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VIA FIRST CLASS U.S. MAIL AND EMAIL

May 25, 2018

Beth E. Heline
General Counsel
Indiana Utility Regulatory Commission
PNC Center
101 W. Washington Street
Suite 1500 A
Indianapolis, IN 46204

Re: Comments of the Midwest Cogeneration Association
GAO 2017-3 –Commission Inquiry on Indiana Utilities Back-Up, Maintenance, and
Supplemental Power Rates

Dear Ms. Heline:

As previously promised, the Midwest Cogeneration Association (“MCA”) is here submitting our consultant 5 Lakes Energy’s “Apples-to-Apples” comparison of four Indiana utilities’ tariffs - - those of Indiana Michigan Power (IMP), Indianapolis Power & Light (IP&L), NIPSCO, and Vectren territories. (*Attachment A*) The Table in Attachment A compares these four Indiana utilities’ tariffs to one another and also to the thirteen other Midwest utility tariffs which 5 Lakes Energy has analyzed. We are also providing tables comparing the main components of the four Indiana utilities’ charges in various scenarios. (*Attachment B*) We are also providing 5 Lakes Energy’s underlying calculations for the charges shown for these four utilities’ tariffs. (*Attachments C, D, E, and F*).

Duke Energy and Indiana Municipal Power Agency (IMPA) have no tariffs that specifically apply to standby use and they handle requests for standby service on a case-by-case “special contract” basis. While Indiana Michigan Power has no specific standby tariff and stated in its responses in this docket that it handles requests for standby use by special contract, 5 Lakes Energy spoke with an IMP representative who explained how their base tariff charges would be applied to standby customers. Therefore, 5 Lakes Energy has included IMP in its analyses and comparison.¹

¹ As noted in our prior comments, the failure to have a standby tariff that can be readily identified and reviewed on-line by potential standby service customers is a major road block for cogeneration in Indiana. Indeed, in a recent MCA Workshop on standby rates, cogeneration

To prepare its tariff analyses, 5 Lakes Energy reviewed the responses provided by the Indiana utilities and reviewed the utility tariffs. Thereafter, 5 Lakes Energy contacted the utilities by phone and verified it was reviewing the correct tariffs and that its interpretation of how the tariffs apply to standby use is correct. We appreciate the courtesy and cooperation of the utilities in this process.

The 5 Lakes Energy analyses and comparisons focus on the charges that the standby customer sees in its utility bills. The analysis assumes a primary service customer with overall load of 5 MW, which is self-generating 2 MW and purchasing 3 MW of supplemental power from the utility. The focus is the monthly charges for the contract capacity of 2 MW of standby power usage, assuming a full outage, and the main “buckets” of charges (Service Charge, Reservation Fee, Demand Charge, and Energy Charge). These charges are then calculated for six different standby use scenarios that are designed to “tease out” how these charges are affected by: peak and off-peak standby use; scheduled or unscheduled standby use; and the duration of the standby use. The following are the six scenarios:

- No Outage (therefore no standby power use);
- Scheduled 16 Hours of Off-Peak Standby Use
- Scheduled 16 Hours of On-Peak Standby Use
- Scheduled 8 Hours of On-Peak and 8 Hours of Off-Peak Standby Use
- Scheduled 32 Hours of On-Peak Standby Use
- Unscheduled 8 Hours of On-Peak and 8 Hours of Off-Peak Standby Use

The Table in Attachment A allows the Commission to see how the overall charges under the 4 Indiana utilities’ standby tariffs compare to those same charges in 13 other Midwest utilities’ territories under each of these scenarios. While some variation is to be expected, what can be seen in Attachment A is that IP&L and Vectren have the highest charges of all of the 17 utilities that 5 Lakes Energy has analyzed. IMP’s charge are also quite high. In contrast, NIPSCO’s standby tariff for customers with over 15 MW of overall load results in charges that are the lowest of all 17 utilities in the Apples-to-Apples comparison.

Below is a “snapshot” taken from Attachment A which compares the overall charges for just the four Indiana utilities.

Utility	No Outage	16 Hour Off-Peak	16 Hour On-Peak	Scheduled 8 Hour On-Peak 8 Hour Off-Peak	32 Hour On-Peak	Unscheduled 8 Hour On-Peak 8 Hour Off-Peak
IMP	\$10,030.20	\$10,413.88	\$16,225.08	\$16,225.08	\$17,751.16	\$16,225.08
IP&L	\$20,889.84	\$35,663.66	\$35,663.66	\$35,663.66	\$36,590.93	\$35,663.66
NIPSCO	\$ -	\$1,901.92	\$2,401.92	\$1,901.92	\$4,304.84	\$793.06+LMP
Vectren	\$21,832.00	\$22,124.00	\$22,124.00	\$22,124.00	\$24,148.00	\$23,856.00

project developers in attendance identified a lack of transparency in utility tariffs as applied to standby service as one of their most vexing problems.

What’s going on here? Why is there such a significant difference in standby service charges between these four Indiana utilities and in comparison to other utilities in other Midwest states?

The answer to this question is that IMP, IP&L and Vectren don’t really have standby tariffs. See *Attachment G*, a Fact Sheet by the Alliance for Industrial Efficiency discussing the purpose and nature of standby tariffs. Instead of designing a tariff reflecting the load profile of standby customers, these three Indiana utilities simply apply the same demand charges to standby use as they apply to full-time use under the base tariff. They use the same rate and the same fixed demand (based on contracted standby capacity) for standby customers’ occasional use of grid resources (less than 5% of full-time use, as documented in DOE studies²) as they charge a customer that is using the utilities’ capacity, transmission and distribution resources 100% of the time. As a result, these utilities are charging for standby service demand at a rate that is 20 times higher on a *per rata* basis than is charged for full-time service demand.

The “Apples-to-Apples” comparison for 16 hours of on-peak standby service shows that NIPSCO’s proportionate standby tariff imposes demand charges that are less than 1/10th of IMP’s, 1/20th of Vectren’s, and 1/35th of IP&L’s. Given these disproportionate rates, the IURC should require all Indiana regulated utilities to provide valid cost of service studies supporting the allocation of demand costs to the class of standby customers based on historic standby use data and using established coincident peak cost allocation methodologies, e.g, 4-CP or 12-CP.³ We believe this is the “cost-of-service level documentation” necessary to “foster a review of, the extent to which the rates for the identified services are cost based, nondiscriminatory, and do not result in subsidization” which the Commission requested.

If an Indiana utility contends that it cannot perform a valid cost of service study for its standby service charges, it is reasonable for the Commission to require that its standby rates be calculated on a proportionate demand basis – in the case of cogeneration standby customers (the predominant users of standby service) this is less than 5% of the full-time use allowed under the base tariff. In DTE’s most recent rate case in Michigan, the Michigan Public Service Commission found DTE had failed to perform a valid cost of service study for standby customers and ordered that DTE’s standby tariff reservation fee and demand rates be revised to reflect the 5% outage rate of cogeneration systems and the corresponding 5% use of the utilities’ resources. See the MPSC April 18, 2018 Order in U-18255. In other words, the PSC applied the proportionality principle that underlies proper cost allocation and rate design. Alternatively, the utility can do as Minnesota Power does: Use the Standby Customer’s *actual* demand profile from the prior year as the percent of full-time demand charged in standby rates.⁴

² <https://www.energy.gov/eere/amo/downloads/distributed-generation-operational-reliability-and-availability-database-final>

³ After the Michigan Public Service Commission (PSC) ordered its two major regulated utilities to provide cost of service studies in January 2017, it found that both utilities had been significantly overcharging standby customers. See PSC Dockets U-18322 and U-18255.

⁴ See Minnesota Public Utility Commission Docket No. E-999/CI-15-115, Staff Briefing Paper, August 24, 2017, at p.18 explaining that “[Minnesota Power] had made improvements to its

It is no wonder 5 of the 6 utilities that responded to the IURC's request for information have few standby customers. Disproportionately high standby charges based on an unsupported and PURPA-prohibited full-time demand assumption make self-generation financially infeasible in these Indiana territories. As we said previously, why would a customer spend millions of dollars to generate its own energy, if the utility is going to ignore the fact that the customer has taken its load off the grid 95% of the time and bill the customer as though it used utility power every day? This is a "chicken and egg" problem which can and must be addressed by the Commission to ensure non-discriminatory, cost of service driven charges for standby service as required by Federal Energy Regulatory Commission's PURPA regulations at 18 C.F.R. 292.305.

MCA appreciates the opportunity to present its "Apples-to Apples" comparisons and analyses and looks forward to continuing engagement of this topic with the Commission and other stakeholders.

Respectfully submitted,



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current Rider, including the inclusion of a customer's Forced Outage Rate (FOR) and the use of daily as-used demand charges for scheduled outages to reflect best practices. "