

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS)
POWER & LIGHT COMPANY FOR)
APPROVAL OF A FUEL COST CHARGE)
FOR ELECTRIC SERVICE DURING THE)
MONTHS OF SEPTEMBER, OCTOBER)
AND NOVEMBER 2016, IN ACCORDANCE) CAUSE NO. 38703 FAC 112
WITH THE PROVISIONS OF I.C. 8-1-2-42)
AND CONTINUED USE OF RATEMAKING)
TREATMENT FOR COSTS OF WIND)
POWER PURCHASES PURSUANT TO)
CAUSE NOS. 43485 AND 43740.)

PETITIONER'S SUBMISSION OF DIRECT TESTMONY OF
NICHOLAS M. GRIMMER

Indianapolis Power & Light Company ("IPL" or "Petitioner"), by counsel, hereby submits the direct testimony and attachments of Nicholas M. Grimmer.



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CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the forgoing was served by hand delivery, electronic transmission or United State Mail, first class, postage prepaid on the Office of Utility Consumer Counselor, 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 46204, (infomgt@oucc.in.gov) and a copy was served by hand delivery, electronic transmission or United States Mail, first class, postage prepaid, to Gregory T. Guerrettaz, Financial Solutions Group, Inc., 2680 East Main Street, Suite 223, Plainfield, Indiana 46168 (finance@msn.com).

In addition, a courtesy copy was provided by hand delivery, electronic transmission or United States Mail, first class, postage prepaid, to Timothy L. Stewart, Lewis & Kappes, One American Square, Suite 2500, Indianapolis, Indiana 46282, (tstewart@lewis-kappes.com), and a courtesy copy to: ATyler@lewis-kappes.com and ETennant@Lewis-kappes.com.

Dated this 16th day of June, 2016.



Jeffrey M. Peabody

VERIFIED TESTIMONY OF NICHOLAS GRIMMER
DIRECTOR, FUEL SUPPLY, LOGISTICS AND CCP MANAGEMENT

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

2 A1. Nicholas M. Grimmer, One Monument Circle, Indianapolis, Indiana 46204.

3 **Q2. What is your position with Indianapolis Power & Light Company (“Applicant” or**
4 **“IPL”)?**

5 A2. I am Director, Fuel Supply, Logistics and Coal Combustion Product (“CCP”)
6 Management.

7 **Q3. Please briefly describe your educational and business experience.**

8 A3. I am a graduate of Indiana University with a BS in Public Policy and Management as
9 well as a graduate of the Indiana University School of Law - Indianapolis. I have
10 professional experience as a City Planner and Real Estate Broker prior to my graduating
11 from law school. I have served as an attorney in private practice with the law firm of
12 Stewart & Irwin in Indianapolis. Prior to coming to Indianapolis Power & Light
13 Company, I was Associate General Counsel in charge of leasing activities with a real
14 estate investment trust by the name of Equity Investment Group, and Corporate Counsel
15 for Do-it-Best Corp, a hardware purchasing cooperative. I was in the Legal Department
16 at Indianapolis Power & Light Company from July 2004 until I assumed the position of
17 Director, Fuel Supply (now called Director, Fuel Supply, Logistics and CCP
18 Management) on October 11, 2010.

1 **Q4. Are you familiar with Applicant's purchases of fuel for use in its generating**
2 **stations?**

3 A4. Yes, I have been involved in IPL's fuel related matters since 2004. As in-house counsel,
4 I worked with the Fuel Supply group reviewing a wide variety of agreements relating to
5 fuel procurement and transportation. Since October 11, 2010, I have been directly
6 involved in the day-to-day operations of the IPL Fuel Supply, Logistics & CCP
7 Management Department.

8 **Q5. In what capacity are you presenting testimony?**

9 A5. As Director, I am responsible for the management of all coal related contracts.

10 **Q6. Are you sponsoring any attachments?**

11 A6. Yes. I am sponsoring Confidential Attachment NG-1, which details options available to
12 manage IPL's coal inventory.

13 **Q7. Was Confidential Attachment NG-1 prepared or assembled by you or under your**
14 **direction and supervision?**

15 A7. Yes.

16 **Q8. Did you submit any workpapers?**

17 A8. Yes. I am submitting confidential workpapers supporting the coal management options I
18 discuss later in my testimony. These workpapers are part of electronic spreadsheets and
19 were prepared or assembled by me or under my direction and supervision.

20 **Q9. What percentage of Applicant's fuel requirements were met by coal?**

1 A9. Approximately 97% of our internally generated kilowatt-hours in 2015 were generated by
2 coal-fired capacity.

3 **Q10. Are there any changes to the way in which Applicant makes oil and natural gas**
4 **purchases?**

5 A10. No. Each Plant will continue to manage its own fuel oil purchases based on inventory
6 set-points. As discussed by Witness Dininger, Harding Street Units 5, 6 & 7 are now
7 operating on natural gas. As a result, Applicant has additional gas purchase obligations.

8 **Q11. How does Applicant purchase its coal supplies?**

9 A11. IPL normally purchases all of its coal from the Illinois Basin, primarily from Indiana
10 producers. We currently have contracts with four coal producers and receive coal from
11 seven different mines.

12 **Q12. Why does Applicant engage in spot purchases of coal?**

13 A12. Although we currently have no spot coal contracts, we have used spot purchases in the
14 past in three ways: (1) to provide the differential requirement between our long-term
15 contracts and our projected burn for the year; (2) to test the quality and reliability of a
16 producer to see if we may want to utilize the company as a long-term supplier; and (3)
17 when our projected inventory levels allow, to take advantage of occasional low price
18 market opportunities.

19 **Q13. What procedure does Applicant follow in negotiating long-term coal contracts?**

20 A13. Fuel Supply has the responsibility of obtaining the necessary coal supplies and uses as a
21 resource the long-range load and energy forecasts provided by our Resource Planning

1 Group. IPL constantly monitors coal producers as to the availability of reserves, capacity
2 to produce, and current mining costs. Based on the above data, we solicit the market
3 through a competitive bidding process and negotiate the price, terms and conditions on
4 any contract extension or new contracts. IPL typically uses long-term contracts of
5 staggered lengths in order to limit our exposure to the market in any given year.

6 **Q14. Why does Applicant normally purchase substantially all of its coal from Indiana**
7 **providers?**

8 A14. Although Fuel Supply actively solicits bids from Indiana and non-Indiana coal producers,
9 potential coal contracts are evaluated on the total delivered cost to the plant. Some out-
10 of-state bidders have recently offered very competitive coal prices at the mine, but
11 because of transportation costs, these bids have not been determined to be our lowest cost
12 option on a delivered basis. In addition, buying from local suppliers increases the
13 reliability of supply by decreasing the risk of disruptions and lengthy delays in the
14 transportation of coal to the plants. IPL's present boilers are all designed for Indiana
15 coal.

16 **Q15. You stress that a reliable supply of fuel is necessary. Will you elaborate on the need**
17 **for a reliable coal supply and the use of long-term contracts to meet that end?**

18 A15. As a public utility, Applicant has an obligation to make every reasonable effort to
19 acquire fuel and generate or purchase power, or both, so as to provide electricity to its
20 retail customers at the lowest fuel cost reasonably possible. We continue using long-
21 term coal contracts as our primary means of maintaining a reliable supply. Long-term
22 contracts provide coal producers with certainty and the ability to most economically

1 allocate their resources, thereby reducing their overall production costs and allowing
2 producers to sell at a lower cost. Even though most long-term contracts contain some
3 volumetric flexibility, this flexibility may not be enough to absorb the volatility seen in
4 most recent markets. While Applicant cannot primarily rely on spot purchases for a
5 reliable supply of coal, the spot market can be a useful tool for managing exposure to
6 volatile markets. However, over reliance on the spot market presents a number of risks.
7 While spot contracts vary over time, they do not create the market efficiencies that
8 translate into the lowest price over an extended period of time. Some spot market
9 suppliers do not have enough capital to protect themselves in market downturns and they
10 may go out of business, which could leave Applicant without coal. In addition, some
11 small producers do not have adequate quality control in their mining operations and it
12 may be necessary to reject them as suppliers based on their inability to supply uniform
13 coal quality in terms of BTU, moisture, ash and sulfur content. Finally, even well-
14 financed producers of high-quality coal may have their entire production run committed
15 to established contracts and have no extra coal to offer to the spot market.

16 **Q16. What does Applicant do to verify the reasonableness of its coal costs?**

17 A16. IPL uses a formal competitive bidding process to award its coal contracts. For some spot
18 purchases when a formal competitive bid process might not be feasible, an informal
19 survey of local coal providers is performed to assure that the agreed upon price is at or
20 below IPL's next best alternative. In addition, in long-term contracts that contain specific
21 cost elements that can be passed through to IPL (for example, costs associated with
22 meeting new governmental regulations), we reserve the right to have those costs audited

1 by an independent expert to aid in the proper administration of the contracts. This is
2 done to protect our customers from any unnecessary or unreasonable fuel expense.
3 Transportation costs are reviewed and monthly delivery schedules are designed to
4 minimize the total transportation cost to all plants.

5 **Q17. Is IPL's coal inventory within its target levels?**

6 A17. No. IPL strives to keep a 25-50 day supply of coal in inventory across our coal-fired
7 generation fleet. Although we have been working closely with our coal suppliers and
8 transportation vendors, IPL's system-wide inventory is currently beyond our 50 day
9 maximum inventory target. Over the last approximately 18 months, mild weather and
10 soft energy markets have combined to reduce IPL's coal burn below expectations.

11 **Q18. What is IPL doing to manage its inventory levels?**

12 A18. IPL is actively managing its inventory levels in two ways. All of IPL's long-term coal
13 contracts contain some variability in the quantity of coal that IPL can take under that
14 particular contract. We have been taking contract minimums for a significant period of
15 time. However taking contract minimums will not bring IPL's coal inventory back
16 within the target levels in the near future. So we are taking additional steps to manage
17 inventory in light of current market conditions.

18 In particular, we are in the midst of discussions with our suppliers to allow deferral of
19 upcoming coal deliveries. We have entered into one coal contract amendment that defers
20 a substantial amount of coal out of 2016 into 2018. Since our last FAC filing, we have
21 entered into an additional contract amendment to defer tons out of 2016 and into 2017 at

1 no additional cost. We continue to look for additional opportunities to further improve
2 our 2016 and 2017 coal positions.

3 Additionally, improvements were made at IPL's Petersburg Generation Station that
4 increased the footprint of IPL's coal pile. These improvements have increased
5 Petersburg's on-site storage capacity by 200,000 to 250,000 tons. Even at our
6 substantially reduced delivery schedule, Petersburg's coal pile is at or very near, its
7 capacity every day.

8 To further address the inventory issue, we are also negotiating with a number of suppliers
9 and others in the coal industry to arrange to store coal at a temporary interim site between
10 the point at which the coal is acquired and the final unloading point. These interim off-
11 site storage options would be used until such time as the coal could be accommodated on
12 the Petersburg coal pile and eventually burned. In addition, we continue to talk to
13 suppliers about the possibility of buying out of certain contract obligations or potentially
14 selling excess coal on the market.

15 Thus, all options are being considered. We are focusing on the most cost-effective
16 solutions ranging from amending contracts to storing coal or changing offer pricing
17 strategies. Confidential Attachment NG-1 provides additional details on the options I
18 have discussed herein. We continue to look for additional opportunities to address this
19 issue and this list will change from time-to-time to reflect the options currently being
20 considered. I will address these matters in my testimony in future FAC filings as
21 necessary or appropriate.

1 **Q19. Can coal unit decrement pricing provide a cost-effective solution?**

2 A19. Yes. IPL Witness Dininger explains the mechanics of decrement pricing. This is an
3 additional tool that can be used to manage inventory and costs by decreasing IPL's offer
4 to reflect avoided inventory management costs. As I mentioned earlier, IPL is taking
5 action on its most cost-effective solutions. Offering the IPL coal units in at a coal price
6 decrement would allow IPL to burn off these excess tons and thereby avoid the cost of
7 storing coal, buying out of a contract or selling coal on the market at below IPL's cost
8 which benefits customers. IPL Witness Dininger explains the mechanics and benefits of
9 decrement pricing.

10 **Q20. Please discuss Confidential Attachment NG-1.**

11 A20. As explained by Mr. Dininger, the inputs into the decrement pricing calculation include
12 the options available to manage coal inventory levels. Confidential Attachment NG-1
13 presents a "stack" of coal management options from lowest cost to highest cost, along
14 with how many tons of coal can be addressed by each option. These options are used as
15 inputs to help determine what decrement price, if any, should be used.

16 **Q21. Have you made any changes to Confidential Attachment NG-1 since your last FAC**
17 **filing?**

18 A21. Yes. At the request of the OUCC we have added a column that converts the price per ton
19 decrement options into \$/mmbtus.

20 **Q22. Has Applicant updated the list of coal management options?**

21 A22. Yes. As explained by Mr. Dininger, each month, IPL evaluates its coal inventory levels
22 and the cost and projected impact of each option available to mitigate any oversupply.

1 Accordingly, Confidential Attachment NG-1 was updated to reflect changes in the
2 marketplace that add or remove potential options.

3 **Q23. With what coal companies does Applicant presently have contracts?**

4 A23. Peabody Energy Corporation, Triad Mining, Inc., Sunrise Coal, LLC, and Gibson
5 County Coal Company¹.

6 **Q24. Does Applicant have any financial interest in any of these companies?**

7 A24. No.

8 **Q25. Do you have an opinion as to whether Applicant has made every reasonable effort to**
9 **acquire an adequate and reliable supply of fuel so as to achieve the lowest fuel cost**
10 **reasonably possible?**

11 A25. Yes.

12 **Q26. What is your opinion?**

13 A26. IPL is providing customers with the lowest fuel cost reasonably possible while
14 maintaining a reliable supply of fuel.

15 **Q27. Does that conclude your pre-filed direct testimony?**

16 A27. Yes.

¹ In my rebuttal testimony in FAC 111 (Q&A 7) I inadvertently identified a coal contract as being with Alliance Coal, the parent company of Gibson County Coal Company. The coal contract is with Gibson County Coal Company, not Alliance Coal.

Verification

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

Dated this 16th day of June, 2016.

A handwritten signature in black ink, appearing to read "Nicholas Grimmer", written over a horizontal line.

Nicholas Grimmer

INDIANAPOLIS POWER & LIGHT COMPANY
COAL SUPPLY STRATEGIES TO MANAGE INVENTORY LEVELS
Jun-16

COMPANY	Tons	COST (estimate)	\$/Mmbtu	Description	Cumulative Tons (000's)
					