

STATE OF INDIANA

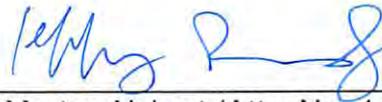
INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY (I&M), AN INDIANA)
CORPORATION, FOR APPROVAL OF A CLEAN)
ENERGY PROJECT AND QUALIFIED)
POLLUTION CONTROL PROPERTY AND FOR)
ISSUANCE OF CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR USE OF)
CLEAN COAL TECHNOLOGY; FOR ONGOING)
REVIEW; FOR APPROVAL OF ACCOUNTING)
AND RATEMAKING, INCLUDING THE TIMELY)
RECOVERY OF COSTS INCURRED DURING)
CONSTRUCTION AND OPERATION OF SUCH)
PROJECT THROUGH I&M'S CLEAN COAL)
TECHNOLOGY RIDER; FOR APPROVAL OF)
DEPRECIATION PROPOSAL FOR SUCH)
PROJECT; AND FOR AUTHORITY TO DEFER)
COSTS INCURRED DURING CONSTRUCTION)
AND OPERATION, INCLUDING CARRYING)
COSTS, DEPRECIATION, TAXES, OPERATION)
AND MAINTENANCE AND ALLOCATED)
COSTS, UNTIL SUCH COSTS ARE REFLECTED)
IN THE CLEAN COAL TECHNOLOGY RIDER OR)
OTHERWISE REFLECTED IN I&M'S BASIC)
RATES AND CHARGES.)

CAUSE NO. 44871

SUBMISSION OF DIRECT TESTIMONY OF
PAUL CHODAK III

Indiana Michigan Power Company, by counsel, hereby submits the direct
testimony of Paul Chodak III.



Teresa Morton Nyhart (Atty. No. 14044-49)

Jeffrey M. Peabody (No. 28000-53)

Barnes & Thornburg LLP

11 South Meridian Street

Indianapolis, Indiana 46204

Phone: (317) 231-7716 (Nyhart)

(317) 231-6465 (Peabody)

Fax: (317) 231-7433

Email: tnyhart@btlaw.com

jpeabody@btlaw.com

Attorneys for Indiana Michigan Power
Company

CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing was served upon the following via electronic email, hand delivery or First Class, United States Mail, postage prepaid this

21st day of October, 2016 to:

Office of Utility Consumer Counselor
PNC Center
115 W. Washington St., Suite 1500 South
Indianapolis, Indiana 46204
infomgt@oucc.in.gov.



Jeffrey M. Peabody

Teresa Morton Nyhart (No. 14044-49)
Jeffrey M. Peabody (No. 28000-53)
BARNES & THORNBURG LLP
11 South Meridian Street
Indianapolis, Indiana 46204
Nyhart Phone: (317) 231-7716
Peabody Phone: (317) 231-6465

Attorneys for INDIANA MICHIGAN POWER COMPANY

STATE OF INDIANA

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

PAUL CHODAK III

ON BEHALF OF

INDIANA MICHIGAN POWER COMPANY

**PRE-FILED VERIFIED DIRECT TESTIMONY OF PAUL CHODAK III
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.**

2 A. My name is Paul Chodak III. My business address is Indiana Michigan Power
3 Center, P.O. Box 60, Fort Wayne, Indiana 46801. I am President and Chief
4 Operating Officer of Indiana Michigan Power Company (I&M or Company).

5 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH I&M?**

6 A. I am responsible for the safe, reliable, and efficient day-to-day operation of I&M,
7 which is an operating company subsidiary of American Electric Power Company,
8 Inc. (AEP). I am accountable and responsible for I&M's financial performance
9 and the quality of the services we provide to our customers. My responsibilities
10 include I&M's community involvement and economic development, and ensuring
11 compliance with federal regulatory and statutory rules, as well as laws of Indiana
12 and Michigan, the states comprising the Company's electric service territory.
13 Essentially, I am accountable for the Company's distribution, customer service,
14 transmission, and generation functions to provide safe, adequate and reliable
15 service to I&M's customers.

16 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
17 BACKGROUND.**

18 A. I received a Doctorate Degree in nuclear engineering from Massachusetts
19 Institute of Technology in 1996. I received a Master's Degree in civil engineering
20 from Virginia Polytechnic Institute and State University, and a Bachelor of

1 Science Degree in chemical engineering with honors from Worcester
2 Polytechnic Institute.

3 Prior to joining American Electric Power Service Corporation (AEPSC), I
4 was a Staff Scientist at Los Alamos National Laboratory conducting research on
5 technology and policy issues surrounding nuclear power and proliferation risks. I
6 served more than seven years as a U.S. Naval officer and completed both chief
7 engineer and submarine officer qualifications.

8 I joined AEPSC in 2001 as a Senior Project Manager. In 2002, I was
9 named Director - Regional Engineering for Regulated Generation, working with
10 the team providing engineering support to many of AEP's plants. I was named
11 Managing Director - Corporate Technology Development in 2003, and was part
12 of a team that evaluated existing pollution control technologies, and the
13 application of those technologies in meeting new and evolving environmental
14 compliance requirements.

15 In 2004, I helped implement AEP's system-wide environmental
16 compliance plan as Director - Environmental Programs, responsible for more
17 than \$2 billion of capital investments. In early 2007, I was named Director - New
18 Generation, responsible for the installation of several natural gas simple- and
19 combined-cycle plants. During my tenure as Director - New Generation, I
20 directed the team that successfully commissioned the first two units at
21 Southwestern Electric Power Company's (SWEPCo) Harry D. Mattison Plant. I
22 was also responsible for SWEPCo's J. Lamar Stall (Stall) project.

1 In July 2008, I was named President and Chief Operating Officer of
 2 SWEPCO, which like I&M is an operating company subsidiary of AEP. I became
 3 President and Chief Operating Officer of I&M on July 1, 2010.

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
 5 **COMMISSIONS?**

6 A. Yes. I have submitted pre-filed testimony before the Indiana Utility Regulatory
 7 Commission (IURC or Commission) in Cause Nos. 44000, 44033, 44075, 44182,
 8 44331, 44511, and 44523. I have also provided testimony before the Michigan
 9 Public Service Commission (MPSC) in Case Nos. U-16180, U-16801, U-17026,
 10 and U-17524. In addition, I have testified before the Louisiana Public Service
 11 Commission and provided testimony on various matters to the Arkansas, Texas,
 12 Virginia, and West Virginia regulatory commissions.

13 **Q. PLEASE IDENTIFY THE OTHER WITNESSES TESTIFYING IN SUPPORT OF**
 14 **I&M’S REQUESTED RELIEF IN THIS CAUSE.**

15 A. In addition to me, the following witnesses are testifying on behalf of I&M:

John C. Hendricks	Director – Air Quality	Environmental Laws and Regulations
Scott C. Weaver	Managing Director – Resource Planning & Operational Analysis	Economic Evaluation of Resource Alternatives
Franklin R. Pifer	Managing Director – Projects	SCR Project Execution & Cost Estimate
Andrew J. Williamson	Director of Regulatory Services	Accounting and Ratemaking issues

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. My testimony will provide an overview of I&M's request for approval to construct,
3 install and operate Selective Catalytic Reduction (SCR) technology on Unit 2 at
4 I&M's Rockport Plant by December 31, 2019 (Rockport Unit 2 SCR Project or
5 Project). I will explain why it is reasonable and necessary to install an SCR on
6 Rockport Unit 2, and I will address the current circumstances facing I&M,
7 including the mandates of the Third Joint Modification to the New Source Review
8 Consent Decree (Modified Consent Decree) and the potential termination in
9 2022 of the Lease under which I&M operates Rockport Unit 2. I will also discuss
10 how the installation fits within the long-term strategy of the Company to serve
11 customers and comply with federally mandated requirements and environmental
12 regulations.

13 **Q. WHAT IS THE COMPANY'S REQUEST IN THIS PROCEEDING?**

14 A. In this case, the Company is requesting a Certificate of Public Convenience and
15 Necessity (CPCN) and approval of associated ratemaking treatment related to
16 the Rockport Unit 2 SCR Project because the SCR investment is reasonable,
17 necessary, and in the best interests of I&M's customers. As set forth in I&M's
18 Verified Petition, I&M requests approval of a clean energy project and qualified
19 pollution control property, as those terms are used in Indiana law, and for
20 issuance of a CPCN to construct, install and use SCR technology to allow I&M to
21 reduce emissions of nitrogen oxides (NO_x) from an existing generating unit. I&M
22 also requests Commission approval of financial incentives available under the
23 law, including timely recovery of costs, approval of associated ratemaking

1 treatment related to I&M's Ownership Share of the Rockport Unit 2 SCR Project,
2 and for authority to depreciate I&M's Ownership Share of the Project over a
3 period of ten years.

4 **Q. PLEASE SUMMARIZE I&M'S DECISION TO INSTALL SCR TECHNOLOGY**
5 **ON ROCKPORT UNIT 2.**

6 A. As discussed in more detail by Company witness Hendricks, the Clean Air Act
7 and AEP's related Modified Consent Decree require that environmental controls
8 be installed on Rockport Unit 2 by December 31, 2019 in order for the unit to
9 continue to operate. If the controls are not installed, the generating capacity and
10 energy provided by Rockport Unit 2 will not be available to help meet the needs
11 of our customers.

12 I&M has conducted a comprehensive economic analysis of the cost of
13 retrofitting Rockport Unit 2 with the required environmental controls compared to
14 the cost of various alternatives, which is presented by Company witness Weaver.
15 The analysis utilized a broad range of assumptions including long-term forecasts
16 of I&M's energy requirements and peak demand, as well as the price of various
17 generation-related commodities, including energy, capacity, coal, natural gas,
18 and carbon dioxide (CO₂)/carbon. Alternatives, such as retiring the unit and
19 purchasing capacity and energy from the wholesale market, were also
20 considered as part of I&M's strategic planning and associated Integrated
21 Resource Planning (IRP) process. The results of I&M's analyses demonstrate
22 that the near-term retrofit of Rockport Unit 2 with SCR technology is the most

1 reasonable and least-cost resource action that will allow Rockport Unit 2 to
2 continue to be an economic and reliable resource to meet our customers' needs.

3 **Q. PLEASE DESCRIBE I&M'S CURRENT PORTFOLIO OF GENERATION**
4 **RESOURCES.**

5 A. Over the years, I&M has assembled a diverse portfolio of on-system generation,
6 energy efficiency and demand response programs, and wholesale power
7 purchases to reliably and cost-effectively meet its native load customers' demand
8 and energy requirements. I&M's generation portfolio consists of Rockport Plant,
9 Cook Nuclear Plant, six run-of-the-river hydro plants, and Power Purchase
10 Agreements with Fowler Ridge, Wildcat, and Headwaters wind farms. In
11 addition, by December 31, 2016, I&M will own and operate four solar power
12 plants totaling approximately 14.7 megawatts (MWs) of solar power.

13 **Q. PLEASE DESCRIBE THE ROCKPORT PLANT.**

14 A. The Rockport Plant is a coal-fired generating station located in Spencer County,
15 Indiana that reliably provides highly-valuable capacity during periods of peak
16 demand, and reasonable-cost energy. The Rockport Plant consists of two units
17 that are among the largest coal-fired units in the United States. The nominal net
18 generating capacity of Rockport Unit 1 is 1320 MW, and Rockport Unit 2 is 1300
19 MWs. The units were placed in service in 1984 and 1989, respectively, and
20 have been efficient and reliable performers for I&M and its customers. Over 230
21 people are currently employed at the plant.

22 For over thirty years, the Rockport Plant has been a cornerstone of I&M's
23 generation fleet and has achieved low emission rates of NO_x and sulfur dioxide

1 by consuming predominantly low-sulfur coal from the Powder River Basin,
2 However, the outlook for coal generation is changing. An increasing number of
3 stringent environmental regulations, persistently low natural gas prices, and
4 increasing public support for renewable energy resources are reducing the need
5 to rely on coal as a source for low cost power. That said, the continued safe,
6 reliable and efficient operation of the Rockport Plant is vital to meeting the need
7 of I&M's customers for dependable and affordable electric service.

8 **Q. PLEASE DESCRIBE THE OWNERSHIP OF THE ROCKPORT PLANT.**

9 A. I&M and American Electric Power Generating Company (AEG) are jointly
10 responsible for the two Rockport units. Like I&M, AEG is a subsidiary of AEP
11 that was found to be a public utility in Indiana in Cause No. 37602. AEG sells
12 70% of its 50% share of the Rockport Plant's capacity and energy to I&M under a
13 Unit Power Agreement (UPA) and the remaining 30% to Kentucky Power
14 Company (KPCo), an operating company affiliate of I&M. An illustration of these
15 ownership and purchase relationships is found on Attachment AJW-2 in the
16 testimony of Company witness Williamson. All told, I&M owns or purchases 85%
17 of the capacity and energy of both units at the Rockport Plant, which amounts to
18 2227 MW of the plant's nominal 2620 MW. In 2016, the nominal 2227 MW of
19 the Rockport Plant that I&M owns or purchases represent approximately 49% of
20 I&M's total generating capacity.

21 **Q. DO I&M AND AEG OWN ROCKPORT UNIT 2?**

22 A. No. In 1989, I&M and AEG sold Rockport Unit 2 to a group of unaffiliated, non-
23 utility investors (Owner Participants or Lessors), who in turn agreed to lease the

1 unit back to I&M and AEG. I&M and AEG received approval on March 30, 1989
2 in Cause Nos. 38690 and 38691 of the sale and leaseback transaction for
3 Rockport Unit 2 (Lease). That year, I&M and AEG sold Rockport Unit 2 to the
4 Lessors and leased Rockport Unit 2 back for 33 years.

5 **Q. PLEASE GENERALLY DESCRIBE THE LEASE.**

6 A. I&M and AEG lease the generating plant from the Lessors and are entitled to the
7 output of the unit. I&M and AEG make Lease payments to the Lessors and a
8 representative amount of the lease expense is included in the revenue
9 requirement used for setting I&M's basic rates. During the term of the Lease,
10 I&M and AEG are responsible for installing, owning and operating major
11 environmental controls, such as the SCR, to assure that the plant complies with
12 all regulations.

13 The Lease also provides for an early termination of the Lease in the event
14 that Rockport Unit 2 is "economically obsolete." If the Lease is terminated early
15 due to obsolescence, I&M is required by the terms of the Lease to pay the
16 Lessors an amount referred to in the Lease as Termination Value, which is a
17 calculable amount intended to essentially make the Lessors whole for the loss of
18 the lease payments. For example, if the Lease was terminated as of January 1,
19 2020 due to becoming economically obsolete as a result of not installing and
20 operating the requisite SCR system, the Termination Value owed by I&M and
21 AEG to the Lessors would be approximately \$716 million.

22 The Lease provides for the following options at the end of the lease term
23 in 2022:

- 1) Return of the generating asset to the Lessors,
- 2) Renew Lease at Fixed Rate payment, or
- 3) Renew Lease at Fair Market Value payment.

Q. WHEN DOES THE LEASE END?

A. The Rockport Unit 2 lease terminates on December 7, 2022 unless it is extended under the terms of the Lease or through the mutual agreement of the parties to the Lease. As mentioned above, under the terms of the Lease, I&M has options to extend the Lease at the current fixed Lease payment or for a Lease Payment agreed upon in accordance with the fair market value. I&M engaged in confidential discussions with the Lessors regarding what might occur at the end of the Lease. At this time, I&M has not exercised either of its options to extend the Lease and it is not known whether or not it will do so. Accordingly, for the purposes of evaluating whether to install the SCR on Rockport Unit 2 to comply with federal environmental mandates, I&M evaluated the possibility that it will not have access to the output of Rockport Unit 2 beyond 2022.

Q. IS THE LEASE THE SUBJECT OF LITIGATION BETWEEN I&M AND THE LESSORS?

A. Yes. I&M is currently involved in litigation with the Lessors that is pending in the United States District Court for the Southern District of Ohio, Eastern Division. The litigation stems from the terms of the Lease and the requirement of the Modified Consent Decree that flue gas desulfurization systems (FGDs or “scrubbers”) be installed and in operation on one unit of the Rockport Plant by December 31, 2025 and on the other unit by December 31, 2027. After I&M and

1 AEG prevailed at the trial court level on summary motions regarding many of the
2 contested issues, the Lessors dismissed the remaining claims with prejudice and
3 filed an appeal of the trial court's ruling. It is unlikely that the litigation will be
4 completed before the end of this Cause.

5 **Q. WHAT IMPACT DOES THE UNCERTAINTY SURROUNDING THE LEASE**
6 **HAVE ON I&M'S FILING IN THIS CAUSE?**

7 A. The significant uncertainty surrounding the future of Rockport Unit 2 as a
8 resource to meet the needs I&M's customers obviously makes long-term
9 decisions about I&M's generation portfolio more complex. I&M continues to
10 explore all options as it determines the best way to serve customers. As shown
11 in our IRP, there are several different paths available to take and the costs of
12 several of the options are relatively comparable. I&M uses its IRP as a tool for
13 making judgments on how to manage its business in the interest of customers.
14 While clarity on the future of Rockport Unit 2 would be valuable, I&M does not
15 have the luxury of time to wait for matters to become clearer.

16 What is clear at this point is that under the current circumstances,
17 installing and operating SCR technology on Rockport Unit 2 in compliance with
18 Federal environmental requirements is the correct decision for I&M and its
19 customers. Our analyses support, and it is our reasonable business judgment
20 exercised knowing what we know now, that even if the Lease terminates at the
21 end of its initial term in 2022, it makes economic sense for I&M and its customers
22 to install and operate SCR technology for the remaining time that I&M and its
23 customers would benefit from the output of the unit.

1 If future developments occur that alter that judgment, I&M is committed to
2 timely advising the Commission and stakeholders about those developments
3 and the impact they have on Rockport Unit 2. However, at this point, work on the
4 Rockport Unit 2 SCR Project must begin if the Project is to be successfully
5 completed and thus I&M needs to move forward with its filing in this Cause.

6 **Q. PLEASE BRIEFLY DESCRIBE THE ROCKPORT UNIT 2 SCR PROJECT.**

7 A. The Rockport Unit 2 SCR Project will install a SCR system that is advanced
8 clean coal technology designed to reduce NO_x emissions associated with the
9 combustion of coal.

10 As discussed by Company witness Pifer, the Rockport Unit 2 SCR
11 Project is nearing Phase I of a multi-phase project execution plan. Phase I will
12 define the scope of the project, prepare work plans, and develop a budgetary
13 cost estimate and schedule for implementation. This phase is planned to be
14 completed in March 2017. Phase IIa, which consists of preliminary
15 engineering, design, permitting and procurement work, is scheduled to be
16 completed by August 2017. Phase IIb, which consists of detailed engineering,
17 design, contracting and initial site construction, is scheduled to be completed in
18 March 2018. Full-scale construction (Phase III) will follow in the second quarter
19 of 2018. The Rockport Unit 2 SCR Project is expected to create more than
20 250 construction jobs at the height of the project and generally spur economic
21 development in the community.

22 As explained by Company witness Hendricks, under the Modified
23 Consent Decree, the Rockport Plant is required to install SCR systems to

1 achieve NOx reduction on Unit 2 by December 31, 2019 or it must cease
2 operating. While it will not be necessary to curtail the operation of Rockport
3 Unit 2 during construction, a complete outage of Rockport Unit 2 will be
4 required near the end of construction to allow for the integration of the new
5 SCR system into the existing flue gas path and for the installation of the new
6 air heater baskets. A schedule of the project is set forth in the direct testimony
7 of Company witness Pifer.

8 **Q. WHAT IS THE ESTIMATED COST OF THE ROCKPORT SCR**
9 **ENVIRONMENTAL PROJECT?**

10 A. The cost of the Rockport Unit 2 SCR Environmental Project in total is estimated
11 to be \$274.2 million (excluding AFUDC) as discussed by Company witness
12 Pifer. I&M's Ownership Share of the Project is approximately \$137.1 million.
13 We intend to adhere to stringent project management controls to complete the
14 Rockport Unit 2 SCR Project on time and within the project's budget. Doing so
15 will benefit I&M and its customers by conserving scarce capital resources,
16 maintaining affordable rates, and encouraging off system sales of energy.

17 To mitigate the rate impact of the cost of the project, we also are
18 seeking to use ratemaking tools such as Construction Work in Progress to
19 lower overall project costs, and a rate adjustment mechanism to avoid creating
20 rate shock for our customers. Company witness Pifer provides additional
21 details of the cost estimate and Company witness Williamson discusses the
22 ratemaking and accounting treatment.

1 **Q. PLEASE EXPLAIN THE MANNER IN WHICH I&M PROPOSES TO**
2 **RECOVER THE COSTS IT WILL INCUR BECAUSE OF THE ROCKPORT**
3 **UNIT 2 SCR PROJECT.**

4 A. I&M proposes to use the existing Clean Coal Technology Rider (CCTR) rate
5 mechanism to recover the costs associated with I&M's Ownership Share of
6 Rockport Unit 2. I&M witness Williamson provides more details of the
7 proposed cost recovery in his testimony.

8 **Q. OVER WHAT TIME PERIOD DOES THE COMPANY PROPOSE TO**
9 **DEPRECIATE THE ROCKPORT UNIT 2 SCR PROJECT?**

10 A. I&M proposes to depreciate the Rockport Unit 2 SCR Project over a period of
11 ten years.

12 **Q. WHY IS IT APPROPRIATE TO DEPRECIATE THE ROCKPORT UNIT 2 SCR**
13 **PROJECT OVER TEN YEARS?**

14 A. It is my understanding that Indiana law directs the Commission to allow the
15 depreciation of clean coal technology such as the Rockport Unit 2 SCR Project
16 over a period of ten years or the useful economic life of the technology,
17 whichever is less, and not more than twenty years. Depreciating the Project
18 over ten years conforms to the policy of encouraging investment in clean coal
19 technology in the state of Indiana and more closely synchronizes the end of the
20 depreciable life of the Project with the other environmental control investments
21 being made on the unit (e.g. the Dry Sorbent Injection system (DSI) approved
22 by the Commission in Cause No. 44331).

1 Given the risk that additional environmental regulations could shorten
2 the Project's service life, it is appropriate to depreciate the Project over ten
3 years. I&M and the electric utility industry continue to face a multitude of
4 potential U.S. Environmental Protection Agency (EPA) regulations. As
5 described by Company witness Hendricks, I&M faces additional pending and
6 potential federally mandated requirements under the Federal Clean Air Act in
7 various stages of development that may further necessitate installation of SCR
8 technology at the Rockport Plant. Additionally, the Rockport Plant is subject to
9 the Clean Air Act related mandates of the Modified Consent Decree. The cost
10 of complying with each of these rules may be substantial and will be incurred
11 over the next several years as the rules are implemented.

12 Also, as discussed in detail by Company witness Hendricks, the EPA
13 finalized the Clean Power Plan (CPP) to regulate CO₂ emissions from electric
14 generating units, including the Rockport Plant. I&M is currently in the process
15 of reviewing the CPP and will undertake significant analyses to determine the
16 impacts of the final CPP on I&M and its customers. I&M, AEP, and other
17 stakeholders will be working in the coming months and years to understand the
18 requirements of the final CPP, and to work with state agencies on the state's
19 response to the final CPP. Although the legality of the CPP is being litigated, if
20 the CPP is upheld, it may just be the first step in carbon regulation and not the
21 last.

22 It is conceivable that the final CPP rule could accelerate the retirement
23 of substantial generating capacity. While the Rockport Plant is not on the

1 EPA's list of plants expected to be retired prior to 2020 due to the CPP, and
2 even though it is a relatively young vintage coal plant that is operated
3 efficiently, depreciating the Rockport Unit 2 SCR Project over ten years, rather
4 than a longer period, ameliorates the risk that the investment will not be
5 recovered through rates for service during the operating life of the unit.

6 **Q. WHAT HAPPENS IF THE LEASE IS TERMINATED IN 2022 AND THE**
7 **ROCKPORT UNIT 2 SCR PROJECT CEASES PROVIDING SERVICE TO**
8 **I&M CUSTOMERS?**

9 A. If that were to occur, I&M's rates will have reflected depreciation expense for
10 three years of operation of the Project and approximately 70 percent of the
11 Project will be undepreciated. I&M considers the SCR technology to be a
12 Severable Modification under the Lease and intends to pursue its rights at the
13 end of the Lease, including the potential to recover the undepreciated balance
14 of the asset from the Lessors. Given the pending litigation regarding the
15 Lease, it cannot now be known whether the Lessors will agree with I&M on this
16 matter. If the unit is no longer providing service before the asset is fully
17 depreciated, the undepreciated balance will be accounted for in the manner
18 described by Company witness Williamson. In that event, it is better for all
19 concerned that the undepreciated balance be minimized through the use of a
20 ten year depreciation schedule.

21 **Q. IS THE ROCKPORT UNIT 2 SCR PROJECT A REASONABLE MEANS OF**
22 **SUSTAINING THE AVAILABILITY OF ROCKPORT UNIT 2 IN THE FACE OF**
23 **CURRENT AND EMERGING ENVIRONMENTAL REGULATIONS?**

1 A. Yes. As Company witness Weaver's testimony shows, the Rockport Unit 2
2 SCR Project is a reasonable business decision regardless of whether the unit
3 is no longer a resource available to I&M after 2022 because declaring the unit
4 to be economically obsolete now would be a more costly alternative for I&M's
5 customers. As described by Company witness Hendricks, there are multiple
6 environmental rulemakings, each in a different stage of development, that
7 further support the installation of SCR technology. I&M is faced with assessing
8 current conditions, making reasonable assumptions about the future, and
9 determining the best path forward. Although there is uncertainty regarding
10 future action to be taken by the EPA, there are significant environmental
11 benefits to be achieved through reduced NO_x emissions and the Rockport Unit
12 2 SCR Project is critical to meeting future environmental requirements.

13 **Q. PLEASE SUMMARIZE THE RELIEF THAT I&M IS REQUESTING IN THIS**
14 **PROCEEDING.**

15 A. As also explained in the Verified Petition in this Cause, I&M seeks Commission
16 approval of:

- 17 1) a clean energy project and qualified pollution control property,
- 18 2) certificate of public convenience and necessity to construct, install
19 and use SCR technology to allow I&M to reduce emissions of NO_x
20 from an existing coal-fired steam electric generating unit,
- 21 3) proposed depreciation, accounting and ratemaking, including
22 authority to depreciate the Project over ten years,

1 4) the cost estimate and associated accounting and ratemaking
2 treatment, and

3 5) ongoing review.

4 The Rockport Unit 2 SCR Project is a cost-effective means of maintaining
5 the availability of relatively low cost, coal-fired generation that complies with
6 environmental regulations. Approval of the Project will allow the plant to continue
7 to serve I&M's customers' needs, provide jobs and taxes to the community, and
8 mitigate the rate impact on customers. The Rockport Unit 2 SCR Project is the
9 most reasonable option to permit Rockport to continue to provide generation
10 needed to serve I&M's customers' needs while maintaining reasonable rates.

11 **Q. DOES THIS CONCLUDE YOUR PRE-FILED VERIFIED DIRECT TESTIMONY?**

12 **A. Yes, it does.**

VERIFICATION

I, Paul Chodak III, President and Chief Operating Officer For Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 10/21/16



Paul Chodak III