November 22, 2024

Indiana Utility Regulatory Commission
101 West Washington Street, Suite 1500 East
Indianapolis, Indiana 46204-3419
Via email: PBRstudy@urc.in.gov

Re: The Indiana Utility Regulatory Commission's Performance-Based Ratemaking Study (Second Set of Questions)

Advanced Energy United ("United")[1,2] appreciates the opportunity to provide additional comments regarding the Indiana Utility Regulatory Commission's ("Commission") performance-based ratemaking ("PBR") study. Multi-year rate plans ("MYRPs") and performance incentive mechanisms ("PIMs") are keys to unlocking the full potential of Indiana's grid, as discussed below. This is especially true when working to make Indiana's grid more reliable, affordable, resilient, stable, and environmentally sustainable. United looks forward to continuing to work with the Commission, Staff, utilities, and other interested stakeholders on these important policies in Indiana.

Responses to Questions

Stakeholder Workshop:

If you attended the IURC PBR Study Stakeholder Engagement Workshop that was held on October 17th, please answer the following two questions. If not, skip to the next section.

1. Did the workshop on October 17th provide helpful information regarding the IURC's plans to evaluate the applicability of PBR in Indiana?

   Yes, the workshop was quite helpful.

2. Did your organization feel it had the opportunity to provide comments and ask questions during the workshop?

   Yes, United felt there was an adequate opportunity for comments and questions.

[1] Advanced Energy United is a national business association representing leading companies in the advanced energy industry. United supports a broad portfolio of technologies, products, and services that enhance U.S. competitiveness and economic growth through an efficient, high-performing energy system that is clean, secure, and affordable.
[2] The views expressed by United in these comments do not necessarily reflect the views of any individual member company of United.

3. What aspects of the workshop did you find valuable and what areas do you feel could be improved?

   The operating definition sections and overview of the various policy programs, like PIMs, were valuable in ensuring everyone was on the same page. Moving forward, it would be useful to know what these policy programs will be used for and how they will be implemented.

Current Regulatory Framework:

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

   Indiana should pursue goals that support a more reliable, affordable, resilient, innovative, stable, and environmentally sustainable grid. Specific goals could include, but should not be limited to, (1) fewer and shorter duration outages (with a focus on historically unreliable circuits), (2) achievement of affordable utility service by keeping the bills of lower-income households within a manageable portion of their income and adopting credit and collection policies that reduce disconnections for these households specifically and for customers overall to ensure equitable disconnections, late fees, or arrearages as a result of utility credit and collection practices, which may include consideration of impact by zip code, (3) customer utilization of a variety of affordable rate options, including demand response, time of use rates for delivery and supply, and real-time pricing rates for supply, (4) achievement of established distributed energy resources ("DERs") penetration goals, (5) expeditious interconnection of DERs, (6) achievement of reduced emissions targets from power generation, (7) providing reliable and regular updates of publicly available hosting capacity data (of a nature and in a format usable to DER and electric vehicle ("EV") charging station developers), and (8) achievement of customer service performance targets, such as the average length of time to answer a customer's call by a customer service representative and the abandoned call rate.

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* – Poorly (according to Energy Information Administration data, Indiana ranks 27th nationally)
   b. *Resilience* – No Opinion
   c. *Stability* – No Opinion
   d. *Affordability* – Poorly (according to Energy Information Administration data, Indiana ranks 36th nationally)
   e. *Environmental Sustainability* – Very Poorly (according to Environmental Protection Agency data, Indiana ranks 49th nationally)
   f. *Utility cost control* – Poorly
   g. *Regulatory efficiency* – Poorly

h. *Customer service/connection time* – No Opinion
i. *Financial health of the utility* – No Opinion
j. *Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources; electrification)* - Poorly

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.

a. *Reliability* – No. The current rate-regulation framework rewards utility investment in traditional utility solutions for addressing reliability concerns, i.e., more generation plant, poles, and wires. Increasingly severe weather and periods of high demand has demonstrated that traditional utility resources cannot always be counted on to ensure reliable service. To improve reliability during the energy transition, the Commission should explicitly direct Indiana utilities to evaluate and make better use of behind-the-meter DERs by implementing virtual power plants ("VPP"). The Commission should also explicitly direct Indiana utilities to offer time of use rates and real-time pricing rates to encourage more efficient use of available resources.
b. *Resilience* – No. See comments related to Reliability.
c. *Stability* – No. To meet growing demand, the current rate-regulation framework rewards utility investment in more capital-intensive projects, which discourages utility consideration of lower cost advanced energy technologies. Accordingly, customers will likely experience more frequent and higher rate increases, creating instability. The Commission should direct utilities to consider greater use of renewables, energy storage, demand response, behind-the-meter DERs, VPPs, energy efficiency, and grid enhancing technologies and demonstrate why such alternatives to traditional utility investments are not feasible.
d. Affordability – No. See comments related to Stability.
e. *Environmental Sustainability* – No. The current rate-regulation framework rewards utility investment in capital intensive fossil fuel-based generation resources. To the extent that Indiana utilities ignore advanced energy technologies in favor of continued reliance on fossil fuels, environmental degradation will continue in various forms. The Commission should direct utilities to consider greater use of renewables, energy storage, demand response, behind-the-meter DERs, VPPs, energy efficiency, grid enhancing technologies, and other non-fossil fuel-based resources and demonstrate why such alternatives to traditional fossil fuel-based energy generation are not feasible.
f. *Utility cost control* - No. To the extent that Indiana utilities ignore advanced energy technologies in favor of more capital-intensive investments to meet growing demand, customers will likely experience more frequent and higher rate increases, contrary to the cost control that advanced energy technologies can provide. The Commission should direct utilities to consider greater use of renewables, energy storage, demand response, behind-the-meter DERs, VPPs, energy efficiency, and grid enhancing

technologies and demonstrate that such alternatives to traditional utility investments are not lower cost options.

g. *Regulatory efficiency* – No Opinion
h. *Customer service/connection time* – No Opinion
i. *Financial health of the utility* – No Opinion
j. *Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources; electrification)* - No. So long as the current rate-regulation system in Indiana is based on providing a guaranteed return on investment, utilities will have little incentive to encourage customer-owned DERs and VPPs because such lower cost solutions will not provide the revenue to which utilities are accustomed.

4. Have rates increased at a faster pace than the historical average over the last decade? If so, why?

   No opinion

5. What could be done to improve affordability for customers?

   The adoption of policies and practices that encourage or incentivize the expanded use of advanced energy technologies could lower customers' bills. For example, expanding demand response and implementation of VPP programs could offset the need to build additional peaker plants. Additionally, changes in ownership models and the conventional ways Indiana creates, stores, and transfers its energy could be useful, such as using third-party batteries to reduce the need for more utility built and owned generation and storage assets. Utilizing grid enhancing technologies in transmission lines could also improve transmission capacity at lower cost compared to traditional transmission projects to increase capacity.

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.

   As United noted in its initial comments, generally, it supports the adoption of MYRPs and their use over a several-year period.[3] MYRPs spread forecasted rate changes over multiple years, which provide more predictable rates for customers and more predictable revenue for utilities. Fewer rate cases also mean less regulatory cost for utilities and less administrative burden on other rate case participants, which frees up

[3] Initial Comments of Advanced Energy United on the Indiana Utility Regulatory Commission's Performance-Based Ratemaking Study, September 27, 2024, p. 2.

resources for other efforts.[4] At the same time, United cannot wholly endorse the use of MYRPs without knowing all the details of a particular policy, as they can be problematic and possibly abused.[5] Along with knowing the specifics of the MYRPs, United also needs to know what kind of Commission oversight will be provided before endorsing MYRPs.

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?

United generally does not support the use of a price cap regardless of its timeline because it does not incentivize a utility to improve its operations or otherwise encourage the adoption of advanced energy technologies. On the other hand, a revenue cap over time could be useful depending on how it is implemented. Specifically, it would be useful where revenue is decoupled from utility energy sales. In such a situation, a revenue cap incentivizes a utility by limiting how much it can earn from sales. Thus, this cap motivates a utility to improve its business model or find savings to make extra profits. Care, however, would need to be taken to avoid any decline in service quality.

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?

Over the long run, no. While additional work will be necessary to evaluate multiple years' worth of forecasted data, doing so is not an insurmountable task. The Illinois Commerce Commission is currently in the process of evaluating electric utilities' four-year MYRPs (see 220 ILCS 5/16-108.18). Among the additional information utilities would need to provide is forecasted costs, sales, and revenue by year, as well as longer term investment plans by year. Such information should already be part of a utility's longer-term business plans.

4. Would you expect a utility to obtain financial benefits from operating under some form of price (or revenue) cap? Why or why not?

Yes. Although United does not endorse the use of price caps, United would expect a utility to financially benefit since it could increase sales and earn a return on assets stood up to increase these sales. At the same time, a utility could financially benefit under a revenue cap, too, but as detailed above, it depends on how it is set up and if

[4] *Id.*, p. 2.
[5] *Id.*, p. 2.

revenue is decoupled from utility energy sales. Thus, how the caps are designed, implemented, and reviewed is important.

5. Would you expect customers to obtain benefits from a utility operating under some form of price (or revenue) cap? Why or why not?

   As a preliminary matter, if customers do not benefit, United sees no reason to implement a price or revenue cap. Regardless of whether a price or revenue cap is utilized, customers should benefit by improved reliability, affordability, and/or resilience.

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.

   Yes, although to be clear, any potential financial rewards for utilities that provide superior service quality should be coupled with potential penalties for sub-par service quality. Utilities should not be allowed to reap only benefits and avoid risk. In addition, because any metric by which rewards or penalties are earned should be meaningful, it is not certain that a utility will voluntarily commit to a PIM regime, thus it may be necessary to make PIMs mandatory, which could require legislation. With regard to whether PIMs should be specific to each utility, United recognizes that different utilities may need improvement in different areas. So, while all utilities should be subject to the same categories of PIMs, metrics within a category will likely need to be specific to each utility.

7. How would you define success or failure for a performance-based regulation mechanism such as a MYRP or PIM?

   As United detailed in its earlier comments, the best way to make MYRPs work is to pair them with PIMs. Successful MYRPs should be "based on clearly measurable…public policy goals…[and] can be used to encourage a utility to act in a way that is consistent with customer interests over the broader period of time…" Thus, a utility can only be rewarded by meeting these predetermined metrics when its progress benefits customers.[6]

   In terms of PIMs, "when evaluating whether the benefit to customers from a utility achieving a certain metric exceeds the cost to customers, the cost calculation should include both the utility expenditure to deliver the benefit as well as the financial incentive the utility receives from achieving the metric." If this is not considered, then

[6] *Id.*, p. 2.

the customers could pay more for the benefit than the value of that benefit. Thus, "only if the benefit customers receive exceeds the total cost to customers should the metric be adopted." Next, utility-earned rewards should not be unlimited and too easy to reach. Regulators should clearly define incentives (or disincentives) and the performance necessary to achieve (or avoid) them when establishing metrics. More so, "customers should not be at risk of paying for an uncapped incentive during a performance measurement period."[7] Nor should rewards be based on spending goals, because increased utility spending is not the desired outcome. Rather, rewards should be based on attaining measurable outcomes that benefit customers. Ultimately, success or failure should be measured by whether customers benefit from more reliable, affordable, resilient, stable, and environmentally sustainable service,

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?

   To answer this question, a clearer understanding of what is meant by "incremental updates" is necessary. As indicated above and in its September 27 comments, the details of any change to the regulatory structure will drive United's position. The Commission should pursue goals that support more reliable, affordable, resilient, innovative, stable, and environmentally sustainable utility service. Thus, all policy mechanisms and tools should be on the table to meet the State's and ratepayers' needs moving forward. Beyond this point, United would need more details about a given program or policy before supporting it.

Additional Information:

1. Do you have any additional information or comments to share regarding the exploration of performance-based regulation for Indiana utilities?

   United reiterates its earlier comment that "the Commission consider inviting impartial outside experts and others from regulatory commissions with experience implementing MYRPs and PIMs to discuss their knowledge of and lessons learned on these topics."[8] Furthermore, the process to create, review, and enforce these performance-based regulations needs to be transparent, open to all parties, robust, and well thought through to be effective and reach the goals they are designed to reach.

2. Would you find value in a second workshop? If so, what topic areas would you want to discuss?

[7] *Id.*, p. 5.
[8] *Id.*, p. 7.

Yes, a second workshop would be valuable, especially to discuss the policy goals for which the Commission is considering using PIMs and MYRPs. It would also be helpful to discuss how PIMs and MYRP programs will be created, reviewed, and open for public comment before moving forward.

Conclusion

United appreciates the Commission for providing this second opportunity to offer input on MYRPs and PIMs in Indiana. If done correctly, MYRPs and PIMs could help Indiana's grid move into the future and embrace the advanced energy technologies that will lead to a more reliable, affordable, resilient, stable, and environmentally sustainable grid for all Hoosiers. United looks forward to continuing to work with the Commission and all stakeholders.

Respectfully submitted,

John Albers, Director
jalbers@advancedenergyunited.org
Advanced Energy United

cc: Nick Crowley, *nacrowley@caenergy.com*
Andis Romanovs-Malorvrh, *aromanovs@caenergy.com*
Corey Goodrich, *crgoodrich@caenergy.com*