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VERIFIED DIRECT TESTIMONY
OF
RAFAEL A. SANCHEZ
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY

INCLUDING IPL WITNESS RAS ATTACHMENTS 1 AND 2

1 **VERIFIED DIRECT TESTIMONY OF RAFAEL A. SANCHEZ**
2 **ON BEHALF OF**
3 **INDIANAPOLIS POWER & LIGHT COMPANY**

4 **Q1. Please state your name, employer and business address.**

5 A1. My name is Rafael A. Sanchez. I am employed by Indianapolis Power & Light Company
6 (“IPL” or “Company”), One Monument Circle, Indianapolis, Indiana 46204.

7 **Q2. What is your position with IPL?**

8 A2. I am the President and CEO of IPL.

9 **Q3. Please summarize your educational and professional qualifications.**

10 A3. I hold a Bachelor of Arts Degree in Political Science from the University of Puerto Rico,
11 Rio Piedras, Puerto Rico. I have also obtained a law degree (Juris Doctor) from Indiana
12 University – Maurer School of Law, Bloomington, Indiana.

13 **Q4. Please summarize your work experience.**

14 A4. From 1996 to mid-1999, I was in the banking industry and principally served during that
15 period as a Branch Manager for National City Bank (now PNC). From August 1999 to
16 May 2002, I was a full-time law student attending Indiana University – Maurer School of
17 Law in Bloomington, Indiana. Upon graduating from law school, I joined the law firm of
18 Bingham Greenebaum Doll (“BGD”) (formerly known as Bingham McHale) as an
19 associate until I was elected partner in 2009. I continued my law practice at BGD until
20 February 2015 when I decided to leave the law practice and enter the corporate sector.
21 At that time, I became Vice President of Business Development & Legal Affairs for
22 Fineline Printing Group, a commercial printing company located in Indianapolis. In
23 February 2016, I became employed by IPL as Senior Vice President of Strategic

1 Planning. On June 1, 2016, I was promoted to President and CEO of IPL. My
2 responsibilities include public affairs, government affairs, large business accounts, and
3 stakeholder management.

4 **Q5. Have you testified previously before the Indiana Utility Regulatory Commission**
5 **(“Commission” or “IURC”) or other regulatory agencies?**

6 A5. No.

7 **Q6. What is the purpose of your testimony in this proceeding?**

8 A6. My testimony provides an overview of IPL and the significant capital investments
9 primarily driving the need for IPL’s 2016 basic rate case.

10 **Q7. Does your testimony include any attachments?**

11 A7. Yes. My testimony includes the following attachments:

- 12 • IPL Witness RAS Attachment 1, which is a copy of the Verified Petition in this
13 Cause.¹
- 14 • IPL Witness RAS Attachment 2, which is an index of IPL Witnesses providing
15 testimony in this Cause and their major subject area.

16 **Q8. Were these attachments prepared or assembled by you or under your direction or**
17 **supervision?**

18 A8. Yes.

19 **Company Overview**

20 **Q9. Please generally describe IPL and its service territory.**

¹ The Verified Petition being offered at the evidentiary hearing was filed separately and is not attached to my testimony.

1 A9. IPL provides retail electric service in ten counties in Central Indiana, including Marion
2 County and parts of nine adjoining counties.² As of June 30, 2016, IPL supplied retail
3 electric service to more than 480,000 residential, commercial, and industrial customers.

4 IPL takes pride in providing reliable service, while also being efficient in the
5 procurement and management of our personnel and assets. As shown on IPL Witness
6 RAS Attachment 2, other IPL subject matter experts discuss the Company's operations in
7 detail. I would add that IPL was recognized by PA Consulting Group two years in a row
8 as the recipient of the ReliabilityOne™ Award for Outstanding Midsize Utility for the
9 calendar years 2014 and 2015. To be eligible for this recognition, a utility must deliver a
10 reliability performance ranked in the top 95th percentile. IPL was also recognized in the
11 J.D. Power 2016 Electric Utility Residential Customer Satisfaction Study as above
12 average in overall satisfaction in the Midwest Midsize region and first in overall
13 satisfaction among Indiana investor-owned utilities.

14 IPL takes pride in creating innovative energy solutions, which are transforming the
15 Company's resource portfolio. IPL has contracted 96 megawatts of solar generation and
16 300 megawatts of wind generation.³ Indianapolis was recognized by the Environment
17 America Research & Policy Center report "Shining Cities 2016" as the city with the 2nd
18 highest amount of solar photovoltaic ("PV") on a per capita basis (after Honolulu) and
19 5th out of the top 20 cities for installed solar PV. As discussed by IPL Witness Sadtler,
20 IPL recently placed in service a 20 megawatt Battery Energy Storage System at its

² Although IPL is not the sole service provider in the adjoining counties, IPL provides service to some customers in Boone, Hamilton, Hancock, Shelby, Johnson, Morgan, Owen, Putnam, and Hendricks counties.

³ In the absence of any Renewable Energy Standard ("RES") mandates, IPL is currently selling the associated Renewable Energy Certificates ("RECs") from the solar and wind Purchase Power Agreements ("PPAs"), but reserves the right to use RECs to meet any future RES requirement. The solar and wind PPAs were approved by the IURC, and if IPL chooses to monetize the RECs that result from the agreements, IPL shall use the revenues to first offset the cost of the PPAs and next to credit IPL customers through its fuel adjustment clause proceedings.

1 Harding Street Station. IPL was recognized as one of the eight finalists for the 2016 U.S.
2 Edison Award during Edison Electric Institute's Annual Convention in Chicago for IPL's
3 innovative execution of solar generation through PPAs and battery energy storage. This
4 award is the electric power industry's most prestigious honor and is awarded to utilities
5 demonstrating leadership, innovation and progress in advancing the electric power
6 industry. In addition, Cogents Reports recognized IPL as a 2016 Utility Environmental
7 Champion as voted by customers for having exceptional dedication to the environment.

8 Finally, we strive to improve our community through our leadership, volunteerism and
9 contributions. During 2015, our people served on the boards of directors of more than
10 200 non-profit organizations and volunteered more than 24,000 hours. At the same time,
11 we contributed more than \$2 million to non-profit organizations.

12 **Q10. Please describe IPL's relationship with The AES Corporation.**

13 A10. In 2001, AES became the ultimate parent company of IPL. In addition to AES'
14 ownership, CDP Infrastructure Fund GP, a wholly-owned subsidiary of La Caisse de
15 depot et placement du Quebec (the "CDPQ"), also owns a minority equity interest in
16 IPALCO, IPL's immediate parent company. AES is a global energy company that owns
17 and operates a diverse portfolio of electricity generation and distribution services. AES
18 owns businesses in 17 countries on four different continents with a combined generation
19 of 36 Gigawatts. AES operates power plants that encompass a broad range of
20 technologies and fuel types, including coal, diesel, gas, oil, pet coke and renewables.
21 AES has been a pioneer in the energy storage industry since 2008. In the U.S.A., AES'
22 operations consist of 18 generation facilities and two utilities (including IPL) in nine

1 states, including approximately 12 GW of generation capacity and serving 1.0 million
2 utility customers.

3 **Q11. How has the average total bill for a typical IPL customer compared to other**
4 **utilities?**

5 A11. IPL has consistently provided reliable electric service at rates among the lowest in the
6 state. Annually, the Commission posts on its website a report which compares Indiana
7 electric utilities' total bills for a 1,000 kWh residential customer. From 1994 to 2015,
8 IPL ranked either lowest or second lowest of all Indiana investor-owned electric utilities
9 ("IOU") in each year.⁴ The Commission's most recent report published in July 2016
10 ranked IPL the lowest among the IOUs, with the next lowest IOU 5.2% more than IPL
11 per month.⁵ The Commission's 2004 and 2015 Annual Reports and the Commission's
12 2016 Residential Bill Survey are further discussed by IPL Witness Jim Cutshaw.

13 **IPL's Requested Rate Relief**

14 **Q12. Has it been more than 15 months since IPL filed its most recent request for a**
15 **general increase in its basic rates and charges?**⁶

16 A12. Yes.

17 **Q13. When was IPL last before the Commission to request a change in its basic rates and**
18 **charges?**

19 A13. IPL's current basic rates and charges were established by a Commission Orders in Cause
20 No. 44576/44602 and were effective on March 31, 2016. The adjusted test year in that

⁴ This information is found on PDF page 41 of the Commission's 2004 Annual Report and PDF page 69 of the Commission's 2015 Annual Report. These documents can be found at <http://www.in.gov/iurc/2377.htm>.

⁵ This information is found on PDF page 2 of the Commission's 2016 Residential Bill Survey, which can be found at <http://www.in.gov/iurc/2761.htm>.

⁶ This rule, commonly referred to as the 15 month test, is found in Ind. § Code 8-1-2-42(a).

1 proceeding was the twelve months ended June 30, 2014. IPL was authorized to increase
2 its basic rates and charges for electric service to produce 2.56% additional operating
3 revenue.

4 **Q14. What is the annual revenue increase being sought by IPL in this proceeding?**

5 A14. In this proceeding, IPL requests Commission approval of an annual increase in revenues
6 of approximately \$91.662 million, which is an overall increase of 6.95%. The amount is
7 based on a test year ended June 30, 2016 with adjustments for fixed, known and
8 measurable changes and appropriate normalizations and annualizations.

9 The request reflects the Company's significant capital investments, updated depreciation
10 rates, a new cost of service study, updated rate design, and proposed changes to our tariff.

11 This package is supported by the testimony of numerous subject matter experts and an
12 index of the filing is provided in IPL Witness RAS Attachment 2.

13 **Q15. Why is the requested rate increase necessary?**

14 A15. This rate proceeding is primarily driven by the need to reflect the Company's significant
15 capital investments in rate base. These investments are necessary to meet our customers'
16 ongoing need for safe, adequate and reliable retail electric service and facilities.

17 **Q16. Please describe the significant capital investments reflected in this rate case.**

18 A16. The rate base in this case includes nine new major projects and various other new capital
19 investments listed in Table 1 below. The Commission-approved Eagle Valley Combined
20 Cycle Gas Turbine ("CCGT") generating facility is the largest project and is a key reason
21 why timely rate relief is necessary.

Table 1

	Major Projects and Other Capital Expenditures	IPL Witness	Project Cost in Rate Base⁷	In-Service Date(s)
1	671 MW Eagle Valley CCGT ⁸	Scott	\$660.6 million	Approximately April 30, 2017
2	Mercury and Air Toxics Standard (“MATS”) Compliance	Scott	\$429.5 million	Various between October 2014 and February 2016
3	Harding Street (“HS”) Units 5,6 & 7 Refueling	Scott	\$95.8 million	November 2015 (Units 5 & 6) May 2016 (Unit 7)
4	Southwest Substation Static VAR Compensator	Holtsclaw	\$30.6 million	May 2016
5	Harding Street Station Battery Energy Storage System (“HSS BESS”)	Sadtler	\$24.8 million	May 2016
6	Modern Voltage Building Renovation	Tornquist	\$22.9 million	June 2016
7	Hanna Substation Upgrades	Holtsclaw	\$13.1 million	July 2015
8	Petersburg Unit 3 Controls Modernization	Scott	\$6.6 million	June 2015
9	Petersburg Coal Conveyor Replacement	Scott	\$6.0 million	October 2014
10	Other Capital Expenditures	Tornquist	\$281.9 million	Various between July 2014 and June 2016
11	Total		\$1.57 billion	

2

3

As discussed by IPL Witness Scott, each of the Commission approved projects were or are expected to be completed within the IURC pre-approved budget.

4

5 **Q17. Have you considered the effect of the Company’s proposal on customer bills for**
6 **IPL’s electric service?**

7

A17. Yes. Per IPL Witness Gaske, the average monthly bill of a residential customer using
8 1,000 kWh per month would increase by approximately \$10.18, which is an increase of
9 approximately 9.3%. This results in a monthly bill of \$119.37 for a residential customer

⁷ Line 1 is the projected CCGT in-service cost, while lines 2 through 9 are the project costs in rate base as of June 30, 2016.

⁸ Due to the approximate April 30, 2017 in-service date, this project will be a pro forma adjustment to rate base.

1 using 1,000 kWh per month. IPL's residential rates are currently the lowest of all
2 investor-owned utilities ("IOUs") in Indiana. As IPL Witness Cutshaw explains, if IPL's
3 proposal in this proceeding is approved in its entirety, IPL's monthly bill for a residential
4 customer using 1,000 kWh per month would still be third lowest out of the five IOUs if
5 inserted in the Commission's 2016 Residential Bill Survey, only 5.6% higher than the
6 IOU who was second in the 2016 Survey. Notably, this analysis compares IPL's
7 projected monthly bill to historical information for other providers. As a result, the
8 comparison does not reflect bill increases for the other providers and in this respect is
9 conservative because it is unrealistic to assume the other utilities will not have rate
10 increases.

11 IPL Witness Cutshaw also explains that IPL makes an annual filing for Off System Sales
12 ("OSS") Margin and Capacity (CAP") Adjustments, with the next annual filing in early
13 2017 and Adjustments expected to be effective beginning June 2017. At the time the
14 Commission issues an order in this proceeding, IPL expects the OSS Margin and CAP
15 Adjustments to be credits of \$1.31 and \$0.65 respectively on a 1,000 kWh residential bill.
16 Those anticipated credits would effectively reduce the impact of IPL's request for a 1,000
17 kWh residential customer to \$117.41, which is an increase of \$8.22 or approximately
18 7.5%.

19 **Q18. Does that conclude your verified pre-filed direct testimony?**

20 A18. Yes.

VERIFICATION

I, Rafael Sanchez, President and Chief Executive Officer for Indianapolis Power & Light Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read 'Rafael', written over a horizontal line.

Rafael Sanchez

Dated: December 22, 2016

IPL Witness RAS Attachment 1 – Verified Petition

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Index of Witnesses and Subject Matters

Witness	Major Subject Area
Rafael Sanchez	Overview of IPL Significant Capital Investments Driving Need for Rate Relief
Adrien McKenzie	Fair Return on Fair Value Reasonableness of Capital Structure
Craig L. Jackson	Capital Structure Weighted Average Cost of Capital and Credit Ratings
John J. Reed	Policy Implications of Rate Recovery for New Plant Additions Generation Plant Valuation
Ann Bulkley	Transmission, Distribution and General Plant Valuation Current Value of IPL Electric Utility Assets
Bradley D. Scott	Used and Useful Generation Plant in Service Certain Pro Forma Adjustments ¹
James A. Sadtler	Used and Useful Transmission and Distribution Plant in Service Electric Service Reliability
Nicholas M. Grimmer	Fuel Inventory and Procurement Practices Electric Fuel Stock Inventory Adjustment Coal Contract Pricing
Kurt A. Tornquist	Overview of Financial Operations and Preparation of Financial Schedules Affiliated Transactions and AES U.S. Services LLC Net Utility Plant in Service Modern Voltage Renovation Project Depreciation and Amortization Expense
John Spanos	Depreciation Study
Paula Guletsky	Decommissioning Study
Michael L. Holtsclaw	MISO Transmission Expansion Costs Storm Events Certain Transmission Capital Investments Vegetation Management The Collaborative Process

¹As identified in the IPL Financial Exhibit Index

Index of Witnesses and Subject Matters

Witness	Major Subject Area
Dennis C. Dininger	Off System Sales Margins Capacity Sales and Purchases Participation in the MISO Market Retail Fuel and Purchased Power Costs
Edward J. Kunz	Pension and Other Postretirement Benefit (“OPEB”) Costs Prepaid Pension Asset OPEB Liability
Craig A. Forestal	Financial Statements Certain Pro Forma Adjustments ¹
Stephen A. Allamanno	Federal, State, and Local Income Tax Gross Revenue Conversion Factor Certain Pro Forma Adjustments For Taxes ¹
Yvonna K. Steadman	Payroll Taxes Wages and Employee Benefits Certain Pro Forma Adjustments ¹
Chad A. Rogers	Certain Pro Forma Adjustments ¹
James L. Cutshaw	Requested Rate Relief and Revenue Requirement Certain Pro Forma Adjustments ¹ Major Storm Restoration Reserve Account Amortization of Deferred MISO Non-Fuel Costs Regulatory Asset Existing Riders Rate Comparison
J. Stephen Gaske	Cost of Service Study Rate Design
Eric Fox	Weather Normalization
Elaine K. Chambers	Adjustments to Test Year Revenues Updated Tariff and Rules and Regulations For Electric Service

¹As identified in the IPL Financial Exhibit Index