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-NONE

SUBMISSION OF DIRECT TESTIMONY OF JEFFREY L. BRUBAKER

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony of Jeffrey L. Brubaker in this Cause.

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CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing was served upon the following via electronic email, hand delivery or First Class, or United States Mail, postage prepaid this 26th day of July, 2017 to:

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I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

JEFFREY L. BRUBAKER

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**PRE-FILED VERIFIED DIRECT TESTIMONY OF JEFFREY L. BRUBAKER
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

Q. Please state your name and business address.

A. My name is Jeffrey L. Brubaker. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. By whom are you employed and in what capacity?

A. I am employed by the American Electric Power Service Corporation (AEPSC) as Director of Regulatory Accounting Services. AEPSC supplies engineering, financing, accounting, planning, advisory and other services to the subsidiaries of the American Electric Power (AEP) system, one of which is Indiana Michigan Power Company (I&M or the Company).

Q. Please briefly summarize your educational background and professional experience.

A. I graduated with a Bachelor of Science Degree in Accounting from Radford University in May 1981. I became a Certified Public Accountant in 1985. I joined Appalachian Power Company (APCo), an AEP operating company, in August 1981 as an Associate Staff Accountant. I was promoted to Staff Accountant in 1984; Accounting Staff Assistant II in 1986; Accounting Staff Assistant in 1989; Accounting Staff Assistant, Senior in 1994; and Senior Accounting Administrator in 1996. In May 1998, I was promoted to Manager of Regulated Accounting for APCo, Wheeling Power Company (WPCo), and Kingsport Power Company (KGPCo) and transferred to AEPSC. I was promoted to my current position effective August 1, 2005.

As Director of Regulatory Accounting Services, my primary responsibilities include providing the AEP electric operating subsidiaries, such as I&M, with regulatory and general accounting expertise in support of regulatory filings, including the preparation of cost of service adjustments, accounting schedules and accounting testimony. Also, I monitor regulatory proceedings, settlements, orders and legislation for accounting implications and participate in determining the appropriate regulatory accounting and financial reporting treatment of regulatory transactions.

Q. Have you previously testified before any regulatory commissions?

A. Yes. I have filed testimony with and testified before the Indiana Utility Regulatory Commission (IURC or Commission) on behalf of I&M, before the Virginia State Corporation Commission on behalf of APCo, and before the Public Service Commission of West Virginia on behalf of APCo and WPCo. I have also filed testimony before the Michigan Public Service Commission (MPSC) on behalf of I&M and before the Federal Energy Regulatory Commission (FERC) in a transmission rate case for I&M, APCo, KGPCo, WPCo, Ohio Power Company, Columbus Southern Power Company, and Kentucky Power Company. All of these companies are AEP operating companies.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present and support the following:

- Adjustments to net operating income for the 2018 forward-looking test year (Test Year)

  - O&M expense adjustments
  - Deferral adjustments
- Adjustments to rate base
- The proposed accounting related to I&M's request to approve deferral accounting for costs related to its dry cask storage system at the Cook Plant and I&M's request to accrue carrying costs on the proposed deferred balance.

In my testimony I discuss total Company amounts unless the balance is 100% jurisdictional to Indiana, in which case I specifically identify it as Indiana jurisdictional. For the total Company amounts, Company witness Stegall supports I&M's Indiana jurisdictional separation study. Also in my testimony, when I refer to the Rockport Plant, I am referring to only I&M's ownership share of the Rockport Plant which excludes the portion of Rockport Plant owned by AEP Generating Company. The data I rely on were acquired from numerous sources, including but not limited to I&M and AEPSC accounting records. This is the type of supportable data that has been found to be reliable and regularly used in I&M's business for this type of analysis. I&M's financial reporting to the SEC relies on the same accounting records used in preparing the historical data provided in this case.

Q. Are you sponsoring any portion of Company workpaper WP-I&M-1?

A. Yes. I sponsor the following portions of Company workpaper WP-I&M-1:

- WP-I&M-1-1: Historic Balance Sheet
- WP-I&M-1-2: Historic Monthly Balance Sheets (January-March 2017)
- WP-I&M-1-3: Historic Statement of Cash Flows

- WP-I&M-1-4: Historic Income Statement
- WP-I&M-1-5: Historic Monthly Income Statements (January-March 2017)

Q. Are you sponsoring any other workpapers in this proceeding?

A. Yes. I also am sponsoring the following workpapers:

- WP-JLB-1: Indiana Energy Association dues (Adjustment O&M 1).
- WP-JLB-2: Value Advertising Expense (Adjustment O&M 2).
- WP-JLB-3: Lobbying Expenses associated with the I&M State Office (Adjustment O&M 3).
- WP-JLB-4: Electric Plant in Service and Accumulated Depreciation related to Rockport Unit No. 1 (Adjustment RB 1).
- WP-JLB-5: Cook Plant Turbine Replacement deferred costs (Adjustments DEF 1 and RB 6).
- WP-JLB-6: Rockport Dry Sorbent Injection (DSI) deferred costs (Adjustment DEF 2 and RB 7).
- WP-JLB-7: Electric Plant in Service AFUDC adjustments (supports Adjustment RB 9).

Q. Were the workpapers that you are sponsoring prepared or by you or under your direction?

A. Yes.

Q. Which of the net operating income adjustments included in I&M Exhibit A-5 and the rate base adjustments included in I&M Exhibit A-6 do you sponsor or co-sponsor?

A. I support the following adjustments in I&M Exhibit A-5 to I&M's Test Year net operating income:

- Operation and Maintenance (O&M) Expense Adjustment No. 1 – Eliminate Indiana Energy Association dues.
- O&M Expense Adjustment No. 2 – Remove value advertising expense.
- O&M Expense Adjustment No. 3 – Remove lobbying expenses associated with the I&M State Office.
- Deferral Adjustment No. 1 – Amortize the regulatory asset related to the Cook Nuclear Plant (Cook) turbine replacement (I co-sponsor this adjustment with Company witness Williamson).
- Deferral Adjustment No. 2 – Amortize the regulatory asset balances related to the 20% deferral of the Rockport DSI costs (I co-sponsor this adjustment with Company witness Williamson).
- Deferral Adjustment No. 4 – Amortize the March 31, 2017 regulatory liability balance related to the Indiana Storm Reserve (I co-sponsor this adjustment with Company witness Williamson).

I also support the following adjustments in I&M Exhibit A-6 to I&M's Test Year rate base:

- Rate Base Adjustment No. 1 – Adjust various elements of rate base to reflect Rockport Unit No. 1 on an Indiana jurisdictional ratemaking basis.
- Rate Base Adjustment No. 2 – Adjust various elements of rate base to remove Asset Retirement Obligations (ARO).
- Rate Base Adjustment No. 4 – Adjust various elements of rate base to remove the Smart Meter Pilot Project.
- Rate Base Adjustment No. 6 – Cook Turbine Replacement Deferral (I co-sponsor this adjustment with Company witness Williamson).

- Rate Base Adjustment No. 7 – Rockport DSI Deferral (I co-sponsor this adjustment with Company witness Williamson).
- Rate Base Adjustment No. 9 – Adjust various elements of rate base to reflect IURC approved Construction Work in Progress (CWIP) recovery approved for Rockport DSI, Rockport SCR and the Cook LCM Project.
- Rate Base Adjustment No. 11 – Deferred Major Storm Balance (I co-sponsor this adjustment with Company witness Williamson).

ADJUSTMENTS TO NET OPERATING INCOME

Q. What is the purpose of O&M Expense Adjustment No. 1 of Exhibit A-5?

A. O&M Expense Adjustment No. 1 decreases I&M's O&M expense by $372,343 to remove expenses related to the Indiana Energy Association (IEA) dues which were provided to me from the Test Year forecast supported by Company witness Lucas. Eliminating IEA dues is consistent with past ratemaking practices of this Commission for I&M. If this adjustment were not made, the expenses would remain in the Company's calculation of the required rate relief.

Q. What is the purpose of O&M Expense Adjustment No. 2 of Exhibit A-5?

A. O&M Expense Adjustment No. 2 decreases I&M's O&M expense by $497,112 to remove value advertising expenses which were provided to me from the Test Year forecast supported by Company witness Lucas. Eliminating value advertising expenses is consistent with past ratemaking practices of this Commission for I&M. If this adjustment were not made, the expenses would remain in the Company's calculation of the required rate relief.

Q. What is the purpose of O&M Expense Adjustment No. 3 of Exhibit A-5?

A. O&M Expense Adjustment No. 3 decreases I&M's O&M expense by $218,171 to remove the portion of the expenses of the Company's State Government Affairs department that are related to lobbying activities and are included in the forecast.

The lobbying expenses were provided to me from the Test Year forecast supported by Company witness Lucas and I was provided the percentage of lobbying expenses to exclude from the State Government Affairs department expenses. Eliminating a portion of government relations expenses that are related to lobbying activities is consistent with past ratemaking practices of this Commission for I&M. If this adjustment were not made, the expenses would remain in the Company's calculation of the required rate relief.

Q. **What is the purpose of Deferral Adjustments DEF-1 and DEF-2 in Exhibit A-5?**

A. Deferral Adjustments DEF-1 and DEF-2 are for the amortization of the following deferred assets:

- Cook Plant Unit 1 turbine replacement costs.
- Rockport DSI Project – 20% Federal Mandate Rider (FMR) deferral.

Q. **What are the deferred balances as of December 31, 2016 for the items listed above?**

A. As of December 31, 2016, I&M had the following Indiana retail jurisdictional deferred balances recorded on its books:

- $13,017,416 for Cook Plant Unit 1 turbine replacement costs.
- $7,418,054 for Rockport DSI Project – 20% FMR deferral.

Q. What are the projected deferred balances as of December 31, 2017 for the two items listed above?

A. As of December 31, 2017, the beginning of the Test Year, I&M is projected to have the following Indiana retail jurisdictional deferred balances recorded on its books:

- $16,413,265 for Cook Plant Unit 1 turbine replacement costs
- $11,996,958 for Rockport DSI Project – 20% FMR deferral.

Q. How did you calculate the forecasted deferred balances for these two items?

A. The forecasted deferred balance of $16,413,265 as of December 31, 2017 for the Cook Plant Unit 1 turbine costs was calculated by adding the December 31, 2016 balance of $13,017,416 plus forecasted carrying charges of $3,395,849 for 2017.

The forecasted deferred balance of $11,996,958 as of December 31, 2017 for the Rockport DSI Project - 20% FMR deferral was calculated by adding the December 31, 2016 balance of $7,418,054 plus forecasted costs of $4,578,904 in 2017 based on the forecast and the components explained further below.

Q. How has I&M accounted for these regulatory assets?

A. I&M accounted for the regulatory assets in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USofA) and recorded the regulatory assets in Account 182.3, Other Regulatory Assets. Financial Accounting Standards Board Accounting Standards

Codification (FASB ASC) 980 requires deferral accounting when certain conditions are met. FASB ASC 980-340-25-1 requires that when incurred costs are probable of future recovery, from inclusion of that incurred cost in allowable future costs for ratemaking purposes, the unrecovered costs should be capitalized (deferred) as a regulatory asset and amortized to expense when recovered in revenues. The deferral as a regulatory asset of unrecovered incurred costs to be recovered in the future allows I&M to properly match such costs with the revenues recovering such costs in the same accounting period. The matching of cost and revenue is a long-standing utility accounting concept that produces meaningful financial statements, especially for cost-based regulated operations.

FERC amended its USofA, incorporating FASB ASC 980 in the USofA, in its Order 390 effective January 1, 1984. As such, I&M's deferral accounting is consistent with both GAAP and the FERC USofA.

Q. Has the IURC approved deferrals of costs related to the Cook Unit 1 turbine and the Rockport DSI Project in previous orders?

A. Yes. The IURC's February 13, 2013 order in Cause No. 44075, I&M's last basic rate proceeding, approved the deferral of costs related to the Cook Unit 1 turbine. The IURC's November 13, 2013 order in Cause No. 44331 approved the deferral of costs related to the Rockport DSI Project (i.e., the 20% FMR deferral).

Q. What did the IURC approve in I&M's base rate Cause No. 44075 related to the Cook Unit 1 turbine?

A. Beginning on page 5 of the order in Cause No. 44075, the Commission found as follows:

> (d) Commission Discussion and Findings. Traditionally, plant investment is reflected in the ratemaking process through a return on the rate base additions and the associated depreciation expense is recognized in the utility's cost of service. As of the in-service date established in the record, the new turbine is used and useful in the provision of electric service. Therefore, it is appropriate to include the turbine investment in rate base in this case and to include the associated depreciation expense in the revenue requirement. However, in light of the pending insurance issues related to the NEIL insurance coverage, we find that Petitioner's proposal to defer the return on rate base from this investment from the time the new rates established in this case go into effect until I&M's next rate case is reasonable and should be approved. Accordingly, we find that the depreciation adjustments associated with the major project update shown on Petitioner's Exhibit A-R5, Depreciation and Amortization Adjustment No. R5, to remove depreciation expense associated with the previous turbine, and Depreciation and Amortization Adjustment No. R6, to add depreciation expense associated with the new turbine should be reflected in the revenue requirement used to establish basic rates. We further find and authorize I&M to defer the return on this rate base investment from the time the new rates established in this Cause go into effect until I&M's next rate case as proposed by Mr. Krawec. As proposed by Mr. Krawec, the ultimate return that will be recognized for ratemaking purposes will be limited to the amount of the investment in the new turbine that is not covered by the final outcome of the NEIL insurance claim.

Q. Has the NEIL insurance settlement been finalized?

A. Yes. The insurance settlement was finalized on February 11, 2013 and resulted in a credit of $72 million to Account 1080005, Retirement Work in Progress, for insurance proceeds.

Q. How were the deferred return balances on the Cook Unit 1 turbine rate base investment calculated?

A. Effective March 2013, the monthly deferred return was calculated by multiplying the prior month balance of the investment in the new turbine that was not covered by the final outcome of the NEIL insurance claim times the Indiana retail jurisdictional demand allocation factor of 0.6465519 times the pre-tax overall rate of return of 9.761% approved in Cause No. 44075. The monthly calculations can be found in WP-JLB-5. As noted earlier in my testimony, I&M's deferred return balance related to the Cook Unit 1 turbine is $13,017,416 as of December 31, 2016 and is projected to be $16,413,265 as of December 31, 2017 as shown on WP-JLB-5.

Q. What is I&M's request related to the recovery of the deferred return balance on the Cook Unit 1 turbine rate base investment in Deferral Adjustment No. 1?

A. Deferral Adjustment No. 1 increases Indiana jurisdictional amortization expense by $5,471,088 to recover the December 31, 2107 projected balance of $16,413,265 over three years beginning January 1, 2018, which equates to an annual recovery and amortization of $5,471,088. The requested recovery period is supported by Company witness Williamson. Company witness Stegall has included the $5,471,088 annual amortization expense in the development of the Indiana retail jurisdictional revenue requirement.

Q. Turning now to the Rockport DSI Project, what did the IURC approve in I&M's Cause No. 44331 related to the deferral of Rockport DSI Project costs?

A. On page 28 of the IURC's order in Cause No. 44331, the IURC authorized I&M "to defer and record as a regulatory asset twenty percent (20%) of the federally mandated costs in accordance with Ind. Code § 8-1-8.4-7(c) and the Settlement Agreement."

Q. What types of costs were deferred for the Rockport DSI Project?

A. The deferred costs for the Rockport DSI Project consist of depreciation expense, carrying costs, and O&M and consumables expenses. As noted earlier in my testimony, I&M's deferred balance is $7,418,054 as of December 31, 2016 and the projected deferred balance is $11,996,958 as of December 31, 2017 for 20% of the Rockport DSI Project costs as shown on WP-JLB-6. The 20% deferred costs as of December 31, 2016 consist of $2,305,983 for depreciation, $2,183,095 for carrying costs, and $2,928,976 for O&M and consumables. The projected deferred costs as of December 31, 2017 consist of $3,698,352 for depreciation, $3,296,089 for carrying costs, and $5,002,517 for O&M and consumables. The projected costs include actual costs through December 31, 2016 and forecasted costs from January 2017 through December 2017 obtained from the Test Year forecast supported by Company witness Lucas.

Q. Are these the same types of costs that I&M is recovering through the FMR in Cause No. 44331?

A. Yes. I&M is recovering 80% of the Rockport DSI Project costs through the FMR and is requesting to recover the remaining 20% of the Rockport DSI Project costs in this filing.

Q. How was the deferred depreciation expense for 20% of the Rockport DSI Project costs calculated?

A. The monthly deferred depreciation expense was calculated by multiplying the prior month end total Company Rockport DSI depreciable investment times the Indiana retail jurisdictional demand allocation factor of 0.6465519 to determine the Indiana retail jurisdictional depreciable basis. The Indiana retail jurisdictional depreciable basis was then multiplied by the appropriate annual depreciation rate and then divided by twelve to determine the monthly Indiana retail jurisdictional depreciation expense. Last, the monthly Indiana retail jurisdictional depreciation expense was multiplied by 20% to determine the amount to be deferred.

Q. What depreciation rate did the IURC order approve for the Rockport DSI Project in Cause No. 44331?

A. The IURC authorized I&M to depreciate the Indiana retail jurisdictional share of the Rockport DSI Project (excluding the Preconstruction Costs) utilizing a 10-year life, which equates to a 10% annual depreciation rate. The IURC also authorized I&M to depreciate the Indiana retail jurisdictional share of I&M's direct ownership share of the Preconstruction Costs over the remaining life of the Rockport facility.

Q. Does I&M also use a 10% annual depreciation for the Michigan and FERC jurisdictional shares of the Rockport DSI Project?

A. No. The Michigan and FERC jurisdictional shares of the Rockport DSI Project are being depreciated using the depreciation rates approved by the MPSC and FERC, respectively.

Q. What depreciation rates are reflected in I&M's total Company accumulated depreciation for the Rockport DSI project as recorded on the Company's books at December 31, 2016?

A. I&M's total Company accumulated depreciation for the Rockport DSI Project reflects a weighted average of the depreciation rates approved by both the IURC and the MPSC.

Q. Did I&M have to make any calculations to determine the Indiana retail jurisdictional share of the Rockport DSI Project electric plant-in-service and accumulated depreciation for the cost of service?

A. Yes. In order to have the proper I&M Indiana retail jurisdictional share of electric plant-in-service and accumulated depreciation in the cost of service, both of these amounts had to be calculated on an Indiana retail jurisdictional basis as discussed below.

Q. Please discuss the calculation of the Indiana retail jurisdictional share of the Rockport DSI Project electric plant-in-service for the cost of service.

A. The first step to calculate the Indiana retail jurisdictional share of the Rockport DSI Project electric plant-in-service balance is to separately identify the total company amount of electric plant-in-service excluding AFUDC, the total company amount of AFUDC recorded as of December 31, 2014, and the total company amount of AFUDC recorded after December 31, 2014.

The second step is to allocate the amount of electric plant-in-service excluding AFUDC to the Indiana retail jurisdiction using the Indiana retail jurisdictional demand allocation factor of 0.6465519.

The third step is to allocate the amount of AFUDC recorded as of December 31, 2014 to the Indiana retail jurisdiction using the Indiana Retail jurisdictional demand allocation factor of 0.6465519.

The fourth step is to allocate the amount of AFUDC recorded after December 31, 2014 to the Indiana retail jurisdiction. This fourth step is required to recognize that starting in January 2015, I&M began collecting a return on 80% of the Indiana Retail jurisdictional share of CWIP through the Federal Mandate Rider and thus ceased recording additional AFUDC on 80% of the Indiana retail jurisdictional share of CWIP. Effectively, the amount of AFUDC recorded after December 31, 2014 is for 20% of the Indiana retail jurisdictional share of CWIP and 100% of the Michigan retail and FERC jurisdictional shares of CWIP. Therefore, I&M allocated the amount of AFUDC recorded after December 31, 2014 to the Indiana retail jurisdiction using a recalculated Indiana Retail jurisdictional demand allocation factor of 0.2678573. The 0.2678573 recalculated demand allocation factor equals 20% of the Indiana retail jurisdictional demand allocation factor divided by the sum of 20% of the Indiana retail jurisdictional demand allocation factor and 100% of the Michigan retail and FERC jurisdictional demand allocation factors calculated on Figure JLB-1:

Figure JLB-1
Calculation of Indiana Retail AFUDC on Rockport DSI

Jurisdiction	Demand Allocation Factor	Percent	Weighted Factor
Indiana Retail	0.6465519	20	0.1293104 (a)
Indiana Retail	0.6465519	20	0.1293104
Michigan Retail	0.1393808	100	0.1393808
FERC	0.2140673	100	0.2140673
Total	1.0000000		0.4827585 (b)

The Indiana Retail weighted factor of 0.1293104 (a) divided by the total weighted factor of 0.4827585 (b) equals the 0.2678573 recalculated Indiana Retail jurisdictional demand allocation factor.

The sum of the amounts calculated in steps 2, 3, and 4 above equals the total Indiana retail jurisdictional share of electric plant-in-service.

Q. Please discuss the calculation of the Indiana retail jurisdictional share of the Rockport DSI Project accumulated depreciation for the cost of service.

A. The Indiana retail jurisdictional share of the Rockport DSI Project accumulated depreciation is the sum of the monthly depreciation expense for the Indiana retail jurisdictional share of the Rockport DSI Project. The monthly depreciation expense for the Indiana retail jurisdictional share of the Rockport DSI Project was calculated using the total Indiana retail jurisdictional share of electric plant-in-service discussed above and the IURC approved annual depreciation rates for the Rockport DSI Project (based on a 10-year life for the Rockport DSI Project excluding the Preconstruction Costs and the remaining life of the Rockport facility for the Preconstruction Costs) as discussed above.

Q. How were the deferred carrying costs for 20% of the Rockport DSI Project costs calculated?

A. The first step was to determine the components to be included in the basis for calculating the monthly deferred carrying costs. The basis consists of the monthly balance of plant in service, removal costs, and consumable inventory less the monthly balance for accumulated depreciation. The average monthly balance for the net of the above items was multiplied by the Indiana retail jurisdictional demand allocation factor of 0.6465519 to determine the Indiana retail jurisdictional basis for the carrying costs. The Indiana retail jurisdictional basis was then multiplied by the appropriate annual weighted average cost of capital (WACC) rate and divided by twelve to determine the monthly Indiana retail jurisdictional carrying costs. In the final step, the monthly Indiana retail jurisdictional carrying costs was multiplied by 20% to determine the amount to be deferred.

Q. What return on equity (ROE) rate did I&M use in the WACC to calculate the deferred carrying costs for 20% of the Rockport DSI Project costs?

A. For the period April 2013 through December 2014, I&M used the 10.2% ROE rate that was approved in Cause No. 44075. Starting in January 2015, I&M used a 9.95% ROE rate per the Commission's approval of the Cause No. 43774 PJM 4 settlement agreement. The approved settlement agreement in Cause No. 43774 PJM 4 required that the ROE component of the WACC used in I&M's

capital riders to determine the capital costs incurred be reduced from 10.2% to 9.95% from January 1, 2015 through December 31, 2017. Subsequently, the approved amended settlement agreement in Cause No. 43774 PJM 4 S1 required that I&M continue to apply a 9.95% ROE component of the WACC used in I&M's capital riders to determine the capital costs incurred until July 1, 2018 or, if later, the effective date of a final order in I&M's next basic rate case.

Q. How were the deferred O&M and consumables expenses for 20% of the Rockport DSI Project costs calculated?

A. The deferred O&M expenses were determined by multiplying the total Company O&M expenses times the Indiana retail jurisdictional demand allocation factor of 0.6465519 times 20%. The deferred consumable expenses were determined by multiplying the total Company consumable expenses times the Indiana retail jurisdictional energy allocation factor of 0.6348797 times 20%.

Q. What is I&M's request related to the recovery of 20% of the deferred costs related to the Rockport DSI Project in Deferral Adjustment No. 2?

A. Deferral Adjustment No. 2 increases Indiana jurisdictional amortization expense by $3,998,986 to recover the December 31, 2017 projected balance of $11,996,958 over three years beginning January 1, 2018, which equates to an annual recovery and amortization of $3,998,986. The requested recovery period is supported by Company witness Williamson. Company witness Stegall has included the $3,998,986 annual amortization expense in the development of the Indiana retail jurisdictional revenue requirement.

Q. What is the purpose of Deferral Adjustment DEF-4 in Exhibit A-5?

A. Deferral Adjustment DEF-4 is for the amortization of the March 31, 2017 regulatory liability balance related to the Indiana Storm Reserve relating to the actual incurred cost compared to the annual $4.2 million O&M expense in basic rates beginning in March 2013 as approved in Cause No. 44075.

Q. What is I&M's request related to the amortization of this regulatory liability balance in Deferral Adjustment No. 4?

A. Deferral Adjustment No. 4 decreases Indiana jurisdictional amortization expense by $535,675 to refund the March 31, 2017 balance of $1,607,024 over three years beginning January 1, 2018, which equates to an annual amortization of $535,675. The requested amortization period is supported by Company witness Williamson. Company witness Stegall has included the $535,675 annual amortization credit in the development of the Indiana retail jurisdictional revenue requirement.

Q. How does I&M propose to account for the amortization of the regulatory assets for the Cook Plant Unit 1 turbine replacement costs and the 20% deferral of Rockport DSI Project costs and the amortization of the regulatory liability for the Indiana Storm Reserve?

A. For the regulatory assets, I&M proposes to record the amortization as credits to the regulatory asset accounts and charges to the appropriate expense accounts. For the regulatory liability, I&M proposes to record the amortization as credits to the appropriate expense accounts and charges to the regulatory liability account. The expense accounts charged or credited will be the same accounts credited or charged when the regulatory assets and regulatory liability were established, which will reflect the nature of the deferred items.

ADJUSTMENTS TO RATE BASE

Q. What is the purpose of Rate Base Adjustment No. 1 of Exhibit A-6?

A. Rate Base Adjustment No. 1 is a two-part adjustment that increases I&M's rate base by $975,633 to present certain components of net electric plant in service on an accounting basis as required by this Commission. I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the MPSC, and FERC. Because of this, certain adjustments to net electric plant balances are required to reflect the conventions used by this Commission for filings in this jurisdiction.

Part A of Rate Base Adjustment No. 1 recognizes a reduction in net electric plant in service related to the treatment of test energy by the MPSC. MPSC accounting requirements provided that test energy be valued on a displacement basis; that is, the average cost of fuel that would have been consumed at the Company's other generating units had the test energy not been available. The value of test energy serves to reduce the amount of electric plant in service. Such accounting was practiced for the Michigan jurisdictional share of Rockport Unit No. 1 test energy. The IURC, however, required that test energy be valued at the actual cost of fuel consumed by the unit being tested. The "actual cost" method produced a larger reduction to electric plant in service than the "displacement" method for Rockport Unit 1 test energy. Therefore, a reduction must be made to net electric plant in service in order to fully reflect, for ratemaking purposes, the test energy methodology required by this Commission. This part of the adjustment reduces rate base by $85,703.

Part B of Rate Base Adjustment No. 1 recognizes additional Allowance for Funds Used During Construction (AFUDC) related to Rockport Plant Unit No. 1. The FERC and MPSC allowed I&M to include Rockport Unit 1 pollution control facilities in rate base during the construction period of 1978 through 1984. Therefore, I&M ceased recording AFUDC on this amount. The IURC did not include any portion of Construction Work in Progress (CWIP) in rate base. In order to arrive at a value for the investment in Rockport Unit 1 on an Indiana jurisdictional basis, the effect of cessation of AFUDC allowed by the FERC and MPSC must be added back to net electric plant in service for Indiana ratemaking purposes. This increases rate base by $1,061,336.

Rate Base Adjustment No. 1 makes the above-described adjustments to electric plant in service, as well as the related adjustments to the accumulated provision for depreciation.

If this adjustment were not made, certain elements of I&M's Indiana jurisdictional rate base would misstated by the accounting and ratemaking conventions of regulatory commissions outside of Indiana.

Q. What is the purpose of Rate Base Adjustment No. 2 of Exhibit A-6?

A. Rate Base Adjustment No. 2 decreases I&M's rate base by $35,988,933, consisting of a $141,826,613 reduction to electric plant in service and a $105,837,681 reduction to accumulated provision for depreciation. These amounts include actual costs through December 31, 2016 and forecasted costs from January 2017 through December 2018 as supported by Company witness Lucas. Electric plant in service is reduced to remove from rate base the original cost of legal AROs for ash ponds, asbestos removal, and nuclear decommissioning included in plant in service in accordance with FASB ASC 410 (formerly SFAS No. 143 and FASB Interpretation No 47). The accumulated provision for depreciation is reduced to remove from rate base the accumulated depreciation associated with the original cost of legal AROs for ash ponds, asbestos removal, and nuclear decommissioning since the ARO assets were also removed from rate base in this adjustment. The net ARO assets are non-cash funded assets, and thus they were removed from rate base because the actual costs for removal have not yet been incurred and paid. If this adjustment were not made, I&M's rate base would be overstated.

Q. What is the purpose of Rate Base Adjustment No. 4 of Exhibit A-6?

A. Rate Base Adjustment No. 4 decreases Indiana jurisdictional rate base by $997,683, consisting of a $4,050,352 reduction to electric plant in service and a $3,052,669 reduction to accumulated provision for depreciation. This adjustment removes electric plant in service and accumulated depreciation balances for all assets associated with the South Bend Smart Meter Pilot Project in accordance with the IURC's June 13, 2007 order in Cause No. 43231. These amounts include actual costs through December 31, 2016 and forecasted costs from January 2017 through December 2018 as supported by Company witness Lucas. If this adjustment were not made, I&M's rate base would be overstated.

Q. What is the purpose of Rate Base Adjustment No. 6 of Exhibit A-6?

A. Rate Base Adjustment No. 6 increases Indiana jurisdictional rate base by $10,942,177 to provide a return on the December 2018 unamortized regulatory asset balance of the Cook Plant Turbine Replacement deferred costs.

Q. What is the purpose of Rate Base Adjustment No. 7 of Exhibit A-6?

A. Rate Base Adjustment No. 7 increases Indiana jurisdictional rate base by $7,997,972 to provide a return on the December 2018 unamortized regulatory asset balance of the Rockport DSI deferred costs.

Q. What is the purpose of Rate Base Adjustment No. 9 of Exhibit A-6?

A. Rate Base Adjustment No. 9 is a three-part adjustment that decreases electric plant in service by $35,214,919 to present certain components of electric plant in service on an accounting basis as required by this Commission. These amounts include actual costs through December 31, 2016 and forecasted costs from January 2017 through December 2018 obtained from the Test Year forecast supported by Company witness Lucas. As mentioned earlier in my testimony, I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the MPSC and FERC. Because of this, certain adjustments to electric plant balances are required to reflect the conventions used by this Commission for filings in this jurisdiction.

Part A of Rate Base Adjustment No. 9 reduces the amount of AFUDC associated with the Rockport DSI Project. The IURC approved CWIP recovery for this project in Cause No. 44331. In order to arrive at the correct value of the Rockport DSI Project on an Indiana jurisdictional basis, AFUDC in the amount of

$720,427 must be removed from electric plant in service for Indiana ratemaking purposes.

Part B of Rate Base Adjustment No. 9 reduces the amount of AFUDC associated with the Cook LCM Project. The IURC approved CWIP recovery for this project in Cause No. 44182. In order to arrive at the correct value of the Cook LCM project on an Indiana jurisdictional basis, AFUDC in the amount of $29,255,060 must be removed from electric plant in service for Indiana ratemaking purposes.

Part C of Rate Base Adjustment No. 9 reduces the amount of AFUDC associated with the Rockport Unit 1 SCR Project. The IURC approved CWIP recovery for this project in Cause No. 44523. In order to arrive at the correct value of the Rockport Unit 1 SCR project on an Indiana jurisdictional basis, AFUDC in the amount of $5,239,433 must be removed from electric plant in service for Indiana ratemaking purposes.

Q. What is the purpose of Rate Base Adjustment No. 11 of Exhibit A-6?

A. Rate Base Adjustment No. 11 decreases Indiana jurisdictional rate base by $1,071,349 for the December 2018 unamortized regulatory liability balance of the over recovered storm expenses.

PROPOSED ACCOUNTING RELATED TO DRY CASK STORAGE SYSTEM COSTS

Q. Please describe the proposed deferral accounting for I&M's costs related to its dry cask storage system at the Cook Plant.

A. As discussed by Company witness Williamson, there is currently no dry cask storage costs included in the 2018 Test Year because the costs are anticipated to be largely covered by reimbursements from the Department of Energy (DOE). However, if the DOE reimbursements should cease in the future or if ongoing costs should exceed the amount reimbursed, then I&M requests that the Commission approve deferral accounting authority to record as a regulatory asset the unreimbursed amount for recovery in I&M's next base rate case proceeding and to accrue carrying costs on the deferred balance.

If approved, I&M will account for the regulatory asset and record the regulatory asset in Account 182.3, Other Regulatory Assets in accordance with GAAP and the FERC USofA.

Q. What is I&M requesting in order to meet the accounting criteria for recording a regulatory asset?

A. I&M requests that the final order in this proceeding clearly provide for the future recovery of this regulatory asset.

Q. How would I&M calculate and account for carrying costs on the deferred balance related to its dry cask storage system at the Cook Plant?

A. I&M would calculate monthly carrying costs by multiplying the prior month-end regulatory asset deferral balance for dry cask storage costs times the pre-tax weighted average cost of capital (WACC) rate approved by the Commission in this case divided by twelve. If approved, I&M would record a regulatory asset in Account 182.3 for the accrued carrying costs in accordance with GAAP and the FERC USofA.

Q. Does this conclude your pre-filed verified direct testimony?

A. Yes.

VERIFICATION

I, Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation (AEPSC), affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Date: 7/24/17

Jeffrey L Brubaker

Jeffrey L. Brubaker