



August 24, 2018

General Counsel Beth E. Heline
Indiana Utility Regulatory Commission
101 West Washington Street, Suite 1500 E
Indianapolis, IN 46204

Re: Backup, Maintenance, and Supplemental Power Rate Review (Comments on Draft Report)

Dear General Counsel Heline,

The Alliance for Industrial Efficiency (the “Alliance”) appreciates the opportunity to submit comments in response to the Indiana Utility Regulatory Commission (the “IURC”, “Commission”) Backup, Maintenance, and Supplemental Power Rate Review draft report (“Draft Report”). This report represents an important step in considering standby rates in Indiana. We previously submitted comments to the IURC on its Backup, Maintenance, and Supplemental Power Rate Review on April 20, 2018. We write now to express concerns with the Draft Report’s conclusion that the electric utilities are already providing cost-based, nondiscriminatory, and non-subsidizing required services.

As the Commission Staff notes in the Draft Report, it is the “stated policy of Indiana to encourage the development of alternate energy production, cogeneration, and small hydro facilities.”¹ Indiana law further requires that utilities provide “supplemental, backup, and maintenance power on a nondiscriminatory basis and at just and reasonable rates.”² As elaborated below, despite its conclusion, the Draft Report indicates that existing tariffs are not consistent with this policy.

As an initial matter, we are concerned that several of Indiana’s utilities do *not* have published tariffs for CHP customers. This leads to a lack of transparency for prospective hosts. The Commission acknowledges that deployment of CHP could be “further encouraged” by developing tariffs “specifically for cogeneration customers.”³ We wholeheartedly concur.

Materials in the record further suggest existing tariffs do not reflect cost of service. In particular, we highlight the 5 Lakes Energy analysis provided by the Midwest Cogeneration Association

¹ Indiana Utility Regulatory Commission Staff Report: Findings Related to Electric Utilities’ Backup, Maintenance, and Supplemental Power Rates (hereinafter “IURC Staff Report”) at 4 (citing Ind. Code § 8-1-2.4-1).

² IC 8-1-2.4-4(a)(2) and IC 8-1-2.4-6(e).

³ IURC Staff Report at 14.



(MCA) comparing four utilities' tariffs in Indiana along with tariffs elsewhere in the Midwest.⁴ Notably, this “Apples-to-Apples” comparison reveals a tremendous disparity in standby rates across Indiana utilities. It further reveals that Indiana’s standby tariffs are among the highest in the region. These data raise concerns that supplemental, backup, and maintenance power among Indiana utilities is not just and reasonable and that – as a result – the development of cogeneration facilities is being discouraged. We believe that this information supports further exploration of the tariffs by the Commission.

The Commission Staff rightly acknowledge a key principle of rate design for distributed generators: “When a customer undertakes a private investment to provide a portion of their electric service needs, it is a logical suggestion that they should be able to avoid paying the electric utility for that same service.”⁵ Yet, this principle does not appear to be reflected in several of the tariffs subject to the statutory review required by Indiana Code 8-1-2.4-4(h). As the IURC states in the Draft Report, several of the utilities apply a demand ratchet, so that a previous month’s demand is carried over into “going forward periods.”⁶ Ratchets may far exceed the cost of an outage and serve as a punishment for a CHP host that utilizes grid services. Through these ratchets, CHP hosts are being made to pay for electric service that they are not receiving. Such ratchets are contrary to the statutory policy of encouraging distributed generation. Indeed, as Commission Staff rightly observes, “reducing the use of demand ratchets could add encouragement for customer private investment in generation.”⁷

Notably, the 5 Lakes Energy Apples-to-Apples analysis examined each of the tariffs across a variety of outage scenarios. It found that Indianapolis Power & Light (IPL) and Vectren charge the same rate, regardless of whether a hypothetical 16-hour outage occurs during peak or off-peak times. Further, IPL and Vectren have the highest charges of all of the 17 utilities that 5 Lakes Energy has analyzed.

The analysis also found that both Indiana Michigan Power (I&M) and IPL charged the same rate regardless of whether a hypothetical outage was scheduled or unscheduled. Because it undoubtedly imposes a greater cost on the utility when an outage occurs at peak or is unscheduled, these data indicate that rates do not correspond to cost of service. These tariffs, in turn, do not send appropriate signals to CHP hosts to schedule maintenance to minimize impact to the grid. In contrast, NIPSCO customers pay higher rates for on-peak outages. We note that this is a best practice that should be replicated by the other utilities.

⁴ See Reply Comments of the Midwest Cogeneration Association, May 25, 2018, Attachment A (<https://www.in.gov/iurc/files/MCA-%20IN%20-%20GAO%202017-3%20-%20205-25-18-%20Attachment%20A.pdf>).

⁵ IURC Staff Report at 15.

⁶ *Id.*

⁷ *Id.* at 16.



As mentioned, the analysis reveals that I&M, IPL, and Vectren do not presently have actual standby tariffs. Instead of designing a tariff reflecting the load profile of standby customers, these three utilities simply apply the same demand charges to standby use as they apply to full-time use under the base tariff. They use the same rate and the same fixed demand (based on contracted standby capacity) for standby customers' occasional use of grid resources. As a result, these utilities are charging for standby service demand at a rate that is 20 times higher on a *per rata* basis than is charged for full-time service demand (assuming a 5 percent forced outage rate).⁸ This is contrary to the principle that customers should be able to “avoid paying the electric utility” for power that they produce on site – a principle that the Commission embraces in the Draft Report.⁹

Considering these findings, we do not think that the current rates provide “supplemental, backup, and maintenance power on a nondiscriminatory basis and at just and reasonable rates,” as required by Indiana statute.

In light of these trends, we believe that the legislature would benefit from a further exploration of standby rates and offer the following three recommendations to be included in the Final Report:

1. Ask for this topic to be included in the forthcoming Legislative Summer Study Committee;
2. Open a docket to review existing tariffs and implement best practices for standby rates; and
3. Require the utilities to provide the Commission with the cost of service level justification expressly required by the General Assembly, as cost of service data specifically focused on standby service was not considered in this proceeding.

We look forward to continuing to work with the IURC as this process continues and are very grateful for the Commission's leadership in this area.

Sincerely,

Jennifer Kefer
Executive Director
Alliance for Industrial Efficiency

⁸ See, e.g., Comments of the Alliance for Industrial Efficiency, April 20, 2018, at 3 (noting that “the equipment class outage rate for CHP systems is less than 5 percent”) (https://www.in.gov/iurc/files/AIE_IURC_Backup%20Maintenance%20Supplemental%20Power%20Rate%20Review_4.20.2018.pdf); see also Reply Comments of the Midwest Cogeneration Association, May 25, 2018, at 3;

⁹ IURC Staff Report at 15.