

**VERIFIED REBUTTAL TESTIMONY**  
**OF**  
**CRAIG L. JACKSON**  
**ON BEHALF OF**  
**INDIANAPOLIS POWER & LIGHT COMPANY**

**CAUSE NO. 45029**

**IURC**  
**PETITIONER'S**  
EXHIBIT NO. 12  
DATE 8-9-18 REPORTER AT

**SPONSORING IPL WITNESS CLJ ATTACHMENT 1R**

**VERIFIED REBUTTAL TESTIMONY OF CRAIG L. JACKSON  
ON BEHALF OF  
INDIANAPOLIS POWER & LIGHT COMPANY**

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

2   A1.   My name is Craig L. Jackson.   My business address is One Monument Circle,  
3           Indianapolis, Indiana, 46204.

4   **Q2.   Are you the same Craig L. Jackson who previously submitted direct testimony in**  
5           **this Cause?**

6   A2.   Yes. I am President and CEO of IPL and The Dayton Power and Light Company.

7   **Q3.   What is the purpose of your rebuttal testimony in this subdocket proceeding?**

8   A3.   The purpose of my rebuttal testimony is to respond to the overall revenue  
9           recommendation offered by the Indiana Office of Utility Consumer Counselor (“OUCC”)  
10          and Intervenor Industrial Group (“Industrial Group”), as well as their proposal that the  
11          Commission exclude the Harding Street Station Battery Energy Storage System (“HSS  
12          BESS”) from rate base and disallow the associated operating costs for ratemaking  
13          purposes. My rebuttal testimony also responds to the following testimony regarding the  
14          Eagle Valley CCGT:

- 15               •     UIndy Witness Holstein (p. 14, 15) proposal that the Commission include  
16                     in the test year, an adjustment, or as a true up, any payments IPL may  
17                     receive from the EPC contractor.
- 18               •     The OUCC recommendation that the Commission: a) deny IPL recovery  
19                     of approximately \$28.34 million of Eagle Valley CCGT AFUDC costs  
20                     accrued from the end of the test year (June 30, 2017) through the Unit in-  
21                     service Date (April 28, 2018); and b) require IPL to apply any liquidated  
22                     damages (“LDs”) received from its contractor against any additional  
23                     AFUDC that has accrued as a result of the delay. OUCC Witness Blakley  
24                     at 7-11; Schedule MDE-6 p. 3.

- IG Witness Gorman (p. 44) proposal that the Commission exclude from rate base \$35.977 million of AFUDC accrued on the Eagle Valley CCGT from April 30, 2017 through the CCGT in-service Date (April 28, 2018).

My testimony also responds generally to the testimony regarding the Field Hearing and other customer comments offered by Anthony F. Swinger, on behalf of the OUCC, and by Kerwin Olson, on behalf of Citizens Action Coalition of Indiana (“CAC”), the Indiana Coalition for Human Services (“ICHHS”), Indiana Community Action Association (“INCAA”) and Sierra Club (“SC”) (collectively “Joint Intervenors”). I also include a listing of the other IPL witness rebuttal so as to provide a roadmap of the Company’s filing.

**Q4. Are you sponsoring any attachments to your rebuttal testimony?**

A4. Yes, my testimony includes IPL Witness CLJ Attachment 1R, identified below.

**Q5. Was the attachment you are sponsoring prepared or assembled by you or under your direction or supervision?**

A5. Yes.

**Q6. Did you submit any workpapers?**

A6. Yes.

#### **IPL Rebuttal**

**Q7. Do other IPL witnesses address the OUCC and Intervenor filings?**

A7. Yes. Table 1 below lists the major topics addressed by each witness. IPL's rebuttal filing is further detailed in Petitioner's Attachment CLJ-1R, which I include herewith to provide a roadmap for the Company's rebuttal filing:<sup>1</sup>

Table 1

|                     |   |
|---------------------|---|
| Craig A. Forestal   | Updated Revenue Requirement<br>Certain O&M Adjustments  |
| Natalie Herr Coklow | Certain O&M Adjustments   |
| Dennis C. Dininger  | Seasonal NOx Emission Allowance Expenses<br>OSS Margins   |
| James L. Cutshaw    | Updated Revenue Requirement<br>OSS Margin Rider<br>Vegetation Management Reserve<br>Total Bill Impact |
| Daniel R. Perry     | Vegetation Management   |
| Frank J. Salatto    | Tax Cuts and Jobs Act of 2017   |
| Alan D. Felsenthal  | Prepaid Pension Asset   |
| Edward J. Kunz      | Prepaid Pension Asset   |
| Bradley D. Scott    | Major Project Additions<br>Certain O&M Adjustments  |
| Paula M. Guletsky   | Decommissioning Costs   |
| John J. Spanos      | Depreciation  |
| James A. Sadtler    | Harding Street Station Battery Energy Storage System  |
| John J. Reed        | Valuation of Production Plant<br>Regulatory Policy Issues   |
| Ann E. Bulkley      | Valuation of Transmission and Distribution Assets   |
| Adrien M. McKenzie  | Cost of Equity and Fair Return on Fair Value  |
| Justin G. Sufan     | Customer Comments   |
| J. Stephen Gaske    | Allocated Cost of Service<br>Rate Design<br>Total Bill Impact   |
| Ken Flora           | Kroger and Rolls-Royce Corporation Concerns   |

**OUCC & Industrial Group Revenue Recommendations**

**Q8. Do you have any overall comments on the OUCC's and Industrial Group's revenue recommendations?**

A8. The OUCC and Industrial Group revenue recommendations (a) fail to adequately recognize the business challenges that IPL faces in providing retail service to our

<sup>1</sup> Note that the absence of a specific response to the other parties' arguments does not and should not be viewed as agreement with their position.

1 customers, (b) introduce significant risk to IPL's ability to access capital markets for  
2 future investments, and (c) prevent IPL the opportunity to earn a reasonable rate of  
3 return.

4 I would also like to clarify that IPL has not proposed a 59% revenue increase as some  
5 may have been led to believe by the talking points incorporated into the customer  
6 comments included with the OUCC's filing.<sup>2</sup> Rather, as discussed in my direct testimony  
7 (Q/A 15), incorporation of the TCJA impact into the filing reduced the requested revenue  
8 increase to 7.1%. The proposals made in the Company's rebuttal filing to address the  
9 OUCC and Intervenor concerns include lower pro forma operating costs due to the  
10 Company's restructuring and an adjustment to rate base for Major Project additions (the  
11 Eagle Valley CCGT, NPDES, and CCR-Bottom Ash Projects) and various other smaller  
12 adjustments to operating and maintenance expenses. As a result, these changes further  
13 reduce the requested revenue increase from \$96.7 million to \$88.35 million, meaning that  
14 the overall revenue increase is reduced from 7.1% to 6.5% as discussed in the rebuttal  
15 testimony of IPL Witness Forestal. As discussed in the rebuttal testimony of IPL Witness  
16 Cutshaw, the proposals made by the Company to address 2018 TCJA Excess ADIT and  
17 the Eagle Valley CCGT EPC contract LDs through the Company's ECR, further reduce  
18 the customer bill impact of the proposed rate increase. As also noted in Mr. Cutshaw's  
19 direct testimony, the customers may see additional benefits from the Company's  
20 proposals regarding the OSS margins and Capacity sales.<sup>3</sup>

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<sup>2</sup> See, e.g., OUCC Consumer Comments Parts 42 through 48, filed May 24, 2018.

<sup>3</sup> IPL Witness Cutshaw Direct Testimony (Q/A 49).

1 The OUCC recommends IPL's revenue be increased by no more than \$4.9 million. The  
2 Industrial Group recommends adjustments to the revenue requirement that result in a  
3 revenue increase of \$5.79 million. The overall positions of the OUCC and the Industrial  
4 Group propose to treat unfairly a Company that has and continues to provide low cost  
5 reliable retail service to customers at rates that are among the lowest in the State.<sup>4</sup> The  
6 combination of these parties' recommendations with each other or with the  
7 recommendations of other parties (as suggested by IG Witness Gorman at 3-4) would  
8 have the effect of further reducing the revenue increase. These proposals are not credible  
9 and should be rejected.

10 The Company has consistently maintained or improved service quality, all while keeping  
11 rates low and investing in facilities to assure the ongoing reliability and resiliency of the  
12 IPL system for the benefit of the central Indiana communities we serve. As explained by  
13 IPL Witness Cutshaw, IPL's rates will remain comparatively low if the Company's rate  
14 increase is approved. Regulation should encourage and support low cost and efficient  
15 providers of utility service. Regulation should also encourage and support the utility's  
16 efforts to maintain and modernize its infrastructure consistent with the progress of  
17 technology and the industry. In other words, we need to recognize the evolution of the  
18 grid and technology and acknowledge that the service needs of our customers continue to  
19 evolve as well. If adopted, the OUCC and Industrial Group recommendations would  
20 diminish the Company's ability to maintain service, and result in higher costs over the  
21 long term. This would not further the public interest.

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<sup>4</sup> This is discussed in the direct testimony of IPL Witness Cutshaw (Q/A 47-49) and further discussed in his rebuttal (Q/A 24-25).

1 The OUCC's and Industrial Group's proposal that IPL's fair return should be lower than  
2 the return earned by companies with higher costs and higher rates would penalize IPL. It  
3 would send a message endorsing management mediocrity rather than incentivizing  
4 operational efficiency.

5 IPL has and continues to act in good faith to serve its customers when it incurs expenses  
6 that are reasonable and ordinary business expenses. The OUCC's and Industrial Group's  
7 ratemaking proposals are not representative of the Company's going forward operations.  
8 The Company is entitled to have its reasonable and necessary costs of providing reliable  
9 service recognized in the ratemaking process. The outcome of the OUCC and  
10 Intervenor's recommendations would address what appears to be their near-term desire to  
11 reduce the rate increase at the expense of the Company and the longer-term public  
12 interest. While I can appreciate our customers' self-interest in keeping near-term rates as  
13 low as they can, I disagree that such desires are a valid justification for the Commission  
14 to disallow reasonable and ordinary business expenses incurred to provide that service.

15 **Q9. Have you analyzed the financial impact that the OUCC's and the Industrial**  
16 **Group's revenue recommendations will have on IPL?**

17 A9. Yes. Considering both the OUCC's and the Industrial Group's proposal, both IPL's 2019  
18 regulated rate of return and return on equity would be approximately 5%. At these rates,  
19 it will be incredibly challenging for IPL to raise capital needed to fund future capital  
20 investments. As discussed by IPL Witness McKenzie, average utility returns are nearly  
21 two times these rates and this result would be a drastic departure from established

Commission practice.<sup>5</sup> As discussed below, sudden changes in Commission practices would likely result in uncertainty within the investment community.

Moreover, in IPL's last rate case, the Commission found that "a reasonable range for Petitioner's cost of equity is 9.7% to 10.30%, and conclude[d] that the mid-point, a 10.0% COE, would be appropriate absent other considerations."<sup>6</sup> The Commission adjusted this finding downward to 9.85% as "an incentive linked to IPL's constructive participation in the collaborative process."<sup>7</sup> The Commission indicated that it would take IPL's participation in the collaborative into consideration in the Company's next rate case.<sup>8</sup> IPL witness Holtsclaw presented the Company's view that, with IPL's constructive participation, the Collaborative process far exceeded the stated and implied expectations set out in the Commission's 44576 Order.<sup>9</sup> No party has challenged this testimony.

Thus, adoption of the OUCC and Industrial Group recommendations would constitute not only a drastic departure from established Commission practice (as noted above), it would also renege on the incentive the Commission signaled would be given following the Company's constructive participation in the collaborative.

**Q10. What return will IPL receive on just the Eagle Valley CCGT if the OUCC and Industrial Group revenue recommendations were accepted?**

A10. As noted above, the OUCC recommends IPL's revenue be increased by no more than \$4.9 million. The Industrial Group recommends adjustments to the revenue requirement

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<sup>5</sup> Witness McKenzie Rebuttal (Q/A 9); IPL Witness AMM Attachment 1R.

<sup>6</sup> 44576 Order at 42.

<sup>7</sup> 44576 Order at 43.

<sup>8</sup> *Id.*

<sup>9</sup> IPL Witness Holtsclaw Direct, p. 11-14.



1 that result in a revenue increase of \$5.79 million. After investing over \$600 million in  
2 the Eagle Valley CCGT, adoption of the OUCC or the Industrial Group recommendation  
3 would result in an unreasonable rate of return for IPL. In fact, their recommendations are  
4 equivalent of allowing no return on the CCGT. Considering IPL was granted a certificate  
5 of public convenience and necessity ("CPCN") for construction of the CCGT and IPL  
6 estimates that final construction costs will remain within the CPCN authorized amount,  
7 this is dangerously unreasonable and would raise significant concern as to the financial  
8 integrity of IPL.

9 **Q11. How do you define financial integrity for a utility like IPL?**

10 A11. I define financial integrity of a utility as having sufficient cash flow to: (a) pay all normal  
11 operating expenses and capital expenditures that are necessary to ensure safe and reliable  
12 electric service is provided to customers at a reasonable cost; (b) meet all contractual debt  
13 obligations on a timely basis; (c) maintain appropriate capitalization levels and  
14 investment grade credit ratings; (d) attract reasonably priced debt and equity capital  
15 during all economic cycles to finance capital investments; and (e) have the opportunity to  
16 earn a reasonable rate of return.

17 **Q12. Is it important to maintain financial integrity and attract additional capital?**

18 A12. Yes. A timely order that provides a realistic opportunity for the Company to actually  
19 earn a fair return on and of its significant capital investments, including the Eagle Valley  
20 CCGT and HSS BESS, is important to its shareholders and to the credit rating agencies.  
21 It is important to maintain financial integrity to allow the Company to continue to provide  
22 adequate and reliable service and to attract capital on reasonable terms. The Company's

1 ongoing investments to maintain IPL's utility system may require it to access the equity  
2 and debt capital markets over the next few years.

3 **Q13. Why is return on equity an important element of financial integrity?**

4 A13. A reasonable return on equity is essential to financial integrity in that it provides an  
5 economic incentive to invest equity capital in a utility like IPL. Without an expectation  
6 of a reasonable rate of return, the utility would be significantly disadvantaged in  
7 accessing the equity market. As discussed above, the OUCC's and Industrial Group's  
8 proposals result in a 0% return on equity on the CCGT project. If such proposals are  
9 approved, going forward IPL would be incredibly challenged and possibly not able to  
10 access the equity market to finance future capital expenditures due to the high risk of  
11 recovery.

12 **Q14. Is there risk of accessing the debt markets if the OUCC's and Industrial Group's**  
13 **proposals are approved and financial integrity is not maintained?**

14 A14. Yes, all three credit rating agencies give consideration to a regulatory environment that is  
15 supportive of a utility's financial integrity and strength. A lack of support could increase  
16 the business risk profile and ultimately result in a downgrade to IPL's credit ratings.  
17 Such a downgrade would impact IPL's ability to access the debt markets and  
18 significantly increased costs for IPL's customers.

19 **Q15. OUCC Witness Anthony Swinger (p. 3) notes comments suggesting the rate increase**  
20 **should be denied because customers perceive IPL and its parent company to be**  
21 **financially healthy. Please respond.**

1 A15. IPL is a separate and stand-alone entity from its parent company. As discussed in my  
2 direct testimony, it is important for IPL to maintain financial strength to allow the  
3 Company to continue to provide adequate and reliable service and to attract capital on  
4 reasonable terms.

5 Approval of the other parties' proposals would potentially impact not only IPL, but other  
6 utilities under the authority of the Commission, as the consistency and predictability of  
7 regulatory decisions coming out of the State of Indiana could be called into question by  
8 the credit rating agencies. Rating agencies place a heavy weighting on a state's  
9 regulatory framework when determining the credit ratings of utilities. For example,  
10 Moody's Investor Services ("Moody's") assigns 50% of its rating criteria on the  
11 regulatory framework and ability to recover costs and earn returns. The Indiana  
12 regulatory climate has long been recognized as credit supportive, in large part due to the  
13 consistency and predictability of regulatory decision-making. Consistency and  
14 predictability of regulation in the view of the rating agencies translates into a stronger  
15 financial profile.

16 In each of the most recent reports published by the credit rating agencies on IPL, they cite  
17 an unfavorable rate case outcome in this proceeding as one of the primary factors that  
18 could potentially lead to a downgrade of the Company.<sup>10</sup> The outcomes recommended by  
19 the OUCC and Intervenors in this proceeding would be considered as unfavorable, and  
20 would put IPL at risk of a downgrade.

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<sup>10</sup> See Witness Jackson direct testimony IPL Witness CLJ Attachments 1.2 and 3.4 and Standard & Poor's Report dated March 16, 2018 (We could also downgrade IPALCO if it receives a materially weaker rate increase than we expect...)

1 The “perception” called to the Commission’s attention by Mr. Swinger suggests that the  
2 Commission should withhold rate relief until such time as a utility falls into a financially  
3 weakened state. The regulatory compact however provides that the utility is entitled to a  
4 fair return. This framework is sound. It would not be in customers’ best interest for rate  
5 relief to be withheld until the utility is financially distressed. An unhealthy utility would  
6 struggle to obtain capital to make necessary investments to serve its customers and any  
7 capital obtained would be at a higher cost, with that higher cost ultimately borne by  
8 customers. A company in such a position might also have a hard time paying its  
9 employees; employees that are not compensated are not likely to stay with a company  
10 and are not likely to perform well under such conditions.

11 I would also like to add the Commission is an impartial fact-finding body per statute and  
12 its regulation must be fair to all stakeholders, basing its decisions on the merits of the  
13 cases it decides. Utilities rely on this requirement when making long term investments  
14 such as with IPL’s Eagle Valley CCGT, with the understanding such investments will be  
15 appropriately reflected in rates; this too is in the best interest of customers for helping to  
16 ensure they continue to enjoy reliable service at reasonable rates.

17 **HSS BESS**

18 **Q16. OUCC Witness Anthony Alvarez (p. 15) excludes the Company’s \$24.8 million**  
19 **investment in the HSS BESS from rate case and disallows the associated \$298,513**  
20 **operating expenses for ratemaking purposes in this Cause. Industrial Group**  
21 **Witness James R. Dauphinais (p. 27) also proposes the Commission disallow the**  
22 **costs related to the HSS BESS. Please respond.**

1 A16. IPL witness Sadtler explains that the HSS BESS is in use. He demonstrates its usefulness  
2 to IPL's retail customers and shows the OUCC's cost criticisms lack merit.

3 The OUCC's and Industrial Group's opposition to the HSS BESS rests on the premise  
4 that the HSS BESS satisfies the needs of the Eastern Interconnect. They do not dispute  
5 the benefits of this technology; they simply do not want its costs reflected in retail rates.  
6 This perspective fails to recognize that the Eastern interconnection brings IPL's  
7 customers the benefits of a bulk electric system. As discussed by Mr. Sadtler, IPL's  
8 provision of reliable service to our retail customers relies on the proper functioning of the  
9 IPL system and the proper functioning of the Eastern Interconnect, including the proper  
10 functioning of the safeguards necessary to protect the IPL system and our customers from  
11 a disturbance on the broader system.<sup>11</sup>

12 IPL has long provided Primary Frequency Response ("PFR") to maintain a reliable and  
13 resilient electric grid. We met this need at Harding Street Station through the coal fired  
14 base-load units we had there. Once we refueled these units, we no longer had units at  
15 HSS that would operate as base-load generation as they had in the past, but Good Utility  
16 Practice continues to call for PFR at this station. The HSS BESS not only meets this  
17 need, it is a much more efficient and beneficial solution. As explained by Mr. Sadtler,  
18 the HSS BESS addresses PFR at a 96% efficiency rate, while conventional generators  
19 only hit an average of 60% efficiency.<sup>12</sup>

20 The multi-functional HSS BESS provides our customers benefits today and maintains  
21 flexibility for the future. When reflecting on how we've diversified our generation fleet

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<sup>11</sup> IPL Witness Sadtler Rebuttal (Q/A 7).

<sup>12</sup> IPL Witness Sadtler Rebuttal (Q/A 14).

1 over the course of the past five years, I would note that IPL's changing resource mix is a  
2 microcosm of what's happening nationally. The penetration of renewable energy —  
3 especially at the distribution level — will continue to escalate throughout IPL's service  
4 territory. To that end, the HSS BESS helps bring balance to legacy infrastructure not  
5 originally designed to operate optimally with variable and intermittent energy resources.  
6 As mentioned above, the HSS BESS provides critical ancillary services, such as PFR.  
7 Just as we continue to evolve in response to customer needs, our engineering teams are  
8 evolving to implement new technologies, like grid scale storage, to maintain and enhance  
9 reliability and resiliency.

10 IPL recognizes that that our country is currently in the midst of a national policy debate  
11 on grid resiliency. IPL has been and continues to work with MISO, FERC and  
12 stakeholders to address the need for revisions to the regulatory framework to ensure  
13 fairness. The OUCC and Industrial Group point to the developing nature of these policy  
14 issues and argue this demonstrates that HSS BESS should be excluded from retail rates. I  
15 disagree. As explained in the rebuttal of Mr. Reed, neither NERC, MISO, nor other  
16 bodies negate the Company's obligation to provide service and facilities consistent with  
17 Good Utility Practices.<sup>13</sup> Their contentions invite the Commission to cede responsibility  
18 for safeguarding the IPL system and our customers to federal and regional entities.

19 IPL has long adhered to Good Utility Practices in the provision of service. Doing so has  
20 allowed us to maintain reliable service while keeping our rates for service comparatively  
21 low. The HSS BESS represents the application of Good Utility Practice for the benefit of

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<sup>13</sup> IPL Witness Reed Rebuttal (Q/A 26).

1       our retail customers. Therefore, the Commission should conclude that the HSS BESS  
2       should be included in the Company's rate base and its associated operating costs  
3       recognized in the revenue requirement in this Cause.

4       **Q17. Do you have any reply to Mr. Dauphinais' comment (at 9) that the Company did not**  
5       **seek prior Commission approval of the HSS BESS?**

6       A17. Mr. Dauphinais does not contend we were required to seek pre-approval. He just asserts  
7       that we did not do so. In the ongoing course of business, the Company invests hundreds  
8       of millions of dollars to satisfy our obligation to provide adequate and reliable service  
9       and facilities – all without prior Commission approval. I understand that Duke recently  
10      received a Commission order approving their battery project (Order in Cause No. 45002).  
11      However, that decision did not grant a CPCN to construct the batteries. Rather, the  
12      decision addressed the approval of Duke's request for timely cost recovery of the  
13      investment. In IPL's case, we have not had the benefit of timely cost recovery, and as a  
14      result, have incurred the depreciation expense and ongoing carrying and operating costs  
15      of the HSS BESS since its in-service date in May 2016. Timely cost recovery and  
16      deferred cost accounting authority are important parts of the Indiana regulatory  
17      framework. The Company has sought and received this kind of relief for other projects  
18      but for the HSS BESS we did not. This has benefitted customers. The absence of a  
19      request for preapproval should not now be used as grounds to exclude this facility from  
20      IPL's rate base in this Cause.

21      **Q18. Do you agree with Mr. Dauphinais' suggestion that the HSS BESS is merely a**  
22      **demonstration project (p. 26-27)?**

1 A18. No. The used and useful status of the HSS BESS is supported by the testimony of Mr.  
2 Sadtler and Mr. Reed. Thus, while the HSS BESS is not a mere demonstration project as  
3 suggested by IG witness Dauphinais, IPL's leadership on this issue and its lessons  
4 learned about owning, operating, and integrating battery storage technology into the IPL  
5 system are benefiting MISO as well as other utilities and stakeholders. As noted by IPL  
6 Witness Reed, this was identified as a benefit in the recent order in Cause No. 45002  
7 approving Duke Energy Indiana's battery and solar project.<sup>14</sup> IPL commits that it will  
8 continue its efforts to share lessons learned from the HSS BESS with regulators, MISO,  
9 and other Indiana electric utilities. Once included in the Company's revenue  
10 requirement, any compensation the Company receives through MISO for the HSS BESS  
11 ancillary services will continue to flow to our customers via the Company's ongoing  
12 RTO or FAC Rider filings depending on the MISO schedule.

13 **Q19. What are the consequences of a Commission determination that the HSS BESS is**  
14 **not "used and useful" and is therefore excluded from the rate base upon which**  
15 **IPL's rates are established?**

16 A19. At a time when state commissions are looking at ways to incorporate significant amounts  
17 of storage into the "grid of the future", the exclusion of the HSS BESS from IPL's rate  
18 base would cast a negative light on battery storage and other modernization infrastructure  
19 investments in Indiana and would be out of step with the current state of the industry.

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<sup>14</sup> IPL Witness Reed Rebuttal at Q/A 36, citing the May 30, 2018 Order in Cause No. 45002, at 7.



**Eagle Valley CCGT**

**Q20. OUCC Witness Blakley (pp. 7-11) and Industrial Group Witness Gorman (p. 41-44) discuss the construction of the Eagle Valley CCGT and ask the Commission to disallow certain AFUDC costs accrued as a result of the delayed in-service date on that unit. So as to place your rebuttal in context, please identify what the Eagle Valley CCGT project is.**

A20. The Commission granted a CPCN for the Eagle Valley CCGT in its May 14, 2014 Order in Cause No. 44339 ("44339 Order"). The Commission approved IPL's estimated total cost of \$612.7 million (not including AFUDC).<sup>15</sup> While this amount does not include AFUDC, the 44339 Order stated that the actual, accrued amount of AFUDC will be included as part of the approved cost.<sup>16</sup> The 44339 Order provided for ongoing review, which is being conducted in Cause No. 42170 ECR-[X]. IPL's Petition in this rate case identified the CCGT as a Major Project addition and IPL has filed monthly investment reports on this unit in accordance with the Prehearing Conference Order and 170 IAC 1-5-5(5)(D).

**Q21. OUCC Witness Blakley (p. 9) states that IPL has an Engineering, Procurement and Construction ("EPC") contract for the Eagle Valley CCGT. Is that correct?**

A21. Yes. The 44339 Order noted IPL's plan to use a firm price Engineering, Procurement and Construction ("EPC") contract strategy for the project.<sup>17</sup> IPL's first ongoing review report also identified this plan.<sup>18</sup> An EPC contract is a common form of contracting

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<sup>15</sup> 44339 Order at 24, 40.

<sup>16</sup> 44339 Order at 23.

<sup>17</sup> 44339 Order at 6.

<sup>18</sup> Semi-Annual Update (May 2014) at 3.

1 arrangement used in the construction industry. The EPC contractor provides construction  
2 services and has direct contact with the vendors. The contractual arrangement between  
3 IPL and CB&I is a lump-sum, turnkey EPC contract, and thus IPL cannot direct the  
4 actions of CB&I, but instead must identify situations where CB&I has missed milestones  
5 and then demand that the contractor take action to bring the project back onto schedule.  
6 IPL has used the EPC form of contracting to complete over \$1.4 billion of environmental  
7 compliance projects on time and within the Commission approved cost estimates.

8 IPL's second ongoing review report advised that a third-party contractor, CB&I Stone &  
9 Webster ("CB&I"), had been selected as the EPC Contractor.<sup>19</sup> The capacity of the  
10 CCGT established in the EPC Contract is 671 MW.<sup>20</sup> The EPC Contract was executed on  
11 June 12, 2014 and notice to proceed was issued on June 20, 2014 – one month after the  
12 Commission's issuance of the 44339 Order.<sup>21</sup> Engineering and procurement began and  
13 CB&I mobilized on site March 17, 2015, to begin land clearing and other mobilization  
14 functions.<sup>22</sup>

15 **Q22. OUCC Witness Blakley (p. 7) states that the Eagle Valley CCGT was "proposed to**  
16 **be in-service" by April 30, 2017. Please respond.**

17 A22. In Cause No. 44339, the CCGT testimony regarding the project schedule contemplated  
18 receipt of Commission approval in April 2014. 44339 Order at 7. IPL received  
19 Commission approval in May 2014 and signed the EPC Contract a month later.

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<sup>19</sup> Semi-Annual Update (November 2014) at 1.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> Semi-Annual Update (May 2015) at 1.

1 The EPC Contract established April 30, 2017, as the Substantial Completion Date for the  
2 EPC Contractor. *Id.* at 4. The Substantial Completion Date is the date upon which IPL  
3 notifies the contractor that it has sufficiently met the contractual requirements for  
4 Substantial Completion, and that the plant is ready to begin commercial operation under  
5 IPL's care, custody and control. Once notified that the contractor believes the  
6 requirements of Substantial Completion have been met, the EPC Contract provides IPL a  
7 period of 30 days to determine whether to accept or deny Substantial Completion.

8 **Q23. Mr. Blakley indicates (p. 9) that the EPC Contract "obligate[s] the contractor to**  
9 **complete the project at a specified time or pay liquidated damages." Do you agree**  
10 **with the suggestion that the EPC Contract protects IPL and its customers against all**  
11 **risk?**

12 A23. No, I disagree with the suggestion that the EPC Contract protects IPL and its customers  
13 against *all* risk. The firm price EPC Contract sets forth a guaranteed price for the  
14 engineering, procurement and construction within the scope of work identified in the  
15 Contract. The EPC Contractor's right to seek compensation over and above the firm  
16 price is limited to the circumstances identified in the EPC Contract. The firm price EPC  
17 Contract reduces the risk of cost escalation or overruns and timely completion of the  
18 Project. Thus, while the EPC contract does not protect against all risk, it is used to  
19 transfer key risks to the contractor and away from the Company. This benefits customers  
20 because the cost of the CCGT is necessarily reflected in the price for electric service.

21 To safeguard our interests and those of our customers, the EPC Contract includes LD  
22 provisions. These contract provisions require the EPC Contractor to make late  
23 substantial completion payments to IPL if the April 30, 2017 Substantial Completion

1 Date was not met and the failure was not excusable. The LDs (*i.e.* late substantial  
2 completion payments) negotiated in the EPC Contract are consistent with industry  
3 practice and are reasonably structured to safeguard the cost of delay.

4 On a \$600+ million construction project there are many factors that affect the schedule.  
5 Many of these factors are outside the control of the Company. It is not unusual for a  
6 schedule to be lengthened. The EPC Contract does not guarantee that a schedule will not  
7 be lengthened. Rather it shifts schedule risk to the contractor by including provisions  
8 such as the late substantial completion payments I noted above.<sup>23</sup>

9 **Q24. Did the EPC Contractor give notice of substantial completion of the Eagle Valley**  
10 **CCGT by April 30, 2017?**

11 A24. No. The EPC contractor missed an EPC contract milestone in July 2016 and August  
12 2016. This raised a concern with schedule slip related to pipe deliveries, pipe  
13 installation, and electrical installation. IPL exercised its contractual rights to demand the  
14 contractor take action to bring the project back onto schedule by requiring the EPC  
15 contractor to develop and execute a recovery plan to overcome certain delays due to  
16 piping and electrical issues.<sup>24</sup> On February 1, 2017, IPL supplemented its ongoing  
17 review report pending in ECR 28 to advise the Commission that IPL no longer believed  
18 the EPC contractor would meet the April 30, 2017 completion date set forth in the EPC  
19 Contract. IPL explained that the Company was working with the EPC Contractor to  
20 identify a new date that the unit is expected to be used and useful in the provision of

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<sup>23</sup> Mr. Gorman's testimony (p. 43) rests on the premise that the delay was avoidable. For the reasons stated above I disagree with the premise that all delay is avoidable.

<sup>24</sup> Semi-Annual Update (November 2016) at 5, 6.

1 service.<sup>25</sup> Thereafter, IPL reported that the EPC Contractor did not overcome the  
2 schedule delays and did not meet the April 30, 2017 Guaranteed Substantial Completion  
3 Date in the EPC Contract.<sup>26</sup>

4 **Q25. What was IPL's response?**

5 A25. As reported in the ongoing review process<sup>27</sup>, and summarized by IPL Witness Reed IPL  
6 has worked to hold the EPC contractor accountable.<sup>28</sup> For example, IPL sought recovery  
7 plans from the contractor, exercised IPL's right under the contract to stop making certain  
8 progress payments, and reserved other contractual rights.<sup>29</sup> IPL also exercised its  
9 contractual right to remove the CB&I project manager, and the project manager was  
10 replaced on February 24, 2017. IPL continued to push CB&I on the completion of  
11 critical-path items such as cable pulls, large-bore and small-bore pipe installation, and  
12 conduit placement and took additional steps to manage the situation.<sup>30</sup>

13 On February 24, 2017, IPL advised the Commission that the Company expected the EPC  
14 contract requirements of Substantial Completion/Transfer of Possession to be satisfied in  
15 the first half of 2018. This was also reported in IPL's May 2017 and November 2017,  
16 ongoing review reports.<sup>31</sup>

17 **Q26. Has Substantial Completion been achieved?**

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<sup>25</sup> Cause No. 42170 ECR 28 Order at 3.

<sup>26</sup> Semi-Annual Update (May 2017) pp. 2, 4, 6-7.

<sup>27</sup> *Id.* at 6-7.

<sup>28</sup> IPL Witness Reed Rebuttal (Q/A 47 and 48).

<sup>29</sup> *Id.* at 7.

<sup>30</sup> *Id.* at 6-7.

<sup>31</sup> Semi-Annual Update (May 2017), p. 8; Semi-Annual Update (November 2017), p. 7.

1 A26. Yes. Unit 1 gas turbine first fire was achieved on October 30, 2017, and for Unit 2 gas  
2 turbine first fire was achieved on November 12, 2017.<sup>32</sup> CB&I issued their Notice of  
3 Substantial Completion on March 30, 2018. The EPC Contract provides IPL 30 days to  
4 determine whether to accept the notice. On April 28, 2018, IPL issued a letter of  
5 Conditional Acceptance of Substantial Completion and assumed care, custody and  
6 control of the unit.<sup>33</sup> The CCGT reached commercial operation on April 28, 2018<sup>34</sup> and  
7 is providing energy and capacity through MISO.<sup>35</sup>

8 **Q27. You stated above that ongoing review is being conducted in Cause No 42170 ECR-**  
9 **[X]. What is the status of ongoing review of the Eagle Valley CCGT project?**

10 A27. IPL's ongoing review reports from May 2014 through November 2017 have been  
11 approved by the Commission without objection. The Commission has also approved  
12 both the construction work and the costs, including AFUDC, incurred as of September  
13 30, 2017, without objection. For example, the ordering paragraph in the Commission's  
14 February 28, 2018 ECR 30 Order (p. 9) states: "The construction work and costs  
15 associated with the projects approved in Cause No. 44339, incurred as of September 30,  
16 2017 (inclusive of AFUDC), are approved."<sup>36</sup>

17 It is my understanding that once the Commission has reviewed and accepted the  
18 Company's work and cost expenditures, those costs are not subject to further scrutiny  
19 under the prudence standard.<sup>37</sup> Here the Commission reviewed the prudence of the

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<sup>32</sup> Semi-Annual Update (May 2018), p. 4.

<sup>33</sup> *Id.* at 5.

<sup>34</sup> *Id.* at 1.

<sup>35</sup> *Id.*

<sup>36</sup> The Cause No. 42170 ECR 26 through ECR 29 Orders contain comparable ordering paragraphs.

<sup>37</sup> See also IPL Witness Reed Rebuttal (Q/A 43).

1 CCGT in Cause No. 44339 and issued a CPCN for the unit. No challenges have been  
2 brought in the course of ongoing review. The Commission has approved the Company's  
3 ongoing review reports. The Commission has also approved the AFUDC through  
4 September 30, 2017.

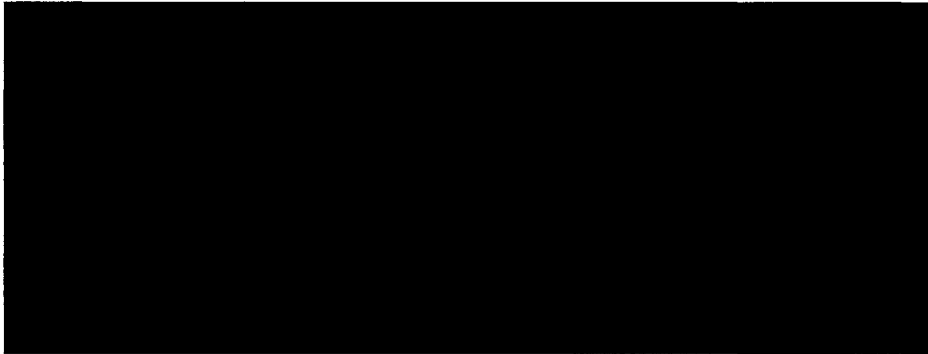
5 **Q28. Putting AFUDC aside, what is the status of the project cost?**

6 A28. As stated above, the Commission approved cost estimate is \$612.7 million. As shown by  
7 the ongoing review reports and the monthly investment reports filed in this Cause, project  
8 costs have remained below this amount. The Company's updated schedules reflect costs  
9 of \$595.2 million through May 31, 2018.<sup>38</sup> IPL Schedule RB4-R. This reflects IPL's  
10 efforts to control costs and hold the EPC Contractor accountable under the EPC Contract.  
11 That said, certain commercial issues between IPL and the EPC Contractor remain  
12 unresolved. As explained in the May 2018 Semi-Annual Report (pp. 5-6):



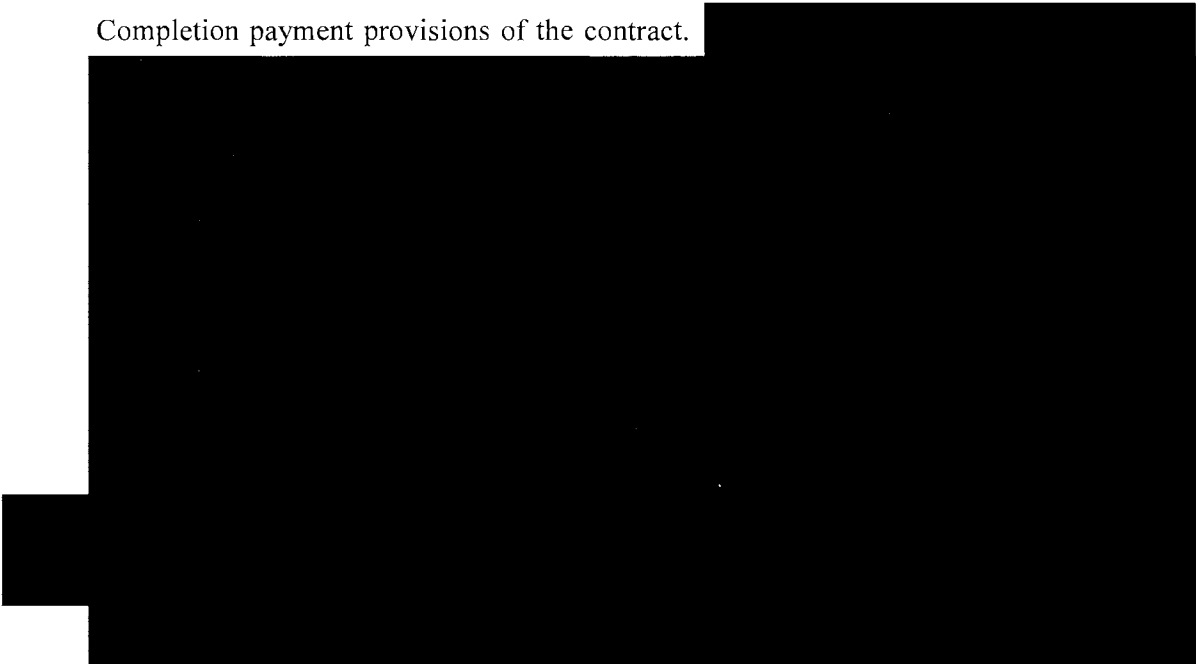
<sup>38</sup> IPL is reflecting the \$595.2 million in actual costs through May 31, 2018 in the updated schedules. As with any major project, trailing costs will continue to be incurred for some period of time, however, IPL estimates final construction costs will remain within the CPCN authorized amount. To the extent IPL has better information, IPL will update its filing no later than June 29, 2018 in accordance with 170 IAC 1-5-5 (10 business days before the final hearing).

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**Q29. OUCC Witness Blakley (p. 10) and IG Witness Gorman (p. 43) indicate that IPL has already recovered some funds from its EPC contractor. Is that accurate?**

**A29.** As stated above, the EPC Contractor provided notice of substantial completion to IPL on March 30, 2018. This triggered a 30 day timeline under the contract for IPL to determine whether to accept substantial completion. During this period, the Company worked with the EPC Contractor to address certain technical issues. Acceptance of Substantial Completion would allow the Company to take ownership and control of the project. IPL pushed the contractor to adhere to the EPC Contract, including the Late Substantial Completion payment provisions of the contract.





1  
2 Thus, while a payment was made, the EPC Contractor disputes that it owed this amount  
3 and has not released its commercial claims. As a result, it is not accurate to characterize  
4 this payment as funds that IPL has “recovered”. Actual recovery under the contract  
5 remains subject to dispute and IPL and the EPC Contractor are working to reach a  
6 resolution of these issues. If the issues are not resolved, the matter may proceed to  
7 litigation.

8 **Q30. IG Witness Gorman (at 42) proposes the Commission disallow approximately \$40**  
9 **million of additional AFUDC for the period April 30, 2017 through April 30, 2018.**  
10 **OUCC Witness Blakley proposes (at 8) the Commission disallow AFUDC for the**  
11 **period July 1, 2017 through April 28, 2018, which he says is approximately \$28.34**  
12 **million. Are these amounts accurate?**

13 A30. The amounts identified by the Industrial Group and OUCC are close approximations for  
14 the identified periods. However, the Industrial Group and OUCC recommendations fail  
15 to recognize that the Commission has already approved construction work and  
16 construction costs, including AFUDC, through September 30, 2017. AFUDC incurred  
17 for the period October 1, 2017 through the April 28, 2018 in-service date is \$22 million.

18 The total AFUDC for May 1, 2017 through April 28, 2018 breaks down as follows:

|                              |         |
|------------------------------|---------|
| 19 AFUDC May 2017 – Sep 2017 | \$16.6M |
| 20 AFUDC Oct 2017 – Apr 2018 | \$22.1M |
| 21 Total                     | \$38.7M |

22  
23 The \$22 million in AFUDC that has not yet been approved is part of the ongoing review  
24 process.

1   **Q31. Do you agree that that the challenged AFUDC should be disallowed?**

2   A31. No. IPL's accrual of AFUDC comports with the FERC Uniform System of Accounts.

3       Further, the 44339 Order states that the "actual, accrued amount of AFUDC will be  
4       included as part of the approved cost." 44339 Order at 23. The 44339 Order remains in  
5       place. While the CCGT commercial operation was delayed, the overall cost of the CCGT  
6       including AFUDC is reasonable as shown by IPL Witness Bulkley.<sup>39</sup>

7       Here, the 44339 cost estimate including AFUDC through May 2018 totals \$700.8  
8       million. IPL Fin. Ex. IPL-RB, Schedule RB4-R. The AFUDC for the period from May  
9       1, 2017 to April 28, 2018 of approximately \$38.7 million is 5.5% of this total.

10      IPL entered into an EPC contract to address the schedule risk. As stated above, the EPC  
11      Contract provides for late substantial completion payments. IPL has and continues to  
12      take steps to enforce these EPC Contract terms.

13      Thus, we should look to the EPC Contract terms to address the costs of delay, not  
14      disallow AFUDC accrued by the Company in reliance on the CPCN Order and the FERC  
15      Uniform System of Accounts ("USOA").

16   **Q32. OUCC Witness Blakley (p. 11) states that any LDs received from the EPC**  
17       **contractor should be applied against the AFUDC that has accrued as a result of the**  
18       **delay. Industrial Group Witness Gorman (p. 43) and UIndy Witness Michael P.**  
19       **Holstein (p. 14) also mentions the potential for LDs under the EPC Contract. Please**  
20       **respond.**

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<sup>39</sup> See Bulkley Direct (Q/A 59); Bulkley Rebuttal (Q/A 31).

1 A32. Ultimately, I agree that upon resolution of these matters (LDs and commercial claims),  
2 the final outcome should be reflected in the ratemaking process, including providing  
3 IPL's customers with the benefit of the full final amount of any net LDs retained by IPL  
4 related to the CCGT.

5 IPL has managed through the construction challenges and now has ownership and control  
6 of the unit. It furthers the Company's and the customers' interests to include the unit in  
7 rate base in this proceeding. Doing so allows customers to receive the benefit of this  
8 competitive natural gas unit in the provision of retail service. As proposed by IPL,  
9 including the unit in rate base allows customers to receive the benefit of 100% of the off-  
10 system sales margins and any increased capacity sales from the CCGT.

11 I disagree with the OUCC and Industrial Group suggestion that these matters are now  
12 ripe for Commission decision. While IPL has held and continues to hold the EPC  
13 contractor accountable, matters between IPL and the EPC contractor remain unresolved.  
14 The ongoing review process has not yet concluded. Thus, the question here is how to  
15 proceed in a fair manner in this rate case given the unresolved nature of these matters.

16 **Q33. What does IPL propose?**

17 A33. Mr. Holstein mentions the idea of a true-up process. Rather than disallow costs, he  
18 proposes the Commission "should include in the test year an adjustment, or as a true up,  
19 any payments IPL may receive from the EPC contractor." UIndy Ex. 1 at 14. Because  
20 the LD payment issues are unresolved, we do not have a fixed, known and measurable  
21 LD test year adjustment. Thus, IPL proposes that the full amount of AFUDC  
22 appropriately accrued in reliance on the 44339 Order be recognized as shown on IPL

1 Financial Exhibit IPL-RB, Schedule RB4-R. As discussed in the rebuttal testimony of  
2 IPL Witness Bulkley, the cost of the project, including AFUDC, is within the range  
3 established by other projects and therefore is reasonable to be included in the current  
4 value of the asset.<sup>40</sup>

5 To recognize that ongoing review is continuing, IPL also proposes that a true up process  
6 be used to reflect the ultimate outcome of the LDs and contractor claims to be addressed  
7 through a regulatory liability or regulatory asset.

8 **Q34. Please explain how the true-up approach would work.**

9 A34. IPL has created a regulatory liability on its books for the late substantial completion  
10 payments received from the EPC contractor. IPL proposes that \$25 million be included  
11 as a credit to customers in the form of a \$6.25 million reduction (one-fourth of \$25  
12 million) in operating expenses reflected in the revenue requirement of each of IPL's next  
13 four semiannual ECR filings following the order in this case.

14 IPL further proposes the remaining regulatory liability be subject to true-up upon  
15 resolution of the LDs and claims. The true up would reflect the final net amount of LDs  
16 after any negotiation, mediation, arbitration with the EPC Contractor regarding the LDs  
17 and other claims by the EPC contractor against IPL. IPL proposes that if the amount of  
18 LDs net of claims is greater than the \$25 million already credited to customers, the  
19 additional amount be credited to customers in future ECR filings. IPL proposes that if  
20 the amount of LDs net of claims is less than the \$25 million already credited to  
21 customers, the difference amount be charged to customers in future ECR filings.

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<sup>40</sup> Witness Bulkley rebuttal (Q/A 31).

1 If the EPC Contractor is successful in negotiations, and IPL ends up giving all LDs back  
2 to the EPC contractor plus ends up paying an additional amount to CB&I, this amount  
3 would increase the capital cost of the project. This additional utility plant in service  
4 would be reflected in future ECR filings and result in a charge to customers as additional  
5 depreciation expense and additional return on rate base. To the extent the LDs net of  
6 claims and associated costs cause the costs to exceed the \$612.7 million approved in  
7 Cause No. 44339 – that would be addressed in the ongoing review process and any cost  
8 recovery would be approved by the IURC before being reflected in the ECR process I  
9 have proposed.

10 This approach recognizes that the ongoing review process is still underway and matters  
11 between IPL and the EPC Contractor remain unresolved. This approach credits  
12 customers with LD benefits in a timely manner with a commitment to reflect final net  
13 LDs in customer rates in a timely manner after resolution. As also discussed by IPL  
14 Witness Reed, this approach recognizes that this estimate is subject to change and  
15 provides a balanced means of addressing the ultimate resolution of these matters.<sup>41</sup>

#### 16 Joint Intervenors

17 **Q35. Do you have overall comments on the Joint Intervenors' filing?**

18 A35. The CAC and other members of its group ("Joint Intervenors") disagree with IPL's  
19 proposed residential service rate design and ask the Commission to adopt special  
20 programs to reduce the electric service bills for IPL's low-income residential customers  
21 (with the details worked out through a collaborative). The Company understands the

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<sup>41</sup> IPL Witness Reed Rebuttal (Q/A 50).

1 importance of controlling costs as the cost incurred to provide service must necessarily be  
2 recognized in the price our customers pay for service. This is demonstrated by the  
3 Company's long standing position as a provider of low cost reliable electric service, as  
4 discussed in my revised direct testimony (Q/A 13) as well as the direct testimony of  
5 Company Witness Cutshaw (Q/As 47-49).

6 While IPL's low rates make it comparatively easier for IPL customers to pay for service,  
7 we are mindful that some of our customers face challenges in paying their bills. As  
8 explained in my revised direct testimony (Q/A 18), IPL has programs already in place to  
9 assist low income and other consumers who may be challenged to pay their bill for  
10 electric service. IPL offers a variety of services for its customers, including programs to  
11 help customers manage their own usage.<sup>42</sup> As IPL Witness Sufan explains (Q/As 25-26),  
12 the Company's energy efficiency programs include programs for low income customers.

13 As stated in my revised direct testimony (Q/A 18), and further explained by IPL Witness  
14 Gaske, some of our customers use a lot of electricity, others use very little, and still  
15 others are in between.<sup>43</sup> The programs described above can and do provide assistance to  
16 these customers. The Company's proposals to allow all off-system sales margins and all  
17 capacity sales to go to the benefit of retail customers allows the retail service rate to be  
18 reduced by our efforts in the wholesale market. These proposals help all customers,  
19 including those that are economically challenged.

20 Finally, IPL Witness Gaske responds to the Joint Intervenors' concerns about IPL's  
21 proposed rate design and explains why IPL's proposal should be approved. In particular,

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<sup>42</sup> See Jackson Revised Direct Testimony at Q/A 18.

<sup>43</sup> See Gaske Revised Direct Testimony Q/A 77 and 78, and IPL Witness JSG Attachments 9-T and 10.

1 he shows that it is incorrect to assume that low income customers are necessarily low  
2 energy customers. He also reiterates that while IPL has proposed to increase the  
3 customer charge, the proposed rates would continue to recover 68% of residential fixed  
4 costs in the energy charges and 77% of the small commercial fixed costs in the energy  
5 charge.<sup>44</sup>

6 The Company's cost of service and rate design studies follow cost causation principles  
7 and, as described in Dr. Gaske's testimony, the proposed rates balance various  
8 ratemaking considerations. Ultimately, the Commission must decide the means by which  
9 the Company's costs of providing service, including the cost of programs mandated by  
10 the Commission, are recognized in the rates for service.

#### 11 Customer Comments

12 **Q36. Both Mr. Swinger (p. 4) and Mr. Olson (p. 10) ask the Commission to consider the**  
13 **field hearing testimony and written customer comments submitted in this Cause.**  
14 **Does IPL consider the impact of its rates on customers?**

15 **A36.** Yes, we are mindful that the costs we incur in the provision of retail service impact the  
16 rates our customers pay for that service. The Company remains committed to keeping  
17 the price for electric service comparatively low. This is evidenced by IPL's long  
18 standing comparatively low rates for electric service. As discussed in the direct  
19 testimony of IPL Witness Cutshaw (Q/A 47), of the state's five investor-owned utilities,  
20 IPL has consistently had the lowest or next to lowest bill for residential retail service  
21 (1,000 kWh). These rates will remain comparatively low even with the rate increase.<sup>45</sup>

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<sup>44</sup> See IPL Witness Gaske Rebuttal, Q/A 37.

<sup>45</sup> See IPL Witness Cutshaw Direct (Q/As 48 and 49).

1 We have achieved and maintain this position through innovation, efficiency and  
2 initiative.

3 At a time when the utility industry, including IPL, continues to face significant cost  
4 challenges, such as environmental compliance and infrastructure modernization, these  
5 attributes remain important. In the face of new and increasing costs, this means we must  
6 continue to seek out ways to improve efficiency, better utilize resources and decrease  
7 operating costs. The creation of the AES Service Company headquartered in  
8 Indianapolis, the optimization of the Monument Circle building (as discussed in the direct  
9 testimony of IPL Witness Tornquist) and our recent restructuring (noted in the testimony  
10 of OUCC witness Eckert, p. 9) are recent examples of how the Company uses  
11 consolidation, technology and standardization to control and reduce ongoing increases in  
12 operational costs and improve efficiency and services. We are continuing our efforts to  
13 maintain efficient operations. Because the cost incurred to provide service is necessarily  
14 reflected in the price for our service, the Company's efforts to control costs and improve  
15 efficiency benefit our customers and the communities we serve.

16 **Q37. Mr. Olson (p. 9) indicates that the residential customer interests should be balanced**  
17 **with those of the utility, the large customers, the municipalities and other**  
18 **intervenors in this proceeding. Do you agree?**

19 A37. Yes, I agree with Mr. Olson's point that the utility, our customers and other stakeholders  
20 "[a]ll have an interest in achieving a fair and balanced outcome." JI Ex. 1 at 9. The  
21 Company has sought to reflect that approach in its rate case proposals. The Company's  
22 proposals regarding off-system sales and capacity sales are an example. Currently, IPL  
23 shares the benefit of such sales with our customers on a 50/50 basis and this is consistent



1 with the sharing policy the Commission has established in other cases. Here, IPL has  
2 proposed to flow 100% of the off-system sales margins and capacity sales benefits to  
3 customers. This means we are proposing to use wholesale market margins to reduce the  
4 price for our retail customers.

5 **Q38. Mr. Olson urges the Commission to consider the field hearing testimony. Did you**  
6 **attend the field hearings?**

7 A38. Yes, I attended both field hearings, as did others from IPL. At the field hearings, we  
8 were told that it is important that customers be able to stay in their homes rather than be  
9 forced into government subsidized multi-unit housing.<sup>46</sup> We heard from high usage  
10 customers and lower usage customers who are concerned about their ability to pay their  
11 bills.<sup>47</sup> Some folks argued that customers who use more energy should pay more.<sup>48</sup> As  
12 explained by IPL Witness Gaske, under IPL's proposal, customers who use more  
13 electricity do have higher bills based on the volumetric energy charge.<sup>49</sup> We also heard  
14 that we should consider that some customers' electricity needs are significant because of  
15 the medical needs of disabled or elderly family members and the number of persons in  
16 the household.<sup>50</sup> At the field hearings, we heard that we should consider the impact of  
17 our rate proposals on low income customers but we should not forget about the impact on  
18 other customers, including middle income customers.<sup>51</sup> We heard concerns about low

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<sup>46</sup> TR. FH-A-14; A-17.

<sup>47</sup> TR. FH-D-47; FH Ex. 1, p. 34 of 43; TR. FH-A-21-A-22; TR. FH-B-15.

<sup>48</sup> TR. FH-D-29.

<sup>49</sup> IPL Witness Gaske Direct (Q/A 63).

<sup>50</sup> TR. FH-A-26; TR. FH-B-31.

<sup>51</sup> TR. B-13; B-29; C-7; C-23-24; FH Ex. 2, pp. 81-82 of 88.

1 income customers from customers who are not low income customers.<sup>52</sup> We heard that  
2 we should not discourage energy efficiency and conservation and that we should consider  
3 the impact on customer-sited distributed generation but also consider the impact of rate  
4 design on customers who cannot afford to switch to customer sited generation or leave  
5 the area during cold winter and hot summer months.<sup>53</sup> We heard that we should move  
6 away from regressive policies by opening the door to move resources like solar and  
7 wind.<sup>54</sup>

8 **Q39. What is your response to these concerns?**

9 A39. My response is that IPL's proposed rate design is consistent with the above referenced  
10 concerns. As discussed by IPL Witness Gaske, in comparison with the other parties'  
11 proposals, IPL's proposed rate design lowers the total bill for customers with the greatest  
12 usage volatility, electricity costs and needs, while treating low usage customers and  
13 customer-sited generation fairly.<sup>55</sup>

14 In fact, I was struck by the absence of any mention of the "total bill" impact on customers  
15 in Mr. Olson's testimony and in the OUCC's testimony. These parties filed lengthy  
16 testimony addressed to rate design, but are silent on the impact on total customer bills of  
17 either their proposals or IPL's proposals. For example, Mr. Olson (p. 5) focuses on the  
18 "fixed customer charge portion of the bills" but neither he nor the other Joint Intervenor  
19 witnesses, or the witnesses for the OUCC, specifically address the total bill impact of the  
20 various residential rate design proposals presented to the Commission in this Cause.

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<sup>52</sup> Tr. FH-B-4, FH-B-12, FH-B-43.

<sup>53</sup> TR. FH-D-12-13; FH-D-16, D-22, D-37; FH-A-17, FH-B-45, FH-C-10; FH-C-23

<sup>54</sup> FH-D-17, 32.

<sup>55</sup> See Gaske Revised Direct Testimony Q/A 78, Gaske Rebuttal Testimony Q/A 65 through 68, and IPL Witness JSG WP-1.0-R and IPL Witness JSG WP-2.0-R.

1 Mr. Olson and Mr. Wallach allege that IPL's proposed rate design "disproportionately  
2 harms low volume consumers" (Olson at 5 (emphasis added)) but neither witness offers a  
3 comparative view of the impact on higher usage customers, whether low income, middle  
4 income or otherwise. Mr. Swinger (p. 2) identifies "billing affordability" as a "salient"  
5 issue but his testimony and that of the other OUCC witnesses does not address the total  
6 bill issue.

7 In our last rate case, the Commission looked at the impact of residential rate design "in  
8 the context of the entire customer bill and not discrete charges within the bill."<sup>56</sup> The  
9 Commission decisions in rider filings consistently address the bill impact, a practice that  
10 reinforces the view that we should consider the total bill, not discrete charges within the  
11 bill. Considering the rate impact from a total bill recognizes the actual impact on  
12 customers. Indeed, in this respect, the Joint Intervenor and OUCC silence on the total bill  
13 impact contrasts sharply with the focus on the actual bill in the testimony given by many  
14 at the field hearings as well as the testimony offered by commercial and industrial  
15 intervenors.

### 16 Conclusion

17 **Q40. Please summarize your conclusions.**

18 A40. First, the OUCC and Industrial Group revenue recommendations (a) fail to adequately  
19 recognize the business challenges that IPL faces in providing retail service to our  
20 customers, (b) introduce significant risk to IPL's ability to access capital markets for  
21 future investments, and (c) prevent IPL the opportunity to earn a reasonable rate of

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<sup>56</sup> 44576 Order at 72.

1 return. In fact, the recommendations are dangerously unreasonable and would raise  
2 significant concern as to the financial integrity of IPL, which could impact IPL's ability  
3 to provide reliable service and ultimately result in higher costs for our customers.  
4 Neither of the OUCC and Industrial Group revenue recommendations should be  
5 approved.

6 Second, the benefits of the HSS BESS technology have not been disputed by the OUCC  
7 and Industrials and it remains clear that battery storage technology is an important  
8 component of grid resiliency moving forward. This technology allows IPL to continue  
9 providing PFR, which is needed to maintain a reliable and resilient electric grid,  
10 particularly considering the industry's move to renewable and other disruptive  
11 technologies.

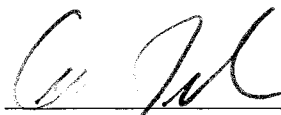
12 And lastly, upon resolution of LDs and commercial claims associated with the Eagle  
13 Valley CCGT, the final outcome should be reflected in the ratemaking process, including  
14 providing IPL's customers with the benefit of the full final amount of any net LDs  
15 retained by IPL. However, we are not at a final outcome yet as neither the commercial  
16 matters (LDs and claims) between IPL and the EPC contractor have been resolved nor  
17 has the ongoing review process been concluded. IPL's proposal to credit \$25 million of  
18 the regulatory liability to customers as a reduction in operating expenses, over the next  
19 four semiannual ECR filings, followed by a true-up upon resolution of the LDs and  
20 claims is reasonable.

21 **Q41. Does this conclude your prepared verified rebuttal testimony?**

22 **A41.** Yes, at this time.

## VERIFICATION

I, Craig L. Jackson, President and CEO of Indianapolis Power & Light Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read 'C. L. Jackson', is written over a horizontal line.

Craig L. Jackson

Dated: June 20, 2018

### ***OVERVIEW OF IPL WITNESS REBUTTAL***

**Craig L. Jackson**, President and CEO of IPL and The Dayton Power & Light Company, explains that the Office of Utility Consumer Counselor (“OUCC”) and Industrial Group’s (“IG”) recommendations fail to adequately recognize the business challenges IPL faces in providing retail service to our customers; introduce significant risk to IPL’s ability to access capital markets for future investments; and prevent IPL the opportunity to earn a reasonable rate of return. He notes that as a result of updates to the Company’s filing and concessions, the requested revenue increase has decreased from \$96.7 million to \$88.35 million, meaning that the overall revenue increase is reduced from 7.1% to 6.5%. He notes that other Company proposals further reduce the customer bill impact of the proposed rate increase. Mr. Jackson explains that adoption of the OUCC and Industrial Group return recommendations would constitute not only a drastic departure from established Commission practice, it would also renege on the incentive the Commission signaled would be given following the Company’s constructive participation in the collaborative. He explains that the OUCC and Industrial Group recommendations are the equivalent of allowing no return on the Eagle Valley CCGT. Considering IPL was granted a certificate of public convenience and necessity (“CPCN”) for construction of the CCGT and the construction costs are estimated to be less than the CPCN authorized amount, this is dangerously unreasonable and would raise significant concern as to the financial integrity of IPL. Mr. Jackson explains that at a time when state commissions are looking at ways to incorporate significant amounts of storage into the “grid of the future”, the exclusion of the HSS BESS from IPL’s rate base would cast a negative light on battery storage and other modernization infrastructure investments in Indiana and would be out of step with the current state of the industry. Mr. Jackson responds to the OUCC and IG challenge of certain allowance for funds used during construction (“AFUDC”) related to the Eagle Valley CCGT, explaining, among other things that the Commission has already approved much of the disputed amount in the ongoing review process. Mr. Jackson discusses the status of the remaining disputes between IPL and the EPC Contractor, explains that IPL is working to hold the contractor accountable, and proposes a true-up process for providing customers the benefit of net liquidated damages (“LDs”), after resolution of the outstanding LDs and commercial claims. Finally, Mr. Jackson discusses the Company’s ongoing efforts to control its operating costs and the programs IPL already has in place to assist low income and other consumers who may be challenged to pay their bill. After reviewing the customer comments, Mr. Jackson notes (as discussed by IPL Witness Gaske), that in comparison with the other parties’ proposals, IPL’s proposed rate design lowers the total bill for customers with the greatest usage volatility, electricity costs, and needs, while treating low usage customers and customer-sited generation fairly. Mr. Jackson comments on the absence of the total bill impact on customers in the testimony of Joint Intervenor and OUCC, notwithstanding the Commission’s previous determination that the impact of residential rate design should be considered in the context of the entire customer bill.

***Updated Revenue Requirement, Contested O&M Adjustments  
and Off System Sales Margin and Capacity Sales.***

**Craig A. Forestal**, AES U.S. Services, Director of Regulatory Accounting provides a roadmap to IPL's updated Financial Exhibits. He summarizes the rate base and O&M adjustments reflected in the Company's rebuttal filing and explains that the updated schedules show the deficiency in electric operating revenue is \$88.35 million, a decrease of \$8.38 million from IPL's revised case-in-chief filing in February 2018. Mr. Forestal accepts the OUCC position regarding Injuries and Damages Expense (OM19), updates rate case expense (OM20), and explains that the OUCC's proposed \$144 thousand reduction for Miscellaneous General Expense (OM21) should be rejected.

**Natalie Herr Coklow**, AES U.S. Services, Senior Accountant in the Regulatory Accounting department responds to the OUCC and IG testimony related to labor, benefits, and payroll taxes (OM17, OTX3), including the impact of the AES/IPL restructuring, 2018 pension costs, and open headcount. Ms. Coklow agrees with the OUCC adjustment included on MDE-5, page 2, but explains what appears to be an inadvertent error in the OUCC schedules regarding this issue. Ms. Coklow accepts IG's position that labor and benefits should be reduced for the restructuring, but corrects their calculation to properly incorporate related payroll taxes and to accurately recognize a reduction in employee parking costs. Ms. Coklow agrees with the OUCC proposal that pension costs be updated to recognize the increase in 2018 pension costs, but makes certain corrections to the OUCC's calculation. Ms. Coklow accepts IG's proposal to remove \$948 thousand from IPL's pro forma labor expense for open headcount.

**Dennis C. Dininger**, Project Lead, Enterprise Asset Management and previously IPL's Director, Commercial Operations, accepts part of the OUCC's recommendation related to Seasonal NOx emission allowance expenses (OM10) and addresses other aspects of the OUCC's testimony. Mr. Dininger responds to UIndy's testimony regarding the level of OSS margins that should be embedded in IPL's basic rates, clarifies the operation of the OSS Margins Rider, and notes the level of capacity sales proposed to be embedded in base rates relative to forecasted capacity sales revenues. He explains that IPL's proposed embedded level of OSS margins and capacity sales have no impact on customers in light of IPL's proposed 100% sharing of all OSS margins and capacity sales above and below the amount embedded in basic rates.

***Vegetation Management and Impact of  
Updated Revenue Requirement  
on Customer Rates.***

**James L. Cutshaw**, IPL Revenue Requirements Manager, further explains the updated revenue requirement. He discusses the OUCC and Intervenor testimony regarding the Major Projects and the OSS Margin Rider. He proposes a capping mechanism for the Vegetation Management Reserve to address concerns raised by other parties. To assist the Commission and the parties in assessing the updated revenue requirement, Mr.

Cutshaw calculates the impact on the average residential customer. For the average residential customer (1,000 kWh), the total bill using the updated rates would be \$123.62, which is an increase of \$10.66 or 9.44%. This amount would be reduced by IPL's proposals to flow 100% of the benefits of its OSS margins and capacity sales to customers as well as IPL's proposals regarding the Eagle Valley CCGT LDs and the 2018 TCJA excess ADIT.

**Daniel R. Perry**, Team Leader of the IPL Lines Clearing Department, clarifies that IPL's recent historical spend on production trimming for vegetation management varied due to the impact of weather and a labor shortage of contractor vegetation management personnel. He explains that the increased contract cost for vegetation management could not be reasonably avoided and is not excessive. Mr. Perry also responds to the concerns regarding IPL's proposed change in its overhang vegetation management practices and addresses ongoing reporting for vegetation management.

#### ***Tax Cuts and Jobs Act of 2017 ("TCJA")***

**Frank J. Salatto**, AES U.S. Services, Director, US Tax Reporting, explains that regarding the rate impact in 2018 of the TCJA change in federal income tax rate from 35% to 21% should remain in the Cause No. 45032-S1 subdocket. With respect to the unprotected excess accumulated deferred income taxes ("ADIT"), addressed in his direct testimony, Mr. Salatto explains the five-year amortization period proposed by the IG is too fast. He recommends the Commission adopt IPL's ten-year proposal, as well as IPL's proposal regarding normalized excess ADIT, that has not been challenged. Finally, with respect to the 2018 excess ADIT, Mr. Salatto explains the Company's proposal to flow the benefit to customers over a 2-year period via IPL's ECR.

#### ***Prepaid Pension Asset***

**Alan D. Felsenthal**, a Managing Director at PricewaterhouseCoopers LLP ("PwC"), responds to the OUCC and IG challenges to the inclusion of IPL's entire net prepaid pension asset in IPL's capital structure. Mr. Felsenthal clarifies the GAAP accounting requirements for pension and other postemployment benefit ("OPEB") costs, which is different than the Employee Retirement Income Security Act ("ERISA") requirements for contributions to the pension trust. He explains that the very definition of prepaid pension asset, meaning the excess of contributions to the pension trust in excess of GAAP pension expense means that the source of the entire prepaid asset is funded by investors--thus requiring a return—and why making a distinction between the "ERISA minimum" and "discretionary portion" of the prepaid pension asset is flawed and unnecessary as the source of the entire prepaid pension asset is funded by investors - thus requiring a return. He explains why the prepaid pension asset provides both quantifiable and other benefits to IPL's customers. Mr. Felsenthal shows there is a net benefit to customers when comparing the direct reduction to pension expense for the return on the prepaid pension asset included in the pension trust on plan assets relative to the impact to the revenue requirement for the return to investors on the capital supplied for the prepaid pension



asset. He also explains why the prepaid pension asset is essentially the mirror image of the Company's OPEB liability (\$12.2 million) which in the ratemaking process has been treated in a manner which reduces return and revenue requirements, a treatment that the Commission has addressed and approved, and which neither Ms. Stull nor Mr. Gorman has challenged, and why fairness and equity requires consistent treatment of the pension asset and OPEB liability.

**Edward J. Kunz**, Manager, Retirement Services, refutes the OUCC's suggestion that contributions to the pension fund are imprudent due to investment risk and her mistaken contention that the prepaid pension asset could someday become the utility's largest asset. He explains that the Company's Pension Risk Advisory Committee has systematically decreased pension plan risk as the plan's funded status percentage increased. He explains that, as a result of IPL contributing an additional \$30 million in early January 2018 to bring the plan's funded status to approximately 100% (a contribution that is not reflected in the prepaid pension asset in this case), IPL's qualified pension plan is 90% hedged to market fluctuations (both equities and fixed income). Because the pension plan is currently approximately 100% funded, the strategy is for the 10% of the fund invested in return-seeking assets to provide the additional 5% funding percentage to attain a 105% funded percentage goal. Finally, Mr. Kunz explains that IPL is not expecting to make any additional employer contributions for approximately seven years.

#### ***Major Project Additions, Ongoing Production Plant Operating Costs***

**Bradley D. Scott**, Senior Vice President, Power Supply for IPL, explains that the actual net utility plant values of IPL's Major Project Additions (Eagle Valley CCGT, National Pollution Discharge Elimination System ("NPDES") and Coal Combustion Residual ("CCR") (bottom ash) projects) at May 31, 2018 should be included in rate base. He also explains why the July 2017-April 2018 O&M costs associated with IPL's NPDES and NAAQS-DBA systems are not representative of the expected costs going forward, and thus IPL's Adjustment OM5 is reasonable. With respect to coal combustion product ("CCP") disposal expense reflected in Adjustment OM6, Mr. Scott explains that the EPA's March 2018 rule interpretation eliminates the lower cost option of using CCP as fill material for Petersburg's ash pond closures, and thus Adjustment OM6 remains reasonable. He also explains that the OUCC's proposed disallowance of certain outage maintenance costs (including removing Eagle Valley CCGT outage costs entirely) fails to recognize the cyclical nature of outage maintenance costs and would understate such costs going forward. Finally, Mr. Scott explains that the O&M costs associated with the operation of the Mercury and Air Toxic Standards compliance equipment are tied to the dispatch of the underlying generation units and the adjustment IPL proposed (OM9) accurately reflects the current and forward looking capacity factors. Therefore, the OUCC objection to OM9 should be rejected.

#### ***Depreciation and Demolition Costs***

**Paula M. Guletsky**, a Sargent and Lundy (“S&L”) Vice President and the S&L Project Director for IPL, clarifies the difference between the contingency factor and escalation factor in her Decommissioning Cost Study and explains why both are appropriate and necessary components of the cost estimate; that industry guidelines were followed to determine the appropriate level for each; and the application of contingency and escalation serve to manage the risk of overruns, not eliminate the risk in its entirety.

**John J. Spanos**, Senior Vice President, Gannett Fleming Valuation and Rate Consultants, LLC, explains that nearly every one of the positions taken by the OUCC and IG witnesses regarding depreciation has been previously rejected by this Commission, and some of their positions have been rejected repeatedly. He explains that these witnesses offer no new reasons in support of these positions. The Commission should again reject these positions.

***Harding Street Station Battery Energy Storage System (“BESS”)***

**James A. Sadtler**, Director of Transmission Field Operations, disagrees with OUCC and IG suggestion that the HSS BESS does not serve the need of IPL’s retail customers. In the normal course of IPL’s transmission and resource planning process, IPL considers and plans for the provision of essential reliability services (frequency and voltage control) necessary to provide reliable service to its native load customers every hour of every day. Mr. Sadtler explains that IPL’s provision of reliable service to our retail customers relies on the proper functioning of the IPL system and the proper functioning of the Eastern Interconnect, including the proper functioning of the safeguards necessary to protect the IPL system and our customers from a disturbance on the broader system. Without PFR as the first line of defense to prevent low system frequency, the grid and our customers would be exposed to the under-frequency load shedding (“UFLS”) relay protection schemes. UFLS operates automatically to arrest declining frequency following a sudden change in the delicate electricity balance of supply and demand. When the UFLS protection operates, large areas of customer outages occur. The other parties overlook that IPL has long provided PFR and we have done so as part of our ongoing obligation to plan and operate our system consistent with Good Utility Practices. All that has changed here is that IPL is using a more efficient technology to meet the need for PFR. Mr. Sadtler explains the other benefits the HSS BESS provides to retail customers, including invaluable service during the execution of the IPL black-start plan, peak power supply, and support for the further integration of wind and solar resources. Finally, Mr. Sadtler explains that the OUCC dollar per kW analysis of the HSS BESS unfairly compares different asset technologies and applications. When you consider the full range of the HSS BESS (flexible 40 MW), the simplistic dollars per kW calculation is 32% less than the Eagle Valley CCGT cost. Mr. Sadtler also shows that on a dollar per kW basis, the HSS BESS compares favorably to the battery energy storage facility recently approved by the Commission in Cause No. 45002.

***Valuation of IPL’s Plant and Regulatory Policy Perspective  
on Prepaid Pension Asset, HSS BESS and Eagle Valley CCGT Issues***

**John J. Reed**, Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. and CE Capital Advisors, Inc. (“Concentric”), responds to the issues raised by OUCC and intervenors on the valuation of IPL’s production plant. His rebuttal also responds, from a regulatory policy perspective, to issues pertaining to the pre-paid pension asset, HSS BESS, and the Eagle Valley CCGT. Mr. Reed concludes that the inclusion of the prepaid pension asset in IPL’s capital structure is appropriate. He explains that IPL’s anticipation of its ongoing system needs and its provision of frequency response from the HSS BESS is consistent with Good Utility Practice, the HSS BESS is used and useful for the benefit of retail customers and the costs of the facility should be included in IPL’s rates. Mr. Reed explains why the Commission should reject the OUCC and Industrial Group challenge to certain of the AFUDC associated with the Eagle Valley CCGT and explains that IPL’s proposed process for addressing in this case the unresolved issues between IPL and the Eagle Valley CCGT EPC contractor regarding liquidated damages and commercial terms is reasonable and should be approved.

**Ann E. Bulkley**, Vice President of Concentric responds to the OUCC and IG testimony related to the Current Value and the Fair Value of IPL’s transmission and distribution assets. In addition, she updates the current value to reflect the current estimated cost of the Eagle Valley CCGT and she shows that the cost of the Eagle Valley CCGT project, including AFUDC, is within the range established by other projects and therefore is reasonable to be included in the current value of the assets.

#### *Cost of Equity and Fair Return on Fair Value*

**Adrien M. McKenzie**, principal in FINCAP, Inc., shows that the OUCC and Intervenor cost of equity (“COE”) recommendations are simply too low and fail to reflect the risk perceptions and return requirements of real-world investors in the capital markets. He explains that the OUCC and IG recommendations are significantly below equity returns that have been allowed by other state regulatory commissions around the country, noting that over the 24 months ended March 31, 2018, the midpoint of the allowed ROE (excluding adders and penalties) reported by RRA Regulatory Focus (“RRA”) for vertically-integrated electric utilities is 10.53% and the average is 9.74%. The authorized ROE data reported to investors by The Value Line Investment Survey (“Value Line”) for the specific firms in the proxy groups used by the OUCC and IG average approximately 9.9%, with the midpoint of the lowest and highest values being 10.6%. Mr. McKenzie explains that in recent litigated electric rate proceedings, the common equity return determined by the IURC has been equal to, or above, the average awarded in other states. The recommendations of the OUCC and IG would represent a dramatic departure from this established relationship. Mr. McKenzie responds to the OUCC and Intervenor criticism of his analysis and identifies significant flaws in the recommendations of the OUCC and IG.

#### *Customer Comments*

**Justin G. Sufan**, IPL Director, Regulatory & RTO Policy, provide additional context regarding the public input noted in the OUCC and Joint Intervenor testimony. He notes his concern that these comments imply a misleading impression of IPL's intentions regarding its residential rate design. Mr. Sufan explains that Mr. Olson's "fear" of smart meters is unfounded because IPL adheres to the Commission rule on service disconnections. Mr. Sufan also explains IPL's customers generally view IPL's bill format favorably and upon request, IPL will send a detailed bill for a specific month, or provide detailed bills on a monthly, recurring basis. He explains why the Commission should not mandate a comprehensive affordability program as urged by Mr. Olson. Mr. Sufan provides an update on the status of the proposed Round-Up Program and explains why IPL's proposed voluntary Round-Up program should not be implemented on an "opt-out" basis as Mr. Olson urges. Finally, he explains that Mr. Howat's proposed energy efficiency program is unnecessary in light of IPL's long-standing DSM offerings.

#### ***Allocated Cost of Service, Rate Design and Total Bill Impact***

**J. Stephen Gaske**, a Senior Vice President of Concentric, responds to the OUCC and Intervenor testimony regarding the Allocated Cost of Service Study ("ACOSS") and rate design, and updates the ACOSS, rate design and bill impact to incorporate the Company's updated revenue requirement. He explains that most of the changes proposed by the intervenor witnesses involve shifting costs from one group of IPL customers to another group of IPL customers. In his opinion most of the proposed changes to the filed cost allocation and rate design are without merit or they involve different judgments as to various ratemaking tradeoffs. As a result, Dr. Gaske continues to believe that IPL's proposed rate design is just and reasonable.

Dr. Gaske also responds to the affordability concerns by presenting the impact of IPL's proposed rate design versus the OUCC and Joint Intervenor's ("JI") proposed rate design on IPL customer bills. Among other things, he explains that if JI's recommendation were adopted, large LIHEAP customers could face monthly bill increases more than quadruple the magnitude of the savings small LIHEAP customers would experience. Dr. Gaske explains that by comparison to IPL's proposal, the OUCC's customer charge proposal is slightly better than JI's proposal but it still disproportionately harms the many large LIHEAP customers of IPL.

#### ***Kroger and Rolls-Royce Corporation Concerns***

**Ken Flora**, IPL Director, Regulatory Affairs, explains that IPL is always willing to meet with its customers and discuss any service issues they may be experiencing and notes that customers certainly do not need to wait and intervene in IPL's rate cases to bring their questions or concerns to our attention. In response to Kroger testimony, Mr. Flora explains that IPL has been working collaboratively with Kroger and has already taken reasonable actions to address Kroger's service concerns. In response to the testimony of Rolls-Royce Corporation ("RRC"), Mr. Flora explains that the Rate SS process has worked well for many years and confirms that IPL is not proposing to terminate service

to RRC under Rate SS. Therefore, the issue raised by RRC requires no further Commission action.