

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT)
COMPANY D/B/A AES INDIANA (“AES INDIANA”) FOR)
AUTHORITY TO INCREASE RATES AND CHARGES FOR)
ELECTRIC UTILITY SERVICE, AND FOR APPROVAL)
OF RELATED RELIEF, INCLUDING (1) REVISED)
DEPRECIATION RATES, (2) ACCOUNTING RELIEF,)
INCLUDING DEFERRALS AND AMORTIZATIONS, (3))
INCLUSION OF CAPITAL INVESTMENTS, (4) RATE)
ADJUSTMENT MECHANISM PROPOSALS, INCLUDING)
NEW ECONOMIC DEVELOPMENT RIDER, (5) REMOTE)
DISCONNECT/RECONNECT PROCESS, AND (6) NEW)
SCHEDULES OF RATES, RULES AND REGULATIONS)
FOR SERVICE.)

CAUSE NO. 45911

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC’S EXHIBIT NO. 10

TESTIMONY OF OUCC WITNESS

JOHN W. HANKS

OCTOBER 12, 2023

Respectfully submitted,



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS JOHN W. HANKS
CAUSE NO. 45911
INDIANAPOLIS POWER AND LIGHT COMPANY D/B/A AES INDIANA, LLC

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is John W. Hanks, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer
6 Counselor's ("OUCC") Electric Division. A summary of my educational
7 background and experience is included in Appendix A attached to my testimony.

8 **Q: What is the purpose of your testimony?**

9 A: I present my analysis of Indianapolis Power & Light Company d/b/a AES Indiana's
10 ("AES Indiana" or "Petitioner") capital structure components. I find the capital
11 structure reasonable, except for the proposed cost of equity ("COE"), which OUCC
12 witness Leja Courter discusses in his testimony. I propose a weighted average cost
13 of capital ("WACC") that includes Mr. Courter's recommendation.

14 **Q: Please describe the review and analysis you conducted in order to prepare**
15 **your testimony.**

16 A: I reviewed the testimony and workpapers of Petitioner's witnesses Kimberly Aliff
17 and Dustin Illyes. I also reviewed the capital structure the Indiana Utility
18 Regulatory Commission ("Commission") approved in AES Indiana's previous rate

1 case (Cause No. 45029) and AES Indiana's most recent financing case (Cause No.
2 45575). I also composed data requests and reviewed the responses.

3 **Q: To the extent you do not address a specific item in your testimony, should it be**
4 **construed to mean you agree with Petitioner's proposals?**

5 A: No. My silence on any topics, issues, or items Petitioner proposes does not indicate
6 my approval of these topics, issues, or items. Rather, the scope of my testimony is
7 limited to the specific topics discussed herein.

II. CAPITAL STRUCTURE

8 **Q: What is AES Indiana's proposed capital structure and WACC, as of December**
9 **31, 2022?**

10 A: A capital structure describes the total cost of capital for AES Indiana, which
11 includes long-term debt, common equity, customer deposits, prepaid pension asset,
12 and deferred income taxes. The capital structure consists of 49.52% long-term debt,
13 44.99% common equity, 0.81% customer deposits, (3.82%) prepaid pension asset,
14 and 8.80% deferred income taxes.¹ Using the 10.6% COE proposed by Petitioner's
15 witness Adrien McKenzie and a 4.90% cost of debt as of December 31, 2022,
16 Petitioner's proposed WACC is 7.22%.² Using the COE of 9.99% approved in
17 Petitioner's most recent rate case (Cause No. 45029), Petitioner's WACC as of
18 December 31, 2022 would be 6.94%.³

19 **Q: Describe the components of the capital structure reflected in AES Indiana's**
20 **WACC.**

21 A: The largest component of the WACC calculation is investor-supplied capital, and
22 the other component used in the calculation of AES Indiana's WACC is customer

¹ AES Indiana Financial Exhibit AESI-CC, Schedule CC2.

² Direct Testimony of Dustin Illyes, p. 2, lines 18-19.

³ Final Order, p. 27.

1 deposits (0.81% of the capital structure). Customer deposits are included in the
2 calculation using a cost rate of 6%, which is set by Commission rules. Investor-
3 supplied capital includes long-term debt and common equity. Utilities typically
4 target a long-term investor-supplied capital structure, which includes a certain
5 proportion of long-term debt to common equity within investor-supplied capital.
6 As of December 31, 2022, Petitioner's investor-supplied capital structure consisted
7 of 52.56% long-term debt and 47.44% common equity.⁴

8 **Q: How does AES Indiana's proposed capital structure compare to the**
9 **Commission approved capital structure in AES Indiana's previous rate case?**

10 A: In its previous rate case, Petitioner's investor-supplied capital structure consisted
11 of 54.44% long-term debt, 1.92% preferred stock, and 43.64% common equity.
12 Compared to what the Commission previously approved, the proportion of long-
13 term debt to equity has modestly decreased and Petitioner retired its preferred stock.
14 In a data response, Petitioner stated the preferred stock was retired because of its
15 high price relative to long-term debt and "additionally, the credit rating agencies
16 changed their methodologies in recent years, to where the preferred stock no longer
17 received any equity treatment in the agencies' calculations of the company's credit
18 metrics. The credit rating agencies effectively now view the preferred stock the
19 same as debt."⁵

20 **Q: What is the significance of these changes?**

21 A: Retiring the preferred stock is reasonable due to the change in how credit agencies
22 view preferred stock; however, the Commission should be aware of the relative

⁴ Illyes Direct, p. 3, lines 17-19.

⁵ Attachment JWH-1, AES Indiana response to OUCC Data Request 1-33.

1 decline in the proportion of debt in AES Indiana's capital structure. All else equal,
2 a lower proportion of long-term debt relative to common equity produces higher
3 prices for consumers, as common equity is more expensive than debt. Mr. Courter
4 recommends a 9.10% COE as his testimony discusses in greater detail.

5 **Q: Did you review AES Indiana's long-term debt obligations?**

6 A: Yes. I reviewed the long-term debt obligations identified in AES Indiana Financial
7 Exhibit AESI-CC, Schedule CC1, and I reviewed the financing authority requested
8 and granted in AES Indiana's most recent financing case, Cause No. 45575. The
9 financing authority granted in Cause No. 45575 expires on December 31, 2024.
10 There is one long-term obligation maturing before the end of the period, the First
11 Mortgage Bonds, 3.125% Series, due December 1, 2024 in the aggregate principal
12 amount of \$40,000,000.⁶ The terms of the long-term debt are consistent between
13 this Cause and AES Indiana's most recent financing order.

14 **Q: What is the OUCC's proposed WACC when including its COE**
15 **recommendation?**

16 A: Using Mr. Courter's 9.1% COE recommendation in the OUCC's proposed capital
17 structure results in a WACC of 6.54%. The OUCC's proposed WACC is
18 sponsored by witness Wes Blakey in Schedule WRB-7.

III. OUCC RECOMMENDATIONS

19 **Q: Please summarize your recommendations to the Commission in this cause.**

20 A: I recommend the Commission use the OUCC's 9.10% COE estimate. My analysis
21 did not uncover concerns related to AES Indiana's long-term debt calculations or

⁶ Cause No. 45575, Direct Testimony of Dustin Illyes, p. 8, lines 18-21.

1 proposed capital structure. The OUCC's proposed capital structure utilizing

2 Mr. Courter's COE recommendation results in a WACC of 6.54%.

3 **Q: Does this conclude your testimony?**

4 **A: Yes.**

APPENDIX A
QUALIFICATIONS OF JOHN W. HANKS

1 **Q: Please describe your background and experience.**

2 A: I graduated from Indiana University-Purdue University Indianapolis with a
3 Bachelor of Arts in Quantitative Economics, with minors in math and philosophy.
4 I began my career with the OUCC in 2022 as a Utility Analyst II, focusing on
5 economics and finance in the Electric Division. In the summer of 2022, I attended
6 the Institute of Public Utilities' Annual Program on Regulatory Fundamentals. I
7 have attended various seminars relating to utility regulation. In March of 2023, I
8 completed a 12-week course with Scott Hempling on Regulating Utility
9 Performance.

10 **Q: Have you previously filed testimony in other Commission proceedings?**

11 A: Yes.

Data Request OUCC DR 1 - 33

Refer to the direct testimony of Dustin Illyes, page 5, lines 11-12. “No, AES Indiana redeemed 100% of the outstanding preferred stock in December 2022, thus the Company’s capital structure no longer includes any preferred stock.” What were AES Indiana’s reasons for retiring the preferred stock?

Objection:

Response: The preferred stock was retired as it carried a weighted average cost of 5.37%, which compares to AES Indiana’s long-term debt weighted average cost of 4.90%. The preferred stock carried a higher cost of capital for AES Indiana and its customers relative to AES Indiana’s long-term cost of debt. Additionally, the credit rating agencies changed their methodologies in recent years, to where the preferred stock no longer received any equity treatment in the agencies’ calculations of the company’s credit metrics. The credit rating agencies effectively now view the preferred stock the same as debt.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.



John W. Hanks

Utility Analyst II
Indiana Office of Utility Consumer Counselor

Cause No. 45911
AES Indiana

October 12, 2023
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the *Indiana Office of Utility Consumer Counselor's Testimony of John W. Haas* has been served upon the following parties of record in the captioned proceeding by electronic service on October 12, 2023.

Petitioner

Teresa Morton Nyhart
T. Joseph Wendt
Jeffrey M. Peabody
Lauren Aguilar
Janet Nichols

BARNES & THORNBURG LLP

tnyhart@btlaw.com
jwendt@btlaw.com
jpeabody@btlaw.com
laguilar@btlaw.com
Janet.Nichols@btlaw.com

COURTESY COPIES TO:

Nicholas M. Grimmer
AES US SERVICES LLC
nick.grimmer@aes.com

Kristi Figg
Austin Baker
AES INDIANA
kristi.figg@aes.com
austin.baker@aes.com

CAC

Jennifer A. Washburn
Reagan Kurtz
CAC OF IN, INC.
jwashburn@citact.org
rkurtz@citact.org

Industrial Group

Joseph P. Rompala
Aaron A. Schmoll
LEWIS & KAPPES, P.C.
JRompala@lewis-kappes.com
ASchmoll@lewis-kappes.com
Courtesy copy to:
ATyler@lewis-kappes.com
ETennant@lewis-Kappes.com

City of Indianapolis

Anne E. Becker
LEWIS & KAPPES, P.C.
ABecker@Lewis-Kappes.com
Courtesy copy to:
ATyler@lewis-kappes.com

Kroger

Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
Boehm, Kurtz & Lowry
KBoehm@BKLLawfirm.com
JKylerCohn@BKLLawfirm.com

John P. Cook, Esq.
JOHN P. COOK & ASSOCIATES
john.cookassociates@earthlink.net

Justin Bieber
ENERGY STRATEGIES, LLC
jbieber@energystrat.com

Walmart

Eric E. Kinder
Barry A. Naum
Steven W. Lee
SPILMAN THOMAS & BATTLE, PLLC
ekinder@spilmanlaw.com
bnaum@spilmanlaw.com
slee@spilmanlaw.com



T. Jason Haas
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PNC Center

115 West Washington Street, Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
thaas@oucc.in.gov
317.232.2494 – Telephone
317.232.3315 – Direct
317.232.5923 – Facsimile