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I&M Exhibit: _____

Cause No. 45576

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

BRENT E. AUER

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**DIRECT TESTIMONY OF BRENT E. AUER
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

I. Introduction of Witness

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

2 My name is Brent E. Auer and my business address is Indiana Michigan Power
3 Center, P.O. Box 60, Fort Wayne, IN 46801.

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

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

7 **Q3. What are your responsibilities as Manager?**

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

10 **Q4. Briefly describe your educational background and professional
11 experience.**

12 I graduated from Purdue University in 1988 with a Bachelor of Science degree in
13 Biological Sciences. In 1995, I obtained an Executive MBA from The University
14 of Notre Dame.

15 I started my career with I&M at the Cook Nuclear Plant in the Chemistry
16 Department as a chemistry technician in 1989. In 1991, I accepted a position in
17 the Quality Assurance group as a Quality Assurance Auditor in support of
18 Nuclear Generation. In 1998, I transferred to the Business Services group within
19 Nuclear Generation and held various positions within Budgeting, Accounting,
20 and Business Planning until 2004. I transferred to I&M's headquarters in 2004

1 as a Business Operations Support Coordinator. In 2010, I accepted the position
2 of Meter Revenue Operations Manager. In 2017, I moved into my current
3 position as Regulatory Analysis & Case Manager in I&M's Regulatory Services
4 Department.

5 **Q5. Have you previously testified before any regulatory commissions?**

6 Yes. I have submitted testimony on behalf of I&M before the Indiana Utility
7 Regulatory Commission (IURC or Commission) in the following proceedings:

8	43774 PJM 8	PJM Cost Rider
9	43775 OSS 8	Off-System Sales (OSS) Margin Sharing Rider
10	45114	EZ Bill Program
11	43774 PJM 9/10	Off-System Sales Margin Sharing / PJM Rider
12	45245	South Bend Solar Project
13	44182 LCM 9	Life Cycle Management Rider
14	45415	Steel Dynamics, Inc. Contract
15	45245 SPR 1	Solar Power Rider

16 In addition, I have submitted testimony before the Michigan Public Service
17 Commission.

II. Purpose of Testimony

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

19 The purpose of my testimony is to:

- 20 • Present the Test Year revenue requirements for I&M's on-going rate
21 adjustment mechanisms (i.e. riders)¹;

¹ Company witness Seger-Lawson presents the Test Year revenue requirement for the proposed Tax Rider.

- 1 • Explain the Company's proposals for the following continuing riders:
2 Demand Side Management / Energy Efficiency (DSM/EE), Fuel Cost
3 Adjustment (FAC), Life Cycle Management (LCM), and Solar Power
4 Rider (SPR);
- 5 • Sponsor certain rate case adjustments, each of which removes Test Year
6 revenue, expense, and/or plant investment that will continue to be
7 reflected in a rider; and
- 8 • Support the requested accounting treatment for the EZ Bill Program
9 approved in Cause No. 45114.

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

11 No. I sponsor the DSM/EE, FAC, LCM, and SPR riders. Company witness
12 Seger-Lawson sponsors I&M's other continuing riders (OSS/PJM Rider, ECR
13 and RAR) along with a request for new rider mechanisms.

14 **Q8. Are you sponsoring or co-sponsoring any exhibits?**

15 Yes, I am co-sponsoring the following portions of I&M Exhibit A:

- 16 • I&M Exhibit A-5 (net electric operating income) - certain adjustments to
17 net electric operating income.
- 18 • I&M Exhibit A-6 (rate base) - certain adjustments to rate base.

19 **Q9. Are you sponsoring or co-sponsoring any workpapers?**

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

22	WP-A-RIDER-1	DSM/EE Rider Adjustment Summary
23	WP-A-RIDER-3	Solar Power Rider Adjustment Summary
24	WP-A-RIDER-5	LCM Rider Adjustment Summary

1 I am also sponsoring the following workpaper:
2 WP-BEA-1 Rider Revenue Requirement Calculations

3 **Q10. Were the exhibits and workpapers that you sponsor/co-sponsor prepared**
4 **or assembled by you or under your direction and supervision?**

5 Yes.

6 **Q11. Please summarize your testimony.**

7 I&M is proposing to maintain its previously approved cost recovery riders, which
8 have been an efficient way to ensure transparent tracking of costs for significant
9 projects and programs. I also present EZ Bill program data to support I&M's
10 proposal to account for program revenues and expenses above-the-line for
11 regulatory accounting purposes.

III. Rider Revenue Requirements

12 **Q12. What is the purpose of calculating Test Year revenue requirements for**
13 **I&M's existing riders?**

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

16 Two sets of revenue requirement have been calculated for I&M's existing riders.
17 The first set of rider revenues (current revenues) are calculated to reflect the
18 revenues the respective riders would be expected to collect during 2022 absent
19 any changes to base rates or riders as a result of this filing. Specifically, the Test
20 Year current revenue requirements that were calculated for I&M's existing riders
21 were used by Company witness Duncan in Adjustment OR-1 to calculate the
22 detailed tariff level revenues.

1 The second set of rider revenues (proposed revenues) are calculated to reflect
2 the revenues the Company is proposing to remove from base rates and to
3 continue to fully recover via the respective rider; these calculations reflect any
4 changes to the rider the Company is proposing in this Cause.

5 **Q13. What riders were included in Test Year revenues in Adjustment OR-1?**

6 Below is a list of the riders that were included in Adjustment OR-1:

- 7 • Demand Side Management / Energy Efficiency Rider (DSM/EE)
- 8 • Environmental Cost Rider (ECR)
- 9 • Life Cycle Management Rider (LCM)
- 10 • Off-System Sales Margin/PJM Rider (OSS/PJM)
- 11 • Resource Adequacy Rider (RAR)
- 12 • Solar Power Rider (SPR)
- 13 • Tax Rider (Tax)

14 **Q14. How were Test Year revenue requirements calculated for each of the riders**
15 **listed above?**

16 Revenues for the ECR, LCM, OSS/PJM, RAR and SPR were calculated using
17 the Test Year forecast, consistent with the current methodology approved by the
18 Commission. A current revenue requirement was not computed for the DSM/EE
19 rider, rather the 2022 plan revenues approved by the Commission in Cause No.
20 45285 were used to support Adjustment OR-1. Company witness Seger-Lawson
21 sponsors the calculation of the proposed Tax Rider revenue requirement.

22 **Q15. Do you have workpapers supporting the Test Year revenue requirements**
23 **for I&M's existing riders?**

24 Yes. These revenue requirement calculations are shown in WP-BEA-1. This
25 workpaper contains both the current and proposed revenue requirement

1 calculations for the ECR, LCM, OSS/PJM, RAR and SPR riders. As noted
 2 above, a current revenue requirement was not computed for the DSM/EE rider,
 3 as such this workpaper only includes the proposed revenue requirement
 4 calculation for this rider.

IV. Ratemaking Adjustment Mechanisms

5 **Q16. Please summarize the Company's proposal for its current riders that you**
 6 **support.**

7 I&M is proposing to retain the existing DSM/EE, FAC, LCM, and SPR riders with
 8 certain modifications, as identified in *Figure BEA-1* below. These riders ensure
 9 that customer rates only reflect the actual costs that I&M incurs.

Figure BEA-1. Changes to Ongoing Riders

Demand Side Management/ Energy Efficiency Program Cost Rider (DSM/EE Rider)	Adjust net lost revenues
Fuel Cost Adjustment Rider (FAC)	Reset base cost of fuel
Life Cycle Management Rider (LCM Rider)	Update for new LCM-related capital included in base rates. As the LCM work at Cook Nuclear Plant is nearly complete, provisions will be made for addressing the final over/under reconciliation and property taxes
Solar Power Rider (SPR)	Rename as Renewable Projects Rider

10 **Q17. Did I&M include gross revenue conversion factor (GRCF) costs in the**
 11 **calculation of the revenue requirements used to calculate the proposed**
 12 **rider rates?**

13 Yes, I&M included a GRCF consistent with the methodology that has been
 14 approved by the Commission in I&M's existing rider revenue requirement
 15 calculations. The GRCF captures the Indiana Utility Receipts Tax (URT) and

1 Public Utility Assessment Fee charged on all gross revenue, and recovers bad
2 debt expense. It is necessary to include GRCF costs so that the proposed rider
3 rates are not understated. Company witness Criss supports the components of
4 the GRCF.

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

5 **Q18. Please describe the DSM/EE Program Cost Rider.**

6 The DSM/EE Rider is a part of I&M's retail tariff that recovers from customers
7 expenses related to approved DSM programs and investment.² Those expenses
8 include program operating costs, net lost revenue, and shared savings.

9 I&M requests approval in docketed plan proceedings of its DSM programs and
10 investment approximately every three years.³ The DSM revenue requirement
11 represented by the factors in the DSM/EE Rider has a plan component and a
12 reconciliation component.

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

18 **Q19. What is I&M proposing with respect to the DSM/EE Rider?**

19 Consistent with I&M's last base rate case in Cause No. 45235, I&M is proposing
20 to reset legacy net lost revenue to zero when new base rates are implemented.
21 The Order in Cause No. 45285 (pp. 31, 33) provides that lost revenue recovery
22 for all measures installed in 2021-2022 will be limited to: (1) three years, (2) the

² Company witness Walter discusses transitioning recovery of the Enhanced Conservation Voltage Reduction (CVR) investment from the DSM/EE Rider to Test Year rate base.

³ I&M's most recent DSM Plan Order was issued on February 3, 2021 in Cause No. 45285. That order directed I&M to file its next DSM Plan for years 2023 – 2025 on or before March 31, 2022.

1 life of the measure, or (3) the date on which new rates are implemented
2 pursuant to a final order in I&M's next base rate case, whichever occurs earlier.

3 **Q20. When new base rates are implemented, how will the recovery of costs in**
4 **the DSM/EE Rider change?**

5 Shortly after an order is received in this Cause, I&M as part of its rate case
6 compliance filing will update its DSM/EE Rider rates to reflect the reset of legacy
7 net lost revenue to \$0.

8 **Q21. Please explain Adjustment RIDER-1.**

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

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

Fuel Cost Adjustment (FAC) Rider

16 **Q22. Please describe the FAC Rider.**

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

21 It is also used to flow back to customers the net revenues from the sale of
22 Renewable Energy Certificates (RECs) via I&M's IM Green Program (excluding
23 those RECs attributable to the St. Joseph Solar Farm (SJSF) as directed in
24 Cause No. 45245) and the sale of unsubscribed RECs. I&M files for approval of

1 a revised FAC adjustment factor, via the FAC Rider, on a six-month frequency
2 to true-up actual costs with those included in base rates.

3 **Q23. What is I&M proposing with respect to the FAC when new base rates are**
4 **implemented?**

5 I&M proposes to continue the current structure of the FAC, including semi-
6 annual filings and the use of the FAC to flow back to customers the net
7 revenues from sale of RECs.

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

Life Cycle Management (LCM) Rider

13 **Q24. Please describe the LCM Rider.**

14 The LCM Rider recovers capital-related costs and independent monitor
15 expenses associated with the LCM project approved in Cause No. 44182.
16 Annually, I&M files updated LCM factors that account for prior period over/under
17 recovery and forecasts costs associated with future plant investment.

18 I&M moved all LCM-related investment through December 31, 2020 into its base
19 rates as part of its final Phase-In Adjustment compliance filing on January 12,
20 2021. As such, the LCM Rider recovers the capital-related costs and expenses
21 of LCM projects placed in-service after December 31, 2020.

22 **Q25. What is I&M proposing with regards to the LCM Rider?**

23 As discussed by Company witness Lies, the LCM project is forecast to be
24 completed during the Test Year.

1 To facilitate the conclusion of this project and the sunseting of the LCM Rider,
2 I&M proposes to:

- 3 1) File the next LCM reconciliation (LCM-11) in the third quarter of 2021 to
4 reconcile the period July 1, 2020 – June 30, 2021 and to establish factors
5 for calendar year 2022.
- 6 2) Make a compliance filing, shortly after an order is received in this Cause,
7 to adjust rider rates to reflect the recovery of ongoing independent
8 monitor costs, 2022 investment, and the inclusion of LCM project
9 investment in base rates through 2021. The independent monitor
10 expenses are expected to cease at the end of November 2022.
- 11 3) Address the final reconciliation of the LCM over/under recovery and on-
12 going recovery of property tax expense on LCM investment made in 2022
13 in a subsequent filing in 2023.

14 **Q26. Please explain the need to include property tax expense from the final**
15 **LCM reconciliation in the ECR.**

16 The property tax I&M accrues during a year on the Cook Nuclear Plant is based
17 on the value of its property at the end of the previous year. For example, the
18 LCM property tax expense that is forecasted to be accrued in the 2022 Test
19 Year is based upon the total LCM investment as of December 31, 2021.

20 The Test Year forecast includes approximately \$79 million in LCM investment.
21 At the time that I&M makes its final PRA compliance filing in this case in early
22 2023, depreciation and financing expense on the 2022 investment will be
23 accounted for in going forward base rates. However, the going forward base
24 rates will not account for the incremental property tax expense the Company will
25 incur on that investment in 2023.

1 In the fourth ordering paragraph of the Commission's order in Cause No. 44182,
2 the Commission authorized I&M to timely recover within the LCM Rider the
3 incremental property tax expenses associated with the LCM Project.⁴

4 Therefore, because I&M's base rates, after the final PRA compliance filing in
5 this rate case, will not reflect property tax expense on the authorized LCM plant
6 the Company places into service in 2022, I&M proposes to include that annual
7 expense in its ECR Rider until it is reflected in base rates in the Company's next
8 rate case.

9 This proposal promotes administrative efficiency by eliminating the need to
10 continue annual over/under reconciliations and LCM Rider filings that would be
11 based only on the LCM property tax expense not reflected in I&M's base rates.

12 **Q27. When new base rates are implemented how will the recovery of costs in**
13 **the LCM Rider change?**

14 Consistent with the process used in Cause No. 45235, shortly after an order is
15 received in this Cause, I&M as part of its rate case compliance filing will update
16 its LCM Rider rates. These rates will recover independent monitor expenses and
17 2022 investment as reflected in the Test Year rate base.

18 Adjustment RIDER-5, shown on I&M Exhibit A-5, removes Total Company LCM
19 independent monitor costs from the Test Year forecast as the Indiana portion of
20 that expense will be recovered through the LCM Rider. The Adjustment also
21 removes the related Indiana retail revenue. See WP-A-RIDER-5 for further
22 support. Company witness Duncan supports the firm and non-firm split of
23 revenue.

⁴ Cause No. 44182 Order, page 63

Solar Power Rider (SPR)**1 Q28. Please explain the SPR.**

2 The SPR was approved by the February 19, 2020 Order in Cause No. 45245,
3 which authorized the construction and procurement of the 20MW St. Joseph
4 Solar Farm (SJSF) and approved the SPR rider to facilitate recovery of capital
5 related costs and O&M expenses. The Order also addressed the treatment of
6 REC revenues and investment tax credits within the revenue requirement.

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

13 Q29. What is I&M proposing with respect to the SPR?

14 I&M is only proposing to change the name of the Rider to the Renewable
15 Projects Rider. Although I&M is not proposing any new renewable projects in
16 this rate case, the proposed name change will more broadly represent the
17 purpose of the Rider if projects are added in the future.

**18 Q30. When new base rates are implemented, how will recovery of costs in the
19 SPR change?**

20 Shortly after I&M receives an order in this Cause, I&M as part of its rate case
21 compliance filing will update its SPR rider factors to adjust for approved changes
22 in ROE, GRCF, and jurisdictional allocation factors.

1 **Q31. What is Adjustment RIDER-3?**

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

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

9 This Adjustment is necessary to ensure Test Year base rate operating revenue
10 and O&M expenses exclude investment, revenues, and expenses that will be
11 fully recovered through the SPR. If this adjustment was not made, Test Year
12 revenue and O&M would be overstated, and I&M's base rates would be
13 overstated. See *WP-A-RIDER-3* for further support. Company witness Duncan
14 supports the firm and non-firm split of revenue.

V. EZ Bill Program Accounting

15 **Q32. What is I&M's EZ Bill Program?**

16 I&M's EZ Bill Program is a voluntary billing option designed to allow eligible
17 residential and small commercial customers to be charged a fixed amount per
18 month for electric service over a twelve-month period with no true-up. The EZ
19 Bill Program was approved in Cause No. 45114.

20 **Q33. What issue relating to the EZ Bill program is I&M addressing in this case?**

21 I&M is proposing to reflect EZ Bill Program revenues and expenses above-the-
22 line for regulatory accounting purposes because the program is a customer rate
23 offering like any other I&M rate offering. That will allow for all EZ Bill Program

1 costs and revenues to be included in I&M's cost of service for the purpose of
2 setting rates.

3 **Q34. Was this issue brought before the Commission in I&M's prior base rate**
4 **case proceeding?**

5 Yes. In Cause No. 45235, I&M similarly proposed that EZ Bill Program costs
6 and revenues be accounted for above-the-line. In Order 45235, dated March 11,
7 2020, the Commission indicated:

8 *The evidence shows the EZ Bill Program is the newest of the budget*
9 *billing programs I&M offers its customers. It is too early to know the*
10 *extent to which customers will participate or whether this program*
11 *may be perceived as duplicative of existing alternatives.*

12 *The Commission finds the accounting treatment of I&M's EZ Bill*
13 *Program is better addressed after sufficient data is available to*
14 *review and verify actual program costs and profitability, as well as*
15 *customer participation.*

16 *At this time, I&M is unable to provide financial information due to the*
17 *newness of this initiative. The Commission finds it prudent to wait to*
18 *know and verify the EZ Bill Program costs before approving their*
19 *recovery above-the-line. We, therefore, decline to determine the*
20 *appropriate treatment in this Cause of these costs.*⁵

21 **Q35. Why is I&M's proposed EZ Bill accounting treatment reasonable?**

22 The EZ Bill Program is a customer rate offering like any other I&M rate offering.
23 I&M proposed the EZ Bill Program as an option for residential and small
24 commercial customers who strongly value rate stability. The program was not
25 intended as a separate line of business or product for I&M but rather as a

⁵ p. 54

1 customer-friendly option for paying for the same electric service I&M provides all
2 of its customers.

3 Therefore, just as the revenues and costs for all of I&M's tariff offerings (e.g., the
4 Equal Payment Plan (EPP), Alternative Feed Service Rider, and Economic
5 Development Rider) are included in I&M's cost of service for purposes of setting
6 I&M's rates, so too should all revenues and costs of I&M's EZ Bill Program be
7 included in I&M's cost of service for purposes of rate setting.

8 Over the long-run, EZ Bill Program profits are expected to exceed losses, and
9 overall program revenue is expected to exceed what I&M's revenue would
10 otherwise be under applicable standard rates. Therefore, accounting for EZ Bill
11 Program revenue above the line is expected to benefit customers by offsetting
12 I&M's cost of service.

13 **Q36. In the last base rate case, the Commission acknowledged the newness of**
14 **the program and the lack of available data at that time. Does I&M have**
15 **Program data available at this time?**

16 Yes. In Cause No. 45114, I&M submitted its most recent EZ Bill Program annual
17 report on May 27, 2021 for the 12-month period ending April 30, 2021.
18 Consistent with that filing, during the 12-month period ending April 30, 2021,
19 I&M had enrolled 1,099 customers. Further, the program had an annual profit of
20 \$114,180 and program expenses of \$51,323.

21 **Q37. Is I&M proposing to include EZ Bill Program revenues and expenses in its**
22 **cost of service in this proceeding?**

23 Yes. I&M is including in its Test Year forecast a level of program expenses and
24 revenues reflective of program participation at the time the forecast was
25 developed. In the future, the program is expected to further evolve and achieve

1 greater customer participation rates. As such, those additional program
2 revenues and expenses will be similarly accounted for.

3 **Q38. Does this conclude your pre-filed verified direct testimony?**

4 Yes, it does.

VERIFICATION

I, Brent E. Auer, Regulatory Analysis and Case Manager for Indiana Michigan Power Company (I&M), affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 6/18/2021

A handwritten signature in black ink, appearing to read "Brent E. Auer", written over a horizontal line.

Brent E. Auer