

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

July 26, 2017

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER)
COMPANY, AN INDIANA CORPORATION, FOR)
(1) AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE)
THROUGH A PHASE IN RATE ADJUSTMENT; (2))
APPROVAL OF: REVISED DEPRECIATION)
RATES; ACCOUNTING RELIEF; INCLUSION IN)
BASIC RATES AND CHARGES OF QUALIFIED)
POLLUTION CONTROL PROPERTY, CLEAN)
ENERGY PROJECTS AND COST OF BRINGING)
I&M'S SYSTEM TO ITS PRESENT STATE OF)
EFFICIENCY; RATE ADJUSTMENT MECHANISM)
PROPOSALS; COST DEFERRALS; MAJOR)
STORM DAMAGE RESTORATION RESERVE)
AND DISTRIBUTION VEGETATION)
MANAGEMENT PROGRAM RESERVE; AND)
AMORTIZATIONS; AND (3) FOR APPROVAL OF)
NEW SCHEDULES OF RATES, RULES AND)
REGULATIONS.)

CAUSE NO. 44967-NONE

SUBMISSION OF DIRECT TESTIMONY OF
DAVID A. LUCAS

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony and attachments of David A. Lucas in this Cause.



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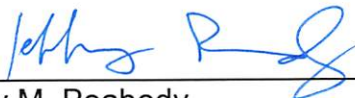
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CERTIFICATE OF SERVICE

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INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

DAVID A. LUCAS

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**PRE-FILED VERIFIED DIRECT TESTIMONY OF DAVID A. LUCAS
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

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

2 A. My name is David A. Lucas, and my business address is Indiana Michigan Power
3 Center, P.O. Box 60, Ft. Wayne, Indiana 46801.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Indiana Michigan Power Company (I&M or Company) as Vice
6 President Finance and Customer Experience.

7 **Q. What are your principal areas of responsibility with I&M?**

8 A. I am responsible for managing the integrated financial plan and strategic planning
9 process for all I&M business units – Fossil & Hydro Generation, Nuclear
10 Generation, Transmission, and Utility Operations. The Utility Operations business
11 unit includes distribution, customer services and marketing, regulatory services,
12 energy efficiency and demand side management, and other I&M corporate support
13 groups. I am responsible for managing the business operations, project controls,
14 energy efficiency, and customer service organizations. I also lead efforts across
15 our organization to improve the customer experience. With respect to this filing, I
16 am responsible for the development of I&M's financial forecast.

17 **Q. Please briefly describe your educational background and professional
18 experience.**

19 A. I have a Bachelor Degree in Business Management and a Master of Business
20 Administration from Marshall University. I have completed the Program for
21 Leadership Development at Harvard Business School and the American Electric

1 Power (AEP) Leadership Development Program at the Ohio State University. I am
2 a registered Project Management Professional (PMP). Prior to joining AEP, I
3 worked for more than twelve years in the heavy industrial construction industry. I
4 was an officer and Director of Business Operations for Williams Service Group,
5 Inc. My responsibilities in this position included working with the executive
6 management teams of multiple business units to develop strategic plans and
7 manage the financial functions of the business units. I joined AEP in January 2005
8 as Manager – Financial Analysis & Budgeting SCR and Environmental. My
9 primary roles since joining AEP have been in the areas of project management,
10 budgeting, and project controls, where I have served as Manager – Project Cost
11 Management and Director – Project Controls. I also held the position of Director
12 – Environmental Retrofits from November 2010 to January 2013. In April 2014, I
13 was named Vice President Finance of I&M, and in November 2016, I was named
14 Vice President Finance and Customer Experience.

15 **Q. Have you previously testified in any regulatory proceedings?**

16 A. Yes. I submitted testimony to the Michigan Public Service Commission in Case
17 No. U-18370 in support of I&M's base rate case proceeding.

18 **I. PURPOSE OF TESTIMONY**

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony is to explain and sponsor the use of I&M's financial
21 forecast to develop the forward-looking test year (Test Year) in this case and
22 related matters as outlined in the testimony. Specifically, my testimony will:

- 1 • Explain the forecast approach.
- 2 • Describe the method used to develop I&M's Test Year.
- 3 • Describe I&M's financial forecast for the Test Year and the assumptions
4 incorporated into the development of the forecast.
- 5 • Explain the status of the Tanners Creek facility.
- 6 • Discuss the energy services adjustment.
- 7 **Q. Are you sponsoring any exhibits in this proceeding?**
- 8 A. I am sponsoring the following exhibits:
- 9 • Exhibit A-2 – Balance Sheet
- 10 • Exhibit A-3 – Statement of Cash Flows
- 11 • Exhibit A-4 – Income Statement
- 12 **Q. Are you sponsoring any attachments in this proceeding?**
- 13 A. I am sponsoring the following attachments:
- 14 • Attachment DAL-1 – Revenue Comparison
- 15 • Attachment DAL-2 – Operating Income Comparison
- 16 • Attachment DAL-3 – Historic and Forecasted O&M Expenses
- 17 • Attachment DAL-4 – Total Company Transmission Revenue and Expense
18 Comparison
- 19 • Attachment DAL-5 – Historic Functional Plant Activity
- 20 • Attachment DAL-6 – I&M Plant Summary
- 21 • Attachment DAL-7 – UI Model Overview
- 22 • Attachment DAL-8 – Energy Services Adjustment
- 23 **Q. Are you sponsoring any work papers in this proceeding?**
- 24 A. I am supporting the following work papers:

- 1 • WP-DAL-1 – Retail and FERC Sales Detail
- 2 • WP-DAL-2 – Sales for Resale Detail
- 3 • WP-DAL-3 – Transmission and Other Electric Revenue Detail
- 4 • WP-DAL-4 – O&M Detail
- 5 • WP-DAL-5 – Transmission O&M Detail
- 6 • WP-DAL-6 – Net Plant Balance Sheet
- 7 • WP-DAL-7 – Functional Plant Detail
- 8 • WP-DAL-8 – FERC Balance Sheet
- 9 • WP-DAL-9 – FERC Income Statement
- 10 • WP-DAL-10 – IM Base Rate Case Project Life File

11 **Q. Were the exhibits, attachments, and work papers that you are sponsoring**
12 **prepared or assembled by you or under your direction?**

13 A. Yes.

14 **II. I&M'S FORECASTING PROCESS**

15 **Q. What is the purpose of a forecast?**

16 A. A forecast takes the assumptions developed from the Company's management
17 experience, knowledge, and judgment and uses those to develop the work plans
18 that become the basis for I&M's forecast. I&M uses the forecasting process as a
19 forum to engage leaders across the Company in creating work plans that seek to
20 maximize reliability, safety, and customer benefit within the context of the
21 Company's financial position. The forecast that is generated as a result of these

1 activities is based on data from the past and present along with analysis of trends
2 to provide an expected future picture to rely upon for planning.

3 **Q. Please describe how the forecast is developed.**

4 A. I&M's financial management team coordinate the planned activities necessary to
5 complete the forecasting process with AEP's Corporate Planning & Budgeting
6 (CP&B) group. I&M and CP&B work collaboratively at the start of the forecasting
7 process to establish capital and O&M guardrails for each business unit to utilize as
8 a planning basis when preparing its work plans and forecasts.

9 The forecasts prepared by each business unit are based on work plans that
10 use business objectives to prioritize work activities. I&M is comprised of four
11 business units:

- 12 1. Fossil, Hydro & Solar Generation
- 13 2. Nuclear Generation
- 14 3. Transmission
- 15 4. Utility Operations

16 Each of these organizations has management teams and budgeting
17 personnel that are responsible for coordinating the forecasting activities within their
18 groups. Each I&M business unit is responsible for preparing the capital and O&M
19 budgets and long range forecasts for its area of responsibility. I&M management
20 works across the business units to evaluate the drivers behind the components of
21 the work plans and ensure that capital and O&M are prioritized, allocated properly,
22 and are within the available capital and O&M guardrails.

1 I&M management also enjoys the benefit of the CP&B group, which
2 administers the financial model and incorporates inputs from other corporate
3 groups such as corporate finance, tax, economic forecasting, regulatory services,
4 and commercial operations to provide an integrated total Company forecast for
5 I&M management's review and approval.

6 After an iterative review cycle that includes I&M management, CP&B, and
7 other key stakeholders, the final result of the forecasting process is what is referred
8 to as a Budget and a Long Range Plan. The Budget represents the forecast for
9 the next calendar year, and the Long Range Plan represents the forecast for
10 subsequent periods. The Budget and Long Range Plan are collectively referred
11 to as the forecast. The completion of the forecast also produces forward-looking
12 financial statements similar to financial statements based on actual results.

13 **Q. Please describe the financial model used in the forecasting process.**

14 I&M utilizes a financial modeling program designed specifically for investor-owned
15 utilities by Utilities International (UI) to prepare the total Company, integrated
16 financial forecast. This model integrates I&M's work plans with a number of other
17 forecast inputs to generate a financial forecast. The model contains a number of
18 algorithms that apply assumptions and logic to the forecast inputs and generate
19 forward looking financial statements and ratios. Please refer to Attachment DAL-
20 7 for an overview of the UI financial model.

1 **Q. Who are the business unit witnesses in this proceeding supporting the**
2 **capital and O&M activity relied upon for the financial forecast?**

3 A. The following individuals will provide testimony on the underlying work planned by
4 the business units that is incorporated in the financial forecast:

- 5 • Tim Kerns – Fossil, Hydro & Solar Generation
- 6 • Q. Shane Lies – Nuclear Generation
- 7 • Kamran Ali – Transmission
- 8 • Thomas Kratt – Distribution (which is part of the Utility Operations business
9 unit)

10 **Q. Please describe the general timeline for establishing the forecast.**

11 A. Each year CP&B establishes a Financial Planning Calendar which outlines the
12 steps and timeframes that will be used to prepare the forecast that produces the
13 Budgets and Long Range Plans. This annual process starts as early as February
14 with identifying assumptions and preparing initial elements of the forecast.
15 Beginning in late May, each of the business units begin to formulate its work plans
16 and proposed forecast assumptions. A series of meetings take place within each
17 of the business units and with I&M management from May through early July as
18 the business unit budgets and long range plans are entered into the corporate
19 model. During the remainder of July and throughout August, CP&B coordinates
20 inputs from various corporate groups and performs the modeling process. I&M's
21 management team participate in reviews of the total Company forecast throughout
22 August before the initial forecast is finalized. This forecast is then used by I&M to

1 present to the AEP Investment Review Committee (IRC) in the September to
2 October timeframe. In the November to December timeframe, CP&B coordinates
3 any final updates to the forecast that may be the result of the IRC meetings or
4 known updates to the items included in the August forecast. After these changes
5 are incorporated, the official forecast or Budget and Long Range Plan update is
6 completed in the December to January timeframe.

7 **Q. Please describe how capital is prioritized and allocated across I&M's**
8 **business units.**

9 A. I&M's business units go through an extensive effort to identify work plans and lists
10 of proposed capital projects for the future. Each business unit uses drivers specific
11 to its area of the business to determine which projects to include and the timing by
12 which the projects need to be completed. Some examples of common business
13 drivers include environmental compliance, regulatory compliance (e.g., Nuclear
14 Regulatory Commission compliance), PJM compliance, public/employee safety,
15 aging infrastructure, reliability improvements, and performance improvements.
16 Once each business unit determines its work plan and associated business
17 drivers, the business unit is required to estimate the costs and schedule durations
18 associated with each individual program or project. A necessary step that occurs
19 during each business unit review is determining the level of capital that is
20 associated with environmental, regulatory, risk mitigation, or operational
21 requirements and the amount of capital available for remaining projects. After the
22 required capital projects are approved, I&M then meets with the business unit

1 leaders as a team to prioritize the remaining projects within the constraint of I&M's
2 overall capital limitations.

3 **Q. Please describe how O&M is prioritized and allocated across I&M's business**
4 **units.**

5 A. Each business unit develops its O&M budget based on the costs necessary to
6 maintain ongoing operations plus incremental O&M needs. Ongoing operations
7 costs typically include labor, fringe benefits, fleet vehicles, insurance, consumable
8 materials and chemicals, right of way maintenance, mandated fees, and other
9 ongoing expenses. Each budget is prepared in accordance with CP&B's Corporate
10 Budgeting Guidelines, which provide guidance for things such as labor escalation
11 factors. Incremental O&M includes the cost associated with scheduled outages at
12 major generating facilities and major inspection or maintenance programs within
13 distribution and transmission. Once ongoing operations O&M has been approved,
14 proposed business unit incremental needs are evaluated and prioritized by I&M
15 management, and the available resources are allocated in order of greatest
16 operational benefit.

17 **Q. In developing the work force plan and labor forecast, what challenges does**
18 **I&M consider?**

19 A. I&M's operations are becoming more complex due to increasing environmental,
20 regulatory, financial, and operational aspects of our business. As a result, the skills
21 needed in our workforce are evolving rapidly as we continue to adapt to significant
22 changes in technology and the regulatory environment. The Company must

1 continue to attract and retain highly skilled employees who can manage our
2 increasingly complex operation and compliance systems. As a part of the work
3 plan and forecasting discussions with each business unit, projected labor needs,
4 issues relative to work force attrition, and new positions are discussed and
5 approved for incorporation into the forecast.

6 **Q. Please describe how the capital and O&M outside the business units are**
7 **prioritized and allocated.**

8 A. As mentioned by Company witness Thomas, to effectively manage the costs of
9 joint activities, AEP provides corporate support services to the operating
10 companies through the American Electric Power Service Corp. (AEPSC). These
11 corporate groups, such as Shared Services and Information Technology (IT), are
12 required to prepare plans and financial forecasts which are presented to the IRC
13 to obtain approval for capital and O&M allocations. I&M management participate
14 in these discussions to provide input on the allocation of funds and the specific
15 impact and benefits to I&M.

16 **Q. Please describe I&M's programs to improve efficiency and productivity and**
17 **how these programs are accounted for in the budgeting and financial**
18 **forecasting process.**

19 A. I&M has put programs in place to monitor and improve the efficiency and
20 productivity of our organization. One program that is common among all I&M
21 business units is the LEAN continuous improvement program. The LEAN program
22 is specifically designed to engage all employees in identifying opportunities to

1 eliminate waste and increase productivity and efficiency through process
2 improvements. Starting in 2014, all I&M business units completed extensive LEAN
3 business reviews. As a result of the LEAN business reviews, each business unit
4 has identified numerous process improvements and employee-generated ideas
5 that have resulted in efficiencies and O&M optimization. LEAN sustainability
6 teams have been established to maintain the continuous improvement mindset
7 and facilitate the LEAN management system going forward. O&M optimization
8 resulting from LEAN have been incorporated into the forecast used for the Test
9 Year.

10 **Q. What processes does I&M have in place to manage changes to the plan**
11 **represented by the forecast?**

12 A. I&M has multiple processes that are used in the ongoing management of capital
13 and O&M throughout the year. I&M updates its budgets annually and makes
14 changes based on the updated needs. I&M also works with each business unit
15 throughout the year to re-forecast capital and O&M expenditures and manage any
16 changes from the budget. These processes provide the platforms for open
17 communication among the business units, I&M, and CP&B to ensure funds are
18 prioritized and allocated effectively throughout the year.

19 **Q. Why are changes to the plan represented by the forecast reasonable and**
20 **necessary in-between forecast cycles?**

21 A. Changes to the plan are reasonable and necessary to address new facts and
22 circumstances that were not known at the time the plan was finalized to establish

1 the forecast. These changes occur as a result of emerging business needs,
2 including change in timing and scope of existing projects, new operational needs,
3 new customer needs, weather events, and new regulatory compliance
4 requirements.

5 **III. FORWARD-LOOKING TEST YEAR**

6 **Q. What forward-looking Test Year has the Company proposed for setting rates**
7 **in this proceeding?**

8 A. The Company has proposed rates based on a forward-looking calendar year Test
9 Year of January 1, 2018 through December 31, 2018.

10 **Q. What period has I&M used as a historical base period?**

11 A. For a historical base period, I&M used the most recent calendar year for which
12 audited financial statements were available at the time of this filing, which is the
13 2016 calendar year.

14 **Q. How was the Test Year developed?**

15 A. The Test Year is based on the forecast that was prepared during the last annual
16 forecast development process, as approved by I&M management and CP&B.

17 **Q. How were I&M's forecasted income statement and balance sheet developed?**

18 A. The forecasted income statement as shown on Exhibit A-4 and balance sheet as
19 shown on Exhibit A-2 were prepared in accordance with AEP's normal forecasting
20 processes. They are based on the consolidation of data provided by business
21 units and various corporate departments. The forecast is fully integrated between
22 the income statement, balance sheet, and cash flows.

1 **Q. How was I&M's forecasted statement of cash flows developed?**

2 A. The forecasted statement of cash flows as shown on Exhibit A-3 is a function of
3 the items reflected in the forecasted balance sheet. Cash needs dictate the extent
4 of debt and equity that is necessary to operate the business, given the timing of
5 cash inflows and outflows.

6 **Q. Does I&M's forecasted balance sheet fairly and reasonably reflect the
7 account balances expected for the Company during the Test Year?**

8 A. Yes. The forecasted balance sheet is based on the capital expenditures, operating
9 costs, and capital structure reasonably necessary for the going forward operation
10 of the utility. The forecasted balance sheet contains the components of rate base
11 as shown on Exhibit A-6 – Rate Base Summary.

12 **Q. What are the major components of the forecast used by I&M for the Test
13 Year?**

14 A. The major components of the forecast reflected in the TY are the:

- 15 1) Load and demand forecast
- 16 2) Generation forecast
- 17 3) Retail and wholesale FERC revenue projections
- 18 4) Off-system sales (OSS or Non-firm sales) forecast
- 19 5) O&M forecast
- 20 6) Construction expenditure forecast
- 21 7) Financing plan

1 **Q. Please discuss each of these major components in more detail.**

2 A. The major components of the forecast are as follows:

3 1) Load and Demand Forecast – I&M's load projection, sponsored by
4 Company witness Burnett, reflects an analysis of the economy and the unique
5 factors that influence individual customers or customer classes in I&M's Indiana
6 jurisdiction.

7 2) Generation Forecast – I&M's generation forecast is developed by the
8 Commercial Operations and Resource Planning and Operational Analysis
9 Departments. I&M's forecasted generation, together with planned energy
10 purchases, is sufficient to meet the system's anticipated total energy requirements.
11 This is the same forecasting methodology used in the Company's semi-annual
12 Fuel Adjustment Clause filings. The cost of fuel consumed is based on the
13 generation forecast for each of the generating units in the AEP System. In addition
14 to fuel costs, I&M incurs other variable costs of production, such as consumable
15 materials at our generating stations for the operation of environmental equipment,
16 emission allowances, and purchased power costs.

17 3) Retail and Wholesale FERC Revenue Projections – Company witness
18 Stegall is presenting the Indiana retail revenues by tariff class utilizing current
19 rates, including riders and the Fuel Adjustment Clause. Revenues for large
20 wholesale customers are developed in detail in accordance with the terms of the
21 contract, including demand, energy, and fuel adjustment charges.

1 4) Off-System Sales (OSS) Forecast – The OSS projections are developed
2 by the Commercial Operations Department and Resource Planning and
3 Operational Analysis Departments. Revenues related to future off-system sales
4 are priced in accordance with forecasted market rates.

5 5) O&M Forecast – O&M expenses, excluding energy costs, are based
6 upon work plans for each of the business units. These plans include expenditures
7 for scheduled maintenance programs, as well as the cost of operations. These
8 plans take into consideration staffing levels, including budgeted increases in
9 compensation as well as material costs necessary to perform each planned
10 program.

11 6) Construction Expenditure Forecast – The various engineering and
12 planning groups in each business unit develop the construction expenditure
13 budget. It reflects expenditures and in-service dates of major projects during the
14 year as well as amounts approved to fund blanket work (smaller projects grouped
15 together), which is essential in estimating depreciation as well as the allowance for
16 funds used during construction (AFUDC).

17 7) Financing Plan – Company witness Messner is presenting the financing
18 program to meet the Company's forecasted O&M and capital requirements. In
19 determining the Company's financing program, consideration is given to coverage
20 and other regulatory restrictions, timing of requirements, availability of equity
21 capital, and corporate objectives or guidelines, such as credit metrics, capital
22 structure, and short-term debt limitations.

1 **A. Operating Revenues**

2 **Q. Please describe the major components of I&M's operating revenues.**

3 A. The major components of I&M's operating revenues are Indiana and Michigan
4 retail sales, FERC wholesale sales, OSS, transmission revenues, and other
5 operating revenues.

6 **Q. Please provide an overview of the retail and FERC wholesale sales included
7 in the forecast.**

8 A. As shown on Attachment DAL-1, Total Company retail and FERC wholesale sales
9 are projected to be \$1,958 million for the Test Year. Total Company retail and
10 FERC wholesale sales include Indiana retail revenues, Michigan retail revenues,
11 and FERC municipal and cooperative wholesale revenues. Total Test Year
12 Indiana retail revenues, excluding any ratemaking adjustments or the requested
13 change in base rates, are projected to be \$1,380 million.

14 **Q. How do the projected Test Year Indiana retail load and revenues compare to
15 the historical load and revenues for 2016?**

16 A. As reflected in Attachment DAL-1, in 2016 actual Indiana retail revenue was
17 \$1,309 million. The projected revenue increase of \$71 million is mainly due to a
18 \$131 million projected increase in revenue stemming from the ongoing
19 implementation of rate adjustment mechanisms approved by the Indiana Utility
20 Regulatory Commission (IURC or Commission), partially offset by a projected
21 decrease in fuel revenue of \$24 million and a decrease in base rate revenue of
22 \$36 million. The projected changes from the rate adjustment mechanisms,

1 including fuel revenues, are directly related to projected changes in the costs they
2 track and recover. The \$36 million projected decrease in base rate revenue is a
3 result of the reduction in load as discussed by Company witness Burnett.

4 **Q. How do the Test Year FERC wholesale load and revenues compare to the**
5 **historical load and revenues for 2016?**

6 A. As shown in Attachment DAL-1, in 2016 actual FERC wholesale revenues were
7 \$322 million, and the projection for the Test Year is \$282 million. The projected
8 decrease of \$41 million is due to reduced FERC wholesale sales. Company
9 witnesses Williamson and Burnett discuss this in more detail.

10 **Q. What is the level of transmission revenues included in other operating**
11 **revenues?**

12 A. I will discuss transmission revenues and expenses together later in my testimony.

13 **Q. Please describe the level of non-firm sales in the forecast and how it**
14 **compares with the historical level in 2016.**

15 A. Non-firm sales include sales made in PJM at market prices during hours when
16 generation from I&M's generating units exceeds the Company's internal load.
17 Total non-firm sales include both cost recovery and margins. As shown in
18 Attachment DAL-1, non-firm sales in 2016 were \$159 million compared to \$165M
19 in the Test Year. The increase in non-firm sales is a direct result of removing the
20 Ohio Valley Electric Corporation (OVEC) demand charges from non-firm sales into
21 I&M's proposed Resource Adequacy Rider (RAR). The purpose of the Resource
22 Adequacy Rider is to track incremental changes in the Company's purchased

1 power capacity costs compared to the amount embedded in the revenue
2 requirement, ensuring customer rates only reflect the actual cost of purchased
3 capacity to serve them. Company witnesses Williamson and Halsey discuss this
4 in more detail.

5 **Q. Please provide an overview of other operating revenues.**

6 A. Other operating revenues include forfeited customer discounts, reconnection and
7 other service fee revenue, pole attachment revenues and other rents, associated
8 business development income, gains on the sale of emission allowances, and
9 transmission revenues.

10 **Q. Please discuss the level of other operating revenue in the Test Year forecast
11 and how it compares with the historical level for 2016?**

12 A. As shown in Attachment DAL-1, total other operating revenues for the Test Year,
13 excluding transmission revenues, are projected to be \$24 million, whereas the
14 level in 2016 was \$18 million. The increase in other operating revenues is primarily
15 due to rent paid from the Indiana Michigan Transmission Company to the operating
16 company for joint use of facilities placed in service between 2016 through 2018.

17 **Q. Is the level of operating revenues included in the forecast provided by I&M
18 accurate, reasonable, and representative of the Test Year?**

19 A. Yes, the level of forecasted operating revenues provided by I&M is accurate,
20 reasonable, and necessary for the Test Year.

1 **B. Fuel Expense**

2 **Q. What level of fuel and purchased power expense is included in the Test Year,**
3 **and what are the major components of that amount?**

4 A. As shown on Attachment DAL-2, fuel and purchase power expense is projected to
5 be \$687 million for the Test Year compared to \$738 million in 2016. This includes
6 both fossil and nuclear fuel expenses. The fuel and purchased power expenses
7 included in the Test Year have been calculated using the same methodology that
8 is used for I&M's Fuel Adjustment Clause. Company witness Stegall will discuss
9 the Fuel Adjustment Clause basing point in his testimony.

10 **C. Operations & Maintenance Expenses**

11 **Q. Have you reviewed the Test Year level of projected O&M expenses for**
12 **reasonableness?**

13 A. Yes. I have evaluated the O&M included in the Test Year and compared this to
14 actual expenses in previous years, including 2016. In cases where there are
15 increases or decreases in expenses compared to historical trends, I have reviewed
16 the work plans utilized to develop the forecast to determine the underlying cause
17 of the change. I have also considered forecast assumptions, including escalation
18 factors, as a part of my evaluation. Attachment DAL-3 provides a summary of
19 actual O&M expenses for the years 2012 through 2016 and the forecasted O&M
20 expenses for the Test Year. This Attachment also shows the projected growth in
21 O&M by account grouping. Company witnesses Kerns, Lies, and Kratt provide

1 further detailed support for the projected level of O&M expenses included in the
2 forecast for their respective I&M functional business units.

3 **Q. Why have you provided several years of actual data in Attachment DAL-3?**

4 A. Annual O&M expenses are dependent upon many factors including specific work
5 plans and emergent work performed in a particular year. As a result, actual and
6 projected O&M expenses may vary significantly from year to year. I can verify
7 whether the Test Year level of O&M expense is reasonable by comparing the Test
8 Year level of O&M spending to actual data from recent years and by understanding
9 any specific changes in expenses. I examined not only the differences between
10 the Test Year and 2016 expense levels, but also the five year average and
11 compound annual growth over the last five years. This comparison provides an
12 even longer term view to help evaluate the reasonableness of the Test Year O&M
13 data. I want to emphasize that the comparisons included in Attachment DAL-3 are
14 dollar-for-dollar comparisons without adjusting for inflation over the five year
15 period. An inflationary adjustment to historical costs would be necessary to
16 correctly reflect that cost during the Test Year.

17 **Q. What conclusions did you reach as a result of your comparison of O&M data**
18 **related to generation?**

19 A. First, the Test Year level of Fossil Steam, Nuclear, Hydraulic, and Other
20 Generation O&M expenses are reasonable in the aggregate as compared to actual
21 expenses. O&M expenses for the Generation function (excluding Account 501,
22 Fuel) are forecasted to increase in relation to the five most recent calendar years

1 (2012 through 2016) by 1.7% on average, not including any inflationary
2 adjustments to historical costs.

3 **Q. What other conclusions did you reach as a result of your comparison of O&M**
4 **data related to generation?**

5 A. Each category of Test Year Generation O&M expense is reasonable in relation to
6 actual expenses. The compound annual growth in projected Steam Generation
7 O&M expenses is 0.1% on average for the last five calendar years, without any
8 inflationary adjustments to historical costs. It should be noted that the Tanners
9 Creek Plant was decommissioned in May 2015. This is a primary driver in the
10 large reduction in O&M from 2014 to 2015. Company witness Kerns further
11 discusses the Steam Generation O&M expenses.

12 The compound annual growth in Test Year Nuclear Generation O&M
13 expenses (excluding Account 518, Fuel) is 2.7% on average for the last five
14 calendar years, without any inflationary adjustments to historical costs. Company
15 witness Lies further discusses the Nuclear Generation O&M expenses.

16 The compound annual growth in Test Year Hydro Generation O&M expense
17 is 11.5% on average for the last five calendar years, without any inflationary
18 adjustments to historical costs. This increase is driven by FERC mandated dam
19 inspections and repairs. Company witness Kerns will further discuss the Hydro
20 Generation O&M expenses.

21 The compound annual growth in Test Year Other Generation O&M
22 expenses is -10.8% on average for the last five calendar years, without any

1 inflationary adjustments to historical costs. The decreases for the Test Year are a
2 continuation of the historical trend in Other Expenses (FERC Accounts 546, 549,
3 556, and 557). This trend is mainly due to activities that used to be performed
4 internally but are increasingly provided by PJM and settled as charges and credits
5 for ancillary services.

6 **Q. Please explain I&M's transmission-related O&M costs which it seeks**
7 **recovery of in this case.**

8 A. I&M's transmission-related O&M costs included in this case are based on the
9 charges I&M receives from PJM for transmission service. An overview of
10 transmission revenues and O&M costs are provided later in this testimony.

11 **Q. What conclusions did you reach as a result of your comparison of O&M data**
12 **related to distribution?**

13 A. The Test Year level of Distribution O&M expenses is reasonable compared to the
14 five most recent years. The Test Year level of Distribution O&M expenses reflects
15 a compound annual growth in Distribution O&M expenses of 7.7% on average for
16 the last five calendar years, without any inflationary adjustments to historical costs.
17 The increases in Distribution O&M expenditures are primarily driven by vegetation
18 management related expenditures. Excluding the increase in vegetation
19 management expenses, the remaining Distribution O&M expenses during the Test
20 Year result in a compound annual growth rate of 0.9% on average compared to
21 the last five calendar years, without any inflationary adjustments to historical costs.

1 Company witness Kratt further discusses Distribution O&M expenses, including
2 the Company's vegetation management activities.

3 **Q. What conclusions did you reach as a result of your comparison of O&M data**
4 **related to customer service and information, sales and administrative and**
5 **general?**

6 A. The Test Year levels of Customer Service and Information expenses and Sales
7 expenses are reasonable compared to the five most recent years. For comparison
8 purposes, I excluded the costs which are addressed and recovered in separate
9 rider rate proceedings (e.g., demand side management (DSM) costs). Excluding
10 these costs, the compound annual growth rate in Test Year expenses is 8.6% on
11 average over the last five calendar years, without any inflationary adjustments to
12 historical costs. As a part of our ongoing efforts to improve the customer
13 experience, I&M is proposing to eliminate all customer transactional fees
14 associated with the Bill Matrix and Pay Station programs. The requirement to pay
15 a convenience fee when making a payment is a common complaint among our
16 customers. Customers have grown accustomed to paying for other products and
17 services with a credit or debit card without a separate, additional fee. Eliminating
18 these fees will provide additional options for customer to pay their bills. I&M's
19 request to recover the fee-free payment costs in base rates is similar to other costs
20 which are shared amongst all customers, such as the cost to print and mail bills.
21 The more convenient I&M can make it for customers to pay bills, the more it can
22 benefit all customers. Customers who self-serve, pay on time and are satisfied

1 with the options they have are the least expensive to serve, which is a benefit to
2 all customers. Customers who do not pay on time and end up in the credit
3 collections cycle drive increased costs, which are paid for by all customers. Giving
4 customers options to pay by the method of their choice without incurring additional
5 fees will lead to more satisfied customers and ultimately savings for all customers.

6 In addition, the Test Year levels of Administrative and General (A&G) O&M
7 expenses are reasonable compared to the five most recent years. The compound
8 annual growth in Test Year A&G O&M expenses is 1.1% on average for the last
9 five calendar years, without any inflationary adjustments to historical costs.

10 **Q. Is the overall level of O&M expense included in the Test Year accurate and**
11 **reasonable?**

12 A. Yes. The Test Year level of O&M expense is accurate, reasonable, and
13 representative of I&M's cost of providing service. The Test Year levels are justified
14 by the projected needs of the utility and are not excessive. As described above,
15 I&M's functional witnesses (Lies, Kerns, and Kratt) further describe the basis for
16 the Test Year O&M expenses.

17 **D. Transmission Revenue and Expenses**

18 **Q. What conclusions did you reach as a result of your comparison of**
19 **transmission revenue and expenses?**

20 A. In Attachment DAL-4, I show the operating revenues and expenses associated
21 with all transmission activities in order to properly evaluate the net effect of various

1 offsetting accounts and provide a total Company view of the Transmission
2 Revenue and Expenses.

3 As shown in Attachment DAL-4, transmission revenues and expenses can
4 be broken down in multiple categories. The first category I have identified is PJM
5 Network Integration Service (NITS) revenues and expenses. In 2016, these
6 charges were \$157 million and are expected to increase in the Test Year to \$227
7 million. This increase is due to the growth in transmission investments made by
8 I&M, other AEP affiliates, and other transmission owners within PJM. Company
9 witness Ali discusses these expenses in more detail.

10 The second category, PJM Transmission Enhancement Charges, primarily
11 represents payments made by I&M to other transmission owners in PJM for the
12 carrying cost associated with regional transmission projects mandated by PJM. In
13 2016 these charges were \$36 million and are expected to increase to \$39 million
14 during the Test Year. These costs are driven by PJM's objectives to increase
15 reliability and modernize the grid and continue to grow significantly. Company
16 witness Ali discusses these expenses in more detail.

17 The third category of transmission related revenue and expenses are
18 associated with transmission owner revenues. These revenues are forecasted to
19 grow from \$154 million in 2016 to \$187 million during the Test Year. This increase
20 in revenues will provide some offsets for the increases in expenses in other
21 categories.

1 The final category is related to other transmission O&M expenses, which
2 includes the traditional embedded costs for I&M to operate and maintain its own
3 transmission assets. These costs are forecasted to decrease from \$23 million in
4 2016 to \$18 million in the Test Year. See I&M witness Nollenberger's testimony
5 for an explanation of how I&M has replaced these traditional transmission costs
6 with the costs related to the Open Access Transmission Tariff and I&M's
7 participation in PJM as a Transmission Owner.

8 **E. Depreciation and Amortization**

9 **Q. What are the major components of depreciation and amortization expense**
10 **that are included in the Test Year?**

11 A. The major components of depreciation and amortization expense that are included
12 in the Test Year are Depreciation Expense, Depreciation Expense Asset
13 Retirement Obligation (ARO), Amortization of Plant, and Regulatory Debits.

14 **Q. What is the level of depreciation and amortization expense that is included**
15 **in the Test Year?**

16 A. As shown on Attachment DAL-2, Depreciation and Amortization Expense is
17 projected to be \$216 million for the Test Year compared to \$192 million in 2016.
18 The depreciation expense projection was developed, on a total Company basis,
19 applying the composite depreciation rates approved by the Commission to
20 projected monthly Plant in Service balances. As reflected on Attachment DAL-6,
21 from 2016 through the Test Year, I&M's Plant in Service is forecasted to increase
22 by approximately \$1.2 billion. Based upon this projected increase in Plant in

1 Service, the approximately \$24 million increase in depreciation and amortization
2 expense is reasonable.

3 **Q. Is the level of depreciation and amortization expense included in the Test**
4 **Year reasonable and accurate?**

5 A. Yes. The Test Year level of depreciation and amortization expense is accurate,
6 reasonable, and representative of I&M's cost of providing service.

7 **F. Taxes**

8 **Q. What are the major components of Taxes Other Than Income Taxes that are**
9 **included in the Test Year?**

10 A. The major components of Taxes Other Than Income Taxes are revenue taxes,
11 payroll taxes, and property taxes. These expenses are sponsored by Company
12 witness Bartsch.

13 **Q. What is the level of Taxes Other Than Income Taxes included in the Test**
14 **Year?**

15 A. Taxes Other Than Income Taxes, as shown on Attachment DAL-2, are projected
16 to be \$100 million for the Test Year, compared to \$91 million in 2016. The primary
17 driver of the increase is associated with property taxes on the new utility Plant in
18 Service.

19 **Q. What are the major components of Income Taxes that are included in the**
20 **Test Year?**

21 A. The major components of Income Taxes are State Income Taxes and Federal
22 Income Taxes (both current and deferred).

1 **Q. What is the level of Income Taxes included in the Test Year?**

2 A. As shown on Attachment DAL-2, Income Taxes are projected to be \$78 million for
3 the Test Year, compared to \$70 million in 2016. The primary driver of the increase
4 is associated with current federal income taxes, offset by deferred federal income
5 taxes and investment tax credits. These Test Year expenses are sponsored by
6 Company witness Bartsch.

7 **G. Plant in Service**

8 **Q. How was the forecasted Test Year end Plant in Service balances developed?**

9 A. In order to develop the Test Year end Plant in Service balances, forecasted
10 transfers from Construction Work in Progress (CWIP) are added to – and
11 retirements are subtracted from – the beginning actual Plant in Service balance.
12 The forecast for this and other balance sheet items begins with actual account
13 balances as of December 31, 2016 and adds forecasted data for the Capital
14 Forecast Period, which defined as January 1, 2017 through December 31, 2018.
15 Forecasted transfers from CWIP are a function of both the forecast of construction
16 expenditures in each year and forecasted in-service dates for each construction
17 project. Forecasted retirements are based upon a five year rolling average of
18 retirements for each function except for major retirements, such as a generating
19 unit or software project, which are forecasted individually. Attachment DAL-5
20 provides an historical overview of the closings from CWIP, retirements, and
21 depreciation and amortization expense from 2012 through 2016. Attachment DAL-

1 6 then provides a forward-looking forecast of CWIP, Accumulated Depreciation,
2 and Plant in Service Balances for the Capital Forecast Period (2016 through 2018).

3 **Q. How is the forecast of CWIP developed, and what is its importance in the**
4 **case?**

5 A. The forecasted balance of CWIP in any given month is developed by starting with
6 the beginning balance in Account 107, adding in capital expenditures for that
7 month, deducting out transfers to Plant in Service, and adding AFUDC accruals.
8 While CWIP is not a component of rate base in the Indiana jurisdiction, these
9 calculations determine the size and timing of total transfers to Plant in Service.

10 **Q. Please discuss the level of the CWIP balance that is included in the forecast.**

11 A. As shown on Attachment DAL-6, I&M's CWIP balance was \$654 million as of
12 December 31, 2016 and is forecasted to decrease to \$516 million by the end of
13 2018. Figure DAL-1 provides a summary of the projected activity during the entire
14 Capital Forecast Period of January 1, 2017 through December 31, 2018.

**Figure DAL-1
Construction Work in Progress Activity**

Function	In \$Millions				
	Cash Construction	AFUDC	AFUDC Reduction - IN Only	Transfers to EPIS	Net
Fossil and Hydro	\$173	\$9	(\$5)	(\$193)	(\$15)
Nuclear	\$340	\$29	(\$11)	(\$436)	(\$78)
Transmission	\$214	\$9	\$0	(\$229)	(\$7)
Distribution	\$399	\$13	\$0	(\$451)	(\$39)
General & Intangible	\$82	\$1	\$0	(\$83)	\$0
Total	\$1,208	\$61	(\$16)	(\$1,391)	(\$138)

AFUDC Reduction - IN Only relates to removing LCM & SCR return on CWIP, as to not double count return received through Riders.

1 The forecast of Cash Construction capital expenditures shown above includes
 2 many projects for each function. Company witnesses Kerns, Lies, and Kratt will
 3 discuss and support the capital expenditures during the Capital Forecast Period.

4 **Q. Please discuss how transfers to Plant in Service are calculated.**

5 A. Upon a project's forecasted in-service date, the total forecasted balance of CWIP,
 6 including AFUDC, is transferred to Plant in Service.

7 **Q. Please describe the balance of Plant in Service included in the Test Year.**

8 A. As shown on Attachment DAL-6, the balance of Plant in Service is projected to be
 9 \$8,840 million for 2018. Plant in Service increased by \$1,209 million during the
 10 Capital Forecast Period. Figure DAL-2 provides a summary of the projected
 11 activity during the entire Capital Forecast Period of January 1, 2017 through
 12 December 31, 2018.

**Figure DAL-2
Net Plant in Service Activity**

Function	In \$Millions		
	Transfers from CWIP	Retirements	Net
Fossil and Hydro	\$193	(\$38)	\$154
Nuclear	\$436	(\$70)	\$366
Transmission	\$229	(\$13)	\$216
Distribution	\$451	(\$37)	\$413
General & Intangible	\$83	(\$23)	\$59
Total	\$1,391	(\$182)	\$1,209

1 **Q. Is the Plant in Service balance projected in the forecast that you have**
2 **provided reasonable, accurate, and representative of the Test Year?**

3 **A.** Yes. The Plant in Service balance projected in the forecast is reasonable,
4 accurate, and representative of the Test Year.

5 **H. Accumulated Depreciation**

6 **Q. How did you develop the forecasted accumulated depreciation balance?**

7 **A.** In order to develop a forecast of accumulated depreciation, depreciation and
8 amortization expenses are added – and retirements and removal expenditures are
9 subtracted – from the December 31, 2016 actual accumulated depreciation
10 balance.

11 **Q. Please discuss the accumulated depreciation balance that is included in the**
12 **Test Year.**

13 **A.** As shown on Attachment DAL-6, I&M's accumulated depreciation and removal
14 reserve was \$2,953 million as of December 31, 2016 and is projected to be \$3,115

1 million at the end of 2018. Figure DAL-3 provides a summary of the projected
 2 activity during the entire Capital Forecast Period of January 1, 2017 through
 3 December 31, 2018.

**Figure DAL-3
 Depreciation Reserve**

Function	In \$Millions			
	Depreciation/ Amortization Expense	Retirements	Removal Expenditures	Net
Fossil and Hydro	\$91	(\$38)	(\$5)	\$47
Nuclear	\$114	(\$70)	(\$33)	\$11
Transmission	\$51	(\$13)	(\$13)	\$25
Distribution	\$119	(\$37)	(\$28)	\$53
General & Intangible	\$49	(\$23)	\$0	\$26
Total	\$423	(\$182)	(\$79)	\$162

IV. TANNERS CREEK

4
 5 **Q. What is the current status of Tanners Creek plant?**

6 A. In June 2015, the Tanners Creek plant discontinued generating electricity. Since
 7 that time, various decommissioning activities have taken place, and continue to
 8 take place, to ensure the plant is closed in a responsible manner. In October 2016,
 9 I&M transferred ownership of the property, including all responsibilities for
 10 environmental site remediation, to Environmental Liability Transfer, Inc.,
 11 Commercial Development Company, Inc., and Tanners Creek Development LLC.

12 **Q. Was the selection process for the property acquisition of Tanners Creek
 13 plant a competitive process?**

14 A. Yes. I&M requested multiple vendors to review the site and provide a proposal to
 15 perform the work summarized above. Representatives from I&M, AEP Risk

1 Management, AEP Generation, and AEP Environmental Services met with the
2 management teams of two firms to review their proposals, qualifications, financial
3 health, and experience in redeveloping similar types of sites. Based on I&M's and
4 AEP's assessment of all of these factors and a comparison of costs provided by
5 the bidders, as well as an internally developed cost estimate developed by AEP's
6 Projects organization, Environmental Liability Transfer, Inc. was selected as the
7 preferred contractor. I&M then entered into a Letter of Intent with Environmental
8 Liability Transfer, Inc. and worked through an extensive due diligence process prior
9 to finalizing the Property Transfer Agreement.

10 **Q. Has the Tanners Creek transfer been reflected in I&M's Test Year?**

11 A. Yes. Company witness Cash has included the net impact of the transfer in his
12 recommended depreciation accrual rates.

13 **V. ENERGY SERVICES ADJUSTMENT**

14 **Q. Are you sponsoring any adjustments to the forecast?**

15 A. Yes, I am sponsoring an adjustment to the forecast associated with providing
16 additional energy services support to our customers. The Company has adjusted
17 the forecast to reflect this change. Attachment DAL-8 provides the details of this
18 adjustment.

19 **Q. Please explain why it is appropriate to make this adjustment to the forecast.**

20 A. It is appropriate to make this adjustment for several reasons. Technology is rapidly
21 changing through the energy sector. Through the Company's customer outreach
22 efforts, customers are requesting the Company to work with them to identify a

1 comprehensive energy strategy that incorporates new technologies, renewable
2 energy, energy efficiency, and power quality analysis. The proposed energy
3 services forecast adjustment supports the addition of new energy advisors, data
4 analysts, and technical positions that will be responsible for working directly with
5 commercial and industrial customers to identify and develop energy solutions
6 tailored to each customer's needs. This group will also identify and work with
7 technical partners that will be able to implement energy solutions for customers.
8 The Company believes that this adjustment is essential to support our customers
9 in taking advantage of new energy-related technologies in a thoughtful and
10 strategic manner.

11 V. CONCLUSION

12 **Q. Are the projected values that you have provided for the Test Year**
13 **reasonable, accurate, and representative of the income statement and**
14 **balance sheet activity likely to occur during that period?**

15 A. Yes. The levels of expense and investment included in the forecast I have
16 presented are reasonable; they are necessary in the provision of service to I&M's
17 customers; and they are justified by I&M's projected needs as supported by myself
18 and I&M's other witnesses.

19 **Q. Does this conclude your pre-filed verified direct testimony?**

20 A. Yes.

VERIFICATION

I, David A. Lucas, Vice President Finance and Customer Experience of Indiana Michigan Power, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: July 21, 2017



David A. Lucas

Indiana Michigan Power Company
Revenue Comparison
For the Test Year Ended December 31, 2018 As Compared to 2016 Historic Period

Line No.	Description	TY (\$000)	2016 (\$000)	Difference (\$000)
1	Operating Revenues			
2	<u>Indiana Retail Revenues</u>			
3	Base	\$ 796,099	\$ 832,061	\$ (35,962)
4	Rate Relief	\$ 339,523	\$ 208,715	\$ 130,808
5	Fuel	\$ 244,784	\$ 268,874	\$ (24,090)
6	Total	<u>\$ 1,380,407</u>	<u>\$ 1,309,650</u>	<u>\$ 70,756</u>
7				
8	<u>Michigan Retail Revenues</u>			
9	Base	\$ 176,226	\$ 178,886	\$ (2,659)
10	Rate Relief	\$ 4,999	\$ 5,070	\$ (71)
11	Fuel	\$ 115,438	\$ 98,896	\$ 16,542
12	Total	<u>\$ 296,663</u>	<u>\$ 282,852</u>	<u>\$ 13,811</u>
13				
14	<u>FERC Wholesale Revenues</u>			
15	Base	\$ 195,935	\$ 222,409	\$ (26,474)
16	Rate Relief	\$ 14,593	\$ 8,921	\$ 5,672
17	Fuel	\$ 71,076	\$ 90,835	\$ (19,759)
18	Total	<u>\$ 281,604</u>	<u>\$ 322,165</u>	<u>\$ (40,560)</u>
19				
20	Retail, Firm and Interruptible Sales	\$ 1,958,674	\$ 1,914,667	\$ 44,007
21				
22	Capacity Cr. Net Sales	\$ -	\$ 50	\$ (50)
23	Sales for Resale	\$ (1,707)	\$ 4,424	\$ (6,132)
24	OSS Margin	\$ 28,906	\$ 2,734	\$ 26,171
25	OSS Cost Recovery	\$ 138,014	\$ 146,049	\$ (8,035)
26	Over-Under OSS Margin Sharing	\$ -	\$ 13,328	\$ (13,328)
27	Over Recovery of Capacity Settlement	\$ -	\$ (7,056)	\$ 7,056
28	Non-Firm Sales	\$ 165,212	\$ 159,530	\$ 5,682
29				
30	Forfeited Discounts	\$ 5,100	\$ 4,951	\$ 149
31	Provision for Rate Refund	\$ -	\$ (1,134)	\$ 1,134
32	Miscellaneous Service Revenues	\$ 4,896	\$ 4,844	\$ 52
33	Rent from Electric Property	\$ 10,212	\$ 6,965	\$ 3,247
34	Other Electric Revenues - ABD & Other	\$ 3,364	\$ 2,082	\$ 1,282
35	Transmission Owner Revenues	\$ 187,434	\$ 153,584	\$ 33,849
36	PJM NITS Costs	\$ (131,441)	\$ (113,603)	\$ (17,838)
37	Enhancement and Other PJM Costs	\$ (13,699)	\$ (310)	\$ (13,389)
38	Other Operating Revenues/(Expense)	\$ 65,867	\$ 57,380	\$ 8,486
39				
40	Emission Allowances	<u>\$ 116</u>	<u>\$ 578</u>	<u>\$ (462)</u>
41	Total Operating Revenues	<u>\$ 2,189,869</u>	<u>\$ 2,132,155</u>	<u>\$ 57,714</u>

Indiana Michigan Power Company
Operating Income Comparison
For the Test Year Ended December 31, 2018 As Compared to 2016 Historic Period

Line No.	Description	TY (\$000)	2016 (\$000)	Difference (\$000)
1	Operating Revenues			
2	Retail and Firm Sales	\$ 1,823,846	\$ 1,774,875	\$ 48,971
3	Interruptible Sales	\$ 134,828	\$ 139,793	\$ (4,965)
4	Non-Firm Sales	\$ 165,212	\$ 159,530	\$ 5,682
5	Other Operating Revenues	\$ 65,867	\$ 57,380	\$ 8,487
6	Emission Allowances	\$ 116	\$ 578	\$ (462)
7	Total Operating Revenues	<u>\$ 2,189,869</u>	<u>\$ 2,132,155</u>	<u>\$ 57,714</u>
8				
9	Fuel and Purchased Power Expense			
10	Fuel	\$ 269,647	\$ 283,589	\$ (13,942)
11	Purchased Power	\$ 417,579	\$ 454,568	\$ (36,990)
12	Total Fuel and Purchased Power Expense	<u>\$ 687,225</u>	<u>\$ 738,157</u>	<u>\$ (50,932)</u>
13				
14	Operating and Maintenance Expense			
15	Steam Generation	\$ 102,955	\$ 95,104	\$ 7,851
16	Emissions Control Chemicals	\$ 26,180	\$ 16,033	\$ 10,147
17	Allowances	\$ 1,529	\$ 1,693	\$ (164)
18	Nuclear Generation	\$ 270,822	\$ 252,159	\$ 18,663
19	Hydraulic Generation	\$ 4,816	\$ 3,583	\$ 1,233
20	Other Generation & Power Supply	\$ 4,183	\$ 6,706	\$ (2,523)
21	Transmission	\$ 134,575	\$ 98,318	\$ 36,257
22	Regional Market Expense	\$ 4,784	\$ 4,007	\$ 777
23	Distribution	\$ 78,943	\$ 67,671	\$ 11,272
24	Customer Information	\$ 55,576	\$ 37,328	\$ 18,248
25	Sales	\$ 422	\$ 66	\$ 357
26	Administrative and General	\$ 122,738	\$ 114,698	\$ 8,040
27	Factored Accts Receivable and Accretion	\$ 10,006	\$ 7,076	\$ 2,930
28	Line of Credit Fees	\$ 1,638	\$ 1,616	\$ 22
29	Accretion	\$ 8,775	\$ 9,882	\$ (1,107)
30	Allowance (Gains)/Losses	\$ (116)	\$ (578)	\$ 462
31	Gain/Loss Disposition of Utility Plant	\$ -	\$ (252)	\$ 252
32	Total Operating and Maintenance Expense	<u>\$ 827,827</u>	<u>\$ 715,111</u>	<u>\$ 112,716</u>
33				
34	Depreciation and Amortization Expense			
35	Depreciation	\$ 189,931	\$ 167,163	\$ 22,767
36	Amortization of Plant	\$ 30,357	\$ 24,246	\$ 6,111
37	Regulatory Debits	\$ (4,300)	\$ 304	\$ (4,604)
38	Total Depreciation and Amortization Expense	<u>\$ 215,988</u>	<u>\$ 191,714</u>	<u>\$ 24,274</u>
39				
40	Taxes Other than Income Taxes			
41	Revenue Taxes	\$ 20,716	\$ 18,208	\$ 2,508
42	Payroll Taxes	\$ 13,914	\$ 12,755	\$ 1,159
43	Property Taxes	\$ 63,189	\$ 56,941	\$ 6,248
44	Regulatory Fees	\$ 2,201	\$ 1,968	\$ 233
45	Other	\$ 109	\$ 1,017	\$ (908)
46	Total Taxes Other than Income Taxes	<u>\$ 100,129</u>	<u>\$ 90,889</u>	<u>\$ 9,240</u>
47				
48	Allowance For Funds Used During Construction			
49	AOFUDC	\$ (15,088)	\$ (15,340)	\$ 251
50	ABFUDC	\$ (8,593)	\$ (7,151)	\$ (1,442)
51	Total Allowance For Funds Used During Constructio	<u>\$ (23,682)</u>	<u>\$ (22,491)</u>	<u>\$ (1,191)</u>
52				
53	Income Taxes			
54	Current Federal Income Taxes	\$ (14,278)	\$ (43,422)	\$ 29,145
55	Deferred Federal Income Taxes	\$ 93,320	\$ 105,846	\$ (12,525)
56	Investment Tax Credit	\$ (4,687)	\$ 3,773	\$ (8,460)
57	State Income Tax	\$ 4,072	\$ 3,464	\$ 607
58	Local Income Tax	\$ -	\$ -	\$ -
59	Total Income Taxes	<u>\$ 78,427</u>	<u>\$ 69,660</u>	<u>\$ 8,767</u>
60				
61	Total Operating Expenses	<u>\$ 1,885,914</u>	<u>\$ 1,783,040</u>	<u>\$ 102,874</u>
62				
63	Regulatory Operating Income	<u>\$ 303,955</u>	<u>\$ 349,115</u>	<u>\$ (45,160)</u>

**Indiana Michigan Power Company
Historic and Forecasted O&M Expenses
(\$000)**

		Operations and Maintenance Expense					
Line No.	Item	2012	2013	2014	2015	2016	2018
1	Steam Generation	\$ 149,195	\$ 139,014	\$ 152,499	\$ 130,976	\$ 112,830	\$ 130,664
2	Nuclear Generation	\$ 219,196	\$ 233,732	\$ 251,533	\$ 258,134	\$ 252,159	\$ 270,822
3	Hydro Generation	\$ 3,373	\$ 2,645	\$ 3,099	\$ 3,506	\$ 3,583	\$ 4,816
4	Other Generation	\$ 6,667	\$ 5,224	\$ 6,315	\$ 5,976	\$ 6,706	\$ 4,183
5	All Generation	\$ 378,430	\$ 380,615	\$ 413,447	\$ 398,592	\$ 375,279	\$ 410,486
6	Transmission	\$ 45,629	\$ 58,259	\$ 87,340	\$ 90,988	\$ 102,325	\$ 139,359
7	Distribution	\$ 54,053	\$ 55,467	\$ 64,522	\$ 56,683	\$ 67,671	\$ 78,943
8	Customer and Information	\$ 45,252	\$ 53,437	\$ 38,271	\$ 43,635	\$ 44,404	\$ 65,582
9	Sales	\$ 224	\$ 99	\$ 212	\$ 314	\$ 66	\$ 422
10	Administrative and General	\$ 127,510	\$ 115,582	\$ 126,248	\$ 115,453	\$ 114,698	\$ 122,738
11	Total O&M Expense	\$ 651,097	\$ 663,458	\$ 730,040	\$ 705,665	\$ 704,443	\$ 817,530

		2018 Growth over Prior Years					
Item	2012	2013	2014	2015	2016	Average	
12	Steam Generation	-2.2%	-1.2%	-3.8%	-0.1%	7.6%	0.1%
13	Nuclear Generation	3.6%	3.0%	1.9%	1.6%	3.6%	2.7%
14	Hydro Generation	6.1%	12.7%	11.6%	11.2%	15.9%	11.5%
15	Other Generation	-7.5%	-4.3%	-9.8%	-11.2%	-21.0%	-10.8%
16	All Generation	1.4%	1.5%	-0.2%	1.0%	4.6%	1.7%
17	Transmission	20.5%	19.1%	12.4%	15.3%	16.7%	16.8%
18	Distribution	6.5%	7.3%	5.2%	11.7%	8.0%	7.7%
19	Customer and Information	6.4%	4.2%	14.4%	14.5%	21.5%	12.2%
20	Sales	11.2%	33.8%	18.9%	10.4%	153.7%	45.6%
21	Administrative and General	-0.6%	1.2%	-0.7%	2.1%	3.4%	1.1%
22	Total O&M Expense	3.9%	4.3%	2.9%	5.0%	7.7%	4.8%

		Transmission O&M					
Item	2012	2013	2014	2015	2016	2018	
23	Enhancement and Other PJM Costs	\$ 18,478	\$ 19,075	\$ 26,561	\$ 31,889	\$ 35,840	\$ 25,537
24	PJM NITS Costs	\$ 5,540	\$ 18,920	\$ 36,293	\$ 32,473	\$ 43,332	\$ 95,928
25	Other Transmission O&M	\$ 21,611	\$ 20,263	\$ 24,486	\$ 26,626	\$ 23,152	\$ 17,895
26	Total Transmission Expense	\$ 45,629	\$ 58,259	\$ 87,340	\$ 90,988	\$ 102,325	\$ 139,359

		2018 Transmission Growth over Prior Years					
Item	2012	2013	2014	2015	2016	Average	
27	Enhancement and Other PJM Costs	5.5%	6.0%	-1.0%	-7.1%	-15.6%	-2.4%
28	PJM NITS Costs	60.8%	38.4%	27.5%	43.5%	48.8%	43.8%
29	Other Transmission O&M	-3.1%	-2.5%	-7.5%	-12.4%	-12.1%	-7.5%
30	Total Transmission Expense	20.5%	19.1%	12.4%	15.3%	16.7%	16.8%

		Distribution O&M					
Item	2012	2013	2014	2015	2016	2018	
31	Vegetation Management Program Expense	\$ 3,343	\$ 9,290	\$ 14,036	\$ 9,206	\$ 17,110	\$ 28,142
32	Other Distribution O&M	\$ 50,710	\$ 46,177	\$ 50,486	\$ 47,477	\$ 50,561	\$ 50,801
33	Total Distribution Expense	\$ 54,053	\$ 55,467	\$ 64,522	\$ 56,683	\$ 67,671	\$ 78,943

		2018 Distribution Growth over Prior Years					
Item	2012	2013	2014	2015	2016	Average	
34	Vegetation Management Program Expense	42.6%	24.8%	19.0%	45.1%	28.2%	32.0%
35	Other Distribution O&M	0.0%	1.9%	0.2%	2.3%	0.2%	0.9%
36	Total Distribution Expense	6.5%	7.3%	5.2%	11.7%	8.0%	7.7%

		Customer and Information O&M					
Item	2012	2013	2014	2015	2016	2018	
37	DSM Expense	\$ 18,183	\$ 28,273	\$ 9,593	\$ 14,191	\$ 14,959	\$ 27,802
38	Other Customer and Information O&M	\$ 27,069	\$ 25,164	\$ 28,678	\$ 29,444	\$ 29,445	\$ 37,779
39	Total Customer and Information Expense	\$ 45,252	\$ 53,437	\$ 38,271	\$ 43,635	\$ 44,404	\$ 65,582

		2018 Customer and Information Growth over Prior Years					
Item	2012	2013	2014	2015	2016	Average	
40	DSM Expense	7.3%	-0.3%	30.5%	25.1%	36.3%	19.8%
41	Other Customer and Information O&M	5.7%	8.5%	7.1%	8.7%	13.3%	8.6%
42	Total Customer and Information Expense	6.4%	4.2%	14.4%	14.5%	21.5%	12.2%

Indiana Michigan Power Company
Total Company Transmission Revenue and Expense Comparison
For the Test Year Ended December 31, 2018 As Compared to 2016 Historic Period

Line No.	Description	TY (\$000)	2016 (\$000)	Difference (\$000)
1	Operating Revenues/(Expense)			
2	PJM NITS Costs	\$ (131,441)	\$ (113,603)	\$ (17,838)
3	Operating and Maintenance (Expense)			
4	PJM NITS Costs	\$ (95,928)	\$ (43,332)	\$ (52,596)
5	Total PJM NITS Costs	<u>\$ (227,369)</u>	<u>\$ (156,935)</u>	<u>\$ (70,434)</u>
6				
7	Operating Revenues/(Expense)			
8	Enhancement and Other PJM Costs	\$ (13,699)	\$ (310)	\$ (13,389)
9	Operating and Maintenance (Expense)			
10	Enhancement and Other PJM Costs	<u>\$ (25,537)</u>	<u>\$ (35,840)</u>	<u>\$ 10,304</u>
11	Total Enhancement and Other PJM Costs	<u>\$ (39,235)</u>	<u>\$ (36,150)</u>	<u>\$ (3,085)</u>
12				
13	Operating Revenues/(Expense)			
14	Transmission Owner Revenues	\$ 187,434	\$ 153,584	\$ 33,849
15				
16				
17	Operating and Maintenance (Expense)			
18	Other Transmission O&M	\$ (17,895)	\$ (23,152)	\$ 5,258
19				
20				
21	Total Company Transmission Revenues/(Expenses)	<u><u>\$ (97,065)</u></u>	<u><u>\$ (62,653)</u></u>	<u><u>\$ (34,412)</u></u>

**Indiana Michigan Power Company
Historic Functional Plant Activity
(\$000)**

Line No.	Function	Closings from CWIP				
		2012	2013	2014	2015	2016
1	Fossil, Hydro, and Other	\$ 9,653	\$ 52,205	\$ 40,087	\$ 136,837	\$ 46,843
2	Nuclear	\$ 132,721	\$ 179,806	\$ 183,068	\$ 16,372	\$ 203,573
3	Transmission	\$ 61,717	\$ 45,588	\$ 61,566	\$ 57,599	\$ 84,043
4	Distribution	\$ 101,313	\$ 91,758	\$ 87,507	\$ 106,776	\$ 120,617
5	General & Intangible	\$ 22,593	\$ 28,212	\$ 28,541	\$ 34,254	\$ 35,194
6	Total	\$ 327,997	\$ 397,569	\$ 400,769	\$ 351,838	\$ 490,271

	Function	Retirements				
		2012	2013	2014	2015	2016
7	Fossil, Hydro, and Other	\$ 3,632	\$ 8,200	\$ 4,371	\$ 700,304	\$ 5,170
8	Nuclear	\$ 6,132	\$ 42,640	\$ 25,672	\$ 38,750	\$ 43,833
9	Transmission	\$ 7,577	\$ 2,836	\$ 7,707	\$ 25,687	\$ 16,031
10	Distribution	\$ 29,617	\$ 20,170	\$ 14,277	\$ 15,916	\$ 14,000
11	General & Intangible	\$ 16,704	\$ 9,121	\$ 19,533	\$ 98,551	\$ 9,886
12	Total	\$ 63,662	\$ 82,967	\$ 71,560	\$ 879,207	\$ 88,920

	Function	Depreciation & Amortization of Plant Expense				
		2012	2013	2014	2015	2016
13	Fossil, Hydro, and Other	\$ 34,847	\$ 44,314	\$ 54,595	\$ 42,957	\$ 38,725
14	Nuclear	\$ 32,632	\$ 46,663	\$ 52,724	\$ 57,397	\$ 56,184
15	Transmission	\$ 18,715	\$ 20,182	\$ 22,629	\$ 23,248	\$ 24,058
16	Distribution	\$ 38,890	\$ 45,238	\$ 47,852	\$ 49,945	\$ 52,579
17	General & Intangible	\$ 18,590	\$ 19,456	\$ 21,447	\$ 24,341	\$ 19,863
18	Total	\$ 143,674	\$ 175,852	\$ 199,248	\$ 197,888	\$ 191,409

NOTES:

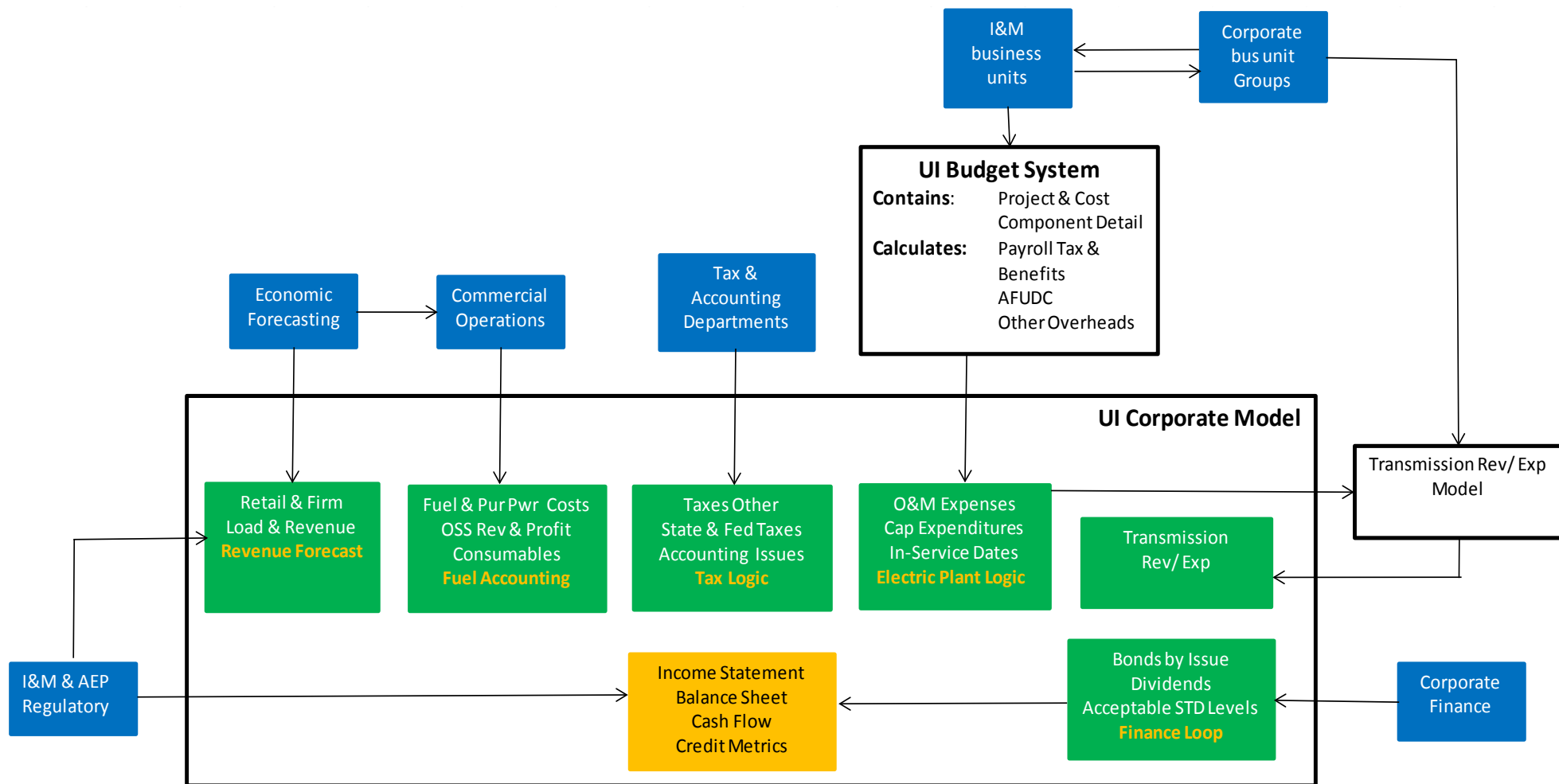
2012 through 2016 data is based on FERC Form 1.

2015 Fossil includes the Tanners Creek retirement.

Indiana Michigan Power Company I&M Plant Summary	Historic 12/31/2016	Forecasted 12/31/2017	Test Year 12/31/2018
In Thousands (\$000)			
Electric Plant In Service			
Production	1,025,165	1,179,186	1,179,325
Nuclear	2,999,234	3,147,437	3,365,057
Transmission	1,472,573	1,573,782	1,688,697
Distribution	1,899,130	2,055,092	2,312,622
General	128,607	135,248	135,485
Intangible	106,384	137,925	158,811
Total Electric Plant In Service Balance (101 & 106) ^{Note 1}	7,631,094	8,228,670	8,839,996
Construction Work in Progress			
Production	126,518	45,091	111,632
Nuclear	368,619	374,186	290,535
Transmission	66,358	61,364	59,662
Distribution	65,195	118,959	26,609
General Plant	12,417	13,179	13,214
Intangible Plant	15,102	14,766	14,448
Total Constr Work in Progress Balance (107)	654,209	627,546	516,100
Accum. Prov for Depr. Amort. Depl			
Production	(297,415)	(318,604)	(344,712)
Nuclear	(1,431,233)	(1,435,525)	(1,442,217)
Transmission	(550,439)	(561,065)	(575,131)
Distribution	(585,424)	(611,995)	(638,668)
General Plant	(36,789)	(36,991)	(37,329)
Intangible Plant	(51,925)	(66,626)	(77,410)
Total Accumulated Depreciation Balance (108, 111, 115)	(2,953,225)	(3,030,808)	(3,115,467)

Note: Does not include leases or plant held for future use.

UI MODEL OVERVIEW



**Indiana Michigan Power Company
 Energy Services Adjustment
 For the Test Year Ended December 31, 2018**

Line No.	Description	Note	TY (\$)
1	Employee Related Costs	1	\$ 1,832,411
2	Employee Expenses	2	\$ 100,000
3	Material Expenses	3	\$ 30,000
4	Fleet Expenses	4	\$ 15,000
5	Total Adjustment Amount		\$ 1,977,411

- | Note | |
|------|--|
| 1 | Includes salaries, payroll taxes, and employee benefits for energy advisors, data analysts, and technical positions that will be added at different points throughout 2018 |
| 2 | Includes costs associated with travel, lodging, and meals associated with business travel to and from customer locations, vendor meetings, and technical conferences. |
| 3 | Includes costs for materials such as informational materials on products and services; customer proposals; and general customer awareness. |
| 4 | Includes costs associated with use of a company owned vehicle |