FILED
July 1, 2021
INDIANA UTILITY
REGULATORY COMMISSION

I&M Exhibit: _____

Cause No. 45576

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

TYLER H. ROSS

Content

DIRECT TESTIMONY OF TYLER H. ROSS
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

I. Introduction of Witness

Q1. Please state your name and business address.

My name is Tyler H. Ross and my business address is 1 Riverside Plaza, Columbus, OH 43215.

Q2. By whom are you employed and in what capacity?

I am employed by American Electric Power Service Corporation (AEPSC) as Director of Regulatory Accounting Services. AEPSC supplies engineering, 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).

Q3. What are your responsibilities as Director of Regulatory Accounting Services?

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.

Q4. Briefly describe your educational background and professional experience.

I earned a Bachelor of Science Degree in Business Administration with a major in Accounting from The Ohio State University in 1996. I have been a Certified Public Accountant since 2003 and am a member of the Ohio Society of Certified Public Accountants. Starting with my hiring by AEPSC in August 2001, I held staff and leadership positions within AEP's External Financial Reporting department. I was a Staff Accountant in External Financial Reporting from August 2001 through February 2005. In March 2005, I was promoted to Manager of External Financial Reporting and in August 2008, I was promoted to Director of External Financial Reporting. For AEP and its reporting subsidiaries, I led External Financial Reporting in the preparation and filing of quarterly and annual reports in accordance with both Generally Accepted Accounting Principles (GAAP) and the reporting requirements of both the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC). In January 2014, I started my present position as Director of Regulatory Accounting Services.

Q5. Have you previously testified before any regulatory commissions?

Yes. I have filed testimony with and testified before the Indiana Utility Regulatory Commission (Cause No. 45235), the Kentucky Public Service Commission, the Public Utilities Commission of Ohio, the Virginia State Corporation Commission and the Public Service Commission of West Virginia. I have also submitted testimony before the Michigan Public Service Commission.

II. Purpose of Testimony

Q6. What is the purpose of your testimony?

My testimony provides an overview of accounting-related ratemaking adjustments impacting I&M's cost of service for the 2022 forward-looking Test Year. I also describe proposed accounting for potential changes in corporate federal income tax rates. Finally, I describe the Company's rate base treatment for prepaid pension and prepaid Other Postretirement Employee Benefit (OPEB) assets.

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 Duncan 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 that excludes the portion of the Rockport Plant owned by AEP Generating Company.

Q7. Are you sponsoring any portion of Company workpaper WP-I&M-1?

Yes, I am sponsoring the following portions of Company workpaper WP-I&M-1:

- WP-I&M-1-1: Historical Balance Sheet
- WP-I&M-1-2: Historical Monthly Balance Sheets (January-March 2021)
- WP-I&M-1-3: Historical Statement of Cash Flows
- WP-I&M-1-4: Historical Income Statement
- WP-I&M-1-5: Historical Monthly Income Statements (January-March 2021)

Q8. Are you sponsoring any other workpapers in this proceeding?

Yes. I am also sponsoring the following workpapers and corresponding rate base and cost of service adjustments as included in I&M Exhibit A:

- WP-A-RB-1: Rate base adjustment for treatment of legacy test energy and construction work in progress (CWIP) ratemaking for Rockport Unit 1 (supports Adjustment RB-1).
- WP-A-RB-2: Rate base adjustment related to asset retirement obligations (AROs) (supports Adjustment RB-2).
- WP-A-RB-3: Rate base adjustment related to South Bend Smart Meter Pilot Project (supports Adjustment RB-3).
- WP-A-RB-4: Rate base adjustments (supporting Adjustment RB-4) for:
    - CWIP ratemaking approved in Indiana for Dry Sorbent Injection (DSI) on Rockport Units 1 and 2,
    - CWIP ratemaking approved in Indiana for Selective Catalytic Reduction (SCR) on Rockport Unit 1 and Unit 2,
    - CWIP ratemaking approved in Indiana for Cook Plant Life Cycle Management (LCM), and
    - Indiana Utility Regulatory Commission (IURC)-approved depreciation rates related to Cook Plant LCM.
- WP-A-RB-5: Rate base adjustment for COVID-19 bad debt expense deferral (supports Adjustment RB-5).
- WP-A-RB-6: Indiana storm over-recovery amortization adjustment (supports Adjustment RB-6).
- WP-A-RB-7: Removal of land costs related to St. Joseph Solar Farm (supports Adjustment RB-7).

- WP-A-O&M-4: Adjustment to increase O&M expense for the amortization of December 31, 2020 COVID bad debt expense deferral (supports Adjustment O&M-4).
- WP-A-O&M-5: Adjustment to increase O&M expense for estimated rate case expense amortization (supports Adjustment O&M-5).
- Confidential WP-A-O&M-6: Adjustment to increase O&M expense for nuclear decommissioning study expense amortization (supports Adjustment O&M-6).
- WP-A-O&M-7: Adjustment to increase O&M expense related to increased amortization of I&M's Indiana major storm under-recovery (supports Adjustment O&M-7).
- WP-A-O&M-8: Adjustment to decrease O&M expense related to I&M's five-year average (2016-2020) of Indiana major storm expense (supports Adjustment O&M-8).
- WP-A-O&M-9: Adjustment to increase O&M expense related to amortization of Cook Plant dry cask storage deferral (supports Adjustment O&M-9).
- WP-A-O&M-10: Adjustment to increase O&M expense related to amortization of IM Plugged In deferral (supports Adjustment O&M-10).

Q9. Were the workpapers that you sponsor prepared or assembled by you or under your direction and supervision?

Yes.

Q10. Are the adjustments that you sponsor consistent with adjustments made in I&M's most recent Indiana Base Rate Case and other Commission decisions?

Yes. The majority of my adjustments described in my testimony are consistent with adjustments that were made and accepted in Cause No. 45235 and prior I&M rate cases. The remaining adjustments that I sponsor are consistent with Commission orders as referenced in my testimony below.

Q11. Are the books and records of I&M maintained in accordance with the uniform system of accounts?

Yes, I&M's books and records follow the directives of the FERC Uniform System of Accounts (FERC USofA). As a registrant company as defined by the SEC, I&M is also required to follow GAAP, comply with specific SEC reporting requirements and maintain controls over financial reporting in compliance with the Sarbanes Oxley Act of 2002.

Q12. Please summarize your testimony.

The ratemaking adjustments I sponsor are reasonable and necessary to properly reflect I&M's cost of service for the forward-looking 2022 Test Year.

The data I rely on was 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.

The adjustments I sponsor have been prepared in a manner consistent with accounting-related adjustments included in prior I&M rate cases. If these adjustments were not made, I&M's Indiana jurisdictional rate base and I&M's base rates would not be properly stated. All of the adjustments I sponsor related to changes in electric plant in service and accumulated depreciation were provided to Company witness Heimberger for appropriate calculations of depreciation expense and accumulated depreciation in the forecasted test year. The rate base adjustments were also provided to Company witness Duncan for inclusion in her jurisdictional separation study.

The Company’s proposed accounting in response to a potential increase in the corporate federal tax rate is reasonable and similar to the deferral accounting performed by the Company following the enactment of the TCJA and the Commission’s order in Cause No. 45032 for the decrease in the corporate federal income tax rate from 35% to 21%. The Company proposes that the deferral be reflected in I&M's monthly Tax Rider over-/under-recovery calculation and entry.

Finally, consistent with I&M's last three rate cases (Cause Nos. 45235, 44967 and 44075), I&M continues to include its prepaid pension asset in rate base. The March 11, 2020 Order in Cause No. 45235 found (at 27-28) that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards and was properly reflected in the Company's approved level of rate base. I&M is also including its OPEB prepaid asset balance in rate base, consistent with the Orders in Cause Nos. 39314, 43306 and 44075.

The Company has included net OPEB expense (net of return on plan assets and amortization of prior service cost (credit)) in the development of its cost of service for its five most recent base rate case filings. The return of this asset to customers is being financed by investor funding. Therefore, I&M reasonably seeks a fair return on this asset balance through rate base treatment, similar to the Company's prepaid pension asset.

III. Adjustments to Rate Base

Q13. For Adjustments RB-5 and RB-6 as described below, please describe the rationale for the amortization period proposed and the starting point for the period of amortization.

For purposes of determining the necessary regulatory asset rate base adjustments as described below in RB-5 and RB-6, the Company proposes a two-year amortization. The amortization period is based on a reasonable period of time the base rates approved in this proceeding may be in effect, as further described by Company witness Seger-Lawson.

In determining December 31, 2022 regulatory asset balances in RB-5 and RB-6, updated amortization is based on a May 1, 2022 estimated change in base rates. Actual amortization of the regulatory asset balances in RB-5 and RB-6 will begin upon Commission approval of the change in tariff rates associated with this proceeding.

Q14. Please explain Rate Base Adjustment RB-1 of Exhibit A-6.

Rate Base Adjustment RB-1 is a two-part adjustment 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 Michigan Public Service Commission (MPSC), and the 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 RB-1 recognizes a reduction in net electric plant in service and accumulated depreciation 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 performed for the Michigan jurisdictional share of Rockport Unit 1 test energy.

In Indiana, test energy was valued at the actual cost of fuel consumed by the unit being tested. The “actual cost” method used in Indiana produces a larger reduction to electric plant in service than the “displacement” method used in Michigan 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 decreases I&M Total Company electric plant in service and accumulated depreciation by $1,030,391 and $1,170,499, respectively.

Part B of Rate Base Adjustment RB-1 recognizes additional Allowance for Funds Used During Construction (AFUDC) related to Rockport Plant Unit 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 the Michigan and FERC jurisdictional CWIP amounts.

The IURC did not include any portion of 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 part of the adjustment increases I&M Total Company electric plant in service and accumulated depreciation by $12,761,000 and $14,496,256, respectively.

Rate Base Adjustment RB-1 makes the above-described adjustments to electric plant in service, as well as the related adjustments to the accumulated provision for depreciation. If these adjustments were not made, certain elements of I&M’s Indiana jurisdictional rate base would be misstated by the accounting and ratemaking conventions of regulatory commissions outside of Indiana.

These adjustments are consistent with those made and approved in Cause No. 45235. See WP-A-RB-1 for further support.

Q15. Please explain Rate Base Adjustment RB-2 of Exhibit A-6.

Rate Base Adjustment RB-2 decreases I&M Total Company electric plant in service by $449,745,804 and decreases I&M's accumulated depreciation by $152,964,988. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410, I&M previously established non-cash assets for AROs related to ash ponds, asbestos removal, and nuclear decommissioning. Adjustment RB-2 properly removes these non-cash assets and related accumulated depreciation from rate base. If this adjustment was not made, I&M's rate base would be overstated.

Rate Base Adjustment RB-2 also increases I&M Total Company accumulated depreciation by $1,387,905 for forecasted 2021 and 2022 Indiana jurisdictional reductions to accumulated depreciation related to I&M's steam, nuclear and general plant AROs.

Rate Base Adjustment RB-2 also increases I&M Total Company accumulated depreciation by $3,838,977 for I&M's Michigan jurisdictional share of ARO depreciation and accretion expense currently being recorded to Account 108. I&M's Michigan jurisdictional share of ARO depreciation and accretion expense is recovered through I&M's Michigan jurisdictional depreciation rates.

These adjustments are consistent with those made and approved in Cause No. 45235. See WP-A-RB-2 for further support.

Q16. Please explain Rate Base Adjustment RB-3 of Exhibit A-6.

Rate Base Adjustment RB-3 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. Specifically, Rate Base Adjustment RB-3 decreases I&M's Indiana jurisdictional distribution and general electric plant in service by $3,714,977 and $335,375, respectively. This adjustment also decreases I&M's Indiana jurisdictional distribution and general accumulated depreciation by $3,714,977 and $335,375, respectively. These adjustments are based on actual costs through December 31, 2020.

These adjustments are consistent with those made and approved in Cause No. 45235. See WP-A-RB-3 for further support.

Q17. Please explain Rate Base Adjustment RB-4 of Exhibit A-6.

Rate Base Adjustment RB-4 is a four-part adjustment of both electric plant in service and accumulated depreciation for presentation on an accounting basis as required by this Commission. This adjustment is based on actual costs through December 31, 2020. As mentioned earlier in my testimony, I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the MPSC and FERC. Following the IURC's approvals for I&M to recover a return on CWIP (instead of AFUDC) related to the Rockport Unit 1 and Unit 2 DSI projects, Rockport Unit 1 and Unit 2 SCR projects and the Cook LCM project described below, I&M ceased recording AFUDC for the Indiana jurisdictional share of these investments. I&M continued to properly record AFUDC on the Michigan and FERC jurisdictional shares of these investments. Because of this, I&M must make the adjustments described below to remove the Michigan and FERC jurisdictional shares of AFUDC from electric plant in service and accumulated depreciation in order to present I&M rate base on an Indiana jurisdictional basis as previously approved by this Commission. Rate Base Adjustment RB-4 also includes an adjustment for IURC-approved LCM end-of-life depreciation rates previously approved for ratemaking purposes. If these adjustments were not made, I&M's Indiana jurisdictional rate base would be misstated.

Part A of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 1 and Unit 2 DSI projects. The IURC approved CWIP recovery for these projects in Cause No. 44331. In order to arrive at the correct value of the Rockport Unit 1 and Unit 2 DSI projects on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service and accumulated depreciation must decrease by $797,819 and $423,265, respectively.

Part B of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for 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 I&M Indiana jurisdictional basis, I&M Total Company electric plant in service and accumulated depreciation must decrease by $2,155,223 and $654,261, respectively.

Part C of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 2 SCR project. The IURC approved CWIP recovery for this project in Cause No. 44871 ECR 1. Rockport Unit 2 SCR was placed into service in May 2020. In order to arrive at the correct value of the Rockport Unit 2 SCR project on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service and accumulated depreciation must decrease by $3,687,308 and $219,039, respectively.

Part D of Rate Base Adjustment RB-4 results in a reduction to electric plant in service and an increase to accumulated depreciation to reflect I&M's Indiana jurisdictional rate base for: a) AFUDC associated with the Cook LCM Project and b) IURC-approved end-of-life depreciation rates for ratemaking purposes related to Cook Plant LCM. The IURC initially approved return on CWIP recovery and end-of-life depreciation rates for I&M's Indiana jurisdictional share of this project in Cause No. 44182. As described in the settlement agreement approved in Cause No. 44967, I&M ceased recording return on CWIP and began recording AFUDC on the I&M Indiana jurisdictional share of Cook Plant LCM starting July 1, 2018. In order to arrive at the correct value of the Cook LCM project on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service must be decreased by $20,000,439 while accumulated depreciation must be increased by $16,619,098 for Indiana ratemaking purposes.

These adjustments are consistent with those made and approved in Cause No. 45235. See WP-A-RB-4 for further support.

Q18. Please explain Rate Base Adjustment RB-5 in Exhibit A-6.

As approved in the Commission's Phase I Order in Cause No. 45380, the IURC authorized I&M to defer, effective March 6, 2020, incremental bad debt expenses incurred during COVID that exceeded the level of bad debt expense that was used in the development of I&M Indiana base rates in Cause No. 45235. Adjustment RB-5 increases rate base by $2,023,141 to reflect I&M's forecasted COVID-19 bad debt expense deferral at December 31, 2022. Company witness Seger-Lawson sponsors the Company’s proposal to recover I&M’s December 31, 2020 COVID-19 bad debt expense deferral over two years and to include the forecasted December 31, 2022 COVID-19 deferral balance in rate base. This adjustment includes the Company's proposed amortization of Indiana COVID incremental bad debt expense of $3,034,711 over two years starting May 1, 2022 as described in Adjustment O&M-4. If this adjustment was not made, I&M’s Indiana jurisdictional rate base and I&M’s base rates would be understated. See WP-A-RB-5 for further support.

Q19. Please explain Rate Base Adjustment RB-6 in Exhibit A-6.

Adjustment RB-6 reflects a $2,261,084 increase in rate base for I&M's forecasted December 31, 2022 Indiana jurisdictional storm regulatory asset under-recovery. If this adjustment was not made, I&M’s Indiana jurisdictional rate base and I&M’s base rates would be understated. This forecasted I&M Indiana major storm under-recovery regulatory asset is based on: a) I&M's major storm under-recovery balance of $298,079 as of December 31, 2020; b) estimated ongoing amortization of major storm expense over-recovery approved in Cause No. 45235 through the Test Year; and c) I&M's proposed amortization of forecasted major storm under-recovery of $3,391,626 over two years starting May 1, 2022 as described in adjustment O&M-7. As approved in Cause No. 45235 and prior I&M Indiana base rate cases, the Company continues to perform major storm over-/under-recovery accounting by comparing actual major storm expenses against the level of major storms used in the development of base rates and recording either a regulatory asset for an under-recovery or a regulatory liability for an over-recovery. Company witness Seger-Lawson sponsors the Company’s proposal to continue major storm over-/under-recovery accounting.

This adjustment is consistent with the similar adjustment made and approved in Cause No. 45235. See WP-A-RB-6 for further support.

Q20. Please explain Rate Base Adjustment RB-7 in Exhibit A-6.

Adjustment RB-7 removes from rate base I&M’s per books $5,129,941 original purchase price of land related to the operations of the St. Joseph Solar Farm (SJSF) in South Bend, Indiana. The SJSF was placed in service in March 2021. In the settlement agreement approved in Cause No. 45245, I&M agreed to forego an Indiana jurisdictional return on I&M's per books original purchase price of land related to the SJSF.

Q21. For the adjustments that you describe above related to rate base, did you provide the applicable adjustments to Company witness Heimberger for inclusion in her calculation of forecasted depreciation expense and accumulated depreciation?

Yes. All of the adjustments described above related to changes in electric plant in service and accumulated depreciation were provided to Company witness Heimberger for appropriate calculations of depreciation expense and accumulated depreciation in the forecasted Test Year.

Q22. Did you also provide the rate base adjustments described above to Company witness Duncan for inclusion in her jurisdictional separation study?

Yes I did.

IV. Adjustments to Net Operating Income

Q23. For the proposed regulatory asset amortization adjustments described in the O&M operating adjustments below, please describe the rationale for the amortization period proposed and the starting point for the period of amortization.

For purposes of determining the necessary adjustments to retail rates for amortization of regulatory assets as described below, the Company proposes a two-year amortization. The amortization period is based on a reasonable period of time the base rates approved in this proceeding may be in effect as further described by Company witness Seger-Lawson.

Q24. Please explain Adjustment O&M-4.

Adjustment O&M-4 increases O&M expense by $1,517,356 annually to amortize I&M's December 31, 2020 Indiana COVID incremental bad debt expense deferral of $3,034,711. As noted above, the Commission's Phase I Order in Cause No. 45380 authorized I&M to defer incremental bad debt expenses that exceeded amounts that were used in the forecasted test year in Cause No. 45235 to develop existing base rates. Company witness Seger-Lawson sponsors the Company's proposal to recover I&M's December 31, 2020 COVID-19 bad debt expense deferral over two years. If this adjustment is not made, these COVID costs would not be included in the Test Year, O&M would be understated, and I&M's base rates would be understated. See WP-A-O&M-4 for further support.

Q25. Please explain Adjustment O&M-5.

Adjustment O&M-5 increases O&M expense by $1,157,978 annually to include the amortization of I&M's estimated rate case expenses expected to be incurred in conjunction with this base rate case filing. This proposed adjustment for incremental rate case expense amortization represents the Company's estimate of annual amortization above the level of amortization included in the Company's 2022 forecast. The Company's estimate of incurred rate case expense includes the cost of outside counsel, outside witness/consulting services, and the cost of internal personnel travel-related expenses in direct support of the hearings associated with this base rate case. These types of costs are consistent with those included in past I&M Indiana base rate case filings. The Company's estimate of rate case expense for this case and the proposed recovery in base rates is sponsored by Company witness Seger-Lawson. If this adjustment is not made, these rate case expenses would not be included in the Test Year, O&M would be understated, and I&M's base rates would be understated.

This adjustment is consistent with the adjustment made and approved in Cause No. 45235. See WP-A-O&M-5 for further support.

Q26. Please explain Adjustment O&M-6.

Adjustment O&M-6 increases I&M Total Company O&M expense by $81,512 annually to amortize I&M's estimated Cook Plant nuclear decommissioning study expense. This proposed amortization adjustment represents the Company's estimated expense for an updated nuclear decommissioning study above the level of related amortization expense included in the Company's 2022 forecast. An estimate of expense for an earlier nuclear decommissioning study was a component of the Company's rate case expense estimate that was approved for recovery by the Commission in Cause No. 45235. The Company's estimate of nuclear decommissioning study expense and the proposed recovery in base rates is sponsored by Company witness Seger-Lawson. If this adjustment is not made, these nuclear decommissioning expenses would not be included in the Test Year, O&M would be understated and I&M's base rates would be understated.

This adjustment is consistent with the similar adjustment made and approved in Cause No. 45235. See Confidential WP-A-O&M-6 for further support.

Q27. Please explain Adjustment O&M-7.

Adjustment O&M-7 increases O&M expense by $2,200,385 annually for the amortization of I&M's forecasted under-recovery of major storm expenses. I&M will continue to amortize Indiana major storm over-recovery through March 2022 based on the level approved in Cause No. 45235. As reflected in Adjustment RB-6, it is forecasted that I&M will have a $3,391,626 Indiana major storm under-recovery regulatory asset at April 30, 2022. I&M proposes to amortize this under-recovery over two years, resulting in a proposed annual amortization expense of $1,695,813. When compared to the Test Year 2022 forecasted $504,572 amortization of major storm over-recovery regulatory liability (credit to expense; based on level in base rates approved in Cause No. 45235) it is determined that I&M must increase major storm under-recovery amortization expense by $2,200,385. If this adjustment is not made, amortization of major storm under-recovery would not be properly included in the Test Year, O&M would be understated, and I&M's base rates would be understated.

This adjustment is consistent with the similar adjustment made and approved in Cause No. 45235. See WP-A-O&M-7 for further support.

Q28. Please explain Adjustment O&M-8.

Adjustment O&M-8 decreases O&M expense by $1,237,529 annually to reflect I&M's most recent five-year average of Indiana major storm expenses. In Cause No. 45235, I&M included an annual going level of O&M expense of $4,047,529 related to Indiana major storms.

As supported by Company witness Seger-Lawson, I&M's five-year average of Indiana major storm O&M expense was $2,810,000 for the period 2016 through 2020. If this adjustment is not made, an appropriate level of major storm expenses would not be included in the Test Year, O&M would be overstated and I&M's base rates would be overstated.

This adjustment is consistent with the similar adjustment made and approved in Cause No. 45235. See WP-A-O&M-8 for further support.

Q29. Please explain Adjustment O&M-9.

Adjustment O&M-9 increases annual O&M expense by $5,118 to reflect the Company's proposed annual amortization of I&M's Indiana jurisdictional December 31, 2020 Cook Plant dry cask storage regulatory asset balance. I&M's request for deferral authority for Indiana jurisdictional dry cask storage costs not reimbursed by the United States Department of Energy (DOE) was originally approved in Cause No. 44967 with continued deferral authority approved in Cause No. 45235. The Company proposes to amortize I&M's December 31, 2020 Indiana jurisdictional dry cask storage regulatory asset balance of $10,236 over two years. If this adjustment is not made, these dry cask storage costs would not be included in the Test Year, O&M would be understated, and I&M's base rates would be understated. Company witness Seger-Lawson sponsors the Company's request for continued deferral authority of any future dry cask storage costs not reimbursed by the DOE. See WP-A-O&M-9 for further support.

Q30. Please explain Adjustment O&M-10.

Adjustment O&M-10 increases annual O&M expense by $2,529 to reflect the Company's proposed annual amortization of I&M's December 31, 2020 “IM Plugged In” regulatory asset balance. I&M's three-year “IM Plugged In” pilot program and related rebate deferral authority was granted by the Commission in Cause No. 45235. The Company proposes to amortize I&M's December 31, 2020 IM Plugged In regulatory asset balance of $5,057 over two years. If this adjustment is not made, these IM Plugged In costs would not be included in the Test Year, O&M would be understated, and I&M's base rates would be understated. Company witness Seger-Lawson sponsors continued deferral of any future IM Plugged In costs eligible for recovery and incurred during the three-year pilot program. See Workpaper WP-A-O&M-10 for further support.

Q31. Did you also provide the cost of service O&M adjustments described above to Company Witness Duncan for inclusion in her jurisdictional separation study?

Yes I did.

V. Tax Rider Over/Under Accounting

Q32. Please explain the deferral accounting requests associated with the Tax Rider proposed by Company witness Seger-Lawson.

The Company proposes to perform deferral accounting consistent with that approved by the Commission in Cause No. 45235 for the following:

- Ongoing unprotected excess Accumulated Deferred Federal Income Tax (ADFIT) amortization.
- Ongoing protected excess ADFIT amortization.

The Company also proposes new deferral accounting for the following related to a potential future increase to the corporate federal income tax rate consistent with the deferral accounting ordered by the Commission in Cause No. 45032 following the Tax Cuts and Jobs Act of 2017 (TCJA):

- Increased federal income tax expense.
- Unprotected deficient ADFIT amortization.
- Protected deficient ADFIT amortization.

Q33. Please describe the Company's proposed deferral accounting for unprotected excess ADFIT.

As described by Company witness Seger-Lawson, I&M expects to fully amortize its Indiana jurisdictional unprotected excess ADFIT balance by the end of 2022. The Company has removed this amortization from base rates and will separately credit this amount to customers through the proposed Tax Rider until I&M Indiana unprotected excess ADFIT is fully amortized. Contemporaneous with the implementation of new base rates, the Company will establish an initial credit Tax Rider to reflect a going level of unprotected excess ADFIT amortization. A monthly debt and equity carrying charge will also be credited to customers based on the remaining I&M Indiana unprotected excess ADFIT liability. A monthly Tax Rider over-/under-recovery will be calculated by comparing monthly Tax Rider revenue credits against the per books I&M Indiana level of unprotected excess ADFIT amortization and carrying charges. The Company will then record a monthly Tax Rider under-recovery or over-recovery adjustment to FERC Account 182.3 or 254, respectively, in accordance with GAAP, specifically ASC 980 in accounting for regulated operations. Company witness Criss provides details of I&M's forecasted Indiana unprotected excess ADFIT amortization in WP-A-RIDER-4. This is consistent with the tax rider authority granted by the Commission in Cause No. 45235.

Q34. Please describe the Company's proposed deferral accounting for protected excess ADFIT.

Separate from the Tax Rider over-/under recovery calculation and deferral described above, upon implementation of new base rates, the Company will begin separate deferral of the monthly level of actual amortization of protected excess ADFIT that is above or below the forecasted level of protected excess ADFIT amortization that is used in the development of I&M base rates in this case. The Company will include any protected excess ADFIT over-/under-recovery balances in future base rate case filings. This monthly under-/over-recovery will be recorded as a regulatory asset to Account 182.3 or a regulatory liability to Account 254 in accordance with GAAP and ASC 980. This is consistent with the ADFIT deferral authority granted by the Commission in Cause No. 45235.

Q35. Does the Company plan to use unique accounts to track monthly Tax Rider and protected excess ADFIT Amortization over-/under-recovery accounting?

Yes. The Company will establish unique regulatory asset and regulatory liability accounts within FERC Accounts 182.3 and 254, respectively, for separate Tax

Rider and protected excess ADFIT Amortization over-/under-recovery accounting. Corresponding income statement adjustment accounts will also be established.

Q36. Please describe the Company's request to defer the earnings impact for potential changes to the corporate federal income tax rate.

Company witness Seger-Lawson proposes to defer the I&M Indiana jurisdictional earnings impacts of any change in law that would result in a change to the corporate federal income tax rate. The Biden Administration has discussed the potential to increase the corporate federal income tax rate from the current 21% tax rate to a 28% tax rate. Similar to I&M's deferral accounting in response to the TCJA and the IURC's order on Cause No. 45032, the Company proposes to defer the earnings impact of any legislation resulting in a change in the corporate federal income tax rate. The Company also proposes that the deferral accounting related to a potential change in the corporate federal income tax rate be reflected in I&M's monthly Tax Rider over-/under-recovery calculation and entry.

Q37. At a high level, please explain the deferral accounting that the Company proposes to perform for the Tax Rider in response to a potential increase in the corporate federal tax rate.

Similar to the deferral accounting performed by the Company following the enactment of the TCJA and the Commission's order on Cause No. 45032 for the decrease in the corporate federal income tax rate from 35% to 21%, I&M proposes to perform the following deferral accounting in accordance with ASC 980 beginning on the date the corporate federal income tax rate would increase:

- Prospectively defer the change in federal income tax (FIT) expense based on the cost of service approved in this proceeding using the current FIT rate versus the same cost of service using the newly approved and ongoing FIT rate.

- Prospectively defer the I&M Indiana jurisdictional impact of amortization of protected deficient ADFIT that would begin immediately following the effective date of an increase to the corporate federal income tax rate.
- Prospectively defer the I&M Indiana jurisdictional impact of amortization of unprotected deficient ADFIT that would begin immediately following the effective date of an increase to the corporate federal income tax rate.
- Similar to the terms of the settlement agreement accepted by the IURC in Cause No. 44967, the Company proposes to amortize unprotected deficient ADFIT over six years.
- Prospectively record monthly debt and equity carrying charges on I&M's unprotected deficient ADFIT and protected deficient ADFIT balances.

As described by Company witness Seger-Lawson, the Company would submit to the Commission a future Tax Rider revenue requirement requesting recovery of these monthly deferrals.

Q38. Has the Company prepared an illustrative example of the potential impacts of an increase in the federal tax rate?

Yes, Company witness Criss presents an example in Attachment JMC-4.

VI. Ratebase Treatment for Prepaid Pension and OPEB Assets

Q39. At a high level, please provide an overview of I&M's pension and OPEB plans.

As described further by Company witness Hill, AEP sponsors a pension plan (providing a source of retirement income) and an OPEB plan (providing health and life insurance benefits) for AEP employees, including I&M employees, during retirement.

Q40. Please define a prepaid pension/OPEB asset.

A prepaid pension/OPEB asset is defined as cumulative pension/OPEB cash contributions less cumulative pension/OPEB cost. In its simplest form, I&M's prepaid pension/OPEB asset is comprised of the following:

Figure THR-1. Illustration of Prepaid Pension/OPEB asset

1	Company Pension/OPEB Contributions	$xxx,xxx
2	Less: GAAP-determined Pension/OPEB Cost (Paid by I&M Customers)	$(xxx,xxx)
3	Equals: Prepaid Pension/OPEB Asset (Account 165) (Equal to Row 9 Below)	$xxx,xxx
4		
5	Pension/OPEB Funded Status (Account 129)	$xxx,xxx
6	**OR**	
7	Pension/OPEB Funded Status (Account 228)	$(xxx,xxx)
8	Plus: Pension/OPEB-Related Regulatory Asset (Account 182.3)	$xxx,xxx
9	Equals: Prepaid Pension/OPEB Asset (Account 165) (Equal to Row 3 Above)	$xxx,xxx

Q41. To which FERC accounts does I&M record the balance sheet impacts of pension and OPEB?

As a fully regulated utility, I&M records pension activity to the following general ledger balance sheet accounts shown in *Figure THR-2* in accordance with the FERC USofA:

Figure THR-2. Pension Accounting

Row	Account Description	Pension	OPEB
1	Prepaid Pension Benefits	1650010	1650035
2	ASC 715 – Prepayment Reclass	1650014	1650037
3	ASC 715 – Trust Funded Position (Assets)	1290000, 1290003, 2283006	1290001, 1290002
4	ASC 715 – Trust Funded Position (Liabilities)	2283016	2283017
5	ASC 715 – Regulatory Asset	1823165	1823166

Figure THR-3 provides a reconciliation of I&M's pension and OPEB plans as of December 31, 2020.

Figure THR-3. Pension and OPEB balances (December 31, 2020)

Row	Account Description	Pension	OPEB	Total
1	1650010 – Prepaid Pension Benefits	$81,502,062		$81,502,062
2	1650014 – ASC 715 – Pension Prepayment Reclass	$(81,502,062)		
3				
4	1650035 – Prepaid OPEB Benefits		$74,886,892	$74,886,892
5	1650037 – ASC 715 – OPEB Prepayment Reclass		$(74,886,892)	
6	**Total Prepayment**			**$156,388,954**
7				
8	1290000 – ASC 715 - Pension Net Funded Position (Assets)	$42,494,974		$42,494,974
9	1290001 – ASC 715 – OPEB Net Funded Position (Assets)		$89,535,474	$89,535,474
10	**Total Funded Status**			$132,030,448

11				
12	1823165 – ASC 715 - Reg Asset – Pension	$39,007,088		$39,007,088
13	1823166 – ASC 715 - Reg Liability – OPEB		$(14,648,582)	$(14,648,582)
14	**Total Regulatory Asset**			$24,358,506
15				
16	**Total Prepayment = Funded Status + Regulatory Asset**	**$81,502,062**	**$74,886,892**	**$156,388,954**

Figure THR-3 shows that the ASC 715 accounts serve as financial reporting reclassifications to I&M's balance sheet of the original prepayments recorded to Accounts 1650010. For ratemaking purposes in this case, I&M has appropriately excluded the ASC 715 balance sheet reclassifications and properly reflected the pension and OPEB prepayments (cumulative cash contributions less cumulative benefit cost) in the Company's December 31, 2022 forecasted rate base.

Q42. How does I&M's prepayments recorded in Accounts 1650010 and 1650035 for I&M's pension plan and OPEB plan, respectively, relate to the corresponding funded position?

Accounts 1650010 (pension) and 1650035 (OPEB) are not equal to the corresponding funded position as they represent the difference between the Company's cash contribution to the trusts and the recorded benefit cost (prepayment). To recognize the funded positions, I&M records a series of balance sheet entries for the components of I&M's pension and OPEB plan prepayments. Specifically, for periods in which I&M's pension plan or OPEB plan is in a surplus position, I&M records an asset balance to Account 129 for the net surplus amount and an asset balance to Account 182.3 for the regulatory asset amount yet to be recovered from I&M's customers. The total of these assets recorded to Account 129 and Account 182.3 will equal the corresponding pension plan and OPEB prepayments recorded to Account 165. Conversely, for periods in which I&M's pension and OPEB plans are under-funded, I&M records a liability balance to Account 228.3 for the net under-funded amount and an asset balance to Account 182.3 for the regulatory asset amount yet to be recovered from I&M's customers. The netting of these amounts recorded to Account 228.3 and Account 182.3 will equal the corresponding pension/OPEB prepayment recorded to Account 165. Simply put, these entries move amounts between various balance sheet accounts to facilitate financial reporting in accordance with ASC 715, but do not alter the underlying cash transactions resulting from Company contributions to the pension/OPEB trusts and collections from customers for actuarially determined benefit costs.

Q43. To which FERC accounts does I&M record the income statement activity for the pension and OPEB plans?

Figure THR-4 explains the accounts to which I&M records pension and OPEB income statement activity in accordance with the FERC USofA:

Figure THR-4. FERC USofA Pension Accounts

Row	Account Description	Pension	OPEB
1	Service Cost	9260003	9260021
2	Non-Service Cost	9260062	9260043

Q44. Please describe how the Company's accounting for the prepaid pension and OPEB plan assets impacts I&M's cost of service.

For the Company's pension plan, I&M continues to record pension service cost to Account 9260003 for benefits earned by active employees. I&M records current year interest cost, return on plan assets, amortization of prior service cost (credit) and amortization of actuarial losses to Account 9260062.

For the Company's OPEB plan, I&M continues to record OPEB service cost to Account 9260021 for benefits earned by active employees. I&M records current year interest cost, return on plan assets, amortization of prior service cost (credit) and amortization of actuarial losses to Account 9260043.

I&M's net impacts to Accounts 9260003 and 9260062 (pension plan) and 9260021 and 9260043 (OPEB plan) are included in the Company's cost of service used to determine I&M's Indiana base rates.

Q45. Has the Company received a qualified opinion from its external auditors for I&M's pension and OPEB accounting?

No. However, the Company's accounting for its pension and OPEB plans in accordance with GAAP has received clean audit opinions from multiple external auditors.

Q46. Has I&M included its prepaid pension asset in rate base in this case?

Yes. Consistent with I&M's last three rate cases (Cause Nos. 45235, 44967 and 44075), I&M continues to include its prepaid pension asset in rate base. The March 11, 2020 Order in Cause No. 45235 found (at 27-28) that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards and was properly reflected in the Company's approved level of rate base.

It is clear that I&M’s prepaid pension asset (cumulative contributions less cumulative GAAP-determined benefit cost) are funded solely by investors. On a cumulative basis, I&M’s cost of service has only included the level of GAAP-determined pension cost and nothing more. The only pension funds included in rates have been the level of GAAP-determined pension expense. Amounts in Account 165 represent cumulative contributions in excess of pension costs, which were provided by investors.

Q47. How does I&M's prepaid pension asset provide benefit to customers?

I&M's prepaid pension asset earns a return that serves to decrease the cost of service. The return is used and useful as it lowers future pension expense, resulting in a lower cost of service. The Company's additional pension contributions beyond the amount of pension cost included in cost of service were prudently made to reduce the shortfall between pension plan assets and the pension benefit obligation. These additional pension contributions create additional trust fund investment income that serves to reduce each subsequent year's pension cost included in the cost of service, benefitting customers. The prepaid pension asset represents a prudent investment made to help meet utility obligations and to reduce cost of service for customers, is used and useful in providing public utility service, and is necessary for the responsible management of the Company's pension plan.

Q48. Has the Company also included its prepaid OPEB asset in rate base in this case?

Yes.

Q49. Has the Commission previously approved prepaid OPEB in rate base?

Yes. In prior I&M Indiana base rate cases, Cause Nos. 39314, 43306 and 44075, the IURC accepted the Company's inclusion of Indiana jurisdictional OPEB prepaid asset balances in rate base.[1]

[1] *Re Ind. Mich. Power Co.*, Cause No. 44075, 2013 WL 653036 at 21 (IURC Feb. 13, 2013); *Re Ind. Mich. Power Co.*, Cause No. 43306, 2009 WL 902295 at 39 (IURC Mar. 4, 2009); *Re Ind. Mich. Power Co.*, Cause No. 39314, 1993 WL 602559 at 33 (IURC Nov. 12, 1993).

Q50. Did the Company include OPEB-related expenses (credits) in the cost of service in recent Indiana base rate case filings?

Yes, the Company included OPEB plan expenses (credits) in its cost of service for its five most recent base rate case filings.

Q51. Have there been any significant changes to the Company's OPEB plan?

Yes. As described by Company witness Hill, in November 2012, AEP announced changes to the OPEB plan for existing employees effective January 1, 2013. These changes included the capping of contributions to retiree medical costs thus reducing the Company's future exposure to medical cost inflation. AEP also closed the plan to new employees effective January 1, 2014.

Q52. How did the November 2012 change to the Company's OPEB plan impact I&M's accounting?

Prior to 2013, the Company's funding policy was to contribute an amount to the OPEB trust fund equal to OPEB benefit cost. Starting in 2013, I&M began experiencing a net OPEB credit to expense due to the changes made to retiree medical coverage.

Q53. Why has the Company experienced OPEB credits to expense starting in 2013?

Based on the changes to I&M's OPEB plan as described above, I&M began amortizing the prior service credit to expense in accordance with GAAP, specifically ASC 715-60-35-20:

> *A plan amendment that retroactively reduces, rather than increases, benefits decreases the accumulated postretirement benefit obligation. The reduction in benefits shall be recognized as a corresponding credit (prior service credit) to other comprehensive*

income that shall be used first to reduce any remaining prior service cost included in accumulated other comprehensive income, then to reduce any transition obligation remaining in accumulated other comprehensive income. The excess, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same basis as specified in paragraphs 715-60-35-16 through 35-17 for prior service cost. Immediate recognition of the excess is not permitted. However, as with a plan amendment that increases benefits, the effect of a negative plan amendment (an amendment that decreases benefits) is reflected immediately in the measurement of the accumulated postretirement benefit obligation.

As a fully regulated utility, I&M recorded the prior service credit to a regulatory asset instead of accumulated other comprehensive income. Annual amortization of the prior service credit (credit to expense) is recorded as a component of the Company's net periodic benefit cost which is included in I&M's cost of service.

The Expected Return on Assets has also resulted in a specific monthly credit to expense.

Q54. Is the Company's monthly OPEB entry also impacted by the OPEB-related VEBA trust?

Yes. As described by Company witness Hill, I&M's OPEB plan has a separate Voluntary Employees Beneficiary Association (VEBA) trust fund that requires I&M to keep within the trust all funds not used to pay employee retiree benefits. Since the Company is unable to access funds in its OPEB trust due to VEBA restrictions, I&M's entry to record OPEB cost, including the prior service credit amortization, results in both a monthly credit (reduction) to expense as described above and a corresponding debit (increase) to I&M's prepaid OPEB asset.

Q55. Has the Company included this OPEB-related credit to expense in its cost of service used in determining I&M Indiana base rates?

Yes. The Company continues to record an annual credit to expense for amortization of unrecognized prior service credit for the November 2012 change in OPEB plan benefits. These amounts are determined by I&M's third-party actuary, Willis Towers Watson.

Q56. Please clarify how the prepaid OPEB asset exists given that the OPEB costs have been reflected in rates as either an expense or credit?

As explained above, in 1990, the Company established a VEBA trust fund related to the Company's OPEB obligations. The Company did not use the OPEB-related cost of service as cost-free capital. Instead, the Company contributed to the VEBA trust fund, which is invested and earns a return that stays within the trust fund. The return earned by the VEBA trust increased the funds available to satisfy the OPEB obligations.

Over time, due to the trust fund returns and changes in the OPEB benefits discussed above, the trust fund has grown to an amount that exceeds the expected OPEB obligation. In accordance with GAAP accounting guidance as described above (specifically ASC 715-60-35-20), annual actuarial reports prepared by I&M’s third party actuary, Willis Towers Watson, continue to reflect annual net negative OPEB expense due to the expected return on assets and amortization of the prior service credit. While I&M continues to experience negative OPEB expense, the funds in the VEBA trust must remain in the trust until the trust is terminated, which is not until the last beneficiary is deceased.

For retail ratemaking purposes, the negative OPEB expense is reflected as a credit to the retail revenue requirement. As a result, this credit effectively flows the “overfunding” back to customers. However, since the funds in the VEBA trust cannot be withdrawn until the trust is terminated, the credit is not tied to the actual return of dollars. Rather, the ratemaking credit is essentially an advance payment with the Company fronting the cost of the advance. As explained above, I&M currently records a significant net credit to expense that is reflected in the Company's previous and currently-proposed cost of service and resulting Indiana base rates. Since the funds in its OPEB trusts cannot be accessed, the resulting GAAP accounting creates I&M's prepaid OPEB asset, which continues to grow. The return of this asset to customers is being financed by investor funding. Therefore, I&M reasonably seeks a fair return on this asset balance through rate base treatment, similar to the Company's prepaid pension asset.

Q57. Why is it reasonable to include the prepaid pension asset and the prepaid OPEB asset in rate base?

For ratemaking purposes, expenses are included in the cost of service in order to provide a utility with the opportunity to recover its expenses through rates charged to customers. Costs incurred by the Company related to its pension and OPEB plans are reasonable and necessary costs of providing service to customers. Cash investments are included in rate base in order to provide the utility an opportunity to recover the cost of capital for investor funds dedicated to utility service. While the most obvious rate base item may be plant in service, rate base typically includes other property, such as fuel inventory, materials and supplies, certain regulatory assets, certain regulatory liabilities and prepayments. By including such other property in rate base, the utility is compensated for the cost of the cash invested for and used in the operation of the utility.

These costs of providing service are recognized in the ratemaking process because a utility is entitled to recover all of its reasonable and necessary costs. In other words, the utility has prepaid an allowable expense and the inclusion of the prepayment in rate base is consistent with well-accepted ratemaking principles and necessary both to compensate the utility for use of the funds it has advanced and to avoid a disincentive to the utility for making similar prudent advances in the future. Such treatment is particularly warranted where, as here, the prepayment lowered both the current and future cost of providing service and thus benefited customers and the utility's ongoing ability to provide reliable service.

Regulatory policy should encourage proper and efficient utility management and encourage decisions that are consistent with a commitment to maintaining the well-being and security of the work force and reducing the overall cost of service to customers. On the other hand, if the Company were denied an opportunity to recover its cost of capital on the prepayment, the Commission would seem to be sending a signal that a utility should do the bare minimum or consider only short-term effects. Further, if the prepaid pension/OPEB assets are denied rate base treatment, the Company should remove the corresponding reductions to pension/OPEB expense that are the result of prudent decisions made by the Company in keeping costs low for the customer.

Q58. Are there any examples of accounting/regulatory structures that are similar to the ratemaking treatment of prepaid pension/OPEB in rate base?

Yes. I&M's accounting and regulatory treatment of its pension plan is similar to I&M's accounting and regulatory treatment of net property in service. I&M's pension and OPEB prepayment values (cumulative company cash contributions less cumulative costs) are similar to I&M's net property values (gross cost less accumulated depreciation), a net value funded by the Company in which I&M is permitted to earn a return. Pension and OPEB expense, recorded in accordance with ASC 715, is a proper cost to include in I&M's cost of service just like depreciation expense for I&M property currently in service.

Q59. Does this conclude your pre-filed verified direct testimony?

Yes.

VERIFICATION

I, Tyler H. Ross, Director of Regulatory Accounting Services at American Electric Power Service Corporation, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 6/29/21

Tyler H Ross

Tyler H. Ross