

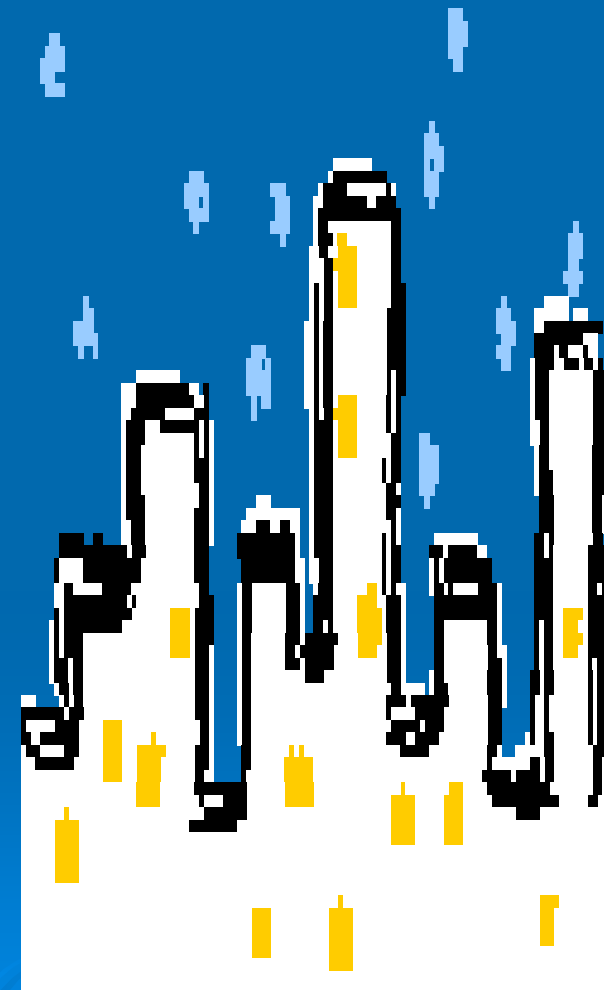
Indiana Utility Regulatory Commission

Demand Side Management Investigation and Economic Evaluation

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Brief Overview of Historic Treatment of Demand Side Management in Indiana

- Demand Side Management (“DSM”) issues have typically played a limited role in the planning and construction of electric generation capacity in the State of Indiana.
 - Review of DSM issues is conducted on a utility-by-utility basis, as part of a utility’s Integrated Resource Plan (“IRP”) submitted to the Commission every two years.
 - DSM is an issue that must be reviewed by the Commission as part of a Certificate of Public Convenience and Necessity (“CPCN”) proceeding in which a utility seeks approval to purchase, lease, or construct a generating facility in the State of Indiana.



Historic Treatment of DSM Programs

- Commission review of DSM issues is limited as it only reviews DSM issues that impact utilities under its jurisdiction.
- The State Utility Forecasting Group assists the Commission in its review of generation needs, and includes DSM in its overall examination of future generation needs for the State of Indiana. However, its review is primarily focused on supply side issues, not on the specifics of DSM.

Historic Treatment of DSM Programs

- Subject to limited exceptions, in which utilities have presented specific DSM programs to the Commission for review and approval, review of IRPs and consideration of DSM as part of CPCN proceedings are the two scenarios in which the Commission has historically considered DSM issues.

Backdrop for Commission's Current DSM Investigation

➤ ***Settlement led to a Commission Investigation***

- Cause No. 42418 was presented to the Commission as a settled case between the Southern Indiana Gas and Electric Company, d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren"), the Citizen's Action Coalition ("CAC") and, the Indiana Office of the Utility Consumer Counselor ("OUCC").
- The Commission's subsequent Investigation in Cause No. 42693 was a direct result of issues presented to the Commission in Cause No. 42418 (*Ind. Util. Reg. Comm'n*, October 8, 2003, *Order on Rehearing*, July 21, 2004).

Case Study: The Commission's Demand Side Management Investigation

- Commission's Current Investigation in Cause No. 42693, provides for the evaluation of DSM programs in Indiana and includes consideration of the possible establishment of an Independent DSM Third Party Administrator.
 - Opportunity to comprehensively inventory and review DSM programs that are currently utilized by utilities.
 - Opportunity to consider options available to make overall improvements to DSM Programs in Indiana.



DSM Programs and the Commission's Investigation

- Commission's investigation recognized the shortcomings inherent in Settlements that include DSM programs:
 - Settlements cannot provide a uniform approach to DSM throughout Indiana;
 - Settlements cannot provide for an overall evaluation of the cost and effectiveness of programs throughout the state.

Process of DSM Investigation

- As part of its Investigation the Commission hired a consultant with experience in the area of DSM Programs
 - Consultant, Susan Stratton with the Energy Center of Wisconsin, along with assigned staff, filed a Report (“Report” or “Stratton Report”) with the Commission which presented an overview of DSM programs currently being utilized by jurisdictional electric utilities in the Indiana
 - Report also contained recommendations for possible next steps to improve DSM in the State

Overview of Findings in DSM Report

➤ Existing Programs

- Electric Industry DSM
 - All major utilities reported having either tariffs or programs intended primarily to reduce peak demand.
 - Utilities typically use these kinds of efforts to defer investments in new generating facilities or avoid high cost purchases of power on the open market.
- According to the Report, the current combination of programs places Indiana below average in spending for energy efficiency and in savings attained both nationally and within the Midwest region
 - Indiana ranks 31st nationally and 6th among seven Midwestern states in spending for electric energy efficiency – both on a per capita basis and as a percentage of utility revenue.

Findings in DSM Report

- The level of effort and focus varies greatly across companies
 - Only two of the five major electric utilities offer substantial programs that help customers increase energy efficiency
 - Little such activity elsewhere in the state
 - The programs tend to follow traditional rebate based approaches
 - All major electric utilities report a process by which DSM programs are considered as part of their Integrated Resource Planning process.

Administrative Models for DSM Programs

➤ Administrative Models

- Administrative models for a statewide DSM programs generally fall into the following categories:
 - Single Utility
 - Individual utilities design and implement DSM programs, generally under the oversight of the regulatory agency
 - Multiple Utilities
 - Individual utilities administer a set of standardized programs approved and overseen by the regulatory agency
 - Third party organization
 - An independent, non-governmental organization administers statewide programs with broad policy direction and review from the regulatory agency
 - Government or quasi-governmental agency
 - A governmental agency administers statewide programs with governance and oversight from the regulatory agency

Administrative Models for DSM Programs

- Many states have adopted hybrid versions of the pure models
 - Roles for a public sector agency, utilities, and third party organizations
- Ultimately, the model choice will be narrowed based on policy objectives and other criteria
- States have had proven success under all versions of the models reviewed in the Report



Recommendations in DSM Report

- Next Steps
 - Policy development
 - Identifying the reasons for pursuing energy efficiency is the first step in creating a statewide DSM program
 - These objectives become guideposts for the creation of a governance structure
 - Governance
 - Determining the administrative and delivery model, stakeholder involvement, funding structure and evaluation requirements devolves from the policy objectives
 - Infrastructure
 - Developing or selecting the organizations, procedures, rules, contracts, relationships, and other components needed to carry out DSM efforts result from the choices made regarding policies and governance
 - Implementation
 - Determining the manner in which DSM efforts are implemented falls out of the previous decisions

Recommendations in DSM Report

- Report recommends that the Commission establish the policy objectives it wishes to achieve through DSM efforts in Indiana
 - A first step in this effort should be statewide discussions with stakeholders, representing at a minimum, the utility industry and a broad representation of energy consumers
 - The policy objectives and input from stakeholders can then be used to develop both a long-range plan for DSM efforts in Indiana and a transition plan that maps out the path from the current efforts to the vision outlined in the long-range plan

Findings and Recommendations in DSM Report

➤ Suitability of a Statewide Approach

- The current approach to DSM provides an inconsistent patchwork that excludes some customers (geographically and by sector) from the benefits of energy efficiency services.
- High energy consumption by the state offsets low energy prices to create energy costs that could be reduced through energy efficiency.
- Reduced energy costs provide benefits to the economy.
- Climate change concerns related to energy consumption provide environmental reasons to increase emphasis on energy-efficiency now and are likely to result in market-based reasons in the future (through carbon caps, taxes, or similar measures).

Overview of Utility Response to DSM Report

- The Commission has established DSM rules which were enacted following passage of the National Energy Policy Act of 1992.
- The Stratton Report does not identify in what respect the State's existing policy is insufficient or should be changed.
- The existing DSM rules provide for program cost recovery, lost revenue collection, and shareholder incentives necessary to achieve comparability of demand-side and supply-side options.
- Approximately one third of the State is served by utilities that are not subject to Commission jurisdiction, so the term "statewide program" is a misnomer.

Utility Response (Cont'd)

- The Sponsoring Utilities continue to support the single utility model, which they indicate has been successfully deployed.
- The concept that utilities should be allowed timely and complete cost recovery via customer rates is already well established in Indiana, and should continue under any new DSM program.
- To the extent the Stratton Report recommends a “one-size-fit-all” approach, this is seen as problematic.
- The low energy prices in Indiana decrease the value of both the Participant Test and the Utility Test.

Citizen's Action Coalition Response

- There is significant potential for increased conservation and efficiency in Indiana. The CAC agrees with the Report's statement that "fundamentally, it is more important for Indiana to initiate an effective statewide effort with explicit goals and objectives rather than to debate over how the effort is structured. States have had proven success under all versions of the models reviewed in this paper."
- The coalition believes an independent statewide administrative model will be more effective at doing this by avoiding duplicative administrative efforts and avoiding the conflicts utilities face when having to implement programs that reduce customer use.
- The Coalition believes that funding can be achieved through some similar form of rate mechanism or through a legislated tax or surcharge (e.g. a systems benefit charge).

Utility Consumer Counselor Response

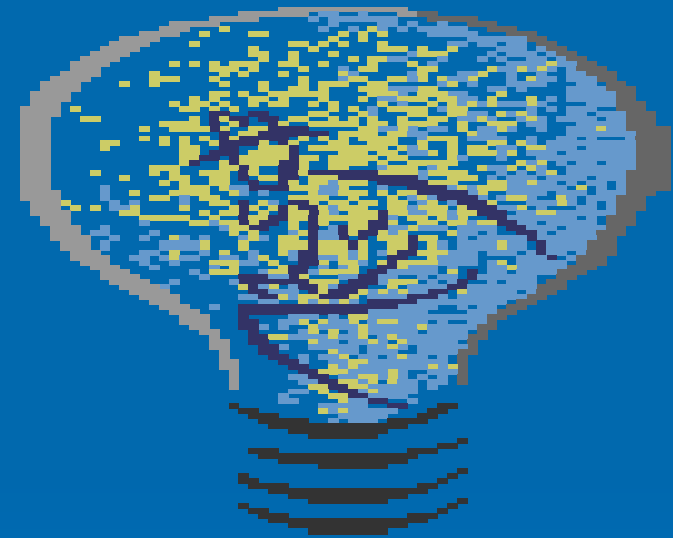
- The OUCC wholeheartedly concurs with the Stratton Report's general conclusions and recommendations.
- The decision about whether the programs should be utility-led, or administered by an independent third party should be made with stakeholder input after the Commission articulates statewide policy objectives to be achieved with the implementation of any DSM program.
- Approximately one-third of Indiana utility consumers are served by unregulated utilities. If these utilities do not participate in the statewide effort, their consumers may not realize the energy savings that could otherwise result from participation in the EE/DSM programs. Potential cost savings through economies of scale may entice these unregulated utilities to consider joining in the effort when they recognize the potential of volume purchases of EE/DSM materials or service.
- A statewide effort should move forward for the other two-thirds of Indiana utility consumers.

Responses

- General Recognition that the time is right to move to the next phase of energy efficiency/DSM programming.
- Utilities generally do not believe that a third party administrator is in the best interest of customers or the utilities.
- Citizen's Action Coalition indicates that a Statewide program administered by a third party could reach all Hoosiers, regardless of their utility or energy supplier.
- Indiana generally achieves less energy savings per customer, spends fewer dollars per customer on DSM, and spends less as a percentage of gross utility revenues than others that are doing significant DSM.

Next Steps

- Record in the proceeding is closed and the matter is currently being considered by the Commission.
- Order should be issued by the Commission in the next few months.



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