

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER)
COMPANY (I&M) FOR APPROVAL OF (1) ISSUANCE TO I&M)
OF CERTIFICATES OF PUBLIC CONVENIENCE AND)
NECESSITY UNDER IND. CODE § 8-1-8.5-2 FOR THE)
ACQUISITION AND DEVELOPMENT THROUGH PURCHASE)
SALE AGREEMENTS (PSA) OF TWO SOLAR POWER)
GENERATING FACILITIES TO BE KNOWN AS LAKE)
TROUT, AND MAYAPPLE (CLEAN ENERGY PSA)
PROJECTS); (2) TO THE EXTENT NECESSARY, ISSUANCE)
OF AN ORDER PURSUANT TO IND. CODE § 8-1-2.5-5)
DECLINING TO EXERCISE JURISDICTION UNDER. IND.)
CODE § 8-1-8.5-5(e) (3) APPROVAL OF EACH PSA PROJECT)
AS A CLEAN ENERGY PROJECT UNDER IND. CODE § 8-1-8.8-)
11; (4) APPROVAL OF TWO SOLAR RENEWABLE ENERGY)
PURCHASE AGREEMENTS FOR PROJECTS TO BE KNOWN)
AS ELKHART COUNTY AND SCULPIN (CLEAN ENERGY)
PPA PROJECTS) AS CLEAN ENERGY PROJECTS UNDER)
IND. CODE § 8-1-8.8-11; (5) ASSOCIATED TIMELY COST)
RECOVERY UNDER IND. CODE § 8-1-8.8-11 FOR ALL PSA)
AND PPA PROJECTS; AND (6) OTHER ACCOUNTING AND)
RATEMAKING AUTHORITY.)

CAUSE NO. 45868

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 3

TESTIMONY OF OUCC WITNESS BRIAN R. LATHAM

MAY 19, 2023

Respectfully submitted,

T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS BRIAN R. LATHAM
CAUSE NO. 45868

INDIANA MICHIGAN POWER COMPANY

I. INTRODUCTION

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

2 A: My name is Brian R. Latham, and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer
6 Counselor's ("OUCC") Electric Division. A summary of my educational
7 background and experience is included in Appendix A attached to my testimony.

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

9 A: Yes.

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

11 A: I discuss Indiana Michigan Power Company's ("I&M" or "Petitioner") proposed tax
12 treatment for its two planned purchase sale agreement projects ("Clean Energy
13 PSA projects"), the Lake Trout and Mayapple projects. My testimony is in
14 response to portions of I&M witnesses Williamson and Hodgson testimonies.

15 **Q: To the extent you do not address a specific item or adjustment, should that be**
16 **construed to mean you agree with Petitioner's proposal?**

17 A: No. The absence from my testimony of a reference to any specific item or
18 adjustment proposed by I&M does not indicate my approval of that item or
19 adjustment. Furthermore, I am offering no opinion on the validity of the
20 underlying data I&M offered, or the propriety of I&M's proposed methodologies.

II. RELIEF REQUESTED

1 **Q: What tax treatment is I&M requesting in this cause?**

2 A: I&M plans to utilize production tax credits (“PTC”) rather than investment tax
3 credits (“ITC”) for its Clean Energy PSA projects. PTC benefits are generally
4 available for a ten-year period beginning when the asset is placed in service.
5 Petitioner is requesting to amortize its PTC benefits over twenty years.

6 **Q: What are the differences between the PTC and the ITC?**

7 A: The ITC is a one-time credit based on a percentage of the project’s capital cost
8 whereas the PTC is a credit spread over ten years and is based on electricity
9 generated. In the case of I&M, the ITC credit benefit must be normalized over the
10 regulatory life of the project. Normalization spreads the ratepayer benefits over
11 the depreciable life of the project. PTC is not subject to normalization rules that
12 govern the ITC, hence the ten-year PTC recovery period.

13 **Q: What are the benefits to ratepayers if I&M uses the PTC instead of the ITC?**

14 A: The net present value (“NPV”) of the expected PTC is \$87 million greater than
15 NPV of the expected ITC. Both PSA projects (Lake Trout and Mayapple)
16 individually have PTC NPVs that are \$42 million higher than their respective ITC
17 NPVs.¹ This result is consistent with other comparable analyses performed by
18 other utilities.

¹ Direct Testimony of Andrew Williamson, p. 10, Figure AJW-2.

1 **Q: What is the PTC credit amount?**

2 A: The PTC credit is \$0.0275 per kilowatt hour.² The PTC offers 10% bonus credits
3 for projects that meet energy community requirements and domestic content
4 requirements, respectively. If I&M meets these requirements, I&M would be
5 allowed to earn PTC at 120 percent or \$0.033 per kilowatt hour (1.2 * \$0.0275).

6 **Q: Does I&M anticipate meeting the requirements to earn the PTC bonus**
7 **credits?**

8 A: I&M anticipates meeting the requirements to earn PTC at the 100 percent level but
9 is unable to determine if it will be able to meet the requirements necessary for
10 either bonus PTC.³

11 **Q: Are there any limitations using PTC credits?**

12 A: Yes. PTCs are a component of General Business Credits which are limited to 75
13 percent of the taxpayer's tax liability prior to applying any credits. These credits
14 may be carried forward for up to twenty years or back one year to offset tax
15 liabilities.

16 **Q: How are carried forward PTC credits recognized for accounting purposes?**

17 A: Carried forward PTC credits are recognized as a deferred tax asset on the balance
18 sheet. Deferred tax assets are considered accumulated deferred federal income

² United States, Internal Revenue Service. "Credit for Renewable Electricity Production and Publication of Inflation Adjustment Factors and Reference Prices for Calendar Year 2022; Correction. 87 Fed. Reg. 2704 (May 6, 2022).

³ Direct Testimony of David Hodgson p. 8, ll. 14-20.

1 taxes which will be included in the Company's weighted average cost of capital in
2 future base cases, as cost-free capital.⁴

3 **Q: Are PTCs transferrable to third parties?**

4 A: Yes. PTCs are transferrable with the qualification that any amount paid by a
5 taxpayer as consideration for a credit must be in cash.⁵

6 **Q: How is Petitioner proposing to utilize PTCs for the benefit of I&M's**
7 **customers?**

8 A: Petitioner proposes to utilize deferral accounting to extend PTCs over twenty
9 years. I&M states that this proposal will provide greater rate equity among
10 customers over the life of the resource. I&M also states that spreading the PTC
11 provisions over 20 years increases its cash flows and reduces risk that its credit
12 risk will raise increasing its cost of debt.⁶

13 As PTCs are earned I&M will defer the difference between the produced
14 PTC value and the annual amortized PTC expense as a regulatory liability. The
15 regulatory liability would reduce I&M's rate base and provide ratepayers a return
16 based on Petitioner's weighted average cost of capital. PTCs generated will be
17 either utilized to offset a tax liability or monetized through a third-party sale. The
18 difference in the face value of the credit and the net proceeds of any PTC transfers
19 will reduce the net realized value of the PTC and therefore the regulatory liability.⁷

⁴ Hodgson Direct, p. 9, ll. 20-22.

⁵ Hodgson Direct, p. 11, ll. 3-10.

⁶ Direct Testimony of Andrew Williamson, p. 12, ll. 1-6.

⁷ Williamson Direct, p. 11, ll. 8-10.

III. RECOMMENDATIONS

1 **Q: Does the OUCC recommend the Commission accept I&M's proposal**
2 **regarding its PTC treatment?**

3 A: No. The OUCC recommends several changes regarding how Petitioner plans to
4 treat PTC, as identified below.

5 **Q: Does the OUCC accept Petitioner's plan to estimate the PTC and return the**
6 **credit to rate payers over twenty years.**

7 A: No. Ratepayers deserve the credit in a timely manner. Spreading the PTC over 20
8 years is arbitrary and only serves to delay ratepayers their reduced rate. The OUCC
9 recommends eleven years instead of twenty. Eleven years gives Petitioner one year
10 past its ten-year PTC recovery period to return the credit to ratepayers. A twelfth
11 year could be added if a true-up is necessary.

12 Cash flow from I&M's parent company's ("AEP") perspective is likely
13 immaterial. AEP increased its dividend from \$0.70 per quarter in August 2020 to
14 \$0.83 per quarter in November 2022,⁸ an increase of 18.6 percent. AEP's dividend
15 yield (as of February 8, 2023, its last ex-dividend date), was 3.45 percent.⁹ The
16 sector average dividend yield was 2.93 percent.¹⁰ Cash flow does not appear to be
17 an issue to I&M or AEP. Even if cash flow is an issue to I&M or AEP, the PTC
18 credit belongs to ratepayers and should be returned to ratepayers in an expeditious
19 manner.

⁸ <https://www.tipranks.com/stocks/aep/dividends>, April 19, 2023, included as Attachment BL-1.

⁹ *Id.*

¹⁰ *Id.*

1 **Q: Does the OUCC have any recommendations regarding how Petitioner**
2 **accounts for the PTC return to ratepayers?**

3 A: Yes. The OUCC recommends that both I&M and AEP's taxable income should be
4 considered when valuing PTC amounts. If either I&M or AEP has taxable income
5 at a level that allows full recovery of the PTCs, ratepayers should receive the full
6 value of the PTCs. This eliminates the possibility that Indiana ratepayers do not
7 receive full credit because operations outside Indiana are not profitable for AEP.

8 The OUCC also recommends that the estimated PTC be returned to
9 ratepayers each year with any over or under recovery netted against the following
10 year's estimated recovery. This treatment encourages Petitioner to monetize any
11 PTCs that are not used to offset I&M's or AEP's taxes (hypothetical taxes in the
12 case of I&M) in the twelve months following year end. Year eleven would be the
13 final reconciling year that would ensure that ratepayers recover the full amount of
14 the PTC benefit. If year ten PTC was monetized due to a sale in year eleven, a
15 twelfth year could be added if the reconciliation is material.

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

17 A: Yes.

APPENDIX A

QUALIFICATIONS OF BRIAN R. LATHAM

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from Northern Illinois University in DeKalb, Illinois, with a bachelor's
3 degree in accounting. I then attended Illinois State University in Normal, Illinois,
4 and obtained a master's degree in accounting. In addition, I have participated in
5 various continuing education programs sponsored by my current and former
6 employers.

7 I began my employment in 1992 as a Staff Accountant with OSI Industries
8 (Aurora, Illinois). In 1995, I was hired as a cost accountant at Rexnord in
9 Milwaukee, Wisconsin. In 1998, I was hired as a cost accounting manager at
10 Morton Metalcraft (Morton, Illinois) eventually promoted to a Controller role at
11 Illinois Machine and Tool Works. In 2001, was hired at Hamernik Associates,
12 where I was a work-out and bankruptcy consultant. I was an independent financial
13 recruiter in 2007 and 2008. In March 2008, I was hired as Vice President of
14 Finance for Junior Achievement of Central Indiana. In 2009, I was hired as a
15 Utility Analyst for the Indiana Utility Regulatory Commission, where I worked as
16 a member of the Water Division Staff, reviewing water and wastewater utility
17 filings and making recommendations based on witness' testimony and Indiana
18 law. In 2018, I was hired as Controller for Aqua Indiana, where I was responsible
19 for Aqua Indiana's financial operations, and my roles included the oversight and
20 accountability of the monthly, quarterly, and annual financial closings and

1 reporting, SOX and audit compliance, budget, forecasting, and five-year planning,
2 regulatory petitions, acquisitions, and other strategic projects. After a short stint as
3 Controller at Senior Home Companions, I was hired at the OUCC as a Utility
4 Analyst in October 2022.

5 At the OUCC I have provided written testimony ranging from rate cases to
6 clean energy generation facilities and regional transmission organization
7 adjustments. I have worked on demand supply management relationships and
8 commission investigation teams. I attended the NARUC Staff Subcommittee on
9 Accounting and Finance Spring Conference in early April 2023.

Your First Week of Workouts at Life Time

Ad By Life Time

[Learn More](#)

American Electric Power (AEP) Dividend Date & History

[+ Follow](#)

1,853 Followers

[+ Portfolio](#)

[Tesla Reporting Q1 Today – Will it Beat Earnings Again?](#)

[Pre-Earnings Report](#)

X



Type Expert or Stock

Enter symbol for dividends data



[Go Premium](#)

[Research Tools](#)

[Experts](#)

[News](#)

[Smart Portfolio](#)

[More](#)

[Plans](#)

[Login](#) | [Join](#)

\$92.89 +0.42 (+0.45%)

Real Time

[Stock Analysis](#)

[Analyst Forecasts](#)

[Cookie Privacy Statement](#) New

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).

[Earnings](#)

Dividend Data

Last Ex-Dividend Date

Feb 08, 2023

Payment date

Dividend Amount Per Share

\$0.83

Dividend Yield

3.45%

Utilities Sector

Payout Ratio

63.18%



Dividend Growth

14 years ago

[Analyst Consensus >](#)

Moderate Buy

Dividends

- Financials
- News & Insights
- Insider Trading
- Crowd Wisdom
- Hedge Funds
- Similar Stocks
- Blogger Opinion
- Risk Analysis

Mar 09, 2023	Quarterly	Average: 2.992%	Since 2009
--------------	-----------	-----------------	------------

[Open AEP in Dividend Calculator >](#)

Dividend Amount Per Share



[Daily Dividend Calendar >](#)

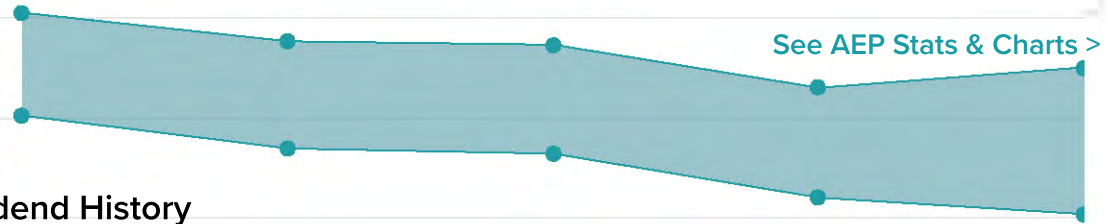
AEP Dividend Yield Range



Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).





AEP Dividend History

Ex-Date	Amount	Frequency	Declaration Date	Record Date	Payment D.
Feb 08, 2023	\$0.83	Quarterly	—	Feb 09, 2023	Mar 09, 2023
Nov 08, 2022	\$0.83	Quarterly	Oct 24, 2022	Nov 09, 2022	Dec 08, 2022
Aug 08, 2022	\$0.78	Quarterly	Jul 18, 2022	Aug 09, 2022	Sep 08, 2022
May 08, 2022	\$0.78	Quarterly	Apr 25, 2022	May 09, 2022	Jun 09, 2022
Feb 08, 2022	\$0.78	Quarterly	Jan 17, 2022	Feb 09, 2022	Mar 09, 2022
Nov 08, 2021	\$0.78	Quarterly	Oct 18, 2021	Nov 09, 2021	Dec 09, 2021
Aug 08, 2021	\$0.74	Quarterly	Jul 19, 2021	Aug 09, 2021	Sep 09, 2021
May 06, 2021	\$0.74	Quarterly	Apr 17, 2021	May 09, 2021	Jun 09, 2021
Feb 08, 2021	\$0.74	Quarterly	Jan 17, 2021	Feb 09, 2021	Mar 09, 2021

Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).



Nov 08, 2020	\$0.74	Quarterly	Oct 17, 2020	Nov 09, 2020	Dec 09, 20
--------------	--------	-----------	--------------	--------------	------------

The table shows American Electric Power's dividend history, including amount per share, payout frequency, declaration, record, and payment dates.

[+ Show More](#)

FAQ

Does American Electric Power pay dividends? ▼

How much is American Electric Power's dividend? ▼

When is American Electric Power ex-dividend date? ▼

When is American Electric Power dividend payment date? ▼

Does American Electric Power have sufficient earnings to cover their dividend? ▼

 [Get More with TipRanks Premium](#)

Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).



What's Included in PREMIUM?

- ✓ Make informed decisions based on Top Analysts' activity
- ✓ Know what industry insiders are buying
- ✓ Get actionable alerts from top Wall Street Analysts
- ✓ Find out before anyone else which stock is going to shoot up
- ✓ Get powerful stock screeners & detailed portfolio analysis



Subscribe
Now

[See
Plans
&
Pricing](#)

Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).



Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).



TipRanks is a comprehensive research tool that helps investors make better, data-driven investment decisions.

Find Us on

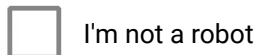


NEWSLETTER SUBSCRIPTION

Enter your email to receive our newsletter

Email address

SIGN UP



reCAPTCHA
Privacy - Terms



[Sitemap](#) [Terms of Use](#) [Privacy Policy](#) [FAQ](#)

Research Tools

- Top Smart Score Stocks
- Trending Stocks
- Daily Stock Ratings
- Stock Screener
- Stock Comparison
- Analysts' Top Stocks
- Daily Insider Transactions
- Insiders' Hot Stocks
- Expert Center
- Etf Center

Calendars

- Earnings Calendar
- Dividend Calendar
- IPO Calendar
- Stock Market Holidays

Education

- Glossary
- TipRanks Labs

Plans

- Plans & Pricing
- Smart Investor
- API for Institutions

Company

- About TipRanks
- Careers
- Contact Us
- Reviews

Disclaimer: The TipRanks Smart Score performance is based on backtested results. Backtested performance is not an indicator of future actual results. The results reflect performance of a strategy not historically offered to investors and does not represent returns that any investor actually attained. Backtested results are calculated by the retroactive application of a model constructed on the basis of historical data and based on assumptions integral to the model which may or may not be testable and are subject to losses. General assumptions include: XYZ firm would have been able to purchase the securities recommended by the model and the markets were sufficiently liquid to permit all trading. Changes in these assumptions may have a material impact on the backtested returns presented. Certain assumptions have been made for modeling purposes and are unlikely to be realized. No representations and warranties are made as to the reasonableness of the assumptions. This information is provided for illustrative purposes only. Backtested performance is developed with the benefit of hindsight and has inherent limitations. Specifically, backtested results do not reflect actual trading or the effect of material economic and market factors on the decision-making process. Since trades have not actually been executed, results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity, and may not reflect the impact that certain economic or market factors may have had on the decision-

Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).

making process. Further, backtesting allows the security selection methodology to be adjusted until past returns are maximized. Actual performance may differ significantly from backtested performance. Backtested results are adjusted to reflect the reinvestment of dividends and other income and, except where otherwise indicated, are presented gross-of fees and do not include the effect of backtested transaction costs, management fees, performance fees or expenses, if applicable. Please note all regulatory considerations regarding the presentation of fees must be taken into account. No cash balance or cash flow is included in the calculation.

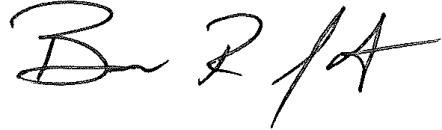
Cookie Privacy Statement

TipRanks uses cookies to provide necessary website functionality, improve your experience and analyze our traffic. By using our website, you agree to our [Privacy Policy](#) and our [Cookies Policy](#).



AFFIRMATION

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

A handwritten signature in black ink, appearing to read "B R Latham". The signature is written in a cursive style with a horizontal line underneath it.

Brian R. Latham
Utility Analyst
Indiana Office of Utility Consumer Counselor
Cause No. 45868
Indiana Michigan Power Co.

May 19, 2023
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC's Testimony Public's Exhibit No. 3* has been served upon the following parties of record in the captioned proceeding by electronic service on May 19, 2023.

Teresa Morton Nyhart
Lauren Aguilar
BARNES & THORNBURG, LLP
tnyhart@btlaw.com
laguilar@btlaw.com

Tammara D. Avant
AEP SERVICE CORP.
tdavant@aep.com

Jennifer A. Washburn
CITIZENS ACTION COALITION
jwashburn@citact.org
Copy to:
Reagan Kurtz
rkurtz@citact.org

WVPA
Jeremy L. Fetty
J. Michael Deweese
PARR RICHEY FRANSDEN PATTERSON KRUSE LLP
jfetty@parrlaw.com
jdeweese@parrlaw.com



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PNC Center

115 West Washington Street, Suite 1500 South
Indianapolis, IN 46204

infomgt@oucc.in.gov

thaas@oucc.in.gov

317.232.2494 – Telephone

317.232.3315 – Haas Direct

317.232.5923 – Facsimile