

OFFICIAL
EXHIBITS

FILED
February 20, 2018
INDIANA UTILITY
REGULATORY 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 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.)

IURC
PUBLIC'S
EXHIBIT NO. 13
3-7-18 AT
DATE REPORTER

CAUSE NO. 44967


INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

STACIE R. GRUCA - PUBLIC EXHIBIT NO. 13

FEBRUARY 20, 2018

Respectfully submitted,


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OUCC SETTLEMENT TESTIMONY OF STACIE R. GRUCA
CAUSE NO. 44967
INDIANA MICHIGAN POWER COMPANY

I. INTRODUCTION

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

2 A: My name is Stacie R. Gruca, and my business address is 115 West Washington
3 St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed by the Indiana
4 Office of Utility Consumer Counselor ("OUCC") as the Director of the Electric
5 Division. For a summary of my educational and professional background and my
6 preparation for this case, please see Appendix A attached to my testimony.

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

8 A: I will describe the OUCC's support for the Stipulation and Settlement Agreement
9 ("Settlement Agreement"), entered into and filed on February 14, 2018, by and
10 among Indiana Michigan Power Company ("I&M" or "Company"), the OUCC,
11 I&M Industrial Group (Air Products and Chemicals, Inc., General Motors LLC,
12 I/N Tek L.P., Indiana University South Bend, Marathon Petroleum Company LP,
13 Praxair, Inc., Rea Magnet Wire Company, Inc., The Linde Group and University
14 of Notre Dame du Lac) ("Industrial Group"), Joint Municipals (South Bend, Fort
15 Wayne, Marion, Marion Municipal Utilities and Muncie Sanitary District), Joint
16 Intervenors (Citizens Action Coalition of Indiana, Inc., Indiana Coalition for
17 Human Services, Indiana Community Action Association, and Sierra Club), the
18 Kroger Company, ("Kroger"), Wal-Mart Stores East, LP and Sam's East, Inc.
19 (collectively "Walmart"), and 39 North Conservancy District ("39 North")
20 (collectively the "Settling Parties" and individually "Settling Party"). If approved,

1 the Settlement Agreement will provide certainty regarding critical issues,
2 including revenue requirements, authorized return, and the allocation of I&M's
3 revenue requirement among its various rate classes.

4 **Q: Does the Settlement Agreement balance the interests of I&M and**
5 **ratepayers?**

6 A: Yes. The Settlement Agreement is a product of intense negotiations, with each
7 party offering compromise to challenging issues. The nature of compromise
8 includes assessing the litigation risk that the tribunal will find the other side's case
9 more compelling. While the Settlement Agreement represents a balance of all
10 interests, given the number of benefits provided to ratepayers as outlined in the
11 Settlement Agreement and described below, the OUCC, as the statutory
12 representative of all ratepayers, believes the Settlement Agreement is a fair
13 resolution, supported by evidence and should be approved.

II. RATEPAYER BENEFITS OF SETTLEMENT AGREEMENT

14 **Q: As result of the Settlement Agreement, will I&M's base rates be designed to**
15 **reflect a lower revenue requirement than I&M proposed in its case-in-chief**
16 **filing?**

17 A: Yes. The Settling Parties agreed to an annual basic rates and riders revenue
18 requirement increase of \$96.8 million, which is an approximate \$166.4 million
19 reduction from I&M's as-filed requested basic rates and riders revenue
20 requirement increase of \$263.2 million. As shown on Settlement Agreement
21 Attachment A, this reduces the system-wide revenue increase impact from
22 19.74%, as I&M originally proposed, to 7.26%.¹ This Settlement Agreement

¹ I&M Direct Testimony of Matthew W. Nollenberger, Attachment MWN-2, page 1 of 4 and Settling Parties' Joint Ex. 1, Settlement Attachment A.

1 provision reduces the rate impact for all major classes from I&M's original
2 proposal.

3 **Q: Does the lower revenue requirement take into account adjustments made to**
4 **I&M's filing following the passage of the federal Tax Cuts and Jobs Act of**
5 **2017 ("TCJA")?**

6 **A:** Yes. I&M's requested \$263.2 million basic rates and riders revenue requirement
7 increase was effectively adjusted to approximately \$191.5 million in January
8 2018 following passage of the federal TCJA. In addition to the adjustments
9 resulting from the federal TCJA, and as part of the comprehensive Settlement
10 Agreement, Settling Parties agreed to additional revenue requirement adjustments
11 reducing I&M's annual basic rates and riders revenue deficiency to \$96.8 million.
12 Furthermore, a \$4 million customer credit to reflect the impact of the TCJA on
13 I&M's current 35% corporate income tax rates for the period from the date of the
14 TCJA until new rates go into effect will be reflected on customer bills during July
15 2018 through December 2018, should the Settlement Agreement be approved by
16 the Commission.

17 **Q: What ratepayer benefits are included in the Settlement Agreement?**

18 **A:** Consumer benefits include: 1) a reduced monthly residential customer charge of
19 \$10.50 from I&M's originally proposed \$18.00 charge; 2) a 9.95 percent
20 authorized return on equity (ROE) compared to I&M's current authorized ROE of
21 10.2 percent and proposed increase to 10.6 percent; 3) resolving all issues
22 regarding tax relief due to the federal TCJA, including a \$4 million customer
23 credit noted above; 4) caps on rate recovery of certain regional transmission costs
24 and purchased power costs, as well as a sunset date; 5) creation of a \$700,000

1 Economic Impact Grant program to be funded by I&M; 6) I&M funding of up to
2 \$950,000 for the development of new low-income assistance and weatherization
3 programs in I&M's Indiana service territory; and 7) additional benefits negotiated
4 by the Settling Parties. Consumer benefits are provided in more detail in my
5 testimony below.

III. RETURN ON EQUITY

6 **Q: Please explain the ROE reduction component of the Settlement Agreement.**

7 A: I&M proposed a 10.60% ROE and the OUCC, Industrial Group, Joint Municipals,
8 and 39 North advocated for a considerably lower ROE. As a result of the
9 negotiations, a compromise was reached, resulting in a 9.95% ROE. This reduces
10 I&M's test year revenue requirement by approximately \$13.1 million.
11 Additionally, beginning January 1, 2019, the ROE component of the weighted
12 average cost of capital used in all of I&M's capital riders will be 9.85% until I&M
13 receives an order in its next base rate case.

14 **Q: Does the ROE reduction to capital riders apply to current capital riders, as**
15 **well as any future capital riders that may be established and become effective**
16 **during the Settlement Agreement period?**

17 A: Yes. The ROE reduction applies to both current and future capital riders that may
18 be established and become effective until new rates are established in I&M's next
19 base rate case.

20 **Q: Does the OUCC find the agreed to ROE reasonable and in the interest of**
21 **ratepayers?**

22 A: Yes. A lower ROE benefits ratepayers by reducing the return on rate base
23 reflected in rates that ratepayers must pay. From the OUCC's perspective, the
24 reduction in the ROE to 9.85% for capital riders reflects I&M's reduction in

1 financial risk from more broadly tracked costs, and compensates ratepayers by
2 reducing the return on capital investment that they must pay through capital riders
3 in between rate cases. Thus, the Settlement Agreement establishes a balanced
4 plan that is in the interest of ratepayers.

IV. CAPITAL STRUCTURE

5 **Q: Are there ratepayer benefits in the Settlement Agreement associated with the**
6 **capital structure?**

7 A: Yes. The Settling Parties agreed to adjust I&M's cost of long term debt to 5.04%
8 with regard to the debt cost for the \$300 million Series L bonds, as supported in
9 I&M witness Messner's rebuttal testimony. Additionally, I&M accepted the
10 Industrial Group's recommendation to refinance Series I bonds. Therefore, the
11 cost of capital is adjusted to reflect the refinancing of \$475 million in Series I
12 bonds at an estimated rate of 4.7% on or before July 1, 2018, and amortization of
13 an estimated \$15 million make whole call premium over the life of the
14 replacement debt. Furthermore, the Settling Parties agreed to reduce the cost rate
15 of customer deposits to 2.0% (if that rate is approved by the Commission).
16 Adjustments to the capital structure will result in estimated savings to ratepayers
17 of \$13 million.

V. DEPRECIATION

18 **Q: As part of the Settlement Agreement, did the Settling Parties accept I&M's**
19 **depreciation proposal on Rockport Unit 1 and Unit 2?**

20 A: Yes. The Settling Parties accepted I&M's proposal to depreciate Rockport Unit 1
21 through 2028 and to continue to depreciate Rockport Unit 2 dry sorbent injection
22 ("DSI") through 2025. In addition, the Settling Parties agree that if the Unit 2

1 lease is not renewed, any remaining net plant associated with the Unit 2 DSI
2 equipment will be recovered through Unit 1 depreciation (which is similar to how
3 remaining plant at Tanners Creek was resolved). The remaining Unit 2 plant will
4 continue to be depreciated through 2022 as it is currently.

5 **Q: Did the Settling Parties agree to a depreciation rate for Meter Depreciation**
6 **Expense?**

7 A: Yes. The Settling Parties agreed to a Meter Depreciation rate of 6.78% as
8 proposed by the Industrial Group, which assumes an allocated accumulated
9 depreciation amount of \$40.4 million and a remaining life of 11.46 years.

10 **Q: What is the overall reduction to depreciation expense due to the change in**
11 **depreciation rates?**

12 A: The overall reduction to I&M's total depreciation expense is \$13.5 million from
13 I&M's filed position.

VI. TRANSMISSION COSTS

14 **Q: Were the transmission costs a contentious issue during the settlement**
15 **process?**

16 A: Yes. PJM Network Integration Transmission ("NITS") costs were the most
17 contentious issue in the case for all Settling Parties due to the recent and
18 forecasted significant growth of these charges, which I&M is seeking to recover
19 through its proposed PJM/OSS Rider. I&M wanted assurance that it could
20 recover 100% of its PJM NITS costs due to the substantial increase in its
21 projections. The OUCC and other Intervening parties were very concerned about
22 the large dollar amount and the fact that under I&M's proposal, ratepayers would
23 be obligated to pay 100% of these costs through the PJM/OSS Rider with no
24 dollar limit on I&M's cost recovery.

1 The reasonableness and effect of investment decisions by I&M and its
2 affiliates are complex. AEP East Zone NITS projects built by both Operating
3 Companies and Transcos serve to increase the NITS revenue requirements for the
4 AEP East operating companies, which then get approved at FERC through
5 formula rate filings. The revenue requirement is recovered from AEP East
6 operating companies within the AEP East Zone of PJM. PJM charges are
7 allocated to AEP East Operating Companies through a "Transmission
8 Agreement," which results in I&M's PJM NITS costs reflecting projects across
9 the AEP East footprint. Therefore, the OUCC and Intervenor identified a need to
10 limit the NITS project costs recovered by Indiana ratepayers and to explore the
11 NITS projects and associated costs in more detail.

12 **Q: Did Settling Parties reach a compromise regarding the recovery of PJM**
13 **costs?**

14 **A:** Yes. The Settling Parties reached a compromise that addressed the Settling
15 Parties' issues. Those compromises were:

- 16 1) I&M may recover 100% of its Indiana jurisdictional NITS
17 charges through its annual PJM Rider subject to the cap
18 described in the Settlement Agreement;
- 19 2) I&M will provide the OUCC up to \$100,000 for the costs of a
20 consultant, travel expenses, or other non-salary costs to review
21 PJM matters;
- 22 3) Beginning in 2018, I&M will provide to the OUCC and other
23 interested Settling Parties an annual projection of I&M and
24 I&M Transco NITS capital projects subject to the terms of the
25 Settlement Agreement;
- 26 4) PJM non-NITS and administrative costs will be embedded in
27 base rates at the test year amount of \$34,312,433 and then
28 tracked through the PJM Rider; and

1 5) Tracking of PJM costs will sunset on the earlier of December
2 31, 2021, or the date rates go into effect in I&M's next base
3 rate case.

4 **Q: How do the compromises made by Settling Parties with regard to**
5 **transmission costs benefit ratepayers?**

6 A: The compromise made by Settling Parties provides limitations on I&M's PJM
7 NITS cost recovery. The annual cumulative caps based on I&M's forecasted
8 costs provide flexibility, allowing I&M to recover costs over or under its annual
9 forecasted amounts during the July 1, 2018 through December 31, 2021 period.
10 The cap also limits the total PJM NITS costs I&M can recover from ratepayers
11 through the designated period and may provide I&M more incentive to control
12 project costs. As provided in the Settlement Agreement, the total cumulative PJM
13 NITS charges recovered through the PJM/OSS Rider over the three and a half
14 year period (July 1, 2018 through December 31, 2021) cannot exceed
15 \$823,117,171, which is the sum of I&M's forecasts for that same period.

16 The sunset date of December 31, 2021, or the date rates go into effect in
17 I&M's next base rate case, limits the time I&M is allowed to recover PJM NITS
18 costs. Any future recovery of such costs beyond that point will require recovery
19 of these costs to be re-evaluated and approved by the Commission.

20 I&M has agreed to reimburse the OUCC up to \$100,000 for the costs of a
21 consultant, travel expenses, or other non-salary costs to review I&M and AEP
22 PJM NITS project costs. PJM NITS projects consist of baseline, supplemental,
23 and, if separately identified, non-topology projects, as the term "non-topology" is
24 used in I&M's response to OUCC DR 51-01. (Settlement Agreement I.A.3.1f).
25 While PJM reviews NITS baseline projects for compliance with PJM's system

1 reliability criteria, PJM provides a relatively minor role in the planning of NITS
2 projects. PJM does not perform a cost-benefit analysis for any NITS projects;
3 PJM NITS project costs are allocated solely to the zone in which the project is
4 located, and the projects are proposed by transmission owners. These funds, along
5 with the additional reporting described below, provides the OUCC the ability to
6 review I&M and AEP PJM NITS project costs during the sunset period.

7 I&M has also agreed to provide the OUCC and other Settling Parties
8 detailed reporting about I&M and I&M Transco NITS capital projects, aggregate
9 data concerning other NITS capital projects by AEP operating companies or
10 Transcos in the AEP East Zone, as well as meeting with the OUCC and interested
11 Settling Parties to discuss variances of such capital projects. This will provide
12 more transparency and allow the OUCC and Interested Parties to better
13 understand NITS projects and associated costs, which are projected to increase
14 significantly throughout the forecast period.

15 I&M also agreed to OUCC witness Michael Eckert's proposal to embed
16 PJM non-NITS administrative costs at the test year amount of \$34,312,433, and to
17 track up and down any incremental amount through the PJM/OSS Rider.

VII. TAX REFORM

18 **Q: Does the Settlement Agreement reflect the impacts of the 2017 Tax Cuts and**
19 **Jobs Act?**

20 **A:** Yes. The impacts of the TCJA lowered I&M's revenue requirement by
21 approximately \$85 million; seven (7) areas were impacted by the TCJA and
22 addressed in this Settlement Agreement.

- 1) A test year tax expense adjustment for the 2017 TCJA reduces I&M's test year revenue requirement by approximately \$6.8 million.
- 2) 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, which increases I&M's test year revenue requirement by approximately \$6.2 million.
- 3) The change in Federal Income Taxes reduces the Gross Revenue Conversion Factor from 1.68 to 1.36, which reduces I&M's test year revenue requirement by approximately \$43.8 million.
- 4) Normalized Excess ADIT created by the TCJA will be amortized over the remaining life of the assets, estimated to be twenty-four (24) years, as required by statute.² The annual amortization is estimated to be \$8.8 million, which will reduce I&M's test year revenue requirement by approximately \$11.9 million. To the extent that the 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.
- 5) Non-Normalized Excess ADIT created by the TCJA will be amortized over approximately six (6) years, for an annual amortization of \$21.1 million.³ This reduces I&M's test year revenue requirement by approximately \$28.7 million.
- 6) Due to the impact of the TCJA on I&M's rates during the period January 1, 2018 through June 30, 2018, I&M will provide a \$4 million credit to customers during the period July 1, 2018, through December 31, 2018.
- 7) 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 the Parties may have raised in Cause No. 45032 with respect to I&M.

² "Normalized" ADIT is calculated on a utility's physical assets, and the amortization of the excess must be over the remaining life of assets.

³ "Non-Normalized" ADIT is calculated on non-physical assets, and the amortization period for the excess is whatever period authorized by the Commission. The parties have agreed to a period of six (6) years.

1 Additionally, impacts of the TCJA that affect costs recovered through I&M's
2 riders will be reflected and flowed back to customers in I&M rider factor updates.

VIII. RIDERS

3 **Q: As part of the Settlement Agreement, did I&M agree to eliminate riders that**
4 **are no longer in use?**

5 A: Yes. I&M will eliminate its Depreciation Credit Rider, Capacity Settlements
6 Rider, and Environmental Compliance Cost Rider, as proposed in its case-in-
7 chief. Settling Parties also agreed to eliminate (as opposed to "shelving") riders
8 not currently in use, as recommended by OUCC witness Michael Eckert.
9 Eliminated riders include I&M's Federal Mandate Rider, Clean Coal Technology
10 Rider, and Solar Power Rider.

11 **Q: Did the Settling Parties agree to allow I&M to implement a Resource**
12 **Adequacy Rider ("RAR")?**

13 A: Yes. As proposed by I&M in its case-in-chief, I&M may embed its Indiana
14 Jurisdictional forecasted test year purchased power amount of \$110,781,428 in
15 base rates and recover incremental amounts above and below this base rate
16 amount though its RAR. However, costs subject to recovery through the RAR
17 will be capped at \$393,024,722 on a cumulative basis, representing the total
18 Indiana Jurisdictional forecasted expenses for July 1, 2018 through the sunset date
19 of December 31, 2021. This holds I&M to its forecasted purchase power amounts
20 and it cannot exceed the forecasted amount during the July 1, 2018 through
21 December 31, 2021 period. In addition, the RAR will sunset on the earlier of
22 December 31, 2021, or the date rates go into effect in I&M's next base rate case.

1 **Q: Are there any other Riders that I&M will implement as a result of the**
2 **Settlement Agreement?**

3 A: Yes. The Settling Parties agreed to I&M's proposed implementation of a Phase-
4 In Rider that will allow I&M to increase its base rates to reflect in-service rate
5 base as of December 31, 2018. As part of the Phase-in Rider, I&M will certify⁴
6 its net plant at test-year end and calculate the resulting Phase II rates, which will
7 go into effect on the date that I&M certifies its test year-end net plant or January
8 1, 2019, whichever is later. Net plant for Phase II rates will not exceed the lesser
9 of (a) I&M's forecasted test-year-end net plant or (b) I&M's certified test-year-
10 end net plant. I&M will serve all Settling Parties with its certification. The
11 OUCC and intervening parties will have sixty (60) days from the date of
12 certification to state any objections to I&M's certified test-year-end net plant. If
13 there are objections, a hearing will be held to determine I&M's actual test-year-
14 end net plant, and rates will be trued-up with carrying charges retroactive to
15 January 1, 2019.

16 **Q: What treatment for OSS margins did the Settling Parties agree to in I&M's**
17 **proposed PJM/OSS Rider?**

18 A: The Settling Parties agreed to a 95/5 split, which means that 95% of annual off-
19 system sales margins above zero dollars will be credited to customers and 5% will
20 be retained by I&M, with zero margins embedded in base rates.

21 **Q: What is the benefit to ratepayers that results from this type of treatment for**
22 **OSS margins?**

23 A: Ratepayers will now receive 95% of the margins (profits) that result from OSS

⁴ As provided in the Settlement Agreement, "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 are used and useful in providing utility service as of the date of certification.

1 and will only be required to share 5% of profits with I&M. From the OUCC's
2 perspective, flowing through 95% of OSS margins is an offset to ratepayers who
3 are paying I&M's retail rates to support the operation and maintenance expenses
4 and provide a return of and a return on the assets that support OSS. Ratepayers
5 also pay rates that reflect the PJM administrative fees that provide for PJM to
6 administer OSS of I&M's excess generation. Given I&M's participation in PJM,
7 the OUCC believes it is no longer necessary to provide I&M an incentive to
8 maximize its OSS.

9 The Settlement Agreement also provides for no embedded amount of OSS
10 margins in base rates, so that 100% of OSS margins (above zero dollars) will be
11 tracked through I&M's proposed PJM/OSS Rider. This is consistent with I&M's
12 original position, and unopposed by the OUCC in its case-in-chief. Due to the
13 fluctuation of OSS margins historically and as forecasted by I&M, 100% tracking
14 of OSS margins will not only simplify the calculation of the OSS margin
15 component of I&M's proposed OSS/PJM Rider, but will also provide
16 transparency in the flow through of OSS margins.

IX. VARIOUS CUSTOMER PROGRAMS

17 **Q: Has I&M agreed to implement and fund certain programs for various**
18 **customers in its service territory?**

19 **A:** Yes. I&M has agreed to implement and fund the following programs for
20 qualifying customers:

- 21 1) A two (2) year Low Income Arrearage Forgiveness Pilot
22 Program will provide an opportunity for low income customers
23 to catch up on their electric bills.

- 1 2) A two (2) year pilot of the Neighbor to Neighbor Pilot Program
2 will give I&M's customers an opportunity to voluntarily
3 contribute on their electric bills to a fund that will be used to
4 offset the bills of eligible LIHEAP participants and LIHEAP
5 qualified applicants.
- 6 3) In a two (2) year pilot of an Energy Share Program, I&M will
7 provide \$250,000 to the community action program network of
8 Indiana Community Action Association to assist low income
9 customers in I&M's Indiana service area to pay their winter
10 electricity bills.
- 11 4) I&M will provide a \$150,000 contribution to the community
12 action program network of Indiana Community Action
13 Association, to facilitate low-income weatherization in I&M's
14 Indiana service territory.
- 15 5) The City of South Bend and the City of Fort Wayne are
16 establishing weatherization and efficiency programs for low-
17 income residents. As part of their respective programs, each
18 City will refer eligible I&M customers to I&M's existing
19 programs / incentives and facilitate the customer's successful
20 participation. I&M's EE/DSM team will reasonably collaborate
21 with each City's staff to increase the outreach of I&M's
22 existing programs. Collaborations may include locally-targeted
23 marketing and outreach, training City staff on
24 programs/incentives, and participating in specific energy
25 events or outreach initiatives.
- 26 6) I&M will collaborate with Fort Wayne, South Bend, and
27 regional partners on the design and possible implementation of
28 a voluntary electric vehicle charging program for each
29 community.
- 30 7) I&M will establish an Economic Impact Grant ("EIG")
31 program to assist with economic development in the
32 communities within its service territory as described in the
33 Settlement Agreement.

34 **Q: Why was it important to implement these customer programs?**

35 A: These programs will assist I&M customers who are in need, support the use of
36 electric vehicles by providing more charging stations, and promote economic
37 development in I&M's territory.

1 **X. CONSUMABLES AND EMISSION ALLOWANCES**

2 **Q: Did I&M agree to embed an amount for emission allowances and**
3 **consumables costs in base rates, as a result of the Settlement Agreement?**

4 **A:** Yes. Consistent with OUCC witness Wes Blakley's testimony, I&M agreed to
5 embed the Indiana Jurisdictional amount of \$11,546,212 in base rates for
6 emission allowances and consumables for projects completed and in rate base.
7 I&M will only be allowed to track emission allowances and consumables costs
8 related to new projects approved by the Commission.

XI. DEFERRED ACCOUNTING

9 **Q: What is the Settling Parties' agreement regarding deferred accounting?**

10 **A:** I&M may continue to use deferred accounting for Major Storms as proposed by
11 I&M and accepted by OUCC witness Wes Blakley. The Settling Parties also
12 agreed to allow I&M to use deferred accounting for Dry Cask Storage. However,
13 consistent with the OUCC's filed testimony position, I&M may not use deferred
14 accounting for vegetation management.

XII. OPERATIONS REVENUE AND EXPENSE ADJUSTMENTS

15 **Q: Please describe the major Operating Revenue and Expense adjustments**
16 **agreed to by the Settling Parties.**

17 **A:** The Settling Parties agreed to the payroll expense adjustments and load forecast
18 adjustment as recommended by OUCC witness Lafayette Morgan, as adjusted by
19 I&M witnesses Lucas and Burnett. These adjustments provide more up-to-date
20 information on I&M's forecasted test year. In addition, the Settling Parties agreed
21 to I&M's proposal with regard to allocation of interruptible customer revenue, in
22 exchange for 1) extending the amortization period for the Cook turbine deferral
23 from three years to the life of the facility (17.92 years) and 2) extending the

1 amortization period of the deferred 20% Rockport DSI non-FMR costs from three
2 years to the remaining life of the DSI (8.35 years), as proposed by Industrial
3 Group witness Brian Andrews.

XIII. COST OF SERVICE STUDY/RATE DESIGN

4 **Q: Please explain how the Settlement Agreement's revenue allocation was**
5 **determined.**

6 A: The Settling Parties spent significant time negotiating a fair and reasonable
7 revenue class allocation to allocate the costs of service among all rate classes. As
8 stated in Settlement Agreement Section I.B.1.1, the agreed allocation is without
9 reference to any specific cost allocation methodology, and was determined strictly
10 for settlement purposes. I discussed the Settlement Agreement allocation with
11 OUCC staff experts and we concluded it is a fair compromise.

12 **Q: What Settlement considerations were important to the OUCC in regard to**
13 **the revenue allocation?**

14 A: The OUCC was especially concerned about revenue allocation and any resulting
15 rate increase to the residential and commercial customers. It was important to the
16 OUCC to keep customer class rate increases as close as possible to the system-
17 wide increase of 7.26%, as demonstrated on Settlement Agreement Attachment A.

18 **Q: Does the Settlement Agreement include a modification to the monthly**
19 **customer charge?**

20 A: Yes. As part of the comprehensive settlement package, the Settling Parties
21 reached a compromise on the fixed charge. Originally I&M proposed a 147% or
22 \$10.70 increase in the residential fixed charge (\$7.30 to \$18.00). The proposed
23 increase in the monthly charge was a recurring theme of ratepayers testifying at
24 the three field hearings and in the submission of written comments. The issue

1 was addressed in testimony of the OUCC, Joint Intervenors, and the City of South
2 Bend in this Cause. The monthly customer charge was the subject of intense
3 negotiations. Through compromise, Settling Parties agreed to a monthly customer
4 charge of \$10.50, an increase of 44% or \$3.20. I&M also agreed to a monthly
5 customer charge of \$11.50 for Tariff RS-TOD (time of day tariff).

XIV. RECOMMENDATIONS

6 **Q: What is the OUCC recommendation to the Commission?**

7 A: The OUCC recommends the Commission find the unopposed Settlement
8 Agreement to be in the public interest and approve it in its entirety.

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

10 A: Yes.

APPENDIX A

1 **Q: Please summarize your professional background and experience.**

2 A: I graduated from Indiana University, Indianapolis, with a Bachelor of Science
3 degree in Business, majoring in Accounting, Finance, and International Studies. I
4 became Director of the OUCC's Electric Division in August 2017. Prior to that I
5 was Assistant Director (February 2017-August 2017), Senior Utility Analyst
6 (2011-2017) and Utility Analyst II (2006-2011), all within the OUCC's Electric
7 Division. I began my regulatory career with the OUCC in 2003 as a Utility
8 Analyst in the Electric Division. I attended "Practical Skills for the Changing
9 Electric and Gas Industries," sponsored by the National Association of Regulatory
10 Utility Commissioners ("NARUC") and the New Mexico State University Center
11 for Public Utilities, in Albuquerque, New Mexico. I also attended the 2003
12 Annual Regulatory Studies Program sponsored by NARUC and the Institute of
13 Public Utilities at Michigan State University in East Lansing, Michigan, and the
14 37th Annual Eastern NARUC Utility Rate School sponsored by NARUC and the
15 Institute of Public Utilities at Michigan State University in Clearwater, Florida.

16 **Q: Please describe your duties and responsibilities at the OUCC.**

17 A: I supervise staff within the OUCC Electric Division. I also review Indiana
18 electric utilities' requests for regulatory relief filed with the Commission. When
19 necessary, I prepare and present testimony based on the results of my analysis and
20 make recommendations to the Commission on behalf of Indiana electric utility
21 consumers.

22 **Q: Have you previously testified before the Commission?**

23 A: Yes.

1 **Q: Please describe the examination and analysis you conducted in order to**
2 **prepare your testimony and schedules in this Cause.**

3 A: I read I&M's petition, prefiled testimony, and responses to the Commission's
4 docket entry with respect to the tax reform impact. In addition, I reviewed certain
5 I&M attachments and workpapers. I read the OUCC's and Intervenor's prefiled
6 testimony, participated in conference calls with I&M Staff, and reviewed various
7 responses to data requests. Furthermore, I participated in settlement discussions
8 with Settling Parties and reviewed the Settlement Agreement filed before the
9 Commission on Wednesday, February 14, 2018.

AFFIRMATION

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

A handwritten signature in cursive script, reading "Stacie R. Gruca", written in dark ink.

Stacie R. Gruca
Electric Division Director
Indiana Office of Utility Consumer Counselor

February 20, 2018

Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC Settlement Testimony of Stacie R. Gruca* has been served upon the following counsel of record in the captioned proceeding by electronic service on February 20, 2018.

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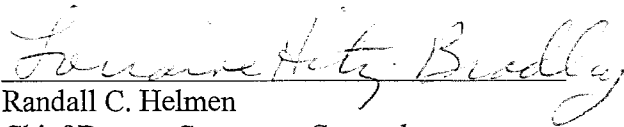
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