

MISO Implementation in Indiana

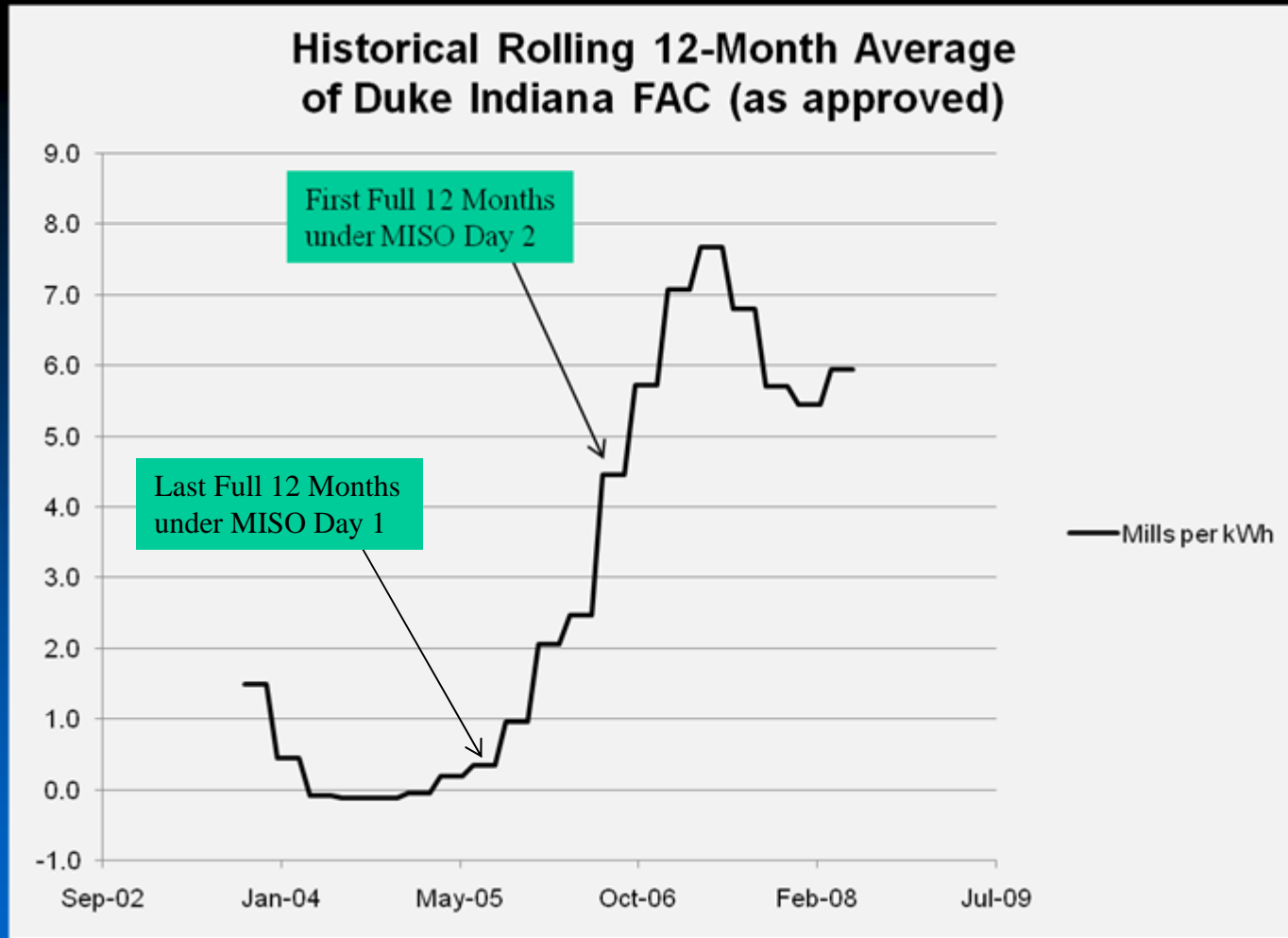
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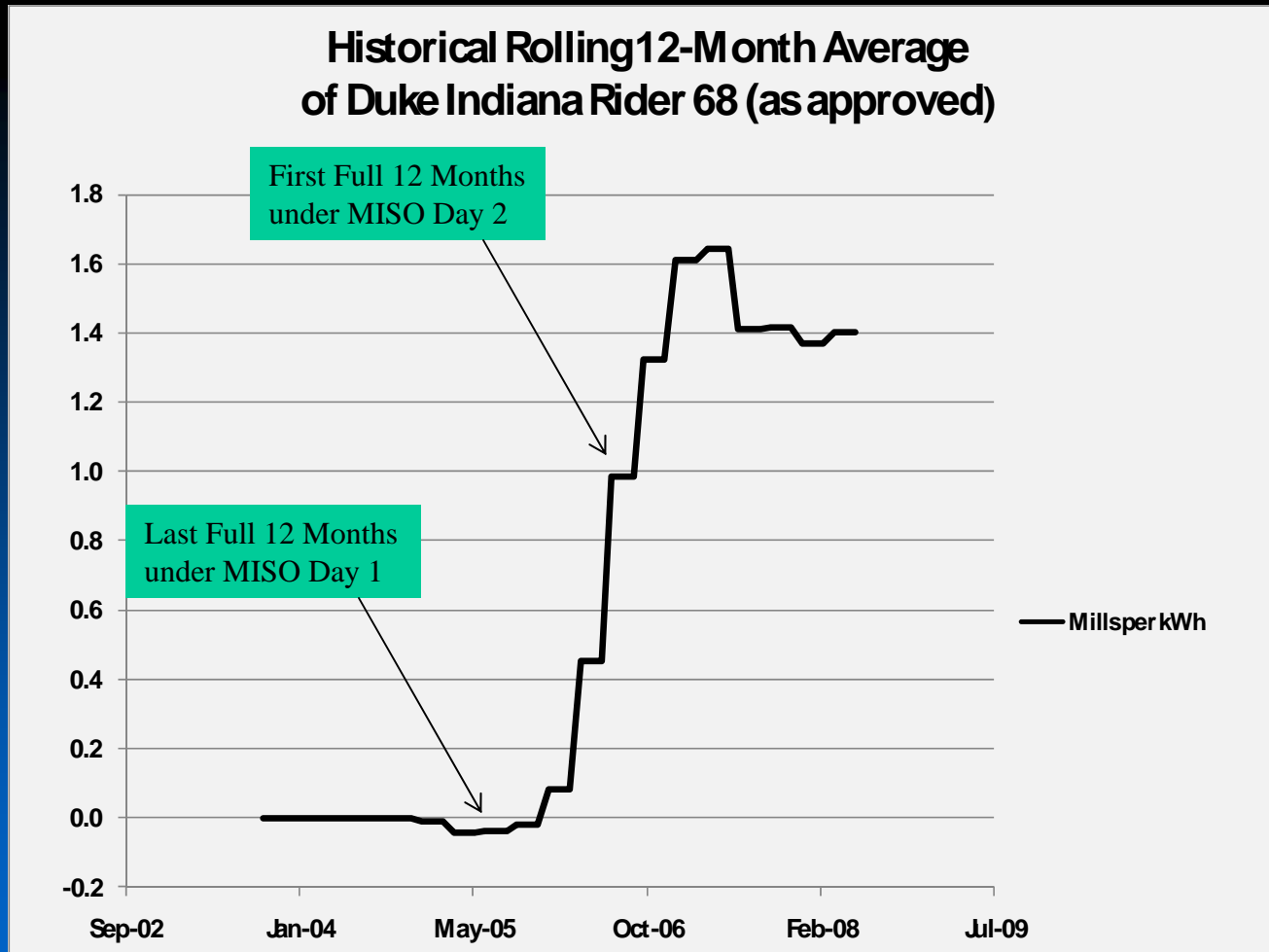
Impact of MISO Markets on Indiana Customers

- Fuel clause adjustments have risen and become more volatile
 - MISO energy market purchases are a big contributor, but other MISO settlement charges are also a significant contributor
- Other new MISO charges are also very visible
- It is not clear whether Indiana receives a net benefit from the MISO markets
- It is not clear whether all the benefits that do exist flow through to ratepayers

Example: Rising FACs



Example: Other New MISO Charges



Example: Annual Impact of 1st Full Year of MISO Day 2 Cost Increases

- **Approximately 5 mills per kWh**
 - Duke FAC increased approximately 4 mills
 - Duke Rider 68 (MISO) increased approximately 1 mill
- **For Duke Indiana Customers (about 33 Billion kWh)**
 - 5 mills amounts to approximately \$165 million annually
- **Nothing to smile about and getting worse**
 - Example: Almost 7 mills on Indiana Duke as of FAC 75

How Should the IURC Address the MISO Benefits Issue

- Pay significant attention toward minimizing the cost and maximizing the benefit of participation in the MISO by identifying and influencing issues at the MISO
- Investigate whether there is a net benefit to participation in the MISO markets
 - If not , identify why not and attempt to address
- Investigate whether the benefits of the MISO markets are reaching ratepayers
 - If not, identify why not and fix the problem

Recent MISO Issues

- **RSG costs**
 - Interim fix created other problems
- **Demand Response**
 - MISO still does not have business practices in place
 - MISO does not seek input from end-users
- **Ancillary Services Market**
 - MISO initially ignored market power issue
- **Resource Adequacy**
 - Avoided organized capacity markets, but introduced administratively induced scarcity pricing for energy
- **Transmission Planning**
 - Overly focused on integrating wind and moving it east

Underlying Driver of Problems

- MISO does not have a least-cost service mission
- MISO has come to view FERC, the state commissions and the DOE as its customers
- FERC focuses on providing “competition” rather than least-cost service
- FERC too easily defers to MISO and often avoids making tough decisions by sending things back to the stakeholder process

Indiana Opportunities

- **IURC is uniquely situated to:**
 - Examine the MISO market and structure
 - Protect customers and utilities
- **IURC should:**
 - Actively participate at MISO to understand the market and identify the costs and benefits of the MISO market to Indiana
 - Not simply focus on facilitating a passthrough of costs to customers

Actions for Large Customers

- Continue and expand end-use customer participation in MISO stakeholder process
- Outreach to OUCC, Indiana utilities and IURC to work together on MISO concerns affecting all Indiana customers
- Outreach to MISO and possibly to FERC and the Indiana congressional delegation on customer concerns

The Dangers Associated with Automatic Tracking of MISO Costs

- Form of single issue ratemaking
- Introduces utility incentive to shift costs to trackers
- Removes utility incentive to control costs

Trackers: Single Issue Ratemaking

- Example: Nearly all MISO costs are recovered in trackers, but, depending on the Indiana utility, either none or only half of the profits associated with off-system sales to the MISO are addressed in trackers

Trackers: Incentives to Shift Costs

- Whenever a cost must be allocated between a category recovered in a tracker versus one that is not, the utility has a strong incentive to shift the cost to the tracker
- Example: There have been a number of issues in Indiana FAC proceedings regarding the allocation of MISO costs and credits between native load and off-system sales

Trackers: Removal of Utility Incentive to Control Costs

- Between base rate cases there is a strong incentive for utilities to control the costs and maximize the revenues included in base rates
- Trackers remove this incentive for those costs and revenues that are addressed through the trackers

Conclusion

- Going forward, efforts should be directed toward:
 - Avoiding the allocation of MISO costs without the identification and allocation of benefits
 - Maximizing MISO benefits and minimizing MISO costs for Indiana participants
 - Proper allocation of the costs and benefits coming from MISO participation



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