

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED)
PETITION OF INDIANA MICHIGAN POWER)
COMPANY FOR APPROVAL OF DEMAND)
SIDE MANAGEMENT (DSM) PLAN,)
INCLUDING ENERGY EFFICIENCY (EE))
PROGRAMS, AND ASSOCIATED)
ACCOUNTING AND RATEMAKING)
TREATMENT, INCLUDING TIMELY) CAUSE NO. 44841
RECOVERY THROUGH I&M'S DSM/EE)
PROGRAM COST RIDER OF ASSOCIATED)
COSTS, INCLUDING PROGRAM)
OPERATING COSTS, NET LOST REVENUE,)
FINANCIAL INCENTIVES, AND CARRYING)
CHARGES AND DEPRECIATION EXPENSE)
ON CAPITAL EXPENDITURES AND)
ASSOCIATED OPERATIONS AND)
MAINTENANCE EXPENSE.)

VERIFIED PETITION

Indiana Michigan Power Company (I&M or Company) hereby petitions the Indiana Utility Regulatory Commission (Commission) for approval of Demand Side Management Plan, including Energy Efficiency Programs and associated accounting and ratemaking treatment, as summarized in the caption and further described below. In support of this Petition, I&M represents and shows the following:

I&M's Corporate Status

1. I&M, a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan

that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public. I&M has maintained and continues to maintain its properties in a reliable state of operating condition.

2. I&M provides electric service to approximately 588,000 retail customers within a service area covering approximately 8,260 square miles in northern and east-central Indiana and southwestern Michigan. In Indiana, I&M provides retail electric service to approximately 460,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells and Whitley. In Michigan, I&M currently provides retail electric service to approximately 128,000 customers. In addition, I&M serves customers at wholesale in the States of Indiana and Michigan. I&M's electric system is an integrated and interconnected entity that is operated within Indiana and Michigan as a single utility.

I&M's "Public Utility" Status

3. I&M is a "public utility" under Ind. Code § 8-1-2-1 and Ind. Code § 8-1-8.5-1 and an "electricity supplier" as that term is used in Senate Enrolled Act ("SEA") 340 codified at Ind. Code § 8-1-8.5-9 ("Section 9") and SEA 412 codified as Ind. Code § 8-1-8.5-10 ("Section 10"). I&M 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.

Section 10

4. In pertinent part, Section 10(h), adopted by the 2015 Indiana General Assembly,

requires electricity suppliers, including I&M, to file a plan with the Commission for approval beginning not later than calendar year 2017 and not less than one (1) time every three (3) years. The plan must contain EE goals, EE programs to achieve the EE goals, program budgets and program costs, and evaluation measurement and verification (“EM&V”) procedures that must include independent EM&V. The legislation (Section 10(i)) enumerates ten (10) factors the Commission shall consider when determining the overall reasonableness of a plan. If the Commission determines the plan is reasonable, then the utility is allowed to recover through a rate adjustment mechanism all costs associated with implementation of the plan, including direct and indirect costs of energy efficiency programs (including EM&V costs), and other recoveries or incentives approved by the Commission, including lost revenues and financial incentives. Section 10(g) and (k). The Commission shall allocate and assign costs associated with a program to the class or classes or customers eligible to participate in the program. Section 10(k).

5. This filing is made in compliance with the Section 10(h) requirement that a utility file a plan beginning not later than calendar year 2017. The Section 10 plan is set forth in Company witness Jon Walter’s testimony and attachments.

Overview of Plan

6. I&M requests Commission approval of a DSM Plan for the three calendar year period of 2017 through 2019. The DSM Plan includes energy efficiency (EE) goals; a portfolio of EE programs and other DSM Programs designed to achieve the EE goals and demand savings goals; program budgets and program costs; and EM&V procedures that include independent EM&V. Approval of a three year plan aligns with I&M’s Integrated Resource Plan (“IRP”) filing timeline and the three year timeframe established in Section 10. Also, the multi-year plan is administratively efficient, promotes DSM/EE program market continuity and consistency in

I&M’s service territory, and facilitates building long term relationships with customers and local market actors.

Energy Efficiency and Demand Savings Goals

7. The DSM Plan is designed to achieve gross energy savings of 456,407,441 kWh and demand savings of 133,033 over the three year period as follows:

Table 1

	DSM Plan Energy Savings Goals (kWh)	DSM Plan Demand Savings Goals (kW)
2017	157,451,938	35,366
2018	150,471,438	46,145
2019	148,484,064	51,493
Total	456,407,441	133,003

8. The proposed goals are expected to result in energy savings of approximately .89% of eligible retail sales (three year average), assuming 9% of eligible load will opt out of participation in Company sponsored DSM programs as authorized by Section 9 and Section 10(p). The life of the measures projected to be installed under the cost effective DSM Plan portfolio extends beyond the three year plan period. The DSM Plan goals are reasonably achievable, consistent with I&M’s IRP and designed to achieve an optimal balance of energy resources in I&M’s service area. When the lifetime effect of the DSM measures is considered, the DSM Plan is expected to result in a decrease in customer consumption of 5,003,970,499 kWh. This too is consistent with I&M’s IRP.

DSM Plan Programs

9. The DSM Plan includes offerings to all customer classes, including low income customers, and provides for industrial customer opt out in accordance with Section 9 and Section

10(p). The DSM Plan is designed to influence customer acceptance of EE and longer life measures and to enhance cost effectiveness through the utilization and deployment of technology and market data analytics. The cost effective program portfolio continues many of same measures offered in programs approved by the Commission in Cause No. 43827 DSM-5 but with revised program names and other updates. I&M is also proposing two new programs and two revised programs.

10. The following DSM programs are included in the DSM Plan:

- Home Energy Products;
- Income Qualified Weatherproofing;
- Schools Energy Education;
- Home Appliance Recycling;
- Home New Construction;
- Home Weatherproofing;
- Home Energy Engagement (revised);
- Work Custom Rebates;
- Work Direct Install Rebates;
- Work Prescriptive;
- Work Energy Management (new);
- Public Efficient Street lighting (new);
- Home Energy Management (revised); and
- Electric Energy Consumption Optimization (EECO).

11. The Commission has previously found that the EECO program is a DSM Program but not an EE program. *Indiana Michigan Power Company*, (IURC 12/3/2014), Cause No. 44486 at 13. While the EECO program is operational during the time of I&M's peak, it results in both demand and energy savings. Similarly, the Home Energy Management (HEM) Program is designed to provide demand and potential energy savings. The HEM Program evolved from and supersedes the Peak Reduction Program. The HEM Program retains the load management attributes of the former program and by relying on new technology expands the energy savings potential by operating on an ongoing basis to produce participating customer energy use

reduction.

Program Budgets and Program Costs

12. I&M's program budgets reflect the direct (including EM&V) and indirect costs of the DSM Plan programs. I&M estimates the program operating budgets associated with the Plan's savings goals to be approximately \$65.043 million over the three year period not including net Lost Revenue and financial incentives (Shared Savings). The total program operating budgets exceed \$21 million each year of the plan. I&M requests authority to roll forward into the next program year any unused and approved budget funds that remain unspent at the end of a plan year. As explained in I&M's prefiled case-in-chief, I&M asks that the Commission grant I&M the same spending flexibility for the DSM Plan as is currently in place.

13. The net Lost Revenue and financial incentives associated with the DSM Plan and sought to be recovered are identified in I&M's prefiled case-in-chief. So as to allow the Commission to have a complete picture of the DSM costs that will be reflected in I&M's DSM Rider during the three DSM Plan years, the revenue requirement presented in I&M's case-in-chief includes the impact of the legacy lost revenue previously approved by the Commission.

EM&V

14. The EM&V for the DSM Plan will be conducted by an independent evaluation contractor who will perform a process and an impact evaluation. The process evaluation will identify how well programs are implemented. The impact evaluation will examine the more technical effects of the programs such as energy savings.

Accounting and Ratemaking

15. The books and records of I&M supporting the proposed DSM/EE Program Cost Rider Adjustment are kept in accordance with the Uniform System of Accounts for Electric Utilities as prescribed by the Commission and generally accepted principles (“GAAP”).

16. The DSM Plan cost recovery proposal includes a request for continued accounting and ratemaking procedures to recover costs through I&M’s DSM/EE Program Cost Rider, including the direct costs (including EM&V) and indirect costs of the energy efficiency and DSM programs, net Lost Revenue, and Shared Savings financial incentive as approved in Cause No. 44486, as well as the costs associated with the EECO and Work Energy Management (“WEM”) Programs as explained in I&M’s case-in-chief and summarized herein.

17. The DSM Plan includes and continues the reliance upon DSM measure life tracking.

18. I&M is not seeking a Shared Savings financial incentive for the following programs: EECO; Income Qualified Weatherproofing, WEM, and Public Efficient Streetlighting.

19. I&M’s share of the Shared Savings would be treated as above-the-line for ratemaking purposes and included in the earnings test under the fuel adjustment clause (“FAC”).

20. The DSM Rider will continue to include a reconciliation mechanism to correct for any variance between the forecasted program costs (including program operating costs, lost revenue and the Shared Savings financial incentive) and the actual program costs (including program operating costs, lost revenue and Shared Savings financial incentive based on the EM&V of the Plan programs).

21. The DSM Plan cost recovery proposal also includes a request to continue to defer, and subsequently recover through the DSM/EE Program Cost Rider, carrying costs, depreciation expense associated with capital expenditures, along with ongoing incremental Operation and Maintenance expense, related EM&V costs and net Lost Revenue associated with the EECO Program and the WEM Program. I&M proposes the cost recovery for these two programs be authorized and implemented as approved for the EECO Program in Cause No. 44486.

22. I&M also requests continued authority to defer the over and under recoveries of projected DSM/EE Program costs through the DSM/EE Program Cost Rider pending reconciliation in subsequent rider periods and approval to defer any costs incurred in implementing the DSM/EE programs prior to the time the Commission issues an order authorizing I&M to recognize these costs through the ratemaking process. This proposal is consistent with current practice.

23. The DSM/EE programs and associated accounting and ratemaking mechanisms reflected in the DSM Plan are reasonable and in the public interest. Implementation of the DSM Plan will promote efficiency in the rendering and use of the retail energy service.

DSM Rider Factors

24. In this docket, I&M requests program cost recovery authority encompassing the three year forecast period of 2017, 2018, and 2019 and authority to adjust DSM Rider factors based on the three year revenue requirement presented in I&M's case-in-chief.

25. This request differs slightly from past DSM petitions. In this case, I&M has calculated rider factors reflecting the DSM Plan revenue requirement and Legacy net lost revenue. I&M has not included a reconciliation of 2015 costs in the calculation of these factors.

I&M will file a separate petition for reconciliation of 2015. That petition will be docketed as Cause No. 43827 DSM 6 and is expected to be filed in early fall of 2016. The DSM 6 filing will update the DSM Rider factors presented in the instant docket to reflect the result of the 2015 period reconciliation and the cumulative prior year over/under recovered balance. If necessary, I&M will seek to join the DSM 6 filing and this DSM Plan filing in order to better coordinate the implementation of DSM Program Cost Rider rates contained in both filings. This approach is intended to simplify the two dockets and further administrative efficiency.

Applicable Law

26. As stated above, I&M considers the provisions of the Public Service Commission Act, as amended, including Ind. Code § 8-1-8.5-10, to be applicable to the subject matter of this Petition. Section 10 provides the Commission authority to approve the DSM Plan and the cost recovery sought by I&M, including the financial incentive and lost revenues.

27. Section 10 requires Commission consideration of I&M's most recent Integrated Resource Plan (IRP) which is the IRP filed with the Commission in November 2015 (2015 IRP). The factors enumerated in Section 10 are to be considered by the Commission in determining the overall reasonableness of a plan. I&M's testimony in this Cause will demonstrate that the energy savings for all three years of the DSM Plan are reasonably achievable, consistent with I&M's IRP and designed to achieve an optimal balance of energy resources in I&M's service territory. I&M's testimony will show that the energy goals in the proposed DSM Plan are consistent with and based on the Company's needs shown in the IRP. I&M's testimony in this Cause will also demonstrate that the proposed DSM Plan is consistent with I&M's 2016 Market Potential Study and reasonably reflect the Company's experience with DSM programs in its service territory. I&M asks the Commission to approve all three years of the Plan under Section 10.

28. For reasons described in I&M's IRP and in I&M's prefiled case-in-chief, I&M allowed its IRP model to select the level of new EE beginning in 2018. So as to allow a smooth transition from the previous approach to the new approach, a level of EE consistent with historical levels and I&M's Modified Action Plan was reflected in 2017.¹ The initial modeling year of 2018 was chosen due to the time to plan, design and gain approval of a DSM/EE plan based on the new modeling approach output. The level of DSM selected by the model beginning in 2018 is slightly less than the level of future DSM activity reflected for 2017. This indicates that the level of DSM activity included in the IRP for 2017 is reasonable. The Commission should conclude that the energy savings goals are reasonably achievable and the DSM Plan is designed to achieve an optimal balance of energy resources in I&M's service territory, consistent with the Company's IRP.

29. I&M asks the Commission to approve the DSM Plan in its entirety under Section 10. Should the Commission have concerns as to whether the energy savings goal for 2017 is consistent with the IRP and otherwise compliant with Section 10, I&M asks the Commission to approve the 2017 Plan year under Section 9 and the 2018-2019 Plan years under Section 10. The method used to establish the energy savings goal for 2017 is consistent with the method used for the 2016 DSM Plan approved by the Commission under Section 9 in DSM-5 and is also corroborated by the IRP modeling and the MPS.

30. The DSM Plan includes Programs that are not EE. The Commission DSM Rule, 170 4-8-1 *et seq.*, and other provisions of the Public Service Commission Act, including Ind. Code § 8-1-2-10, 12, and 42, and Ind. Code Ch. 8-1-8.5 provide the Commission authority to

¹ The Modified Action Plan (referred to as the Updated Action Plan in DSM 5) was completed by Gil Peach and Associates in March 2013. This Plan stemmed from an earlier Market Potential Study performed by this contractor and provided a DSM program action plan for the three-year period 2014-2016.

approve the accounting and ratemaking sought for these aspects of the DSM Plan.

31. Approval of the proposed DSM Plan and associated cost recovery is consistent with the long standing public policy and is consistent with the Energy Independence and Security Act (“EISA”) of 2007, which provides that the rates allowed to be charged by any electric utility shall “(i) align incentives with the delivery of cost-effective energy efficiency; and (ii) promote energy efficiency investments.” 16 U.S.C. § 2621(d)(17)(A). Further, EISA provides that states shall specifically consider the following as policy options: “(i) removing the throughput incentive and other regulatory and management disincentives to energy efficiency; (ii) providing utility incentives for the successful management of energy efficiency programs; [and] allowing timely recovery of energy efficiency related costs [...]” 16 U.S.C. § 2621(d)(17)(B).

Procedural and Other Matters, Including Interim Relief

32. I&M notified the other members of its Oversight Board of its intent to file this Petition.

33. I&M is filing its case-in-chief contemporaneous with its Petition, including direct testimony, attachments and workpapers.

34. Pursuant to 170 IAC 1-1.1-15(b) of the Commission’s Rules of Practice and Procedure, I&M requests the Commission promptly conduct a prehearing conference and preliminary hearing to establish a procedural schedule in this Cause. In accordance with 170 IAC 1-1.1-15(e), I&M will seek to enter into a stipulation with the Indiana Office of Utility Consumer Counselor regarding a procedural schedule in lieu of a prehearing conference.

35. So that the DSM Plan may be timely implemented commencing January 1, 2017,

I&M requests a final Commission order approving the relief sought in this Petition on or before December 15, 2016. Alternatively, I&M asks the Commission to enter an Interim Order authorizing I&M to continue to offer its 2016 DSM Plan and to continue to recover the associated costs in accordance with the Commission order in DSM-5. Upon entry of a final order in the instant case approving the proposed DSM Plan, the program implementation and associated cost recovery for the DSM Plan would commence. This procedure was utilized in DSM-5. Approval of the DSM Plan or in the alternative, entry of the requested Interim Order, would help minimize customer confusion about I&M's DSM offerings. It would also avoid program stoppage and the incurrence of additional costs borne by stopping and starting programs already having traction in consumer marketplaces.

36. To the extent necessary or appropriate, I&M requests the Commission to consider this interim request at the prehearing conference and preliminary hearing in this Cause or within an alternative timeframe that would allow the interim relief sought to be considered in a timely manner.

Petitioner's Authorized Representatives

37. The names and address of I&M's attorneys in this matter who are duly authorized to accept service of papers in this Cause on behalf of I&M are:

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WHEREFORE, I&M respectfully requests that the Commission to promptly publish notice, make such investigation and hold such hearings as are necessary and advisable, and thereafter make and enter an order in this Cause:

- (i) approving I&M's DSM Plan;
- (ii) authorizing and approving I&M's proposed recovery, through the DSM/EE Program Cost Rider, of the costs of the DSM Plan, including direct (including EM&V costs), and indirect costs of operating the programs, net Lost Revenue, Shared Savings, and carrying charges and depreciation expense associated with capital expenditures along with ongoing incremental O&M expense incurred for the EECO and WEM Programs;
- (iii) approving all accounting and ratemaking treatment requested by I&M, including the authority to defer the over and under recoveries of projected DSM/EE program costs through the DSM/EE Program Cost Rider pending reconciliation in subsequent rider periods and approving the deferral of any costs incurred implementing the DSM/EE programs, including the EECO and WEM Programs, prior to the time the Commission issues an order authorizing I&M to recognize these costs through the ratemaking process;
- (iv) authorizing and approving the requested DSM/EE Program Cost Rider revenue requirement and associated factors, as set forth in the testimony and exhibits of I&M to become

effective as stated above and explained in I&M's case-in-chief; and

(v) Granting to I&M such other and further relief in the premises as may be appropriate and proper.

Dated this 26th day of August 2016.

INDIANA MICHIGAN POWER COMPANY

By 
Marc E. Lewis
Vice-President of Regulatory and External
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VERIFICATION

I, Marc E. Lewis, Vice-President of Regulatory and External Affairs affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Dated: August 26, 2016.



Marc E. Lewis
Vice-President of Regulatory and External
Affairs

CERTIFICATE OF SERVICE

The undersigned certifies that two copies of the foregoing Verified Petition was served this 26th day of August 2016, via hand delivery, on the Office of Utility Consumer Counselor, PNC Center, 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204. A courtesy copy of the foregoing was also served on the following via electronic mail:

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