STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF ELECTRIC DEMAND SIDE MANAGEMENT PROGRAMS TO BE EFFECTIVE JANUARY 1, 2015 THROUGH DECEMBER 31, 2015, FOR AUTHORITY TO RECOVER ASSOCIATED START-UP, IMPLEMENTATION AND ADMINISTRATIVE COSTS ALONG WITH COSTS ASSOCIATED WITH THE EVALUATION, MEASUREMENT AND VERIFICATION OF THOSE PROGRAMS ("PROGRAM COSTS") AND LOST REVENUES THROUGH ITS DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM IN ACCORDANCE WITH IND. CODE § 8-1-2-42(a) AND PURSUANT TO 170 IAC 4-8-5 AND 170 IAC 4-8-6 AND FOR AUTHORITY TO DEFER PROGRAM COSTS AND LOST REVENUES FOR FUTURE RECOVERY.	)))))))))))))))))	**CAUSE NO. 44496**

SUBMISSION OF DIRECT TESTIMONY AND EXHIBITS

Northern Indiana Public Service Company, by counsel, hereby submits its Direct Testimony and Exhibits.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing was served by email transmission upon the following:

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Dated this 30th of May, 2014.

Christopher C. Earle

VERIFIED DIRECT TESTIMONY OF ALISON M. BECKER

Q1. Please state your name, business address and job title.

A1. My name is Alison M. Becker. My business address is 150 W. Market Street, Suite 600, Indianapolis, Indiana 46204. I am employed by Northern Indiana Public Service Company ("NIPSCO" or the "Company"), which is a subsidiary of NiSource Inc. ("NiSource"). My current position is Manager of Regulatory Policy.

Q2. Please summarize your educational and employment background.

A2. I graduated from the University of Evansville with a Bachelor of Arts degree with a double major in History and Political Science. I also hold a Masters of Business Administration from Valparaiso University and am pursing a law degree from the Indiana University Robert H. McKinney School of Law. I was a Governor's Fellow from 1997 to 1998 and then worked as a Budget Analyst for the Indiana State Budget Agency from 1998 to 2000. In 2000, I joined the Indiana Family and Social Services Administration as the Director of Fiscal Services for the Division of Disability, Aging and Rehabilitative Services and was promoted to the Director of Developmental Disabilities Services in 2003. From 2004 until 2008, I held management positions within nonprofit organizations providing services to individuals with developmental disabilities and community health centers. I joined NiSource in 2008 as a Lead Performance Measurement Analyst in Information Technology Service Performance. After leaving the Company briefly in 2008, I accepted the position of Senior Analyst, Regulatory Policy for NIPSCO in 2009 and was promoted to my current position as Manager, Regulatory Policy in 2011.

Q3. What are your responsibilities as Manager of Regulatory Policy?

A3. As Manager of Regulatory Policy, I am and/or have been responsible for supporting a variety of regulatory initiatives before the Indiana Utility Regulatory Commission ("Commission") including: NIPSCO's electric and gas demand side management ("DSM") filings; NIPSCO's electric vehicle and economic development pilot approved in Cause No. 44016; the development, negotiation and filing of NIPSCO's demand response tariffs approved in Cause No. 43566-MISO-1; and the development of revised line extension practices governing residential real estate developments as approved by the Commission in Cause No. 43706. I also serve as Chair of the Demand Side Management Coordination Committee ("DSMCC") and as a member of its subcommittees, as created in the Commission's December 9, 2009 Phase II Order in Cause No. 42693 ("Phase II Order").

Q4. What is the purpose of your testimony?

A4. The purpose of my testimony is to (1) describe NIPSCO's request for relief, (2) describe NIPSCO's current electric DSM program; (3) discuss Senate Enrolled Act 340 and its impact on DSM; (4) describe NIPSCO's proposed electric DSM program for 2015, (5) describe Program Costs allocations; (6) discuss NIPSCO's proposed oversight board ("OSB") and evaluation, measurement and verification ("EM&V"), (7) describe NIPSCO's pursuit of DSM from a policy perspective, (8) discuss integrated resource planning as it relates to DSM; and (9) describe why NIPSCO's proposed electric DSM program is in the public interest.

Q5. Why is NIPSCO proposing to offer DSM programs to its customers?

A5. NIPSCO recognizes the benefits of DSM and wants to provide those benefits to its customers, while maintaining an appropriate balance between costs and benefits. To that end, NIPSCO seeks to provide a robust, cost effective portfolio of programs available to all customer classes, while taking steps to minimize the impact on its ratepayers. Because customers can face budget constraints, NIPSCO takes into account the impact of these programs on the customer's bill as well as the expected benefits. As I discuss in more detail later, NIPSCO's Integrated Resource Plan ("IRP"), which will be submitted to the Commission later this year, is currently projecting that NIPSCO has sufficient existing energy resources – assuming expected outcomes for pending environmental regulations – to meet the needs of our customers through 2022. As such, NIPSCO worked with its stakeholders to develop a 2015 program that balances the short term benefits of fuel savings for customers with the cost to customers of providing those savings.

Q6. Have there been any unique challenges in the development of NIPSCO's 2015 Electric DSM Program?

A6. Yes. The enactment of Senate Enrolled Act 340 during the 2014 legislative session has presented unique challenges in the development of a portfolio of programs for 2015 from both a substantive and timing perspective. The development of a portfolio of programs that no longer include statewide Core offerings has allowed NIPSCO to craft a mix of programs that fit its service territory and customer mix well, but the short time frame has and will continue to present challenges to ensure that the transition in programs and vendors is seamless and transparent to customers. NIPSCO appreciates the insights and input of the NIPSCO OSB in addressing these challenges, and NIPSCO will continue to work with its OSB to work through any ongoing implementation, budgeting and transition issues that may arise.

Q7. Are you sponsoring any exhibits?

A7. Yes. I am sponsoring Petitioner's Exhibit No. AMB-1, which is a copy of NIPSCO's Verified Petition filed in this Cause, and Petitioner's Exhibit No. AMB-2, which is a copy of NIPSCO's proposed changes to Rider 683 – Demand Side Management Adjustment Factors along with necessary changes to the Table of Contents.

NIPSCO's Request for Relief

Q8. Please describe the specific relief that NIPSCO seeks in this proceeding.

A8. NIPSCO is seeking approval of electric DSM programs for 2015 ("2015 Electric DSM Programs"), and authority to recover associated start-up, implementation and administrative costs along with costs associated with the EM&V of those programs ("Program Costs") pursuant to 170 IAC 4-8-5 and lost revenues pursuant to 170 IAC 4-8-6 through its Demand Side Management Adjustment ("DSMA") Mechanism in accordance with Ind. Code § 8-1-2-42(a). Specifically, NIPSCO requests an Order in this Cause:

- Approving NIPSCO's 2015 Electric DSM Program, as herein described, to be effective from January 1, 2015 through December 31, 2015;
- Granting to NIPSCO continued authority to recover Program Costs associated with the 2015 Electric DSM Program through Petitioner's DSMA Mechanism;
- Granting to NIPSCO authority to defer expenses associated with the 2015 Electric DSM Program that are incurred prior to and subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates;
- Granting to NIPSCO continued authority to recover lost revenues associated with the 2015 Electric DSM Program, as well as lost revenues associated with previous program years, including those lost revenues associated with prior programs that are not included in the 2015 Electric DSM Program, through Petitioner's DSMA Mechanism;
- Granting to NIPSCO continued authority to defer lost revenues associated with the 2015 Electric DSM Program and lost revenues for previous program years, including DSM programs previously offered but subsequently discontinued, through Petitioner's DSMA Mechanism, until such amounts are recovered through rates.
- Granting to NIPSCO continued approval to utilize its existing NIPSCO OSB to administer the 2015 Electric DSM Program;
- Granting to NIPSCO authority to continue the same EM&V process for its 2015 Electric DSM Program;
- Approving necessary tariff changes to effectuate approval of the 2015 Electric DSM Program; and
- Granting to NIPSCO continued approval to utilize the same reporting requirement to file a monthly scorecard detailing program performance for the 2015 Electric DSM Program.

Q9. What is the proposed term of the 2015 Electric DSM Program?

A9. NIPSCO proposes a one-year term of January 1, 2015 through December 31, 2015 for its 2015 Electric DSM Program.

Q10. What specific regulatory treatment does NIPSCO seek?

A10. NIPSCO seeks authority to recover, pursuant to 170 IAC 4-8-5, the Program Costs associated with its 2015 Electric DSM Program through its DSMA Mechanism. The total estimated costs, including lost revenue, of the 2015 Electric DSM Program for the period January 1, 2015 through December 31, 2015 are projected to be approximately $22 million. The lost revenue portion of this amount is estimated to be $3.4 million. In addition, NIPSCO seeks the authority to spend amounts previously approved by the Commission with the approval of the NIPSCO OSB.

Q11. Is NIPSCO requesting performance incentives?

A11. NIPSCO recognizes that performance incentives are allowed by the Commission's rules. However, because NIPSCO's programs are still relatively new and this is a one year request, NIPSCO is not seeking performance incentives at this time especially given the time constraints associated with this proceeding. NIPSCO may seek performance incentives for its approved DSM programs in the future in a subsequent proceeding.

Q12. Why is it appropriate for NIPSCO to continue to collect lost revenues for measures associated with prior programs that are not included in the 2015 Electric DSM Program?

A12. Lost revenues associated with DSM measures that were previously installed as part of programs NIPSCO is planning to discontinue do not cease when the program ends. The Commission approved recovery of lost revenues associated with measures installed through NIPSCO's approved DSM programs for the remainder of their useful lives in Cause No. 44154, so it is appropriate to continue to collect lost revenues associated with those approved programs in the same manner they would be collected if the program had continued. *See* Cause No. 44154 Order at 9.

<u>NIPSCO's Current Electric DSM Program</u>

Q13. Please summarize the Commission orders authorizing NIPSCO's current electric DSM program.

A13. On May 25, 2011, the Commission issued an Order in Cause No. 43618 approving NIPSCO's request for approval of the DSMA Mechanism through

Rule 52 of NIPSCO's General Rules and Regulations (now Rider 683 – Adjustment of Charges for Demand Side Management Adjustment Mechanism) and Appendix G – Demand Side Management Adjustment Mechanism Factor.

On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed Core and Core Plus energy efficiency programs (the "43912 Programs"), budgets for its 43912 Programs, authority to recover Program Costs, and the NIPSCO OSB. The 43912 Programs expired on December 31, 2013.

On January 2, 2012, the Core Programs approved by the Commission in its Phase II Order and administered by the Third Party Administrator ("TPA") approved by the Commission in its July 27, 2011 Order on TPA & EM&V Contracts in Cause No. 42693-S1, became available on a statewide basis. The statewide Core programs approved by the Commission in the Phase II Order are in effect through December 31, 2014 by virtue of the Commission's August 15, 2012 Order in Cause No. 42693-S1 granting an extension of one year to the underlying TPA and EM&V contracts.

On August 8, 2012, the Commission issued an Order in Cause No. 44154

("44154 Order") approving, among other things, NIPSCO's request for approval to recover lost revenue associated with reduced sales attributable to NIPSCO's Commission-approved electric DSM programs.

On December 18, 2013, the Commission issued an Order in Cause No. 44363 approving NIPSCO's request for approval of a portfolio of electric DSM programs through December 31, 2014 along with the continued authority to recover Program Costs and lost revenues associated with those programs. The portfolio of DSM programs for which approval was granted included the continuation of NIPSCO's 43912 Programs with the addition of two new commercial and industrial ("C&I") Core Plus programs The Commission also authorized the continuation of the NIPSCO OSB.

<u>**Senate Enrolled Act 340**</u>

Q14. Please discuss Senate Enrolled Act 340 ("SEA 340").

A14. Senate Enrolled Act 340, which became law on March 27, 2014, (a) creates the ability for certain customers to opt out of participation in an electric utility's DSM program; (b) requires the Commission to prepare a status report regarding energy efficiency programs implemented under the Phase II Order; (c) prohibits the renewal or extension of an existing contract or entry into a new contract with a statewide TPA as established by the Phase II Order; (d) eliminates any goals or targets related to energy savings established by the Phase II Order; (e) allows an electric utility to continue to recover program costs that accrued or were incurred under the Phase II Order and approved by the Commission; (f) allows an electric utility to offer a cost effective portfolio of energy efficiency programs to customers, and, if the Commission determines that the portfolio is reasonable and cost effective, to recover energy efficiency program costs in the same manner as such costs were recoverable under the Phase II Order; and (g) prohibits the Commission from requiring an energy efficiency program to be implemented by a TPA or consider whether a TPA implements the program when making its decision.

Q15. How does SEA 340 impact NIPSCO's 2015 Electric DSM Program?

A15. First, in putting together its budgets and program offerings, NIPSCO forecasted the amount of eligible C&I load that would opt out of participation in NIPSCO's 2015 Electric DSM Program. While NIPSCO will not know the total number of customers and load that will opt out of participation in 2015 until November 15, 2014, for purposes of this filing NIPSCO made the assumption that its largest sixteen eligible customers by demand as well as the customer on Rate 644 would elect to opt out, which equates to about 54% of NIPSCO's C&I load and 43% of NIPSCO's total load.

Second, rather than having a portfolio of programs administered on a statewide basis by a single third party and a portfolio of programs administered by NIPSCO, NIPSCO will administer the entire portfolio of DSM programs so that it best meets the needs of its service territory.

Finally, because of the elimination of the savings goal imposed in the Phase II Order, and as discussed in greater detail below, NIPSCO structured its 2015 Electric DSM Program to spend approximately 2% of total revenue from 2013 after removing the load associated with customers projected to opt out of NIPSCO's DSM program. This amounts to 41% of 2013 sales for the same customer base.

Q16. What if the number of customers who elect to opt out exceeds NIPSCO's projections?

A16. If actual opt out elections exceed NIPSCO's expectations, NIPSCO does not plan to adjust its proposed budget for 2015. It will, however, make adjustments to the 2% total revenue cap going forward.

Q17. Does SEA 340 address how program costs associated with NIPSCO's DSM program will be treated for qualifying customers electing to opt out?

A17. Yes. SEA 340 defines "Energy Efficiency Program Costs" to include program costs, lost revenues, and incentives approved by the Commission. The statute provides that:

> After December 31, 2014, an electricity supplier may continue to timely recover energy efficiency program costs that:
>
> (1) accrued or were incurred under or relate to an energy efficiency program implemented under the DSM order issued by the commission on December 9, 2009; and
>
> (2) are approved by the commission for recovery.

Ind. Code § 8-1-8.5-9(l). As a result, qualifying NIPSCO customers electing to opt out will remain responsible for their share of these "Energy Efficiency Program Costs" associated with approved energy efficiency programs from periods prior to the effective date of their opt-out. These issues are addressed in greater detail in my testimony in Cause No. 44441 and in the tariff proposed for approval in that proceeding.

Q18. Is there anything unique about NIPSCO's proposed implementation of the Industrial Opt Out?

A18. Yes. Because NIPSCO has two rates in its tariff, Rate 634 – Rate for Electric Service, Industrial Power Service for Air Separation & Hydrogen Production Market Customers and Rate 644 – Rate for Electric Service, Railroad Power Service, that permit aggregation of multiple delivery points, NIPSCO is proposing to allow those customers to participate with aggregated load. However, the customer served on Rate 634 has at least one meter at each of its sites that meets the required threshold of more than 1MW of capacity. The customer on Rate 644, Northern Indiana Commuter Transportation District, or South Shore Line, is considered to be "one continuous electric right of way" as stated within Rider 644. In addition, of the eight meters serving the South Shore Line, seven of them independently meet the threshold of more than 1MW of capacity.

Q19. The Commission currently has an investigation into the implementation of SEA 340 open in Cause No. 44441. Is there potential that that Cause could necessitate further changes to NIPSCO's tariff or energy efficiency program?

A19. Yes. In addition to consideration of the changes needed to the tariffs and riders of NIPSCO and the other electric utilities, the Commission has established a second phase of the Cause to consider other related matters.

NIPSCO will comply with any necessary changes to its tariff or energy efficiency program that come from Cause No. 44441 or any other Commission Order.

<u>NIPSCO's Proposed Electric DSM Program for 2015</u>

Q20. Please describe NIPSCO's goal in implementing an electric DSM program.

A20. NIPSCO's goal is to implement cost-effective energy efficiency and demand response programs that reduce NIPSCO's peak demand and its energy requirements. We hope to be able to reduce energy consumption through the 2015 Electric DSM Program by 1%. NIPSCO is proposing a cost-effective portfolio of programs that will reduce customers' energy costs and also reduce regulated air emissions.

Q21. Why does NIPSCO find the 2% of total revenue to be an appropriate target for DSM spending?

A21. There is a cost associated with the implementation of energy efficiency programs. NIPSCO is mindful of the budgetary constraints facing many of its customers, and has therefore decided to limit energy efficiency program spending to 2% of the total revenue from 2013 from those customers expected to participate in the 2015 Electric DSM Program. This provides a projected savings of 119,621,000 megawatt hours ("MWh") for NIPSCO's customers while providing a balance of specific savings for individual customers, fuel savings for all customers and a manageable monthly bill impact.

Q22. How does this 2% of total revenue for DSM spending compare with other states?

A22. NIPSCO's proposed 2% of total revenue compares favorably with other states in the Midwest. Specifically Illinois, Minnesota and Michigan are states that base their savings goals on sales per year. Illinois implemented an energy efficiency resource standard that will reach 2.0% of sales per year in 2015. Minnesota has a minimum spending requirement of 1.5% of gross state operating revenues for electric utilities. Michigan's Energy Optimization Standard requires a 1.0% annual reduction of previous year retail electricity sales and limits the cost recovery for utilities up to 2.2% of total retail sales revenue for the two preceding years for those customer classes. NIPSCO's proposal is in line with neighboring states and provides a good balance for customers.

Q23. Please describe the methodology NIPSCO used to determine the level of funding for its proposed 2015 Electric DSM Program.

A23. NIPSCO first calculated its 2013 revenue by class. NIPSCO then reduced the 2013 revenue by the revenue attributed to its largest sixteen eligible customers by demand as well as the customer on Rate 644 that NIPSCO expects will opt out of program participation. NIPSCO then multiplied the total revenue by 2% to determine a guide for the level of funding for its proposed 2015 Electric DSM Program. Based on this methodology, the amount available for the proposed 2015 Electric DSM Program is approximately $21.2 million.

NIPSCO's methodology provides funding sufficient to allow the Company to offer a robust portfolio of energy efficiency opportunities to its customers while mitigating the rate impact to customers.

Q24. Please generally describe how DSM relates to NIPSCO's IRP process.

A24. In accordance with the "Guidelines for Integrated Resource Planning by an Electric Utility" (170 IAC 4-7 *et seq.*) (the "IRP Rules") NIPSCO submits an IRP to the Commission every two years. The IRP is NIPSCO's assessment of a variety of demand-side and supply-side resources to reliably and cost-effectively meet customer electricity service needs. It is important to note that while NIPSCO is considering demand-side in addition to supply-side resources to develop its IRP, the programs requested in this proceeding are established outside of the IRP process due to the unique substantive and timing challenges I described above regarding the enactment of SEA 340. NIPSCO is committed to having an efficient DSM program, balancing the needs of all customers. .

Q25. Are you familiar with NIPSCO's 2011 IRP submitted in 2011 ("2011 IRP") and its on-going work on its IRP to be submitted in 2014 ("2014 IRP")?

A25. Yes.

Q26. What are the general benefits to NIPSCO's customers of implementing a DSM program?

A26. Participants in the various DSM programs will realize bill savings by reducing their consumption of energy. In addition, all customers will realize savings based upon avoided energy costs. Finally, while NIPSCO's 2011 IRP does not project the immediate need for additional generating capacity, customers may also realize savings for avoided capacity costs and receive revenue from the auction of capacity.

Q27. What are the program-related costs to NIPSCO and its customers of implementing a DSM program?

A27. General costs include direct program implementation, administration, and EM&V. NIPSCO Witness Stanley discusses the specific direct costs associated with NIPSCO's proposed 2015 Electric DSM Program.

Q28. What DSM-related costs do the Commission's rules allow to be recovered by the utility?

A28. 170 IAC 4-8-1 *et seq.* ("Rule 8") sets forth guidelines for DSM recovery (the "DSM Rules"). 170 IAC 4-8-7 states that a utility is entitled to recover the reasonable cost of planning and implementing a DSM program and lists several alternative cost recovery methodologies. In addition, 170 IAC 4-8-8 permits a utility to recover lost revenue from the implementation of a DSM program and states that a utility is allowed an opportunity for earnings from prudent investments in both supply- and demand-side resources.

<u>Program Cost Allocations</u>

Q29. How does NIPSCO propose to allocate Program Costs for its proposed 2015 Electric DSM Program?

A29. With the exception of the A/C Cycling Program, NIPSCO proposes to allocate its Program Costs for all programs on a per kilowatt hour ("kWh") basis based on the six month kWh sales forecast for each Rate Schedule. NIPSCO proposes to continue to allocate Program Costs for the A/C Cycling Program based on the number of customers by rate class.

Q30. Why is NIPSCO proposing to change its allocation methodology for all of the programs with the exception of the A/C Cycling Program?

A30. There are several C&I customer classes where a small number of customers account for a large portion of NIPSCO's load. For example, in NIPSCO's most recent DSMA tracker filing (Cause No. 43618-DSM-6), Rate 632 – Industrial Power Service – had nine customers with forecasted load of 1.2 million MWh. Rate 633 – High Load Factor Industrial Power Service – has just four customers with forecasted load of 1.5 million MWh. By comparison, Rate 623 – General Service-Medium – has 3,772 customers with forecasted load of 764,000 MWh. Allocating based on load rather than customer count allows NIPSCO to better associate Program Costs with the customers who are benefiting from the 2015 Electric DSM Program.

Q31. Why is NIPSCO suggesting a different allocation methodology for the A/C Cycling Program?

A31. The A/C Cycling Program, which is addressed in Rider 684 – Credits for Direct Load Control – is available to both residential and C&I customers and eligibility is based on the customer having a central air conditioning unit having an electric motor driven compressor. The vast majority of program participants are residential customers, with only 12% of program participants being C&I customers. In addition, NIPSCO is proposing to not offer new enrollments in 2015 to assess the program and determine the best design moving forward. Finally, this program only saves kW, not kWh, which is what NIPSCO proposes to use to allocate costs for the other programs. Therefore, NIPSCO proposes to continue to allocate the A/C Cycling Program Costs based on the number of customers in each class.

Q32. Is NIPSCO proposing to change the way it allocates costs associated with lost revenues?

A32. No. NIPSCO currently forecasts lost revenues by forecasting net energy and net demand savings by allocating projected energy savings in its energy forecast for most rates. There are two programs where NIPSCO uses customer count as the means for allocation: the A/C Cycling and Residential

Home Energy Conservation programs. These programs are forecasted based on customer count because this is the most accurate way to allocate savings across the applicable rates to minimize the reconciliation adjustment. NIPSCO proposes to continue this mechanism of forecasting.

Q33. How does NIPSCO reconcile forecasted participation by rate to actual participation?

A33. Where a customer is known for a given measure installation, the customer will be linked to its applicable rate based on a linkage with NIPSCO's Customer Information System. Actual net energy and demand savings are then reconciled to projections for each rate and adjustments are made as necessary. Only the Residential Lighting and the Residential Elementary Education programs do not have identifiable customers. Therefore, the customer assumed allocations will not change. This is consistent with the approach approved by the Commission in its 44154 Order.

Q34. Is NIPSCO proposing any changes to Rider 683 – Demand Side Management Adjustment Factors to effectuate these changes?

A34. Yes. NIPSCO is proposing to update the formula and definitions used in Rider 683 to effectuate these changes, as well as to clarify the process for collection of lost revenues. NIPSCO's proposed revisions to Rider 683 – Demand Side Management Adjustment Factors as well as necessary changes to the Table of Contents are shown in Petitioner's Exhibit No. AMB-2. The changes reflected assume approval of NIPSCO proposed Rider 683 and Table of Contents currently pending approval in Cause No. 44441.

Q35. Please explain NIPSCO's proposal to update the formula.

A35. NIPSCO is proposing to update the formula to indicate that, for each Rate Schedule, for programs that are allocated based on energy, the total amount of Program Costs for a six month period for that Rate Schedule, including applicable reconciliation, will be divided by the six month kWh sales forecast for that Rate Schedule. This applies to all programs except the A/C Cycling Program. For the A/C Cycling Program, for each Rate Schedule, the total amount of Program Costs for a six month period for that Rate Schedule, including applicable reconciliation, will be divided by the number of customers in that Rate Schedule. In addition, for programs where the Commission has approved an allocation of lost revenues based on estimated billing kWh, for each Rate Schedule, the total amount of projected lost revenues for the six month period for that Rate Schedule will be divided by the six month sales forecast for that Rate Schedule. For programs where the

Commission has approved an allocation of lost revenues based on the estimated number of customers in the Rate Schedule (the Conservation and A/C Cycling programs), for each Rate Schedule, the total amount of projected lost revenues for the six month period for that Rate Schedule will be divided by the estimated number of customers in that Rate Schedule. Finally, for each Rate Schedule, the total amount of reconciled lost revenues including reconciliation for actual collections as well as adjustments for actual net energy and demand savings as well as a reallocation due to participation by Rate Schedule for applicable programs as approved by the Commission will be added to each Rate Schedule. Reallocation due to actual participation by Rate Schedule will not be performed for the Residential Lighting and Residential Elementary Education programs because the Rate Schedule of the participating customers are not known. The total of the three components, Program Costs, projected lost revenues and reconciled lost revenues, will make up the factor for each Rate Class.

Q36. How will the Industrial Opt Out be handled with this formula?

A36. Customers who elect to opt out of NIPSCO's DSM program will continue to have a charge or credit for program costs, either for costs accrued or incurred while the customer was participating in the DSM program or for reconciliation of costs for the time period during which the customer was participating in the DSM program. In addition, those customers will continue to have a charge or credit for projected lost revenues as well as reconciliation of lost revenues for the appropriate time period (i.e. the life of the measure or a base rate case). Additional information on how these costs will be assessed is included in Rider 683.

<u>NIPSCO's OSB and EM&V</u>

Q37. What is NIPSCO proposing for oversight for the proposed 2015 Electric DSM Program?

A37. The current OSB structure and process has been beneficial to both NIPSCO and its stakeholders and NIPSCO proposes to maintain, without change, its NIPSCO OSB as approved in the Commission's 43912 Order.

Q38. Will the NIPSCO OSB continue to have authority to modify program design or program funding amounts?

A38. Yes. Specifically, once the 2015 Electric DSM Program has been approved by the Commission, the NIPSCO Oversight Board will have the flexibility to shift costs within a program budget as needed, shift funds among programs so long as the overall 2015 Electric DSM Program budget is not exceeded and design and implement new programs as long as they pass the Total Resource Cost test and the overall 2015 Electric DSM Program budget is not exceeded.

Q39. What is NIPSCO proposing for EM&V for the proposed 2015 Electric DSM Program?

A39. NIPSCO proposes to maintain its EM&V process as approved in the 43912 Order.

<u>Policy Perspective</u>

Q40. What is the current regulatory framework in Indiana applicable to NIPSCO's proposal in this proceeding?

A40. The current regulatory framework, including statutory and administrative code provisions and prior Commission orders, encourages electric utilities to meet customers' resource needs through supply- and demand-side resource options in a least-cost manner. The DSM Rules include a statement that the rule's purpose is to:

> [provide] a regulatory framework that allows a utility an incentive to meet long term resource needs with both supply-side and demand-side resource 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. The commission, where appropriate, will review and evaluate the existence and extent of regulatory or financial bias.

(170 IAC 4-8-3(a)). Rule 8 further states that another purpose is:

> to ensure a utility's proposal is consistent with acquiring the least-cost mix of demand side and supply-side resources to reliably meet the long term electric service requirements of the utility's customers, the commission, where appropriate, will review and evaluate, as a package, the proposed DSM programs, DSM cost recovery, lost revenue, and shareholder DSM incentive mechanisms.

(170 IAC 4-8-3(c)). These provisions were designed to meet national energy policy, and are still consistent with such national goals and policies today. In addition, parts of Rule 8 set out the requirements for utilities seeking cost recovery (170 IAC 4-8-5) and lost margins (170 IAC 4-8-6) for DSM programs. Both provisions require a fairly detailed EM&V showing, which I describe generally in my testimony and with which NIPSCO has and will continue to comply. The IRP Rules, which I discuss later in my testimony, are also relevant.

Q41. Is NIPSCO's 2015 Electric DSM Program consistent with the DSM Rules?

A41. Yes. The DSM Rules require that a utility have a process and load evaluation plan to assess the implementation and quantify the impact on energy and demand. NIPSCO's EM&V process addresses this issue. Utilities must also be able to show that an incentive paid by the utility to the customer, when combined with the reduction in the participants' utility bills, reflects the net benefit to the utility and all customers and that cross-subsidies are minimized between customer groups and between participants and nonparticipants within a customer group. The cost benefit tests discussed by NIPSCO Witness Stanley address these concerns. In addition, NIPSCO's allocation mechanism assures that costs are allocated to the appropriate customer class.

Integrated Resource Planning

Q42. What is NIPSCO's overall objective and approach in evaluating potential demand-side measures and programs?

A42. It is NIPSCO's objective to evaluate its demand-side measures and programs in a manner that ensures that the DSM programs have been evaluated on a consistent and comparable basis with supply-side resource alternatives for the provision of safe, reliable and cost effective service to customers.

Q43. What is the IRP and what is its purpose?

A43. The IRP is the outcome of a planning process for electric utilities to evaluate a variety of demand- and supply-side resources in order to select resources to reliably and cost-effectively meet customers' electricity service needs over the next 20 years. The IRP process strives to:

- Evaluate available options, from both the supply and demand sides, in a fair and consistent manner;
- Provide safe, reliable, and cost-effective service to customers; and
- Create a flexible plan that allows for review as needed, based on changing circumstances and new information.

NIPSCO uses the IRP process to evaluate future resource options. NIPSCO follows the process set out in the IRP Rules.

Q44. Why must NIPSCO consider the relationship between its IRP process and its proposed DSM programs?

A44. The Commission's current IRP Rules state specifically that a utility must consider a demand-side resource as a source of new supply in meeting future electric service requirements, and a utility shall consider a "comprehensive array" of demand-side measures that provide an opportunity for all ratepayers to participate in DSM (170 IAC 4-7-6(b)). Further, the current IRP

Rules require the performance of a cost-benefit analysis using several tests to make sure the proposed resources are cost-effective (170 IAC 4-7-7).

Q45. How did NIPSCO evaluate its DSM programs in its 2011 IRP?

A45. In its 2011 IRP, NIPSCO's energy and peak demand forecast included projected results from the implementation of the 43912 Programs. NIPSCO anticipated compliance with the Commission's Phase II Order calling for implementation of a portfolio of Core DSM programs on a statewide basis and targeting energy savings of 2% by 2019. In the 2011 IRP, NIPSCO identified the direct load control program (A/C Cycling) as a resource option. The energy and peak demand forecast, and supply-side and demand-side resource options are inputs into the model used by NIPSCO to develop its IRP. Analysis is conducted to integrate the supply-side and demand-side resources and formulate NIPSCO's long term plan. The model simulates the real-world operation of a utility generation, distribution and transmission system within an integrated market. The simulation is intended, in each round of alternatives analysis, to determine the cost and reliability effects of adding supply-side resources to the system or of modifying the load through DSM programs.

Q46. Why did NIPSCO model the programs on an aggregated basis within its 2011 IRP?

A46. At the time that the model runs were created for the 2011 IRP, most programs were still under development and as discussed earlier, an assumption was made that the Company would meet the energy savings targets that were established in the Phase II Order. Consequently, current and expected program savings were aggregated to capture the expected effects of the programs but without the detail necessary to evaluate the programs individually.

Q47. How is NIPSCO modeling DSM programs in its 2014 IRP?

A47. In its 2014 IRP, NIPSCO is including DSM programs as resource options. While the IRP will not be finalized until later in 2014, current projections indicate that NIPSCO has sufficient existing energy resources – including DSM programs - to meet customer needs through 2022. The plan also anticipates that NIPSCO will require additional electric generation capacity in 2023.

Q48. Why is NIPSCO modeling the programs individually in its 2014 IRP?

A48. With more information produced by EM&V efforts now available on the effectiveness of individual DSM programs, NIPSCO will have sufficient data to model and evaluate the merits of each individual program within the overall supply portfolio.

Q49. How are anticipated modeling methodologies for the 2014 IRP important in the context of this filing?

A49. It is important to mention the anticipated modeling methodologies so that NIPSCO can better reflect how DSM fits within the overall supply mix considered to meet projected demand. When it submits its 2014 IRP to the Commission, NIPSCO will provide the modeling of demand-side resources in two ways. First, as is the case within the IRP modeling process, each individual DSM program will be evaluated on a cost effectiveness basis to determine if the mix of resources is the right mix of energy alternatives to meet customers' future demand and energy needs regardless of whether those resources are supply-side resources like generation stations or demand-side resources like energy efficiency programs. Modeling the programs individually will help illustrate which programs would otherwise be effective resources for NIPSCO to meet its projected energy demand. In addition, NIPSCO plans to analyze demand-side measures as it has in the past – as a fixed reduction to projected base load demand based on NIPSCO's proposed strategy of spending 2% of total annual revenues on DSM programs outside of the resource context.

Q50. Is NIPSCO's 2015 Electric DSM Program consistent with its IRP process?

A50. Yes. As NIPSCO Witness Stanley discusses more fully, a hallmark of the IRP process is the application of cost-benefit tests. NIPSCO has run the cost-benefit tests on its proposed 2015 Electric DSM Program and the entire portfolio, the Residential portfolio and the C&I portfolio pass as cost effective. NIPSCO will model the programs as demand-side resource options in its 2014 IRP.

Q51. Is NIPSCO's 2015 Electric DSM Program consistent with other policies in the State of Indiana?

A51. Yes. Although the State is currently updating its energy strategic plan, in 2006, the State of Indiana, through the Indiana Office of Energy Development, established the Hoosier Homegrown Energy Strategic Plan ("Homegrown Energy Plan") to encourage energy efficiency measures. The Homegrown Energy Plan supports further initiatives that allow Indiana to become a self-sufficient leader with respect to its energy needs. NIPSCO's proposed 2015 Electric DSM Program includes measures that will further the State's policy goals by encouraging reductions in energy consumption and increases in efficiency that can defer or eliminate the need for new generating resources.

<u>Public Interest</u>

Q52. Why is NIPSCO's 2015 Electric DSM Program in the public interest?

A52. As I touched on earlier, NIPSCO's 2015 Electric DSM Program is designed to reduce load and benefit customers by providing opportunities for them to manage current energy costs and reduce or defer future generation needs. Additionally, the Company's program continues to provide revenue protection. The portfolio of programs and rate design are linked together to provide benefits to customers and the Company.

<u>Conclusion</u>

Q53. Does this complete your prepared direct testimony?

A53. Yes.

VERIFICATION

I, Alison M. Becker, Manager of Regulatory Policy for Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Alison M. Becker

Alison M. Becker

Date: May 30, 2014

Petitioner's Exhibit No. AMB-1
Cause No. 44496

FILED

MAY 29 2014

INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF ELECTRIC DEMAND SIDE MANAGEMENT PROGRAMS TO BE EFFECTIVE JANUARY 1, 2015 THROUGH DECEMBER 31, 2015, FOR AUTHORITY TO RECOVER ASSOCIATED START-UP, IMPLEMENTATION AND ADMINISTRATIVE COSTS ALONG WITH COSTS ASSOCIATED WITH THE EVALUATION, MEASUREMENT AND VERIFICATION OF THOSE PROGRAMS ("PROGRAM COSTS") AND LOST REVENUES THROUGH ITS DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM IN ACCORDANCE WITH IND. CODE § 8-1-2-42(a) AND PURSUANT TO 170 IAC 4-8-5 AND 170 IAC 4-8-6 AND FOR AUTHORITY TO DEFER PROGRAM COSTS AND LOST REVENUES FOR FUTURE RECOVERY.	)	CAUSE NO. 44496

VERIFIED PETITION

Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") petitions the Indiana Utility Regulatory Commission ("Commission") for approval of electric demand side management ("DSM") programs and authority to recover associated start-up, implementation and administrative costs along with costs associated with the evaluation, measurement and verification ("EM&V") of those programs ("Program Costs") pursuant to 170 IAC 4-8-5 and lost revenues pursuant to 170 IAC 4-8-6 through its Demand Side Management Adjustment ("DSMA")

Mechanism in accordance with Ind. Code § 8-1-2-42(a) and to defer Program Costs and lost revenues for future recovery. In accordance with 170 IAC 1-1.1-8 and 1-1.1-9 of the Commission's Rules of Practice and Procedure, Petitioner respectfully submits the following information in support of this petition.

Petitioner's Corporate Status

1. Petitioner is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at 801 East 86th Avenue, Merrillville, Indiana. Petitioner renders electric and gas public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public. Petitioner is a wholly-owned subsidiary of NiSource Inc., an energy holding company whose stock is listed on the New York Stock Exchange.

Petitioner's Regulated Status

2. Petitioner is a "public utility" within the meaning of Ind. Code § 8-1-2-1 and is subject to the jurisdiction of this Commission in the manner and to the extent provided by the Public Service Commission Act, as amended, and other pertinent laws of the State of Indiana.

Petitioner's Operations

3. Petitioner is authorized by the Commission to provide electric utility service to the public in all or part of Benton, Carroll, DeKalb, Elkhart, Fulton, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Newton, Noble, Porter, Pulaski, Saint Joseph, Stake, Steuben, Warren and White Counties in northern Indiana. Petitioner provides electric utility service to more than 468,000 residential, commercial, industrial, wholesale and other customers.

Background of Petitioner's Electric DSM Programs

4. On May 25, 2011, the Commission issued an Order in Cause No. 43618 approving NIPSCO's request for approval of its DSMA Mechanism through Rule 52 of NIPSCO's General Rules and Regulations (now Rider 683 – Adjustment of Charges for Demand Side Management Adjustment Mechanism) and Appendix G – Demand Side Management Adjustment Mechanism Factor.

5. On July 27, 2011, the Commission issued an Order in Cause No. 43912 ("43912 Order") approving, among other things, NIPSCO's proposed Core and Core Plus energy efficiency programs (the "43912 Programs"), budgets for its 43912 Programs, authority to recover Program Costs, and the NIPSCO Oversight Board. The 43912 Programs expired on December 31, 2013.

6. On January 2, 2012, the Core Programs approved by the Commission

in its Phase II Order dated December 9, 2009 in Cause No. 42693 and administered by the Third Party Administrator approved by the Commission in its July 27, 2011 Order on TPA & EM&V Contracts in Cause No. 42693-S1, became available on a statewide basis. The statewide Core programs approved by the Commission in the Phase II Order are in effect through December 31, 2014 by virtue of the Commission's August 15, 2012 Order in Cause No. 42693-S1 granting an extension of one year to the underlying TPA and EM&V contracts.

7. On August 8, 2012, the Commission issued an Order in Cause No. 44154 ("44154 Order") approving, among other things, NIPSCO's request for approval to recover lost revenues associated with reduced sales attributable to NIPSCO's Commission-approved electric DSM programs.

8. On December18, 2013, the Commission issued an Order in Cause No. 44363 ("44363 Order") approving NIPSCO's request for approval of a portfolio of electric DSM programs through December 31, 2014 along with the authority to recover Program Costs and lost revenues associated with those programs. The portfolio of DSM programs for which approval was granted included the continuation of the 43912 Programs with the addition of two new Commercial and Industrial ("C&I") Core Plus programs. The Commission also authorized the continuation of the NIPSCO Oversight Board.

Petitioner's Current Electric DSM Program

9. NIPSCO currently provides electric DSM and energy efficiency programs under two categories: Core Programs and Core Plus Programs. Core Programs are those outlined and approved by the Commission's Phase II Order that are currently being implemented through GoodCents. These programs consist of the five (5) separate programs listed below:

Core Programs

- Residential Lighting Program
- Residential Home Energy Assessment Program
- Residential Income Qualified Weatherization Program
- Energy Efficient Schools (School Education Kits and School Audit) Program
- Commercial & Industrial Prescriptive Rebates Program

The Core Plus Programs were approved by the 44363 Order for the period January 1, 2014 through December 31, 2014. These programs consist of the eleven (11) separate programs listed below:

Core Plus Programs

- Appliance Recycling Program
- Residential Energy Efficiency Rebates Program
- Weatherization Program
- Direct Install Program (Multi-family)

- Conservation Program (Opower)
- Residential New Construction Program
- A/C Cycling Program (Residential and Commercial & Industrial)
- Non-Residential New Construction Program
- Commercial & Industrial Custom Incentive Program
- Small Business Direct Install Program
- Guest Room Energy Management Direct Install Program

Petitioner's Request for Approval of its 2015 Electric DSM Program

10. In this proceeding, NIPSCO requests Commission approval of its portfolio of electric DSM and energy efficiency programs to be effective from January 1, 2015 through December 31, 2015 ("2015 Electric DSM Program"), as follows:

Residential Programs

- Residential Lighting Program
- Residential Elementary Education Program
- Residential Low Income Weatherization Program
- Residential Home Energy Audit and Weatherization Program
- Residential Energy Efficiency Rebates Program
- Residential New Construction Program
- Residential Home Energy Conservation Program
- A/C Cycling Program (Residential and C&I)

C&I Programs

- C&I Custom Program
- C&I Prescriptive Program
- C&I Small Business Direct Install Program
- School Audit Direct Install Program
- A/C Cycling Program (Residential and C&I)

Petitioner's Request for Continued Authority to Recover Program Costs

11. Consistent with current practice, NIPSCO requests authority to recover Program Costs associated with its 2015 Electric DSM Program through its DSMA Mechanism consistent with the provisions of 170 IAC 4-8-5 as authorized in the 43912 Order and 44363 Order. NIPSCO also requests authority to defer expenses associated with the 2015 Electric DSM Program that are incurred prior to and subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates.

Petitioner's Request for Continued Authority to Recover Lost Revenue

12. Consistent with current practice, NIPSCO requests authority to recover lost revenues associated with its 2015 Electric DSM Program, as well as lost revenues associated with previous program years, including those lost revenues associated with prior programs that are not included in the 2015 Electric DSM Program, through its DSMA Mechanism consistent with the provisions of 170 IAC

4-8-6 as authorized in the 44154 Order and 44363 Order. NIPSCO also requests authority to defer lost revenues associated with the 2015 Electric DSM Program and lost revenues for previous program years, including DSM programs previously offered but subsequently discontinued, through Petitioner's DSMA Mechanism, until such amounts are recovered through rates.

<u>Petitioner's Request for Continued Approval of NIPSCO Oversight Board</u>

13. Consistent with current practice, as approved in the 43912 Order and 44363 Order, NIPSCO requests approval to continue to utilize its existing NIPSCO Oversight Board ("OSB") to assist in the administration of the 2015 Electric DSM Program. Specifically, once the 2015 Electric DSM Program is approved by the Commission, the NIPSCO OSB will have the flexibility to shift costs within a program budget as needed, shift funds among programs so long as the overall 2015 Electric DSM Program budget is not exceeded, and design and implement new programs as long as they pass the Total Resource Cost test and the overall 2015 Electric DSM Program budget is not exceeded.

<u>Petitioner's Request for Evaluation, Measurement and Verification</u>

14. Consistent with current practice, NIPSCO requests to continue the same evaluation, measurement and verification program for its 2015 Electric DSM Program, consistent with the provisions of 170 IAC 4-8-1 *et seq*, as authorized in the 43912 Order and 44363 Order.

Petitioner's Request for Approval of Tariff Modifications

15. NIPSCO requests approval of necessary tariff changes to effectuate approval of the 2015 Electric DSM Program and other relief requested herein.

Petitioner's Proposed Reporting Requirements

16. Consistent with current practice, NIPSCO proposes to continue to utilize the same reporting requirement to file a monthly scorecard detailing program performance for the 2015 Electric DSM Program.

Applicable Law

17. Petitioner considers the provisions of the Public Service Commission Act, as amended, including Ind. Code §§ 8-1-2-4, 8-1-2-12, 8-1-2-42, 8-1-2-46 and 8-1-2-61 to be applicable to the subject matter of this Petition and believes that such traditional statutes provide the Commission authority to approve the requested relief. The Commission's administrative rule on demand side management, 170 IAC 4-8-1 *et seq.*, is also applicable.

Petitioner's Counsel

18. The names and addresses of persons authorized to accept service of papers in this proceeding are:

Counsel of Record:

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Claudia J. Earls (No. 8468-49)
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With a copy to:

Alison M. Becker
NORTHERN INDIANA PUBLIC SERVICE COMPANY
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Indianapolis, Indiana 46204
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Request for Prehearing Conference and Preliminary Hearing

19. In accordance with 170 IAC 1-1.1-15(b) of the Commission's Rules of Practice and Procedure, Petitioner requests that the Commission schedule a prehearing conference and preliminary hearing for the purpose of fixing a procedural schedule in this proceeding and considering other procedural matters as soon as possible. Petitioner requests that an evidentiary hearing on this matter be set and noticed as required by law.

WHEREFORE, Northern Indiana Public Service Company respectfully requests that the Commission promptly publish notice, make such other investigation and hold such hearings as are necessary or advisable and thereafter, make and enter appropriate orders in this Cause:

(a) Approving Petitioner's 2015 Electric DSM Program, as described above, to be effective from January 1, 2015 through December 31, 2015;

(b) Granting to Petitioner continued authority to recover Program Costs associated with the 2015 Electric DSM Program through Petitioner's DSMA Mechanism;

(c) Granting to Petitioner authority to defer expenses associated with the 2015 Electric DSM Program that are incurred prior to and subsequent to the issuance of an Order in this proceeding until such amounts are recovered through rates;

(d) Granting to Petitioner continued authority to recover lost revenues associated with the 2015 Electric DSM Program, as well as lost revenues for measures associated with previous program years, including those installed through prior programs that are not included in the 2015 Electric DSM Program, through Petitioner's DSMA Mechanism;

(e) Granting to NIPSCO continued authority to defer lost revenues associated with the 2015 Electric DSM Program and lost revenues for previous program years, including DSM programs previously offered but subsequently discontinued, through Petitioner's DSMA Mechanism, until such amounts are recovered through rates.

(f) Granting to Petitioner continued approval to utilize its existing NIPSCO Oversight Board to administer the 2015 Electric DSM Program;

(g) Granting to Petitioner authority to continue the same evaluation, measurement and verification program for its 2015 Electric DSM Program;

(h) Approving necessary tariff changes to effectuate approval of the 2015 Electric DSM Program;

(i) Granting to Petitioner continued approval to utilize the same reporting requirement to file a monthly scorecard detailing program performance for the 2015 Electric DSM Program; and

(j) Granting to NIPSCO such additional and further relief as the Commission may be deemed necessary or appropriate.

Dated this 29th day of May, 2014.

Northern Indiana Public Service Company

Alison M. Becker
Manager, Regulatory Policy

Verification

I affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

Dated: May 29, 2014.

Alison M. Becker
Manager, Regulatory Policy

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Attorneys for Petitioner
Northern Indiana Public Service Company

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing was served by email transmission upon the following:

A. David Stippler
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With a courtesy copy to:

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Dated this 29th of May, 2014.

Christopher C. Earle

NORTHERN INDIANA PUBLIC SERVICE COMPANY — **Second Revised Sheet No. 198**
IURC Electric Service Tariff — **Superseding**
Original Volume No. 12 — **First Revised Sheet No. 198**
Cancelling All Previously Approved Tariffs

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RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

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TO WHOM AVAILABLE

This Rider shall be applicable to the Rate Schedules as defined in Appendix A.

ADJUSTMENT OF CHARGES FOR DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

Energy Charges in the Rate Schedules defined in Appendix A are subject to charges pursuant to the Indiana Utility Regulatory Commission's ("Commission") Order dated May 25, 2011 in Cause No. 43618 to reflect the recovery of costs applicable to Demand Side Management ("DSM") programs. These charges shall be increased or decreased to the nearest 0.001 mill ($.000001) per kWh in accordance with the following

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$$\text{Adjustment Factor}_{Rate} = \text{Sum of} \left[\frac{DSM_p \text{ x } Energy_{Rate}}{Energy_P \text{ X } BE_{Rate}} \text{ OR } \frac{DSM_p \text{ x } Cust_{Rate}}{Cust_p \text{ X } BE_{Rate}} \right.$$

$$\text{PLUS}$$

$$\frac{\text{Projected Lost Revenue}_p \text{ x } Energy_{Rate}}{Energy_P \text{ X } BE_{Rate}} \text{ OR } \frac{\text{Projected Lost Revenue}_p \text{ x } Cust_{Rate}}{Cust_{Rate} \text{ x } BE_{Rate}}$$

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$$\left. \begin{array}{c} \text{PLUS} \\ \text{Reconciled Lost Revenue}_p \end{array} \right] \text{For all programs (P)}$$

where:

"BE_{Rate}" is the estimated jurisdictional billing kWh for each rate for the current six (6) month period.

"$Cust_{Rate}$" is the estimated number of customers in the rate eligible for DSM program (P) for programs where the Commission has approved an allocation based on customer count.

"$Cust_p$" is the sum of the $Cust_{Rate}$ for all rates eligible for DSM program (P).

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Issued Date — **Effective Date**
__/__/2014 — **1/1/2015**

NIPSCO

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RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

"DSM_p" is the estimated DSM Program Costs, including reconciliation of costs for prior periods and any incentives as approved by the Commission, for the current six (6) month period for each DSM program (P).

"$Energy_{Rate}$" is the estimated billing kWh in the rate eligible for DSM program (P) for programs where the Commission has approved an allocation based on estimated billing kWh.

"$Energy_p$" is the sum of the $Energy_{Rate}$ for all rates eligible for DSM program (P).

"Estimated Jurisdictional Billing" is determined by the 6 month kWh sales forecast.

"Projected Lost $Revenue_p$" is the projected lost revenue for the current six (6) month period for each DSM program (P).

"Reconciled Lost $Revenue_p$" is the reconciliation of lost revenue for the six (6) month period, including reconciliation for actual collections as well as adjustments for actual net energy and demand savings. For programs where the Commission has approved an allocation based on actual participation by Rate Schedule, the reconciliation will include reallocation due to actual participation by Rate Schedule. For programs where the Rate Class of participating customers is not known, the reconciliation will not include a reallocation due to actual participation by Rate Schedule. Lost Revenues are only reconciled once per year and recovered over two six (6) month factor periods.

Deleted: Energy Charges in the Rate Schedules defined in Appendix A are subject to charges pursuant to the Indiana Utility Regulatory Commission's ("Commission") Order dated May 25, 2011 in Cause No. 43618 to reflect the recovery of costs applicable to Demand Side Management ("DSM") programs. These charges shall be increased or decreased to the nearest 0.001 mill ($.000001) per kWh in accordance with the following:¶
¶
DSM_p X $Cust_{Rate}$¶
Adjustment $Factor_{Rate}$ = Sum of --------------------- for all programs (P)¶
$Cust_p$ X BE_{Rate}¶
¶
where:¶
¶
"DSM_p" is the estimated DSM Costs for the current six (6) month period for each DSM program (P). Subject to Commission approval, DSM Costs shall include all program costs, incentives, and net Lost Revenues.¶
¶
"$Cust_{Rate}$" is the estimated number of customers in the rate eligible for DSM program (P).¶
¶
"$Cust_p$" is the sum of the $Cust_{Rate}$ for all rates eligible for DSM program (P).¶
¶
"BE_{Rate}" is the estimated jurisdictional billing kWh for each rate for the current six (6) month period.¶

DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

The DSMA as computed above shall be further modified to allow the recovery of gross receipts taxes and other similar revenue based tax charges occasioned by the DSMA revenues and later reconciled with annual sales and revenues.

The DSMA Factors shown in Appendix G are applicable hereto and are issued and effective on the dates shown on Appendix G.

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NIPSCO

RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

OPT-OUT OPTION FOR QUALIFYING COMMERCIAL AND INDUSTRIAL CUSTOMERS

A. Definitions

The following definitions are applicable to the opt-out provisions of this Rider 683 only:

Single Site: A Single Site shall be defined as contiguous property unless aggregation of multiple delivery points is specifically permitted under the applicable approved Rate Schedule as of April 1, 2014.

Qualifying Customer: A Customer that receives electric service under an approved Rate Schedule at a Single Site constituting more than 1,000 kilowatts / one megawatt of electric capacity.

Qualifying Load: A Single Site with at least one meter constituting more than 1,000 kilowatts/one megawatt of electric capacity for any one billing period within the previous 12 months prior to the Qualifying Customer's opt out notification to the Company. Such demand shall be measured with a demand meter that is used to measure demand for billing purposes. Electric capacity will be determined the same way demand is determined as indicated in the Company's Electric Service Tariff.

Energy Efficiency Program: A program that is (1) sponsored by the Company or a third party administrator; and (2) designed to implement energy efficiency improvements (as defined in 170 IAC 4-8-1(j)) for customers. The term does not include a program designed primarily to reduce demand.

Energy Efficiency Program Costs: Costs recovered under this Rider, including program costs, net lost revenues and incentives, and reconciliation of applicable costs as approved by the Commission.

B. Opt Out Option for Qualifying Customers

A Qualifying Customer may elect to opt out of participation in the Company's Energy Efficiency Program and Rider 683 for Qualifying Load. If a Qualifying Customer has Qualifying Load, it may opt out all non-residential accounts at that Single Site. Such accounts will be opted out provided the Qualifying Customer identifies the accounts in the Customer's notice to the Company of its election to

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RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

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opt out. Once a Customer is determined to be a Qualifying Customer, the Company will not revoke the Qualifying Customer's qualification at a later date and the Customer need not renew its opt-out notice on a yearly basis. New Customers signing a demand contract with Qualifying Load may complete the form to opt out of the program immediately. New Customers that do not sign a demand contract will need to have and demonstrate Qualifying Load in order to qualify consistent with the Notification and Effective Date provisions below. The Opt Out Option shall be implemented in accordance with the following provisions:

C. Notification and Effective Date

A Qualifying Customer seeking to opt out of the Company's Energy Efficiency Program and Rider 683 shall provide written notice of its desire to opt out. If notice is not provided on the Company's approved form, the Qualifying Customer will be asked and shall fill out the form provided by the Company to complete the opt out request. A Qualifying Customer that notifies the Company on or before June 1, 2014 of its decision to opt out of participation in the Company's Energy Efficiency Program and Rider 683 will be exempted from Rider 683 with an effective date of July 1, 2014. A Qualifying Customer that notifies the Company of its intention to opt out of participation in the Company's Energy Efficiency Program and Rider 683 after June 1, 2014 but on or before November 15, 2014 will be exempted from Rider 683 with an effective date of January 1, 2015. Thereafter, a Qualifying Customer that has provided notice to the Company of its intention to opt out of participation in the Company's Energy Efficiency Program and Rider 683 by November 15 will be exempted from Rider 683 with an effective date of January 1 of the following calendar year. If a Qualifying Customer provides notice of its intent to opt-out in a manner other than the form, the notice date of the Customer's opt out will be the date of the original notice. However, the Qualifying Customer shall complete the opt out form in a timely manner. All Qualifying Customers providing notice under this section shall be subject to the recovery of Energy Efficiency Program Costs as described below.

D. Energy Efficiency Program Costs

Qualifying Customers remain liable for Energy Efficiency Program Costs that accrued or were incurred, or relate to energy efficiency investments made before the date on which the opt out is effective, regardless of the date on which such costs are included in Rider 683 for recovery. Such costs may include costs related to evaluation, measurement and verification ("EM&V") required to be conducted after a Qualifying Customer opts out on projects completed under an Energy Efficiency Program while the Qualifying Customer was a participant. In addition, such costs may include costs required by contracts executed prior to April 1, 2014 but incurred after the date of the Qualifying Customer's opt out. However, these costs shall be limited to fixed, administrative costs, including costs related to EM&V. A Qualifying Customer shall not be responsible for any program costs such as the payment of energy efficiency rebates or incentives, incurred following the effective date of its opt out, with exception of incentives or rebates that are paid on applications for projects that are complete but that have not closed out at the effective date of its opt out.

RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

E. Opt Out DSMA Factor

A separate Opt Out DSMA Factor will be calculated and made applicable to Qualifying Customers electing to opt out of participation in the Company's Energy Efficiency Program and Rider 683. The Opt Out DSMA Factor will be calculated to recover the applicable program costs as described in Section D above. Any over- or under- recovery of costs for the time period during which the Qualifying Customer was participating in Energy Efficiency Programs shall be captured by the reconciliation and recovered or refunded to the Qualifying Customer through the reconciliation factor of the Opt Out DSMA Factor. Specifically,

(1) For the period of July 1 through December 31, 2014, a Qualifying Customer that has provided notice to opt out of participation on or before June 1, 2014 will not pay a DSMA Factor beginning with the Qualifying Customer's bill for electric service issued in July 2014 and continuing through the bill for electric service issued in December 2014.

(2) For the period of January 1 through June 30, 2015, a Qualifying Customer that opts out of participation effective July 1, 2014 will pay:
- (a) Program Reconciliation costs for January through June 2014;
- (b) Lost Revenue Projections for January through June 2015 (which include all lost revenues to be collected during the period) for measures installed while the Qualifying Customer was participating in the Energy Efficiency Program;
- (c) Applicable Lost Revenue Reconciliation;
- (d) Performance Incentives (if applicable) for January through June 2015;
- (e) Lost Revenue Projections and Reconciliation for July through December 2014; and
- (f) Program costs as described in Section D above.

(3) A Qualifying Customer that opts out of participation effective January 1, 2015 will pay:
- (a) Program Reconciliation costs for January through June 2014;
- (b) Lost Revenue Projections for January through June 2015 (which include all lost revenues to be collected during the period) for measures installed while the Qualifying Customer was participating in the Energy Efficiency Program ;
- (c) Applicable Lost Revenue Reconciliation;
- (d) Performance Incentives (if applicable) for January through June 2015; and
- (e) Program costs as described in Section D above.

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RIDER 683
ADJUSTMENT OF CHARGES FOR
DEMAND SIDE MANAGEMENT ADJUSTMENT MECHANISM (DSMA)

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(4) A Qualifying Customer that opts out of participation effective January 1 of any subsequent year will pay:

(a) Program Reconciliation costs for January through June of the previous year;
(b) Lost Revenue Projections for January through June of the applicable year (which include all lost revenues to be collected during the period) for measures installed while the Qualifying Customer was participating in the Energy Efficiency Program;
(c) Applicable Lost Revenue Reconciliation;
(d) Performance Incentives (if applicable) for the applicable year; and
(e) Program costs as described in Section D above.

As approved by the Commission in its August 8, 2012 Order in Cause No. 44154, Lost Revenues will be reconciled once annually and will be collected over two six month Opt Out DSMA Factor periods. If the Company makes subsequent changes to the allocation of Energy Efficiency Program Costs, Qualifying Customers that opted out of participation will continue to pay those costs based on the allocation in effect at the time of the notice of opt out. Any reconciliation of Energy Efficiency Program Costs will likewise be allocated in the same manner in effect at the time of the Qualifying Customer's notice of opt out.

F. Opt-In

A Qualifying Customer may opt back in to participation in the Company's Energy Efficiency Program and Rider 683 by providing notice on or before November 15 of the year prior to its requested opt in date. The opt in shall be effective January 1 of the year following the notice. If a Qualifying Customer provides notice of its intent to opt-in in a manner other than the form, the notice date of the Customer's opt-in will be the date of the original notice. However, the Qualifying Customer shall complete the Opt In form in a timely manner. If a Qualifying Customer opts back in to participation in the Company's Energy Efficiency Program and Rider 683, such Qualifying Customer must requalify to opt out again. If a Qualifying Customer opts back in to participation in the Company's Energy Efficiency Program and Rider 683, that Qualifying Customer must participate in the associated Energy Efficiency Program for at least three years, and may only opt out effective January 1 of the year following the third year of participation. A Qualifying Customer may elect to opt out again before the end of the three year period, but, in such event, remains liable for, and must continue to pay Rider 683 as if it were still participating in the Company's Energy Efficiency Program for the remainder of the three year period. If a Qualifying Customer elects to opt back out after the three year period, the Qualifying Customer shall be responsible for Energy Efficiency Program Costs in the same manner as other customers who have opted out consistent with the provisions contained herein.

The Opt Out DSMA Factors shown in Appendix G are applicable hereto and are issued and effective on the dates shown on Appendix G.

NORTHERN INDIANA PUBLIC SERVICE COMPANY **Fifth Revised Sheet No. 3**
IURC Electric Service Tariff **Superseding**
Original Volume No. 12 **Fourth Revised Sheet No. 3**
Cancelling All Previously Approved Tariffs

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Issued Date **Effective Date**
__/__/2014 **1/1/2015**

NIPSCO

VERIFIED DIRECT TESTIMONY OF KARL E. STANLEY

Q1. Please state your name, business address and job title.

A1. My name is Karl Stanley. My business address is 801 East 86th Avenue, Merrillville, Indiana 46410. I am employed by Northern Indiana Public Service Company ("NIPSCO" or the "Company"), which is a subsidiary of NiSource Inc. ("NiSource"). My current position is Vice President, Commercial Operations.

Q2. Please summarize your educational and employment background.

A2. I received a Bachelor of Science Degree in Chemistry from the University of Chicago in 1988. In 2000, I received an M.B.A. from the University of Chicago with a concentration in Finance. After graduating with my Bachelor of Science Degree, I was hired by The Gelber Group Inc. as a trader/analyst for its brokerage/trading operation. In 1998, NESI Energy Marketing hired me as its Risk Manager responsible for all financial trading and risk management. In 1999, I moved over to the NiSource Corporate Risk Management Department where I was responsible for the measuring and monitoring of risk factors across the corporation. In 2004, I was promoted to Manager, Energy Supply Services for Bay State, Northern Utilities, NIPSCO, Northern Indiana Fuel & Light Company, Inc. and Kokomo Gas and Fuel Company. In 2005, I was promoted to Director of Gas Management Services. In 2008, I was promoted to Executive Director, Energy Supply and Trading. In 2010, I was promoted to my present position as Vice President of Commercial Operations.

Q3. What are your responsibilities as Vice President of Commercial Operations?

A3. As Vice President of Commercial Operations, I am responsible for managing NIPSCO's industrial and commercial customer relationships and the management of NIPSCO's energy efficiency and demand side management ("DSM") programs.

Q4. What is the purpose of your testimony?

A4. The purpose of my testimony is to discuss (1) NIPSCO's current electric DSM programs, (2) NIPSCO's proposed electric DSM program for 2015, (3) projected budgets and cost allocations; and (4) the cost benefit tests used to determine NIPSCO's proposed portfolio of DSM programs.

Q5. Are you sponsoring any exhibits in this Cause?

A5. Yes. I am sponsoring Petitioner's Exhibit No. KES-1 (Cost-Benefit Tests), which was prepared under my direction and supervision.

NIPSCO's Current Electric DSM Program

Q6. Please describe NIPSCO's Current Electric DSM Program.

A6. NIPSCO currently provides electric DSM and energy efficiency programs under two categories: Core Programs and Core Plus Programs. Core Programs are those outlined and approved by the Commission in its December 9, 2009 Order in Phase II of Cause No. 42693 ("Phase II Order") that are currently implemented by GoodCents, the third party administrator ("TPA"). These programs consist of the five (5) separate programs listed below:

Core Programs

Residential Lighting Program
Residential Home Energy Assessment Program
Residential Income Qualified Weatherization Program
Energy Efficient Schools (School Education Kits and School Audit) Program
Commercial & Industrial Prescriptive Rebates Program

The Core Plus Programs were approved by the Commission's December 18, 2013 Order in Cause No. 44363 for the period January 1, 2014 through December 31, 2014. These programs consist of the eleven (11) separate programs listed below:

Core Plus Programs

Appliance Recycling Program

Residential Energy Efficiency Rebates Program

Residential Home Weatherization Program

Residential Multifamily Direct Install ("MFDI") Program

Residential Home Energy Conservation Program

Residential New Construction Program

Air Conditioning ("A/C") Cycling Program

Commercial & Industrial New Construction Incentive Program

Commercial & Industrial Custom Incentive Program

Commercial & Industrial Small Business Direct Install Program

Commercial & Industrial Guest Room Energy Management Direct Install Program

Q7. Please provide an update on the performance of NIPSCO's current electric DSM program.

A7. NIPSCO's Core Plus Commercial and Industrial ("C&I") programs achieved 104% of the planned savings for 2013. The Core C&I programs struggled, achieving only 37% of its planned savings for 2013. NIPSCO's residential programs also performed very well in 2013, with the Core programs achieving 99% of the planned savings and the Core Plus programs achieving 83% of the planned savings. As of the end of the first quarter of 2014, most of NIPSCO's Core and Core Plus programs were on target to achieve the 2014 planned savings. However, due to the challenging winter weather, the Residential Income Qualified Weatherization Program was at only 9% of annual savings but is expected to meet the savings for the year. The C&I Prescriptive Rebate Program continued to struggle. For the Core Plus programs, the MFDI, Weatherization and Appliance Recycling programs were not performing as anticipated, partially due to the winter weather, but also due to program design challenges. The Guest Room Energy Management Program and Small Business Direct Install Program just started in March, so there were no results for the first quarter. I discuss recommendations related to these programs below.

Q8. Will the Core Programs continue to be provided by a TPA in 2015?

A8. No. Senate Enrolled Act 340 ("SEA 340"), which became law on March 27, 2014, prohibits NIPSCO and other jurisdictional utilities from renewing or extending an existing contract or to enter into a new contract with a statewide TPA for an energy efficiency program established by the Phase II Order. Because of this, the Core Programs will no longer be administered on a statewide basis by a TPA. However, NIPSCO plans to continue offering these programs with its own vendor, which I explain in more detail below.

Q9. Considering that NIPSCO plans to offer these same programs through its own vendor, how will NIPSCO address any transitional issues with GoodCents, the current statewide TPA?

A9. Along with working with GoodCents through the Demand Side Management Coordination Committee, NIPSCO continues to meet with representatives from GoodCents to discuss how the current programs will be transitioned to the new vendor. Discussions focus on the timing related to the transition of the Core Programs, the treatment of any outstanding applications, data requirements both before and after the termination date, and the wind down of any marketing initiatives. The goal of these discussions is to make the transition as seamless as possible. This assumes, however, that an order will be received prior to December 31, 2014 to assure that there will be little to no lapse in program delivery.

Q10. Did SEA 340 provide for anything else related to energy efficiency?

A10. Yes. As described in more detail by NIPSCO Witness Alison Becker, SEA 340 provides a mechanism for certain customers to opt out of participating in NIPSCO's DSM program. As the Utilities have proposed in Cause No. 44441, in order to qualify to opt out, a customer must receive electric service under an approved Rate Schedule at a single site (unless aggregation of multiple delivery points is allowed by a utility's tariff in effect on April 1, 2014) constituting more than 1,000 kW/1 MW of electric capacity. As explained by NIPSCO Witness Becker, aggregation of multiple delivery points is allowed on NIPSCO's Rates 634 and 644.

Q11. Did NIPSCO adjust its planning assumptions for 2015 to account for customers who may potentially opt out of participating in NIPSCO's DSM program?

A11. Yes. NIPSCO assumed that its largest 16 eligible customers by demand at a single site as well as the customer on Rate 644, for a total of 17 customers, would opt out of the DSM program prior to January 2015. This is equal to 54% of NIPSCO's total C&I load. The revenue from these customers was then removed from the calculation that was used to determine the budgets based on the 2% total revenue cap as described by NIPSCO Witness Becker. This reduction translated into a lower estimated program budget for the C&I

class. In addition, Franklin Energy (the administrator of NIPSCO's proposed C&I programs) adjusted its planning assumptions based on the customers who would likely participate in the program.

Q12. Why did NIPSCO assume that these 17 customers would opt out of the DSM programs?

A12. NIPSCO has had prior conversations with various customers that are eligible to opt out and determined that the largest customers would most likely choose to pursue energy efficiency without the support of the Company's programs. There are approximately 200 customers and 235 accounts eligible to opt out, so it seemed logical to assume that the largest customers that made up 54% of the total C&I load would opt out for the 2015 program year. As of May 29, 2014, NIPSCO had received notice from seventeen (17) customers who have elected to opt out effective July 1, 2014. Of those 17 customers that have chosen to opt out, two of those customers are within the large customer set mentioned above. Although many of the large customers mentioned above have not notified us yet of their intent to opt out, we still anticipate that they will opt-out of the DSM program by January 1, 2015.

<u>NIPSCO's Proposed 2015 Electric DSM Program</u>

Q13. Please describe the methodology NIPSCO followed in developing the proposed 2015 Electric DSM Program.

A13. After determining the available budget for 2015, which is described by NIPSCO Witness Becker, NIPSCO worked with CLEAResult (administrator of the proposed Residential programs except the Residential Home Energy Conservation Program and the A/C Cycling Program), OPower (administrator of the Residential Home Energy Conservation Program) and Franklin Energy (administrator of the proposed C&I program) to design programs, including program budgets, for 2015. Considering that these vendors had an established framework to administer NIPSCO programs, and because the proposed 2015 Electric DSM Program is only for one year, it is more cost effective to work with these existing vendors rather than pay the startup costs that would likely be required with a new vendor. In addition, it is generally more expensive to contract for a single year of service with a new vendor and often difficult to find vendors willing to sign a one year contract that is not a renewal. NIPSCO provided CLEAResult, Franklin Energy and OPower with a framework for the programs and asked them to design programs that would have the greatest potential savings while maintaining

NIPSCO's budget parameters. NIPSCO will maintain the A/C Cycling Program internally in 2015, with a budget based on the 2014 contracts and projections.

Q14. Are there benefits in utilizing one vendor for most Residential programs and one vendor for C&I programs?

A14. Yes. For example, the current Home Energy Assessment ("HEA") program is frequently utilized as a direct lead into the current Home Weatherization program. Because the HEA program and the Home Weatherization program are administered by different vendors, according to the 2012 evaluation, measurement and verification ("EM&V") of the program, communication gaps between the vendors resulted in lower participation rates for the Home Weatherization program.[1] A combined HEA and Weatherization program will streamline the provision of the measures previously provided under two programs and should increase the number of customers receiving weatherization benefits after having an energy audit. Another example of the benefits of utilizing one vendor will be the elimination of any customer confusion on who is actually implementing the program. Under the existing structure, C&I customers do not have "one-stop shopping" for the

Prescriptive Rebates and Custom programs. Because Franklin Energy will be running all facets of the C&I program, this barrier will be eliminated.

Q15. Will the programs described below change at all through 2015?

A15. NIPSCO is committed to the program portfolio outlined below and has worked with the NIPSCO Oversight Board ("OSB") to obtain feedback on the program offerings. However, considering the time constraints, NIPSCO is providing program descriptions that are based on the vendor proposals. NIPSCO will continue to work with its OSB to refine the program offerings so that they deliver the greatest value to its customers.

Q16. How does NIPSCO propose to offer programs in its combined gas and electric service territory?

A16. Where savings accrue to both fuels, the programs will be offered as a portfolio of offerings to NIPSCO's combination customers to make sure they are aware of the several ways they can become more energy efficient. This also means more cost effective delivery of programs because a single vendor can visit a home and install both gas and electric measures in homes with both gas and electric service. In addition, offering the same programs in both

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[1] *NIPSCO Residential Core Plus EM&V Report 2013 FINAL*, (February 2013), filed in Cause No. 43912 on March 27, 2014, p. 152.

the gas and electric service territory promotes administrative efficiency for all customers. Additionally, it will be beneficial to have one vendor for Residential programs and one vendor for C&I programs in offering the programs to the combination customer. Because CLEAResult will be the only vendor for the Residential programs (with the exception of the Residential Home Energy Conservation Program and the A/C Cycling Program) and Franklin Energy will be the only vendor for the C&I programs, their network of providers will be able to more effectively market both gas and electric programs to NIPSCO's combination customer.

Q17. Was this combined administration taken into account when designing programs and formulating budgets?

A17. Yes. The vendors were aware that they could market both gas and electric programs to combination customers and took this under consideration when designing the programs and formulating the budgets.

Q18. Please list the proposed Residential programs included in NIPSCO's 2015 Electric DSM Program.

A18. The proposed Residential programs include:

- Residential Lighting Program

- Residential Elementary Education Program
- Residential Low Income Weatherization Program
- Residential Home Energy Audit and Weatherization Program
- Residential Energy Efficiency Rebates Program
- Residential New Construction Program
- Residential Home Energy Conservation Program
- A/C Cycling Program (Residential and C&I)

Q19. Please list the proposed C&I programs included in NIPSCO's 2015 Electric DSM Program.

A19. The proposed C&I programs include:

- C&I Custom Program
- C&I Prescriptive Program
- C&I Small Business Direct Install Program
- School Audit Direct Install Program
- A/C Cycling Program (Residential and C&I)

Q20. Please describe the Residential Lighting Program.

A20. The Residential Lighting Program will provide incentives and marketing support through retailers to build market share and usage of ENERGY

STAR® and other energy efficient lighting products. The program will target the purchase of lighting products through in-store promotions as well as special sales events. Customer incentives facilitate the increased purchase of high-efficiency products while in-store signage, sales associate training and support makes provider participation easier.

Q21. Please describe the Residential Elementary Education Program.

A21. The Residential Elementary Education Program provides energy education to students providing an excellent way to influence energy behavior over the long-term. The program will target elementary students, providing curriculum and in-classroom education support along with a take-home kit that raises awareness about how individual actions and low-cost measures can provide significant reductions in electricity, natural gas and water consumption.

Q22. Please describe the Residential Low Income Weatherization Program.

A22. The Residential Low Income Weatherization Program, which will be available to homeowners as well as renters with landlord approval, will provide assistance to low-income customers to reduce their energy consumption by installing energy efficient technologies and measures in their homes. In addition, NIPSCO is including a budget of an average of $500 per home to allow for remediation of health and safety measures that impede the ability to complete weatherization. This could include warped door frames that impede effective door sealing, broken windows, or even a small hole in the roof that, once repaired, allows the weatherization work to be completed. NIPSCO is pleased to be able to offer this component to the program as it will decrease the number of homes for which weatherization previously could not be completed due to these issues. In addition, many of the repairs themselves will assist the customers in being more energy efficient, so it makes sense to include the repairs as part of the DSM program.

Q23. Is NIPSCO proposing any other changes to the Residential Low Income Weatherization Program?

A23. Yes. NIPSCO is proposing to collaborate with Holistic Community Coalition, a 501(c)(3) organization in Lake County, Indiana, that has successfully developed its own program infrastructure to more effectively serve the low-income customers of Lake County. The organization hires individuals from the local area, gives them training in weatherization skills, and then utilizes these individuals to weatherize homes in the local area. The organization has a thorough communication plan whereby clients receive information prior to, during, and after the weatherization visit is completed. Prior to the initial weatherization visit to the home, clients are invited to attend an energy workshop, where clients are educated on the basic principles of energy efficiency and are given information on what to expect during the weatherization process, including assistance in completing any necessary forms. During the home visit, the technician will explain all of the steps a homeowner can take in being energy efficient as well as installing energy efficiency measures, which could include compact florescent lights ("CFLs"), pipe wrap and water saving devices. A few days after the home visit, there will be a follow up call to the client to see if they have any questions and to determine if they have any issues with any of the installed items.

Q24. Explain how this approach more effectively meets customer needs.

A24. In addition to being a locally-based resource understanding the unique needs of the communities it serves, Holistic Community Coalition has direct access to a large network of churches, which will assist the organization in reaching those customers most likely to be eligible for the program. While this provides a unique outreach activity, customers do not need to be a member of any particular religion in order to participate in the program. The program will actively solicit senior citizen participation and promote the benefits of an energy efficient home. Additionally, because of the direct connection between a church and its congregation, a program that is actively promoted by the church leadership will likely lead to increased participation. As with its other programs, NIPSCO will have a thorough EM&V of the program, which will enable NIPSCO to assess the benefits of this program as well as possibly expand those benefits to its Low Income Weatherization program as a whole.

Q25. Explain how Holistic Community Coalition will work with CLEAResult in implementing the program.

A25. Holistic Community Coalition will act as a subcontractor for CLEAResult in implementing the Low Income Weatherization Program. NIPSCO is viewing this as a pilot program focused on the high need communities of Gary, Hammond and East Chicago. If it proves as successful as NIPSCO expects, NIPSCO plans to expand the program and hopefully offer other local opportunities as appropriate.

Q26. Please describe the Residential Home Energy Audit and Weatherization ("HEAW") Program.

A26. The HEAW Program will utilize a two-phase approach to capture savings in existing single-family homes. *Phase I:* Home Walk-through Energy Assessment – the implementation contractor will provide customers a one hour walk-through audit of their home and provide a report outlining opportunities to improve energy efficiency. The report will prioritize potential improvements, estimate their cost after incentives are applied and estimate the resulting energy cost savings and payback timeframe. The implementation contractor will also install appropriate low-cost measures, including CFLs, light emitting diode ("LED") lamps, pipe wrap and water-saving devices as a part of the assessment. *Phase II:* Weatherization Services – the assessor will work with the customer to determine a schedule by which the program will follow up to provide ongoing assistance with program offerings applicable to the customer. While the default schedule will be 30, 60, 90 and 180 days after the assessment, the follow ups will be tailored to suit individual needs. For example, the assessor may schedule eligible customers for duct sealing services within 30 days of the assessment and follow up to gain consent to proceed with insulation and air sealing after 60 days, as appropriate and agreed upon by each customer based on their individual needs. Customers will be able to choose from prequalified contractors, which will be selected based on their level of expertise, experience with previous implementation of NIPSCO's Home Weatherization Program and itemized pricing for specified improvements. Utilizing a preapproved group of contractors to provide turnkey direct installation services will improve installation rates, while still allowing for customers to have choices. This provides a distinct customer benefit as the time and effort required to select and manage contractors is a key barrier to customers' implementing improvements. Further, it will allow NIPSCO to closely manage customer service and quality control to ensure measures are properly installed.

Q27. How will the implementation of the HEAW differ in 2015 from how it is currently implemented in 2014?

A27. Currently, the program is implemented as two distinct programs, with the HEA administered by GoodCents and the Weatherization program administered by CLEAResult. Because the programs are not currently administered by the same vendor, in order for HEA clients to receive weatherization services, information must be transmitted from one vendor to another, a process that sometimes lags as long as six weeks. Under the new design, however, the program administrator will be the same for both the home assessment and weatherization portions of the program. This should improve both the customer experience in terms of having a single point of contact as well as improve the efficiency of program delivery.

Q28. Please describe the Residential Energy Efficiency Rebates Program.

A28. The Energy Efficiency Rebates Program will influence the purchase and installation of high-efficiency heating and cooling technologies, insulation and duct sealing through a combination of market push and pull strategies that stimulate demand while simultaneously increasing market provider investment in stocking and promoting high efficiency products. The electric program will promote premium efficiency air conditioners and heat pumps that have high-efficiency, electrically commutated motors ("ECMs"), ECM retrofits, air conditioner and heat pump tune ups, ductless heat pumps, heat pump water heaters and programmable thermostats.

Q29. Please describe the Residential New Construction Program.

A29. The New Construction Program will continue to recruit and educate selected builders and their trade allies on the benefits associated with energy efficient homes and building practices designed to improve upon baseline efficiency. Builders will be provided with financial incentives to encourage the installation of premium-level efficient equipment and the use of better building techniques. As in NIPSCO's current program, the incentives will be based on the overall efficiency of the home as indicated by the Home Energy Rating System ("HERS") Score. The program will identify and recruit key builders who are not consistently (or seldom) building homes to meet the desired HERS Scores. Builders who choose to participate in the program will gain access to cash-back incentives designed to cover approximately 30% of the cost to upgrade and certify each home. In addition, they will be provided with personalized training on marketing energy efficiency to customers and energy efficient building standards.

Q30. Please describe the Residential Home Energy Conservation Program.

A30. The Home Energy Conservation Program is designed to significantly increase energy efficient behavior through increased customer engagement across a selected population within the NIPSCO service territory. Home Energy Reports are sent to a select population within the NIPSCO territory (1) to show large-scale, measurable and cost-effective energy savings over a one year period, (2) to increase program participation in select NIPSCO energy efficiency and DSM programs, and (3) to increase customer satisfaction through an improved customer experience. The Home Energy

Report compares usage in one home that received the report to another comparable customer that did not receive the report (the control group). Any difference in usage over the same time period is counted as kilowatt hours ("kWh") savings for that particular period. While the program design for 2015 is undergoing review, NIPSCO is proposing to expand the number of customers receiving reports to 239,500 from the current 165,000 and basing the number of reports sent to the customer determined by the customer's savings potential. In addition, all NIPSCO customers will have access to the web portal. NIPSCO will work with its OSB on the final program design if it changes from this proposal.

Q31. Please describe the A/C Cycling Program.

A31. The A/C Cycling Program is a voluntary program available to NIPSCO's residential and C&I customers with air conditioning units of five tons or less. A load control switch is installed near the customer's central air conditioning unit. The radio-controlled switch allows NIPSCO to cycle the customer's air conditioning compressor on and off for short periods of time during peak demands. Cycling typically occurs on the hottest summer days during the week and events are not called on weekends or holidays. Participating customers receive a $10/month credit on their bills from June through

September. NIPSCO is proposing to maintain the current customers on the program, but not offer new enrollments in 2015.

Q32. Why is NIPSCO proposing to not offer new enrollments for 2015?

A32. The A/C Cycling Program has not achieved its participation enrollment goals. NIPSCO plans to use the next year to work with its customers, OSB and vendors on an improved program design to hopefully better meet the needs of NIPSCO's service territory. However, NIPSCO wants to continue supporting customers who are interested in the program and will continue to administer it internally in 2015 as it reevaluates and redesigns the program.

Q33. Please describe the C&I Custom Program.

A33. The Custom Program offers unique efficiency opportunities developed for the C&I customer through a custom approach for site specific measures and prescriptive custom measures. Incentive is paid as $/kWh saved for site specific systems or equipment efficiency improvement. This program has been very successful for NIPSCO, with 132,000 MWh of savings being obtained since the program began in 2011.

Q34. Please provide an update on the C&I Custom "pipeline."

A34. The C&I Custom "pipeline" is a budgeting methodology to address the time delay between when a project application is submitted and approved and when the project is actually completed and the incentive check is provided to the customer and the savings are counted by NIPSCO. In order to effectively budget for this time delay, Franklin Energy and NIPSCO originally assumed that for any project that was submitted, 20% would be completed the same year, 50% would be completed in the year following the application, and all projects would be complete two years following the initial application. . The intent of this methodology is to model when actual expenditures will take place and savings will accrue. Currently there are 303 projects with approved applications however 89 of those projects were submitted by customers who are expected to opt out in 2014. Of the remaining 214 projects, Franklin Energy is expecting 213 of these projects to be completed in 2014 with only one left to complete in 2015. Considering that virtually all of the existing projects are expected to be complete before the end of 2014, NIPSCO's budget request includes funding for only those projects that are expected to be applied for (during the remainder of 2014 and all of 2015) and completed in 2015. Due to the uncertainty around the level of opt out and due to the large number of projects that are expected to be completed before the end of 2014, NIPSCO has chosen to forecast its Custom program budget based upon the methodology discussed above.

Q35. Please describe the C&I Prescriptive Program.

A35. The Prescriptive Program is designed to assist C&I customers in reducing electric energy consumption and costs. The program provides monetary incentives for specific measures based on the installation of energy efficient equipment upgrades such as energy efficient light fixtures and ballasts as well as energy efficient pumps, motors and variable speed drives. It will be offered in conjunction with the Custom program in 2015.

Q36. Please describe the C&I Small Business Direct Install Program.

A36. The Small Business Direct Install Program is used to penetrate the small commercial customer market based on evidence that small commercial customers do not have the expertise, time, or available capital to make energy efficiency upgrades. This direct install approach of measures including lighting and water saving measures virtually eliminates the barriers of participant hassle and search costs. An added benefit of the program is that it introduces this market to other program offerings and encourages them to pursue additional energy efficiency investments through the Prescriptive and Custom programs.

Q37. Please describe the School Audit Direct Install Program.

A37. The School Audit Direct Install Program is currently offered as a Core program and has been highly successful in NIPSCO's service territory. It is designed to educate school officials on the benefits of energy efficiency and the savings associated with the installation of recommended energy saving measures and operational improvements as well as providing the direct installation of certain measures. At the conclusion of the energy assessment, the school is presented with a detailed report that demonstrates ways to save energy and money through potential incentive dollars that may be available from other NIPSCO program offerings. The direct install measures will include items such as vending machine controllers, CFLs, occupancy sensing power strips and lighting occupancy sensors.

Q38. Are there any programs NIPSCO is currently offering in 2014 that are not included in its 2015 Electric DSM Program?

A38. Yes. NIPSCO is discontinuing the Residential Appliance Recycling Program for 2015. Now in its third year, this program is struggling to meet its 2014 savings goal. Earlier this year, NIPSCO increased the customer incentive from $35 to $50 to encourage increased participation/savings. So far this increased incentive has shown a limited impact. Much like the A/C Cycling Program, NIPSCO plans to spend the next year determining if this program can be administered in a way to be an effective energy efficiency resource for its customers. In addition, NIPSCO is eliminating the MFDI program for 2015 as it redesigns the program to address the types of multi-family units that have not already been served. NIPSCO has already done MFDI in most of the apartment complexes in its service territory. The next tier to be considered is smaller apartment buildings and other residential facilities that are not billed under an individual meter. NIPSCO's OSB has communicated that this is an important program and NIPSCO plans to continue to work with its OSB as well as vendors and other stakeholders on a program design.

Q39. Are there any programs that NIPSCO currently offers in 2014 that will be absorbed in another program in the 2015 Electric DSM Program?

A39. Yes. NIPSCO proposes to absorb the C&I Guest Room Energy Management ("GREM") and New Construction programs into the C&I Prescriptive and Custom programs. This provides the same benefits to customers but streamlines the offerings to decrease customer confusion. Franklin Energy can work with customers on their unique energy efficiency needs so customers do not need to worry about qualifying for a certain program.

Q40. How did NIPSCO address the Industrial Opt Out in its planning for 2015 programs?

A40. As I discuss above, NIPSCO adjusted the budget and the projected savings based on the customers it expects to opt out by January 1, 2015. In addition, NIPSCO and Franklin Energy are anticipating more participation in the C&I Prescriptive program as opposed to the C&I Custom program because smaller C&I customers are more likely to utilize the rebate program. Finally, it is important to note that while NIPSCO has forecasted the number of customers and the amount of load that will opt out of its DSM program, until the final numbers are known in November, it is difficult to determine the exact impact on both C&I programs. NIPSCO will continue working with Franklin Energy to revise program design and keep the OSB apprised of developments.

<u>Program Cost Allocations</u>

Q41. How does NIPSCO propose to allocate program costs for its proposed 2015 Electric DSM Program?

A41. With the exception of the A/C Cycling Program (in which the allocation methodology will not change from the current process of allocating program costs based on the number of customers in an eligible class), NIPSCO is proposing to alter the way it allocates program costs so that costs are allocated based on the kWh in a participating rate. Previously, NIPSCO has allocated program costs based on the number of customers in a participating rate. NIPSCO Witness Becker further explains this change in allocation and why it is appropriate.

<u>Program Budget and Energy Savings</u>

Q42. How did NIPSCO determine its proposed budget for its 2015 Electric DSM Program?

A42. Using the methodology explained by NIPSCO Witness Becker, the baseline budget for NIPSCO's 2015 DSM Program is $21,157,123. From this, NIPSCO determined how much it expects to spend on NIPSCO Administration, which is anticipated to be approximately 3% and on EM&V of programs, which is anticipated to be approximately 5%. This determined the amount available to spend on programs. The table below shows the amount available to spend on programs, which is $19,747,065.

	Total DSM Program Budgets
2% Revenue Cap Spend	$21,157,123
Less EM&V	$861,501
Less NIPSCO Administration	$548,557
Available for Program Spend	**$19,747,065**

Q43. Based on the available amount of $19,747,065 for 2015 programs , what is NIPSCO's proposed total budget for its 2015 Electric DSM Program including EM&V and administration?

A43. The table below outlines the budget, without lost revenues, for its 2015 Electric DSM Program.

Proposed Budget NIPSCO 2015 Electric DSM Program	
Residential Programs	$8,063,580
Residential Administration	$321,338
Residential EM&V	$403,179
Total Residential	**$8,788,097**
C&I Programs	$9,166,440
C&I Administration	$227,219
C&I EM&V	$458,322
Total C&I	**$9,851,981**
Total Program Budget	***$ 18,640,078***

Q44. Why is NIPSCO's total program budget less than the $19,747,065 discussed above?

A44. Although NIPSCO used the 2% of 2013 total revenue as a guide for developing programs, given that a large portion of C&I load may elect to opt out of program participation, NIPSCO used a conservative approach in projecting potential savings for its C&I programs when working with Franklin Energy. NIPSCO will have better projections for 2016 related to customers who have opted out of participation which will allow NIPSCO to better forecast C&I participation.

Q45. What is NIPSCO's projected budget for the Residential programs included in its 2015 Electric DSM Program?

A45. NIPSCO proposes a projected budget of $8,788,097 for its Residential programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V, and NIPSCO administration costs, but without lost revenues. The table below shows the projected budget for each individual Residential program.

Residential Programs	Projected Budget
Residential Lighting Program	$1,005,448
Residential Elementary Education Program	$1,164,899
Residential Low Income Weatherization Program	$714,416
Residential Home Energy Audit and Weatherization Program	$2,247,865
Residential Energy Efficiency Rebate Program	$641,950
Residential New Construction Program	$772,035
Residential Home Energy Conservation Program	$934,824
A/C Cycling Program	$1,306,661
Total Residential Programs Projected Budget	**$8,788,097**

Q46. What is NIPSCO's projected budget for its C&I programs included in its 2015 Electric DSM Program?

A46. NIPSCO proposes a projected budget of $9,851,981 for its C&I programs included in its 2015 Electric DSM Program, inclusive of program costs, EM&V costs, and NIPSCO administrative costs but without lost revenues. The table below shows the projected budget for each individual C&I program.

C&I Programs	Projected Budget
C&I Custom Program	$1,898,700
C&I Prescriptive Program	$5,725,950
C&I Small Business Direct Install Program	$1,945,950
School Audit Direct Install Program	$103,200
A/C Cycling Program	$178,181
Total C&I Programs Projected Budget	**$9,851,981**

Q47. What gross energy savings does NIPSCO project to occur in 2015 given the projected program budgets?

A47. NIPSCO projects gross energy savings for 2015 as follows:

2015 Projected Energy Savings (MWh)	
Residential Programs	
Residential Lighting Program	11,137
Residential Elementary Education Program	5,194
Residential Low Income Weatherization Program	648
Residential Home Energy Audit and Weatherization Program	5,426
Residential Energy Efficiency Rebate Program	2,220
Residential New Construction Program	857
Residential Home Energy Conservation Program	24,000
A/C Cycling Program	0
Total Residential Programs	**49,482**
C&I Programs	
C&I Custom Program	14,000
C&I Prescriptive Program	50,000
C&I Small Business Direct Install Program	6,000
School Audit Direct Install Program	121
A/C Cycling Program	0
Total C&I Programs	**70,121**
Total 2015 Electric DSM Program	**119,603**
Note: There are no MWh associated with the A/C Cycling Program	

Q48. Should the Commission consider the projected program budgets and energy savings projections to be final?

A48. No. The savings projections are estimates provided by the vendors given the projected budget that was provided by NIPSCO. Each vendor was provided with a budget and then was asked to develop an energy savings plan based on the given dollar amount. The projected budgets and associated energy savings are NIPSCO's best projections at this time. However, specific cost recovery will be handled in NIPSCO's Demand Side Management Adjustment Mechanism ("DSMA") tracker proceedings, which are filed semi-annually.

Q49. Does NIPSCO expect program designs and projected budgets to change drastically?

A49. No. However, the program designs and projected budgets are not final. NIPSCO does not expect the projected budgets for its 2015 Electric DSM Program to change drastically. NIPSCO will continue to work with its OSB on program and budget design and, if approvals outside of the authority of its OSB are necessary, NIPSCO will request approval of those changes in its semi-annual DSMA tracker proceedings (Cause No. 43618-DSM-X).

Q50. What lost revenue does NIPSCO project in association with the 2015 Electric DSM Program?

A50. Lost revenues are very difficult to project into 2015 because of the uncertainty surrounding the impact of the opt out provided for in SEA 340 and the transition of programs to an integrated offering by NIPSCO. NIPSCO projects approximately $3.4 million of lost revenues associated with the implementation of the 2015 Electric DSM Program, $2.4 million for Residential customers and $1 million for C&I customers. These estimated lost revenues are in addition to lost revenues previously approved for recovery and reconciliation in NIPSCO's DSMA semi-annual proceedings consistent with the Commission's Order in Cause No. 44154. Given the changes occurring with the Industrial Opt Out and NIPSCO's proposed allocation change, as well as the reconciliation of lost margins that is set to take effect with the factor that goes into effect January 1, 2015 (DSM-7), NIPSCO is continuing to refine the lost margin number. NIPSCO will file DSM-7 in September 2014 and will have discussions with stakeholders related to these changes and proposed updates to the schedules and workpapers in advance of that filing.

Q51. How did NIPSCO project lost revenues associated with its proposed 2015 Electric DSM Program?

A51. NIPSCO utilized the same methodology to project lost revenues used to build its program budgets for 2015, subject to the uncertainties described above. NIPSCO assumed that the 17 customers described above would opt out of the program by the end of 2014 and based its estimate on the projected kWh savings estimate for 2015 as provided by the vendors. The customers assumed to have opted out will still contribute to the recovery and reconciliation of previously approved lost revenues carried forward into 2015 but would not contribute any incremental lost revenues associated with the 2015 program.

<u>Standard Cost-Benefit Tests</u>

Q52. Please describe the various standard cost-benefit tests.

A52. The Commission's Integrated Resource Plan ("IRP") Rules (170 IAC 4-7-7(b)) require that one of the following four (4) tests be used to evaluate the cost-effectiveness of a demand-side resource option: (1) Participant Test; (2) Utility Cost Test ("UCT"); (3) Ratepayer Impact Measure ("RIM") Test; and (4) Total Resource Cost ("TRC") Test. The TRC Test is commonly used to determine the cost-effectiveness of energy efficiency programs through many jurisdictions. The UCT assesses the benefits and costs from the utility's perspective by comparing the utility benefits versus the utility costs (e.g., benefits of avoided fuel, avoided transmission and distribution costs, avoided capacity costs and avoided ancillary costs compared to rebates and administrative costs) and captures all the same costs and benefits as the TRC

Test while also including the performance incentive as a program cost. Customer incentives and rebates are treated as a transfer of payments in the TRC Test and not included in the stream of costs and benefits.

Q53. Did NIPSCO run all of the standard cost-benefit tests for its proposed 2015 Electric DSM Program?

A53. Yes. The results of all of the standard cost-benefit tests for the proposed 2015 Electric DSM Program as well as for each individual program are provided in Petitioner's Exhibit No. KES-2.

Q54. Did NIPSCO use one of the standard cost-benefit tests for DSM program planning and evaluation?

A54. NIPSCO did run all of the standard cost-benefit tests for its proposed 2015 Electric DSM Program and the entire portfolio, the Residential portfolio, the C&I portfolio, and, with the exception of the Residential New Construction Program, each of the individual programs passed the TRC Test. As another test of program benefit, NIPSCO compared the fuel savings over the life of the program with its cost. All of the costs remain the same within each of the standard cost-benefit tests but the benefit (avoided cost) is only the fuel savings. Quite simply, we know that if we save fuel, it is beneficial to our customers and we measured the benefit of this fuel savings against the cost of the program. I will refer to this as the Fuel Savings Test version of each of the standard cost-benefit tests.

Q55. Why did NIPSCO choose to compare program costs of the proposed 2015 Electric DSM Program to the net present value of fuel cost savings?

A55. NIPSCO's IRP does not indicate the need for additional generation until 2023. Therefore, NIPSCO's customers will find a more immediate benefit from those programs that reduce fuel consumption and/or purchased power costs than those programs that defer the need for additional generation, transmission or distribution. By limiting the benefits of a program to strictly its avoided fuel cost component and removing any avoided system upgrade costs, the test measures the real-time benefits of implementing the program.

Q56. Why does NIPSCO believe that a test should be performed without the avoided capacity cost included as a benefit?

A56. As mentioned previously, NIPSCO currently has more capacity than required to cover its reserve margin. Consequently, NIPSCO sold capacity in the Midcontinent Independent System Operator, Inc.'s capacity auction and received $16 per MW-day for the June 2014 – May 2015 Planning Year. Since the benefits of this capacity sale will flow back to customers through the Resource Adequacy ("RA") tracker, any realized capacity savings from energy efficiency programs will find its way back to the customer. Because NIPSCO is expecting to be long capacity through the 2022 period, it wanted to see the benefit of the programs without including the avoided system upgrade costs that are included in the tests when avoided capacity costs are included.

Q57. Has the Commission previously addressed the concept of "avoided costs?"

A57. Yes. For example, the IRP Rules (170 IAC 4-7-1(b)) defines "avoided cost" as "the amount of fuel, operation, maintenance, purchased power, labor, capital, taxes, and other cost not incurred by a utility if an alternative supply or demand-side resource is included in the utility's integrated resource plan." The information required to be included in a utility's IRP is listed in 170 IAC 4-7-4. Subsection (16) states:

> An avoided cost must be calculated for each year in the forecast period. The avoided cost calculation must reflect timing factors specific to the resource under consideration such as project life and seasonal operation. Avoided cost shall include, but is not limited to, the following:
>
> (A) The avoided generating capacity cost adjusted for transmission and distribution losses and the reserve margin

requirement.

(B) The avoided transmission capacity cost.

(C) The avoided distribution capacity cost.

(D) The avoided operating cost, including fuel, plant operation and maintenance, spinning reserve, emission allowances, and transmission and distribution operation and maintenance.

Q58. In your opinion, should avoided costs be utilized to consider the effectiveness of a DSM program?

A58. Yes. Avoided costs provide an appropriate gauge of the effectiveness of a DSM program. This has been reinforced by the Commission in its rules related to performance incentives. The Commission's DSM Rules (170 IAC 4-8-7(f)) provide that "a shareholder incentive mechanism must reflect the value to the utility's customers of the supply-side resource cost avoided or deferred by the utility's DSM program minus incurred utility DSM program cost."

Q59. How have you utilized "avoided costs" within your cost-benefit tests for the proposed programs?

A59. In order to fully validate the value of the proposed programs, NIPSCO has conducted three different iterations of the standard cost-benefit tests. Within the "avoided cost" benefits section of the test, it has one test run with all avoided costs included, another test run with transmission and distribution costs excluded, and a final test run with capacity, transmission, distribution, and all other ancillary costs excluded. The only avoided cost that remains within this final test is the fuel cost savings and represents the Fuel Savings Test mentioned previously.

Q60. What were the results of the three tests?

A60. Aside from the A/C Cycling Program (which had a TRC above 2.0, but a UCT below 1.0) and the Residential New Construction Program (which had a UCT above 1.0 but a TRC below 1.0), all of the other Residential and C&I programs had a UCT and TRC Test score greater than 1 when all of the avoided costs (fuel, capacity, and transmission and distribution) were included as benefits. Because A/C Cycling does not provide kWh savings, this result is not uncommon. Given that New Construction is a market transformation program, it is not unusual for that program to have test scores right at or below 1.0. As expected, the test scores came down as each of the avoided cost components were removed from the benefits portion of the test. Consequently, when taking out the transmission and distribution portion of the avoided costs, all of the programs except the A/C Cycling and Residential

New Construction programs passed with a UCT and TRC Test score greater than 1 but the scores were lower than the previous test. For the Fuel Savings Test, whereby only the fuel costs remained as a benefit, only the C&I Prescriptive, Home Energy Conservation and Residential Lighting programs maintained scores above 1.0. The overall portfolio passes the UCT with a score of 1.02 and the TRC Test result is .86. This does not mean that these programs are not cost effective or beneficial for customers. However, it does mean that the immediate impact on customers through fuel savings is not that significant. To NIPSCO, this is an important number to keep in mind as programs and budgets are designed in the future. NIPSCO will continue to refine its method of judging the value of each of the programs going forward. Considering that the industry standard is to include all of the avoided costs as benefits to the programs, it is clear that the portfolio as designed passes the standard cost-benefit tests. The following table summarizes the portfolio results for the total portfolio, Residential and C&I programs.

Benefit Cost Analysis					
NIPSCO DSM Electric Programs					
	Utility Test	TRC Test	RIM Test	Societal Test	Participant Test
Benefit Cost Analysis					
NIPSCO DSM Electric C&I Portfolio	3.94	2.66	0.67	3.24	3.57
NIPSCO DSM Electric Residential Portfolio	1.69	1.71	0.63	2.05	5.31
NIPSCO DSM Electric Portfolio	2.76	2.34	0.64	2.81	4.28
Benefit Cost Analysis without Avoided T&D Electric					
NIPSCO DSM Electric C&I Portfolio	3.57	2.41	0.61	2.95	3.57
NIPSCO DSM Electric Residential Portfolio	1.31	1.33	0.49	1.59	5.31
NIPSCO DSM Electric Portfolio	2.35	1.99	0.55	2.40	4.28
Benefit Cost Analysis, Fuel Savings Test					
NIPSCO DSM Electric C&I Portfolio	1.22	0.82	0.21	1.03	NA
NIPSCO DSM Electric Residential Portfolio	0.59	0.59	0.22	0.74	NA
NIPSCO DSM Electric Portfolio	1.02	0.86	0.24	1.07	NA

Q61. How are various DSM programs currently evaluated for inclusion in NIPSCO's DSM portfolio as well as in the context of the IRP?

A61. Once a DSM technology, measure or program is identified as a candidate for review, an economic cost-benefit analysis is conducted. The TRC Test is a cost-benefit test that compares the costs of energy efficiency measures and program activities necessary to deliver them to the value of avoided energy production, transmission, distribution and power plant construction. In calculating the TRC, the net present value of the program impact over the life cycle of the impact is determined. Over time, using the results from the EM&V, values of the components within the TRC Test are refined.

The programs that are determined to be cost effective are evaluated as potential resources in the IRP. The IRP modeling simulates the operation of generation, distribution and transmission in an integrated market. This simulation is intended to determine the effects of adding supply-side resources to the system or of modifying load through DSM programs. The results of the modeling identify the number of occurrences that a resource option is selected in the most optimal plans. NIPSCO also evaluates risks associated with future uncertainty through scenario and sensitivity analysis. Key market and non-market drivers are identified to define plausible future scenarios which bookend the potential future business climate range. A base case scenario is developed to establish the expected view of the future. Sensitivity analyses are performed in order to evaluate the impacts when different assumptions in key drivers are assumed. NIPSCO's objective is to minimize the net present value revenue requirements over the study period.

Q62. Will the process used to evaluate and determine the proposed DSM programs within this filing be consistent with the next IRP process?

A62. Yes. While NIPSCO performed various cost-benefit analyses for the proposed programs in this filing, NIPSCO uses the TRC Test to determine a program's cost-effectiveness as part of the IRP. As previously discussed, this test determines the present value of the program impact over the life cycle of the impact. Programs that pass the TRC Test with a score of 1 or more will then be used as demand-side resources within the IRP process and assessed with supply-side resources to explore and evaluate the various combinations of available demand-side and supply-side options to reliably and cost-effectively meet customers' future electricity service needs over the next twenty years. NIPSCO will assume that demand-side resource options with costs and energy savings similar to the proposed 2015 Electric DSM Program will be representative of demand-side resource options for the 20-year planning horizon.

Q63. Does this complete your prepared direct testimony?

A63. Yes.

VERIFICATION

I, Karl E. Stanley, Vice President of Commercial Operations for Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Karl E. Stanley

Karl E. Stanley

Date: May 30, 2014

Petitioner's Exhibit No. KES-1
Cause No. 44496

NIPSCO DEMAND SIDE MANAGEMENT
2015 DSM ELECTRIC PROGRAMS

Benefit Cost Analysis					
NIPSCO DSM Electric Programs					
Program Name	Utility Test	TRC Test	RIM Test	Societal Test	Participant Test
C&I Prescriptive Program	4.49	3.88	0.65	4.61	5.50
C&I Custom Program	5.09	2.06	0.71	2.59	2.25
C&I Small Business Direct Install Program	1.71	1.65	0.53	1.99	3.45
School Audit Direct Install Program	1.63	1.73	0.49	1.93	4.72
Residential Home Energy Audit and Weatherization Program	1.58	1.52	0.64	2.01	8.62
Residential Home Energy Conservation Program	3.37	3.37	0.77	3.37	NA
Residential Low Income Weatherization Program	1.44	1.44	0.62	2.13	NA
Residential New Construction Program	1.69	0.99	0.73	1.35	1.02
Residential Energy Efficiency Rebate Program	3.06	1.82	0.80	2.34	1.80
Residential Elementary Education Program	1.71	1.71	0.54	2.01	NA
Residential Lighting Program	3.23	2.56	0.61	2.82	5.37
Air Conditioner Cycling Program (Residential and C&I)	0.58	2.65	0.57	2.65	NA

NIPSCO DSM Electric C&I Portfolio	3.94	2.66	0.67	3.24	3.57
NIPSCO DSM Electric Residential Portfolio	1.69	1.71	0.63	2.05	5.31
NIPSCO DSM Electric Portfolio	2.76	2.34	0.64	2.81	4.28

NIPSCO DEMAND SIDE MANAGEMENT
2015 DSM ELECTRIC PROGRAMS

Benefit Cost Analysis without Avoided T&D Electric					
NIPSCO DSM Electric Programs					
Program Name	Utility Test	TRC Test	RIM Test	Societal Test	Participant Test
C&I Prescriptive Program	3.95	3.41	0.57	4.06	5.50
C&I Custom Program	4.64	1.88	0.65	2.36	2.25
C&I Small Business Direct Install Program	1.48	1.43	0.46	1.73	3.45
School Audit Direct Install Program	1.42	1.51	0.42	1.68	4.72
Residential Home Energy Audit and Weatherization Program	1.16	1.12	0.47	1.46	8.62
Residential Home Energy Conservation Program	2.83	2.83	0.65	2.83	NA
Residential Low Income Weatherization Program	1.17	1.17	0.51	1.75	NA
Residential New Construction Program	1.21	0.71	0.53	0.98	1.02
Residential Energy Efficiency Rebate Program	2.44	1.46	0.64	1.86	1.80
Residential Elementary Education Program	1.54	1.54	0.49	1.81	NA
Residential Lighting Program	2.95	2.33	0.56	2.57	5.37
Air Conditioner Cycling Program (Residential and C&I)	0.05	0.23	0.05	0.23	NA

NIPSCO DSM Electric C&I Portfolio	3.57	2.41	0.61	2.95	3.57
NIPSCO DSM Electric Residential Portfolio	1.31	1.33	0.49	1.59	5.31
NIPSCO DSM Electric Portfolio	2.35	1.99	0.55	2.40	4.28

NIPSCO DEMAND SIDE MANAGEMENT
2015 DSM PROGRAMS

Benefit Cost Analysis, NPV Fuel (Cost Based)					
NIPSCO DSM Electric Programs					
Program Name	Utility Test	TRC Test	RIM Test	Societal Test	Participant Test
C&I Prescriptive Program	1.67	1.45	0.24	1.77	NA
C&I Custom Program	2.00	0.81	0.28	1.05	NA
C&I Small Business Direct Install Program	0.63	0.60	0.19	0.75	NA
School Audit Direct Install Program	0.62	0.65	0.18	0.75	NA
Residential Home Energy Audit and Weatherization Program	0.51	0.49	0.21	0.66	NA
Residential Home Energy Conservation Program	1.49	1.49	0.34	1.44	NA
Residential Low Income Weatherization Program	0.52	0.52	0.23	0.80	NA
Residential New Construction Program	0.53	0.31	0.23	0.44	NA
Residential Energy Efficiency Rebate Program	1.06	0.63	0.27	0.83	NA
Residential Elementary Education Program	0.70	0.70	0.22	0.85	NA
Residential Lighting Program	1.34	1.06	0.25	1.21	NA
Air Conditioner Cycling Program (Residential and C&I)	0.02	0.10	0.02	0.10	NA

NIPSCO DSM Electric C&I Portfolio	1.22	0.82	0.21	1.03	NA
NIPSCO DSM Electric Residential Portfolio	0.59	0.59	0.22	0.74	NA
NIPSCO DSM Electric Portfolio	1.02	0.86	0.24	1.07	NA