an opportunity to gather feedback from OSB members on performance to date and seek input on upcoming program and budget decisions. Pursuant to the Settlement Agreement, a vote of the five OSB voting members will be taken on the following specific issues as they arise:

(i) EM&V: selection of the EM&V vendor and application of the EM&V results to shared savings, lost revenues and final energy savings;

(ii) Program Funds: requests by I&M to move approved funds between sectors, any I&M proposal to reassign more than 25 percent of a sector's total budget to other programs in the same sector, any I&M request to spend up to 10 percent more than the estimated total budget for each sector, and any I&M request to move approved program funds to another program from the low-income program; and

(iii) OSB members: adding new voting members to the OSB.

³ SEA 340 provides that a utility "may recover energy efficiency programs cost in the same manner as energy efficiency programs costs were recoverable under" the Phase II Order. The Phase II Order (at p. 49) recognized that the Commission's DSM rules addressed cost recovery, including lost revenues and incentives, and declined to make any additional findings.

As explained by Mr. Walter, if there is a need to vote on any of these enumerated issues, I&M will provide five business days' advance notice, unless the OSB members agree otherwise. I&M will also provide all pertinent information concerning I&M's DSM programs required for OSB members to make informed decisions on the underlying issues, with the understanding that I&M is not required to research or obtain information on behalf of any OSB members. Likewise, the Settlement Agreement provides that OSB members will act in good faith and will not use requests for information to unnecessarily delay voting on any issue.

Mr. Walter explained at the evidentiary hearing that I&M had initially proposed an advisory board process to address some of the concerns I&M had with the structure of the current OSB and that I&M did not intend to limit or restrict the flow of DSM-related information going forward. The Settlement Agreement provides a process to allow for OSB communication and voting between quarterly meetings and I&M has committed to provide monthly scorecards consistent with current format within 45 days of the end of each month. I&M has also committed to notifying OSB members prior to making a future DSM plan or reconciliation filing to provide a reasonable opportunity for discussion and input. The Settlement Agreement also provides for a dispute resolution process if there is an issue concerning a pending action by I&M that any voting member of the OSB indicates is in need of further discussion or escalation. Finally, the Settling Parties agreed that nothing in the Settlement Agreement shall limit the ability of I&M to seek other interested stakeholder input beyond the members of the OSB.

Based on the evidence presented, we find that the OSB structure proposed in the Settlement Agreement is reasonable and in the public interest. I&M has committed to continue the open sharing of information with its interested stakeholders on a regular, reasonable basis. Although the Settlement Agreement provides for OSB votes on specific, enumerated issues, it does not prohibit I&M from seeking input from the OSB on other issues of importance or significance. We encourage I&M, as well as the other OSB members, to continue the use of best efforts in open communication with each other on DSM issues. The Settlement Agreement also provides an additional check and balance through a new dispute resolution mechanism, and ultimately through this Commission. Mr. Walter explained that this provision is included to provide an avenue for OSB members to ensure proper consideration of important issues if there is not agreement among the members, without usurping the Commission's authority to decide disputes. Accordingly, we approve the creation of the OSB as set forth in the Settlement Agreement.

F. Spending Flexibility. I&M also requested that the Commission grant I&M the ability to spend up to and including 10 percent above the costs set forth in this filing for its proposed 2015 DSM programs, and for the ability to transfer up to 25 percent of unencumbered program costs between programs in the same customer class. Mr. Walter explained that this flexibility will help provide for the continuation of a program that is projected to exceed the yearly program budget and allow I&M to better achieve DSM savings within the overall authorized budget. The Settlement Agreement provides that I&M's proposed spending flexibility be granted, subject to the OSB voting provisions discussed above. We find that I&M's proposed spending flexibility is reasonable and should be approved. As shown on Petitioner's Exhibit DMR-1, I&M's estimated 2015 DSM program costs total approximately \$17.3 million.

The spending flexibility requested by I&M therefore amounts to approximately \$1.7 million. As shown on Petitioner's Exhibit WKC-1, net benefits from the DSM programs are estimated to be approximately \$35.8 million. It is therefore unlikely that the spending flexibility granted herein will materially change the potential net benefits from I&M's DSM programs.

G. EM&V Report. In accordance with 170 IAC 4-8-4 and to ensure that we receive timely and sufficient information, we find that I&M shall file under this Cause its independent EM&V report concerning its 2015 DSM programs no later than July 1, 2016. The EM&V report must include the completed cost/benefit analysis that identifies the total costs, total benefits, and associated benefit cost ratios for the utility cost test, total resource cost test, ratepayer impact measure test, and the participant cost test. It shall also identify the discount rate used in the cost/benefit calculations.

H. Conclusion. In this proceeding, we analyzed the evidence and the Settlement Agreement to determine that it properly balances the interests of the utility, the customers, and the overall public interest. The Settling Parties' testimony in support of the Settlement Agreement and I&M's direct and rebuttal testimony and exhibits have enabled us to understand the mechanics of the Settlement provisions and to determine that the Settlement Agreement is supported by the evidence of record. We note that Fort Wayne also expressed support for the Settlement Agreement at the hearing considering the agreement. Accordingly, we find the Settlement Agreement is a reasonable resolution of the contested issues, in the public interest, and shall be approved.

12. Effect of the Settlement Agreement. The Settling Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459 at *19-22 (IURC March 19, 1997).

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

1. The Settlement Agreement between I&M and the OUCC is approved.
2. I&M's request for timely recovery of costs associated with its 2015 DSM Plan, as modified under the Settlement Agreement, including program costs, portfolio level costs, lost revenues, shared savings, and EM&V costs through I&M's DSM/EE Program Cost Rider and the carrying charges, depreciation and O&M expense on the capital expenditures incurred for the EECO program is approved consistent with the Settlement Agreement.
3. I&M's requested accounting and ratemaking treatment, including the authority to defer the over- and under-recoveries of projected DSM/EE program costs through the DSM/EE Program Cost Rider pending reconciliation in subsequent rider periods and approval to defer any costs incurred in implementing the DSM/EE programs prior to the time the Commission issues an order authorizing I&M to recognize these costs through the ratemaking process. The

accounting procedures necessary to implement the requested recovery of lost revenues and shared savings is also approved.

4. I&M is authorized to begin deferral, for subsequent recovery, of the carrying charges and depreciation expense after each additional EECO circuit is placed in-service, based on the actual in-service date for each circuit.

5. I&M shall file its EM&V report in this Cause on or before July 1, 2016 in accordance with Finding Paragraph 11.G. above.

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

STEPHAN, HUSTON, WEBER AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT:

APPROVED:

DEC 03 2014

**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**

IN THE MATTER OF THE VERIFIED)
 PETITION OF INDIANA MICHIGAN POWER)
 COMPANY FOR APPROVAL OF)
 ALTERNATIVE REGULATORY PLAN FOR)
 DEMAND SIDE MANAGEMENT (DSM) AND)
 ENERGY EFFICIENCY (EE) PROGRAMS)
 FOR 2015 AND ASSOCIATED)
 ACCOUNTING AND RATEMAKING)
 MECHANISMS, INCLUDING TIMELY)
 RECOVERY THROUGH I&M'S DSM/EE)
 PROGRAM COST RIDER OF ASSOCIATED)
 COSTS, INCLUDING ALL PROGRAM)
 COSTS, NET LOST REVENUE,)
 SHAREHOLDER INCENTIVES AND)
 CARRYING CHARGES, DEPRECIATION)
 AND OPERATIONS AND MAINTENANCE)
 EXPENSE ON CAPITAL EXPENDITURES.)

OFFICIAL
EXHIBITS

Cause No. 44486

Settling Parties IURC

 EXHIBIT NO. _____
 9-29-14 _____
 DATE REPORTER

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M" or "Company"), and the Indiana Office of Utility Consumer Counselor ("OUCC"), (collectively the "Settling Parties") solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of all matters pending before the Commission in this Cause:

A. TERMS AND CONDITIONS

The Settling Parties stipulate and agree that the terms of this Settlement Agreement are intended to address the establishment of the I&M 2015 DSM and EE Programs and associated ratemaking and recovery mechanisms initially requested and filed on May 6 and 7, 2014 in this Cause. The Parties have reached a mutual agreement on resolution

of this proceeding for purposes of matters related to the programs in the 2015 period. The terms of this settlement are not binding beyond the 2015 DSM Plan. The Settling Parties retain all rights to advocate for any position in the future irrespective of position agreed to in this Settlement Agreement. To effectuate this result, the Parties have agreed to the following terms:

1. **2015 DSM Plan**: The 2015 DSM Plan as filed by I&M on May 5 and 7, 2015 (2015 DSM Plan) and as supported by the testimony of the Company's witnesses will be adopted as proposed, including the timely recovery of program costs, lost revenues and shared savings, with the modifications outlined in this agreement.
2. **Shared Savings**: I&M shall calculate final actual shared savings based on the verified savings determined by the EM&V vendor rather than on projections or goals, as indicated in the 2015 DSM proposal. The savings eligible for sharing will be determined by the amount of savings from programs that achieve Utility Cost Test ("UCT") benefit-cost scores at or above 1.0 at the program level, excluding savings from Electric Energy Consumption Optimization (EECO). However, I&M will receive a 15% share of 90% of the total shared savings at the sector level (excluding any shared savings attributed to EECO and any programs that do not score at or above 1.0 under the UCT at the program level), subject to a cap. Shared savings retained by I&M shall not exceed the cap of 15% of total annual program costs, by sector, excluding EECO, and any programs that do not score at or above 1.0 under the UCT at the program level. I&M will not be eligible to recover shared savings above the cap if its 15% share of sector savings exceeds 15% of the sector program costs. Notwithstanding the

foregoing, I&M may forecast the amount of shared savings to be reflected in the DSM Rider factor based on energy savings projections or goals, but the DSM Rider factor will be reconciled based on the verified savings determined by the EM&V vendor, as set forth above.

3. **Oversight Process:**

- (a) **Oversight Board Members.** The five voting members of the I&M DSM Oversight Board (OSB) include all Parties to this proceeding: I&M, I&M Industrial Group, Citizens Action Coalition of Indiana (CAC), the City of Fort Wayne and the Indiana Office of Utility Consumer Counselor (OUCC).
- (b) **Quarterly OSB Meetings.** I&M will hold meetings with its OSB at least quarterly, with meeting dates determined by the OSB. OSB members can submit agenda items to I&M before each quarterly meeting. I&M will distribute meeting agendas for the quarterly meetings to OSB members no less than 5 business days before each meeting. The quarterly meetings will provide I&M an opportunity to gather feedback from OSB members on performance to date and seek input on upcoming program and budget decisions.
- (c) **OSB Voting Rights.** A vote of the five OSB voting members will be taken on the following issues as they arise:
- (i) **EM&V:**
- Selection of the EM&V vendor;
 - Application of the EM&V results to shared savings, lost revenues and final energy savings;

(ii) Program Funds:

- Request by I&M to move approved funds between sectors;
- Any I&M proposal to reassign more than 25% of a sector's total budget to other programs in the same sector;
- Any I&M request to spend up to 10% more than the estimated total budget for each sector, as shown in the 2015 DSM Plan;
- Any I&M request to move approved program funds to another program from the low-income program that is being provided despite its inability to score as cost-effective.

(iii) Adding New OSB Members:

- Any request to add new voting members to the OSB. The addition of new OSB members will require a unanimous vote.

(d) Voting Process: I&M will provide five (5) business days advance notice of the need for a vote by the OSB, unless otherwise agreed upon. I&M will provide all pertinent information concerning I&M's program required for the OSB to make informed decisions as soon as it becomes available, but not less than five business days before the vote, unless otherwise agreed by all voting members. The provision of information by the Company should not be read to mean that the Company is required to research or obtain information on behalf of any OSB member(s). OSB members will act in good faith to not use requests for information to unnecessarily delay voting on any issue. If a vote is properly noticed to all voting members of the OSB and a member fails to act by the designated voting deadline, that

failure to act will reduce the number of votes on that issue. The vote is determined by a simple majority vote of the voting members participating in the particular vote.

- (e) **OSB Communication Between Quarterly Meetings.** OSB members may communicate one-on-one or in a joint OSB meeting or conference call between quarterly OSB meetings if needed to vote on proposals that require OSB approval, get feedback, obtain program or budget updates, address questions, or discuss concerns. If a vote is required between quarterly meetings, the voting shall be conducted electronically within a week of the notice, subject to the same advance notice requirements discussed above. I&M will also provide monthly scorecards consistent with current format within 45 days of the end of each month, based on all data available at that time. If any data is missing or needs to be confirmed, I&M will note that on the scorecard. I&M will use its best efforts to ensure that OSB members have all appropriate information to be fully informed on the progress of I&M's 2015 DSM Plan. If any information includes trade secrets or other protected confidential information, OSB members will be required to execute appropriate non-disclosure agreements before I&M provides that information.
- (f) **Advance Notice of Future Filings:** I&M will notify OSB members prior to making a future DSM plan or reconciliation filing to provide a reasonable opportunity for discussion and input. I&M will also file periodic updates

with the Commission at intervals selected by the Commission (e.g., quarterly, semi-annually, or annually).

(g) **Dispute Resolution Process:** If there is an issue concerning a pending action by I&M that any voting member of the OSB indicates is in need of further discussion or escalation, I&M will delay implementation of any items that do not require immediate action, so that I&M management and OSB voting members' management can discuss the matter further to ensure a sufficient opportunity for input is provided before action is taken. That management conversation shall happen within 3 business days of a request, unless otherwise agreed. However, if the matter is time sensitive, I&M and management of the concerned OSB member will make every effort to provide management personnel for immediate discussion (within 1 business day or as otherwise agreed). The OSB voting members agree to use this escalation process in good faith, escalating only those matters appropriate for stakeholder management's consideration. This dispute resolution process does not limit or otherwise affect either Settling Parties' ability to seek relief from the Commission.

(h) **Broader Stakeholder Input:** Nothing in this agreement shall limit the ability of I&M to seek other interested stakeholder input beyond the members of the OSB.

B. PRESENTATION OF THE SETTLEMENT TO THE COMMISSION

1. The Settling Parties shall support this Settlement Agreement before the Commission and request that the Commission expeditiously accept and approve

the Settlement Agreement. The concurrence of the Settling Parties with the terms of this Settlement Agreement is expressly predicated upon the Commission's approval of the Settlement Agreement in its entirety without any modification or any condition that may be unacceptable to any Settling Party.

2. The Settling Parties shall jointly move for leave to file this Settlement Agreement and supporting evidence, all of which will be offered into evidence without objection and the Settling Parties agree to waive cross-examination. The Settling Parties propose to submit this Settlement Agreement and evidence conditionally, and, if the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Settling Party, the Settlement Agreement and all supporting evidence shall be deemed withdrawn and the Settling Parties agree that the proceeding will return to the same status as prior to the filing of the Settlement Agreement.
3. The Settling Parties shall jointly agree on the form, wording and timing of public/media announcement (if any) of this Settlement Agreement and the terms thereof.

C. EFFECT AND USE OF SETTLEMENT

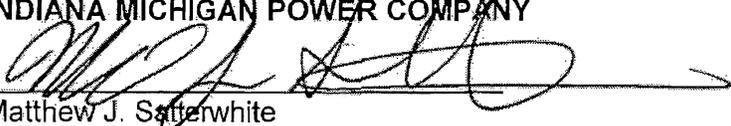
1. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Party to this Settlement Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement Agreement is in consideration and support of each and every other term.

2. This Settlement Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement Agreement.
3. This Settlement Agreement is solely the result of compromise and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Settling Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.
4. The Settling Parties agree that the evidence of record and the additional evidence offered to support this Settlement Agreement constitutes substantial evidence sufficient to support its approval and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary to approve this Settlement Agreement. The Settling Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible.
5. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Settling Party, and are not to be used in any manner in connection with any other proceeding or otherwise.
6. The undersigned Settling Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.

7. The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any of the Settling Parties. The Parties shall support or not oppose this Settlement Agreement in the event of any appeal or a request for a stay by a person not a Party to this Settlement Agreement or if this Settlement Agreement is the subject matter of any other state or federal proceeding. The provisions of this Settlement Agreement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.
8. This Settlement Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED as of the nd 22 day of August, 2014

INDIANA MICHIGAN POWER COMPANY


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