
SUBMISSION OF INDIANA INDUSTRIAL ENERGY CONSUMERS, INC.
TO THE
INDIANA UTILITY REGULATORY COMMISSION

INDIEC'S ADDITIONAL COMMENTS ADDRESSING DEMAND RATCHETS AS
REQUESTED BY THE COMMISSION AS PART OF ITS
BACKUP, MAINTENANCE, AND SUPPLEMENTAL POWER RATE REVIEW

May 25, 2018

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Indiana Industrial Energy Consumers, Inc. (“INDIEC”) submits these additional comments relating to the review of backup, maintenance and supplemental power rates pursuant to the Commission’s General Administrative Order 2017-3. In particular, this submission addresses the appropriateness of demand ratchets for such rates.

Demand ratchets are generally associated with firm service requirements, and are set by reference to peak load in a given period, which the utility must maintain sufficient capacity to serve with a high degree of reliability. A peak set in one month, for example, establishes a demand level that the utility must be prepared to meet in successive months, and hence ratcheted demand charges reflect the costs of incremental capacity reserves for the later period even if the customer’s actual usage drops. In the context of standby services supporting private energy projects, however, the utility does not provide service necessitating the same kind of investment to maintain incremental supply resources on a continuous basis. With respect to standby rates, accordingly, demand ratchets of the type associated with full requirements service are inappropriate and contrary to cost of service principles.

Properly designed rates for standby services will reflect no more than the limited costs imposed on the system by services that, by their nature, are needed only on an occasional basis. Maintenance service, since it relates to planned outages, can be coordinated with the utility and scheduled to avoid system peaks. Backup service, for unplanned outages, will occur on a sporadic basis and at different times for different units. It is both inconsistent with cost of service, therefore, as well as unlawful, to predicate rates for such services on an assumption that all private energy projects in the utility’s territory will have unexpected outages simultaneously and that those outages will all occur during peak conditions. See 18 C.F.R. ch. I, §292.305(c). The level of service required when an outage does occur, accordingly, does not establish a

demand level for which the utility must plan to establish and maintain incremental supply resources to meet on an ongoing basis. The ratemaking rationale for a demand ratchet is inapplicable to standby services that do not cause the utility to procure and preserve additional capacity.

An unwarranted assumption that a utility will need to secure and hold added supply reserves to meet the potential demand for occasional standby services, furthermore, fails to account for the presence of regional markets capable of providing supply when needed. In the late 1900s, when the regulatory framework for private energy projects was established and utility tariff provisions for standby services were put in place, the prevailing structure placed the responsibility on each utility to construct or reserve sufficient capacity to meet all power needs within its territory. With the establishment of independent system operators and competitive regional markets, however, supply resources are accessible even when a given utility's native generation and supply portfolio cannot accommodate a particular service request. For standby services needed only on an intermittent basis, a buy-through mechanism to obtain supply through regional markets when the utility is unable or cannot economically provide service using its own resources is the more efficient approach, in contrast to presuming that each utility must build and maintain incremental capacity to serve occasional and sporadic power needs.

Overpricing standby services undermines the economics of private energy projects, contrary to the established policy under Indiana and federal law. See Ind. Code §8-1-2.4-1; 16 U.S.C. §824a-3. That policy promotes and encourages private investment in beneficial projects that mitigate the extent of public supply resources reflected in regulated rates. The policy is supported by reasonable and non-discriminatory rates for standby services that do not exaggerate the costs incurred by the utility to meet the limited needs of such customers. Subjecting those

investing in private energy projects, with infrequent service needs only in the event of an outage, to the same rate consequences associated with the ongoing demands placed on the utility system by full requirements customers deviates from cost-based ratemaking and results in excessive charges for standby services. Whether standby services are treated as a demand spike under a full requirements rate schedule or demand ratchets are built into back-up and maintenance rates, the imposition of lingering demand charges for extended periods does not fairly reflect the costs incurred by the utility to provide such services and thereby impedes the economic efficiency of the private resources that established regulatory policy is supposed to promote.

Respectfully submitted,

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