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VIA ELECTRONIC MAIL

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RE: INDIEC'S Initial Response to Performance Based Ratemaking Survey

Dear Messrs. Crowley, Romanovs-Malovrh and Goodrich,

Indiana Industrial Energy Consumers, Inc. ("INDIEC") is providing the following responses to Christensen Associates to aid in its study of the potential use of alternative ratemaking mechanisms in Indiana on behalf of the Commission. INDIEC continues to appreciate the opportunity to participate in the stakeholder process for this study, and looks forward to providing further insights to Christensen as it continues its evaluation.

In addition the response below, INDIEC would refer Christensen and the Commission to its response to the initial survey which provides significant detail on INDIEC's positions and rationale to many of the questions.

Stakeholder Workshop

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

Yes. The workshop provided a clear understanding of the IURC's and Christensen's plans for stakeholder engagement and the issues which will be considered. It also set clear expectations for participation, created a welcoming forum for discussion, and appropriate opportunities for input and discussion. The workshop also provided a common framework for understanding the types and theoretical underpinnings of various forms PBR within the context of the study.

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

Yes. As noted above, the Commission and Christensen created a receptive environment for stakeholder discussion and inquiry.

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

The effort spent laying a common understanding of PBR among stakeholders was very valuable from the perspective of creating an efficient process.

Current Regulatory Framework

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

Ultimately, the singular goal of regulation is to provide a surrogate for competition. This is to ensure that ratepayers are not charged excessive rates, nor provided inadequate and inefficient service.

Practically speaking, this goal should result in a regulatory process which is ratepayers are protected from rate increases which are not cost based and/or which result from imprudent and unnecessary investments and expenditures by the utility. Conversely, a utility should be allowed to recover its reasonable and prudent costs and expenses, with an appropriate opportunity to earn a return for its investors.

The balance between ratepayers and the utility can be achieved through robust review by the Commission of the prudence, necessity and appropriateness of investments and expenses, as well as by properly allocating risk to the utility related to failures to operate its business in a sound manner.

2. *How well does the current rate-regulation framework in Indiana facilitate success in the following areas: reliability, resilience, stability, affordability, environmental sustainability, utility cost control, regulatory efficiency, customer service, financial health of the utility, adaptability to the energy transition?*

Generally, the Commission does a very good job of finding balance within the limits allowed by controlling statutes. That said, those limits often impede the ability of the Commission to effectively enforce the compact. Statutory and policy signals are regularly sent to the Commission which disrupt the smooth operation of the regulatory process, and/or which prioritizes one area to the detriment of others. Statutory efforts to address reliability or the financial health of the utility through cost tracking, automatic recovery of pre-approved investments and budget adjustments, for example, tend to undermine cost control. Similarly, programs to incentivize investment in specific types of generation resources can influence utility investments which impact (either positively or negatively) affordability, environmental sustainability, and the ability of the utilities to adapt to changing circumstances.

3. *Will the current rate-regulation framework in Indiana remain appropriate for optimizing utility services in the same areas given transitional forces? If no, please explain what improvements could be made.*

It is possible that it can, as there already is extensive flexibility available to utilities and the Commission to adapt to changing circumstances. That flexibility includes a wide variety of tracking mechanisms. In addition, the Alternative Regulatory Plan statute allows utilities to propose, and the Commission approve, alternatives to traditional ratemaking when appropriate. Efficient utilization of those tools can greatly aid in the optimization of utility service in the face of changing circumstances such as the transition from coal and the adoption of DERs.

It is INDIEC's contention that the success or failure of the existing regulatory framework is the willingness of utilities to be flexible themselves, and for the Commission to retain sufficient flexibility itself to find the point of balance between multiple competing interests.

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

We do not have a specific quantification indicating a change of the pace of rate increases, but with tracking mechanisms adjusted on a quarterly, six month, or yearly basis, there is some degree of change to rates on a regular basis. These increases have, seemingly, grown more significant as they now recover costs associated with major capital investments rather than variable, unpredictable, and significant expense items. Moreover, given the influx of capital trackers actual rate increases have been more regular as utilities seek to include capital investment in base rates.

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

A significant step would be the application of a more consistent, and more robust, analysis of the prudence and justification for investments and cost increases. This would help, using existing statutes, constrain utility investment to necessary levels consistent with the obligation to provide adequate and efficient service.

<u>Multi-Year Rate Plans & Performance Incentive Mechanisms</u>

1. *Would you support a regulatory regime that <u>allows the option</u> to use a MYRP on the state's investor-owned utilities, meaning three or more years between rate applications?*

As set out more fully in INDIEC's response to the initial stakeholder survey, Indiana already, effectively, has optional multi-year rate plans and it has not proven effective in controlling costs to ratepayers. Using future test years, utilities have used "stepped" or "phased in" base rate increases over a period of years in order to reflect new plant in service. Similarly, utilities have the option to file multi-year TDSIC plans which allow for pre-approval of significant investment over extended periods. The pre-approval allows for "automatic" recovery of a portion of the utilities' return on/of the investment, as well options to modify the plan and seek cost increase approvals. When the investments are fully rolled into rates during base rate case, this translates into very significant increases due to the depreciation expense and return on the new assets.

Given that utilities have not proven particularly good at projecting costs and adhering to budgets in the TDSIC or other capital trackers, it is difficult to support another mechanism calling for pre-approval or ultimate recovery of costs and expenses.

2. *Do you support utilities operating under a price 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?*

In theory, INDIEC would be supportive of multi-year rate plans which imposed defined constraints on utility cost increases, such as limiting the increases to inflation or other objective and verifiable metrics. The difficulty in expressing outright support, however, rests in the lack of detail in the proposal. The criteria for "off ramps" or contingency increases due to exigent circumstances, for example, could significantly erode any value achieved through caps.

In any event, even if all details could be ironed out, INDIEC would have concerns over how such a system would impact a utility's risk profile or other financial metrics and corresponding rate of return, thereby unnecessarily increasing costs for ratepayers.

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?*

Under Indiana law, utilities can use forecasted, future, test years with an end date more than a year from the date of filing. The volume and amount of information submitted with the case and obtained through discovery is already very significant, and it remains difficult to validate, and challenge, the reasonableness of a utility's forecast. This is due to a number of factors, including the limited resources and time available to consumer advocates and the Commission. Adding additional information is unlikely significantly aid other parties.

4. *Would you expect a utility to obtain financial benefits from operating under some form of price or revenue cap?*

Generally speaking one would expect there to be reasonable benefits to the utility operating under such a system. Knowing that regular rate adjustments will be made to support additional revenues could help provide an added degree of financial stability to a utility. Apart from that, providing defined increases could lead to a financial windfall, at least temporarily, if the utility operates efficiently or foregoes investments or expenditures.

5. *Would you expect customers to obtain benefits from a utility operating under some form of price or revenue cap?*

One would expect there to be the benefit, at least temporarily, of limited rate increases. How significant that benefit would be depends heavily on many different factors. These would include the continued utilization of trackers, the availability of "off ramps", and the occurrence of exigent circumstances leading to additional, and unexpected, increases.

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 or if the PIMs are set specifically for each utility rather than the same PIM target for all utilities.*

No. It is INDIEC's position that public utilities have an obligation to provide adequate service to their customers. Providing an incentive for fulfilling their basic function is contrary to that basic principle. To the extent that incentives or penalties send economic signals, they could significantly distort the utilities motivations by placing emphasis on specific behaviors to the detriment of others.

To the extent penalties are appropriate, INDIEC believes that the Commission already has the ability investigate inadequate service and order remedial action if necessary.

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

Ultimately, the success or failure of any rate making system is its ability to ensure the utility continues to efficiently and effectively provide adequate service on a consistent basis to its customers. Multi-year rate plans or performance incentive do not appear to provide significantly increased ability to deliver that result over traditional ratemaking.

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?*

Yes, INDIEC would agree that updates to Indiana's existing regulatory structure would be better approach to addressing the needs of customers and utilities.

Once again, INDIEC wishes to thank Christensen Associates and the Commission for the opportunity to participate in this stakeholder process. Please feel free to contact myself if you have additional questions or believe additional information would be useful as part of this study.

Regards,

Joseph P. Rompala

cc: IURC, via electronic mail, PBRstudy@urc.in.gov