ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER COMPANY, AN INDIANA CORPORATION, FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A PHASE IN RATE ADJUSTMENT; (2) APPROVAL OF: REVISED DEPRECIATION RATES; ACCOUNTING RELIEF; INCLUSION IN BASIC RATES AND CHARGES OF QUALIFIED POLLUTION CONTROL PROPERTY, CLEAN ENERGY PROJECTS AND COST OF BRINGING I&M'S SYSTEM TO ITS PRESENT STATE OF EFFICIENCY; RATE ADJUSTMENT MECHANISM PROPOSALS; COST DEFERRALS; MAJOR STORM DAMAGE RESTORATION RESERVE AND DISTRIBUTION VEGETATION MANAGEMENT PROGRAM RESERVE; AND AMORTIZATIONS; AND (3) FOR APPROVAL OF NEW SCHEDULES OF RATES, RULES AND REGULATIONS.	)	**CAUSE NO. 44967** **APPROVED:** MAY 30 2018

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Chairman
David E. Veleta, Senior Administrative Law Judge

On July 26, 2017, Indiana Michigan Power Company ("Petitioner," "Company" or "I&M") filed a Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to increase its rates and charges for electric utility service and associated relief as discussed below. On July 26, 2017, Petitioner also filed its Case-in-Chief, workpapers and information required by the minimum standard filing requirements ("MSFRs") set forth at 170 Ind. Admin. Code 1-5-1 *et seq.* The following witnesses filed testimony and exhibits:

- Kamran Ali, Director of Transmission Planning for American Electric Power Service Corporation ("AEPSC")
- Jeffrey L. Brubaker, Director of Regulatory Accounting Services for AEPSC
- Chad M. Burnett, Director of Economic Forecasting for AEPSC
- Jason A. Cash, Staff Accountant – Accounting Policy and Research for AEPSC
- Kurt C. Cooper, Regulator Consultant Principal for I&M
- Christopher M. Halsey, Regulatory Consultant Principal for I&M
- Robert B. Hevert, Partner of ScottMadden, Inc.
- Daniel E. High, Staff Regulatory Consultant for AEPSC

- Aaron L. Hill, Director of Trusts and Investments for AEPSC
- Michael N. Kelly, Manager of Taxes – Tax Accounting and Regulatory Support for AEPSC
- Timothy C. Kerns, Managing Director – Generating Assets of I&M
- Roderick Knight, President of Knight Cost Engineering Services, LLC.
- Thomas A. Kratt, Vice President of Distribution Operations of I&M
- Q. Shane Lies, Site Vice President of Donald C. Cook Nuclear Plant of I&M
- David A. Lucas, Vice President Finance and Customer Experience of I&M
- Franz D. Messner, Managing Director of Corporate Finance for AEPSC
- Matthew W. Nollenberger, Manager, Regulated Pricing and Analysis for AEPSC
- Jason M. Stegall, Regulatory Consultant Staff in Regulated Pricing and Analysis for AEPSC
- Toby L. Thomas, President and Chief Operating Office for I&M
- Andrew J. Williamson, Director of Regulatory Services of I&M

Petitions to Intervene were filed by I&M Industrial Group ("Industrial Group"); Citizens Action Coalition of Indiana, Inc. ("CAC"), Indiana Community Action Association, Inc. ("INCAA"), Indiana Coalition for Human Services ("ICHS"), Sierra Club ("Sierra") (collectively "Joint Intervenors"); the Kroger Company ("Kroger"), Wal-Mart Stores East, LP and Sam's East, Inc. (collectively "Walmart"), the City of Fort Wayne, City of Marion, Indiana and Marion Municipal Utilities (collectively, "Marion"), the Muncie Sanitary District ("Muncie District") and City of South Bend ("South Bend") (collectively "Joint Municipal Group"); 39 North Conservancy District ("39 North") and Steel Dynamics, Inc. ("SDI"). All of these petitions were granted without objection. The Indiana Office of Utility Consumer Counselor ("OUCC") also participated as a Party.

Public field hearings were held on October 3, 2017 in the City of South Bend, on October 11, 2017 in the City of Fort Wayne, and on October 31, 2017 in the City of Muncie. At the field hearings, members of the public were afforded the opportunity to make statements to the Commission.

On November 7, 2017, the OUCC and certain Intervenors filed their respective cases-in-chief. The OUCC provided testimony and exhibits from the following witnesses:

- Cynthia M. Armstrong, Senior Utility Analyst
- Crystal L. Barrett, Utility Analyst
- Wes R. Blakley, Senior Utility Analyst
- Peter M. Boerger, PhD, Senior Utility Analyst
- Michael D. Eckert, Assistant Director OUCC Electric Division
- Dwight D. Etheridge, Principal and Vice President with Exeter Associates, Inc. ("Exeter")
- Eric M. Hand, Utility Analyst
- Lafayette K. Morgan, Jr., Public Utilities Consultant, Exeter
- Edward T. Rutter, Chief Technical Advisor in the OUCC Energy Resources Division
- Anthony F. Swinger, OUCC Director of External Affairs
- Glenn A. Watkins, President and Senior Economist of Technical Associates, Inc.

- J. Randall Woolridge, Professor of Finance and the Goldman Sachs & Co. and Frank P. Smeal Endowed University Fellow in Business Administration at the University Park Campus of the Pennsylvania State University

The I&M Industrial Group provided testimony and exhibits from the following witnesses:[1]

- Brian C. Andrews, Consultant with Brubaker & Associates, Inc. ("Brubaker")
- James R. Dauphinais, Consultant and a Managing Principal with Brubaker
- Michael P. Gorman, Managing Principal with Brubaker
- Nicholas Phillips, Jr., Managing Principal with Brubaker

Kroger provided testimony and exhibits from the following witness:

- Justin Bieber, Senior Consultant for Energy Strategies, LLC

Walmart provided testimony and exhibits from the following witness:

- Gregory W. Tillman, Senior Manager, Energy Regulatory Analysis for Walmart

The Joint Intervenor Group provided testimony and exhibits from the following witnesses:

- Jessica Fraser, Director of the Indiana Institute for Working Families
- John Howat, Senior Policy Analyst at the National Consumer Law Center
- Jonathan F. Wallach, Vice President of Resource Insight, Inc.

The CAC and Sierra Club provided testimony and exhibits from the following witnesses:

- Kerwin L. Olson, Executive Director of the CAC
- Nachy Kanfer, Sierra Club's Beyond Coal Campaign, Deputy Director for the East Region

The Joint Municipal Group provided testimony and exhibits from the following witnesses:

- Kevin J. Mara, P.E., Vice President, GDS Associates, Inc. ("GDS")
- Richard A. Polich, P.E., Managing Director, GDS
- Brent A. Saylor, Principal, GDS
- Jacob M. Thomas, Senior Project Manager, GDS
- Eric J. Walsh, CPA, partner in the firm of H. J. Umbaugh & Associates, Certified Public Accountants, LLP

South Bend provided testimony from the following witness:

- Therese Dorau, Director of Sustainability for the City of South Bend

[1] The Industrial Group also submitted a Motion for Administrative Notice with its case-in-chief.

39 North provided testimony from the following witness:

- Reed W. Cearley, special utility consultant for 39 North

On December 6, 2017, the OUCC and Intervenors filed their respective cross-answering testimony. The OUCC provided cross-answering testimony and exhibits from the following witness:

- Glenn A. Watkins

The I&M Industrial Group provided cross-answering testimony and exhibits from the following witnesses:

- James R. Dauphinais
- Nicholas Phillips, Jr.

Kroger provided cross-answering testimony and exhibits from the following witness:

- Justin Bieber

The Joint Municipal Group provided cross-answering testimony and exhibits from the following witnesses:

- Kevin J. Mara
- Richard A. Polich
- Brent A. Saylor
- Jacob M. Thomas

South Bend provided cross-answering testimony from the following witness:

- Therese Dorau

On December 6, 2017, I&M filed rebuttal testimony, exhibits and workpapers for the following witnesses:

- Kamran Ali
- Chad M. Burnett
- Andrew R. Carlin, Director of Executive Compensation & Benefits for AEPSC
- Jason A. Cash
- Kurt C. Cooper
- Robert B. Hevert
- Daniel E. High
- Aaron L. Hill
- Timothy C. Kerns
- Thomas A. Kratt
- Q. Shane Lies
- David A. Lucas

- Franz D. Messner
- Matthew W. Nollenberger
- David M. Roush, Director – Regulated Pricing and Analysis for AEPSC
- Jason M. Stegall
- Toby L. Thomas
- Andrew J. Williamson

By Docket Entry dated January 3, 2018, the Presiding Officers ordered I&M to update any of its schedules impacted by the Tax Cut and Jobs Act of 2017 ("TCJA") by January 10, 2018. I&M updated the impacted schedules, including its effective tax rate, on January 10, 2018. By Docket Entry dated January 10, 2018, the Presiding Officers requested additional information from I&M and the Industrial Group, which information was filed on January 12, 2018.

On January 12, 2018, the OUCC and most intervenors ("Joint Movants") filed a Joint Motion for Continuance of Evidentiary Hearing for a period of 45 days and to establish a revised procedural schedule ("Joint Motion"). On January 16, 2018, Petitioner filed its Objection to Joint Motion for Continuance of Evidentiary Hearing. Thereafter, Joint Movants filed a Revised Joint Motion.

Pursuant to the notice of hearing given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public evidentiary hearing in this Cause commenced on January 16, 2018, at which time the Commission heard oral argument on the Joint Motion and objections by I&M and 39 North. By Docket Entry dated January 16, 2018, the Commission granted the Joint Motion in part and established a schedule for the filing of supplemental testimony and supplemental rebuttal regarding the Company's proposed incorporation of the TCJA impact. On January 24, 2018, Joint Movants appealed the January 16, 2018 Docket Entry to the Full Commission. On January 31, 2018, I&M filed its Brief in Opposition to the Joint Appeal to the Full Commission. The Commission denied the appeal and approved the decision previously reached by the Presiding Officers.

On February 1, 2018, the Presiding Administrative Law Judge ("ALJ") was informed that a settlement agreement in principle had been reached and the parties sought an opportunity to finalize the agreement and file a formal written Settlement Agreement. The Commission relieved the parties of their filing obligations.

On February 9, 2018, all parties, save SDI, filed a Joint Motion for Leave to File Settlement Agreement and Request for Settlement Hearing. SDI informed the Commission that it had no objection to the Joint Motion. By Docket Entry dated February 9, 2018, the Presiding Officers revised the procedural schedule. On February 14, 2018, the Settling Parties filed the Settlement Agreement. On February 20, 2018, the following witnesses filed additional evidence supporting the Settlement Agreement:

- Marc E. Lewis, I&M Vice-President Regulatory and External Affairs
- Stacie R. Gruca, OUCC Director of the Electric Division
- Michael P. Gorman
- Nicholas Phillips, Jr.

- Kerwin L. Olson
- John Charles Binkerd, Director of Marion Municipal Utilities
- Douglas J. Fasick, Sr. Program Manager, Utilities Energy Engineering and Sustainability Services for the City Utilities Division for the City of Fort Wayne, Indiana
- Therese Dorau

The public evidentiary hearing that was continued from March 5, 2018, was reconvened at 9:30 am on March 7, 2018. At the evidentiary hearing, the Settlement Agreement and all of the direct, cross-answering, rebuttal, and settlement testimony and exhibits of each party were offered and admitted into the record without objection. The motions for Administrative Notice filed by I&M and the Industrial Group were granted, and the materials admitted into the record without objection. In addition, the parties' responses to the January 3rd, January 10th, and March 1st Docket Entries were offered and admitted into the record without objection.

Based upon the applicable law and the record before the Commission, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of all public hearings in this Cause were given and published as required by law. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code §§ 8-1-2-42 and 42.7, the Commission has jurisdiction over I&M's rates and charges for utility service. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Organization and Business.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public. I&M has maintained and continues to maintain its properties in an adequate state of operating condition.

I&M provides electric service to approximately 589,000 retail customers within a service area covering approximately 8,260 square miles in northern and east-central Indiana and southwestern Michigan. In Indiana, I&M provides retail electric service to approximately 461,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells and Whitley. In Michigan, I&M currently provides retail electric service to approximately 128,000 customers. In addition, I&M serves customers at wholesale in the States of Indiana and Michigan. I&M's electric system is an integrated and interconnected entity that is operated within Indiana and Michigan as a single utility. I&M's transmission system is under the functional control of PJM Interconnection, L.L.C. ("PJM"), a Federal Energy Regulatory Commission ("FERC") approved regional transmission organization ("RTO"), and is used for the provision of open access non-discriminatory transmission service pursuant to PJM's Open Access Transmission Tariff ("OATT") on file with the FERC. As a member of PJM, charges and credits are billed to AEP and allocated to I&M for functional

operation of the transmission system, management of the PJM markets including the assurance of a reliable system, and general administration of the RTO. As a PJM member, I&M must also adhere to the federal reliability standards developed and enforced by the North American Electric Reliability Corporation ("NERC"), which is the electric reliability organization certified by the FERC to establish and enforce reliability standards for the bulk power system. ReliabilityFirst ("RF") is one of eight NERC Regional Entities and is responsible for overseeing regional reliability standard development and enforcing compliance. I&M's transmission facilities are wholly located within the RF region.

I&M renders electric service by means of electric production, transmission and distribution plant, as well as general property, equipment and related facilities, including office buildings, service buildings and other similar properties which are used and useful in the generation, purchase, transmission, distribution and furnishing of electric energy for the convenience of the public. I&M's property is classified in accordance with the Uniform System of Accounts ("USOA") as prescribed by FERC and approved and adopted by this Commission.

3. **Existing Rates.** I&M's existing retail rates in Indiana were established pursuant to the Commission's orders in Cause No. 44075 based upon test year operating results for the twelve months ended March 31, 2011, adjusted for fixed, known and measurable changes. The petition initiating Cause No. 44075 was filed with the Commission on September 23, 2011. Therefore, in accordance with Ind. Code § 8-1-2-42(a), more than 15 months has passed between I&M's last petition and I&M's most recent request for a general increase in its basic rates and charges.

4. **Test Year and Rate Base Cutoff.** Pursuant to Section 42.7(d), the test period is the 12 months ended December 31, 2018 ("Test Year"). The Test Year end, December 31, 2018, is the general rate base cutoff date.

5. **Relief Requested By I&M.** In its Petition in this proceeding, I&M requested the Commission to approve an overall annual increase in revenues from its base rates and charges, including rate adjustment mechanisms, in the total amount of approximately $264.4 million. After accounting for offsets and changes in the rate adjustment mechanisms, this request results in a net Test Year increase in revenues from base rates of approximately $263.2 million. I&M's response to the January 3, 2018 Docket Entry shows that when the TCJA is reflected in the schedules, the overall requested annual increase in revenues, including rate adjustment mechanisms, is reduced by approximately $71.7 million to approximately $191.5 million. I&M also requested Commission approval of specific accounting and ratemaking relief, including new depreciation accrual rates, as detailed in the Petition and Company's case-in-chief.

6. **Settlement Agreement.** On February 14, 2018, the Settling Parties filed their Settlement Agreement resolving all of the issues before the Commission. The Settlement Agreement is attached to this Order and incorporated by reference. We discuss the terms of the Settlement Agreement and supporting evidence below.

Company witness Lewis testified the Company views the Settlement Agreement as a reasonable resolution of the issues in this Cause that will allow I&M to continue its transformation from an electric utility to the energy company of the future, while fulfilling the commitments it made in the Settlement Agreement and striving to meet its customers' needs for safe and reliable

service. He noted party experts were involved with legal counsel in the development of both the conceptual framework and the details of the Settlement Agreement. He added that many hours were devoted by the Settling Parties to discussions, the collaborative exchange of information, and settlement negotiations. He said that, in his opinion, the Settlement Agreement is in the public interest and reasonably resolves all issues in this docket, including the impact of the TCJA on I&M's rates and charges, without further expenditure of the time and resources of the Commission and the parties in the litigation of these matters. He stated I&M asks the Commission to issue an order approving the Settlement Agreement in its entirety so that new rates may be placed into effect July 1, 2018 and the Company may move forward with the various initiatives agreed to by the Settling Parties.

OUCC witness Gruca testified that while the Settlement Agreement represents a balance of all interests, given the number of benefits provided to ratepayers as outlined in the Settlement Agreement, the OUCC, as the statutory representative of all ratepayers, believes the Settlement Agreement is a fair resolution, supported by evidence and should be approved.

Joint Municipal Group witness Fasick testified the Settlement Agreement represents a fair and reasonable compromise among the parties and recommended its approval. He said it was reached after a thorough review of the information filed with the Commission and exchanged in discovery and after extensive negotiations by the parties. Joint Municipal Group witness Binkerd added that the Settlement Agreement is the reasonable result of compromise on all sides. He said most importantly, it significantly reduces the revenue requirement that I&M originally sought in this case, to the benefit of all ratepayers. Like Mr. Fasick, Mr. Binkerd recommended approval of the Settlement Agreement.

Joint Intervenors' witness Olson testified the Settlement Agreement is reasonable and in the public interest. He said a negotiated settlement that resolves the important and complex technical issues and which eliminates the large uncertainties associated with litigation risk is an appropriate way for the parties and the Commission to achieve a just and reasonable result. He said from Joint Intervenors' perspective, the Settlement represents a substantive improvement over that which was originally presented by I&M. He said overall, Joint Intervenors are satisfied with the Settlement Agreement, and he recommended that it be adopted by the Commission.

South Bend witness Dorau testified that the Settlement Agreement offers certainty of result in achieving many customer benefits in what otherwise would be a litigated uncertain outcome. She said it provides many diverse benefits and noted different customer groups may give different weight to each individual benefit. She stated South Bend recommends the Commission approve the Settlement Agreement in its entirety.

Industrial Group witness Gorman testified that in his opinion, the final result of the Settlement Agreement as a whole is reasonable and in the public interest. Industrial Group witness Phillips added that the Settlement Agreement should be approved because the agreed upon revenue allocation is within the range of the parties' litigated positions and because the Settlement Agreement is fair, reasonable and in the public interest.

Mr. Lewis, Mr. Gorman and Ms. Gruca explained how the Settlement Agreement addresses the impact of the TCJA on the Company's rates. Mr. Lewis stated that the Settlement Agreement

reflects the reduction in the corporate income tax rate in the Test Year tax expense and in the gross revenue conversion factor; recognizes the loss of bonus depreciation; and addresses amortization of normalized and non-normalized excess accumulated deferred income tax ("ADIT"). He added that the Settlement Agreement provides that the normalized excess ADIT created by the TCJA will be amortized over the remaining life of the assets as required by statute, which is estimated to be 24 years. He said the Settlement Agreement provides that the non-normalized excess ADIT created by the TCJA will be amortized over approximately six years. He stated that this six-year period is shorter than I&M had originally proposed, but is a reasonable part of the negotiated settlement package. He said the Settlement Agreement provides a mechanism to toggle the excess ADIT amortization between the normalized and non-normalized excess ADIT and recognizes that amounts in the normalized and non-normalized categories may be revised to align with final accounting values. Mr. Lewis explained that the accounting treatment for normalized and non-normalized excess ADIT agreed to in the Settlement Agreement is necessary to ensure I&M remains in compliance with tax normalization requirements, therefore avoiding a tax normalization violation.

Mr. Lewis testified that the Settlement Agreement reflects the Settling Parties' agreement that the impact of the TCJA is fully incorporated into new base rates. He added that to resolve all issues the other Settling Parties may have raised in Cause No. 45032 with respect to I&M, the Settlement Agreement provides for a $4 million credit to customers. He said this $4 million customer credit reflects the full impact of the TCJA on I&M's rates for the period before base rates go into effect (*i.e.*, from January 1, 2018 through June 30, 2018). He said this customer credit will be reflected on customer bills commencing from July 1, 2018 and will expire December 31, 2018 and explained how the credit would be allocated and the sur-credit designed. Finally, Mr. Lewis stated that the Settlement Agreement provides that I&M may seek to be removed from Cause No. 45032 and the obligations imposed by the January 3, 2018 Order in that Cause and explained why this provision is reasonable.

Mr. Gorman testified that overall the Settlement Agreement adjustments made to reflect changes due to the TCJA fall within the range of reasonable results. Ms. Gruca agreed that the Settlement Agreement reflects the impacts of the TCJA and summarized the seven areas impacted by the TCJA and addressed in the Settlement Agreement. She added that the impact of the TCJA that affect costs recovered through I&M's riders will be reflected and flowed back to customers in I&M rider factor updates.

Mr. Lewis, Ms. Gruca and Mr. Gorman each testified that Section I.A.2.1 of the Settlement Agreement reflects the Settling Parties' compromise regarding I&M's return on equity. These witnesses explained that the Settling Parties have agreed to an authorized Return on Equity ("ROE") of 9.95% and stated that the agreed ROE is within the range of evidence presented by the Parties. Mr. Lewis, Ms. Gruca and Mr. Gorman explained that the Settlement Agreement further provides that beginning January 1, 2019, the ROE component of the weighted average cost of capital ("WACC") used in all of I&M's capital riders will be 9.85% until it receives an order in its next base rate case. Mr. Lewis stated that while the 9.85% ROE to be used in the WACC in the capital riders is lower than I&M's authorized return (9.95%), I&M agreed to this lower ROE as part of the overall settlement package. Ms. Gruca stated that this provision establishes a balanced plan that is in the interest of ratepayers.

Mr. Lewis explained that Section I.A.2.2 resolves the dispute regarding the cost of debt. This Section reflects certain agreed upon adjustments to I&M's long term cost of debt. Mr. Gorman testified that this provision will result in significant savings for ratepayers by lowering the amount of debt service embedded in retail rates immediately, instead of at the time of I&M's next base rate filing.

Mr. Lewis said Section I.A.2.3, which addresses the cost of customer deposits, recognizes that I&M has requested Commission authority to lower the interest rate on customer deposits. He stated that assuming that request is approved, the Settlement Agreement provides that the cost rate of customer deposits in the capital structure used for ratemaking purposes will be adjusted to reflect 2%.

Mr. Lewis presented the calculation of the WACC to be used in establishing basic rates under the Settlement Agreement and the authorized net operating income resulting from the Settlement Agreement.

Mr. Lewis explained that the ability to timely recover the PJM Network Integration Transmission Services ("NITS") costs incurred by the Company under the FERC-approved OATT was a prime reason for initiating this general rate proceeding. OUCC witness Dr. Peter Boerger and Industrial Group witness James Dauphinais raised concerns with I&M's original proposal to recover 100% of PJM NITS and PJM Non-NITS costs through I&M's PJM tracker. OUCC witness Gruca described the compromise reached in the Settlement Agreement and explained that it addressed the Settling Parties' issues.

Mr. Lewis explained that Section I.A.3 sets forth terms for the ongoing recovery of 100% of I&M Indiana jurisdictional PJM NITS costs through the Company's proposed off-system sales "(OSS")/PJM Rider. He said this agreement provides a rolling cumulative cap on PJM NITS cost recovery based on I&M's forecasted PJM NITS expense through December 31, 2021. He added that the Settlement Agreement provides that as the impacts of the TCJA are reflected in I&M's PJM costs, they will be flowed through to customers in I&M's annual OSS/PJM Rider factor updates. Mr. Lewis stated that the Settlement Agreement also addresses I&M's PJM Non-NITS and administrative costs. He explained that the Settling Parties agree that I&M's Indiana jurisdictional Test Year amount of $34,312,433 will be embedded in base rates and any incremental change will be tracked up and down through the OSS/PJM Rider.

Ms. Gruca testified that customers benefit from the compromise made by the Settling Parties, which provides limitations on I&M's PJM NITS cost recovery. She noted that the annual cumulative caps based on I&M's forecasted costs provide flexibility, allowing I&M to recover costs over or under its annual forecasted amounts during the July 1, 2018 through December 31, 2021 period.

Mr. Lewis testified that the Settlement Agreement sunsets the tracking of PJM costs at the earlier of December 31, 2021, or the date rates go into effect in I&M's next base rate case. He clarified that this sunset does not preclude I&M from proposing to continue PJM cost tracking in I&M's next base rate case or other proceeding.

Mr. Lewis stated that the Settlement Agreement also provides that I&M will reimburse the OUCC up to a total amount of $100,000 for certain costs the OUCC incurs for PJM matters and sets forth I&M's agreement to provide the OUCC and any other interested Settling Parties ongoing information regarding PJM NITS costs. Ms. Gruca stated these funds and additional reporting provides the OUCC the ability to review I&M and AEP PJM NITS project costs during the sunset period.

Mr. Lewis explained that I&M's Petition in this Cause seeks Commission approval of new depreciation rates. He said the depreciation of the Rockport Units, meters and other aspects of the Company's depreciation study and proposed rates were challenged by the OUCC and Intervenors. He stated that Section I.A.4 of the Settlement Agreement resolves all matters regarding I&M's request for approval of new depreciation rates. He said that, as described in the Settlement Agreement, the Settling Parties agreed to certain modifications and provisions related to depreciation associated with Rockport and meters and that all remaining depreciation rates will be approved as proposed by I&M.

Mr. Lewis and Ms. Gruca explained more specifically that the Settling Parties agreed to accept I&M's proposal to depreciate Rockport Unit 1 through 2028; to depreciate the Unit 2 Dry Sorbent Injection ("DSI") project through 2025 as it is currently; and that if the Rockport Unit 2 lease is not renewed, any remaining net plant associated with the Rockport Unit 2 DSI will be recovered through Rockport Unit 1 depreciation (a resolution that is similar to the solution for Tanners Creek approved by the Commission in Cause No. 44555); and that all remaining Rockport Unit 2 plant will continue to be depreciated through 2022 as it is currently. Mr. Olson testified that Joint Intervenors agreed to this term as part of the overall package of the Settlement Agreement and supported approval of the Settlement Agreement without change. That said, Mr. Olson stated Joint Intervenors continue to believe the accelerated depreciation of these units should be accompanied at some point by a commitment by I&M to retire Rockport Unit 1 no later than 2028 to ensure that customers are not being unnecessarily burdened by the accelerated recovery of costs for these two units.

With respect to meters, Mr. Lewis and Ms. Gruca said the Settling Parties agreed that Account 370 will have a depreciation rate set at 6.78% as calculated by Industrial Group witness Andrews, which assumes an allocated accumulated depreciation of $40.4 million and a remaining life of 11.46 years; and that I&M will reallocate its Indiana distribution plant accumulated depreciation balances by utility account using the theoretical reserve methodology set forth in Column VII of Settlement Agreement Attachment C. Mr. Gorman testified that although the Industrial Group still has concerns with the recovery of depreciation of Rockport Unit 1 without an official date of retirement, this revenue adjustment, together with several others, offsets the increase in depreciation expense related to Rockport Unit 1.

Company witness Kratt explained the operating challenges the Company faces related to vegetation, particularly with respect to distribution circuits that have narrow clearance zones and trees growing too close to the existing wires. Mr. Kratt explained that vegetation is a principal cause of outages in I&M's service territory and discussed the Company's planned vegetation management program and associated costs. Company witness Williamson explained the Company's request for Commission approval of a Vegetation Management Program Reserve similar to the Major Storm Damage Restoration Reserve approved by the Commission in the Company's last general rate case

(Cause No. 44075). Mr. Lewis explained that the Company's proposals were challenged by other parties' witnesses, such as OUCC witnesses Etheridge and Morgan, Joint Municipal Group witness Mara and Industrial Group witness Gorman. He stated that while the Company filed rebuttal testimony explaining why it disagreed with the position of these parties (see *e.g.* Kratt Rebuttal), the settlement discussions afforded the Settling Parties an opportunity to negotiate a resolution of these issues. He added that Section I.A.5 of the Settlement Agreement provides (a) that $16,191,103 will be embedded in base rates as a representative cost of vegetation management; and (b) that there will be no over/under deferral accounting for vegetation management.

Company witness Kratt explained that I&M has experienced annual major storm costs of up to approximately $8.5 million in the last five years, and explained that storms are random and unpredictable events that can vary in size, significance, and impact. He also discussed the benefits the Major Storm Reserve conveys to I&M's customers. Company witness Williamson supported the Company's need for and request to continue the Major Storm Damage Restoration Reserve, and explained the associated accounting treatment. The OUCC accepted I&M's proposal regarding major storm expense. Mr. Lewis and Ms. Gruca explained that under Section I.A.6 of the Settlement Agreement, I&M will continue the Major Storm Damage Restoration Reserve, including the associated over/under deferral accounting.

OUCC witness Morgan proposed adjustments to I&M's proposed payroll and employee benefits expenses. In rebuttal, Company witness Lucas made corrections to Mr. Morgan's calculations. Mr. Lewis and Ms. Gruca testified that the Settlement Agreement reflects the OUCC's proposed adjustments as corrected by Mr. Lucas. More specifically, they explained Section I.A.7 of the Settlement Agreement provides that I&M's Indiana jurisdictional payroll expense will be reduced by $5,470,787, and I&M's Indiana jurisdictional employee benefits expense will be reduced by $827,401.

I&M proposed to recover all OSS margins as part of the OSS/PJM Rider and to share all OSS margins above zero dollars on a 50/50 basis. The OUCC, Industrial Group and Kroger proposed either no margin sharing, or that there also be an amount of OSS margins embedded in I&M's base rates. Mr. Thomas responded to the other parties' positions in his rebuttal testimony.

Mr. Lewis explained the Settlement Agreement resolves the dispute regarding OSS margin sharing. He explained Section I.A.8 of the Settlement Agreement provides that I&M will share 95% of OSS margins above zero (on an annual basis) with customers with zero margins embedded in base rates. He added that margin sharing will occur through annual filings of the OSS/PJM Rider as proposed by I&M. Ms. Gruca discussed the benefit to customers that results from this type of treatment for OSS margins. She added that due to the fluctuation of OSS margins historically and as forecasted by I&M, 100% tracking of OSS margins will not only simplify the calculation of the OSS margin component of I&M's proposed OSS/PJM Rider, but will also provide transparency in the flow through of OSS margins.

Company witness Hill explained I&M included a prepaid pension asset in rate base, consistent with I&M's last rate case, Cause No. 44075. The OUCC and Industrial Group recommended no ratemaking treatment be allowed for the prepaid pension asset. Company witness Hill responded to the OUCC and Industrial Group in his rebuttal testimony and explained how the prepaid pension asset benefits customers. Mr. Lewis explained Section I.A.9 of the Settlement

Agreement sets forth the Settling Parties' agreement that I&M will continue to include its prepaid pension asset in rate base.

Company witness Hill discussed the purpose of the nuclear decommissioning trust ("NDT") and described the details of the decommissioning expense modeling. He recommended continuing the current annual decommissioning funding of $4 million. OUCC witness Rutter and Industrial Group witness Gorman both recommended the annual contribution to the NDT be discontinued after December 31, 2018. In rebuttal, Mr. Hill explained that the annual contributions of $4 million should continue to be included in the revenue requirement to ensure adequate funding of the NDT. Mr. Lewis explained that the Settlement Agreement provides the annual nuclear decommissioning expense reflected in the revenue requirement will be $2 million. He said this is a reasonable compromise and within the scope of the evidence presented by the parties.

OUCC witness Morgan proposed an adjustment to operating revenues based on an updated load forecast provided in discovery. In rebuttal, Company witness Burnett corrected issues with Mr. Morgan's proposed revenue adjustment and calculated the impact of the updated load forecast to be approximately $12.8 million. Mr. Lewis testified that Section I.A.11 of the Settlement Agreement provides that I&M's forecasted Test Year revenues will be adjusted by $12.8 million. He said the Company views this provision as a reasonable compromise based on the bargained for settlement package as a whole. OUCC witness Gruca testified that the agreed-upon load forecast adjustment provides more up-to-date information on I&M's forecasted test year.

In its case-in-chief, I&M requested approval of the Resource Adequacy Rider ("RAR") to track incremental changes in the Company's purchased power costs, excluding those recovered through the fuel adjustment charge, compared to the amount embedded in base rates. OUCC witness Eckert and Industrial Group witness Dauphinais recommended the Commission deny the RAR. Mr. Williamson responded to Mr. Eckert's concerns regarding the RAR and noted that both the OUCC and I&M agree that the forecasted Test Year 2018 amount of $110,781,428 for total AEP Generating Company ("AEG") and Ohio Valley Electric Corporation ("OVEC") purchase power costs are reasonable to embed in base rates.

Company witness Lewis testified that Section I.A.12 of the Settlement Agreement resolves the disputes regarding the RAR. OUCC witness Gruca explained that the Settling Parties agreed to allow I&M to implement the RAR. She explained that I&M may embed its Indiana Jurisdictional forecasted test year purchased power amount in base rates and recover incremental amounts above and below this base rate amount through its RAR. Ms. Gruca and Company witness Lewis both testified that Section I.A.12 provides that costs subject to recovery through the RAR will be capped, on a cumulative basis, at the total Indiana jurisdictional forecasted expenses (for July 1, 2018, through the sunset date) as derived from I&M's response to OUCC DR 12-4, which is $393,024,722 (with the second half (July-December) of the forecasted 2018 amount ($55,390,714) reflected in the cap for 2018). Ms. Gruca and Mr. Lewis further explained that the RAR will sunset on the earlier of December 31, 2021, or the date rates go into effect in I&M's next base rate case.

Company witnesses Williamson and Kerns provided testimony regarding I&M's proposal to continue to track consumables and emissions allowances costs through the consolidated Environmental Cost Recovery ("ECR") rate adjustment mechanism. OUCC witnesses Armstrong and Blakley recommended denial of I&M's proposal.

Mr. Lewis explained that Section I.A.13 of the Settlement Agreement resolves the dispute regarding the ratemaking treatment of consumables and emissions allowances for both completed projects and for new projects. Mr. Lewis and Ms. Gruca stated the Settlement Agreement provides that the amount of $11,546,212 (on an Indiana jurisdictional basis) will be included in the revenue requirement used to establish base rates. Mr. Lewis said this amount reflects costs for emissions allowances and consumables for projects completed and included in rate base in this Cause. Ms. Gruca noted that I&M will only be allowed to track emission allowances and consumables costs related to new projects approved by the Commission. Finally, Mr. Lewis said the Settling Parties agreed that this provision will not preclude I&M from seeking Commission approval to track all emissions allowances and consumables costs in I&M's next base rate case or other proceeding.

Company witnesses Williamson and Brubaker supported I&M's deferral cost recovery proposal for costs related to the dry cask storage program at the Cook Plant. The OUCC disagreed with this proposal and Mr. Williamson responded in rebuttal. Mr. Lewis testified that Section I.A.14 of the Settlement Agreement provides that I&M's requested deferral authority for non-reimbursed dry cask storage costs will be adopted (without carrying charges). Mr. Lewis added that all deferred costs will be subject to review for reasonableness before they are reflected in rates.

Company witness Lewis testified that Section I.A.15 of the Settlement Agreement provides that revenue from interruptible customers will be allocated as proposed by I&M. OUCC witness Gruca explained that the Settling Parties agreed to I&M's proposal with regard to allocation of interruptible customer revenue, in exchange for (1) extending the amortization period for the Cook turbine deferral (DEF-1) from three years to the life of the facility (17.92 years) and (2) extending the amortization period of the deferred 20% Rockport DSI non-FMR costs (DEF-2) from three years to the remaining life of the DSI (8.35 years), as proposed by Industrial Group witness Andrews. Mr. Lewis noted the Cook turbine and Rockport DSI deferrals will remain in I&M's rate base until they are fully amortized.

Mr. Lewis said Section I.A.16 of the Settlement Agreement accepts the OUCC's proposal to normalize Account 921, Office Supplies and Expenses, to its three-year average for purposes of the revenue requirement in this case. He said while the Company disagreed that this adjustment should be made, the Company accepted it as part of the settlement package.

I&M had proposed that when new rates go into effect on July 1, 2018, they would include a "Phase-in Credit" or PRA to recognize that the Test Year would not yet be over and thus not all Test Year plant additions would be in service. The simultaneous implementation of new base rates and the PRA, otherwise referred to as "Phase I" rates, was not challenged. At the end of the Test Year, I&M had proposed to reduce the credit to establish "Phase II" rates. This would allow all Test Year plant additions to be recognized in rates. This proposal was challenged.

Mr. Lewis testified that Section I.A.17 of the Settlement Agreement resolves the dispute regarding the Phase II rates. Both Mr. Lewis and Ms. Gruca explained the Settlement Agreement provides that I&M will certify its net plant at December 31, 2018, or test-year-end, and calculate the resulting Phase II rates. Mr. Lewis and Ms. Gruca said the Phase II rates will go into effect on the date that I&M certifies its test-year-end net plant, or January 1, 2019, whichever is later. They stated the net plant for Phase II rates will not exceed the lesser of (1) I&M's forecasted test-year-

end net plant or (2) I&M's certified test-year-end net plant. They further testified the OUCC and intervenors will have 60 days from the date of certification to state objections to I&M's certified test-year-end net plant. They said if there are objections, a hearing will be held to determine I&M's actual test-year-end net plant, and rates will be trued-up (with carrying charges) retroactive to January 1, 2019 (regardless of when Phase II rates go into effect).

The Company originally proposed that, commencing with the implementation of new base rates in this Cause, the Federal Mandate Rider ("FMR") and Solar Power Rider ("SPR") factors would be reduced to zero and the tariffs would be left in place at a zero factor in anticipation of future filings that would utilize these riders. I&M also proposed to consolidate all future clean coal technology cost recovery ("CCTR filings") into I&M's ongoing ECR filings to streamline the review and efficiency of such filings. Company witness Williamson explained the process for implementing that consolidation, which depended on the timing of a final order in Cause No. 44871 related to the Rockport Unit 2 SCR project. Industrial Group witness Dauphinais recommended the Company's FMR and SPR riders be retired, not maintained in anticipation of future filings. OUCC witnesses Armstrong and Eckert accepted I&M's proposal to consolidate future CCTR cost recovery into I&M's ongoing ECR filings, and to perform a final reconciliation of the CCTR in I&M's first ECR proceeding subsequent to the final order in this Cause. The OUCC recommended the Commission otherwise deny the Company's request to maintain the FMR, SPR and CCTR in anticipation of future filings.

Mr. Lewis explained that from I&M's view, it would be efficient to maintain the riders in the tariff even if they are not currently in use. That said, Mr. Lewis stated that in the Settlement Agreement, the Company agreed that Riders not currently in use will be extinguished as part of the overall settlement package. He said I&M will implement this agreement by removing the FMR and SPR pages from the tariff book in I&M's compliance filing that will be made following Commission approval of the Settlement Agreement. He added that the CCTR will also be removed if it is not then in use.

Mr. Lewis testified that Section I.B.1.1 sets forth the Settling Parties' agreement that rates should be designed in order to allocate the revenue requirement to and among I&M's customer classes in a fair and reasonable manner. For settlement purposes, he said the Settling Parties agree that Settlement Agreement Attachment E specifies the revenue allocation agreed to by all Settling Parties. He noted the Settlement Agreement provides that this revenue allocation is determined strictly for settlement purposes and is without reference to any particular, specific cost allocation methodology. He noted the agreed revenue allocation is specifically supported by the Company's settlement workpapers, which will be used to design rates.

Ms. Gruca testified that the Settling Parties spent significant time negotiating a fair and reasonable allocation of the costs of service among all rate classes. She stated the OUCC was especially concerned about revenue allocation and any resulting rate increase to the residential and commercial customers. She said it was important to the OUCC to keep customer class rate increases as close as possible to the system-wide increase of 7.26%, as demonstrated on Settlement Agreement Attachment A. Ms. Gruca stated that she discussed the Settlement Agreement allocation with OUCC staff experts and they concluded it is a fair compromise.

Industrial Group witness Phillips stated the agreed-upon revenue allocation in the Settlement Agreement is within the range of the parties' litigated positions in this Cause. He stated that there was a range of cost of service methodologies presented to the Commission. He explained that in order to reach consensus, rather than rely on a specified cost allocation methodology, the Settlement Agreement uses a revenue allocation that takes into account the cost of service positions presented by the various parties in order to reach a fair and reasonable result.

Mr. Phillips and Mr. Lewis testified that Section I.B.1.2 sets forth the Settling Parties' agreement regarding the allocation factors to be used in any future Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") filing. They explained that the Settlement Agreement draws a distinction between customer class revenue allocations based on firm load for distribution and transmission related plan costs. Specifically, they noted that Settlement Agreement Attachment F, Column 2, presents the "customer class revenue allocation factor[s] based on firm load," as that phrase is used in Ind. Code § 8-1-39-9(a)(1) for recovery of distribution-related plan costs. Mr. Lewis and Mr. Phillips also explained that the Settling Parties agree that Settlement Agreement Attachment F does not reflect the "customer class revenue allocation factor[s] based on firm load," as that phrase is used in Ind. Code § 8-1-39-9(a)(1) for recovery of transmission-related plan costs. Mr. Lewis stated the Settling Parties' agreement with respect to allocation factors for any transmission-related TDSIC plan costs recognizes that I&M's entire traditional embedded cost of transmission, as well as the revenues the Company receives from PJM as a Transmission Owner, have been excluded from the Company's Class Cost of Service Study and removed from the Company's revenue requirement in this proceeding.
Mr. Lewis and Mr. Phillips stated that Section I.B.1.3 of the Settlement Agreement provides that all other components of I&M's filed cost allocation and rate design shall be as I&M filed in its case-in-chief.

Mr. Lewis testified that I&M's case-in-chief showed the Company's current residential service charge is the lowest of any Indiana investor-owned electric utility ("IOU") at $7.30 per month, based on a review of each IOU's residential tariffs as of July 3, 2017. He said the Company proposed to increase the residential customer charge to $18.00 for Tariff RS and $19.90 for RS-TOD for the reasons discussed by I&M witness Nollenberger. OUCC witness Watkins recommended a monthly service charge of $8.30 and $9.50 per customer for Tariffs RS and RS-TOD, respectively. Joint Intervenors' witness Wallach recommended the Commission maintain the residential customer charge at its current level. South Bend witness Dorau also opposed the Company's proposed residential customer charge, but did not propose an alternative to the Company's request. Mr. Lewis explained that as part of the settlement package, the Settling Parties agreed that I&M's residential customer charge will be set at $10.50 for Tariff RS and $11.50 for Tariff RS-TOD.

Ms. Gruca testified that the proposed increase in the monthly charge was a recurring theme of ratepayers testifying at the three field hearings and in the submission of written comments. She said the monthly customer charge was the subject of intense negotiations, and through compromise, the Settling Parties agreed to the monthly customer charges shown in Section I.C.1.1 of the Settlement Agreement. Joint Intervenors' witness Olson testified that Joint Intervenors vehemently opposed the Company's original case-in-chief proposal on the basis of the impacts of high customer charges on low-income households and the diminished incentives for energy efficiency and

distributed energy resources, but agreed to a smaller increase to the fixed customer charge because of the comprehensive settlement package.

Mr. Lewis said to address concerns of the Joint Municipal Group, the Settling Parties agreed in Section I.C.1.2 of the Settlement Agreement that the monthly service charges for Tariff W.S.S. (Water and Sewer Service) in this proceeding will reflect the same percentage increase as the increase to the Tariff RS customer charge. The specific Tariff W.S.S. charges resulting from this Agreement are shown below:

Tariff Code	Service Voltage	Monthly Service Charge ($)
545	Secondary	18.20
546	Primary	79.75
542	Subtransmission	79.75

South Bend witness Dorau testified that Section I.C.1 of the Settlement Agreement substantially reduces I&M's requested increases to residential and rate WSS monthly customer charges. She stated this benefits low income, low use customers and helps support the continued value of customer energy efficiency efforts.

Mr. Lewis testified that, as explained by Mr. Thomas in rebuttal, the Company has a philosophical difference of opinion with Joint Intervenors with respect to the low income support program described in Mr. Howat's Direct Testimony. He noted that following the enactment of the TCJA, the Company revised its revenue requirement to incorporate the impact of the new law. He said this resulted in a significant reduction in the rate increase and, from I&M's perspective, mitigated the customer rate impact issues raised in this docket. He said that I&M met with the Joint Intervenor representatives to discuss their respective views and found common ground with respect to the arrearage management component of Mr. Howat's proposal. He said in the Settlement Agreement, I&M agreed to implement a two-year Low Income Arrearage Forgiveness Pilot Program that will provide an opportunity for low income customers to catch up on their electric bills. He discussed the eligibility requirements and that the program details will be established in good faith through a collaborative process with I&M and interested stakeholders.

Mr. Lewis testified that AEP has developed a Neighbor to Neighbor program in other jurisdictions and, in Section I.C.3 of the Settlement Agreement, I&M has agreed to implement the AEP Neighbor to Neighbor Program in Indiana on a two-year pilot basis. He explained this pilot program will provide I&M's customers an opportunity to voluntarily contribute on their electric bills to a fund that will be used to offset the bills of eligible Low Income Home Energy Assistance Program ("LIHEAP") participants and LIHEAP qualified applicants.

Mr. Lewis testified that Section I.C.4 of the Settlement Agreement is another part of a suite of pilots and other commitments agreed to by I&M to assist customers who may be challenged to pay their electricity bills. He said Energy Share is a partnership between I&M and community action associations. He explained how under this two year pilot, I&M will provide $250,000 to the

community action program network of INCAA for use in assisting low income customers in I&M's Indiana service area in paying winter electricity bills (and possibly summer electricity bills if funds remain). As with the other pilots, Mr. Lewis noted I&M's revenue deficiency in this Cause will not be adjusted to include any incremental costs (including the $250,000 noted above) incurred by I&M for this pilot program. He said this pilot program will provide assistance to families who are experiencing financial hardships and reflects I&M's ongoing commitment to helping customers through challenging economic times.

Joint Intervenors witness Olson explained the creation of the low-income pilot programs resulting from the Settlement Agreement. He discussed the concerns previously raised by Joint Intervenors and indicated they are very happy to have a settlement which promises to address these extraordinary challenges faced by low-income households on a day-to-day basis and in their ability to stay current on their monthly electric bills. Mr. Olson also discussed the collaborative process provided for in the Settlement Agreement. He stated the collaborative will provide a forum in which the Company, Joint Intervenors, and any other interested stakeholders, like poor relief agencies, can participate and work together to create programs that succeed. He said it is the Joint Intervenors' strong desire that these pilots transition into permanent programs for the benefit of all for years to come. To that end, he said the Joint Intervenors will commit resources to the collaborative and will actively seek the necessary expertise to have at the table to inform the process and create the best programs that they can. Mr. Olson testified Joint Intervenors are pleased the Settlement Agreement includes a collaborative process to more fully explore and create the program details for these pilot programs to succeed.

South Bend witness Dorau testified that the Low Income Arrearage Program provided for in Section I.C.2 of the Settlement Agreement should help those customers most in need to regain financial self-sufficiency. She added that the Neighbor to Neighbor and Energy Share Programs also offer benefits to people with the most financial need. OUCC witness Gruca testified that it was important to implement these and the other customer programs identified in the Settlement Agreement because these programs will assist I&M customers who are in need, will support the use of electric vehicles by providing more charging stations, and will promote economic development in I&M's territory.

Mr. Lewis testified that as explained by Company witness Cooper, the Company's case-in-chief included a revision to the Terms and Conditions of Service No. 5 relating to remote disconnection. He said this revision is an important and appropriate use of modern technology to protect the safety of I&M employees. Mr. Lewis noted the Joint Intervenors raised concerns about the Company's proposal and Company witness Cooper filed rebuttal testimony addressing these concerns and explaining the Company's view that the Joint Intervenors' recommendation regarding this matter is unworkable and should be rejected. Mr. Lewis explained the settlement discussions afforded the Company, Joint Intervenors and the other Parties an opportunity to talk through their respective concerns. He said ultimately, the Settling Parties found the common ground reflected in Section I.C.5 of the Settlement Agreement.

Joint Intervenors witness Olson testified that the Joint Intervenors played a large role in the negotiation of the terms contained in Section I.C.5 of the Settlement Agreement and that Joint Intervenors expect I&M to carefully comply with those terms before remotely disconnecting a customer. He said the CAC has serious reservations about the practice of remote disconnection, and

its implications for low-income, elderly, or medically-fragile customers. He added that the CAC has made it clear that remote disconnection should be used sparingly and as a last resort with oversight from the Commission and other stakeholders. He said Joint Intervenors appreciate I&M's recognition of their concern and agreement to forgo the disconnection of a customer who has demonstrated a safety risk to I&M personnel if the temperature is forecasted to be below 25 degrees or above 95 degrees during the following 24 hours.

Mr. Olson and Mr. Lewis discussed the reporting requirements contained in the Settlement Agreement. Mr. Olson said Joint Intervenors also plan to monitor this practice through the reporting guidelines that were agreed upon in the Settlement Agreement. He noted I&M has also agreed to share training materials for those employees making these determinations to interested Settling Parties in this proceeding. Mr. Olson testified these protections provide Joint Intervenors with a greater level of assurance that remote disconnection is to be taken seriously and used with great caution and hesitation. South Bend witness Dorau added that Section I.C.5 of the Settlement Agreement places some pro-customer and safety limits on when I&M may remotely disconnect customers.

Mr. Lewis testified that Section I.C.6 of the Settlement Agreement specifies non-confidential information the Company has agreed to compile and report to the Commission. He said this information will help the Commission and other Settling Parties assess the pilot programs. He said this Section also resolves the dispute regarding the Joint Intervenors' recommended reporting requirements.

Joint Intervenors witness Olson testified that regular reporting of indicators of payment problems is vital to assess on an ongoing basis the state of home energy security among I&M's residential customers, and to evaluate the effectiveness of programs and policies intended to protect that security. He said implementing a regular data collection and reporting protocol is particularly relevant and timely. He said Joint Intervenors are pleased to have reached this compromise, which will bring I&M more into line with the practice of other utilities that are now reporting similar data due to settlement agreements and collaboratives resulting from general rate case orders. He noted that this reporting requirement is not indefinite, but extends "through the earlier of (1) the date new rates go into effect in I&M's next base case or (2) December 31, 2021." Mr. Olson testified that Joint Intervenors plan to encourage I&M to continue to report this data after this deadline considering how critical it is to understanding the state of affordability within its service territory. South Bend witness Dorau agreed that Section I.C.6 will provide data that is helpful in exploring solutions to low income payment needs and assistance.

Mr. Lewis testified that Section I.C.7 of the Settlement Agreement addresses the concerns about OVEC costs raised by certain parties in this proceeding. Mr. Lewis and Joint Intervenors' witness Olson explained that I&M has agreed in this docket to make an annual public filing with the Commission that describes I&M's OVEC costs as specified in the Settlement Agreement. They noted this reporting requirement will last through the earlier of (a) the date new rates go into effect in I&M's next base case or (b) December 31, 2021. Mr. Olson stated that through their participation in this case, CAC and Sierra Club sought to elevate the Commission's and ratepayers' attention on this important issue and thus agreed to the OVEC reporting term in this Agreement. He said Joint Intervenors plan to urge I&M to continue to report these data, as such information is critical for the

Commission and customers to understand the impact of this arrangement on I&M's revenue requirement.

Mr. Lewis and Ms. Gruca testified that Sections I.C.8 and I.C.9 of the Settlement Agreement support and facilitate low income weatherization in I&M's Indiana service territory. Mr. Lewis explained the first provision reflects I&M's agreement to provide a $150,000 contribution to the community action program network of INCAA to facilitate low-income weatherization in I&M's Indiana service territory. He stated the second provision states that the Company will collaborate with respect to weatherization and efficiency programs for low income residents being established by the City of South Bend and the City of Fort Wayne. Mr. Lewis noted the Company agreed that its revenue deficiency in this Cause would not be adjusted to reflect the cost of these commitments.

Mr. Olson testified that INCAA will administer this funding for the community action programs, as it has done in similar settlements and arrangements. He said Joint Intervenors are strong proponents of low-income weatherization. He stated it is a proven tool to improve the quality of life for low-income households by (1) reducing their monthly energy bills, thus putting needed money back into their pockets for spending on other necessities, (2) and by creating a more comfortable, healthy, and safe living environment for all members of the household. South Bend witness Dorau added that INCAA has successfully deployed similar contributions to the direct benefit of low-income South Bend residential customers and that these Settlement Agreement provisions will help South Bend's low income customers reduce their energy bills.

Mr. Lewis testified that Sections I.C.10, I.C.11 and I.C.12 of the Settlement Agreement do not address the calculation of retail rates. Rather, he said they relate to the ongoing customer experience. More specifically, Mr. Lewis stated these provisions resolve a billing issue with Marion Utilities and address the Joint Municipal Group members' stated desire to meet annually with I&M to review their largest accounts and to receive a compilation of their billing data in electronic format. He explained I&M readily made these commitments, as they reflect the experience I&M wants to provide all customers when customer issues arise from time to time in the normal course of business. He said while it is not necessary for a customer to participate in a general rate case simply to raise concerns of this nature, I&M appreciated the dialog it had with the Joint Municipal Group regarding these issues and I&M looks forward to continuing to communicate with them, as well as its other customers, regarding their various accounts.

South Bend witness Dorau testified that Section I.C.11 of the Settlement Agreement provides additional I&M focus on working with municipal customers to ensure accounts are properly billed and are on the most economic tariff available. She said money South Bend may save from resulting reduced energy expense is then available for other municipal public service needs. She added that the information provided under Section I.C.12 of the Settlement Agreement will be extremely helpful to South Bend in tracking, reducing, and budgeting for electricity usage, reducing monthly electricity costs, and reducing South Bend staff time currently spent managing I&M bills.

Joint Municipals witness Binkerd testified that upon intervening in this case, it became apparent that some of Marion Utilities' water and wastewater facilities (including lift stations, a reservoir and treatment plant) were not being billed under Tariff W.S.S. He said this billing issue was first raised in the Verified Direct Testimony of Eric J. Walsh. He said that since Rate W.S.S., pursuant to the terms of I&M's tariff, is available for the supply of electric energy to waterworks

systems and sewage disposal systems, Marion wished to resolve this billing issue as part of the Settlement. He stated that thanks to the cooperation of representatives of I&M, agreement was reached on a one-time, lump-sum bill credit of $25,000 to reach compromise and settle Marion's claim regarding the application of non-W.S.S. tariffs to water and wastewater related utility facilities.

Mr. Binkerd testified that as municipalities and other local governments in Indiana face the continuing pressure of property tax caps and increased demand for funding of services such as public safety, parks and recreation, street maintenance, and code enforcement, conscientious budget management is more important than ever before. He said that the analysis provided in Section I.C.11 of the Settlement Agreement, along with the ability to elect to switch tariffed services pursuant to the terms of I&M's Commission-approved tariff, will be an extremely important part of helping the Cities control their electric utility costs, and as a result, the expenditure of taxpayer dollars and the pass-through of local utility ratepayer costs related thereto. He added the ability to receive billing information in electronic format pursuant to Section I.C.12 of the Settlement Agreement will also assist the Cities in reviewing and paying their bills from I&M in a timely manner, budgeting accurately, and identifying any possible billing errors in the future.

Mr. Lewis explained that in I&M's case-in-chief, the Company proposed to modify Tariff S.L.C. (Streetlighting-Customer-Owned System) to eliminate the Company's responsibility to maintain customer-owned lamps with renewals of lamps and cleaning and replacement of glassware. Company witness Nollenberger explained that I&M's cost of maintaining customer-owned lamps and glassware were removed from the proposed Tariff S.L.C. monthly rates. The Joint Municipal Group challenged the Company's proposal due to their concerns about the impact of this change on the municipal budgeting process. In rebuttal, the Company explained that customers will realize savings from lower Tariff S.L.C. rates that are equal to the cost of performing the maintenance that they will be taking over. Mr. Lewis testified that after discussing this issue further with I&M's customers and as part of the settlement package, the Company agreed to continue its current maintenance of customer-owned streetlighting until January 1, 2019. He said that after that, customers will take over maintenance as proposed by I&M. He said the Settlement Agreement provides that I&M's proposed changes to Tariff S.L.C. will otherwise be adopted. He noted that I&M's cost of performing this maintenance was not added back into the revenue requirement. In other words, he said this is another cost the Company has agreed to absorb as part of the Settlement Agreement.

South Bend witness Dorau testified that Section I.C.13 of the Settlement Agreement provides a phased approach to transitioning from I&M maintenance of municipal customer owned lights to customer maintenance of those lights. She said this will allow municipalities time to budget for the new maintenance expense and make preparation for the new activity.

Mr. Lewis explained that in Cause No. 44841, the Commission approved the application of the DSM Rider to the streetlighting class (SLS, ECLS, SLC, SLCM and FW-SL). He noted the City of Fort Wayne was a party to the Settlement Agreement approved in that case. Mr. Lewis said subsequent to the implementation of the DSM Rider as approved by the Commission, the City of Fort Wayne made I&M aware of the bill impact of this change and questioned whether this was an unintended consequence of the cost allocation underlying the DSM Rider factor. He said the rate case allocation spread the costs over broader classes to allow a more reasonable allocation

consistent with cost causation and DSM program eligibility. He testified Section I.C.14 of the Settlement Agreement provides that streetlighting customers will receive a one-time bill credit addressing the DSM charges from October 2017 and that the total bill credit amount will be deferred until the 2018 DSM Rider reconciliation, where it will be allocated to all members of the Commercial and Industrial Class who did not opt out prior to January 1, 2017 (including streetlighting customers) and recovered through the 2018 DSM Rider reconciliation.

Joint Municipals witness Fasick testified that Section I.C.14 of the Settlement Agreement is a fair compromise and resolution of the issue. He explained this provision is important to the Joint Municipals and provides that certain legacy DSM program costs are spread among a much larger number of customers, making it more manageable for Fort Wayne and other streetlighting customers. South Bend witness Dorau added that the bill credit agreed to in the Settlement Agreement softens the budgetary blow to municipalities for increased streetlight expenses and gives some recognition that the DSM charges were for programs that were not available to municipal street light customers. She said this Section also opens a dialog with I&M concerning its current tariff for LED streetlight conversions and creates a framework to collaboratively explore and address related concerns.

Mr. Lewis and Ms. Gruca testified that this Section reflects I&M's agreement to collaborate with the City of South Bend and the City of Fort Wayne, along with their respective regional partners, on the design and possible implementation of a voluntary electric vehicle charging program for each City. Mr. Lewis stated I&M will seek any necessary Commission approval prior to implementation of any program. South Bend witness Dorau testified that an electric vehicle charging program supports South Bend's efforts to provide high quality of life and attract high-tech and knowledge-based business.

Company witness Lewis stated that Section I.C.16 of the Settlement Agreement resolves a concern raised by Joint Municipal witness Saylor regarding the need to update the Tariff F.W.-S.L. ledger to reflect the new LED lamps that the City of Fort Wayne has installed. Joint Municipals witness Fasick addressed the importance of Section I.C.16 of the Settlement Agreement to Fort Wayne. He explained the City of Fort Wayne had concerns about the Company's approach which are resolved by the terms of the Settlement Agreement. He stated Section I.C.16 of the Settlement Agreement provides a reasonable mechanism to correct any billing discrepancies retroactive to January 1, 2017, and that this date represents a reasonable compromise between Fort Wayne and the Company. In addition, he said Section I.C.16 of the Settlement Agreement memorializes the Company's commitment to work with the City of Fort Wayne to update the tariff and submit it for approval in an appropriate proceeding. He welcomed the opportunity to work with I&M to update its tariff to reflect more accurate energy costs of the LED lamps that Fort Wayne has been actively installing in its streetlight system.

Mr. Lewis discussed questions raised by witnesses for Joint Municipal Group, the 39 North Conservancy District and the City of South Bend regarding I&M's proactive economic development initiatives. He stated Company witnesses Thomas and Lucas responded to these matters in their rebuttal testimony, explaining among other things, that I&M has long had an economic development rider and seeks to maintain this rider which was recently revised in Cause No. 44913. He said that, as explained by Mr. Thomas in rebuttal, I&M is fully aware of the importance of economic development to its communities and its customers and remains committed

to pursuing opportunities that benefit its customers. He pointed out that Mr. Thomas also explained that I&M is open to further discussions with economic development partners outside of regulatory proceedings about how we can work together to grow our communities because I&M recognizes that the Company alone cannot create economic development.

Mr. Lewis explained that the settlement discussions afforded I&M the opportunity to further discuss economic development with the Joint Municipal Group, the 39 North Conservancy District and other Settling Parties. He said that in Section I.C.17 of the Settlement Agreement, the Company agreed to establish an Economic Impact Grant ("EIG") program to assist with economic development in the communities I&M serves. He stated the Company will provide $700,000 to fund the EIG program and has agreed that its revenue deficiency in this Cause will not be adjusted to include any incremental costs of this program. He said Section I.C.17 details how the EIG program funds will be used for the municipalities that are Settling Parties, the 39 North Conservancy District and other communities. He testified these provisions are reasonable given the significant attention to economic development these parties have already demonstrated. He added that potential uses of the EIG grants will include, but are not limited to, industrial and headquarter site development due diligence, workforce development initiatives, housing development initiatives, spec building development, and job creation and retention.

Mr. Binkerd described this provision of the Settlement Agreement as a "win-win" for everyone. He stated the EIG Program described in Section I.C.17 of the Settlement Agreement is a crucial part of mitigating the impact of I&M's rate increase on local governments, as well as spurring local economic development. He said the EIG Program addresses the concerns in Mr. Walsh's testimony. He added that Marion, along with the other Cities, are excited to work with I&M on economic development projects that attract new companies, grow existing businesses, and develop talented employees.

Joint Municipals witness Fasick testified that increased utility rates can have a negative impact on economic development efforts. He said when a business is considering whether to expand or relocate into a particular community, higher utility rates often factor into its own economic analysis as well as cost-of-living considerations for its employees. In addition, he stated if municipalities, as customers of the utility, are paying higher rates, that means there are fewer dollars available for economic development. He said the EIG Program will help alleviate the negative impact that the rate increase will have on communities by making funds available for economic development that is crucial to the long-term survival of the communities in I&M's service territory.

South Bend witness Dorau testified that Section I.C.17 of the Settlement Agreement makes certain funding available to South Bend to support South Bend's efforts to improve its city for the benefit of its citizens. She emphasized this Section is critically important to South Bend as it helps offset the cost of participation in this case and also provides support for local economic development efforts. She said while not a large sum, South Bend's share of this financial assistance will support the job creation and value-creation initiatives the City has underway. She added the resulting increased funding for economic development efforts may help offset the impact higher electric rates can have on economic development.

Mr. Lewis testified that Industrial Group witness Dauphinais challenged the Company's proposed changes to the nonresidential deposit language in its tariff. In his rebuttal testimony,

Company witness Cooper explained why the Company disagreed with Mr. Dauphinais. Mr. Lewis explained that in the spirit of compromise, I&M and the Industrial Group negotiated the resolution to this dispute set forth in Section I.C.18 and Settlement Agreement Attachment D. He said this resolution, which was acceptable to the other Settling Parties, reasonably balances the Company and the Industrial Group concerns on nonresidential deposits.

Mr. Lewis explained that Section I.D. of the Settlement Agreement clarifies that any matters not addressed by the Settlement Agreement will be adopted as proposed by I&M in its direct or rebuttal case, including the response to the Commission's January 3 and 10, 2018 docket entries. He said this Section also recognizes that time is of the essence. He stated the Settling Parties seek a Commission order approving the Settlement Agreement within a timeframe that will allow I&M to complete the compliance filing process and be able to place new rates into effect July 1, 2018.

Mr. Lewis testified that Sections II and III of the Settlement Agreement address the presentation of the Settlement Agreement to the Commission and effect and use of the Settlement Agreement. More specifically, he said the Settlement Agreement provides that it is reflective of a negotiated settlement and that neither the making of the Settlement Agreement nor any of its provisions shall constitute an admission by any Settling Party in this or any other litigation or proceeding. He added the Settlement Agreement is a compromise and will be null and void unless approved in its entirety without modification or further condition that is unacceptable to any Settling Party. He said the Settlement Agreement also includes provisions considering the substantial evidence in the record supporting the approval of the Settlement Agreement, recognizes the confidentiality of settlement communications and reflects other terms typically found in settlement agreements before this Commission.

7. **Commission Discussion and Findings.** Settlement Agreements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). Any Settlement Agreement that is approved by the Commission "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a Settlement Agreement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the Settlement Agreement." *Citizens Action Coalition*, 664 N.E.2d at 406. Furthermore, any Commission decision, ruling or order - including the approval of a Settlement Agreement - must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code Chapters 8-1-2, and that such Settlement Agreement serves the public interest.

We have previously discussed our policy with respect to Settlement Agreements:

> Indiana law strongly favors Settlement Agreement as a means of resolving contested proceedings. *See, e.g., Manns v. State Department of Highways*, 541 N.E.2d 929, 932 (Ind. 1989); *Klebes* v. *Forest Lake Corp.*, 607 N.E.2d 978, 982 (Ind. Ct. App. 1993); *Harding* v. *State*, 603 N.E.2d 176, 179 (Ind. Ct. App. 1992). A Settlement

> Agreement "may be adopted as a resolution *on the merits* if [the Commission] makes an independent finding supported by 'substantial evidence on the record as a whole' that the proposal will establish 'just and reasonable' rates." *Mobil Oil Corp.* v. *FPC*, 417 U.S. 283, 314 (1974) (emphasis in original).

See, e.g., Indianapolis Power & Light Co., Cause No. 39938, at 7 (IURC 8/24/95); *Commission Investigation of Northern Ind. Pub. Serv. Co.*, Cause No. 41746, at 23 (IURC 9/23/02). This policy is consistent with expressions to the same effect by the Supreme Court of Indiana. *See, e.g., Mendenhall v. Skinner & Broadbent Co.*, 728 N.E.2d 140, 145 (Ind. 2000) ("The policy of the law generally is to discourage litigation and encourage negotiation and Settlement Agreement of disputes.") (citation omitted); *In re Assignment of Courtrooms, Judge's Offices and Other Facilities of St. Joseph Superior Court*, 715 N.E.2d 372, 376 (Ind. 1999) ("Without question, state judicial policy strongly favors Settlement Agreement of disputes over litigation.") (citations omitted). Furthermore, we are mindful regarding a Settlement Agreement which has been entered by representatives of all customer classes, including OUCC (who represents all ratepayers), even though there may be some intervenor or group of intervenors who opposes it. *American Suburban Utils.*, Cause No. 41254, at 4-5 (IURC 4/14/99).

In this case, the Commission has before it evidence with which to judge the reasonableness of the terms of the Settlement Agreement. I&M, OUCC and Intervenors presented evidence supporting their initial respective positions. As noted above, three parties (I&M, OUCC and Industrial Group) calculated a test year revenue deficiency. Thus, while the amount of the necessary increase was in dispute, evidence supports the conclusion that I&M present rates are unjust and unreasonable. Accordingly, we find it is reasonable and necessary for new rates and charges to be established.

A Settlement Agreement was filed in this proceeding that resolves all of the issues. We will address the major components of the Settlement Agreement below:

A. TCJA. As a result of the Settlement Agreement, I&M will provide a $4 million credit to customers from July 1, 2018, through December 31, 2018, to account for the impact of the TCJA on I&M's existing rates. The Settling Parties also agreed that the inclusion of the TJCA impacts in the new proposed base rates and the $4 million credit for existing rate impacts resolves all issues raised in Cause No. 45032 with respect to I&M. In addition to this credit, the other impacts of the TCJA as reflected in the Settlement Agreement service to reduce the test year revenue deficiency by approximately $85 million. The proposed treatment of the impacts of the TCJA is reasonable and appears to address all issues that would have otherwise been addressed in Cause No. 45032.

B. Cost of Capital Components.

1. Return on Equity. The Settling Parties agreed I&M's ROE will be 9.95%, which results in a reduction in the test year revenue deficiency of $13.1 million. This is a reduction to I&M's initial ROE request of 10.6%. The Settlement Agreement further provides that the ROE will be reduced to 9.85% beginning January 1, 2019, to be used on all of I&M's capital riders until its next base rate case. The Parties provided a range of ROEs in order to determine an appropriate ROE for I&M. The agreed upon ROE of 9.95% is within the range of ROEs proposed

by all the Parties and is reasonable. Additionally, the further reduction of the ROE on all of I&M's capital riders beginning January 1, 2019, provides more savings to ratepayers. The ROE reduction applies to both current and future capital riders that may be established and become effective until new rates are established in I&M's next base rate case.

2. Cost of Debt. I&M's cost of long-term debt will be set at 5.04% as shown in Exhibit A-7R of the rebuttal testimony of I&M witness Messner. I&M will adjust the cost of capital to reflect refinancing of the $475 million in Series I Bonds (with a March 2019 maturity) at an estimated rate of 4.7% on or before July 1, 2018, and amortization of an estimated $15 million make whole call premium over the life of the replacement debt. The reduction in the embedded cost of long-term debt will be reflected in base rates that take effect July 1, 2018. Furthermore, the proposal is reasonable as it reduces costs to be recovered from customers.

3. Customer Deposits. The Settlement Agreement provides that the cost rate of customer deposits in the capital structure used for ratemaking purposes will be adjusted to reflect 2%.

4. Non-inclusion of Prepaid Pension Asset. I&M's original proposal and the Settlement Agreement reflect the inclusion of Prepaid Pension Expense as an item of the rate base rather than as a component of the weighted cost of capital as can be seen in the tables below. This placement is consistent with existing I&M ratemaking treatment as well as that authorized for IPL in our IPL 2016 Rate Order. In the context of the base rates established in a generally static condition, a test year or a snap shot in time, the inclusion in either the weighted average cost of capital or the rate base would yield the same revenue requirement. However, in circumstances such as investment trackers, where a post-rate case updated weighted average cost of capital is applied to determine a new revenue requirement, the inclusion of the Prepaid Pension Expense into the updated calculation adds a variable that is avoided if it is instead reflected in rate base. Further, as the consideration of the prudency of any Prepaid Pension Expense amount is often a contested issue, as it was in this docket, the review of any included amount fits more squarely into the type of considerations properly placed in a base rate case rather than a tracker proceeding. Accordingly, we find that the treatment of the related aspects is supportive of the Settlement Agreement's approval.

C. PJM Costs. According to the Settlement Agreement, I&M may recover 100% of its Indiana jurisdictional NITS charges through the annual PJM Rider. I&M will cap its NITS cost recovery with a rolling cumulative cap covering the period of July 1, 2018, through December 31, 2021. The rolling cumulative cap recognizes cost in any year may be over or under the Annual Cumulative Cap. Costs in excess of the cumulative cap for any particular year may be recovered in subsequent years so long as the total amount recovered does not exceed the cumulative total through the relevant annual period. The projected costs to be recovered are reasonable.

D. Depreciation.

1. Rockport. The Settlement Agreement accepts I&M's proposal to depreciate Unit 1 through 2028. Unit 2's DSI project will continue to be depreciated through 2025 as it is currently. The Parties agree that if the Unit 2 lease is not extended, any remaining net plant for Unit 2 DSI will be recovered through Unit 1 depreciation. The Settlement Agreement notes this

treatment is similar to that used when Tanners Creek was retired. All other Unit 2 plant will continue to be depreciated through 2022 as it is currently.

Rockport 1 depreciation through 2028 is consistent with the expected retirement date of the unit. I&M originally requested that all Rockport 2 plant (including the DSI system) be depreciated through 2022 coinciding with the termination of the Unit 2 lease. Allowing the DSI system for Rockport 2 to depreciate through 2025 (which is consistent with the 10-year depreciation period established by the Commission when the DSI project was approved) is a means to lessen the impact on current rates.

2. Meters. Meters in Account 370 will have a depreciation rate of 6.78% as developed by Industrial witness Andrews. This assumes an allocated accumulated depreciation of $40.4 million and a remaining life of 11.46 years. The decision by the Settling Parties to use the methodology developed by Mr. Andrews is reasonable.

E. Vegetation management. The issue of vegetation management was a significant area of controversy. In direct testimony, I&M admitted that service reliability has deteriorated, in part, because of other competing priorities. This was reflected in their failure to establish a 4-year trim cycle, and continued reliance on a reactive approach to tree trimming. To correct the condition, I&M proposed increasing the vegetation management program expense from $17.1 million in 2016 to $28.1 million to be embedded in the 2018 test year and tracked using deferral accounting. The Settlement Agreement provides that $16,191,103 will be embedded in base rates for vegetation management expense. We will discuss this issue further in paragraph 7.G.

F. Fixed Customer Charge. I&M initially proposed to increase the residential service customer charge from $7.30 to $18.00 per month, which would be a 147% increase. The OUCC recommended a customer charge of $8.30 per month for Rate RS and $9.50 per month for Rate RS-TOD. As result of the Settlement Agreement, I&M's residential customer charge will be set at $10.50 for Tariff RS and $11.50 for Tariff RS-TOD.

As we found in IPL's rate case in which we approved increases in the customer charge from $6.70 to $11.25 (for less than 325 kWh/month) and $11.00 to $17.00 (for greater than 325 kWh/month), the increase in the customer charge was a "move toward a more fixed and variable rate design consistent with traditional cost causation principles [sic]," while being "demonstrably short of SFV rates." *Indianapolis Power & Light Co.*, Cause No. 44576, 2016 WL 1118795, at *76 (IURC March 16, 2016) *order corrected,* 2016 WL 1179961 (IURC March 23, 2016) ("IPL 2016 Rate Order"). We further found that, "[c]ost recovery design alignment with cost causation principles sends efficient price signals to customers, allowing customers to make informed decisions regarding their consumption of the service being provided." *Id.* Lastly, we noted that, "this structure does not violate principles of gradualism, because gradualism is best considered in the context of the entire customer bill and not discrete charges within the bill." *Id.* at 77. For these same reasons, the Commission finds that the increase in the monthly customer charge agreed to by the Parties is cost-based, based upon the evidence presented, consistent with gradualism, and is reasonable and should be approved.

G. Docket Entry. On March 1, 2018, the Presiding Officers issued a Docket Entry, to which I&M responded on March 2, 2018. Also on March 2, 2018, the Industrial Group

filed a separate response as to one question and the OUCC, Joint Municipal Group, Kroger, 39 North, and Joint Intervenors also filed a response to one question ("Other Settling Parties"). The Other Settling Parties weighed in on the collaborative process noting that:

> The OUCC and most of the other Settling Parties see the Commission's consideration for a performance metrics collaborative process as beneficial and would not object to it. A voluntary collaborative process is implied in the Settlement regarding I&M's commitment to work with the Joint Municipals on issues of weatherization, electric vehicles, low income assistance, and other matters. The Settlement also provides for I&M to provide the OUCC and other Settling Parties with information in I&M's on-going filings with PJM. The OUCC and other Settling Parties welcome the opportunity to engage with I&M, and if deemed appropriate, with the Commission and its staff, in a collaborative manner on a range of issues.

We appreciate the Other Settling Parties willingness to consider the value that is added by the collaborative process. The Commission views the collaborative process as an opportunity for all parties to dialogue on how to improve utility operations. Such a process was created coming out of the recent rate cases for NIPSCO and IPL. In the IPL 2016 Rate Order, the Commission initiated a collaborative effort for the purpose of establishing performance metrics for IPL. The ROE approved in the IPL 2016 Rate Order included an incentive that was linked to IPL's constructive participation in the collaborative process. The Commission noted "[r]ather than ordering the establishment of specific metrics, we believe the collaborative should discuss the appropriate metrics for IPL and determine a final list of metrics through the collaborative process." *Indianapolis Power & Light Co.*, 2016 WL 1118795, at *19. Additionally, we stated that "[t]his is a multi-year effort to assess the efficacy of existing performance indices, enhancements to current metrics, and evaluation of new performance measures going forward." *Id.* In short, we believe performance metrics can be of significant value to the Commission and I&M's ratepayers. For example, as noted above, the issue of vegetation management was a significant area of controversy in this proceeding. In its response to the Presiding Officer's Docket Entry, I&M committed to achieving a four-year trim cycle. We appreciate I&M making this commitment, but we believe the collaborative process could assist I&M in realizing this goal and could also lead to the development of a broad range of company metrics. Thus, we find that I&M shall facilitate a meeting with interested stakeholders within 12 weeks of the effective date of the Order in this Cause to collaborate on a path for moving forward with a performance metrics initiative. We anticipate that it will enable comparisons of I&M's performance over time and in comparison to similarly situated utilities. Because the ongoing collaborative effort will not be occurring in the context of an open docket, the Commission's technical staff should actively participate in the process. For purposes of 170 IAC 1-1.5, Commission's technical staff shall be authorized to participate in the collaborative without being subject to 170 IAC 1-1.5-3 and 4.

In order that the Commission and interested stakeholders may stay abreast of the collaborative process, we direct I&M to make a progress update filing with the Commission within 90 days of the initial meeting of the collaborative. We also order I&M to file quarterly reports for

the first year and an annual report by October 1, 2019, and for each year thereafter until otherwise indicated by the Presiding Officers.

8. Conclusion. The various witnesses' testimony support the Settlement Agreement and explains why the Settlement Agreement is reasonable and in the public interest. Based upon our review of the record as a whole, and consideration of the Settlement Agreement terms and supporting testimony and exhibits, the Commission finds that the Settlement Agreement is within the range of the possible outcomes and represents a just and reasonable resolution of the issues.

Based upon the foregoing conclusion with respect to the Settlement Agreement, the Commission finds that the Test Year End net original cost rate base (Indiana Jurisdictional) for I&M is $4,206,643,198 and is calculated as follows:

Net Plant In Service	$ 3,960,092,639
Prepaid Pension Expense	$ 70,598,516
Deferred Gain Rockport 2 Sale	$ (9,505,845)
Fuel Stock	$ 23,786,224
Other Materials & Supplies	$ 114,614,718
Regulatory Assets	$ 48,128,296
Regulatory Liabilities	$ (1,071,349)
Total Rate Base	$ 4,206,643,198

Based on these findings and after giving effect to the Settlement Agreement terms regarding cost of capital, we find that Petitioner's capital structure and weighted cost of capital is as follows:

Description	Total Company Capitalization	Percent of Total	Cost Rate	Weighted Average Cost Of Capital
Long Term Debt	$2,604,833,347	41.17%	4.64%	1.91%
Common Equity	$2,260,801,136	35.73%	9.95%	3.56%
Customer Deposits	$ 34,318,118	0.54%	2.00%	0.01%
Acc. Def. FIT	$1,398,076,372	22.10%	0.00%	0.00%
Acc. Def. JDITC	$ 29,388,703	0.46%	7.11%	0.03%
Total	$6,327,417,676	100.00%		5.51%

On the basis of the evidence presented, we find that I&M should be authorized to increase its basic rates and charges to produce additional operating revenue of $96,823,006. This revenue is reasonably estimated to afford I&M the opportunity to earn net operating income of $231,786,040 as shown on Settlement Agreement Attachment A.

We further approve the phase-in of I&M's rates as set forth in Section I.A.17 of the Settlement Agreement. More specifically, when I&M's new base rates are first effective, they will include I&M's Phase-in Credit (the "Phase I" rates). The Phase-In Credit will then be reduced to establish Phase II rates. We further find that I&M shall certify to this Commission its net plant at December 31, 2018 and thereafter calculate the resulting Phase II rates. For purposes of the Phase II certification, I&M shall use the forecasted test year end net plant shown on Attachment MEL-9-S,

line 8. The Phase II rates shall go into effect on the date that I&M certifies its test-year-end net plant, or January 1, 2019, whichever is later. The net plant for Phase II rates shall not exceed the lesser of (a) I&M's forecasted test-year-end net plant or (b) I&M's certified test-year-end net plant. I&M shall serve all Settling Parties with its certification. The OUCC and intervenors shall have 60 days from the date of certification to state objections to I&M's certified test-year-end net plant. If there are objections, a hearing shall be held to determine I&M's actual test-year-end net plant, and rates will be trued-up (with carrying charges) retroactive to January 1, 2019 (regardless of when Phase II rates go into effect).

We find and conclude that the Settlement Agreement presents a reasonable resolution of the issues in this case. Therefore, the Commission further finds that the Settlement Agreement is reasonable, supported by substantial evidence, and in the public interest. Accordingly, the Settlement Agreement is approved.

9. Effect of Settlement Agreement. With regard to future citation of this Order, we find that our approval should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849 at *7-8 (IURC 3/19/1997).

10. Disclosures Regarding Nuclear Decommissioning Expense. I&M requested that certain language be included in the Commission's Order to assist I&M in obtaining compliance with regulations of the Internal Revenue Service regarding qualified nuclear decommissioning trust funds. The language requested by I&M updates language incorporated into previous Commission rate orders. No party objected to this request. Accordingly, we incorporate the following disclosures into this Order:

(1) The amount of decommissioning costs to be included in the cost of service for Units No. 1 and No. 2 of the Donald C. Cook Plant is $1.00 million and $1.00 million, respectively.

(2) The assumptions used in determining the amount of the decommissioning costs to be included in the cost of service for each of the two Units are as follows:

(a) The weighted after-tax rate of return expected to be earned by amounts collected for decommissioning is 5.65%.

(b) The method of decommissioning each of the two Units assumed in the Decommissioning Study of the D. C. Cook Nuclear Power prepared by Knight Cost Engineering Services, LLC dated January 21, 2016 (the "Knight Study") is immediate decommissioning of the site ("DECON"), on-site storage of spent fuel, and clean removal.

(c) The total estimated cost of decommissioning in July 1, 2015 dollars in total for the Donald C. Cook Plant is $1,961,189,187, consisting of $1,634,038,400 in base decommissioning costs per the Knight Study, $270,198,500 of annual post decommissioning spent fuel storage costs through 2098, and $56,952,300 for the eventual decommissioning of the independent spent fuel storage installation ("ISFSI"). The estimated cost of decommissioning for each unit is $1,001,253,460 for Unit 1 and $959,935,727 for Unit 2.

(d) The methodology used to convert the current dollars estimated decommissioning cost to future dollars estimated decommissioning costs is to use the formula prescribed by the Nuclear Regulatory Commission ("NRC") for development of escalation rates for nuclear decommissioning costs. The NRC formula breaks the decommissioning costs into 3 three components: labor, energy, and radioactive waste burial. The weight of each component is based on the detailed estimates in the Knight Study. A base rate of inflation ranging from 2.0% to 3.0% was assumed. The escalation rates for labor, energy and radioactive waste burial were assumed to exceed the base rate of inflation by 0.55%, 1.17% and 2.06%, respectively.

(e) Decommissioning costs to be included in the cost of service are an amount of $2.0 million apportioned between units as shown in Item No. 1 expected to be included annually in the cost of service for each of the two units, continuing through the dates shown in Item (f), unless changed by future order of the Commission.

(f) The estimated date on which it is projected that the nuclear unit will no longer be included in I&M's rate base is October 31, 2034, for Unit 1 and December 31, 2037, for Unit 2.

(g) The Knight Study was utilized in determining the amount of decommissioning costs to be included in I&M's cost of service.

11. Confidentiality. Petitioner filed motions for Protection and Nondisclosure of Confidential and Proprietary Information on July 26, November 14, and December 6, 2017, all of which were supported by affidavit or testimony showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. In addition, the Industrial Group filed an Unopposed Motion for Confidential Treatment of Certain Workpapers on November 9, 2017 and on November 27, 2017, withdrawing certain portions of its November 9 request, and then on December 6, 2017, for which Petitioner provided a supporting Affidavit. The Presiding Officers issued Docket Entries on August 9, November 22, November 28, December 18, and December 20, 2017, finding all such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to I.C. § 5-14-3-4 and Ind. Code § 24-2-3-2, and is exempt from public access and disclosure by the Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement, a copy of which is attached to this Order, is approved in its entirety.

2. Petitioner shall be and hereby is authorized to adjust and increase its rates and charges for electric utility service to produce an increase in total operating revenues of approximately 7.26% in accordance with the findings herein which rates and charges shall be designed to produce forecasted total annual operating revenues of $1,430,066,299, which are expected to produce annual net operating income of $231,786,040.

3. Petitioner shall be, and hereby is, authorized to place into effect Phase I rates and charges in accordance with the findings herein for retail electric service on and after July 1, 2018.

4. I&M shall certify its net plant at December 31, 2018 and calculate the resulting Phase II rates, which shall be made effective consistent with the Settlement Agreement.

5. Petitioner shall file new schedules of rates and charges along with its revised tariff under this Cause consistent with the Settlement Agreement and the rates and charges approved above. Petitioner's new schedules of rates and charges shall be effective upon approval by the Energy Division.

6. Petitioner shall be and hereby is authorized to place into effect for accrual accounting purposes revised depreciation accrual rates as provided in the Settlement Agreement.

7. The information submitted under seal in this Cause pursuant to motions for protective order as set forth in Section 11 above is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

8. I&M shall participate in a collaborative for the purpose of implementing performance metrics. Further, I&M shall keep the Commission apprised of the progress of the collaborative through the compliance filings made under this Cause as described above in Section 7.G.

9. This Order shall be effective on and after the date of its approval.

HUSTON, KREVDA, OBER, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: MAY 30 2018

I hereby certify that the above is a true and correct copy of the Order as approved.

Mary M Becerra

Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER COMPANY, AN INDIANA CORPORATION, FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A PHASE IN RATE ADJUSTMENT; (2) APPROVAL OF: REVISED DEPRECIATION RATES; ACCOUNTING RELIEF; INCLUSION IN BASIC RATES AND CHARGES OF QUALIFIED POLLUTION CONTROL PROPERTY, CLEAN ENERGY PROJECTS AND COST OF BRINGING I&M'S SYSTEM TO ITS PRESENT STATE OF EFFICIENCY; RATE ADJUSTMENT MECHANISM PROPOSALS; COST DEFERRALS; MAJOR STORM DAMAGE RESTORATION RESERVE AND DISTRIBUTION VEGETATION MANAGEMENT PROGRAM RESERVE; AND AMORTIZATIONS; AND (3) FOR APPROVAL OF NEW SCHEDULES OF RATES, RULES AND REGULATIONS.	**CAUSE NO. 44967**

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M" or "Company"), the Indiana Office of Utility Consumer Counselor ("OUCC"), I&M Industrial Group (Air Products and Chemicals, Inc., Arcelor Mittal USA, General Motors LLC, I/N Tek L.P., Indiana University South Bend, Marathon Petroleum Company LP, Praxair, Inc., Rea Magnet Wire Company, Inc., The Linde Group and University of Notre Dame du Lac) ("Industrial Group"), Joint Municipals (South Bend, Fort Wayne, Marion, Marion Municipal Utilities and Muncie Sanitary District), Joint Intervenors (Citizens Action Coalition of Indiana, Inc., Indiana Coalition for Human Services, Indiana Community Action Association, and Sierra Club), the Kroger Company, ("Kroger"), Wal-Mart Stores East, LP and Sam's East, Inc. (collectively "Walmart"), and 39 North Conservancy District ("39 North") (collectively the "Settling Parties" and individually "Settling Party"), solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of the matters set forth below, subject to their incorporation by the Indiana Utility Regulatory Commission ("Commission") into a final, non-appealable order ("Final Order")[1] without modification or further condition that may be unacceptable to any Settling Party. If the Commission does not approve this Stipulation and Settlement Agreement ("Settlement Agreement"), in its entirety, the entire Settlement Agreement

[1]"Final Order" as used herein means an order issued by the Commission as to which no person has filed a Notice of Appeal within the thirty-day period after the date of the Commission order.

shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Settling Parties.

I. TERMS AND CONDITIONS.

A. Revenue Deficiency.[2]

1. Tax Reform.

1.1 Test Year Tax Expense Before Increase.

(a) I&M's test year tax expense will be adjusted to reflect the 2017 Tax Cuts and Jobs Act ("TCJA").

(b) This reduces I&M's test year revenue deficiency by approximately $6.8 million.[3]

1.2 Loss of Bonus Depreciation.

(a) I&M's end of test year accumulated deferred income tax ("ADIT") balance will be adjusted to reflect the loss of bonus depreciation due to the TCJA. I&M's end-of-year 2017 ADIT balance will be used in the capital structure component of the cost of service study to account for this impact.

(b) This increases I&M's test year revenue deficiency by approximately $6.2 million.

1.3 Gross Revenue Conversion Factor.

(a) I&M's gross revenue conversion factor will be adjusted to 1.36 to reflect the TCJA.

(b) This reduces I&M's test year revenue deficiency by approximately $43.8 million.

1.4 Normalized Excess ADIT.

(a) Normalized excess ADIT created by the TCJA will be amortized over the remaining life of the assets as required by statute, which is

[2] Settlement Agreement Attachment A updates I&M Exhibit A-1 to reflect the Settlement Agreement.

[3] TCJA impacts presented in this Settlement Agreement are preliminary estimates and are subject to change. Final values will not be available until after I&M's 2017 books close. Amounts in the normalized and non-normalized categories may be revised to align with final accounting values and to avoid any normalization violations. Otherwise, this Settlement Agreement fully incorporates all impacts of the TCJA and represents a complete and final settlement of all issues regarding the impact of the TCJA on I&M's rates after new base rates go into effect (see, for example, the provision for tax impacts listed in Transmission Costs).

estimated to be 24 years. The annual amortization is estimated to be $8.8 million. I&M's estimated Indiana jurisdictional amortization of excess ADIT and associated revenue requirement impact is provided in Settlement Agreement Attachment B. To the extent that the actual annual amortization differs from the estimated amount, the amortization of the non-normalized excess ADIT will be increased or decreased to ensure that the total amortization of normalized and non-normalized excess ADIT is equal to $29.9 million.

(b) This reduces I&M's test year revenue deficiency by approximately $11.9 million.

1.5 Non-Normalized Excess ADIT.

(a) Non-normalized excess ADIT created by the TCJA will be amortized over approximately 6 years. The annual amortization will be $21.1 million.

(b) This reduces I&M's test year revenue deficiency by approximately $28.7 million.

1.6 Credit for January-June TCJA Impact.

(a) I&M will provide a $4 million credit to customers from July 1, 2018, through December 31, 2018, to reflect the impact of the TCJA on I&M's rates for the period before new base rates go into effect.

(b) The Settling Parties agree that as set forth in this Settlement Agreement the impact of the TCJA is incorporated into new base rates and that the provision of the $4 million credit resolves all issues they may have raised in Cause No. 45032 with respect to I&M.

(c) Following the Prehearing Conference in Cause No. 45032, I&M may file a motion in that Cause seeking:

(i) To be removed from that Cause; and

(ii) To be relieved of the obligation to continue the regulatory accounting treatment required by the Commission's January 3, 2018 Order in that Cause.

(d) Settling Parties will not oppose I&M's motion in Cause No. 45032 and I&M may submit the testimony supporting the Settlement Agreement, I&M's response to the Commission's January 3, 2018

Docket Entry in this Cause, and this Settlement Agreement in support of the motion or request administrative notice thereof.

(e) This agreement as to Cause No. 45032 is contingent upon the Commission's approval of all TCJA issues, including the issuance of a customer credit for the TCJA impact on I&M's rates, prior to the effective date of new base rates, contained in this Settlement Agreement.

2. Cost of Capital.

2.1 Return on Equity.

(a) As a compromise of the Settling Parties' positions, I&M's ROE will be 9.95%, which reduces I&M's test year revenue deficiency by $13.1 million.

(b) Beginning January 1, 2019, the return on equity ("ROE") component of the weighted average cost of capital ("WACC") used in all of I&M's capital riders will be 9.85% until it receives an order in its next base rate case.

2.2 Cost of Debt.

(a) In response to the testimony of Industrial Group witness Gorman regarding the debt cost for the $300 million Series L bonds, I&M's cost of long term debt will be adjusted to 5.04%, as supported in Exhibit A-7R attached to the rebuttal testimony of Company witness Messner.

(b) The cost of capital will be adjusted to reflect refinancing of the $475M in Series I Bonds (March 2019 Maturity) at an estimated rate of 4.7% on or before July 1, 2018, and amortization of an estimated $15 million make whole call premium over the life of the replacement debt. The reduction in the embedded cost of long term debt will be reflected in base rates that take effect July 1, 2018. The Settling Parties recognize that the Commission has jurisdiction over financing matters and agree that no Settling Party will oppose a request by the Company for any necessary increase in the Company's authority to issue debt necessary to refinance the Series I Bonds, in any cause initiated for this purpose.

2.3 Cost of Customer Deposits. Based on Industrial Group witness Gorman's position, the cost rate of customer deposits will be adjusted to 2% (which assumes Commission approval of the Company's request to lower the interest rate on such deposits).

3. Transmission Costs.

3.1 PJM Network Integration Transmission Services ("NITS") costs. I&M may recover 100% of Indiana jurisdictional PJM NITS costs as follows:

(a) I&M may recover 100% of its Indiana jurisdictional NITS charges through its annual PJM Rider.

(b) I&M will cap its NITS cost recovery (until the tracker sunsets as described below) using an Annual Cumulative Cap based upon the Indiana jurisdictional forecasted NITS expense (accounts 4561035 and 5650016) for July 1, 2018, through December 31, 2021, as derived from I&M's response to the OUCC data request 26-07 as shown in the following table.

Table 1

	Indiana Jurisdictional NITS Expense	
Year	Forecast Annual NITS Expense	Annual Cumulative Cap
Jul. 1 – Dec 31, 2018	$94,566,922	$94,566,922
2019	$212,865,869	$307,432,791
2020	$240,596,419	$548,029,209
2021	$275,087,962	$823,117,171

(c) I&M will have a rolling cumulative cap that recognizes costs in any year may be over or under the Annual Cumulative Cap. Costs in excess of the cumulative cap for any particular year may be recovered in subsequent years so long as the total amount recovered does not exceed the cumulative total through the relevant annual period. For example, if the costs through the July-December 2018 period exceed the cap of $94,566,922 then those costs above the cap could be recovered in future period, such as 2020, so long as the Annual Cumulative Cap for that period ($548,029,209 in this example) is not exceeded (and if it is exceeded, then such costs above the cap could be recovered in 2021, so long as the Annual Cumulative Cap for that period ($823,117,171 in this example) is not exceeded).

(d) I&M will reimburse the OUCC up to a total amount of $100,000 for the costs of a consultant, travel expenses, or other non-salary costs for the OUCC to review PJM matters related to I&M and AEP during the sunset period. OUCC will certify its actual expenses.

(e) As the impacts of the TCJA are reflected in I&M's PJM costs, they will be flowed through to customers in I&M's annual PJM Rider factor updates.

(f) Beginning in 2018, I&M will provide to the OUCC and other interested Settling Parties an annual projection of I&M and I&M Transco NITS capital projects expected to be started in the forthcoming year. For each project, specific information will be provided as to: project identifying number, AEP entity responsible for the project, project location, project description, actual or projected construction start date, projected capitalized cost, projected in-service date and projected project category (*e.g.* baseline, supplemental, and, if separately identified, "non-topology" projects, as the term "non-topology" is used in I&M's response to OUCC DR 51-01). Each annual period thereafter, I&M and I&M Transco capital project variances in excess of 10% and $10 million will also be reviewed and discussed. In addition, I&M will provide aggregate data concerning other NITS capital projects by AEP operating companies or Transcos in the AEP East Zone. This report will be submitted to the OUCC and other interested Settling Parties each year during the Sunset Period as defined in Section 3.3 below.

3.2 PJM non-NITS and administrative costs. I&M will embed its Indiana jurisdictional test year amount of $34,312,433 in base rates and then track up and down any incremental amount through the PJM Rider.

3.3 Sunset.

(a) Tracking of PJM costs will sunset.

(b) The sunset date will be the earlier of December 31, 2021, or the date rates go into effect in I&M's next base rate case.

(c) The sunset will not preclude I&M from proposing to continue PJM cost tracking in I&M's next base rate case or other proceeding.

4. Depreciation.

4.1 Rockport Unit 1 Depreciation. I&M's proposal to depreciate Unit 1 through 2028 will be accepted.

4.2 Rockport Unit 2 Depreciation.

(a) The Unit 2 Dry Sorbent Injection ("DSI") project will continue to be depreciated through 2025 as it is currently.

(b) The Settling Parties agree that if the Unit 2 lease is not renewed, any remaining net plant associated with the Unit 2 DSI will be recovered through Unit 1 depreciation. (This is similar to the solution for Tanners Creek.)

(c) All remaining Unit 2 plant will continue to be depreciated through 2022 as it is currently.

4.3 Meter Depreciation.

(a) Account 370 will have a depreciation rate set at 6.78% as calculated by Industrial Group witness Andrews, which assumes an allocated accumulated depreciation of $40.4 million and a remaining life of 11.46 years.

(b) I&M will reallocate its Indiana distribution plant accumulated depreciation balances by utility account using the theoretical reserve methodology set forth in Column VII of Settlement Agreement Attachment C.

4.4 Remaining Depreciation Rates. All remaining depreciation rates will be approved as proposed by I&M.

5. Vegetation Management.

5.1 $16,191,103 million will be embedded in base rates for vegetation management.

5.2 There will be no over/under deferral accounting for vegetation management.

6. Major Storms. I&M's request to continue its existing over/under deferral accounting authority for major storms will be accepted.

7. Payroll Expenses.

7.1 Based on OUCC witness Morgan's position, as corrected by the rebuttal testimony of Company witness Lucas, I&M's Indiana jurisdictional payroll expenses will be reduced by $5,470,787.

7.2 Based on OUCC witness Morgan's position, as corrected by the rebuttal testimony of Company witness Lucas, I&M's Indiana jurisdictional employee benefits expenses will be reduced by $827,401.

8. Off-System Sales Margins. I&M will share 95% of off-system sales margins above zero (on an annual basis) with customers (with zero margins embedded in base rates).

9. Prepaid Pension Asset. I&M will continue to include its prepaid pension asset in rate base.

10. Nuclear Decommissioning Trust. Annual nuclear decommissioning expense will be $2 million.

11. **Updated Load Forecast.** I&M's forecasted test year revenues will be adjusted by $12.8 million, as raised in the testimony of OUCC witness Morgan and corrected in the rebuttal testimony of Company witness Burnett.

12. **Resource Adequacy Rider (RAR).**

12.1 Sunset.

(a) The RAR will sunset.

(b) The sunset date will be the earlier of December 31, 2021, or the date rates go into effect in I&M's next base rate case.

(c) The sunset will not preclude I&M from proposing to continue the RAR in I&M's next base rate case or other proceeding.

12.2 As the impacts of the TCJA are reflected in I&M's purchase power costs, they will be flowed through to customers in I&M's annual RAR factor updates.

12.3 Costs subject to recovery through the RAR will be capped, on a cumulative basis, at the total Indiana jurisdictional forecasted expenses (for July 1, 2018, through the sunset date) as derived from I&M's response to OUCC DR 12-4, which is $393,024,722 (with the second half (July-December) of the forecasted 2018 amount ($55,390,714) reflected in the cap for 2018.

13. **Consumables and Emissions Allowances.**

13.1 I&M will embed $11,546,212 (on an Indiana jurisdictional basis) in base rates for emissions allowances and consumables for projects completed and included in rate base in this Cause.

13.2 I&M will track emissions allowances and consumables costs related to new projects approved by the Commission.

13.3 This provision will not preclude I&M from seeking Commission approval to track all emissions allowances and consumables costs in I&M's next base rate case or other proceeding.

14. **Dry Cask Storage.**

14.1 I&M's requested deferral authority for non-reimbursed dry cask storage costs will be adopted (without carrying costs).

14.2 All deferred costs will be subject to review for reasonableness before they are reflected in rates.

15. Interruptible Revenue and Reduction of I&M Revenue Deficiency.

15.1 Revenue from interruptible customers will be allocated as proposed by I&M.

15.2 As proposed by Industrial Group witness Andrews, the amortization period of the Cook turbine deferral (DEF-1) will be extended from three years to the life of the facility (17.92 years). The Cook turbine deferral will remain in I&M's rate base until it is fully amortized.

15.3 As proposed by Industrial Group witness Andrews, the amortization period of the deferred 20% Rockport DSI non-FMR costs (DEF-2) will be extended from three years to the remaining life of the DSI (8.35 years). The Rockport DSI deferral will remain in I&M's rate base until it is fully amortized.

16. Normalization of Office Supplies and Expenses. As proposed by OUCC, I&M will normalize Account 921, Office Supplies and Expenses, to its three-year average.

17. Phase-In Rider.

17.1 I&M will certify its net plant at test-year-end and calculate the resulting Phase II rates.[4]

17.2 Phase II rates will go into effect on the date that I&M certifies its test-year-end net plant, or January 1, 2019, whichever is later.

17.3 Net plant for Phase II rates will not exceed the lesser of (a) I&M's forecasted test-year-end net plant or (b) I&M's certified test-year-end net plant.

17.4 OUCC and intervening parties will have 60 days from the date of certification to state any objections to I&M's certified test-year-end net plant.

17.5 If there are objections, a hearing will be held to determine I&M's actual test-year-end net plant, and rates will be trued-up (with carrying charges) retroactive to January 1, 2019.

17.6 For purposes of this section, "certify" means I&M has determined it has completed the amount of forecasted net plant indicated in its certification and the corresponding net plant additions have been placed in service and

[4] "Phase II rates" means rates following the reduction of I&M's proposed Phase-In Credit. That is, when I&M's new base rates are first effective, they will include I&M's Phase-In Credit. The Phase-In Credit will then be reduced as proposed by I&M, and as modified here, to establish "Phase II" rates.

are used and useful in providing utility service as of the date of certification. I&M will serve all Settling Parties with its certification.

18. **Riders Not in Use.** Riders not currently in use will be extinguished.

B. Revenue Allocation

1.1 The Settling Parties agree that rates should be designed in order to allocate the revenue requirement to and among I&M's customer classes in a fair and reasonable manner. For settlement purposes, the Settling Parties agree that Settlement Agreement Attachment E specifies the revenue allocation agreed to by all Settling Parties. This revenue allocation is determined strictly for settlement purposes and is without reference to any particular, specific cost allocation methodology.

1.2 For purposes of allocating recovery of any future, approved, TDSIC expenditures and costs pursuant to IC 8-1-39-9(a) prior to its next base rate case, the Settling Parties agree that Settlement Agreement Attachment F presents the "customer class revenue allocation factor[s] based on firm load," as that phrase is used in IC 8-1-39-9(a)(1) for recovery of distribution-related plan costs (Column (2)). The Settling Parties agree that all revenues and allocation factors on Settlement Agreement Attachment F have had interruptible load removed.

The Settling Parties agree that Settlement Agreement Attachment F does not reflect the "customer class revenue allocation factor[s] based on firm load," as that phrase is used in I.C. 8-1-39-9(a)(1) for recovery of transmission-related plan costs. If I&M would seek to recover any transmission-related costs in a TDSIC rider prior to establishing new base rates in its next base rate case, the parties agree that allocation factors for such transmission-related revenue requirement would need to be adjudicated at that time.

1.3 All other components of I&M's filed cost allocation and rate design shall be as I&M filed in its case-in-chief.

C. Additional Terms.

1. Customer Charge.

1.1 I&M's residential customer charge will be set at $10.50 for Tariff RS and $11.50 for Tariff RS-TOD.

1.2 The monthly service charges for Tariff W.S.S. (Water and Sewer Service) in this proceeding will reflect the same percentage increase as the increase to the Tariff RS customer charge.

2. Low Income Arrearage Forgiveness Pilot Program.

2.1 I&M will implement a two-year Low Income Arrearage Forgiveness Pilot Program that will provide an opportunity for low income customers to catch up on their electric bills.

2.2 To be eligible to participate, a customer must be a LIHEAP participant or a LIHEAP qualified applicant who carries an overdue balance.

2.3 Program details will be established in good faith through a collaborative process with I&M and interested stakeholders, which would commence no later than 90 days after a Final Order in this Cause. I&M will work in good faith to implement the program within 180 days after a Final Order in this Cause.

2.4 Non-administrative Pilot Program costs for arrearage forgiveness will not exceed $500,000. Once this limit is met, I&M will cease enrolling new participants for the Pilot Program. I&M's revenue deficiency in this Cause will not be adjusted to include any incremental costs of this Pilot Program.

3. **Neighbor to Neighbor Pilot Program.**

3.1 I&M will implement the Neighbor to Neighbor Program, on a two-year pilot basis, under which I&M's customers will be given an opportunity to voluntarily contribute on their electric bills to a fund that will be used to offset the bills of eligible LIHEAP participants and LIHEAP qualified applicants.

3.2 Program details will be established in good faith through a collaborative process with I&M and interested stakeholders, which would commence no later than 90 days after a Final Order in this Cause. I&M will work in good faith to implement the program within 180 days after a Final Order in this Cause.

3.3 I&M will contribute $50,000 to help fund the non-administrative costs of the Neighbor to Neighbor Pilot Program. I&M's revenue deficiency in this Cause will not be adjusted to include any incremental costs of this program.

4. **Energy Share Pilot Program.** I&M will establish a program, such as its Energy Share Program, on a two-year pilot basis, under which I&M will provide $250,000 to the community action program network of Indiana Community Action Association for use in assisting low income customers in I&M's Indiana service area in paying winter electricity bills (and possibly summer electricity bills). I&M's revenue deficiency in this Cause will not be adjusted to include any incremental costs of this Pilot program.

5. **Remote Disconnection of Customers Who Pose Safety Risk to I&M Personnel.**

5.1 I&M will not remotely disconnect a customer who has demonstrated a safety risk to I&M personnel and is otherwise subject to disconnection if the temperature is forecasted to be below 25 degrees or above 95 degrees during the following 24 hours.

5.2 In this docket, I&M will file public, semiannual reports that will include the following information: the total number of customers disconnected remotely without a site visit, the dates these customers were disconnected remotely without a site visit, the reason for remote disconnection (*i.e.*, the category of activity that threatened or caused endangerment to an employee's personal safety, examples of which are "verbal and physical abuse, use of vicious animals, brandishing or reference use of weapons, [or] purposefully creating unsafe working environment on premise" as described in Attachment KCC-2 at page 8), the amount owed by the customer, and the customer's zip code.

5.3 I&M will provide to interested Settling Parties in this proceeding a copy of training materials for those employees making these determinations.

6. <u>Low Income and General Residential Customer Reporting.</u>

6.1 I&M will file a non-confidential annual report with the Commission with the following information by month, in readily accessible spreadsheet format:

(a) Low Income Arrearage Forgiveness Pilot Program: number of customer participants, associated costs of the program, and number of applications received but not enrolled into the program. I&M may also include other data points as recommended by the collaborative providing input on the details of this program.

(b) Neighbor to Neighbor Pilot Program: number of customers providing contributions to the program, number of customers receiving assistance from the program, associated costs of the program, and number of applications received but not enrolled into the program. I&M may also include other data points as recommended by the collaborative providing input on the details of this program.

(c) I&M Indiana jurisdictional data regarding its General Residential Customers including: number of residential accounts, total billed, total receipts, number of unpaid accounts 60-90 days after issuance of a bill, dollar value of unpaid accounts 60-90 days after issuance of a bill, number of unpaid accounts 90+ days after issuance of a bill, dollar value of unpaid accounts 90+ days after issuance of a bill, total number of unpaid accounts, total dollar value of unpaid accounts, number of accounts sent notice of disconnection for non-

payment, number of service disconnections for non-payment, and dollar value of accounts written off as uncollectible.

(d) I&M Indiana jurisdictional data regarding its low income customers (defined as participants known to be in LIHEAP or other means-tested benefit programs): number of accounts, total billed, total receipts, total receipts paid by LIHEAP, total number of customers known to be receiving LIHEAP, number of unpaid accounts 60-90 days after issuance of a bill, dollar value of unpaid accounts 60-90 days after issuance of a bill, number of unpaid accounts 90+ days after issuance of a bill, dollar value of unpaid accounts 90+ days after issuance of a bill, total number of unpaid accounts, total dollar value of unpaid accounts, number of accounts sent notice of disconnection for non-payment, number of service disconnections for non-payment, and dollar value of accounts written off as uncollectible.

6.2 This reporting requirement will last through the earlier of (a) the date new rates go into effect in I&M's next base case or (b) December 31, 2021.

7. **Ohio Valley Electric Corporation (OVEC) Report.**

7.1 Within 90 days of a Final Order in this proceeding, in this docket I&M will begin making an annual public filing with the Commission that describes I&M's OVEC costs, as described below. Thereafter, the public filing will be updated annually within 90 days of when data for the prior calendar year are available. The information to be filed annually for the most recent calendar year should include the cost of I&M's participation in the Amended and Restated Inter-Company Power Agreement.

7.2 This reporting requirement will last through the earlier of (a) the date new rates go into effect in I&M's next base case or (b) December 31, 2021.

8. **Low Income Weatherization in I&M's Indiana Service Territory.** I&M will provide a $150,000 contribution to the community action program network of Indiana Community Action Association to facilitate low-income weatherization in I&M's Indiana service territory. I&M's revenue deficiency in this Cause will not be adjusted to include the incremental costs of this contribution.

9. **Low Income Weatherization in South Bend and Fort Wayne.** The City of South Bend and the City of Fort Wayne are establishing weatherization and efficiency programs for low-income residents. As part of their respective programs, each City will refer eligible I&M customers to I&M's existing programs/incentives and facilitate the customer's successful participation. I&M's EE/DSM team will reasonably collaborate with each City's staff to increase the outreach of I&M's existing programs. Collaborations may include locally-

targeted marketing and outreach, training City staff on programs/incentives, and participating in specific energy events or outreach initiatives.

10. **Application of Tariff W.S.S. to Marion Water Facilities.** Marion Utilities will receive a one-time, lump-sum bill credit of $25,000 to reach compromise and settle the City of Marion's claim regarding the application of non-W.S.S. tariffs to water and wastewater related utility facilities.

11. **Review of Joint Municipals' Accounts.**

    11.1 In addition to I&M's current customer rate review service, once per year, upon request, I&M will provide an analysis of Joint Municipals' ten largest accounts to ensure the tariff billed is the most economical based on the previous 12 months' usage data.

    11.2 Joint Municipals may elect to switch tariffed services pursuant to the terms of I&M's tariffs.

12. **Electronic Billing Data for Joint Municipals.** Within four business days of the end of the billing period, I&M shall provide on a monthly basis, an electronic file with billing information to Joint Municipals, consistent with the summary billing spreadsheet example provided by I&M. That is, the spreadsheet will include for all Joint Municipally-owned accounts, regardless of name or address on the bill (provided that Joint Municipals will work in good faith with I&M to identify all such accounts): Account Name, Bill Account Number, Service Address, City, Tariff Code, Tariff Description, Billing Date, Total Bill Amount, Billing Demand, Billing kWh, Load Factor, Metered kW, Metered kWh, Power Factor, Annual Revenue, Max Billed Demand, Max kWh. In addition, I&M will work with Joint Municipals and to the full extent practicable will include the following spreadsheet fields: meter number, billing address, service period begin date, service period end date, taxes paid, late fees paid, demand amount billed, and consumption amount billed. Joint Municipals will collaborate with I&M on initial design and set up to make this process efficient, *e.g.,* making changes to account names or billing dates, or reconciling the list of Joint Municipal accounts to I&M's data.

13. **Tariff S.L.C. (Customer-Owned Streetlighting).**

    13.1 I&M will continue its current maintenance of customer-owned streetlighting until January 1, 2019. After that, customers will take over maintenance as proposed by I&M.

    13.2 Otherwise, I&M's proposed changes to Tariff S.L.C. will be adopted.

14. **Calculation of DSM Rider Factor for Streetlighting Customers from October 2017 and Discussion With City of South Bend.**

14.1 Within 90 days of implementing new rates, I&M will provide a one-time bill credit to streetlighting customers reflecting all DSM Rider charges from October 2017 through the implementation of new rates.

14.2 I&M will defer the total credit amount until the 2018 DSM reconciliation, when it will be allocated to all members of the Commercial and Industrial Class who did not opt out prior to January 1, 2017 (including streetlighting customers) and recovered through the 2018 DSM Rider reconciliation.

14.3 Joint Municipals reserve the right to request, subject to Commission approval, to opt out of the application of the DSM Rider to any streetlight tariff. This provision is without waiver of each Settling Party's respective rights to make arguments in any proceedings regarding Joint Municipals' request.

14.4 Within 90 days of the Final Order approving settlement in this Cause, I&M will provide South Bend an explanation and documentation of the underlying capital and O&M costs, revenue requirements and terms of I&M's Public Efficient Streetlighting ("PES") LED conversion tariff, for cooperative joint evaluation and discussion by I&M and South Bend.

15. Electric Vehicles.

15.1 I&M and South Bend, along with appropriate regional partners, will collaborate on the design and possible implementation of a voluntary electric vehicle charging program for South Bend. I&M will seek any necessary Commission approval prior to implementation of any program.

15.2 I&M and Fort Wayne, along with appropriate regional partners, will collaborate on the design and possible implementation of a voluntary electric vehicle charging program for Fort Wayne. I&M will seek any necessary Commission approval prior to implementation of any program.

16. City of Fort Wayne Streetlighting.

16.1 I&M and City of Fort Wayne will work together to conduct a physical inventory of the City of Fort Wayne's streetlights over a six month period from approximately February 2018 through August 2018.

16.2 After the inventory, I&M will reconcile streetlighting counts in good faith with Fort Wayne and correct any billing discrepancies effective to the known date of error but no further back than January 1, 2017. The appropriate refund amount will be credited to Fort Wayne's streetlighting billing no later than the October 2018 billing.

16.3 After the inventory, Fort Wayne will provide I&M a monthly report of all lights that have changed (by light number) in order to ensure the accuracy of the light map. I&M and Fort Wayne will work together in good faith to

develop a technology solution to keep the maps up to date in real time and minimize duplicate entry.

16.4 Within 45 days of a Final Order approving this Settlement Agreement, I&M will work in good faith with Fort Wayne to establish and file revisions to Tariff F.W.-S.L. under the Commission's 30-day filing process to add appropriate line items for LED lamps used by Fort Wayne.

17. Economic Impact Grant Program.

17.1 I&M will establish an Economic Impact Grant ("EIG") program to assist with economic development in the communities within its service territory.

17.2 I&M's EIG program will be open to communities, including the Cities of South Bend, Marion, Muncie, and Fort Wayne, other governmental entities, such as 39 North Conservancy District, and non-profit economic development organizations, within the Company's service territory investing in economic development projects that are an integral part of the community's or organization's strategic plan to attract new companies, grow existing businesses, and develop talented employees.

17.3 Communities and economic development organizations may submit proposals for strategic, tangible projects that will have a life span greater than one year. Proposals demonstrating collaboration with regional or partner organizations may be preferred. Priority will be given to projects that clearly show value to economic development efforts in the I&M service area and include metrics, timelines, and identification of responsible persons or entities. The project should also receive private, community, state, local, or federal assistance.

17.4 Potential uses ("Qualifying Projects") will include, but are not limited to, industrial and headquarter site development due diligence, workforce development initiatives, housing development initiatives, spec building development, and job creation and retention.

17.5 Ineligible uses will include, but are not limited to, funding new employees, new employee training, operational budget, travel costs, memberships, or registrations.

17.6 Applications must meet minimum guidelines that will be established by I&M and must receive final approval from I&M's Economic & Business Development staff.

17.7 I&M will provide $700,000 to fund the EIG program grants, to be used as follows:

(a) As part of this program, I&M will award grants of a) $185,000 total to the Joint Municipal Group to be allocated to the Group members (Cities of South Bend, Marion, Muncie, and Fort Wayne) as they agree amongst themselves; and b) $35,000 to 39 North Conservancy District. These funds will be used by these customers to support economic development efforts without the need for these customers to make a grant application. I&M will provide these funds within 30 days of a Final Order approving this Settlement Agreement.

(b) Each of the Joint Municipals shall also be entitled to apply for and receive their allocated portion of an additional total amount of $240,000 to support one or more Qualifying Projects subject to the review and approval of I&M, which approval shall not be unreasonably withheld.

(c) The remaining $240,000 shall be available for grants to all eligible customers, including members of the Joint Municipal Group and 39 North Conservancy District, to support Qualifying Projects.

(d) In reviewing potential uses of this fund, priority may be given to grant applications that include matching funds. Such matching funds may come from local, state, federal or private sources.

17.8 I&M's revenue deficiency in this Cause will not be adjusted to include any incremental costs of this program.

17.9 The EIG grant program will terminate on the earliest of the following: allocation of $700,000 fund; December 31, 2021; or the date rates go into effect in I&M's next base rate case. This sunset provision will not preclude I&M from proposing to continue the EIG program in I&M's next base rate case or other proceeding.

18. **Nonresidential Deposits.** The Settling Parties agree to Commission approval of the revised nonresidential deposit tariff language set forth in Settlement Agreement Attachment D. I&M will not seek to change this language until the Company's next base rate case. Prior to proposing any change in its nonresidential deposit tariff language in such future proceeding, I&M will discuss the proposal with the Industrial Group.

D. **Remaining Issues.**

1.1 Any matters not addressed by this Settlement Agreement will be adopted as proposed by I&M in its direct and rebuttal case, including the response to the Commission's January 3 and 10, 2018 docket entries.

1.2 The Settling Parties agree to seek Commission approval, as described in Part II, below so that I&M may complete the compliance filing process and be able to place new rates into effect July 1, 2018.

II. PRESENTATION OF THE SETTLEMENT AGREEMENT TO THE COMMISSION.

1.1 The Settling Parties shall support this Settlement Agreement before the Commission and request that the Commission expeditiously accept and approve the Settlement Agreement. This Settlement Agreement is not severable and shall be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to any Settling Party.

1.2 The Settling Parties agree to the admission of the following evidence in support of the Settlement Agreement: the direct, cross-answering, rebuttal and any settlement evidence prefiled by I&M, the OUCC, and Intervenors, including I&M's and Industrial Group's responses to the Docket Entries dated January 3 and 10, 2018. The Settling Parties will work collaboratively in the preparation of the testimony supporting the Settlement Agreement. Such evidence shall be admitted into the record without objection and the Settling Parties hereby waive cross-examination of each other's witnesses. If the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Settling Party, the Settlement Agreement shall be withdrawn and the Commission will continue to hear Cause No. 44967 with the proceedings resuming at the point immediately prior to the filing of this Settlement Agreement.

1.3 A Commission Order approving this Settlement Agreement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Settling Parties as an Order of the Commission.

III. EFFECT AND USE OF SETTLEMENT AGREEMENT

1.1 It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Settling Party in this or any other litigation or proceeding except to the extent necessary to implement and enforce its terms. It is also understood that

each and every term of this Settlement Agreement is in consideration and support of each and every other term.

1.2 Neither the making of this Settlement Agreement (nor the execution of any of the other documents or pleadings required to effectuate the provisions of this Settlement Agreement), nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

1.3 This Settlement Agreement shall not constitute and shall not be used as precedent by any person or entity in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce this Settlement Agreement.

1.4 This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any Settling Party may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

1.5 The evidence in support of this Settlement Agreement constitutes substantial evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement Agreement, as filed. The Settling Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible after the filing of this Settlement Agreement and the final evidentiary hearing.

1.6 The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Settling Party, and are not to be used in any manner in connection with any other proceeding or otherwise. Sierra Club will only be liable for monetary damages resulting from a breach of this Section if it files, submits, or otherwise publishes confidential settlement material. If any Settling Party believes that Sierra Club has violated this Section in such a way, then such Settling Party shall provide Sierra Club with written notice of the violation and describe it with sufficient information to allow Sierra Club an opportunity to cure it, and such Settling Party shall allow Sierra Club fourteen (14) business days to cure the alleged violation. Notice shall be sent to undersigned counsel for Sierra Club. Sierra Club shall not be entitled to monetary damages for any alleged breach of this Settlement Agreement, and the other Settling Parties shall not be entitled to monetary damages for a breach of this provision by Sierra Club involving filing,

submission or publication of settlement material, that is cured according to the terms of this section. However, any uncured breach by Sierra Club employees shall extinguish I&M's obligations under Section I.B.7 (OVEC Report) of this Settlement Agreement. "Cure" as used in this section shall mean to formally withdraw any filed or submitted statement and to publish a retraction or disavowal of any published statement (via the same media outlet through which the statement was made). Sierra Club will provide the Settling Parties a nonbinding comfort letter stating that it has no intention of making public statements that ask the Commission to not approve the Settlement Agreement and that Sierra Club will not fund litigation by any other organization or person that is adverse to Commission approval of this Settlement Agreement.

1.7 The undersigned Settling Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their respective clients, and their successor and assigns, who will be bound thereby.

1.8 The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of the Commission Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any Settling Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement Agreement).

1.9 The provisions of this Settlement Agreement shall be enforceable by any Settling Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

1.10 This Settlement Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED this 14th day of February, 2018.

INDIANA MICHIGAN POWER COMPANY

Marc E. Lewis
Indiana Michigan Power Company
Vice-President Regulatory and External Affairs
Indiana Michigan Power Center
Fort Wayne, Indiana 46802

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Randall C. Helmen
Indiana Office of Utility Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

INDIANA MICHIGAN INDUSTRIAL GROUP

Bette J. Dodd
Joseph P. Rompala
Anne E. Becker
LEWIS KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

CITIZENS ACTION COALITION OF INDIANA, INC.; INDIANA COALITION FOR HUMAN SERVICES; INDIANA COMMUNITY ACTION ASSOCIATION, INC.; AND SIERRA CLUB

Jennifer A. Washburn
Margo L. Tucker
Citizens Action Coalition
1915 W. 18th Street, Suite C
Indianapolis, Indiana 46202

SIERRA CLUB

Casey Roberts, Attorney for Sierra Club
Sierra Club
1536 Wynkoop Street, Suite 12
Denver, Colorado 80202

Attorney for Sierra Club

ACCEPTED and AGREED this 14th day of February, 2018.

INDIANA MICHIGAN POWER COMPANY

Marc E. Lewis
Indiana Michigan Power Company
Vice-President Regulatory and External Affairs
Indiana Michigan Power Center
Fort Wayne, Indiana 46802

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Randall C. Helmen
Indiana Office of Utility Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

INDIANA MICHIGAN INDUSTRIAL GROUP

Bette J. Dodd
Joseph P. Rompala
Anne E. Becker
LEWIS KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

CITIZENS ACTION COALITION OF INDIANA, INC.; INDIANA COALITION FOR HUMAN SERVICES; INDIANA COMMUNITY ACTION ASSOCIATION, INC.; AND SIERRA CLUB

Jennifer A. Washburn
Margo L. Tucker
Citizens Action Coalition
1915 W. 18th Street, Suite C
Indianapolis, Indiana 46202

SIERRA CLUB

Casey Roberts, Attorney for Sierra Club
Sierra Club
1536 Wynkoop Street, Suite 12
Denver, Colorado 80202

Attorney for Sierra Club

ACCEPTED and AGREED this 14th day of February, 2018.

INDIANA MICHIGAN POWER COMPANY

Marc E. Lewis
Indiana Michigan Power Company
Vice-President Regulatory and External Affairs
Indiana Michigan Power Center
Fort Wayne, Indiana 46802

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Randall C. Helmen
Indiana Office of Utility Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

INDIANA MICHIGAN INDUSTRIAL GROUP

Bette J. Dodd
Joseph P. Rompala
Anne E. Becker
LEWIS KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

CITIZENS ACTION COALITION OF INDIANA, INC.; INDIANA COALITION FOR HUMAN SERVICES; INDIANA COMMUNITY ACTION ASSOCIATION, INC.; AND SIERRA CLUB

Jennifer A. Washburn
Margo L. Tucker
Citizens Action Coalition
1915 W. 18th Street, Suite C
Indianapolis, Indiana 46202

SIERRA CLUB

Casey Roberts, Attorney for Sierra Club
Sierra Club
1536 Wynkoop Street, Suite 12
Denver, Colorado 80202

Attorney for Sierra Club

ACCEPTED and AGREED this 14th day of February, 2018.

INDIANA MICHIGAN POWER COMPANY

Marc E. Lewis
Indiana Michigan Power Company
Vice-President Regulatory and External Affairs
Indiana Michigan Power Center
Fort Wayne, Indiana 46802

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Randall C. Helmen
Indiana Office of Utility Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

INDIANA MICHIGAN INDUSTRIAL GROUP

Bette J. Dodd
Joseph P. Rompala
Anne E. Becker
LEWIS KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

CITIZENS ACTION COALITION OF INDIANA, INC.; INDIANA COALITION FOR HUMAN SERVICES; INDIANA COMMUNITY ACTION ASSOCIATION, INC.; AND SIERRA CLUB

Jennifer A. Washburn
Margo L. Tucker
Citizens Action Coalition
1915 W. 18th Street, Suite C
Indianapolis, Indiana 46202

SIERRA CLUB

Casey Roberts, Attorney for Sierra Club
Sierra Club
1536 Wynkoop Street, Suite 12
Denver, Colorado 80202

Attorney for Sierra Club

THE KROGER CO.

John P. Cook
John P. Cook & Associates
900 W. Jefferson Street
Franklin, Indiana 46131

Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Eric E. Kinder
Lara R. Brandfass
SPILMAN THOMAS & BATTLE, PLLC
300 Kanawha Boulevard, East
P. O. Box 273
Charleston, WV 25321

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, Pennsylvania 17050

CITY OF FORT WAYNE, INDIANA

Brian C. Bosma
Kevin D. Koons
Ted W. Nolting
Kroger Gardis & Regas, LLP
111 Monument Circle Drive, Suite 900
Indianapolis, IN 46204-5125

39 NORTH CONSERVANCY DISTRICT

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350

Keith L. Beall
Beall & Beall
13238 Snow Owl Dr., Ste. A
Carmel, IN 46033

CITY OF MARION, INDIANA; MARION MUNICIPAL UTILITIES; AND THE MUNCIE SANITARY DISTRICT

J. Christopher Janak
Kristina Kern Wheeler
BOSE McKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, Indiana 46204

CITY OF SOUTH BEND, INDIANA

Stephanie Steele
Corporation Counsel
City of South Bend Legal Department
City of South Bend
227 W. Jefferson Blvd., Ste. 1200
South Bend, IN 46601

Robert M. Glennon
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

THE KROGER CO.

John P. Cook
John P. Cook & Associates
900 W. Jefferson Street
Franklin, Indiana 46131

Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Eric E. Kinder
Lara R. Brandfass
SPILMAN THOMAS & BATTLE, PLLC
300 Kanawha Boulevard, East
P. O. Box 273
Charleston, WV 25321

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, Pennsylvania 17050

CITY OF FORT WAYNE, INDIANA

Brian C. Bosma
Kevin D. Koons
Ted W. Nolting
Kroger Gardis & Regas, LLP
111 Monument Circle Drive, Suite 900
Indianapolis, IN 46204-5125

39 NORTH CONSERVANCY DISTRICT

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350

Keith L. Beall
Beall & Beall
13238 Snow Owl Dr., Ste. A
Carmel, IN 46033

CITY OF MARION, INDIANA; MARION MUNICIPAL UTILITIES; AND THE MUNCIE SANITARY DISTRICT

J. Christopher Janak
Kristina Kern Wheeler
BOSE McKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, Indiana 46204

CITY OF SOUTH BEND, INDIANA

Stephanie Steele
Corporation Counsel
City of South Bend Legal Department
City of South Bend
227 W. Jefferson Blvd., Ste. 1200
South Bend, IN 46601

Robert M. Glennon
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

THE KROGER CO.

John P. Cook
John P. Cook & Associates
900 W. Jefferson Street
Franklin, Indiana 46131

Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Eric E. Kinder
Lara R. Brandfass
SPILMAN THOMAS & BATTLE, PLLC
300 Kanawha Boulevard, East
P. O. Box 273
Charleston, WV 25321

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, Pennsylvania 17050

CITY OF FORT WAYNE, INDIANA

Brian C. Bosma
Kevin D. Koons
Ted W. Nolting
Kroger Gardis & Regas, LLP
111 Monument Circle Drive, Suite 900
Indianapolis, IN 46204-5125

39 NORTH CONSERVANCY DISTRICT

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350

Keith L. Beall
Beall & Beall
13238 Snow Owl Dr., Ste. A
Carmel, IN 46033

CITY OF MARION, INDIANA; MARION MUNICIPAL UTILITIES; AND THE MUNCIE SANITARY DISTRICT

J. Christopher Janak
Kristina Kern Wheeler
BOSE McKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, Indiana 46204

CITY OF SOUTH BEND, INDIANA

Stephanie Steele
Corporation Counsel
City of South Bend Legal Department
City of South Bend
227 W. Jefferson Blvd., Ste. 1200
South Bend, IN 46601

Robert M. Glennon
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

DMS 11523359v1

THE KROGER CO.

John P. Cook
John P. Cook & Associates
900 W. Jefferson Street
Franklin, Indiana 46131

Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Eric E. Kinder
Lara R. Brandfass
SPILMAN THOMAS & BATTLE, PLLC
300 Kanawha Boulevard, East
P. O. Box 273
Charleston, WV 25321

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, Pennsylvania 17050

CITY OF FORT WAYNE, INDIANA

Brian C. Bosma
Kevin D. Koons
Ted W. Nolting
Kroger Gardis & Regas, LLP
111 Monument Circle Drive, Suite 900
Indianapolis, IN 46204-5125

39 NORTH CONSERVANCY DISTRICT

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350

Keith L. Beall
Beall & Beall
13238 Snow Owl Dr., Ste. A
Carmel, IN 46033

CITY OF MARION, INDIANA; MARION MUNICIPAL UTILITIES; AND THE MUNCIE SANITARY DISTRICT

J. Christopher Janak
Kristina Kern Wheeler
BOSE McKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, Indiana 46204

CITY OF SOUTH BEND, INDIANA

Stephanie Steele
Corporation Counsel
City of South Bend Legal Department
City of South Bend
227 W. Jefferson Blvd., Ste. 1200
South Bend, IN 46601

Robert M. Glennon
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

DMS 11523359v3

THE KROGER CO.

John P. Cook
John P. Cook & Associates
900 W. Jefferson Street
Franklin, Indiana 46131

Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

Eric E. Kinder
Lara R. Brandfass
SPILMAN THOMAS & BATTLE, PLLC
300 Kanawha Boulevard, East
P. O. Box 273
Charleston, WV 25321

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, Pennsylvania 17050

CITY OF FORT WAYNE, INDIANA

Brian C. Bosma
Kevin D. Koons
Ted W. Nolting
Kroger Gardis & Regas, LLP
111 Monument Circle Drive, Suite 900
Indianapolis, IN 46204-5125

39 NORTH CONSERVANCY DISTRICT

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350

Keith L. Beall
Beall & Beall
13238 Snow Owl Dr., Ste. A
Carmel, IN 46033

CITY OF MARION, INDIANA; MARION MUNICIPAL UTILITIES; AND THE MUNCIE SANITARY DISTRICT

J. Christopher Janak
Kristina Kern Wheeler
BOSE McKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, Indiana 46204

CITY OF SOUTH BEND, INDIANA

Stephanie Steele
Corporation Counsel
City of South Bend Legal Department
City of South Bend
227 W. Jefferson Blvd., Ste. 1200
South Bend, IN 46601

Robert M. Glennon
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

DMS 11523359v3

INDIANA MICHIGAN POWER COMPANY
INDIANA JURISDICTIONAL PROJECTED REQUIRED RATE RELIEF SUMMARY
TEST YEAR ENDED DECEMBER 31, 2018

(1)	(2)	(3)	(4)
Line No.	**Description**	**Source**	**Indiana Jurisdictional Amount**
1	Adjusted Original Cost Rate Base	Exhibit A-6	$ 4,206,643,198
2	Required Rate of Return	Exhibit A-7	5.51%
3	Income Requirement	Line 1 x Line 3	$ 231,786,040
4	Less: Net Electric Operating Income	Exhibit A-5	$ 121,758,922
5	Income Deficiency	Line 3 - Line 4	$ 110,027,118
6	Gross Revenue Conversion Factor	Exhibit A-8	1.3600
7	Jurisdictional Revenue Deficiency	Line 5 x Line 6	$ 149,636,880
8	Remove Transmission Owner Costs, Revenues	Attachment MWN-1	$ 16,645,604
9	Remove Revenue Effect of Load Increase	Settlement	$ (12,846,000)
10	Total Required Rate Relief	Line 7 + Line 8	$ 153,436,484
11	Less: Current Revenue for Ongoing Riders	Attachment MWN-2	$ (259,760,550)
12	Plus: Proposed Rider Revenue	Attachment MWN-2	$ 203,147,072
13	Total Rate Change Before Phase-In Credit	Line 9 + Line 10 + Line 11	$ 96,823,006
14	Forecasted Revenues Before Increase	Attachment MWN-2	$ 1,333,255,521
15	Percent Increase	Line 12 / Line 14	7.26%

INDIANA MICHIGAN POWER COMPANY
EXCESS ACCUMULATED DEFERRED FEDERAL INCOME TAX
AS OF DECEMBER 31, 2017

(1)	TOTAL COMPANY NORMALIZED PROPERTY EXCESS ADFIT (Method/Life) (2)	JURISDICTIONAL PERCENTAGE (3)	JURISDICTIONAL FACTOR (4)	INDIANA NORMALIZED PROPERTY EXCESS ADFIT (Method/Life) (5) = (2) x (3)	AMORTIZATION PERIOD (YEARS) (6)	INDIANA ANNUAL AMORTIZATION EXPENSE (7)=(5) ÷ (6)	GRCF (8)	Annual Revenue Requirement (9)=(7) x (8)
Normalized Property Excess ADFIT								
Indiana Michigan Power - Dist	(106,259,626)	80.29218%	Distribution Plt	(85,318,170)	24	(3,554,924)	1.36	(4,834,697)
Indiana Michigan Power - Gen	(26,428,652)	65.21029%	Production Plt	(17,234,201)	24	(718,092)	1.36	(976,605)
Indiana Michigan Power - Nucl	(165,104,348)	65.21029%	Production Plt	(107,665,024)	24	(4,486,043)	1.36	(6,101,018)
TOTAL I&M	(297,792,626)			(210,217,395)		(8,759,059)		(11,912,320)
Non-Normalized Excess ADFIT								
Indiana Michigan Power - Dist	(35,847,731)	80.29218%	Distribution Plt	(28,782,825)	6	(4,797,154)	1.36	(6,524,129)
Indiana Michigan Power - Gen	(67,065,678)	65.21029%	Production Plt	(43,733,723)	6	(7,288,954)	1.36	(9,912,977)
Indiana Michigan Power - Nucl	(82,927,951)	65.21029%	Production Plt	(54,077,557)	6	(9,012,926)	1.36	(12,257,579)
TOTAL I&M	(185,841,360)			(126,594,205)		(21,099,034)		(28,694,686)
Total Excess ADFIT								
Indiana Michigan Power - Gen, Nuke	(341,526,629)			(222,710,505)		(21,506,015)		(29,248,180)
Indiana Michigan Power - Dist	(142,107,357)			(114,101,095)		(8,352,078)		(11,358,826)
Total Amortization	(483,633,986)			(336,811,600)		(29,858,093)		(40,607,006)

INDIANA MICHIGAN POWER COMPANY
SCHEDULE I - CALCULATION OF DISTRIBUTION DEPRECIATION RATES BY THE REMAINING LIFE METHOD
BASED ON DEPRECIABLE PLANT IN SERVICE AT DECEMBER 31, 2016
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

ACCOUNT NO. (I)	ACCOUNT TITLE (II)	ORIGINAL COST (1) (III)	NET SALVG RATIO (IV)	TOTAL TO BE RECOVERED (V)	CALCULATED DEPRECIATION REQUIREMENT (VI)	ALLOCATED ACCUMULATED DEPRECIATION (VII)	REMAINING TO BE RECOVERED (VIII)	AVG REMAIN LIFE (IX)	RECOMMENDED ANNUAL ACCRUAL AMOUNT (X)	% (XI)
DISTRIBUTION PLANT										
360.1	Land Rights	13,770,217	1.00	13,770,217	2,798,636	3,044,000	10,726,217	51.79	207,110	1.50%
361.0	Structures & Improvements	14,811,177	1.10	16,292,295	2,790,557	3,035,213	13,257,082	62.16	213,308	1.44%
362.0	Station Equipment	244,926,449	1.03	252,274,242	36,122,689	39,289,662	212,984,580	42.84	4,971,629	2.03%
363.0	Storage Battery Equipment	5,488,900	1.00	5,488,900	2,743,560	2,984,095	2,504,805	7.50	333,974	6.08%
364.0	Poles, Towers, & Fixtures	259,353,877	1.78	461,648,901	108,848,960	118,392,043	343,257,858	25.22	13,610,542	5.25%
365.0	Overhead Conductor & Devices	416,967,574	1.10	458,664,331	81,633,703	88,790,749	369,873,582	27.13	13,633,379	3.27%
366.0	Underground Conduit	86,716,318	1.00	86,716,318	18,879,086	20,534,266	66,182,052	41.46	1,596,287	1.84%
367.0	Underground Conductor	228,330,495	1.00	228,330,495	43,827,082	47,669,520	180,660,975	40.40	4,471,806	1.96%
368.0	Line Transformers	306,878,569	1.06	325,291,283	126,605,665	137,705,524	187,585,759	12.22	15,350,717	5.00%
369.0	Services	172,328,184	1.20	206,793,821	57,039,568	62,040,380	144,753,441	27.52	5,259,936	3.05%
370.0	Meters (2)	91,342,472	1.22	111,437,816	37,086,661	40,445,835	70,991,981	11.46	6,194,763	6.78%
371.0	Installations on Custs. Prem.	26,350,180	1.23	32,410,721	11,035,669	12,003,196	20,407,525	8.57	2,381,275	9.04%
373.0	Street Lighting & Signal Sys.	20,562,372	1.12	23,029,857	12,588,570	13,692,244	9,337,613	8.16	1,144,315	5.57%
Total Distribution Plant		1,887,826,784	1.18	2,222,150,197	542,000,408	589,625,727	1,632,523,470	23.53	69,369,040	3.67%

Non-Residential Deposit Language for Inclusion in I&M Tariff Terms and Conditions of Service No. 4

Nonresidential

The Company shall determine the creditworthiness of new and existing non-residential customers in an equitable and nondiscriminatory manner.

A new or existing non-residential customer will be deemed non-creditworthy if either (a) it has had three delinquent payments, had two consecutive delinquent payments, or been disconnected for nonpayment within the last 24 months; or (b) its credit rating is B+ or below for S&P or B1 or below for Moody's.

For purposes of this rule, a new customer does not include a customer who changes its corporate name or corporate structure, or an existing customer who establishes a new account.

The Company may require a deposit from a non-creditworthy customer as a condition of providing or continuing to provide service.

In the event that the Company requires a deposit as a condition for providing or continuing to provide service, then the Company must: (a) provide notice to the new or existing customer stating the precise facts upon which the Company based its decision; (b) provide the new or existing customer with an opportunity to rebut the Company's decision including, but not limited to, the presentation of information such as payment history to other utilities and verifiable data such as independently audited financial statements, analyses of leverage, liquidity, profitability, cash flow and other credit related information; and (c) monitor the customer's account annually (or upon customer request) for deposit requirements validating the customer's creditworthiness with prompt repayment upon customer request once the customer meets the criteria for creditworthiness set forth in this rule. This provision, including the right to contest the need for a deposit, is without prejudice to the customer's right to challenge the deposit demand before the Indiana Utility Regulatory Commission.

Any deposit demanded under this rule will be equal to no more than $1/6^{th}$ the annual billing for a current customer or $1/6^{th}$ expected annual billings of a new customer. The Company shall not aggregate customer accounts for purposes of calculating a deposit, but shall instead calculate a deposit based only on annual billings of an existing customer's delinquent account.

Deposits may be paid in cash, through the provision of a Surety Bond or Irrevocable Letter of Credit, through another method of security approved by the Company, or in three (3) equal monthly payments unless the customer is delinquent, in which case the full deposit is due.

Interest on a deposits shall be earned as follows:

(1) Deposits held for more than twelve (12) months shall earn interest from the date of the deposit to the date of refund at an annual interest rate to be determined by the Indiana Utility Regulatory Commission.
(2) The deposit shall not earn interest after the date it is mailed, personally delivered to the customer or otherwise lawfully disposed of.

In addition to refunds upon the annual review of a customer's creditworthiness by the Company, deposits will be refunded:

(1) Upon the customer's written request, made not more than once a year, and upon establishment of creditworthiness as defined above; or
(2) Within sixty (60) days following termination of service with the deposit applied to any delinquent bills and the remainder paid to the customer.

In the event a customer disputes a portion of a bill in writing to I&M, provided the customer pays all undisputed portions, the bill shall not be considered delinquent. I&M will promptly review the dispute, and the disputed portion of the bill will not be considered delinquent while the bill remains subject to review, including any complaint process initiated at the Indiana Utility Regulatory Commission.

For customers who have made arrangements with I&M for electronic billing, the date the bill will be considered delinquent shall be calculated from the date of electronic transmission of the bill, or such other date as agreed to by the Company and the customer.

I&M shall be able to decline imposition of a deposit that may otherwise be required under this rule based on the individual circumstances of the customer.

INDIANA MICHIGAN POWER COMPANY
INDIANA JURISDICTION
TEST YEAR ENDED DECEMBER 31, 2018
**** Values represent total (base rate + rider) revenues and percentages**

Line No.	Class Description	Present Revenue	Proposed Revenue	Revenue Increase	Settlement Percent Increase
1	Total Residential	$521,919,177	$563,262,179	$41,343,002	7.92%
2	Total GS	$222,373,903	$239,796,534	$17,422,630	7.83%
3	Total LGS	$207,969,942	$223,753,623	$15,783,682	7.59%
4	Total IP	$244,471,017	$264,595,845	$20,124,828	8.23%
5	Total SL	$5,464,144	$5,701,459	$237,314	4.34%
6	OL	$6,576,865	$6,578,819	$1,955	0.03%
7	Total WSS	$10,324,733	$10,749,700	$424,967	4.12%
8	EHG	$786,804	$826,201	$39,397	5.01%
9	IS	$191,135	$228,134	$36,999	19.36%
10	MS	$3,297,880	$3,716,287	$418,407	12.69%
11	Total IRP	$161,108,717	$162,401,711	$1,292,994	0.80%
12	**Total Indiana**	$1,384,484,318	$1,481,610,493	$97,126,175	7.02%
13	Juris IRP	$90,328,027	$90,948,647	$620,620	
14	Non-Juris IRP	$51,228,797	$51,544,193	$315,396	0.62%
15	**Indiana Juris**	$1,333,255,521	$1,430,066,299	$96,810,779	7.26%

INDIANA MICHIGAN POWER COMPANY - INDIANA
TEST YEAR ENDED DECEMBER 31, 2018
PROFORMA RATE SUMMARY

Tariff	Test Year Base + Fuel Revenue	Proposed Base Revenue	Difference	% Difference	Total Test Year Revenue*	Total Proposed Revenue*	Difference*	% Difference*
RS (011,012,013,014,015,016,017,030,035,051,052,053,054, 063)	$376,328,511	$476,938,944	$100,610,433	26.73%	$518,856,389	$559,866,003	$41,007,635	7.90%
RS TOD/OPES (030, 032, 034, 036)	$1,972,687	$2,693,338	$720,650	36.53%	$2,819,769	$3,244,365	$324,608	11.12%
RS TOD2 (021)	$102,424	$129,338	$26,914	26.28%	$141,049	$151,811	$10,762	7.63%
OL Total (090 - 121)	$6,164,793	$6,368,544	$203,751	3.31%	$6,576,865	$6,578,819	$1,955	0.03%
GS LMTOD (223, 225)	$294,363	$427,290	$132,927	45.16%	$513,313	$541,491	$28,178	5.49%
GS TOD 2 (221, 282)	$7,852	$12,522	$4,671	59.49%	$11,382	$14,364	$2,982	26.20%
GS Unmetered (204, 214)	$59,722	$85,627	$25,905	43.38%	$72,954	$94,379	$21,425	29.37%
GS Sec (211, 212, 215, 216, 281, 631)	$138,776,951	$189,856,367	$51,079,416	36.81%	$210,273,394	$227,173,109	$16,899,715	8.04%
GS TOD Sec (226)	$3,247,233	$4,606,990	$1,359,758	41.87%	$5,364,999	$5,711,581	$346,582	6.46%
GS TOD Pri (227)	$3,789	$4,794	$1,004	26.50%	$5,908	$5,899	($9)	-0.16%
GS Pri (217)	$3,836,183	$4,973,541	$1,137,357	29.65%	$5,973,307	$6,096,187	$122,880	2.06%
GS Sub (236)	$95,976	$126,837	$30,861	32.16%	$158,647	$159,525	$878	0.55%
LGS Sec (240, 242)	$151,790,466	$176,406,475	$24,616,009	16.22%	$191,024,528	$204,959,870	$13,935,342	7.30%
LGS LMTOD (251)	$536,143	$763,767	$227,624	42.46%	$715,406	$893,811	$178,405	24.94%
LGS TOD Sec (253)	$4,307,859	$5,831,448	$1,523,589	35.37%	$5,502,771	$6,641,971	$1,139,200	20.70%
LGS TOD Pri (255)	$45,893	$59,591	$13,699	29.85%	$59,111	$70,795	$11,684	19.77%
LGS Pri (244, 246)	$8,055,285	$9,218,420	$1,163,135	14.44%	$10,326,972	$10,824,367	$503,395	4.88%
LGS Sub (248)	$244,294	$277,260	$32,966	13.49%	$322,143	$336,725	$14,582	4.53%
LGS Tran (250)	$19,516	$21,573	$2,057	10.54%	$25,010	$26,084	$1,074	4.29%
IP Sec (327)	$35,476,414	$43,168,514	$7,691,100	21.68%	$45,519,598	$50,328,982	$4,809,385	10.57%
IP Pri (322)	$103,108,763	$123,810,518	$20,701,755	20.08%	$134,788,888	$145,875,654	$11,086,768	8.23%
IP Sub (323)	$35,798,482	$42,962,005	$7,163,643	20.01%	$48,216,881	$51,396,786	$3,179,905	6.60%
IP Tran (324)	$11,716,824	$14,075,488	$2,358,664	20.13%	$15,947,673	$16,994,444	$1,046,771	6.56%
FWSL (525)	$703,795	$776,598	$72,803	10.34%	$935,308	$905,927	($29,381)	-3.14%
ECLS (530)	$3,111,250	$3,425,735	$315,484	10.14%	$3,307,066	$3,536,122	$229,056	6.93%
SLC (531)	$162,119	$173,761	$11,642	7.18%	$191,592	$190,226	($1,366)	-0.71%
SLS (533)	$463,789	$501,680	$47,891	10.55%	$490,141	$521,987	$31,846	6.50%
SLCM (733, 734, 735)	$439,005	$490,757	$51,752	11.79%	$540,038	$547,197	$7,159	1.33%
WSS Sec (545)	$4,142,546	$4,982,422	$839,876	20.27%	$5,444,635	$5,714,549	$269,914	4.96%
WSS Sec TOD (547)	$469,594	$608,272	$138,678	29.53%	$640,532	$704,211	$63,680	9.94%
WSS Pri (546)	$2,639,788	$3,111,891	$472,103	17.88%	$3,549,281	$3,633,411	$84,130	2.37%
WSS Sub (542)	$604,263	$591,437	$87,174	17.29%	$690,286	$697,529	$7,243	1.05%
IS (213)	$132,701	$197,930	$65,228	49.15%	$191,135	$228,134	$36,999	19.36%
EHG (208)	$516,406	$691,413	$175,007	33.89%	$786,804	$826,201	$39,397	5.01%
MS (543, 544)	$2,368,120	$3,163,849	$795,729	33.60%	$3,297,880	$3,716,287	$418,407	12.69%
Interruptible - Firm Portion	$14,484,046	$17,072,534	$2,588,488	17.87%	$18,551,893	$19,908,570	$356,678	1.83%
Total Indiana Firm Revenues	$912,119,824	$1,138,609,469	$226,489,646	24.83%	$1,242,827,494	$1,339,117,653	$96,190,159	7.74%
Interruptible - Jurisdictional	$83,196,536	$88,309,758	$5,113,223	6.15%	$90,328,027	$90,948,647	$620,620	0.69%
Total	$995,316,359	$1,226,919,228	$231,602,869	23.27%	$1,333,255,521	$1,430,066,299	$96,810,779	7.26%
Revenue Verification Difference		$12,227				$12,227		
Total	$995,316,359	$1,226,931,455	$231,615,096	23.27%	$1,333,255,521	$1,430,076,526	$96,823,006	7.26%

*Values represent total (base rate + rider) revenues and percentages

Table TDSIC-1: Distribution Allocation Factors

Rate Class	(1) Distribution Firm Revenue ($)	(2) Distribution Allocation Factor %
RS	$137,405,647	55.911%
GS-SEC	$44,811,826	18.234%
GS-PRI	$620,686	0.253%
GS-SUB	$993	0.00040%
LGS-SEC	$32,187,668	13.097%
LGS-PRI	$1,076,081	0.438%
LGS-SUB	$5,335	0.0022%
LGS-TRAN	$2,695	0.0011%
IP-SEC	$6,413,357	2.610%
IP-PRI	$13,268,572	5.399%
IP-SUB	$61,984	0.025%
IP-TRA	$46,887	0.019%
Total SL	$2,961,471	1.205%
OL	$4,694,609	1.910%
WSS-SEC	$1,026,861	0.418%
WSS-PRI	$349,162	0.142%
WSS-SUB	$8,409	0.0034%
EHG	$162,127	0.066%
IS	$85,783	0.035%
MS	$569,039	0.232%
Total Firm	$245,759,192	

Note: For purposes of recovering approved capital TDSIC expenditures and costs pursuant to IC 8-1-39-9(a), the above distribution allocation factors shall be applied to the respective distribution related revenue requirement to determine each rate class' respective share of the total revenue requirement.