

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

FILED

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INDIANA UTILITY
REGULATORY COMMISSION

**VERIFIED PETITION OF NORTHERN INDIANA
PUBLIC SERVICE COMPANY, AN INDIANA
CORPORATION, FOR APPROVAL PURSUANT TO
IND. CODE §§ 8-1-2-42(a), 8-1-8.8-11 AND TO THE
EXTENT NECESSARY 8-1-2.5-6 OF RENEWABLE
WIND ENERGY PROJECT POWER PURCHASE
AGREEMENTS WITH BUFFALO RIDGE I LLC AND
BARTON WINDPOWER LLC, INCLUDING THE
TIMELY RECOVERY OF COSTS THROUGH RATES
AND CONFIDENTIAL TREATMENT OF POWER
PURCHASE AGREEMENT PRICING AND RELATED
CONFIDENTIAL INFORMATION.**

CAUSE NO. 43393

LAPORTE COUNTY'S RESPONSE TO NIPSCO'S PROPOSED ORDER

Intervenor LaPorte County, by counsel, submits its response to the Discussion and Findings Section of NIPSCO's proposed order.

NIPSCO seeks approval of two wind purchase powers agreements of approximately 100 megawatts of wind power from Buffalo Ridge I, LLC ("Buffalo Ridge"), located in South Dakota, and from Barton Windpower, LLC ("Barton"), located in Iowa. Although both projects are now owned by the same parent, Iberdrola Renewable Energies USA, Ltd. ("Iberdrola"), the projects involve separate and distinct PPAs, each with their own terms and conditions. Throughout NIPSCO's testimony and in its proposed order, NIPSCO emphasizes that the Commission should approve these PPAs because they were "the most economical of the proposals NIPSCO had received for wind power." (NIPSCO proposed order, p. 23) Although LaPorte County, like the OUCC, supports NIPSCO's inclusion of wind power in its generation portfolio, the evidence submitted by NIPSCO is insufficient to support approval of the requested PPAs at this time. For that reason, LaPorte County agrees with the OUCC that NIPSCO should initiate a new RFP to solicit proposals from potential bidders, including new wind development

in Indiana. NIPSCO should also explore the possibility of a build-option in the Lake Michigan area.

A. Build option. NIPSCO claims that the Wind PPAs are the result of a “thorough RFP process and a quantitative and qualitative evaluation of the RFP processes.” (NIPSCO proposed order, p. 28) Although NIPSCO is to be commended for its efforts in pursuing wind power and its inclusion of stakeholders in this process, NIPSCO’s RFP process clearly did not include consideration of all options.

The undisputed evidence demonstrates that NIPSCO did not consider all viable options for adding wind power to NIPSCO’s generation mix. Frank Shambo confirmed that NIPSCO did not consider actually building a wind farm itself. NIPSCO’s outside consultant, Charles Adkins, likewise confirmed that NIPSCO did not evaluate a build option for wind turbines. Mr. Shambo admitted that he could not think of any reason that a build option was not considered in the mix in the RFP. (Transcript, p.22, lns. 8-25, p. 23, lns. 1-5)¹

NIPSCO’s failure to consider a self-build option cannot be viewed as inconsequential. First, NIPSCO repeatedly asserted that the Barton and Buffalo projects were preferable to Indiana wind proposals because they were more economical. The Commission cannot find that these PPAs are superior, from an economic standpoint, to a self-build option given that NIPSCO admittedly has presented no evidence in this proceeding of the cost to build a wind turbine. (Transcript, p. 53, lns. 17-19, p. 54, lns. 3-7) Wind projects have significant capital costs but no on-going fuel costs. Thus, the longer the period of time over which to spread those capital costs,

¹ Charles Adkins testified that, from his perspective (not NIPSCO’s perspective), NIPSCO did not consider renewable or nuclear build options because it has no experience with those options. (Transcript, p. 53, lns. 22-25, p. 54, lns. 1-2) Mr. Shambo, however, confirmed in his testimony that NIPSCO desires to gain an understanding of how to manage wind facilities as it contemplates a larger percentage of wind in its generation portfolio. (Transcript, p. 24, lns. 11-21)

the lower the average cost per MWh to generate wind power. Indeed, NIPSCO selected the longest term available for each PPA because the longer the term the more economical the wind proposal from a net present value basis. The 15 to 20-year terms of the Wind PPAs are at the low end of their estimated 20 to 30-year useful lives. An extra ten (10) years of operation of a wind farm, if owned by NIPSCO, could significantly reduce the average cost of energy from that wind farm.² Because finding the least-cost mix of resources is a primary driver in selecting a generation resource, (Transcript, p. 80, lns. 8-21), it is imperative that NIPSCO present the Commission with sufficient evidence for it to consider and fairly evaluate a self-build option for wind power in NIPSCO's service territory.

Second, NIPSCO is well-positioned to pursue a self-build option. As Charles Adkins explained at the hearing, the two best regions for wind power in the United States are the Barton/Buffalo Ridge area and the entire lake area on Lake Michigan. (Transcript, p. 48, lns. 22-25, p. 49, lns. 1-5) Thus, one of the two best locations for wind power lies within the NIPSCO service territory. Frank Shambo, based upon the studies he has reviewed, testified that the opportunity for wind power in Indiana is limited. As he explained, "Indiana as a state physically could not produce enough wind power to meet a 15 percent renewable standard for all of the utilities in the State of Indiana. There's just not enough wind in the state to actually generate that much" (Transcript, p. 36, lns. 7-14) While NIPSCO is busy "walking" around the wind farms in South Dakota and Iowa while learning to run with wind power, it may lose the opportunity to obtain Indiana wind power on Lake Michigan—one of the best areas for wind power in the United States.

² NIPSCO notes that it has not sought to earn a return on any capital investment for the Wind PPAs. However, Iberdrola obviously will be earning a return on its investment in these wind projects.

Finally, the irony of NIPSCO's proposal is inescapable. This Commission has already approved—as reasonable—wind proposals for Duke Energy, Vectren South and I&M—each of which involved a project located in NIPSCO service territory. From the perspective of NIPSCO's ratepayers, it is difficult to comprehend how NIPSCO's service territory is able to reasonably provide wind power to Duke Energy, Vectren South and I&M but not to NIPSCO. If NIPSCO desires to learn to walk before it runs with regard to wind power, it makes sense for NIPSCO to begin that process near home. NIPSCO should not become the first Indiana utility to reject wind power in NIPSCO's own service territory.

B. Risk of unknown congestion costs. Serious concerns were raised by the parties at the evidentiary hearing regarding the impact that congestion may have on the price paid by NIPSCO ratepayers for wind power from the Barton and Buffalo Ridge projects. NIPSCO responds by indicating that it performed an analysis of the LMP differential (at the request of the other parties) using newly available forecasted data from the Midwest ISO. NIPSCO, however, readily concedes that “reality often departs from forecasts.” (NIPSCO proposed order, p. 23) NIPSCO contends that “the absence of absolute assurance that the LMP differential will not significantly deviate from projections would render approval of most wind purchases impossible.” (NIPSCO proposed order, p. 23)

The Commission does not demand “absolute assurance” regarding anything. What the Commission does require, and always has required, is reasonable assurance before subjecting ratepayers to future risks. Notably, neither Iberdrola nor NIPSCO are willing to assume the future congestion risk for the Barton and Buffalo Ridge projects at any premium. Indeed, NIPSCO emphasizes that the “record contains no evidence demonstrating what premium wind farms would require to incur such a risk.” (NIPSCO proposed order, p. 25) Thus, the

Commission has no means of determining what risk for future congestion costs NIPSCO's ratepayers are actually assuming under the Wind PPAs, other than that those ratepayers are assuming the entire risk whatever it proves to be.

NIPSCO's own evidence demonstrates that the LMP differential between Indiana wind and the Barton and Buffalo Ridge projects is substantial. (See Adkins Rebuttal, p. 6, ln. 17) The Barton project especially involves a significantly higher expected LMP differential. Given the projected wind capacity to be added in the Barton and Buffalo Ridge regions, the differentials may increase dramatically.

NIPSCO's snapshot analysis of the Net Present Value Utility Cost of Indiana Wind versus Out of State Wind provides no real support for approval of the PPAs. The NPVUC difference between those options is less than 0.6%. Moreover, the Out of State Wind projects involve different pricing, and they were not separately considered in the comparison. Charles Adkins conceded that he did not calculate a margin of error for his NPVUC analysis; thus, the difference between these options cannot be considered statistically material.

The Indiana wind option also involves an important factor with regard to remedying any future congestion problems. If congestion problems arise with regard to wind farms in NIPSCO's service territory, NIPSCO agrees that it is more likely to invest its transmission dollars close to home for a designated network resource than for an intermittent source out of state. (Transcript, p. 126, lns. 9-17). NIPSCO is unlikely to build transmission on its own out of state. (Transcript, p. 126, lns. 15-17)

C. Environmental and education benefits.

NIPSCO recognizes that wind power may not be the least-cost option in the short run. (NIPSCO proposed order, p. 24) NIPSCO contends that a reasonable price premium for wind

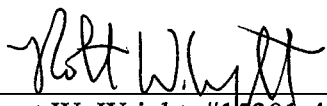
power is justified because of other benefits associated with wind power, including environmental, economic, educational and other social benefits. At this point in time, those benefits suggest that NIPSCO should reconsider an Indiana wind power option.

All parties agree that wind power is environmentally friendly. Wind power emits no greenhouse gases or other pollutants. Currently, NIPSCO's generation consists almost entirely of coal plants. As Brad Sweet acknowledged, he is not aware of any type of generation that emits more greenhouse gases than coal plants. When wind power comes on at Barton or Buffalo Ridge, it will likely back off other generation in that area; the electrons from Barton and Buffalo Ridge probably will not make it to NIPSCO territory. More than likely, the load and generation are relatively close to each other. To the extent that wind power backs off NIPSCO's coal-fired generation, NIPSCO's ratepayers will benefit.

Presently, there is no federal or state requirement for renewable energy. NIPSCO's ratepayers will benefit greatly by reducing the amount of coal-fired generation used to produce power in their local area. If NIPSCO's ratepayers voluntarily agree to a premium for wind power, it should be located in an area which will help reduce their exposure to the greenhouse gases and other pollutants from NIPSCO's existing coal-fired generation. More likely than not, Indiana wind power on Lake Michigan would do that.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing was served this 28th day of May, 2008, by email and by placing a copy of the same into the United States Mail, first class postage prepaid, addressed to:

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