

I&M Exhibit: \_\_\_\_\_

**INDIANA MICHIGAN POWER COMPANY**

**PRE-FILED VERIFIED DIRECT TESTIMONY**

**OF**

**JESSICA M. CRISS**

Cause No. 45933

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**DIRECT TESTIMONY OF JESSICA M. CRISS  
ON BEHALF OF  
INDIANA MICHIGAN POWER COMPANY**

**I. Introduction of Witness**

1 **Q1. Please state your name and business address.**

2 My name is Jessica M. Criss and my business address is 1 Riverside Plaza,  
3 Columbus, OH 43215.

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

5 I am employed by American Electric Power Service Corporation (AEPSC) as a  
6 Tax Accounting and Regulatory Support Manager. AEPSC supplies  
7 engineering, accounting, planning, advisory, and other services to the  
8 subsidiaries of the American Electric Power (AEP) system, one of which is  
9 Indiana Michigan Power Company (I&M or the Company).

10 **Q3. Briefly describe your educational background and professional  
11 experience.**

12 I earned a Bachelor of Science in Business Administration with a focus in  
13 Accounting and a Masters of Accounting from St. Louis University School of  
14 Business. I have been a Certified Public Accountant in the State of Ohio since  
15 2015.

16 While pursuing my degrees I was employed part time at a regional public  
17 accounting firm in Chesterfield, MO from February 2012 to December 2013. I  
18 was hired at a regional public accounting firm in Akron, OH as a Tax Accountant  
19 in January 2014 and was promoted to Senior Tax Accountant in January 2016.

20 In December 2016 I was hired at L Brands, Inc., a retail corporation in  
21 Columbus, OH as a Tax Analyst and was promoted to Senior Tax Analyst in

1 April 2019. I joined AEPSC in January 2020 as a Principal Tax Analyst and was  
2 promoted to my current position of Tax Accounting and Regulatory Support  
3 Manager effective February 20, 2021.

4 **Q4. What are your responsibilities as a Tax Accounting and Regulatory**  
5 **Support Manager?**

6 I participate in the recording of the tax accounting entries and records and the  
7 review of federal and state tax returns of AEP and its subsidiaries. I am also  
8 responsible for coordinating and developing state and federal tax data provided  
9 by the AEPSC Tax Department for use in regulatory proceedings. I have  
10 attended numerous tax, accounting, and regulatory seminars throughout my  
11 professional career.

12 **Q5. Have you previously filed testimony before any regulatory commissions?**

13 Yes. I have submitted testimony before the Indiana Utility Regulatory  
14 Commission (IURC or Commission) on behalf of I&M in Cause No. 45576 (2021  
15 Base Rate Case). I have also submitted testimony before the Tennessee Public  
16 Utility Commission (TPUC), Virginia S.C.C., and West Virginia Public Service  
17 Commission (PSC).

## 18 **II. Purpose of Testimony**

19 **Q6. What is the purpose of your testimony?**

20 I present and support:

- 21 • Federal and state income tax expense for the historical period ended  
22 December 31, 2022 (Historical Period) and for the forward-looking test  
23 period ended December 31, 2024 (Test Year);
- 24 • Accumulated Deferred Federal Income Taxes (ADFIT) and Accumulated  
Deferred Investment Tax Credit (ADITC) incorporated in the capital

1 structure used by Company Witness Messner to calculate the Weighted  
2 Average Cost of Capital (WACC);

- 3 • Income tax expense adjustments related to certain ratemaking  
4 adjustments made to the Test Year as supported by other Company  
5 witnesses;
- 6 • Certain adjustments to income tax expense and ADFIT;
- 7 • Calculation of the gross revenue conversion factor (GRCF) and certain  
8 taxes other than income taxes; and
- 9 • Calculation of effective federal income tax rates.

10 **Q7. Are you sponsoring any Exhibits?**

11 I am fully or partially sponsoring:

- 12 • Exhibit A-8: Test Year Calculation of the GRCF
- 13 • Exhibit A-9: Test Year Effective Tax Rate

14 **Q8. Are you sponsoring any attachments?**

15 Yes, I am sponsoring:

- 16 Attachment JMC-1 Test Year state income tax rate
- 17 Attachment JMC-2 Test Year interest synchronization
- 18 Attachment JMC-3 Test Year Net Operating Loss Carryforward (NOLC)
- 19 Attachment JMC-4 Test Year Adjustments to ADFIT

20 **Q9. Are you sponsoring any workpapers?**

21 Yes, I am sponsoring:

- 22 WP-JMC-1 Test Year tax expense calculations and tax  
23 adjustments



1 The Company's ADFIT balances have been properly recomputed to reflect the  
2 balance of deferred tax assets and liabilities necessary as an adjustment to the  
3 capital structure. ADFIT includes the impact of the stand-alone NOLC, which is  
4 reasonable and consistent with stand-alone ratemaking practices and Internal  
5 Revenue Code (IRC) normalization requirements.

6 The GRCF calculated on Exhibit A-8 indicates the appropriate factor that is  
7 applied to the income deficiency in order to determine the amount of incremental  
8 revenue needed to obtain the required level of operating income. Exhibit A-9  
9 calculates the Company's effective federal income tax rate after taking into  
10 consideration permanent differences, flow-through timing differences, excess  
11 DFIT amortization, and deferred investment tax credit amortization.

12 The Company proposes a different treatment of tax items since the filing of  
13 Cause No. 45576. The Company is seeking to align its ratemaking such that the  
14 taxes are normalized throughout the origination and reversal of the cost of  
15 removal (COR) timing difference, amortize specific deferred tax balances due to  
16 customers, and account for the implications of the Inflation Reduction Act (IRA)  
17 enacted on August 16, 2022.

18 The Company proposes to utilize the Tax Rider to reflect the nuclear production  
19 tax credits (PTCs) benefits once they are utilized or monetized and the annual  
20 impact of the corporate alternative minimum tax (CAMT) as applicable.

### III. Federal and State Income Tax Expense

21 **Q12. Please describe the methodology used to develop the federal and state**  
22 **income tax expense for the Test Year.**

23 Consistent with Commission Orders, the Company's federal income tax  
24 expense and ADFIT in the capital structure are calculated using stand-alone  
25 ratemaking practices using a normalized method of tax accounting. As in prior  
26 rate filings, including Cause Nos. 45235, 44967, 44075, and 45576, the

1 Company's state income tax expense is calculated on a stand-alone basis using  
2 a flow-through method of tax accounting.

3 The Company's income tax expense is based in large part on the components  
4 of Company pre-tax book income and expense presented by Company witness  
5 Sloan, and the forecast of other various Schedule M items that would impact the  
6 computation of current and deferred income tax expense for the Test Year. The  
7 computations also include reversals of deferred taxes and amortization of  
8 deferred investment tax credits utilized in prior years.

9 Workpaper WP-JMC-1 shows the calculation of Test Year federal income tax  
10 expense. All deferred federal income taxes were computed based on the related  
11 Schedule M items as presented in the Company's forecast, which Company  
12 Witness Sloan explains in detail. In addition, the workpapers show the  
13 calculation of the Test Year state income tax expense. This was developed  
14 using the most recent available state tax rates and apportionment factors.

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

18 **Q13. Please describe the methodology used to develop Taxes Other Than**  
19 **Income Tax expense for the Test Year.**

20 The Test Year level of forecasted Taxes Other Than Income Tax expense is  
21 representative of these types of ongoing tax expenses except for those tax  
22 adjustments that I am sponsoring in this proceeding. The adjusted Test Year  
23 level of Taxes Other Than Income Tax expense is appropriate and necessary  
24 and reflects the proper amount of going-level expense.



1 **Q14. Please describe the calculation of the effective state income tax rate as**  
2 **shown on Attachment JMC-1.**

3 Attachment JMC-1 shows the composite state income tax rate developed using  
4 the appropriate state income tax rates and apportionment factors. This  
5 composite rate is used to compute current state income tax expense and is  
6 used in the development of the GRCF.

7 **Q15. Please describe the calculation of interest synchronization for federal**  
8 **income tax as shown on Attachment JMC-2.**

9 Attachment JMC-2 shows the calculation of the amount of interest expense  
10 deduction used by the Company for purposes of computing income tax  
11 expense. This amount is calculated by multiplying the adjusted rate base by the  
12 weighted cost of long-term debt. As explained later in my testimony, this interest  
13 expense deduction is calculated as part of Current Federal Income Tax (CFIT)  
14 and is consistent with prior rate filings including Cause Nos. 45235, 44967,  
15 44075, and 45576.

16 **Q16. Please describe the development of the federal and state income tax**  
17 **expense for the Historical Period.**

18 The Company's historical income tax expense is based on the actual amounts  
19 recorded on I&M's books. The historical income tax expense has been adjusted  
20 for out-of-period or non-ongoing items and is presented in I&M-WP-1-7 for  
21 informational purposes only.

22 As with federal and state income tax in the Test Year, the Company's historical  
23 federal and state income tax expense is calculated using the stand-alone  
24 methodology.

#### IV. Determination of Income Tax Components of Filing

1 **Q17. How was Income Tax Expense within Cost of Service and ADFIT and**  
2 **ADITC within the capital structure determined in the filing?**

3 Income Tax Expense, ADFIT, and ADITC were each determined on a stand-  
4 alone basis using a normalized method of tax accounting for Federal Income  
5 Taxes. State Income Taxes are being presented on a stand-alone basis using  
6 flow-through method of tax accounting.

7 **Q18. What is meant by determination of income tax expense, ADFIT, and ADITC**  
8 **on a “stand-alone” basis?**

9 The determination of income tax expense and ADFIT on a stand-alone basis  
10 means that taxes only associated with revenues and expenses of the entity’s  
11 rate regulated operations and assets are included within this filing. All aspects of  
12 the Company’s income taxes, including attributes such as NOLC, were  
13 computed based only on these items. The Company’s taxable income or loss  
14 was determined based on the revenues and expenses included in this filing and  
15 ADFIT is the accumulation of book vs. tax timing differences from this filing and  
16 all previous filings.

17 **Q19. How did the Company incorporate the stand-alone NOLC for this case?**

18 The stand-alone NOLC calculation is consistent with calculations presented in  
19 Cause No. 45576 and impacts ADFIT as a component of the WACC and the  
20 cost of service. The NOLC is represented as follows:

- 21 1. Stand-alone NOLC as of the test period at 21% which impacts ADIT  
22 account 1901001.
- 23 2. Reduction to protected excess ADFIT liability as a result of the TCJA as  
24 of December 31, 2017, which impacts accounts 2821001 and the

1 regulatory liability for excess ADFIT in account 2544001. The NOLC  
2 represents a deficient offset to the excess ADFIT liability.

- 3 3. Increase in deferred tax expense due to the decrease in protected excess  
4 ADFIT amortization for the NOLC deficient tax offset to the excess ADFIT  
5 liability.

6 **Q20. What is the impact of the stand-alone NOLC in this proceeding?**

7 *Figure JMC-1* summarizes the impact of each component of the stand-alone  
8 NOLC adjustment in this proceeding.

**Figure JMC-1. NOLC Impact**

	12/31/2024
NOLC at 21%	-
NOLC Deficient Offset	96,900,315
Total Decrease to ADFIT	96,900,315
IN Jurisdictional Amortization Increase to deferred federal income tax expense	3,865,938

9 The Company does not have an NOLC at this time due to the Company being  
10 forecasted to earn enough taxable income through 2023 to offset prior taxable  
11 losses. The impact of the stand-alone NOLC adjustment is therefore limited to  
12 the deficient offset to excess ADFIT and the amortization.

13 **Q21. What was the conclusion regarding the stand-alone NOLC in the previous**  
14 **proceeding?**

15 Pursuant to the Stipulation and Settlement Agreement in Cause No. 45576 (the  
16 Settlement), approved by the IURC on February 23, 2022, the Company was  
17 authorized to establish a regulatory asset for the revenue requirement impacts

1 associated with the inclusion of the stand-alone NOLC adjustment in the  
2 calculation of ADFIT. In addition, the Company requested a private letter ruling  
3 (PLR) from the IRS on April 1, 2022. The Company is waiting for a response  
4 from the IRS on the issue.

5 **Q22. Why is it necessary to include the stand-alone NOLC in this proceeding?**

6 The stand-alone NOLC is consistent with ratemaking principles and ensures that  
7 the income taxes within the rate case represent only those taxes associated with  
8 the revenues and expenses of the regulated operations and assets of the  
9 Company, without regard to the Company's unregulated activities or the  
10 operations of the AEP Consolidated Group.

11 An inconsistency with the assumptions used in the revenue requirement for  
12 depreciation expense, tax expense, rate base, and ADFIT violates the IRC  
13 normalization rules. A normalization violation occurs when a company or  
14 regulatory commission knowingly puts into rates a practice or procedure that is  
15 inconsistent with the normalization requirements of the IRC. In order to maintain  
16 consistency and avoid a normalization violation it is prudent to include the stand-  
17 alone NOLC in this proceeding.

18 **Q23. What is meant by using a normalized method of tax accounting?**

19 Normalization is a method of tax accounting in which the taxes reflected within  
20 an entity's income statement for a given period are matched with the associated  
21 revenues and expenses. This methodology, also known as "deferred income  
22 tax" accounting, is required for financial reporting under Generally Accepted  
23 Accounting Principles (GAAP) Financial Accounting Standards Board (FASB)  
24 Accounting Standards Codification Topic 740 (ASC 740), formerly Statement of  
25 Financial Accounting Standards No. 109 (SFAS 109).

1 **Q24. Can you provide an example of normalized tax accounting?**

2 Yes. As an example, in the early years of an asset's life, accelerated tax  
 3 depreciation often exceeds depreciation expense reported in the financial  
 4 statements allowing for the deferral of income taxes due to the taxing authority.  
 5 In such an instance, the taxes deferred are debited to a deferred tax expense  
 6 account with a corresponding credit to a deferred tax liability.

7 In later years, when the book-to-tax difference reverses, the increase in tax due  
 8 is mitigated by also reversing the deferred tax liability through a corresponding  
 9 credit to deferred income tax expense. *Figure JMC-2* illustrates this point.

**Figure JMC-2. Example of Normalized Accounting**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenues	1,000	1,000	1,000	1,000	1,000	5,000
Operating Expenses	(500)	(500)	(500)	(500)	(500)	(2,500)
Book Depreciation	(100)	(100)	(100)	(100)	(100)	(500)
Pre-tax Book Income (PTBI)	400	400	400	400	400	2,000
Tax Depreciation	(250)	(100)	(75)	(50)	(25)	(500)
Federal Taxable Income	250	400	425	450	475	2,000
Federal Current Tax Expense	53	84	89	95	100	420
Federal Deferred Tax Expense	32	-	(5)	(11)	(16)	-
Total Federal Tax Expense	84	84	84	84	84	420
Book/ Tax Depreciation Difference	(150)	-	25	50	75	-
DTA/ (DTL)	(32)	(32)	(26)	(16)	-	

10 **Q25. What is the alternative to normalized accounting?**

11 The alternative to a normalized method of tax accounting is referred to as “flow-  
 12 through” accounting. A flow-through approach bases income tax expense  
 13 reported within the financial statements on the tax liability as reported on the tax  
 14 return, as opposed to that determined in accordance with ASC 740. *Figure JMC-*  
 15 *3* illustrates this point.

**Figure JMC-3. Example of Flow-through Accounting**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
Revenues	1,000	1,000	1,000	1,000	1,000	5,000
Operating Expenses	(500)	(500)	(500)	(500)	(500)	(2,500)
Book Depreciation	(100)	(100)	(100)	(100)	(100)	(500)
Pre-Tax Book Income	400	400	400	400	400	2,000
Tax Depreciation	(250)	(100)	(75)	(50)	(25)	(500)
Federal Taxable Income	250	400	425	450	475	2,000
Federal Current Tax Expense	53	84	89	95	100	420
Federal Deferred Tax Expense	-	-	-	-	-	-
Total Federal Tax Expense	53	84	89	95	100	420
Book/Tax Depreciation Difference	(150)	-	25	50	75	-
DTA/(DTL)	(32)	(32)	(26)	(16)	-	-
Regulatory Asset	32	32	26	16	-	-

1 Comparing *Figure JMC-2* and *Figure JMC-3*, the amount of total federal tax  
2 expense is the same under both normalized and flow-through approaches – the  
3 difference is timing and the variability of tax expense from year to year.

4 The term “normalization” evolved with respect to utilities, because income taxes  
5 computed on a normalized basis caused net income to appear “normal”, in  
6 contrast to flow-through, an approach based on the cash liability reported on the  
7 tax return.

8 **Q26. Has normalized tax accounting always been the method of accounting**  
9 **utilized by the Company?**

10 No. Prior to the issuance of SFAS 109 by the FASB in February 1992, non-  
11 property related deferred tax timing differences could be treated as flow-through.  
12 Property timing differences have historically been treated as normalized mainly

1 due to the Tax Reform Act of 1969 permitting utilities the right to make an  
2 election to abandon flow-through treatment of post 1969 utility property.<sup>1</sup>

3 **Q27. What is SFAS 109?**

4 SFAS 109 required an asset and liability approach for the financial reporting for  
5 income taxes, *i.e.* a normalized method of accounting. One of the objectives of  
6 SFAS 109 was to recognize deferred tax liabilities and assets for the future tax  
7 consequences of items that have been recognized on a company's financial  
8 statements or tax returns.

9 SFAS 109 also provided guidance to utilities for book vs. tax timing differences  
10 that were previously treated as flow-through. Paragraph 29 addressed  
11 accounting for income taxes by regulated utilities and specifically required  
12 recognition of a deferred tax liability for tax benefits that are flowed through to  
13 customers when temporary differences originate. Additionally, if the regulated  
14 utility is allowed to recover from or return to customers the future increase or  
15 decrease in tax payable for tax benefits flowed through to customers, a  
16 regulatory asset or liability is recognized for that future revenue or reduction in  
17 future revenues.

18 **Q28. How did the Company transition to a normalized method of tax accounting**  
19 **as required by SFAS 109?**

20 The AEP System's operating companies, including I&M, adopted SFAS 109  
21 effective January 1, 1993.<sup>2</sup> All timing differences treated as flow-through  
22 previous to transitioning to normalized treatment continue to unwind utilizing a  
23 flow-through methodology. This results in an increase to tax expense, reflective  
24 of tax expense due that a tax benefit was received for previously. All timing

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<sup>1</sup> Tax Reform Act of 1969, §441, 26 U. S. C. §167 (1).

<sup>2</sup> *Indiana Michigan Power Company*, Cause No. 43306. Direct Testimony of Jeffrey B. Bartsch, page 8, lines 16-17.

1 differences originating after the transition were accounted for on a normalized  
2 basis except for the cost of removal (COR or removal costs) deduction, which  
3 continued to be accounted for on a flow-through basis. This accounting is  
4 consistent with previous filings including Cause Nos. 45235, 44967, 44075, and  
5 45576.

6 **Q29. What are removal costs?**

7 A removal cost is an amount that a utility expects to incur to decommission an  
8 asset at the end of its life based on the price levels in effect at the time it is  
9 removed.

10 **Q30. How have removal costs been treated for ratemaking purposes?**

11 For ratemaking purposes, an accrual for estimated COR is included as part of  
12 the overall book depreciation expense in the Company's cost of service. This  
13 cost is recalculated periodically and reflected in rates over a period that  
14 approximates the life of the plant. While there is not exact matching, this  
15 approach seeks to recover the total cost of the plant, including COR, through  
16 depreciation expense recognized during the period which the underlying asset  
17 was used and useful in the provision of service to customers. In this proceeding,  
18 Company witness Cash presents updated depreciation rates, which include an  
19 estimated COR accrual.

20 **Q31. How are removal costs accounted for on the Company's financial**  
21 **statements?**

22 As previously discussed, the removal costs are included in the overall book  
23 depreciation. On the income statement, the book depreciation for removal costs  
24 is recorded to account 403 under FERC's Uniform System of Accounts (USoA).  
25 On the balance sheet, the accumulated accrual of removal costs is recorded to  
26 account 108 and are included in the accumulated book depreciation.



1 **Q32. Is the timing of the recognition of removal costs the same for federal**  
2 **income tax and financial statement purposes?**

3 No. For financial statement purposes, removal costs are recognized over the life  
4 of an asset but for tax purposes they are recognized at the time costs are  
5 actually incurred to remove an asset. COR is defined as an allowable deduction  
6 under IRC §162 rather than IRC §168. IRC §162 defines general trade or  
7 business expenses while IRC §168 defines the method of depreciation for  
8 property. Therefore, rather than recognizing removal costs over the life of an  
9 asset, the COR is not recognized for tax purposes until the costs are actually  
10 incurred at the end of the asset's life.

11 **Q33. How is this difference in the recognition of COR expense accounted for?**

12 Because the financial statements have recognized an expense for COR prior to  
13 the allowable recognition for tax purposes, the book depreciation expense is  
14 excluded from the calculation of taxable income, and a deferred tax asset (DTA)  
15 is recorded. This DTA represents the future tax benefit that will be received  
16 when the asset is retired and COR is incurred.

17 **Q34. Discuss the ratemaking for income tax expense related to COR using a**  
18 **normalized method of accounting.**

19 Please see *Figure JMC-4*, which assumes that \$10 of the \$100 book  
20 depreciation is related to COR and the asset is retired in year six.

**Figure JMC-4. COR: Normalized**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Total</u>
Revenues	1,000	1,000	1,000	1,000	1,000	900	5,900
Operating Expenses	(500)	(500)	(500)	(500)	(500)	(500)	(3,000)
Book Depreciation	(90)	(90)	(90)	(90)	(90)	-	(450)
Book Depreciation - COR	(10)	(10)	(10)	(10)	(10)	-	(50)
Pre-Tax Book Income	400	400	400	400	400	400	2,400
Tax Depreciation	(250)	(80)	(60)	(40)	(20)	-	(450)
COR Deduction	-	-	-	-	-	(50)	(50)
Federal Taxable Income	250	420	440	460	480	350	2,400
Federal Current Tax Expense	53	88	92	97	101	74	504
Federal Deferred Tax Expense	32	(4)	(8)	(13)	(17)	11	-
Total Federal Tax Expense	84	84	84	84	84	84	504
Book/Tax Timing - COR	10	10	10	10	10	(50)	-
Book/Tax Timing - Depreciation	(160)	10	30	50	70	-	-
DTA - COR	2	4	6	8	11	-	-
(DTL) - Depreciation	(34)	(32)	(25)	(15)	-	-	-

1 In the example above, the cost of service includes \$84 of annual federal income  
2 tax expense, the net of both current and deferred tax expense. During the life of  
3 the asset, the COR depreciation is not deductible for tax purposes and the  
4 future benefit is recorded to deferred tax expense. As such, in the ratemaking  
5 process, customers are provided the benefit of the future tax deduction as the  
6 removal cost book depreciation is recognized over the life of the asset.

7 **Q35. Discuss the ratemaking for income tax expense related to COR using a**  
8 **flow-through method of accounting.**

9 Please see *Figure JMC-5*, which illustrates the previous example with COR  
10 being treated as flow-through.

Figure JMC-5. COR: Flow-through

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Total</u>
Revenues	1,000	1,000	1,000	1,000	1,000	900	5,900
Operating Expenses	(500)	(500)	(500)	(500)	(500)	(500)	(3,000)
Book Depreciation	(90)	(90)	(90)	(90)	(90)	-	(450)
Book Depreciation - COR	(10)	(10)	(10)	(10)	(10)	-	(50)
Pre-Tax Book Income	400	400	400	400	400	400	2,400
Tax Depreciation	(250)	(80)	(60)	(40)	(20)	-	(450)
COR Deduction	-	-	-	-	-	(50)	(50)
Federal Taxable Income	250	420	440	460	480	350	2,400
Federal Current Tax Expense	53	88	92	97	101	74	504
Federal Deferred Tax Expense	34	(2)	(6)	(11)	(15)	-	-
Total Federal Tax Expense	86	86	86	86	86	74	504
Book/Tax Timing - COR	10	10	10	10	10	(50)	-
Book/Tax Timing - Depreciation	(160)	10	30	50	70	-	-
DTA - COR	2	4	6	8	11	-	-
(DTL) - Depreciation	(34)	(32)	(25)	(15)	-	-	-
Reg Liability - COR	(2)	(4)	(6)	(8)	(11)	-	-

1 As evidenced by comparing *Figure JMC-4* and *Figure JMC-5*, total tax expense  
2 over time remains \$504 and only the timing of the tax expense differs.

3 In *Figure JMC-5*, the cost of service includes \$86 of annual federal income tax  
4 expense in years 1-5 and \$74 for year six – the decrease resulting from the tax  
5 deduction for the incurred removal costs. The cost of service includes the  
6 deferred tax impact related to the book to tax timing difference on depreciation,  
7 which is treated as normalized. However, the cost of service only includes a  
8 current tax impact, excluding deferred tax, related to the cost of removal.  
9 Because of this, the deferral of the tax benefit to a future year is recorded as a  
10 regulatory liability. Flow-through treatment provides the tax benefit or expense  
11 up-front as it is incurred on the tax return and the regulatory asset or liability is  
12 established to recognize that this benefit or expense will reverse over time as  
13 the book to tax timing difference reverses.

1 **Q36. Please provide your conclusions regarding the tax treatment of removal**  
2 **costs and the impact to ratemaking.**

3 The tax impact of removal costs, or any book to tax timing difference, can be  
4 flowed through rates as it originates and flowed through as it reverses.

5 Conversely, the tax impact can be normalized as it originates and normalized as  
6 it reverses. Either approach will yield the same tax expense over the life of the  
7 timing difference.

8 **Q37. Has the Commission addressed normalization in the ratemaking process?**

9 Yes. The Commission has explained normalization as:

10 a form of accrual accounting by which tax expense is recorded  
11 in the proper periods, even though actual cash payment will  
12 occur at some later point. By this method of accounting,  
13 balance sheet reserve representing the recovery from  
14 customers in excess of taxes actually payable during the early  
15 years of property life is established, and in later years, when  
16 taxes exceed the recovery from customers (turn-around  
17 period), the accumulated reserve is applied to reduce the  
18 recorded tax expense accordingly. Normalization accounting  
19 permits a company to spread its associated tax benefits  
20 equally over each year in which an asset is in service.  
21 Consequently, present and future customers share the tax  
22 benefits equally as they share the service equally.<sup>3</sup>

23 In the case just quoted, Cause No. 35251, the Commission pointed to the  
24 expanded discussion of its decision to adopt a comprehensive approach to the  
25 inter-period income tax allocation accounting treatment for all transactions that  
26 create a timing difference between periods in which such transactions affect  
27 taxable income and the periods in which such transactions affect the  
28 determination of pre-tax book income:

29 Moreover as the record in this case shows, Petitioner [I&M] is under  
30 instruction from this Commission to begin to follow the interperiod tax  
31 allocation [normalization] as described by the Commission in its decision

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<sup>3</sup> *Indiana & Michigan Electric Company*, Cause No. 35251 (IURC Sept. 21, 1978) at p. 14.

1 of October 6, 1975, in Northern Indiana Public Service Company  
2 [NIPSCO], Cause No. 33920.<sup>4</sup>

3 The Commission's decision in the NIPSCO case states:

4 Therefore, the Commission now finds that consistent with its present  
5 policy, in regard to normalization, it should as a policy matter for rate  
6 making purposes permit comprehensive inter-period income tax  
7 allocation accounting treatment for all transactions that create a timing  
8 difference between periods in which such transactions affect taxable  
9 income and the periods in which such transactions affect the  
10 determination of pre-tax book income. The Commission further finds that  
11 in order to insure to the rate payer the ultimate realization of any tax  
12 saving benefits, the tax effects deferred as a result of utilization of  
13 comprehensive inter-period income tax allocation shall be recorded in the  
14 appropriate accumulated deferred income tax accounts 281, 282 or 285  
15 and the resulting amounts in said accounts shall be disposed of as  
16 prescribed by the Uniform System of Accounts as adopted by this  
17 Commission or as otherwise provided by this Commission. Also, as a part  
18 of this general policy, once comprehensive inter-period income tax  
19 allocation has been applied by a utility under our jurisdiction, it will  
20 continue to do so on a consistent basis and cannot discontinue the same  
21 without prior Commission approval.<sup>5</sup>

22 **Q38. Should the COR deduction be accounted for on a normalized basis rather**  
23 **than flow-through prospectively?**

24 Yes. First, the above referenced Commission decisions support use of the  
25 normalized method of tax accounting. In addition, this methodology maintains  
26 inter-generational equity; that is, customers receive the income tax benefits  
27 commensurate with the expenses reflected in the cost of service.

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<sup>4</sup> *Id.* at p. 16.

<sup>5</sup> *Northern Indiana Public Service Company [NIPSCO], Cause No. 33920, 1975 WL 396160, at \*1, (IURC Oct. 6, 1975).*

1 **Q39. Have you presented the COR book/tax timing difference as normalized in**  
2 **the cost of service in this proceeding?**

3 Yes. As part of Tax Expense Adjustment 3, as shown on Exhibit A-5 and  
4 discussed later in my testimony, the DFIT expense was adjusted for the cost of  
5 removal deduction book/tax timing difference for the forecasted year.

6 **Q40. What method of tax accounting for COR has the Company used in this**  
7 **case?**

8 The Company has aligned its ratemaking such that the taxes are normalized  
9 throughout the origination and reversal of the COR timing difference. The AEP  
10 System, including I&M, reviewed book and tax timing differences and the  
11 ratemaking impacts of those timing differences. As such, part of this review  
12 entailed the identification of fixed asset related timing differences between book  
13 and tax that support the tax regulatory assets and liabilities on the Company's  
14 financial statements.

15 In this review, it was identified that the ratemaking for COR differed between the  
16 origination and reversal of the timing difference. The origination of the timing  
17 difference is the reversal of the book depreciation, resulting in a DTA until such  
18 time that the removal cost is incurred. The reversal of the timing difference  
19 occurs when the removal cost is incurred, reducing the DTA to zero. To date,  
20 the ratemaking normalized the COR timing difference at its origination but also  
21 flowed-through the impact at the reversal of the timing difference. With the  
22 treatment of normalized at origination and flowed through at reversal, the benefit  
23 provided in the cost of service did not naturally allow the reversal of the  
24 regulatory asset.

25 **Q41. Please demonstrate the impact of this determination.**

26 Please see *Figure JMC-6*, which illustrates the previous example with the COR  
27 deduction being treated as flow-through.

**Figure JMC-6. COR: I&M Historical Practice**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 5</u>	<u>Total</u>
Revenues	1,000	1,000	1,000	1,000	1,000	900	5,900
Operating Expenses	(500)	(500)	(500)	(500)	(500)	(500)	(3,000)
Book Depreciation	(90)	(90)	(90)	(90)	(90)	-	(450)
Book Depreciation - COR	(10)	(10)	(10)	(10)	(10)	-	(50)
Pre-Tax Book Income	400	400	400	400	400	400	2,400
Tax Depreciation	(250)	(80)	(60)	(40)	(20)	-	(450)
COR Deduction	-	-	-	-	-	(50)	(50)
Federal Taxable Income	250	420	440	460	480	350	2,400
Federal Current Tax Expense	53	88	92	97	101	74	504
Federal Deferred Tax Expense	32	(4)	(8)	(13)	(17)	-	(10)
Total Federal Tax Expense	84	84	84	84	84	74	494
Book/Tax Timing - COR	10	10	10	10	10	(50)	-
Book/Tax Timing - Depreciation	(160)	10	30	50	70	-	-
DTA - COR	2	4	6	8	10	-	
(DTL) - Depreciation	(34)	(32)	(25)	(15)	-	-	
Reg Asset - COR	-	-	-	-	-	10	

1 In the example above, the cost of service includes \$84 in years 1-5 and, similar  
2 to *Figure JMC-4*, provides customers the tax benefit of the COR book  
3 depreciation. In year six, however, tax expense in the cost of service reflects the  
4 flow-through impact of the COR deduction, again providing customers the tax  
5 benefit of \$10. This results in a \$10 regulatory asset.

6 **Q42. Does a tax regulatory asset related to the additional benefit of removal**  
7 **costs exist on the Company's financial statements?**

8 Yes. The Company has a tax regulatory asset related to flow-through of COR  
9 reversal of \$92,620,800 as of the financial statement period ended  
10 December 31, 2022. The balance is forecasted to be \$104,200,178 as of  
11 December 31, 2023, which reflects the fact that the rates associated with the  
12 current case will not be effective until 2024. If the Company's proposal to

1           normalize the origination and reversal of the COR timing difference is reflected  
2           in I&M's cost of service approved in this case, the tax regulatory asset balance  
3           will no longer increase.

4           **Q43. How did the Company identify and substantiate the regulatory asset value**  
5           **related to COR?**

6           The tax regulatory asset per the financial statement was grouped by timing  
7           difference in the PowerTax software system so that the reversal of the timing  
8           differences can be tracked separately. The Company has three timing  
9           differences which have been treated as flow-through which would make up the  
10          tax regulatory asset: (1) AFUDC Equity, (2) Pre-1981 property, and (3) COR.  
11          The first two were known based on the past timing tax return deductions and  
12          book depreciation taken on these items. These items will reverse over time  
13          based on future book depreciation. The remaining balance is attributable to  
14          COR. However, due to the treatment of the normalization of the book  
15          depreciation portion of the timing difference, the regulatory asset for COR is not  
16          reasonably designed to allow the reversal of the regulatory asset. The regulatory  
17          asset represents the future reversal of the tax benefit passed to customers and  
18          that will reverse over time.

19          **Q44. Is this regulatory asset included as a component of ADIT or as an increase**  
20          **to rate base?**

21          No. Consistent with the treatment of other flow-through timing differences, state  
22          taxes for example, the regulatory asset is not a component of rate base and the  
23          offsetting deferred tax liability (DTL) is not included in ADIT as a component of  
24          WACC.



1 **Q45. Did the analysis of ADIT identify any other concerns?**

2 Yes. In addition to the review surrounding regulatory assets, all deferred tax  
3 timing differences were analyzed. Known as a tax basis balance sheet study  
4 (TBBS), this review was conducted as a standardization measure to align all  
5 AEP subsidiaries to one approach for substantiating ADIT. A TBBS verifies the  
6 basis of all book vs. tax timing differences to substantiate deferred tax assets  
7 and liabilities and is a standard procedure completed annually with the filing of  
8 the federal tax return. Upon review, it was determined that adjustments were  
9 required to deferred income tax liabilities. In the case of I&M, a decrease was  
10 required to properly adjust the ADIT.

11 **Q46. How was the decrease to ADIT recorded on the Company's financial**  
12 **statements?**

13 For the reduction to ADIT, a corresponding regulatory liability of \$13,870,107  
14 was recorded to account for the deferred tax expense that is to be reflected in  
15 cost of service.

16 **Q47. Is this regulatory liability included in ADIT as a component of WACC or as**  
17 **a reduction to rate base?**

18 WP-A-RB-7, included in Exhibit A-6, removes the identified total Company  
19 unamortized balance from the WACC calculation and adds the liability as a  
20 reduction to rate base for the Indiana jurisdictional balance. Since the identified  
21 balance can be amortized according to each retail commission's determination,  
22 the remaining balance for one jurisdiction can differ from another. Specifically,  
23 the amortization period can be very different, as well as when the balance  
24 begins amortizing. Due to these differences, the most appropriate way to ensure  
25 base rates accurately reflect the remaining ADIT benefit is by reducing rate base  
26 by the Indiana specific unamortized balance. The Indiana specific unamortized  
27 balance is calculated by applying the gross plant allocator, calculated by  
28 Company witness Duncan.

1 **Q48. How does the Company propose to treat the COR regulatory asset and**  
2 **TBBS regulatory liability?**

3 The Company proposes to amortize these balances over a twenty-year period  
4 through the cost of service. The calculation of the annual amortization is  
5 included in Tax Expense Adjustment 3, as shown on Exhibit A-5, and discussed  
6 later in my testimony.

7 **Q49. Why is twenty years a reasonable period?**

8 The twenty-year period represents a period of time that reasonably reflects the  
9 reversal of the book/tax timing differences related to fixed assets. Specifically,  
10 the COR timing difference is spread over the life of assets. Additionally, the  
11 biggest ADIT item for I&M is the book/tax timing difference related to  
12 depreciation which is also spread over the life of assets. The use of the twenty-  
13 year period reasonably amortizes these items over a timeframe similar to which  
14 they were generated.

15 **Q50. What are the consequences of not reversing the regulatory asset related to**  
16 **removal costs?**

17 As mentioned previously, the premise of flow-through treatment is that as a tax  
18 benefit or expense is incurred it is passed through the tax expense included in  
19 rates and this proposal provides a reasonable reversal within the ratemaking  
20 process for COR reversal that has been treated as flow-through. This proposal  
21 also provides for equitable ratemaking by updating the treatment of COR  
22 reversal to normalized.

23 This ensures that the Company will avoid a significant mismatch with  
24 intergenerational equity. In addition, it adjusts the tax treatment to assure the  
25 ratemaking reversal occurs to avoid unfairly penalizing the Company.

26 If this proposal is not accepted, the Company will have to write-off the regulatory  
27 asset because the ratemaking is not reasonably designed to allow this asset to

1 be recovered. This imposes a penalty on the Company for flowing this benefit to  
2 customers.

## V. Inflation Reduction Act of 2022 (IRA)

### 3 **Q51. What is the Inflation Reduction Act of 2022?**

4 H.R. 5376, approved by Congress during the budget reconciliation process and  
5 signed into law on August 16, 2022, is referred to as the Inflation Reduction Act  
6 of 2022, or IRA. The stated purpose of the law was to curb inflation by reducing  
7 the deficit through the creation of significant changes relating to tax, climate  
8 change, energy, and health care. The law provides for incremental tax benefits  
9 that need to be funded through incremental tax payments or receipts.

### 10 **Q52. What are the most notable provisions of the IRA having an impact on the** 11 **Company?**

12 The most notable provisions of the IRA impacting the Company include:

- 13 • *Corporate Alternative Minimum Tax (CAMT)* – for applicable corporations  
14 with adjusted financial statement income (AFSI) above \$1 billion, the IRA  
15 imposes a tax equal to the excess of 15% of the corporation's AFSI  
16 (tentative minimum tax) for the taxable year over its regular income tax  
17 liability. CAMT represents the mechanism within the IRA to fund the  
18 following provisions related to tax benefits.
- 19 • *Enhancements to Current Tax Credits* – the current clean energy tax  
20 credit framework has been extended and prospectively allows for the  
21 transferability of qualified credits. The benefit to customers of future  
22 renewable tax credits is addressed in Cause No. 45868 renewable filing.
- 23 • *Creation of the Nuclear Production Tax Credit (PTC)* – introduces a new  
24 tax credit applicable to electricity produced from existing nuclear facilities

1                   and sold to unrelated parties for tax years 2024 through 2032. This new  
2                   tax credit is eligible for transferability.

3                   **Q53. Please describe the CAMT.**

4                   The CAMT is a provision of the IRA which imposes a 15% minimum tax on the  
5                   AFSI of applicable corporations as defined in IRC §59(k)<sup>6</sup>. The CAMT is  
6                   effective for tax years beginning after 2022. The amount of CAMT paid is the  
7                   excess of the computed tentative minimum tax for the taxable year over the  
8                   regular income tax liability. For example, if an applicable corporation had a  
9                   tentative minimum tax of \$110 and a regular income tax of \$100, the applicable  
10                  corporation will pay \$10 of CAMT and \$100 of regular income tax (\$10 CAMT +  
11                  \$100 regular income tax = \$110 tentative minimum tax).

12                  **Q54. What is AFSI?**

13                  AFSI is the basis on which the CAMT is calculated and is equal to an entity's net  
14                  income or loss reported on its applicable financial statements with adjustments  
15                  for various provisions provided in the IRA. AFSI includes an adjustment to  
16                  disregard any federal income taxes which are taken into account on the  
17                  taxpayer's applicable financial statement. AFSI also includes adjustments to  
18                  allow tax depreciation deductions and disregard associated financial statement  
19                  depreciation taken on such property. To the extent items included in financial  
20                  statement depreciation relate to amounts that do not result in tax depreciation  
21                  (*i.e.* tax repairs), no adjustment is required to disregard that financial statement  
22                  depreciation.

23                  **Q55. Please provide an example of an AFSI calculation.**

24                  Please see *Figure JMC-7*, for an example of an AFSI calculation.

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<sup>6</sup> IRC § 55(a)(2).

**Figure JMC-7. Example AFSI Calculation**

Pre-Tax Book Income	5,000
Federal Income Tax	<u>(1,050)</u>
Financial Statement Income	3,950
Add: Federal Income Tax	1,050
Add: Book Depreciation	500
Deduct: Tax Depreciation	<u>(3,000)</u>
Adjustments	(1,450)
Adjusted Financial Statement Income	<u><u>2,500</u></u>

1 In this example, the financial statement income is \$3,950 after federal income  
 2 tax of \$1,050. Adjustments to the financial statement income include an addition  
 3 for federal income tax of \$1,050, an addition for book depreciation of \$500, and  
 4 a deduction for tax depreciation of \$3,000 for a total adjustment to the financial  
 5 statement income of (\$1,450). The AFSI is then \$2,500 (\$3,950 financial  
 6 statement income - \$1,450 of adjustments = \$2,500 AFSI).

7 **Q56. How does the calculation of AFSI compare to the calculation of regular**  
 8 **taxable income?**

9 The calculation of AFSI is limited in the adjustments for differences between the  
 10 recognition of income and expense for book financial statement and tax  
 11 purposes. The calculation of taxable income for the regular income tax  
 12 incorporates all of these differences. Please see *Figure JMC-8*, for a  
 13 comparison of the calculation of AFSI and taxable income for the regular income  
 14 tax.

**Figure JMC-8. Example AFSI and Taxable Income Calculation**

	AFSI	Taxable Income
Pre-Tax Book Income	5,000	5,000
Federal Income Tax	(1,050)	(1,050)
Financial Statement Income	3,950	3,950
Add: Federal Income Tax	1,050	1,050
Add: Book Depreciation	500	500
Deduct: Tax Depreciation	(3,000)	(3,000)
Add: Other Misc. Book/Tax Differences	0	200
Deduct: Other Misc. Book/Tax Differences	0	(1,200)
Adjustments	(1,450)	(2,450)
AFSI / Taxable Income	2,500	1,500

1 In this example comparison, the taxable income for the regular income tax  
2 includes an addition of \$200 and a deduction of \$1,200 for two differences in  
3 book and tax recognition of revenue and expenses that were not included in the  
4 calculation of AFSI. Common examples of these adjustments are the timing  
5 difference associated with the book accrual of expenses which are not  
6 deductible for tax purposes until paid or the book deferral of expenses that are  
7 recognized in the future in conjunction with rate recovery but are deductible for  
8 tax purposes the year in which the expenses are incurred.

9 **Q57. What tax rates are applied to the AFSI and Taxable Income?**

10 The calculation of the CAMT applies a 15% tax rate to AFSI while the  
11 calculation of regular income tax applies a 21% rate to taxable income.

1 **Q58. What is the tentative minimum tax and how is it calculated?**

2 The tentative minimum tax is the CAMT due before considering any amount of  
3 tax due for the regular income tax. The tentative minimum tax is equal to 15% of  
4 AFSI.

5 **Q59. How is the CAMT calculated?**

6 CAMT is the excess, if any, of the tentative minimum tax over the regular 21%  
7 income tax. If the tentative minimum tax does not exceed the regular income  
8 tax, no CAMT is due.

9 Please see *Figure JMC-9* for a calculation continued from *Figure JMC-7*. In this  
10 example, the tentative minimum tax is \$375 ( $\$2,500 \text{ AFSI} \times 15\% = \$375$ ) and  
11 the regular income tax is \$315 ( $\$1,500 \text{ taxable income} \times 21\% = \$315$ ). Because  
12 the tentative minimum tax exceeds the regular income tax, the taxpayer in this  
13 example is liable for a CAMT of \$60 in addition to the regular income tax of \$315  
14 ( $\$375 \text{ tentative minimum tax} - \$315 \text{ regular tax} = \$60 \text{ CAMT}$ ).

**Figure JMC-9. Example CAMT Calculation**

Adjusted Financial Statement Income	2,500
CAMT Rate	15%
Tentative Minimum Tax	<u>375</u>
Taxable Income	1,500
Income Tax Rate	21%
Regular Income Tax	<u>315</u>
Corporate Alternative Minimum Tax	<u><u>60</u></u>

15 In this example, the taxpayer would have total taxes payable of \$375, an  
16 increase of \$60 over the taxes that would have been payable absent the CAMT  
17 imposed with the enactment of the IRA.

1 **Q60. Can the CAMT paid in a prior period tax year be used as a credit against a**  
2 **future income tax liability?**

3 Yes. A taxpayer is eligible to claim a tax credit against the regular income tax  
4 for CAMT paid in a prior tax year to the extent that the regular income tax  
5 liability exceeds the tentative minimum tax in that tax year (“Minimum Tax  
6 Credit”). The carryforward of the Minimum Tax Credit is indefinite and can be  
7 used in any subsequent tax year.

8 If the taxpayer in *Figure JMC-9* has AFSI of \$2,500 and taxable income of  
9 \$2,000 in the year subsequent to that example (“Year 2”) it would result in a  
10 tentative minimum tax of \$375 ( $\$2,500 \text{ AFSI} \times 15 \text{ percent} = \$375$ ) and regular  
11 income tax of \$420 ( $\$2,000 \text{ taxable income} \times 21 \text{ percent} = \$420$ ). Because the  
12 tentative minimum tax does not exceed the regular income tax, the taxpayer  
13 does not have a CAMT payable in Year 2.

14 In this example, the taxpayer had paid \$60 of CAMT in Year 1 and is eligible to  
15 claim a Minimum Tax Credit against the regular income tax liability in a future  
16 tax year to the extent that the regular income tax liability exceeds the tentative  
17 minimum tax in that tax year. In Year 2, the regular income tax exceeds the  
18 tentative minimum tax by \$45 ( $\$420 \text{ regular income tax} \text{ less } \$375 \text{ tentative}$   
19  $\text{minimum tax} = \$45$ ). In Year 2, the taxpayer would therefore have taxes payable  
20 of \$375 ( $\$420 \text{ regular income tax} + \$0 \text{ CAMT} - \$45 \text{ Minimum Tax Credit} = \$375$   
21  $\text{taxes payable}$ ). Please see *Figure JMC-10*, which illustrates the above example.



**Figure JMC-10. Example Minimum Tax Credit**

	Year 1	Year 2
Adjusted Financial Statement Income	2,500	2,500
CAMT Rate	<u>15%</u>	<u>15%</u>
Tentative Minimum Tax	375	375
Taxable Income	1,500	2,000
Income Tax Rate	<u>21%</u>	<u>21%</u>
Regular Income Tax	315	420
Corporate Alternative Minimum Tax	<u>60</u>	<u>0</u>
Total Tax Due before CAMT Credit	375	420
Less: CAMT Credit Utilized	<u>0</u>	<u>45</u>
Total Tax Due	<u><u>375</u></u>	<u><u>375</u></u>

1 In this example, the taxpayer would have \$15 of Minimum Tax Credit available  
2 to claim against the regular income tax in Year 3 and beyond (\$60 CAMT paid in  
3 Year 1 less \$45 Minimum Tax Credit claimed in Year 2 = \$15 Minimum Tax  
4 Credit remaining).

5 **Q61. Is I&M an applicable corporation subject to the CAMT?**

6 Yes. Based on the definition of Applicable Corporation in IRC §59<sup>7</sup> and the  
7 guidance issued by the IRS in Notice 2023-78 it has been determined that I&M  
8 is an applicable corporation subject to the CAMT.

9 **Q62. How has the CAMT been calculated for this case?**

10 The CAMT for I&M was calculated in the manner described earlier in my  
11 testimony on an IN jurisdictional level using WP JMC-1 and Attachment JCD-1

<sup>7</sup> §59(k)(1)

<sup>8</sup> Notice 2023-7 2.01(4)(b)(ii)

1 as supported by Company witness Duncan, including the relevant book and tax  
2 depreciation and all other pertinent adjustments to arrive at the Company's AFSI  
3 and taxable income. The calculation resulted in higher taxable income than the  
4 tentative minimum tax, resulting in \$0 CAMT. The calculation is shown in WP-  
5 TAX.

6 **Q63. Does the Company anticipate CAMT in the future?**

7 Yes. Once subject to CAMT, an applicable corporation is always subject to  
8 CAMT. The calculation of the tentative minimum tax will vary year over year  
9 based on the operations of the Company and could generate CAMT. In addition,  
10 the mechanics of the calculation are not finalized and further guidance from the  
11 IRS is expected.

12 **Q64. How does the Company propose to treat the CAMT?**

13 The Company proposes to net the CAMT impact in the Tax Rider with potential  
14 nuclear PTCs from Cook Nuclear Plant (discussed later in this testimony). As  
15 mentioned previously, CAMT was the tool that Congress used to be able to fund  
16 the tax credits in the IRA and the benefit of the PTCs comes with the cost of the  
17 CAMT. As the Company will always be subject to CAMT, the tentative minimum  
18 tax will need to be calculated as compared to the standard tax and the Company  
19 could be subject to this additional tax in any given year. Including the CAMT with  
20 nuclear PTCs is both reasonable and necessary and captures the full impact of  
21 the IRA because the annual impact is largely outside the Company's control,  
22 and it could be significant in amount and volatile or variable in nature.

23 **Q65. Could you provide more details regarding the nuclear PTC?**

24 The IRA enacted a nuclear PTC under IRC §45U that is available with respect to  
25 existing nuclear plants for electricity produced and sold for taxable years  
26 beginning after December 31, 2023 and before December 31, 2032, provided

1 the nuclear plant is not an “advanced nuclear power facility” under IRC §45J and  
2 is placed in service before the IRA enactment. The nuclear PTC is an annual  
3 base credit of \$3/MWh with a bonus up to \$15/MWh when certain prevailing  
4 wage requirements are met. However, the credit amount is also subject to a  
5 reduction or “phase-out” as a facility’s revenue increases above \$25/MWh.

6 **Q66. Does Cook Nuclear Plant qualify for the PTC?**

7 Yes. The nuclear PTC is available to nuclear plants that do not qualify as an  
8 “advanced nuclear power facility” under IRC §45J for facilities placed in service  
9 after August 8, 2005 and are placed in service before the IRA enactment.  
10 Because the Cook Nuclear Plant was placed in service prior to August 8, 2005  
11 and is not an advanced nuclear power facility, it qualifies for the nuclear PTC  
12 under IRC §45U.

13 **Q67. What are the prevailing wage requirements?**

14 The prevailing wage requirement ensures that any laborers and mechanics  
15 employed by the taxpayer, or any contractor or subcontractor, performing any  
16 alteration or repair of the qualifying nuclear facility shall be paid wages at rates  
17 not less than the prevailing rates established by the Secretary of Labor.

18 **Q68. Please explain the nuclear PTC reduction calculation.**

19 For purposes of the nuclear PTC calculation, the term ‘reduction amount’ refers  
20 to a reduction of the \$3/MWh base credit based on the determined revenue from  
21 the facility. More specifically, the reduction amount equals 16% of the excess of  
22 the facility’s determined revenue less the product of \$25 multiplied by the  
23 facility’s MWh of electricity generated and sold. Formulaically, once a facility’s  
24 revenue per MWh exceeds \$43.75, the credit is reduced to zero. The credit  
25 cannot be reduced below zero. In summary, the PTC credit begins to phase out  
26 as revenue per MWh begins to exceed \$25. The determination of a facility’s

1 revenue has yet to be defined and the Company anticipates the IRS will be  
2 issuing guidance on this topic.

3 **Q69. Is the Company able to quantify the future nuclear PTCs?**

4 I&M has estimated the annual value of the nuclear PTCs could range from \$0 to  
5 upwards of \$125 million in any given year. The value of future nuclear PTCs will  
6 depend upon three main variables. First, further guidance is necessary from the  
7 IRS on the definition of revenue. There have been multiple proposals to the IRS  
8 on how to define revenue which will impact the phase-out, or reduction, of the  
9 credit, potentially resulting in \$0 PTC in any given year.

10 Second, the prevailing wage requirements provide for a bonus to the per MWh  
11 credit of up to \$15/MWh. The cost of compliance with this requirement must be  
12 considered in relationship to the potential benefits.

13 Lastly, the credit is dependent on the MWhs generated, which can fluctuate  
14 greatly year over year. This fluctuation will provide for a different level of PTCs  
15 per year. In addition, this fluctuation may change the revenue per MWh, which  
16 would change the potential phase-out.

17 **Q70. What is the Company's proposal regarding the nuclear PTCs?**

18 Due to the fact that the nuclear PTCs are largely outside the control of the  
19 Company, are potentially significant in amount, and volatile or variable in nature,  
20 it is necessary that the Tax Rider be utilized to reflect the benefit of the PTCs to  
21 customers. Through the rider, the Company proposes to defer the pass back of  
22 the PTC benefit until 2025 once monetized either by utilization on the federal tax  
23 return or via a transfer net of transfer costs (discussed in Section VI of my  
24 testimony). Company witness Seger-Lawson discusses the utilization of the Tax  
25 Rider to pass the PTCs to customers. Company witness Ross provides further  
26 guidance regarding the Tax Rider over-/under- recovery accounting.

1 **Q71. Why is it reasonable to defer the pass back to 2025 and only when they**  
2 **have been monetized?**

3 Deferring to 2025 gives the Company the ability to accurately quantify the  
4 credits after final regulations are issued by the IRS. Waiting to pass the credit to  
5 customers once monetized ensures that the amount of PTCs reflected in I&M's  
6 cost of service is fixed, known and measurable. It also ensures that I&M does  
7 not reflect PTCs in customer rates before it has received the cash benefit, which  
8 if done would generate a deferred tax asset and would be necessary to include  
9 in rate base and earn a pre-tax weighted cost of capital return.

## VI. Credit Limitations and Deferral of Cash Tax Benefits

10 **Q72. Does AEP have the ability to sell the PTC generated by Cook Nuclear**  
11 **rather than carry it forward or back?**

12 Yes. The IRA enacted IRC §6418 to provide that a taxpayer may transfer  
13 certain income tax credits to an unrelated taxpayer. This provision applies to tax  
14 years beginning after December 31, 2022. The PTC is among the list of tax  
15 credits enumerated in the IRC as being eligible for transfer.<sup>9</sup> The legislation  
16 specifies that any amount paid by a taxpayer as consideration for a credit:

- 17
- Shall be required to be paid in cash;
  - Shall not be includible in gross income of the transferring taxpayer; and
  - Shall not be deductible by the transferee taxpayer.<sup>10</sup>
- 18  
19

20 **Q73. What impact would the transfer of tax credits have on the tax credit**  
21 **carryforward DTA?**

22 To the extent that a tax credit is transferred to a third party, as provided for  
23 under §6418, it would no longer be available to carry forward to offset a future

---

<sup>9</sup> 26 U.S.C. § 6418(f)(1)(A).

<sup>10</sup> 26 U.S.C. § 6418(b).

1 tax liability. Therefore, a tax credit carryforward DTA would not be established  
2 for the transferred credit.

3 **Q74. Are there limitations on the Company's ability to use nuclear PTCs to**  
4 **offset its annual income tax liability?**

5 Yes. IRC Section 38(c) generally limits a taxpayer's use of General Business  
6 Credits (of which PTCs are a component) to 75 percent of the taxpayer's regular  
7 tax liability before applying any credits. Any General Business Credits (GBC)  
8 unable to be utilized in offsetting regular tax in a given year may be carried  
9 forward and used to reduce regular tax liabilities in the succeeding 20 years or  
10 carried back to reduce regular tax liabilities in the preceding year.

11 **Q75. How are tax credit carry forwards accounted for and what are the**  
12 **implications of the associated tax deferral?**

13 As previously noted, GBCs that cannot be utilized in a given tax year due to  
14 Section 38(c) limitations may be carried forward and used, subject to limitation,  
15 to offset regular tax liability in the succeeding 20 years or carried back to reduce  
16 regular tax liabilities in the preceding year. Any credits not utilized after the 20-  
17 year carry forward period expire.

18 GBCs that are carried forward to be used to offset the tax liability in a future tax  
19 year are recognized as a DTA on the balance sheet to the extent the taxpayer  
20 anticipates the ability to utilize the credits prior to their expiration.

21 **Q76. Does I&M file a federal income tax return as part of a consolidated group?**

22 Yes. I&M is included in the consolidated income tax return of American Electric  
23 Power and its subsidiaries (Consolidated Return Group).

24 **Q77. Can you describe the process by which PTCs will be monetized?**

25 Yes. The monetization of the PTCs generated by the Cook Nuclear will occur in  
26 three steps. In Step 1, the PTCs will be utilized to offset I&M's tax liability. This

1 reduces the necessary cash payment up to its parent company for the liability.  
2 While it is anticipated to be an uncommon scenario, the utilization of credits in  
3 Step 1 could be limited in a scenario in which the credit utilization limitations  
4 under Section 38(c) for the Consolidated Return Group is less than the sum of  
5 the Step 1 utilization of credits for all companies within the group.

6 In Step 2, the PTCs would be used to offset the tax liability of the Consolidated  
7 Return Group. The ratio of the remaining PTCs after Step 1 to the total tax  
8 credits available for the Consolidated Return Group would be used to determine  
9 the extent of the PTCs generated by Cook Nuclear would be used to offset the  
10 tax liability in this step. For example, if after Step 1 I&M had \$10 of PTCs  
11 available to offset the Consolidated Return Group's tax liability and the other  
12 companies in the Consolidated Return Group had \$90 of PTCs available, 10%  
13 of the credits used to offset the tax liability of the Consolidated Return Group  
14 would be from Cook Nuclear ( $\$10 \text{ I\&M PTC} \div \$100 \text{ total tax credit} =$   
15 10%). To the extent that I&M's credits are used to offset the tax liability of the  
16 Consolidated Return Group, I&M would receive the full cash value of the PTC.

17 In Step 3, a determination would need to be made whether any remaining PTCs  
18 should be carried forward to offset a future tax liability or transferred to a third  
19 party.

20 **Q78. Do you expect that PTC generated by Cook Nuclear will be transferred?**

21 The PTC will be transferred to a third-party if it is reasonable and necessary to  
22 do so based on the facts and circumstances at the time. Based on the expected  
23 length of time between when PTCs are generated and the ability to utilize the  
24 PTCs to offset an income tax liability, it is anticipated that it may be beneficial to  
25 transfer all, or a portion, of the credits generated by Cook Nuclear.

1 **Q79. What facts and circumstances will weigh in any decision to transfer a tax**  
2 **credit or use it to offset a tax liability?**

3 There are a couple factors that will weigh into any decision as to whether it is  
4 prudent and appropriate to transfer a PTC. The first factor is the ability to utilize  
5 the PTC to offset an income tax liability. If the tax credit can be used to offset  
6 an income tax liability, I&M would retain the credit and receive a dollar-for-dollar  
7 benefit of the credit generated.

8 The second factor that will weigh into any decision to transfer a PTC is the net  
9 proceeds that could be obtained from a transfer of the tax credit. If the PTC is  
10 not able to be utilized in the same period that it is generated, I&M would  
11 evaluate the net proceeds a transfer of PTC would generate compared to the  
12 present value of the future cash tax benefit from the PTC if it were not  
13 transferred.

14 **Q80. What impact would a transfer of tax credits have on customers?**

15 The impact of a transfer of the PTCs generated by Cook Nuclear would be  
16 twofold. First, a transfer of PTCs would mean that the PTC has been monetized  
17 and the PTC benefit would be reflected in I&M's cost to serve customers.

18 The second impact to customers would be the discount associated with the  
19 transfer of the PTC. The discount is the difference between the value of the  
20 PTC and the net proceeds received from the transfer of the PTC. While it is not  
21 known at this time what the market price for the PTC will be or the costs to  
22 engage in such a transaction, it is certain that the net proceeds obtained from a  
23 transfer will be less than the full value of the PTC itself. To the extent that the  
24 PTCs generated by Cook Nuclear are transferred, the net benefit received as a  
25 result of that transfer will be included as a reduction to the tax benefit reflected  
26 in the Tax Rider.



## VII. Weighted Average Cost of Capital

1 **Q81. Did you provide the balances of ADFIT and ADITC used by Company**  
 2 **Witness Messner in Exhibit A-7?**

3 Yes. *Figure JMC-11* identifies the ADFIT and ADITC balances I calculated in  
 4 Schedule 1-5-8(a)(33) and provided to Company Witness Messner.

**Figure JMC-11. ADFIT and ADITC by year**

Year	2022	2023	2024
<b>ADFIT</b>	\$1,051,143,862	\$1,071,672,429	\$1,055,959,131
<b>ADITC</b>	\$17,350,699	\$13,457,227	\$9,563,755

5 **Q82. What adjustments have been made to ADFIT, as recorded, to arrive at the**  
 6 **balances shown in Exhibit A-7?**

7 Adjustments made to the ADFIT balance as of 12/31/2022 include the following:

- 8 1. Adjustments for ratemaking purposes, such as removing ADFIT that does  
 9 not relate to the IN jurisdiction or that are not related to the provision of  
 10 electric service;
- 11 2. Adjustments related to reducing ADFIT for the NOLC balance as discussed  
 12 in Section IV of this testimony;
- 13 3. Adjustment to remove the TBBS DTL, as discussed in Section IV of this  
 14 testimony;
- 15 4. Adjustment to remove the PTC DTA related to Cook Nuclear, as discussed  
 16 in Sections V and VI of this testimony;
- 17 5. Adjustment to increase ADFIT for the COR DTL to reflect the proposed  
 18 update to account for the COR deduction on a normalized basis, as  
 19 discussed in Section IV of this testimony;

1           6. Adjustment to remove the DTL related to the balance of unprotected excess  
2           ADFIT consistent with Cause No. 45576.

3           Please see Attachment JMC-4 for a list of the above adjustments and a  
4           reconciliation of ADFIT from the balance sheet in Exhibit A-4 to the ratemaking  
5           ADFIT in Exhibit A-7.

## VIII. Tax Expense Adjustments

### 6           **Q83. What Tax Expense Adjustments are you sponsoring?**

7           I am sponsoring ratemaking Tax Expense Adjustment Nos. 1-3, as shown in  
8           Exhibit A-5. These adjustments include “pretax” expense adjustments (which  
9           are adjustments made to cost of service resulting in a change in tax expense)  
10          and “tax only” adjustments (which are adjustments made to tax expense that do  
11          not relate to changes in pretax book income).

12          Both types of adjustments are necessary to reflect an adjusted Test Year level  
13          of tax expense that is representative of ongoing operations and are consistent  
14          with the Company’s prior rate case filings.

15          Exhibit A-5 presents Tax Expense Adjustments Nos. 1-3 on a total Company  
16          basis. Company witness Duncan provided the allocation factors that are used to  
17          calculate the jurisdictional amounts.

### 18          **Q84. Please describe Tax Expense Adjustment No. 1.**

19          Tax Expense Adjustment No. 1, as shown on Exhibit A-5, increases total  
20          Company state income tax expense by \$8,641,132 to reflect the adjustments to  
21          state taxable income resulting from the ratemaking adjustments supported by  
22          various Company witnesses that affect pre-tax state book income and the  
23          related book vs. tax timing differences.

1 This adjustment includes all state income tax expense where the Company has  
2 a business presence. Consistent with past rate treatment by this Commission,  
3 no deferred state income tax expense has been recorded in utility cost of  
4 service, consistent with the flow-through methodology.

5 **Q85. Please describe Tax Expense Adjustment No. 2.**

6 Tax Expense Adjustment No. 2, as shown on Exhibit A-5, increases total  
7 Company CFIT expense by \$132,695,631 to reflect the current federal income  
8 tax effect at 21% of the federal taxable income related to the ratemaking  
9 adjustments supported by various Company witnesses, which affect pre-tax  
10 book income and the related book vs. tax timing differences.

11 CFIT expense has been adjusted by I&M's allocated share of the tax benefit of  
12 the net interest expense portion of the parent company (American Electric  
13 Power Co. Inc.). This methodology is consistent with the Commission's  
14 December 22, 1982 Order in Cause No. 36760, the Commission's November  
15 12, 1993 Order in Cause No. 39314, and all subsequent I&M rate case orders.  
16 I&M-WP-1-8 shows the computation of this amount.

17 In addition, CFIT has been adjusted to remove the total Company \$115 million  
18 PTC credit (\$125 million generated less \$10 million carryforward reclassified to  
19 deferred tax expense) and the \$14.6 million CAMT to be included in the Tax  
20 Rider. As discussed earlier in this testimony, due to uncertainty and further  
21 guidance to be issued by the IRS, the Company proposes to remove these  
22 items from base rates and utilize the Tax Rider to ensure future guidance is  
23 reflected in the ratemaking process and rates reflect the actual calculations once  
24 available.

25 **Q86. Please describe Tax Expense Adjustment No. 3.**

26 Tax Expense Adjustment No. 3, as shown on Exhibit A-5, increases total  
27 Company DFIT by \$31,272,213. This adjustment is broken down as follows:

- 1                   1. Deferred tax adjustments related to the ratemaking adjustments  
2                   supported by various Company witnesses, which affect the related  
3                   book vs. tax timing differences
- 4                   2. Tax adjustments necessary to reflect the ITC amortization of pre-2020  
5                   generated credits and protected excess amortization based on most  
6                   recently available calculations.
- 7                   3. Reflect total Company excess ADFIT amortization including excess  
8                   ADFIT related to the stand-alone NOLC (Section IV of this testimony)
- 9                   4. Inclusion of the proposed amortization of the TBBS regulatory liability  
10                  (Section IV of this testimony)
- 11                  5. Inclusion of the proposed amortization of the COR regulatory asset  
12                  (Section IV of this testimony)
- 13                  6. Remove the deferral of \$10M nuclear PTC credit. (Sections V and VI  
14                  of this testimony)
- 15                  7. Include COR deferred tax offset to CFIT to apply a normalized method  
16                  of accounting (Section IV of this testimony)

17                  **Q87. Does amortization of protected excess ADFIT related to Indiana include**  
18                  **amortization of excess ADFIT related to the NOLC?**

19                  Yes. Protected excess ADFIT amortization related to Indiana has been adjusted  
20                  to reflect the excess ADFIT related to the NOLC. Excess ADFIT related to the  
21                  NOLC is considered deficient and will offset the excess ADFIT related to the  
22                  deferred liability and therefore reduces the total excess ADFIT benefit presented  
23                  in the cost of service.

**IX. GRCF**

1 **Q88. Please describe the calculation of the GRCF as shown on Exhibit A-8.**

2 The GRCF calculated on Exhibit A-8 indicates the appropriate factor that should  
3 be applied to the income deficiency in order to determine the amount of  
4 incremental revenue needed to obtain the required level of operating income.

5 It is necessary to apply this factor to the income deficiency in order to provide  
6 sufficient revenues to cover the additional federal and state income tax expense,  
7 the public utility assessment fees and uncollectible accounts expense.

**X. Effective Federal Income Tax Rate**

8 **Q89. Please describe the calculation of the effective federal income tax rate as**  
9 **shown on Exhibit A-9.**

10 Exhibit A-9 calculates the Company's effective federal income tax rate after  
11 taking into consideration permanent differences, flow-through timing differences,  
12 excess ADFIT amortization, and deferred investment tax credit amortization.

13 The overall effective federal income tax rate before rate relief is 17.94% and is  
14 calculated by dividing total federal income tax expense by pre-tax electric  
15 operating income including interest expense.

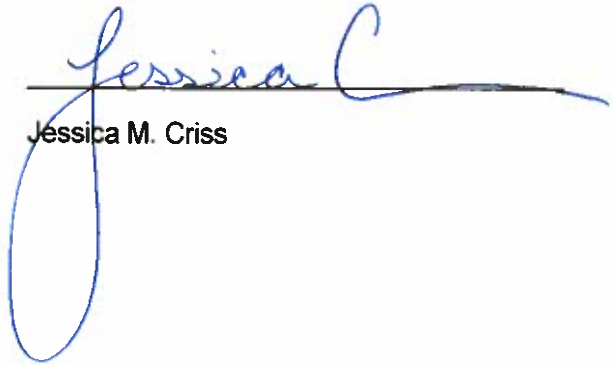
16 **Q90. Does this conclude your pre-filed verified direct testimony?**

17 Yes.

**VERIFICATION**

I, Jessica M Criss, Tax Accounting and Regulatory Support Manager for 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: 8/8/2023

A handwritten signature in blue ink that reads "Jessica C" with a large, stylized flourish underneath.

Jessica M. Criss

**INDIANA MICHIGAN POWER COMPANY**Calculation of Effective State Income Tax Rate  
Forecast Year Ended December 31, 2024Attachment JMC-1  
Page 1 of 1  
Witness: J. M. Criss

Line No.	Column A	Column B	Column C
1	State Income Tax Rate - Indiana	4.900%	
2	Apportionment Factor	<u>78.9000%</u>	
3	Effective Indiana State Income Tax Rate		3.8661%
4	State Income Tax Rate - Illinois	9.500%	
5	Apportionment Factor	<u>0.5400%</u>	
6	Effective Illinois State Income Tax Rate		0.0513%
7	State Income Tax Rate - Kentucky	5.000%	
8	Apportionment Factor	<u>0.8700%</u>	
9	Effective Kentucky State Income Tax Rate		0.0435%
10	State Income Tax Rate - Michigan	6.000%	
11	Apportionment Factor	<u>15.8500%</u>	
12	Effective Michigan State Income Tax Rate		0.9510%
13	State Income Tax Rate - West Virginia	6.500%	
14	Apportionment Factor	<u>0.2800%</u>	
15	Effective West Virginia State Income Tax Rate		0.0182%
16	State Income Tax Rate - Missouri	4.0000%	
17	Apportionment Factor	<u>0.0400%</u>	
18	Effective West Virginia State Income Tax Rate		0.0016%
19	Total Effective State Income Tax Rate		<u><u>4.9317%</u></u>

**INDIANA MICHIGAN POWER COMPANY**Calculation of Interest Synchronization for FIT  
Test Year Ended December 31, 2024

Attachment JMC-2

Page 1 of 1

Witness: J. M. Criss

<u>Line No.</u>	<u>Column A</u>	<u>Total Company</u>	<u>Indiana Jurisdiction</u>
1	Adjusted Original Cost Rate Base	\$ 7,217,387,626	\$ 5,423,706,117
2	Weighted Cost Rate of Long-Term Debt	<u>1.90%</u>	<u>1.90%</u>
3	Synchronized Interest Deduction	<u>\$ 137,002,168</u>	<u>\$ 102,954,079</u>



INDIANA MICHIGAN POWER COMPANY  
Calculation of Stand-Alone NOLC  
Forecast Year Ended December 31, 2024

Description	Account No.	Total Company
<b>Increase rate base to include the stand-alone Net Operating Loss ("NOL") Deferred Tax Asset ("DTA") and Protected Excess ADIT balance related to the NOL as 12/31/2017, the date of Tax Cuts and Jobs Act ("TCJA"), and decrease Protected Amortization expense due to offsetting protected excess benefit related to the NOL.</b>		
<b>2017 NOLC</b>		
Stand Alone NOLC as of 12.31.2017		(1,031,430,894)
AEP Consolidated Group NOLC allocated to the Company as of 12.31.2017		73,202,793
Stand Alone NOLC Adjustment to Excess ADFIT		(958,228,102)
<b>2017 - Excess ADFIT adjustment for Stand-Alone NOLC</b>		
Entry to reflect remeasurements of NOL and corresponding deficient deferred taxes		
	2544001	169,812,575
	2824001	(134,151,934)
	2821001	134,151,934
	1904001	(35,660,641)
	4112001	(134,151,934) (a)
<b>Amortization of NOLC Deficient Tax - 2018 to 2023</b>		
Entry to reflect the amortization of the NOLC deficient utilizing ARAM for prior periods		
	2544001	(39,624,042)
	4102001	31,302,994 (a)
	2821001	(31,302,994)
	2824001	31,302,994
	1904001	8,321,049
<b>Amortization of NOLC Deficient Tax - Test Year Ended 12.31.2024</b>		
Entry to reflect reduced amortization of Protected Excess for the forecast 12 Month Test Period		
	2544001	(7,529,906)
	4102001	5,948,626 (b)
	2821001	(5,948,626)
	2824001	5,948,626
	1904001	1,581,280
<b>2022 NOLC Adjustment</b>		
Stand Alone NOLC as of 12.31.2017		(1,031,430,894)
Taxable Income/(Loss) earned from 2018-2022		827,793,915
Taxable Income/(Loss) forecasted for 2023		388,403,034
Taxable Income/(Loss) forecasted for 2024		225,497,801
Cumulative Income/(Losses) as of 2024		410,263,855
NOLC Deferred Tax Asset at 21%		-
<b>Total Company Stand Alone NOLC DTA as of the Test Period</b>		-
<b>Σ(a)+(b) Reduction to Protected Excess ADFIT Liability as of the Test Period</b>		<b>(96,900,315) (c)</b>
<b>(b) Increase to deferred tax expense for NOLC deficient amortization as of the Test Period</b>		<b>5,948,626</b>
Federal Gross up Factor (used for illustrative purposes only)		1.2658
<b>Account Key</b>		
SFAS 109 Excess Deferred FIT Regulatory Liability	2544001	
Accumulated Deferred FIT - SFAS 109 Excess - Utility Property	2824001	
Accumulated Deferred FIT - Utility Prop	2821001	
Accumulated Deferred FIT - FAS 109 Excess	1904001	
Provision for Deferred Income Tax Utility Operations - FIT	410.1/411.1	
Provision for Deferred Income Tax Other Income & Deductions - FIT	410.2/411.2	

INDIANA MICHIGAN POWER COMPANY  
 Calculation of ADFIT  
 Forecast Year Ended December 31, 2024

Description	Total Company
<b>Adjust accumulated deferred federal income taxes (ADFIT) for ratemaking</b>	
<b>Total ADFIT per Forecast (Exhibit A-4)</b>	<b>1,128,680,810</b>
<b>Ratemaking Adjustments</b>	
Adj for Non-Utility/Ratemaking ADIT	24,749,967 (1)
Add: NOLC	(96,900,315) (2)
Remove: TBBS	(10,405,585) (3)
Remove: Cook Nuclear PTC DTA	10,069,542 (4)
Add: Cost of Removal DTL	8,659,421 (5)
Remove: Unprotected Excess	(8,894,709) (6)
Total	(72,721,679)
<b>Ratemaking ADFIT (Exhibit A-7)</b>	<b>1,055,959,131</b>