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Via Email
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COMMENTS OF INDIANA'S INVESTOR-OWNED ELECTRIC UTILITIES ON INDIANA REGULATORY COMMISSION STAFF'S DRAFT REPORT ON ELECTRIC UTILITIES' BACKUP, MAINTENANCE, AND SUPPLEMENTAL POWER RATES (GAO 2017-3)

Duke Energy Indiana, LLC, Indiana Michigan Power Company, Indianapolis Power & Light Company, Northern Indiana Public Service Company, and Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (collectively "IEA Utilities") respectfully submit the following comments in response to the Commission Staff's Draft Report on Electric Utilities' Backup, Maintenance, and Supplemental Power Rates ("Draft Report").

The IEA Utilities appreciate the opportunity to provide input to the Commission on the Draft Report. In the view of the IEA Utilities, the Draft Report demonstrates that the Commission has fulfilled its statutory obligation to "review the backup, maintenance, and supplemental power rates charged to private generation projects." Ind. Code § 8-1-2.6-4(h)(1). Further, in answering the question posed by the General Assembly in Ind. Code § 8-1-2.6-4(h)(2), the Draft Report correctly concludes that "the electric utilities are already providing cost-based, nondiscriminatory, and non-subsidizing required services subject to the ongoing oversight of the Commission." Draft Report at 16.

The IEA Utilities also agree with much of the Draft Report's underlying reasoning. The Draft Report accurately notes that "the investor-owned electric utilities each offer a Commission-approved tariff to provide the statutorily-required services, and the existing Commission rules afford an opportunity for specific partial requirements customers to address perceived discrepancies based on their specific circumstances." Draft Report at 5. This finding is supported by the responses of each of the IEA Utilities to the Requests for Information in this proceeding, as well as each of the IEA Utilities' comments.

Nonetheless, the IEA Utilities urge the Commission to exercise caution with respect to the hypothesis included in the Draft Report that "the reduced use of demand ratchets and the development of a specific tariff for cogeneration customers *could* provide additional encouragement for customer private investment in generation." Draft Report at 5 (emphasis added). The Draft Report already recognizes the difficulties of those approaches.

As for demand ratchets, the Draft Report notes that "from the demand cost perspective, it seems straightforward to say that the utility's obligation to provide capacity is not avoided as long as the utility must stand ready to provide it." Draft Report at 7. That statement hits the nail on the head. As the IEA Utilities explained in their comments in this proceeding, the use of demand charges with a ratcheting minimum demand correctly reflects the fact that for virtually all cogeneration customers, the utility must stand ready to serve the customer's *full requirements* in the event of an unexpected outage of the generation facility. The Draft Report correctly notes that "a rate design would seem not to have subsidizing or discriminatory characteristics to the extent it allows any partial requirement customer to avoid paying costs the utility avoids, while requiring them to pay any utility costs which their private investment decision has not avoided." Draft Report at 7. Demand ratchets exemplify that principle because if a utility must stand ready to serve a cogeneration facility's full requirements at a moment's notice, the utility has not avoided any capacity costs.

As for "a specific tariff for cogeneration customers," again the Draft Report recognizes the problems of such an approach. It finds: "One difficulty that complicates the provision of a standard tariff is the fact that the size and type of customer-owned generation utilized by partial requirements customers can vary significantly. Another is the difference between the customers which are located in a utility's specific territory. . . . The varying characteristics of these resources and the customers looking to employ them can impact the electric utility system differently." Draft Report at 16. These findings are correct, and are supported by the IEA Utilities' comments in this proceeding. Because of the widely varying nature of cogeneration facilities, efforts to offer more specific tariffs for cogeneration facilities will be fraught with difficulties. Instead, the utilities' current tariff structures – which the Draft Report correctly finds to be "cost-based, nondiscriminatory, and non-subsidizing" – treat cogeneration customers appropriately. Draft Report at 16.

The Draft Report also does not address the level of "firmness" required for the service. If a cogeneration load requires firm, non-curtailable service, the costs for the utility to carry that incremental capacity need to be directly assigned to the service. True back up service is essentially no notice because it is driven from unit forced outages and trips. These events can occur both in and outside of on-peak periods. Maintenance service traditionally requires more advanced notice given the work is planned and scheduled so it can be shifted out of on-peak periods (like the summer months). While forced outage events are impossible to forecast accurately, because they can occur in the on-peak period, it is critical that the design of the service recognize that potential for on-peak requirements. If the service is required to provide firm, non-curtailable back up during peak periods, the portion of capacity to serve that intermittent firm load should be allocated directly to those loads; otherwise, the other customers will be subsidizing the fixed capacity costs of the service.

In sum, the IEA Utilities support the overall conclusion of the Draft Report and believe that the Draft Report fully satisfies the Commission's statutory obligations under Ind. Code § 8-1-2.6-4(h).

Nevertheless, the IEA Utilities urge the Commission to temper the Draft Report's statement that "the reduced use of demand ratchets and the development of a specific tariff for cogeneration customers *could* provide additional encouragement for customer private investment in generation." Draft Report at 5 (emphasis added). The IEA Utilities respectfully suggest the following as an alternative statement:

> Although the Commission will continue to evaluate the potential reduction of demand ratchets or the implementation of a specific tariff for cogeneration customers as a means to encourage customer private investment in generation, those approaches pose many problems for the reasons stated herein, and the utilities' current tariff structures are appropriate.

This statement better captures the problems inherent in reducing demand ratchets and offering more specific tariffs for cogeneration customers, and it accurately states – consistent with the Draft Report's overall conclusion – that the current utility approaches are appropriate.

Sincerely,

Timothy J. Rushenberg
Vice President