REBUTTAL TESTIMONY OF SUZANNE E. SIEFERMAN
DIRECTOR, RATES AND REGULATORY PLANNING
DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707 FAC125
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Suzanne E. Sieferman, and my business address is 1000 East Main Street, Plainfield, Indiana 46168.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Indiana, LLC (“Duke Energy Indiana,” “Applicant” or “Company”) as Director, Rates and Regulatory Planning. Duke Energy Indiana is a wholly owned, indirect subsidiary of Duke Energy Corporation.

Q. ARE YOU THE SAME SUZANNE SIEFERMAN THAT PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the testimony of Citizens Action Coalition of Indiana’s (“CAC”) witness Mr. Edward Burgess and Sierra Club’s witness Ms. Devi Glick. Specifically, I will respond to their contentions that Duke Energy Indiana should offer the Cayuga Units to the Midcontinent Independent System Operator (“MISO”) without consideration of the Company’s obligation to provide steam to International Paper pursuant to its long-term business and contract relationship. I will also respond to intervenor testimony related to Duke Energy Indiana's use of the coal decrement.

II. PROVISION OF STEAM SERVICE TO INTERNATIONAL PAPER

Q. PLEASE DESCRIBE THE COMPANY'S BUSINESS RELATIONSHIP WITH INTERNATIONAL PAPER.

A. International Paper is a major manufacturer of paper products, employing approximately 180 employees in Cayuga, Indiana. International Paper's mill is located adjacent to the Cayuga Generating Station and requires high-pressure steam for its production processes. International Paper is also one of the Company's top 20 electric service customers as measured in kilowatt-hour usage. The contractual arrangement with International Paper (and predecessor companies) has been in place since 1974 when the first contract between the Company and the mill was executed. Over the years, both parties have worked together to adjust and update the contractual terms of the steam service agreement for Commission review and approval. For over 45 years, the Company has worked cooperatively with International Paper to produce and deliver steam and abide by the contractual terms of their contract.

Q. PLEASE DESCRIBE THE COMPANY'S REGULATORY HISTORY WITH INTERNATIONAL PAPER.

A. The special contract agreement and its subsequent amendments have gone before this Commission for approval under the provisions of Indiana Code §§ 8-1-2-24 and 8-1-2-25, and the Commission has found its provisions to be reasonable and just, practicable and beneficial to the parties, most recently on January 25, 2012. The initial steam supply agreement was dated June 1, 1974 and was thereafter revised by Supplemental Agreement dated November 21, 1977. Subsequent amendments were approved by the Commission in Cause No. 37025, Cause No. 39483, and Commission Conference Minutes in 1994, 1996, and 2000. Currently in effect is the Fourth Amendment to the Third Supplemental Agreement dated August 9, 2011 (approved by the Commission on January 25, 2012) in Cause No. 44087.[1]

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE COMMISSION'S JANUARY 25, 2012 ORDER IN CAUSE NO. 44087.

A. In the January 25, 2012 Order, the Commission approved in its entirety the updated pricing and provisions in the Fourth Amendment as agreed to by Duke Energy Indiana and International Paper. The Commission approved the new base cost of fuel and conversion factor for use in subsequent fuel adjustment clause ("FAC") filings for steam service.

The Commission ruled that the Fourth Amendment was fair and reasonable in the provisions for service and noted that the steam service remains secondary to Cayuga Generating Station's provision of electric service, facilitates the long-term business relationship between the parties, and furthers the public interest. The Commission Order further stated that the contractual arrangement

[1] Certain terms from the Third Amendment to the Third Supplemental Agreement not covered in the Fourth Amendment are also still in effect (i.e. termination terms).

facilitates the ongoing operation of the mill and the employment of Indiana workers. The Commission Order stated that the amendment was beneficial to the Company, to the steam customer, and to the Company's retail electric customers.

Q. DOES THE CURRENT CONTRACT OBLIGATE DUKE ENERGY INDIANA TO PROVIDE STEAM SERVICE TO INTERNATIONAL PAPER?

A. Yes, Article VI of the Fourth Amendment contains several key provisions that illustrate Duke Energy Indiana's firm obligation to provide steam service to International Paper. These key provisions are outlined in detail in the direct testimony of Company witness Ms. Maria T. Diaz in Cause No. 38707-FAC123-S1 ("FAC123 Subdocket"). There are no interruptible service options in the steam contract. As further discussed in the rebuttal testimony of Mr. John D. Swez in this proceeding, one unit at Cayuga Station must be on-line and operational with a minimum load of 300 megawatts (MW) (net) or greater to supply high pressure steam to International Paper as there are currently no other options for an alternative steam source.

Q. PLEASE DESCRIBE AT A HIGH LEVEL THE REGULATORY TREATMENT ASSOCIATED WITH THIS CONTRACT.

A. Costs to serve the steam customer are determined through the Company's steam study (part of the jurisdictional separation study completed during a retail base rate case), wherein the costs specifically associated with the provision of steam are removed from the determination of costs necessary to provide electric service.

The cost allocations and impacts between the steam customer and other retail electric customers are complex; however, the relationship can be complementary. For instance, but for this steam customer, there are additional fixed costs that would have been allocated to the retail electric customers.

Q. PLEASE DESCRIBE THE TERMINATION CLAUSE CURRENTLY IN EFFECT IN PROVIDING STEAM SERVICE TO INTERNATIONAL PAPER.

A. Article VII of the currently in effect Third Amendment to the Third Supplemental Agreement allows for the Company or International Paper to provide the other with written notice, at least 18 months in advance, of its intention to terminate the agreement; provided that the Company and International Paper may modify or amend the agreement by mutual consent at any time, subject to the Commission's approval. The contract continues unless either party gives notice.

Q. DO YOU AGREE WITH THE RECOMMENDATIONS FROM MR. BURGESS ASSOCIATED WITH THIS STEAM CONTRACT?

A. No, I don't. Mr. Burgess recommends that the Company should perform calculations meant to identify any economic losses associated with running at least one Cayuga unit to provide steam under the contract. Assuming there are economic losses to quantify, he then suggests those losses should either be borne by the Company or charged directly to the steam customer. Mr. Swez has extensive testimony in this proceeding, as well as in the FAC123 subdocket, that addresses how the Company evaluates numerous factors in determining how to best offer its generation to MISO. The Company's commitment practices are intended to maximize value for customers by balancing operational, economic and reliability requirements. The fact remains that there is an approved contract in place for the provision of steam to International Paper and that contract does not allow for the Company to change the contract pricing at will. Following approval of the most recent retail base rate case order (Cause No. 45253, approved June 29, 2020), the Company will be initiating discussions in the near term with the steam customer in order to negotiate modifications to the contract to reflect the most recent cost of service study. That would be an appropriate time for the Company and steam customer to begin discussions regarding any future changes to commitment of the Cayuga units into the MISO market. Until that time, the Company has a contractual obligation to provide this steam pursuant to the current terms and conditions in that contract.

Q. DO YOU TAKE ISSUE WITH THE RECOMMENDATIONS MADE BY MS. GLICK WITH REGARDS TO THE PROVISION OF STEAM TO INTERNATIONAL PAPER?

A. Yes. Ms. Glick testifies that the Company should be required to conduct extensive modeling of its system with and without the requirements to provide steam to its existing steam customer. I disagree that this modeling is needed. The Commission has approved the existing steam contract and the contractual obligation to service this customer has not gone away. As indicated by Ms. Diaz in her rebuttal testimony in the FAC123 subdocket, the Company has plans to reexamine the appropriate steam rates following up on the recent base rate case proceeding where the cost allocations to the steam customer, presented in the cost of service study, were approved by the Commission. This is the appropriate venue to address any changes in operations of the Cayuga units to serve the steam customer and the associated costs with providing such service.

Q. DO YOU HAVE ANY ADDITIONAL THOUGHTS ON THE CONTRACTUAL ARRANGEMENT BETWEEN DUKE ENERGY INDIANA AND THE STEAM CUSTOMER AT CAYUGA STATION?

A. Yes. This contractual arrangement is complementary to both International Paper and Duke Energy Indiana's retail electric customers. Having this steam customer provides benefits that have existed for decades and that need to be taken into consideration when evaluating unit commitment decisions at Cayuga over a three-month period. Providing steam service to International Paper allows the mill to continue to operate and employ Indiana workers, which in turn allows the State of Indiana and Vermillion County to retain one of its largest employers. Duke Energy Indiana has an extended history of serving this customer in accordance with the contractual terms previously approved by this Commission in numerous Orders. Duke Energy Indiana is focused on providing reliable steam service to International Paper just as it is focused on providing reliable electric service to retail electric customers.

III. USE OF DECREMENT FOR GENERATION OFFERS

Q. ARE YOU FAMILIAR WITH MR. BURGESS' TESTIMONY IN THIS

PROCEEDING RELATED TO DUKE ENERGY INDIANA'S USE OF A COAL DECREMENT?

A. Yes, I am. I have reviewed the testimony Mr. Burgess filed in the current FAC125 proceeding.

Q. DO YOU HAVE ANY CONCERNS REGARDING HIS TESTIMONY RELATED TO THE DECREMENT?

A. Yes, I have a few concerns related to his testimony on the decrement that I will address. I believe the rebuttal testimonies of Mr. Swez and Mr. Phipps also address concerns related to intervenor testimony on the Company's use of a coal decrement. The first concern I would like to address is that I disagree with Mr. Burgess' characterization of the decrement. Mr. Burgess states that he believes the decrement "artificially decreases" the assumed cost for coal and that it is incorrect to price the decrement based on the most expensive option. In fact, the decrement actually enables the Company to modify the generation offers to reflect the avoided cost associated with physical options that the Company can pursue to address the coal oversupply situation (*i.e.*, storing coal at interim sites, buying out of contracts, reselling coal, etc.). There is nothing "artificial" about the process; including this additional information into the offer prices for the generating units allows for the Company to increase its generation, and therefore increase its coal burn, only if that is a less expensive option to address excess inventories. Use of the decrement does not guarantee that enough coal will be burned to completely avoid needing to take additional steps to address oversupply, but it does provide an opportunity to potentially avoid the most costly options such as buying out of contracts or reselling coal. That is why it makes sense to price the decrement at the cost of the most expensive option, as that is the cost that is being avoided when an additional ton of coal is burned.

Q. DO YOU AGREE WITH MR. BURGESS WHEN HE CLAIMS CUSTOMERS ARE NOT BENEFITING FROM USE OF THE DECREMENT?

A. No. I do not agree with his assertion that customers do not see any benefits from the decrement pricing. The Company's use of the decrement is intended to *minimize costs* incurred to address the current coal situation by pursuing least-cost options first, including increasing generation at times to burn additional coal when that is more economic than pursuing other options. Customers benefit in that the Company is pursuing lower cost options, including burning additional coal, where feasible and working to minimize the need to pursue costlier options. The use of a decrement for purposes of offering the generating units to MISO does not equate one-for-one to additional costs being incurred on behalf of customers, as can be inferred by Mr. Burgess' characterization of the decrement as a discount that is not shared with customers. The actual revenues the Company receives for any additional energy sold is unrelated to the specific amount of the decrement being used. The decrement amount may impact whether or not the generating unit is picked up by MISO, but that does not mean that the entire decrement amount is a "loss" as claimed by Mr. Burgess. On specific hours and days, the price decrement will have no impact on the commitment and dispatch of the generating units because the unit was already economic without the decrement. On the other extreme, if LMP prices are abnormally low, even with a decremented offer price the unit may not have been picked up by MISO. The decrement really comes into play in those instances where the unit is marginal and the non-decremented price is slightly above the hourly LMP. In this situation, the Company would receive revenues in line with the LMP, but would incur fuel costs in line with the non-decremented offer. The costs associated with the decrement are very much impacted by the hourly LMPs and the maximum cost would be equal to the decrement, but in most instances would be less.

Q. DO YOU AGREE WITH MR. BURGESS' CALCULATION OF THE ESTIMATED COST OF THE DECREMENT DURING THE FAC125 RECONCILATION PERIOD?

A. No. I do not. First, I would like to point out that I was not able to determine how Mr. Burgess' Generation after Decrement (MWh) information was derived nor am I completely clear on what it represents. I was also unable to replicate the decrement amounts shown in $/MWh. Mr. Burgess indicated the amounts were estimates but it's my understanding that the actual decrement amounts utilized during this period were significantly lower. See the rebuttal testimony of Mr. Swez for further discussion of actual decrement amounts used.

Those items notwithstanding, my primary issue with the estimation is that Mr. Burgess appears to be indicating that such a calculation should be performed by multiplying generation by the full decrement amount. As I just described, there is not a clear correlation between the decrement amount and any differential between fuel costs incurred and revenues received from MISO to cover those fuel costs. In addition to this assumption error, any analysis would need to be done on an hour-by-hour basis, to reflect changing LMPs in each hour. There will be hours when the decrement has absolutely no impact and there may be hours when the impact could vary from as low as a penny per MWh to a maximum impact equal to the entire decrement amount. The Company has not performed an analysis to attempt to quantify the dollar impact of the decrement and I'm not sure exactly how such an analysis would be performed. However, I can state that in my opinion the calculation used by Mr. Burgess to arrive at his $14 million estimate is flawed and is overestimating the impact.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: ______________________ Dated: 09/14/2020
Suzanne E. Sieferman