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United Technologies Corporation (UTC) appreciates the opportunity to submit these comments on the Commission's rulemaking for Integrated Resource Planning (IRP) and Demand-Side Cost Recovery (RM #15-06).

UTC is a United States manufacturer specializing in a broad range of high-technology products and services for the aerospace and building industries. UTC employs over 2,700 employees in Indiana, including in our facility in Indianapolis where we manufacture residential and commercial furnaces and air handlers.

As a large employer and major energy consumer in the state, we understand firsthand how Indiana's energy policies affect the cost of doing business and the state's economic competitiveness. Our company supports policies that advance energy efficiency because all Indiana consumers and businesses benefit when we eliminate energy waste. Energy efficiency and demand response programs are the lowest-cost energy resources available. By investing in these resources we can reduce total energy costs for all customers, mitigate the impact of fuel and electricity price increases, and build a more affordable, reliable electricity system for the businesses and people of Indiana.

Our comments focus on three key issues that we think have a significant impact on the future of demand-side resource investments in Indiana:

1. Establishing the optimal level of demand-side resources through the IRP process;
2. Ensuring that IRPs include the optimal level of demand-side resources; and
3. Defining reasonable lost revenues.

Finally, we address some other issues that are not easily categorized. We are happy to discuss any of these issues further and look forward to working with the Commission through this process further to refine and improve its rules.

### **Issue 1: Establishing the optimal level of demand-side resources**

- ***The IRP rules should be modified to more clearly establish the process for developing the Commission’s “analysis of long-range needs for expansion of facilities for the generation of electricity.”***

In numerous instances, SEA 412 modifies Indiana statute by newly referring to the Commission’s “analysis.”<sup>1</sup> We interpret this to be the analysis described in IC 8-1-8.5-3 as follows: “The commission shall develop... an analysis of the long-range needs for expansion of facilities of the generation of electricity.”

However, we note that the Commission’s current rules do not have a clearly defined procedure for conducting and approving this analysis. We recommend that the IRP rules be modified to include this process.

Moreover, we think this analysis is a crucial input to any utility IRP submission. Currently, the draft rules contemplate the IRP submissions preceding the Commission’s analysis.<sup>2</sup> In contrast, we think the Commission’s analysis should precede IRPs and the rules should be modified accordingly.

- ***The Commission’s “analysis of long-range needs” should specify the optimal level of demand-side resources.***

One required component of the Commission’s analysis is its determination of “the optimal extent, size, mix, and general location of generating plants.”<sup>3</sup> In other words, the Commission is responsible for determining the optimal extent of supply-side resource needs in Indiana. Practically speaking, the optimal extent of supply-side resources cannot be determined unless the Commission concurrently determines the optimal extent of cost-effective demand-side resources. Otherwise, if the Commission fails to account for demand-side resources, there will be an oversupply of supply-side resources, which by definition would be a sub-optimal outcome. Therefore, in determining the optimal level of supply-side resources the Commission’s analysis pursuant to IC 8-1-8.5-3 should also specify the optimal extent of demand-side resources. We recommend that this step be included in the procedure for conducting the Commission’s analysis as described above.

Finally, we recommend that the Commission rules be modified so that definition of optimal demand side resources includes “all cost effective” demand-side resources. In practice, the

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<sup>1</sup> See for example: IC 8-1-8.5-3(f); IC 8-1-8.5-3(h); IC 8-1-8.5-5(b); IC 8-1-8.5-5(c); and IC 8-1-8.5-10(j)

<sup>2</sup> See Draft proposed rule 170 IAC 4-7-2(r)

<sup>3</sup> IC 8-1-8.5-3(b)(3)

optimal level of demand-side resources could be identified both at a statewide level and for individual utilities in Indiana.

## **Issue 2: Ensuring that IRPs include the optimal level of demand-side resources**

- ***The Commission rules should require that the amount of demand-side resources selected in utility IRPs be consistent with the Commission’s analysis.***

SEA 412 requires utilities to submit energy efficiency plans every three years and for the Commission to determine the reasonableness of these plans.<sup>4</sup> Moreover SEA 412 outlines two criteria for plans to be considered reasonable and ultimately approved by the Commission:

- 1) They must be consistent with the Commission’s analysis.<sup>5</sup> And,
- 2) They must be consistent with the utility’s most recent IRP.<sup>6</sup>

We are concerned about the possibility that energy efficiency plans submitted by utilities might not be able to meet both criteria and therefore could not be approved. This could occur if the IRPs submitted to the Commission include a level of demand-side resources that is inconsistent with the Commission’s analysis. As a solution, we recommend that the IRP rules be modified so that each utility’s IRP includes the optimal level of demand-side resources as established by the Commission’s analysis. This is the only way to ensure that the energy efficiency plans can meet both criteria and be approved.

Under 170 IAC 4-7-8(b) we suggest adding the following criterion: “Demonstrate that the preferred portfolio includes a level of demand-side resources that is consistent with the Commission’s analysis pursuant to IC 8-1-8.5-3.”

- ***Draft and Final Reports from the Commission’s Director should be permitted to comment on utility IRPs.***

Under IAC 4-7-2, the Draft Proposed Rule states that, “(1) The draft report and final report shall not comment on: (1) the utility’s preferred resource plan; or (2) any resource action chosen by the utility.” In contrast, we suggest that the draft and final report should be able to comment on the utilities’ IRPs. At a bare minimum, the draft rules should allow these reports to indicate whether each IRP is consistent with the Commission’s analysis.

- ***Ensuring procurement of demand-side resources selected in IRPs.***

We strongly support the current draft rule language that requires demand-side resources to be evaluated on a “consistent and comparable basis.”<sup>7</sup> However, based on our experience in other

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<sup>4</sup> IC 8-1-8.5-10

<sup>5</sup> IC 8-1-8.5-10(j)(3)(a)

<sup>6</sup> IC 8-1-8.5-10(j)(3)(b)

<sup>7</sup> Draft proposed rule 170 IAC 4-7-8(b)(3)

states, we are concerned that the comparable evaluation of demand-side resources in IRPs, while important, will not be sufficient for the ultimate procurement of these resources – even when these resources are shown to be cost-effective relative to other options. As a result, we strongly recommend that the Commission’s rules not only require comparable evaluation, but also require utilities to act on the results of the evaluation. That is, if demand-side resources compare favorably in the IRP, and are found to be cost-effective, the Commission should also order the acquisition of the demand-side resources in the short-term action plans.

As such, we suggest that the following language be added to 170 IAC 4-7-9: “The Commission shall issue an order approving the short-term action plan. This order will establish energy efficiency targets or goals for electricity suppliers consistent with the Commission’s Analysis.”

### **Issue 3: Lost Revenues**

- *To be considered “reasonable” lost revenues should be limited to a specific time period.*

Excessive lost revenue payments continue to be a serious impediment to demand-side resource investment in Indiana. In addition, we have observed that Indiana’s treatment of lost revenue recovery is fairly unique and results in higher costs for customers. In Indiana, utilities recover their lost revenues over the full life of an energy efficiency measure. In many other states, this recovery is limited to 2-to-3 years.

Notably, SEA 412 modified the definition and implementation of lost revenues to ensure that the amount collected is “reasonable.” The Commission’s definition of “reasonable” in this proceeding will have a significant impact on Indiana ratepayers, the energy bills of Indiana businesses and consumers, and the overall success of future demand-side resource acquisition. We strongly recommend that the Commission’s rules be modified to define “reasonable lost revenues” in a way that is fair and does not unduly discourage cost-effective demand-side resources.

We note that there are many factors that can influence a utility’s achievement of revenue requirements over the long-term – many of which are unrelated to demand-side management programs. Some of these factors include economic growth, weather, and rate case timing. Allowing lost revenues to persist for a long period presupposes that none of these factors matter in the achievement of revenue requirements. Therefore we urge the Commission to adopt a conservative definition of “reasonable lost revenues.” Indiana should consider an approach that limits the time period for lost revenue recovery, similar to the approaches used in other states.

### **Other Issues**

- *Resource selection process should consider cost in initial screening.*

The Draft Proposed Rules identify several criteria for initial screening of resource alternatives in utility IRPs.<sup>8</sup> Notably, there is no requirement for IRPs to consider resource cost as a screening

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<sup>8</sup> See Draft Proposed Rules, 170 IAC 4-7-7

element. We recommend that the Commission rules be modified so that each utility IRP must include a resource cost comparison. We further recommend that the comparison be based on the levelized cost of energy (LCOE) in \$/MWh for supply-side resources and the levelized cost of saved energy (CSE) in \$/MWh for demand-side resources.

- ***The Commission should establish rules for approving resources under Section 8-1-8.5-5***

We are concerned that certain modifications made by SEA 412 could permit utilities to circumvent the IRP process by proposing supply-side resources that do not conform to either their IRPs or the Commission's own analysis. This could put other resources options, such as demand-side resources, at a serious disadvantage. To guard against this outcome, we recommend that the Commission's rules be modified to establish standards for approving utility specific proposals under 8-1-8.5-5(d).

- ***DSM rules should ensure greater detail on portfolio savings goals, program savings, and program budgets.***

While we think the Draft Proposed Rules for demand-side resources have many strong features, we believe there is room for improvement. Specifically, we believe the rules should more clearly require energy efficiency plans to include details on the following elements:

- Demonstration that portfolio savings goals are consistent with each utility's IRP.
- Contribution of individual programs to portfolio savings goals. And,
- Portfolio and program budgets.

Thank you for the opportunity to submit these comments. UTC looks forward to continued engagement on this issue.

Sincerely,

Neil W. Beup  
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