

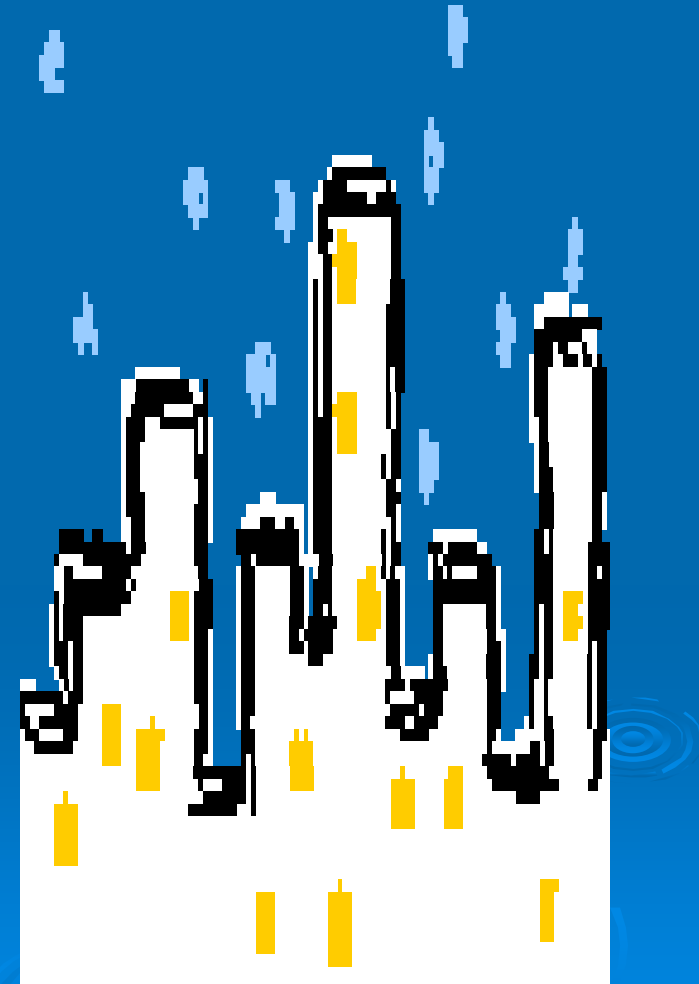
**Indiana Utility
Regulatory Commission**

**Demand Side Management
in Indiana**

Scott R. Storms
Chief Administrative Law Judge
April 17, 2006

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 further 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 that historically have served as the primary methods that allow the Commission to consider DSM issues.

Case Study I: The Commission's Demand Side Management 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).

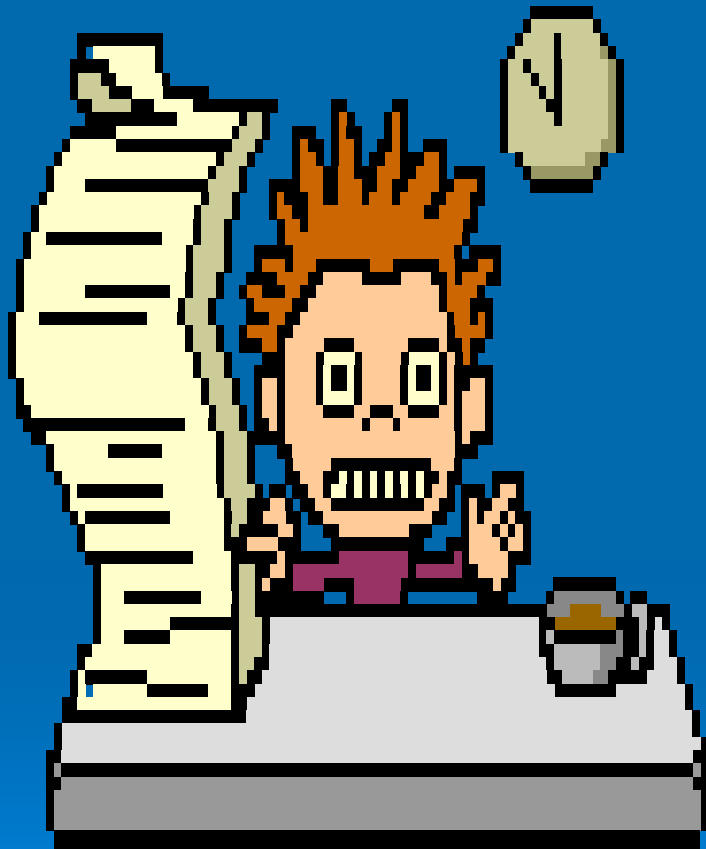
Case Study I

- The Settlement Agreement presented in Cause No. 42418 contained two primary provisions:
 - Agreement that Vectren would establish an Independent DSM Third Party Administrator (“DSM Administrator Model”) in its service territory for a three year period at a total cost of \$9 million.
 - Agreement that Vectren could immediately begin to recover past DSM program costs of \$28.7 million that had been deferred since 1994 and were to be reviewed as part of Vectren’s next rate case. These costs were to be recovered over a ten (10) year period.

Order in Cause No. 42418

- In its Order in Cause No. 42418, the Commission approved the DSM Administrator Model and found that the proposed expenditure of \$9 million over a three (3) year period constituted an appropriate timeframe and level of funding to provide the foundation necessary for the long term success of the program.
- However, the Commission also found that the totality of Vectren's deferred DSM costs (\$28.7 Million) should be considered in Vectren's next rate case, where the costs could be carefully reviewed in conjunction with other issues that may impact Vectren's overall rates.

Response to Order in Cause No. 42418



- Vectren filed a *Motion for Rehearing* and rejected the Settlement Agreement as approved by the Commission as it did not provide for recovery of Vectren's deferred DSM costs.
- The Commission granted the *Motion for Rehearing* and allowed the parties to present additional evidence.

Order on Rehearing in Cause No. 42418

- In its *Order on Rehearing*, the Commission affirmed the findings in its original Order and found, in part, that:
 - If an effective model for a DSM program is to be established in the State of Indiana...the foundation should be based on the strength of the program rather than the ability of one party to gain concessions on issues that may be unrelated, or better suited for review in another type of proceeding, in exchange for its implementation.
 - Attempting to build a state-wide DSM program based on [a case-by-case settlement] model could result in additional costs that go beyond those necessary to ensure the effective implementation of a DSM program.
 - [R]ather than leaving it up to individual parties to attempt to develop a patch-work of DSM Administrator Models throughout the State...we find that this issue is better suited for review by the Commission through the initiation of an Investigation to allow us to consider whether a DSM Administrator Model should be established on a state-wide basis.

Overview of Commission Investigation

- Commission's 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.

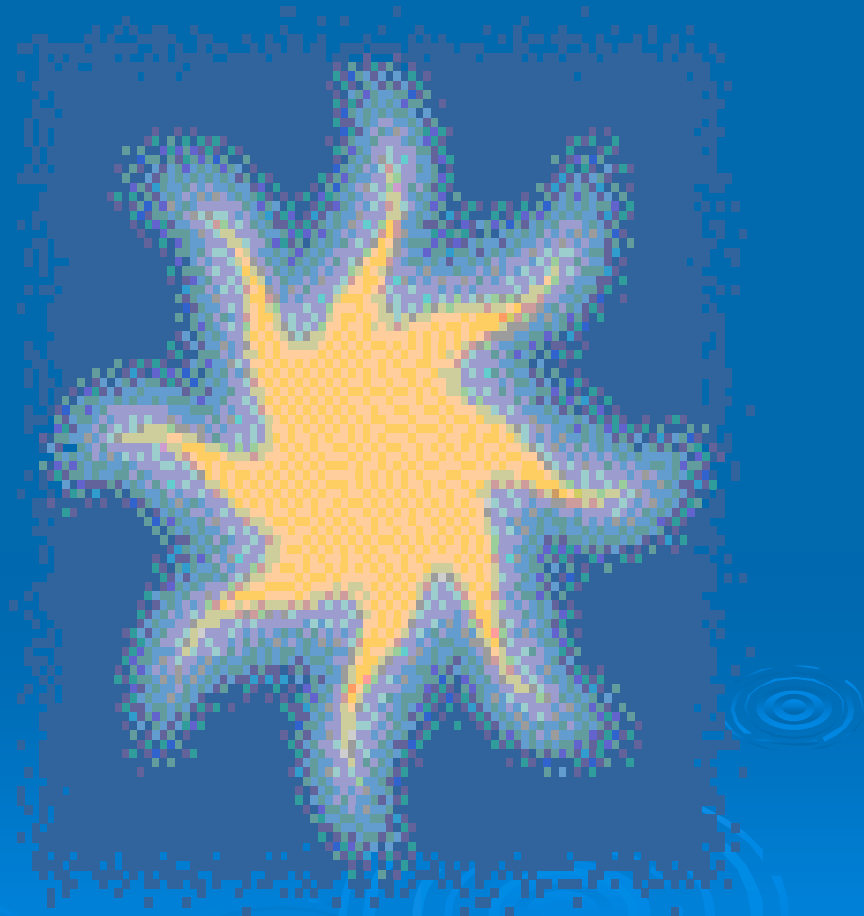


DSM Programs and the Commission's Investigation

- 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.

Case Study II: Examples of Residential Load Control Programs in Indiana

- Recently some utilities in Indiana have developed residential load control programs and presented them to the Commission for approval and for assurance of cost recovery.



Specific DSM Load Control Programs

- **Indianapolis Power & Light's "CoolCentsSM" Program**
 - Voluntary Program-When a customer signs up a small device is installed on the outside of their home near the central air conditioner that allows IPL to safely cycle the air conditioner on and off for brief periods during peak electricity usage hours. Under the program the air conditioner will typically not be cycled on weekends, holidays or after 6 p.m. on weekdays.
 - Participants receive a bill credit of \$5 per month between June and September, for a rebate of up to \$20 per summer.

Load Control DSM Programs (Cont'd)

➤ Duke Energy Indiana “Power Manager” Program

- Voluntary program that pays residential customers \$25 or \$35 for reducing air conditioning use during peak demand periods.
- Duke Energy installs a switch next to air-conditioner on the outside of a customer’s home that cycles the air conditioner off and on during summer hours when the demand for electricity is the highest.

Load Control DSM Programs (Cont'd)

➤ **Vectren's "Summer Cyclor" Direct Load Control Program**

- Voluntary Program- Participants must have an air conditioner or heat pump that is in good working order. Program cycles air-conditioners, heat pumps, and water heaters, to shed load during summer hours when the demand for electricity is the highest.
- Participants receive a bill credit of \$5 a month for air conditioners and heat pumps, and \$2 a month for water heaters, for the months of June-September.

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