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To: Patrick Hudson  
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Re: Comments on the Electric Distribution Planning Stakeholder Staff Report Draft

Indiana Michigan Power Company (I&M or Company) submits these comments on the MPSC Staff's draft report entitled Electric Distribution Planning Stakeholder Process (Draft Report) and also supports and joins in the comments of the Michigan Electric and Gas Association (MEGA). The issuance of the Draft Report is an important milestone in the electric distribution planning collaborative. I&M appreciates this opportunity to comment on the Staff's proposed review, summary and recommendations regarding the process so far. I&M has participated throughout these proceedings, providing information about its systems and operations in Commission workshops, and plans to continue its participation as distribution planning continues to evolve. I&M appreciates the input provided by all participants in this process.

## I. General Comments on the Process and Draft Report

**Section and Subsection Markings:** As a minor comment, I&M believes it would be helpful if the report included section identifying letters and numbers in the table of contents and body, aiding in review by interested parties.

**Regulatory and Legal Matters:** The Draft Report does an excellent job of summarizing the process and the input of participants in this docket, along with identifying many key issues in distribution planning. In places, the report expresses the need for guidance and seems to characterize the document or future MPSC order as advisory in nature. At the same time, many of Staff's recommendations are characterized as if they are to become regulatory requirements. For example, Staff recommends that many of the provisions in the Benefit-Cost Analysis (BCA) section be "required", certain Hosting Capacity Analysis (HCA) matters be "adopted," and specific questions on Non-Wires Alternatives (NWA) "should be" asked and answered by utilities. At some point there needs to be more analysis of the means by which recommendations in the Draft Report become regulatory requirements and whether statutory revisions, or formal administrative rulemaking and/or development of guidelines under the Administrative Procedures Act are needed. The Staff is experienced enough to express its views on when and how its recommendations should become regulatory requirements. This issue would be negated or postponed if the Draft Report were changed to remove "requirements" language and just provide Staff's viewpoint on the benefits and possible detriments of each measure. Alternatively, the Commission itself would face the



same questions and, as MEGA represents, interested parties could weigh in on legal matters in future comments or other filings.

**A Public Utility's Role:** As a regulated public utility, I&M has an obligation to serve customers with safe and reliable power and the responsibility to manage the business it owns and operates to ensure investments in the electric distribution system are reasonable and necessary for the provision of service to its customers. I&M recognizes the Commission's role in overseeing Company decisions and for distribution planning it agrees with and shares the Commission's objectives of safety, reliability and resiliency, cost-effectiveness and affordability, and accessibility. Regulators and utilities alike have a vision to continue to modernize the distribution systems and service provided to Michigan customers. I&M is highly experienced and knowledgeable with its distribution system and is best situated and qualified to operate and maintain an increasingly complex electrical system for safety, reliability and resiliency, to securely manage two-way communications and distribute key information about system needs, and to administer customer data and key market platforms. I&M has clear "line of sight" in day-to-day, system-wide utility operations and planning systems and is in the best position to leverage existing utility infrastructure to control costs, manage any related security and consumer privacy issues, and ensure both continued focus on the essential reliability of core distribution system operation and the introduction of new technologies and other functionality that are appropriately delivered by the local utility company.

**Ratepayer Resources or Funds:** A misunderstanding underlies the suggested need for "vast ratepayer resources" to assure reliability on p 6 of the Draft Report, or a condition for investments "using ratepayer funds" on p 7. I&M funds its business using a combination of revenue received from payment for the services provided to customers and the equity and debt capital provided by investors and creditors. This Commission has recognized that customers are paying for service and are not paying for depreciation or other operating expenses, and they are not entitled to any ownership interest, legal or equitable, in the property used to provide service. *In re Indiana Michigan Power Co.*, September 25, 2012 Order, Case No. U-17032, at 32; *see also Board of Public Utility Com'rs v New York Tel. Co.*, 271 US 23, 32 (1926). While we are mindful of our need to responsibly utilize the revenues received from customers, it also needs to be recognized that customers pay for an overall energy service at regulated rates and do not provide specific project financing. A correction in the concept description should be made.

**Utility System Variances:** Generally, the Draft Report proposes uniform new requirements for the subject utilities. Throughout this process, I&M has pointed out that it has distinct service area characteristics that should be considered in evaluating distribution planning. The major factors are the low level of distributed energy resources (DER), the relatively smaller and more rural service area compared to the largest utilities serving the state, the limited number of Michigan customers to bear new regulatory costs, the absence of installed advanced metering infrastructure (AMI) and the multistate areas served.



**Need for Flexibility and Adaptability:** So far, the distribution planning process has been useful in providing a more frequent, transparent and detailed view into I&M's distribution investments and operation and maintenance (O&M) activities and the input received from Staff and stakeholders has been valuable. Also, a distribution plan is a snapshot in time and a very useful tool in managing and making decisions associated with the distribution system, but distribution planning is also a continual process that requires flexibility and discretion to respond to changing facts and circumstances. The distribution planning process is evolving and I&M's comments in this docket seek to balance the evolution of the distribution planning process with the need to retain flexibility, be responsive to changes and maintain the responsibility and discretion to manage I&M's utility business in the best interests of its customers. It is too early in the process to consider measures that may increase administrative and cost burdens and limit management's flexibility and the ability to quickly adapt to changing circumstances.

**A Potential Cost Recovery Issue:** The Draft Report should consider the need for an interim cost recovery mechanism in the nature of an adjustment clause should the Commission adopt new regulatory requirements from the recommendations that result in significant compliance expenses. Such a mechanism could include costs related to electric distribution grid transformation projects, which could include benefit costs analysis, host capacity analysis, AMI, intelligent grid devices, automated control systems for electric distribution circuits and substations, communications networks for service meters, certain distribution system hardening projects, physical security measures at key distribution substations, cyber security measures, certain energy storage systems and microgrids, electrical facilities and infrastructure for electric vehicle charging systems, LED street light conversions, and new customer information platforms. The standard would be a finding that subject electric distribution grid transformation projects are in the public interest.

**The Commission Order and Next Steps:** With the issues discussed above in mind, I&M proposes that the Staff decline at this time to propose specific new regulatory requirements while instead supporting continuation of the stakeholder dialogue and allowing the utilities flexibility to determine how and when to incorporate knowledge gained through the process in their distribution plans. Adopting specific new requirements now is simply "too much, too soon" given that the utilities are in the opening cycle of distribution plans, utilities and the Staff are receiving valuable input from interested parties that could be incorporated voluntarily as appropriate, and there are administrative law uncertainties. Prescriptive new requirements might create numerous issues for narrowly focused litigation in the individual company cases instead of furthering the cooperative process, ongoing education and incorporating ideas in the plans. More useful experience will be gained by the Commission through letting the process play out over time and working on the distribution plans of each utility as they evolve



## **II. Comments on Staff Recommendations**

### **Benefit Cost Analysis (BCA)**

The Draft Report series of recommendations on BCA is highly prescriptive and reads like a set of administrative rules or statutory requirements. I&M believes the BCA discussion should be reworked to describe positions taken, incorporate advisory evaluation and support individual utility flexibility in deciding whether, when and how to conduct BCA. As plans evolve through several cycles, more information will be gleaned to address the need for fixed requirements akin to administrative rules, assuming utilities have not already conducted BCA in a reasonable manner.

Specifically, I&M objects to the overly broad and burdensome “requirements” to apply BCA sensitivities for **all** distribution investments and presumably all platform components. In consideration of I&M’s duty to serve and the four primary objectives of distribution planning, I&M notes that many distribution investments are non-discretionary and necessary to provide safe and reliable power to customers. For the same reasons, I&M disagrees that a “grid modernization” scenario is necessary for all distribution investments. Performing a plethora of BCAs, as described in the Staff Report, will require significant internal and external resources and increase I&M’s cost of service. I&M has already established in its Distribution Plan filed in Case No. U-20147, the PVR (Project Value Ranking) tool it uses to help with prioritization and costing of distribution projects, including grid modernization. This is a robust method based upon our experience and expertise that effectively assesses project needs, prioritizes projects, and evaluates costs and benefits. In assessing the need for a regulatory BCA requirement, more consideration should be given to I&M’s relatively small customer base and the commitment of the labor and time required to perform distribution planning.

In terms of BCA inputs, I&M objects to any monetization of the “safety” value of a project. More specifically, I&M objects to any attempt to monetize the value of a human life. I&M prioritizes the safety of the public and its employees, and such priority cannot be reduced to a monetary BCA input. I&M supports Staff’s recognition that “if this [the monetization of the value of human life] is too difficult, efforts should still be made to quantify the non-monetized benefits through a point system to assign value to non-monetized benefits, a weighting system to assign priorities to non-monetized benefits, or multi-attribute decision-making techniques.”

Staff’s proposal to require reporting of BCAs for distribution planning related utility investments in rate cases requires more explanation and discussion. It is not clear whether Staff is proposing a new and additional BCA or the BCA from the most recent distribution plan filing. The timing of rate cases will likely not coincide with distribution plan filings and multiple BCAs could cause confusion and add a lot of complexity and workload into the regulatory process. Just as the BCA itself will be time consuming and costly, requiring a “reconciliation”



of what “actually occurred” versus “what was expected” would add even more complication, resource requirements and costs to support distribution operations and in the regulatory process. The test should be whether the investment was reasonable and necessary based on the best information that existed at the time the decision was made. Generally, regarding these matters, I&M objects to the Draft Report resulting in additional base rate case filing requirements being imposed upon utilities outside the usual process for such requirements.

Other reasons not to adopt strict regulatory requirements for BCAs at this time are evident. More discussion, analysis and even experience with the plans and their implementation are needed. An overreliance on BCAs could diminish other valid considerations in the areas of customer needs, safety, technology and the four primary objectives of distribution planning. Even the plan itself should not be the sole determination of needed investments, given the primary objectives and operational realities. A distribution plan should serve as a tool that is useful to inform the judgment of the managers of the business but should not take the place of management discretion when utilities, like I&M, are responsible for assuring customers have access to safe, reliable and adequate service now and in the future. A BCA requirement to justify the reasonableness and necessity of distribution investments also gives the impression that there is a specific solution that is the “right” solution, when in fact there are likely multiple reasonable options to solving a distribution need and a solution for one utility may be very different than another utility for good reason. The goal of distribution planning and a BCA exercise should be to evaluate options for discretionary work and inform the decision- making process, not determine it.

The recommendations around BCA contemplate Staff and stakeholder review and likely disputes and proposed changes that could be contentious and significant in regulatory proceedings with a possible formal Commission decision to follow. Currently there is not a clear procedural schedule that depicts how this would occur, but litigation over highly detailed BCA requirements would likely delay and create ambiguity for each utility regarding the distribution plan. Changes that could result from this process could be costly and time consuming for the utility to respond to operationally. Distribution resources are limited, equipment acquisition takes time and it takes time to plan discretionary work to limit the negative impacts to customers (for example a required outage). All these factors could result in a significant and impractical timeline between creating a distribution plan and meeting the objectives of the regulatory process.

### **Hosting Capacity Analysis (HCA)**

Although the Draft Report at p 19 recited I&M’s opposition to a mandated HCA for its entire Michigan system, the report concludes that specific measures should be adopted for HCA pilots requested by the Commission. The Draft Report fails to recognize that I&M is a much smaller utility than the other utilities required, to date, to file distribution plans in terms of customers and the number of urban centers in the service territory. I&M’s service area covers





portions of both Michigan and Indiana. It would be very burdensome and costly for I&M to perform HCA for its entire Michigan grid, which would not be the best use of funds to address distribution system needs at this time. For example, I&M's Michigan DER penetration is approximately 0.1% of its 129,460 in-state customers. Although technically possible, performing grid-wide HCA would involve countless individual analyses considering the impact of distributed energy resources at numerous locations. The low number of I&M customer's expressing interest in distributed generation as this time does not warrant the associated investments in HCA. I&M would be forced to hire additional full-time personnel to conduct these analyses, thereby increasing I&M's resource requirements and the cost of service to customers.

Notably, to fulfill the proposed requirements, I&M would have to engage engineering services to estimate the cost of the zonal go/no-go and conduct more detailed analysis of the I&M Michigan circuits. As noted above, I&M has finite internal resources and resources would need to be moved from capacity and reliability planning processes. In addition, Information Technology (IT) investments would be required to provide the hosting capacity information in a publically available format. As explained in I&M's Distribution Plan filed in Case No. U-20147, the Company has a process in place today that responds to customer requests for hosting capacity information as needed. This process works well, is cost effective and ensures that customers are provided accurate and timely information needed to assess distributed energy resources (DER). I&M's experience to date is that most of the few DER customers are installing small systems that are unlikely to cause issues until the penetration of DER is much higher. HCA information is most likely to be used by developers evaluating the economics of larger solar installations and for marketing to customers in I&M's service territory.

I&M believes that the Draft Report should avoid proposing requirements and instead recommend (i) allowing the larger Michigan utilities to gain additional experience in this area which will help better inform the costs, benefits and need for HCA for the smaller utilities in Michigan, and (ii) continue HCA research regarding measures in nearby states and analysis of other industry organizations such as Electric Power Research Institute (EPRI). Simply stated, I&M has a process in place today that continues to work very well and is expected to adequately support our customer's interest and needs for DER for the foreseeable future. Finally, absent changes, the Draft Report should include costs of implementing HCA in addressing a potential cost recovery mechanism as discussed earlier.

### **Non-Wires Alternatives (NWA)**

NWA pilots will provide valuable learning opportunities to evaluate new and emerging technologies and how they can benefit the distribution system. There is a balance between creating a framework to support and evaluate pilots and ensuring sufficient flexibility is retained to allow utilities to respond to changes in customer needs and interests and available technologies and services. For I&M specifically, it is important to consider the multi-



jurisdictional nature of its business. The classification of certain investments could impact the feasibility of certain technologies for the benefit of the distribution grid. For example, if a battery could solve a Michigan-specific distribution need, it would be important that I&M have the ability to classify or allocate that asset consistent with other Michigan distribution investments. Pilot opportunities shouldn't be limited to those pre-defined through the regulatory process. Greater benefits will be realized if utilities are provided the opportunity to self-define a subset of the pilots it conducts as this will allow it to be as responsive and adaptive to new and emerging technologies. I&M is encouraged by the Commission's and Staff's interests in pilots and looks forward to continuing this discussion through the MI Power Grid Energy Programs and Technology Pilots workgroup.

### **Alternative Regulatory Approaches**

I&M supports the Draft Report recommendation that alternative regulatory approaches be further reviewed as part of the MI Power Grid Financial Incentives/Disincentives workgroup. In ongoing discussions of alternative approaches, the Staff and Commission should include reconsideration of the traditional regulatory model's emphasis on setting rates based on usage (kWh). Customers have many more options such as DER, but generally such options rely on the continuing existence and support of the grid. The electric grid and the services it enables and supports for customers are becoming ever more valuable and the high fixed cost nature of the grid is not well recognized within the rate structures for the majority of I&M's customers. Specifically, Staff and the Commission should consider the need to change the methodology of determining a reasonable fixed charge for customers.

### **Pilot Programs**

I&M supports the Staff recommendation that the topic of pilot programs be further explored in the Energy Programs and Technology Pilots workgroup. Therefore, Staff should recommend that the broad topic of pilot programs be removed from the distribution planning process to avoid duplication.

### **Resiliency**

I&M agrees with the Commission and Staff regarding the four primary objectives of distribution planning. For the second objective of enhanced reliability and resiliency, I&M has no objection to the Staff recommendation that the topic be addressed in additional detail in the Resource/Transmission/Distribution Planning workgroup. As events and metrics are identified it will be important to ensure that utilities have the opportunity to review and comment on them, that the cost-effectiveness of addressing certain events or achieving certain metrics be



evaluated specific to each utility, and that there is transparency around how metrics will be used in the regulatory process.

### **Standardized Components for Future Utility Distributions Plans**

As the Draft Report recognizes, I&M supported the joint utility proposal that distribution plans have standardized components. While supporting standardized components, the Draft Report noted that the utilities indicated there would be some differences based on company circumstances. I&M urges continued recognition of the flexibility to deviate as necessary. For example, in response to Staff’s recommendation on SAIDI, SAIFI and CAIDI, I&M does not analyze by quartiles, but does analyze by cause with SAIDI and SAIFI, and uses CAIDI as a reference. In addition, I&M uses CEMI references but does not use CELID at this time. I&M uses repeated device outages to determine actual improvements for larger CEMI counts.

### **Michigan Infrastructure Council**

I&M supports Staff’s recommendation to reference and coordinate with the Michigan Infrastructure Council in distribution planning, to the extent practical.

### **The Role of Energy Efficiency with Distribution Planning**

There will be issues regarding the Draft Report recommendation to include energy efficiency assessments in distribution planning. For example, there needs to be a high concentration of cost effective energy efficiency opportunities in any given local area for the impact to distribution system planning to be meaningful enough to warrant consideration. Furthermore, the energy efficiency measures will need to reduce usage during local distribution system equipment peak use time periods to have any meaningful impact on distribution equipment sizing and specification. Assessment could become increasingly challenging if peak periods change over time. Customer acceptance and participation in efficiency programs can be challenging and in most cases are not within the utility’s control.

The focus of distribution planning is to manage and size local distribution assets such as distribution grids and substations to handle peak energy demand and usage. This focus contrasts with the general objective of energy efficiency to reduce overall energy use. To determine the extent to which energy efficiency can reduce local peak demand and energy usage, the coincident timing of, and magnitude of, local peak period reduction due to energy efficiency will need to be identified, understood and accounted for in order to be integrated into the distribution planning process.





## **Core Functionality of the Grid and the Role of “Vision” with Grid Planning**

I&M agrees generally with the Draft Report recommendation that utilities include a long-term strategic vision as a component of distribution plans. I&M does not support the proposal element that the vision “be emphasized every step of the way” because the strategic vision should be an overall guide rather than a plan component to be interpreted and evaluated over and over again as plans are implemented. The “step emphasis” proposal is an ambiguous requirement subject to subjective interpretation.

### **Next Steps**

The Draft Report recommends that the utility five-year distribution plans be “refreshed” every two years. This proposed schedule would not provide I&M sufficient time to make meaningful progress on its distribution plan objectives. I&M’s next Distribution Plan is due on June 30, 2021 and I&M requests a triennial overall plan filing schedule thereafter. Compiling the distribution plan, supporting the filing in a docketed proceeding before the commission, and implementing the plan are significant undertakings in terms of cost and company resources. A triennial plan schedule will allow sufficient time for implementation, evaluation and updating consistent with achieving the objectives of the Commission. Rate cases that occur in between the distribution plan filings will allow the Commission, Staff and stakeholders additional opportunities to review I&M’s distribution investments and O&M activities and plans.

### **III. Summary and Conclusion**

I&M respectfully requests the Staff to consider the above positions and make appropriate modifications to the report before filing it with the Commission. As discussed above, I&M supports a more flexible advisory approach with recognition that the evolving distribution plan process is in and of itself a significant regulatory change. There should be more time for learning with the ongoing plan iterations and implementation and working groups before proposing requirements akin to administrative rules. If the Staff continues to recommend requirements and adoption of specific requirements and measures, then it should include a discussion of the administrative law implementation issues. I&M appreciates the Staff’s ongoing efforts in this area and shares the objective of providing safe and reliable service to our customers.

INDIANA MICHIGAN POWER COMPANY

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