

STATE OF MICHIGAN
MICHIGAN OFFICE OF ADMINISTRATIVE HEARINGS AND RULES
FOR THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own)	
motion, regarding the regulatory reviews,)	
revisions, determinations, and/or approvals)	Case No. U-20877
necessary for Indiana Michigan Power)	
Company to fully comply with Public Act 295)	
<u>of 2008, as amended by Public Act 342 of 2016)</u>	

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above matter on April 1, 2022.

Exceptions, if any, must be filed with the Michigan Public Service Commission, 7109 West Saginaw, Lansing, Michigan 48917, and served on all other parties of record on or before April 22, 2022, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before May 6, 2022.

At the expiration of the period for filing exceptions, an Order of the Commission will be issued in conformity with the attached Proposal for Decision and will become effective unless exceptions are filed seasonably or unless the Proposal for Decision is reviewed by action of the Commission. To be seasonably filed, exceptions must reach the Commission on or before the date they are due.

MICHIGAN OFFICE OF ADMINISTRATIVE
HEARINGS AND RULES
For the Michigan Public Service Commission

**Martin D.
Snider**

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Date: 2022.04.01 13:45:16 -04'00'

April 1, 2022
Lansing, Michigan

Martin D. Snider
Administrative Law Judge

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PROPOSAL FOR DECISION

I.

PROCEDURAL HISTORY

On July 30, 2021, Indiana Michigan Power Company (I&M) filed its application seeking an order from the Michigan Public Service Commission, (Commission) pursuant to the "Clean, Renewable, and Efficient Energy Act" 2008 PA 295, MCL 460.1001 et seq. (Act 29) as amended by 2016 Public Act 342 (Act 34), approving its 2022 and 2023 Energy Waste Reduction (EWR) Plan and related relief.

I&M filed the Direct Testimony and Exhibits of the following three witnesses in support of its application: Jon C. Walter, Consumer & EE Programs Manager for I&M, see 2 TR 23-66; Bryan S. Owens, Regulatory Consultant Staff for I&M, see 2 TR 67-73; and John W. Morgan, Regulatory Consultant in the Regulated Pricing and Analysis Department of American Electric Power Service Corporation (AEPSC), See 2 TR 74-79.

On August 5, 2021, the Commission's Executive Secretary issued a Notice of Hearing which set a prehearing for September 8, 2021.

On August 19, 2021, Attorney General Dana Nessel (AG) filed a Notice of Intervention.

On August 26, 2021, the Citizens Utility Board of Michigan (CUB) filed a Petition for Intervention.

On September 8, 2021, a prehearing conference was convened before Administrative Law Judge Martin D. Snider (ALJ). During the prehearing, CUB's unopposed Petition for Intervention was granted, and the parties mutually agreed to a schedule. On September 8, 2021, the ALJ issued a Scheduling Memo which incorporated the parties' agreed upon schedule.

Pursuant to the Schedule in this matter on October 27, 2021, Staff filed the testimony Brad B. Banks (See 2 TR 139-146); Katie J. Smith (See 2 TR 147-155); Fawzon B. Tiwana (See 2 TR 156-162); and David S. Walker (See 2 TR 163-168). Also on October 27, 2021, the AG and CUB jointly filed the Direct Testimony and Exhibits of Douglas B. Jester. See 2 TR 170-188.

On November 19, 2021, I&M filed the Rebuttal Testimony and Exhibits of Jeffrey R. Huber, Managing Director of GDS Associates, Inc. (See 2 TR 82-93); Nicholas Elkins, Director of Customer Services and Business Development for I&M (See 2 TR 94-113); and Jon C. Walter, Consumer & EE Programs Manager for I&M (See 2 TR 114-136).

According to the agreed upon schedule, cross examination was set for December 16, 2021. Prior to the date set for cross examination, counsel for I&M, Staff, AG, and CUB waived cross examination of all witnesses, stipulated to the binding in of testimony in the record and stipulated to the admission of all exhibits. During the

December 16, 2021, hearing the following testimony was bound into the record and the following exhibits were admitted:

I & M

<u>John C. Walter</u>	Direct and Rebuttal Testimony
Exhibits:	IM-4, IM-5, IM-6, IM-8, IM-9, IM-10, IM-11, IM-12, IM-13, IM-14, IM-15, IM-16, IM-17, IM-18, IM-19 & IM-20

<u>Bryan S. Owens</u>	Direct Testimony
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Exhibits:	None
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<u>John W. Morgan</u>	Direct Testimony
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Exhibits:	IM-21
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<u>Jeffery R. Huber</u>	Rebuttal Testimony
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Exhibits:	None
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<u>Nicolas Elkins</u>	Rebuttal Testimony
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Exhibits:	IM-22, IM-23
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Staff

<u>Fawzon B Tiwana</u>	Direct Testimony
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Exhibits:	None
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<u>Brad B. Banks</u>	Direct Testimony
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Exhibits:	None
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<u>Katie J. Smith</u>	Direct Testimony
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Exhibits:	S-1
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AG & CUB

<u>Douglas B Jester</u>	Direct Testimony
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Exhibits:	AG-1, AG-3, and AG-4
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On January 14, 2022, I&M, Staff and AG/CUB filed Initial Briefs. On February 9, 2022, I&M, Staff, and AG/CUB filed a Reply Brief.

The record consists of 190 Transcript pages and 27 exhibits.

II.

BACKGROUND

I&M is a State of Indiana corporation with its principal offices located at Indiana Michigan Power Center located in Fort Wayne, Indiana. I&M has corporate power and authority to engage in, among other things, generating, transmitting, distributing, and selling electric energy within the State of Michigan and the State of Indiana. I&M is an integrated and interconnected electrical system and operates as a single utility.

I&M's service area is in southwestern Michigan and northern and eastern Indiana. I&M's electric service to approximately 130,000 State of Michigan retail electric customers is subject to the jurisdiction of the Commission pursuant to 1909 PA 106, as amended, MCL 460.551 et seq; 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; and 1939 PA 3, as amended, MCL 460.1 et seq.

On November 19, 2020, the Commission issued an Order for I&M to file an EWR plan on or before August 1, 2021. On July 30, 2021, Indiana Michigan Power Company (I&M) filed its application seeking an order from the Commission, pursuant to the "Clean, Renewable, and Efficient Energy Act" 2008 PA 295, MCL 460.1001 et seq. (Act 29) as amended by 2016 Public Act 342 (Act 34), approving its 2022 and 2023 Energy Waste Reduction (EWR) Plan and related relief. Act 295, as amended by Act 342, requires all providers of electric and gas service in the State of Michigan to establish EWR programs by filing EWR plans with the Commission. MCL 460.1071. EWR plans filed by rate-regulated providers are subject to Commission approval. MCL 460.1073, MCL 460.1071 and MCL 460.1073 provide the requirements of an EWR Plan.

MCL 460.1071(4) provides that an EWR Plan shall do all the following:

(a) Propose a set of energy waste reduction programs that include offerings for each customer class, including low-income residential. The commission shall allow a provider flexibility to tailor the relative amount of effort devoted to each customer class based on the specific characteristics of the provider's service territory.

(b) Specify necessary funding levels.

(c) Describe how energy waste reduction program costs will be recovered as provided in section 89(2).

(d) Ensure, to the extent feasible, that charges collected from a particular customer rate class are spent on energy waste reduction programs that benefit that rate class.

(e) Demonstrate that the proposed energy waste reduction programs and funding are sufficient to ensure the achievement of applicable energy waste reduction standards.

(f) Specify whether the number of megawatt hours of electricity or decatherms or MCFs of natural gas used in the calculation of incremental energy savings under section 77 will be weather-normalized or based on the average number of megawatt hours of electricity or decatherms or MCFs of natural gas sold by the provider annually during the previous 3 years to retail customers in this state. Once the plan is approved by the commission, this option shall not be changed.

(g) Demonstrate that the provider's energy waste reduction programs, excluding program offerings to low-income residential customers, will collectively be cost-effective.

(h) Provide for the practical and effective administration of the proposed energy waste reduction programs. The commission shall allow providers flexibility in designing their energy waste reduction programs and administrative approach, including the flexibility to determine the relative amount of effort to be devoted to each customer class based on the specific characteristics of the provider's service territory. A provider's energy waste reduction programs or any part thereof, may be administered, at the provider's option, by the provider, alone or jointly with other providers, by a state agency, or by an appropriate experienced nonprofit organization selected after a competitive bid process.

(i) Include a process for obtaining an independent expert evaluation of the actual energy waste reduction programs to verify the incremental energy savings from each energy waste reduction program for purposes of section 77. All such evaluations are subject to public review and commission oversight.

MCL 460.1071(5) provides that subject to subsection (6), an EWR plan may do 1 or more of the following:

(a) Utilize educational programs designed to alter consumer behavior or any other measures that can reasonably be used to meet the goals set forth in subsection (3).

(b) Propose to the commission measures that are designed to meet the goals set forth in subsection (3) and that provide additional customer benefits.

MCL 460.1071 (6) provides that expenditures under subsection (5) shall not exceed 3% of the costs of implementing the energy waste reduction plan.

MCL 460.1073 provides additional EWR Plan requirements and Commission required and permitted duties:

(1) A provider's energy waste reduction plan shall be filed with, reviewed by, and approved or rejected by the commission. For a provider whose rates are regulated by the commission, the plan shall be enforced by the commission. For a provider whose rates are not regulated by the commission, the plan shall be enforced as provided in section 99. Notwithstanding any other provision of this subpart, the commission shall allow municipally owned electric utilities to design and administer energy waste reduction plans in a manner consistent with the administrative changes approved in the commission's April 17, 2012, order in case nos. U-16688 to U-16728 and U-17008.

(2) The commission shall not approve a proposed energy waste reduction plan unless the commission determines that the energy waste reduction plan meets the utility system resource cost test and, subject to section 78, is reasonable and prudent. In determining whether the energy waste reduction plan is reasonable and prudent, the commission shall review each element and consider whether it would reduce the future cost of service for the provider's customers. In addition, the commission shall consider at least all of the following:

(a) The specific changes in customers' consumption patterns that the proposed energy waste reduction plan is attempting to influence.

(b) The cost and benefit analysis and other justification for specific programs and measures included in a proposed energy waste reduction plan.

(c) Whether the proposed energy waste reduction plan is consistent with any long-range resource plan filed by the provider with the commission.

(d) Whether the proposed energy waste reduction plan will result in any unreasonable prejudice or disadvantage to any class of customers.

(e) The extent to which the energy waste reduction plan provides programs that are available, affordable, and useful to all customers.

(3) Every 2 years after initial approval of an energy waste reduction plan under subsection (2), the commission shall review the plan. For a provider whose rates are regulated by the commission, the commission shall

conduct a contested case hearing on the plan pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328. After the hearing, the commission shall approve, with any changes consented to by the provider, or reject the plan and any proposed amendments to the plan.

(4) If a provider proposes to amend its plan at a time other than during the biennial review process under subsection (3), the provider shall file the proposed amendment with the commission. After the hearing and within 90 days after the amendment is filed, the commission shall approve, with any changes consented to by the provider, or reject the plan and the proposed amendment or amendments to the plan.

(5) If the commission rejects a proposed plan or amendment under this section, the commission shall explain in writing the reasons for its determination.

(6) After December 31, 2021, this section does not apply to an electric provider whose rates are not regulated by the commission.

I&M's EWR Plan describes how I&M plans to comply with Act 295 and Act 342, through its portfolio of EWR programs and pilot programs for each customer class, excluding programs offered to low-income residential customers from the cost-effectiveness tests. I&M's EWR Plan filing details how the following programs will be administered, specifies necessary funding, explains how EWR Plan costs will be recovered, describes the process for obtaining an independent expert evaluation of the programs, and how funding is sufficient to achieve Act 295 and Act 342 goals:

Residential Sector Programs

- Home Energy Products Program. See IM-15
- Income Qualified Weatherproofing Program. See IM-16
- Home New Construction Program. See IM-17
- Home Energy Engagement Program. See IM-18
- Residential HVAC Midstream Program C&I Sector Programs. See IM-19

Commercial and Industrial Sector Programs

- Work Prescriptive Rebates Program. See IM-9

- Work Custom Rebates Program. See IM-10
- Work Direct Install Program. See IM-11
- Work Midstream Program See. IM-12
- Work Industrial Systems Program. See IM-13
- Work Strategic Energy Management Program. See IM-14

2 TR 42-42

I&M proposes and requests funding levels for each EWR Plan program and pilot program to be recovered as set forth in Section 89 of Act 295. I&M requests Commission approval of its process for obtaining an independent expert evaluation of each EWR Plan program and EWR Plan Pilot program and the authority to reallocate up to thirty percent (30%) of the overall budget to accommodate program changes that are cost effective or based on participant demand as specified by Act 342.

I&M requests that the Commission do the following:

- Determine that I&M's EWR Plan portfolio meets the utility system resource cost test and is reasonable and prudent as set forth in Section 73 of Act 342.
- Determine that I&M's EWR portfolio of programs and funding are sufficient to achieve EWR standards as set forth in Section 77 of Act 342.
- Grant I&M the authority to evaluate, measure and report savings related to the Home Energy Products-Energy Star Appliance Program using market transformation evaluated energy savings as supported by Energy Star as described in the testimony of I&M witness Walter.
- Approve I&M's financial incentive mechanism

III.

POSITION OF THE PARTIES

I&M

Witness Jon Walter testified that I&M proposes energy savings targets which are higher than compared to its currently approved EWR Plan and I&M's targeted savings levels of 1.42% in 2022 and 1.48% in 2023 exceed the 1% standard. See 2 TR 116; see also Exhibit IM-5, Exhibit IM-20. I&M Exhibit IM -20 provides I&M's 2022 and 2023 1% weather normalized energy savings target, with Choice load included. Witness Walter testified that I&M's projected 1% target is 26,658,659 kWh of incremental energy savings based on forecasted 2021 retail energy sales. I&M's projected 2023 standard is 27,082,913 kWh of energy savings based on a forecast of 2022 retail energy sales. Exhibit IM-1 provides I&M's Plan's projected energy savings. Further detail is provided in Exhibit IM-2. Witness Walter testified that I&M's EWR Plan is designed to achieve 2022 energy savings of 37,771,987 kWh, and 40,060,741 kWh in energy savings for 2023. See 2 TR 38. These projections include 2022 and 2023 Pilot savings and savings for all Pilots ordered by the Commission. Id.

Exhibit IM-5 shows that I&M's EWR Plan would achieve in 2022 1.42% of the former standard energy savings and in 2023 1.48% of the former standard energy savings. I&M proposes to spend \$6,037,847 in 2022 and \$6,151,120 in the 2023 EWR Plan year.

Exhibit IM-8 shows that I&M proposes to spend 18% of residential portfolio funds on Income Qualified programs in 2022 and 17% in 2023. Witness Huber testified that

these amounts align with the proportional amount of revenue estimated to be contributed by low-income customers (16%). See 2 TR 90.

MCL 460.1071(4)(i), provides that an EWR Plan must include a process for obtaining independent expert evaluation of actual EWR programs to verify EWR energy savings. Witness Walter testified that I&M's proposed EWR Plan includes funding for this required evaluation. I&M's EWR savings will be verified using a third-party vendor that will provide actual, concurrent, and after-the-fact EWR programs evaluation. 2 TR 36. The vendor will develop program-specific evaluation plans for the 2022 and 2023 program years. 2 TR 37. I&M requests Commission approval recover the cost of I&M's EWR within the billing requirements provided in Section 89 of Act 295 and Commission approval of I&M's proposed process for obtaining an independent expert evaluation of each EWR Plan program and pilot program.

I&M requests Commission approval to reallocate up to thirty percent (30%) of the overall EWR budget to accommodate cost-effective or participant demand program-based changes provided by Act 342. I&M requests a Commission determination that I&M's EWR Plan portfolio meets the Utility System Resource Cost Test (UCT) and is reasonable and prudent as set forth in MCL 460.1073. Additionally, I&M requests a Commission determination that it's proposed EWR portfolio of programs and funding are sufficient to ensure achievement of applicable EWR standards provided in MCL 460.1077.

I&M's proposed EWR Plan implements a portfolio of EWR programs with offerings to each customer class, including Income Qualified customers. Witness Walter testified that the portfolio is designed to achieve and surpass the I&M's former energy savings

targets based on the Realistic Achievable Potential (RAP) determined in the 2021 MPS. I&M EWR Plan consists of two overarching EWR program portfolios: Residential (including Income Qualified) and Commercial & Industrial (C&I). The Residential and C&I portfolios are further divided into sub-programs.

Residential

Witness Walter testified that I&M will continue to self-implement its residential EWR programs in 2022-2023 but updated which programs will be outsourced. See 2 TR 34. I&M will implement the Income Qualified Weatherproofing Program, the Online Energy Checkup component of the Home Energy Engagement Program, and the Home New Construction Program, residential EWR programs. New EWR programs, that I&M is not as well-situated to implement in-house, will be implemented through a vendor. Id. Witness Walter testified I&M's new residential EWR programming include the Residential HVAC Midstream Program and an Energy Star Appliances component in the Home Energy Products Program. 2 TR 45.

Witness Walter testified I&M's proposed EWR programs contain categories, measures, and approaches like those approved in U-20374 I&M's EWR Plan for 2020-2021. I&M proposes updates to the following EWR programs include:

- Build-out of measures end-use and building type identification for specific energy and demand savings definition.
- Measures planned for customer participation based on recommendations, including new technologies, from the 2021 MPS.
- Delivery channels to engage customers, such as through the online marketplace.

- Cost of customer incentive levels needed to drive participation and reflect specific market conditions.

2 TR 45-46.

Home Energy Products Program

I&M's 2022-2023 EWR plan provides a residential Home Energy Products Program. See Exhibit IM-15. The Home Energy Products Program for appliances and lighting is the same approved by the Commission in U-20374 but adds a new program component for Residential appliances, such as washing machines and refrigerators. See 2 TR 54: Brief pp 7-8. The Residential Home Energy Products Program workpaper lists the Energy Star Appliances component measures under the Appliances end-use category. Id. Witness Walter testified that these new measures include, among other things, Energy Star rated refrigerators, televisions, washing machines, dryers, and freezers. 2 TR 54-55. I&M's Home Energy Product Program is consistent with the 2021 MPS recommendation to include an Energy Star component in I&M's Home Energy Products Program. 2 TR 55. Exhibit IM-15 provides Energy Star documents which discuss the importance of market transformation energy savings and demonstrate that Evaluation, Measurement and Verification (EM&V) consultants are needed to provide appropriate guidance for program evaluation. I&M requests Commission approval of I&M's plan to participate in the Energy Star program so that I&M may claim evaluated Energy Star Program energy savings. Id.

Income Qualified Weatherproofing Program

Exhibit IM-16 provides I&M's Income Qualified Weatherproofing Program (IQ Program) I&M's IQ Program is like the program approved in I&M's 2020 and 2021 EWR

Plan. Witness Walter testified that I&M's IQ Program measures and expanded budgets reflect long life measures rebates and outreach efforts. See 2 TR 58- 61; see also Exhibit IM-16.

Witness Huber testified that I&M proposes to spend 18% of residential portfolio funds on Income Qualified programs in 2022 and 17% in 2023. These amounts closely align with the proportional amount of revenue estimated to be contributed by low-income customers (16%). See 2 TR 90. Witness Walter testified that the IQ Program includes components for audits and other measures for single family and multi-family units, these audits and measures may be performed either virtually or on-site. 2 TR 61. Additionally, the IQ Program includes rebates for energy intensive measure replacements or displacements for existing or new construction. Id.

I&M's proposed IQ Program:

- Would pay 100% of the audit and home weatherization improvements and rebates for certain non-shell measure upgrades or displacements according to the program maximum per unit rebate level; and
- Provides a maximum rebate for single family units remains at up to \$3,000 per dwelling and a multi-family unit maximum rebate of \$2,000 per unit.

2 TR 59.

I&M's proposed IQ Program offers rebates, up to 100% of costs, for:

- Air conditioner and heat pump upgrades to more efficient units.
- Packaged terminal air condition (PTAC) or packaged terminal heat pump (PTHP) unit upgrades to more efficient units,
- Electronically commutated motor (ECM) fan motor upgrades, and

- Water heater upgrades to heat pump water heaters or more efficient electric resistance water heaters. Id.

Witness Walter testified that these new measures have long lives and could dramatically improve IQ customer electric usage. Id.

Witness Walter testified that I&M IQ customer outreach and engagement will be accomplished through the following:

- Virtual or on-site home audits performed by an I&M Home Auditor.
- IQ customer education workshops, partnering with local agencies.
- Local and state governmental agency collaboration.
- Multi-family unit property owners and residents for IQ and Home Energy Products Program measure upgrades and building shell efficiency improvements; and
- Local customer workshops to encourage customers to take advantage of I&M's AMI engagement platform and smart phone app.

2 TR 35.

Witness Walter testified that I&M is jointly developing an IQ Health and Safety Pilot Program with the Commission's EWR Staff which I&M expects to implement in 2022 and 2023. Id. The pilot is designed to improve IQ customer engagement by addressing health and safety barriers within IQ homes. This will allow EWR measures to be safely deployed so that energy savings can be realized. Id.

Home New Construction Program

Exhibit IM-17 provides I&M's proposed Home New Construction Program. Witness Walter testified that this program is designed to promote more efficient new home construction as part of an overall new efficient home solution. 2 TR 61. I&M's EWR Plan

also provides new home builders assistance through I&M's Home Energy Products Program and new Residential HVAC Midstream Program. Id. The Home New Construction Program is comprised of rebates for single family and multi-family units. Forecasted participation levels for the 2021 MPS are at low enough levels (i.e., 20 total participants in 2022 and 37 in 2023) that program benefits do not outweigh costs. See 2 TR 62. Because this program has an all-electric baseline, participation levels are low because new construction markets in I&M service territory do not have a history with all-electric heating technologies. Witness Walter testified that the cost-effectiveness scores for the Home New Construction Program are forecasted at .94 in 2022 and .96 in 2023, Id. I&M believes that these Home New Construction Program cost-effectiveness score will improve with higher participation. Id. I&M will continue to encourage new efficient home and multi-family dwelling construction to higher efficiency standards. 2 TR 63.

Home Energy Engagement Program

Exhibit IM-18 provides I&M's Home Energy Engagement (HEE) which consists of three components: Home Energy Reports, Home Online Energy Checkup, and AMI Data Portal. 2 TR 56- 57.

I&M's HEE will continue to transition to AMI data portal which will provide I&M's residential AMI electronic data customers a portal to obtain information, tips, and advice regarding their electric usage. Id. Witness Walter testified that I&M's Home Energy Reports will transition to similar AMI based products, such as weekly AMI reports made available through the AMI data portal. Id. The Home Online Energy Checkup offering will be accessible through, the AMI data portal Id. In 2022 and 2023 I&M's Home Energy

Reports and AMI Data Portal components will merge into one product as I&M's AMI equipped customers grow. Id.

Witness Walter testified I&M will utilize a third-party evaluator to assess energy savings based on AMI Data Portal enrollee engagement and non-engagement. Id. Exhibit IM-18 provides detailed information regarding the HEE components. I&M will continue the electronic delivery of customer Home Energy Reports. See 2 TR 58 Exhibit IM-4 details the cost effectiveness of I&M's HEE Program components.

Residential HVAC Midstream Program

Witness Walter testified that the 2021 MPS recommended I&M implement a Residential HVAC Midstream Program to focus on residential HVAC-related energy saving measures. 2 TR 51. Exhibit IM-19 provides a list of measures recommended by the 2021 MPS for a midstream delivery model, along with EWR program design information. I&M's Residential HVAC Midstream Program focuses on efficient local distributor level supply chain equipment stocking practices rather than end-use customers or their designated trade ally (TA). 2 TR 52. Witness Walter testified that the benefits of a midstream type of EWR program may include:

- Broader program rebate exposure to markets.
- Increased measure rebate volumes.
- Improved availability of efficient equipment; and
- Lower program costs to I&M.

Id.

Witness Walter testified that I&M supports the 2021 MPS recommendation that there is sufficient industry knowledge and experience to implement this program. Id.

I&M's current 2020-2021 EWR Plan for Home New Construction Program provides rebates for HVAC units to encourage new home construction with higher efficiency HVAC systems. Because I&M's Residential HVAC Midstream Program will focus rebates on distributors for all HVAC units, I&M removed HVAC rebates in the Home New Construction Program to avoid the potential for overlap of rebates and savings. Id. Witness Walter testified I&M's Home New Construction Program will provide rebates only for new home shell measure installations thus requiring a change in energy savings and program budgets.

2 TR 54

Commercial & Industrial (C&I) Programs

Witness Walter testified that I&M's outreach efforts for C&I programs have changed from a reliance on internal outreach resources to the outsourcing its three C&I Work Prescriptive Rebates, Work Custom Rebates, and Work Direct Install to CLEAResult. See 2 TR 35. I&M proposes outsourcing its new Work Midstream Program, Work Industrial Systems Program, and Work Strategic Energy Management Program. Id. I&M's main C&I programs portfolio will account for approximately 88% of I&M's C&A savings in 2022 and 89% in 2023 and have like categories, measures, and approaches approved by the Commission in U-20374, I&M's 2020-2021 EWR Plan. 2 TR 46. I&M's residential EWR program enhancements also apply to I&M's C&I programs. I&M proposes the continuation of its three currently offered C&I programs in 2022-2023.

Work Prescriptive Rebates Program

I&M's Work Prescriptive Rebates Program is provided in Exhibit IM-9. The objective of the Work Prescriptive Program is to encourage and promote energy efficient

measurement installation and use by I&M's program eligible C&I customers. See Exhibit IM-9. I&M's Work Prescriptive Rebates Program provides a process for customers to obtain rebates for authorized measures using pre-determined rebates and energy savings values. *Id.* C&I customers may:

- Apply for rebates online, regular mail, email, or fax.
- Apply after project completion, subject to program requirements.
- Designate a TA that can apply for the rebate for the customer pending approval of all application requirements.

Id.

Work Prescriptive Program includes:

- Thresholds for advance approval of large projects (i.e., projects with a rebate cost of greater than \$10,000 so that I&M can confirm budget availability.
- Evaluation Measures rebated through this program using the Michigan Energy Measures Database (MEMD); and
- Periodic reviews to update measure characteristics.

Id.

I&M will implement the Work Prescriptive Program through a partnership with a vendor who will provide program interface, market, and support for TAs and C&I customers. *Id.*

Work Custom Rebates Program

Exhibit IM-10 provides I&M's Work Custom Rebates Program. This program targets non-prescriptive (i.e., variable, less predictable) efficiency measure projects in I&M's service territory. See Exhibit IM-10. This program provides rebates of the cost to

upgrade to more efficient electric energy consuming measures The Work Customer Program is designed to develop energy savings in cooperation with the participating C&I customer. *Id.* Each project is specially designed for the participating C&I customer. *Id.* I&M will implement the Work Customer Program by partnering with an implementation vendor that can provide turnkey services for a broad range of the end-use technologies offered for rebates through this program. *Id.*

Work Direct Install

I&M's Work Direct Install Program provided in Exhibit IM-11 offers small and medium size business customers with energy audits and energy savings options available to their respective business. The Work Direct Install Program provides walkthrough audits by program registered TAs and a direct install component to increase energy savings by facilitating proven energy efficiency measures. *Id.* The Work Direct Install Program provides lighting improvement rebates *Id.* Rebates for other end-use improvements such as refrigeration measures, are available through I&M's Work Prescriptive Program and Work Custom Program. Direct install of prescriptive measures is available to in small businesses with less than 150 kW in demand. *Id.*

I&M's implementation partner will qualify installation contractors and coordinate project data collection for each installed measure. I&M's implementation partner will pre-screen qualified TAs for the program through reference checks, commitment to identifying holistic opportunities, and staff geographic availability to provide services within the I&M service territory. *Id.* TAs will be trained and certified in the use of a walkthrough audit assessment tool to identify and calculate savings and incentive values. *Id.*

In Its 2022-2023 EWR Plan, I&M is proposing new C&I programs Work Midstream Program; Work Industrial Systems Program; and Work Strategic Energy Management Program. See 2 TR 46-51.

Work Midstream Program

Witness Walter testified regarding I&M's Work Midstream Program. See 2 TR 46-48. Exhibit IM-12 provides detail regarding I&M's Work Midstream Program for C&I customers. Witness Walter testified that this program aligns with the 2021 MPS recommendation to include HVAC and cooking equipment in the midstream format. See 2 TR 48. The objectives of the Work Midstream Program include:

- Promotion of increased availability, sales, and installation of efficient HVAC and cooking equipment,
- Improve and increase the local stocking of higher efficiency equipment,
- Expansion of market reach for rebated efficient measures and
- Improve overall participation levels in the C&I program.

See Exhibit IM-12.

The Work Midstream Program is designed to improve the stocking levels for energy efficient HVAC and cooking equipment through rebates to distributors through that are not available in any other of I&M's C&I programs. Exhibit IM-12 provides a full list of HVAC and cooking measures contained in the program. I&M will implement the Work Midstream Program through an implementation vendor which will provide:

- Program requirements.
- Distributor enrollment.
- Engagement, and communication.

- Outreach and marketing.
- Distributor rebate payment.
- Distributor and program performance tracking, and
- Distributor interface and data management.

Id.

Work Midstream Program data will be available to I&M and I&M's third-party evaluation consultant for the purposes of program EM&V. I&M's program implementation partner will develop and implement the following:

- Management plan that will account for supply chain definition for the measure categories contained within this program:
- Distributor account management plan including distributor program agreement development; and
- Use, distributor recruitment and enrollment, distributor training, data collection for stocking levels, and reporting and advertising.

Id.

Work Industrial Systems Program

Witness Walter testified that the 2021 MPS recommended a new C&I Work Industrial Systems Program to target industrial end-users. See 2 TR 49-51. Exhibit IM-13 provides detail regarding this program. The 2021 MPS recommended, in part, that the Work Industrial Systems Program be a separate program because of the uniqueness of different industrial processes. *Id.* Despite the Work Industrial Systems Program is focus on industrial system process improvement commercial applications are eligible if

commercial operations use this same type of end-use systems. See Exhibit IM-13. The Work Industrial Systems Program:

- Offers rebates for operations and maintenance activities that improve industrial use energy processes.
- Encourages and targets an array of non-prescriptive (i.e., variable, less predictable) efficiency operations and maintenance activities from C&I customers located within I&M's Michigan service territory.
- Is designed to develop productive energy savings opportunities in cooperation with C&I customers for process and overall building O&M activities that reduce energy consumption within an industrial facility. Id.
- Is focused on encouraging those O&M activities that improve industrial processes energy consumption and industrial building applications that consume electric energy, e.g., HVAC, water treatment, etc.

Energy savings per project are based on the end-use application and the amount of rebated energy savings reasonably attributable to the respective O&M activities. Id.

Work Strategic Energy Management Program

The 2021 MPS recommended that I&M implement a Strategic Energy Management (SEM) Program. Witness Walter testified that this program is detailed in Exhibit IM-14 and is included in I&M's 2022-2023 EWR Plan. See 2 TR 50. The SEM Program framework encourages business practice changes through energy management principles and long-term energy savings practices. See Exhibit IM-14. Witness Walter testified that SEM's holistic energy management approach creates energy savings through continuous improvement in C&I businesses adoption and use three elements:

- Demonstrating commitment through policies, goals, and allocation of resources.
- Demonstrating energy management planning and implementation; and
- Implementing a system for measuring and reporting performance.

Id.

The SEM Program provides rebates, training, and energy savings identification and verification. Training rebates provide for Building Operator Certification training on a per participant basis will offset the cost of training building operators. *Id.* Behavioral energy savings will be evaluated according to building type for those participating in the training. *Id.* The SEM Program will provide rebates for energy savings, depending upon the building type. SEM will be jointly implemented between I&M and I&M's selected implementation partner. Witness Walter testified that the SEM program is expected to provide about 2.6% of the total C&I energy savings and is projected to be cost-effective at 1.49 in 2022 and 1.68 in 2023. See 2 TR 51.

Exhibit IM-4 shows that I&M's C&I sector programs are cost effective under the UCT with a projected score of 3.05 in 2022 and 3.06 in 2023. See 2 TR 51: Exhibit IM-4.

Rebuttal Walter

Witness Walter provided rebuttal testimony to respond to direct testimony from Staff witnesses Brad B. Banks, Katie J. Smith, David S. Walker, and Fawzon B. Tiwana. Witness Walter's rebuttal focuses on Staff's use of I&M's 2020 EWR period in I&M's 2022-2023 EWR Plan, the lack of evidentiary support for Staff's recommendations, and Staff's commingling of separate and distinct EWR plan and reconciliation periods. See 2 TR 115-127. Witness Walter also provides rebuttal testimony to rebut the direct testimony AG/CUB witness Jester. This rebuttal deals with witness Jester's recommendations

regarding low-income EWR programming and recommended changes to I&M's proposed Financial Incentive Mechanism (FIM). See 2 TR 127- 130: 2 TR 130-136.

Staff's Recommended 2% Savings Target

Witness Walter testified that I&M does not agree with Staff witnesses Banks and Tiwana's recommendation that I&M set a 2% EWR energy savings goal. Witness Walter testified that I&M believes that its proposed EWR savings targets of 1.42% and 1.48% are reasonable and are supported by the evidence. Witness Walter testified that I&M's Exhibit 17 and witness Huber's rebuttal testimony, show that the 1.42% and 1.48% savings targets are based on I&M's 2021 Market Potential Study (MPS) market potential analysis of I&M's service area. Staff's recommended target levels are based on Staff's criticisms of I&M's EWR performance in 2020 during the COVID-19 pandemic and the 2020 Michigan Energy Waste Reduction Statewide Potential Study. 2 TR 116. Witness Walter testified that I&M believes that it is inappropriate and unreasonable for Staff to rely upon I&M's 2020 EWR performance during the COVID- 19 pandemic. 2 TR 117.

Witness Walter testified that Staff's reliance on the 2020 Michigan Energy Waste Reduction Statewide Potential Study is inappropriate and should not be used as Staff's basis for Staff's 2% savings target because I&M's proposed 1.42% and 1.48% savings targets are appropriately based on I&M's 2021 MPS. Witness Walter testified that the Commission in U-20374 I&M's 2020-2021 EWR Plan, found that I&M's 2016 Market Study was specifically designed for I&M's Michigan service area and supported I&M's savings targets. Also, in U-20374 the Commission found that the 2017 Michigan Lower Peninsula Energy Efficiency Potential Study, relied upon by Staff, was not designed for I&M service area and was not adequately supported by Staff. The Commission found that

the 2017 Study could not be used by Staff to support its position to compel I&M to achieve higher savings targets. The Commission found that I&M's savings targets were appropriate according to the I&M 2016 Market Study, which was specific to I&M's service area and satisfied the UCT cost effectiveness standard. See 2 TR 118.

I&M's 2021 MPS is provided in Exhibit IM-20 Witness Huber's rebuttal testimony, explains why I&M's MPS is the optimal analysis of market potential in I&M's service area. Witness Walter testified that I&M worked with GDS Associates, Inc. to develop an MPS to improve EWR programming through realistic maximum achievable savings targets specifically designed for I&M's service territory. I&M's savings targets 1.42% and 1.48% come from I&M's 2021 20 MPS. Witness Walter testified that I&M believes that its savings targets represent a significant step forward compared to I&M's actual 2020 performance and are based on reasonable and realistic expectations taken from 2021 MPS. See 2 TR 119-120.

Witness Walter testified that the 2% energy savings targets would result in a higher near-term customer cost to customers, which may not lead to a corresponding increase in energy savings. Staff witnesses Banks and Tiwana did not acknowledge that I&M has found a correlation between higher customer incentives to increased customer participation resulting in energy savings. I&M has increased prior year incentive levels, but actual energy savings have not followed. 2 TR 122.

Witness Walter testified that Figure JCW-R1 shows that the potential for incremental annual energy savings tops out at less than 2%. These charts are a reproduction of information presented by the Michigan statewide MPS consultant, Guidehouse, during a June 17, 2021, stakeholder meeting. The statement at the top of

the chart indicates that “Savings potential does not increase directly with incentive spending.” The information in Figure JCW 9 R1 indicates the opposite is true because increased spending has decreasing return. Witness Walter testified that given this information it is difficult to justify Staff’s recommendation that I&M should be assigned a 2% energy savings target when at this target level customer return on cost would not result in customer benefits. I&M witness Huber discusses how the I&M 2021 MPS considers increased incentive costs and assumed correlations. 2 TR 123-124.

Staff’s 15% Behavior Savings Limitation

Witness Walter testified that I&M does not agree with Staff witness Walker’s recommendation to maintain the 15% limitation for I&M’s behavior savings programs. I&M agreed to this limitation in settlements of prior EWR Plan cases but given Staff’s recommendation to increase I&M’s energy savings targets the 15% limitation would unduly constrain I&M’s ability to achieve the required higher savings. Staff witness Walker testified that I&M’s proposed EWR Plan provides estimates for 18% behavior savings contribution in 2022 and 33% in 2023. Witness Walter testified that these savings levels are based on I&M’s plan to expand customer engagement beyond the Home Energy Reports (HER) neighborhood comparison to all residential customers so all customers may engage in energy consumption through AMI technology and online platforms. This would increase the potential for energy savings, customer benefits and customer parity. Staff’s 15% limitation would prevent I&M customers from realizing the full benefit potential and would limit I&M’s ability to realize higher savings. 2 TR 125.

Witness Walter testified that I&M has switched to an electronic version of the Home Energy Report and has evaluated its energy savings in the past two EWR program years

as part of the current approved EWR Plan. I&M has contracted with a third-party evaluator to develop custom evaluation plans to increase customers participation. Because I&M has planned for this transition and increased savings expectations in the proposed EWR Plan, I&M does not feel it appropriate for Staff to unduly constrain I&M customer benefits through the Staff's recommended 15% limitation. 2 TR 126.

Witness Walter testified that I&M does not believe that Staff's 15% limitation should apply because Staff prefers long life measure savings. I&M's proposed EWR Plan, the includes alternative ways to increase long life measure savings that are not encumbered or hindered. I&M's EWR Plans, since inception, have included long life measures however, the customer response to those measures has not been strong for efficient LED lighting.

I&M has maintained residential lighting rebates, and other long life residential measures such as water heat and HVAC measures. These measures have not been productive for most I&M's customers (i.e., those not having electric heat or water heat), and the return on investment. In response I&M proposes to shift to a long-life measures midstream delivery model to capture efficiency savings from a market influence perspective that is not tied to individual customer action and decision making.

Income Qualified Budget

Witness Walter testified that I&M neither agrees with AG/CUB witness Jester's claim that I&M's EWR programming for IQ residential customers is inadequate and unfair nor his recommendation that the Commission require I&M to increase its proposed IQ program budget in both plan years. Witness Walter testified that I&M plans to spend about 816% more for IQ savings than for non-IQ savings in 2022 and about 960% more

for IQ savings than for non-IQ savings in 2023. Given these numbers witness Walter believes that I&M's proposed IQ program expenditures are more than fair and allocates more direct benefits to IQ customers than to non-IQ customers. 2 TR 128. Witness Walter testified that I&M's IQ plan recognizes I&M IQ customer needs for all I&M's IQ customers and I&M believes that its IQ program is fairly designed to address unique IQ customer electricity affordability. 2 TR 129.

Witness Walter testified that Staff witness Banks' testimony confirms that I&M's IQ program covers all potential measures to improve IQ electricity affordability, from efficiency measures to installation type. Staff witness Banks recommends the Commission direct I&M to designate at least 12% of its total EWR budget toward low-income programs. Witness Walter testified that I&M believes that its proposed IQ program expenditures are appropriate because I&M's proposed low-income (IQ) program is based on identified potential from the I&M 2021 MPS, and has the same robust measures identified by Staff to increase I&M customer's home efficiency. 2 TR 129-130.

Financial Incentive Mechanism (FIM)

Witness Walter testified that I&M does not agree with Staff witness Smith's FIM recommendations because I&M believes witness Smith relies upon an inaccurate assessment that a legislated 1% minimum standard applies for 2022 and beyond. I&M believes that the 1% minimum standard only applies through 2021 under Section 77 subpart (1) of PA 22 295, as amended by PA 342 and I&M's EWR Plan covers the period of 2022 and 2023. Witness Walter testified that Staff witness Smith has mistakenly concluded that I&M's EWR is contrary to the law.

Witness Walter also testified that Staff witness Smith mistakenly concluded that I&M's threshold to begin earning under the proposed FIM is at 75% of the former, now unrequired 1% minimum standard. I&M's proposed FIM shows FIM Payout Tier 1 starting at 75% of Plan Target Attainment, which is 75% of the 1.42% achievement proposed by I&M for 2022 and the 1.48% achievement proposed for 2023. Exhibit IM-7 details this information and the calculation of the former 1% standard for 2022 and 2023. Staff witness Tiwana confirms these proposed levels in his testimony. 2 TR 131.

Witness Walter testified that I&M has proposed 75% of 1.42% performance in 2022 and 75% of 1.48% performance in 2023 and the calculation of 75% of these amounts is a 2022 threshold of 1.065% and 1.11% in 2023.

Exhibit IM-6 provides energy savings in kWh for the former 1% standard level for 2022 is 26,658,659 kWh and 27,082,912 kWh in 2023. 75% of the proposed energy savings target in 2022 of 37,771,987 kWh equals 28,328,990 kWh and 75% of the proposed energy savings target in 2023 of 40,060,741 equals 30,045,556 kWh. Witness Walter testified that for both years, the proposed threshold exceeds the former 1% standard level. 2 TR 131. Witness Walter testified that I&M does not agree with Staff witness Smith's conclusion that I&M's FIM is unethical because I&M's proposed FIM for the 2022-2023 EWR Plan is consistent with Staff's traditional understanding of the purpose of FIMs. See 2 TR 131-132. Witness Walter testified that the FIM threshold levels proposed by witness Smith would make I&M customers participate at higher levels before I&M would begin FIM earnings. *Id.*

Witness Walter testified that I&M does not agree with AG/CUB witness Jester's conclusion that I&M's proposed FIM is contrary to applicable law.

Witness Jester's argument relies upon Section 75 of 2008 PA 295, as amended by 2016 PA 342. Section 75 provides guidance on how a utility may earn a financial incentive based on the level of first year energy savings achieved. The energy legislation signed by then Governor Snyder also included 2016 PA 342. This legislation expressly grants the Commission with the authority to approve alternative methodologies for determining a financial incentive authorized under Section 75 of 3 2008 PA 295. Witness Walter testified that since 2018, the Commission has approved I&M's FIM methodology (provided in Exhibit IM-7) in all of I&M's EWR Plan and Reconciliation cases. See Exhibit IM-7. Witness Walter also testified that I&M's proposed FIM methodology was originally recommended by Staff in U-18263. The same methodology has been used by other utilities, both electric and gas, in calculating EWR FIMs and has been approved by Commission orders in I&M's contested proceedings, U-20367 and U-20374. 2 TR 133.

Witness Walter testified that I&M does not agree with AG/CUB witness Jester's recommendation to increase the Tier 3 annual savings target to 2.0% of I&M's total annual preceding sales because it is not required by legislation. Witness Jester's 2.0% savings standard is not required by PA 295, as amended by PA 342 and would set bad precedent for utilities and stakeholders to propose savings tiers which differ from those provided in governing legislation which they feel are the most appropriate. Witness Walter testified that witness Jester's savings goals would cause substantial increases in I&M EWR programming costs, reduce the overall cost-effectiveness of I&M's EWR programming and undermine EWR program sustainability. 2 TR 133-134.

Witness Walter testified that I&M does not agree with Staff witness Tiwana recommendation that I&M add 30% of its unachieved 2020 savings relative to the 1% target to I&M's 2021 EWR savings target. This would add 8,105,138 kWh to I&M's 2021 EWR savings target. Witness Walter testified that Staff's recommendation is:

- Not consistent with Act 295, as amended by Act 342,
- Would revoke I&M's right to earn a financial incentive in 2021; and
- Unfairly punitive considering the COVID-19 global pandemic that limited I&M's EWR efforts in 2020.

2 TR 134-135.

Witness Walter testified that EWR savings targets should not be based on carryover amounts from a prior year but based on achievable savings potential in I&M's service, whether achieving such a target is possible under any MPS, and if savings can be achieved cost effectively. *Id.*

Witness Walter testified that Staff's proposal is also inconsistent with Section 74 of Act 295, as amended by Act 342, which provides that EWR cost reconciliations be conducted on an annual basis to review the reasonableness and prudence of EWR expenses for which customers were charged during the relevant reconciliation period. See MCL 460.1074. Witness Walter testified that Staff witness Tiwana's recommendations are unfairly punitive, because if a utility overachieves in one year, then the over achievement does not carry over to the next year, thus excusing the utility from having to achieve the 1% savings target. 2 TR 135.

Bryan S. Owens and John W. Morgan Direct Testimony

Bryan S. Owens, Regulatory Consultant testified regarding I&M's biennial Energy Waste Reduction Plan revenue requirement for 2022 and 2023 (EWR Plan Staff for I&M, see 2 TR. 67-73). Table BSO-1 below, summarizes the EWR Plan revenue requirement of \$12,188,967 includes operating costs associated with program rebates, customer education, plan administration, information technology support, and marketing.

Table BSO-1			
Indiana Michigan Power Company - Michigan			
Energy Waste Reduction - Two Year Plan - 2022 & 2023			
EWR Surcharge Revenue Requirement			
	Residential	Commercial & Industrial	Total
2022 EWR Program Cost	\$3,083,605	\$2,954,241	\$6,037,847
2022 EWR Revenue Requirement	\$3,083,605	\$2,954,241	\$6,037,847
2023 EWR Program Cost	\$3,325,198	\$2,825,923	\$6,151,120
2023 EWR Revenue Requirement	\$3,325,198	\$2,825,923	\$6,151,120
2 Yr. EWR Program Cost	\$6,408,803	\$5,780,164	\$12,188,967
2 Yr. EWR Revenue Requirement	\$6,408,803	\$5,780,164	\$12,188,967

John W. Morgan, Regulatory Consultant in the Regulated Pricing and Analysis Department of American Electric Power Service Corporation (AEPSC) testified regarding I&M's updated calculation of the plan component of I&Ms 'Energy Waste Reduction' (EWR) surcharges according to PA 2008, No. 295, as amended by PA 2016 No. 342 Witness Morgan sponsored Exhibit IM-21 which details I&M's Energy Waste Reduction Surcharge 2022-2023 Plan Calculation. Witness Morgan details the calculation of the surcharges at 2 TR 74-79.

Table JWM-1 provides the following summary of the EWR monthly plan rate surcharges for each customer class.

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Table JWM-1

Customer	Levelized Rates Jan.	Units
Residential	\$0.00272	per kWh
Unmetered	\$0.00248	per kWh
All Other Small / Medium	\$7.04	per customer per mo.
All Other Large	\$588.98	per customer per mo.

2 TR 79

Witness Morgan testified that Residential rates were developed using volumetric charges (\$/kWh), unmetered customer rates using volumetric charges (\$/kWh) and all other customer rates using per customer (meter) charges (\$/customer/month). EWR surcharge rates are comprised of two rates, the EWR plan rate and the EWR reconciliation rate. After the Commission approves I&M's 2022-2023 EWR plan rates, I&M will provide an updated tariff sheet that reflects the revised total EWR surcharge rates See 2 TR 79.

Rebuttal Testimony of Nicholas Elkins Director of Customer Services and Business Development for I&M See 2 TR 94-113.

Witness Elkins testified that Staff witness Banks recommendation that I&M begin participating in the Michigan Energy Assistance Program (MEAP) is a reasonable goal and I&M has been in discussions with Staff regarding MEAP. I&M is working with Staff to understand all MEAP requirements consulting with other utilities involved to create a proposal that could potentially work for I&M. Further discussions and investigation are

needed to determine the internal impacts, staffing, and budgets requirements to implement such a MEAP plan. 2 TR 99-100.

Witness Elkins testified that I&M does not agree with witness Bank's comments regarding I&M's 2020 EWR plan performance and his reliance on I&M's performance. Witness Elkins testified that I&M is disappointed with its 2020 achievement rate from its C&I programs but disagrees with Staff witness Banks that I&M was acting under some form of self-imposed inertia. Witness Elkins testified that during 2020 I&M's C&I results were impacted by abrupt COVID-19 disruptions to businesses across the state that resulted in I&M revising its implementation efforts to ensure the safety of employees, customers, and the public. COVID-19 caused a significant change in I&M's EWR program. *Id.*

Witness Elkins testified that I&M, in response to known and anticipated COVID-19 market conditions, adjusted program participation requirements, introduced new program delivery channels, increased measure rebate levels, and expanded customer communication efforts. I&M's customer engagement efforts are provided at 2 TR 101-102, customer Marketing at 2 TR 102-103, program participation and project measures at 2 TR 103-104.

Witness Elkins testified that I&M adjusted its C&I customer outreach by adding three programs. I&M implemented a Bonus Enhancement Program activities were staged from May-September to encourage program participation during the COVID-19 pandemic. See 2 TR 104. I&M believes that took reasonable and prudent efforts to find new ways to connect with customers, which resulted in improved participation trends as the year progressed and a higher average kWh savings project size versus 2019 Q2-Q4.

Witness Elkins testified that I&M recognizes it must take continued steps to reach C&I customers through a new vendor, CLEAResult, with a broader portfolio. 2 TR 105-106.

Witness Elkins testified that I&M does not agree with Staff witness Banks conclusion that I&M did not reach out to residential customers during the 2020 COVID-19 pandemic restrictions. Witness Elkins lists the actions taken by I&M employees. See 2 TR 106. Witness Elkins testified that I&M engaged in personalized customer outreach efforts, to grow EWR savings and help its customers by adding hand sanitizer and face masks to its PPE Kits to improve customer health and wellness. Witness Elkins testified that I&M employees were dedicated to reaching its most vulnerable customers and I&M is proud of the actions taken by its employees. 2 TR 107.

Witness Elkins testified that I&M does not agree with Staff witness Banks conclusion that I&M's EWR efforts failed its customers during 2020. Figure NE-3 at 2 TR 108 provides a listing of I&M's program adjustments made to accommodate pandemic protocols.

Witness Elkins testified that I&M's Appliance Recycling was briefly put on hold but then re-started with curbside pickup and was then expanded to accommodate increased customer interest. I&M began curbside pickup in the Appliance Recycling Program in June 2020, when health and safety conditions permitted.

Like the Appliance Recycling program, I&M's Online Energy checkup participation exceeded I&M's 2020 forecast so I&M expanded the program to accommodate increased customer interest. The original forecast was 12 1,192,565 kWh and the verified energy savings was 1,681,459 kWh. 2 TR 109.

I&M believes that during 2020 it took sufficient actions regarding its low income, moderate-income or ALICE customers. Exhibit IM-22 is I&M's January 22, 2021, Low & Moderate Income EWR Report. The report provides a detailed description of the actions taken by I&M during 2020 to reach the low and moderate-income customers. Exhibit IM-22 shows that two of the three pilots specifically addressed these customer segments. 2 TR 109-110. Witness Elkins testified that 40% of Heat Pump Dryer pilot customers were in low-income housing, the LED Donation program provided LEDs to 14 different organizations serving low-income, ALICE, and COVID-19-impacted customer and agencies, organizations, and property managers collaborated with I&M to distribute the PPE Kits. *Id.*

Exhibit IM-22 details I&M's efforts to assist income-qualified (IQ) residents included outreach efforts via email, phone, and video conferencing to Community Action Agencies (CAA), Community Based Organizations (CBOs), senior centers, municipalities, faith-based organizations, etc. for bill assistance, and education about I&M's low income and other EE programs. Witness Elkins testified that over 70 organizations were engaged with approximately 260 emails and 131 calls/video conferences in which I&M provided energy savings tips and advice for low and moderate-income customers. Additionally, 22 payment assistance emails were sent between June and December 2020 to customers with arrearage balances to help inform them of ways to manage their energy usage. 2 TR 110-111; also see Exhibit IM-22.

Witness Elkins testified that in 2020 I&M offered or provided its low-income customers the following:

- Income Qualified Weatherproofing program options.

- Completed seven (7) in-home audits and, 71 virtual assessments before pandemic related restrictions.
- Customer direct installation measures and major work that could not be safely completed were placed on wait list.
- I&M's auditor dropped-off customer-specific direct install measures off at the front door and porches of customers who were virtually assessed.
- Completed 187 AC tune-ups and 98 ECM motor replacements for IQW customers living in two IQ multifamily properties: and
- Engaged in ongoing communication with five other IQ multifamily properties to distribute energy efficiency materials to their tenants and plan for future major work.

See 2 TR 111- 112: Exhibit IM-22

Witness Elkins testified that I&M does not agree with Staff witness Banks recommendation that I&M collect tracking data for I&M customers that receive both EWR and bill payment assistance. Witness Elkins testified that witness Banks neither indicated in his testimony nor in discovery what data I&M was to collect. See IM-23.

I&M does not currently collect customer data regarding age, gender, race/ethnicity, income, education level, etc. related to customer affordability and access because it is not I&M's role to routinely collect, process, disclose, and save sensitive customer personal information. Witness Elkins testified that I&M's customers would not likely support disclosing sensitive personal information to their electric utility, to enable the utility to disclose personal data to third parties or the public. 2 TR 112.

Witness Elkins testified that I&M does not agree with AG /CUB witness Jester's recommendation that I&M initiate an on-bill repayment program for residential energy waste reduction measures. I&M has not filed a request with the Commission to establish an optional Residential Energy Improvements Program to provide financing for residential consumers because an on-bill repayment program for residential energy efficiency improvements, even as a pilot, would be cost-prohibitive and complex. The Implementation of an on-bill program would require I&M to make a significant investment in I&M's billing system and would possible expose I&M to consumer lending laws. 2 TR 112-113.

Rebuttal Testimony of Jeffrey R. Huber, Managing Director of GDS Associates, Inc (GDS).

Witness Huber provided Rebuttal Testimony to respond to the testimony of the Michigan AG/CUB witness Jester and Staff witnesses Banks and Tawana's testimony regarding I&M's proposed 2022 2023 EWR Plan savings and spending levels. 2 TR 82-93.

Energy Savings Target

Witness Huber testified that I&M does not agree with Staff witnesses Banks and Tawana's recommendation that I&M should have a 2% EWR energy savings goal because I&M's 2021 MPS does not support a minimum EWR savings level equal to 2.0% of previous year's sales. Witness Huber testified that GDS completed an MPS specific to I&M's service territory, using inputs and market research specific to the territory, and estimated a 2022 achievable potential (RAP) of approximately 1.4%. 2 TR 84. The 2020 Michigan Energy Waste Reduction Statewide Potential Study (Michigan MPS) did not find a minimum of 2.0% savings potential in 2022 or 2023. The Michigan MPS identified

savings of 1.9% in 2022 and 1.8% in 2023, but not the minimum threshold recommended by witnesses Banks and Tiwana and are not specific for I&M 's 2021 MPS service area. 2 TR 85. Additionally, witness Huber testified, the Michigan MPS 2022 and 2023 savings thresholds are not sustainable, as they steadily decline over time, falling below 1.5% by 2026 and below 1.0% by 2031. Witness Huber testified that given the Michigan MPS evidence showing rapidly declining savings after certain thresholds are met, Staff's and AG/CUB's recommended minimum annual savings target of 2%, is an aspirational short-term goal that would be difficult to maintain. I&M 2021 MPS recommended savings levels provide for reasonable realistic savings growth and do not set Staff's recommended unrealistic two-year savings goals that would result in a sharp drop-off in savings in 2024. 2 TR 85.

Witness Huber testified that he does not agree with Staff witness Tawana's claim that all MPS results are conservative in nature. All MPS's produce reasonable estimates and are based on science, market research, and modeling but other like forecasting a MPS may over-predict or under-predict the actual levels of potential. Because I&M 2021 MPS, analysis focuses on I&M territory-specific research analysis, the study's estimates are realistic reasonable projections of savings potentials.

Witness Huber testified that GDS has completed MPS within the last 5 years, for DTE Electric I&M (DTE Electric) and Consumers Energy I&M (Consumers). MPS over-predicted the savings potential relative to achieved savings. See 2 TR 86-87. Both studies are examples of how Michigan's market potential studies are not conservative and provided strong savings estimates for two large Michigan utilities. *Id.*

Witness Huber testified that the MPS completed for I&M was not based on a conservative design. GDS considered alternative approaches, historical performance, and current program conditions. See 2 TR 87-88.

Witness Huber testified that he does not agree with Staff witness Tiwana's recommendation that I&M should add the equivalent of the 30% of unachieved 2020 savings relative to the 1% target to the I&M's future year targets because not all unrealized savings can be shifted to different time periods without making substantial changes in program design and delivery. Energy efficient equipment upgrades occur at point of sale, and if they do not occur at that time then opportunity for savings is lost until the equipment fails. New construction energy savings opportunities are only cost-effective during building construction and are not candidates later for energy savings. Therefore, Staff witness Tiwana's recommendation is not practical when considering I&Ms' temporal constraints. 2 TR 88-89.

EWR Spending

Witness Huber testified that he does not agree with AG/CUB witness Jester recommendation that the Commission require I&M to increase the proposed IQ program budget to a level that matches the proportion of I&M Michigan customers that are Income Qualified because witness Jester believes that I&M's programming for IQ residential customers is inadequate and unfair. Witness Huber testified that I&M's proposed IQ programs spending levels are reasonable, equitable, because the spending level is based on research specific to I&M's service territory, and consistent with industry data. Witness Jester's recommendation is based on the false assumption that IQ customers spend approximately the same amount on energy as non-IQ customers. Witness Huber testified

that there are several publicly available reports which demonstrate that low-income households have lower energy expenditures than non-low-income households. Witness Jester without any support, believes that since IQ residential customers account for approximately 26.2% of all residential customers, it is reasonable to assume that I&M's IQ residential customers contribute about 25% of the revenue for I&M's residential EWR programs. 2 TR 89.

Witness Huber testified that the following reports show that witness Jester's assumptions are incorrect:

- 2016 ACEEE report found that on average, low-income households had \$1,690 worth of annual energy expenditures, which was 21% less than the average of \$2,134 annual energy expenditures of non-low-income households.
- 2019 Elevate Energy study investigated low-income customer usage for ComEd and found that the average annual electricity use for low-income single-family households is 37% less than the average for all ComEd single-family customers, while annual electricity use for low-income multifamily households is 13% less than the average for all ComEd multifamily customers. 2 TR 90.

Assuming the same energy usage patterns for I&M's Michigan customers, who are in a similar climate and geographic region as ComEd:

- The average annual energy expenditure for low-income customers would be 45% less than the average annual energy expenditure for non-low-income customers, and 37% less than the average annual energy expenditure for all residential customers; and

- Low-income customers would be contributing 16% of all revenues for the residential customer class.

Id.

I&M proposes to spend 18% of residential portfolio funds on IQ programs in 2022 and 17% in 2023. Witness Huber testified that these proposed amounts closely align with the proportional amount of revenue estimated to be contributed by low-income customers (16%) according to the Elevate Energy study findings. Because I&M IQ customers are not precluded from participating in and benefiting from the other programs in I&M's EWR residential portfolio some customers will participate and benefit from these programs. Witness Huber testified that this would ensure that IQ customers receive more than their fair share of funding and savings than I&M's remaining residential customers. 2 TR 90-91.

Witness Huber testified that I&M agrees with Staff witnesses Tiwana's conclusion that cost-effective EWR programs are largely beneficial to customers, I&M does not agree with witnesses Tiwana's conclusion regarding EWR program impact on the average customer. Witness Huber testified that witness Tiwana is correct that the 2019 Energy Waste Reduction Report to the Legislature estimated lifecycle savings of \$1.18 billion but this figure appears to be the avoided utility cost, not the actual customer avoided bill payments. Additionally, the reported value is for the average program participant, not the average customer (participants and non-participants combined). Witness Huber testified that witness Tiwana's reliance on this metric ignores the participant's cost to purchase and install measures since utility rebates do not typically pay 100% of the cost to purchase and install the measure for the participant. 2 TR 91. Only a complete rate and bill impact

analysis would provide a true accounting of the overall benefit to the average participant and non-participant in Michigan's EWR programs. *Id.*

Witness Huber testified that I&M does not agree with AG/CUB witness Jester's recommendation that I&M address whether higher incentives would achieve higher adoption rates because many commercial and industrial (C&I) measures have a high Utility Cost Test (UCT) ratio.

Witness Huber testified that I&M asked GDS to perform specific market research as part of the market potential analysis to address the topic raised by witness Jester. Sections 2.4 and 4.1.7.1 of the I&M 2021 MPS discuss the impact of higher incentives on adoption rates by customer sector and includes an estimate of maximum achievable potential, based on increased incentives and program marketing relative to the realistic achievable potentials. The MPS does not include a comparison of estimated program budgets. 2 TR 92.

Figure JRH-R2 at 2 TR 92 shows the percent increase in savings and costs for the maximum achievable scenario compared to the realistic achievable scenario. Witness Huber testified that the MAP and RAP comparisons suggest that higher incentives will lead to increased savings and that estimated costs will increase by 3.4% for every 1% increase in savings. Witness Huber concluded that I&M's proposed RAP incentive levels are sufficient to encourage EWR program participation without significant increases in program spending which would cause rapidly diminishing returns and reduced cost-effectiveness. *Id.*

STAFF

Staff presented testimony from Brad B Banks (see 2 TR 139-146), Katie Smith (See 2 TR 147-155, Fawzon Tiwana (See 2 TR 155-162) and David Walker (See 2 TR 163-168.)

Brad Banks Direct Testimony

Witness Banks testified regarding elements of I&M 2022-2023 EWR plan, specifically I&M's low-income program. Witness Banks testified that Staff believes that I&M should have a goal, at a minimum, of 2.0% of its annual sales in EWR savings. Witness Bank's testified that Michigan's other regulated utility companies are meeting and exceeding this goal. Witness Banks testified that during 2020 I&M was the only Michigan regulated utilities that failed to achieve the required 1% in savings. 2 TR 142.

Witness Banks testified that Staff recommends that I&M improve its low- income programs. Staff recommends that I&M participate in the Michigan's Energy Assistance Program (MEAP), the LIHEAP Direct Support and EWR workgroup led by the Upper Peninsula Power I&M. Witness Banks testified that Staff believes that I&M customers do not receive an adequate amount of low income EWR programs, and I&M is doing nothing to support I&M's customers' ability to take advantage of additional bill payment assistance through MEAP. 2 TR 143.

Witness Banks testified that Staff recommends that I&M take a proactive EWR Low-income program role by obtaining customer tracking data for customers that receive EWR and bill payment assistance. Staff believes that this new data would allow I&M to:

- Identify program delivery blind spots.

- Focus weatherization efforts on those customers who are in the most need of its services; and
- Identify opportunities to work with other utilities to develop partnerships with stakeholder agencies to improve program delivery weaknesses.

2 TR 143

Witness Banks testified that I&M's low-income customer efforts are geared toward customer outreach. Because there are many Michigan organizations that aid with energy bills, I&M should spend most of its low-income budget on long-life measures designed to increase customer homes energy efficiency such as lighting, appliances, insulation, high-efficiency electric heat pumps, replacement of inefficient air conditioning units, etc. I&M could better use its EWR funds for whole home and building retrofits. Staff believes that these measures would have the most impact on their low-income customers by reducing energy bills, while providing greater comfort and environmental benefits. 2 TR 144. Witness Banks testified that Staff recommends that I&M contract with Michigan based EWR implementation contractors to assist I&M identify its neediest customers and ensure I&M's EWR program success. *Id.*

Staff recommends that I&M should designate funds in its EWR budget for low-income programs. In 2013 I&M participated in Efficiency United, a State EWR Administrator program and designated 10% of I&M's EWR budget toward low-income programs and measures. Since then, the percentage of I&M total spending for low-income programs has declined. 2 TR 145. Witness Banks testified that Staff recommends the Commission order I&M to designate at least 12% of their total budget toward low-income programs for 2022 and 2023, or \$650,485 for 2022, and \$666,896 for 2023. *Id.*

Staff supports I&M's proposal for adding 1% to I&M's pilot program budget for a new pilot to address customer health and safety issues provided the additional 1% is spent exclusively on the health and safety pilot and is not diverted to another pilot program. Staff believes that if I&M does not spend the entire 1% on the health and safety pilot, then the remaining balance should remain unspent and carried over to the following years health and safety pilot. 2 TR 146.

Katie Smith Direct Testimony

Katie Smith testified regarding Staff's recommendations I&M's Financial Incentive Mechanism (FIM) for its 2022 and 2023 EWR Plan. See 2 TR 147-155.

I&M witness Walter's testified I&M's proposed FIM structure that has been approved by the Commission in previous I&M EWR plan filings. Witness Smith testified that I&M's proposed FIM would be calculated using a sliding scale method to determine the financial incentive payment for exceeding savings goals. First-year savings will determine the maximum incentive award possible, while the subsequent two metrics will be weighted to determine the earned incentive award. The sum of the percentage earned in each of the two remaining metrics will be added together and multiplied by the actual EWR program expenditures to determine the financial incentive payment. The total percentage reached in the subsequent metrics cannot exceed the percentage reached in the first-year savings component. 2 TR 151-152.

Witness Smith testified that Staff agrees with I&M's sliding scale methodology for the performance incentive but recommends some changes. Staff proposes that the legislative required first-year savings percent of minimum savings from I&M's proposal of

75% be changed to 100% and maximum savings from 150% to 200%. 2 TR 152; See Exhibit S-1.

Witness Smith testified that it would be inappropriate and threaten the integrity of a performance incentive for the Commission to approve an incentive mechanism that starts below the statutory, legislatively mandated requirement of exceeding 1% energy savings. In Exhibit IM-7 I&M recommends an award of 15% of program spend for only reaching 75% of the legislative goal which is below the legislative requirement of receiving 15% of spend for reaching over 100% of the target of 1% of the previous year's sales. *Id.* Section 75 of PA 342, MCL 460.1075, allows incentives only for those that exceed the energy savings targets. If I&M's proposal is adopted, I&M would be incentivized to under-achieve.

Staff does not agree with I&M's proposal to base the lifetime-savings metric on a 12.4-year measure life multiplied by the first-year savings, as shown in Exhibit IM-7. Staff recommends the minimum achievable lifetime-savings metric to start at a 12.4-year measure life multiplied by first-year savings equal to 1% and increasing to the maximum 12.4 times 2% of first-year savings. Staff believes these changes would maintain the integrity of performance incentives by encouraging I&M to achieve more. 2 TR 153.

I&M has requested approval to change the weighting of the metrics within its proposed FIM. Witness Smith testified that Staff has no issues with I&M's request for a 75% weight on lifetime savings and a 25% weight on the Income-Qualified metric. Staff Exhibit S-1 adds I&M's proposed percentages. See Exhibit S-1. Witness Smith testified that the placing of more weight on I&M's low-income programs would benefit I&M customers. 2 TR 154.

Witness Smith testified that Staff recommends the Commission

- Approve I&M's request for a FIM with Staff's recommended modifications.
- Approve Staff's changes to I&M's FIM.
- Adopt Staff's recommended changes of the first-year savings minimum of 75% and maximum of 150%, of percent of savings and
- Approve Staff's recommendation to increase the minimum to 100% and maximum to 200% of the legislatively mandated target to allow for more aggressive action from I&M.

2 TR 154-155.

Fawzon Tiwana Direct Testimony

Fawzon Tiwana testified regarding I&M's 2022-2023 EWR Plan savings and spend levels. 2 TR 156-162.

Savings Level

Witness Tiwana testified that Staff reviewed I&M's proposed spending level of 37,771,987 kWh for 2022 and 40,060,741 kWh for 2023 which is equal to 1.42% and 1.48%, respectively, of previous year's retail sales and concluded the proposed spending levels are not reasonable. Staff recommends a minimum EWR savings levels equal to 2% of previous years' sales or 53,317,318 kWh for 2022 and 54,165,826 kWh for 2023. Witness Tiwana testified that Staff's recommendation is based on data in the 2020 Michigan Energy Waste Reduction Statewide Potential Study (MEWRP). 2 TR 159. Table ES-1 page 23, of that study found achievable EWR potentials of 1.9% for 2022 and 1.8% for 2023. Witness Tiwana testified that Staff's recommendation is consistent with other utilities EWR savings levels. In U-20876 DTE plans to achieve 2.0% in 2022 and 2023

and in U-20875 Consumers plans to achieve 2.1% for 2022 and 2023. *Id.* Witness Tiwana testified that since 2017 I&Ms achieved EWR savings levels have decreased. See 2 TR 160.

In U-20878, I&M's 2020 EWR reconciliation case, Staff recommended I&M add the equivalent of the 30% of unachieved 2020 savings relative to the 1% target to I&Ms 2021 EWR savings target. This would add 8,105,138 kwh to the 2021 EWR savings target. *Id.* Witness Tiwana testified that if I&M is ordered by the Commission to make up those savings in that case, and I&M is unable to, those savings should carry over into the 2022 program year and be added to the legislatively mandated 1% goal without the benefit of receiving an incentive on those additional savings. 2 TR 160-161.

Spending Levels

Witness Tiwana testified that I&M proposes to spend to \$6,037,847 for 2022 and \$6,151,120 for 2023. I&M did not spend the \$3,895,750, amount approved in U-20374 but spent \$ 3,012,948. Staff believes that the unspent amount of \$882,802 should be added to the 2021, or subsequent years' EWR spending levels because I&M didn't meet the legislative minimum 1% 13 savings target for 2020. 2 TR 161.

Witness Tiwana testified that Staff believes that I&M does not spend enough on their EWR programs. Witness Tiwana testified that when I&M was part of the Efficiency United (EU) program, I&M was required to pay 2% of their previous year's revenues to the State EWR Administrator. I&M subsequently left the EU program and choose to implement their own EWR program I&M has decreased its EWR spending because I&M because it claims it is attempting to keep customer EWR surcharges and bills by lowering EWR spending. 2 TR 161. Witness Tiwana testified that Staff believes based on available

EWR data that if I&M increased EWR spending it would reduce customers energy use and lower their respective energy bills. See 2 TR 161-162

Witness Tiwana testified that increased I&M savings level and making up its unachieved savings from 2020 would affect I&M's FIM as discussed in Staff witness Smith's testimony. Witness Tiwana testified that I&M should not be allowed to utilize any of the "make-up" savings or 8,105,138 MWh toward any financial incentive awarded in future years. 2 TR 162.

David Walker Direct Testimony

Witness Walker testified regarding Staff's recommendations for I&M's 2022-2023 EWR Plan's behavior-based programs. According to Exhibit I&M-2, I&M's proposed behavior-based programs of Home Energy Reports (HERs) and Home Energy Engagement (HEE), savings comprise approximately 18% of the total residential (including income-qualified) energy savings in 2022 and 33% in 2023. Witness Walker testified that these program savings amount exceed the 15% limit approved by Commission's settlement agreement in U-20374 that resolved I&M's EWR plan for 2018 – 2019. In U-20374, I&M's subsequent 2020 – 2021 EWR plan, incorporated the same 15% limit. 2 TR 166.

Witness Walker testified that in U-18263 Staff proposed a limit on I&M's EWR Plan behavior-based programs because Staff had concerns that I&M behavioral programs savings was too large, and growing larger, compared to traditional physical measures like efficient appliances and building improvements. At that time Staff's concerns were based on the lack of energy savings from I&M's behavioral programs, limits on educational

programs per Commission orders, and the displacement of traditional longer term benefit measures. 2 TR 167.

Witness Walker testified that Staff recommends continuing I&M's 15% residential behavior portfolio limit. Staff believes that I&M's proposed increase from 15% to a third of I&M's EWR residential portfolio that is comprised of measures that have a one-year life is not appropriate. Staff recommends that I&M increase its programs with longer measure lives to create more durable savings. 2 TR 167.

Witness Walker testified that I&M's HERs and HEE programs, as described, would not qualify for the prescribed, or 'deemed', energy savings in the Michigan Behavior Resource Manual (BRM) adopted by the EWR Collaborative. Witness Walker testified that while this does not preclude the programs from being included in I&M's EWR plan, it does require these I&M programs to be evaluated to establish the energy savings. Because of the differences between the BRM version of HERs and I&M's, this evaluation must be designed and executed according to the industry best practices referenced in the BRM. 2 TR 168.

AG/CUB

AG/CUB provided testimony from witness Douglas Jester. See 2 TR 170-188. Witness Jester testified regarding AG/CUB's recommendations; to increase spending for I&M's EWR Income Qualified (IQ) program, that I&M initiate an on-bill repayment program for residential EWR measures, and changes to I&M's proposed FIM. 2 TR 176.

IQ Program

Witness Jester testified that I&M's residential IQ program is inadequate and unfair and that the Utility System Resource Cost Test (UCT) for I&M's programs is very high.

Because of this, witness Jester believes that an aggressive remedial IQ customer program approach is needed. 2 TR 177. Exhibit AG-2 shows that I&M has an estimated 28,892 IQ residential customers or approximately 26.2% of its residential customers. Witness Jester testified that he does not have any information regarding how I&M IQ customers' electric use compares to other residential customers, so he assumed that the electrical use is similar. Using this approach witness Jester reasoned that because I&M customers contribute 25% of the revenue for I&M's residential EWR programs IQ spending should be increased to 25% of total EWR spending. In 2022 I&M proposes spending \$501,418 on IQ programs out of a total of \$2,767,040 or 18% and in 2023 I&M proposes spending \$513,578 on IQ programs out of \$3,012,793 or 17%. Witness Jester testified that because I&M's IQ programs are more costly per unit energy savings than non-IQ programs, I&M residential spending is projected to produce in 2022 3,868,375 kWh of lifetime IQ customer savings out of total residential customer lifetime savings of 79,170,350 kwh or 5% and in 2023 3,944,002 kWh of lifetime IQ customer savings out of total residential customer lifetime savings of 86,399,489 kWh or 4.5%. 2 TR 177-178.

Based on this analysis witness Jester concluded that program equity requires the Commission to direct I&M to increase its residential IQ programming spending at or above a level that matches the 25% proportion of I&M residential customers that are Income Qualified (25%), without reducing I&M's non-Income-Qualified residential EWR spending. Witness Jester testified that to implement his recommendation. I&M would need to increase its 2022 IQ program budget from \$501,418 to \$755,207 and increase its 2023 IQ program budget from \$513,578 to \$833,072. Witness Jester recommends that I&M spend its additional IQ program funds on shell improvements and use of heat pumps for

IQ customers with electric resistance heat. Additionally, witness Jester recommends that these IQ spending level adjustments be used as the minimum spending levels for I&Ms FIM based on IQ program spending. *Id.*

I&M Utility System Resource Cost Test (UCT) Ratios

Witness Jester testified that a UCT ratio is the ratio of a utility's' avoided costs for a measure to the utility's' contribution to customer adoption of the measure. A high level of savings to spending indicates that there is room for a utility to increase customer rebates or other assistance while providing a net benefit. Exhibits IM-9 through IM-19 provide I&M's UCT ratios and show that ratios for individual measures are well above 1.0, with many having UCT ratios of 3 or higher.

- Exhibit IM-11 shows that most direct install measures for commercial customers, have UCT ratios greater than 1.0 but none have extremely high UCT ratios.
- Exhibit IM-12, shows that most midstream rebates for commercial measures, have very high UCT ratios.
- Exhibit IM-13 shows that most Industrial Systems Program, measures have UCT ratios greater than 1.0 but none have extremely high UCT ratios.
- Exhibit IM-14 shows that most Strategic Energy Management, "whole building" approaches generally have high UCT ratios.
- Exhibit IM-15 shows that many Home Energy Products measures have high UCT ratios in 2023.
- Exhibit IM-16, shows that all Qualified program measures, have low UCT scores due to the higher implementation costs of these programs.

- Exhibit IM-17 shows most Residential New Construction measures have UCT ratios near 1.0.
- Exhibit IM-18 shows that some residential energy management programs, and some behavioral and most hot water measures have high UCT ratios.
- Exhibit IM-19 shows that some residential HVAC Midstream rebates, HVAC controls and some heat pump types have high UCT ratios.

2 TR 180

Witness Jester testified that I&M's EWR program measures high UCT ratios indicates that I&M may increase spending to the benefit of customer if the increase in measure support will lead to materially greater customer adoption. Witness Jester testified that because he does not have any data which indicates increased spending will result in increased customer adoption, he recommends the Commission require I&M to address its high UCT ratios in I&M's next EWR Plan filing. But if the Commission requires I&M in this EWR filing to increase spending then he recommends the Commission focus on the program and measures with high UCT ratios. 2 TR 181.

On-Bill Payment

Witness Jester testified regarding his proposal for an on-bill repayment program, for I&M. I&M's EWR plan filed with the Commission does not include a request by I&M for Commission approval to establish this program. Despite this fact AG/CUB chose to ask the Commission to approve a new I&M on-bill program in I&M's EWR Plan contested case proceeding.

Witness Jester testified that with an on-bill payment system a customer pays as a charge on their utility bill for an investment that benefits the customer over time. Witness Jester testified that an on -bill payment program has the following characteristics:

- Investments are funded by the utility or a third party.
- The obligation to pay may be assigned to the customer who originally agreed to the investment and repayment, or it might be assigned “to the meter” meaning that the obligation to repay is always with the current account holder.
- On-bill repayment obligations may be enforced by service shutoff and other normal utility collection practices.
- On-bill repayment programs may be structured to guarantee bill savings.
- Makes psychological sense to the customer when they anticipate covering all or most of the costs of an investment though utility bill savings.
- The obligation to repay applies to the meter, then the customer’s creditworthiness is less important in originating the loan for the investment and the customer’s creditworthiness is not affected by the obligation.
- For rented homes and the occupant pays the utility bill, on-bill repayment can solve the problem of split incentive for energy waste reduction between the landlord and the tenant.
- Has low transaction costs compared to other loan products, because security for a loan is provided by the utility: and
- Provides a tool by which a utility can offer customers an opportunity for larger EWR investments at minimal cost to the utility and its other customers.

Witness Jester testified that an on-bill repayment program could result in a high contribution to EWR through funding by a third party that is repaid by benefitting customers rather than being paid through EWR surcharges. *Id.* Witness Jester testified that an on-bill repayment approach was authorized for residential customers of a regulated energy provider in Part 7 of 2016 PA 342. Witness Jester recommends that I&M consider adopting or piloting the approach authorized by statute. Additionally witness Jester testified that any electricity savings resulting from a residential energy projects program pursuant to Part 16 7 of 2016 PA 342 may be counted toward I&Ms electricity savings requirements and FIM. *Id.*

Financial Incentive Mechanism (FIM)

I&M proposed FIM is provided in Exhibit IM-7 Witness Jester testified that he reviewed IM-7 and concluded that I&Ms proposed FIM is not consistent with applicable law and is based on inadequate IQ program spending. 2 TR 184.

Witness Jester testified that IM-7 shows that I&M requests a financial incentive as a percent of energy waste reduction program expenditures, in the column headed “FIM Earnings Potential % of Portfolio Expenditure”. Witness Jester testified that I&M’s application and testimony in this case indicates that, the authorized percentages of expenditures at each level of annual incremental savings will be less than the authorized percentages of the net present value of life-cycle cost reductions experienced by the provider’s customers because of implementation of its EWR plan. Witness Jester testified that this part of the FIM is appropriate. Exhibit IM-7 provides proposed incentives in relation to “Plan Target Attainment”. Witness Jester testified that this information obscures its relationship to the statutory provisions. Because of this witness Jester recommends

that the Commission direct I&M to adopt a FIM which is transparently based on statutory provisions. 2 TR 185-186.

Witness Jester testified that Exhibit AG-3 shows the relationship between I&M's Plan Target Attainment and the level of annual incremental savings on which statutory provisions are based, e.g., statutory maximum incentive. Witness Jester testified that many of I&M's levels of Plan Target Attainment exceed the statutory maximum. Witness Jester testified that Exhibit AG-4 provides AG/CUB's recommended changes to I&M's proposed FIM. Witness Jester believes AG/CUBs proposed FIM:

- Has low incentives for a utility that reaches the threshold of the energy waste reduction standard, reserves incentives for exceeding that standard.
- Complies with the provisions of 2016 16 PA 341 by not exceeding the authorized level of incentives in each range of performance.
- Scales from the maximum incentive level for the previous tier for a utility that is at the bottom of a range to the maximum incentive for the given tier for a utility that is at the top of a range; and
- If annual incremental savings exceed 1% of preceding year sales, they are incented by an increasing financial incentive as a percentage of expenditures up to annual incremental energy waste reduction of 2.0% of preceding year sales.

2 TR 186

Witness Jester testified that AG/CUB's proposed FIM would significantly reduce I&M's financial incentives if their incremental annual EWR is less than 1.5%. Witness Jester believes that his recommended changes are required for I&M's FIM to comply with 2016 PA 342. Witness Jester testified that his recommended FIM incentive

payments, as a percentage of spending, increase when I&M achieves incremental annual EWR savings above 1.5%, which has the effect of increasing the incentive that I&M will receive for a marginal increase in spending that increases savings. If the incentive is fixed at 20% of spending and I&M reaches 1.5% energy savings, then the increase in incentive with an increase in spending is just 20% of the spending increase. With AG/CUB's proposal an increase in spending that increases annual incremental energy waste reduction from 1.5% to 1.51% increases incentive payments by 17.6% of the incremental spending. Witness Jester testified that AG/CUB's FIM proposal would reduce I&M's incentive earnings below what I&M proposes if it falls short of 2% annual incremental waste reduction. If I&M acts as a profit-maximizing firm, it would achieve incentives at higher levels than would be the case with a flat incentive of 20% of spending. 2 TR 187.

Witness Jester testified that the AG/CUB FIM includes AG/CUB's recommended increase in I&M IQ program spending. Exhibit AG-4 provides the incentive for I&M IQ spending as a percentage of minimum spending in that category. The minimum spending shown near the top of that table is I&M's proposed IQ program spending. 2 TR 188.

In summary AG/CUB recommends that the Commission do the following:

- Require I&M to increase IQ residential spending to approximately 25% of total residential program spending, without reducing program levels for non-IQ residential customers.
 - Direct I&M to assess opportunities to increase customer adoption rates by increasing levels of measure support for measures that have high UCT ratios.
 - Encourage I&M to adopt an on-bill repayment program for residential customers;
- and

- Find that I&M's proposed EWR FIM is inconsistent with 2016 PA 342 and adopt AG/CUBs FIM incentives proposed in Exhibit AG-4.

Id.

IV.

DISCUSSION

I&Ms proposed EWR Plan includes energy savings targets higher than those provided in current Commission approved EWR Plan. I&M's targeted savings levels of 1.42% in 2022 and 1.48% in 2023 exceed the required 1% statutory standard. See 2 TR 116; see also Exhibit IM-5, Exhibit IM-20. I&M Exhibit IM-1 provides I&M's 2022 and 2023 1% weather normalized energy savings target, with Choice load included. I&M witness Walter testified that I&M's projected 1% target is 26,658,659 kWh of incremental energy savings based on forecasted 2021 retail energy sales. I&M's projected 2023, the standard is 27,082,913 kWh of energy savings based on a forecast of 2022 retail energy sales. Exhibit IM-1 provides I&M's Plan's projected energy savings. Further detail is provided in Exhibit IM-2. Witness Walter testified that I&M's EWR Plan is designed to achieve 2023 energy savings of 37,771,987 kWh, and 40,060,741 kWh in energy savings for 2023. See 2 TR 38. These projections include 2022 and 2023 Pilot savings and savings for all Pilots ordered by the Commission Id.

Exhibit IM-5 shows that I&M's EWR Plan in 2022 would achieve 1.42% of the former standard energy savings in 2023 1.48% of the former standard energy savings. I&M proposes to spend \$6,037,847 in 2022 and \$6,151,120 in the 2023 EWR Plan year.

Exhibit IM-8 shows that I&M proposes to spend 18% of residential portfolio funds on Income Qualified programs in 2022 and 17% in 2023. Witness Huber testified that these amounts align with the proportional amount of revenue estimated to be contributed by low-income customers (16%). See 2 TR 90.

MCL 460.1071(4)(i), provides that I&M's EWR Plan must include a process for obtaining an independent evaluation of I&M's actual EWR programs to verify EWR energy savings. Witness Walter testified that I&M's EWR savings will be verified using a third-party vendor that will provide actual, concurrent, and after-the-fact EWR programs evaluation. 2 TR 36. The vendor will develop program-specific evaluation plans for the 2022 and 2023 program years. 2 TR 37. I&M requests Commission approval to recover the cost of I&M's EWR within the billing requirements provided in Section 89 of Act 295 and Commission approval of I&M's proposed process for obtaining an independent expert evaluation of each EWR Plan program and pilot program.

I&M requests the Commission do the following:

- Approve the allocation of up to thirty percent (30%) of the overall EWR budget for cost-effective or participant demand program-based changes provided by Act 342.
- Determine that I&M's EWR Plan portfolio meets the Utility System Resource Cost Test (UCT) and is reasonable and prudent as set forth in MCL 460.1073; and
- Determine that I&M's proposed EWR portfolio of programs and funding are sufficient to ensure achievement of applicable EWR standards provided in MCL 460.1077.

I&M's proposed EWR Plan provides a portfolio of EWR programs for each I&M each customer class, including Income Qualified customers. Witness Walter testified that the portfolio is designed to achieve and surpass the I&M's former energy savings targets based on the Realistic Achievable Potential (RAP) determined in the 2021 Market Potential Study (MPS). I&M EWR Plan consists of two main EWR program portfolios: Residential (including Income Qualified) and Commercial & Industrial (C&I). The Residential and C&I portfolios are further divided into sub-programs.

Staff indicated in its witness testimony and brief that Staff reviewed I&M's proposed EWR plan and recommends the Commission approve the plan subject to several changes.

Staff recommends that the Commission do the following:

- Find that I&M's proposed EWR levels of 1.42% and 1.48% are too low based on the 2020 Michigan Energy Waste Reduction Potential Study (MEWRPS) where achievable potential was found to be 1.9% for 2022 and 1.8% for 2023. See 2 TR 159.
- Limit I&M's behavior-based measures to 15% to encourage I&M to implement measures with greater and more durable benefits. See 2 TR 166-167.
- Direct I&M to participate in the Michigan Energy Assistance Program (MEAP). See 2 TR 142-143.
- Set I&M's EWR goal at a minimum of 2.0% of its annual sales See 2 TR 159-161.

- Direct I&M to add the equivalent of the 30% of unachieved 2020 savings relative to the 1% target to the I&M's current EWR plan target. See 2 TR 160. This would add 8,105,138 kwh to the savings target. (Id.)
- Direct I&M to carry over into the 2022 program year unachieved 2021 savings and add the unachieved savings to the legislatively mandated 1% goal without the benefit of receiving an incentive on those additional savings. See 2 TR 160-161.

AG/CUB indicated in their joint brief, and in the testimony of witness Jester, that AG/CUB reviewed I&M's proposed EWR plan and recommends the Commission direct I&M to make several changes to its EWR plan. AG/CUB recommends that the Commission do the following:

- Require I&M to increase IQ residential spending to approximately 25% of total residential program spending, without reducing program levels for non-IQ residential customers. See 2 TR 180-181
- Direct I&M to assess opportunities to increase customer adoption rates by increasing levels of measure support for measures that have high UCT ratios. See 2 TR 181- 182
- Encourage I&M to adopt an on-bill repayment program for residential customers; See 2 TR 182-183.and
- Find that I&M's proposed EWR FIM is inconsistent with 2016 PA 342 and adopt AG/CUBs FIM incentives proposed in Exhibit AG-4. See 2 TR 183-188.

I&M's proposed EWR Savings levels of 1.42% and 1.48%

Staff witness Tiwana testified that I&M's proposed EWR levels of 1.42% and 1.48% are too low because the 2020 Michigan Energy Waste Reduction Potential study found that achievable potential was 1.9% for 2022 and 1.8% for 2023. 2 TR 159. Staff believes that I&M should achieve a minimum EWR Savings level equal to 2% of previous year's sales or 53,317,318 kWh for 2022 and 54,165,826 kWh for 2023. Staff witness Tiwana testified that I&M should increase its EWR savings goal because that other Michigan electric utilities have EWR goals that are higher than I&Ms and because I&M has decreased its EWR savings levels for its 2017 through 2020 EWR plans.

Program Year	Case No.	1st-Year	Actual	% of First-Year
		Savings Goal	Achieved	Savings
2017	U- 20030	28,460	37,904	1.33%
2018	U-20367	28,044	32,038	1.14%
2019	U-20704	30,919	31,115	1.01%
2020	U-20867	27,374	19,269	0.70%

2 TR 161

Staff argues that I&M's low EWR savings levels underserve customers and are not consistent with the results of the Michigan MPS. Staff argues further that all MPS results are conservative in nature and I&M's service territory has the potential for higher EWR savings. See 2 TR 160.

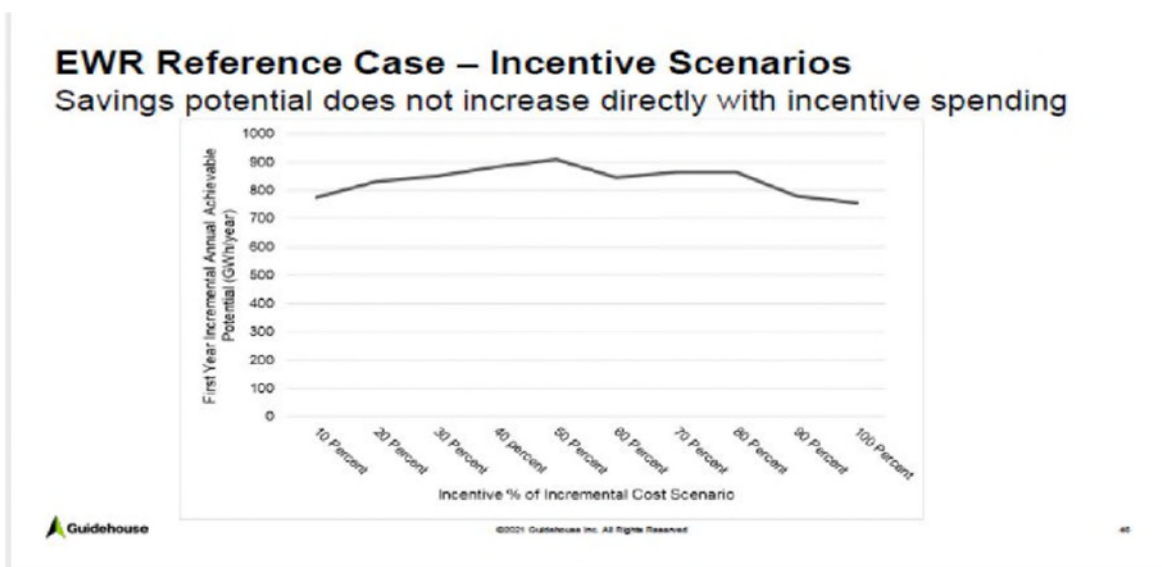
I&M does not agree with Staff's proposed EWR savings targets. Witness Walter testified that I&M's EWR savings targets of 1.42% in 2022 and 1.48% in 2023, are higher than the 2020 target of 1.12% and 2021 1.13% target approved by the Commission in U-20374. See 2 TR 116: Exhibit IM-20. Witness Walter testified that I&M's EWR savings U-20877
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targets are based I&M's consultant GDS's 2021 MPS which specifically analyzed I&M's market potential and RAP energy savings using specific demographic and system information and MEMD standards. 2 TR 44. GDS's analyses resulted in an estimated RAP of approximately 1.4% in 2022. Id. The savings potential identified in I&M's GDS MPS in 2022 is 22% higher than the average savings achieved by I&M in the Michigan service area from 2017-2019. Id. Witness Walter testified that I&M's 2021 MPS was developed using Michigan-specific models for the residential and C&I sector measure potentials, which included Economic Potential, RAP, MAP, and Program Potential (PP). 2 TR 30. I&M believes that its reliance upon the 2021 MPS is reasonable and prudent because market potential studies differ across utilities, particularly I&M because of its unique position within PJM.

MPS results depend on a variety of factors, including differences in customer characteristics (i.e., home size, income, education), geography (i.e., population density, service territory square mileage, urban versus rural, climate, etc.), baseline market conditions (i.e., the efficiency of current equipment in homes and businesses), and utility program maturity (i.e., how long a utility has been offering energy efficiency programs). I agree with I&M that these factors may cause fundamental differences in MPS results. Additionally, the Commission in U-20374 found that I&M's 2016 MPS was an appropriate basis for determining the I&M's energy savings targets by the Commission.

Staff argues in its initial brief that I&M's proposed EWR savings targets of 1.42% in 2022 and 1.48% in 2023 are "far too modest," but neither argues that I&M's EWR plan is unreasonable nor fails to meet the criteria set forth in MCL 460.1073. See Staff's Initial Brief, p. 4. Staff witness Tiwana's position regarding I&M's savings targets relies on the

2020 Michigan Energy Waste Reduction Potential Study (MEWRPS) which was not offered nor admitted into evidence. See 2 TR. 159. I&M witness Walter testified that the 2020 MEWRPS identified Michigan electric utility EWR savings of 1.9% in 2022 and 1.8% in 2023, and not the 2.0% recommended by Staff. Additionally, the 2022 and 2023 savings were found not to have a direct relationship with increased EWR spending after a certain point and are thus not sustainable. The study results show that over time potential savings fall below 1.5% by 2026 and below 1.0% by 2031. Id. The following chart, taken from the statewide MPS study, illustrates the relationship between increased EWR savings and EWR spending.



The evidence presented shows that I&M's 2021 MPS provides a more accurate basis to determine I&M's EWR plan energy savings target than the results of a statewide study. Witness Walter testified that, unlike the statewide study, I&M's 2021 MPS is specific to I&M's service territory using Michigan-specific information and data as well as Michigan Energy Measure Database (MEMD) measures and approaches. See 2 TR 29. I&M's

2021 MPS is a service area specific comprehensive review of I&M's current EWR program and projected savings. 2 TR 83.

Staff's reliance on the stateside MPS study rather than I&M's 2021 MPS is not consistent with the Commission's order in U-20374. In that EWR contested case Staff rejected I&M's projected EWR savings which were based on I&M's 2016 MPS and specifically analyzed I&M's service territory, and instead relied upon on the 2017 Michigan Lower Peninsula Energy Efficiency Potential Study to support Staff's recommended higher EWR savings targets. See U-20374, Order, p. 8. In its order the Commission wrote:

I&M's argument [to adopt the I&M 2016 MPS] is also persuasive that comparisons of its energy savings with those of other utilities in the Michigan, through reference either to their filed plans or to the 2017 Lower Peninsula Study, is insufficient to establish I&M's actual savings potential. I&M explained that in its calculation of avoided costs, I&M used cost data based on the PJM energy market, not the MISO market energy costs, applicable in the rest of Michigan. Mr. Walter testified I&M is long in energy and its most appropriate avoided costs are not based on construction of new generation, but on energy purchases in the PJM market as proposed in its IRP. Staff did not dispute the use of PJM avoided cost data, and notably did not dispute the USRCT score generated by I&M.

U-20374, PFD, p. 29.

Finally, Staff's argument that I&M's EWR savings targets may only be determined after an analysis which compares I&M's MPS based savings with other utilities MPS

projected or achieved EWR savings would be contrary to the purpose of utility service area specific MPS and would require all EWR plans to meet statewide comparison criteria rather than a reasonable and prudent standard for utility specific MPS based EWR savings.

Therefore, I find that the evidence presented shows that I&M's 1.42% and 1.48% energy savings targets are reasonable and prudent because the targets are:

- Based on its' 2021 MPS,
- Markedly higher than prior EWR plan actual savings; and
- Consistent with the Commission's finding in U-20374 that I&M's 2016 MPS was an appropriate basis for determining the I&M's energy savings targets.

I recommend the Commission approve I&M's 1.42% and 1.48% EWR savings targets.

Staff's Recommended addition of 30% of any unachieved 2020 savings relative to the 1% target to the I&M's current EWR plan target.

Staff recommends that I&M add the equivalent of the 30% of unachieved 2020 savings relative to the 1% target to the I&M's current EWR plan target. See 2 TR 160. If the Commission approves Staff's recommendation it would add 8,105,138 kwh to I&M's savings target. Id. Staff also recommends that if the I&M is unable to achieve Staff's recommended enhanced EWR savings then all unachieved savings should carry over into the 2022 program year and be added to the legislatively mandated 1% goal without the benefit of I&M receiving an incentive on those additional savings. See 2 TR 161. Staff neither indicates in its witness testimony nor briefs why Staff believes its recommendation is necessary nor does Staff indicate why it believes the Commission has the authority to

carry forward unachieved EWR savings from one EWR plan year to the next EWR plan year.

Because this is I&M's 2022-2023 EWR Plan case the Commission's authority comes from MCL 460.1073, which provides that "[a] provider's energy waste reduction plan shall be filed with, reviewed by, and approved or rejected by the commission." See MCL 460.1073(1). MCL 460.1073(3) provides in pertinent part

Every 2 years after initial approval of an energy waste reduction plan under subsection (2), the commission shall review the plan. For a provider whose rates are regulated by the commission, the commission shall conduct a contested case hearing on the plan pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328. After the hearing, the commission shall approve, with any changes consented to by the provider, or reject the plan and any proposed amendments to the plan.

MCL 460.1073(3) clearly provides that the Commission's authority after the hearing is limited to approving I&M's EWR plan, with any changes consented to by I&M, or rejecting the plan and any proposed amendments to the plan. Contrary to Staff's recommendation the Commission does not have the authority to retroactively mandate I&M to achieve a higher energy savings target in a previous EWR year or amend a preceding EWR Plan arising from an un-appealed Commission final order.

Staff's recommendation, if adopted by the Commission, would require I&M to achieve retroactive EWR savings targets which are not based on achievable savings supported by I&M's service area MPS during the 2022-2023 EWR plan period. Additionally, Staff provided no evidence that its recommendation would be cost effective.

Staff also did not address what would occur if I&M overachieved its EWR plan savings target. Would Staff then recommend those savings be carried forward and applied in the next EWR plan year? If so, what authority does the Commission has for such a scheme?

In U-20374, the Commission rejected Staff's recommendation to set I&M's EWR savings targets based on non-I&M MPS service specific data. Like Staff's recommendation in U-20374 Staff proposed carry over of unachieved 2020 EWR savings to the 2021 and/or 2022 periods is not based upon Staff's analysis of I&M's approved EWR programs and measures and MPS based achievable EWR savings. Staff provided no evidence that I&M's MPS service area data indicates I&M has potential to achieve Staff recommended carry forward savings.

Staff's Recommended 15% Limit for I&M's behavior based EWR measures.

Staff witness Banks testified that Staff favors higher impact, longer lasting physical EWR programs rather than behavior-based programs. 2 TR 166. Witness Banks testified that in 2018 I&M began implementing inexpensive behavior report programs instead of physical measures, which have a lasting and higher impact, which leads to decrease energy consumption and lower electric bills. Staff first presented its concerns regarding I&M's behavior-based programs in U-18263, I&M's EWR plan case, filed in 2017 and approved in 2018. I&M agreed to the 15% limit as part of the settlement agreement approved by the Commission. In U-20374, I&M incorporated the same limit in its EWR plan approved by the Commission, filed in 2019 and approved in 2020.

Witness Banks testified that Staff recommends a continuation of the 15% EWR behavioral programs limitation which has been in place 2018. Staff recommends I&M's behavior-based programs be limited to 15% of I&M's total residential program portfolio.

The I&M's plan proposes levels of 18% in 2022 and 33% in 2023. Witness Banks testified that Staff recommends I&M spend more on non-behavioral EWR measures because behavioral measure savings:

- Decline rapidly or cease altogether when the measure is no longer delivered.
- Conflict with established educational program limits; and
- Displace traditional measures, such as energy efficient appliances and building improvements, that have longer lasting savings benefits.

See 2 TR 166-167

Staff recommends the Commission limit I&M's behavior-based measures to 15% to encourage I&M to implement non- behavioral savings measures.

I&M's EWR Plan proposes levels of behavior-based programming of 18% in 2022 and 33% in 2023. I&M argues that these levels are reasonable and prudent because they are based on I&M's 2021 MPS RAP. See 2 TR 124. I&M witness Walter testified that I&M originally agreed to the 15% limitation in settlements of I&M's prior EWR Plan cases, but I&M now believes that Staff recommended 15% limitation would limit I&M's ability to meet increasing expectations for higher energy savings. *Id.* Additionally, because the 15% limitation is not based on I&M customer preference or need the 15% limit is conceptually restricting and limits I&M's customer ability to contribute benefits and the potential for customer parity. *Id.*

Witness Walter testified that I&M's proposed 2022 and 2023 increased spending levels for behavior-based programming are based on I&M's plan to expand its Home Energy Reports (HER) program which allows all residential customers to engage in their energy consumption through AMI technology and online platforms. *Id.* I&M believes that

its proposed expanded HER would improve energy savings, customer benefits and customer parity while Staffs proposed 15% limitation would limit customers from benefits and higher I&M energy savings.

Witness Walter testified that I&M has developed a plan to evaluate customer behavior savings which is consistent with Behavior Resource Manual (BRM). Id. I&M has transitioned its Home Energy Reports to an electronic version and has evaluated energy savings in U-2037, its current approved EWR Plan. Id. I&M has engaged a third-party evaluator to develop custom evaluation plans to evaluate, among other things, customer participation. I&M believes that Staffs recommended 15% limitation would restrict I&M's transition plans designed increase savings in its 2022-2023 EWR Plan.

Witness Walter testified that I&M does not agree with Staff witness Banks preference for long life energy savings measure should restrict I&M's plans for both behavioral and long-life measures. Witness Walter testified that I&M's current and proposed EWR plans includes long life measures, but I&M customer response has not been strong to these except for LED lighting. Id. Additionally, I&M's residential lighting rebates, other long life residential measures such as water heat and HVAC measures are not as productive for most I&M's customers (i.e., those not having electric heat or water heat), and the investment return to customers is less. See 2 TR 127.

I&M argues that because customer behavior-based energy savings are driven by customer motivation for change behavioral measures should be considered as separate and distinct from long life measures, and both measures should not be limited and constrained, due to the other. I agree.

I&M's plan proposes levels of 18% in 2022 and 33% in 2023. Witness Banks testified that Staff recommends I&M spend more on non-behavioral EWR measures because behavioral measure savings:

- Decline rapidly or cease altogether when the measure is no longer delivered.
- Conflict with established educational program limits; and
- Displace traditional measures, such as energy efficient appliances and building improvements, that have longer lasting savings benefits.

See 2 TR 166-167

According to Staff witness Banks testimony, Staff's 15% limit has been in place since 2018 and since then I&M has agreed to the 15% limitation. However, in this case I&M does not agree with the 15% limit and argues that Staff's 15% limitation would limit I&M's ability to implement its proposed behavioral based energy savings measures. Staff has not argued that I&M's proposed changes are not reasonable nor prudent only that Staff prefers long life measures over behavioral measures. Therefore, I find that I&Ms proposed spending levels of 18% in 2022 and 33% in 2023 are supported by the evidence and recommend the Commission adopt I&M's spending levels and not adopt Staff's 15% limit.

I&M's participation in the Michigan Energy Assistance Program (MEAP).

Staff recommend the Commission direct I&M to begin participating in the Michigan Energy Assistance Program (MEAP). I&M witness Walter testified that I&M believes that Staff's recommendation is a reasonable goal. However, to achieve MEAP participation I&M must complete a complex evaluation. See 2 TR 99. Witness Walter testified that to facilitate MEAP participation I&M has been engaged in discussions with Staff and the

Michigan Department of Health and Human Services (MDHHS) staff members. Additionally, I&M has been engaged in discussions regarding MEAP with Staff, SEMCO and UPPCO. Witness Walter testified that I&M does not disagree with Staff's recommendation regarding MEAP participation, but I&M believes that further discussions and investigation are required to enable I&M to determine the impacts to I&M, staffing, and budgeting. See 2 TR 100.

I find that the evidence presented shows that Staff's recommendation that I&M participate in MEAP is reasonable and prudent and recommend the Commission direct I&M to participate in MEAP after I&M and Staff determine the staffing and budgeting impact on I&M.

I&M Collection of Customer Data

Staff argues in its Initial Brief that I&M should track customer data to identify customers that receive EWR and bill payment assistance to identify customers who are missing out on I&M programs. See Staff's Initial Brief, p. 3. Witness Walter testified that I&M currently does not collect customer data regarding age, gender, race/ethnicity, income, education level, etc., because it is not I&M's role, to collect, process, disclose, and store sensitive customer personal information. See 2 TR 112. Witness Walter testified that Rule 53 of the Commission's Rules of Practice and Procedure, provides that a utility's customer data privacy tariffs must address customer access to energy consumption data and confidentiality and provide customers information about what kind of customer information is collected and maintained by the utility and how that information is protected. See R 460.153. Rule 53 requires I&M to clearly define customer information or data that I&M collects or maintains. See R 460.153(2)(b). Rule 53 also requires I&M

to protect all customer information or data collected from unauthorized use or disclosure by I&M and its affiliates, or contractors. See R 460.153(2)(c). I&M witness Walter testified that I&M's customers would more than likely neither support Staff's proposal to track and monitor their sensitive personal information, nor support I&M disclosing their personal information to third parties or publicly. Id. Witness Walter testified that I&M does not agree with Staff's proposal because I&M's proposed EWR Plan includes customer outreach and educational to make I&M's Income Qualified (IQ) customers aware of I&M's EWR programs and offerings.

The evidence presents shows that Staff's recommendation that I&M collect customer personal information and data to identify customers that receive EWR, and bill payment assistance is not reasonable nor prudent. Therefore, I recommend the Commission not adopt Staff's recommendation.

AG/CUBs Recommendations

AG/CUB recommends that the Commission do the following:

- Require I&M to increase IQ residential spending to approximately 25% of total residential program spending, without reducing program levels for non-IQ residential customers. See 2 TR 180-181
- Direct I&M to assess opportunities to increase customer adoption rates by increasing levels of measure support for measures that have high UCT ratios. See 2 TR 181- 182
- Encourage I&M to adopt an on-bill repayment program for residential customers; See 2 TR 182-183.and

- Find that I&M's proposed EWR FIM is inconsistent with 2016 PA 342 and adopt AG/CUBs FIM incentives proposed in Exhibit AG-4. See 2 TR 183-188

I&M Income Qualified Customer Spending

I&M proposes to spend 18% of residential portfolio funds on IQ programs in 2022 and 17% in 2023. I&M witness Huber testified that I&M's proposed IQ program spend amounts align with the proportional amount of revenue estimated to be contributed by low-income customers (16%) according to the Elevate Energy study findings. I&M IQ customers are not precluded from participating in and benefiting from the other programs in I&M's EWR residential portfolio. Witness Huber testified that I&M believes that its IQ customers receive more than their fair share of funding and savings than I&M's remaining residential customers. 2 TR 90-91.

AG/CUB witness Jester testified that I&M's residential IQ program is inadequate and unfair. 2 TR 177. Because of this AG/CUB believes that the Commission should direct I&M to increase its proposed IQ program spending. Exhibit AG-2 shows that I&M has an estimated 28,892 IQ residential customers or approximately 26.2% of its residential customers. Despite having no information regarding how I&M's IQ customers' electric use compares to other residential customers, witness Jester assumed that IQ customer and non-IQ customer electrical use are similar. AG/CUB argues that because I&M customers contribute 25% of the revenue for I&M's residential EWR programs IQ spending should be increased to 25% of total EWR spending. AG/CUB provided no evidence regarding I&M's IQ and non- IQ residential customer electric use and therefore its recommended increase in IQ spending is based entirely on witness Jester's of unsupported assumption.

Witness Jester testified that because I&M's IQ programs are more costly per unit of energy savings than non-IQ programs. Witness Jester projected I&M in 2022 would have 868,375 kWh of lifetime IQ customer savings out of total residential customer lifetime savings of 79,170,350 kWh or 5% and in 2023 3,944,002 kWh of lifetime IQ customer savings out of total residential customer lifetime savings of 86,399,489 kWh or 4.5%. 2 TR 177-178. AG/CUB argues that program equity requires the Commission to direct I&M to increase its residential IQ programming spending at or above a level that matches the 25% proportion of I&M residential customers that are Income Qualified (25%), without reducing I&M's non-Income-Qualified residential EWR spending. Witness Jester testified that to implement AG/CUB's recommendation, I&M would need to increase its 2022 IQ program budget from \$501,418 to \$755,207 and increase its 2023 IQ program budget from \$513,578 to \$833,072.

I&M witness Huber testified that I&M does not agree with AG/CUB witness Jester recommendation that the Commission direct I&M to increase its proposed IQ program spending. I&M believes that its proposed IQ programs spending levels are reasonable, equitable, based on research specific to I&M's service territory, and consistent with industry data. 2 TR 89. I agree.

AG/CUB's recommendation is based on witness Jester's unsupported assumption that I&M IQ customers spend approximately the same amount on energy as non-IQ customers. Witness Huber testified that the following reports show that witness Jester's assumptions are incorrect:

- 2016 ACEEE report found that on average, low-income households had \$1,690 worth of annual energy expenditures, which was 21% less than the average of \$2,134 annual energy expenditures of non-low-income households.
- 2019 Elevate Energy study investigated low-income customer usage for ComEd and found that the average annual electricity use for low-income single-family households is 37% less than the average for all ComEd single-family customers, while annual electricity use for low-income multifamily households is 13% less than the average for all ComEd multifamily customers.

2 TR 90.

Witness Huber testified that assuming the same energy usage patterns for I&M's Michigan customers, who are in a similar climate and geographic region as ComEd:

- The average annual energy expenditure for low-income customers would be 45% less than the average annual energy expenditure for non-low-income customers, and 37% less than the average annual energy expenditure for all residential customers; and
- Low-income customers would be contributing 16% of all revenues for the residential customer class. *Id*

Staff recommends that I&M should designate funds in its EWR budget low-income programs. In 2013 I&M participated in Efficiency United, a State EWR Administrator program and designated 10% of I&M's EWR budget toward low-income programs and measures. Since then, the percentage of I&M total spending for low-income programs has declined. 2 TR 145. Witness Banks testified that Staff recommends the Commission order I&M to designate at least 12% of their total budget toward low-income programs for

2022 and 2023, or \$650,485 for 2022, and \$666,896 for 2023. *Id* Staff witness Banks testimony confirms that I&M's IQ program covers all potential measures to improve IQ electricity affordability, from efficiency measures to installation type.

I find that the evidence presented shows that I&M's proposed IQ program spending is reasonable and prudent and that AG/CUB's IQ spending recommendation is based on an unsupported and incorrect assumption regarding I&M non- IQ and IQ customer electric use. Therefore, I recommend the Commission reject AG/CUB's recommendation and adopt I&M's proposed IQ program spending.

AG/CUB's Recommendation that I&M assess high UCT ratios.

AG/CUB witness Jester testified that he reviewed I&M's EWR measures and found that many of I&M's measures have high Utility Cost Test (UCT) ratios. A UCT ratio is the ratio of a utility's avoided costs for a measure to the utility's contribution to customer adoption of the measure and is designed to measure cost- effectiveness. A high level of savings to spending indicates that a utility may increase customer rebates or other assistance while providing a net benefit. Witness Jester testified that he reviewed Exhibits IM-9 through IM-19 which provide I&M's UCT ratios. According to witness Jester the UCT ratios for some measures are above 1.0, with many having UCT ratios of 3 or higher.

- Exhibit IM-11 shows that most direct install measures for commercial customers, have UCT ratios greater than 1.0 but none have extremely high UCT ratios.
- Exhibit IM-12, shows that most midstream rebates for commercial measures, have very high UCT ratios.
- Exhibit IM-13 shows that most Industrial Systems Program, measures have UCT ratios greater than 1.0 but none have extremely high UCT ratios.

- Exhibit IM-14 shows that most Strategic Energy Management, “whole building” approaches generally have high UCT ratios.
- Exhibit IM-15 shows that many Home Energy Products measures have high UCT ratios in 2023.
- Exhibit IM-16, shows that all Qualified program measures, have low UCT scores due to the higher implementation costs of these programs.
- Exhibit IM-17 shows most Residential New Construction measures have UCT ratios near 1.0.
- Exhibit IM-18 shows that some residential energy management programs, and some behavioral and most hot water measures have high UCT ratios.
- Exhibit IM-19 shows that some residential HVAC Midstream rebates, HVAC controls and some heat pump types have high UCT ratios.

See 2 TR 180

Witness Jester testified I&M’s program measures with high UCT ratios suggest that I&M may increase spending and customer benefits if the increase in measure support would lead to greater customer adoption. Witness Jester testified that he has no data which indicates that increased I&M spending would result in increased customer adoption. Despite this admission AG/CUB recommends the Commission direct I&M to address its high UCT ratios in I&M’s next EWR Plan case. Additionally, AG/CUB recommends that if the Commission requires I&M to increase spending then the Commission should direct I&M to focus its increased spending on programs and measures with high UCT ratios. 2 TR 181.

Witness Huber testified that I&M does not agree with AG/CUB witness Jester's recommendation that I&M address whether higher incentives would achieve higher adoption rates because many commercial and industrial (C&I) measures have a high Utility Cost Test (UCT) ratio. I&M witness Huber testified that I&M asked GDS to perform market research as part of I&M's MPS to address whether higher incentives would achieve higher adoption rates. Sections 2.4 and 4.1.7.1 of the I&M 2021 MPS discuss the impact of higher incentives on adoption rates by customer sector and includes an estimate of maximum achievable potential, based on increased incentives and program marketing relative to the realistic achievable potentials. The MPS does not include a comparison of estimated program budgets. 2 TR 92.

Figure JRH-R2

% Increase in MAP MWh Savings (Cumulative Annual) relative to RAP	% Increase in MAP Program Costs (20- year) relative to RAP
26%	89%

2 TR 92

Witness Huber testified that the above MAP and RAP comparisons suggest that higher incentives will lead to increased savings and that estimated costs will increase by 3.4% for every 1% increase in savings. Witness Huber concluded that I&M's proposed RAP incentive levels are sufficient to encourage EWR program participation without significant increases in program spending which would cause rapidly diminishing returns and reduced cost-effectiveness. *Id.*

Staff neither addressed I&M's UCT ratios in its testimony nor brief. AG/CUB is not recommending that I&M address its UCT ratios in this EWR plan case but instead recommends the Commission consider UCT ratios in I&M next EWR plan case. Because

of this I leave it to the Commission to decide what it would like I&M to do in I&M's next plan case.

On-Bill Payment

I&M's EWR plan filed with the Commission does not include a request by I&M for Commission approval to establish this program. Despite this fact AG/CUB chose to ask the Commission to approve a new I&M on-bill program in I&M's EWR Plan contested case proceeding.

Witness Jester testified an on-bill payment system requires customers to pay a charge on their utility bill for an investment that benefits the customer over time. Witness Jester testified that an on-bill payment program has the following characteristics:

- Investments are funded by the utility or a third party.
- The obligation to pay may be assigned to the customer who originally agreed to the investment and repayment, or it might be assigned "to the meter" meaning that the obligation to repay is always with the current account holder.
- On-bill repayment obligations may be enforced by service shutoff and other normal utility collection practices.
- On-bill repayment programs may be structured to guarantee bill savings.
- Makes psychological sense to the customer when they anticipate covering all or most of the costs of an investment though utility bill savings.
- The obligation to repay applies to the meter, then the customer's creditworthiness is less important in originating the loan for the investment and the customer's creditworthiness is not affected by the obligation.

- For rented homes and the occupant pays the utility bill, on-bill repayment can solve the problem of split incentive for energy waste reduction between the landlord and the tenant.
- Has low transaction costs compared to other loan products, because security for a loan is provided by the utility: and
- Provides a tool by which a utility can offer customers an opportunity for larger EWR investments at minimal cost to the utility and its other customers.

2 TR 183

Witness Jester testified that he believes that an on-bill repayment program could result in a high contribution to EWR through funding by a third party repaid by participating customers and not through EWR surcharges. *Id.* Witness Jester testified that any electricity savings resulting from a residential energy projects program pursuant to Part 17 of 2016 PA 342 may be counted toward I&Ms electricity savings requirements and FIM. *Id.* Witness Jester testified that a residential utility customer on-bill repayment approach was authorized in Part 7 of 2016 PA 342. AG/CUB recommends that I&M consider adopting or piloting an on-bill repayment program.

Staff neither addressed this recommendation in their testimony nor briefs. While AG/CUB and their witness may propose innovative billing schemes I&M did not propose an on-bill repayment program in its EWR plan. The purpose of this contested case proceeding is to determine whether I&M proposed EWR plan is reasonable and prudent and not to evaluate and recommend a new alternative billing scheme to the Commission. Michigan regulated utilities may request approval of a residential energy projects program to provide financing to residential customers under Part 7 of Act 342. MCL 460.1201 to

MCL 460.1211. MCL 460.1203 allows utilities the option to propose a residential energy projects program. MCL 460.1205 provides in pertinent part:

“A residential energy projects program may only be established and implemented pursuant to a plan approved by the commission. A provider seeking to establish a residential energy projects program shall file a proposed plan with the commission.”

I&M has not included a request in its EWR plan filing in this matter to establish an on- bill repayment program and has not asked the Commission for approval of such a plan under MCL 460.1205. I&M correctly argues in its Rely Brief that I&M has legitimate reasonable concerns regarding cost, complexity, and possible exposure to consumer lending laws. See I&M Reply Brief pp-24-25. I&M correctly argues that the implementation an on-bill financing program would require considerable planning and information from I&M's EWR, billing, collections, IT, and legal staff.

Given these complexities, and the fact that I&M has not proposed a new on bill repayment billing scheme in this case, I recommend the Commission reject AG/ CUB's recommendation. If I&M choses to implement an on-bill repayment plan in the future, it may do so consistent with MCL 460.1205 in a general rate case or other appropriate contested case proceeding.

Financial Incentive Mechanism

I&M's proposed Financial Incentive Mechanism (FIM) methodology and incentive structure is provided in Exhibit IM-7. Section 75 of Act 295, MCL 460.1075(1) provides that:

“[a]n energy waste reduction plan of a provider whose rates are regulated by the commission may authorize a commensurate financial incentive for the provider for exceeding the energy waste reduction standard. Payment of any financial incentive authorized in the energy waste reduction plan is subject to the approval of the commission.”

MCL 460.1075(1)

MCL 460.6a(13) provides the Commission with the discretion to approve alternate FIM methodologies for utilities. MCL 460.6a(13) reads, in pertinent part:

The commission may approve an alternative methodology for a . . . financial incentive authorized under Section 75 of the Clean and Renewable Energy and Energy Waste Reduction Act, 2008 PA 295, MCL 460.1075 . . . if the commission determines that the resulting aggregate revenues from those mechanisms would not result in a reasonable and cost-effective method to ensure that investments in energy waste reduction, demand-side programs, peak load reduction, and other waste reduction measures are not disfavored when compared to a utility's supply side investments.

MCL 460.6a(13)

I&M witness Walter testified that the Commission first authorized I&M's EWR Plan FIM for 2018-2019, in U-18263. Exhibit IM-7, I&M's current FIM proposal, is like the FIM approved by the Commission in U-20374 but is adjusted using different metrics for performance achievement. See 2 TR 65. I&M's proposed EWR Plan forecast net lifetime energy savings achievement, including pilots, determines the 75% weighting of performance earnings under the FIM, while an IQ Program spend goal achievement

determines the remaining 25% weighting of performance earnings. Id. Witness Walter testified that I&M proposes its modified approach to account for long life achievement and the challenges in achieving IQ customer benefit realization. Id. Exhibit IM-7 shows that I&M's FIM Payout Tier 1 starts at 75% of the EWR Plan Target Attainment, or 75% of the 1.42% achievement proposed by the I&M for 2022 and 1.48% in 2023. Witness Walter testified that 75% of these target attainment amounts result in a threshold of 1.065% in 2022 and 1.11% in 2023. See 2 TR 131. Based on this information, I&M does not agree with Staff witness Smith's conclusion (see 2 TR 152) that I&M's FIM provides a financial incentive award of 15% of program spend for achieving 75% of the 1% standard. Id.

I&M argues that the incremental steps within Tier 1 and Tier 2 of its proposed FIM provide for increased incentives based on performance within the Tiers. I&M argues in its brief that its proposed FIM methodology and incentive structure were approved by the Commission in U-18263, U-20367, and U-20374 and the same FIM methodology and incentive structure have been adopted by other Michigan electric and gas, utilities, to calculate their respective EWR financial incentives. Based on the foregoing, I&M argues the Commission should approve I&M's proposed FIM methodology and incentive structure provided in Exhibit IM-7.

MCL 460.1071(4)(h) provides the Commission with the authority to adjust EWR spending between EWR programs. Witness Walter testified that the Commission in U-20374 allowed I&M the EWR budget flexibility to reallocate up to 30% of its overall EWR budget to accommodate cost-effective or participate demand program changes. See 2 TR 65. In its current EWR plan I&M requests Commission authorization to reallocate any

amount up to 30% of funding within a customer class during each plan year to ensure program flexibility.

Staff's Recommended Financial Incentive Mechanism (FIM)

I&Ms proposes to change the metric weighting to 75% for the performance earnings metric and 25% weighting for the Income Qualified metric. Staff agrees with the I&M on the weighting change and proposed some modifications. See 2 TR 154.

Staff witness Smith testified that Staff recommends that I&Ms FIM sliding scale start at the 100% of the 1% statutory goal and then go up to 200% of the goal. See 2 TR 152. I&M witness Walter testified that I&M disagrees with Staff's proposal to increase the FIM threshold to 100% vs the I&Ms requested 75%. See 2 TR 131. Witness Walter testified that I&M believes that Act 295 as amended by PA 342 Sec. 77 (1) 1% EWR savings target applies only through 2021. See 2 TR 130.

PA 342 Sec. 77 (1) provides:

Except as provided in section 81 and subject to section 77, an electric provider's energy waste reduction programs under this subpart shall collectively achieve incremental energy savings each year through 2021 equivalent to 1 % of the total annual retail electricity sales in megawatt hours in the preceding year.

Staff indicates in its brief that it understands and recognizes the language of section 77 but despite this Staff recommends the Commission find that it is reasonable to expect I&M to continue, beyond 2021, I&M's previously approved savings amounts. Staff's argument relies on PA 342 Sec. 77 (4), which provides:

Incremental energy savings under subsection (1) or (3) for a year shall be determined for a provider by adding the energy savings expected to be achieved by energy waste reduction measures implemented during that year under any energy waste reduction programs consistent with the provider's energy waste reduction plan. The energy savings expected to be achieved shall be determined using a savings database or other savings measurement approach as determined reasonable by the commission.

The plain clear language of section 77 provides that I&M's EWR programs are only required to..." collectively achieve incremental energy savings each year through 2021 equivalent to 1% of the total annual retail electricity sales in megawatt hours in the preceding year". If the legislature intended to extend the 1% EWR savings goal beyond 2021 it would have said so. Section 77 does not require I&M to achieve a 1% EWR savings goal for 2022 but the Commission has the authority under MCL 460.1073(3) to reject I&M's 2022-2023 EWR plan and any proposed amendments to the plan. MCL 460.1073(3) provides in pertinent part"

Every 2 years after initial approval of an energy waste reduction plan under subsection (2), the commission shall review the plan. For a provider whose rates are regulated by the commission, the commission shall conduct a contested case hearing on the plan pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328. After the hearing, the commission shall approve, with any changes consented to by the provider, **or reject the plan and any proposed amendments to the plan.** (Emphasis added)

MCL 460.1073(3)

Additionally, MCL 460.6a(13) provides the Commission with the discretion to approve alternate FIM methodologies for utilities. MCL 460.6a(13) reads, in pertinent part:

The commission may approve an alternative methodology for a . . . financial incentive authorized under Section 75 of the Clean and Renewable Energy and Energy Waste Reduction Act, 2008 PA 295, MCL 460.1075 . . . if the commission determines that the resulting aggregate revenues from those mechanisms would not result in a reasonable and cost-effective method to ensure that investments in energy waste reduction, demand-side programs, peak load reduction, and other waste reduction measures are not disfavored when compared to a utility's supply side investments.

MCL 460.6a(13)

I&M has proposed EWR savings targets above the 1% threshold. Exhibit IM-7 shows that I&M's FIM Payout Tier 1 starts at 75% of the EWR Plan Target Attainment, or 75% of the 1.42% achievement proposed by the I&M for 2022 and 1.48% in 2023. Witness Walter testified that 75% of these target attainment amounts result in a threshold of 1.065% in 2022 and 1.11% in 2023. See 2 TR 131. Based on this information the evidence shows that I&M's proposed FIM is reasonable and prudent, and the Commission has the authority to approve I&M's FIM.

AG/CUBs Argument I&M's FIM is Inconsistent with the Statute

AG/CUB witness Jester testified that AG/CUB believes that I&M's FIM is inconsistent with statutes and is unreasonable because it allows incentives for achieving low levels of savings rather than reserving incentives for higher savings. See TR 184-

186. MCL 460.1075 ;2016 PA 342 Section 75 authorizes a financial incentive for an electricity or gas provider “for exceeding the energy waste reduction standard”. The financial incentive authorized in Section 75 for electric utilities like I&M those portions are as follows:

(2) The total amount of a financial incentive for an electric provider that achieves annual incremental savings of greater than 1.5% of its total annual retail electricity sales in megawatt hours in the preceding year ... shall not exceed the lesser of the following amounts:

(a) 30% of the net present value of life-cycle cost reductions experienced by the provider’s customers because of implementation, during the year for which the financial incentive is paid, of the energy waste reduction plan

(b) 20% of the provider’s actual energy waste reduction program expenditures for the year.

(3) The total amount of the financial incentive for an electric provider that achieves annual incremental savings of greater than 1.25% but not greater than 1.5% of its total annual retail electricity sales in megawatt hours in the preceding year ... shall not exceed the lesser of the following amounts:

(a) 27.5% of the net present value of life-cycle cost reductions experienced by the provider’s customers because of implementation, during the year for which the financial incentive is paid, of the energy waste reduction plan.

(b) 17.5% of the provider's actual energy waste reduction program expenditures for the year.

(4) The total amount of a financial incentive for an electric provider that achieves annual incremental savings of at least 1.0% but not greater than 1.25% of its total annual retail electricity sales in megawatt hours in the preceding year ... shall not exceed the lesser of the following amounts:

(a) 25% of the net present value of life-cycle cost reductions experienced by the provider's customers because of implementation, during the year for which the financial incentive is paid, of the energy waste reduction plan.

(b) 15% of the provider's actual energy waste reduction program expenditures for the year. I&M requests a financial incentive as a percent of energy waste program expenditures as permitted, but Section 75 expresses the amount of the financial incentive for which an electric provider is eligible in tiers based on the level of annual incremental savings achieved by the electric provider.

See 2 Tr 185; Initial Brief pp 8-9.

AG/CUB recommends the Commission approve a FIM that is consistent with Exhibit AG-3 which shows the relationship between I&M's Plan Target Attainment and the level of annual incremental savings. Initial Brief p 9-10.

AG/CUB argues that according to PA 342 Section 75(4), the total amount of a financial incentive for an electric provider that achieves annual incremental savings of at least 1.0% but not greater than 1.25% [Tier 1] of its total annual retail electricity sales in

megawatt hours in the preceding year shall not exceed 15% of the providers actual energy waste reduction program expenditures for the year. I&M proposes an incentive mechanism 16.25% for achieving 1.25% annual incremental savings when the maximum under the statute for 1.25% annual incremental savings is 15% for Tier 2. AG/CUB further argues that Section 75(3), provides that the total amount of a financial incentive for an electric provider that achieves annual incremental savings of greater than 1.25% but not greater than 1.5% of its total annual retail electricity sales in megawatt hours in the preceding year shall not exceed 17.5% of the providers actual energy waste reduction program expenditures for the year. I&Ms proposes an incentive mechanism where I&M receives an incentive of 18% for achieving 1.5% annual incremental savings when the maximum under the statute for 1.5% annual incremental savings is 17.5%. Initial Brief p 11.

AG/CUB argues that because the FIM provisions of Section 75 are clear and unambiguous the Commission must find that I&M's proposed FIM violates section 75 and is unreasonable. See AG/CUB Brief p 11.

As found previously in this decision MCL 460.6a(13) provides the Commission with the discretion to approve alternate FIM methodologies for utilities. MCL 460.6a(13) reads, in pertinent part:

The commission may approve an alternative methodology for a . . . financial incentive authorized under Section 75 of the Clean and Renewable Energy and Energy Waste Reduction Act, 2008 PA 295, MCL 460.1075 . . . if the commission determines that the resulting aggregate revenues from those mechanisms would not result in a reasonable and cost-effective method to

ensure that investments in energy waste reduction, demand-side programs, peak load reduction, and other waste reduction measures are not disfavored when compared to a utility's supply side investments.

MCL 460.6a(13)

AG/CUB rejects I&M's argument that its proposed FIM is reasonable because the Commission has approved the FIM in prior EWR contested cases. AG/CUB believes that because I&M's proposed FIM violates Section 75, prior cases which also violated section 75, are not relevant. Initial Brief pp 12-13. Not only is AG/CUB arguing that I&M's proposed FIM in this matter violates Section 75 it is also arguing that all prior I&M EWR contested case FIMs approved by the Commission, which use a FIM like I&M's, also violate Section 75, and should not be considered by the Commission. AG/CUB's argument, if correct, would negate years of Commission Staff FIM recommendations and negate numerous Commission's orders which adopted Staffs recommended FIMs.

AG/CUB's argument has no merit because it ignores the fact that the prior I&M proceedings were contested case proceeding where I&M's FIM was approved by the Commission.

I&M's EWR Plan Revenue Requirements and Surcharges.

Table BSO-1 of I&M witness Owens's testimony provides I&M's EWR plan's total revenue requirement of \$12,188,967 includes operating costs associated with program rebates, customer education, plan administration, information technology support, and marketing. See 2 TR 71-72. I&M is requesting Commission approval to implement revised EWR surcharge rates to include the 2022-2023 EWR Plan revenue requirement. *Id.* The EWR Plan revenue requirements for 2022-2023 were used to calculate the proposed

EWR Plan surcharge rates The 2022 and 2023 EWR Plan spending amounts of \$6,037,847 and \$6,151,120, are supported by I&M witness Owens in Table BSO-1. *Id.* The total EWR Plan revenue requirement of \$12,188,967 is reflected in Exhibit IM-21. See 2 TR 78. The I&M's proposed rate design structure remains the same for Residential, Unmetered, C&I small/medium customers, and C&I large customers. *Id.*

Table BSO-1 Indiana Michigan Power Company - Michigan Energy Waste Reduction - Two Year Plan - 2022 & 2023 EWR Surcharge Revenue Requirement			
	Residential	Commercial & Industrial	Total
2022 EWR Program Cost	\$3,083,605	\$2,954,241	\$6,037,847
2022 EWR Revenue Requirement	\$3,083,605	\$2,954,241	\$6,037,847
2023 EWR Program Cost	\$3,325,198	\$2,825,923	\$6,151,120
2023 EWR Revenue Requirement	\$3,325,198	\$2,825,923	\$6,151,120
2 Yr. EWR Program Cost	\$6,408,803	\$5,780,164	\$12,188,967
2 Yr. EWR Revenue Requirement	\$6,408,803	\$5,780,164	\$12,188,967

2 TR 72

Table JWM-1 of I&M witness. Morgan's testimony provides a summary of I&M's EWR plan monthly rate surcharges for each customer class. See 2 TR 79. The rates shown in Table JWM-1, along with Exhibit IM-21, are for the period January 2022 through December 2023. *Id.*

Table JWM-1

Customer	Levelized Rates Jan.	Units
Residential	\$0.00272	per kWh
Unmetered	\$0.00248	per kWh

All Other Small / Medium	\$7.04	per customer per mo.
All Other Large	\$588.98	per customer per mo.

2 TR 79

I find that the evidence shows that I&M's EWR plan rate schedules supporting the proposed total EWR revenue requirement for 2022-2023 of \$12,188,967, effective for bills rendered beginning with the billing month of January 2022 (which begins on December 30, 2021) or the first billing month following issuance of a Commission order, are reasonable and prudent. I recommend the Commission adopt and approve I&M's EWR plan rate schedules supporting the proposed total revenue requirement of \$12,188,967 and related surcharge.

V.

CONCLUSION

Based on the foregoing, I recommend the Commission do the following:

1. Determine that I&M's 2022-2023 EWR Plan and portfolio of EWR programs meet the Utility System Resource Cost Test and are reasonable and prudent under MCL 460.1073.
2. Determine that the EWR portfolio of programs and funding are sufficient to ensure the achievement of applicable EWR standards set forth in MCL 460.1077.
3. Approve a financial incentive mechanism that will provide an annual incentive based on the actual energy savings performance compared to weather

normal energy savings minimum target of the provider's EWR program for the year as allowed in MCL 460.1075.

4. Find that I&M's EWR plan meets all statutory requirements of 2008 PA 295, as amended by 2016 PA 342, and approve the EWR surcharges to cover the costs of the EWR Plan.
5. Grant I&M the authority to reallocate up to thirty percent (30%) of the overall budget to accommodate program changes that are cost-effective or based on participant demand as permitted under MCL 460.1071(4)(h).
6. Grant I&M the authority to evaluate, measure and report savings to the Home Energy Products – Energy Star Appliance Program using market transformation evaluated energy savings as supported by Energy Star.

MICHIGAN OFFICE OF ADMINISTRATIVE
HEARINGS AND RULES
For the Michigan Public Service Commission

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April 1, 2022
Lansing, Michigan

Martin D. Snider
Administrative Law Judge