

TITLE 170 INDIANA UTILITY REGULATORY COMMISSION

COST-BENEFIT ANALYSIS

LSA Document #12-97

I. Statement of Need.

A. Intention of rule.

This rule is intended to address the state statutory requirement found in IC 8-1-37 to establish the Indiana Voluntary Clean Energy Portfolio Standard Program, also known as the CHOICE Program.

B. Estimated number affected.

The Commission estimates the following will be affected by the rule:

1. Individuals: 0
2. Businesses: 5 investor-owned electric utilities

C. Policy or goal of rule.

The policy or goal of this rule is to establish the Indiana Voluntary Clean Energy Portfolio Standard Program. This voluntary program is designed to incent the increased use of clean energy resources by investor-owned electric utilities in Indiana, thereby reducing negative environmental impacts produced by other types of electric generation, diversifying the utilities' generation portfolios, and increasing the use of clean energy resources in Indiana.

1. Conduct the rule is designed to change.

Electricity used by consumers in Indiana is overwhelmingly produced by generation facilities that use coal as the fuel type, accounting for 85% of the energy production for Indiana consumers. While coal is plentiful and relatively inexpensive, concerns regarding the environmental impact of coal-fueled electric generation have increased, as have the federal regulations to reduce such impacts. Electricity generation by wind and other renewable energy resources accounts for only 1.6% of the energy production for Indiana consumers. This rule is designed to incent investor-owned electric utilities in Indiana to modify their mix of generation facilities to incorporate a higher percentage of clean energy resources.

In addition, investor-owned electric utilities will incur substantial costs in complying with federal environmental regulations. These costs will be passed on to the utilities' ratepayers. As environmental regulations increase, the utilities will continue to incur more costs and the consumers will be burdened with higher electricity rates. Diversifying the utilities' generation portfolios to include more clean energy resources can mitigate the cost and rate impact of ongoing and increasing environmental regulation.

2. Harm resulting from the conduct above.

If investor-owned electric utilities in Indiana do not modify the mix of generation facilities, those utilities will incur additional substantial costs to upgrade existing facilities to comply with federal environmental regulations. A large share of these costs will likely be passed on to, and increase the burden on, consumers and ratepayers. Higher electricity costs can have a negative impact on economic development and the retention of existing employers.

Also, the use of clean energy resources can provide health benefits to Indiana citizens. These benefits may not occur without the incentives provided in this rule.

Some Indiana utilities have started to make strides to diversify their generation mix and to increase the use of clean energy resources. Those actions are taken into account in determining whether the utility has met the program's goals. However, the rule provides additional incentives for Indiana utilities to use clean energy resources and, therefore, increases the likelihood that Indiana utilities will diversify, or continue to diversify, their generation resources. Without the incentives, Indiana utilities are less likely to change their conduct on this issue.

3. Involvement of the regulated entities in rule development.

The Indiana Utility Regulatory Commission ("Commission") held rule development workshops and solicited oral and written comments, in which all of the utilities subject to regulation under this rule participated. In addition, entities and organizations representing clean energy resources, consumers, and various classes of ratepayers also participated in the development of this rule through workshop participation and submitting oral and written comments.

4. Commission methodology.

The determinations above were made using the information that is available to the Commission in the course of performing its duties in regulating public utilities in Indiana. This information is publicly available in the Commission's Regulatory Flexibility Report. In addition, input and comments were solicited by the Commission and received from a broad range of interested persons and entities, including the utilities that may voluntarily participate in the program established by the rule, environmental and citizen action groups, and entities providing clean energy resources.

II. Evaluation of Costs and Benefits.

Will the benefits likely exceed the costs? Yes.

The CHOICE Program is a voluntary program, so the costs and benefits are not quantifiable at this point in time. The expected costs and benefits are described below.

A. Estimated primary and direct benefits.

The estimated primary and direct benefits will be:

- Increased diversification of the generation portfolio of participating Indiana electric utilities, which should result in reduced risk at equal or reduced costs for the utility.
- Increased use of clean energy resources by participating Indiana electric utilities, with clean energy resources providing 10% of electricity for retail sales by 2025.

B. Estimated secondary or indirect benefits.

The estimated secondary or indirect benefits will be:

- Mitigation of potential negative impacts on rates due to federal environmental regulations. New federal regulations heavily impact generation facilities that use coal as a fuel source, requiring additional expenditures and increased retail rates to recover the costs of complying with those regulations. Increased use of clean energy resources should result in reducing the costs of complying with these ongoing and increasing federal regulations.
- Lessening of negative impacts on the health of Indiana citizens caused by environmental pollution.

C. Estimated compliance costs for regulated entities.

The Indiana Voluntary Clean Energy Portfolio Standard Program or CHOICE Program does not mandate any actions, including compliance, by any electric utility. The CHOICE Program is strictly voluntary. Pursuant to IC 8-1-37-13, all costs incurred by the participating electric utility under the CHOICE Program will be recovered through a periodic rate adjustment mechanism. Consequently, a participating electric utility will not incur any compliance costs that are not recoverable in rates through the periodic rate adjustment mechanism.

In addition, part of the Commission's determination in whether a participating electric utility has submitted a compliant plan to meet the clean energy goals is to determine that the plan does not raise retail rates higher than those rates otherwise would be. Therefore, rate payers are also protected under the CHOICE Program.

In essence, the CHOICE Program provides an incentive for a participating electric utility to reconfigure its generation portfolio to include more clean energy resources while not raising retail rates more than those rates would otherwise be raised due to other factors, such as increased federal environmental regulation.

D. Estimated administrative expenses.

The analysis for administrative expenses is the same as the analysis in II.C. above for compliance costs. Any administrative expenses incurred by the participating

electric utilities would be recovered through the periodic rate adjustment mechanism. All costs, including administrative expenses, should not raise retail rates more than those rates would otherwise be raised due to other factors.

E. Estimated cost savings to regulated entities.

By revising their generation portfolios to include more clean energy resources, participating electric utilities should save the costs that would otherwise be incurred in complying with environmental regulations impacting other generation resources. In addition, a participating electric utility that meets the CHOICE Program goals will also receive an incentive increase on its return on equity (as approved by the Commission).

F. Sources consulted and methodology used.

Commission staff consulted with the public (represented by the Indiana Office of Utility Consumer Counselor, as well as other stakeholder groups) and with the eligible electric utilities through the Commission's rule development process, including multiple workshops and the solicitation and submission of oral and written comments. Commission staff provided their cost-benefit analysis and rationale to the utilities, the public, and other interested stakeholders. No response providing contrary information or objecting to the Commission staff analysis and rationale were received.

III. Examination of Alternatives.

A. Alternatives defined by statute.

This rule is consistent with the specific statutory requirement found in IC 8-1-37 and clearly within the agency's statutory authority. The authorizing statute, IC 8-1-37, did not define any alternatives to the CHOICE Program.

B. The feasibility of market oriented approaches.

The CHOICE Program is not a direct control program. Instead, it is a voluntary program offering an incentive for meeting the CHOICE Program's goals.

C. Measures to improve the availability of information, as an alternative to regulation.

Merely improving the availability of information would not meet the purposes of this rule; therefore, measures to improve the availability of information would not be a viable alternative to this rule.

D. Various enforcement methods.

The CHOICE Program provides an incentive if the participating electric utility meets the statutory goals. No other enforcement methods are needed for this rule.

E. Performance standards rather than design standards.

The CHOICE Program basically amounts to a voluntary performance standard. Participating electric utilities submit a plan to meet the CHOICE Program goals.

Although the Commission examines and determines whether the submitted plan is sufficiently compliant with the rule, it is up to the participating electric utility to determine the design of the plan.

F. Different requirements for different sized regulated entities.

The CHOICE Program goals are percentages of electricity retail sales, not set numbers. Therefore, the CHOICE Program already takes into account the differences in size among Indiana electric utilities that are eligible to participate.

G. Establish a baseline.

The authorizing statute establishes 2010 as the base year for purposes of the CHOICE Program. The goals and cost-benefits of the CHOICE Program are based on retail electricity sales and generation portfolios of the participating electric utilities in the 2010 base year.

H. Different compliance dates.

The compliance dates under the CHOICE Program were set in the authorizing statute, IC 8-1-37.

I. Redundancy.

The authorizing statute, particularly IC 8-1-37-10, requires certain aspects of the statute to be duplicated in the rule. Other than those requirements, the rule does not duplicate state or federal laws.

IV. Total Estimated Impact.

Pursuant to IC 8-1-37-13, all costs incurred by the participating electric utility under the CHOICE Program will be recovered through a periodic rate adjustment mechanism. Consequently, there will not be any economic impact on participating electric utilities as there are no costs under the CHOICE Program that are not recoverable in rates through the periodic rate adjustment mechanism.

In addition, part of the Commission's determination in whether a participating electric utility has submitted a compliant plan to meet the clean energy goals is to determine that the plan does not raise retail rates higher than those rates otherwise would be due to other factors, such as increased federal environmental regulation. Therefore, it is estimated that there will not be any economic impact on rate payers under the CHOICE Program.

The Commission outlined the rationale and information given in this analysis and requested financial impact information from the regulated electric utilities, as well as other participants in the open rule development process (including workshops and the submission of oral and written comments), and. No information contrary to this cost-benefit analysis was received

The total estimated impact is **NOT** greater than \$500,000 on all regulated persons.