AARP Indiana

One N. Capitol Avenue, #1275 | Indianapolis, IN 46204
1-866-448-3618 | Fax: 317-423-2211 | TTY: 1-877-434-7598
aarp.org/IN | in@aarp.org | twitter: @aarpindiana
facebook.com/aarpindiana

July 16, 2025

Indiana Utility Regulatory Commission (PBRstudy@urc.in.gov)
PNC Center
101 W. Washington Street, Suite 1500E
Indianapolis, IN 46204

RE: Indiana Utilities Regulatory Commission Performance-Based Ratemaking Study - Indiana Code § 8-1-2.5-6.5

AARP INDIANA COMMENTS ON PBR STUDY

AARP Indiana is pleased to provide the following comments on the performance-based ratemaking (PBR) study. AARP Indiana represents Hoosiers 50-plus, many of whom are on limited incomes, which makes the rising utility rates seen in Indiana more difficult to afford when combined with the increased costs of housing, groceries, and medical costs.

Affordable and reliable utilities, including heating, cooling, water, sewer, phone, and high-speed internet—are essential services that are crucial to the health, safety, and well-being of older adults include the following goals:

- Ensure service affordability for all.
- Secure and expand service access for all.
- Improve quality and reliability.
- Enhance accountability.

Indiana already allows utilities to recover many utility costs via surcharges and trackers and also allows multi-year rate cases and lost revenue mechanisms.

Currently, only a few U.S. states have implemented Performance-Based Regulation (PBR), and even among those, some are reconsidering their approach. For example, Maryland passed a new law (HB 1035) which, among other things, requires multi-year rate plans to be approved by the PSC only if they demonstrate clear benefits to ratepayers. This shift came after the state found that such plans often led utilities to submit expensive multi-year spending proposals that significantly drove up rates. The reform was enacted to protect consumers from unchecked utility spending and ensure greater accountability.

AARP is also opposing Eversource's proposal in New Hampshire to implement a complex formula rate (PBR) framework. The proposed scheme is overly complicated, and other stakeholders involved in the rate case have also raised significant concerns about its design and implementation. (See AARP New Hampshire Closing Argument).

In reality, PBR is still an untested alternative in terms of benefits to consumers. While a few Canadian provinces and high-cost U.S. states have adopted it, the jury is still out as to whether it is worth pursuing. Below are our specific comments on aspects of the Indiana report:

Table 10.1: Summary of Guiding PBR Principles Recommendations

Guiding Principles of PBR	1. The IURC should adopt a set of principles associated with incentive regulation. ***<u>AARP COMMENT:</u> The Indiana Utility Regulatory Commission (IURC) should not adopt a set of principles associated with incentive regulation. Rather, the IURC should use traditional rate cases to set energy rates.***

Table 10.2: Summary of Revenue Decoupling Recommendations

Revenue Decoupling	Indiana's IOUs already operate with a Lost Revenue Adjustment Mechanism, which shares some properties with revenue decoupling mechanisms. If stakeholders agree that the LRAM is reasonable, we recommend maintaining this approach with no changes. ***<u>AARP COMMENT:</u> As previously stated, it is our position that traditional rate cases should be used to set energy rates. As such, rates should be based on just and reasonable costs and expenses through formal ratemaking cases. We also do not support decoupling mechanisms or lost revenue adjustment mechanisms (notwithstanding that Indiana already has one). If decoupling mechanisms, or similar mechanisms, are adopted or maintained, we strongly recommend that they adopt consumer protections. Such protections should include:*** • ***Requirements for the utility to meet performance standards for minimum energy efficiency results,*** • ***Limits on decoupling rate increases including only allowing when decreased sales directly result from utility-sponsored conservation and energy efficiency programs rather than other factors such as economic downturns or abnormally mild weather,*** • ***Ensuring any over-recoveries are refunded to consumers,*** • ***Capping the amount that a customer's electric bill can increase in any year.*** • ***Ensuring costs are fairly allocated to residential customers, and rates reflect the***

	benefit of the revenue stability provided to the utility by decoupling and similar mechanisms.

Table 10.3: Summary of MYRP Recommendations for MYRPs in Indiana

Recommendations for MYRPs in Indiana	Given that the top concern among stakeholders relates to affordability and cost control, MYRPs that offer cost efficiency incentives may be worth consideration for Indiana's IOUs. As indexed cap PBR frameworks raise feasibility issues for vertically integrated utilities that operate in RTO regions, we do not recommend pure price caps or revenue caps at this time. Hybrid indexed caps may be feasible on a utility-specific basis, wherein each utility may propose a framework that provides incentives while providing sufficient revenue support over a rate of case stay-out period. As such, we recommend allowing IOUs to voluntarily file hybrid PBR plans. Stakeholders also stated that incremental change was preferred to major changes to the state's regulatory framework. Forecasted MYRPs could provide an incremental change that offers improved cost efficiency incentives and reduces rate case frequency. We recommend allowing IOUs to voluntarily file three- or four-year forecast MYRPs. ***<u>AARP COMMENT</u>: Relying on speculative forecast costs would enable the utility to compile a 'wish list' of projects over the next four years — without sufficient accountability. AARP opposes MYRPs. Any potential benefits from reducing the frequency of rate cases are minimal and do not justify the risks and costs of setting rates based on speculative forecasts. While reducing the frequency of rate cases may offer some administrative efficiencies, these are outweighed by the risks and costs of locking in rates based on speculative projections. Although a rate case may cost a million dollars to process, it can uncover and eliminate unjustified spending that could otherwise cost ratepayers hundreds of millions—making it a highly cost-effective investment.*** ***Considering these issues, we respectfully urge the IURC to reject this proposal. We also oppose a price caps approach.***

Table 10.4: Summary of Indexed Cap Recommendations

Capital Factors	If the state of Indiana adopts an indexed cap regulatory framework, we recommend that some form of capital supplement be included on an as-needed basis. The capital factor should be company-specific and the costs eligible for capital factor treatment should be clearly defined at the outset of the PBR term. Economic principles and the guidelines of PBR should be considered in the design of the capital factor. ***AARP COMMENT:* AARP opposes such adjustment trackers due to their complexity and lack of any evidence that ratepayers will benefit compared to more traditional regulatory ratemaking policies.**
Reopeners	If the state of Indiana adopts an indexed cap regulatory framework or a forecasted MYRP, we recommend that some form of reopener be included. The reopener provision should be clearly defined, with a clear description of how it would be applied in the event of being triggered. ***AARP COMMENT*: AARP opposes adoption of a MYRP.**
Earnings Sharing Mechanisms	If the state of Indiana adopts an indexed cap regulatory framework (or a forecasted MYRP), utilities or utility stakeholders may wish to incorporate ESMs to reduce risk. However, if ESMs are adopted, we recommend wide deadbands in order to maintain cost efficiency incentives. ***AARP COMMENT*: AARP opposes mechanisms that will reward utility shareholders and raise rates to require utilities to meet their current statutory obligations.**
Efficiency Carryover Mechanisms	If the state of Indiana adopts a MYRP regulatory framework, we recommend exploring Efficiency Carryover Mechanisms as a way to maintain cost efficiency incentives over rebasing periods. ***AARP COMMENT*: As stated above, efficiency carryover mechanisms only add to the complexity of PBR.**

Table 10.6: Summary of Formula Rate Plan Recommendations

Formula Rate Plans	We do not currently recommend Indiana to pursue formula rate plans. However, if IOUs face major, lumpy investments and the frequency of rate cases becomes a problem, this is an option that could be considered. ***AARP COMMENT*: Formula rates have proven deeply problematic for consumers, often resulting in unchecked rate increases with minimal regulatory oversight. Before considering any further implementation, we strongly recommend a comprehensive review of the impact formula rates have had on Illinois ratepayers to fully understand their consequences. See the report from Illinois PIRG**

Table 10.7: Summary of PIMs Recommendations for PIMs in Indiana

Recommendations for PIMs in Indiana	1. We recommend that the IURC allow the state's IOUs to file PIMs as part of future rate applications, to be assessed on a case-by-case basis. 2. We recommend that before instituting any mandatory PIMs, or any PIMs that apply to all utilities, the IURC develop a set of specific policy goals that might be addressed by PIMs and meet with stakeholders to discuss potential benefits and drawbacks of attaching financial incentives to related metrics. Studies may be required to set performance thresholds and the dollar value of financial incentives. ***AARP COMMENT*: If selecting PIMS, it is recommended that the PIM be implemented on a pilot or experimental basis and be narrowly focused. Such measures should be tied to achieving positive outcomes for residential consumers in regard to affordability and reliability.**

CONCLUSION

AARP Indiana urges the IURC to report to the Indiana General Assembly that it has thoroughly examined PBR and finds that Indiana's current regulatory framework does not require a major overhaul at this time. Alternative ratemaking mechanisms, such as the PBR mechanism, may result in a lack of financial oversight creating potential harm to consumers. While the concept of

PBR may seem appealing in theory, in practice it is overly complex, difficult to administer, and often rewards utilities for actions they should already be taking under existing regulations. We recommend that the Commission continue to monitor developments in other states and remain open to future reforms—but only if clear, demonstrable benefits to consumers can be shown. In the meantime, AARP Indiana strongly urges the Commission to reject the adoption of PBR in its current report to the General Assembly.

Sincerely,

Jason Tomcsi
AARP Indiana