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The State Agency Representing
Hoosier Utility Ratepayers

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The Indiana Office of Utility Consumer Counselor (OUCC) appreciates the opportunity to respond to the initial survey for the Indiana Utility Regulatory Commission's (IURC's) study on performance-based ratemaking, and offers the following in response to all three questions.

Alternative regulatory mechanisms such as PBR and multi-year rate plans (MYRP) are not necessary in Indiana. The state's existing TDSIC and DSIC mechanisms, and additional trackers, provide Indiana utilities with incentives not found in all states. The TDSIC statute has been in place for more than a decade with the DSIC receiving initial approval more than 20 years ago. These existing mechanisms are known commodities that provide levels of certainty for all stakeholders in Indiana's utility regulatory process. This certainty would not exist under a paradigm experimenting with PBR or other approaches.

Alternative regulation presumes that if utilities are given pricing and investment flexibility, they will lead to efficiencies that can be shared with ratepayers in the form of (a) lower retail rates and/or (b) earnings or profit sharing.

The reality, however, is that PBR and similar mechanisms shift all utility performance risk onto ratepayers, often resulting in large rate increases with very few decreases or earning sharing opportunities.

Experiences in other states demonstrate that alternative regulation mechanisms have not resulted in measurable or sustainable improvements in operating costs or efficiencies. If anything, most states that have pursued PBR, multi-year plans, and similar mechanisms have experienced overall deterioration in capital investment discipline and huge gains in rate base. Evidence to date shows that various different forms of alternative regulation have resulted in: (a) increased rates; (b) increased inefficiencies, particularly capital investment inefficiencies; and (c) little to no improvement in reliability or quality of service.

Under these paradigms, customer benefits only arise if utilities create operating and capital efficiencies. If these efficiencies do not arise, then ratepayers receive no benefits from alternative regulation while bearing the risk of the utility's performance, whether efficient or inefficient, and whether positive or negative.

The OUCC looks forward to providing more information as the study proceeds, but would reiterate that Indiana's current paradigm – which has been in place for more than a decade – sufficiently incents utilities to make necessary investments while including customer protections.