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Summary of HEA 1002 Provisions Relating to PBR and MYRPs

Performance-Based Ratemaking and Multi-Year Rate Plans (MYRPs)

A new chapter (IC 8-1-46) establishes a comprehensive performance-based ratemaking (PBR) framework replacing the prior traditional single test-year rate case process for investor-owned electricity suppliers.

What Is a Multi-Year Rate Plan?

A multi-year rate plan (MYRP) is defined as a ratemaking mechanism under which the IURC sets an electricity supplier's base rates for a three-year period that includes (1) authorized periodic changes in the electricity supplier's base rates, and (2) adjustments to the electricity suppliers base rates based on the electricity supplier's performance with respect to each performance incentive mechanism (PIM). This replaces the system in which electric utilities filed rate cases generally based on a single test year of historic and/or forecasted data. The objective of a MYRP plan is to improve rate predictability over the three-year plan period and reduce administrative costs of processing rate cases more frequently. *See* IC 8-1-46-9.

Who Must File and When

Beginning in 2026, each investor-owned electricity supplier is required to file its first petition with the IURC for approval of a three-year MYRP according to a prescribed staggered schedule. HEA 1002 sets out a staggered schedule prescribing when each of the five investor-owned electric utilities must file its first MYRP case — with an exception to file early if the first year of the MYRP will be a rate decrease.

The second and subsequent MYRP cases must be filed no earlier than 60 days before, and no later than 30 days before, the expiration of the previous MYRP.

Under the new structure, any time an electric utility seeks a change in its basic rates and charges, it must do so through the MYRP petition process — with an exception for a supplier seeking emergency relief prior to its scheduled install filing date. *See* IC 8-1-46-20.

Case-in-Chief Requirements

In its MYRP petition to the IURC, an electricity supplier must include a complete "case-in-chief" (as defined in IC 8-1-2-42.7), consisting of:

- Testimony, exhibits, and supporting work papers;
- Proposed test year and rate base cutoff dates;
- Proposed revenue requirements;
- Jurisdictional operating revenues and expenses;
- Balance sheet and income statements;

- Jurisdictional rate base;
- Proposed cost of capital and capital structure;
- A jurisdictional class cost of service study; and
- Proposed rate design and pro forma tariff sheets.

The petition must also include the electricity supplier's revenue requirement, base rates for each customer class, and a proposed test period using forward-looking periods. *See* IC 8-1-46-21(a)(1) and IC 8-1-2-42.7.

Base Rate Setting

The base rates for the first rate year of an MYRP are to be established by the IURC using the same process as a traditional rate case proceeding (using a historic, hybrid, or forecasted test year). For the second and third rate years, rates must reflect changes in the electricity supplier's net plant in service and changes in the net balances of any regulatory assets or liabilities. An MYRP may include alternative regulatory practices and accounting treatments. *See* IC 8-1-46-21(a)(2),(3), (b).

In establishing an electricity supplier's authorized return, the Commission must consider any increased or decreased risk to the electriciy supplier and the supplier's customers that may result from implementation of the MYRP. *See* IC 8-1-46-21(a)(4).

The MYRP is to be considered separately by the Commission from all rate adjustment mechanisms, unless incorporated into the MYRP. *See* IC 8-1-46-21(c). In an electricity supplier's first MYRP petition, the electricity supplier must include a plan to incorporate planned capital expenditures into the electricity supplier's subsequent MYRPs. *See* IC 8-1-46-21(c). An electricity supplier may elect to exclude from its MYRP and defer for future consideration and recovery, costs incurred or to be incurred in a regulatory asset as authorized by IC 8-1-2-10. *See* IC 8-1-46-21(d).

Performance Incentive Mechanisms (PIMs)

Reporting Requirements

HEA 1002 requires electricity suppliers to report annually on customer affordability and service restoration performance.

Beginning in 2027, before March 1 of each year, an electricity supplier must file with the Commission a customer affordability performance report that includes the following information:

- The electricity supplier's average monthly residential bill for each of the most recently concluded five years (weather normalized);
- The average annual percentage change in the electricity supplier's average monthly residential bill over the course of the most recently concluded five-year period (weather normalized);
- The annual percentage change in seasonally adjusted electricity prices as measured by the Consumer Price Index, for each of the most recently concluded five years;
- The average annual percentage change in seasonally adjusted electricity prices as measured by the Consumer Price Index, over the course of the most recently concluded five years.

See IC 8-1-46-18.

Also *beginning in 2027, before March 1 of each year*, an electricity supplier must file with the Commission a service restoration performance report that includes the following information For each of the most recently concluded 6 years: SAIDI, SAIFI and CAIDI, both with and without Major Event Days (MEDs), and the number of customers used by the utility in calculating each of these indices. *See* IC 8-1-46-19.

For each rate year in an electricity supplier's MYRP, HEA 1002 mandates two categories of performance metrics and associated financial consequences:

Customer Affordability Performance Metric – Comparison to Electricity CPI

The IURC will, on its own, set a metric tied to the electricity supplier's performance on customer affordability, based on the difference between (1) the average annual percentage change in the electricity supplier's average monthly residential bill for the most recent five-year period (weather-normalized), and (2) the average annual percentage change in seasonally adjusted electricity price prices as measured by the Consumer Price Index for the most recent five year period. The associated PIM provides financial rewards (up to one basis point ROE) if the supplier meets or exceeds the affordability benchmark (i.e., the change is 2% or more lower than the change in electricity CPI), and financial penalties (up to one basis point ROE) if it does not (i.e., the change is 2% or more higher than the change in electricity CPI). *See* IC 8-1-46-21(a)(5) and -23.

Service Restoration Performance Metric

The IURC will, on its own, set a metric based on the electricity supplier's track record of restoring power after outages, measured using SAIDI (System Average Interruption Duration Index) under IEEE 1366, including major event days (MEDs)(extraordinary weather events or disasters) and comparing the electricity supplier's most recent year's SAIDI to the electricity supplier's most recent five-year SAIDI. The associated PIM similarly provides rewards or penalties of up to 0.50 basis points. *See* IC 8-1-46-21(a)(5) and -24.

IURC Approval of MYRPs

The Commission must approve a MYRP if, after notice and hearing, the Commission finds the following:

- The electricity supplier's rates under the MYRP are just and reasonable;
- The MYRP reasonably assures the continuation of safe and reliable electricity service;
- the MYRP will not unreasonably prejudice any class of customers and will not result in sudden substantial rate increases to customers or any class of customers;
- the MYRP will result in just and reasonable rates, is in the public interest, and is consistent with the requirements set forth in this new chapter and in any rules adopted by the Commission under this chapter;
- The MYRP meets any other applicable legal requirement.

See IC 8-1-46-22(a).

IURC Oversight and Mid-Plan Reviews

At any time before the expiration of an MYRP, the IURC may, with good cause and upon its own motion, or at the request of the OUCC or the electricity supplier, examine rates under the MYRP, conduct periodic reviews with public hearings and comment opportunities, and adjust base rates or PIMs under the MYRP. *See* IC 8-1-46-22(b).

Interaction between MYRPs, Interim Rates Statute, and TDSIC Statute

Under the existing TDSIC statute (IC 8-1-39), a public utility that implements a TDSIC tracker must file a new base rate case before the expiration of the utility's TDSIC plan. HEA 1002 provides that this requirement does not apply to electricity suppliers that are subject to MYRPs. *See* new IC 8-1-39-9(e).

In addition, HEA 1002 provides that certain provisions of IC 8-1-2-42.7 (governing implementation of interim rates on a subject to refund basis) do not apply to electricity suppliers that have filed for MYRPs. *See* new IC 8-1-2-42.7(a).

IURC Annual Reporting on MYRPs

Beginning in 2029, the IURC must include the following in its annual report to the General Assembly each year, including:

- The status of all electricity suppliers' MYRP filings and active MYRPs;
- Each electricity supplier's calculated performance metrics for the most recent rate year; and
- The impact of all applicable PIMs on customer rates.

Electricity suppliers are required to provide the Commission with any information needed by the Commission to fulfill its reporting obligations. *See* IC 8-1-46-25.

References to "Base Case", Etc.

HEA 1002 provides that, *after March 14, 2026*, any statutory or IURC rule reference to a "base rate case", a "general rate case", changes in "basic rates and charges", etc., with respect to an electricity supplier subject to the MYRP statute, is considered to be a reference to the establishment of rates and charges for the first year of the electricity supplier's MYRP. *See* IC 8-1-46-26.

IURC Rules

HEA1002 directs the Commission to adopt rules to implement this new chapter 8-1-46. *See* IC 8-1-46-27.