I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

STACIE R. GRUCA

Cause No. 45933

Content

DIRECT TESTIMONY OF STACIE R. GRUCA
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

I. Introduction of Witness

Q1. Please state your name and business address.

My name is Stacie R. Gruca and my business address is Indiana Michigan Power Center, P.O. Box 60, Fort Wayne, IN 46801.

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

I am employed by Indiana Michigan Power Company (I&M or Company) as a Regulatory Analysis & Case Manager in the Regulatory Services Department.

Q3. Briefly describe your educational background and professional experience.

I graduated from Indiana University, Indianapolis, in 2002 with a Bachelor of Science degree in Business, majoring in Accounting, Finance, and International Studies.

I began my career with the Indiana Office of Utility Consumer Counselor in February 2003 working as a Utility Analyst in the Electric Division and subsequently accepted positions as Utility Analyst II in May 2006; Senior Utility Analyst in August 2011; Assistant Director, Electric Division in February 2017; and Director, Electric Division in August 2017. In January 2022, I accepted my current position with I&M in the Regulatory Services Department.

Q4. What are your responsibilities as Regulatory Analysis & Case Manager?

I report to the Director, Regulatory Services and I am responsible for leading and facilitating the preparation of regulatory filings and analyses as assigned.

Q5. Have you previously testified before any regulatory commissions?

Yes. I have testified before the Indiana Utility Regulatory Commission (IURC or Commission) in numerous regulatory proceedings, including, but not limited to, base rate cases and rate adjustment mechanisms (e.g., trackers/riders). Specifically, I have testified in Cause Nos. 45781 Economic Development Rider, 44182 LCM-12, 44871 ECR-7, and 43827 DSM-12 on behalf of I&M.

II. Purpose of Testimony

Q6. What is the purpose of your testimony?

The purpose of my testimony is to:

- Present the Test Year revenue requirements for I&M's on-going rate adjustment mechanisms (*i.e.*, riders);[1]
- Explain the Company's proposals for continuing the following riders: Demand Side Management/Energy Efficiency (DSM/EE) Program Cost Rider, Off-System Sales/PJM (OSS/PJM) Rider, Solar Power Rider (SPR), Environmental Cost Rider (ECR), Resource Adequacy Rider (RAR), and Fuel Cost Adjustment (FAC) Rider;
- Propose closing out the Life Cycle Management (LCM) Rider;
- Sponsor certain rate case adjustments, each of which removes Test Year revenue, expense, and/or plant investment that will continue to be reflected in a rider; and
- Sponsor additional rate case adjustments, which include Test Year expenses and revenues.

[1] Company witness Seger-Lawson discusses the proposed revenue requirement calculation for the proposed Tax Rider.

Q7. Do you sponsor all of I&M's riders?

No. I sponsor the DSM/EE Program Cost Rider, OSS/PJM Rider, SPR, ECR, RAR, and discuss certain portions of the FAC Rider. Company witness Sloan supports portions of the FAC Rider, including calculation of the FAC basis point. Company witness Seger-Lawson sponsors I&M's Tax Rider, Phase-In Rate Adjustment (PRA) Rider, and proposed Grant Projects Rider.

Q8. Are you sponsoring or co-sponsoring any workpapers?

Yes, I am co-sponsoring the following workpapers with Company witness Duncan:

WP-A-RIDER-1	DSM/EE Program Cost Rider Adjustment Summary
WP-A-RIDER-2	OSS/PJM Rider Adjustment Summary[2]
WP-A-RIDER-3	SPR Adjustment Summary
WP-A-RIDER-4	ECR Adjustment Summary
WP-A-OR-1	Indiana Firm and Interruptible Sales Revenues Summary (in support of Indiana riders)

I am also sponsoring the following workpapers:

WP-A-O&M-1	Purchase Power Capacity Expense Adjustment Summary (in support of the RAR)[3]
WP-A-OR-3	Renewable Energy Certificate (REC) Sales Revenues Summary (in support of the FAC Rider)
WP-SRG-1	Rider Revenue Requirement Calculations[4]

[2] WP-A-RIDER-2 is confidential.

[3] WP-A-O&M-1 is confidential.

[4] WP-SRG-1 is confidential.

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

Yes.

Q10. Please summarize your testimony.

I discuss I&M's proposal to maintain its previously approved riders, including its DSM/EE Program Cost Rider, OSS/PJM Rider, SPR, ECR, RAR, and statutory FAC Rider, which have been an efficient way to ensure transparent tracking of costs for significant projects and programs.

Additionally, I address certain modifications I&M proposes to some of its existing riders, including: 1) updating net lost revenues in the DSM/EE Program Cost Rider; 2) updating embedded base rate amounts in the OSS/PJM Rider, ECR, and RAR; 3) embedding LCM property tax expense in base rates, which is currently tracked through the ECR; and 4) resetting the base cost of fuel in the FAC Rider.[5]

Further, I&M proposes closing out the LCM Rider.

III. Rider Revenue Requirements

Q11. What is the purpose of calculating Test Year revenue requirements for I&M's existing riders?

Calculating Test Year revenue requirements for I&M's existing riders is necessary in order to accurately forecast I&M's Test Year operating revenue.

Two sets of revenue requirements have been calculated for I&M's existing riders. The first set of rider revenues (current revenues) are calculated to reflect the

[5] Company witness Seger-Lawson addresses maintaining I&M's existing Tax Rider with certain modifications.

revenues the respective riders would be expected to collect during 2024 absent any changes to base rates or riders as a result of this filing. Specifically, the Test Year current revenue requirements that were calculated for I&M's existing riders were used by Company witness Duncan in Adjustment OR-1 to calculate the detailed tariff-level revenues.

The second set of rider revenues (proposed revenues) are calculated to reflect the revenues the Company proposes to remove from base rates and to continue to fully recover via the respective rider; these calculations reflect the Company's proposed rider changes in this Cause.

Q12. Are the riders you support included in Adjustment OR-1 Test Year revenues?

Yes. Below is a list of the riders I support that are included in Adjustment OR-1:

- DSM/EE Program Cost Rider
- OSS/PJM Rider
- SPR
- ECR
- RAR
- FAC[6]

Q13. How were Test Year revenue requirements calculated for the DSM/EE Program Cost Rider, OSS/PJM Rider, SPR, ECR, and RAR?

Revenues for the OSS/PJM Rider, SPR, ECR, and RAR were calculated using the Test Year forecast, consistent with the current methodology accepted by the Commission. A current revenue requirement was not computed for the DSM/EE

[6] Company witness Sloan supports the FAC basis point used in the calculation of the FAC rate in Adjustment OR-1.

Program Cost Rider; rather, the 2024 DSM Plan revenues approved by the Commission in Cause No. 45701 were used to support Adjustment OR-1.

Q14. Please explain Adjustment OR-1.

As described by Company witness Duncan, Adjustment OR-1 adjusts the Test Year level of operating revenues, including current rider revenues, to match revenues developed on a tariff class level. This adjustment results in an increase in Company revenues (Indiana firm and interruptible sales revenues) of $36,544,466.

Q15. What is the primary driver of the increase in revenues in Adjustment OR-1?

Adjustment OR-1 is primarily driven by a significant increase in DSM revenues, which was predominantly the result of a timing difference between the completion of I&M's 2024 forecast and approval of I&M's 2024 DSM Plan revenues. The Commission approved I&M's 2024 DSM Plan revenues as part of I&M's 2023-2025 DSM Plan in Cause No. 45701 on January 4, 2023. However, I&M's Test Year 2024 Forecast was completed prior to I&M receiving Commission approval in Cause No. 45701. Therefore, I&M did not include its requested 2024 DSM Plan revenues in the forecast. Had I&M included its requested 2024 DSM Plan revenues in the forecast and the Commission denied I&M's request, or approved a lesser amount, then I&M would have significantly overstated its DSM revenues. I&M's Adjustment OR-1 includes an increase in DSM revenues to reflect the Commission's approval of I&M's 2024 DSM Plan revenues.

Q16. Do you have workpapers supporting the Test Year revenue requirements for I&M's existing riders?

Yes. These revenue requirement calculations are shown in WP-SRG-1. This workpaper contains both the current and proposed revenue requirement calculations for the OSS/PJM Rider, SPR, ECR, and RAR. For the DSM/EE

Program Cost Rider, the workpaper includes Cause No. 45701 I&M Attachment JCW-19S (reflecting the current revenue requirement) and the proposed revenue requirement calculation for this Rider. Company witness Seger-Lawson sponsors the calculation of the proposed Tax Rider revenue requirement.

IV. Ratemaking Adjustment Mechanisms

Q17. Please summarize the Company's proposal for its current riders that you support.

I&M proposes retaining its existing DSM/EE Program Cost Rider, OSS/PJM Rider, SPR, ECR, RAR, and statutory FAC Rider, with certain modifications to some of these riders as identified in *Figure SRG-1* below. These Riders ensure customer rates only reflect the actual costs I&M incurs.

Figure SRG-1. Changes to Existing Riders

DSM/EE Program Cost Rider	Adjust net lost revenues.
OSS/PJM Rider	Update the embedded base rate amount to reflect the forecasted test year level of PJM non-NITS charges.
ECR	Update the embedded base rate amount to reflect the forecasted test year level of consumables and allowances costs. Include LCM property tax expense in base rates.
RAR	Update the embedded base rate amount to reflect the forecasted test year level of non-fuel purchased power expenses, purchase power capacity expenses, and capacity sales revenues. Increase purchase power capacity expenses (embedded in base rates) to reflect Rockport Unit 2 capacity purchase and PJM-accredited capacity purchase through a bilateral contract during the forecasted test year.
FAC Rider	Reset base cost of fuel.[7]

[7] Company witness Sloan calculates and supports an updated base cost of fuel for FAC-related costs in the Test Year.

Additionally, consistent with the Commission's Cause No. 45576 Order approving settlement (45576 Order) wherein the final LCM Rider reconciliation variance is to be included in a future ECR filing, and as addressed by I&M in pending Cause Nos. 44182 LCM-12 and 44871 ECR-7, no costs will continue to be recovered through I&M's LCM Rider. Therefore, I&M proposes closing out the LCM Rider and removing the LCM Rider from its Indiana Tariff Book.[8]

Q18. Did I&M include gross revenue conversion factor (GRCF) costs in the revenue requirements calculation used to calculate the proposed rider rates?

Yes, I&M included a GRCF consistent with the methodology that has been approved by the Commission in I&M's existing rider revenue requirement calculations. The GRCF captures the Public Utility Assessment Fee charged on all gross revenue and recovers bad debt expense. It is necessary to include GRCF costs, so the proposed rider rates are not understated. Company witness Criss supports the components of the GRCF.

Demand Side Management/Energy Efficiency (DSM/EE) Program Cost Rider

Q19. Please describe the DSM/EE Program Cost Rider.

The DSM/EE Program Cost Rider is a part of I&M's retail tariff that recovers expenses related to approved DSM programs and investment. Those expenses include program operating costs, net lost revenue, and shared savings.

I&M requests approval of its DSM programs and investment approximately every three years in docketed DSM Plan proceedings.[9] The DSM revenue requirement

[8] See Company witness Cooper testimony for removal of the LCM Rider from I&M's Indiana Tariff Book.

[9] I&M's most recent DSM Plan Order was issued on January 4, 2023, in Cause No. 45701.

represented by the factors in the DSM/EE Program Cost Rider has a plan component and a reconciliation component.

The plan component of the rider factor is established in DSM Plan cases. The reconciliation component includes the variance between DSM/EE revenue and plan expense in a prior period. Approximately once a year, the Company reports actual DSM/EE revenue and expenses and modifies the reconciliation component of the Rider.

Q20. What is I&M proposing with respect to the DSM/EE Program Cost Rider?

Consistent with I&M's last base rate case in Cause No. 45576, I&M is proposing to reset legacy net lost revenue to zero when new base rates are implemented. The Commission's Cause No. 45701 Order approved the 2023-2025 DSM Plan Settlement Agreement which provides I&M will maintain the lost revenue cap as approved in Cause No. 45285, such that lost revenue for all measures installed in 2023-2025 will be limited to: (1) three years, (2) the life of the measure, or (3) until new rates are implemented pursuant to a final order in I&M's next base rate case, whichever occurs earlier.

Q21. Please explain Adjustment RIDER-1.

Adjustment RIDER-1, shown on I&M Exhibit A-5, removes Total Company O&M expenses associated with DSM/EE programs from the Test Year forecast. In addition, this adjustment removes the DSM/EE Program Cost Rider revenues related to the costs I&M incurs for its Commission-approved programs, net lost revenue, and financial incentives.

See WP-A-RIDER-1 for further support. Company witness Duncan supports the revenue side of the adjustment including the firm and non-firm split of revenue.

Q22. When new base rates are implemented, how will the recovery of costs in the DSM/EE Program Cost Rider change?

Shortly after an order is received in this Cause, I&M will update its DSM/EE Program Cost Rider rates to adjust for approved changes in GRCF and to reflect the reset of legacy net lost revenue to $0 as part of its rate case compliance filing.

Off-System Sales/PJM (OSS/PJM) Rider

Q23. Please explain the OSS/PJM Rider.

The OSS/PJM Rider flows to customers the net benefits of I&M's off-system sales and tracks all of the net costs charged by PJM due to I&M's status as a Transmission Owner, Generating Owner, and a Load-Serving Entity. Company witness Koehler further discusses PJM charges.

The OSS/PJM Rider tracks 100% of OSS margins and shares them with customers. OSS margins and PJM Network Integration Transmission Service (NITS) charges are fully recovered in the Rider with no costs embedded in base rates. All other PJM charges authorized to be recovered in the OSS/PJM Rider, which are referred to as PJM non-NITS, are embedded in base rates and tracked above and below that base rate amount through the Rider.

Q24. Has I&M exceeded the $381 million Indiana Jurisdictional PJM NITS cap agreed to as part of the Settlement Agreement, and approved by the Commission, in Cause No. 45576 (45576 Settlement Agreement)?

No, it has not.

Q25. Is I&M proposing to maintain its current OSS/PJM Rider structure?

Yes. I&M proposes to embed the forecasted Test Year level of PJM non-NITS costs and track any variance from the embedded level consistent with past practices. Additionally, I&M proposes to continue to track 100% of PJM NITS costs, which have been removed from I&M's cost of service for purposes of calculating base rates in this proceeding as reflected in Adjustment RIDER-2 and discussed further below. As addressed by Company witness Koehler PJM costs are associated with addressing aging grid infrastructure, maintaining and improving stability, reliability, and resilience, and protecting the grid from physical and cyber threats. Further addressed by Company witness Koehler, PJM NITS costs are significant, variable, and largely outside I&M's control. PJM NITS costs are reasonable and necessary costs incurred to provide service to customers. If such costs were not included for recovery, then I&M would not be accurately reflecting its cost of service.

I&M also proposes to continue tracking 100% of OSS margins through the OSS/PJM Rider (with no margins embedded in base rates), and flow back to customers 100% of these margins. The OSS margins that will be included in the Rider have been removed from I&M's cost of service for purposes of calculating base rates in this proceeding as also reflected in Adjustment RIDER-2.

Q26. What is the Test Year level of PJM non-NITS expenses?

I&M proposes to embed in base rates the forecasted Test Year level of $91,103,788 (Total Company),[10] or $67,547,190 (Indiana Jurisdictional), for all PJM non-NITS costs and track any variance from the embedded level through the OSS/PJM Rider.

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[10] PJM non-NITS costs include those that are transmission and non-transmission (i.e. generation) related. The difference between the PJM non-NITS costs (Total Company) reflected in my testimony and those reflected in in Company witness Koehler's testimony is because Company witness Koehler looks at PJM non-NITS costs from purely a transmission perspective. I provide total PJM non-NITS costs from a cost recovery perspective as reflected in I&M's OSS/PJM Rider and base rates.

Q27. Why is I&M's proposal to continue tracking PJM costs reasonable?

As stated previously in my testimony and explained further by Company witness Koehler, it is reasonable to continue tracking I&M's PJM NITS costs because they are significant, variable, and largely outside the control of the Company. These are reasonable and necessary costs of providing service and if not tracked would present an immediate and significant adverse financial impact to the Company.

Figure SRG-2 identifies the significant and variable nature of these costs. If I&M were unable to track these costs, the Company would need to file base rate cases as often as possible to avoid significant financial harm.

Figure SRG-2. I&M's Indiana-retail PJM charges ($M)[11,12]

Period	Filing	Non-NITS	NITS	Total	Change
7/2019 – 6/2020	PJM-11	$43	$197	$240	$45
7/2020 – 6/2021	PJM-12	$51	$229	$280	$40
7/2021 – 6/2022	PJM-13	$77	$267	$344	$64
7/2022 – 6/2023	PJM-14	$57	$305	$362	$18
2024 Test Year	45xxx	$68	$343	$411	$49

To put this in perspective, a 100 basis points (bps) change in earned return on equity (ROE) is approximately $32 million. Three out of four of the most recent periods in the table above would have resulted in I&M's earned ROE changing by more than 100 bps if I&M were unable to track these costs. In addition, annual general rate case filings are impractical and costly; they are also precluded by the 15-month rule in Indiana's utility regulatory framework.[13]

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[11] NITS expenses are those recorded to FERC accounts 4561002, 4561003, 4561005, 4561035, 4561036, 5650015, 5650016, 5650021, and 5650024.

[12] PJM-14 is anticipated to be filed in August 2023.

[13] See Ind. Code § 8-1-2-42(a).

Additionally, regarding I&M's PJM Rider and associated costs, the Commission's Discussion and Findings in its Cause No. 45235 Order (45235 Order), page 110, states:

> I&M has been and remains a member of PJM as encouraged and authorized by this Commission. *Re Commission's Investigation,* Cause Nos. 42350/42352 (IURC September 10, 2003). I&M incurs costs for transmission service provided to its customers entirely based on FERC-regulated and approved charges from PJM. The record shows I&M's membership in PJM has allowed I&M's customers to benefit from the independent, regionally operated, and jointly planned and coordinated PJM transmission grid. This grid enhances competitive wholesale markets, resource diversity, and system reliability and security. Petitioner's Ex. 2 at p. 4. Based on the evidence, it is reasonable that I&M recover the costs it incurs based on the PJM structure as this is the structure I&M operates under.

The Commission's 45235 Order, page 110, further states:

> Substantial evidence shows NITS costs are variable and subject to potentially significant changes due to market and economic conditions, public policy, NERC and FERC requirements, environmental and state regulatory requirements, and other factors that can be unpredictable. Petitioner's Ex. 24 at pp. 52-53; Petitioner's Ex. 25 at p. 7; Petitioner's Ex. 29 at p. 20; Petitioner's Ex. 30 at pp. 4-7. The record also shows the drivers of transmission projects are not under I&M's exclusive control, and include regulatory requirements, interconnection requests, asset performance, and the need for modernization of protection and control systems. Petitioner's Ex. 29 at p. 13.

Q28. Does continued tracking of PJM costs benefit customers?

Yes. Tracking PJM costs benefits I&M's customers in the following ways:

- Provides for more gradual rate increases;
- Supports positive credit metrics, which lowers debt costs; and
- Allows for cost reductions to be passed back to customers in a timely fashion.

Q29. Please explain Adjustment RIDER-2.

Adjustment RIDER-2, shown on I&M Exhibit A-5, removes Total Company OSS margins and PJM NITS expenses[14] that will continue to be fully recovered through the OSS/PJM Rider. In addition, this adjustment removes the corresponding OSS/PJM Rider revenue (Indiana retail) from the Test Year.

Without this adjustment, base rates would include OSS margins and PJM NITS expenses on a Total Company basis and a corresponding level of Indiana retail revenue expected to be collected through the OSS/PJM Rider in 2024. Adjustment RIDER-2 is necessary to ensure base rate operating revenue and O&M expenses exclude revenues and expenses that will be fully recovered through the OSS/PJM Rider.

See workpaper WP-A-RIDER-2 for further support. Company witness Duncan supports the firm and non-firm split of Indiana revenue.

Q30. When new base rates are implemented, how will recovery of costs in the OSS/PJM Rider change?

Shortly after I&M receives an order in this Cause, I&M will update its OSS/PJM Rider factors to adjust for approved changes in GRCF, jurisdictional allocation factors, and the amount of PJM non-NITS expenses embedded in base rates as part of its rate case compliance filing.

Solar Power Rider (SPR)

Q31. Please explain the SPR.

The Commission approved I&M's SPR in its Cause No. 45245 Order dated February 19, 2020 (Order 45245). Order 45245 authorized the construction and

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[14] Includes transfer of PJM NITS from FERC to Retail for IURC approved customer transfer in Cause No. 45846. *Also See* Adjustment O&M-8 supported by Company witness Fischer.

procurement of the 20 MW St. Joseph Solar Farm (SJSF) and approved the SPR to facilitate recovery of capital related costs and O&M expenses. It also addressed the treatment of REC revenues and investment tax credits within the revenue requirement.

The SJSF was placed into service in March 2021 and initial SPR rates were approved by the Commission on March 29, 2021 (Order 45245 SPR-1). I&M's request to update the SPR rates is currently pending before the Commission in Cause No. 45245 SPR-2. Per the terms of the Cause No. 45245 Settlement Agreement (45245 Settlement Agreement) and the 45245 Order, I&M is directed to separately track and recover, within the SPR, costs associated with the SJSF for at least five years following the commercial operation date of the SJSF.

Q32. What is I&M proposing with respect to the SPR in the current proceeding?

I&M proposes to continue the SPR as currently structured and authorized by the Commission in Cause No. 45245, awaiting the outcome of its currently pending Cause No. 45868 wherein I&M requested recovery of costs, through the SPR, associated with Clean Energy Projects it will acquire through Purchase Sale Agreements (Clean Energy PSA Projects). Should I&M's request in that Cause be approved, the SPR structure will change to include recovery of costs associated with the Clean Energy PSA Projects (costs other than those specific to just the SJSF), as well as other ratemaking and accounting treatment as proposed in that proceeding.

Q33. What is Adjustment RIDER-3?

Adjustment RIDER-3, shown on I&M Exhibit A-5, removes Total Company expenses related to the SJSF from the Test Year forecast that will continue to be fully recovered in the SPR and also removes the related Indiana retail revenue.

Adjustment RIDER-3 is also shown on I&M Exhibit A-6, which removes Total Company investment and accumulated depreciation related to the SJSF from the Test Year forecast that will continue to be fully recovered in the SPR.

This adjustment is necessary to ensure Test Year base rate operating revenue and O&M expenses exclude investment, revenues, and expenses that will be fully recovered through the SPR. If this adjustment was not made, Test Year revenue and O&M would be overstated, and I&M's base rates would be overstated.

See WP-A-RIDER-3 for further support. Company witness Duncan supports the firm and non-firm split of revenue.

Company witness Ross supports RB-5, which removes the original purchase price of land related to the operations of the SJSF from rate base, per the 45245 Settlement Agreement approved by the Commission. Also see WP-A-RB-5 for further support.

Q34. When new base rates are implemented, how will recovery of costs in the SPR change?

Shortly after I&M receives an order in this Cause, I&M will update its SPR factors to adjust for approved changes in depreciation rate, weighted average cost of capital, GRCF, and jurisdictional allocation factors as part of its rate case compliance filing.

Environmental Cost Rider (ECR)

Q35. Please describe the ECR.

The ECR is used to track the consumables and net allowances costs the Company incurs in operating its generating assets for the benefit of its customers.

Specifically, the ECR tracks the over/under variance from the amount of consumables and allowances costs embedded in base rates.[15]

This ensures customer rates ultimately reflect only the actual cost of consumables and allowances costs incurred to provide service.

Consistent with the 45576 Settlement Agreement approved by the Commission, beginning January 1, 2023, I&M recovers: 1) the amortization expense associated with the Indiana Jurisdictional share of the $25.6 million (Total Company) noncurrent sulfur dioxide (SO_2) allowance inventory balances; and 2) $95.6 million (Indiana Jurisdictional) associated with the levelized recovery of Rockport Unit 2 net book value in the ECR. Such costs were authorized in the Commission's 45576 Order, to be recovered in the ECR through December 31, 2028. Additionally, as authorized in the 45576 Order, I&M recovers LCM property tax expense through the ECR until such costs are included in I&M's base rates.

Q36. What is I&M proposing with respect to the ECR?

I&M proposes to continue using the ECR to track the consumables and net emission allowances costs the Company incurs in operating its generating assets for the benefit of its customers. The Company is proposing to embed in base rates the $6,933,788 Total Company, or $4,879,236 Indiana Jurisdictional, forecasted Test Year level of consumables and emission allowances costs and track any annual over/under variances in the ECR from this embedded base rate amount. Since these costs were prudently incurred environmental related costs, recovery through the ECR is appropriate.

Consistent with the 45576 Settlement Agreement, I&M also requests to continue to recover in the ECR the amortization expense associated with noncurrent SO_2 allowance inventory balances and the $95.6 million (Indiana-jurisdictional)

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[15] Consumables are the reagents used to reduce emissions, such as anhydrous ammonia, sodium bicarbonate and activated carbon.

associated with the levelized recovery of Rockport Unit 2 net book value through December 31, 2028.

Furthermore, I&M is requesting to embed in base rates $770,800 Total Company, or $550,282 Indiana Jurisdictional, in LCM property tax expense, which represents the Test Year level of LCM property tax expense. In Cause No. 44182, the Commission authorized I&M to timely recover the incremental property tax expenses associated with the LCM Project in the LCM Rider. As indicated in the testimony of Company witness Auer in Cause No. 45576, the property tax I&M accrues on the Cook Nuclear Plant is based on the value of its property at the end of the previous year.[16] Therefore, LCM property tax expense currently reflected in I&M's base rates, resulting from the Commission's 45576 Order, is based on the total LCM plant investment as of December 31, 2021 that was forecasted to be accrued in 2022. Property tax expense for authorized LCM plant placed into service in 2022 is not currently included in base rates. Instead, I&M received approval in Cause No. 45576 to recover property tax expense on its 2022 LCM investment through I&M's ECR Rider until such expense is reflected in base rates in the Company's next rate case (the current rate case).[17] I&M will continue to incur property tax expense annually on LCM plant in service and requests to include the property tax expense on its 2022 investment placed in service in base rates in conjunction with property tax expense on LCM plant in service that is currently recovered through base rates.

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[16] Cause No. 45576, Direct Testimony of Brent E. Auer, Pages 10 and 11.

[17] Cause No. 45576, Final Order, Page 19, Paragraph N (Remaining Issues), which indicates Section I.C. of the Settlement Agreement provides that any matters the Settlement Agreement does not address will be as I&M proposed in its direct case. *Also See* Cause No. 45576, Direct Testimony of Brent E. Auer, Pages 9 through 11.

Q37. Why is continued tracking of consumables and allowances expenses reasonable?

As further supported by Company witness Jessee, consumables and allowances expenses are much like fuel costs – the total amount of consumables and allowances expense incurred by the Company each year varies considerably based on how much Rockport Unit 1 operates. As a result, consumables and allowances costs are significant, variable, and largely outside the Company's control.

Any forecasted base level of this cost is potentially not representative during the applicable time period. As a result, consumables and allowances expenses should continue to be tracked through the ECR.

Q38. Please explain Adjustment RIDER-4.

Per the 45576 Settlement Agreement, I&M amortizes over six years, beginning January 1, 2023, a stipulated Indiana Jurisdictional noncurrent SO_2 allowance inventory balance. Adjustment RIDER-4*,* shown on I&M Exhibit A-5, removes the Indiana Jurisdictional noncurrent SO_2 allowance inventory amortization expense, as well as the related Indiana retail revenue, that will continue to be recovered through the ECR. Additionally, Adjustment RIDER-4 removes Indiana Jurisdictional revenue associated with the levelized recovery of Rockport Unit 2 net book value that will continue to be recovered through the ECR.[18]

See WP-A-RIDER-4 for additional support. Company witness Duncan further supports the revenue side of the adjustment including the firm and non-firm split of revenue.

[18] $2,967,369 annual Indiana Jurisdictional noncurrent SO2 allowance inventory balance expense and revenue, and $15,979,869 annual Indiana Jurisdictional revenue associated with the levelized recovery of Rockport Unit 2 net book value, as provided in Adjustment RIDER-4.

Q39. When new base rates are implemented, how will recovery of costs in the ECR change?

Shortly after I&M receives an order in this Cause, I&M will update its ECR factors to adjust for approved changes in GRCF, jurisdictional allocation factors, and the amount of consumables and emission allowances costs embedded in base rates as part of its rate case compliance filing. I&M will also remove LCM property tax expense currently recovered through the ECR Rider, if approved by the Commission for recovery in base rates.

Resource Adequacy Rider (RAR)

Q40. Please explain the RAR.

The RAR tracks incremental changes in the Company's purchased power costs (accounts 5550027, 5550096, and 5550023) compared to the amount embedded in base rates. I&M also includes capacity sales revenues (account 4470099) in this Rider. This Rider is reconciled annually to ensure customer rates reflect the actual cost of purchased power incurred to provide service.

Account 5550027 includes non-fuel expenses related to I&M's Unit Power Agreement (UPA) with AEP Generating Company (AEG) to purchase a portion of the power generated at the Rockport Plant (as of December 8, 2022, this account only reflects AEG bill expenses related to Rockport Unit 1). Account 5550096 includes non-fuel expenses related to I&M's Intercompany Power Agreement (ICPA) with Ohio Valley Electric Corporation (OVEC). Account 5550023 includes costs associated with I&M's capacity purchases consistent with the Cause No. 45546 Settlement Agreement. The fuel expenses associated with the AEG UPA and the OVEC ICPA are recovered through I&M's FAC Rider.

Q41. What is I&M proposing with respect to the RAR?

I&M proposes to continue the current RAR structure; tracking non-fuel costs associated with the AEG UPA and OVEC ICPA, as well as future Indiana retail share of revenues and costs associated with short-term capacity purchases and/or sales. However, I&M proposes to update the amount embedded in base rates to reflect the Test Year level of purchased power costs[19] and capacity sales revenues[20] totaling $112,000,207 ($111,216,855 Total Company and $783,352 directly assigned to Indiana), or $80,182,133 (Indiana Jurisdictional), and track incremental amounts above and below this base rate amount.[21]

Q42. Why is it reasonable for I&M to track non-fuel purchased power expenses, purchase power capacity expenses, and capacity sales revenues through the RAR?

The RAR, in conjunction with the FAC Rider, ensures rates only reflect the actual cost of purchased power I&M incurs to provide service to customers.

I&M's wholesale power agreements included in the RAR (AEG UPA and OVEC ICPA) are subject to FERC-approved tariffs. The UPA and IPA costs are significant in amount and can vary due to factors outside of I&M's control, such as changing environmental legislation.

In addition, I&M's ongoing capacity purchases and capacity sales are subject to change by factors that are largely outside I&M's control and may be significant and volatile or variable. These factors include the Commission's approval of future generation resources and the impact and variability of PJM's capacity rule

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[19] Accounts 5550027 (AEG UPA), 5550096 (OVEC IPA), and 5550023 (Purchased Power Capacity).

[20] Account 4470099 (Capacity Credit Revenue).

[21] Sum of the Test Year balances in accounts 4470099 (Capacity Credit Revenue), 5550027 (AEG UPA), 5550096 (OVEC IPA), and 5550023 (Purchased Power Capacity) adjusted for O&M-1.

changes. For these reasons, it is both reasonable and necessary to support timely recovery of these costs and revenues through continuance of the RAR.

Further, in the Commission's Cause No. 45235 Order, it found these costs are appropriate for tracking within the RAR. In that order, the Commission found (p. 112) "continued use of the RAR will help ensure rates reflect the actual cost of capacity required to comply with PJM's resource adequacy requirements and will provide benefits to customers by tracking capacity sales revenues, which serve to reduce the revenue requirement." The Commission further approved the 45576 Settlement Agreement, authorizing continuance of the RAR and the reconciliation to actuals (45576 Settlement Agreement, Page 6, Paragraph A(2)I(ii)).

Q43. Please explain Adjustment O&M-1.

Adjustment O&M-1*,* shown on I&M Exhibit A-5, increases purchase power capacity expense in the Test Year to reflect I&M's purchase of 1) Indiana Jurisdictional capacity from Rockport Unit 2 during the 2023/2024 PJM delivery year, covering January-May 2024 of the Test Year, and 2) Total Company PJM-accredited capacity through a bilateral contract for the 2024/2025 PJM delivery year, covering June-December 2024 of the Test Year. The Indiana Jurisdictional share of the purchase power capacity expense reflected in this adjustment is included in I&M's proposed RAR embedded base rate amount. Inclusion of such expense provides a more accurate representation of the established and expected purchase power capacity expense to be recovered through the RAR.[22] See WP-A-O&M-1 for further support.

[22] Adjustment reflects the most current information available as of April 2023.

Q44. When new base rates are implemented, how will recovery of costs in the RAR change?

Shortly after I&M receives an order in this Cause, I&M will update its RAR factors to adjust for approved changes in GRCF, jurisdictional allocation factors, and the amount of non-fuel purchased power expenses, purchased power capacity expenses, and capacity sales revenues embedded in base rates as part of its rate case compliance filing.

Q45. Does I&M have a proceeding currently pending before the Commission in which it is requesting recovery of capacity costs through the RAR?

Yes. In Cause No. 45869, currently pending before the Commission, I&M proposed recovery of capacity costs through the RAR (or successor recovery mechanism) associated with its Montpelier capacity-only purchase agreement (CPA) it entered into with Rockland Capital for firm PJM-accredited capacity. That CPA contract term is for a seven-year term starting with the 2027/2028 PJM planning year (or June 1, 2027) and ending with the 2033/2034 PJM planning year (or May 31, 2034).[23]

Fuel Cost Adjustment (FAC) Rider

Q46. Please describe the FAC Rider.

The FAC Rider is a statutory rate adjustment mechanism that tracks fuel costs as well as the allowable portion of purchased power costs including wind purchase-related costs and reconciles them to the amounts embedded in base rates.

The FAC Rider is also used to flow back to customers the net revenues from the sale of RECs via I&M's IM Green Program (excluding those RECs attributable to the SJSF as directed in Cause No. 45245) and the sale of unsubscribed RECs.

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[23] Cause No. 45869, Pre-Filed Verified Direct Testimony of Andrew J. Williamson, Page 4, Lines 15-24.

I&M files for approval of a revised FAC adjustment factor, via the FAC Rider, on a six-month frequency to true-up actual costs with those included in base rates.

Q47. What is I&M proposing with respect to the FAC Rider?

I&M proposes to continue the current structure of the FAC Rider, including semi-annual filings and the use of the FAC Rider to flow back to customers the net revenues from sale of RECs. However, I&M is currently awaiting the outcome of pending Cause No. 45868, wherein I&M requested recovery of costs, through the FAC Rider, associated with Clean Energy Projects it will incur through Purchase Power Agreements (Clean Energy PPA Projects). Should I&M's request in that Cause be approved, the FAC Rider will include recovery of costs associated with the Clean Energy PPA Projects, as well as other ratemaking and accounting treatment as proposed in that proceeding.

Company witness Sloan calculates and supports an updated base cost of fuel for FAC-related costs in the Test Year. This base cost of fuel is reflected in I&M's proposed base rates in this proceeding. After new base rates are placed into effect, the FAC Rider will track any over/under variances from the new base.

Q48. Please explain Adjustment OR-3.

Adjustment OR-3*,* shown on I&M Exhibit A-5, removes Total Company net REC sales revenues from the Test Year forecast that will continue to flow back to customers through the FAC Rider. See WP-A-OR-3 for further support.

Q49. Did I&M request to recover cogeneration costs through the FAC, in pending Cause No. 38702 FAC-91?

Yes. As provided in the testimony of Company witness Welsh in Cause No. 38702 FAC-91, I&M proposed to recover cogeneration costs through the FAC. Cogeneration costs are accounted for in account 5550003 Purchased Power –

Cogeneration. Zero dollars are reflected in the Test Year forecast for account 5550003, therefore zero dollars are included in base rates for cogeneration costs.

Q50. Consistent with the 45576 Settlement Agreement, does I&M propose continuing to provide the OUCC with a 35-day review period in FAC Rider proceedings?

Yes.

Q51. Does this conclude your pre-filed verified direct testimony?

Yes, it does.

VERIFICATION

I, Stacie R. Gruca, Regulatory Analysis and Case Manager for Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: August 8, 2023

Stacie R. Gruca

Stacie R. Gruca