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

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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

COMMENTS OF AARP INDIANA

AARP Indiana is pleased to submit its second round of comments on performance-based regulation. It is our hope that this study and the eventual presentation to the Indiana General Assembly will be an honest assessment of PBR, including that it may not be needed in our state due to the incremental reforms that have already been enacted.

1. **Did the workshop on October 17th provide helpful information regarding the IURC's plans to evaluate the applicability of PBR in Indiana?**
   Yes, it was a helpful overview and gave a better understanding of the timeline for the study. However, information on the experiences of other states with these types of rate structures would have been valuable to include in the workshop.

2. **Did your organization feel it had the opportunity to provide comments and ask questions during the workshop?**
   There was an opportunity to ask questions, but the format leaned more towards a presentation than a discussion, which might have limited the chances for a conversation amongst the stakeholders.

3. **What aspects of the workshop did you find valuable and what areas do you feel could be improved?**
   As mentioned, it was a helpful overview and gave a better understanding of the timeline for the study. It would be worth the effort for all parties involved to engage in more dialogue. Whether virtually again or in person at the IURC, giving stakeholders a chance to give their views on the topic would be beneficial for the drafting of the plan.

<u>**Current Regulatory Framework:**</u>

1. **What goals and outcomes related to electric utility services should be pursued through regulation in Indiana?**

The current regulatory structure in Indiana already deals with many pitfalls, such as regulatory lag. With the majority of costs already recovered through trackers, such as the TDSIC (Transmission Distribution System Improvement Charge), it is unclear what problem needs to be solved through more changes to the regulatory process.

2. **How well does the current rate-regulation framework in Indiana facilitate success in the following areas? (Very well/Adequately/Neutral/Poorly/Very Poorly).**
    a. Reliability: Neutral.
    b. Resilience: Adequately.
    c. Stability: Neutral.
    d. Affordability: Poorly, but there is potential for improvement with the new focus on affordability as part of the five pillars.
    e. Environmental Sustainability: Neutral.
    f. Utility cost control: Poorly.
    g. Regulatory efficiency: Neutral.
    h. Customer service/connection time: Neutral
    i. Financial health of the utility: Very well.
    j. Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources; electrification): Neutral.

3. **Will the current rate-regulation framework in Indiana remain appropriate for optimizing utility services in the following areas, given the transition from coal power generation, and given the energy transition (e.g., adoption of distributed energy resources; electrification)? (Yes/No) If no, please explain what improvements could be made to the state's regulatory framework that would offer improvements to the status quo.**
    AARP wants to emphasize that generation retirements should only occur once replacement generation and the necessary transmission infrastructure are fully operational to ensure reliability is not compromised. Additionally, utilities and regional grid operators (MISO and PJM) should transparently disclose the retail rate impacts of new power plants and proposed transmission lines. Cost-effective alternatives, including non-wires solutions, should be explored and incorporated. The concerns raised by the Independent Market Monitor regarding the cost-effectiveness of these lines should also be addressed.

    a. Reliability-Yes.
    b. Resilience-Yes.
    c. Stability-Yes.
    d. Affordability-No. Affordability needs to be more at the forefront. This may be addressed by the 5 pillars going forward.
    e. Environmental Sustainability-Yes.
    f. Utility cost control-No. IURC should be more diligent in assuring this.
    g. Regulatory efficiency-Yes.
    h. Customer service/connection time-No. For example, we have currently seen recent billing problems at AES IN that need attention, so a greater focus on this from the IURC is important.
    i. Financial health of the utility—Yes.
    j. Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources; electrification)-Yes.

4. **Have rates increased at a faster pace than the historical average over the last decade? If so, why?**
   Indiana has gone from having lower electricity rates than the national average to higher than the national average over the last decade. Unchecked transmission spending, especially in other states (where Hoosiers pay for 15% of such costs), is one reason. Spending on new power plants is also a contributing factor.

5. **What could be done to improve affordability for customers?**
   To improve affordability for customers, utilities should reduce spending and limit the use of riders and surcharges, which fast-track rate increases without proper oversight. Cost recovery should be integrated into the base rate wherever possible to prevent excessive spending requests from utilities. The utilities and the IURC should be more vocal at MISO and PJM about the retail rate impacts of their proposals. MISO’s Independent Market Monitor's findings, which indicated that the proposed $23 billion in new transmission (Tranche 2) was unsupported and unnecessary, should be taken seriously. The monitor highlighted that the cost per Midwest family would be a staggering $2,600. Local alternatives should be considered, and such spending should only proceed if it is truly needed and justified.

Multi-Year Rate Plans & Performance Incentive Mechanisms

1. **Would you support a regulatory regime that allows the option to use a MYRP on the state’s investor-owned utilities, meaning three or more years between rate applications? (This could mean forecasting revenues over a three-year period, operating under a price or revenue cap, or setting rates annually based on a cost-of-service formula.) Explain why or why not.**
   AARP opposes this proposal, noting that utilities already propose multi-year rate increase plans. Speculative forecast costs encourage utilities to overestimate, with no incentive to control costs and spending. For example, the Maryland Office of People’s Counsel has also highlighted this issue and is urging the state to abandon multi-year rate cases.

2. **Do you support utilities operating under a price cap (or revenue) cap over a five-year period, where prices (or revenue requirements) are adjusted each year according to a formula based on inflation and industry productivity? Why or why not?**
   AARP opposes formula rates, as it remains unclear how formula rate proposals benefit consumers. The 11-year experiment in Illinois serves as a cautionary tale, where rates increased by 40% and the Illinois commission’s ability to review these increases was restricted.

3. **If utilities established a revenue requirement forecast for three or more years, would it be more burdensome to validate the reasonableness of such forecasts compared to evaluating a single future test year? What additional information would utilities need to provide to assist in the evaluation of such forecasts?**
   Yes, multi-year requests would be more burdensome and the costs more speculative.

4. **Would you expect a utility to obtain financial benefits from operating under some form of price (or revenue) cap? Why or why not?**
   Utilities might benefit by a formulaic approach. However, customers would not.

5. **Would you expect customers to obtain benefits from a utility operating under some form of price (or revenue) cap? Why or why not?**
   It is a possibility that customers would obtain some benefit. They would certainly appreciate a limit to the cap on rate increases or rates.

6. **Would you support financial rewards (i.e., PIMs) for utilities that provide superior service quality or penalties for utilities that provide sub-par service quality, as established by specific metrics? Does your opinion change if the PIMs are optional (opt-in) or if the PIMs are set specifically for each utility rather than the same PIM target for all utilities?**
   Implementing a few targeted PIMs for utilities to tackle specific issues in a pilot program could be beneficial. For example, AES Indiana could be incentivized or penalized for its reliability and billing system performance. However, utilities should not be rewarded for fulfilling their regular duties, such as providing good customer service or tree trimming. Moreover, the system should not be repurposed to support non-traditional utility activities, like installing EV chargers or other special interest projects.

7. **How would you define success or failure for a performance-based regulation mechanism such as a MYRP or PIM?**
   Based on the experiences of other states, the jury is still out on PBR, including MYRPs and PIMs. Success is extremely hard to measure, and the utility often has the data. We are unclear if PBR is even needed in Indiana.

8. **Does your organization agree that incremental updates to Indiana's existing regulatory structure would be a better approach to address the goals of both Indiana utilities and consumers, compared to requiring the utilities to operate under some form of MYRP? If so, what incremental updates could be considered, and what goals would these updates help to address?**
   Indiana has already taken incremental steps, such as TDSIC and the 5 Pillars. No further changes, including the adoption of PBR or PIMs, are needed, absent a showing of need, benefit to ratepayers, and what problem exists that would be solved.

Additional Information:

1. **Do you have any additional information or comments to share regarding the exploration of performance-based regulation for Indiana utilities?**
   The study should take the opportunity to look at the experiences of other states, as there are several who have attempted PBR only to revert to a more traditional regulation. For examples of what may be researched:
   - Illinois formula rates were not successful.
   - California tried PBR in the 1990s, but returned to traditional regulation.
   - Minnesota spent 3 years of stakeholder meetings and produced 100 PIMs for a PBR arrangement and has yet to go into affect.
   - Michigan considered a PBR plan in a stakeholder process and did not adopt it.

- Maryland is considering abandoning multi-year rate plans, which cause unchecked utility spending proposals of dubious benefit to customers.

2. **Would you find value in a second workshop? If so, what topic areas would you want to discuss?**
   Refer to the topics above for an assessment of the regulations introduced by PBR, PIMs, and MYRP. Although these concepts may seem appealing at a high level, the administrative complexity involved in developing, implementing, and measuring the success of such programs makes them less effective than the current system. In summary, the solution is worse than the problem.

Sincerely,

Jason Tomcsi
AARP Indiana

cc: Nick Crowley, Christensen Associates (nacrowley@caenergy.com);
Andi Romanovs-Malorvrh, Christensen Associates (aromanovs@caenergy.com);
Corey Goodrich Christensen Associates (crgoodrich@caenergy.com)