IURC RM #15-06
PROPOSED AMENDMENTS TO 170 IAC 4-7 AND 4-8
COMMISSION'S RULES ON INTEGRATED RESOURCE PLANS AND DEMAND-SIDE MANAGEMENT

Additional Comments of Indiana Energy Association Electric Utilities
Concerning the Commission's IRP and DSM Rulemaking

The Indiana Energy Association ("IEA")[1] has reviewed the comments submitted by the other parties in the Integrated Resource Plan ("IRP") and Demand Side Management ("DSM") rulemaking, and while there are a number of issues that could be addressed, there are a few upon which the IEA wants to provide additional information. This is not meant to imply that the IEA is fully supportive of the balance of the comments made by the other parties. Rather, given the time constraints, the IEA found it necessary to focus on the issues that are most concerning.

Cost-Benefit Tests

In comments submitted by the Citizens Action Coalition of Indiana, Inc., the Indiana Distributed Energy Alliance, the Indiana State Conference of the National Advancement of Colored People, Sierra Club, and Valley Watch (collectively "Joint Commenters"), one recommendation was that the Indiana Utility Regulatory Commission ("Commission" or "IURC") eliminate the cost-benefit tests from the IRP Rule as "it is not necessary to determine cost-effectiveness of EE resources in the context of the IRP." The IEA disagrees with this position. Within any IRP process, similar to the process for determining supply-side resources, a methodology is required to assess the benefits and associated costs for each demand-side resource option. Commonly, a DSM modeling tool is utilized to help determine cost-effectiveness for energy efficiency ("EE") programs by analyzing the costs and benefits of the programs. Inputs into the modeling process include program information and data, program costs and savings, in addition to participation rates, incentive payments, and administrative costs.

[1] For purposes of this filing, the IEA Electric Utilities consist of: Duke Energy Indiana, Inc.; Indiana Michigan Power Co., Indianapolis Power & Light Co., Northern Indiana Public Service Co., and Southern Indiana Gas & Electric Co. d/b/a Vectren Energy Delivery, Inc.

The EE measures are first pre-screened for cost-effectiveness and then aggregated into DSM programs. The DSM modeling program is then utilized to conduct industry standard cost-benefit tests. These cost-benefit tests were developed specifically to provide decision makers information about the costs of programs and the associated benefits. The reason there are multiple tests is that each test considers the benefits and costs from a different perspective. While it is typical to use the Total Resource Cost ("TRC") test and Utility Cost Test ("UCT") as the determinant of further evaluation of resources within the IRP (aggregated measures with a score of 1.0 or greater on both tests are typically evaluated as potential EE resources in the IRP), the Ratepayer Impact Measure (RIM) test and the Participant test also provide valuable insight into the costs and benefits of the programs. The use of all of these tests provides a more holistic view of the value and efficacy of EE resources in comparison to supply-side options. It is appropriate and necessary to determine cost-effectiveness of EE resources within the IRP process and the cost-benefit tests (consistent with the California Standard Practice Manual), therefore, these tests should remain a requirement of the IRP process and within the IRP Rule. Importantly, one should not assume that if an EE program is cost-effective in the DSM screening process that it will necessarily be selected in the IRP process. The avoided cost trajectory should be informed by the IRP.

The Joint Commenters' recommendation runs counter to SEA 412, codified at Ind. Code. 8-1-8.5-10, which requires that EE Plans be informed by the IRP (IC 8-1-8.5(c)(2)) and be cost-effective. (IC 8-1-8.5(c).) If the IRP does not screen EE programs for cost-effectiveness, then there is the potential for conflict between what resource combination the IRP selects and the cost-effective portfolio of programs offered as a part of an EE Plan as required by I.C. 8-1-8.5-10.

Furthermore, IC 8-1-8.5-3 (e) requires that a utility "shall submit to the commission an integrated resource plan that assesses a variety of demand side management and supply side resources to meet future customer electricity service needs in a cost effective and reliable manner." By proposing to eliminate the cost-benefit tests, the Joint Commenters appear to want to circumvent the clear statutory intent of both I.C. 8-1-8.5-3 and 8-1-8.5-10.

Other Issues

Additionally, the IEA companies would like to stress the following points, in response to the Joint Commenters:

- The Joint Commenters appear to confuse the costs of EE with avoided costs, in connection with their proposed steps of avoided cost; and such a methodology would be complicated to implement, even if valid. Resolution in the utility's IRP is preferable.
- The IEA electric utilities agree that EM&V should be performed independently. However, the utilities do not agree that EM&V should be required to be linked to the Indiana Technical Resource Manual; the TRM may not be appropriately updated for each EM&V process.
- The Joint Commenters' proposals to model 1.5% and 2.0% of energy reductions are arbitrary, do not assist in determining the level of cost-effective EE in an IRP, and should not be adopted.
- The Joint Commenters' proposed inclusion of "income effect" should be rejected; it is in reality a load forecasting issue, not an EE issue.

Lost Revenue Recovery

The Joint Commenters recommend the Commission cap the amount of lost revenue recovery "to thirty-six months or the life of the measure, whichever is shorter." The Commission has previously approved the utilities' recovery of lost revenues associated with approved DSM programs for the useful measure life.[2] This is in recognition that lost revenues

[2] The Citizens Action Coalition has raised this request to cap lost revenues at 36 months or shorter in all of the Investor-owned electric utilities' DSM program approval cases in 2014: I&M (Order in Cause No. 44486, (Dec. 3, 2014)); NIPSCO (Order in Cause No. 44496, (October 15, 2014)); and Vectren (Order in Cause No. 44486, (Dec. 3, 2014)). The Commission noted that the CAC failed to present any evidence that such a limit is reasonable or justified. The Commission stated that CAC's argument against Duke's lost revenue recovery, including a cap on lost revenues was "not compelling" *In Re Petition of Duke for approval of its proposed DSM and EE programs for 2015, Order of the Commission*, IURC Cause No. 43955-DSM-02 (Dec. 30, 2014) at p. 63. CAC raised this issue in IPL's most recent DSM program approval case, and the Commission denied CAC's request there as well, and allowed IPL to defer its lost revenues for subsequent recovery upon the effective date of IPL's next base rate case order. *In Re Petition of*

do not stop at an arbitrary point, but rather should be based on studies that determine the expected useful life of a particular measure, as determined by an independent evaluator. Therefore, it is appropriate to continue to collect lost revenues associated with DSM programs over the life of the measures.

Joint Commenters also suggest that to receive lost revenue recovery a utility must demonstrate “that revenue has been lost due to under recovery of authorized fixed costs due to EE and not made up for by other factors including, but not limited to, load growth.” Joint Commenters’ Redline to DSM rules, page 33 (170 IAC 4-8-6(c)(3). As stated above, lost revenue recovery is intended to make a utility whole in recovery of costs associated with the fixed costs that a utility would otherwise forego in pursuing EE. To the extent a utility experiences under-recovery of fixed costs due to a reduction in kWh sales as a result of customers participating in utility-sponsored EE, a utility should be made whole through lost revenue recovery.

In its comments, the Office of Utility Consumer Counselor (“OUCC”) stated that “consumer representatives maintain that a utility is returned to the same position it would have been in without offering DSM programs if that utility still has the opportunity to recover its full annual revenue requirement” and noted that rate cases are “a long-standing regulatory process that allows the Commission to fairly balance the interests of monopoly utilities against those of their captive customers protecting both from rates that might otherwise be confiscatory.” However, the OUCC fails to explain why the utility should be harmed for encouraging customers to use less of its product. Nor does the OUCC explain why it is appropriate for the Commission to change its long-standing practice of allowing a utility to collect lost revenues for successful DSM programs. Finally, the OUCC does not reconcile its stance with Senate Enrolled Act (“SEA”) 412, which was passed in 2015 and allows for the recovery of lost revenues associated with EE programs.

Indianapolis Power & Light for Approval of Electric DSM, Order of the Commission, IURC Cause No. 44497 (December 17, 2014).

It is notable that the General Assembly did not choose to address a time limit on recovery of lost revenues or provide a specific timeframe for a rate case in the recently passed SEA 412, unlike what the legislature did in requiring a rate case at least every seven years for a utility with a Transmission, Distribution, and Storage System Improvement Charge that was created through SEA 560 in 2013. While the IEA recognizes that rate cases are one of the appropriate forms of recovery for lost revenues, requiring rate cases more often than every seven years would not be administratively efficient for utilities, stakeholders, or the Commission.

Finally, the INDIEC comments filed on November 19th inaccurately reflect the "Statutory Boundaries on Lost Margins." While INDIEC is correct that IC 8-1-8.5-10(d) does delineate the difference between EE programs and programs designed primarily to reduce demand for limited intervals of time (demand response), it does not prohibit recovery of lost revenues or financial incentives for those programs. Demand response programs are different from EE programs, but both are demand-side management activities. Both types of programs provide value to the utility system and its customers in the form of energy and capacity savings, and both should be eligible for program cost recovery, lost revenue recovery, and financial incentives. Additionally, the Joint Commenters' proposal to eliminate rate design programs from cost recovery consideration is overbroad and should be rejected.

Director's IRP Report

On the bottom of page 10 of the Joint Commenters' comments, they advocate that *"the director can require modifications to an IRP."* The intent of the proposed draft rule is that utilities will continually review best practices and stay current in their analysis. All utilities carefully review the director's report and have clarifying conversations with IURC staff to improve subsequent IRP analyses. However, some of the suggestions in the Director's report require significant lead time to review and implement. These types of suggestions are better considered for the next IRP cycle. One example of this is the suggestion to consider adding stochastic risk analysis to the IRP process. Such an analysis would take many hours to complete for each of the scenarios and sensitivities. Additionally, if there is a need for new resources to meet demand, major IRP assumptions/inputs can be refreshed when filing for a certificate of public convenience and necessity.

Modeling Files

On the bottom of page 11 of the Joint Commenters' comments, they request modeling input/output files during the public stakeholder process. Utilities have a very compressed time line for the IRP analysis, which includes public stakeholder meetings throughout the process. Adding a requirement to share draft technical files to groups throughout the process would be unduly time consuming and burdensome. Utilities would not only be required to provide the files, but they would have to spend significant time to educate the stakeholders on the nuances of complicated inputs/output files. There is no need for the modeling files to be provided during the analysis, as utilities already provide final modeling files upon request under a non-disclosure agreement during the comment period.

The IEA electric utilities respectfully urge the Commission to consider these comments and adopt their positions in finalizing its IRP and DSM rules.

Respectfully submitted,

Ice Miller, LLP on behalf of:

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Indiana Michigan Power Co.
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