VERIFIED DIRECT TESTIMONY OF JOHN A. WAGNER

Q1. Please state your name, business address and title.

A1. My name is John A. Wagner. My business address is 801 E. 86th Avenue, Merrillville, Indiana 46410. I am Manager, Fuel Supply for Northern Indiana Public Service Company LLC ("NIPSCO").

Q2. Please describe your educational and employment background.

A2. I graduated from Macomb College with an A.A.S. degree in automotive design, from Wayne State University with a B.S. in mechanical engineering, and I earned a M.B.A. from the University of Michigan. From 1998 to 2015, I held engineering and fuel procurement roles with increasing levels of responsibility at DTE Energy. My last role there was Director of Fuel Supply where I was responsible for the procurement of coal, natural gas, and oil for 10,000 MW of electric generating capacity as well as the oversight of DTE's coal transshipment terminal in Superior, Wisconsin. I started my employment as Manager, Fuel Supply at NIPSCO in 2016.

Q3. What are your responsibilities as Manager, Fuel Supply?

A3. As Manager, Fuel Supply, I am responsible for supervising the purchase and transport of coal used for generating electric energy, that includes negotiation and administration of coal supply agreements, coal transportation agreements, railcar leases, and railcar maintenance service agreements. In addition, Fuel Supply is responsible for the collection of fuel cost data, fuel accounting support and the disposal and sale of coal combustion residuals.

Q4. Are you familiar with the Company's Verified Petition, including the schedules attached thereto, initiating this proceeding, a copy of which has been marked Attachment 1-A?

A4. Yes.

Q5. What is the purpose of your testimony in this proceeding?

A5. The purpose of my testimony is to (1) summarize the fuel mix used by NIPSCO's fossil-fueled generation during the period July, August, and September 2022 ("Reconciliation Period"); (2) describe NIPSCO's coal procurement process and the coal supply agreements that governed coal shipments NIPSCO received during the Reconciliation Period; (3) provide

the delivered cost of the coal consumed by NIPSCO's generating stations during the Reconciliation Period and summarize any known factors that affected the delivered cost including, but not limited to, a coal inventory adjustment that was made during the Reconciliation Period; (4) provide an overview of the coal market, coal pricing, transportation markets, and factors that affected those markets during the Reconciliation Period; (5) provide NIPSCO's estimated coal costs for January, February, and March 2022 (the "forecast period") and the assumptions used to develop NIPSCO's fuel forecast and factors that could impact the forecast; (6) provide a status update for NIPSCO's railcar fleet, utilization, and cost management; (7) provide an overview of NIPSCO's coal inventory; (8) provide an update on the status of NIPSCO's Railroad Litigation[1]; and (9) provide an update on the status of coal and transportation decrements.

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[1] On September 30, 2019, NIPSCO filed a complaint in the United States District Court for the District of Columbia against the Union Pacific Railroad Company, BNSF Railway Company, CSX Transportation, Inc., and Norfolk Southern Railway Company (currently pending in Civil Action No. 1:19-cv-02927-PLF, consolidated for pre-trial purposes in Misc. No. 1:20-mc-00008-BAH, MDL No. 2925) for illegally conspiring to use rail fuel surcharges as a mechanism to fix, raise, maintain, and stabilize the prices of rail freight transportation services sold in the United States (the "Railroad Litigation").

Q6. What was the generation mix, by fuel type, of the energy produced by NIPSCO's fossil-fueled generation during the Reconciliation Period?

A6. NIPSCO's coal-fired generation provided 60.9% of the energy generated during the Reconciliation Period, and 39.1% of the energy generated was gas-fired. NIPSCO's coal-fired generation consumes coal from various supply regions. For the Michigan City Generating Station ("Michigan City"), a mix of Powder River Basin ("PRB") coal and Northern Appalachian ("NAPP") coal is consumed. Illinois Basin ("ILB") coal is consumed in Units 17 and 18 at the R. M. Schahfer Generating Station ("Schahfer").

Q7. How does NIPSCO procure its coal supply?

A7. NIPSCO solicits as many prospective suppliers as reasonably possible to provide offers for specific coal types and tonnage based on a portion of NIPSCO's estimated future delivery requirements. Specifically, NIPSCO prepares a Request for Proposals and sends it to suppliers that can provide the type of coal required. Suppliers send proposals to the Corporate Auditor, and a formal bid opening is held with Auditing and Fuel Supply representatives. In some instances, NIPSCO may contact suppliers by

telephone if there are only a small number of suppliers that can meet critical specifications and/or if time is of the essence (e.g., emergency purchases if contracted supply is interrupted, unanticipated increases in consumption, market volatility, coal market and transportation constraints, etc.). In these cases, the supplier will send offers by email or provide a quote over the telephone directly to Fuel Supply.

NIPSCO then performs an evaluation that ranks the offers on a total cost basis, compares offers to published price indices and considers reliability of the producer/supplier and transportation provider(s). The total cost analysis includes the coal free-on-board (or "F.O.B.") mine price, quality, transportation costs, reliability, railcar costs, dust treatment, emissions control costs, costs associated with coal combustion byproducts and other operational costs. NIPSCO then negotiates commercial terms and conditions with the supplier with the most competitive offer and enters into a term agreement after the contract receives legal and executive approval. An agreement is considered a term supply agreement if the contract term is one (1) year or longer.

Q8. What factors need to be considered in purchasing fuel for NIPSCO's coal-fired generating units?

A8. Factors that are considered in purchase evaluations for a specific generating unit include the delivered cost, operational costs, cost of emissions controls, and management of coal combustion byproducts. In addition, a coal's combustion and emission characteristics are critical and may eliminate a coal from consideration if these characteristics adversely affect a generating unit's reliability, drastically increase the total cost (fuel and operational costs) of generation or inhibits NIPSCO's ability to comply with emission limits. Reliability of the coal source and coal transportation from that source are also critical factors.

Q9. What supply agreements governed coal shipped to NIPSCO during the Reconciliation Period?

A9. NIPSCO purchased coal under three supply contracts as follows: One agreement with Arch Coal Sales Company for PRB coal, one agreement with American Consolidated Natural Resources ("ACNR") for NAPP coal, and one agreement with Peabody COALSALES, LLC ("Peabody") for ILB coal.

Q10. Does NIPSCO have a financial interest in any of the coal producers currently under contract?

A10. No.

Q11. Did NIPSCO sell any coal purchased by NIPSCO to any other party during the Reconciliation Period?

A11. No.

Q12. Did NIPSCO make any new commitments for either spot or term coal purchases or coal transportation during the Reconciliation Period?

A12. Yes. NIPSCO committed to a test coal supply agreement with Columbia Resource Group, Inc. The coal supply under this agreement was recovered waste coal that consisted of predominately PRB coal with traces of Western Bituminous and ILB coals. The coal was cleaned and processed before shipment in order to render it suitable for use in electric utility scale boilers.

Q13. Did any of NIPSCO's term coal contracts effective during the Reconciliation Period have price adjustments?

A13. Yes. One (1) of the contracts has mostly fixed prices specified in the contract, and a portion of the volume under this contract was priced using a coal market index. One (1) contract had rates that are indexed to

generating unit hourly Day-Ahead Locational Marginal Power Prices ("LMPs"). In addition, all NIPSCO's coal supply agreements adjust the price of coal based on a shipment's quality variances from contract specifications.

Q14. What is the purpose of price adjustments in term coal contracts?

A14. In general, producers and customers are reluctant to execute long term contracts with fixed prices without some type of market price adjustment mechanism. Maintaining a price close to market is beneficial to both parties. For example, long term coal supply agreements with fixed prices could end up well above future market prices making electricity generated with that supply uneconomic. Therefore, the producer and customer may work together to establish an equitable price adjustment methodology. For example, the price may be calculated based on a mix of prompt and year-ahead published market prices. The adjustment methodology is incorporated into the terms and conditions of the agreement, and price adjustments are typically made each contract year. Historically, market-based price adjustments in term supply agreements tend to reduce the buyer's cost of hedging since future prices are generally higher than spot

and year-ahead prices. In addition to base price adjustments, quality price adjustments are used to maintain the underlying economics of the agreement on a dollar per million British thermal unit ("BTU") basis when the shipment quality varies from the guaranteed quality specifications.

Q15. What was the delivered cost of coal consumed[2] by NIPSCO's generating stations for the twelve (12) months ending September 30, 2022 and for the Reconciliation Period?

A15. The delivered cost of coal consumed for the twelve (12) months ending September 30, 2022 was $60.99 per ton or $2.969 per million BTU. The cost of coal consumed during the Reconciliation Period was $68.86 per ton or $3.387 per million BTU.

Q16. What factors affected NIPSCO's delivered cost of coal consumed during the Reconciliation Period when compared to the prior quarter?

A16. As stated above, NIPSCO's delivered cost of coal consumed during the Reconciliation Period was $68.86 per ton or $3.387 per million BTU. The system delivered cost of coal consumed during the prior Reconciliation

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[2] Starting with FAC 129, NIPSCO now reports the delivered cost of coal consumed during the Reconciliation Period. This methodology is comparable to the cost of coal consumed for power generation projected for the forecast period.

Period was $61.06 per ton, and $3.007 per million BTU. When compared to the prior Reconciliation Period, the delivered cost of coal consumed increased by $7.80 per ton and was up $0.380 on a per million BTU basis.

Several factors contributed to the change in the cost of coal expensed during the Reconciliation Period. One factor was an increase in the consumption of ILB coal relative to PRB coal consumption. PRB coal used at Michigan City is lower cost than the ILB coal used at Schahfer, and this difference in mix contributed to the higher unit cost. There were also increases in ILB delivered coal expense largely due to higher coal prices, higher transportation rates that are indexed to station power prices, and increases in railroad fuel surcharges driven by increased On-Highway Diesel Fuel prices. These factors also contributed to the increase in the system cost of coal.

Q17. What was the average spot market price of coal during the Reconciliation Period?

A17. The average spot market price of PRB coal during the Reconciliation Period was $17.42 per ton (up $0.84 when compared to the prior Reconciliation Period), $179.87 per ton (up $61.67 when compared to the prior

Reconciliation Period) for ILB coal, and $192.59 per ton (up $58.34 when compared to the prior Reconciliation Period) for NAPP coal. NIPSCO tracks spot market prices by reviewing various daily and weekly coal publications. These are average F.O.B. mine spot market prices only, which do not include the cost of transportation and are only an indication of prices NIPSCO may pay if purchases were made during the Reconciliation Period. However, given the relative illiquidity of coal markets, actual purchase prices can vary from published indices.

Q18. What are the current spot market prices for coal?

A18. As of November 7, 2022, the estimated F.O.B. mine spot market prices for December 2022 delivery were approximately $16.50 per ton for PRB coal, $164.50 per ton for ILB coal, and $137.67 per ton for NAPP coal.

Q19. What are the market prices for coal the forecast period?

A19. As of November 7, 2022, the estimated F.O.B. mine spot market prices for delivery during the forecast period were $16.25 per ton for PRB coal, $150.63 per ton for ILB, coal and $137.67 per ton for NAPP coal. Again, these prices do not include the cost of transportation.

Q20. What factors affected the market for coal and transportation and may continue to impact the market going forward?

A20. Coal prices continued to climb during the Reconciliation Period. Coal prices were driven by strong coal demand in Europe as API 2 prices (coal delivered to Amsterdam, Rotterdam, and Antwerp) spiked on March 8, 2022 to $458.65 per tonne[3,4] and fell back to $273.35 per tonne by the end of March. API 2 prices rebounded and increased during the Reconciliation Period (to nearly $400 per tonne in July) which helped drive NAPP and ILB prices to new highs. Wholesale electricity prices continued to climb during the Reconciliation Period. For example, Schahfer's average 2022 year-to-date LMPs are up roughly 149% versus 2021 and roughly 197% above the 5-year average. The key drivers keeping upward pressure on electric prices include strong global energy demand, rising electric demand, high natural gas prices, high coal prices, increased railroad fuel surcharges and rates, and higher emission costs (e.g., Cross-State Air Pollution Rule seasonal NOx allowances). The Energy Information Administration ("EIA") projects that renewables will contribute 22% of the energy in 2022, natural gas

[3] 1 tonne = Metric ton = 1.10231 U.S. short ton

[4] https://www.marketwatch.com/investing/future/mtfc00/charts?mod=mw_quote_advanced

generation will be 38%, and coal will provide 20% of the electric energy supply.[5] U.S. coal production is expected to increase by 3% in 2022 (17M tons).[6] High natural gas and energy prices in late 2021 and during 2022 increased the competitiveness of coal both domestically and internationally. However, the EIA expects natural gas prices to trend lower into 2023. Given high coal prices and downward pressure on natural gas prices, coal fired generation will likely return to the marginal energy source in 2023. In the long run, coal demand will likely fall driven by lower natural gas prices and as coal generation capacity is phased out of energy markets worldwide.

The dynamics described above have created significant volatility in all energy markets during the Reconciliation Period. Although PRB prices have trended lower since February of 2022, NAPP and ILB prices increased significantly again during this Reconciliation Period. In addition, strong domestic coal demand and increased coal demand globally have supported higher coal prices. As mentioned above, coal pricing into Europe (delivered to Amsterdam, Rotterdam, and Antwerp) increased drastically in 2022 due

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5 November 2022 EIA Short-Term Energy Outlook: https://www.eia.gov/outlooks/steo/.
6 *Ibid.*

to high demand and supply shortages in Europe. Coal producers and railroads have typically relied on strong international markets to offset the long-term decline in domestic demand. That said, strong exports and improved domestic demand have provided coal producers and coal transporters with increased sales opportunities and price improvements. These market conditions combined with constraints in the coal supply chain have created coal supply shortages that have led to considerably higher coal prices. The EIA expects steam coal exports should stay near an 84 million ton[7] pace annually through the end of 2023, which will keep pressure on domestic supply in the near term. Class I railroads have struggled to meet the surge in demand over the last year and have limited customer shipments for not only coal, but other commodities and products they transport. Coal supply constraints have been caused by reduced investment in coal production and coal transportation projects, supplier bankruptcies, and mine closures over the last several years. These supply and capacity reductions, combined with the unanticipated surge in coal demand and the strong economic recovery, have strained the coal supply

[7] https://www.eia.gov/outlooks/steo/data/browser/.

chain. Strong coal demand both domestically and globally, combined with coal supply chain challenges, will likely keep pressure on coal prices in into early 2023. Regardless, the long-term global trend to aggressively reduce fossil fuel generation will continue to drive the retirement of coal-fired generation. In addition, the economy is expected to contract into 2023, and this may put downward pressure on coal and transportation pricing.

Q21. What is NIPSCO's estimate for the cost of coal to be used for power generation during the forecast period?

A21. NIPSCO's cost of coal consumed for generation in the forecast period is estimated to be $78.20 per ton and $3.712 per million BTU.

Q22. What data and assumptions does the Fuel Supply group use to develop pricing estimates for the forecast period?

A22. In developing the estimate for the forecast period, NIPSCO's Fuel Supply group incorporates coal contract prices inclusive of any adjustments specified in the agreement, dust treatment costs, freeze conditioning (seasonal) costs, railcar lease cost, railcar maintenance costs, estimates of contract prices (fixed prices and indexed contract rates using forward LMP estimates), transportation fuel surcharges using the monthly average price

of U.S. On-Highway Diesel Fuel ("HDF"), Association of American Railroad's All-Inclusive Index Less Fuel ("AIILF") adjustments, and estimates of future coal market prices. In addition, Fuel Supply also provides a forecast of beginning inventory values in dollars and quantities in tons for each of the generating stations. These assumptions are provided to NIPSCO's Energy Supply & Optimization group, which uses these assumptions to develop the forecast for the period.

Q23. Please describe the factors NIPSCO believes will impact coal supply, demand, and cost of the coal commodity to be purchased and shipped to its stations during the forecast period.

A23. The market dynamics described above have resulted in increased coal demand globally and could create supply challenges for coal-fired utility generators into 2023. There are multiple factors that may impact supply and demand during the forecast period including, but not limited to, power prices, natural gas prices, railroad and coal supplier performance, generating unit performance, weather conditions, and labor disruptions. Regarding NIPSCO's supply and demand, contracted purchases are forecasted to meet NIPSCO's 2022 and most of the 2023 coal delivery

requirements and coal producers are obligated to perform under these agreements. NIPSCO has had discussions with all its coal suppliers, in which the suppliers indicated they will meet NIPSCO's contracted coal supply requirements. Regarding the cost of coal, the price of coal used for the forecast period consists of mostly fixed prices. One coal supply agreement has pricing that is indexed to station LMPs where a coal price is estimated using forecasted LMPs. Therefore, if power prices continue to increase, there may be increases in the cost of coal under the indexed coal supply agreement. However, this contract has maximum rates and ultimately hedges price exposure. Lastly, if demand exceeds the forecast and current supply obligations, NIPSCO may need to purchase additional supply, which may impact fuel costs during the forecast period.

Q24. What factors will impact coal transportation costs during the forecast period?

A24. There are two key factors that could impact coal transportation costs during the forecast period. One factor, power prices, may impact coal transportation costs under two transportation contracts that are indexed to station LMPs. Contract transportation rates are forecasted using forward

energy prices and have maximum rates that ultimately hedge price exposure. A second factor is the price of HDF. Two coal transportation agreements also have mileage-based fuel surcharges that vary with changes in HDF which can impact transportation costs. Fuel surcharges under these agreements are calculated monthly using the average weekly spot price of HDF. Fuel surcharge estimates are included in rate projections used to develop comprehensive transportation costs for the forecast period.

For reference, the spot price of HDF as of November 7, 2022 was $5.333 per gallon.[8] This is a 43% year-over-year increase. The EIA expects strong demand in diesel oil markets during November and expects all distillate prices to increase, but anticipates that retail diesel fuel prices will peak in November at $5.445 per gallon and should decline to an average of $4.660 per gallon during 2023.[9] Short-term diesel fuel price volatility may lead to variations in the actual cost of transportation during the forecast period.

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8 EIA Gasoline and Diesel Fuel Update: https://www.eia.gov/petroleum/gasdiesel/h.

9 November 2022 EIA Short-Term Energy Outlook (U.S. Liquid Fuels): https://www.eia.gov/outlooks/steo/.

Q25. What was the status of NIPSCO's railcar fleet during the Reconciliation Period?

A25. NIPSCO's fleet size was 1,046 railcars (seven sets with 16.4% spares) during the Reconciliation Period. As stated in prior testimony, the typical spare railcar pool is roughly 8%; however, NIPSCO has been in the process of collecting railcars for return and that led to variations in the spare railcar count. During the Reconciliation Period, NIPSCO utilized roughly 90% of its railcar fleet. NIPSCO stored sets at Schahfer during a Unit 18 outage in September, but overall utilization increased from the prior reconciliation period. Current market conditions have challenged coal deliveries nationwide, and higher transit times combined with higher demand. Given current market conditions, poor rail performance (higher cycle times and lack of crews and locomotives) and planned changes in coal unit operations at Schahfer, NIPSCO has continued to re-evaluate its railcar needs. That said, NIPSCO is planning to return up to 230 railcars by the end of the second quarter of 2023. This would reduce the fleet to 816 railcars or approximately six-unit trains with roughly 8% spares.

Q26. Please describe NIPSCO's efforts to mitigate costs incurred during periods of lower than anticipated train set utilization during the Reconciliation Period.

A26. NIPSCO reduced the fleet size by 393 railcars in 2021 and returned an additional 17 cars in 2022. NIPSCO suspended railcar returns due to the extension of operation of Units 17 and 18 at Schahfer, poor railroad performance, and increased coal demand as mentioned above. In addition, poor railroad performance hampered NIPSCO's ability to collect and return railcars earlier in the year. That said, NIPSCO has no railcars stored at third-party locations, and has not incurred any long term storage costs. Most storage requirements can be met by using NIPSCO-owned trackage at Schahfer (this is a zero cost option).

Q27. Does NIPSCO have any concerns for fuel supply during the forecast period?

A27. NIPSCO is proactively administering coal and rail transportation agreements to address any potential coal supply and/or coal transportation shipment issues. In addition, all anticipated coal supply requirements for 2022 should be met under current supply agreement. Notwithstanding,

increased demand for both coal and coal transportation globally has increased the stress on the coal supply chain. Most Class I railroads (BNSF, CSXT, NS, and the UP) have struggled to meet customer demand during the first half of 2022 along all lines of their business. As discussed in prior testimony, Class I railroads are required to participate in bi-weekly conference calls with the Surface Transportation Board ("STB") to provide status reports and explain efforts to correct service deficiencies. That said, NIPSCO and Union Pacific have worked through some of the near-term issues. In addition to daily operations calls, NIPSCO is meeting bi-monthly with this carrier's operations management to ensure shipments meet forecasted delivery requirements. NIPSCO also continues to work closely with its other rail carriers to ensure coal deliveries meet demand during the forecast period. NIPSCO has been able to re-build inventories to target levels since the last quarter of 2021 despite significant supply chain challenges.

Q28. Please provide a summary of NIPSCO's coal inventory during the Reconciliation Period.

A28. The days of coal inventory supply[10] at Schahfer was approximately 48 days[11] (up 10 days from the prior quarter) at the end of the Reconciliation Period. Improved delivery rates resulted in increased inventory at Schahfer. Michigan City's PRB coal inventory was at 26 days[12] and the NAPP inventory was at 39 days at the end of the Reconciliation Period. As mentioned above, NIPSCO has been able to rebuild inventory to target levels since the end of the prior Reconciliation Period.

Q29. In accordance with the Commission's Order in Cause No. 38706-FAC-125, please provide an update on the status of the Railroad Litigation and provide any substantive developments and/or determinations.

A29. No substantive determinations have occurred, as the Railroad Litigation remains in the discovery phase and consolidated for pre-trial purposes in Multi-District Litigation. NIPSCO's counsel is currently in the midst of deposing the corporate representatives of the defendants pursuant to Rule

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10 Days of supply is calculated using the highest recorded daily consumption over the last 10 years.
11 Schahfer's ILB coal inventory target is 40 days (+ or – 10).
12 Michigan City's PRB coal inventory target is 25 days (+7,-5) and 30 days (+10,-7) for NAPP coal.

30(b)(6). These depositions were taken in October and November for defendants BNSF Railway Company and Union Pacific Railroad Company, while the representatives for defendants CSX Transportation, Inc. and Norfolk Southern Railway Company will be deposed in January 2023. The judge issued an order on November 8th extending the procedural schedule by four months, ordering that fact discovery be complete by February 1, 2023 and initial expert reports be served March 1, 2023. Through counsel, NIPSCO is providing support to its expert witness in development of the initial expert report upon which NIPSCO will rely in asserting its claims in the Railroad Litigation. NIPSCO Witness Krupa provides an update on the deferred costs associated with the Railroad Litigation.

Q30. Does NIPSCO currently anticipate utilizing decrement pricing?

A30. No, not at this time. NIPSCO will continue to update the Commission about decrement pricing in future FAC filings.

Q31. Has NIPSCO made every reasonable effort to acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible?

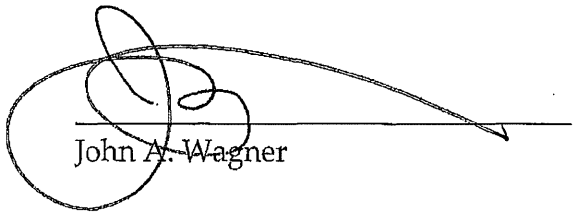
A31. Yes.

Q32. Does this complete your prepared direct testimony?

A32. Yes.

VERIFICATION

I, John A. Wagner, Manager, Fuel Supply for Northern Indiana Public Service Company LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



John A. Wagner

Dated: November 15, 2022