

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER)
& LIGHT COMPANY FOR MODIFICATION OF)
ITS CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY TO USE CLEAN COAL)
TECHNOLOGY AND QUALIFIED POLLUTION)
CONTROL PROPERTY AND FOR APPROVAL OF)
AN ADJUSTMENT TO ITS RATES THROUGH ITS)
APPROVED ENVIRONMENTAL COMPLIANCE)
COST RECOVERY ADJUSTMENT COMMENCING)
WITH THE SEPTEMBER 2012 BILLING CYCLE IN)
ACCORDANCE WITH THE ONGOING REVIEW)
PROCESS)

CAUSE NO. 42170-ECR-19

SETTLEMENT TESTIMONY OF

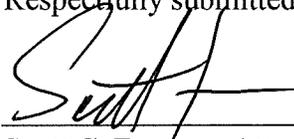
CYNTHIA M. ARMSTRONG - PUBLIC'S EXHIBIT CMA-S

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

OCTOBER 5, 2012

Respectfully submitted,



Scott C. Franson, Atty. No. 27839-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing **OUCC SETTLEMENT TESTIMONY OF CYNTHIA M. ARMSTRONG** has been served upon the following counsel of record in the captioned proceeding by electronic service on October 5, 2012.

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SETTLEMENT TESTIMONY OF CYNTHIA M. ARMSTRONG
CAUSE NO. 42170-ECR-19
INDIANAPOLIS POWER AND LIGHT

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

2 A: My name is Cynthia M. Armstrong, and my business address is 115 W.
3 Washington St., Suite 1500 South, Indianapolis, IN, 46204.

4 **Q: Are you the same Cynthia M. Armstrong that testified on behalf of the**
5 **Indiana Office of the Utility Consumer Counselor ("OUCC") on August 28,**
6 **2012?**

7 A: Yes, I am.

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

9 A: The purpose of my testimony is to provide support for the Settlement Agreement
10 reached between Indianapolis Power and Light Company ("IPL") and the OUCC
11 (collectively, the "Settling Parties") filed with the Commission on September 28,
12 2012. I intend to present the OUCC's reasons for why the Settlement Agreement
13 is just, reasonable, and in the public interest.

14 **Q: Are you sponsoring any exhibits?**

15 A: Yes. Together with IPL witness James L. Cutshaw, I sponsor Settling Parties'
16 Exhibit 1, which is a copy of the Settlement Agreement. This exhibit was
17 separately filed with the Commission and is not attached to the prefiled copy of
18 my written testimony but will be offered into evidence at the hearing in this
19 Cause.

20 **Q: Please explain the terms of the Settlement Agreement.**

21 A: First, IPL has agreed to a soft cap on the overall project costs of the Petersburg
22 Unit 4 FGD Enhancement that are permitted to pass through the Environmental

1 Compliance Cost Recovery Adjustment ("ECCRA"). The capped amount is set at
2 \$124,635,831, which is the previously Commission-approved total project cost of
3 \$128 million less the actual project demolition and removal costs of \$3,364,169.
4 IPL may seek recovery of any project costs above this amount in its next general
5 rate case.

6 Second, the OUCC has agreed to support the modification of IPL's current
7 Certificate of Public Convenience and Necessity ("CPCN") for the Petersburg
8 Unit 4 FGD Enhancement to reflect total project costs of \$129.6 million, or an
9 additional \$1.6 million on top of the currently-approved amount of \$128 million.
10 While these costs will not pass through the tracker, IPL may seek recovery of the
11 additional \$1.6 million in project costs in a future rate case. The OUCC has
12 agreed not to challenge the recovery of the additional \$1.6 million in IPL's next
13 rate case; however, the OUCC may review and challenge any additional project
14 costs exceeding the total project costs of \$129.6 million during the next rate case.
15 IPL has also agreed to not seek special accounting treatment such as post-in-
16 service AFUDC, other carrying charges, or deferred depreciation on project costs
17 not recovered through the ECCRA.

18 Finally, IPL has agreed to credit any reduced charges or concessions
19 received from contractors involved in the Petersburg 4 FGD Upgrade toward the
20 final cost of the project.

21 **Q: Does the Settlement Agreement resolve the OUCC's concerns that IPL is not**
22 **managing project costs effectively or containing cost increases to the best of**
23 **its ability?**

24 **A:** Yes. The soft cap that the Settlement Agreement places on the Petersburg Unit 4

1 FGD Enhancement mitigates the near-term impact of the project on ratepayers
2 and requires IPL to bear more risk associated with the project increases. With the
3 soft cap in place, IPL will have additional incentive to keep additional project
4 costs to a minimum, as the company will not be able to receive the accelerated
5 rate relief provided by the ECR trackers for direct project costs over \$124.636
6 million. In addition to the soft cap, IPL will not be able to receive special
7 accounting treatment for costs above the soft cap, which further incents the
8 company to keep project costs as low as reasonably possible.

9 **Q: The OUCC has agreed not to challenge the inclusion of up to \$1.6 million in**
10 **additional project costs spent on the Petersburg Unit 4 FGD Enhancement in**
11 **IPL's next rate case. Why does the OUCC think this is a fair term of the**
12 **settlement?**

13 A: First, the OUCC has extensively reviewed the additional project costs presented in
14 IPL's revised cost estimate and has determined these project costs to be necessary
15 to safely construct and operate the FGD unit. As I discussed in my direct
16 testimony, the Petersburg Unit 4 FGD Enhancement is still needed in order to
17 provide reliable electric service to IPL's customers in compliance with impending
18 environmental regulations. Therefore, the OUCC believes that it has already
19 conducted the prudence review on these project costs and as such one is not
20 required during a future rate case.

21 Secondly, this is not a complete ban on the OUCC's ability to challenge
22 costs associated with the project in the future. The OUCC may challenge any
23 additional costs that IPL incurs on the project beyond the \$1.6 million for which it
24 is seeking pre-approval in this Cause. The OUCC is reserving the right to

1 thoroughly examine the prudence of any costs above and beyond the \$1.6 million
2 in IPL's next rate case.

3 Finally, any reduced contractor fees or concessions that IPL receives as a
4 result of its pending negotiations with contractors on the project will be applied
5 towards the project's final direct cost, which means that ratepayers will receive
6 the full benefit of any favorable outcomes arising from contractor disputes. In
7 return for all of these conditions, IPL will be able to receive cost recovery without
8 further presentation of evidence of up to \$126,235,831 in project costs, which is
9 \$129.6 million (the new CPCN authorized level) in total project costs for the Pete
10 4 FGD Enhancement less actual demolition costs incurred by the company to
11 date.

12 **Q: Does the OUCC support the approval of the Settlement Agreement?**

13 A: Yes. The Settlement Agreement represents a reasonable and fair arms-length
14 negotiation between the settling parties and is in the public interest. The
15 Settlement assists in mitigating the overall rate impact of the project and provides
16 certainty of the costs passed through to ratepayers in the ECR tracker over the
17 short-term. The OUCC believes that the Settlement Agreement fairly resolves the
18 concerns it raised in its direct testimony regarding the increased costs of the
19 Petersburg Unit 4 FGD Enhancement project. Therefore, the OUCC recommends
20 Commission approval of the Settlement Agreement in its entirety.

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

22 A: Yes.

AFFIRMATION

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



By: Cynthia M. Armstrong
Indiana Office of
Utility Consumer Counselor

October 5, 2012

Date

Cause No. 42170-ECR-19
Settlement Testimony