STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY (I&M) FOR APPROVAL OF (1) ISSUANCE TO I&M OF CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY UNDER IND. CODE § 8-1-8.5-2 FOR THE ACQUISITION AND DEVELOPMENT THROUGH PURCHASE SALE AGREEMENTS (PSA) OF TWO SOLAR POWER GENERATING FACILITIES TO BE KNOWN AS LAKE TROUT, AND MAYAPPLE (CLEAN ENERGY PSA PROJECTS); (2) TO THE EXTENT NECESSARY, ISSUANCE OF AN ORDER PURSUANT TO IND. CODE § 8-1-2.5-5 DECLINING TO EXERCISE JURISDICTION UNDER. IND. CODE § 8-1-8.5-5(e) (3) APPROVAL OF EACH PSA PROJECT AS A CLEAN ENERGY PROJECT UNDER IND. CODE § 8-1-8.8-11; (4) APPROVAL OF TWO SOLAR RENEWABLE ENERGY PURCHASE AGREEMENTS FOR PROJECTS TO BE KNOWN AS ELKHART COUNTY AND SCULPIN (CLEAN ENERGY PPA PROJECTS) AS CLEAN ENERGY PROJECTS UNDER IND. CODE § 8-1-8.8-11; (5) ASSOCIATED TIMELY COST RECOVERY UNDER IND. CODE § 8-1-8.8-11 FOR ALL PSA AND PPA PROJECTS; AND (6) OTHER ACCOUNTING AND RATEMAKING AUTHORITY.	)	**CAUSE NO.** 45868

SUBMISSION OF DIRECT TESTIMONY OF
<u>ANDREW J. WILLIAMSON</u>

Applicant, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony and attachments of Andrew J. Williamson in this Cause.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served this 28th day of March, 2023, by email transmission, hand delivery or United States Mail, first class, postage prepaid to:

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I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

ANDREW J. WILLIAMSON

Content

DIRECT TESTIMONY OF ANDREW J. WILLIAMSON
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

I. Introduction of Witness

Q1. Please state your name and business address.

My name is Andrew J. Williamson and my business address is Indiana Michigan Power Center, P.O. Box 60, Fort Wayne, IN 46801.

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

I am employed by Indiana Michigan Power Company (I&M or Company) as Director of Regulatory Services.

Q3. What are you responsibilities as Director of Regulatory Services?

I am responsible for the supervision and direction of I&M's Regulatory Services Department, which has responsibility for the rate and regulatory matters affecting I&M's Indiana and Michigan jurisdictions. I report directly to I&M's Vice President of Regulatory and Finance.

Q4. Briefly describe your educational background and professional experience.

I received a Degree of Bachelor of Business Administration, Accounting and Finance Majors, in May 2004 from Ohio University. In January 2007, I passed the Certified Public Accountant Examination. I am licensed in the state of Ohio and a member of the American Institute of Certified Public Accountants.

I was employed by PricewaterhouseCoopers, LLP (PwC) as a Staff and Senior Auditor from August 2004 until December 2007. At PwC, I assisted and led the audits of the books and records of public and private companies, compilation of financial statements and compliance with the standards set forth under the Sarbanes-Oxley Act of 2002.

In January 2008, I joined American Electric Power (AEP) as a Staff Accountant in the Accounting Policy and Research department. Thereafter, I held positions as a Staff and Senior Accountant in Financial Policy Transaction and Analysis, Senior Financial Analyst in Transmission Investment Strategy and Manager of Regulatory Accounting Services. In March 2014, I assumed my current position as Director of Regulatory Services for I&M.

Q5. Have you previously testified before any regulatory commissions?

Yes. I have testified before the Indiana Utility Regulatory Commission (IURC or Commission) on behalf of I&M in numerous cases, including I&M's most recent general rate case filings, Cause Nos. 45576, 45235, and 44967.

In addition, I have testified before the Michigan Public Service Commission (MPSC) on behalf of I&M, before the Public Utility Commission of Texas on behalf of AEP Texas Central Company (TCC), AEP Texas North Company (TNC), Electric Transmission Texas, LLC (ETT) and Southwestern Electric Power Company (SWEPCO), and before the Corporation Commission of the State of Oklahoma on behalf of Public Service Company of Oklahoma (PSO).

II. Purpose of Testimony

Q6. What is the purpose of your testimony?

The purpose of my testimony is to address the accounting and ratemaking associated with the Clean Energy Projects I&M is seeking approval of in this proceeding. Specifically, I&M is requesting timely cost recovery through I&M's existing Solar Power Rider (SPR) for the projects I&M will acquire through Purchase Sale Agreements (PSAs). I&M also requests timely cost recovery be administered through I&M's Fuel Cost Adjustment rider (FAC) for the costs incurred under Power Purchase Agreements (PPAs). In addition, I support various accounting and ratemaking proposals related to the Clean Energy Projects, including the request to defer costs incurred prior to recovery in I&M's rates, the request for approval of a new depreciation rate, the request to extend production tax credits (PTC) benefits over twenty years, the Company's plan to monetize PTCs, and recovery of development costs associated with PPAs. I explain how I&M plans to utilize the renewable energy certificates (RECs) from the Clean Energy Projects to benefit customers and I support I&M's request for ongoing review. I also provide an estimate of the overall incremental rate impact of the PSAs and PPAs to I&M's customers.

Q7. Are you sponsoring any attachments?

Yes, I am sponsoring the following attachments:

- Attachment AJW–1, Asset Retirement Obligation (ARO) and Salvage Credit Summary
- Attachment AJW–2, PTC Comparison to Investment Tax Credit (ITC)
- Attachment AJW–3, Redline SPR Tariff
- Attachment AJW–4, Clean Energy Project Customer Rate Impact
- Attachment AJW–5 and AJW-5C, Comprehensive Generation Transformation Customer Rate Impact (Public and Confidential/Highly Competitively Sensitive versions)

Q8. Are you sponsoring any workpapers?

Yes, I am sponsoring:

- WP AJW-1, CONFIDENTIAL ARO and Salvage Credit Support.xlsx (Confidential/Highly Competitively Sensitive)

- WP AJW-2, CONFIDENTIAL PTC Comparison to ITC Support.xlsx (Confidential/Highly Competitively Sensitive)
- WP AJW-3, CONFIDENTIAL Customer Rate Impact Support.xlsx (Confidential/Highly Competitively Sensitive)

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

Yes.

III. Clean Energy Project Overview

Q10. Please provide an overview of the projects I&M is seeking approval of in this proceeding.

The Company is seeking approval of four solar projects. Lake Trout and Mayapple are PSAs (Clean Energy PSA Projects) and Sculpin and Elkhart County are PPAs (Clean Energy PPA Projects) (collectively, the Clean Energy Projects). Company witnesses Gaul and Lozier discuss each of the projects in more detail.

IV. Accounting and Ratemaking Treatment for the Clean Energy PSA Projects

Q11. Please summarize I&M's proposed accounting and ratemaking treatment for the Clean Energy PSA Projects.

I&M requests authority to:

- Timely recover eligible Clean Energy PSA Project costs through I&M's SPR (or successor mechanism);

- Depreciate the projects, once they are placed in-service, over a 35-year period including estimated net salvage;
- Recover ARO depreciation and accretion expense based on the Company’s initial estimates;
- Amortize the PTCs over 20 years and utilize deferral accounting to recognize the difference between this period and the period in which PTC benefits are realized;
- Defer and record as a regulatory asset eligible Clean Energy PSA Project costs until such time as these costs are reflected in I&M’s rates;
- Utilize via the SPR, traditional over/under recovery accounting for the periodic true-up of actual rider revenues to actual costs consistent with I&M’s past SPR proceedings; and
- Allocate Clean Energy Project costs consistent with the allocation of similar costs for setting current rates.

Q12. Please summarize the statutory authority supporting this proposal.

Ind. Code § 8-1-8.8-11 provides for financial incentives, including the timely recovery of costs and expenses incurred during the construction and operation of Commission approved Clean Energy PSA Projects, financial incentives to develop renewable energy projects and other financial incentives the Commission considers appropriate. In accordance with Ind. Code § 8-1-8.8-11, the Company requests the Commission authorize the necessary accounting and ratemaking treatment to permit timely recovery of PSA-related costs incurred by the Company through the SPR. The requests are also consistent with the Commission’s general authority to authorize relief regarding accounting, depreciation and ratemaking.

Q13. Please explain how the Clean Energy PSA Project costs will be accounted for.

I&M maintains its accounting records in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USofA) and Generally Accepted Accounting Principles (GAAP). Clean Energy PSA Project costs are comprised of both owner's and developer's costs. As I&M incurs costs during construction, these costs will be recorded as construction work in progress (CWIP) and accrue allowance for funds used during construction (AFUDC). I&M is responsible for payments to the project developers based on the PSA contract terms. At or near completion I&M will purchase the respective special purpose entities (SPEs) (*i.e.*, project companies) from the developers. At the time of purchase, I&M will be the sole owner and the associated assets will be distributed to I&M immediately. At this point, and going forward, the project will be recorded to I&M's books and accounted for as electric plant according to the FERC USofA. Company witness Gaul discusses the Clean Energy PSA Project costs and contract terms in more detail.

Q14. Please explain I&M's request for depreciation rates for each Clean Energy PSA Project.

I&M is requesting approval of depreciation rates for each Clean Energy PSA Project to be calculated[1] when final project costs are known, as explained in more detail below. I&M will present the depreciation rates in I&M's SPR filings, seeking recovery of such costs. Specifically, I&M is requesting Commission approval to calculate depreciation rates for each project based on a 35-year expected useful life and the initial net salvage estimates. Current estimates indicate positive net salvage for each PSA project and are provided in

[1] Calculated as ((1 – net salvage factor) / expected useful life).

Attachment AJW-1 (additional details are provided in WP AJW-1(Confidential/Highly Competitively Sensitive)).

Company witness Lozier supports the expected useful life associated with the Clean Energy PSA Projects requested for approval in this case.

Q15. Please explain how salvage value estimates were developed for each project.

As discussed by Company witness Lozier, a study was performed to estimate salvage value by resource type which was then used to calculate a salvage value estimate based on the specifics of each project. Salvage value was estimated in 2021 dollars and inflated into nominal dollars at the estimated retirement date of each project using an inflation rate of 2.50%. The inflated salvage estimates were then used to calculate the net salvage factor based on the estimated cost of each project (the net salvage factor is shown as a percentage of the asset's original cost). This method provides a reasonable initial estimate for each project. Going forward, salvage value will be reviewed and updated in later depreciation studies following the in-service dates of the new resources.

Q16. What is the estimated depreciation rate for the Clean Energy PSA Projects and how will the final rates be determined?

The estimated depreciation rate for the Lake Trout Project is 2.79% and for the Mayapple Project is 2.78%, based on the calculation in Figure AJW-1 below.

Figure AJW-1 PSA Depreciation Rate Estimates

	a	b	c = a/b	d	e = (1-c)/d
Project	**Net Salvage Credit/(Expense) Estimate**	**Original Depreciable Cost Estimate**	**Estimated Net Salvage Factor**	**Useful Life (in years)**	**Depreciation Rate**
Lake Trout	$ 13,714,346	[redacted]	[redacted]	35	2.79%
Mayapple	$ 12,065,660	[redacted]	[redacted]	35	2.78%

Once final project costs are known for each project, the original depreciable cost will be updated for actual costs and the depreciation rate recalculated using the net salvage estimate approved by the Commission in this case. This process will allow for a more accurate determination of annual depreciation expense based on final project costs. Depreciation rates, including estimates for net salvage, will be updated in later depreciation studies following the in-service dates of the new solar resources.

Q17. Please explain I&M's request for recovery of ARO expenses and how the ARO estimates were developed for each project.

Each Clean Energy PSA Project is constructed on land that is leased and I&M, as owner of the asset, has an obligation to remove the associated equipment and return the land to certain conditions after each project is retired. The estimated cost of this is accounted for as an ARO, according to GAAP, and is necessary to recognize in I&M's ratemaking. ARO expense is comprised of depreciation of the ARO asset and accretion of the ARO liability. The sum of ARO depreciation and accretion expenses represent I&M's annual cost of service impact. I&M is requesting approval in this case to include in I&M's ratemaking, upon the in-service of each project, ARO expenses based on the initial estimates for each Clean Energy PSA Project as presented in Attachment AJW-1 (additional details are provided in WP AJW-1(Confidential/Highly Competitively Sensitive)).

As discussed by Company witness Lozier, a study was performed to estimate ARO by resource type, which was then used to calculate an ARO estimate based on the specifics of each project. The ARO costs for each project were estimated in 2021 dollars and inflated into nominal dollars at the project's estimated retirement date using an inflation rate of 2.50%. The ARO asset and liability at the estimated date of in-service was determined as the net present value of the ARO cost at retirement, using a discount rate of 5.83%. Annual

ARO depreciation is determined by dividing the ARO asset by the expected useful life of the associated project and annual ARO accretion expense is determined by applying the discount rate of 5.83% to the annual ARO liability. This method provides a reasonable initial estimate for each project. Going forward, ARO estimates will be periodically reviewed and updated following the in-service date of the new resources.

Q18. Please explain the requested accounting and ratemaking treatment for PTCs.

The Company plans to elect PTC benefits associated with the Clean Energy PSA Projects. Per Internal Revenue Service (IRS) rules, PTC benefits are realized over the initial 10 years of the project based on the megawatt hour (MWh) production of the resource during this period. These tax benefits reduce the overall cost of these projects for customers. In order to better smooth the recognition of benefits over the life of the project, I&M requests authority to utilize deferral accounting to effectively extend the recognition of the PTC tax benefits from 10 to 20 years. As shown in Attachment AJW-2, the estimated PTC benefits for the Clean Energy PSA Projects are approximately $279 million on a Total Company basis. Company witness Hodgson's further discusses the PTC benefits available to the Clean Energy PSA Projects.

Q19. Does the Company expect to elect PTCs for the Clean Energy PSA Projects?

Yes. The Company plans on electing PTCs for the Clean Energy PSA Projects because, it is expected, PTCs will produce a lower cost of service for the Company's customers due to the magnitude of the tax credits received and how they can be reflected in retail rates. On a net present value (NPV) basis, PTCs are expected to produce a larger tax credit for solar resources versus ITCs. Further, PTCs can be flowed back to customers more quickly. ITCs for solar projects remain subject to normalization in retail rates meaning that they must be credited back to customers ratably over the useful life of the underlying asset, or 35 years in this case.

Q20. What is the magnitude of this difference between PTCs and ITCs for the Clean Energy PSA Projects?

As illustrated in Figure AJW-2, PTCs for the two Clean Energy PSA Projects (Lake Trout and Mayapple), are estimated to produce approximately $87 million more tax benefits (Total Company) on a net present value basis than the election of ITCs would. Additional details supporting the calculation are provided in WP AJW-2 (Confidential/Highly Competitively Sensitive).

Figure AJW-2

	a	b	a-b
PSA	**NPV of PTC**	**NPV of ITC**	**Difference**
Lake Trout	$113,275,385	$68,949,087	$44,326,298
Mayapple	$95,193,984	$52,430,336	$42,763,647
Total	$208,469,369	$121,379,424	**$87,089,945**

Q21. How will I&M utilize deferral accounting for PTCs to extend such tax credits over twenty years for the benefit of I&M's customers?

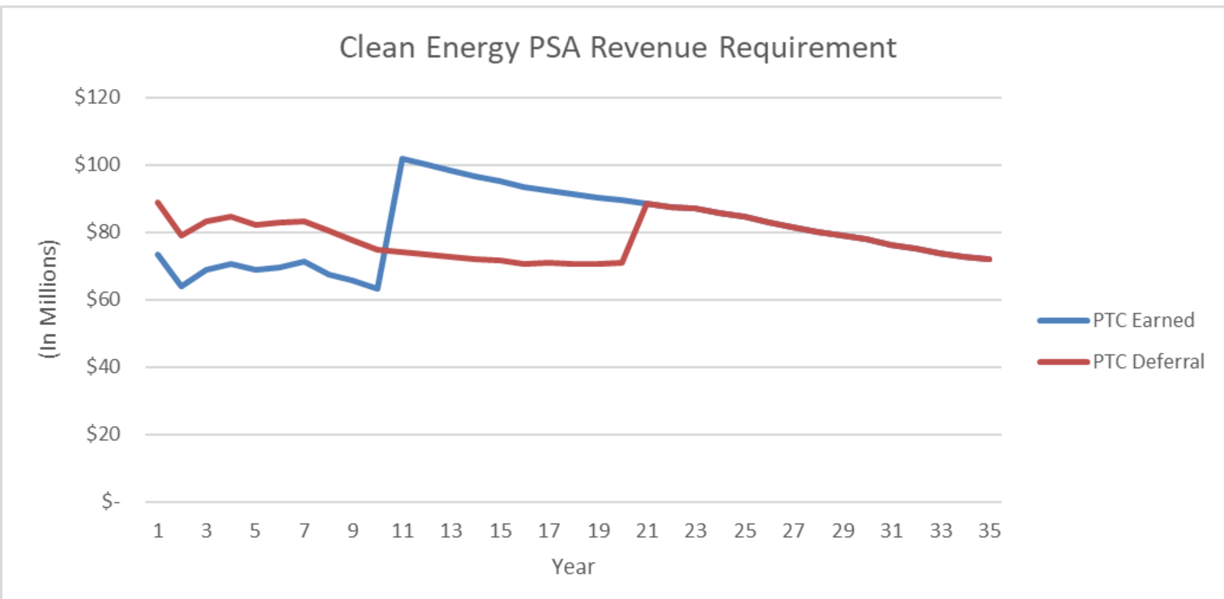
The Company will forecast the total value of the PTCs earned over the first ten years and levelize those costs over a twenty-year period. As PTCs are earned, I&M will defer the difference between the produced PTC value and the annual amortized PTC expense as a regulatory liability.

Figure AJW-3[2] demonstrates how this method will be deployed and how it will result in a more consistent, or less variable or volatile, cost of service for I&M's

[2] In Figure AJW-3, "PTC Earned" represents flowing the PTC benefits back to customers over ten years and "PTC Deferral" represents flowing the PTC benefits back to customers over twenty years as proposed by I&M.

customers over the life of these resources (additional details are also provided in WP AJW-3 (Confidential/Highly Competitively Sensitive)). The regulatory liability will reduce I&M's rate base and, therefore, receive a pre-tax weighted cost of capital (WACC) return to recognize the time value of money associated with the deferred tax benefit, which will also benefit customers by reducing I&M's cost of service. PTCs generated will be either utilized to offset a tax liability or transferred (also referred to as "monetized") to a third party as Company witness Hodgson discusses. The difference in the face value of the credit and the net proceeds of any PTC transfers will reduce the net realized value of the PTC and therefore the regulatory liability as well.

Figure AJW-3



Q22. How does I&M's proposal benefit customers?

The proposal benefits customers in multiple ways. First, as explained above, spreading the federal tax incentives over the twenty-year period as opposed to a ten-year period, smooths and reduces the relative rate volatility and variability customers would otherwise experience over the life of the project, particularly in year eleven when the enhanced federal tax incentives expire. This is illustrated in Figure AJW-3 above. This proposal provides greater rate equity among customers over the life of the resource. In either case, customers still receive the full value of federal tax incentives I&M realizes from the projects. In addition, spreading the provision of federal tax incentives over the twenty-year period increases I&M's cash flows and reduces risk that I&M's credits metrics will decline and result in higher costs of debt and increase I&M's cost of service.

Q23. Please explain the Company's plan to monetize PTCs if determined to be beneficial for customers?

As PTCs are earned, the Company will monitor its ability to utilize the PTCs for ratemaking purposes in an efficient manner, subject to the deferral accounting request discussed above. The Company's plan is described in more detail below.

- In the event the Company forecasts the utilization of PTCs earned in a year will be delayed greater than one year, the Company will evaluate monetization of such PTCs based on the expected economics of monetizing them at a discount versus the expected delay in utilization.
- To the extent PTCs are monetized, the net realized value will be recognized in I&M's ongoing accounting and ratemaking.
- To the extent PTC cannot be utilized and have not been monetized, such PTC benefits will be recorded as a deferred tax asset and reflected in rate base.
- I&M will report on the monetization of PTCs in ongoing SPR filings.

Company witness Hodgson further discusses the transferability (i.e. ability to monetize) of PTCs.

Q24. Please explain the Company's request for authority to defer costs associated with the Clean Energy PSA Projects prior to inclusion in I&M's rates.

The Company is requesting Commission authority to defer and record as a regulatory asset the eligible Clean Energy PSA Project costs, including, associated depreciation expense (including net salvage), ARO depreciation and accretion expenses, pre-tax carrying costs, operation and maintenance (O&M) expenses, PTC benefits, and property tax expenses until such time as these costs are reflected in I&M's rates, either SPR rates as proposed in this proceeding or I&M's basic rates. Such deferral accounting authority is reasonable and necessary to ensure timely recovery of Clean Energy PSA costs and expenses incurred as provided for under statute. The deferred costs will be determined on a resource specific basis, as summarized below, and the deferral will begin once the resource is placed in-service.

- Depreciation expense will be determined by applying the approved depreciation rate to the prior month-end gross plant in-service balance.
- ARO depreciation and accretion expense will be determined as described above.
- Pre-tax carrying costs will be determined by applying I&M's most recently approved pre-tax WACC[3] to the average monthly rate base, including net plant and any deferred tax asset(s) or liability(ies) related to I&M's proposed PTC ratemaking treatment discussed above.
- I&M will utilize specific work orders to allow for the identification of incremental O&M expenses.
- PTC benefits will be determined as the annual amortization of PTCs based on I&M's proposed PTC ratemaking treatment discussed above.

[3] I&M's most recently approved pre-tax WACC is 7.12%, per Cause No. 45576, reflecting the removal of the Indiana Utility Receipts Tax that was repealed effective July 1, 2022.

- Property tax expense will be based on an estimated level of expense expected to be incurred for each of the specific resources and later adjusted to the actual property tax expense assessed.

Q25. How long will the requested deferral accounting authority remain in effect?

The deferral accounting will continue until the capital investment and associated costs for each resource are reflected and recovered in I&M's SPR rates and charges.

Q26. Please explain I&M's proposed allocation of Clean Energy PSA costs.

The Clean Energy PSA Project costs will be allocated consistent with the previously approved allocation methodologies[4] for I&M's other owned solar resources, which the Company utilizes a demand allocation factor for both jurisdictional and class allocation purposes.

Q27. Is the Company seeking Commission approval to update SPR factors in this proceeding?

No. The Company seeks authority to recover the costs of the Clean Energy PSA Projects through its SPR. Following Commission approval of this request, and closer to the commercial operation date (COD), the Company expects to revise its SPR factors in a future Cause No. 45245 SPR-X to reflect such costs.

Q28. Is I&M requesting any updates to the SPR tariff sheet?

Yes, I&M is requesting a text change to the SPR tariff to remove the reference to the St. Joseph Solar Project. The text change will more accurately reflect that the recovery of costs through the SPR associated with I&M's solar investments

[4] Cause No. 45576, Settlement WP IM JCOSS-CCOSS TYE 12-31-22_End of Period_Settlement.

is not limited to the St. Joseph Solar Project. Attachment AJW-3 presents a redline to the SPR.

Q29. How long will the requested ratemaking treatment in the SPR remain in effect?

The requested ratemaking treatment will continue in the SPR until the capital investment and associated costs for each resource is recovered through I&M's basic rates and charges.

Q30. How will I&M treat the return associated with the requested ratemaking treatment for the Clean Energy PSA Projects in its FAC filings?

I&M seeks Commission approval to add the approved return related to the Clean Energy PSA Projects to its authorized Net Operating Income for purposes of the FAC (d)(3) test. This is consistent with the treatment previously approved by the Commission related to past and existing capital riders.

Q31. If the SPR is no longer active in the future when the associated projects are placed in service is the Company requesting the ratemaking and accounting relief granted in this proceeding be authorized through a successor rate mechanism?

Yes.

V. Accounting and Ratemaking Treatment for the Clean Energy PPA Projects

Q32. Please describe the Clean Energy PPAs the Company is seeking approval of.

I&M seeks approval of the Sculpin and Elkhart County Clean Energy PPA Projects. Company witness Gaul describes the PPAs in more detail.

Q33. How does I&M propose the costs of the PPAs be recovered?

I&M seeks timely cost recovery under Ind. Code § 8-1-8.8.11 through a rate adjustment mechanism. As stated above, Ind. Code § 8-1-8.8-11 provides for financial incentives, including the timely recovery of costs and expenses incurred during the construction and operation of Commission approved Clean Energy PSA Projects, financial incentives to develop renewable energy projects and other financial incentives the Commission considers appropriate. This request is also consistent with Ind. Code § 8-1-2-42(a). The Company proposes timely cost recovery be administered through the Company's FAC proceedings. The Company seeks the Commission to find each Clean Energy PPA Project is reasonable and necessary and authorize the associated timely cost recovery throughout the entire 30-year term of each agreement. The Company also seeks confirmation that the costs thereof are recoverable through the FAC proceedings (or successor mechanism) without regard to the Ind. Code § 8-1-42(d)(1) test or any other FAC benchmarks. I&M will begin including the costs associated with the PPAs in I&M's monthly over- / under-accounting when I&M begins incurring such costs.

Q34. Is this proposal consistent with Commission approved treatment of other PPAs?

Yes. This proposal is consistent with the recovery mechanism the Commission previously approved for the Fowler Ridge I and II Wind Farm, Wildcat Wind

Farm, and Headwaters Wind Farm PPAs approved in Commission Orders in Cause Nos. 43328, 43750, 44034, and 44362.

Q35. Is I&M requesting ratemaking and accounting treatment for the Clean Energy PPA Project development costs?

Yes. The Company incurred reasonable and necessary costs related to the development of the Clean Energy PPA Projects. These costs are not ongoing in nature and not otherwise captured by the ratemaking process. Because these costs were necessarily incurred for the development of the Clean Energy PPA Projects, Commission authority to recover these costs is consistent with the legislative policy that the Commission encourage the development of these projects through financial incentives. At the time I&M short-listed projects from the 2022 All Source Request for Proposal (RFP), the Company created a specific work order to collect the charges associated with development of the Clean Energy PPA Projects and the Montpelier capacity purchase agreement (CPA) I&M seeks pre-approval of in a separate proceeding. These costs include the expenses I&M incurs related to internal resource support and outside services that are reasonable and necessary to develop and finalize the contracts and obtain approval of these long-term resources. I&M requests Commission approval to establish a regulatory asset and authority to recover the Clean Energy PPA Project development costs in the SPR over a period of two years, including a pre-tax return on the unamortized balance. The Clean Energy PPA development costs incurred as of February 28, 2022, are approximately $188 thousand. Additional costs will continue to be incurred until all condition precedents and other applicable contract terms are met and final. Following the Commission's approval of I&M's request, I&M will reflect the final PPA development cost balance in the SPR.

Q36. How did I&M determine the Clean Energy PPA Project development costs?

I&M allocated these costs based on the installed capacity (ICAP) value of the Clean Energy PPA Projects. As a result, the Clean Energy PPA Projects represented approximately 57% (or 280 MW / 490 MW) of the total PPA and CPA resources.[5]

Q37. Please explain I&M's proposed allocation of Clean Energy PPA Project costs.

The Clean Energy PPA Project costs will be allocated consistent with the previously approved allocation methodologies for I&M's other renewable purchases, which the Company utilizes an energy excluding shopping allocation factor for jurisdictional purposes and an energy allocation factor for class allocation purposes.[6]

VI. Clean Energy Project Portfolio Rate Impact

Q38. What is the estimated overall rate impact for I&M's Indiana customers?

As shown on Attachment AJW-4, I&M estimates the average year one annual rate impact on an Indiana jurisdictional basis for all rate classes to be 1.7%. The overall rate impact includes the estimated value of the market energy revenues, expected PTC benefits extended over 20 years as described above, and REC revenues associated with the Clean Energy Projects. WP AJW-3 (Confidential/Highly Competitively Sensitive) provides additional details on the customer rate impact calculation.

[5] (180 MW Sculpin PPA + 100 MW Elkhart PPA) / (180 MW Sculpin PPA + 100 MW Elkhart PPA + 210 MW Montpelier CPA).

[6] Cause No. 45576, Settlement WP IM JCOSS-CCOSS TYE 12-31-22_End of Period_Settlement.

Q39. Have there been recent cost reductions associated with I&M's generation transformation?

Yes. The Clean Energy Projects are necessary to replace the capacity need resulting from the Rockport Plant retiring by 2028. During 2022, the Rockport Unit 2 Lease ended and Rockport Unit 2 was transitioned to a merchant unit, which reduced I&M's cost of providing service to its customers. This cost reduction was identified and incorporated into I&M's cost of service in Cause No. 45576.[7] Attachment AJW-5 and 5C estimates the overall estimated year one rate impact inclusive of the Clean Energy Projects, the Montpelier CPA[8], and the recent cost reductions associated with Rockport Unit 2 to result in a cost of service decrease of more than 7%. This provides a more comprehensive summary of the net rate impact associated with I&M's generation transformation. WP AJW-3 (Confidential/Highly Competitively Sensitive) provides additional details on the customer rate impact calculation.

VII. Ongoing Review

Q40. Is the Company requesting ongoing review of the Clean Energy PSA Projects?

Yes. I&M requests the Commission maintain ongoing review of the construction of the Clean Energy PSA Projects.

Q41. What process is the Company proposing for ongoing review of the Clean Energy PSA Projects?

I&M proposes to submit one consolidated report for the two Clean Energy PSA Projects subject to the protection of confidential information. The progress

[7] Settlement Testimony of Andrew J. Williamson, Settlement Agreement Attachment 2.

[8] I&M is seeking approval of the Montpelier CPA in a separate proceeding.

reports will include an update on the overall status of each project, any increases in the project best estimate, and any change to a project's expected commercial operation date.

These reports will be filed as a compliance filing in this docket (unless instructed otherwise by the Commission). The first report will be filed no later than 180 days following a Commission order approving the project(s) and at least semi-annually thereafter until the Clean Energy PSA Projects reach their commercial operation date (COD), the latter of which is expected by May 2026. I&M may also file supplemental reports if necessary. The final report will include the actual total cost of construction, the total megawatt output for the solar project, and the actual COD.

I&M proposes to present the progress reports to the Commission for review and approval as part of the Company's existing SPR filings. I&M reserves the ability to seek review of any ongoing review report outside of the annual SPR filings should circumstances warrant doing so. This flexibility will allow any unexpected material developments that, in the Company's judgment, may otherwise impact I&M's ability to move forward with the project to be addressed by the Commission. As discussed by Company witness Gaul, the industry has been and continues to be affected by supply chain disruptions and other factors. I&M has a significant near-term capacity need due to the retirement of Rockport in 2028. Consequently, it is prudent to establish an ongoing review process and procedure that can provide for an expedited Commission decision if the Company determines that such relief is necessary or appropriate.

VIII. Renewable Energy Certificates

Q42. What is the Company's plan with respect to the RECs it will receive from the new renewable resources?

The Clean Energy Projects will significantly increase the number of RECs I&M has available to sell into the market and support customer renewable programs. The associated net revenues I&M realizes will benefit all of I&M's customers through reduced cost of service. The net proceeds from market sales will continue to be credited in ongoing FAC proceedings and the net proceeds from customer programs will be credited according to the provisions approved for such program(s).

Q43. Is there customer interest in new renewable resources?

Yes. As discussed by Company witness Lucas, access to renewable energy to meet sustainability goals or requirements has become increasingly important to companies. I&M expects to make a later filing to expand its customer renewable programs to provide access to the expanded opportunities made available to I&M's customers as a result the new resources approved in this proceeding.

IX. Summary and Conclusion

Q44. Please summarize your testimony and conclusions.

I&M's Clean Energy Projects are reasonable and necessary to continue to meet the long-term capacity and energy needs of I&M's customers. Therefore, I&M's request for timely recovery through the SPR and FAC, along with deferral of costs incurred prior to inclusion in rates, should be approved. I&M's requested accounting and ratemaking as supported by my testimony should also be approved. The proposals related to PTCs will benefit customers by optimizing the value of PTCs, reducing the volatility and variability of I&M’s rates, and supporting lower debt costs. The requested process to calculate depreciation rates, including expected useful life and net salvage estimates, and estimated ARO expenses for PSAs are reasonable and necessary to support timely recovery of the Clean Energy PSA Project costs over their expected useful life. The modifications to the SPR tariff language should be adopted to clarify the ongoing purpose of the SPR. PPA project development costs are reasonable and necessary to execute the long-term PPA contracts and should be fully recoverable as proposed by I&M. The request for ongoing review will provide customers, the Commission and other stakeholders with a timely update on the progress of the project development and construction. Finally, I&M’s proposed treatment of RECs will support ongoing cost of service reductions for all of I&M’s customers and expand customer renewable program opportunities.

Q45. Does this conclude your pre-filed verified direct testimony?

Yes.

VERIFICATION

I, Andrew J. Williamson, Director of Regulatory at Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 3/28/23

Andrew J. Williamson

Andrew J. Williamson

Indiana Michigan Power
Asset Retirement Obligation and Salvage Credit Summary

Project	ARO Estimate In 2021 $s	ARO Estimate at Retirement	Salvage Credit Estimate In 2021 $s	Salvage Credit at Retirement
Lake Trout	$ 51,020,614	$ 130,392,486	$ 5,366,217	$ 17,945,051
Mayapple	$ 44,887,111	$ 114,717,200	$ 4,721,111	$ 12,065,660

Indiana Michigan Power
Comparison of Estimated PTC vs ITC

	a	b	a-b
PSA	**NPV of PTC**	**NPV of ITC**	**Difference**
Lake Trout	$113,275,385	$68,949,087	$44,326,298
Mayapple	$95,193,984	$52,430,336	$42,763,647
Total	$208,469,369	$121,379,424	$87,089,945

PSA	**Nominal PTC Estimate**
Lake Trout	$151,502,899
Mayapple	$127,407,403
Total	$278,910,303

I.U.R.C. NO. 19
INDIANA MICHIGAN POWER COMPANY
STATE OF INDIANA

REVISED SHEET NO. 51
CANCELS __________SHEET NO. 51

SOLAR POWER RIDER (SPR)

The Solar Power Rider (SPR) surcharge allows the company to recover costs associated with investments in ~~the St. Joseph ~~s~~S~~olar p~~P~~rojects as approved by the Commission. All customer bills subject to the provisions of this rider shall be adjusted by the SPR per billing kWh and kW as follows:

Tariff Class	¢/kWh	$ / kW
RS, RS-TOD, RS-TOD2, RS-OPES, RS PEV, RSD and RS CPP		
GS (up to 4,500 kWh)		
GS (over 4,500 kWh), LGS and LGS-TOD		
GS (over 10 kW), LGS and LGS-TOD		
GS-LM-TOD, GS-TOD2, GS Unmetered, GS-TOD, GS-PEV, GS-CPP and LGS-LM-TOD		
IP and CS-IRP2		
MS		
WSS		
IS		
EHG		
OL		
SLS, ECLS, SLC, SLCM and FW-SL		

ISSUED BY
STEVEN F. BAKER
PRESIDENT
FORT WAYNE, INDIANA

EFFECTIVE FOR ELECTRIC SERVICE RENDERED
ON AND AFTER

ISSUED UNDER AUTHORITY OF THE
INDIANA UTILITY REGULATORY COMMISSION
DATED
IN CAUSE NO.

Clean Energy Projects
Indiana Jurisdictional Rate Impact Analysis by Major Class

	2027 Annualized Impact			
	Total Retail	**Residential**	**Commercial**	**Industrial**
Renewable PSA & PPA Cost of Service	$ 83,816,999	$ 33,387,191	$ 29,013,280	$ 21,416,527
Estimated Incremental Energy Revenue	$ (34,162,069)	$ (12,257,987)	$ (11,927,227)	$ (9,976,855)
Estimated REC Sales Revenue	$ (20,546,191)	$ (7,372,356)	$ (7,173,426)	$ (6,000,408)
Net Revenue Requirement Impact	$ 29,108,739	$ 13,756,848	$ 9,912,627	$ 5,439,264
Avg Retail Rate Impact %	***1.74%***	***2.04%***	***2.15%***	**1.02%**

Indiana Michigan Power
Generation Transformation Summary
Indiana Jurisdictional Rate Impact Analysis by Major Class

	2027 Annualized Impact			
	Total Retail	**Residential**	**Commercial**	**Industrial**
Renewable PSA and PPA Cost of Service	$ 83,816,999	$ 33,387,191	$ 29,013,280	$ 21,416,527
Estimated Incremental Energy Revenue	$ (34,162,069)	$ (12,257,987)	$ (11,927,227)	$ (9,976,855)
Estimated REC Sales Revenue	$ (20,546,191)	$ (7,372,356)	$ (7,173,426)	$ (6,000,408)
Montpelier CPA Cost of Service [1]	[redacted]			
Rockport Unit-2 Non-Fuel Cost	$ (137,988,168)	$ (57,671,044)	$ (47,560,182)	$ (32,756,942)
Rockport Unit-2 Fuel Cost Reduction	$ (23,017,725)	$ (8,259,189)	$ (8,036,329)	$ (6,722,207)
Net Revenue Requirement Impact	[redacted]			
Avg Retail Rate Impact %				

1 - I&M is requesting approval of this resource in a separate proceeding with the IURC