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IURC
PETITIONER'S
EXHIBIT NO. 7
4-3-24
DATE REPORTER

INDIANA MICHIGAN POWER COMPANY

38702 FAC-92

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

CHRISTOPHER G. LEOPOLD

**OFFICIAL
EXHIBITS**

**DIRECT TESTIMONY OF CHRISTOPHER G. LEOPOLD
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

Q1. Please state your name and business address.

My name is Christopher G. Leopold and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q2. By whom are you employed and in what capacity?

I am employed by American Electric Power Service Corporation (AEPSC) as Managing Director Market Management within Regulated Commercial Operations. AEPSC supplies engineering, financing, accounting, and similar planning and advisory services to the subsidiaries of the American Electric Power (AEP) system, one of which is Indiana Michigan Power Company (the Company).

Q3. Briefly describe your educational background and professional experience.

I graduated from Allegheny College with a Bachelor of Arts degree in Managerial Economics in 1999. I joined AEPSC in October 2001 as a Trade Confirmation Analyst within Commercial Operations. From 2001 to 2013, I held various analyst positions within Commercial Operations. In December 2013, I was promoted to Manager of the Bid, Offer and Cost Development team within Day Ahead Operations where I managed the team responsible for developing generation costs, offers and demand bid for submission into each applicable Regional Transmission Organization (RTO) on behalf of all AEP operating companies. In January of 2018 I assumed additional responsibilities as Generation and Load Optimization Manager overseeing the Day Ahead Market Operations, Energy Trading and Meteorology teams within Commercial

1 Operations. In October of 2023 I was promoted to my current position of
2 Managing Director Market Management.

3 **Q4. Have you previously testified before any regulatory commissions?**

4 Yes. I have testified on behalf of the Company before the Michigan Public
5 Service Commission in Case No. U-20224 and before the Public Utility
6 Commission of Texas in PUC Docket 50997.

7 **Q5. What are your responsibilities as Managing Director Market Management**

8 I oversee the activities of the Energy Trading, Congestion Analysis,
9 Meteorology, Marketing and Commercial Supply teams within Commercial
10 Operations.

11 **Q6. Are you sponsoring any attachments?**

12 Yes, I am sponsoring Confidential Attachment 1 - H a copy of the Load and
13 Energy Hedging Policy.

14 **Q7. Were the exhibits, attachment and workpapers that you sponsor prepared**
15 **by you or under your direction?**

16 Yes.

17 **Q8. What is the purpose of your testimony?**

18 The purpose of my testimony is to present the Company's new Load and Energy
19 Hedging Policy for the Commissions' approval and explain why the Company
20 replaced the Power Hedging Policy provided in Cause No. 44696.

1 **Q9. What is the purpose and function of the AEP Commercial Operations**
2 **group?**

3 AEPSC Commercial Operations is responsible for taking the necessary
4 commercial actions for the Company to provide predictable and affordable energy
5 to its customers. To do so, the Commercial Operations team performs functions
6 such as coordinating the operation of the Company's power supply resources and
7 administering its participation in the PJM energy and ancillary markets. In
8 addition, Commercial Operations personnel actively manage unit commitment
9 and dispatch as well as coal and reagent procurement for the Company's
10 generating units. Commercial Operations personnel also provide market-related
11 services such as procuring operating reserves, managing transmission
12 congestion, and supporting and recording transaction settlements in the PJM
13 markets.

14 **Q10. Have you seen changes in the energy market over the last couple of**
15 **years?**

16 Yes. PJM's energy market is susceptible to market volatility largely driven by the
17 underlaying and interrelated fuel markets, operating conditions, and has been
18 exacerbated over the years by extreme weather disturbances.

19 **Q11. Please describe the Company's current energy position given its historic**
20 **load characteristics and current supply resources.**

21 The Company has been backstopped from an energy standpoint by a pooling
22 arrangement since 1951. Until December 31, 2013¹ the Company was a
23 member of the AEP Interconnection Agreement (East Pool), where any energy
24 shortfall was first met by the other AEP companies in the East Pool. After the
25 AEP companies in the East Pool joined the PJM RTO in 2004, any additional
26 energy requirements beyond what could be provided by the East Pool were

¹ The AEP East Pool terminated on this date by mutual notice.

1 sourced from the PJM spot energy market. This included economic dispatch of
2 the East Pool generating resources by PJM, so if it were more economic to
3 purchase energy from PJM than to generate energy from the East Pool
4 resources, the AEP companies did so, and customers benefited from the lower
5 of cost to produce or what could be purchased on the market. Beginning in
6 2014, the East Pool was no longer a source of energy for the Company and its
7 energy requirements were sourced from the PJM RTO spot energy market with
8 that same economic dispatch concept applying. Purchasing energy from the
9 market to meet its requirements is not something new for the Company.

10 **Q12. Please discuss hedging.**

11 Hedging is the practice of entering into transactions for the purpose of limiting
12 exposure to one or more variables in a particular market. While hedging can be
13 accomplished in several ways, in the context of the Company's Load and
14 Energy Hedging Policy, it involves procuring the lowest reasonable cost
15 generation resources and energy products available in energy markets at a
16 given time in a programmatic manner to cover forecasted demand requirements.
17 The Company's Load and Hedging Policy is designed primarily to provide price
18 protection.

19 **Q13. How do the Company's generating resources hedge customer market**
20 **risk?**

21 Each day, the Company sells all its available generation resources into PJM's
22 spot energy market and purchases all its load from the same market. Typically,
23 the Company's generation resources are adequate to meet the requirements of
24 internal load; therefore, these resources provide a physical hedge on the spot
25 energy market. During times of planned or forced outages, absent taking on
26 additional resource hedge positions, the physical hedge position provided by the
27 Company's resources will decline, leaving Customers more exposed to PJM's
28 spot energy market price volatility. The Company can reduce this exposure by
29 purchasing energy products to replace the unavailable generation.

1 **Q14. Define the Company's open energy position subject to PJM spot energy**
2 **market volatility.**

3 The Company's open energy position, which is exposed to PJM spot energy
4 market volatility, occurs when the Company's generation resources are less
5 than the Company's retail load.

6 **Q15. Can the Company reduce the impact that PJM's spot energy market has on**
7 **its open energy position?**

8 Yes. Although no entity can accurately predict future energy prices, a structured
9 program that layers in hedges over time will help smooth out the impact of
10 PJM's spot energy market price volatility on the Company's open energy
11 position resulting in greater fuel cost certainty for customers.

12 **Q16. Will hedging always produce a credit to the customers?**

13 No. The primary purpose of hedging is to provide price stability. The goal of the
14 Company's Load and Energy Policy is not necessarily to reduce customer's
15 costs over time; rather, it is to reduce their exposure to the volatility of the PJM
16 spot energy market. The proposed hedging plan will reduce customer's
17 sensitivity to PJM's spot market price volatility by creating more predictable fuel
18 costs over time.

19 **Q17. What is the time horizon for hedging?**

20 The horizon is a rolling 36-month period so the Company can layer available
21 generation resources plus purchases of energy products in a programmatic
22 manner in tranches, over time, in advance of the respective hedge period.

1 **Q18. How does the Company determine the appropriate MWh to hedge in a**
2 **given period?**

3 For each hedge interval, the Company will calculate its target hedge level by
4 taking the forecasted generation from all available generation resources plus
5 any purchased energy products divided by the forecasted weather normalized
6 retail load in MWh less an amount as defined in Confidential Attachment 1-H.
7 Since forecasts are never perfect, a portion of the open energy position will be
8 left exposed to the PJM spot energy market.

9 **Q19. Are the benefits or costs of a financial hedge recovered in the Fuel**
10 **Adjustment Clause?**

11 Yes. The benefits or costs would be recovered in the Fuel Adjustment Clause
12 (FAC). Company witness Owens discusses how the recent financial hedge
13 transaction is being recovered in FAC 92.

14 **Q20. Is the policy in Confidential Attachment 1-H a revision to the policy**
15 **approved in Cause No. 44696.**

16 No. The Company's Load and Energy Hedging Policy is not a revision of the
17 prior policy. Rather it is a replacement. This new policy defines a
18 comprehensive, programmatic approach for covering the Company's load,
19 whereas the prior policy described methods for responding to certain situations
20 when short positions arose due to unit outages. Therefore, no redline version of
21 the prior policy was provided as an attachment.

22 **Q21. Will the Company make information available during the audit process**
23 **regarding the activities taken in accordance with the Company's Load and**
24 **Energy Policy?**

25 Yes. The Company is open to providing documentation during the FAC audit.

1 **Q22. Does this conclude your pre-filed verified direct testimony?**

2 Yes.

VERIFICATION

I, Christopher G. Leopold, Managing Director Market Management of AEPSC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 1/25/2024

Christopher G Leopold

Christopher G. Leopold