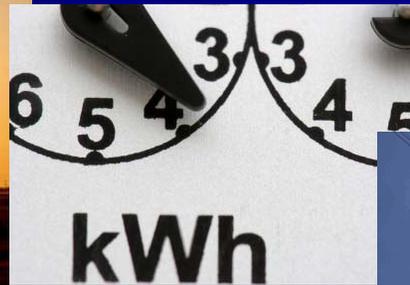


Breaking the Throughput Incentive: An Indiana Consumer Advocate's Perspective

Indiana Office of Utility Consumer Counselor
Representing Indiana Utility Consumers



photo: Dawn Allyn



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Utility Consumer Counselor

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(Sep 2009)

Overview:

- Introduction of Indiana Office of Utility Consumer Counselor (OUCC)
- Different Forms of Decoupling
- Indiana OUCC's experience with Gas and Electric Energy Efficiency (EE) and Demand Side Management (DSM) Cases
- DSM Shareholder Incentives



What is the OUCC?

Mission Statement:

To represent all Indiana consumers to ensure quality, reliable utility services at the most reasonable prices possible through **dedicated advocacy, consumer education and creative problem solving.**

OUCC has current staff of 51 utility professionals:

Attorneys

Engineers

Accountants

Environmental Analysts

Economists

DSM Analysts



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FORMS OF DECOUPLING:

- Revenue Per Customer
- Straight-Fixed Variable
- Formula Rates



Revenue Per Customer (RPC): Basic Description

- The revenue requirement between rate cases is changed only as the number of customers served changes.
- Utility recovers the difference between the actual RPC and the approved RPC.
- Under- and over-collection is accumulated on a monthly basis and typically trued-up at year end.
- Removes the disincentive to offer EE/DSM programs, but does not provide an incentive to aggressively pursue.



Revenue Per Customer: Pros & Cons

Pros:

- Allows EE programs to proceed without causing financial harm to utilities experiencing declining usage.
- More stable bills.

Cons:

- Because utilities have a reduced financial risk, customers may be paying too much for utility rate of return.
- Less frequent rate cases.



Revenue Per Customer: Where Implemented

Gas Utilities: 18 states

Electric Utilities: 5 states

■ Highlights:

- **Portland General Electric:** authorized as part of rate case for trial period 2009 - 2010; small ROE reduction from 10.1% to 10% (= \$1.9M annually).
- **Oregon General Electric:** only authorized for a trial period 2007 – 2009.
- **Idaho Power:** 2007 – 2009; tried-up annually with 3% annual rate change cap.
- **Vermont :** Both state IOUs.
- **Maryland:** PEPCO – tried-up monthly with cap at 10%
- **California:** Southern CA Gas, San Diego G&E, Southern CA Edison, Pacific G&E.



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Straight-Fixed Variable: Basic Description

- Fixed costs are approved in a rate case and divided by number of customers to obtain a cost recovery per customer.
- These costs are charged to customers on their bills as a fixed charge.
- In some cases, all variable costs are assigned to the commodity charge.



Straight-Fixed Variable: Consumer Advocate Concerns

- Creates large, flat costs on customer bills.
- Larger users should have a larger allocation of fixed costs.
- Difference of opinion as to which costs are fixed and which are variable.
- Possible negative consequences to low income and low users.
- No incentive for the customer to conserve energy.
- Extends the length of time between rate cases.



Straight-Fixed Variable: Where implemented

- **Ohio** - Duke Energy Ohio (Gas), Dominion East Ohio Gas, Columbia Gas
- **Georgia** - Atlanta Gas
- **Missouri** - Atmos, Laclede Gas, Missouri Gas Energy
- **North Dakota** - Xcel Energy
- **Oklahoma** - Oklahoma Natural Gas
- **Illinois** - Ameren Gas Utilities, Nicor Gas



Formula Rates: Description

- As utilities' costs vary from period to period, the new costs can be plugged into the formula to calculate the customers' rates.
- The formula, initially approved by the state commission, could include a range of variables, such as the cost of debt or a utility's capital expenditures.

(continued...)



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Formula Rates: Description

- Typically there is an annual “true-up” in the tracking mechanism to ensure the utility is not over- or under-earning.
- Ideally, the formula would prevent utilities from earning too much or too little revenue. If a utility were earning too much revenue, then rates would be adjusted downward.



Formula Rates: Pros & Cons

Pros

- Rates will change slowly vs. sudden rate “shock” as part of a rate case.
- It does break the incentive for utility to sell more electricity.

Cons

- No incentive for the utility to keep its operating costs down.
- No incentive for utility to pursue a rate case.



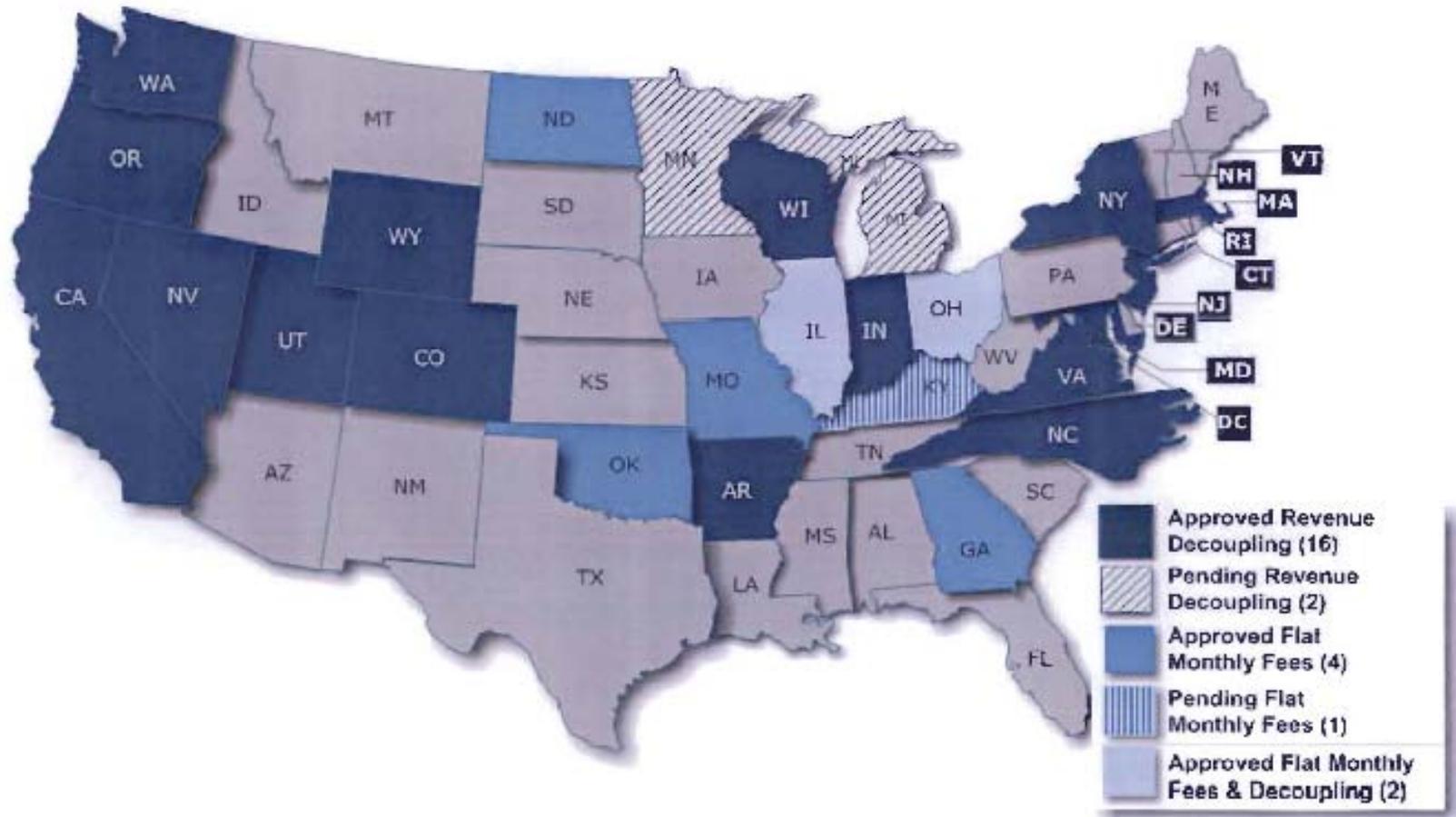
Formula Rates: Where Implemented

Implemented in:

- Louisiana (SWEPCO)
- Mississippi (Entergy)
- California (Pacific Gas and Electric)



STATES WITH DECOUPLING AND FLAT MONTHLY FEES AS OF JULY 2009



Indiana's Experience with Gas and Electric Energy Efficiency and Demand Side Management Cases



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Indiana OUCC's Experience with Gas Decoupling: Revenue Per Customer

Vectren (IURC Cause #42943/43046)

Citizens Gas (IURC Cause #42767)

- Decoupling and EE programs (residential and small commercial).
- Receive cost recovery for EE program costs.
- Differences between actual and approved RPC is collected monthly, adjusted annually.



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Indiana OUCC's Experience with Electric Decoupling: Vectren Energy Delivery of Indiana (IURC Cause No. 43427)

Proposal:

- Full decoupling for certain Residential & Commercial Classes.
- Fixed Cost Revenue Requirement (FCRR) Tracker.

OUCC Concerns:

- Scale and scope of electric decoupling are significantly greater than gas.
- Proposal assures company will recover fixed costs approved in most recent rate case.
 - ROE determined at last rate case does not reflect reduced level of risk.



Indiana OUCC's Experience with Electric Decoupling: Vectren Energy Delivery of Indiana (IURC Cause No. 43427)

OUCC Recommended:

- Decoupling be reviewed in conjunction with a rate case where all issues are fully evaluated. Issues include:
 - Risk
 - Rate of return
 - Fixed vs. variable costs
- Full & Timely Recovery of DSM Program Costs
- Allowance of Lost Revenues
- Shareholder Incentives for DSM Programs



Indiana OUCC's Experience with DSM Incentives for Gas Utilities

To date, no Indiana gas utilities have requested incentives for EE/DSM programs.



Indiana OUCC's Experience with DSM Incentives for Electric Utilities

Electric utilities requesting incentives include:

- Duke Energy Indiana Save-A-Watt Proposal
(IURC Cause No. 43374)
- Vectren Energy Delivery
(IURC Cause No. 43427)
- Northern Indiana Public Service Company - "NIPSCO"
(IURC Cause No. 43618)
- Indianapolis Power & Light - "IP&L"
(IURC Cause No. 43623)



Indiana OUCC's Experience with DSM Incentives: Duke Save-A-Watt Settlement Provisions

Duke: Save-A-Watt (SAW)

- Requested authority to recover return of and on 90% of the costs avoided by EE investment.
- Proposed to exclude SAW revenue from Indiana earnings and expense tests in order for SAW model to provide a true incentive.
- Proposed that customers pay only for energy and capacity savings achieved.



Indiana OUCC's Experience with DSM Incentives: Duke Save-A-Watt Settlement Provisions

Key Policy Components:

- Market-Based Component to Avoided Cost Calculation.
- Limited period of cost recovery (including lost revenues).
- Opt-out provision for large customers.
- Creation of Advisory Committee to collaborate on program development and further EE for Duke customers.



Indiana OUCC's Experience with DSM Incentives: Duke Save-A-Watt Settlement Provisions

Key Policy Components:

- Commitment to Address DR in Midwest ISO.
- Reduced Environmental Impacts.
- Commitment to support Indiana-based business.
- Commitment to fund EE post-secondary education.
- One-time credit of \$6.2 million to reflect costs of Duke's Power Manager Program.



Indiana OUCC's Experience with DSM Incentives: Duke Save-A-Watt Settlement Provisions

Key Policy Components:

- Duke to address throughput incentive issues in a separate proceeding.
 - Financial incentive to increase between rate cases retail sales under the existing regulatory framework.
 - Financial disincentive under the existing regulatory framework to invest in EE or otherwise decrease the retail sales of electricity between rate cases.



Indiana OUCC's Experience with DSM Incentives: Overview of Pending Utility Filings

Vectren, NIPSCO & IPL

- Incentives based on kWh and kW savings relative to target savings.
- Incentives = Percentage of program costs
- Tiered performance levels with corresponding incentives.



Indiana OUCC's Experience with DSM Incentives

OUCC Position:

- A Market Potential Study (MPS) must be conducted for the utility's service territory.
- Programs must pass Total Resource Cost (TRC) Test.
- Programs should save kW or kWh or both, and should be easily measured.
- Generic EE Education and Low Income Weatherization are not eligible for incentives.



Indiana OUCC's Experience with DSM Incentives

OUCC Position:

- Incentive should strike fair balance between payments to utility and impact on consumers.
- Incentives should be symmetrical.



Indiana OUCC's Experience with DSM Incentives

Sample OUCC Proposed Incentive Schedule

Performance Level	Incentive Level
0%-<50%	-4%
≥50%-<65%	0
≥65%-<75%	2%
≥75%-<80%	4%
≥90%-<100%	8%
≥100%	12%



Greater Flexibility for Utilities... Without Sacrificing Consumer Protection

Oversight Boards (OSB)

- Utility, OUCC, and other interested parties.
- Monitors program progress and effectiveness.
- Makes decisions regarding program creation, modification, funding and discontinuation.



Greater Flexibility for Utilities... Without Sacrificing Consumer Protection

Measurement & Verification (M&V)

- Independent 3rd party selected by OSB to perform M&V
 - Process Evaluations to review program design and delivery.
 - Impact Evaluations to examine technical aspects of programs.
 - Comparing actual & reported results



RENEWED EMPHASIS ON BREAKING THE THROUGHPUT INCENTIVE

The OUCC expects future success with DSM and EE programs to prompt more Indiana electric utilities to pursue rate decoupling and other ways to break the throughput incentive.



Indiana OUCC Mission Statement in Action:

Representing all Indiana consumers to ensure quality, reliable utility services at the most reasonable prices possible through dedicated advocacy, consumer education and creative problem solving.

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