Advanced Energy United Comments in Response to the Indiana Utility Regulatory Commission's Study on Performance-Based Ratemaking

Introduction:

Advanced Energy United ("United") greatly appreciates the opportunity to provide these comments in response to the Indiana Utility Regulatory Commission's ("Commission") directed study on Performance-Based Ratemaking ("PBR") produced by Christensen Associates Energy Consulting LLC. ("Christensen Associates").

United is the only national business association representing leaders in the advanced energy industry. Members include front-of-meter and behind-the-meter ("BTM") renewable energy and battery storage manufacturers and developers, electric vehicle ("EV") and EV charging equipment suppliers, providers of energy efficiency, demand response ("DR"), and virtual power plants ("VPP"), as well as larger users of energy wanting to ensure that clean energy is available on the grid to facilitate corporate sustainability goals. United members work to enhance the United States' competitiveness and economic growth through an efficient, high-performing energy system that is clean, secure, affordable, and reliable. United works with decision-makers at the state and national level as well as regulators of energy markets to achieve this goal. In Indiana, United aims to drive the development of advanced energy by identifying growth opportunities, removing policy barriers, encouraging market-based policies, establishing partnerships, and serving as the voice of innovative companies in the advanced energy sector.

United has reviewed the PBR Study as well as the subsequent recommendations made by Christensen Associates to the Commission, and provide the following comments and additional recommendations for the Commission's consideration. Overall, United strongly supports the Commission's interest in PBR methodologies and encourages the implementation of such methodologies as outlined in these comments.

Background:

In 2023, the Indiana General Assembly passed House Enrolled Act ("HEA") 1007-2023 which, amongst other provisions, required the Commission to conduct a

"comprehensive study to consider the appropriate design and framework for; and requirements with respect to performance-based ratemaking for electricity suppliers".[1] Following the study, the Commission is required to provide its analysis and recommendations to the Indiana General Assembly by October 1, 2025, so that the General Assembly can fully evaluate the potential impacts and possible implementation of PBR in Indiana for electricity suppliers. On September 9, 2024, the Commission announced that they had contracted with Christensen Associates to research and draft the PBR study and facilitate stakeholder engagement with the drafting process.

On May 9, 2025, Christensen Associates submitted the first draft of the Study on PBR to the Commission.[2] Soon thereafter, the Commission issued a notice requesting public comments on the draft PBR Study by July 16, 2025.[3]

Performance Based Ratemaking Study – Overview

The draft PBR Study analyzed various forms of PBR, including Multi-Year Rate Plans ("MYRP"), indexed price and revenue caps, Performance Incentive Mechanisms ("PIM"), and other tools by drawing on examples and experiences from regulatory jurisdictions both across North America and abroad. The Study had a specific focus on determining the forms of PBR that would be most feasible and applicable to electricity suppliers in Indiana. Because all five of the Investor-Owned Utilities ("IOU") within Indiana operate as vertically integrated utilities as opposed to "restructured" utilities (which comprise the bulk of PBR applications), Christensen Associates suggests that this unique characteristic be taken into account when designing a PBR approach and that customization of PBR for each individual IOU should be considered. Throughout the PBR Study, Christensen Associates highlights the various benefits and drawbacks of different types of PBR approaches and ultimately provides recommendations to the Commission on the different forms of PBR and how to structure PBR in Indiana

[1] *See* House Enrolled Act 1007-2023 amending language in Indiana Code § 8-1-2.5-6.5
[2] *See* Christensen Associates' Performance-Based Ratemaking Study available here: https://www.in.gov/iurc/files/PBR-Report-to-IURC-May-9-2025.pdf
[3] *See* The Indiana Utility Regulatory Commission's ("IURC") webpage on Performance-Based Ratemaking available here: https://www.in.gov/iurc/performance-based-ratemaking-study/

specifically. An overview of the PBR analysis and recommendations from Christensen Associates are as follows:[4]

1. *PBR Principles and General Framework:*

   Christensen Associates discuss how regulators in other jurisdictions often establish specific principles for incentive regulation to establish a basis for the design and operation of PBR plans. Christensen Associates therefore recommends that the Commission adopt a set of principles associated with PBR and incentive structures to help guide this process. The PBR study also suggests that these principles should be developed through a multi-stakeholder process that considers utility stakeholder opinions, and the principles should draw-on or align with (but not supersede) Indiana's five pillars or other regulatory principles (*i.e.*, Bonbright Principles of ratemaking). Christensen Associates provides the following five principles as a "strawman" or starting point for discussion on this topic, and encourages stakeholders to provide feedback on these principles:

   i. The PBR plan should, to the greatest extent possible, create similar efficiency incentives compared to those experienced in a competitive market while maintaining service quality.
   ii. The PBR plan must provide the utility with a reasonable opportunity to recover its prudently incurred costs including a fair rate of return.
   iii. The PBR plan should recognize the unique circumstances of the company that are relevant to the PBR design.
   iv. Customers and the regulated companies should share the benefits of a PBR plan.
   v. The PBR plan should be easy to understand, implement, and administer and should reduce the regulatory burden over time.

2. *Multi-Year Rate Plans:*

   Christensen Associates establish that under traditional ratemaking frameworks, as cost pressures accelerate, rate case applications typically become more

[4] More information on the specific recommendations provided by Christensen Associates can be found within the performance-based ratemaking study available here: https://www.in.gov/iurc/files/PBR-Report-to-IURC-May-9-2025.pdf

frequent which can lead to administrative burden and cost inefficiency. As a result, MYRPs are a PBR tool that have been established for setting rates that can reduce the frequency of utility rate cases. If well-designed, MYRPs can lead to greater incentives for utility cost control and innovation, more stable rates, and shared cost efficiencies over time for consumers. Christensen Associates also acknowledges the potential drawbacks of an MYRP structure if it is not well-designed. For example, administrative burden improvements may not be realized from MYRPs if a utility already spends a similar number of years operating between rate cases as would be established in an MYRP framework.

The PBR Study specifically describes a forecasted MYRP which entails forecasting a utility's revenue requirement for each year of the PBR term which can include future operating expenses, capital investments, depreciation, taxes, allowed rate of return, and projected sales and customers. In this framework, a utility is only allowed to collect the forecasted revenue, regardless of the costs incurred, which can be beneficial due to cost efficiencies that occur, but can also create a risk if the utility experiences losses due to the difference between the forecasted revenue and costs. This framework can provide increased oversight over the utility's revenues and decisions, however, a drawback to this approach is that there is often extensive debate and evaluation regarding the utility's developed forecast. A main difference between forecasted MYRPs and indexed caps is that forecasted MYRPs rely on the utility's own forecast of revenue requirements over a time period, whereas an indexed cap approach relies on outside industry assumptions and adjustments. A forecasted MYRP can also provide a more accurate reflection of a utility's expected costs and market conditions (especially during times of major industry change) compared to an indexed cap approach. It is further noted in the study that Indiana allows for forward test year and phase-in approaches to ratemaking which could lead to some efficiencies due to the similarities of these approaches with a forecasted MYRP. Christensen Associates uses Duke Energy in North Carolina as a specific example of implemented forecasted MYRPs (which is particularly useful due to Duke Energy operating as a utility in Indiana).

Christensen Associates therefore recommends that the Commission allow IOUs to voluntarily file MYRPs specifically tailored to the individual utility as opposed to a universal MYRP framework. Specifically, IOU's should be allowed to voluntarily file a 3- or 4-year forecasted MYRP and it is recommended to include

specific elements within MYRPs such as: exogenous cost factors, reopener provisions, or Earnings Sharing Mechanisms with wide deadbands.

3. *Indexed Price or Revenue Caps*

The PBR Study describes indexed caps as a tool that annually adjusts prices or revenues for the utility based on an "I-X" formula that is beyond the control of the utility in order to effectively "de-link" the utility's costs with the allowed revenue. This tool allows a utility to retain profits beyond the allowed Return on Equity ("ROE") if the utility can improve cost efficiencies, and at the end of the MYRP term length the utility can reset or "rebase" rates based on the utility's cost to serve customers. The "I-X" formula used for this type of PBR typically consists of an inflation ("I") factor and an industry growth factor ("X"), and is intended to represent the economic principle of market competition in which the costs and revenues of a firm are equal. This formula can also be supplemented with various other factors that are present during a PBR annual filing such as: a "stretch factor", exogenous factors, capital supplements, earnings sharing mechanisms, and PIMs. Christensen Associates provides specific details on each of these individual factors within the PBR study and generally recommends that all of these factors be considered in an indexed cap PBR approach if the Commission seeks to utilize this form of PBR. It is also noted that a revenue cap may coincide well with a revenue decoupling mechanism due to the provision of revenue irrespective of sales volume. To support the argument for the application of an indexed cap, Christensen Associates showcases real-world examples from both Hawaiian Electric Company and Alberta Electric Distribution Utilities. Furthermore, the PBR Study highlights National Grid in Massachusetts as an example of a "hybrid" revenue cap in which the utility bifurcated its revenue requirement into revenue associated with O&M expenses and a capital revenue requirement.

Christensen Associates also notes that the application of a single index to all components of a utility rate (generation, transmission, and distribution) is difficult in a vertically-integrated utility framework such as what exists in Indiana. This is due to the fact that large "lumpy" capital expenditures such as those used for generation assets are hard to account for in a pure indexed cap PBR (which lacks an innate capital mechanism). Additionally, Indiana's IOUs

operate in different timeframes for capital investments, which is difficult to account for.

Because indexed price and revenue caps could provide both benefits (improved cost efficiency) and drawbacks (practicalities related to vertically-integrated utilities), there is no specific recommendation on whether or not to implement this type of PBR. However, if the Commission does ultimately pursue an indexed cap PBR, it is recommended that the indexed cap utilize a hybrid approach that: 1) follows the specific indexed cap formula as specified in the PBR Study, 2) allows only the distribution portion of utility operations to operate under the indexed cap, and 3) specifies that capital costs be either forecast or tracked by a company-specific mechanism.

4. *Performance Incentive Mechanisms (PIMs)*

The PBR Study describes PIMs as a PBR (distinct from "reported metrics" and "scorecard metrics") focused on incentivizing specific utility outputs that are designed to align utility performance with regulatory and public policy goals by providing financial incentives for achieving specific performance targets. Utility outputs or performance areas generally include reliability, safety, system efficiency, connection time, and customer service. For a specific performance area, a regulator can establish metrics, a performance target, and a system of rewards or penalties for the utility. If the utility achieves the designed performance target, they can receive a reward (increased revenue or return), however, if the utility does not achieve the designed performance target, they can receive a penalty (decreased revenue or return). The structure of a PIM can vary by the regulatory jurisdiction and can be either a reward, penalty or both, with the reward or penalty typically being an adjustment to a utility's Return on Equity or a flat dollar value amount. To establish a PIM, the utility must have a measurable target (usually through a reported metric), and it must be verifiable to determine if the target was achieved at the end of the PBR year. It is noted that Indiana already has reported metrics that could be readily adapted into PIMs, however, many of the reported metrics do not align well with the criteria for a PIM. Furthermore, the Commission currently has incentive structures similar to PIMs for Demand-Side Management and energy efficiency measures, in which the Commission can reward a utility. As discussed in the PBR Study,

setting targets for PIMs typically involves the following three methods: 1) utility past performance, 2) utility performance in comparison to other utilities, and 3) quotas or levels set by a specific policy. More information regarding the criteria and establishment of a PIM is provided in the PBR Study.

Due to the possibility that cost-cutting incentives (such as those experienced in indexed caps or forecasted MYRPs) could lead to service quality issues, PIMs could be used in accompaniment with these PBRs as a method to counteract this possibility through the incentivization of service quality and utility performance improvements. Unlike indexed caps and MYRPs, PIMs generally do not address utility cost efficiencies, which makes their accompaniment with other forms of PBR useful. The PBR Study further discusses the potential drawbacks and risks associated with establishing PIMs and Christensen Associates suggests cautious and careful creation of any PIMs in the future. Some of the risks associated with poorly designed PIMs are: the possibility for rewards or penalties to be received due to no tangible action of the utility, utility management timing lag to achieve the PIM, large data requirement costs for metrics established for PIMs, and obfuscating a problem if a PIM misrepresents a policy goal.

Christensen Associates recommends allowing IOU's to voluntarily file PIMs as part of a rate case application that will be assessed on a case-by-case basis. Before implementing any mandatory PIMs, the Commission should receive input from various stakeholders in order to develop a set of specific policy goals that could be achieved through the use PIMs. Studies may also be needed to set performance incentive thresholds and dollar values for incentives.

5. *Revenue Decoupling*

The PBR Study states that revenue decoupling is a regulatory mechanism that is used to separate a utility's revenue from its sales volume for the purpose of aligning financial interests of the utilities with broader energy efficiency and conservation goals. A common method to accomplish revenue decoupling is by allowing utilities to adjust annual rates based on the total rate case established revenue requirement such that sales volume does not affect the ultimate realized revenue.

Christensen Associates states that Indiana already has a Lost Revenue Adjustment Mechanism ("LRAM") that generally accomplishes the same goals as a revenue decoupling mechanism. Therefore, if it is determined that the Indiana IOU's existing LRAM achieves the same goal as a revenue decoupling mechanism would, then it is recommended that Indiana continue with the LRAM.

6. *Formula Rate Plans*

The PBR Study describes formula rates as plans that establish a formula based on company earnings information to automatically adjust rates on an annual basis. Despite both using formulas, indexed caps use industry metrics to help establish efficiencies within the utility, whereas formula rate plans use utility-specific metrics within the formula. Formula rate plans are most commonly used by transmission companies filing with the Federal Energy Regulatory Commission (FERC), and due to low efficiency incentives, formula rate plans are not typically considered a type of PBR. The main advantage of formula rate plans is that they are intended to provide a transparent and predictable way to update rates without the need for frequent filings or rate cases. A major drawback of formula rate plans is that it can allow utilities to pass increased costs directly to customers through the formula and therefore reduces a utility's incentive to pursue cost efficiencies.

Christensen Associates therefore does not advise the Commission to pursue formula rate plans as a PBR option but simply notes formula rates plans for the Commission's awareness.

7. *Reopener Provisions*

Because MYRPs and indexed cap PBRs are automatic in nature and do not adjust annual revenues based on sustained changes in utility costs that traditional ratemaking would, a utility may experience earnings that are dramatically lower or higher than intended by the PBR. To account for this, various jurisdictions have developed "Reopeners" which is a mechanism that allows for review and adjustment of the utility's PBR plan to protect against the divergence of costs and collected revenues. Reopeners are generally intended to

fix PBR design issues, provide solutions to utility operational problems, rebase for unexpected costs, fix billing errors, and facilitate an "off-ramp" of a PBR plan. Christensen Associates therefore recommends that if Indiana adopts an indexed cap regulatory framework or a forecasted MYRP, then a clearly defined "reopener" mechanism should be adopted in conjunction with these PBR approaches.

8. *Earnings Sharing Mechanisms ("ESM") and Efficiency Carryover Mechanisms ("ECM")*

   The PBR Study largely addresses ESM and ECM as mechanisms that can be established in association with an MYRP or an indexed cap PBR. An ESM manages the risk of a utility under-earning or over-earning relative to the target ROE that is established through a rate case. In a symmetrical ESM, if actual utility earnings exceed or fall short of the target ROE, then some proportion of the excess or shortfall earnings are shared between the utility and customers. In an asymmetrical ESM, utilities are required to share any exceeded earnings with the customer, while any shortfall of earnings is solely the responsibility of the utility. Deadbands around the target ROE can also be established for an ESM, which allow for some changes in earnings to not trigger sharing earnings, which helps to protect the utility and customer against small fluctuations in earnings. Christensen Associates recommends that if the Commission adopts a forecasted MYRP or an indexed cap PBR, then ESMs should be considered in accompaniment with these PBRs. Large deadbands with ESM is recommended to maintain cost efficiency incentives.

   Christensen Associates states that ECM is a mechanism that allows for a portion of productivity gains to be kept by the utility past the end of the established PBR timeframe. An ECM generally seeks to combat the weakened incentive for the utility to implement efficiency gains in the final years of a PBR (as a result of rebasing under an MYRP or indexed cap PBR). Christensen Associates therefore recommends that if the Commission adopts a forecasted MYRP or an indexed cap PBR, then ECMs should be considered in accompaniment with these PBRs to maintain cost efficiency incentives over the PBR rebasing period.

Key Considerations and Recommendations:

United acknowledges the granularity and technical sufficiency of the PBR Study that was conducted by Christensen Associates, and appreciates the Commission and Indiana's interest in PBR. At a high-level, United supports the use of PBR tactics to promote utility cost efficiency in their practices, protect customers, and incentivize utility investments that can further promote advanced energy technologies. United therefore encourages Indiana and the Commission to adopt and direct the implementation of PBR mechanisms within all five of the State's investor-owned utilities. Furthermore, United offers the following specific recommendations on top of Christensen Associates recommendations to the Commission (corresponding with the above-mentioned recommendations):

1. *PBR Principles and General Framework:*
   The PBR Study recommends that, before enacting any form of PBR, the Commission should establish a set of principles – developed through a multi-stakeholder process – that provides guidance on the goals and structure of PBR and aligns with Indiana's five pillars of utility regulation. Christensen Associates offers a strawman list of five principles that aim to establish the goals of PBR, and these principles generally cover topics ranging from accomplishing utility cost efficiency to ensuring customer benefits.

   United believes that establishing principles to guide the development of PBR in Indiana is crucial to the successful implementation of PBR tools. Well-established principles will help ensure that PBR mechanisms that are developed are effectively accomplishing what Indiana hopes to gain out of PBR. United agrees that a stakeholder process to field comments on the strawman principles and develop a final list of principles is a reasonable approach. United cautions, however, that the final list of principles must balance customer short- and long-term interest with those of the IOUs. If not already contemplated, United further recommends that the Commission adopt a final set of principles through an order clearly setting them forth.

   Regarding the general framework for establishing PBR tools within Indiana, United notes the benefits of conducting an independent management audit on each IOU prior to implementing any specific type of PBR. A successful independent management audit can improve management and process

efficiencies within the utility that can lower costs for the utilities as well as customers and increase the effectiveness of a PBR mechanism that is implemented. An example of this is the Hawaiian Public Utilities Commission's Order No. 36536 which required a management audit of the Hawaiian Electric Company, and proved to be useful prior to establishing PBR in Hawaii.[5] Despite not being a subject of the PBR Study, United suggests that the Commission consider a management audit of the IOUs prior to implementing PBR mechanisms.

2. *Multi-Year Rate Plans:*

   The PBR Study recommends that the Commission allow investor-owned utilities to voluntarily file MYRPs specifically tailored to the individual utility as opposed to a universal MYRP framework. Furthermore, Christensen Associates recommend allowing IOUs to voluntarily file a 3 or 4 year forecasted MYRPs and that these MYRPs should include specific elements such as: exogenous cost factors, reopener provisions, or Earnings Sharing Mechanisms with wide deadbands.

   United cautions against aspects of the PBR Study's recommendations and approach with regard to the establishment of MYRPs. United concurs with the Study that a highly-specific "universal framework" for IOU MYRPs may not be advantageous to establish due to the innate differences across Indiana's IOUs. Allowing the IOUs to voluntarily file MYRPs without any guiding framework or structure, however, may lead to poor results and could be administratively burdensome to the Commission and outside stakeholders, due to the workload associated with analyzing entirely unique MYRPs. United therefore recommends that, in close coordination with the establishment of the PBR principles, the Commission create a generalized framework for 3- or 4-year IOU MYRPs that can be filed with the Commission. This framework can establish a standard term for all MYRPs (3 *or* 4 years, not either at the IOU's discretion) and include requirements addressing what should be included in an IOU's revenue requirement forecast (*i.e.,* future operating expenses, capital investments,

[5] *See* Hawaiian Public Utilities Commission Order No. 36536 on September 23, 2019 and Utilitydive article highlighting the aftermath of this Order available here: https://www.utilitydive.com/news/audit-of-hawaiian-electric-sends-a-postcard-about-the-future-of-regulation/580145/

depreciation, etc.), any additional PBR mechanisms that should be required alongside a proposed MYRP (*i.e.*, PIMs, reopener provisions, earnings sharing mechanisms, etc.), as well as any other requirements that the Commission seeks to establish for an MYRP structure. Regarding PIMs, United recommends the use of MYRPs only with the use of PIMs for the reasons discussed by Christensen Associates. The Commission can still have the IOU's voluntarily file MYRPs, however, establishing a general framework over the MYRPs through a Commission order will provide a greater sense of clarity and efficiency over the process.

3. *Indexed Price or Revenue Caps:*

   The PBR Study does not specifically recommend whether the Commission should pursue indexed price or revenue caps as a form of PBR, however, if pursued by the Commission, the Study does provide a recommendation on the structure of an indexed price or revenue cap PBR. If the Commission wishes to move forward with indexed cap PBRs, Christensen Associates recommends that the Commission utilize a hybrid approach that: 1) follows the specific indexed cap formula as specified in the PBR Study, 2) allows only the distribution portion of utility operations to operate under the indexed cap, and 3) specifies that capital costs be either forecast or tracked by a company-specific mechanism.

   If the Commission is interested in pursuing an indexed price or revenue cap PBR tool, United recommends refinements to the approach suggested by Christensen Associates. United recommends that the Commission allow IOUs to voluntarily file indexed revenue caps as a form of PBR. United concurs with the PBR Study's recommendation that IOUs should utilize a hybrid approach to indexed caps that follows the specific formula established in the PBR Study, allows for only distribution investments to operate under an indexed cap, and specifies that capital costs should be tracked or forecast using a company-specific mechanism. Similar to United's recommendation on MYRPs, United recommends that the Commission create a generalized framework for indexed cap PBRs, in close coordination with developing PBR principles, that can be filed with the Commission. This framework should incorporate the PBR Study's recommendation on the specific requirements for the hybrid indexed cap approach. The Commission can still have the IOUs voluntarily file indexed cap

PBRs, however, establishing a general framework over the indexed cap approach will provide a greater sense of clarity and efficiency over the process. United, however, does urge caution regarding the development of a "hybrid approach" for indexed caps and suggests that the Commission avoid allowing the IOUs to propose hybrid approaches that will be unnecessarily complex, and make it less transparent or more difficult for stakeholders and Commission staff to assess and understand the potential impacts of a rate case.

4. *Performance Incentive Mechanisms:*

Christensen Associates recommends allowing IOU's to voluntarily file PIMs as part of a rate case application that will be assessed on a case-by-case basis. Furthermore, the PBR Study recommends that the Commission pursue a stakeholder process to establish the policies that PIMs should align with. It is also mentioned that studies may be needed to set performance incentive thresholds and dollar values for incentives.

United disagrees with some of Christensen Associates' recommendations concerning the establishment of PIMs. United supports a stakeholder process and study to establish the aligned policies and general structure of a developed PIM. However, United believes that IOUs should not be the only party that is allowed to propose a PIM within a utility rate case. Any participant should be able to propose a PIM. The Commission itself should be able to direct the development of specific PIMs as well to meet certain Commission goals. By allowing other parties to propose PIMs in a utility rate case, the Commission limits the risk of setting a PIM with a performance target that is easily achievable by the utility and thus rewards a utility without any significant improvement in the utility's performance. In this vein, any PIM must avoid rewarding an IOU for achieving a level of service that it is already required to provide. In other words, there should be no reward for doing what one is already expected to do. A performance deadband around performance standards set by statute or rule can help avoid this risk and encourage an IOU to exceed minimum standards. Nor should any PIM incentivize or reward an IOU for spending money, *i.e.* reaching spending targets should never be a goal; rather, obtaining measurable results should be the goal. United's support for PIMs is further reinforced by the widespread use and general success of PIMs

across the country, of which 25 states have developed some form of PIM or PIM-like mechanism which cover policy goals ranging from Distributed Energy Resource deployment to customer affordability.[6] United also emphasizes that Indiana IOUs currently track a variety of data metrics on reliability, DER interconnection timelines, and safety which could be readily adapted into PIMs through the development of performance targets. Furthermore, United recommends that the Commission establish a symmetrical reward and penalty structure for PIMs in Indiana, as this symmetry creates both an incentive for an IOU to achieve a performance target and a disincentive for the utility to not fall below a specific performance threshold.

5. *Revenue Decoupling:*
   If the Commission determines that the LRAM that is currently utilized by Indiana IOUs meets the general goals of a revenue decoupling mechanism, then Christensen Associates recommends that the Commission not develop a revenue decoupling mechanism.

   United is in agreement with Christensen Associates' recommendation and believes that the existing LRAM is likely sufficient to properly separate a utility's revenue from its sales volume.

6. *Formula Rate Plans:*
   The PBR Study recommends against the Commission pursuing formula rate plans as a PBR option due to the risk that utilities can pass increased costs directly to customers through the formula which therefore reduces a utility's incentive to pursue cost efficiencies.

   United is in agreement with Christensen Associates' recommendation regarding formula rate plans and believes they should not be considered by the Commission as a form of PBR.

7. *Reopener Provisions:*

[6] *See* Rocky Mountain Institute's PIMs Database available here: https://pims.rmi.org/?tab=3

Christensen Associates recommends that the Commission adopt a clearly defined reopener mechanism if the Commission adopts an indexed cap ratemaking approach or a forecasted MYRP approach.

United agrees with Christensen Associates' recommendation to establish a clearly defined reopener mechanism in conjunction with an indexed cap PBR or a forecasted MYRP PBR. A reopener mechanism is a crucial tool that can protect utility ratepayers from any unforeseen consequences associated with an already implemented PBR approach. A reopener mechanism can provide greater flexibility in PBR, allowing the Commission the ability to adjust a PBR approach if issues arise during its implementation.

8. *Earnings Sharing Mechanisms and Efficiency Carryover Mechanisms:*
The PBR Study recommends that, if the Commission adopts an MYRP or an indexed cap PBR, then the Commission should consider the adoption of ESMs and ECMs. More specifically, Christensen Associates recommends adopting an ESM with large deadbands to maintain cost efficiency incentives.

   If the Commission develops an MYRP or an indexed cap PBR, United agrees with Christensen Associates' recommendation and generally supports the Commissions' adoption of ESM and ECM tools. Additionally, United recommends that the Commission engage in a multi-stakeholder process to properly create and establish ESM and ECM tools that can be applied universally to all IOUs. United further supports the development of an asymmetrical ESM to ensure that utility ratepayers are not on the hook to pay the difference if utility ROE underearning occurs. ESMs are a useful tool to control a utility's ROE and are helpful in their ability to assist ratepayers if a utility over earns on their ROE. Furthermore, ECMs are useful tools to ensure that any efficiency gains by the utility are retained past the initial PBR timeframe.

   On a related matter, the PBR Study briefly discusses the existence of Indiana's Fuel Cost Adjustment mechanism under Indiana Code § 8-1-2-42 and mentions this as a useful tool for cost tracking purposes. United recognizes that a degree of fuel cost sharing occurs under the existing Fuel Cost Adjustment mechanism, however, utility interests could be further aligned with customer interests if the

specifics of fuel cost sharing are more explicit. United recommends that the Commission consider pursuing a change to make the existing Fuel Cost Adjustment mechanism reflect an actual sharing of fuel costs between IOUs and their customers.

Conclusion:

United greatly appreciates the ability to provide comments in response to the PBR Study. United strongly supports the Commission's interest in PBR methodologies and encourages the implementation of such methodologies as outlined in our comments and recommendations specifically. More details on our recommendations are included in the applicable 'recommendations' section, however, United generally recommends that the Commission proceed with the following actions as it pertains to PBR:

1. Lead a multi-stakeholder process to establish clear principles that will be used to guide the development of PBR in Indiana. The development of these principles should be accompanied by a Commission Order, so that the principles are clearly outlined..
2. Develop a general framework that clearly establishes the requirements for both an MYRP and an indexed cap PBR that will serve as a guide when an IOU files an individualized PBR in the future.
3. Lead a multi-stakeholder process to establish a general framework and structure for the development of a reopener mechanism, an ESM, and an ECM.
4. Lead a multi-stakeholder process and study that establishes aligned policies and the general structure of PIMs that should be implemented alongside either an MYRP or an indexed cap PBR. Allow any party in an IOU rate case to propose a PIM.

Respectfully,

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