

Indiana Michigan Power Company Response to IURC PBR Study

- 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?**

I&M does not consider the adoption of a multi-year rate plan as necessary in Indiana given the current regulatory options available in Indiana, including future test years and other existing regulatory mechanisms. However, if structured properly, I&M can see potential benefits of having a voluntary multi-year rate plan option that recognizes each utility has different business models, objectives, and regulatory risks.

Timing of implementation of such a proposal should also be closely evaluated. I&M and other Indiana utilities are currently facing significant changes in their business driven by economic development projects, expansive new generation acquisition, changes in the generation portfolio, and the need for increased investment in transmission and distribution due to aging infrastructure and large new customers locating in Indiana. To address the rapidly changing environment regulated utilities are currently facing will require a flexible regulatory environment.

More information is needed in evaluating and defining the many considerations involving the structure and scope of multi-year rate plans. Identifying what a multi-year rate plan encompasses will aid in determining whether such plan supports a utility's customer and business needs and provides benefits to the utility and its customers. To develop a more informed position, I&M would need to have additional information on the proposed framework, including the proposed number of years, the forecast basis, the proposed inflationary adjustment mechanisms, the interrelationship between the multi-year rate plan and any performance incentives, and how the multi-year rate plan would comport with other existing regulatory mechanisms in Indiana. Additional details in terms of implementation would also be helpful as those became available.

- 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?**

Similar to the answer above, I&M currently does not see a need to adopt performance incentive mechanisms given the current regulatory construct in Indiana and the opportunity the Commission and stakeholders have to assess utility performance as a part of ongoing regulatory proceedings. To the extent, performance incentive mechanisms were to be considered, I&M would need to understand the scope and design associated with any PIM/PBR before forming a position. Like a multi-year rate plan, it is critical PIMs/PBR is properly structured and defined. It is also I&M's observation that PBR and the inclusion of PIMs is best applied when there is a misalignment of a state's policy goals and the utility's economic interests.

In general, PIMs are designed to improve utility performance in targeted areas and are based on quantifiable and measurable indicators and address specific priority areas. However, there is no "one size fits all" approach for PIMs, as each utility is unique in structure and performance. Therefore, any PIMs should be tailored to each individual utility accounting for the utilities unique facts and circumstances to ensure the best use of PIM/PBR framework. This includes having appropriate and defined criteria and incentives (and disincentives) with realistic, controllable, and measurable targets, in addition to a structure that is symmetrical and straightforward to administer. Careful PIM design

is critical in creating symmetry that results in no undue penalties or rewards, as there is risk that rewards and penalties may be disproportionate to customer benefit or utility costs. Such symmetry can be accomplished from an overall program design and not every metric needs to have an incentive and a penalty. In addition, thorough stakeholder engagement, as well as advanced discussions and input from all parties, is essential for common understanding of state policy goals and utility incentives.

To develop a more informed position, I&M would need to have additional information on the proposed framework, including the process to determine which metrics would be used, an understanding of whether metrics would be standard across all utilities or set by utility, the balance between performance incentives and any penalties, the mechanism to address unusual situations that impact a utilities ability to achieve its metric, the ability to change metric targets based on changes in utility business conditions, and how the performance incentives would comport with other existing regulatory mechanisms in Indiana. Additional details in terms of implementation would also be helpful as those became available.

It is important to recognize that I&M, as well as many other Indiana electric investor-owned utilities, already report to, and collaborate with, the Commission on the utility's performance in several targeted areas (i.e., safety, reliability, generation, customer service, expense, affordability, and employees) over a ten-year period within the utility's annual performance metrics report. This report allows the Commission and other stakeholders to review, scrutinize, and hold the utility accountable in its performance of these targeted areas. As such, PIMs are unnecessary. However, if the Commission were to decide that PIMs/PBR should be implemented, utility participation should be optional/voluntary.

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?

Please see response to (1) and (2) above.