

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

July 26, 2017

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 B. BARTSCH**

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony and attachments of Jeffrey B. Bartsch 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 B. BARTSCH

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

1 **Q. Please state your name, position, and business address.**

2 A. My name is Jeffrey B. Bartsch. I am the Director of Tax Accounting and
3 Regulatory Support for American Electric Power Service Corporation (AEPSC).
4 AEPSC supplies engineering, financing, accounting, planning, advisory, and other
5 services to the subsidiaries of the American Electric Power (AEP) system, one of
6 which is Indiana Michigan Power Company (I&M or the Company). My business
7 address is 1 Riverside Plaza, Columbus, Ohio 43215.

8 **Q. Please briefly describe your educational background and professional
9 experience.**

10 A. I earned a Bachelor of Business Administration Degree in Accounting from Ohio
11 University in 1979. I am a Certified Public Accountant and have been licensed in
12 Ohio since 1981. I am also a member of the Tax Executives Institute, Inc. I was
13 first employed by Arthur Andersen & Co. in 1979 in the Audit section where I was
14 assigned to various clients, including those in the electric utility industry. In 1985, I
15 accepted a position with the AEPSC Tax Department. Since that time I have held
16 various positions until June 2000 when I was promoted to my current position.

17 **Q. What are your responsibilities as Director of Tax Accounting and Regulatory
18 Support?**

19 A. My responsibilities include oversight of the recording of the tax accounting entries
20 and records of AEP and its subsidiaries, including I&M. I am also responsible for
21 coordinating the development of state and federal tax data to be provided by the

1 AEPSC Tax Department in regulatory proceedings. I have attended numerous
2 tax, accounting, and regulatory seminars throughout my professional career.

3 **Q. Have you previously testified in any regulatory proceeding?**

4 A. Yes. In addition to previous testimony before the Indiana Utility Regulatory
5 Commission (Commission) on behalf of I&M, I have filed testimony before the
6 Public Utilities Commission of Ohio on behalf of Columbus Southern Power
7 Company and Ohio Power Company; with the Michigan Public Service
8 Commission on behalf of I&M; with the Tennessee Regulatory Authority on behalf
9 of Kingsport Power Company; with the Louisiana Public Service Commission on
10 behalf of Southwestern Electric Power Company; and with the Federal Energy
11 Regulatory Commission in a transmission rate case for the eastern AEP Operating
12 Companies. I have also filed testimony with and testified before the Public Utility
13 Commission of Texas on behalf of AEP Texas Central Company, AEP Texas
14 North Company, Southwestern Electric Power Company, and Electric
15 Transmission Texas, LLC. In addition, I have filed testimony with and testified
16 before the Virginia State Corporation Commission on behalf of Appalachian Power
17 Company, the Public Service Commission of West Virginia on behalf of
18 Appalachian Power Company and Wheeling Power Company, and the Public
19 Service Commission of Kentucky on behalf of Kentucky Power Company. As with
20 I&M, all of these companies, except Electric Transmission Texas, LLC, are AEP
21 operating companies.

1 **PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony in this proceeding is to present and support the
4 following:

- 5 • Federal and state income tax expense for the historical period ended
6 December 31, 2016 and for the forward-looking test period ended December
7 31, 2018 (Test Year).
- 8 • Income tax expense adjustments related to certain ratemaking adjustments
9 made to the Test Year as supported by other Company witnesses.
- 10 • Calculation of the gross revenue conversion factor and certain taxes other than
11 income taxes.
- 12 • Calculation of effective federal income tax rates.
- 13 • Federal and state income tax expense calculations for the Phase-in Rate
14 Adjustment (PRA).

15 **Q. Are you sponsoring any exhibits in this proceeding?**

16 A. I am sponsoring the following exhibits or portions of exhibits:

- 17 • Exhibit A-5: List of Tax Expense Adjustments.
- 18 • Exhibit A-8: Test Year Calculation of Gross Revenue Conversion Factor.
- 19 • Exhibit A-9: Test Year Effective Tax Rate.

20 **Q. Are you sponsoring any attachments in this proceeding?**

21 A. I am sponsoring the following attachments to my direct testimony:

- 22 • Attachment JBB-1: Test Year State Income Tax Rate
- 23 • Attachment JBB-2: Test Year Interest Synchronization

1 **Q. Are you sponsoring any workpapers in this proceeding?**

2 A. I am sponsoring the following workpapers:

- 3 • WP-JBB-1: Test Year Tax Expense Computations
4 • WP-JBB-2: PRA / Phase In Tax Expense Computations

5 I also sponsor the following sections of WP-I&M-1 (Total Company):

- 6 • WP-I&M -1-7: Historic Tax Expense
7 • WP-I&M-1-8: Historic Parent Co. Net Interest Tax Benefit
8 • WP-I&M-1-9: Historic Gross Revenue Conversion Factor
9 • WP-I&M-1-10: Historic Effective Federal Income Tax Rate
10 • WP-I&M-1-11: Historic Effective State Income Tax Rate

11 **Q. Were the exhibits, attachments, and workpapers that you are sponsoring**
12 **prepared by you or under your direction?**

13 A. Yes.

14 **FEDERAL AND STATE INCOME TAX EXPENSE**

15 **Q. Please describe the methodology used to develop the federal and state**
16 **income tax expense for the Test Year.**

17 A. Consistent with prior rate filings and Commission Orders including Cause Nos.
18 44075 and 43306, the Company's federal and state income tax expense are
19 calculated using the *stand-alone* or *separate* return methodology. The Company's
20 income tax expense is based in large part on the components of Company pre-tax
21 book income and expense presented by Company witness David Lucas, and the
22 forecast of other various Schedule M items that would impact the computation of
23 current and deferred income tax expense for the Test Year. The computations

1 also include reversals of deferred taxes and amortization of deferred investment
2 tax credits utilized in prior years.

3 Workpaper WP-JBB-1 shows the calculation of Test Year federal income
4 tax expense. All deferred federal income taxes were computed based on the
5 related Schedule M items as presented in the Company's forecast. (The
6 Company's forecast process is explained in detail by Company witness Lucas.) In
7 addition, the workpapers show the calculation of the Test Year state income tax
8 expense. This was developed using the most recent available state tax rates and
9 apportionment factors.

10 The Company's state and federal income tax expense has been properly
11 recomputed to reflect the appropriate tax effects resulting from the various
12 ratemaking adjustments supported in this case.

13 **Q. Does the Projected Test Year take into account the extension of bonus tax**
14 **depreciation as a result of the Protecting Americans from Tax Hikes Act of**
15 **2015?**

16 A. Yes. Bonus tax depreciation has been incorporated into the tax depreciation
17 computations at 50% bonus for years through 2017 and at 40% bonus for 2018.

18 **Q. Please describe the methodology used to develop Taxes Other Than Income**
19 **tax expense for the Test Year.**

20 A. The Test Year level of forecasted Taxes Other Than Income Tax expense is
21 representative of these types of ongoing tax expenses except for those tax
22 adjustments that I am sponsoring in this proceeding. The adjusted Test Year level

1 of other tax expense is appropriate and necessary and reflects the proper amount
2 of going-level expense.

3 **Q. Please describe the calculation of the effective state income tax rate as**
4 **shown on Attachment JBB-1.**

5 A. Attachment JBB-1 shows the composite state income tax rate developed by using
6 the appropriate state income tax rates and apportionment factors. This composite
7 rate is used to compute current state income tax expense and is used in the
8 development of the Gross Revenue Conversion Factor.

9 **Q. Please describe the calculation of interest synchronization for federal**
10 **income tax as shown on Attachment JBB-2.**

11 A. Attachment JBB-2 shows the calculation of the amount of interest expense
12 deduction used by the Company for purposes of computing income tax expense.
13 This amount is calculated by multiplying the adjusted rate base by the weighted
14 cost of long-term debt. This interest expense deduction methodology is consistent
15 with past Commission practice including Cause Nos. 44075 and 43306.

16 **Q. Please describe the development of the federal and state income tax**
17 **expense for the historic period.**

18 A. The Company's historical income tax expense is based on the actual amounts
19 recorded on the books of I&M. The historical income tax expense has not been
20 adjusted for out-of-period or non-ongoing items and is presented in I&M-WP-1-7
21 for informational purposes only.

1 As with federal and state income tax in the Test Year, the Company's
2 historical federal and state income tax expense is calculated using the *stand-alone*
3 or *separate* return methodology.

4 **TAX EXPENSE ADJUSTMENTS**

5 **Q. What Tax Expense Adjustments are you sponsoring?**

6 A. I am sponsoring ratemaking Tax Expense Adjustment Nos. 1-3, as shown on
7 Exhibit A-5. Each of these adjustments is necessary in order to reflect an adjusted
8 Test Year level of tax expense that is representative of ongoing operations.

9 Exhibit A-5 presents Tax Expense Adjustments Nos. 1-3 on a total
10 Company basis. Company witness Stegall is responsible for all jurisdictional
11 amounts associated with these adjustments.

12 **Q. Please describe Tax Expense Adjustment No. 1.**

13 Tax Expense Adjustment No. 1 increases the total Company state income tax
14 expense by \$2,754,013 to reflect the adjustments to state taxable income resulting
15 from the ratemaking adjustments supported by various Company witnesses that
16 affect pre-tax state book income and the related Schedule M adjustments. This
17 adjustment includes all state income tax expense where the Company has a
18 business presence. Consistent with past rate treatment by this Commission, no
19 deferred state income tax expense has been recorded in utility cost of service.

20 **Q. Please describe Tax Expense Adjustment No. 2.**

21 A. Tax Expense Adjustment No. 2 increases the total Company Current Federal
22 Income Tax (CFIT) expense by \$16,410,911 to reflect the current federal income
23 tax effect at 35% of the federal taxable income related to the ratemaking

1 adjustments supported by various Company witnesses, which affect pre-tax book
2 income and the related federal income tax Schedule M adjustments. CFIT
3 expense has been adjusted by I&M's allocated share of the tax benefit of the net
4 interest expense portion of the parent company (American Electric Power Co. Inc.)
5 tax loss as a result of the Company's participation in the AEP consolidated federal
6 income tax return. This methodology is consistent with the Commission's
7 December 22, 1982 Order in Cause No. 36760; the Commission's November 12,
8 1993 Order in Cause No. 39314; and all subsequent Commission Orders. I&M-
9 WP-1-8 shows the computation of this amount.

10 **Q. Please describe Tax Expense Adjustment No. 3.**

11 A. Tax Expense Adjustment No. 3 decreases the total Company Deferred Federal
12 Income Tax (DFIT) expense by \$38,931,840 to reflect the appropriate adjustments
13 to DFIT expense at 35% of the normalized Schedule M adjustments arising from
14 the ratemaking adjustments.

15 Tax Expense Adjustment No. 3 also increases total Company Deferred
16 Investment Tax Credit (DITC) amortization by \$2,420,341. This adjustment is
17 necessary to reflect the proper level of amortization based on the new book
18 depreciation rates that are being recommended in this filing by Company witness
19 Davis. In addition, the DITC amortization is being adjusted to reflect the Solar
20 Investment Projects in which the Investment Tax Credits previously earned are
21 anticipated to be fully utilized in 2017 by I&M as a result of its participation in the
22 AEP Consolidated Federal Income Tax Return. These DITCs are being amortized
23 over the estimated remaining book life of the various Solar Projects.

GROSS REVENUE CONVERSION FACTOR

1
2 **Q. Please describe the calculation of the Gross Revenue Conversion Factor as**
3 **shown on Exhibit A-8.**

4 A. The Gross Revenue Conversion Factor calculated on Exhibit A-8 indicates the
5 appropriate factor that should be applied to the income deficiency in order to
6 determine the amount of incremental revenue needed to obtain the required level
7 of operating income. It is necessary to apply this factor to the income deficiency in
8 order to provide sufficient revenues to cover the additional federal and state
9 income tax expense, the Indiana Utility Receipts Tax expense, and the public utility
10 assessment fees.

EFFECTIVE FEDERAL INCOME TAX RATE

11
12 **Q. Please describe the calculation of the effective federal income tax rate as**
13 **shown on Exhibit A-9.**

14 A. Exhibit A-9 calculates the Company's effective federal income tax rate after taking
15 into consideration permanent and flow-through timing differences, excess deferred
16 federal income taxes, and deferred investment tax credit amortization. The overall
17 effective federal income tax rate before rate relief is 26.31% and is calculated by
18 dividing total federal income tax expense by pre-tax electric operating income
19 including interest expense.

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

21 A. Yes.

VERIFICATION

I, Jeffrey B. Bartsch, Director of Tax Accounting and Regulatory Support 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: 7/19/2017



Jeffrey B. Bartsch

INDIANA MICHIGAN POWER COMPANYCalculation of Effective State Income Tax Rate
Forecast Year Ended December 31, 2018

Attachment JBB-1

Page 1 of 1

Witness: J. B. Bartsch

<u>Line No.</u>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>
1	State Income Tax Rate - Indiana	5.875%	
2	Apportionment Factor	<u>72.7600%</u>	
3	Effective Indiana State Income Tax Rate		4.2747%
4	State Income Tax Rate - Illinois	7.750%	
5	Apportionment Factor	<u>1.5036%</u>	
6	Effective Illinois State Income Tax Rate		0.1165%
7	State Income Tax Rate - Kentucky	6.000%	
8	Apportionment Factor	<u>1.1195%</u>	
9	Effective Kentucky State Income Tax Rate		0.0672%
10	State Income Tax Rate - Michigan	6.000%	
11	Apportionment Factor	<u>14.7402%</u>	
12	Effective Michigan State Income Tax Rate		0.8844%
13	State Income Tax Rate - West Virginia	6.500%	
14	Apportionment Factor	<u>2.2910%</u>	
15	Effective West Virginia State Income Tax Rate		0.1489%
16	Total Effective State Income Tax Rate		<u><u>5.4917%</u></u>

INDIANA MICHIGAN POWER COMPANY

Calculation of Interest Synchronization for FIT
Test Year Ended December 31, 2018

Attachment JBB-2
Page 1 of 1
Witness: J. B. Bartsch

<u>Line No.</u>	<u>Column A</u>	<u>Total Company</u>	<u>Indiana Jurisdiction</u>
1	Adjusted Original Cost Rate Base	\$ 6,022,526,381	\$ 4,185,056,905
2	Weighted Cost Rate of Long-Term Debt	<u>1.94%</u>	<u>1.94%</u>
3	Synchronized Interest Deduction	<u>\$ 116,837,012</u>	<u>\$ 81,190,104</u>