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INDIANA UTILITY

REGULATORY COMMISSION

OFFICIAL
EXHIBITS

Public's Exhibit No. 3

Cause No. 44967

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TESTIMONY OF OUCC WITNESS CRYSTAL L. BARRETT

CAUSE NO. 44967

INDIANA MICHIGAN POWER COMPANY ("I&M")

IURC
PUBLIC'S

I. INTRODUCTION

EXHIBIT NO. 3
DATE 3-7-18 REPORTER AT

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

2 A: My name is Crystal L. Barrett, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204. I am employed by the Indiana
4 Office of Utility Consumer Counselor ("OUCC") as a Utility Analyst. My
5 qualifications are set forth in Appendix A of this document.

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

7 A: My testimony explains why the Indiana Utility Regulatory Commission
8 ("Commission") should reject Indiana Michigan Power Company's ("I&M")
9 proposal to include \$104,345,881 (total company excluding the River
10 Transportation Division) of its projected "prepaid pension asset" in rate base as of
11 December 31, 2018, the end of I&M's future test year.

II. "PREPAID PENSION ASSET" – GENERAL

A. Definition of "prepaid pension asset"

12 **Q: What is a "prepaid pension asset"?**

13 A: The term "prepaid pension asset" is not a defined term for accounting purposes
14 under the Financial Accounting Standards Board's Accounting Standards

1 Codification ("ASC"), nor is there a specific "prepaid pension asset" account
2 designated under FERC's Uniform System of Accounts.

3 **Q: How is Petitioner using the term "prepaid pension asset"?**

4 A: In response to OUCC discovery, I&M stated "[t]he prepaid pension asset is the
5 cumulative pension cash contributions less cumulative pension cost."¹

6 **Q: What "pension cost" is I&M referring to in its response quoted above?**

7 A: Petitioner did not elaborate any further in its response, but I&M witness Andrew
8 Williamson's definition of a "prepaid pension asset" states that "pension cost" is
9 the "cumulative amount of pension cost accrued to expense." I believe Petitioner
10 means the cumulative periodic pension expense as recorded to its U.S. GAAP
11 financial statements.

12 **Q: Do you agree with I&M's use of the term "prepaid pension asset"?**

13 A: No. I do not agree with the use of the term "prepaid pension asset." A "prepaid
14 pension asset" is not in conformity with or promulgated by U.S. GAAP. It is not a
15 term that is defined by, nor is it a component of, any current accounting standards.
16 "Prepaid pension asset" is not an amount category that a company is required to
17 track or disclose in its financial statements or the notes to its financial statements.
18 Finally, this term implies the existence of an asset that in fact is not actually
19 reflected in I&M's balance sheet – either historic or projected.

20 **Q: Do you use this term in your testimony?**

21 A: Yes. For ease of understanding only, I will continue to use this term throughout my
22 testimony.

¹ See OUCC Attachment CLB-1, Petitioner's response to OUCC DR 34-01.

B. Pension Accounting under U.S. GAAP

1 **Q: What is the accounting standard under U.S. GAAP for pension accounting?**

2 A: ASC 715 “Compensation Retirement Benefits” establishes the required accounting
3 under U.S. GAAP for defined benefit pension plans.

4 **Q: What does ASC 715 require?**

5 A: ASC 715 requires an employer to recognize the funded status of a benefit plan,
6 measured as the difference between plan assets at fair value (with limited
7 exceptions) and the benefit obligation in its statement of financial position. No other
8 amounts related to a company’s defined benefit pension plan are to be recorded to
9 the company’s statement of financial position and the term “prepaid pension asset”
10 is not mentioned anywhere in the text of ASC 715.

11 **Q: What is the funded status of I&M’s defined benefit pension plan?**

12 A: As of January 1, 2017, I&M’s pension benefit obligation was \$568,812,686 and the
13 fair value of plan assets was \$550,140,234. Therefore, the company’s unfunded
14 status – or liability - was \$18,672,452 in total for its qualified and unqualified
15 pension plans.²

16 **Q: Given the requirements of ASC 715, is I&M’s “prepaid pension asset” as of**
17 **December 31, 2016 found on I&M’s historical balance sheet?**

18 A: No. In response to OUCC discovery, I&M stated that the \$102,492,883 “prepaid
19 pension asset” was recorded in account 1650010 on the balance sheet,³ but any
20 amount recorded in that account is offset by account 1650014. Therefore, the actual
21 amount of “prepaid pension asset” reflected in Petitioner’s Prepayments (165)

² Petitioner’s Minimum Standard Filing Requirements Filed on July 26, 2017, 1-5-8(a)(15) Attachments 1 and 2 and 1-5-8(a)(16).

³ See OUCC Attachment CLB-2, Petitioner’s response to OUCC DR 34-02.

1 account is zero. According to I&M's Minimum Standard Filing Requirements Filed
2 on July 26, 2017, 1-5-7(1) Chart of Accounts, I&M identified Account 1650014
3 FAS 158 Qual Contra Asset. "This account is used to track the long term portion
4 of the FAS 158 PBO liability (Projected Benefit Obligation) for the Qualified
5 Pension Plan when the plan is still prepaid. This account offsets account 1650010."

6 **Q: Where is the projected "prepaid pension asset" as of December 31, 2018**
7 **reflected on Petitioner's test year balance sheet?**

8 **A:** There is no specific line item for the "prepaid pension asset" on Petitioner's Exhibit
9 A-2 test year balance sheet in the Assets section. In a supplemental response to
10 OUCC Data Request 34-03, I&M responded that the balance sheet reflected the
11 funded status on an actuarial basis and stated as follows:

12 The balance sheet reflects the funded status on an actuarial basis
13 which is not the same basis as the prepaid pension asset, which
14 equals the excess of cash contributions less FAS 87 pension cost.
15 The balance sheet reflects the fair value of the plan assets compared
16 to the actuarially determined pension benefit obligation. The
17 components that make up the prepaid pension asset are the
18 December 31, 2016 balance in account 1650010, plus the forecasted
19 pension funding activity and pension expense for 2017 and 2018.⁴

20
21 As discussed above, any "prepaid pension asset" amount included in account
22 1650010 would be offset entirely by an entry in account 1650014.

⁴ See OUCC Attachment CLB-3, Petitioner's supplemental response to OUCC DR 34-03.

III. "PREPAID PENSION ASSET" – PETITIONER'S PROPOSAL

1 **Q: How did I&M determine the amount of its current and forecasted "prepaid**
2 **pension asset"?**

3 A: I&M determined the amount of its "prepaid pension asset" by totaling its
4 cumulative pension contributions and then subtracting its cumulative pension
5 expense (as reflected in its U.S. GAAP financial statements).

6 **Q: What does I&M state the balance of its net "prepaid pension asset" is in this**
7 **Cause?**

8 A: I&M witness Mr. Aaron L. Hill states that, as of December 31, 2016, I&M had a
9 "prepaid pension asset" of \$102,492,883 (Total Company excluding the River
10 Transportation Division). After accounting for forecasted pension cash
11 contributions and forecasted pension expense, Mr. Hill asserts that projected
12 "prepaid pension asset" is \$104,345,881 as of December 31, 2018.

13 **Q: What does I&M state is the Indiana Jurisdictional portion of its "prepaid**
14 **pension asset"?**

15 A: As shown in Petitioner's Exhibit A-6, I&M states the Indiana Jurisdictional portion
16 is \$70,598,516 as projected for December 31, 2018.

17 **Q: What ratemaking treatment does I&M seek for its "prepaid pension asset" in**
18 **this Cause?**

19 A: I&M is seeking to include its projected "prepaid pension asset" in rate base and
20 earn its full weighted cost of capital return on that asset.

IV. "PREPAID PENSION ASSET" – RATE BASE TREATMENT

21 **Q: Do you agree with I&M's proposal to include its projected "prepaid pension**
22 **asset" in rate base?**

23 A: No. I&M's projected "prepaid pension asset" should not be included in rate base.
24 It is not an investment in utility plant as defined by Ind. Code § 8-1-2-6, nor could
25 it be considered working capital. It is not inventory. It also could not be considered

1 a "prepayment" as that term has been defined for regulatory purposes. It could not
2 be included as a regulatory asset as the Commission has not authorized a "prepaid
3 pension" regulatory asset.

A. Working Capital

4 **Q: Please explain your statement that the "prepaid pension asset" cannot be**
5 **considered working capital for ratemaking purposes.**

6 **A:** While the cash disbursements related to I&M's pension plan contributions might
7 be one of the factors considered to determine I&M's overall working capital needs,
8 the "prepaid pension asset" itself would not be considered working capital for
9 regulatory purposes.

10 **Q: Please explain how the term "working capital" is defined for regulatory**
11 **purposes.**

12 **A:** Although accountants generally define working capital as a measure of liquidity
13 based on a comparison of current assets to current liabilities, for ratemaking
14 purposes working capital generally has been defined as the average amount of
15 capital provided by investors to bridge the gap between the time expenditures are
16 required to provide service and the time collections are received for that service.

17 **Q: Is working capital a component of rate base for purposes of Indiana**
18 **ratemaking?**

19 **A:** Yes. In Cause No. 38868, the Commission stated "[i]t has long been accepted that
20 an allowance for working capital may be added to a utility's investment in physical
21 properties to accurately determine rate base."⁵

⁵ *In re Indianapolis Water Co.*, Cause No. 38868, 112 P.U.R.4th 520, 1990 WL 488732 at 3 (Ind. Util. Regulatory Comm'n May 16, 1990).

1 **Q: How is working capital calculated or measured for regulatory purposes?**

2 A: The most reliable method to calculate working capital is to perform a lead-lag
3 study. A lead-lag study uses historical data and actual payment requirements to
4 measure the differences in the time frames between (1) the time services are
5 rendered until the revenues for those services are received and (2) the time that the
6 costs associated with providing those services, such as labor and materials, are
7 incurred until they are paid for by the utility. The difference between these periods,
8 expressed in days, multiplied by the average daily operating expense, provides the
9 amount of cash working capital required.

10 **Q: Did I&M perform a lead-lag study in this case?**

11 A: No. I&M did not perform a lead-lag study in this case and, therefore, we do not
12 know what its working capital needs are, if any.

13 **Q: Does the Commission generally include working capital in an investor-owned**
14 **utility's rate base absent a request by the utility?**

15 A: No.

16 **Q: Did I&M request working capital in this Cause?**

17 A: No. I&M did not request working capital in this Cause nor did it include working
18 capital in its rate base calculation.

B. Used and Useful Plant

19 **Q: What should be included in rate base as used and useful plant under Ind. Code**
20 **§ 8-1-2-6?**

21 A: Ind. Code § 8-1-2-6(a) states that the Commission "shall value all property of every
22 public utility actually used and useful for the convenience of the public at its fair
23 value." Ind. Code § 8-1-2-6(b) further states, "all public utility valuations shall be
24 based upon *tangible* property, that is, property as has value by reason of

1 construction costs.” (Emphasis added.) A “prepaid pension asset” does not qualify
2 as “tangible property” and is thus ineligible for inclusion in rate base on those
3 grounds.

4 **Q: Have any exceptions been allowed?**

5 A: Yes. In addition to the inclusion of working capital discussed above, the
6 Commission has also recognized a utility’s investments in inventory and certain
7 prepayments as a component of rate base and allowed a utility to earn a return on
8 those investments.

9 **Q: Does I&M’s “prepaid pension asset” qualify for inclusion in rate base under**
10 **these exceptions?**

11 A: No. I&M’s “prepaid pension asset” is not inventory. And, while I&M’s claimed
12 “prepaid pension asset” includes the word “prepaid,” it is not actually reflected in
13 prepayments in I&M’s balance sheet as discussed above.

14 **Q: Are there any differences between I&M’s asserted “prepaid pension asset”**
15 **and utility plant included in rate base?**

16 A: Yes. Utility plant in service included in rate base is used to provide service to
17 customers and, as such, depreciates over time. This depreciation is included as a
18 reduction to rate base. I&M’s asserted “prepaid pension asset” is not depreciated or
19 amortized because it is not plant used in the provision of utility service. The balance
20 of the “prepaid pension asset” fluctuates depending upon the amount of pension
21 expense recorded during a period compared to the amount of contributions made
22 during the same period. Unlike utility plant, the “prepaid pension asset” can
23 actually increase over time, potentially becoming a permanent component of rate
24 base that never depreciates or declines. See Table 1 below.

C. OUCC's Position

1 **Q: Should I&M's "prepaid pension asset" be included in rate base as used and**
2 **useful utility plant?**

3 A: No. I&M's "prepaid pension asset" is not used and useful plant under I.C. § 8-1-2-
4 6. It cannot be considered inventory or a prepaid asset, nor is it working capital.
5 I&M has neither requested working capital nor presented evidence supporting the
6 inclusion of working capital in its rate base. For these reasons, I&M's proposed
7 "prepaid pension asset" should not be included in rate base in this Cause.

D. Precedent

8 **Q: Is there precedent in Indiana regarding the inclusion of a "prepaid pension**
9 **asset" in rate base?**

10 A: Yes. Four utilities have requested the inclusion of a "prepaid pension asset" in rate
11 base: (1) I&M (Cause No. 44075); (2) Indiana-American Water Company, Inc.
12 ("IAWC") (Cause No. 44450); (3) Indianapolis Power and Light Company ("IPL")
13 (Cause No. 44576); and (4) Northern Indiana Public Service Company
14 ("NIPSCO") (Cause No. 44688). In Cause No. 44075, which was appealed to the
15 Indiana Court of Appeals, the Commission allowed I&M to include a "prepaid
16 pension asset" in rate base. The OUCC opposed I&M's inclusion of the "prepaid
17 pension asset" in rate base. The Commission recited the parties' evidence and found
18 as follows:

19 The record reflects that the prepaid pension asset was recorded on
20 the Company's books in accordance with governing accounting
21 standards. The record also reflects that the prepaid pension asset has
22 reduced the pension cost reflected in the revenue requirement in this
23 case and preserves the integrity of the pension fund. Petitioner made
24 a discretionary management decision to make use of available cash
25 to secure its pension funds and reduce the liquidity risk of future

1 payments. In addition, the prepayment benefits ratepayers by
2 reducing total pension costs in the Company's revenue requirement.
3 Therefore, we find that the prepaid pension asset should be included
4 in Petitioner's rate base.⁶

5 The Commission made no findings expressing how the "prepaid pension
6 asset" qualified to be included in rate base under the strictures of I.C. § 8-1-2-6.
7 The OUCC subsequently appealed the I&M order, and in a memorandum opinion
8 the Court of Appeals accorded the Commission deference and affirmed the
9 Commission's decision. The Court did not discuss how the asset qualified to be
10 included in rates under the terms of I.C. § 8-1-2-6.

11 **Q: Has the OUCC's position changed regarding a "prepaid pension asset" since**
12 **Cause No. 44075?**

13 A: No. The OUCC opposed I&M's inclusion of the "prepaid pension asset" in rate
14 base, and continues to do so in this case.

15 **Q: What about the other cases cited above?**

16 A: In Cause No. 44450, the Commission approved a settlement agreement that
17 included Indiana-American's "prepaid pension asset" as a component of the capital
18 structure rather than including it as a component of the utility's rate base. Since the
19 case was settled, the order is not precedential as to other parties and does not

⁶ *In re Indiana Michigan Power Co.*, Cause No. 44075, 303 P.U.R.4th 384, 2013 WL 653036 p. 18 (Ind. Util. Regulatory Comm'n Feb. 13, 2013) *aff'd*, (mem. Dec. 2014), *trans. den.*

1 provide any useful analysis addressing how a “prepaid pension asset” qualifies to
2 be included in rate base.⁷

3 In Cause No. 44688, the Commission approved a settlement agreement that
4 included NIPSCO’s “prepaid pension asset”. Since the case was settled, the order
5 is not precedential as to other parties and does not provide any useful analysis
6 addressing how a “prepaid pension asset” qualifies to be included in rate base.

7 In Cause No. 44576, the OUCC opposed IPL’s request to include its
8 “prepaid pension asset” in rate base. The Commission granted IPL its request,
9 construing the “prepaid pension asset” as working capital, even though IPL had
10 neither requested nor offered evidence to support the granting of working capital.⁸
11 The OUCC did not appeal that order, but continues to oppose the inclusion of the
12 “prepaid pension asset” in rate base.

V. “PREPAID PENSION ASSET” – OTHER RATEMAKING TREATMENT

13 **Q: Should I&M’s “prepaid pension asset” be allowed any treatment for**
14 **ratemaking purposes?**

15 **A:** No. It isn’t necessary to provide additional ratemaking treatment for I&M’s
16 “prepaid pension asset” above and beyond what has already been included in
17 I&M’s revenue requirement for pension expense. As discussed more fully in my
18 testimony below, there are two reasons why no additional ratemaking treatment is

⁷ As with many cases settled before the Commission, the Final Order in Cause No. 44450 contained the following language:

The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at *19-22 (IURC March 19, 1997).

In re Indiana American Water, 2015 WL 429993 p. 11 (Ind. Util. Regulatory Comm’n Jan. 28, 2015).

⁸ *In re Indianapolis Pwr. & Light Co.*, Cause Nos. 44576 & 44602, 2016 WL 1118795 at **22-23, 329 P.U.R.4th 486, Final Order (Ind. Util. Regulatory Comm’n Mar. 23, 2016).

1 necessary. First, the amount of pension cost included in I&M's revenue requirement
2 should be based on either the annual expense as calculated under U.S. GAAP, or
3 the amount of actual cash contributions made to its pension plan. But I&M should
4 not be allowed to recover its pension expense while also earning a return from
5 ratepayers on its discretionary pension contributions. Second, embedding a fixed
6 amount of prepaid pension dollars in rate base is inappropriate because the value of
7 I&M's "prepaid pension asset" is not static, as discussed later in my testimony.

A. Recovery of the Cost of Postemployment Benefits for Ratemaking Purposes

8 **Q: How is the amount of pension expense that is included in the revenue**
9 **requirement determined for ratemaking purposes?**

10 **A:** Since December 1985, pension costs included in a utility's revenue requirement
11 have generally been based on the calculation of pension expense under FAS No. 87
12 (issued in December 1985). Prior to the promulgation of FAS No. 87, pension costs
13 included in a utility's revenue requirement were based on cash pension plan
14 contributions required under the Employee Retirement Income Security Act of
15 1974 ("ERISA"), as amended. FAS No. 87 is now included in ASC 715
16 "Compensation Retirement Benefits."

17 **Q: Does the expense calculated under ASC 715 represent 100% of I&M's annual**
18 **cost of providing a pension benefit to its employees?**

19 **A:** Yes. The expense calculated under ASC 715 and included in I&M's revenue
20 requirement represents 100% of the estimated annual cost of providing a pension
21 benefit to I&M's employees.

22 **Q: Does ERISA require 100% funding of I&M's pension obligations?**

23 **A:** No. ERISA does not require 100% funding of I&M's pension obligation. ERISA
24 mandates that the funding level of a pension trust be maintained at certain minimum

1 levels. Within certain parameters, I&M has discretion in both the timing and
2 amount of pension plan contributions. As long as I&M maintains at least the ERISA
3 mandated minimum levels in its pension plan, it has a considerable amount of
4 discretion regarding the funding of the pension obligation.

5 **Q: Should ratepayers be required to fund both the pension expense calculated**
6 **under ASC 715 as well as a return on discretionary pension plan contributions**
7 **included in the prepaid asset?**

8 A: No. The cost of providing a pension benefit is based on either the expense
9 calculated under ASC 715 or the cash pension plan contributions required under
10 ERISA, but not both.

11 The cost of providing a pension benefit to I&M's employees is included as
12 pension expense in I&M's revenue requirement and ratepayers are responsible for
13 funding 100% of this cost through their electric rates. I&M collects funds for
14 pension costs through rates and is responsible for making the cash contributions to
15 the pension plan from which future benefits will be paid to its employees. I&M has
16 the discretion to make greater pension contributions now in order to reduce the
17 amount of funding required in the future.

18 Ratepayers are already paying 100% of the cost of providing pension
19 benefits for I&M employees through the pension expense included in the revenue
20 requirements and should not be expected to pay more because of management
21 decisions regarding the timing and amount of pension fund contributions.

22 **Q: Aren't I&M's discretionary pension fund contributions already earning a**
23 **return?**

24 A: Yes. All contributions to the pension fund are invested by the fund. As such, the
25 fund earns a return on these investments. The investment income earned by the fund

1 inures to the benefit of both I&M and its ratepayers in that it reduces the amount of
2 future contributions necessary to provide a pension benefit to I&M employees.

3 **Q: Is an investment in a pension fund the same as investment in rate base?**

4 A: No. The pension fund is an asset held in trust and invested for the beneficiaries
5 (I&M employees). Rate base is a collection of assets managed for the benefit of
6 ratepayers. Pension funds and rate base are distinctly different assets. A dollar
7 "contributed" to the pension fund can be invested in the pension fund's portfolio.
8 That same dollar cannot also be invested in utility rate base.

B. The Value of the "Prepaid Pension Asset" is not Static

9 **Q: Does the amount of I&M's "prepaid pension asset" fluctuate?**

10 A: Yes. The balance of the "prepaid pension asset" fluctuates from one period to the
11 next and is not a static "investment" like investments made in physical utility plant
12 providing service to electric customers. As discussed previously, this "prepaid"
13 asset or liability is the difference between cumulative pension expense and
14 cumulative pension plan contributions. These cumulative amounts are affected by
15 several factors impacting pension expense as well as the amount of cash
16 contributions, if any, made to the pension plan. An "asset" can become a "liability,"
17 and can flip between these classifications over time.

18 Just between December 31, 2012 and December 31, 2013, I&M's pension
19 fund had declined by approximately \$20.0 million to \$116,121,248. Table 1 below
20 summarizes the balance of the "prepaid pension asset" during the period 2006 –
21 2016.⁹

⁹ Information provided by I&M in response to OUCC Data Request No. 34-04 (Attachment CLB-4).

Table 1: Summary of "Prepaid Pension Asset (Liability)"

Year	Contribution	Expense	Balance
2006	-	(8,486,486)	76,095,574
2007	-	(6,794,836)	69,300,738
2008	-	(6,418,354)	62,882,384
2009	-	(12,484,766)	50,397,618
2010	63,207,452	(18,292,201)	95,312,869
2011	49,556,000	(14,218,000)	130,650,869
2012	21,202,000	(15,465,540)	136,387,329
2013	-	(20,266,081)	116,121,248
2014	8,629,000	(18,781,622)	105,968,626
2015	13,704,000	(16,423,418)	103,249,208
2016	12,150,000	(12,906,325)	102,492,883

1 **Q: Have there been years when I&M did not make a contribution to its pension**
2 **plan?**

3 **A:** Yes. Although I&M has made annual contributions to its pension plan in recent
4 years, it has not always done so. Table 1 above presents I&M's cash pension
5 contributions for each of the years during the period 2006 - 2016.¹⁰

Table 2: Summary of Contributions to I&M Pension Plans
(Thousands of Dollars)

Year	Contributions		
	Minimum	Additonal	Total
2006	-	-	-
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010	32,107	31,100	63,207
2011	20,504	29,052	49,556
2012	681	20,521	21,202
2013	7,130	-	-
2014	-	1,499	8,629
2015	-	13,704	13,704
2016	-	12,150	12,150

6 The minimum contribution column was provided by I&M in response to
7 OUCC Data Request No. 14-07 (Attachment CLB-5). The minimum contribution

¹⁰ *Id.*

1 reported for 2013 was included in I&M's 2014 total contribution in the above table.

2 The total qualified pension contribution amounts were provided by I&M in
3 response to OUCC Data Request No. 14-01 (Attachment CLB-6).

4 **Q: Is I&M required to make annual contributions to its pension plan?**

5 A: No, not necessarily. While ERISA dictates the calculation of a minimum annual
6 contribution to I&M's pension plan, depending upon many factors including
7 market conditions and cumulative prior year contributions to the pension plan, it is
8 possible that in any particular year the minimum pension plan contribution under
9 ERISA could be zero.

10 The fact that I&M did not make an annual contribution does not mean that
11 it has violated any statutes or legal requirements related to its pension plans.
12 However, it does highlight the discretionary nature of pension plan contributions.
13 In contrast, ratepayers do not have any discretion regarding the amount of pension
14 costs included in the revenue requirement.

15 **Q: Are the funds for pension plan costs that are embedded in rates restricted so**
16 **that I&M is required to set these funds aside to make pension plan**
17 **contributions?**

18 A: No. Although the rates I&M collects from its customers include monies for pension
19 plan costs, the Commission has placed no restrictions on the use of these funds and
20 I&M is not required to use those funds to make pension plan contributions. I&M is
21 responsible for making contributions to the pension plan and it decides when to
22 make these contributions and how much the contribution should be in any given
23 year. If not required to make a pension plan contribution, these funds are available
24 for other purposes including the payment of dividends to shareholders.

1 **Q: What is I&M's pension funding policy?**

2 A: Mr. Hill's WP-ALH-11 states "[f]unding policy for the qualified pension plan is
3 the greater of the ASC 715 Service Cost or the minimum required contribution,
4 utilizing credit balance as available."¹¹

5 **Q: Does I&M's pension funding policy form the basis for the pension plan costs**
6 **included in its revenue requirement?**

7 A: No. As discussed above, pension plan costs included in I&M's revenue requirement
8 are determined under ASC 715 and are the result of complex calculations based on
9 actuarial and other assumptions. The costs included in the revenue requirement may
10 be more or less than the annual pension plan funding determined under I&M's
11 pension funding policy. The minimum amount of funding under I&M's pension
12 funding policy could be zero or some amount less (or more) than the costs included
13 in I&M's revenue requirement and recovered through rates. Similarly, the
14 maximum amount of funding could be more (or less) than the amount of costs
15 included in I&M's revenue requirement and recovered through rates.

VI. OTHER CONSIDERATIONS

16 **Q: Is there other information the Commission should consider in determining**
17 **how to treat I&M's "prepaid pension asset"?**

18 A: Yes. First, I&M's pension plan is not fully funded. Second, pension expenses are
19 unlike other operating expenses included in I&M's revenue requirement. Finally,
20 I&M shareholders also derive a benefit from I&M's discretionary pension plan
21 contributions.

¹¹ See Petitioner's WP-ALH-11, page 1, footnote 1.

A. I&M's Pension Plan is Not Fully Funded

1 **Q: Is I&M's pension plan fully funded?**

2 A: No. According to I&M's pension information,¹² as of May 2017, the Qualified Plan
3 is 96.87% funded while the Non-Qualified Plan is unfunded.

Table 3: Funded Status of I&M Pension Funds

	1/1/2017
<u>Qualified Plan</u>	
Benefit Obligation	\$ 567,916,641
Fair Value of Plan Assets	550,140,234
Unfunded	<u>\$ (17,776,407)</u>
Percent Funded	96.87%
<u>Unqualified Plan</u>	
Benefit Obligation	\$ 896,045
Fair Value of Plan Assets	-
Overfunded	<u>\$ (896,045)</u>
Percent Funded	0.00%
<u>Total Pension Funds</u>	
Benefit Obligation	\$ 568,812,686
Fair Value of Plan Assets	550,140,234
Funded Status	<u>\$ (18,672,452)</u>
Percent Funded	96.72%

4 The benefit obligation and fair value of plan assets data was sourced from
5 the latest actuarial studies provided as attachments to I&M's Minimum Standard
6 Filing Requirements 1-5-8(a)(15) using data for I&M, excluding the River
7 Transportation Division.

B. Pension Expense is an Estimate of a Future Cost

8 **Q: Is pension expense different from other operating expenses typically included**
9 **in utility revenue requirements?**

10 A: Yes. Unlike most other expenses included in rates, pension expense includes both
11 a current and a future component. Pension expense includes a current component

¹² Petitioner's Minimum Standard Filing Requirements Filed on July 26, 2017, 1-5-8(a)(15) Attachments 1 and 2 and 1-5-8(a)(16).

1 to provide payments to currently retired employees, and a future component to
2 provide for the accrual of costs for current employees who will be paid a pension
3 in the future when they retire. Thus, funds will be authorized in current rates, but
4 will provide a pension payment for employees that may not retire for 20 to 30 years
5 or more and may be receiving pension payments 50 years from now. The
6 determination of pension expense is further complicated by the volatility of stock
7 market returns, the fluidity of the workforce, and ever-changing assumptions
8 regarding discount rates, rates of return, and mortality rates. The determination of
9 the current cost of these future pension payments requires complex estimations that
10 rely on numerous assumptions.

C. Shareholders Derive a Benefit from Discretionary Pension Plan Contributions

11 **Q: Do I&M shareholders derive a benefit from discretionary pension plan**
12 **contributions?**

13 **A:** Yes. I&M shareholders benefit from these additional discretionary pension plan
14 contributions in a number of ways. Additional contributions in current and prior
15 years mean lower contributions will be required in future years, all other things
16 being equal. I&M shareholders will also benefit from the income the plan earns
17 from investing these additional contributions, further reducing future required
18 contributions.

19 If a dollar has been contributed to the pension trust fund, then that dollar is
20 invested in the pension trust fund's portfolio but not in utility rate base.
21 Contributions to the pension fund earn a return through the fund's portfolio
22 investments. Treating some portion of contributions as "rate base" is a form of

1 double recovery – charging the ratepayers a return when the funds in question
2 already earn a return through I&M's investment in the pension fund's portfolio.

VII. RECOMMENDATIONS

3 **Q: What does the OUCC propose regarding the ratemaking treatment of I&M's**
4 **"prepaid pension asset"?**

5 **A:** The OUCC proposes that no ratemaking treatment be allowed for I&M's "prepaid
6 pension asset" of \$104,345,881. The "prepaid pension asset" represents a portion
7 of all the funds that have been contributed to the pension trust fund. These funds
8 can earn a return through investment in the pension trust fund's portfolio of
9 investments. Once made, pension fund contributions are not available to invest in
10 used and useful property, plant, and equipment.

11 The "prepaid pension asset" is not used and useful physical property, nor
12 does it qualify as working capital. Therefore, the "prepaid pension asset" should
13 not be treated as rate base. It is not rate base and should not be included in the
14 original cost or fair value rate base calculations. It is not necessary to provide
15 additional ratemaking treatment for I&M's "prepaid pension asset" above and
16 beyond what has already been included in I&M's revenue requirement for pension
17 expenses.

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

19 **A:** Yes, it does.

APPENDIX A
QUALIFICATIONS OF CRYSTAL L. BARRETT

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

2 A: My name is Crystal L. Barrett, and my business address is 115 W. Washington St., Suite
3 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer Counselor's
6 ("OUCC") Electric Division.

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

8 A: I graduated from the Kelley School of Business in 2012 with a Bachelor of Science in
9 Business with majors in Accounting and Finance. I have been employed by the OUCC for
10 the past 15 years and worked on multiple cases during that time. I have participated in a
11 number of utility-related courses, seminars, and conferences, including the Annual
12 Regulatory Studies Program sponsored by the National Association of Regulatory Utility
13 Commissioners ("NARUC") and the Institute of Public Utilities at Michigan State
14 University.

15 **Q: Please describe your duties and responsibilities at the OUCC.**

16 A: I review Indiana utilities' requests for regulatory relief filed with the Indiana Utility
17 Regulatory Commission ("Commission"). I also prepare and present testimony based on
18 my analyses, and make recommendations to the Commission on behalf of Indiana utility
19 consumers.

20 **Q: Have you previously provided testimony to the Commission?**

21 A: Yes.

Cause No. 44967
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INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 34
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 34-01

REQUEST

Please cite to any current accounting standards defining the term "prepaid pension asset" as used by Petitioner.

RESPONSE

"Prepaid pension asset" is not a defined term within the Financial Accounting Standards Board's Accounting Standards Codification (ASC). The Company follows ASC 715, Compensation – Retirement Benefits, which determines the amount of pension cost on the income statement and which the Commission uses for ratemaking purposes. The Company recognizes a liability for the plan's underfunded status and records a regulatory asset for costs that are deferred for future recovery. The prepaid pension asset is the cumulative pension cash contributions less cumulative pension cost.

Cause No. 44967
OUCC Attachment CLB-2
Page 1 of 1

INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 34
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 34-02

REQUEST

Please state where Petitioner's \$102,492,883 "prepaid pension asset" as of December 31, 2016 can be found on Petitioner's historical balance sheet. If it is not located in the asset section of the balance sheet, please explain why not.

RESPONSE

The 2016 prepaid pension asset of \$102,492,883 is recorded in the 1650010 account on the balance sheet.

INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 34
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 34-03

REQUEST

Please state where the \$104,345,881 "prepaid pension asset" projected as of December 31, 2018 Petitioner can be found on Petitioner's test year balance sheet. If it is not located in the asset section of the balance sheet, please explain why not.

RESPONSE

I&M is in the process of compiling the requested information and will supplement this response.

SUPPLEMENTAL RESPONSE

The balance sheet reflects the funded status on an actuarial basis which is not the same basis as the prepaid pension asset, which equals the excess of cash contributions less FAS 87 pension cost. The balance sheet reflects the fair value of the plan assets compared to the actuarially determined pension benefit obligation. The components that make up the prepaid pension asset are the December 31, 2016 balance in account 1650010, plus the forecasted pension funding activity and pension expense for 2017 and 2018.

Cause No. 44967
OUCC Attachment CLB-4
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INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 34
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 34-04

REQUEST

Please provide the historic calculation of Petitioner's "prepaid pension asset or liability" from the creation of the "prepaid pension asset or liability" through December 31, 2016, including the amount of pension contributions and pension expense recorded for each calendar year included in this calculation.

RESPONSE

I&M objects to this question as it is not limited in time. Without waiving this objection, I&M is providing the requested information from 2006 forward. Please see Table OUCC 34-04 for detail showing the annual activity in the prepaid asset from 2006 to 2016.

<u>TABLE OUCC 34-04</u>			
Year	Contribution	Expense	Total
2006 Opening Balance			84,582,060
2006 Activity	0	(8,486,486)	76,095,574
2007 Activity	0	(6,794,836)	69,300,738
2008 Activity	0	(6,418,354)	62,882,384
2009 Activity	0	(12,484,766)	50,397,618
2010 Activity	63,207,452	(18,292,201)	95,312,868
2011 Activity	49,556,000	(14,218,000)	130,650,869
2012 Activity	21,202,000	(15,465,540)	136,387,329
2013 Activity	0	(20,266,081)	116,121,248
2014 Activity	8,629,000	(18,781,622)	105,968,626
2015 Activity	13,704,000	(16,423,418)	103,249,208
2016 Activity	12,150,000	(12,906,325)	102,492,883

INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 14
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 14-07

REQUEST

Please state Petitioner's portion of minimum ERISA contributions required in each of the calendar years during the period 2010 through 2016.

RESPONSE

	I&M
	Portion of Minimum Required Contribution
2010	\$32,106,994
2011	\$20,504,209
2012	\$6,880,671
2013	\$7,130,025
2014	\$-
2015	\$-
2016	\$-

INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. 14
IURC CAUSE NO. 44967

DATA REQUEST NO OUCC 14-01

REQUEST

Please state Petitioner's portion of cash contributions to its qualified pension plan for each calendar year during the period 2010 through 2016.

RESPONSE

The qualified pension contribution are as follows:

2010	\$71,671,611
2011	\$52,582,000
2012	\$22,285,000
2013	\$0
2014	\$8,866,000
2015	\$14,558,000
2016	\$12,741,000

SUPPLEMENTAL RESPONSE

I&M's qualified pension contribution without the River Transport Division are as follows:

2010	63,207,452
2011	49,556,000
2012	21,202,000
2013	0
2014	8,629,000
2015	13,704,000
2016	12,150,000

AFFIRMATION

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



Crystal L. Barrett
Utility Analyst
Indiana Office of Utility Consumer Counselor

November 7, 2017

Date