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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. REQUESTING THE INDIANA UTILITY REGULATORY COMMISSION TO APPROVE CERTAIN DEMAND SIDE MANAGEMENT PROGRAMS AND GRANT COMPANY AUTHORITY TO RECOVERY COSTS, INCLUDING PROGRAM COSTS, INCENTIVES AND LOST MARGINS, ASSOCIATED WITH THE DEMAND SIDE MANAGEMENT PROGRAMS VIA THE COMPANY'S DEMAND SIDE MANAGEMENT ADJUSTMENT	))))))))))))	CAUSE NO. 44927

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF OUCC WITNESS EDWARD T. RUTTER

JULY 26, 2017

Respectfully submitted,

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TESTIMONY OF OUCC WITNESS EDWARD T. RUTTER
CAUSE NO. 44927
2018 – 2020 ELECTRIC DSM PLAN
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.
("VECTREN SOUTH")

I. INTRODUCTION

Q: Please state your name, employer, current position and business address.

A: My name is Edward T. Rutter. I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Chief Technical Advisor in the Resource Planning and Communications Division. My business address is 115 West Washington St., Suite 1500 South Tower, Indianapolis, Indiana 46204. My educational background and professional experience are detailed in Appendix ETR-1 attached to this testimony.

Q: What is the purpose of your direct testimony?

A: The purpose of my testimony is to demonstrate to the Commission that Vectren South's use of the term "program cost" is inconsistent with Indiana law and to make recommendations that are both reasonable and consistent with IC 8-1-8.5-10(g). I discuss the impact to ratepayers and the difference between the cost to Vectren South and the cost to ratepayers.

I demonstrate that Vectren South's claim for lost revenue recovery is unreasonable in accordance with IC 8-1-8.5-10(e). Vectren South has an approved fixed customer charge which currently provides for recovery of a portion of approved fixed costs. To continue to allow for recovery of lost revenues that include the recovery of fixed costs during and subsequent to the DSM Plan term is unreasonable.

I recommend, consistent with the benefit-cost tests employed by Vectren South in determining the cost effectiveness of the programs included in its proposed 2018 – 2020 Demand Side Management ("DSM") Plan, the Commission cap the recovery of DSM Plan-related costs, including lost revenues and shareholder incentives, at 50% of the Utility Cost Test's ("UCT") net benefit.

I recommend the Commission find it reasonable to allow financial incentives only for each program that achieves 100% or more of Vectren South's-developed savings goal. I recommend the Commission deny Vectren South's proposed method of calculating the amount of financial incentives at the portfolio level and adopt an incentive mechanism based on Vectren South's calculation of shared savings represented by the UCT results provided by Vectren South, at the program level. The total financial incentive should be subject to the aforementioned 50% cap on DSM Plan cost recovery.

Based on these conclusions, I recommend that the commission determine that Vectren South's plan is unreasonable in its entirety in accordance with I.C. 8-1-8.5-10 (j) and issue an order returning the case to Vectren, as required under subsection (m) setting forth the reasons supporting that determination.

My analysis is confined to Vectren South's DSM Plan as filed in accordance with I.C. 8-1-8.5-10 and the impact to the ratepayers and the company during the 2018 to 2020 period during which this plan will be in effect.

Q: Please identify additional OUCC witnesses in this proceeding.

A, Ms. Crystal Thacker, Utility Analyst II in the Electric Division, testifies to the authority of Vectren South to recover costs through Vectren South's Demand Side Management Adjustment mechanism.

Q. How is Vectren South's definition of the "program costs" inconsistent with Indiana law?

A. The "program cost" definition used by Vectren South in calculating the cost and benefit analysis includes the direct and indirect cost components Vectren South will incur, but does not recognize the cost components that the ratepayer is being asked to pay. Vectren South's "program cost" definition does not include "[o]ther recoveries or incentives approved by the Indiana Utility Regulatory Commission ("Commission or IURC"), including lost revenues and financial incentives," and thus ignores the requirements of IC 8-1-8.5-10(g)(3).

II. COST PER KWH SAVED

Q. What is the average cost per kWh saved under Vectren South's proposed DSM Plan?

A. There are two (2) separate and distinct costs per kWh saved during the three (3) years, 2018 – 2020, of Vectren South's proposed DSM Plan. The first is Vectren South's cost to implement and administer the proposed DSM programs. This includes the programs' direct and indirect costs of $0.27 per kWh saved as detailed on Public's Attachment ETR-1.

The second cost, which is not readily evident in Vectren South's testimony, is the cost per kWh saved during the three (3) years, 2018 – 2020, to be paid by ratepayers under the DSM Plan. This ratepayer cost averages $0.65 per kWh saved, which is approximately 141% more than Vectren South's costs per kWh saved. See Public's Attachment ETR-1. This difference is driven by the lost revenues and performance incentives customers will pay during the DSM Plan's three year life. The Commission's 2016 Residential Bill Survey[1] shows the average cost per kWh for Vectren South's Indiana residential customers using 1,000 kWh is $0.16, which is also considerably less than the $0.65 cost per avoided kWh under the proposed DSM Plan. I.C 8-1-8.5-10(j) (7) requires that approval of the proposed DSM Plan must consider the impact of the Plan on ratepayers.

Program costs influence program participation. Higher costs can produce reduced participation, and in turn, can influence the amount of energy actually saved.

A proposed DSM plan that suggests the cost is only $0.27 per kWh saved, while ignoring ratepayers' actual costs, lacks transparency and is misleading. A residential customer using 1,000 kWh at an average cost of $0.16 who saves 10% a month or 100 kWh will experience a bill savings of approximately $16.00. However, the cost of those savings, based on the overall cost to the ratepayer of $0.65 per kWh saved, would be $65.00. Legacy DSM costs are creating an enormous disincentive to participate in the energy savings programs proposed by Vectren South in the 2018 – 2020 DSM Plan.

III. REASONABLE LOST REVENUES

Q. Has the term "lost revenue" been defined in legislation?

A. Yes, Senate Enrolled Act No. 412 ("SEA 412" or "I.C.8-1-8.5"), I.C 8-1-8.5-10

[1] http://www.in.gov/iurc/files/2016_Residential_Bill_Survey_Presentation.pdf

(d) defines "lost revenue" as "the difference, if any between: (1) revenues lost and (2) the variable operating and maintenance costs saved; by an electricity supplier as a result of implementing energy efficiency programs." This definition provides recovery of both fixed costs[2] and the net operating income (return component) not realized by the electricity supplier. Both these amounts were established and approved by the Commission in the utility's most recent base rate case. The approved level of fixed costs are embedded in base rates and have been audited, vetted and reviewed and determined to be instrumental in the delivery of safe, adequate and reliable energy service. The SEA 412 definition of lost revenues generously allows the utility to recover fixed costs for unrealized sales despite the fact that the fixed costs approved in the last rate case do not vary with an increase or decrease in the amount of energy sold.

SEA 412 not only defines lost revenue, but also establishes that if the plan submitted is found reasonable, then an electricity supplier shall be allowed to recover or receive reasonable lost revenues. The Commission should not continue to allow recovery of fixed costs associated with DSM energy saved is unreasonable and seriously imbalances the relationship between the ratepayer interest and the investor interest.

Q. Is there regulatory precedent that impacts the level of lost revenues that Vectren South should be allowed to recover from ratepayers upon approval of the 2018 – 2020 DSM Plan?

[2] For the purposes of this testimony, "fixed costs" refers to those types of expenses approved by the Commission and embeded in rates. This is distinct from "fixed charge" a regulatory mechanism used to recover fixed costs.

A. Yes. In addition to the explicit requirements of I.C 8-1-8.5-10(j) (7), there is an underlying tenet that regulated utility rates and charges must be "just and reasonable." If the regulated rates and charges are "just and reasonable" then they embrace the public interest consisting of (1) the investor interest and (2) the consumer interest. The consumer interest cannot be disregarded in determining a "just and reasonable" rate.[3]

In Petitioner's Exhibit No. 5, the pre-filed direct testimony of Mr. Scott E. Albertson,[4] he states:

> In Cause No. 43938, the Company's initial three-year Demand Side Management ("DSM") plan ("2011 Plan"), the Company requested, and the Commission found, that "…recovery of lost margins is intended as a tool to remove the disincentive utilities would otherwise face as a result of promoting DSM in its service territory. The Commission went on to say, "the purpose of recovery of lost margins on verified energy savings from DSM programs is to ***return the utility to the position it would have been in absent implementation of a DSM measure."*** 43938 Order at 41 (Emphasis added).

This statement is critical in developing a "reasonable" level of lost revenues. When a sale of electricity is not made, the utility is deprived of its opportunity to achieve its authorized return opportunity or lost margin. In order to return the utility to the position it would have been absent implementation of a DSM measure, the utility should be entitled to recover the "lost margin" associated with the lost sale, not the revenue associated with the lost sale.

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[3] *Federal Power Commission et al. v. Natural Gas Pipeline Co. of America et. al.*, 315 U.S. 575, concurring opinion Mr. Justice Black, Mr. Justice Douglas and Mr. Justice Murphy, decided March 16, 1942.

[4] Petitioner's Exhibit No. 5, pre-filed direct testimony of Mr. Scott E. Albertson, page 4 lines 17 – 29.

Mr. Albertson goes on to testify[5]:

> [T]he commission has developed a regulatory framework that allows a utility an incentive to meet long term resource needs with both supply-side and demand-side options in a least cost manner and ensures that the financial incentive offered to a DSM program participant is fair and economically justified. ***The regulatory framework attempts to eliminate or offset regulatory or financial bias against DSM, or in favor of a supply-side resource, a utility might encounter in procuring least-cost resources.*** (Emphasis added.)

Again, this is critical testimony in that it raises the issue of a regulatory or financial bias against DSM in favor of supply-side resources. For example: when a utility invests in a traditional supply-side resource such as a new Combined Cycle Gas Turbine ("CCGT"), the cost of that asset is reflected in the utility's rate base after it is determined to be used and useful. The inclusion of the CCGT in rate base provides the utility with the opportunity to earn a fair and reasonable return on that investment when the utility seeks to adjust its basic service rates through a rate proceeding. Instead, assume the utility implements a DSM plan and experiences lost revenues (as a result of ratepayers participating in the program). If lost revenue recovery provides the utility with anything more than the return opportunity, or margin lost, this creates a bias in favor of DSM over what would be experienced by the utility if it were to build, own and operate a supply-side resource.

Q. Do you agree with the pre-filed direct testimony of Mr. Albertson on page 6, lines 13 – l9 where he testifies that "An LRAM is a mechanism that

[5] Petitioner's Exhibit No. 5, pre-filed direct testimony of Mr. Scott E. Albertson, page 5 lines 2 – 10.

compensates an electricity supplier for the portion of fixed costs that would have been recovered through a customer's purchase of energy that now are not recovered because a customer participates in an EE program designed specifically to help that customer use less energy"[6]?

A. Absolutely not. Fixed costs are set in a base rate case and embedded in approved rates. The fixed costs embedded in base rates have been audited, vetted and approved as being instrumental and appropriate in the delivery of energy service. Fixed costs do not change with an increase or decrease in the amount of energy sold. Fixed costs are expenses that must be paid by Vectren South independent of any business activity.

Base rates resulting from the most recent base rate proceeding are designed to recover the adjusted test-year level of fixed costs authorized by the Commission. Vectren South might not recover that level of fixed costs when the overall sales experienced by Vectren South in a particular year or period are less than the level of sales approved for the base rate case test year. When Vectren South realizes a level of sales greater than test year sales, it may recover more than the Commission- authorized level of fixed costs.

When Vectren South's fixed costs rise, the utility may find it more difficult to achieve its authorized return. The traditional remedy for a utility not achieving the authorized rate of return is to file a base rate case, as utilities have done for decades, not thru a DSM lost revenue tracker.

Q. Is there independent support for the OUCC's position that fixed costs remain

[6] Petitioner's Exhibit No. 5, pre-filed direct testimony of Mr. Scott E. Albertson, page 6 lines 13 – 19.

the same regardless of the level of sales?

A. Yes. It can be found in the rebuttal testimony of Russell A. Feingold, Vice President, Black & Veatch Management Consulting, LLC, filed in Cause No. 44645 on behalf of Vectren South and admitted into the record on June 29, 2017. In response to the Question posed on page 16 of 25, lines 29 – 31 and page 17 of 25 lines 1 – 2. Mr. Feingold responds relative to whether a customer's investment in efficiency and other distributed energy resources could impact Vectren South. The partial response on page 17 of 25, lines 3 – 6 is as follows:

> "Yes. These actions could cause the Company to experience a significant reduction in revenues (caused by the much higher volumetric charges recommended by the Joint Intervenors) even though the distribution-related costs would remain the same since they are fixed."

If the level of sales falls below the level of sales established by the Commission when setting base rates, then all other things equal, Vectren South would be unable to recover the approved level of fixed costs. However, if Vectren South were to achieve a level of sales greater than that adopted in setting base rates, Vectren South will have received revenue attributable to fixed costs greater that authorized by the Commission. Therefore, there is no need to provide Vectren South with the opportunity to recover through a lost revenue adjustment mechanism the fixed cost portion of any sales attributable to energy efficiency.

Q. Does your analysis support the position that Vectren South will not be able to recover the Commission approved level of fixed costs implicit in revenues received from ratepayers during the proposed 2018 – 2020 DSM Plan?

A. No, by reference to Attachment ETR – 2, the level of kWh sales in each of the years 2010 through 2016 is greater than what was approved in Cause No. 43839.

Also, the number of customers overall have increased steadily since the test year. The Vectren South tariff has several approved customer facilities charges, which are designed to recover a portion of fixed costs. The result of the overall increase in customers and Commission-approved customer facilities charges results in Vectren South recovering fixed costs in excess of what was anticipated when base rates were last set. This is an indication that Vectren South should have recovered, through basic rates, the Commission-approved fixed costs.

To determine whether Vectren South will have the opportunity to recover the Commission-approved level of fixed costs in the years 2018, 2019 and 2020, one must look at the level of sales for these years included in the 2016 Integrated Resource Plan ("IRP") filed with the Commission on December 19, 2016 and dated December 16, 2016. The energy forecast for years 2018, 2019 and 2020 is set-out in Figure 4.4 – Energy and Demand Forecast on page 105 of the 2016 IRP. Those forecasted numbers are: 5,368,438 MWh for 2018, 5,397,983 MWh for 2019 and 5,449,432 MWH for 2020. The forecasted MWh energy sales for each of the years of the 2018 – 2020 DSM Plan exceed the June 30, 2009 test year level of sales adopted in Cause No. 43839.

The results discussed above indicate that Vectren South has historically been able to recover all fixed costs approved by the Commission in Cause No. 43839 and should continue to recover all approved fixed costs through the term of the 2018 – 2020 DSM Plan.

Q. Do the proposed DSM/EE offerings impact Vectren South's ability to earn its Commission-authorized return?

A. Possibly. When a DSM-related sale is not made, Vectren South loses the opportunity to earn a return resulting from that sale and in turn, impacts Vectren's ability to earn the Commission-authorized return on that sale.

Vectren South is provided the opportunity, not a guarantee, to earn the Commission's authorized return However, whether Vectren South earns its Commission authorized return or not depends on more factors than just a DSM/EE offering. Base rate proceedings, not DSM plans, best address this issue.

Lost margin recovery based on DSM/EE sales not made would address Vectren South's opportunity to earn its authorized return caused by those lost sales. DSM lost revenue should recover neither fixed costs above the Commission-authorized level of costs nor a return above and beyond what the Commission authorized in the latest base rate proceeding.

Vectren South's proposed incremental lost revenues to be recovered from ratepayers is $4,132,000.[7] The approved net operating income in Cause No. 43839 is $94,450,298 and the approved operating revenues are $591,442,340, with the operating margin resulting from the Commission order at 15.97%. Multiplying the Commission-approved 15.97% margin by Vectren South's proposed incremental $4,132,000 lost revenues produces an incremental lost margin(for the 2018 – 2020 programs) of $659,880. Thus, Vectren South's lost revenue proposal will cost ratepayers $3,472,120 more over the three (3) year

[7] Petitioner's Exhibit No.1, pre-filed direct testimony of Ms. Rina H. Harris, Table RHH-3.

plan.

Applying the same calculation to Vectren South's proposed $34,743,992 legacy lost revenues to be collected between 2018 – 2020, ratepayers would be forced to pay more than $29M above the actual lost margins. ($34,743,992 * 15.97% = $5,548,616). Vectren South's proposed recovery of lost revenues is unreasonable and should be denied.

Q. In this proceeding does Vectren South's Petition seek recovery of the EM&V verified lost revenue component associated with the participation of large commercial and industrial customers, residential, and general service customers that participate in Vectren South's DSM programs.

A, Yes.[8]

Q. Is the OUCC suggesting that the Commission disallow any lost revenue recovery Vectren South's proposed 2018- 2020 DSM Plan?

A. No. I.C. 8-1-8.5-10(o) appears to require that if the Commission finds the Plan to be reasonable, it must also provide for recovery of "reasonable" lost revenues and financial incentives. But "reasonable" lost revenues and financial incentives still need to produce "just and reasonable" rates. If the Commission finds Vectren South's plan to be reasonable, then as it considers what a "reasonable" amount of lost revenues is, it should consider that Vectren South is asking to recover approximately $3.5M more in DSM lost revenues than the Plan creates in DSM-related lost margins.

The OUCC recommends that a "reasonable" level of lost revenues be limited to the EM&V verified lost margin component associated with Vectren South

[8] Verified Petition filed April 10, 2017, pages 3 & 4, " 6. Ratemaking Mechanism"

customer participation in the 2018–2020 DSM Plan. This should also be a factor the Commission weighs when considering whether the OUCC's proposed cost recovery cap of 50% of the UCT net benefit is a resolution that produces just and reasonable rates.

Q. Does Vectren South's proposed 2018-2020 DSM Plan include sufficient information to determine whether the Plan reasonably balances both investor and consumer interests?

A. Yes. In evaluating the cost-effectiveness of a DSM program, the California Standards Practice Manual ("Manual") has been the standard Indiana utilities, the IURC and various stakeholders have adopted. The four primary tests included in the Manual and adopted for evaluating cost-effectiveness in Indiana are:

- Participant test ("PCT")
- Ratepayer Impact Measure test ("RIM")
- Total Resource Cost test ("TRC")
- Program Administrator Cost test ("PACT"), also known as the Utility Cost Test ("UCT")

The UCT measures the results of a DSM program as a resource option and is based on the costs incurred by the program administrator or utility. It excludes participant costs. Test results are usually shown as a benefit-cost ratio, and a program is said to have "passed" a test if the benefit-cost ratio is greater than 1.0. A positive UCT score indicates the DSM program(s) lowers the revenue requirement by the net benefit amount.

Q. How does the UCT net benefit result provide insight regarding whether Vectren South's DSM plan, and the resulting rates and charges, are "just and reasonable"?

A. When a utility's revenue requirement is reduced, it typically follows that the revenue requirement to be collected from consumers is also reduced. It would be neither just nor reasonable for the utility to retain 100% of the UCT net benefit without sharing those savings with ratepayers. If the ratepayers are to realize any of the indicated benefit from the implementation of the DSM programs, the sum of the lost revenue recovery and financial incentives realized by the utility must be less than the net benefit calculated in performing the UCT.

The UCT net benefit calculated and provided in Vectren South's case-in-chief for the 2018–2020 DSM Plan is $38,669,674 excluding performance incentives. A reasonable method of balancing ratepayer and shareholder interests would be to share the UCT net benefit 50-50. Program costs, lost revenue recovery and financial incentives awarded should not total more than $19,334,837, ($38,669,674 *.5). It is only fair that the consumers and the utility receive their benefits at the same time.

Q. Does Vectren South's 2018 – 2020 DSM Plan seek recovery of program costs, lost revenues and financial incentives totaling more than the $19,334,837 net benefit cap you recommend above?

A. Yes it does. As referenced above, the UCT net benefit totals $38,669,674. The total amount Vectren South is seeking to collect from ratepayers: program costs, incremental lost revenues to be collected during the plan period, and performance incentives is $37,679,113 as shown on Attachment ETR-1. The recovery of program costs, lost revenues and performance incentives sought by Vectren South during the plan period is an amount equal to 97.44% of the UCT net benefit realized during the DSM plan period as shown on Public's Attachment ETR–1.

Including legacy lost revenues, Vectren South proposes to collect from ratepayers during the three-year plan $72,423,105 or 187% of the Vectren South-provided UCT net benefit of $38,669,674. Vectren South proposes to collect from ratepayers $33,753,431 ($72,423,105-$38,669,674) more than the UCT net benefit over the three (3) year Plan period and $53,088,268 over the OUCC's recommended 50/50 sharing of the UCT net benefit. Ratepayers would be losing their fair share of the benefits (funded completely by them) produced by the 2018 - 2020 Plan during its 3 year life. A 50-50 split does a much better job of balancing the interests of the investor and ratepayer results in a sharing of the benefits produced through investments in DSM.

.Q. If Vectren South is permitted to recover its proposed $72,423,105 in program costs, lost revenues and financial incentives, would either the DSM Plan be "reasonable" or the resulting rates be "just and reasonable"?

A. No. Vectren South is seeking to collect 97.44% of the UCT net benefit from implementation of the 2018–2020 DSM Plan. That does not balance the interests of the consumer and the shareholder. Given the imbalance of consumer and shareholder interests, the rates and charges sought by Vectren South in this proceeding are skewed in Vectren South's favor and not "just and reasonable."

IV. PERFORMANCE INCENTIVES

Q. Is Vectren South seeking to recover performance incentives in the 2018-2020 DSM plan?

A. Yes. Vectren South is seeking a performance incentive structure based on energy savings achievements for the programs for each year of the plan. Vectren South proposes to calculate the incentive at a portfolio level based on the total energy savings achievement level for the portfolio of eligible programs. The shared savings incentive sought for recovery by Vectren South through approval of the 2018–2020 DSM Plan is $3,615,700.[9]

Q. Does the OUCC support Vectren South's request for performance incentives?

A. The OUCC supports the concept of performance incentives, but not the amount or mechanism proposed by Vectren South.. Ind. Code § 8-1-8.5-10 (o) provides for a utility to receive reasonable financial incentives. It may not be unreasonable to award some financial incentives to programs that meet or exceed savings goals approved by the Commission. Awarding incentives only to programs that meet or exceed goals is crucial in an environment where a utility's DSM Plan must be consistent with the utility's IRP, and the method used in developing the IRP is selected by the utility. However, there is no logical reason to award an incentive that is greater than the weighted average cost of capital approved in Vectren South's last rate case. Incentives approaching levels similar to the authorized cost of equity are wholly inappropriate. Those return levels are designed to attract capital investment and compensate for investor risk. DSM shareholder incentives have no risk, as the DSM programs are funded 100% by Vectren South ratepayers.

Financial incentives should not be calculated on the portfolio level, but rather on the savings achieved at the program level, and only for programs achieving 100% of the estimated savings contained within the Plan.

[9] Public's Attachment ETR-1

Subsection (l) of I.C. 8-1-8.5-10 establishes a procedure for the Commission to follow if " the commission determines that an electricity suppliers plan is not reasonable because the costs associated with one (1) or more programs included in the plan exceed the projected benefits of the program or programs, the commission:

> (1) may exclude the program or programs and approves the remainder of the plan; and
> (2) shall allow the electricity supplier to recover only those program costs associated with the portion of the plan approved under subdivision (1) on a timely basis through a periodic rate adjustment mechanism." (Underline added).

This language makes clear the focus on programs. The Commission may determine that a Plan is unreasonable but approve the Plan by excluding the program or programs when a program or programs costs exceed the benefits attributable to the program or programs. Reliance on that particular subsection implies that each program must result in the program's benefits exceeding the program's costs, excluding a home energy efficiency assistance program for qualified customers of the supplier.

In determining the reasonableness of a submitted plan, the programs are looked at as distinct programs and not on a sector or portfolio level. Also, by reference to subsection (g) (3), the program costs include financial incentives approved by the commission under subsection (o). The determination of financial incentives must be approved only on a program level.

Any "reasonable" financial incentives ultimately approved by the Commission under subsection (o) should be subject to the overall 50% cap on the sum of lost revenues recovered and incentives which are based upon the utility's calculated UCT net benefit discussed previously in my testimony.

Q. Does the OUCC have a proposed financial incentive mechanism for Vectren South in this Cause?

A. Yes. As testified to above, the OUCC recommends that any financial incentive plan adopted for Vectren South for the 2018–2020 DSM Plan period be calculated on a program level, and only for those programs that achieve a minimum of 100% of the Plan's program estimated savings. The incentive should never be greater than the weighted average cost of capital approved in Vectren South's last rate case.

The Commission is charged with permitting an electricity provider to recover reasonable financial incentives that encourage implementation of cost effective energy efficiency programs or eliminate or offset regulatory or financial bias or in favor of supply side resources[10].

Q. Is there regulatory or financial bias against DSM evident in the petition and case-in-chief filed by Vectren South is this Cause?

A. No. As I mention above, the UCT measures the net costs of a DSM program as a resource option based on the costs incurred by the program administrator or utility and excluding costs incurred by the participant. The end result of a positive UCT net benefit indicates that there is an incentive to implementing a DSM plan over the traditional supply side resource investment. A bias in favor of the DSM Plan implementation exists, not the opposite.

[10] IC 8-1-8.5-10(o).

Q. In approving the overall reasonableness of Vectren South's 2018–2020 DSM Plan is the Commission required to determine whether or not the plan is consistent with Vectren South's most recent filed long range IRP?

A. Yes.[11]

Q. Does the requirement that the DSM Plan be consistent with Vectren South's most recent filed IRP impact the OUCC's recommended financial incentive treatment?

A. Yes**.** In Petitioner's Exhibit No. 3, the pre-filed direct testimony of Mr. Matthew E. Lind,[12] he testifies to the following:

> The cost for each EE block was entered as a levelized cost based on the average program life assumed. Costs were levelized based on financial assumptions provided by Vectren South. Each EE block was modeled as an available alternative that could be selected in 2018 to help meet total customer load requirements over the 2018–2036 study period.

The Vectren IRP was filed on December 19, 2016 and represents a planning exercise during 2016 to evaluate Vectren's electric supply needs over a 20-year planning horizon. "The analysis was used to identify the portfolio of electric supply and demand side resources that best balances reliability, cost, risk, and sustainability. Based on this planning process, Vectren has selected a preferred portfolio plan that balances the energy mix for its generation portfolio with the addition of a new combined cycle gas turbine facility and solar power plants and significantly reduces its reliance on coal-fired electric generation."[13] "The IRP can be thought of as a compass setting the direction for future generation and

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[11] I.C 8-1-8.5-10(j)
[12] Petitioner's Exhibit No. 3 page5 of 7, lines 11 – 15.

[13] 2016 Integrated Resource Plan, filed December 19, 2016, page 33

energy efficiency options."[14]

Vectren, in its 2016 IRP, claims the results provide a level of supply-side resources that best meet Vectren's customers' needs. The level of Energy Efficiency ("EE") included in the 2018–2020 DSM Plan is 1% of eligible sales. Also, the costs associated with the 2018-2020 Plan align with the EE costs included in the 2016 IRP.[15]

The 2016 Vectren IRP selected a preferred portfolio plan that balances the energy mix for its generation portfolio. The preferred portfolio consists of 1% of eligible sales as the DSM contribution to the preferred portfolio.

Given that the 2016 IRP has selected a DSM energy savings level of 1% of eligible retail sales as part of its preferred portfolio plan, to reward Vectren South for achieving something less than what was selected in the 2016 IRP and what the future generation mix is based upon is irresponsible. Long-term decisions for the future generation mix assume a 1% savings level of eligible retail sales. To achieve a level less than prescribed by the IRP can jeopardize Vectren South's ability to best balance system reliability, cost, risk, and sustainability.

Vectren South should not be rewarded with incentives for achieving something less than what the IRP has selected as necessary in its development of the energy mix for its generation portfolio, which in turn puts ratepayers at risk. The OUCC

[14] 2016 Integrated Resource Plan, filed December 19, 2016, page 35
[15] Petitioner's Exhibit No. 1, pre-filed direct testimony of Ms. Rina H. Harris

recommends that no performance incentive be received or recovered by Vectren South for 2018 - 2020 DSM Plan programs that do not achieve 100% of the savings goal.

V. REASONABLENESS OF VECTREN SOUTH'S DSM PLAN

Q. Does the OUCC have any program-specific concerns with Vectren South's proposed DSM Plan?

A. Yes. The OUCC is concerned that Vectren South's plan, submitted in accordance with IC 8-1-8.5-10 ("Section 10"), does not meet the overall reasonableness standards established in subsection (j).

Q. Does a Vectren South witness address whether or not the 2018–2020 DSM Plan complies with IC 8-1-8.5-10, subsection (j)?

A. Yes. Vectren South witness Ms. Rina H. Harris in her pre-filed direct testimony, Petitioners Exhibit No. 1, page 8 of 42, lines 1 – 9, testifies that Vectren South's 2018-2020 Plan meets the requirements of a plan submitted pursuant to Section 10.

Q. Are there more examples where Vectren South's DSM plan does not comply with IC 8-1-8.5-10, subsection (j)?

A. Yes. Vectren South's proposed DSM does not fully comply with subsection (j), subparts (2), (7), and (8).

Q. Please explain how Vectren South's proposed DSM plan does not comply with IC 8-1-8.5-10, subsection (j) (2).

A. The proposed Vectren South DSM plan does not provide a cost and benefit analysis provided for in subsection (j) (2) that includes program costs defined in IC 8-1-8.5-10, subsection (g).

While subsection (j) (2) refers to a cost and benefit analysis of the Plan, the cost portion of that analysis does not define what is included in the cost. The California Standards Practice Manual defines costs as including program costs in costs used in calculating the RIM, PACT/UCT and TRC. It is the OUCC's position that program costs also be included in the development of costs used in calculating the cost and benefit analysis referred to in IC 8-1-8.5-10. The OUCC firmly disagrees with the position taken by Vectren South relative to compliance with this subsection and recommends the Commission find this lack of compliance one of several reasons why the proposed DSM plan is unreasonable in its entirety.

Q. Please explain how Vectren South's proposed DSM plan does not comply with IC 8-1-8.5-10, subsection (j) (7).

A. Vectren South provided an analysis of the rate impacts for each customer tariff class and the impact on residential customer bills in Petitioner's Exhibit 4, the pre-filed Direct Testimony of Mr. J. Cas Swiz.

Mr. Swiz in his pre-filed direct testimony on page 9 of 11 line 30-31 states, "These estimated Plan bill impacts include only the impact of Vectren South's DSMA on the base rate bills of residential customers." That answer totally ignores the long-term and short-term effect on non-residential customers that participate in energy efficiency programs compared to non-residential customers that do not participate in energy efficiency programs which is required under subsection (j) (7).

The OUCC firmly disagrees with the position taken by Vectren South relative to compliance with this subsection and recommends the commission find this lack of compliance another reason why the proposed DSM plan is unreasonable in its entirety.

Q. Please explain how Vectren South's proposed DSM plan does not comply with IC 8-1-8.5-10, subsection (j) (8).

A. The proposed recovery of lost revenues and financial incentives in Vectren South's DSM plan are unreasonable based on reasons identified earlier in my testimony. The OUCC firmly disagrees with the position taken by Vectren South relative to compliance with this subsection and recommends the Commission find this lack of compliance another reason why the proposed DSM plan is unreasonable in its entirety.

Q. Is Vectren South's 2018–2020 DSM Plan is unreasonable in its entirety, in accordance with IC 8-1-8.5-10, subsection (m)?

A. Yes. While this testimony identifies specific areas where Vectren South's 2018–2020 DSM Plan does not comply with certain sections of I.C. 8-1-8.5-10, Petitioner's Exhibit No. 5, Attachment SEA-1, seems to suggest that an electricity supplier's plan must meet the complete criteria established in IC 8-1-8.5-10, subsection (j). It is important to note that this transcript of the House floor debate that preceded the final vote on SEA 412 on March 24, 2015 actually supports the OUCC's position. Specifically, at page 16 line 25 thru page 17 line 5 where Representative Koch states:

> And finally, I want to make perfectly clear this [is] not cart blanch [sic] for utilities to draft their own plan. Those plans must be subject to criteria and have required contents that are set forth in the bill on pages 9 and 10, and under the bill, the IURC can and will reject a plan that does not conform to those requirements.

Q. Does the OUCC position on the reasonableness of the 2018–2020 Vectren South DSM Plan consider other items other than just a statutory analysis of the Plan?

A. Yes. There exists a basic unfairness that permeates this Petition and the interpretation of I.C. 8-1-8.5-10 historically by the Commission that results in the ratepayer absorbing the full costs of the DSM Plan, providing an incentive to Vectren South even when they fail to achieve a critical savings target and then requiring the ratepayers to reimburse Vectren South for fixed cost recovery for cost that do not vary regardless of the sales level. The results of these actions raise the cost to ratepayers for one of the least cost energy resources -- energy efficiency -- to levels that dwarf the average cost of energy implicit in average residential bills.

VI. <u>RECOMMENDATIONS</u>

Q. What does the OUCC recommend in this proceeding?

A. Each of the shortcomings described above are sufficient grounds for the Commission to reject at least some portion of Vectren South's proposed DSM Plan. The I.C.19 8-1-8.5-10(m) requires that unless the Commission approves the plan in its entirety, or removes only programs that are not cost effective, it must reject the plan in its entirety. The OUCC recommends the Commission do just that, and issue an order explaining the reasons supporting its findings and provide Vectren South a reasonable time to file a modified plan. The OUCC suggests several of its recommendations might form the foundation for a more reasonable plan, including:

- A reasonable level of program costs, lost revenues and incentive recovery be approved that does not exceed 50% of the net benefit realized under the UCT;

- Reasonable financial incentives are awarded only for programs that meet or exceed the approved savings goals; and only for programs EM&V'd for the years which lost revenues and incentives are sought; and calculated at the program level as opposed to the portfolio level;

- Reasonable financial incentives should not exceed the rate of return utility's were authorized by the Commission in its most recent base rate case; and

- Require compliance with the plain language of I.C. 8-1-8.5- including the definition of "program costs" in subsection (g) and the ten factor test included in subsection (j), including a consistent application of "program costs" as part of the cost and benefit analysis required by subsection (j)(2) and the cost and benefit analysis discussed in subsection (j).

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Edward T. Rutter
Utility Analyst II
Indiana Office of Utility Consumer Counsel
Cause No. 44927
Vectren South

July 26, 2017
Date

APPENDIX TO TESTIMONY OF
OUCC WITNESS EDWARD T. RUTTER

Q: Please describe your educational background and experience.

A: I am a graduate of Drexel University in Philadelphia, PA, with a Bachelor of Science degree in Business Administration**.** I was employed by South Jersey Gas Company as an accountant responsible for coordinating annual budgets, preparing preliminary monthly, quarterly, annual and historical financial statements, assisting in preparation of annual reports to shareholders, all SEC filings, state and local tax filings, all FPC/FERC reporting, plant accounting, accounts payable, depreciation schedules and payroll. Once the public utility holding company was formed, South Jersey Industries, Inc., I continued to be responsible for accounting as well as for developing the consolidated financial statements and those of the various subsidiary companies including South Jersey Gas Company, Southern Counties Land Company, Jessie S. Morie Industrial Sand Company, and SJI LNG Company.

I left South Jersey Industries, Inc. and took a position with Associated Utility Services Inc. (AUS), a consulting firm specializing in utility rate regulation including rate of return, revenue requirement, purchased gas adjustment clauses, fuel adjustment clauses, revenue requirement development and valuation of regulated entities.

On leaving AUS, I worked as an independent consultant in the public utility area as well as telecommunications including cable television (CATV). I joined the OUCC in December 2012 as a utility analyst.

Q: Have you previously testified before the Indiana Utility Regulatory Commission?

A: I have previously testified before the Indiana Utility Regulatory Commission (Commission) in Cause Nos. 44311, 44331, 44339, 44363, 44370, 44418, 44429, 44446, 44478, 44486, 44495, 44497, 44526, 44540, 44542, 44576, 44602, 44403, 44634, 44645, 44688, 44794, 44765, 44835, 44841, 44871, 44872, 44910 plus 43827, 44781 and 43955 DSM dockets and several sub-dockets.. I have also testified before the regulatory commissions in the states of New Jersey, Delaware, Maryland, Pennsylvania, New York, Connecticut, Georgia, Florida, North Carolina, Ohio, Oklahoma, Virginia and Wisconsin. In addition to the states mentioned, I submitted testimony before the utility regulatory commissions in the Commonwealth of Puerto Rico and the U.S. Virgin Islands. I have also testified as an independent consultant on behalf of the U.S. Internal Revenue Service in Federal Tax Court, New York jurisdiction.

VECTREN SOUTH
DSM 3-YEAR PLAN
TOTAL COST TO RATEPAYER UNDER THE DSM 3-YEAR PLAN
2018 TO 2020

DESCRIPTION	PROGRAM YEAR 2018 $'s	PROGRAM YEAR 2019 $'s	PROGRAM YEAR 2020 $'s	PROGRAM YEARS 2018 - 2020 $'s
PROGRAM COSTS PER DSM PLAN: (a)				
DIRECT ADMINISTRATIVE COSTS	$8,050,390	$8,433,276	$8,370,366	$24,854,032
INDIRECT ADMINISTRATIVE COSTS	937,436	960,110	960,225	2,857,771
OTHER	500,000	200,000	200,000	900,000
EM&V	427,992	447,304	444,314	1,319,610
TOTAL PROGRAM COSTS	9,915,818	10,040,690	9,974,905	29,931,413
ADDITIONAL COSTS TO THE RATEPAYER PER DSM PLAN:				
LOST REVENUES: (b)				
DSM PLAN NET LOST REVENUE SOUGHT BY VECTREN FOR RECOVERY FROM RATEPAYERS	1,395,000	1,405,000	1,332,000	4,132,000
LEGACY LOST REVENUES COLLECTED BY VECTREN DURING THE 3-YEAR PLAN	10,407,761	11,549,023	12,787,208	34,743,992
COMPANY INCENTIVES BASED ON SHARED SAVINGS CONSTRUCT	1,355,400	1,264,500	995,800	3,615,700
TOTAL ADDITIONAL COSTS TO THE RATEPAYER PER DSM PLAN	13,158,161	14,218,523	15,115,008	42,491,692
TOTAL DSM PLAN COSTS CHARGED TO THE RATEPAYER	$23,073,979	$24,259,213	$25,089,913	$72,423,105
DSM PLAN ENERGY SAVINGS kWh (a)	36,656,341	38,069,188	36,347,642	111,073,171
COST TO RATEPAYER PER kWh SAVED PER DSM PLAN				
PROGRAM COST PER kWh	$0.27	$0.26	$0.27	$0.27
ADDITIONAL COSTS TO THE RATEPAYER PER kWh	$0.36	$0.37	$0.42	$0.38
TOTAL COST TO RATEPAYER PER kWh	$0.63	$0.64	$0.69	$0.65

(a) Petitioner's Exhibit No. 1, Pre-filed Direct Testimony of Ms. Rina H. Harris. Table RHH-4 page 30 of 42, and table RHH-7 page 37 of 42.

(b) Petitioner's Exhibit No. 1, Pre-filed Direct Testimony of Ms. Rina H. Harris. Table RHH-3 page 29 of 42 and Table RHH-5 page 31 of 42. Petitioner's Exhibit No. 4, pre-filed direct testimony of Mr. J. Caz Swiz, Attachment JCS-3, page 1 of 2.

VECTREN SOUTH
COMPARISON OF MWh SALES AND CUSTOMERS
TEST YEAR THROUGH 2016

DESCRIPTION	6/30/2009 MWh SALES TEST YEAR	12/31/2016 MWh SALES (a)	12/31/2015 MWh SALES (a)	12/31/2014 MWh SALES (a)	12/31/2013 MWh SALES (a)	12/31/2012 MWh SALES (a)	12/31/2011 MWh SALES (a)	12/31/2010 MWh SALES (a)
MWh SALES:	(b)							
RESIDENTIAL	1,492,701	1,424,533	1,407,501	1,455,292	1,425,791	1,434,348	1,498,586	1,603,508
SMALL OR COMMERCIAL	1,337,447	1,304,505	1,306,877	1,306,942	1,296,324	1,297,329	1,328,634	1,360,513
LARGE OR INDUSTRIAL	2,363,498	2,722,320	2,721,545	2,804,598	2,735,188	2,710,523	2,744,794	2,630,276
PUBLIC, OTHER, & RAILROADS	22,118	22,073	21,336	21,441	20,705	21,408	21,363	21,238
TOTAL ELECTRIC SALES TO ULTIMATE CUSTOMERS	5,215,764	5,473,431	5,457,259	5,588,273	5,478,008	5,463,608	5,593,377	5,615,535
CUSTOMERS:	(c)							
RESIDENTIAL	122,254	129,691	129,113	128,525	128,144	127,806	127,649	127,712
SMALL OR COMMERCIAL	18,326	18,551	18,471	18,454	18,380	18,297	18,275	18,321
LARGE OR INDUSTRIAL	98	113	113	117	116	115	111	108
PUBLIC, OTHER, & RAILROADS	33	39	38	38	36	33	33	33
TOTAL ELECTRICITY SALES CUSTOMERS	140,711	148,394	147,735	147,134	146,676	146,251	146,068	146,174

NOTES:

(a) Sourced from SNL Database

(b) Cause No. 43839, Petitioner's Exhibit No. JLU-6, Schedule 2, page 1, 2 & 3 of 6.

(c) Cause No. 43839, Petitioner's Exhibit No. KAH-2, Schedule 3, Average Retail Customers

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor's Public's Exhibit No. 1 Testimony of OUCC Witness Edward T. Rutter*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 26, 2017.

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