

OFFICIAL  
EXHIBITS

STATE OF INDIANA

FILED  
February 1, 2021  
INDIANA UTILITY  
REGULATORY COMMISSION

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
INDIANA MICHIGAN POWER COMPANY FOR )  
APPROVAL OF A FUEL COST ADJUSTMENT )  
FOR ELECTRIC SERVICE APPLICABLE FOR THE )  
BILLING MONTHS OF APRIL 2021 THROUGH )  
SEPTEMBER 2021 AND FOR APPROVAL OF )  
RATEMAKING TREATMENT FOR COST OF WIND )  
POWER PURCHASES PURSUANT TO CAUSE )  
NOS. 43328, 43750, 44034, AND 44362 )

CAUSE NO. 38702-FAC 86

IURC  
PETITIONER'S  
EXHIBIT NO. 3-11-21  
DATE 3-11-21 REPORTER JK

SUBMISSION OF DIRECT TESTIMONY OF  
JEFFREY C. DIAL

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully  
submits the direct testimony of Jeffrey C. Dial in this Cause.



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## CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing was served upon the following via electronic email, hand delivery or First Class, or United States Mail, postage prepaid this 1st day of February, 2021 to:

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TESTIMONY OF JEFFREY C. DIAL  
ON BEHALF OF  
INDIANA MICHIGAN POWER COMPANY  
IURC CAUSE NO. 38702-FAC86

1    **Q.    Please state your name, position, and business address.**

2    A.    My name is Jeffrey C. Dial. I am employed by the American Electric Power  
3           Service Corporation (AEPSC), a subsidiary of American Electric Power  
4           Company, Inc. (AEP), in the regulated Commercial Operations organization  
5           as Director - Coal, Transportation and Reagent Procurement. My business  
6           address is 1 Riverside Plaza, Columbus, Ohio 43215.

7    **Q.    Please briefly state your educational background.**

8    A.    I graduated from the University of Akron in 1983, with a degree in Accounting,  
9           and I am a Certified Public Accountant in the State of Ohio. I have also  
10          participated in various management training and development programs,  
11          including the AEP Management Development Executive Education program  
12          provided by The Ohio State University Fisher College of Business.

13   **Q.    Please briefly describe your professional background.**

14   A.    In February 1984, I was hired by AEPSC as an assistant auditor with the  
15          responsibility for conducting operational and financial audits of the various  
16          AEPSC and third party entities. In 1989, I joined the Contract Administration  
17          department as a Contract Analyst where I was primarily responsible for the  
18          negotiation and administration of our long-term coal supply agreements and  
19          fuel data reporting system for all of the AEP East Operating Companies. I  
20          joined the Procurement department as a Coal Procurement Agent in 1995  
21          where I was responsible for the coal procurement and inventory management  
22          of various AEP subsidiaries, including Ohio Power Company (OPCo),

1 Columbus Southern Power Company, Kentucky Power Company (KPCo),  
2 and as agent for Ohio Valley Electric Company (OVEC) and Indiana Kentucky  
3 Electric Corporation (IKEC). I held various positions of increasing  
4 responsibility in the Procurement department. In 2009, I moved into the  
5 Transportation and Logistics section of Fuel Procurement as the Manager of  
6 Marketing, Transportation and Logistics and was responsible for all of the  
7 transportation and logistics functions including contract negotiations with the  
8 various transportation providers and managing the day-to-day deliveries to all  
9 of the AEP Power Plants. In May of 2018, I was promoted to my current role  
10 as Director - Coal, Transportation, and Reagent Procurement.

11 **Q. What are your primary areas of responsibility as Director - Coal,**  
12 **Transportation and Reagent Procurement?**

13 A. I am responsible for the oversight of all coal and reagent procurement,  
14 contract negotiation, and inventory management for the AEP operating  
15 companies, including Indiana Michigan Power Company (I&M), KPCo,  
16 Southwestern Electric Power Company (SWEPCO), Public Service Company  
17 of Oklahoma (PSO), Appalachian Power Company (APCo), Wheeling Power  
18 Company (WPCo), and as an agent for OVEC and IKEC. I am also  
19 responsible for the oversight of all rail, barge, truck, and transloading  
20 agreements.

21 **Q. Have you previously submitted testimony or testified before any**  
22 **regulatory agencies?**

1 A. Yes, I have submitted testimony before the Indiana Utility Regulatory  
2 Commission on behalf of I&M in Cause Nos. 38702 FAC80 through FAC85;  
3 the Michigan Public Service Commission on behalf of I&M in Case Nos. U-  
4 20204 and U-20223; the Oklahoma Corporation Commission on behalf of  
5 PSO in Cause Numbers PUD 201100111, 201700258, 201800085,  
6 201900041 and 202000067; and the Public Service Company of West Virginia  
7 on behalf of APCo and WPCo in Case No. 20-0262-E-ENEC.

8 **Q. What is the purpose of your testimony in this proceeding?**

9 A. My testimony provides a comparison of the forecasted and actual delivered  
10 coal costs for June 2020 through November 2020 (Reconciliation Period),  
11 discusses current coal market conditions and environmental requirements,  
12 addresses I&M's coal delivery forecast for the period covering April 2021  
13 through September 2021 (Forecast Period), and summarizes I&M's long-term  
14 coal supply agreements. In addition, I will describe I&M's coal purchasing  
15 strategy.

16 **Rockport's Coal Requirements and Incurred Fuel Cost**

17 **Q. Please identify and describe I&M's coal generating station.**

18 A. I&M's Rockport coal generating station (Rockport) operated throughout the  
19 Reconciliation Period and is projected to receive coal deliveries during the  
20 entire Forecast Period. The station is located in Spencer County, Indiana, and  
21 consists of two 1300-megawatt coal-fired generating units.

22 Sulfur dioxide (SO<sub>2</sub>) emissions at Rockport are limited by the New Source  
23 Performance Standard to 1.2 lbs. SO<sub>2</sub> per Million British Thermal Unit

1 (MMBtu). Compliance with the emission limit is achieved by using a blend  
2 consisting primarily of Powder River Basin (PRB) low-sulfur subbituminous  
3 coal from Wyoming along with low-sulfur bituminous coal from various Central  
4 Appalachian (CAPP) sources. Consistent with the U.S. Environmental  
5 Protection Agency (EPA) Mercury and Air Toxics Standards (MATS Rule),  
6 which places emissions limits on the two units at the Rockport Plant for  
7 mercury, acid gases, and other hazardous air pollutants, Dry Sorbent Injection  
8 (DSI) technology and Activated Carbon Injection (ACI) are being utilized. The  
9 DSI system uses sodium bicarbonate to reduce emissions of acid gases, the  
10 ACI system uses brominated activated carbon to reduce emissions of  
11 mercury, and an electrostatic precipitator ensures compliance with hazardous  
12 air pollutant limits that are measured via particulate matter emission  
13 limits. The use of DSI and ACI technology has not required a change in the  
14 coal blend utilized at Rockport.

15 **Q. How did Rockport's actual delivered costs compare to the forecasted**  
16 **costs during the Reconciliation Period?**

17 A. During the Reconciliation Period, the overall weighted average delivered cost  
18 of coal for the Rockport plant from all sources was forecasted to be \$43.68/ton  
19 or 242.01 cents/MMBtu. The actual delivered cost was \$45.25/ton or 246.67  
20 cents/MMBtu. This variance is detailed in Table 1:

Table 1: Actual vs. Forecast Variances

I&M Total		Variance	
			%
	Tons (000)	(1,020)	-43.54%
	\$/Ton FOB Mine	\$2.32	14.33%
	\$/Ton Transportation	-\$0.75	-2.74%
	\$/Ton Delivered	\$1.57	3.59%
	¢/MMBTU	4.66	1.92%

**Forecasted Fuel Cost and Methodology**

**Q. Please provide a summary of I&M's coal supply agreements in effect during the Forecast Period.**

**A.** The coal supply agreements effective during the Forecast Period and the committed tonnages of bituminous and subbituminous coal associated with those agreements for calendar year 2021 are shown in Table 2 below:

Table 2: Committed Tons

Contract #	Basin	2021 Contract Tons
1 <sup>a</sup>	PRB	1,200,000
2 <sup>b</sup>	CAPP	200,000
3 <sup>c</sup>	CAPP	17,600

<sup>a</sup> The original contract provided for 1.65M tons in 2020 and 1.1M tons in 2021. The contract was amended to allow the movement of up to 900,000 tons from 2020 into 2021 or 2022. The volumes above reflect the 100,000 tons moved from 2020 into 2021, and 800,000 tons moved from 2020 into 2022.

<sup>b</sup> Original contract volume of 425,000 tons in 2020. The contract was amended to move 200,000 tons from 2020 into 2021.

<sup>c</sup> Original contract volume of 75,000 tons in 2020. The contract was amended to move 17,600 tons from 2020 into 2021.

Additional coal requirements that are not already committed will be purchased, as necessary, to fulfill any remaining supply requirements at Rockport.

**Q. Please provide the anticipated delivered cost of coal during the Forecast**

1       **Period.**

2       As shown in Table 3, the overall forecasted weighted average delivered cost  
3       of coal for Rockport from all sources during the Forecast Period is projected  
4       to be \$55.57 per ton or 291.96 cents per MMBtu. The increase in fuel costs  
5       from 2020 to 2021 is primarily due to an increase in the operational costs of  
6       barging and transloading associated with a lower generation forecast.

7       **Table 3: Forecast Period**

Tons (000)	<b>685</b>
\$/Ton FOB Mine	<b>\$ 23.20</b>
\$/Ton Transportation	<b>\$ 32.37</b>
\$/Ton Delivered	<b>\$ 55.57</b>
¢/MMBTU	<b>291.96</b>

8       Projected coal deliveries and costs for the Forecast Period were used in the  
9       I&M forecast supported by witness Heimberger.

10    **Q.   How were the forecasted deliveries and prices, as provided above,**  
11       **determined for the Forecast Period?**

12    A.   The amount of coal projected to be consumed was based on a load forecast  
13       covering the Forecast Period. Coal delivery requirements were then  
14       determined by taking into account coal inventory, forecasted coal  
15       consumption, and adjustments for any contingencies that would necessitate  
16       an increase or decrease in coal inventory levels. Next, the sources of the coal  
17       were determined taking into account environmental and boiler constraints, as  
18       well as contractual obligations and existing sources of supply. The price of  
19       contract coal and committed spot market purchases are based on contractual  
20       agreements. Uncommitted coal, when necessary, is priced from the



1 forecasted future coal market prices or forward curve. Finally, transportation  
2 costs were forecasted based on the existing railroad transportation  
3 agreements and projected barging, railcar, and transloading rates.

4 **Purchasing Strategy**

5 **Q. Please describe I&M's coal purchasing strategy.**

6 A. I&M's coal purchasing strategy is based on continuous market monitoring and  
7 evaluation along with periodic competitive bids. Rockport's coal requirements  
8 are frequently updated and reviewed and new supply agreements are  
9 strategically layered into the existing portfolio in order to gradually increase  
10 the committed position. The selection of new supply agreements is primarily  
11 based on price and coal quality considerations from competitive bid results  
12 and/or existing opportunities.

13 **Q. Is risk assessment of potential suppliers an important factor in I&M's**  
14 **coal purchasing decisions?**

15 A. Yes. The Company considers a vendor's financial status, ability to deliver and  
16 past performance when evaluating its decision to do business with that  
17 supplier. Purchases from reliable vendors serve to enhance I&M's supply  
18 security.

19 **Current Market Conditions**

20 **Q. Describe the market price for coal during the Reconciliation Period?**

21 CAPP coal prices<sup>1</sup> increased from mid-\$30 per ton in May 2020 to the low-

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<sup>1</sup> CAPP market prices reference the Platts CSX Over-The-Counter (OTC) daily assessment for coal loaded on CSX rail. PRB market prices represent the Platts PRB 8800 Over-The-Counter (OTC) daily assessment for coal loading on the joint rail line in the southern Powder River Basin.

1 \$50 per ton at the end of November 2020. PRB coal prices have remained  
2 relatively stable, dropping slightly from \$12.15 per ton in May 2020 to \$11.80  
3 per ton in November 2020.

4 **Q. How are recent changes in the energy market impacting Rockport**  
5 **generation?**

6 A. 2020 saw an unprecedented loss of demand for electricity due primarily to the  
7 COVID-19 global pandemic. This crisis, when combined with historically low  
8 natural gas prices, created an environment of exceptionally weak power  
9 prices. As a result, the Rockport Plant generating units were in a situation  
10 where they were either being placed in a Down Not Required (DNR) status or  
11 operating at minimum load most of the time they were online, which reduced  
12 coal consumption to the point that I&M became concerned about reaching  
13 maximum coal inventory capacity and in turn meeting the minimum coal  
14 supply and rail transportation obligations.

15 **Q. Please provide a summary of I&M's current coal inventory situation.**

16 A. As described above, I&M has experienced a decrease in coal burn that has  
17 led to an increase in coal inventory. Rockport maintains two separate coal  
18 piles, bituminous and sub-bituminous, each with their own inventory. Both of  
19 these coal piles are at elevated levels and would have reached their maximum  
20 physical capacity if I&M had not taken steps to mitigate the situation given the  
21 reduced burn.

22 **Q. What options did I&M take to mitigate the reduced coal consumption?**

23 A. I&M negotiated to defer a portion of the tonnage deliveries with its largest

1 suppliers of both bituminous and sub-bituminous coals by extending the term  
2 and delaying a portion of the tonnage into 2021 and 2022. In June 2020, the  
3 Company renegotiated their rail contract with the Union Pacific Railroad (UP),  
4 reducing its 2020 minimum volume obligations to coincide with the coal supply  
5 deferrals and thereby avoided potential liquidated damages. Additionally,  
6 going forward, the rail rate may be reduced based on forward natural gas  
7 prices with a cap that will not allow any future rate to exceed the existing rail  
8 rate as escalated in accordance with the current terms and conditions of the  
9 Rail Transportation Agreement. This unique contract structure will assist in  
10 reducing the delivered cost of coal at Rockport when forward natural gas  
11 prices are forecasted to be low, helping ensure the Rockport Plant can  
12 compete in a low natural gas environment and generate at levels that should  
13 help keep the inventory levels more in line with target ranges. As discussed  
14 in FAC 85, I&M explored various other options that were determined to be  
15 uneconomic.

16 **Q Did the Company change the way it operated within the PJM Integrated**  
17 **Market during the Review Period?**

18 No, the Company continued to comply with rules and regulations established  
19 by PJM.

20 **Q Did I&M use decrement pricing at Rockport during the Reconciliation**  
21 **Period?**

22 A. No. The contract renegotiations described above were adequate to maintain  
23 inventory levels below their maximum capacity during the Reconciliation

1 Period.

2 **Q. Does I&M continue to evaluate the need for decrement pricing?**

3 A. Yes.

4 **Q. Does I&M know if decrement pricing will be used in the future?**

5 A. No. Decrement pricing will be considered and evaluated as a viable approach  
6 on an as-needed basis as conditions warrant.

7 **Q. Does the forecast reflect the use of decrement pricing?**

8 A. No. I&M's coal forecast includes the variable costs related to contractual costs  
9 for committed coal and transportation agreements, market prices for  
10 uncommitted open positions, any contractual escalations, and any  
11 transloading or handling costs that the Company is projected to incur. Once  
12 the coal forecast has been updated, decrement pricing will be evaluated as  
13 an option to reduce surplus inventories and used if required. If the decrement  
14 pricing option is selected, any necessary adjustment would be made to the  
15 market offer. Simply stated, decrement pricing is a tool that incents a  
16 generating unit to dispatch in the market rather than not generating and  
17 incurring additional costs for failure to take delivery of minimum contractual  
18 volume requirements.

19 **Q. Will I&M update its testimony regarding the use of decrement pricing in  
20 future FAC proceedings?**

21 A. Yes.

22 **Q. Have there been any changes to the coal supply blend at Rockport?**

23 A. Yes. I&M continues to explore opportunities to utilize a higher blend of PRB

1 coal as operating and market conditions dictate.

2 **Coal Transportation**

3 **Q. Have there been any other changes to the transportation of the coal to**  
4 **the Rockport Generating Plant?**

5 A. Yes. As discussed above and in FAC 85, the rail agreement with the UP was  
6 renegotiated in June 2020, which reduces Rockport's rail cost when forward  
7 natural gas prices are low. This will help Rockport Plant compete in a low  
8 natural gas environment and generate at levels that should keep fuel  
9 inventory levels more in line with target ranges. This renegotiation led to a  
10 decrease in rail costs and a direct savings to I&M customers of approximately  
11 \$2.2 million during the Reconciliation Period.

12 **Conclusion**

13 **Q. Are I&M's coal costs reasonable as incurred during the Reconciliation**  
14 **Period and as projected during the Forecast Period?**

15 A. Yes. I&M has and continues to prudently manage its coal supplies, and  
16 procure coal, coal-related transportation, and consumables at the lowest  
17 delivered reasonable cost.

18 **Q. Does this conclude your direct testimony?**

19 A. Yes.

### VERIFICATION

I, Jeffrey C. Dial, Director - Coal, Transportation and Reagent Procurement of American Electric Power Service Corporation, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

/s Jeffrey C. Dial  
Jeffrey C. Dial

Date: February 1, 2021