

# COMMENTS OF THE INDIANA COAL COUNCIL ON THE DRAFT DIRECTOR’S REPORT FOR THE 2016 INTEGRATED RESOURCE PLANS

## BACKGROUND:

The Indiana Coal Council (ICC) provided comments to the Indiana Utility Regulatory Commission on the 2016 Integrated Resource Plans submitted by Indianapolis Power & Light, NIPSCO, and Vectren.

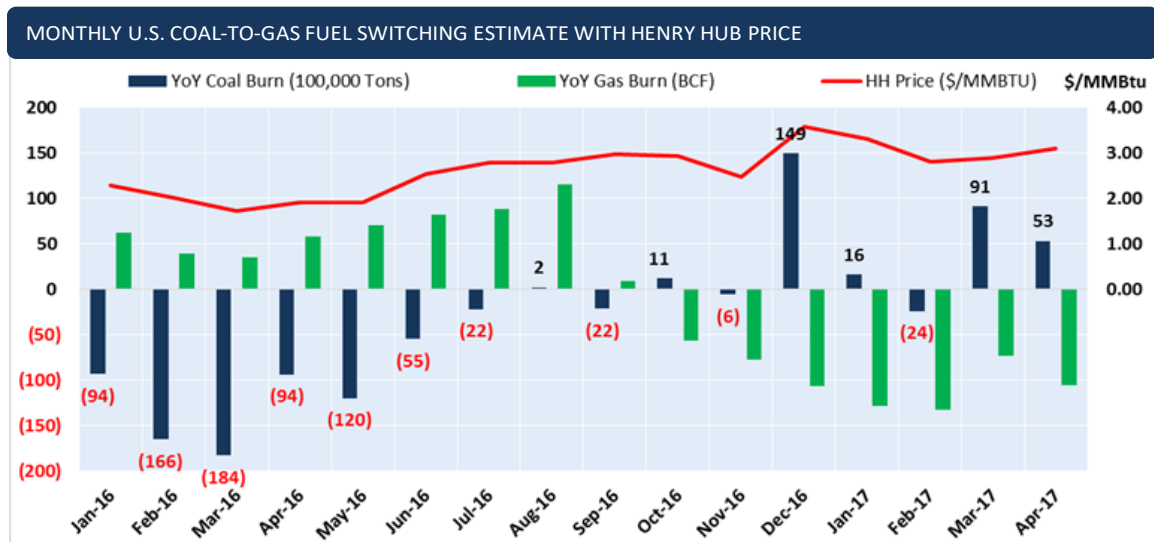
The ICC appreciates the Commission’s consideration of these submittals and offers the following comments in regard to the Draft Director’s Report.

## Natural Gas Prices

The ICC respectfully disagrees with the statement in the Draft Director’s Report (footnote 5) that suggests that every utility and stakeholder agrees that natural gas prices will be lower cost in the long-term due to fracking and improved technologies. At a minimum, that is not ICC’s opinion.

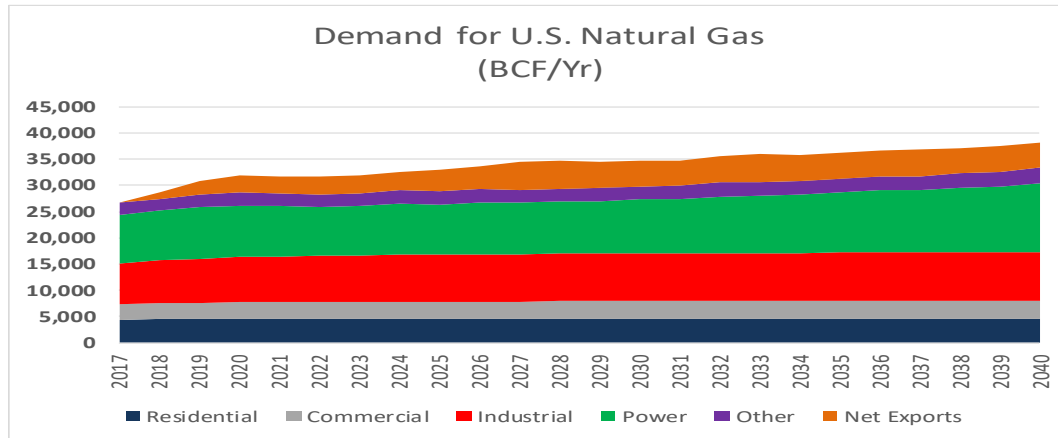
There is no question that shale gas (from fracking) has changed the natural gas market. However, the very low pricing that occurred in 2015 and 2016 is due to the fact that the growth in supply of gas outstripped the growth in demand and that the only immediately available market was the power sector. Hence, gas prices in these years reflected a discount that was necessary to displace coal generation.

Gas prices change continuously in response to market conditions. In December 2016, for example, there was an uptick in gas prices and not surprisingly a significant uptick in coal burn in power plants as shown below.



Source: Energy Ventures Analysis (EVA)

Going forward, the pricing for natural gas will increasingly be influenced by LNG exports, exports by pipeline to Mexico and Canada, and increased industrial demand. This growth is expected to keep the power sector to about 35 percent of demand even with the expected growth by the power sector as shown below.

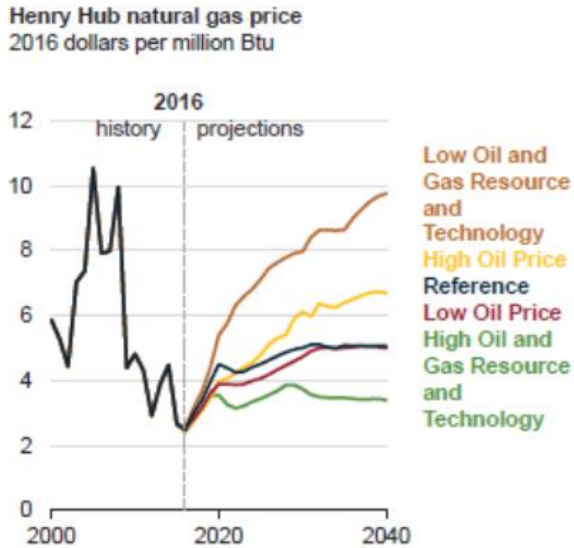


Source: EVA

Historically, the power sector is not the high value market for natural gas, meaning the power sector has not set natural gas pricing except during periods where there is a market imbalance. However, with the closure of coal power plants, the nature of the demand from the power sector will change as the gas purchasing becomes mandatory to meet load. When this occurs, the gas price will not only not be discounted, it could easily spike to fairly high levels.

For a utility to craft a resource plan without consideration of the complexities of the natural gas market (including plans to address the volatility) is problematic for customers. For the utilities, the switch to natural gas may be of little risk. Not only will investments in new gas plants improve their earnings by recovery of coal assets no longer utilized as well as the recovery of the new gas plant costs but the risk of fuel pricing is borne by the customers.

In the 2017 Annual Energy Outlook, the Energy Information Administration (EIA) provides the following forecast for natural gas prices at the Henry Hub. From the ICC's perspective, these projections confirm the significant uncertainty that exists. It should be a significant concern to the Commission going forward. If coal generation is abandoned in favor of gas, ratepayers would be exposed to volatile and higher pricing.



ICC's believes that none of the submitted IRPs had any analysis of what could happen if natural gas prices increased while coal prices did not. This could occur for a variety of reasons and is not only a legitimate scenario to evaluate but it is the critical scenario to evaluate if a coal plant retirement is contemplated.

The ICC respectfully requests that the Draft Director's Report note that not all parties believed in the low long-term pricing and that given the importance of natural gas pricing each utility contemplating a new gas plant should prepare a risk analysis that addresses the potential pricing risks of a high reliance on gas.

### **Point in Time Analysis**

The ICC is confused by the Commission's position that the IRP is limited to being "a point in time analysis". While the revised Rule 7 has not been finalized, every draft version that ICC has seen contains a new Section 10 which specifically addresses Major Unexpected Change following that publication of the IRP. Throughout the Draft Director's Report, it is acknowledged that a number of events have occurred subsequent to the preparation of these IRP's that would qualify for this categorization. Yet the Draft Director's Report supports the concept of a "point in time analysis" despite these significant and what ICC believes are determinative events. ICC respectfully requests that the Draft Director's Report consider more forceful language related to the limited validity of IRP findings acknowledging that no material actions should be taken without new analysis at the time of a filing and include reconsideration of what has turned out to be dated findings.

### **Assumptions and Methodology**

The ICC is surprised by the standard to which the Commission is holding for the utilities which have submitted IRP's. A "better than last time" performance should not be acceptable if there have been significant flaws in their analyses, be

it with respect to assumptions and/or methodology. The ICC identified significant flaws in several of the IRPs. While the Draft Director's Report confirmed some of these issues, the Draft Director's Report concluded that they were not determinative of the conclusions. The ICC respectfully disagrees. The ICC believes that in some cases they were determinative of the results and in other cases it would be impossible to conclude one way or another whether they were determinative without additional analysis. The ICC respectfully requests that the Commission revisit the ICC comments on these IRPs and reconsider its finding that the flaws were not determinative.

### **Impact of Resource Plans on the State Economy**

A sentence on Page 5, 1.1 Summary, Bullet 1 of the draft report states: "Indiana law requires the Commission to consider the broad public interest when evaluating resource decisions and their consequences in CPCN processes or other proceedings." The ICC strongly believes the utilities' and the Commission's consideration of the broad public interest can be improved upon and should include an analysis of the resource plans' impact on the state economy.

Indiana policy supports the use of Indiana coal by regulated electric utilities as evidenced by statute. The CPCN statute for utility powerplant construction, requires a coal-consuming facility to utilize Indiana coal unless the utility justifies the use of non-Indiana coal based on economic considerations or governmental requirements. Ind. Code § 8-1-8.5-5(b)(4). This language is mirrored in the Clean Coal Technology CPCN statute. Ind. Code § 8-1-8.7-4(b)(3). The ICC believes this gives the Commission authority to require a justification based upon economic or governmental requirements factors for any use of coal other than Indiana coal. Further, this language, combined with the broad public interest consideration gives the Commission authority to require utilities to consider the state-wide economic impact of the decisions made in their respective IRP's, not just the impact on the community where the plant is located.

The ICC's experience is that only the economic impacts to potentially impacted utility plant workers and the locality of the plant are considered. The ICC believes the broad public interest goes much farther than that and has not typically been a part of an analysis.

Given the importance of the Indiana coal industry to the state's economy, the ICC thinks the impact of resource plans should be an explicit consideration of the resource plan scenarios. In 2015, the coal industry contributed almost \$2 billion to the state's economy excluding indirect benefits and transportation and related industry benefits. Seventy-five percent of the coal produced in Indiana went to in-state power plants. The power plants and coal mines also affect the tax base of their communities and the loss in tax revenue affects schools and services. The loss of mining in eastern Kentucky is an example of the devastation that can occur. This analysis is particularly important because the vast majority of natural gas that will be displacing Indiana coal will originate out-of-state.

The ICC respectfully requests the Director's Report note that none of the utilities evaluated the overall impact of the resource options on the economy of the state of Indiana and that such an evaluation is an important part of the IRP.