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INDIANA UTILITY  
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA MICHIGAN )  
POWER COMPANY (I&M) AND AEP )  
GENERATING COMPANY (AEG) FOR )  
CERTAIN DETERMINATIONS WITH )  
RESPECT TO THE COMMISSION'S )  
JURISDICTION OVER THE RETURN OF )  
OWNERSHIP OF ROCKPORT UNIT 2 )

CAUSE NO. 45546 IURC

JOINT PETITIONERS'

EXHIBIT NO. 2

9-10-21 AT  
DATE REPORTER

JOINT PETITIONERS' SUBMISSION OF  
REBUTTAL TESTIMONY OF TOBY L. THOMAS

Indiana Michigan Power Company ("I&M") and AEP Generating Company ("AEG") (collectively, "Petitioners"), hereby submit the rebuttal testimony of Toby L. Thomas.

Respectfully submitted,

  
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I&M Exhibit: \_\_\_\_\_

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED REBUTTAL TESTIMONY

OF

TOBY L. THOMAS

CAUSE NO. 45546

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**REBUTTAL TESTIMONY OF TOBY L. THOMAS  
ON BEHALF OF  
INDIANA MICHIGAN POWER COMPANY**

**I. Introduction of Witness and Overview**

**Q1. Please state your name and business address.**

My name is Toby L. Thomas and my business address is AEP Energy Delivery Headquarters, 8500 Smith's Mill Rd, New Albany, OH 43054.

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

I am employed by American Electric Power Service Corporation (AEPSC) as its Senior Vice President, Energy Delivery as of July 31, 2021. Immediately prior to this role, I was employed by Indiana Michigan Power Company (I&M or Company) as its President and Chief Operating Officer.

**Q3. Have you previously testified in this proceeding?**

Yes, I presented direct testimony in this Cause.

**Q4. What is the purpose of your rebuttal testimony?**

My testimony comments on the consumer party testimony and responds specifically to certain positions taken by Indiana Office of Utility Consumer Counselor (OUCC) witness Boerger, Industrial Group witness Dauphinais, Citizens Action Coalition (CAC) witness Binz, Wabash Valley witness Moore, and Joint Municipals witness Thornton as identified below. The absence of a response to every assertion made by the other parties' witnesses does not indicate I agree with the assertion.

**Q5. Do other witnesses present rebuttal on behalf of the Company?**

Yes. Rebuttal testimony of Matthew Satterwhite, Vice President of Regulatory Services at AEPSC also is being offered by the Company.

**Q6. What is your overall response to the testimony offered by the OUCC and Intervenors?**

In the Company's judgment, the reacquisition of Rockport Unit 2 (the Transaction) is the most prudent course of action. I&M has the requisite managerial, operational, and financial abilities to continue to safely and reliably operate Rockport Unit 2 (the Unit) primarily as a capacity resource until it retires no later than December 2028. We ask the Commission to allow us to proceed with the Transaction as requested. In making this request the Company accepts that the economic risk of the Transaction will remain with the Company until the Commission determines otherwise. I disagree that this is insufficient to warrant the relief sought by I&M and AEP Generating Company (AEG).

The Commission and the consumer parties will have the opportunity to investigate the need for and usefulness of the Unit if the Company files a certificate of public convenience and necessity (CPCN) petition in a separate docket as previously agreed. The size of this Transaction is relatively small given the Company's overall rate base. Should the Commission ultimately deny the Company the opportunity to earn a return of and on its investment in Rockport Unit 2, there is no real potential for such a cost disallowance to jeopardize the Company's financial viability to meet its obligation to customers. The purchase price is fixed and known and any future costs incurred by the Company, both O&M and capital, will be driven by the underlying economics supporting the reasonableness of those costs.

Speculation about how the future operation of a merchant plant might hypothetically unfold does not warrant rejection of the relief Petitioners seek. The consumer party contentions otherwise fail to recognize that if the Company owns

the Unit, the Company has off ramps that will allow the Company to react to changing economic circumstances and safeguard the Company's financial health.

The consumer party opposition also fails to adequately consider the significant operational challenges and financial risk of trying to continue to operate the Rockport Station with one of the two units owned by the Owner Trust, which has never been subject to Commission regulation. Continuing to operate the Unit in that manner creates significantly more uncertainty, distraction and future financial risk than owning the Unit. Simply put, the public interest is served by allowing ownership of Rockport Unit 2 to return to Petitioners so that the wind down of this Unit may be managed by an experienced public utility.

## II. Response to OUCC

**Q7. OUCC witness Boerger contends (p. 6) that if cost recovery from I&M's retail ratepayers is not ultimately granted, I&M's ownership of a large amount of additional capacity could affect how Wall Street views I&M, and this in turn could affect the Company's cost of capital. Please respond.**

The risk that the Company may not obtain regulated cost recovery was of course recognized at the time I&M entered into the Transaction. Nonetheless, it was determined to be an appropriate path forward to close out other, unquantifiable risks and to achieve control of the remaining life of the Unit.

It is unlikely that this Transaction, given its size, would have a material adverse impact on the Company's cost of capital. The alternative to ownership will create significantly more financial uncertainty and risk, as I&M would have little to no control over the future operation of the Unit. For example, I&M would not have the power to decide to retire the Unit if it were operating it on behalf of the Owner Trust. That said, the Commission can always assess I&M's cost of capital based on the

1 actual circumstances at the time of its review and take such action as the  
2 Commission deems necessary.

3 **Q8. OUCC witness Boerger (pp. 8-9) uses the results from PJM's most recent**  
4 **auction and the 5-year average of Base Residual Auction results to calculate**  
5 **that cost of capacity under the Transaction would be approximately \$74 per**  
6 **MW-day when spread over the entire 1300 MW of capacity I&M will obtain,**  
7 **and \$274 per MW-day based on the Company's estimated capacity needs at**  
8 **the time of the lease expiration (350 MW). Witness Boerger contends that, at**  
9 **a minimum, the proposed Transaction is not a bargain in the context of**  
10 **recent PJM market prices, and when viewed in the context of capacity**  
11 **needed to serve I&M's customers, the proposed Transaction is expensive.**  
12 ***Id.* at 9. How do you respond to this?**

13 With respect to retail service this analysis is premature. The Company has agreed  
14 to petition for a CPCN should the Company want to recover the cost of this  
15 investment in Rockport Unit 2 through retail rates. The Commission can assess  
16 these matters at that time. As I discuss further below, if the Company reacquires  
17 the Unit and operates it as a merchant unit, the Company has a reasonable  
18 expectation that it will recover its cost of operations, and if it does not, the Company  
19 can pursue other off ramps. Simply put, the Unit is being acquired for the reasons  
20 stated in my direct testimony and the economic analysis shows the economic risk  
21 the Company is undertaking is reasonable.

22 **Q9. Please respond to OUCC witness Boerger's recommendation (p. 10) that the**  
23 **declination of jurisdiction for AEG should not be approved on a stand-alone**  
24 **basis.**

25 AEG is similar to any other merchant generation owner in Indiana and an order  
26 from this Commission declining jurisdiction over AEG's purchase would not alone  
27 impact I&M's retail rates. That being said, the Transaction closing condition

requires an order that would allow both Petitioners to proceed with the Transaction. As noted below, this closing conditions would be satisfied with a declination order.

### III. Response to Industrial Group

**Q10. Please summarize the Industrial Group witness Dauphinais testimony to which you respond.**

Industrial Group witness Dauphinais (p. 4) states:

- 1) "It is the clear intent of I&M and AEG, post-transaction, to utilize Rockport Unit 2 to serve I&M's customers and to have I&M's customers pay for the costs of Rockport Unit 2. There is no evidence that I&M and AEG instead intend to utilize Rockport Unit 2 purely as a merchant plant for wholesale sales to third-parties."
- 2) "Furthermore, if that were the case, such an endeavor would be a significant distraction from I&M's principal mission of providing safe and reliable electric service at lowest reasonable cost to its customers."
- 3) "Moreover, it has not been made clear what financial condition I&M would be left in if I&M and AEG acquired Rockport Unit 2 and the Commission were to later deny allowing recovery of Rockport Unit 2 costs through retail rates. The impact of that scenario could potentially interfere with I&M's ability to provide safe and reliable electric service at lowest reasonable cost or have unknown impacts on retail customer rates."

**Q11. What is your response to point 1 above regarding Petitioners' intention?**

The Company has not hidden its intentions. To be clear and as stated in my direct testimony, at this time the Petitioners are simply requesting the legal ability to reacquire ownership of Rockport Unit 2. This is necessary for Petitioners to close the proposed Transaction. This objective can be achieved by a Commission decision declining to exercise its jurisdiction under the CPCN Statute (Ind. Code § 8-1-8.5-2). That decision will provide no assurance of retail cost recovery for the

Transaction. Put another way, if the Commission grants the relief Petitioners now seek, the full economic risk of the Transaction will remain with the Petitioners.

Beyond that, the Company expects to continue to conduct its integrated resource planning analysis and to consider filing a CPCN petition in a separate docket as previously agreed. If the Commission does not issue a CPCN, the economic risk of the Transaction would remain with the Company.

**Q12. Hypothetically, if the Transaction closes but the Commission does not issue a CPCN, will the Company operate Rockport Unit 2 as a merchant unit in the wholesale market?**

Yes, in this hypothetical scenario, the Company's current expectation is that the Unit would be operated as a merchant unit in the wholesale market. This expectation does not foreclose other options or off ramps such as the early retirement of the Unit.

**Q13. Industrial Group witness Dauphinais (pp. 4, 20) contends that if the Company were to operate Rockport Unit 2 as a merchant plant in the wholesale market "such an endeavor would be a significant distraction from I&M's principal mission of providing safe and reliable electric service at lowest reasonable cost to its customers." Do you agree?**

Not at all. I&M has long been a multi-jurisdictional operation as it provides retail service in Indiana and Michigan, and also serves customers at wholesale and makes off system sales in the PJM markets. We can multi-task.

Further, while I&M operates the Rockport Plant, it is AEPSC's Commercial Operations team that interfaces with PJM on behalf of I&M and offers Rockport Unit 2 into the market. In fact, all of I&M's generating units are offered into the markets administered by PJM Interconnection, LLC (PJM), consistent with PJM's rules, by AEPSC. The Commercial Operations team has experience offering both retail regulated and merchant units owned by AEP's operating companies. The roles and responsibilities as between I&M and AEPSC would not change if Rockport Unit 2 were to be treated as a merchant unit.

1 The idea that the potential operation is unduly complex also fails to adequately  
2 recognize the role of PJM. PJM is a neutral, independent party that operates a  
3 competitive wholesale electricity market and manages the transmission grid to  
4 ensure reliability. As a member of this FERC-approved Regional Transmission  
5 Organization, I&M must comply with the PJM requirements.

6 In sum, the treatment of Rockport Unit 2 as a merchant plant, if that were to occur,  
7 would have not adversely affect I&M's duty to provide reasonably adequate service  
8 and facilities at just and reasonable rates.

9 **Q14. Would there be any distraction to I&M's operations if the Transaction did not**  
10 **close?**

11 Yes. It would be a far more likely distraction for I&M's Rockport operations team  
12 to have to manage half the plant (Rockport Unit 1) under I&M's direction and half  
13 the plant (Rockport Unit 2) under the direction of the current Owner Trust, or any  
14 future owner if the current owner were to seek another buyer. For example, a  
15 different owner may want to experiment with different blends of coals that could  
16 drive different costs and operating conditions, and could have a different staffing  
17 philosophy. These types of issues could even make it more complicated to operate  
18 Unit 1 in the manner I&M sees fit (though I&M would certainly work to shield its  
19 customers from such impacts).

20 At the end of the day, ownership by Petitioners presents no changes to the current  
21 manner of day-to-day operations, but operating Rockport Unit 2 on behalf of a  
22 third-party owner could present any number of "distractions."

23 **Q15. Mr. Dauphinais states (p. 4) that if the Commission were to deny I&M the**  
24 **ability to recover its investment in Rockport Unit 2 through retail rates, this**  
25 **could potentially interfere with I&M's ability to provide safe and reliable**

1       **electric service at reasonable rates or have unknown impacts on retail**  
2       **customer rates. Please respond.**

3       This speculation does not warrant rejection of the relief Petitioners seek. The  
4       impact of a possible cost disallowance on the Company's financial viability must  
5       be viewed in context. I&M's rate base currently is over \$6 billion. By the end of  
6       2022, when the Transaction is expected to close, I&M's rate base is projected to  
7       be over \$7.3 billion. The Rockport Unit 2 purchase price is \$115.5 million of which  
8       I&M's ownership share is \$57.75 million. Either amount is small compared to the  
9       size of I&M's rate base. Given this, it is unlikely that a Commission decision to  
10      deny the Company the opportunity to earn a return "of" and "on" this investment  
11      would jeopardize the Company's financial wherewithal to meet its Indiana retail  
12      service obligations.

13      Furthermore, the Company has the opportunity to recover such costs through  
14      wholesale operations in PJM and utilize off-ramps if the Unit is not economic or if  
15      costs to maintain and repair the facility become unmanageable for some  
16      unanticipated reason. For example, the Company could retire the Unit rather than  
17      continue to incur the cost to operate it. If, in this hypothetical scenario, the  
18      undepreciated balance of the Rockport Unit 2 acquisition were to be written off, a  
19      non-recurring, non-cash expense would impact I&M's GAAP earnings, but not  
20      ongoing earnings. The impact of this, while negative, would not be expected to  
21      significantly impact credit rating agency views of I&M's financial condition. The net  
22      risk here is very small.

23      **Q16. Do you have a further response to the suggestion that the economics of**  
24      **operating Rockport Unit 2 as a merchant plant in the PJM wholesale market**  
25      **may be so challenging that it could impair the Company's financial viability?**

26      The Unit currently does and can continue to operate within the guidelines set forth  
27      by PJM, even as a wholesale generator. The modest purchase price of \$115.5  
28      million coupled with the reasonable fixed operating costs position the Unit to  
29      operate as a wholesale generator within PJM and be cash flow positive on an

1 annual basis, using reasonable assumptions. Even at the most recent PJM  
2 capacity clearing price of \$50/MW-day, the estimated annual revenue from only  
3 capacity sales would be approximately \$21.5 million.<sup>1</sup> Using the average capacity  
4 clearing price over the last five years of \$106.26/MW-day, the estimated annual  
5 revenue from only capacity sales would be approximately \$45.7 million.

6 In addition, gross margin from energy sales realized during times of high system  
7 demand would provide additional margin that would further support the Unit's  
8 financial performance in the wholesale market. Further, any significant risks  
9 related to loss of the Unit due to property damage would be covered by casualty  
10 loss insurance. In the event unexpected and prolonged market conditions exist  
11 that would materially impact the wholesale viability of the Unit, the Company could  
12 retire the Unit and avoid ongoing costs thereby reducing any ongoing material  
13 financial impact. Given the Unit is reasonably expected to be cash flow positive  
14 with conservative market assumptions, coupled with the modest purchase price of  
15 \$115.5 million, operating the Unit in the wholesale market is not expected to have  
16 a material impact on the Company's financials.

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<sup>1</sup> Installed capacity (ICAP) of 1300 MW x (1 – 9.34% EFORd five year class average) \* \$50/MWday \* 365 days/yr.

#### IV. Response to CAC

1 **Q17. CAC witness Binz (pp. 14-15) calculates an annual cost per MW-day for**  
2 **Rockport Unit 2 of approximately \$350/MW-day and contends that**  
3 **consumers have “paid dearly” for the capacity of that Unit. Please respond.**

4 As an initial matter, I&M’s and AEG’s lease payments are irrelevant to the costs  
5 I&M would incur after the lease ends to reacquire 50% of the Unit and continue  
6 payments pursuant to the Unit Power Agreement (UPA) with AEG.

7 Additionally, witness Binz fails to recognize that capacity has been only one part  
8 of the value provided to customers over the 33-year term of the lease. Customers  
9 have benefited from the complete value that Rockport Unit 2 offers (capacity,  
10 energy, and ancillary services coupled with an abundant low cost fuel supply  
11 source, as well as off-system sales revenues).

12 Finally, his position ignores that the lease was determined to be a lower-cost option  
13 than adding the Unit to rate base at the time of the original sale and leaseback  
14 agreement. The Commission’s order approving the lease stated: “Both Petitioner’s  
15 evidence and the Public’s evidence established that the estimated net present  
16 value of the annual revenue requirements of a lease of Rockport 2 will be less than  
17 the corresponding revenue requirements of ownership.”<sup>2</sup> The Commission order  
18 concluded: “Based on all of the above, we find that the sale and leaseback  
19 transactions will benefit and be in the best interests of both Petitioners’ customers  
20 and investors and are consistent with sound financial management and policy.”<sup>3</sup>

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<sup>2</sup> *Indiana Michigan Power Co. and AEG*, Cause Nos. 38690 and 38691, 1989 WL 1734132 at \*2 (IURC March 30, 1989).

<sup>3</sup> *Id.* at \*3.

**V. Response to Wabash Valley**

**Q18. Wabash Valley’s witness Moore states on page 9 that “[t]he transaction will have a direct impact on the cost and rates Wabash Valley charges its members and ultimately its retail customers in Indiana” and on page 15 that “I&M has presented this transaction as, in essence, a purchase of a merchant plant by which Indiana customers will not be impacted unless there is a separate CPCN proceeding. This is inaccurate. Wabash Valley and other Indiana wholesale customers are impacted and so are the Indiana retail customers of these wholesale customers.” Please respond.**

It is important to keep in mind that there will be a direct impact to the wholesale rates I&M charges Wabash Valley regardless of whether the Transaction closes. As proposed by Petitioners, that impact would be a decrease from Wabash’s rates that include the lease expense, because the entire purchase price of \$115.5 M is less than only one year of the total lease expense (accounting for both I&M’s leased portion and I&M’s purchases from AEG pursuant to the UPA).

The decrease in costs resulting from the termination of the lease is the only rate impact that can be thought of as automatic – any other effect on rates is subject to a future CPCN, in the case of I&M’s retail customers, or subject to FERC jurisdiction and the terms of its wholesale contracts, in the case of I&M’s wholesale customers. Regardless, this is not the appropriate forum to consider Wabash’s wholesale service concerns.

**Q19. Mr. Moore also claims that the Bridge Agreement is lower cost than owning Rockport Unit 2 (pp. 13-14). Please respond.**

To the extent witness Moore believes the terms of the Bridge Agreement are available to I&M through 2028, he is mistaken. The Bridge Agreement is a temporary arrangement to address near-term PJM auctions prior to closing on the Transaction, and is not a solution for the long-term issues underlying the Petitioners’ decision to reacquire the Unit discussed at length in my testimony.

1 Additionally, witness Moore's analysis of the purchase price as compared to the  
2 Bridge Agreement is fundamentally flawed because it gives no consideration to the  
3 PJM market value of the capacity and energy associated with the additional  
4 generation that would be available above the level witness Moore states is needed.

## VI. Response to Joint Municipals

5 **Q20. Joint Municipal witness Thornton notes (p. 10) that I&M filed a rate case on**  
6 **July 1, 2021 and Joint Municipals are in the process of reviewing the impact**  
7 **of the purchase of Rockport Unit 2 on I&M's retail rates. Is the Company's**  
8 **pending basic rate case a reason for the Commission to deny the relief**  
9 **sought by Petitioners in this case?**

10 No. The Company has not sought to recover the cost of purchasing Rockport Unit  
11 2 in the pending basic rate case (Cause No. 45576).

12 **Q21. What is your recommendation to the Commission?**

13 For all the reasons discussed in the Company's direct testimony and as further  
14 explained in the Company's rebuttal testimony, I recommend that the Commission  
15 grant the relief sought by Petitioners by issuing a declination of jurisdiction to allow  
16 the Transaction to close. Such an order would not prejudice any future CPCN  
17 proceeding in favor of Petitioners.

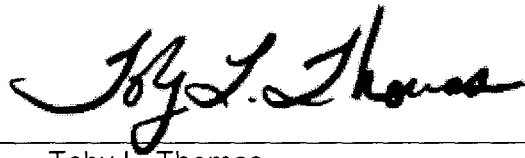
18 **Q22. Does this conclude your verified prefiled rebuttal testimony?**

19 Yes.

## VERIFICATION

I, Toby L. Thomas, Senior Vice President, Energy Delivery for AEP, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: August 10, 2021

A handwritten signature in black ink, reading "Toby L. Thomas", written in a cursive style. The signature is positioned above a horizontal line.

Toby L. Thomas