

Indianapolis Power & Light Company
Response to IURC Staff Request for Information
GAO 2017-3: Backup, Maintenance, and Supplemental Power

March 15, 2018

For the purposes of these information requests, "identified services" are the supplemental or backup power of Ind. Code § 8-1-2.4-4(a)(2) and the backup, maintenance, and supplementary power of Ind. Code § 8-1-2.4-(6)(e).

Staff Request #1:

Please identify your suite of tariffs that provide for the provision of the identified services.

IPL Response:

Backup Power Service, Rider No. 10, Maintenance Power Service, Rider No. 11, and Supplementary Power Service, Rider No. 12, are provided under the Rate Schedule for Cogeneration and Small Power Production ("CGS") and the Rate Schedule for Renewable Energy Production ("REP").

Staff Request #2:

Please explain how these tariffs work together to provide for the provision of the identified services.

IPL Response:

Customers that qualify for Rate Schedules CGS (i.e., operate either a Qualifying Cogeneration Facility or a qualifying Small Power Production Facility) and REP (i.e., operate a qualifying Renewable Energy Power Production Facility) shall be provided backup, maintenance and supplementary power by the Company. If the energy for backup, maintenance and supplementary power is used exclusively for residential purposes then the customer's bill will be calculated using the rate provisions of Rate RS. However, if the energy is not used exclusively for residential purposes, the demand and energy charges will be calculated based on the large commercial or industrial rate schedules, SL, PL or HL. For Rate CGS or REP customers who receive either backup, maintenance or supplementary power from the Company and also take service under one of the large commercial or industrial rate schedules then the applicable rate schedule will be used for the billing. If a large commercial or industrial customer has only backup or maintenance service from the Company, a customer served at the secondary voltage level will be billed under Rate SL and a customer served at the primary voltage level will be billed under Rate PL or HL.

Staff Request #3:

Please provide the extent to which the identified services are being used by customers, and any available information regarding customers who considered but did not pursue using them.

IPL Response:

The Company has not provided nor is it currently providing service to customers pursuant to Rider Nos. 10, 11, or 12. The Company is not aware of any customers who considered, but did not take these services.

Staff Request #4:

Please describe, and provide supporting cost-of-service level documentation in sufficient detail 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.

IPL Response:

As discussed in the response to part (1) above, the Company offers backup, maintenance and supplementary service to customers who qualify for Rates Schedules CGS and REP. As discussed in the response to part (2) above, customers for those services would pay the rates that would apply for the regular service, but they would only pay energy or demand charges to the extent that they actually use the service. The rates for these services were established in Cause No. 44576, and proposed new rates are currently under consideration in Cause No. 45029.

Commercial and industrial customers under the current rate structure would be required to pay the applicable monthly demand charge for backup, maintenance and supplementary service where the customer's peak total demand is used to set the 11-month demand ratchet in its rates. Additionally, each customer would be required to pay the applicable monthly customer charge and the applicable energy charge for the backup, maintenance and supplementary power consumed. As a result, the current rate structure assumes that the cost incurred by the Company to provide backup, maintenance and supplementary power is equivalent to cost incurred by the Company to provide service to a standard full-requirements customer. However, as will be discussed below, the cost incurred by the Company to provide backup, maintenance and supplementary power may not only deviate from the cost to provide service to a standard full-requirements customer but also could be different for each type of service offered. There are numerous methods of designing cost-based backup rates and it is desirable for those rates to be consistent with the regular rates for service in order to provide appropriate price signals as to the cost tradeoffs involved in alternative services.

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Supplementary service, Rider No. 12, means that the Company will provide energy and capacity to a customer in addition to the energy that the customer's qualifying facility already generates. Since the Company is providing energy and capacity to the customer in a manner that is similar to a standard full-requirements customer, it is reasonable to conclude that the cost incurred by the Company to provide a customer with supplementary service is equivalent to the cost incurred to service a standard full-requirements customer. Therefore, customers qualifying for supplemental service should be charged the rates associated with the applicable rate class tariff.

For backup service, Rider No. 10, the Company provides energy and capacity to customers to replace the energy that is normally generated by the customer's qualifying generation equipment during an unscheduled outage. Therefore, customers qualifying for backup service, generally, are not provided daily service by the Company. However, since the outages of the customer's generation equipment are not planned, the Company must be ready to serve the customers qualifying for backup service at any time. Under the current rate structure, on days when the customer does not use backup service, the Company incurs no variable, energy-related costs and the customer incurs no energy charges. However, system capacity to serve these customers does not simply appear on days when the customers want to use it, and then disappear on days when they choose not to use it. Additionally, since the generation outage could occur during either the peak or off-peak period, the Company must still account for the capacity to serve the backup service customers during the peak period. The Company continues to carry the fixed costs of capacity on a year-round basis so that it can stand ready to serve customers who want backup service. As a result, the cost incurred to serve customers who qualify for backup service is similar to that for a standard full-requirements customer. The customers receiving backup service should be charged the fully-allocated cost based rates associated with the applicable rate class tariff.

On the IPL system, backup service customers do not pay a monthly capacity charge for their full backup requirements. Instead, they pay a demand charge and an 11-month demand ratchet that applies only for the actual kW of their demand. The IPL demand ratchets are based on only a portion of the highest billing demand in the prior 11 months. These proportionate adjustments are: SL and PL = 60% of highest demand; HL = 75% of highest demand.

Maintenance service, Rider No. 11, means that the Company will provide energy and capacity to a customer during a scheduled outage of the customer's qualifying generation equipment. Similar to backup service, customers who qualify for maintenance service are generally not provided daily service by the Company. Similar to backup service, when the customer does not use maintenance service the Company incurs no variable, energy-related costs and the customer incurs no energy charge. Under current rates, a maintenance service customer would pay a demand charge and the applicable 11-month demand ratchet. However, maintenance service can be scheduled for the off-peak period when capacity is available so that the Company does not have to ensure that additional peak capacity is available to meet the load associated with maintenance service. Thus, Rider No. 11 customers may be eligible for a Capacity Credit of \$6.00/KW of billing demand under Rider No. 14 depending upon the conditions of service that they elect. This credit was established in Cause No. 44576 and is based on the avoided cost of a gas turbine.