

APRIL 2, 2015

INDIANA UTILITY  
REGULATORY COMMISSION

## Introduction

Indiana's three investor owned electric utilities, Indianapolis Power & Light Company, Northern Indiana Public Service Company and Southern Indiana Gas & Electric Co. ("IOUs") appreciate the Indiana Utility Regulatory Commission's ("IURC" or "Commission") participation in the development of the Integrated Resource Plans ("IRPs"), both through the draft comments as well as during the public advisory process. While under the Proposed Rule to modify 170 IAC 4-7 Guidelines for Electric Utility Integrated Resource Plans ("Proposed Rule") IOUs submit their IRPs on a staggered basis, all have a common interest in assuring that there is a mutual understanding among the utilities, their stakeholders and the Commission staff regarding the IRP's purpose and the process to be used in its development. The IOUs take their role as public utilities seriously, including their role and obligation to plan for the reasonably adequate supply of resources relative to their forecasted demand. We appreciate constructive feedback from our stakeholders and the Commission staff throughout the IRP process. While recognizing that there are always opportunities for improvement to the process, there are specific comments in the Draft Report of the Indiana Utility Regulatory Commission Electricity Division Director Dr. Bradley K. Borum Regarding 2014 Integrated Resource Plans ("Draft Report") that the IOUs would like to address jointly.

## Stakeholder Education

Throughout the Draft Report, the Commission staff encourages an expanded role for stakeholders in the development of the IRP. The Draft Report suggests that at the outset of the stakeholder process, the IOUs should facilitate the collaborative work among the utility and its stakeholders by discussing goals, providing an overview of the current system and how planning is done including the drivers of the load forecasts. The IOUs currently provide such an overview as part of the public advisory process outlined in the Proposed Rule. However, the Draft Report also notes that "as part of the stakeholder education process, IPL (and other utilities) should consider devoting more time to a primer on long-term resource planning and the role of stakeholders. The spirit of the Proposed Rule is for stakeholders to be intimately involved in all aspects of the scenarios and sensitivities used in the development of the IRP." Draft Report at 20. The IOUs have an obligation to provide reliable service to customers that they take very seriously and resource planning is a key part of supporting this role. Thus, while stakeholder input on this process is positive, ultimately it cannot become burdensome or be allowed to interfere with successful resource planning. The IOUs believe that the receipt, review and use of such input (which can come from special interest groups) must be properly balanced with the task at hand which is the implementation of a complex resource planning process that should be a useful tool for management as it weighs alternatives and plans for the future. For example, a highly detailed education process related to complex topics that may take years to fully understand is costly and time-consuming and would be duplicative for each of the IOUs to provide. Because the IRP is ultimately the responsibility of the utility alone, the process must be directed by the utility and conducted in a timely fashion to ensure that the process is in sync with utility business planning processes, as well as other planning authority processes. As has been the case, key issues, forecasts and key alternatives can be discussed and input received.

Perhaps a discussion of the stakeholder participation process and clarifying roles and/or offering education components within a Contemporary Issue Forum would be helpful. The IOUs have

APRIL 2, 2015

INDIANA UTILITY  
REGULATORY COMMISSION

added education components as part of and throughout the public advisory process, and have implemented utility websites to continue to make educational materials accessible. Several observations based on the process to date can be made. First, several of the stakeholders participate in multiple IRP procedures each year and as a result, these participants are generally already well informed about IRPs and do not need to participate in multiple IRP 101 sessions. For other stakeholders that are interested in one IRP or lack the fundamental understanding, the IOUs recommend it might be more appropriate for the utilities to prepare an educational webinar for basic training to be offered as part of the annual Contemporary Issues Forum. This would streamline the process, avoid unnecessary educational sessions every year for multiple utilities and ensure consistent information across Indiana.

With regard to the public advisory process, 170 IAC 4-7-2.1 states that the utility shall provide information to and solicit and consider relevant input from interested parties. It goes on to state that the utility retains full responsibility for the content of the IRP. The IOUs are concerned that the concept of “intimate involvement” by stakeholders could be construed as contradicting the explicit recognition in the Proposed Rule that the utility retains full responsibility for the contents of the IRP. Such responsibility is impossible if the utility is merely charged with running scenarios proffered by stakeholders.

Mindful that the utility retains full responsibility for the IRP and is the one that is held accountable for the content and actions taken in reliance of the IRP, stakeholder input has been and will continue to be considered, valued and incorporated into the IRP process. Utility responsibility in no way limits the ability to collaborate—indeed several of the utilities incorporated comments from stakeholders including carbon costs and specific scenario evaluation. However, the spirit of the Proposed Rule did not intend for the stakeholder process to be another forum for parties to advance their particular agenda. Although the Commission staff suggests scenarios and sensitivities be driven by the stakeholder process, stakeholders, by design, frequently advocate for one resource over others as suits their special interests or agendas. This may not be the best use of utility resources for planning when the goal of the IRP is to look at the horizon and determine if there are resource needs, and, if so, how those needs should be met for continued reliable service. Ultimately the obligation to assure safe and reliable service at just and reasonable rates falls to the utilities. Therefore, the current process, whereby utilities educate stakeholders on the process, solicit input, consider the value of scenarios and sensitivities proposed by stakeholders, and respond to questions and requests seems to better align with the goals of the IRP, the Proposed Rule and the IOUs obligations to their native customers.

The Commission indicates in the Draft Report that “staff hopes large commercial and industrial customers would participate in each utility’s IRP process to better ensure that their perspectives are considered in the planning process.” Draft Report at 8. The IOUs agree that the input of large commercial and industrial customers is vital to the development of both long-term planning in the form of the IRP, but also in short-term forecasting. To that end, each of the IOUs has an on-going relationship with its largest customers. Those customers were invited to participate in the public advisory process, and, either themselves or through counsel, many did participate. The IOUs communication with their largest customers, as with other stakeholders, takes place on an on-going basis as a normal course of business, with that information used in planning efforts, even if the customers are not seen participating in the process.

APRIL 2, 2015

Ultimately, the question becomes “what is the purpose of the IRP public advisory process?” The IOUs use the IRP to drive resource planning decisions. The IOUs, as stated in the Proposed Rule, are not obligated to offer to accept every concept from stakeholders but must instead weigh their input as part of a process that results in effective modeling. As it is now, utilities look to use the IRP as a roadmap for the future, not a document to stress the system or predict the future based on an infinite number of variables. The IOUs have listened and will continue to listen to stakeholder input and respond to relevant input in a collaborative manner. The IOUs appreciate the perspectives from various groups and will continue to seek that out. However, the IRP ultimately remains the responsibility of the utility and as a utility-led planning document it provides the Commission staff and other stakeholders a utility’s view of the planning horizon.

## **Process Expectations**

### *Potential Risks*

The Commission staff provided a number of recommendations around the analysis provided by the utilities and suggested that the IOUs needed to conduct a more “robust” analysis of potential risks. One such risk involved the draft rule issued by the United States Environmental Protection Agency under Section 111 (d) of the Clean Air Act. Known as the Clean Power Plan Proposed Rule (“CPP Rule”) and issued on June 2, 2014, the draft rule would regulate greenhouse gases from existing power plants and provides states with a variety of strategies to meet state-specific goals. The Draft Report states “in short, it is precisely because the utilities don’t know, with any reasonable certainty, what the potential risks are that a fuller spectrum of risks should be evaluated as part of a credible Integrated Resource Plan.” Draft Report at 3. The utilities do view the broad range of risk regarding Fuel, Environmental, and load forecasts. The draft CPP Rule, is just that, a draft. The final requirements of the rule, and when it might be implemented following expected Court challenges were unknown at the time the utilities were preparing their 2014 filings. The intended consequence of the rule, regardless of the means employed to achieve its objective of reduced carbon emissions over time, was factored into analysis during the development of the utilities’ IRPs. While some proponents of costly renewable resources might hope that the rule would be implemented sooner, none of the scenarios run by the utilities or by the regional transmission organizations (“RTO”) in which they are members indicated such an outcome. This result does not mean that reasonable scenarios were not considered, it simply means that the outcome expected by some were not economic or otherwise supportable.

Similarly, the Draft Report notes that utilities should have considered a wider range of natural gas prices as well providing “adequate consideration to the significant declines in renewable energy.” Draft Report at 3. However, because the utilities issue a new IRP every two years, the practice has been to use what is known and knowable in order to develop the best long-range plan at the current time. More information on the fate of the CPP Rule will be known as 2015 IRPs are put together, with still more known in 2016. Similarly, there will likely be new data available to inform modeling inputs relative to natural gas and renewable futures. As this data becomes available, the utilities will integrate that information appropriately. The IRP is a planning document that evolves over time in conformance with the dynamically changing business, political, and technology environments. The status of the utilities’ long term plan is reported on the prescribed dates.

APRIL 2, 2015

*Analysis for Utility Management*

The Draft Report presumes that much of the requested analysis has already been prepared for utility management. Rigorous analysis is performed at the time a decision is made regarding construction of new generation with timely known changes of federal and state laws and regulations. The Draft Report appears to assume that utilities construct “book-end” analysis for their management regarding future generation decisions that are not being made in the near-term. However, that is not correct. Utilities do not continuously analyze large capital projects that have lives of anywhere from 20 to 60 (or more) years until such time as generation additions are on the near-term planning horizon.

The IRPs do include a robust risk assessment in its selection of plausible book end scenarios. However, the Draft Report’s construction of extreme bookends (those that at “the extreme, stress the system by examining low probability but high consequence outcomes”) do not provide pertinent information that is typically used by planners or management. Draft Report, p. 4. Absurdly high carbon prices and the doubling of load growth are not useful to plan for because the probability is so low. Having plans that consider extreme, but unlikely events is time consuming in terms of fully detailing all related input assumptions and correlations and provides little planning benefit because decisions to account for them likely would not be deemed reasonable. The IRPs do stress the results by evaluating the impact of robust outcomes to determine how the portfolio might be impacted, but the stresses focus on aggressive, but more realistic outcomes that are more valuable to the planning process. The purpose of the IRP is to provide a snapshot in time of how the utility plans to meet customers’ long term electric needs and the utility’s assessment of the need for new resources. It is costly and time consuming with little to be gained to prepare extensive analysis at a time when no decision relative to resource additions is being made or for outcomes that have a very low probability of occurring.

*Standardization of Definitions and Concepts*

The Draft Report also invites utilities and stakeholders to consider having “reasonably consistent definitions of important concepts.” Draft Report at 3. A technical conference to discuss the Commission staff’s understanding of these terms would be beneficial. Conventional thinking on the terms ascribes the following meaning:

- A scenario is a simulation of a future world technical, regulatory, and load environment.
- A sensitivity is a case run against a specific scenario varying only one element such as fuel prices.

It is feasible that the same resource plan is chosen across various scenarios and sensitivities. This does not mean that the analysis is flawed. In fact, it adds certainty to decision making.

The Draft Report indicates that it does not desire to be prescriptive in how the utilities should execute their IRPs, but many of the comments may lead to prescriptive results. The Draft Report comments could be read to suggest measures that are indeed far more prescriptive than the statute and the Draft Rule. Because this process is so critical to long term decision making and reliable service, we respectfully suggest that a discussion among all stakeholders at a technical

APRIL 2, 2015

conference will provide an opportunity to yield a common understanding of the objectives and measures to achieve the goals of the IRP process.

### *Selection of Resources*

The Draft Report expresses concern that a number of assumptions were “baked-in” or “hardwired” to the IRP process rather than using modeling to select appropriate resources. Draft Report at 7. While each utility will address concerns with its own IRP, generally speaking there are valid reasons why the analysis was handled as it was. One reason is that in PJM, demand response programs are developed by the RTO and in Indiana are implemented by the PJM member. In both PJM and MISO, qualified demand response is used to reduce the utility’s required capacity requirements as prescribed by the RTO’s tariff. A parallel treatment on the state regulatory side allows for symmetry in the two entities’ analysis. Therefore, it is appropriate to use the specific amount rather than allow the model to select demand response, when it may not be a viable option through the RTO or state regulatory side.

While each utility will respond to comments specific to its treatment of demand side management (“DSM”), it should be noted that all of the electric utilities consider DSM programs a planning resource comparable to supply resources. This is true whether the utility uses the California standard tests (TRC, UCT, PCT and/or RIM) from multiple planning objectives (cost effectiveness, rate impacts) versus supply resources, or in a production cost simulation model. Each method has its advantages. In either case, DSM causes a reduction in the load that then needs to be served by supply resources. The term “baked in” or “hardwired” implies that DSM integration is done without a resource planning evaluation and selection process. This is not the case. In short, the best planning models take into account certain specifics that are known or the utility wants to be achieved while allowing the model to select options that are outside of those known variables. In the case of DSM, it is appropriate to create a resource plan with some level of DSM included to ensure the on-going availability of programs for reasons such as customer acceptance, program delivery and customer satisfaction.

### *Probabilistic Analysis*

The Draft Report calls on utilities to make greater use of probabilistic analysis using more sophisticated computer software. The Draft Report goes so far as to suggest using these tools, the in-depth analysis that is done in the IRP could be done each year. The IOUs have a great deal of concern with this recommendation. Regarding decisions related to the planning tools, process and databases, one needs to weigh the benefits of such additions with the costs to customers and whether a construction decision is being made. Although the Draft Report notes that the North American Electric Reliability Corporation (“NERC”) is moving towards more probabilistic analysis, it should be noted that the purpose of the proposed changes is to assure that the right entities are subject to the right set of NERC Reliability Standards. The effect of the initiative will be to reduce the regulatory burden on NERC-registered organizations and to allow them to focus more closely on issues with a greater potential to impact reliability in their specific systems. This replaces the previous “one size fits all” approach to reliability standards with one that recognizes that each organization needs to address reliability planning relative to their own risks.



APRIL 2, 2015

INDIANA UTILITY  
REGULATORY COMMISSION*Large Customers*

The Draft Report also expresses concern that the IRPs did not reflect knowledge of large customers. As discussed above, utilities constantly interact with large customers and apply what is learned in the forecast for both the short- and long-term. While the narrative could possibly be strengthened to make this clearer, the IOUs do interact with their customers and find that information invaluable in planning efforts. The Draft Report goes on to recommend that the utilities use end-use information by North American Industry Classification System (NAICS) in preparing the forecast. In talking about tailoring rates and other offerings to customers, it appears that the scope of the IRP is morphing into consideration of rate case issues. The IOUs recognize the need to plan based on the various customer classes, but tailoring rates is not an appropriate discussion for a planning document. The Draft Report notes that “without exception, the utilities could have done more to explain their forecasting methods and how they are integrated to develop a cohesive company forecast and narrative.” Draft Report at 6. The utilities will be mindful of this recommendation in the preparation of future IRPs.

*Forecasting*

In its discussion of load forecasting, the Commission staff requests that the utilities incorporate “price effects (elasticity) on energy use” and to provide “more detailed information the changing uses of electricity.” Draft Report at 5. Again, there is concern that, not only is the Commission staff being overly prescriptive in how the utility does its forecasting, but the information the Commission staff is requesting may be more appropriately considered in other areas.

Finally, the Draft Report expresses concern that customer-owned and distributed generation resources were “largely baked-into the utilities resource planning based on the utilities belief that these were not cost-effective at the time their IRP was prepared.” Draft Report at 7. The Draft Report goes on to say “it would behoove utilities to give greater consideration to the ramifications that they are wrong and more customer-owned and distributed generation becomes available which would reduce the utility’s need for building/purchasing resources.” *Id.* Other than large customers or programs such as feed-in tariffs to promote distributed generation, it is difficult to know how customers will react to the market even a year out, let alone ten or twenty years into the future. This is another area where it makes more sense to continue to refine future forecasts when more information is known and consideration of construction of a major generating station is on the horizon. For example, a large industrial customer will generally notify its utility of a plan for any significant project in advance of its construction, if a strong uptick in distributed generation is noted, such generation would be included in the utility’s next IRP. If the Commission staff feels that a broader range of distributed generation should be considered, perhaps the State Utility Forecasting Group can begin including in its analysis bookend assumptions for distributed generation over the planning horizon, which could be utilized in sensitivity analyses by the utilities.

**Regional Forecast**

Although the Draft Report comments, as well as the IRP process itself, focus on the individual utilities and their planning efforts, all of the IOUs belong to an RTO. RTOs are both Planning Coordinators and Transmission Planners. Both MISO and PJM cover large multi-state

APRIL 2, 2015

INDIANA UTILITY  
REGULATORY COMMISSION

geographies and have significant numbers of participants with varying interests and business models. Because of this, and because of the number of parties involved in the two RTOs that serve the state, Indiana will likely have more success in changing to fit the way the RTOs plan than bringing significant change to the RTO planning process.

The Commission staff opined that the “utilities should encourage their [RTOs] to have 20 year (or longer) planning analysis and participate in efforts to improve the quantity and quality and quantity of analysis.” Draft Report at 8. Transmission planning is done on longer term horizons such as 20 years, particularly since some higher voltage, higher costs projects benefits are only realized on a longer horizon. In PJM, the RTO produces these forecasts for 15 years for each zone (e.g. the AEP zone). In MISO, these forecasts are submitted by Load Serving Entities using a MISO administered software interface. Those forecasts are for 10 years forward with the first two years broken out monthly. They are extrapolated by MISO for transmission planning if needed for cost/benefits analysis and compared to a third party generated footprint-wide forecast.

The IOUs concur with the Draft Report that transmission planning occurs at the RTO level, and would note that the Commission is an active participant at the RTOs. While the five IOUs participate in two RTOs, which makes uniform reporting problematic,<sup>1</sup> the IOUs would recommend that, rather than attempting to change what is provided to the RTOs, the IOUs provide the Commission staff with the same information, in the same format, as is provided to the RTOs. Ultimately, there is a purpose to the 10 year planning horizon used by the RTOs. The band of uncertainty increases over time. Ten years provides sufficient time for consideration of options and planning. After 10 years, the unknowns tend to outweigh any value supplied by the additional planning efforts. Recall the IRP is intended as a planning document, which is updated and more rigorously reviewed when a construction decision is imminent rather than as an academic exercise covering a multitude of alternatives.

### **Timing of the IRP**

The Draft Report seems to allude to the potential to complete IRPs or at least the planning analysis more than every other year. There is a natural tension between providing more information regarding the development of the IRP and the time available to do so. Executing the public advisory process, the submission of the IRP and then following up on comments to the plan means the entire process for one IRP takes at least 18 months. The utility finds value in each of these steps, but it means that the IRP is on-going for the utilities. While the Commission staff opines that it is possible to construct detailed analysis each year, the IOUs would counter that this process is costly and time consuming. This would lead to an endless loop of uncertainty around any one plan and would impose an incremental cost of time and money at a time when utilities are not planning to add generation. Finally, although the industry may be changing, there are few changes to long-term planning that occur over a year or even two years.

In addition, Senate Bill 412 (“SB 412”) is currently working its way through the General Assembly. Among other things, SB 412 requires that DSM plans be filed at least once every three years and requires the Commission to consider whether the DSM plan is consistent with the

---

<sup>1</sup> The Draft Report states “While the IURC staff has been loath to be prescriptive in formatting, the IURC staff would welcome suggestions on a uniform report format.” Draft Report at 8.

APRIL 2, 2015

INDIANA UTILITY  
REGULATORY COMMISSION

utility's most recent IRP.<sup>2</sup> Given the complexity of the process, the fact that more planning is being done at the regional level and the benefits of aligning the IRP and DSM planning process, a move to a three year cycle for the stakeholder process and submission of IRPs would be more appropriate.

## Conclusion

The IOUs respect and find value in the IRP process, which is why, without exception, the companies have followed the Proposed Rule. The IOUs hope the Commission staff will understand the reasons behind the utilities' decisions in developing the most recent IRPs and also understand the concerns with some of the Commission staff's proposals. The ultimate goal of the IRP is to provide a planning document for the utilities to utilize and provide the Commission staff with insights into their planning process. Because the IRP is updated frequently, the way the IOUs educate and interact with stakeholders, the process for creating and narrating the IRP and the interaction with the regional forecasts can be evaluated with the goal of improving a utility led process that yields a useful resource plan. To achieve that outcome in a timely fashion there must be reasonable boundaries in terms of the number of scenarios to be considered, the amount of information to be provided and the level of input to be acted upon, and the time devoted to the public dialogue. The IOUs believe that in a short amount of time, the process has evolved dramatically and the stakeholder level of involvement has increased significantly. The process will continue to evolve—however, the foundation and objective must continue to be a sound modeling approach that yields a useful plan.

The IOUs appreciate Commission staff's willingness to put forth many ideas for discussion and we hope that our response is viewed as a constructive part of that continued dialogue. The IOUs hope the Commission staff considers this input as it finalizes its report, and given the many suggested revisions to the final report, the IOUs hope to see a final report replacing the Draft Report on the Commission's website. Resource planning is a core function engaged in by the IOUs that is taken very seriously, must be conducted timely, and can exhaust significant resources. By its nature, it can lead to disagreements among parties who differ on what the future may hold and how best to balance reliability, cost and other social policies. In the end, the utility must factor in such viewpoints and then produce a plan that is an attempt at creation of a constructive and useful tool. The process must serve that end goal.

---

<sup>2</sup>

Senate Bill 412, Section 4, adding a new section to the Indiana Code, Section 8-1-8.5-10 – subsection (h).