NIPSCO Feed-In Tariff Settlement Agreement

Filed October 9, 2014

**General Talking Points**

* On October 9, a settlement agreement was filed among Northern Indiana Public Service Company (NIPSCO), Indiana Office of Utility Consumer Counselor (OUCC), the Hoosier Chapter of the Sierra Club, Citizen’s Action Coalition (CAC), Indiana Distributed Energy Alliance (Indiana DG) and Bio Town Ag regarding the continuation of and modifications to company’s ability to acquire or purchase customer-generated electricity from renewable energy projects (Renewable Feed-in Tariff).
* The settlement is subject to the review and approval of the Indiana Utility Regulatory Commission (IURC), and, if approved, should be available during the first half of 2015.
* The settlement proposes to provide an additional 16 MW of capacity available for smaller renewable projects (above the Phase I pilot, which had 30 MW). The request specifically seeks to continue the Renewable Feed-In Tariff with an additional amount of this capacity available to smaller, qualifying solar, wind and biomass facilities. Under the proposal, solar and wind projects would be limited to 200 kW and biomass projects would be limited to 1 MW.
* The proposal seeks to retain a fixed purchased rate approach to providing payment for energy (and capacity, if eligible) from qualifying facilities. The proposed purchased rates under the settlement are generally lower than Phase I of the program, with the exception of certain wind project sizes.
* The settlement also requests approval to institute a new lottery process for allocation of available capacity if requests exceed the amount available; alternatively, for a second allocation of biomass capacity, a reverse auction is proposed. NIPSCO will announce the opening of the lottery within 30 days of approval from the IURC and will accept applications for 60 days from the date applications begin to be accepted.
* The settlement provides further modifications and enhancements to improve the structure of the Renewable Feed-In Tariff based upon NIPSCO’s experience with the Phase I pilot.
* In addition, to allow customers to pursue other forms of financing, including lease options, NIPSCO has removed the requirement that the customer must own the system. This also applies to customers utilizing NIPSCO’s net metering program.

**Phase I Pilot (2011 – present)**

**Background Points**

* NIPSCO’s previously approved renewable feed-in tariff (“FIT”) was designed to be a three-year, voluntary customer pilot whereby NIPSCO purchased electric energy and capacity from its electric customers for qualifying renewable energy production .
* The pilot was capped at 30MW for all approved renewable technology types, with no individual fuel source allowed to exceed 50% of the capacity and additional carve outs for small solar and wind installations. Individual projects were limited to 5 MW.
* At the end of the third year of the pilot, there are 25 large projects online or in the queue and under construction, and the FIT pilot reached maximum tariff participation levels for all but wind generation. Of the 30 MW, 14.35 MW has been subscribed for biomass projects, with an additional 14.5 MW for the large solar projects. Of the 1MW reserved for small projects (less than 10 kW), small solar projects constitute .7 MW (or 700 kW), with small wind making up .104 MW (or 10.4 kW).
* In 2013, NIPSCO’s FIT program generated nearly 48,000 MWh, with most of that generation coming from biomass (31,600 MWh) and large solar (15,800 MWh).
* The pilot provided a great deal of information to NIPSCO, including ways to improve its standards for interconnection and the integration of the operating and safety procedures into its normal operations. In addition, NIPSCO has learned from the commercial experience of the FIT, including how to best integrate large projects into its planning process.
* Capacity was allocated on a first-come, first-served basis.
* Most of the capacity for Phase I has been subscribed, but projects in the queue will continue to be connected under the rules in place for the pilot program.

**Phase II (Proposed via Settlement in front of IURC)**

**Proposed Elements**

* Phase II is focused on smaller projects. As such, the total MW available has decreased to 16 MW, with the largest projects being limited to 200 kW for solar and wind and 1 MW for biomass.
* With the exception of certain wind project sizes, the purchase rates relative to Phase I have decreased. In order to better understand how the market is changing, Phase II includes a purchase rate decrease for wind and solar projects of 8% after the second year of Phase II. In addition, the larger solar projects (projects >10kW and ≤ 200 kW) will be made available in two allocations, with half of the capacity available at the beginning of Phase II and the other half available at the beginning of year three. This will assure that at least some of the capacity will be available at the reduced purchase rate to allow NIPSCO to understand the impact. Another change from the Phase I pilot is that there will be no annual price escalation for solar or wind.
* For biomass projects, which will be also be offered in two allocations in the same manner as large solar, rather than having a purchase rate decrease after the second year, Phase II will offer a reverse auction whereby interested parties will submit a bid not to exceed the purchase rate available in the first two years. The lowest bid will win the capacity. This will allow NIPSCO to better understand market conditions as well as getting the lowest price for its ratepayers.
* Also, new for Phase II is a lottery process, which will be announced no more than 30 days after Phase II is approved and will be open for 60 days, to assign available capacity. Interested parties will submit a project request form and, if there is greater demand than there is available capacity, a lottery will be held to determine the order in which the projects receive capacity. In the event that there is less interest than there is available capacity, all projects will be granted capacity. If, at any point after the lottery, there is unsubscribed capacity and no one on the waiting list, that capacity will be available on a first-come, first-served basis.
* NIPSCO will continue to provide an annual report to the Commission and other interested parties with information related to participant participation and project characteristics.
* Customers with larger projects are encouraged to pursuing them through NIPSCO’s net metering program, the avoided cost tariff or through the Midcontinent Independent System Operator (“MISO”). Each of the three options has specific qualifications.

**Other Settlement Information:**

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| **Cause No. 44393 Technology** | **Phase II MW Available** |
| Micro Solar | 2 |
| Intermediate Solar | 8 |
| Micro Wind | 1 |
| Intermediate Wind | 1 |
| Phase II Biomass | 4 |
| **Total** | **16** |

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| Phase I Technology | Phase I Size Limit |  | Phase II Technology | Phase II Size Limit |
| Wind 1 | ≤ 100 kW |  | Micro Wind | 5 kW and ≤ 10 kW |
| Wind 2 | > 100 kW and ≤ 2 MW |  | Intermediate Wind | > 10 kW and ≤ 200 kW |
| Solar 1 | ≤ 10 kW |  | Micro Solar | 5 kW and ≤ 10kW |
| Solar 2 | > 10 kW and ≤ 2 MW |  | Intermediate Solar | > 10 kW and ≤ 200kW |
| Biomass | ≤ 5 MW |  | Phase II Biomass | 100 kW and ≤ 1 MW |
| New Hydro | ≤ 1 MW |  | No longer available | |

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| Phase I Technology | Phase I Purchase Rate per kWh | Phase II Technology | Purchase Rate per kWh-Years 1 and 2 | Purchase Rate per kWh After Year 2 |
| Wind 1 | $0.1700 | Micro Wind | $0.2500 | $0.2300 |
| Wind 2 | $0.1000 | Intermediate Wind | $0.1500 | $0.1380 |
| Solar 1 | $0.3000 | Micro Solar | $0.1700 | $0.1564 |
| Solar 2 | $0.2600 | Intermediate Solar | $0.1500 | $0.1380 |
| Biomass | $0.1060 | Phase II Biomass | $0.0918 | ≤ $0.0918 |
| New Hydro | $0.1200 | No longer available | | |