

**FILED**

**August 16, 2017**

**INDIANA UTILITY**

**REGULATORY COMMISSION**

Petitioner's Exhibit No. 16

Cause No. 44645

Vectren South

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**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY  
D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.  
(VECTREN SOUTH)**

**IURC CAUSE NO. 44645**

**REBUTTAL TESTIMONY  
OF  
K. CHASE KELLEY  
VICE PRESIDENT, MARKETING & COMMUNICATIONS**

**ON**

**EVALUATION, MEASUREMENT AND VERIFICATION INDEPENDENCE**

**SPONSORING PETITIONER'S EXHIBIT NO. 16**

**REBUTTAL TESTIMONY OF K. CHASE KELLEY**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is K. Chase Kelley, and my business address is One Vectren Square, Evansville, Indiana 47708.

**Q. By whom are you employed and in what capacity?**

A. I am employed by Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Company"), Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Vectren Energy Delivery of Ohio, Inc. ("VEDO"). I am Vice President, Marketing and Communications for VUHI.

**Q. What is your educational background?**

A. I received a Bachelor's degree in Organizational Communication from Murray State University in 1998. I received a Master's of Mass Communication degree in 1999 from the University of South Carolina.

**Q. What is your business experience?**

A. I have more than 15 years of experience in the utility industry. I have worked at VUHI and its predecessor companies since 2002 in a variety of positions including Manager of External & Conservation Communications, Director of Corporate Communications and Vice President of Corporate Communications. I was named a vice president in 2014 was promoted to my current position effective June 2015.

**Q. What are your present duties and responsibilities as Vice President, Marketing and Communications?**

A. I oversee five departments, including Energy Efficiency, Corporate Communications, Residential & Commercial Sales, Customer Relations & Process Improvement, and the New Service Contact Center for VUHI's utilities.

1  
2 **II. PURPOSE**

3  
4 **Q. What is the purpose of your testimony in this proceeding?**

5 A. In his direct testimony in the proceeding, Citizens Action Coalition of Indiana, Inc.  
6 ("CAC") witness Karl R. Rabago testified that Dr. M. Sami Khawaja of the Cadmus  
7 Group, the company that evaluates Vectren South energy efficiency ("EE") programs,  
8 compromised his independence when he filed testimony in this proceeding. In addition,  
9 witness Rabago recommends that the Cadmus group should no longer be allowed to  
10 evaluate Vectren South's programs. The purpose of my testimony is to respond to the  
11 issues raised by witness Rabago regarding Dr. Khawaja. In my rebuttal testimony, I  
12 acknowledge the importance of independent evaluation, measurement and verification  
13 ("EM&V") and explain the reasons Dr. Sami Khawaja continues to be independent and  
14 capable of evaluating Vectren South's EE programs. I also address witness Rabago's  
15 proposal that Vectren South employ an Independent Evaluation Monitor for future EM&V  
16 needs.

17  
18 **Q. Are you sponsoring any attachments in this proceeding?**

19 A. No, I am not.  
20  
21

22 **III. IMPORTANCE OF INDEPENDENT EM&V**

23  
24 **Q. Do you agree that it is important that a program evaluator be independent from  
25 the Company and the vendor that implements the programs being evaluated?**

26 A. Yes. Not only is independent EM&V a requirement of a "plan" as defined in Ind. Code §  
27 8-1-8.5-10 ("Section 10"), but independence is also important because of the connection  
28 between EM&V and lost revenues. EM&V is the foundation for determining energy  
29 savings achieved by the EE programs and lost revenues. It is important that program  
30 evaluations be performed in an unbiased, transparent, accurate and reliable manner to  
31 ensure the utility does not inappropriately influence the results.  
32

33 **Q. Please describe Section 10.**

1 A. Section 10 requires electricity suppliers to petition the Commission at least one time  
2 every three years for approval of a plan that includes: (1) energy efficiency goals; (2)  
3 energy efficiency programs to achieve the energy efficiency goals; (3) program budgets  
4 and costs; and (4) EM&V procedures that must include independent EM&V.

5  
6 **Q. Please describe the history of the Cadmus Group and Dr. Khawaja's involvement**  
7 **with EM&V in Indiana.**

8 A. Although Dr. Khawaja listed his background and vast EM&V experience in his original  
9 testimony, I wanted to discuss his qualifications in more detail. He has led more than  
10 100 energy efficiency evaluation projects, including serving a key role with Indiana's  
11 Energizing Indiana initiative. In 2012, his firm was hired as a member of the TecMarket  
12 Works team, which led EM&V for the core energy efficiency programs offered in the  
13 statewide initiative. He actively assisted the Demand Side Management Coordination  
14 Committee in performing the evaluation services. His firm then took the lead role in  
15 EM&V for Energizing Indiana in 2014 after the president of TecMarket Works stepped  
16 away from his role. Cadmus later acquired all the TecMarket Works assets in 2015. His  
17 firm continued on as the EM&V vendor for Vectren South upon the discontinuation of the  
18 statewide initiative and accordingly Cadmus and Dr. Khawaja are approaching nearly a  
19 decade of performing EM&V services for Vectren South's gas and electric EE initiatives  
20 in Indiana. This tenure with Indiana EE programs and his broader utility experience listed  
21 in Dr. Khawaja's testimony (Petitioner's Exhibit No. 12, pp. 2-3) demonstrate his  
22 expertise.

23  
24 **Q. Has the EM&V work conducted by the Cadmus Group ever been challenged in**  
25 **Indiana?**

26 A. No. The Cadmus Group has now submitted more than 50 reports to the Commission  
27 during its tenure in Indiana, which includes EM&V reports for Vectren South (gas and  
28 electric EE), Indianapolis Power & Light and Northern Indiana Public Service Company.  
29 These reports have been the basis for the electric lost revenue collection process that is  
30 annually filed and subsequently adjusted upon approval for electric companies.

31

1 **Q. The CAC claims that Dr. Khawaja and The Cadmus Group are no longer**  
2 **independent because Dr. Khawaja submitted testimony on behalf of Vectren**  
3 **South in this Cause. Do you agree?**

4 A. Absolutely not. In his testimony, witness Rabago quotes the Indiana Evaluation  
5 Framework regarding the need for independence of EM&V activities, but nowhere in his  
6 testimony does he explain how Dr. Khawaja's appearance in this proceeding conflicts  
7 with the tenets established therein. I maintain that his appearance does not conflict with  
8 them. The Evaluation Framework provides a detailed explanation of three key principles  
9 related to independence. One is the importance of maintaining an arms-length  
10 relationship between the evaluator and EE program implementers. The second one is  
11 ensuring that the evaluator does not benefit from the findings of the evaluation. The  
12 third is ensuring the evaluator's approach to the study is not influenced by Vectren South  
13 or its third party implementers. I discuss each of these principles separately below.  
14

15 **Q. Do Dr. Khawaja and The Cadmus Group maintain an arms-length relationship with**  
16 **the design approval and delivery process of Vectren South's EE programs?**

17 A. Yes. According to the Evaluation Framework (pg. 32), evaluation contractors are to  
18 maintain an arms-length relationship with the core program design, approval and  
19 delivery process within the State of Indiana. This principle continues to be a litmus test  
20 in determining independence. The Cadmus Group is completely independent from  
21 design, approval and delivery of Company-sponsored EE programs. Vectren South has  
22 established a process with implementation vendors to design, approve and deliver its EE  
23 programs. While evaluation results help to inform that process, there is an arms-length  
24 relationship between implementation vendors and The Cadmus Group. Dr. Khawaja's  
25 testimony regarding EM&V and how that ties to lost revenues in this proceeding does  
26 nothing to impact that arms-length relationship. Given his significant expertise, Vectren  
27 South simply requested that he provide his experience and understanding of the work in  
28 which he engages, as it bears upon the subject matter in this case. His ongoing role  
29 related to EM&V has not changed. Faced with the challenge to lost revenue recovery  
30 and the proposal of other parties to sever the longstanding linkage between measure  
31 lives (used to determine savings) and the calculation of recoverable lost revenues, as  
32 well as the Court of Appeals' admonition that the record in this proceeding should  
33 provide a sound basis for understanding the financial effects of the selected recovery

1 mechanism, Vectren South identified the need to provide a complete record on the use  
2 of EM&V. There is no other witness as qualified or capable to provide such evidence in  
3 this proceeding.  
4

5 **Q. Does Dr. Khawaja benefit in any way from the findings of his firm's evaluation**  
6 **effort?**

7 A. No. According to the Evaluation Framework (pg. 32), evaluators should be independent  
8 professionals who do not benefit or appear to benefit from the study's findings. Dr.  
9 Khawaja is employed by The Cadmus Group. Vectren South remits payment to The  
10 Cadmus Group for the work that is performed, not the results that are delivered,  
11 provided the work is done consistent with the scope of work set forth in the contract. In  
12 addition, The Cadmus Group communicates evaluation progress updates and delivers  
13 evaluation results to the Vectren South Oversight Board ("Oversight Board") as the  
14 formal evaluation is in progress. So, to the extent there are questions or concerns about  
15 the results that are delivered, those issues are hashed out in a transparent way that  
16 involves all stakeholders.  
17

18 **Q. Does The Cadmus Group develop its own study approaches, independently**  
19 **implement those approaches and independently report the results from the**  
20 **associated analysis?**

21 A. Yes. The Evaluation Framework says that evaluations are to be independent of the  
22 Third Party Administrator, such that EM&V administrators independently develop their  
23 study approaches, independently implement those approaches and independently report  
24 the results from the associated analysis. Neither Vectren South nor any of its program  
25 implementers have any influence over The Cadmus Group's study approaches,  
26 implementation of those approaches or the reporting of the results from the associated  
27 analysis. All of those decisions are made by The Cadmus Group without input from  
28 Vectren South or its third party implementers.  
29

30 **Q. Does Dr. Khawaja's appearance as a witness in this proceeding present a conflict**  
31 **of interest with The Cadmus Group evaluating Vectren South's EE programs?**

32 A. No, it does not. The Cadmus Group's world-wide industry experience, as well as the  
33 organization's eight-year history with evaluating Vectren South's programs and its role

1 on the TecMarket Works<sup>1</sup> team made Dr. Khawaja an ideal choice to explain the  
2 importance of EM&V, how it can be used to determine lost revenues and whether  
3 Vectren South made a proposal that links to EM&V. Vectren South's proposal is to cap  
4 lost revenue recovery at the weighted average measure life of the 2016-2017 Electric  
5 DSM Plan ("2016-2017 Plan" or "Plan") plus a 10% further savings reduction. Dr.  
6 Khawaja and his firm have validated the weighted average measure life of Vectren  
7 South's 2016-2017 Plan, and as a result, he is uniquely able to discuss the aspects of  
8 the proposal related to use of this EM&V. American Council for an Energy-Efficient  
9 Economy ("ACEEE") recognizes EM&V is important to recovery of lost revenues. As the  
10 chief economist of the firm who has evaluated Vectren South programs, Dr. Khawaja  
11 was the right choice to explain the rigorous procedures his company utilizes to evaluate  
12 EE programs and their limits in terms of reliably projected lost revenues when it comes  
13 to EE program measure lives. This testimony was important to help the Commission  
14 understand how the EM&V work completed by the Company's evaluator can be relied  
15 upon to account for lost revenues. Within our filing, Vectren South has agreed to  
16 recover only the lost revenues that our EM&V evaluator is confident can be identified.

17  
18 **Q. Is there a selection process in place to ensure an unbiased selection of the EM&V**  
19 **administrator?**

20 A. Yes. A request for proposals ("RFP") process is in place and has been used to retain the  
21 Cadmus Group to evaluate 2016 and 2017 EE programs, and they should be allowed to  
22 continue independent evaluation activities for these programs. As with the selection of  
23 the Cadmus Group, Vectren South plans to conduct an RFP, with the participation of the  
24 Oversight Board, to select an evaluator to study 2018-2020 programs, and the Cadmus  
25 Group should not be prohibited from submitting a bid through that process. Through our  
26 many years of experience with the Cadmus Group, Vectren South has found Dr.  
27 Khawaja to be a professional with the highest integrity and many years of evaluation  
28 experience in both Indiana and other jurisdictions.

29  

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<sup>1</sup> The Cadmus Group was a member of the TecMarket Works team, which was selected by the Demand Side Management Coordination Committee to serve as the third party evaluator for state-wide core programs in Indiana.

1 **Q. Has Dr. Khawaja testified for other utilities for which his company has provided**  
2 **EM&V services?**

3 A. Yes. He has testified for PacifiCorp, Dayton Power & Light, Consumers Energy and  
4 Avista where he explained the EM&V work conducted for these utilities as well as the  
5 cost-effectiveness of the programs offered. Furthermore, he has provided expert  
6 testimony in the EM&V arena to Public Utilities Commissions in five states, including  
7 Ohio and Michigan.  
8

9 **Q. Did Vectren South seek to influence Dr. Khawaja's testimony?**

10 A. No. We approached Dr. Khawaja to address concerns that had been raised about the  
11 reliability of the EM&V results for purposes of determining lost revenues. Dr. Khawaja's  
12 conclusions on the effective useful lives of EE measures support Vectren South's  
13 decision to self-impose a cap tied to the weighted average measure life of the EE  
14 measures proposed in the Plan. Additionally, Vectren South decided to modify its  
15 proposal even further based on Dr. Khawaja's conclusions on statistical EM&V  
16 confidence level/uncertainty.  
17  
18

19 **IV. IMPLEMENTING AN INDEPENDENT EVALUATION MONITOR CONSTRUCT IS**  
20 **UNNECESSARY**  
21

22 **Q. In recommending an Independent Evaluation Monitor ("IEM") approach similar to**  
23 **Arkansas, witness Rabago implies the current EM&V process is not independent.**  
24 **Do you agree?**

25 A. No, I do not. First, the Oversight Board is afforded the opportunity to play an active role  
26 in selecting the EM&V vendor. The last RFP to select an EM&V company for Vectren  
27 South electric EE programs was issued in 2015, and four companies bid for the role,  
28 including Cadmus. Vectren South provided a bidder summary and recommended  
29 Cadmus to the Oversight Board. The Oversight Board approved Vectren South's  
30 recommendation to hire Cadmus. As noted earlier, another RFP is planned for the fall of  
31 2017 to evaluate 2018-2020 programs. The program evaluation process follows the  
32 same transparent, collaborative process with the Oversight Board. Step 1: Cadmus  
33 conducts a kick-off meeting in the fall with the Oversight Board to establish the timeline



1 and action items on evaluating the current year's programs. Step 2: Bi-weekly calls are  
2 set up by Cadmus to provide status updates to the Oversight Board as the evaluation  
3 process unfolds. Cadmus conducts independent interviews with Vectren South, trade  
4 allies that participate in Vectren South's program and Vectren South's program  
5 implementers. Likewise, Cadmus independently conducts various forms of participating  
6 customer surveys and data analysis to gage the efficacy of various programs and  
7 measures. Step 3: Typically in April, Cadmus releases the draft EM&V report **directly** to  
8 the Oversight Board. All Oversight Board members have the opportunity to issue  
9 comments, ask questions, etc. As an example, in the most recent EM&V draft report  
10 from the spring of 2017, the OUCC provided minor edits and/or comments to the draft  
11 report while the CAC has no feedback. Step 4: The final report is issued and  
12 subsequently filed with the DSMA filing, which occurs each year in late August / early  
13 September. The EM&V process typically takes about five to six months to complete.  
14

15 **Q. Would adoption of an IEM approach provide benefits?**

16 A. The Commission has a talented staff of technical experts, including engineers,  
17 accountants, economists, etc. and lawyers who are capable of interpreting EM&V  
18 reports filed by Vectren South and other utilities. The Commission staff has managed to  
19 review those reports for years and is capable of doing so in the future. An IEM would  
20 not add value to the existing process, which is guided by the Oversight Board. Moreover,  
21 consideration of such a change in the established approach to EM&V should not be  
22 considered within this proceeding. Implementation of an IEM construct should be  
23 evaluated, if at all, through a generic proceeding where all interested stakeholders have  
24 an opportunity to express their opinions about the issue.  
25

26 Furthermore, the regulatory framework in Arkansas is significantly different from Indiana.  
27 Utilities in Arkansas have mandated annual energy savings targets as established by the  
28 Arkansas Public Service Commission. (Docket No. 13-002-U, Order No. 31, page 13)  
29 The implementation of the IEM model in Arkansas was the result of a comprehensive  
30 investigation where all impacted stakeholders were afforded an opportunity to  
31 participate. This EE framework is similar to that of Energizing Indiana, which the Indiana  
32 Legislature, through Senate Enrolled Act ("SEA") 340, voted to cancel in 2014 due to  
33 cost concerns, among other issues, associated with achieving the statewide EE goals.

1 Through SEA 340, the Indiana Legislature rejected state-wide third party implementation  
2 of electric EE programs, and an IEM, like the one suggested by witness Rabago on  
3 behalf of the CAC, seems similar to the statewide third party evaluation model that  
4 ended as a result of the 2014 legislation. The need to implement an IEM model is likely  
5 to be subject to debate and is not appropriate for consideration in this proceeding.  
6

7 **Q. Witness Rabago suggests that an IEM would be helpful in Indiana because**  
8 **effective EM&V is not a static activity, and the feedback loop of EM&V is more**  
9 **effective. How do you respond?**

10 A. I recognize and agree that EM&V is not a static activity; however, I should clarify that  
11 Vectren South has always managed an effective feedback loop to ensure EM&V is in-  
12 corporated into its design, planning, and implementation phase. Vectren South ensures  
13 all applicable EM&V recommendations are incorporated into the next planning, not lim-  
14 ited to savings adjustments, measure inclusion/exclusion, program design, process or  
15 delivery changes, incentive level changes, etc. The evaluator provides clarification and  
16 guidance on best practices for future program design.  
17

18 Additionally, while witness Rabago points out the TRM is not routinely being updated, he  
19 fails to recognize the TRM is a resource for planning and is only a starting point. Recent  
20 evaluations are a better resource for future planning, specifically for measures that have  
21 been carrying forward from past years.  
22

23 **Q. Witness Rabago recommended that if an IEM were to be selected in Indiana, they**  
24 **would be paid for by each of the electric utilities regulated by the Commission**  
25 **with their proportions being weighted by the number of customers. How do you**  
26 **respond?**

27 A. If the Commission decides that an IEM is necessary and requires all regulated utilities to  
28 contribute, there will be an increase in EM&V-related program costs. That is, utilities will  
29 be required to pay for evaluation activities as currently designed plus an additional cost  
30 for an IEM to summarize individual utility report findings. As a result, the IEM concept is  
31 duplicative and unnecessary and should not be employed.  
32  
33

1   **V.    CONCLUSION**

2

3   **Q.    Does this conclude your rebuttal testimony?**

4   **A.    Yes, it does at this time.**

### VERIFICATION

I, K. Chase Kelley, Vice President, Marketing and Communications, Vectren Utility Holdings, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "K. Chase Kelley", written over a horizontal line.

K. Chase Kelley

Date: Aug. 16, 2017