

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY)
("IPL") FOR AUTHORITY TO INCREASE RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE AND FOR)
APPROVAL OF: (1) ACCOUNTING RELIEF, INCLUDING)
IMPLEMENTATION OF MAJOR STORM DAMAGE)
RESTORATION RESERVE ACCOUNT; (2) REVISED)
DEPRECIATION RATES; (3) THE INCLUSION IN BASIC RATES)
AND CHARGES OF THE COSTS OF CERTAIN PREVIOUSLY)
APPROVED QUALIFIED POLLUTION CONTROL PROPERTY;)
(4) IMPLEMENTATION OF NEW OR MODIFIED RATE)
ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE FOR)
RATEMAKING PURPOSES LOST REVENUES FROM DEMAND-)
SIDE MANAGEMENT PROGRAMS AND CHANGES IN (A))
CAPACITY PURCHASE COSTS; (B) REGIONAL)
TRANSMISSION ORGANIZATION COSTS; AND (C) OFF)
SYSTEM SALES MARGINS; AND (5) NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS FOR SERVICE.)

CAUSE NO. 44576

IN THE MATTER OF THE INDIANA UTILITY REGULATORY)
COMMISSION'S INVESTIGATION INTO INDIANAPOLIS)
POWER & LIGHT COMPANY'S ONGOING INVESTMENT IN,)
AND OPERATION AND MAINTENANCE OF, ITS NETWORK)
FACILITIES)

CAUSE NO. 44602

REDACTED TESTIMONY OF

STACIE R. GRUCA – PUBLIC'S EXHIBIT NO. 8

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF OUCC WITNESS STACIE R. GRUCA
CAUSE NOS. 44576/44602
INDIANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

1 **Q: Please state your name, business address and employment capacity.**

2 A: My name is Stacie R. Gruca, and my business address is 115 West Washington
3 St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed by the Indiana
4 Office of Utility Consumer Counselor ("OUCC") as a Senior Utility Analyst in
5 the Electric Division. For a summary of my educational and professional
6 background and my preparation for this case, please see Appendix A attached to
7 my testimony.

8 **Q: What is the purpose of your testimony?**

9 A: I will provide an analysis and make recommendations on Indianapolis Power and
10 Light Company's (hereafter "IPL" or "Petitioner") proposed Off-System Sales
11 ("OSS") Margin Sharing Adjustment mechanism and Capacity ("CAP") Cost
12 Recovery Adjustment mechanism, including the proposed structure of the
13 mechanisms and the amount IPL proposes to embed in its basic rates for each of
14 these new rate adjustment mechanisms. More specifically, I recommend the
15 Indiana Utility Regulatory Commission ("Commission") approve IPL's proposed
16 OSS Margin Sharing Adjustment mechanism and proposed CAP Cost Recovery
17 Adjustment mechanism, but with required modifications to each of these
18 mechanisms as immediately described below:

1 (1) Require IPL to embed \$9.488 million for OSS margin sharing credits in
2 IPL's base rates.

3 (2) Require no sharing of OSS margins with IPL; wherein 100% of OSS
4 margins above the base rate amount of \$9.488 million is credited to
5 customers and 100% of OSS margins below the base rate amount (down to
6 zero) is charged to customers.

7 (3) Require no sharing of capacity sales revenues with IPL; wherein IPL
8 customers are credited with 100% of all IPL capacity sales revenues.

9 I further recommend IPL's OSS Margin Sharing Adjustment mechanism and CAP
10 Cost Recovery Adjustment mechanism, including the structure of each tracking
11 mechanism and any amount embedded in base rates for OSS margins and
12 capacity, be re-evaluated in each of IPL's future rate cases.

II. OSS MARGIN SHARING ADJUSTMENT MECHANISM

13 **Q: Is Petitioner proposing a new rate adjustment mechanism described as the**
14 **OSS Margin Sharing Adjustment mechanism?**

15 **A:** Yes. Petitioner is requesting approval of its new Standard Contract Rider No. 25
16 identified as the "OSS Margin Sharing Adjustment."

17 **Q: Does Petitioner currently have an OSS Margin Sharing Adjustment**
18 **mechanism?**

19 **A:** No.

20 **Q: Does Petitioner propose to embed an amount in base rates for OSS margins**
21 **in this case?**

22 **A:** Yes. As indicated by IPL Witness Mr. Dennis Dininger, Petitioner proposes to
23 embed a credit of \$6.324 million in base rates for OSS margins. The \$6.324
24 million credit amount represents the lowest level of OSS margins (not attributable

1 to the Lakefield Wind Project (“LWP”)) achieved over the five-year period of
2 2009-2013. Petitioner made a pro forma adjustment of \$9.371 million to reduce
3 the OSS margin actual test year level of \$15.695 million to the \$6.324 million
4 level of OSS margin that IPL reflects in its revenue requirements.¹

5 **Q: What support does Petitioner provide for the \$6.324 million OSS margin**
6 **credit it proposes to embed in base rates?**

7 A: Mr. Dininger indicated in testimony that this amount represents a reasonable,
8 achievable level of OSS margins based on the five-year history (2009-2013) of
9 OSS ranging from \$6.324 million to \$20.421 million, with an average of \$12.884
10 million. He further indicated that IPL’s proposed level is reasonable because OSS
11 margins are volatile and change over time. Changes in OSS Margins can be
12 attributed to the interaction of market forces in the competitive market and the
13 effects of changes in the underlying components such as natural gas, coal, EPA
14 regulations, and emission allowances, as well as by factors that impact usage,
15 such as weather and general economic conditions. Additionally, Mr. Dininger
16 indicated changes in market prices impact the commitment and dispatch of IPL
17 units in the MISO market and market prices drive OSS margins which are beyond
18 IPL’s control. Mr. Dininger testified that although the average OSS margin over
19 the five-year period was \$12.884 million, IPL anticipates OSS margins to be less
20 than ██████████ once the Harding Street coal units are refueled to gas and once the
21 Eagle Valley units are retired. Furthermore, Mr. Dininger testified that the
22 Lakefield Purchase Power Agreement (“PPA”) Adjustment is expected to grow as

¹ See IPL Witness Dininger’s Testimony, Page 7, Lines 6-8. Also See IPL Financial Exhibit IPL-OPER, IPL 2014 Basic Rates Case, Schedule REV6.

1 transmission upgrades allow increased production of the LWP. Such upgrades
2 will put downward pressure on OSS margins as a result of the treatment of LWP
3 production pursuant to the Commission's Order in Cause No. 43740. Petitioner
4 argues that these factors cause the test year actual level of OSS margins, not
5 attributable to the production of LWP, of \$15.695 million to be too high, and
6 Petitioner proposes a reduction of \$9.371 million.

7 **Q: Do you agree with Petitioner's request for approval of an OSS Margin**
8 **Sharing mechanism with an embedded credit of \$6.324 million in base rates,**
9 **which is less than half of the test year actual OSS margins of \$15.695 million?**

10 A: No. The evidence provided by Petitioner does not support a large downward
11 adjustment to actual test year OSS margins. Consistent with other Indiana
12 investor-owned utilities that track OSS margins,² I recommend the Commission
13 approve an OSS Margin Adjustment mechanism for IPL and include an amount of
14 OSS margins as a credit against base rates. However, I do not agree with the
15 credit amount Petitioner proposes to embed in base rates for this mechanism. I
16 recommend that a credit of \$9.488 million be embedded in IPL's base rates for
17 OSS margins not attributable to LWP. (Hereafter "OSS margins" refers to "OSS
18 margins without LWP" unless otherwise stated). While my recommended base
19 rate credit of \$9.488 million is still well below IPL's OSS margin test year
20 amount of \$15.695 million, it is well supported by the facts in this proceeding.

² Duke Energy Indiana, Inc.'s OSS Profit Sharing was approved in Cause No. 42359 as part of its Summer Reliability Tracker (current Cause No. 44348), Northern Indiana Public Service Company's OSS Margin Sharing was approved in Cause Nos. 43526 and 43969 as part of its Regional Transmission Organization ("RTO") tracking mechanism (Cause No. 44156), Vectren Energy Delivery of Indiana, Inc.'s ("Vectren South Electric") Wholesale Power Marketing ("WPM") Margin Sharing was approved in Cause No. 43111 and 43839 as part of its Reliability Cost and Revenue Adjustment ("RCRA") tracking mechanism (Cause No. 43406), Indiana Michigan Power Company's OSS Margin Sharing mechanism (Cause No. 43775) was approved in Cause Nos. 43306 and 44075.

1 **Q: Please provide support for your recommendation to embed a base rate credit**
2 **of \$9.488 million for OSS margins.**

3 A: Table 1 below illustrates IPL's actual OSS margins for each calendar year during
4 the five-year period 2010 through 2014. In four (4) of the five (5) years, IPL's
5 OSS margins exceeded my proposed pro-forma level of \$9.488 million. The only
6 exception was 2012. IPL indicated OSS margins were lower in 2012 than other
7 prior and subsequent years due to: (1) low MISO market prices in the first half of
8 that year driven by low natural gas prices; and (2) a warmer than normal summer
9 resulting in increased retail load thereby decreasing the amount of IPL generation
10 available for OSS.³

11 Table 1 – Historical OSS Margins⁴

Actual OSS Margins 2010	\$20.421 Million
Actual OSS Margins 2011	\$10.721 Million
Actual OSS Margins 2012	\$ 6.324 Million
Actual OSS Margins 2013	\$11.226 Million
Actual OSS Margins 2014	\$20.013 Million

12 Table 2 below illustrates IPL's budgeted OSS margins for each calendar year
13 during the five-year period 2015 through 2019. With the exception of calendar
14 year [REDACTED], budgeted OSS margins range from [REDACTED] to [REDACTED].
15 Calendar year [REDACTED] is likely the time period to which Mr. Dininger is referring in
16 his testimony when he states that, "... IPL anticipates OSS margins less than [REDACTED]

³ See Attachment SRG-1, IPL's response to OUCC DR Set No. 50, Question 3.

⁴ Figures in Table 1 for Calendar Years 2010 through 2013 were provided in Revised IPL Witness DCD Attachment 1. See Attachment SRG-2, IPL's response to OUCC Data Request Set No. 7, Question 1 (b) & (c), for the Actual OSS Margins for Calendar Year 2014.

1 [REDACTED] once the Harding Street coal units are refueled to gas and once the Eagle
2 Valley units are retired.” Calendar year [REDACTED] also matches the approximate time
3 period that the Harding Street coal units 5, 6, and 7 are expected to be refueled
4 and Eagle Valley units 3-6 are expected to be retired, per IPL’s Figure 5.4 – Short
5 Term Action Plan Timeline in its IRP filing.

6 Table 2 – Budgeted OSS Margins⁵

Budgeted OSS Margins 2015	[REDACTED]
Budgeted OSS Margins 2016	[REDACTED]
Budgeted OSS Margins 2017	[REDACTED]
Budgeted OSS Margins 2018	[REDACTED]
Budgeted OSS Margins 2019	[REDACTED]

7 My recommended base rate amount of \$9.488 million is a five-year average that
8 is based on 3 years of historical data (actual OSS margins for calendar years
9 2011-2013) and 2 years of budgeted data (budgeted OSS margins for calendar
10 years [REDACTED]). This five-year average is calculated based on the five
11 years of OSS margins that produced either the lowest actual OSS margins or the
12 lowest budgeted OSS margins during the 10 year period 2010-2019. Table 3
13 below shows Petitioner’s: 1) test year OSS margins; 2) five-year average of
14 historical OSS margins; 3) five-year average of budgeted OSS margins; and 4)
15 two-year average of budgeted OSS margins. By comparison, these figures all

⁵ Figures in Table 2 were provided or calculated based on IPL’s confidential response to OUCC Data Request Set No. 12, Question 1(a), Confidential Attachment 1. See Attachment SRG-3 and Confidential Attachment SRG-3.

1 support the reasonableness of a base rate credit of \$9.488 million for OSS
2 margins. My proposed base rate credit of \$9.488 million represents a reduction of
3 more than \$6 million when compared to using the actual, achieved test year
4 amount of OSS margins of \$15.695 million.

5 Table 3 – Test Year Actual, Historical Actual, Budgeted Average,
and Historical/Budgeted Averages OSS Margins⁶

Test Year OSS Margins (12-Months Ending June 2014)	\$15.695 Million
Five-Year Average Historical OSS Margins (2010 – 2014)	\$13.741 Million
Five-Year Average Budgeted OSS Margins (2015 – 2019)	██████████
Two-Year Average Budgeted OSS Margins (██████████)	██████████

6 Additionally, my recommendation to include a base rate credit of \$9.488
7 million for OSS margins takes into account both historical and budgeted data.

8 In the Commission's Order in Cause No. 43839 in regard to Vectren
9 Energy Delivery of Indiana, Inc. with respect to Wholesale Power Marketing
10 ("WPM") margins, the Commission stated, "Although we rely upon an historic
11 test year, in certain circumstances we can and do look at forward projections to
12 determine a reasonable level of expense and revenue."⁷ Additionally in the same
13 Order, the Commission stated, "Like other revenues and expenses, the wholesale
14 margin credit should be set at a level that reasonably represents likely results in

⁶ Figures in Table 3 were calculated based on information provided in Revised IPL Witness DCD Attachment 1; IPL's response to OUCC Data Request Set No. 7, Question 1 (b) & (c) (See Attachment SRG-2); and IPL's confidential response to OUCC Data Request Set No. 12, Question 1 (a) (See Attachment SRG-3 and Confidential Attachment SRG-3).

⁷ Vectren Energy Delivery of Indiana, Inc. ("Vectren South Electric"), Commission Approved Order Cause No. 43839, Page 40.

1 the future.”⁷ Former IPL President Kelly Huntington stated on page 16 of her
2 testimony that, “...current expectations are that a new case will be initiated so that
3 new rates can be implemented contemporaneous with the in-service date of the
4 new CCGT and other compliance facilities in 2017.” My recommended base rate
5 credit of \$9.488 million for OSS margins takes into consideration IPL’s budgeted
6 OSS margins for years [REDACTED]
7 [REDACTED] and is very comparable to the two-year average
8 budgeted OSS margins for [REDACTED] of [REDACTED]. Thus, my recommended
9 base rate credit amount is well supported by both the historical and forecasted
10 (budgeted) data for OSS margins.

11 **Q: How does Petitioner propose to structure its OSS Margin Sharing**
12 **Adjustment mechanism?**

13 **A:** As indicated by IPL Witness Mr. Jim Cutshaw on page 29 of his testimony, IPL
14 proposes that the annual filing schedule for a revision of the OSS Margin Sharing
15 Adjustment factor runs from January through December. As Mr. Cutshaw further
16 indicates on page 29 and 30 of his testimony, to the extent that annual OSS
17 margins exceed the proposed \$6.324 million embedded in basic rates, that excess
18 would be shared 50% with retail customers and 50% would be retained by IPL. If
19 annual OSS margins are less than the base amount (but greater than zero dollars),
20 IPL proposes that 100% of that deficit be charged to retail customers.

21 **Q: Do you agree with Petitioner’s proposed sharing percentages for its OSS**
22 **Margin Sharing mechanism?**

23 **A:** No.

24 **Q: What do you recommend as an alternative structure for the OSS Margin**
25 **Adjustment mechanism?**

1 A: I recommend no sharing of OSS margins; wherein customers receive 100% of all
2 OSS margins greater than zero dollars. Under this alternative structure, to the
3 extent that annual OSS margins exceed my recommended \$9.488 million
4 embedded in base rates, the excess would be credited 100% to retail customers,
5 resulting in a credit on the customer's bill. If annual OSS margins are less than
6 the base amount (but greater than zero dollars), I recommend that 100% of the
7 deficit be charged to retail customers.

8 **Q: Please explain the rationale for this proposed alternative structure.**

9 A: First, ratepayers are the ones who pay IPL's retail rates to support the operation
10 and maintenance expenses and provide a return on rate base on the assets that
11 support these sales. Therefore, IPL ratepayers should be the ones to benefit from
12 such OSS margins.

13 Secondly, MISO plays the primary role in conducting off system sales of
14 IPL's excess generation, and it is IPL's retail ratepayers who will pay the MISO
15 administrative fees for this service. On page 4 of Mr. Dinger's testimony, he
16 states, "IPL makes an off system sale of power when the amount of IPL
17 generation for an hour exceeds the amount of system power consumed by IPL's
18 retail customers." In the OUCC's data request 76, question 25, the OUCC asked
19 whether an off system sale automatically occurs when generation exceeds the
20 amount of power consumed, or if the OSS is not automatic, then the OUCC
21 requested IPL describe the process that is completed by MISO and/or IPL with
22 regard to such excess generation. IPL's response to the OUCC's data request
23 stated, "Practically speaking, an OSS occurs when generation exceeds the amount

1 of power consumed, but the calculation of OSS is made after the fact by IPL when
2 preparing the FAC filing schedules.”⁸ So in essence, IPL offers its available
3 generation into the MISO market, based on its operating conditions expected for
4 the day ahead. If IPL has offered more available generation into the market than
5 is needed to buy back for load, then MISO may take that excess generation and
6 sell it in the real-time market, thus resulting in an OSS. The OSS transaction is
7 completed solely by MISO. It is only the calculation made, after the OSS
8 transaction has been completed, that involves IPL. In response to the OUCC’s
9 data request 85, question 1(b), IPL indicated that it makes all of its off system
10 sales through MISO and that there are no “Inter-System Sales other than MISO”⁹
11 at this time.¹⁰ Furthermore, going back only as far as the beginning of 2010,
12 IPL’s Schedule 5 included in its FAC filings have not included any off-system
13 sales other than through MISO. In some Indiana Electric Investor-Owned Utility
14 base rate cases the Commission authorized equal sharing of OSS (50/50) between
15 customers and shareholders to provide an incentive for the utility to maximize
16 OSS.¹¹ However, if OSS margins depend primarily on MISO’s administration of
17 unit dispatch and MISO’s energy markets and Petitioner is only making a
18 calculation after the fact in order to prepare its FAC filing, then Petitioner plays a
19 limited role in its control of OSS margin outcomes. If the sale is being handled

⁸ See Attachment SRG-4.

⁹ Per IPL’s response to OUCC Data Request 85, Question 1 (a), the terms “off system sales” as used in Mr. Dininger’s direct testimony and “Inter-System Sales” as used in FAC Schedule 5 are interchangeable. Also See Attachment SRG-5.

¹⁰ See Attachment SRG-5.

¹¹ Commission Order in Cause No. 44075 dated February 13, 2013, Indiana Michigan Power Company, Page 54, Commission Discussion and Findings, Paragraph 1 and Commission Order in Cause No. 43839 dated April 27, 2011, Vectren South Electric, Page 41, Commission Findings, First Full Paragraph.

1 by MISO, and ratepayers are the ones who will pay the MISO administrative fees,
2 then providing Petitioner with a share of OSS margins no longer is necessary.

3 Third, Petitioner recognizes that there is a high level of market
4 uncertainty, indicating that OSS margins are volatile and change over time based
5 on the interaction of market forces in the competitive market and because OSS
6 margins are affected by changes in underlying components. Yet Petitioner still
7 recommends that ratepayers bear all the risk with respect to failure to achieve the
8 base amount of OSS margins. Petitioner's proposal to share 50/50 in the reward
9 if OSS margins are in excess of the base level while ratepayers bear 100% of the
10 risk if OSS margins fall below the base level is asymmetrical. If ratepayers are
11 bearing 100% of the down-side risk, then it is reasonable that ratepayers should be
12 rewarded with 100% of the margins which are achieved above the base amount.

13 My recommended alternative structure allows for a symmetrical approach
14 wherein I recommend \$9.488 million for OSS margins be embedded in base rates
15 with retail customers receiving 100% of all OSS margins. If annual OSS margins
16 are greater than my recommended base level, I recommend 100% of that excess
17 be credited to retail customers, resulting in a credit on the customer's bill. If
18 annual OSS margins are less than the recommended base level (but greater than
19 zero dollars), I recommend that 100% of that deficit be charged to retail
20 customers, resulting in a charge on the customer's bill. Should an OSS Margin
21 mechanism be approved in this proceeding and the Commission permits any
22 sharing of OSS margins above and/or below the embedded amount, then any such
23 sharing should be temporary in nature and subject to complete re-evaluation at the

1 time of IPL's next base rate case in addition to complete re-evaluation of an
2 embedded base rate amount for OSS margins.

III. CAP COST RECOVERY ADJUSTMENT MECHANISM

3 **Q: Is Petitioner proposing a new rate adjustment mechanism described as the**
4 **CAP Cost Recovery Adjustment mechanism (hereafter "CAP mechanism")?**

5 A: Yes. Petitioner is requesting approval of its new Standard Contract Rider No. 24
6 identified as the Capacity Cost Recovery Adjustment.

7 **Q: Does Petitioner currently have a CAP mechanism?**

8 A: No.

9 **Q: Does Petitioner propose to embed an amount in base rates for Capacity Costs**
10 **in this case?**

11 A: Yes. As indicated by IPL Witness Mr. Jim Cutshaw, on page 30 of his testimony,
12 Petitioner proposes to embed \$1.8 million in base rates for capacity costs.
13 Petitioner made a pro forma adjustment of \$955,000 to the test year level of
14 \$845,000 to reflect the \$1.8 million for capacity costs that IPL proposes to reflect
15 in revenue requirements.¹² As stated by Mr. Dininger, on page 13 of his
16 testimony, "This adjustment is necessary to reflect the cost of IPL's 100 MW
17 capacity purchase made in August 2014 to meet IPL's capacity needs beginning
18 June 1, 2015." Mr. Dininger further stated, on page 13, that, "The pro forma level
19 is based upon the price in that signed agreement."

20 **Q: What support does Petitioner provide for its requested approval of a CAP**
21 **Cost Recovery Adjustment Mechanism and proposal to embed \$1.8 million**
22 **for capacity costs in basic rates?**

23 A: Mr. Dininger indicated, on page 13 of his testimony, that charges for capacity are
24 material and volatile and the cost of capacity during the test year is low relative to

¹² See IPL Financial Exhibit IPL-OPER, IPL 2014 Basic Rates Case, Schedule OM3.

1 the need for capacity purchases in 2015. Additionally, Mr. Dininger indicated
2 that capacity needs and costs are expected to continue to change beyond June 1,
3 2015. He further testified that the MISO footprint has enjoyed a healthy reserve
4 margin in the past which is estimated to decline by 2016 to the lowest level since
5 the MISO Resource Adequacy Process began. Moreover, due to Environmental
6 Protection Agency's ("EPA's") Mercury and Air Toxics Standards ("MATS")
7 Rule compliance deadline, the cost of capacity is estimated by IPL to rise as more
8 coal-fired units are retired in the near future. IPL is retiring the Eagle Valley
9 ("EV") plant in April of 2016, wherein IPL will need to purchase additional
10 capacity for the 2016-2017 MISO Planning Year. Once the Combined Cycle Gas
11 Turbine ("CCGT") at Eagle Valley is in-service,¹³ IPL expects to be in a position
12 to sell capacity bilaterally or through the MISO auction. Although IPL plans to
13 have another rate case contemporaneous with the EV CCGT being placed in-
14 service, IPL has indicated that establishing the CAP mechanism in this case will
15 permit IPL's actual capacity costs to be timely reflected in rates and will also
16 provide a mechanism to allow margins from bilateral capacity sales to flow
17 through as a rate credit for the benefit of customers.

18 **Q: Do you agree with Petitioner's request for approval of a CAP mechanism**
19 **and to embed \$1.8 million in basic rates for capacity costs in this proceeding?**

20 **A:** Yes, but with appropriate modifications to the CAP mechanism. IPL may have
21 the opportunity to sell excess capacity into the MISO auction or through bilateral
22 transactions in which IPL will receive revenues from those sales. Without a

¹³ Anticipated in-service date of approximately April 2017 based on the Eagle Valley CCGT construction timeline of July 2014 through April 2017 on "Figure 5.4 – Short Term Action Plan Timeline" provided in IPL's Integrated Resource Plan ("IRP"), Final Plan Volume 1.

1 capacity tracker to track capacity sales, in addition to purchases, customers would
2 not have the opportunity to benefit from capacity sales profits. Therefore, a CAP
3 mechanism that allows IPL to track its capacity purchases and sales, and allows
4 customers the opportunity to benefit from profits on capacity sales, seems
5 reasonable.

6 Based on IPL's expectation that it will initiate a new rate case in the near
7 future so that new rates can be implemented contemporaneous with the in-service
8 date of the new CCGT and other compliance facilities in 2017, embedding an
9 amount of the \$1.8 million in base rates for capacity costs in the current
10 proceeding seems reasonable. As indicated by IPL Witness Mr. Dininger, the
11 level of costs in the test year was \$845,000. In determining its pro forma
12 adjustment of \$955,000, IPL took into consideration its projected capacity and
13 costs associated with those projections when it reflected the cost of IPL's 100
14 MW capacity purchase made in August 2014 to meet IPL's capacity needs
15 beginning June 1, 2015. Additionally, IPL's budgeted capacity costs for [REDACTED]
16 show that capacity needs will [REDACTED] as well, which is likely due to
17 IPL's EV Units 3-6 being retired.

18 However, once the new EV CCGT is placed in-service, IPL's need for
19 capacity is projected to [REDACTED] significantly. IPL's budgeted capacity costs for
20 years [REDACTED] show a significant [REDACTED]
21 [REDACTED]. In IPL's next rate case, after IPL's
22 EV Units 3-6 have been retired to comply with environmental requirements and
23 its new EV CCGT is placed in-service, it will be easier to access IPL's capacity

1 conditions and any changes to its capacity needs. Thus, my recommendation for
2 approval of IPL to embed a base rate amount of \$1.8 million for capacity costs is
3 based on IPL's representation that it will initiate a new base rate case in the near
4 future. Therefore, the amount of capacity costs included in base rates should be
5 re-evaluated at the time of IPL's next rate case filing, as well as any subsequent
6 rate case filings.

7 **Q: Will the same approach to tracking capacity costs be reasonable at the time**
8 **of IPL's next rate case?**

9 A: It is premature to make that judgment at this time. However, it is reasonably
10 certain that IPL's capacity situation will change significantly when the EV CCGT
11 comes on line. The tracking of capacity costs should be re-evaluated at that time.

12 **Q: How does Petitioner propose to structure its CAP mechanism?**

13 A: IPL proposes that the annual filing schedule of the CAP Adjustment factor run
14 from June through May which is the same period as the MISO Planning Year and
15 coincident with one of the quarterly FAC Rider 6 filings.

16 As proposed by IPL, the CAP mechanism would recover the excess (or
17 deficit) of an estimate of capacity purchase costs (greater than zero) compared to
18 the amount included in the determination of base rates in this proceeding. A true-
19 up of the estimate to actual would occur in a subsequent annual filing.

20 IPL Witness Mr. Jim Cutshaw provided specifics about the proposed CAP
21 Cost Recovery Adjustment, beginning on page 30 of his testimony. If the annual
22 capacity purchase costs exceed the base amount reflected in base rates, then the
23 excess would be recovered 100% through the CAP mechanism, resulting in a
24 charge on the retail customer's monthly bill. Additionally, if annual capacity

1 purchase costs are less than the base amount (but greater than zero dollars), IPL
2 proposes that 100% of that reduction be shared with retail customers, resulting in
3 a credit on the retail customer's monthly bill.

4 **Q: How does IPL propose to treat profits on the sale of capacity?**

5 A: If capacity costs are less than zero dollars (which would indicate capacity sales
6 profits), then IPL proposes to share those profits 50% with retail customers and
7 50% retained by IPL.

8 Essentially 100% of annual capacity purchase costs would be charged to
9 retail customers (through a combination of base rates and the CAP Cost Recovery
10 Adjustment mechanism). However, if annual capacity sales occur, then sale
11 revenues would first be netted against annual capacity purchase costs before any
12 net profits (revenues) would be shared 50% with retail customers and 50%
13 retained by IPL.

14 **Q: Do you believe that IPL's proposed treatment of capacity sales revenue is**
15 **reasonable?**

16 A: Only in part. IPL's proposed structure would allow revenues from the sale of any
17 excess capacity during the MISO Planning Year to be netted against any capacity
18 purchase costs (that customers are paying 100% of). This part of IPL's proposal
19 is reasonable.

20 However, once the cost of capacity purchases are covered, then IPL
21 proposes 50/50 sharing of any capacity sales profits. The OUCC does not support
22 IPL's proposal to pass 100% of capacity costs onto customers while sharing only
23 50% of capacity sales profits.

1 IPL's proposed mechanism is asymmetrical. Capacity costs are 100%
2 flowed through to customers. Profits on the sale of capacity are flowed 50% to
3 customers and 50% to shareholders. The OUCC does not object to reasonable
4 costs of capacity being charged to customers. However, the benefits of profits on
5 capacity sales should be used to reduce customer rates. This would mitigate the
6 impact of rate increases faced by IPL customers in base rate cases and its various
7 tracker mechanisms.

8 The OUCC recommends that the proceeds from capacity sales be used to
9 benefit customers who are responsible for paying the costs of capacity. If the
10 Commission permits any sharing of capacity sales profits, then any such sharing
11 mechanism should be temporary in nature and subject to complete re-evaluation
12 at the time of IPL's next base rate case, which is expected to include the addition
13 of more than 500 MW of new capacity from the EV CCGT plant.

IV. RECOMMENDATIONS

14 **Q: What do you recommend with respect to IPL's proposed OSS Margin**
15 **Sharing Adjustment mechanism and CAP Mechanism in this proceeding?**

16 **A:** I recommend the Commission:

17 (1) Approve an OSS Margin Adjustment mechanism for IPL that requires IPL
18 to embed \$9.488 million for OSS margin credits in its base rates, with
19 100% of all OSS margins above this base rate amount credited to retail
20 customers and 100% of all OSS margins below this base rate amount
21 (down to zero) charged to customers.

1 (2) Approve a CAP Cost Recovery Adjustment mechanism for IPL wherein
2 \$1.8 million for capacity costs is embedded in IPL's base rates. Capacity
3 revenues from the sale of capacity during the MISO Planning Year should
4 be netted against capacity purchase costs (that customers are paying 100%
5 of). Any additional capacity sales revenue (profit) should be used to
6 reduce customer rates.

7 (3) Re-evaluate the OSS Margin Adjustment mechanism and CAP
8 mechanism, including the structure of each tracking mechanism, and any
9 amount embedded in base rates for OSS Margins and Capacity in IPL's
10 future rate cases.

11 **Q: Does this conclude your testimony?**

12 **A: Yes, it does.**

APPENDIX A

1 **Q: Please summarize your professional background and experience.**

2 A: I graduated from Indiana University, Indianapolis, with a Bachelor of Science
3 degree in Business, majoring in Accounting, Finance, and International Studies. I
4 joined the OUCC in 2003. Since then, I have attended seminars on demand side
5 management and energy efficiency issues. I attended "Practical Skills for the
6 Changing Electric and Gas Industries," sponsored by the National Association of
7 Regulatory Utility Commissioners ("NARUC") and the New Mexico State
8 University Center for Public Utilities, in Albuquerque, New Mexico. I also
9 attended the 2003 Annual Regulatory Studies Program sponsored by NARUC and
10 the Institute of Public Utilities at Michigan State University in East Lansing,
11 Michigan, and the 37th Annual Eastern NARUC Utility Rate School sponsored by
12 NARUC and the Institute of Public Utilities at Michigan State University in
13 Clearwater, Florida. I have attended various Market Subcommittee, Market
14 Settlements Work Group, and Revenue Sufficiency Guarantee ("RSG") Task
15 Force meetings of the Midcontinent Independent System Operator, Inc.
16 ("MISO").

17 **Q: Please describe your duties and responsibilities at the OUCC.**

18 A: I review Indiana electric utilities' requests for regulatory relief filed with the
19 Commission. I also prepare and present testimony based on the results of my
20 analysis and make recommendations to the Commission on behalf of Indiana
21 electric utility consumers.

22 **Q: Have you previously testified before the Commission?**

23 A: Yes.

1 **Q: Please describe the examination and analysis you conducted in order to**
2 **prepare your testimony and schedules in this Cause.**

3 A: I read and reviewed Petitioner's verified petition, prefiled testimony, exhibits, and
4 various work papers. I also reviewed Petitioner's response to various OUCC data
5 requests and participated in discussions with IPL Staff.

6 **Q: Do you have experience working with other utilities' OSS and/or Capacity**
7 **trackers (or other related rate adjustment mechanism)?**

8 A: Yes. I have testified in the following cases which include recovery of OSS
9 margins and/or capacity purchase costs and sales revenues:

- 10 1. Cause No. 43406, Vectren South Electric's ("VSE") Reliability Cost
11 and Revenue Adjustment ("RCRA") tracker, which includes the
12 recovery of wholesale power marketing ("WPM") margins and
13 capacity purchase costs and sales revenues.
- 14 2. Cause No. 44348, Duke Energy Indiana's ("DEI") Summer Reliability
15 Adjustment ("SRA") tracker, which includes the recovery of non-
16 native sales profits and capacity purchase costs and sales revenues.
- 17 3. Cause No. 44156, Northern Indiana Public Service Company's
18 ("NIPSCO") Regional Transmission Organization ("RTO")
19 adjustment tracker, which includes the recovery of OSS margins.
- 20 4. Cause No. 43775 Indiana Michigan Power Company's ("I&M") OSS
21 Margin Sharing tracker.

22 I also have experience with respect to the recovery of capacity purchase costs and
23 sales revenues in Cause No. 44155, NIPSCO's Resource Adequacy ("RA")
24 tracker, and Cause No. 44422, I&M's Capacity Settlements Rider ("CSR").

Data Request OUCC DR 50 - 03

In reference to IPL Witness DCD Attachment 1 and IPL Workpaper 1 – IPL Witness DCD Attachment 1, please identify specific underlying components and key factors that drove OSS margin down to \$6.324 million in calendar year 2012.

Objection:

Response:

OSS margins were down in 2012 principally due to low MISO market prices in the first half of year driven by low natural gas prices and a warmer than normal summer.

See OUCC DR 50-3 Attachment 1 for the MISO 2013 Annual Market Assessment Report, June 2014. Figure 12 of the MISO 2013 Annual Market Assessment Report shows the correlation between natural gas prices and MISO market prices. From Figure 12, it can be seen that years 2012 and 2009 were years of low MISO market prices. The contrast between 2009 & 2012 is the increased amount of wind generation in 2012. In the report, MISO states that "...figure 12 indicates that energy price trends in the MISO footprint are driven by declining natural gas prices and increased penetration of renewables."

Another major factor impacting the amount of IPL OSS for 2012 vs. 2009 was the hot summer of 2012. National Weather Service Forecast Office, Indianapolis, IN, historical weather data can be found at: <http://www.crh.noaa.gov/ind/?n=localcli#day>. From the National Weather Service Forecast Office, the cooling degree days ("CDD") for the months of June through September of 2009 were 863 and for the same months of 2012 were 1,320 (normal is 965). The hot summer of 2012 compared to 2009 increased retail load thereby decreasing the amount of IPL generation available for OSS.

This year of 2015 is showing similar conditions to 2012 so far, characterized by low natural gas prices and low MISO market prices. IPL's OSS margins for 2015 are lower than 2012 at this point in the year.

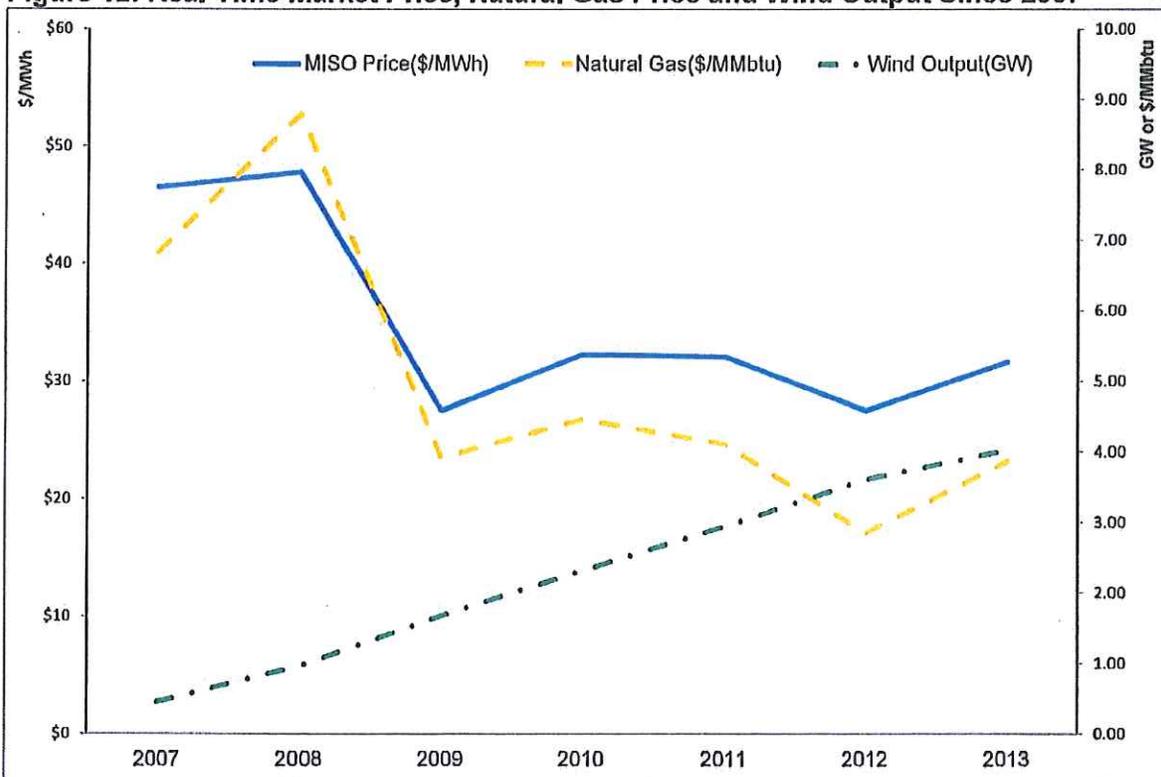


MISO 2013 Annual Market Assessment Report

Information Delivery and Market Analysis

June 2014

Figure 12: Real-Time Market Price, Natural Gas Price and Wind Output Since 2007 Page 3 of 3



- Figure 11 shows yearly average of hourly energy price information since 2007. And figure 12 indicates that energy price trends in the MISO footprint are driven by declining natural gas prices and increased penetration of renewables.
 - The energy price is estimated⁶ to decrease \$3.8/MWh if natural gas price drops \$1/MMBtu.
- The MISO system wide averages of hourly Real-Time and Day-Ahead prices for 2013 were higher than 2012, mainly due to increase of natural gas price in 2013.
- MISO Ancillary Services market (ASM) started in 2009, overall, the yearly average energy prices after 2009 have been stable and much lower than those values prior to ASM.
- When the average absolute hourly price difference between the Day-Ahead and Real-Time markets becomes small (i.e., close to zero), it indicates efficient dispatch in the Day-Ahead market and improved price convergence.
- The MISO market generally exhibits a Day-Ahead price premium, such that average Day-Ahead prices are higher than average Real-Time prices.
- Price differences between Day-Ahead and Real-Time markets exist due in part to market uncertainties inherent in a competitive bidding process, expectations of participants, transmission constraint management practices.

⁶ Simple linear regression of energy price on natural gas price

Data Request OUCC DR 7 - 01

Please provide a breakdown (by month) of the amount (in dollars) of Off-System Sales ("OSS") revenues and OSS margins in excel format, similar to what was provided on IPL Workpaper 1 - IPL Witness DCD Attachment-1, for the following time periods:

- a. Twelve months ending June 30, 2014 (test year);
- b. Calendar year ending December 31, 2014; and
- c. Most current twelve months available, if different from (b).

Objection:

Response:

See OUCC DR 7-01 Attachment 1, which contains OSS revenues and OSS margins in excel format for:

- a. Test year: see tab "OUCC DR 7-01 (a)"
- b. Calendar year ending December 31, 2014: see tab "OUCC DR 7-01 (b) & (c)"
- c. Most current twelve months available: see tab "OUCC DR 7-01 (b) & (c)"

Indianapolis Power & Light Company Off-System Sales Margin Historic Analysis

Calendar Year ending December 31, 2014

Sales through MISO							Sales attributed to LWP production ²					
	KWH Sold (000's)	Fuel Cost	Production Cost		Total Revenue	OSS Margin	KWH Sold (000's)	Fuel Cost	Production Cost		Total Revenue	OSS Margin Attributed to LWP (& credited to retail fuel cost) ³
			Handling Cost	Emissions Cost					Handling Cost	Emissions Cost		
	(4)	(7)	(8)	(9)	(16)	(16)-(7)-(8)-(9)	(4)	(7)	(8)	(9)	(16)	(16)-(7)-(8)-(9)
December 2014	188,371	\$ 4,164,637	\$ 557,232	\$ 2,301	\$ 5,977,760	\$ 1,253,590	39,986	\$ 838,374	\$ 86,160	\$ 503	\$ 1,254,520	\$ 329,483
November 2014	99,231	\$ 2,239,362	\$ 300,867	\$ 1,934	\$ 3,320,250	\$ 778,087	34,102	\$ 742,232	\$ 88,652	\$ 649	\$ 1,124,115	\$ 292,582
October 2014	209,914	\$ 4,620,288	\$ 640,803	\$ 7,657	\$ 6,615,176	\$ 1,346,428	32,668	\$ 657,231	\$ 75,642	\$ 1,128	\$ 977,027	\$ 243,026
September 2014	296,738	\$ 6,399,103	\$ 777,503	\$ 20,594	\$ 9,366,328	\$ 2,170,828	27,706	\$ 567,138	\$ 60,199	\$ 1,998	\$ 869,698	\$ 238,793
August 2014	179,244	\$ 3,343,802	\$ 525,147	\$ 11,833	\$ 5,212,917	\$ 737,135	15,124	\$ 313,550	\$ 37,744	\$ 1,034	\$ 451,314	\$ 92,986
July 2014	198,942	\$ 4,328,053	\$ 543,169	\$ 18,195	\$ 6,014,602	\$ 1,124,185	21,316	\$ 448,490	\$ 48,945	\$ 1,921	\$ 664,041	\$ 164,685
June 2014	223,727	\$ 4,982,629	\$ 616,437	\$ 19,417	\$ 7,172,285	\$ 1,553,802	22,236	\$ 476,330	\$ 53,423	\$ 2,142	\$ 744,583	\$ 212,688
May 2014	211,729	\$ 4,654,385	\$ 565,345	\$ 21,438	\$ 7,147,370	\$ 1,906,202	26,723	\$ 554,976	\$ 60,221	\$ 2,780	\$ 929,888	\$ 311,911
April 2014	94,968	\$ 2,124,499	\$ 249,270	\$ 6,934	\$ 3,478,548	\$ 1,097,845	20,860	\$ 451,732	\$ 52,588	\$ 1,536	\$ 666,669	\$ 160,753
March 2014	250,268	\$ 5,778,871	\$ 623,269	\$ 16,450	\$ 12,046,142	\$ 5,627,552	23,491	\$ 496,675	\$ 51,339	\$ 1,385	\$ 1,131,257	\$ 581,858
February 2014	122,959	\$ 3,011,180	\$ 384,039	\$ 9,061	\$ 5,729,107	\$ 2,324,827	27,408	\$ 646,589	\$ 74,684	\$ 1,875	\$ 1,369,557	\$ 646,409
January 2014	19,370	\$ 449,675	\$ 69,244	\$ 1,518	\$ 612,632	\$ 92,195	10,453	\$ 237,782	\$ 35,359	\$ 775	\$ 340,707	\$ 66,791
Totals:												
Test Year	2,095,461					\$ 20,012,676	302,073				\$ 3,341,965	

Note 1: From FAC work papers, Schedule 11; Column designations equate to column numbers on original schedule; Control Area Losses added back to Sales through MISO "IPL Fuel Costs" and "Total Revenues"

Note 2: Sales attributed to LWP production are in addition to MISO Sales

Note 3: Also represented as "Lakefield PPA Adjustment" on FAC Schedule 5

Data Request OUCC DR 12 - 01

On page 28, lines 12-21 of his direct testimony, IPL Witness Cutshaw discusses IPL's proposed Off-System Sales ("OSS") Margin Sharing Adjustment. Regarding the "estimate of OSS Margins" as described by Mr. Cutshaw, please respond to the following:

- a. Provide a breakdown (by month) of the amount (in dollars) of IPL's estimated/forecasted OSS revenues and estimated/forecasted OSS margins (in excel format where applicable) for calendar years 2015, 2016, 2017, 2018, and 2019.
- b. Please explain how estimated/forecasted OSS Margin is determined (including the foundation and/or process IPL utilizes in making its estimate/forecast).

Objection:

IPL objects to the Request on the grounds and to the extent the request seeks information that is confidential, proprietary, competitively-sensitive and/or trade secret. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

- a. OUCC DR 12-1, Confidential Attachment 1 contains the requested breakdown of IPL's budgeted OSS Margins for 2015 through 2019. Please note that the information is in millions of dollars, and that a monthly budget is only available for 2015 and 2016 so annual information is provided for 2017 through 2019. Please also note that consistent with current practice (which IPL proposes to continue) OSS Margins attributed to Lakefield Wind Park will be reflected in FAC filings. Therefore they have been deducted from total budgeted OSS Margins in the response. This document is being provided pursuant to the nondisclosure agreement between the parties.
- b. IPL utilizes the Ventyx Strategic Planning production cost model to forecast OSS margin. Input assumptions such as unit operating parameters, market power prices, retail load, unit outages, etc., are loaded into the model. The model stacks unit segments from least cost to most cost, with least cost serving retail load. Hourly dispatch within the model simulates the interaction of generation, retail load, wholesale prices, and consequently wholesale sales.

CONFIDENTIAL

Data Request OUCR DR 76 - 25

On page 4 of his testimony, Mr. Dinger states “IPL makes an off system sale of power when the amount of IPL generation for an hour exceeds the amount of system power consumed by IPL’s retail customers.” Does an off system sale automatically occur when generation exceeds the amount of power consumed? If the OSS is not automatic please describe the process that is completed by MISO and/or IPL. Please provide a flow chart showing what happens when an off system sale of power takes place.

Objection:

Response:

Practically speaking, an OSS occurs when generation exceeds the amount of power consumed, but the calculation of OSS is made after the fact by IPL when preparing the FAC filing schedules. As stated in the notes on OUCR DR 76-23 Attachment 1, Schedules 5 and 11 from the FAC filings contain the data necessary to make the calculations.

Data Request OUCR DR 85 - 01

In Petitioner's response to OUCR data request 76-25, Petitioner indicated that Schedules 5 and 11 from the FAC filings contain data necessary to make the calculations. In reference to Petitioner's FAC Filing, Schedule 5, please respond to the following:

- a. Does Petitioner believe that the terms "off system sale" and "intersystem sale" are interchangeable? If not, please define "intersystem sale" and describe the difference between these two terms.
- b. Please explain the difference between "Inter-System Sales through MISO" and "Inter-System Sales other than MISO." Can an inter-system sale or off-system sale occur without MISO?

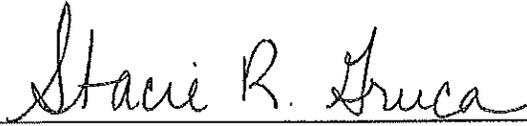
Objection:

Response:

- a. The terms "off system sales" as used in Mr. Dininger's direct testimony and "Inter-System Sales" as used in FAC Schedule 5 are interchangeable.
- b. "Inter-System Sales through MISO" (line 11 of FAC Schedule 5) refers to off system sales that IPL makes to MISO as explained in Mr. Dininger's direct testimony Q/A #11. IPL makes all of its off system sales through MISO; therefore, there are no "Inter-System Sales other than MISO" at this time.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.



Stacie R. Gruca
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

July 27, 2015

Date

Cause No. 44576/44602
IPL