

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN )  
POWER COMPANY (I&M), AN INDIANA )  
CORPORATION, FOR APPROVAL OF A CLEAN )  
ENERGY PROJECT AND QUALIFIED )  
POLLUTION CONTROL PROPERTY AND FOR )  
ISSUANCE OF CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY FOR USE OF )  
CLEAN COAL TECHNOLOGY; FOR ONGOING )  
REVIEW; FOR APPROVAL OF ACCOUNTING ) CAUSE NO. 44871  
AND RATEMAKING, INCLUDING THE TIMELY )  
RECOVERY OF COSTS INCURRED DURING )  
CONSTRUCTION AND OPERATION OF SUCH )  
PROJECT THROUGH I&M'S CLEAN COAL )  
TECHNOLOGY RIDER; FOR APPROVAL OF )  
DEPRECIATION PROPOSAL FOR SUCH )  
PROJECT; AND FOR AUTHORITY TO DEFER )  
COSTS INCURRED DURING CONSTRUCTION )  
AND OPERATION, INCLUDING CARRYING )  
COSTS, DEPRECIATION, TAXES, OPERATION )  
AND MAINTENANCE AND ALLOCATED )  
COSTS, UNTIL SUCH COSTS ARE REFLECTED )  
IN THE CLEAN COAL TECHNOLOGY RIDER OR )  
OTHERWISE REFLECTED IN I&M'S BASIC )  
RATES AND CHARGES. )

SUBMISSION OF REBUTTAL TESTIMONY OF  
ANDREW J. WILLIAMSON

Indiana Michigan Power Company, by counsel, hereby submits the rebuttal  
testimony of Andrew J. Williamson.



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## CERTIFICATE OF SERVICE


The undersigned certifies that the foregoing was served upon the following via electronic email, hand delivery or First Class, United States Mail, postage prepaid this 17th day of February, 2017 to:

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**INDIANA MICHIGAN POWER COMPANY**

**CAUSE NO. 44871**

**PRE-FILED VERIFIED REBUTTAL TESTIMONY**

**OF**

**ANDREW J. WILLIAMSON**

**PRE-FILED VERIFIED REBUTTAL TESTIMONY OF  
ANDREW J. WILLIAMSON  
ON BEHALF OF  
INDIANA MICHIGAN POWER COMPANY**

1    **Q.    WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2    A.    My name is Andrew J. Williamson. My business address is Indiana Michigan  
3    Power Center, P.O. Box 60, Fort Wayne, Indiana 46801.

4    **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5    A.    I am employed by Indiana Michigan Power Company (I&M or Company) as its  
6    Director of Regulatory Services.

7    **Q.    ARE YOU THE SAME ANDREW J. WILLIAMSON WHO PREVIOUSLY FILED  
8    TESTIMONY IN THIS PROCEEDING?**

9    A.    Yes. My direct testimony addressed accounting and ratemaking issues  
10    associated with the Company's proposed installation of selective catalytic  
11    reduction (SCR) technology at Rockport Unit 2.

12   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS  
13    PROCEEDING?**

14   A.    As identified more specifically below, my rebuttal testimony responds to the  
15    testimonies of Office of Utility Consumer Counselor (OUCC) witnesses Edward  
16    Rutter and Wes Blakley, the Indiana Michigan Industrial Group (IG) witness  
17    Nicholas Phillips and the Citizens Action Coalition of Indiana, Sierra Club, and  
18    Valley Watch (collectively, "Joint Intervenors") witness Dr. Jeremy Fisher.

19   **REPLY TO THE OUCC**

20   **Q.    DID YOU VERIFY OUCC WITNESS RUTTER'S CALCULATION AND  
21    ASSERTIONS REGARDING THE ESTIMATED RATE IMPACT OF**

**1        TERMINATING THE ROCKPORT UNIT 2 LEASE (P. 8-9 AND ATTACHMENT**  
**2        ETR-1)?**

3    A.    Yes, OUCC witness Rutter's calculation of the estimated rate impact of  
4        terminating the lease is accurate. Mr. Rutter's calculation uses the estimated  
5        lease termination payment of \$716 million as of December, 2019 from I&M  
6        witness Weaver's direct testimony (P. 7-8). The \$716 million is multiplied by 85%  
7        to arrive at the \$608.4 million estimate he uses in his Attachment ETR-1. This  
8        amount accurately includes I&M's 50% Ownership share and 35% associated  
9        with I&M's Unit Power Agreement share.

10   **Q.    WHAT ASSUMPTIONS DOES MR. RUTTER USE IN HIS RATE ESTIMATE?**

11   A.    Mr. Rutter performs two calculations, both of which support recovery of lease  
12        termination costs associated with I&M's Ownership Share and the Unit Power  
13        Agreement. The first calculation assumes that I&M only recovers the cost of the  
14        lease termination payment through customer rates; Mr. Rutter characterizes this  
15        as the "Return Of" scenario. He assumes a period of 10 years for amortization of  
16        the lease termination cost. The second calculation assumes that I&M recovers  
17        both the cost of the lease termination payment and a return on the unamortized  
18        cost through customer rates; Mr. Rutter characterizes this as the "Return Of &  
19        On" scenario. He assumes a period of 10 years for amortization of the lease  
20        termination cost and I&M's pre-tax return on investment estimate for determining  
21        the return cost. Mr. Rutter also adds to both calculations an estimate of I&M's  
22        gross revenue conversion costs.

23   **Q.    DO YOU AGREE WITH MR. RUTTER'S ASSUMPTIONS?**

1 A. Yes. If I&M's requested certificate of public convenience and necessity (CPCN)  
2 for the Rockport Unit 2 SCR was denied and I&M incurred the lease termination  
3 payment according to the terms of the lease agreement approved by the  
4 Commission in Cause Nos. 38690 and 38691, all lease termination costs I&M  
5 incurs should be recoverable. A 10-year amortization period is reasonable and it  
6 is appropriate to include a pretax return based on I&M's cost of capital due to  
7 carrying this cost for such an extended period.

8 **Q. PLEASE SUMMARIZE OUCC WITNESS BLAKLEY'S (P. 3-4) CONCERNS**  
9 **REGARDING COST RECOVERY.**

10 A. Mr. Blakley references my direct testimony (P. 13-14) which addresses the  
11 accounting and ratemaking for any undepreciated costs associated with the  
12 Rockport Unit 2 SCR investment upon retirement. Mr. Blakley testifies that the  
13 OUCC does not agree with I&M's proposed ratemaking treatment for any under-  
14 depreciated asset that may happen as a result of early lease termination and that  
15 any decision regarding recovery of the value of under-depreciated plant should  
16 be fully investigated in a base rate case, not a tracker proceeding.

17 **Q. PLEASE RESPOND.**

18 A. I&M did not propose or request the Commission to approve any specific  
19 ratemaking treatment upon early termination of the lease. My direct testimony  
20 simply summarized the accounting that occurs upon retirement of any capital  
21 asset according to the Federal Energy Regulatory Commission (FERC) Uniform  
22 System of Accounts (USofA) and that any remaining costs or undepreciated book  
23 value resulting from retirement would be included in future I&M filings until fully  
24 recovered through the ratemaking process. It has long been established that

1 remaining book value of investments that are once used and useful in the  
2 provision of service to customers are recoverable through the ratemaking  
3 process regardless of whether they are fully depreciated at the time of retirement.

4 **Q. DO YOU DISAGREE WITH MR. BLAKLEY THAT RECOVERY OF**  
5 **UNDEPRECIATED PLANT SHOULD BE ADDRESSED WITHIN A BASE RATE**  
6 **CASE PROCEEDING?**

7 A. I do not believe a base rate case is the only type of proceeding that may be  
8 appropriate for the Commission to address remaining net book value of a retired  
9 asset. I agree with Mr. Blakley that a base rate case may also be appropriate.  
10 For example, I&M filed a standalone proceeding in Cause No. 44555 to address  
11 the closure of the Tanners Creek Plant, including its remaining net book value,  
12 which both the OUCC and the Commission found to be reasonable.

13 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE OUCC'S**  
14 **TESTIMONY?**

15 A. Yes. Overall, the OUCC supports approval of I&M's CPCN and cost recovery  
16 and correctly finds the cost to customers for approval of the CPCN to be less  
17 than the cost to customers associated with termination of the lease. I&M's  
18 analysis supports this conclusion. I&M also supports Mr. Rutter's  
19 recommendations regarding ongoing evaluation of the expiration of the lease.  
20 I&M agrees with the OUCC that it is important to continue evaluating the best  
21 overall solution for customers with respect to the Rockport Unit 2 lease and  
22 working with the OUCC and other interested stakeholders to evaluate this on an  
23 ongoing basis, including IRP proceedings.



1    **REPLY TO THE IG**

2    **Q.    WHAT PORTIONS OF MR. PHILLIPS' TESTIMONY ARE YOU ADDRESSING?**

3    A.    I will address Mr. Phillips' testimony regarding the difference in depreciable  
4           periods and cost of capital associated with I&M's Ownership Share of the SCR  
5           and the share owned by AEG and charged to I&M through the Unit Power  
6           Agreement. I will also address Mr. Phillips' testimony regarding cost allocation.

7    **Q.    PLEASE SUMMARIZE MR. PHILLIPS' CONCERNS RELATED TO**  
8           **DEPRECIATION (P. 8-9).**

9    A.    IG Witness Phillips (P. 8, lines 19-21) states I&M should not be permitted to use  
10          a depreciation period for the I&M-owned portion of the SCR investment that is  
11          nearly three times faster than the depreciation period of the AEG portion. Mr.  
12          Phillips also alludes to I&M's request for a 10-year depreciable period being  
13          based on "its desire to collect the cost associated with the SCR as soon as  
14          possible because the plant may not be used to provide power to I&M after  
15          December 7, 2022" (P. 8, lines 13-18) and concludes by stating "If the applicable  
16          law restricts the maximum period to 20 years, the 20 year maximum should be  
17          used" (P. 9, lines 1-2).

18   **Q.    PLEASE RESPOND TO MR. PHILLIPS' TESTIMONY REGARDING I&M'S**  
19          **REQUESTED DEPRECIABLE LIFE FOR THE ROCKPORT UNIT 2 SCR.**

20   A.    While it is correct that I&M has requested a 10-year depreciable period for the  
21          Rockport Unit 2 SCR, I disagree with Mr. Phillips regarding what depreciable  
22          period is allowable under the law and that being the basis for I&M's requested  
23          10-year rate. Ind. Code 8-1-2-6.7 states "The Commission shall allow a public or  
24          municipally owned electric utility that incorporates clean coal technology to

1 depreciate that technology over a period of not less than ten (10) years or the  
2 useful economic life of the technology, whichever is less..." Based on this  
3 language, it is conceivable that I&M could have requested a depreciable period  
4 less than 10 years by justifying that it was based on the useful economic life of  
5 the asset. It is ironic that Mr. Phillips states I&M simply chose the shortest  
6 depreciable period permissible under the law and then closes his testimony by  
7 recommending the Commission grant I&M the longest period permissible under  
8 the law without any justifiable basis for doing so. Furthermore, given that Mr.  
9 Phillips recognizes the lease currently expires on December 7, 2022, it appears  
10 his 20-year depreciation period is recommended simply to minimize as much as  
11 possible what I&M is permitted to recover from customers while the asset is in  
12 service. There is no reasonable basis for a 20-year depreciable period and I&M  
13 continues to support that a 10-year depreciable period strikes a reasonable  
14 balance between the uncertainty associated with the remaining lease term and  
15 what the useful economic life of Rockport Unit 2 may be.

16 **Q. WHAT DEPRECIATION RATE DID THE COMMISSION APPROVE FOR THE**  
17 **ROCKPORT UNIT 1 SCR?**

18 A. The Commission approved I&M's request for a 10-year depreciation period in  
19 Cause No. 44523 for the Rockport Unit 1 SCR investment.

20 **Q. PLEASE RESPOND TO MR. PHILLIPS' TESTIMONY REGARDING AEG'S**  
21 **DEPRECIABLE LIFE FOR THE ROCKPORT UNIT 2 SCR.**

22 A. Attachment AJW-1 of my direct testimony included a rate estimate associated  
23 with the Unit Power Agreement portion of the Rockport Unit 2 SCR, identifying  
24 AEG's rate of depreciation to be approximately 28-years or 1 divided by AEG's

1 depreciation rate of 3.52%. The Unit Power Agreement is a FERC approved  
2 agreement and it is my understanding there has not been a change to AEG's  
3 depreciation rate since the plant was placed in-service.

4 It is also important to recognize the application of AEG's depreciation rate  
5 is meaningfully different than I&M's request in this proceeding. I&M is requesting  
6 a rate that will be specifically applied to the SCR investment. As a result, and so  
7 long as a 10-year rate is approved and remains unchanged, I&M's Ownership  
8 share will be recovered precisely over 10 years. However, AEG's 3.52% is a  
9 group depreciation rate which is applied to AEG's gross plant investment  
10 balances, which include investments other than the Rockport Unit 2 SCR. This is  
11 no different than I&M's depreciation rates established in base rate case  
12 proceedings.

13 **Q. IG WITNESS PHILLIPS ALSO STATES THAT I&M IS REQUESTING A**  
14 **HIGHER COST OF CAPITAL THAN THAT APPLICABLE TO AEG, PLEASE**  
15 **RESPOND.**

16 A. Attachment AJW-1 in my direct testimony provides an estimate of I&M's and  
17 AEG's cost of capital as of December 31, 2015. Mr. Phillips is correct that AEG's  
18 cost of capital is lower than I&M's. This is primarily due to AEG having a lower  
19 cost of debt, which is a benefit of the Unit Power Agreement for I&M's customers.  
20 Mr. Phillips mischaracterizes this by stating I&M is "requesting a higher cost of  
21 capital." I&M is estimating its cost of capital as of a point in time according to the  
22 long standing methodology approved by the Commission for such calculations.

23 **Q. DO YOU AGREE WITH IG WITNESS PHILLIPS' (P. 12-13)**  
24 **RECOMMENDATION THAT THE COMPANY SHOULD ALLOCATE ANY**

1       **COMMISSION-APPROVED   FIXED   PRODUCTION   COSTS   TO   THE**  
2       **CUSTOMER CLASSES ON THE SAME SIX COINCIDENT PEAK (“6 CP”)**  
3       **METHOD FROM THE COMPANY’S MOST RECENT BASE RATE CASE IN**  
4       **CAUSE 44075?**

5   A.   Yes, until the time that the Company receives an order in a future basic rate  
6       case. At that time, the Company would allocate any Commission-approved fixed  
7       production costs to the customer classes on the production demand allocator  
8       approved by the Commission in that case.

9   **REPLY TO THE JOINT INTERVENORS**

10 **Q.   DR. FISHER (P. 55) RECOMMENDS TO THE COMMISSION THAT IF THE**  
11 **CPCN IS APPROVED IT SHOULD REQUIRE I&M MAINTAIN SEPARATE**  
12 **ACCOUNTING FOR THE COSTS OF THE SCR AND SUPPORTING**  
13 **BALANCE OF PLANT ACTIVITIES, PLEASE RESPOND.**

14 A.   I&M’s plant accounting procedures do allow for specific identification of individual  
15       plant-in-service assets like an SCR if necessary. It is not clear to me what Dr.  
16       Fisher means by balance of plant activities, but I would recommend any  
17       requirement for specific accounting treatment by the Commission be limited to a  
18       significant single investment such as the SCR so not to be overly burdensome.

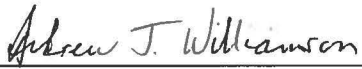
19 **Q.   DOES THIS CONCLUDE YOUR PREFILED VERIFIED REBUTTAL**  
20 **TESTIMONY?**

21 A.   Yes.

### VERIFICATION

I, Andrew J. Williamson, Director of Regulatory Services for Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: February 16, 2017

  
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Andrew J. Williamson