FILED
October 12, 2023
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY D/B/A AES INDIANA ("AES INDIANA") FOR AUTHORITY TO INCREASE RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE, AND FOR APPROVAL OF RELATED RELIEF, INCLUDING (1) REVISED DEPRECIATION RATES, (2) ACCOUNTING RELIEF, INCLUDING DEFERRALS AND AMORTIZATIONS, (3) INCLUSION OF CAPITAL INVESTMENTS, (4) RATE ADJUSTMENT MECHANISM PROPOSALS, INCLUDING NEW ECONOMIC DEVELOPMENT RIDER, (5) REMOTE DISCONNECT/RECONNECT PROCESS, AND (6) NEW SCHEDULES OF RATES, RULES AND REGULATIONS FOR SERVICE.	)	**CAUSE NO. 45911**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 7

REDACTED TESTIMONY OF OUCC WITNESS

CYNTHIA M. ARMSTRONG

OCTOBER 12, 2023

Respectfully submitted,

T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

DIRECT TESTIMONY OF CYNTHIA M. ARMSTRONG
CAUSE NO. 45911
INDIANAPOLIS POWER AND LIGHT COMPANY D/B/A AES INDIANA

Q: Please state your name and business address.

A: My name is Cynthia M. Armstrong, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, IN, 46204.

Q: By whom are you employed and in what capacity?

A: I am employed as an Assistant Director in the Electric Division for the Indiana Office of Utility Consumer Counselor ("OUCC"). A summary of my qualifications can be found in Appendix A.

Q: Have you previously provided testimony to the Indiana Utility Regulatory Commission ("Commission")?

A: Yes.

I. INTRODUCTION

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to present an overview of the OUCC's position regarding Indianapolis Power and Light Company d/b/a AES Indiana's ("AES Indiana" or "Petitioner") requests to track consumables and nitrogen oxide ("NOx") emission allowance costs associated with its coal and natural gas generating facilities. I also address the OUCC's agreement with AES Indiana's pro forma adjustment to non-outage operations and maintenance expense ("O&M") to remove Petersburg Unit 2's and Eagle Valley's Extended Outage costs, consistent with the Settlement Agreement approved in Cause No. 38703 FAC 133S1.

My recommendations include acceptance of certain adjustments requested by AES Indiana, removal of test year emission allowance inventory from materials and supplies, and a ratepayer credit for test year revenues associated with NOx Seasonal Allowance sales.

Q: What did you do to prepare for your testimony?

A: I reviewed the Verified Petition, Direct Testimony, Exhibits, Data Responses and Confidential Documents AES Indiana submitted in this Cause. I also reviewed AES Indiana's generating unit emissions data reported on the U.S. Environmental Protection Agency's ("EPA") Clean Air Markets Program Database.

Q: To the extent you do not address a specific item, does this mean you agree with those portions of AES Indiana's proposal?

A: No. Excluding any specific adjustments or amounts AES Indiana proposes does not indicate my approval of those adjustments or amounts. Rather, the scope of my testimony is limited to the specific items addressed herein.

II. REQUEST TO TRACK CONSUMABLES

Q: Please summarize AES Indiana's request regarding consumables in this Cause.

A: AES Indiana proposes to establish an $18.403 million benchmark for consumables and track annual amounts above and below this benchmark through the Environmental Cost Recovery Rate Adjustment ("ECCRA"). Consumables include ammonia, limestone, coal combustion residuals disposal, and other chemicals and sorbents necessary for pollution controls. AES Indiana based this benchmark by averaging its forecasted 2023 and 2024 consumable expense. The Company also removed consumable expense associated with Petersburg Unit 2, as it was retired at the end of May 2023. The test year amount for consumables was $26.175 million, and AES Indiana is proposing a $7.772 million reduction to test year O&M to account for removing Petersburg Unit 2 and 2023-2024 average consumables (Adjustment OM-5).

Q: Have other utilities requested and received approval for tracking consumables associated with their coal and natural gas generating units?

A: Yes. Indiana Michigan Power Company ("I&M"), Duke Energy Indiana ("DEI"), and Northern Indiana Public Service Company ("NIPSCO") have all received approval to track consumable costs above and below the test year embedded amount through their environmental trackers.[1]

Q: Do you take issue with AES Indiana's proposal?

A: No. However, I recommend a lower benchmark than AES Indiana proposes. I recommend using AES Indiana's 2023 forecasted consumables cost of $15.523 million.[2] This benchmark excludes 2023 forecasted consumables attributed to Petersburg Unit 2 operations. AES Indiana indicates the forecasted 2023 and 2024 consumables costs were derived from its Production Cost Model.[3] Since AES Indiana uses a historical test year ending December 31, 2022, it is inappropriate to consider any timeframe beyond the 12 months following this date. Additionally, forecasts tend to be less reliable the further they are in the future. Therefore, I excluded the 2024 forecasted consumables from consideration in the benchmark.

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[1] I&M Consumables Requests: Cause No. 45235, Final Order, pp. 99-100 (Mar. 11, 2020).
DEI Consumables Request: Cause No. 45253, Final Order, p. 140 (June 29, 2020).
NIPSCO Consumables tracking: Cause No. 45572, Final Order, pp. 17-18, 41 (Aug. 2, 2023).
[2] AES Indiana Financial Exhibits and Workpapers, Schedule OM 5-WP 2.
[3] OUCC Attachment CMA-1, AES Indiana's Response to OUCC Data Request 16-3.

Using the 2023 forecasted consumables benchmark results in a $2.88 million reduction to AES Indiana's proposed test year consumables expense, generating the $15.523 million adjusted amount.

III. EMISSION ALLOWANCE COSTS AND SALES

Q: Please summarize AES Indiana's request regarding its NOx Allowance costs.

A: AES Indiana proposes to remove 100% of Seasonal NOx Allowance expense from the test year and to track any future NOx Seasonal Allowance purchases or sales through the ECCRA. AES Indiana's Adjustment OM-8 reduces test year O&M by $914,000 to remove test year allowance expense. AES Indiana recommends 100% tracking, as it currently does not foresee a need to purchase NOx Seasonal allowances for compliance in the future.

Q: Do you find AES Indiana's proposal acceptable?

A: Yes. AES Indiana's Seasonal NOx emissions are likely to be lower than the zero-cost allowances allocated to its generating units annually.[4] AES Indiana's annual emissions should decrease further as the Petersburg coal units are retired or converted to natural gas. Therefore, AES Indiana will not likely need to purchase allowances for compliance in the forthcoming years.

However, if emissions allowance costs are removed from the test year, the associated emission allowance inventory should also be removed from its test year Materials and Supplies balance, as AES Indiana's allowance inventory are unlikely to remain at the levels experienced during the test year.

[4] OUCC Attachment CMA-2, AES Indiana NOx Seasonal Emissions and Allowance Allocations.

Q: What amount does AES Indiana include in the test year for emission allowances?

A: AES Indiana uses a 13-month average to determine its test year Materials and Supplies inventory. The 13-month average for emission allowance inventory is $648,592.[5] However, as of July 31, 2023, AES Indiana's emission allowance inventory decreased to $[redacted][6]

Q: Is there a reason emission allowance inventory during the test year is higher than 2023 allowance inventory?

A: Yes. AES Indiana made two Seasonal NOx allowance purchases that significantly increased the value of its Seasonal NOx allowance inventory. These purchases occurred during the time when Seasonal NOx allowance prices increased significantly due to the EPA's Cross State Air Pollution Rule ("CSAPR") Update and proposed Good Neighbor Rule placing additional restrictions on CSAPR Seasonal NOx emissions. Since AES Indiana made these purchases, it continued consuming the remaining allowances in inventory without needing to purchase additional allowances for compliance. As mentioned previously, AES Indiana's emissions are likely to be less than the zero cost allowances allocated to the company in future years, decreasing the need for purchases. Therefore, AES Indiana is likely to consume the higher cost NOx Seasonal Allowances remaining in inventory within the next year, and the test year emission allowance inventory is not representative of what AES Indiana's allowance inventory will be going forward.

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[5] OUCC Attachment CMA-3.
[6] OUCC Attachment CMA-4, AES Indiana Confidential Response to OUCC DR 13-3.

Q: Do you have any other issues regarding AES Indiana's emission allowances?

A: Yes. AES Indiana sold several Seasonal NOx Allowances in December 2022, which resulted in a $4,357,500 net gain during the test year. AES Indiana removes this amount from test year revenues in Adjustment REV-8. While I do not have an issue with removing these revenues from the test year, as there is no guarantee AES Indiana will continue having allowance sales in future years, ratepayers should receive a credit for a portion of these sales.

In Cause No. 42170, Indianapolis Power and Light ("IPL") and the OUCC agreed that IPL would share 80% of the net proceeds of emission allowance sales with customers, and the Commission approved this Settlement Agreement.[7] Given the emission allowance costs AES Indiana plans to track through the ECCRA are a result of the expensive allowances it purchased during the test year, it is appropriate that ratepayers receive the benefit associated with their sale as they were historically treated.

Q: What do you recommend regarding test-year allowance proceeds?

A: I recommend a $2,572,000 one-time credit be amortized over the first twelve months in the first ECR filing following the Commission's 's approved order in this Cause.[8] The amount of this credit represents 80% of the test year allowance proceeds less test year emission allowance costs and is consistent with the historical allowance sales sharing agreement approved in Cause No. 42170.

[7] Cause No. 42170, Final Order (November 14, 2002), pp. 11-12, and Settlement Agreement, Term 2(f)(iii). Note: The OUCC is not offering this settlement as precedent, but requests allowance proceeds be treated in the manner these revenues were historically treated for NOx Compliance, as approved in Cause No. 42170.
[8] OUCC Attachment CMA-5, Calculation of Emission Allowance Sale Proceeds Credit.

IV. ADJUSTMENT TO NON-OUTAGE O&M COSTS

Q: Please summarize AES Indiana's proposed non-outage O&M.

A: In Adjustment OM-7, AES Indiana proposes to adjust non-outage generation test year O&M to remove $1.3 million related to the Eagle Valley extended outage, pursuant to the Cause No. 38703 FAC 133S1 Settlement Agreement. It also removes $12.2 million of Petersburg Unit 2's actual 2022 non-outage O&M spend to account for its retirement in May 2023. Adjustment OM-7 results in a $13.5 million decrease to test year O&M.

Q: Does the OUCC agree with this adjustment?

A: Yes. It is reasonable to remove Petersburg Unit 2's actual non-outage O&M from the test year, as it will not be operating in the future. It is also reasonable to remove $1.3 million O&M related to the Eagle Valley extended outage as agreed to in the Settlement Agreement the Commission approved in Cause No. 38703 FAC 133S1.

V. RECOMMENDATIONS

Q: Please summarize your recommendations.

A: I recommend the Commission:

1. Accept AES Indiana's proposal to track consumables above and below a benchmark. However, this benchmark should be lowered to $15.523 million to reflect only 2023 forecasted consumables, which decreases Adjustment OM-5 by $2.88 million.
2. Regarding emission allowance costs and revenues:

a. Accept AES Indiana's Adjustment OM-8 and its proposal to remove test year emission allowance costs and track 100% of these costs through the ECR. This results in a $914,000 decrease to test year O&M.

b. Remove test year emission allowance inventory from materials and supplies, which is based on a 13-month average. This results in a $648,592 decrease to test year rate base.

c. Require AES Indiana to credit ratepayers for 80% of test year revenues associated with NOx Seasonal Allowance sales in excess of test year allowance costs, based on historical treatment of emission allowance proceeds contained in the Settlement Agreement approved in Cause No. 42170. The $2,572,000 credit should be passed through the ECCRA over the 12-month period following an approved final order in this Cause.

3. Accept AES Indiana's Adjustment OM-7 to remove non-outage O&M costs related to the Eagle Valley extended outage and Petersburg Unit 2's operation from the test year. This results in a $13.5 million decrease to test year O&M.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Summarize your professional background and experience.

A: I graduated from the University of Evansville in 2004 with a Bachelor of Science degree in Environmental Administration. I graduated from Indiana University, Bloomington in May 2007 with a Master of Public Affairs degree, and a Master of Science degree in Environmental Science. I have also completed internships with the Environmental Affairs Department at Vectren in the spring of 2004, with the U.S. Environmental Protection Agency in the summer of 2005, and with the U.S. Department of the Interior in the summer of 2006. During my final year at Indiana University, I served as a research and teaching assistant for a Capstone course offered at the School of Public and Environmental Affairs. I also obtained my OSHA Hazardous Operations and Emergency Response ("HAZWOPER") Certification. I have been employed by the OUCC since May 2007. During my time at the OUCC, I was promoted to a Senior Utility Analyst in 2012, to a Chief Technical Advisor in June 2022, and to an Assistant Director in August 2023. As part of my continuing education at the OUCC, I attended both weeks of the National Association of Regulatory Utility Commissioners' ("NARUC") seminar in East Lansing, Michigan, the Indiana Chamber of Commerce's ("Indiana COC's") Environmental Permitting Conference, and the Indiana COC's annual Environmental Conferences since 2014.

Q: Describe some of your duties at the OUCC.

A: I review and analyze utilities' requests and file recommendations on behalf of consumers in utility proceedings. Depending on the case at hand, my duties may also include analyzing state and federal regulations, evaluating rate design and tariffs, examining books and records, inspecting facilities, and preparing various studies. Since my expertise lies in environmental science and policy, I assist in many cases where environmental compliance is an issue.

Indianapolis Power & Light Company
d/b/a AES Indiana
Cause No. 45911
AES Indiana's Responses to OUCC DR Set 16

Data Request OUCC DR 16 - 3

Please refer to Adjustment OM-5 and associated workpapers.

a. If not already provided in AES Indiana's Response to OUCC DR 13-1, please provide the monthly O&M recorded per consumable for each plant for the calendar years 2018 through 2022.

b. If not already provided in AES Indiana's Response to OUCC DR 13-1, please provide the monthly O&M recorded per consumable at each plant for 2023 to date.

c. How did AES Indiana determine forecasted consumable O&M for 2023 and 2024? Please provide all supporting documentation, calculations, and methodology for determining 2023 and 2024 forecasted consumable expense by generating plant.

Objection:

AES Indiana objects to the request on the grounds and to the extent the request seeks an analysis, compilation, calculation, or study that AES Indiana has not performed and to which AES Indiana objects to performing. AES Indiana further objects to the request on the grounds and to the extent the request is overly broad and unduly burdensome, particularly to the extent the request seeks "all" "supporting documentation, calculations, and methodology". Subject to and without waiver of the foregoing objections, AES Indiana provides the following response.

Response:

a. OUCC DR 16-3 Attachment 1, tab 1 "Consumables 2018-2022 by Month" contains the monthly O&M information requested for the years 2018, 2020-2022. 2019 cannot be broken down into the categories requested monthly due to a change in accounting software in 2019.

b. OUCC DR 16-3 Attachment 1, tab 2 "YTD 2023" contains year to date consumables by month through July 2023.

c. The Company determined the forecasted consumable O&M for 2023 and 2024 using the production cost model to estimate expected generation at each plant. Second, the model output was then divided into retail and wholesale allocations to determine the amount of MWh generated for retail customers. Given the MWh output and assumed fuel characteristics for each unit the cost of consumables was calculated.

Cause No. 45911
OUCC Attachment CMA-2
Excel Document Submitted on CD

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OUCC Attachment CMA-3
Excel Document Submitted on CD

Calculation of AES Indiana Emission Allowance Inventory to Be Removed from Rate Base

Indianapolis Power & Light Company
d/b/a AES Indiana
Cause No. 45911
AES Indiana Responses to OUCC DR Set 13

Data Request OUCC DR 13 - 3

For NOx, NOx seasonal, and S02 allowances, please provide the following monthly inventory information for the past five years:

a. Beginning number of allowances in inventory and beginning inventory value;

b. Number of allowances additions or adjusted, as well as the value of any such addition or adjustment;

c. Monthly allowance consumption and consumption costs; and

d. The final inventory allowance balance and value.

Objection:

AES Indiana objects to the request on the grounds and to the extent the request exceeds the scope of this proceeding, particularly to the extent the request seeks information for a five-year period that exceeds the test year, adjustment period, and historical period in this proceeding. AES Indiana further 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, AES Indiana provides the following response, with the confidential information being provided pursuant to the nondisclosure agreements between the parties.

Response:

a–d. Please see OUCC DR 13-3 Confidential Attachment 1.

AES Indiana Response to OUCC DR 13-3 Confidential Attachment 1 is offered as an Excel document as OUCC Confidential Attachment CMA-4.

Cause No. 45911
OUCC Attachment CMA-5

Excel Document Submitted on CD
Calculation of OUCC Recommended Emission Allowance Sale Credit

AFFIRMATION

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

Cynthia M Armstrong

Cynthia M. Armstrong
Assistant Director, Electric Division
Indiana Office of Utility Consumer Counselor

Cause No. 45911
AES Indiana

October 12, 2023
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Indiana Office of Utility Consumer Counselor's Redacted Testimony of Cynthia M. Armstrong*** has been served upon the following parties of record in the captioned proceeding by electronic service on October 12, 2023.

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