Retail Rates

• Indiana has a relative price advantage on electric retail rates.
• Retail pricing is the average price for all rate classes, including residential, commercial, and industrial customers.
• Indiana’s ranking for retail rates from 1990 to 2010 ranged between 4th lowest and 15th lowest nationally.
2011 State Average Electricity Prices
(cents/kWh)
Rising Fuel Costs

• Indiana’s use of coal has contributed to the state’s relatively low-cost electricity. However, increased coal prices have reduced this price advantage.

• Factors driving the cost increases in coal include:
  – Escalating coal mine operating costs due to declining mining activity
  – Increasingly difficult permitting requirements
  – New or proposed U.S. EPA regulations
  – International competition for domestic supply
Energy Demand & Growth

• The State Utility Forecasting Group (SUFG) projects that electricity usage will grow by 1.30% annually over the next 20 years and that peak demand will grow by 1.28% annually over the next 20 years.

• According to the SUFG’s 2011 forecast, Indiana needs approximately 2,600 MW of additional resources by 2020 to meet expected load growth and maintain a 15.8% reserve margin.
Actual Generation by Fuel Type

- **Coal**: 112,238 GWH, 81.9%
- **Nuclear**: 11,922 GWH, 8.7%
- **Natural Gas**: 8,619 GWH, 6.3%
- **Wind, Other Renew.**: 3,626 GWH, 2.7%
- **Hydro**: 454 GWH, 0.3%
- **Oil**: 155 GWH, 0.1%
Aging Generation

• The last coal-fired generation unit constructed in Indiana was completed in 1989.
• In recent years, Indiana’s utilities have generally purchased electricity from other sources, rather than building power plants, to maintain required power reserves.
• Due to proposed or new environmental regulations, utilities are weighing the cost of retrofitting existing facilities or taking generation offline.
The SUFG projects new U.S. EPA regulations will result in the closure of 19 generating units at six stations, primarily in southern Indiana.

It also projects that new federal clean air regulations will raise Indiana electricity rates about 14 percent by 2020.

– Due to the state’s heavy reliance on coal as a fuel source for electricity generation, Indiana is expected to experience larger price increases from the implementation of new U.S. EPA regulations than those projected on a regional or national level.
Impact of U.S. EPA Regulations

• The future of Indiana’s coal fleet is very uncertain.
• The impact of new U.S. EPA regulations could be much greater than initially thought.
• A number of units now seem to be “on the bubble” between retrofitting or retirement.
• Potential second tier retirements could be as high as an additional 1,000 MW.
  – The number one concern driving potential pre-mature retirements is the likely short compliance timeline utilities may face.
Our Response

In response to the proposed three-year compliance timeline in the MACT rule, the IURC raised concerns in an August 2011 letter to U.S. EPA Administrator Lisa Jackson that in part said:

“It would be extremely difficult, if not impossible, for any single utility to complete these requirements within even a four year timeline. Additionally, the compressed timeline will force utilities to compete against each other for scarce resources further driving up costs that will ultimately be borne by consumers. Our Indiana utilities project that the compressed timeline proposed will inflate costs to twice that of a more reasonable 6-8 year implementation.”
Planning for the Future

• Long-term planning is critically important, because it takes approximately three years to construct new gas-fired peaking generation, five to ten years to construct new conventional coal-fired generation, and even longer to bring new nuclear generation online.

• Coal units are candidates for retirement past the age of 40, with most retiring by age 60.

• In Indiana, more than 30% of the total coal-fired generation is more than 40 years old, and about 75% of the total coal-fired generation is more than 30 years old.
## Age Profile of Coal-Fired Units

<table>
<thead>
<tr>
<th>Years Old</th>
<th>Number of Coal-Based Units</th>
<th>MW of Generation (Summer Rating)</th>
<th>Percent of Total Coal-Based Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 50</td>
<td>27</td>
<td>1,995.7</td>
<td>13.0%</td>
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<tr>
<td>40-50</td>
<td>14</td>
<td>3,144.9</td>
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<tr>
<td>30-40</td>
<td>14</td>
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<tr>
<td>20-30</td>
<td>8</td>
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<tr>
<td>10-20</td>
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<tr>
<td>0-10</td>
<td>1</td>
<td>96.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>15,365.4</td>
<td>100%</td>
</tr>
</tbody>
</table>
Major Regulatory Developments

• Integrated Resource Planning
• Senate Enrolled Act 251
  – Federally mandated costs
Integrated Resource Planning

• In 2010, the Commission determined the IRP rule should be updated through a rulemaking proceeding.
  – The rule addresses public participation in the development of utility IRPs, how to treat uncertainty, objectives of integrated resource planning, and different review processes for the IRPs.

• Timeline
  – September 2011 – Technical conferences were held with interested stakeholders
  – December 2011 – Draft proposed rule circulated
  – February 2012 – Workshop held on the draft proposed rule
  – Fall 2012 – Anticipated start date of the formal rule
Federally Mandated Costs

- The statute defines the term “compliance project” as a project undertaken by an energy utility (as defined in I.C. 8-1-2.5-2) that is related to “direct or indirect” compliance with federally mandated requirements.

- An environmental tracker process is already in place to handle costs associated with Clean Air Act compliance.
  - Most requests for recovery have dealt with air issues.
Types of Compliance Projects

• Federally mandated requirements may be connected to a number of areas that are listed in the statute, including:
  – The federal Clean Air Act
  – The federal Water Pollution Control Act
  – The federal Resource Conservation and Recovery Act
  – The federal Toxic Substances Control Act
  – Standards related to system integrity and reliability for transmission and distribution operations
Approval Process

- The approval process is modeled after the Certificate of Public Convenience and Necessity (CPCN) process with specific steps detailed within the statute.
  - It is a standard CPCN proceeding.
  - The review is meant to be robust and detailed.
  - The utility will have a burden to demonstrate both need and that the requested relief will enable compliance with the federally mandated requirement.
  - The goal of this process is to yield the least cost of compliance option over time, all things considered, not necessarily the lowest cost project.
Cost Recovery

• If approved by the Commission, 80% of the projected federally mandated costs associated with the proposed compliance project will be recovered by the energy utility through a tracker.

• The other 20% of the project costs, however, are not recoverable through the tracker and must be deferred until the energy utility’s next general rate case.
Cost Overruns

• Actual costs above the approved projected costs may not be more than 25%.
  – Actual costs above the 25% cap require specific justification and Commission approval before recovery is permitted.
  – These actual cost overruns, should they occur, must be approved as part of the utility’s next general rate case as opposed to a tracker.
Questions?