<u>Indiana Investor-Owned Electric Utilities' 09/27/2024 Responses to Survey Questions</u>

These responses are submitted on behalf of the following companies: Indianapolis Power & Light Company d/b/a AES Indiana, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South, Duke Energy Indiana, LLC, Indiana Michigan Power Company, and Northern Indiana Public Service Company LLC. However, each company also reserves the right to file separate responses on behalf of itself.

1. Does your organization consider the adoption of multi-year rate plans advisable in Indiana? Please explain the reasons for your position. If your organization requires more information before forming a position, what additional information is needed?

<u>Response</u>: Our organizations believe an option for a utility to request approval of a multi-year rate plan ("MYRP") in Indiana should be available. We recognize that individual utilities and their business plans are uniquely positioned. For some utilities, having the option to use a MYRP may produce benefits, such as reduced regulatory lag, more revenue predictability, administrative efficiency due to the reduced frequency of rate cases, and gradualism for customers. Indiana provides the option to use future test years which produces similar benefits — particularly as the Indiana Utility Regulatory Commission implements future test periods through phased rate adjustments over multiple years. In addition, Indiana's regulatory paradigm is relatively constructive, allowing for timely cost recovery mechanisms. Leveraging these existing features, which are already enabled by statute, provides a framework to develop a voluntary MYRP proposal.

As with any regulatory or legislative proposal, the "devil is in the details." There are various models of MYRP statutes in other states, and our organizations would require more information about the specifics of an Indiana MYRP before taking a position on any specific proposal. For example, our organizations would generally value MYRPs that offer flexibility for each specific utility — which may have unique needs and circumstances — and which are voluntary. Our organizations would also value a model that provides optionality, is not overly complex, and is easy to understand.

2. Does your organization consider the adoption of performance incentive mechanisms advisable in Indiana? Please explain the reasons for your position. If your organization needs more information before forming a position, what additional information is needed?

<u>Response</u>: Our organizations believe existing regulatory mechanisms are sufficient to provide utilities an incentive for reliable and efficient operations and it may not be advisable to institute performance incentive mechanisms. If not designed properly, performance incentive mechanisms can produce perverse incentives. For example, if affordability were to be emphasized above other performance metrics, reliability and customer service would likely suffer. Conversely, if reliability were emphasized over other metrics, affordability and other desirable metrics would likely suffer. Prioritizing specific metrics through incentives/penalties could have the unintended effect of conflicting with Indiana's "Five Pillars" of reliability, resilience, stability, affordability, and environmental sustainability, which are equally considered.

The Indiana Utility Regulatory Commission has implemented performance metrics collaboratively in recent years for major electric utilities, and as a result of those collaboratives, the undersigned utilities regularly report on a variety of performance metrics stemming from regulatory proceedings. For example, major electric utilities regularly produce industry-recognized reliability metrics, such as SAIDI and SAIFI. The consultant and all stakeholders should properly identify existing performance metrics that are provided to the Commission. This reporting, coupled with the Indiana Utility Regulatory Commission's existing investigatory powers and ability to review and reward or penalize utilities in the context of rate cases, provides meaningful insight into and the ability to monitor utilities' performance on an ongoing basis.

However, our organizations also recognize that properly structured performance incentive mechanisms may potentially produce benefits, such as incentivizing improved utility performance and an increased focus on state policy goals. For all the foregoing reasons, performance incentive mechanisms, if permitted, should be voluntary.

In addition, any performance incentive measures should be evaluated and established on a utility-by-utility basis to ensure the performance incentive framework considers each utility's unique facts and circumstances that influence a baseline (from a metric perspective) and establishes metrics that are reasonably achievable. For example, distribution reliability metrics should be very different for a utility with a high percentage of urban customers versus one with a high percentage of rural customers.

Further, not every metric should have either, or both, an incentive and penalty, but the collective metrics should provide an equal opportunity for incentives and disincentives. As an example, customer driven metrics should only use incentives as the utility is not in control of customer behavior or action. Conversely, disincentives or penalties should only apply to metrics a utility has control over.

3. Are there any specific aspects or details about multi-year rate plans or performance incentive mechanisms, beyond what is stated above, that your organization needs to provide comprehensive feedback on these mechanisms?

Response: As mentioned above, the specific details of any MYRP or performance incentive mechanism proposals are necessary to fully analyze and comment on the efficacy of such. Without further specific information, the industry is not able to formulate a unified opinion as to whether it is advisable to adopt MYRPs or PIMs in Indiana.

For example, with respect to MYRPs, it would be appropriate to consider *at least* the following attributes:

- Strawman for the process/procedures/schedule
- Ability to address outliers
- What form of MYRP should be adopted — stair step, indexed, or hybrid? If indexed, what form of attrition relief mechanism should be used?
- What should the scope of the MYRP be, and what costs should be included?

- Should the MYRP continue to require plant to be used and useful and in service before being reflected in rates?
- Should the MYRP allow for periodic changes in the authorized return on equity?
- What accounting deferrals can be used in conjunction with a MYRP?
- Should rates be reconciled to actual costs in some manner?
- Should annual rate or revenue increases under the MYRP be capped, and at what level?
- How can the MYRP be designed so that resulting rates are just and reasonable and non-confiscatory?
- What reporting and regulatory oversight provisions should be adopted?
- Should a rate "stay out" (except for emergencies) be a requirement of the MYRP?
- Should a "circuit breaker" or mid-course correction be allowed?

With respect to performance incentive mechanism ratemaking, it would be appropriate to consider at least the following features:

- What areas should be incentivized?
- What areas should be monitored but not subject to incentives and penalties?
- How can the performance incentive mechanism be designed such that incentives and penalties are symmetrical?
- Should there be caps on incentives and penalties?
- What evaluation and verification measures should be established?
- How should baselines for measures that are to be evaluated be established?
- What reporting is necessary?
- Does the established performance metric reporting require revisions?