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VIA ELECTRONIC MAIL

Dr. Brad Borum, Director
Research, Policy and Planning Division
INDIANA UTILITY REGULATORY COMMISSION
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Re: **NIPSCO Industrial Group's ("Industrial Group") Comments on 2016
Integrated Resource Plan ("IRP") of NIPSCO**

Dear Dr. Borum:

On November 1, 2016, NIPSCO submitted its Biennial Integrated Resource Plan ("IRP") to the Indiana Utility Regulatory Commission ("Commission"). These comments are being filed on behalf of the NIPSCO Industrial Group.

The Industrial Group is an *ad hoc* coalition of large, industrial, energy consumers within NIPSCO's service territory consisting of ArcelorMittal, Arconic, BP, Cargill, Marathon Petroleum, Praxair, and United States Gypsum. In the aggregate, the Industrial Group accounts for a significant portion of NIPSCO's overall demand and represent one of the largest pool of employers within NIPSCO's service territory. Further, as members of trade exposed industries, the Industrial Group's members are particularly sensitive to the cost of production inputs, such as electric energy. Accordingly, the Industrial Group has a substantial interest in NIPSCO's ability to provide safe, reliable and reasonably priced electric energy to its customers.

These comments address in broad terms the key issue in NIPSCO's IRP, the decision to retire two units at the R. M. Schahfer Generation Station. The Industrial Group's decision to refrain from commenting on other aspects of the IRP or the stakeholder process should not be construed as an indication of agreement, endorsement or waiver of any issue, assertion, or statements in NIPSCO's IRP or otherwise made by the Company.

The NIPSCO Industrial Group and Overview of Members' Concerns Generally

The members of the Industrial Group operate facilities in Northwest Indiana that have contributed to Indiana's manufacturing economy for well over a hundred years. They have invested billions of dollars into their facilities in modernization, self-generation, load control, energy efficiency and other projects that have made their operations some of the most technologically advanced in the world. The members also provide employment for thousands of Hoosiers while making significant contributions to the state and local economies.

Nevertheless, the members of the Industrial Group face significant economic pressures from a variety of sources. As participants in trade exposed industries, the members of the Industrial Group face the challenge of competing in a global marketplace. Part of that challenge is providing manufactured goods at competitive prices which in turn depends on the members' ability to control their production costs. Although Indiana was once one of the lowest cost energy states, in recent years it has slipped to the "middle of the pack." This has not only eroded the ability of the members of the Industrial Group to compete globally, but also to compete internally within their own organizations for production and additional infrastructure investment.

In this environment, continued access to reliable and low cost energy is a critical factor in assisting the members of the Industrial Group in maintaining their substantial operational presence in Northwest Indiana. Such access offers significant opportunities for growth and expansion for the members of the Industrial Group, and the Northwest Indiana region as a whole. Developing IRP plans mindful of the importance of low-cost, reliable, energy is a key focus of the IRP process as such plans support the economic growth of the region and serve the interests of NIPSCO and all ratepayers.

The Industrial Group thus has concerns with NIPSCO's IRP. In particular, the Industrial Group has concerns that NIPSCO's investment (or non-investment) decisions reflected in the IRP and now being made may jeopardize the Company's ability to remain flexible and reliably provide reasonably priced electric energy now and in the future. This concern is amplified by the limitations of the IRP process, which does not consider or require the development of actual cost impacts. Instead, the process focuses solely on the analysis of assumed outcomes of competing resource decisions. This reduces the transparency of the process, and puts constraints on the ability to fully evaluate competing alternatives.

Concerns with NIPSCO's Retirement Decisions

The Industrial Group is particularly concerned with NIPSCO's analysis as it affects retirement planning for R. M. Schahfer Units 17 & 18. The Industrial Group does not necessarily agree or disagree with NIPSCO's decision to retire these units. It, instead, wishes to express its concern over certain aspects of the retirement decision presentation as well as concern that potential options to maintain the units are not reflected in depth within the IRP.

As stated by NIPSCO, its retirement analyses "compare the ongoing costs and benefits of operating an existing unit, including retrofitting it to comply with final, proposed and/or expected environmental rulemakings to the costs and benefits of retiring and replacing a unit with an alternative." (NIPSCO 2016 IRP at 132). Other considerations including shareholder risk, fuel diversity, and "secondary impacts" are also taken into account. (*Id.*)

The Industrial Group respects that the decision to retire an otherwise operational unit is a multi-faceted one. The Industrial Group also recognizes that the anticipated capital investment to meet environmental regulations, particularly the CCR and ELG rules, in order to operate Schahfer Units 17 & 18 beyond 2023 is high. It is, however, important to underscore several key points related to the retirement decision.

First, the suddenness of the decision to retire Units 17 & 18 is itself concerning. The early retirement of units with expected operational lifespans extending decades into the future was not reflected as part of NIPSCO's Short Term or Long Term plans in its 2014 IRP. The significant decision to react in response to new environmental regulations and retire those units now raises concern about future retirement decisions. For example, since 2011 NIPSCO has invested, or made plans to invest, approximately \$815M in environmental compliance costs at Schahfer Units 12, 14, and 15. (*See Cause No. 42150-ECR 27, Petition Attachment PR*). Although nothing in the current IRP evidences a clear intent to retire those units, indeed NIPSCO Preferred Portfolio expects those units to run to the end of their useful life, it is now clear NIPSCO is willing to entertain rapid course corrections with respect to its generation fleet. Such willingness raises the serious concern that past and future investments may be written off as sunk costs, to be collected from ratepayers, as potential alternatives are pursued.

Second, it is important to consider that the decision to retire Schahfer Units 17 & 18 in 2023 has effectively already been made. Although NIPSCO does not need to notify environmental agencies until late 2018 of its intent to retire those units in 2023 as a means of CCR compliance, the simple fact is that without the Company's commitment now to capital investment, it is unlikely the Company can meet later compliance dates.

Effectively, NIPSCO has already reached the major decision point. This decision might be validated as a "reasonable" choice under the IRP models, but it does not necessarily follow that it is the "preferred" choice. Although it is not a given, it may well be that some investment now, to buy the future option to bring the units into environmental compliance at a later date, will produce a better outcome for ratepayers. For example, accelerating a push to fuel diversity rather than retaining coal fired generation may not make sense if changes in coal, natural gas, or purchase power markets in the near future fundamentally alter the cost/benefit analyses underlying the retirement decision or alter the costs of the alternatives against which the retirement decision is weighed.

To a certain extent, such market changes are taken into account as part of NIPSCO's analyses insofar as the Company's models utilize a range of possible futures. But, given the nature of the investment planning process if those markets do alter, the option to continue running the units through further investment has already been lost.

This concerns the Industrial Group to the extent that this possibility is not clearly reflected in the IRP.¹ In part this has to do with the complexity of the modeling and numerosity of potential outcomes. But more importantly the issue can and should be considered in light of the fact that the presentation of the cost benefit analyses is largely made in terms of Net Present Value Revenue Requirement ("NPVRR") rather than in a more concrete format. While the NPVRR may show the relative differences of the Company's revenue requirement in the aggregate over a period of years among alternative options, it does a poor job of representing the actual cost to ratepayers on a per unit of consumption basis at any particular point in time.

As an example, as shown in Figure 8-15, (NIPSCO 2016 at IRP at 136), the difference in terms of NPVRR between the decision to retire Schahfer Units 17 & 18 (Combination 4) and keeping them operational beyond 2023 (Combination 3) is approximately \$198M. On its face it is not evident from that presentation that the retirement decision is an absolute "least cost" choice between the two, particularly if

¹ Except to the extent outcomes of various scenario and sensitivity analyses are contained in the IRP or appendices.

assumptions such as the price of alternatives are subject to change. Confidential Appendix G, however, presents a much different view of the necessary investment between those same two scenarios than might be reflected in Figure 8-15. (*Compare NIPSCO 2016 IRP Confidential Appendix G Page 7 of 32 with Page 8 of 32*). Neither presentation, however, deals with a more fundamental flaw of the IRP.

Specifically, whatever the benefits of the IRP process in providing a broad overview of the planning process, it cannot be overlooked that rate impacts of the planning decisions are for many customers, like the members of the Industrial Group, the essential issue. The actual cost, expressed in terms of what the consumer will pay, is where the “rubber meets the road.” The IRP does a poor job of illustrating that cost impact and until those impacts are known it is difficult, if not impossible, to fully evaluate the viability and appropriateness of alternative paths.

To NIPSCO’s credit, it has worked with the Industrial Group’s outside expert to assist in developing such rate impacts of its preferred portfolio. NIPSCO has also agreed to continue ongoing dialogue with the Industrial Group with respect to the possibility of preserving options at Schahfer.

Despite this, however, the Industrial Group registers its concern that the IRP itself, by its design, has functionally failed to assist presenting a full picture of the cost/benefit analyses and in making clear that certain options are, absent extraordinary circumstances, now effectively off the table, thus committing NIPSCO to the path of retiring those units and eventually constructing or acquiring other supply side resources.

Conclusion

In sum, the Industrial Group emphasizes that the critical outcome of NIPSCO’s IRP, the retirement of Schahfer Units 17 & 18 by 2023, is one which has effectively been made. The IRP may justify, rationalize and inform that decision, but the final decision is one that occurred essentially outside of the planning context of the IRP. It is, instead, reflected in NIPSCO’s decision not to pursue the capital investment in these units.

The Industrial Group does not intend to pass judgment on that decision here. That question is instead reserved for litigation. Instead, the Industrial Group wishes to highlight it to illustrate the limitations of the IRP process. Based on the concerns of its

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members, the Industrial Group would like to see future IRPs more transparently illustrate the potential rate impacts of various planning scenarios and sensitivities. This will help insure all stakeholders have a better understanding of resource planning decisions, the actual cost impacts of choices, and help stimulate ongoing dialogue among all parties.

Respectfully submitted,



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