



INDIANA UTILITY REGULATORY COMMISSION
101 WEST WASHINGTON STREET, SUITE 1500 EAST
INDIANAPOLIS, INDIANA 46204-3419

<http://www.in.gov/iurc>
Office: (317) 232-2701
Facsimile: (317) 232-6758

TO: Mr. Adam Horst, Director, State Budget Agency
FROM: Jim Atterholt, Chairman, Indiana Utility Regulatory Commission *Jim Atterholt*
DATE: October 11, 2012
RE: Agency Overview for Biennial Budget Fiscal Years 2014 and 2015

MISSION AND DESCRIPTION OF THE IURC

The Commission is a fact-finding body that hears evidence in cases filed before it and makes decisions based on the evidence presented in those cases. The IURC, by law, is charged with weighing the interests of ratepayers and utilities to ensure reliable utility service at reasonable rates. It exercises, on a derivative basis, the Legislature's authority to regulate public utilities by applying and implementing the statutes and regulations. The IURC has regulatory authority over more than 900 utilities providing electric, steam, water, natural gas, sewer, telecommunications, and video services. These utilities are investor-owned, not-for-profit, municipal, cooperative organizations, or water conservancy districts.

The IURC has 76 staff members, many of whom are experts in law, accounting, engineering, economics, finance, and public policy. The technical staff is responsible for scrutinizing information submitted by all parties that are seeking IURC action. Typical cases include requests for rate adjustments, territorial changes, financing, environmental compliance, system interconnection, and video franchising authority. In fiscal year 2011-2012, the Commission issued approximately 340 orders and received 320 petitions.

The IURC also has a Consumer Affairs Division that acts as a mediator between the utility and the consumer when customers have questions or complaints about billing, services, or other matters. The Consumer Affairs Division uses information gathered in the complaint

handling process to alert the Commission to consumer issues that may require further attention. If the division discovers a concern, it may request that the Commission conduct an investigation. Last fiscal year, the Consumer Affairs Division took more than 11,500 calls.

AGENCY ACCOMPLISHMENTS

A sampling of the agency's accomplishments is provided below for each division. These accomplishments are in addition to the support each one provides during docketed proceedings before the Commission.

1. The Electric Division assisted with two high-profile rulemakings – tree trimming and net metering.
 - After the IURC issued a decision in 2010 related to its tree trimming investigation, the agency undertook a rulemaking to formulate new rules regarding issues such as customer notification, education, dispute resolution, and tree replacement. The rule provides a framework that balances the utilities' need to ensure safe, reliable service with the interests of their customers in preserving their landscapes. Rather than each utility creating its own set of guidelines, the rule standardizes the tree trimming process for Duke Energy, Indiana Michigan Power (I&M), Indianapolis Power and Light (IPL), Northern Indiana Public Service Company (NIPSCO), and Vectren. The rule was recently approved by the Attorney General's Office and the Governor.
 - Two years ago the Commission started the rulemaking process to update the net metering rule, which became effective in July 2011. As a result of the new rule, net metering is now available to all customer classes. Additionally, the size of an eligible facility increased from 10 kW to 1 MW. Since the rule took effect, participation in net metering grew 50%, from 199 net metering customers in 2010 to 298 customers last year. Total capacity increased as well by 130% in that same period. *Freeing the Grid*, an annual report published by the Network for New Energy Choices and The Vote Solar Initiative, highlighted the recent rulemaking by awarding the IURC a "B" grade. From 2007 to 2009, the grade was an "F," and in 2010, it was a "D." The grade improvement ultimately earned Indiana the

title of “Most Improved,” according to the news release issued by the report’s publishers.

2. The Natural Gas and Pipeline Safety divisions assisted with two investigations involving safety and reliability concerns.
 - When the Pipeline Safety Division identifies an at-risk system, it may file a request with the IURC to conduct an investigation. In the case of Roachdale Municipal Gas Utility, the Pipeline Safety Division took such action, which led to the IURC opening an investigation on April 5, 2011. The purpose of the investigation was to assess whether the utility was in compliance with pipeline safety standards and whether a hazardous conditions order should be issued due to aging and corroding mains and service connections. To remedy the situation, the IURC issued a decision requiring the utility to make the necessary investments needed to replace its existing gas distribution system and place a new system into service by December 1, 2012.
 - In November 2011, Miller Pipeline Corporation, a wholly-owned subsidiary of Vectren, damaged a natural gas line while excavating in New Albany. The incident caused gas to escape from the damaged pipeline and migrate into a nearby home. The natural gas then ignited, causing an explosion at the property. Pursuant to its statutory authority, a representative from the Pipeline Safety Division traveled to the scene to investigate. Based on the findings within the investigation report, the Pipeline Safety Division filed a complaint with the Commission and requested a hearing to determine if Vectren violated pipeline safety standards when Miller Pipeline Corporation damaged a natural gas line while excavating. The complaint also sought to determine whether penalties should be assessed. This case is still pending.
3. The Water and Wastewater Division completed a Strategic Plan in December 2011, which includes 11 Action Plans that will assist small utilities with managing costs and improving their financial, managerial, and technical capabilities. The key concepts addressed within the Action Plans include:

- Create an Alternative Regulatory Procedure (ARP) for small water and wastewater utilities.
 - Assist small utilities with cost control, including wholesale water purchase arrangements, equipment sharing and cooperative purchasing.
 - Focus on water loss and consumer education.
 - Develop a Small Utility Accounting Manual to assist utility personnel in the proper recording of financial transactions.
 - Require performance measures to be developed and incorporated into the IURC Annual Report to provide utility management and the Commission with a tool to evaluate utility performance relative to peers.
4. The Communications Division often files comments with the Federal Communications Commission (FCC) on issues impacting the state of Indiana from a communications policy standpoint. This is one example where the IURC intervened on behalf of the state.
- Stemming from the FCC's reform order is the creation of a program known as the Mobility Fund, which was developed to subsidize the cost of building wireless networks for voice and broadband services to underserved and unserved areas. The program consists of two phases. Phase I is designed to fund capital improvements, and Phase II is designed to provide ongoing support for operation and maintenance expenses. The first step of Phase I was to identify the census blocks where financial support should be available. After reviewing the FCC's list of eligible census blocks, the IURC identified additional census blocks in Indiana that may qualify for Mobility Fund support. In comments filed with the FCC, the IURC identified an additional 1,416 census blocks that were underserved or unserved, according to the broadband availability data maintained by Indiana Office of Technology. The accuracy of this data is important for Indiana because inclusion on the FCC's list of eligible census blocks determines whether Mobility Fund support is available in a particular area.

EXPANDED ROLES AT STATE AND FEDERAL LEVELS

In addition to its traditional responsibilities as the economic regulator, the Commission has had its role expanded in a number of areas due to new state and federal mandates, as well as a changing regulatory environment.

For example, based on the current direction of the U.S. Environmental Protection Agency (U.S. EPA), by around 2015 Indiana will need to retrofit or retire an unprecedented wave of coal-fired generation units and replace them with a combination of new resources, due to likely environmental regulations and a large number of older coal units lacking sufficient controls. This will require the utilities to make substantial capital investments in order to meet U.S. EPA mandates, which will likely result in significant electric rate increases for Hoosier customers. The primary replacement fuel, based on current information, is expected to be natural gas, with wind and demand side management (energy efficiency) also expected to play key roles. Nuclear, integrated gasification combined cycle technology, and other alternative resources could also play a role in meeting Indiana's resource requirements. This environmental regulation will result in significant increases in both the number of electric petitions, and the complexity of those petitions, as utilities seek cost recovery for what could be extremely large infrastructure investments.

Back in 2009, the IURC was able to supplement its staff with in-depth skill sets that are traditionally difficult to find and that are too expensive to be hired as staff. The Commission designed three specific areas of concentration to address areas of high importance and concern: 1) integrated resource planning; 2) carbon capture and storage; and 3) energy efficiency and demand side management. This funding allowed the Commission to hire three full-time positions; however, due to the depletion of funds, two of these positions have been eliminated despite there being an increased focus on long-term planning within the Electric Division.

At the state level, the General Assembly during the 2012 legislative session passed Senate Enrolled Act (SEA) 132, which provides a means to aggregate information about water resources within the state. According to the law, the IURC is to collect and analyze six data collection points from all system operators, both jurisdictional and non-jurisdictional:

1. The number of Indiana customers served;

2. A description of the utility's service territory;
3. Total utility plant in service for the utility's Indiana customers;
4. Amount and location of water resources used to provide water service to Indiana customers;
5. The availability and location of additional water resources that could be used, if necessary, to provide service to Indiana customers; and
6. The amount of funding received, including the purpose of the funding, from various sources.

Beginning in 2013, the Commission will start reporting to the Regulatory Flexibility Committee on its findings, specifically how financial resources are being used statewide; the need for infrastructure investment; and recommended actions designed to minimize impact on customer rates and charges. To establish the procedures for data collection, the IURC plans to issue a General Administrative Order later this year. This is a massive undertaking that will likely provide necessary data for comprehensive state water policy to be developed.

Another area of increased responsibility involves outside-city water and wastewater rates. During the last legislative session, the General Assembly passed House Enrolled Act (HEA) 1126, which provides outside-city customers, under certain circumstances, an option other than the court system to determine whether the rates they are being charged are nondiscriminatory, reasonable, and just. In the past, when municipal utilities opted out of the Commission's jurisdiction, citizen-customers (i.e., city residents) of that municipality still had a voice in how the utility was operated when voting for local leaders. Since non-resident customers (i.e., suburban) do not participate in local municipal elections, they had no such voice.

In order to address this problem, the law provides that the lesser of 10% of all customers or 25 customers may file a petition with the Commission requesting review; however, the petition must be filed no more than 14 days after the date on which the new rates are established through an ordinance. For utilities with rate differentials already in effect by March 31, 2012, the municipality may petition the IURC to grandfather the percentage difference. The request must be received by September 30, 2012. In order for the grandfathering provision to apply, the outside-city rates and charges must be between 15% and 50% higher than the inside rates. In

May 2012, the IURC issued a General Administrative Order outlining the procedure for utilities wishing to be grandfathered in at their existing rates.

DIVISION CASELOAD AND OVERVIEW

- Electric -

Competitive Pricing

Indiana's annual ranking for average total customer retail rates from 2000 to 2011 ranged from 9th lowest in 2000 to 4th lowest in 2002 to 13th lowest in 2011. Neighboring states' total customer retail rates for 2011 rank as follows: Kentucky 4th, Illinois 26th, Ohio 27th, and Michigan 35th. Comparatively speaking, Indiana's average retail prices for electricity have been and are presently very competitive both nationally and regionally. However, this could change should new environmental regulations go into effect.

Proposed Environmental Regulations

Based on preliminary analysis, recent environmental decisions being made at the federal level have the potential to seriously impact the state of Indiana. Given the number of new requirements, the tight timeframes to comply with the regulations, and Indiana's reliance on coal, costs are expected to be significant. According to the State Utility Forecasting Group (SUFG), new federal clean air regulations are projected to raise Indiana electricity rates about 14% by 2020, which is in addition to the 20% increase projected over the next six years by analysts. The impact is greater here than in other states because coal-fired power plants targeted by the U.S. Environmental Protection Agency for environmental modifications generate about 82% of the electricity used in Indiana (down from 85% in 2010), compared with 45% nationwide.

Integrated Resource Planning

According to the SUFG's 2011 forecast, the state will need approximately 2,600 MW of additional resources by 2020 to meet expected demand growth and maintain a 15.8% reserve margin. The forecast also projects that electricity usage will grow at an annual rate of 1.30% over the 20-year forecast and that peak demand will grow at an annual rate of 1.28%. To address growing demand, each utility creates an integrated resource plan (IRP) and submits it to the Commission every two years. In order to make the process more transparent and inclusive, the

Commission is soliciting input from stakeholders and is in the process of drafting a new IRP rule.

Energy Efficiency Programs

In order to improve efficiency and reduce demand, the Commission issued a decision in 2009 that required the utilities to achieve annual energy savings goals through the implementation of demand side management (DSM) or energy efficiency programs. DSM programs benefit consumers by saving energy, which is the most cost-effective way of meeting future energy supply needs. In response to the Commission's decision, a statewide program called Energizing Indiana was launched in January 2012. Energizing Indiana is a united effort by the Indiana Office of Utility Consumer Counselor, participating utilities, and consumer organizations to offer consistent energy efficiency programs across the state. According to the third-party administrator, GoodCents, the program reached 6,663 Indiana homeowners within 6 months, saving more than 7,119,144 kWh.

- Natural Gas -

Market Volatility

The commodity cost of natural gas continues to fluctuate, although prices have decreased dramatically since their peak in 2009. Residential customers in Indiana on average experienced a decrease in their bills in 2012. In 2011, a residential customer using 200 therms would have received a bill for \$189.11. In 2012, this bill would have decreased to \$174.37. Both the 2011 and 2012 bills are lower than the five-year industry average of \$211.69, which shows how much the cost of natural gas has decreased. This is because supply and demand are the primary drivers affecting pricing. So, with abundant supply and stable demand, the commodity cost of natural gas has decreased in the U.S.; however, it is uncertain how long it will last.

Pricing is also dependent on weather, advancements in technology, and other factors that are difficult to quantify or predict, such as government actions and regulations. During this past winter, temperature levels were higher than normal, which resulted in customers using less natural gas. Less use contributed to the existing supply glut, which further drove down prices. However, the market could adjust if low prices lead to an increase in demand. For example, electric utilities are now able to take advantage of the low cost of natural gas as an alternative to

coal. Depending on the extent to which plants are converted, this may decrease high supply levels and create upward price pressures.

Shale Gas

The discovery and extraction of shale gas is the chief reason for the increase in supply. Shale is recovered through a process called hydraulic fracturing or fracking, which is a technique used to create fractures that extend from the well bore into rock or coal formations so that the gas may travel more easily from the rock pores to the production well. According to the Energy Information Administration, there is enough natural gas to last 90 years at the current U.S. consumption rate. However, environmental concerns about fracking have led to increased oversight and new regulations. Depending on how these regulations evolve over time and whether they become more stringent, the price of natural gas may increase. A U.S. Environmental Protection Agency (U.S. EPA) report on the environmental impacts of fracking is scheduled for release in 2014. It is expected to provide additional insight into the concerns raised and may potentially shape future policy.

Pipeline Safety Programs

Although pricing has dominated the natural gas conversation in recent years, pipeline safety is now also at the forefront given the findings from the San Bruno pipeline explosion that occurred in 2009. The findings state that the California Public Utilities Commission failed to identify inadequacies in the pipeline operator's integrity management plans. While Indiana has historically received high marks for its pipeline safety program, the IURC's Pipeline Safety Division responded to these findings by reviewing records and pipeline integrity procedures. However, the single greatest threat to the pipeline system is still third-party damage. Since the "Call Before You Dig" law was passed in 2009, there have been more than 2,600 possible violations reported. The law requires anyone undertaking a digging project to call 811 in order to have the utility lines marked. If a homeowner, excavator, or operator fails to do so and hits a line, they can be held responsible if a violation is found.

- Water and Wastewater -

Infrastructure Needs

According to the U.S. EPA's "2007 Drinking Water Infrastructure Needs Survey and Assessment" and its "2008 Clean Watersheds Needs Survey," Indiana's water and wastewater infrastructure needs total \$13 billion over the next 20 years, which will likely result in significant rate increases. According to the U.S. Bureau of Labor Statistics, water rates are rising more than electricity or natural gas rates and rising much faster than the overall consumer price index (CPI). For example, from 2002 to 2011 water and wastewater rates rose 5.56% per year while the CPI only rose 2.43% per year. The primary drivers of these rate increases include: 1) replacement of aging infrastructure; 2) compliance with U.S. EPA standards such as water quality and wastewater effluent; and 3) growing demand.

Recovery Mechanisms

In order to encourage investment and limit the rate impact on customers, state law allows for certain expenses to be recovered outside of a base rate case. Indiana was the second state to approve the use of a capital recovery mechanism, called the distribution system improvement charge (DSIC). The DSIC allows water utilities to recover the costs of improvements to existing distribution systems without a rate case when investments are made. This results in rate increases that tend to be more gradual over time. Utilities may also use the minimum standard filing requirements process to update their rate base for capital investments incurred up until the final hearing. This can be an incentive to invest in capital improvements, as the utility does not need to wait until a later rate case to earn a return on the investment.

Water Efficiency Efforts

Another way to stave off rate increases is to reduce demand and ensure water is being used efficiently. However, with increased conservation comes decreased consumption, which may lead to a decline in revenue. The challenge then becomes implementing conservation programs without negatively impacting the financial viability of the utility. Conservation and more efficient water use can also help during periods of drought and high temperatures like Indiana experienced this summer, during which time a number of municipalities restricted water use for residential customers.

Lack of rain, high temperatures, main breaks, and unaccounted-for-water, can result in low water pressure or supply shortages. To address these issues, the Commission, the Indiana Department of Environmental Management, and the Indiana Department of Natural Resources enforce rules designed to promote service quality. Actions through the Legislature are also addressing water issues. For example, Senate Enrolled Act 132 charged the IURC with aggregating information about water resources within the state in order to identify how financial resources are being used, what the infrastructure investment needs are statewide, and how to minimize impact on customer rates and charges through recommended actions.

Assistance for Small Utilities

Small water and wastewater utilities are prevalent in Indiana. While not all small utilities are troubled, they are more prone to it because of their size and lack of management expertise. When a utility becomes troubled, it may experience environmental liabilities, infrastructure breakdown due to a lack of investment, or financial mismanagement. Although most small utilities have withdrawn from the Commission's jurisdiction, the agency has proactively taken steps to improve the management and operations of regulated utilities by offering training workshops, assisting with rate application filings, proposing alternative regulatory procedures, and planning to develop a utility accounting manual.

- Communications -

Universal Service

Universal service has been a key factor in the rapid development of today's telecommunications network. While originally focused on ensuring access to telephone service, the Federal Communications Commission (FCC) recently developed a National Broadband Plan to help connect Americans to the Internet. According to the National Broadband Plan, 5% of households in the United States do not have access to the Internet (a large portion of these households being low income). As a result of this new focus, resources previously designated for telephone service through the Lifeline/Link-Up programs will be reallocated to reduce waste, fraud, and abuse and add broadband as a supported service.

Prepaid Wireless ETCs

Historically, it has been challenging for Indiana, along with many other states, to raise awareness among eligible low-income households of the availability of the Lifeline/Link-Up discount. However, since the IURC approved a number of prepaid wireless “Lifeline-only” ETCs, Lifeline subscribership has increased. Prior to the market entry of the Lifeline-only prepaid wireless providers, Indiana’s Lifeline subscribership had peaked at 59,065 households in 2006. By 2010, subscribership had declined to total of 47,821 households. Based upon the latest data from the Universal Service Administrative Company, Indiana now has 145,562 Lifeline subscribers representing an increase of more than 300% in two years.

Area Code Relief

Current forecasting reports from the North American Numbering Plan Administrator (NANPA) indicate that area code 812, serving southern Indiana, has the shortest remaining life of the Indiana area codes. The forecast released in April 2012 projects that 812 will exhaust in the second quarter of 2015. The NANPA convened a conference call for the Indiana Telecommunications Industry Group on June 13, 2012, and the group voted to file a petition for relief. The IURC received the petition on August 3, 2012. The next step is for a procedural schedule to be set, which will include multiple field hearings in various towns throughout the southern part of the state. The projected exhaust date of area code 317, which serves the Indianapolis area, is not far behind.

AGENCY GOALS

The IURC oversees utility entities with annual revenues of more than \$11 billion. It’s our hope that the detailed market overview provided herein gives you appropriate insight into the importance and complexities of the agency’s responsibilities. In order to provide a gauge for the agency’s performance, the IURC has complied with the Governor’s Dashboard directive and in conjunction with OMB has developed agency performance measures. The IURC has four primary performance indicators, which include the following: 1) the percentage of consumer complaints closed within 20 days of the initiation of the complaint; 2) the number of appeals overturned; 3) the pipeline safety audit score; and 4) the percentage of docketed cases closed within 90 days of the last filing or the date of application.

In January 2012, we added a new metric to address the perception that some cases take too long to conclude. Management of cases is a significant challenge for the agency due to the fact that the agency does not control every element of the process (e.g., filing dates of petitions, extension requests, or settlement agreements). However, to better manage the agency caseload, we are monitoring case procedural schedules for tracking and trending purposes and have developed a set of measures for the portion of the process that is more within our control (i.e., issuance of a Commission Order once the record is closed and briefing is complete). Therefore, this new metric is based on the “% of docketed cases closed within 90 days of the last filing or the date of application.” Listed below are the performance results for Q1, Q2, and Q3 of this year.

**2012 PERFORMANCE RESULTS
Q1, Q2, & Q3**

Indicator	Division	Target	Satisfactory	Q1	Q2	Q3
% of consumer complaints closed within 20 days of the initiation of the complaint	Consumer Affairs	85%	80%	83%	90%	83%
Number of appeals overturned	General Counsel	0	1	0	0	0
Pipeline Safety Audit Score	Pipeline Safety	100%	95%	100%	99.25%	99.25%
% of docketed cases closed within 90 days of the last filing or the date of application	Administrative Law	90%	85%	90%	96%	90%

RESOURCE REQUIREMENTS

The IURC takes the budget process extremely seriously. We fully appreciate the flexibility shown over the years by OMB to recognize our uniqueness and dedicated source of funding that has been designed to enable us to function and serve a very specific and critical purpose within state government.

We take pride in the fact that we are delivering high performance while maintaining a very streamlined approach to costs. As an example, statutorily we can collect from utilities up to 0.0015% of all intra-state revenues; however, we currently run our operation on roughly 0.0012% reducing our maximum collections from utilities by approximately \$3.6 million

annually.

As regulatory environments continue to evolve, the IURC must maintain a highly-trained workforce, and while current staffing meets these expectations, staff members are being spread too thin, which places work product at risk and constraints on new projects and proposals. Therefore, due to new demands placed on the agency, two of our divisions are in need of additional resources in order to effectively fulfill their charge and to execute their responsibilities in accordance with state and federal law. We respectfully request the addition of one utility analyst in our Electric Division and one utility analyst for our Water and Wastewater Division. Each position is proposed at a base salary of \$55,000, plus benefits. The total requested change package amount is \$157,346.

These needs and an explanation of the unique challenges ahead for the Electric Division and the Water and Wastewater Division are detailed in the attachments that follow. We look forward to discussing our request in greater detail with you as you deem appropriate. Please do not hesitate to call if you should have questions that we can answer.

RESOURCE REQUEST FOR THE WATER AND WASTEWATER DIVISION

Due to an expanded role at the state level, the Water and Wastewater Division is challenged to meet existing demands and is in need of additional resources. SEA 132 and HEA 1126 both require significant time and resources to implement because of new filing and review procedures. These requirements add to the existing caseload and have the potential to adversely affect the division's operations if another position is not added to the roster. Therefore, the Commission respectfully requests approval of a new staff member for this division based on the following analysis.

Duties Related to SEA 132

SEA 132¹, which concerns water utility resource data collection, was passed during the 2012 legislative session. It requires every water utility to submit information about the utility's water resources and operations to the Commission. The IURC is then required to aggregate the data into a report so that it can be shared with the Legislative Council and the Regulatory Flexibility Committee. The report is to include recommendations concerning water utilities' efficient use of financial resources, necessary infrastructure investments, and actions designed to minimize impacts on the rates and charges imposed on water and wastewater customers. It has been recognized that SEA 132 is the first step to begin the process of water supply planning for the entire state and will require a coordinated effort from multiple state agencies including, but not limited to, the Indiana Department of Environmental Management (IDEM), Department of Natural Resources (DNR) and the IURC.

The task required by SEA 132 is a significant undertaking. The Commission currently regulates approximately 140 water and wastewater utilities. Under SEA 132, the IURC is required to obtain information from every water utility in the state. The list of affected utilities totals approximately 550 water utilities. The data that will be collected from utilities includes the types of use of water resources, operation and maintenance costs, customer count, service territory, total utility plant in service, amount and location of water resources, availability and

¹ Codified at IC ch. 8-1-30.5

location of additional water resources that could be used, and the amounts, sources and purpose of utility funding. It is also anticipated that data relating to wells, watersheds and aquifers will be collected from non-utility sources.

Given the large number of utilities affected and the data to be collected, a large amount of data is required to be managed and manipulated to develop meaningful recommendations as required by statute. The reporting requirements of SEA 132 also require recommendations concerning the efficient use of financial resources by water utilities, necessary infrastructure investment and actions to minimize impacts on the rates and charges imposed on water and wastewater customers. In order to develop these recommendations, a staff member will need to devote a significant amount of time to study and analyze the data collected. For instance, water supply planning on a regional basis for the entire state will be useful to understand the infrastructure investments needed that will also minimize rate impacts. A study of the data may reveal that two or more utilities would be able to reduce the amount of infrastructure spending planned if the utilities developed a shared water supply and treatment plant rather than expand existing or develop new systems independently. By reducing the infrastructure spending, it is likely that the rate impacts will be minimized.

To develop recommendations as described in the previous example, the state will need to be subdivided, most likely by watersheds. The available water supply will need to be measured in each watershed along with the demand for each utility located in the region. If instances occur where demand exceeds supply, recommendations will need to be developed for infrastructure investments to meet the demand in the most economical manner. To achieve this level of planning and study will require a coordinated effort by IDEM, DNR, and the IURC. Development of meaningful recommendations for the entire state will take a number of years. The requested staff position will allow us to start building the necessary framework to fulfill the requirements of SEA 132.

Duties Related to HEA 1126

Under HEA 1126, also passed during the 2012 legislative session, the Commission was provided limited jurisdiction over outside-city rates where the rate charged to outside-city customers is 15% more than the rate charged to inside-city customers. These types of cases are

more complex than a simple across-the-board rate increase because the purpose is to identify the customer classes of the utility and allocate the utility's costs to each customer class based on cost causation. The process is complex and often controversial especially where an outside-city customer class is considered because a utility's costs do not often increase as a result of crossing a corporate boundary. This bill has already generated a number of filings with the Commission.

Additional Responsibilities

In addition to these recent developments, the Water and Wastewater Division completed a Strategic Plan last fall consisting of eleven Action Plans, which is further discussed in the "Division Caseload and Overview" section of this memo. The division is attempting to implement these plans over the next two years; however, it must balance the work with higher priority projects such as docketed cases and 30-day filings. Some of these plans are quite substantive, including one that requires the division to develop an alternative regulatory procedure for small water and wastewater utilities. It is also apparent that the docketed caseload for the Division will remain robust as water and wastewater utilities continue to increase rates more quickly than electricity or natural gas and much faster than the overall consumer price index.

RESOURCE REQUEST FOR THE ELECTRICITY DIVISION

Due to new or pending environmental regulations at the federal level, long-term planning is critical within the electric utility industry. It is more important than ever before to make sure the long-term plans not only meet the growing need, but that they are cost effective. In order to monitor these developments, the IURC requires electric utilities to submit integrated resource plans (IRPs) every two years; however, because many changes have occurred since the IRP rule was finalized in 1995, the IURC initiated a rulemaking in 2010 to update it. At a fundamental level, the draft rule changes the nature of the review conducted by staff and this will impose a significant increase in staff training, preparation, and extent of review of IRPs. Therefore, the Commission respectfully requests approval of a new staff member for this division based on the following analysis. This new rule is a critical component regarding the Commission's response to the significant planning and cost projection issues surrounding the Edwardsport facility.

Duties Related to the IRP Rule

In order to make the IRP process more comprehensive, the IURC has proposed that much more analysis take place. It also requires the Division Director to make a compliance determination as to whether an IRP is compliant with the procedures and requirements contained within the rule. The most significant changes are contained in Sec. 2:

(l) Within sixty (60) days of the deadline for the utility's responsive comments, the director shall notify in writing:

- (1) the utility;
- (2) the OUCC; and
- (3) interested parties

of the director's compliance determination regarding the IRP.

(m) The director:

(1) shall:

- (A) describe deficient portions of the IRP, if any; and
- (B) explain why any deficient portions are not in compliance with this rule; and

(2) may otherwise comment on the IRP.

(n) In order to bring an IRP into compliance with this rule, the director may request the utility:

(1) revise and resubmit specified portions of the IRP; or

(2) incorporate revisions in the subsequent IRP.

Under the current process, staff reviews the IRPs when they are submitted but our primary focus is to determine whether all the required information has been provided. A couple of times over the last decade the staff has gone through a more thorough review process and even graded the companies on certain aspects of the IRP. Each company was provided a copy of staff's review. The process was time consuming, but effective in communicating the Commission's desire for the IRP process to be taken seriously by the companies. It is also why the IRPs have improved in quality over the last few cycles.

The proposed revised rule will require an entirely different review from that which has traditionally been done, one that calls for much more in the way of qualitative judgments. One significant change calls upon the utility to demonstrate that the techniques used in the modeling and forecasting process are consistent with contemporary methods that best meet the requirements of the rule. The rule defines contemporary methods as "any methodological aspect involved with developing an IRP that represents the best practice of the electric industry to improve the quality of an IRP analysis" Sec. 1 (i). This type of language is found in Sec. 4 "methodology and documentation requirements" (Sec. 4 (b) (11)) and the determinations are extensive:

The IRP shall utilize appropriate contemporary methods, including a description of the following:

(A) Model structure and reasoning for use of particular model or models in the utility's IRP.

(B) The utility's effort to develop and improve the methodology and inputs for its:

(i) forecast;

(ii) cost estimates;

(iii) treatment of risk and uncertainty; and

(iv) evaluation of a resource (supply-side or demand-side) alternative's contribution to system wide reliability. The measure of system wide reliability must cover the reliability of the entire system, including:

(AA) transmission; and

(BB) generation.

Given these requirements, staff will have to make judgments about the reasonableness of the various methodologies used by each company in its IRP. Particular attention will have to be devoted to the critical and complex areas of energy and demand forecasting, resource assessment, resource integration, and risk and uncertainty analysis. Also, the rule requires staff to make its compliance determination within 60 days of the due date for the utility company to submit its responsive comments.

Staff must be prepared to competently review up to four IRPs simultaneously with particular attention on the areas of energy and demand forecasting, resource assessment, resource integration, and risk and uncertainty analysis. It must be emphasized that not only will the review be staff time intensive, but the workload will involve more than just the time involved in the review once the IRPs have been received. Staff will have to be thoroughly knowledgeable of current IRP methodologies and contemporary issues impacting resource planning. This will take training and the development of a unique skill set not utilized within the existing division. Therefore, additional ongoing training will be required and can be accomplished by bringing experts in-house for training tailored to IURC needs and by sending staff to conferences on a regular basis.

Additional Responsibilities

Staff's first priority is the preparation of staff reports for cases, advising Administrative Law Judges and Commissioners, and helping to review and write orders. This is clearly beyond the Commission's ability to control, but the case load can vary significantly. There are periods when the load is quite heavy with little time available to do other significant complex tasks, and this can be the situation for extensive periods of time. If this were to continue without additional resources being added, it would be detrimental to the IRP process and would hinder the Commission's ability to effectively review and analyze the plans.