

# OFFICIAL EXHIBITS

STATE OF INDIANA

FILED  
October 7, 2022  
INDIANA UTILITY  
REGULATORY COMMISSION

## INDIANA UTILITY REGULATORY COMMISSION

SUBDOCKET FOR REVIEW OF )  
INDIANAPOLIS POWER & LIGHT )  
COMPANY D/B/A AES INDIANA'S 2021 )  
EXTENDED FORCED OUTAGE AT EAGLE )  
VALLEY AND ITS RELATED IMPACT ON )  
FUEL PROCUREMENT AND FUEL COSTS. )

CAUSE NO. 38703 FAC 133 S1 IURC

PETITIONER'S

EXHIBIT NO.

DATE

REPORTER

### SUBMISSION OF REBUTTAL TESTIMONY OF DAVID JACKSON

Indianapolis Power & Light Company d/b/a AES Indiana ("AES Indiana", "IPL", or  
"Company"), by counsel, hereby submits the rebuttal testimony of David Jackson.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing was served this 7th day of October, 2022, by email transmission, hand delivery or United States Mail, first class, postage prepaid to:

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**VERIFIED REBUTTAL TESTIMONY**

**OF**

**DAVID JACKSON**

**ON BEHALF OF**

**AES INDIANA**

**VERIFIED REBUTTAL TESTIMONY OF DAVID JACKSON  
ON BEHALF OF AES INDIANA**

**I. INTRODUCTION AND BACKGROUND**

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

A1. My name is David Jackson. I am employed by AES US Services, LLC ("the Service Company"), which is a wholly owned subsidiary of The AES Corporation ("AES"). The Service Company is located at the headquarters of Indianapolis Power & Light Company ("IPL", "AES Indiana", "Company", or the "Applicant") at One Monument Circle, Indianapolis, Indiana 46204.

**Q2. Are you the same David Jackson who filed direct testimony on behalf of AES Indiana in this Cause?**

A2. Yes. I am employed as Director, Commercial Operations.

**Q3. What are your current responsibilities as the Director, Commercial Operations?**

A3. As Director, Commercial Operations, I am responsible for managing AES Indiana's participation in the Midcontinent Independent System Operator, Inc. ("MISO") energy market and oversight of AES Indiana's strategy and execution for demand bids and generation offers. I am also responsible for the management of AES Indiana's wind power purchase agreements ("PPAs") and procurement of natural gas and coal.

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

A4. The purpose of my rebuttal testimony is to respond to the testimony of AES Indiana Industrial Group ("IG") witness Michael P. Gorman and Citizen's Action Coalition's

1 ("CAC") witness Benjamin Inskeep as it relates to fuel costs impact of the Eagle Valley  
2 Outage.

3 **Q5. Are you sponsoring any attachments?**

4 A5. No.

5 **Q6. Are you sponsoring any workpapers?**

6 A6. Yes. I am sponsoring AES Indiana Workpaper DJ-1R, which supports the values used in  
7 Figure 1: Natural Gas Prices by FAC Period of my rebuttal testimony.

8 **Q7. Was this workpaper prepared or assembled by your or under your direction and**  
9 **supervision?**

10 A7. Yes.

11 **Q8. Please summarize IG witness Gorman's testimony as it relates to the impact on fuel**  
12 **costs due to the Eagle Valley Outage addressed in your rebuttal.**

13 A8. IG witness Gorman contends that:

- 14 • (p. 21) Customers are currently being billed at FAC rates greater than the FAC rates  
15 from January 2021 through November 2021, despite deferring some the incremental  
16 fuel cost associated with the Eagle Valley forced outage.
- 17 • (p. 23) The Company has overstated its fuel costs with Eagle Valley operating and is  
18 therefore understating the amount of increase in fuel costs attributable to the Eagle  
19 Valley outages.
- 20 • (p. 26) The Company hasn't justified why the financial hedge cost should be  
21 attributable to costs related to returning Eagle Valley to service.

22 **Q9. What is your overall response to IG witness Gorman's statements?**

23 A9. The Outage was not the only factor affecting the FAC during the FAC 133 through FAC  
24 136 period. As discussed in my direct testimony (p. 5) and outlined in FACs 133-136,

1 throughout this period natural gas and coal prices trended dramatically higher as both  
2 markets experienced the global impact of the energy markets. The higher cost of fuel inputs  
3 has led to increases in power prices.

4 AES Indiana reasonably used the market price of natural gas to calculate Eagle Valley fuel  
5 costs if it were operational. Thus, IG witness Gorman's contention that the Company has  
6 overstated its fuel costs with Eagle Valley operating lacks merit.

7 IG witness Gorman calls the hedge a "cost" when it is actually a benefit to the customer.  
8 As stated in my direct testimony (p. 14), the overall benefit to customers was a savings of  
9 \$8.18 million created by using these discrete peak power and natural gas hedges to offset  
10 risk created by the Eagle Valley Outage. Had Eagle Valley been in service, these hedges  
11 would not have been entered into. Therefore, they are an offset to the cost of the fuel  
12 associated with the Eagle Valley Outage, and they accomplished their goal of helping to  
13 reduce market exposure for our customers. The justification, thought process, and results  
14 have all been provided in my FAC testimony.

15 **Q10. Does the fact that you do not address every issue raised in IG witness Gorman and**  
16 **CAC witness Inskeep's testimony mean that you agree with their testimony on those**  
17 **issues?**

18 A10. No. The absence of a specific discussion of every point asserted by the other parties'  
19 witnesses should not be viewed as an agreement with such issues.

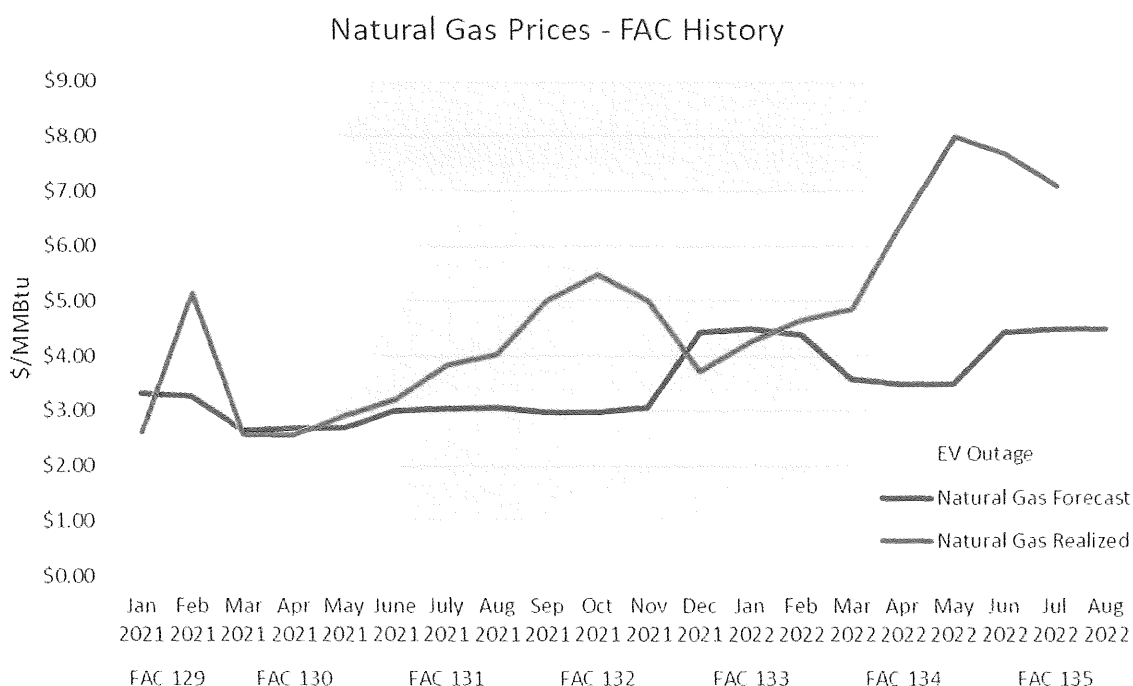
## II. COMMODITY COST IMPACT ON FAC

**Q11. IG witness Gorman (p. 21) states customers are currently being billed at FAC rates greater than the FAC rates from January 2021 through November 2021, despite deferring some the incremental fuel cost associated with the Eagle Valley forced Outage. Please respond.**

A11. IG witness Gorman makes this statement and shows a graph (p. 22, Figure 1) showing price changes in Contract Rider 6 – FAC History. First, it is important to understand that the area shaded in red in his graph represents the forecast periods for FACs 133-136; it does not represent the actual results. Second, IG witness Gorman’s graph includes the months of June 2022 through August 2022 (FAC 135 forecast). The forecast for this three-month period reflects Eagle Valley being available and online. The plant returned to service March 18, 2022 and therefore was online during this three-month period. Therefore, there is no Outage impact on the June through August 2022 period shown in IG witness Gorman’s graph.

The FAC impact is a combination of forecast period and reconciliation of fuel related MISO costs and revenues for the historical FAC period. As stated above, and discussed in my direct testimony (p. 5), the Outage was not the only factor affecting the FAC. The FAC reflects dramatically higher costs for coal and natural gas occurring during the last 12 months. Natural gas prices are a good representation of this cost because of their transparency and impact to underlying power markets. In Figure 1 below, I show the forecast and realized cost of Henry Hub natural gas for the same period that IG witness Gorman shows on the graph in his direct testimony on page 22, Figure 1.

**Figure 1: Natural Gas Prices by FAC Period**



The red shaded area of the graph in Figure 1 highlights the actual period of the Eagle Valley Outage. Also shown is the upward trend in natural gas prices and the change in the realized natural gas price versus the forecast. Some change in the forecast and realized pricing is expected as the forecast price is projected on a specific date for a period of three to five months in the future. The recent, significant variation from the forecast reflects market volatility not captured in the forecast.

As described in my testimony in FACs 134-136, fuel costs, specifically natural gas and coal, have seen a dramatic increase in global demand which began in the fall of 2021 and was exacerbated by the war between Russia and Ukraine due to global supply interruptions



1 and trade embargos on Russian commodities. These price increases have carried through  
2 the forward pricing with concerns for energy availability to support winter demand.

3 The analysis presented in my direct testimony (p. 14 and Attachment DJ-3) reasonably  
4 separates the impact of the Outage on the FAC from the impact caused by commodity costs  
5 during the period. The impact of the Outage on fuel and purchase power costs in the FAC  
6 is \$41.5 million. See AES Indiana witness Jackson Direct Testimony (p. 14) and  
7 Attachment DJ-3 (p. 1).

8 **III. THE COMPANY HAS NOT OVERSTATED ITS FUEL COST**

9 **Q12. IG witness Gorman (p. 23) also contends that "...the Company has overstated its fuel**  
10 **costs with Eagle Valley operating and is therefore understating the amount of**  
11 **increase in fuel costs caused attributable to the Eagle Valley outages." Please**  
12 **respond.**

13 A12. I disagree with this statement. AES Indiana used market price natural gas to calculate the  
14 cost of generation at the Eagle Valley CCGT. It is reasonable to use the market price at  
15 the time the fuel cost would have been incurred because it is aligned with any of the  
16 purchased power through MISO during the Outage. The daily natural gas prices are the  
17 actual closing prices for each day. Said another way, these are actual daily prices with no  
18 assumptions about future valuation. The above-referenced statement from IG witness  
19 Gorman's direct testimony relates to his view of how costs flow through the FAC process  
20 and is not a criticism of the Company's reliance on market costs. In his rebuttal testimony,  
21 Company witness Cooper explains that IG witness Gorman's analysis is based on a flawed  
22 understanding of the scope of the FAC.

**IV. EAGLE VALLEY HEDGES**

**Q13. IG witness Gorman states (p. 26) that the Company “hasn’t justified why the financial hedge cost of \$8.18 million should be attributable to cost related to returning to Eagle Valley to service.” Please respond.**

A13. I want to clarify what hedges are being discussed here. My direct testimony and IG witness Gorman’s testimony in this subdocket concern discrete peak power hedges and natural gas hedges, which are distinct from the Company’s ongoing hedge program.

IG witness Gorman calls the discrete hedges a “cost” when these hedges are actually a benefit to the customer. As stated in my direct testimony in this Cause (p. 14), the overall benefit to customers was a savings of \$8.18 million created by placing peak power and natural gas hedges to offset risk created by the Eagle Valley Outage. Had Eagle Valley been in service, these hedges would not have been entered into. Therefore, they are an offset to the cost of the fuel associated with the Eagle Valley Outage and they accomplished their goal of helping to reduce market exposure for our customers. The thought process and results have been provided in my direct testimony in this subdocket as well as in my direct testimony for FACs 133-136. The Orders in FAC 134 (p. 6) and 135 (pp. 7-8) state:

The record shows the OUCC did not oppose Applicant’s hedges and we find Applicant’s purchased power hedges to be reasonable. Therefore, consistent with deferring the variance as proposed by Applicant, the Commission finds Applicant may include all hedging gains and losses, including any associated transactional costs, in the deferred amount.

The Orders in FAC 133 (p. 7) and FAC 136 (p. 7) contain similar language that produced the same result.

1 As shown by the above quotation, the Commission authorized the hedging gains and losses  
2 to be included in the deferred fuel and purchased power costs. This reference to a deferral  
3 refers to the costs attributable to the Outage. The Company's calculation of the fuel and  
4 purchased power costs attributable to the Outage is net of the hedging benefit. AES Indiana  
5 witness Jackson Direct, at p. 14. Therefore, the Company's calculation is consistent with  
6 the Commission's FAC orders.

7 **V. CAC WITNESS INSKEEP'S COMMENTARY**  
8 **REGARDING AES INDIANA'S ANALYSIS**

9 **Q14. CAC witness Inskeep states (p. 29) that he has "not independently verified [the**  
10 **Company's] estimated impact" of the Outage but he "suspect[s] this figure is likely**  
11 **higher." He adds (p. 31) "AES Indiana's analysis is both opaque and incomplete."**  
12 **Do you agree?**

13 **A14. No.** As discussed in my direct testimony (pp. 14-15), the Company used a robust process  
14 to quantify the fuel and purchased power costs attributable to the Eagle Valley Outage.  
15 Our calculations consider the cost associated with the loss of Eagle Valley as it pertains to  
16 the FAC impact on fuel and purchase power and the economic stacking of our units. CAC  
17 witness Inskeep does not offer analysis to refute our cost calculations.

18 The Company presented detailed workpapers to support its analysis. CAC witness  
19 Inskeep's testimony does not show how the Company's testimony, attachments and  
20 workpapers are opaque or an incomplete analysis of FAC costs. The Company's  
21 assumption of Eagle Valley's capacity factor assumed a 3.5% Equivalent Forced Outage  
22 Rate ("EFOR") which showed a high capacity factor during the modeled period. The  
23 Company's calculation properly reflects the scope of the FAC. CAC witness Inskeep's

1 discussion of wholesale market on pages 31 and 32 of his testimony concerns matters  
2 outside the FAC.

3 **Q15. Please summarize your testimony.**

4 A15. The Outage was not the only factor affecting the FAC during the FAC 133-FAC 136 period.  
5 Throughout this period, natural gas and coal prices trended dramatically higher as both  
6 markets experienced the global impact of the energy markets. The higher cost of fuel inputs  
7 has led to increases in power prices. The robust and transparent analysis presented in my  
8 direct testimony in this Cause reflects actual market pricing and reasonably separates the  
9 impact of the Outage on the FAC from the impact caused by commodity costs during the  
10 period. The FAC addresses to fuel and purchased power costs. Costs of coal and natural  
11 gas attributable to Off System Sales are an offset to fuel costs, not margin generated from  
12 those sales.

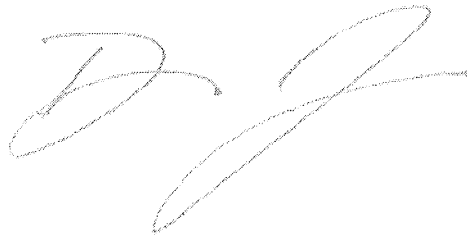
13 **Q16. Does this conclude your prefiled rebuttal testimony?**

14 A16. Yes.

### Verification

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

Dated this 7th day of October, 2022.

A handwritten signature in dark ink, appearing to read 'D. Jackson', written in a cursive style.

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David Jackson