I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

TYLER H. ROSS

Cause No. 45933

Content

**DIRECT TESTIMONY OF TYLER H. ROSS
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

I. Introduction of Witness

Q1. Please state your name and business address.

My name is Tyler H. Ross and my business address is 1 Riverside Plaza, Columbus, OH 43215.

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

I am employed by American Electric Power Service Corporation (AEPSC) as Director of Regulatory Accounting Services. AEPSC supplies engineering, accounting, planning, advisory, and other services to the subsidiaries of the American Electric Power (AEP) system, one of which is Indiana Michigan Power Company (I&M or the Company).

Q3. Briefly describe your educational background and professional experience.

I earned a Bachelor of Science Degree in Business Administration with a major in Accounting from The Ohio State University in 1996. I have been a Certified Public Accountant since 2003. Starting with my hiring by AEPSC in August 2001, I held staff and leadership positions within AEP's External Financial Reporting department. I was a Staff Accountant in External Financial Reporting from August 2001 through February 2005. In March 2005, I was promoted to Manager of External Financial Reporting and in August 2008, I was promoted to Director of External Financial Reporting. For AEP and its reporting subsidiaries, I led External Financial Reporting in the preparation and filing of quarterly and annual reports in accordance with both Generally Accepted Accounting Principles (GAAP) and the reporting requirements of both the Securities and

Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC). In January 2014, I started my present position as Director of Regulatory Accounting Services.

Q4. What are your responsibilities as Director of Regulatory Accounting Services?

As Director of Regulatory Accounting Services, my primary responsibilities include providing the AEP electric operating subsidiaries, such as I&M, with regulatory and general accounting expertise in support of regulatory filings, including the preparation of cost of service adjustments, accounting schedules and accounting testimony. I also monitor regulatory proceedings, settlements, orders, and legislation for accounting implications and participate in determining the appropriate regulatory accounting and financial reporting treatment of regulatory transactions.

Q5. Have you previously testified before any regulatory commissions?

Yes, I have filed testimony and testified before the following commissions on behalf of I&M and affiliated companies:

- The Indiana Utility Regulatory Commission on behalf of I&M – most recently submitted testimony in Cause No. 45576;
- The Kentucky Public Service Commission on behalf of Kentucky Power Company;
- The Michigan Public Service Commission on behalf of I&M (filed testimony only);
- The Public Utilities Commission of Ohio on behalf of Ohio Power Company;
- The Virginia State Corporation Commission on behalf of Appalachian Power Company (APCo); and

- The Public Service Commission of West Virginia on behalf of APCo and Wheeling Power Company.

II. Purpose of Testimony

Q6. What is the purpose of your testimony?

My testimony provides an overview of accounting-related ratemaking adjustments impacting I&M's rate base and cost of service for the 2024 forward-looking Test Year. I also describe regulatory deferral accounting that the Company would perform for certain regulatory deferrals that I&M proposes in this case. My testimony then explains the Company's rate base treatment for prepaid pension and prepaid Other Postretirement Employee Benefit (OPEB) assets.

In my testimony, I discuss I&M Total Company amounts unless the balance is 100% jurisdictional to Indiana, in which case I specifically identify the amounts as Indiana jurisdictional. For the I&M Total Company amounts, Company witness Duncan supports I&M's Indiana jurisdictional separation study. Also in my testimony, when I refer to the Rockport Plant, I am referring to only I&M's ownership share of the Rockport Plant that excludes the portion of the Rockport Plant owned by AEP Generating Company.

Q7. Are you sponsoring any portion of Company workpaper WP-I&M-1?

Yes, I am sponsoring the following portions of Company workpaper WP-I&M-1:

- WP-I&M-1-1: Historical Balance Sheets – As of December 31, 2022 and 2021
- WP-I&M-1-2: Historical Balance Sheet - As of March 31, 2023
- WP-I&M-1-3: Historical Statement of Cash Flows – Year Ended December 31, 2022

- WP-I&M-1-4: Historical Income Statements – Years Ended December 31, 2022 and 2021
- WP-I&M-1-5: Historical Income Statement - Three Months Ended March 31, 2023

Q8. Are you sponsoring any other workpapers in this proceeding?

Yes. I am also sponsoring the following workpapers and corresponding cost of service adjustments as included in I&M Exhibit A:

- WP-A-RB-1: Rate base adjustment for treatment of legacy test energy and construction work in progress (CWIP) ratemaking for Rockport Unit 1 (supports Adjustment RB-1).
- WP-A-RB-2: Rate base adjustment related to asset retirement obligations (AROs) (supports Adjustment RB-2).
- WP-A-RB-3: Rate base adjustment related to South Bend Smart Meter Pilot Project (supports Adjustment RB-3).
- WP-A-RB-4: Rate base adjustments (supporting Adjustment RB-4) for:
    - CWIP ratemaking approved in Cause No. 44331 for Dry Sorbent Injection (DSI) on Rockport Unit 1,
    - CWIP ratemaking approved in Cause No. 44523 for Selective Catalytic Reduction (SCR) on Rockport Unit 1,
    - CWIP ratemaking approved in Cause No. 44182 for Cook Plant Life Cycle Management (LCM), and
    - Depreciation rates approved in Cause No. 44182 related to Cook Plant LCM.
- WP-A-RB-5: Removal of land costs related to St. Joseph Solar Farm (supports Adjustment RB-5).

- WP-A-RB-6: Indiana Distribution Major Storm Damage Restoration Reserve under-recovery amortization adjustment (supports Adjustment RB-6).
- WP-A-RB/O&M-1: Rate base and O&M adjustments related to the removal of Rockport Unit 2 electric plant in service, accumulated depreciation and depreciation expense. Also reflects adjustment to include cost of removal component of depreciation expense related to Rockport Unit 2 (supports Adjustment RB/O&M-1).
- WP-A-DEP-1 – Accumulated Depreciation and Depreciation Expense (supports Adjustments DEP-1 and DEP-2)
    - Accumulated Depreciation Adjustment Summary
    - Depreciation Expense Adjustment Summary
    - Depreciation Adjustment Details
    - 2022 Accumulated Depreciation for Indiana
- WP-A-O&M-5: Adjustment to increase O&M expense related to increased amortization of I&M's Indiana Distribution Major Storm Damage Restoration Reserve under-recovery (supports Adjustment O&M-5).
- WP-A-O&M-6: Adjustment to increase O&M expense related to I&M's five-year average (2018-2022) of Indiana distribution major storm expense (supports Adjustment O&M-6).
- WP-A-O&M-7: Adjustment to increase O&M expense related to amortization of IM Plugged In cost deferral (supports Adjustment O&M-7).

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

Yes.

Q10. Are the adjustments that you sponsor consistent with adjustments made in I&M's most recent Indiana Base Rate Case and other Commission decisions?

Yes. The majority of my adjustments described in my testimony are consistent with adjustments that were made in Cause No. 45576 and prior I&M rate cases. The remaining adjustments that I sponsor are consistent with Commission orders as referenced in my testimony below.

Q11. Are the books and records of I&M maintained in accordance with the FERC Uniform System of Accounts (USofA)?

Yes, I&M's books and records are kept in compliance with the FERC USofA. I&M is a registrant company as defined by the SEC, and is required to follow GAAP, comply with specific SEC reporting requirements, and maintain controls over financial reporting in compliance with the Sarbanes Oxley Act of 2002.

Q12. Please summarize your testimony.

The ratemaking adjustments I sponsor are reasonable and necessary to properly reflect I&M's cost of service for the forward-looking 2024 Test Year.

The data I rely on was acquired from numerous sources, including but not limited to I&M's and AEPSC's accounting records. This is the type of supportable data that has been found to be reliable and regularly used in I&M's business for this type of analysis. I&M's financial reporting to the SEC relies on the same accounting records used in preparing the historical data provided in this case.

The adjustments I sponsor have been prepared in a manner consistent with accounting-related adjustments included in prior I&M rate cases. If these adjustments were not made, I&M's Indiana jurisdictional rate base, operating expenses and I&M's base rates would not be properly stated. All of the adjustments that I sponsor that relate to changes in electric plant in service and accumulated depreciation were included in calculations of depreciation expense and accumulated depreciation in the forward-looking 2024 Test Year. All of the rate base and operating expense adjustments that I sponsor were also provided to Company witness Duncan for inclusion in I&M’s jurisdictional separation study.

My testimony describes deferral accounting that the Company would perform in accordance with GAAP and FERC USofA related to new regulatory deferrals proposed by Company witness Seger-Lawson.

Consistent with I&M's last four rate cases (Cause Nos. 45576, 45235, 44967 and 44075), I&M continues to include its prepaid pension asset in rate base. I&M has also included its OPEB prepaid asset balance in rate base, consistent with the Orders in Cause Nos. 39314, 43306 and 44075. The Company has included net OPEB expense (net of return on plan assets and amortization of prior service cost (credit)) in the development of its cost of service for its six most recent base rate case filings. Consistent with I&M’s prepaid pension asset, I&M’s OPEB prepaid asset represents a long-term asset funded through investor-supplied capital. Therefore, as supported by Company witness Seger-Lawson, I&M reasonably seeks a fair return on this asset balance through rate base treatment, similar to the Company's prepaid pension asset.

III. Adjustments to Rate Base

Q13. How has the Company reflected the merchant operations of Rockport Unit 2 in both the Company’s 2022 historical period and the 2024 forecasted test period?

Through the end of the Rockport Unit 2 lease on December 7, 2022, Rockport Unit 2 activity is included in I&M’s regulated operations and accounted for in I&M’s regulated ledger. A separate business unit and ledger was then established to maintain the ongoing accounting related to the merchant operations of Rockport Unit 2. I&M's forecast uses the same approach (separate business unit) for the forward-looking 2024 Test Year to maintain consistency with the Company's accounting records. This approach ensures that ongoing Rockport Unit 2 costs that are no longer recoverable in I&M's Indiana retail cost of service and are excluded from I&M's 2024 forward-looking 2024 Test Year.

Q14. Has the Company continued to reflect I&M's Rockport Unit 2 leasehold improvements that were made prior to the end of the Rockport Unit 2 lease on December 7, 2022 in its cost of service?

Yes. As described in the Settlement Agreement to Cause No. 45576 that was approved by the Commission, I&M currently recovers the remaining net book value of Rockport Unit 2 leasehold improvements on a levelized basis through the Company's Environmental Cost Rider (ECR). As described below, ratemaking adjustment RB/O&M-1 removes forecasted rate base (original cost plant in-service less accumulated depreciation) and depreciation expense related to Rockport Unit 2 leasehold improvements for purposes of determining I&M's base rates. Adjustment RB/O&M-1 also increases depreciation expense and accumulated depreciation to properly reflect annual depreciation expense accrual for Rockport Unit 2's share of cost of removal which is supported by Company witness Williamson.

Q15. Please explain Rate Base Adjustment RB-1 of Exhibit A-6.

Rate Base Adjustment RB-1 is a two-part adjustment to present certain components of net electric plant in service on an accounting basis as required by this Commission. I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the Michigan Public Service Commission (MPSC), and the FERC. Because of this, certain adjustments to net electric plant balances are required to reflect the ratemaking conventions used by these respective Commissions.

Part A of Rate Base Adjustment RB-1 recognizes a reduction in net electric plant in service and accumulated depreciation related to the treatment of test energy by the MPSC. MPSC accounting requirements provided that test energy be valued on a displacement basis; that is, the average cost of fuel that would have been consumed at the Company's other generating units had the test energy not been available. The value of test energy serves to reduce the amount of electric plant in service. Such accounting was performed for the Michigan jurisdictional share of Rockport Unit 1 test energy.

In Indiana, test energy was valued at the actual cost of fuel consumed by the unit being tested. The "actual cost" method used in Indiana produces a larger reduction to electric plant in service than the "displacement" method used in Michigan for Rockport Unit 1 test energy. Therefore, a reduction must be made to net electric plant in service in order to fully reflect, for ratemaking purposes, the test energy methodology required by this Commission. This part of the adjustment decreases I&M Total Company electric plant in service and accumulated depreciation by $1,030,391 and $1,315,588, respectively.

Part B of Rate Base Adjustment RB-1 relates to Allowance for Funds Used During Construction (AFUDC) associated with Rockport Plant Unit 1. The FERC and MPSC allowed I&M to include Rockport Unit 1 pollution control facilities in rate base during the construction period of 1978 through 1984. Therefore, I&M ceased recording AFUDC on the Michigan and FERC jurisdictional CWIP amounts.

The IURC did not include CWIP in rate base. In order to reflect the correct Indiana jurisdictional basis of Rockport Unit 1, the effect of cessation of AFUDC allowed by the FERC and MPSC must be added back to net electric plant in service for Indiana ratemaking purposes. This part of the adjustment increases

I&M Total Company electric plant in service and accumulated depreciation by $12,761,000 and $16,293,131 respectively.

Rate Base Adjustment RB-1 reflects the above-described adjustments to electric plant in service, as well as the related adjustments to accumulated depreciation. If these adjustments were not made, certain elements of I&M's Indiana jurisdictional rate base would be misstated by the unique accounting and ratemaking conventions of Indiana as compared to I&M's other regulatory commissions.

These adjustments are consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-RB-1 for further support.

Q16. Please explain Rate Base Adjustment RB-2 of Exhibit A-6.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410, I&M previously established non-cash assets for AROs related to ash ponds, asbestos removal, batteries and nuclear decommissioning. Adjustment RB-2 properly removes these non-cash assets and related accumulated depreciation from rate base. If this adjustment was not made, I&M's rate base would be overstated.

Rate Base Adjustment RB-2 decreases I&M Total Company electric plant in service by $520,328,427 and decreases I&M's accumulated depreciation by $196,878,388 to remove non-cash ARO balances through December 31, 2022.

Rate Base Adjustment RB-2 also decreases I&M Total Company electric plant in service by $144,863 and accumulated depreciation by $3,247,591 for forecasted 2023 and 2024 activity related to accumulated depreciation associated with I&M's AROs.

These adjustments are consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-RB-2 for further support.

Q17. Please explain Rate Base Adjustment RB-3 of Exhibit A-6.

Rate Base Adjustment RB-3 removes electric plant in service and accumulated depreciation balances for the South Bend Smart Meter Pilot Project assets in accordance with the IURC's June 13, 2007 Order in Cause No. 43231. Specifically, Rate Base Adjustment RB-3 decreases I&M's Indiana jurisdictional distribution and general electric plant in service by $3,714,977 and $335,375, respectively. This adjustment also decreases I&M's Indiana jurisdictional distribution and general accumulated depreciation by $3,714,977 and $335,375, respectively. These adjustments are based on actual costs through December 31, 2022.

These adjustments are consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-RB-3 for further support.

Q18. Please explain Rate Base Adjustment RB-4 of Exhibit A-6.

Rate Base Adjustment RB-4 is a three-part adjustment of both electric plant in service and accumulated depreciation. This adjustment is based on actual costs through December 31, 2022. As mentioned earlier in my testimony, I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the MPSC and FERC. Following the IURC's approvals for I&M to recover a return on CWIP (instead of AFUDC) related to the Rockport Unit 1 DSI and Rockport Unit 1 SCR projects and the Cook LCM project described below, I&M ceased recording AFUDC for the Indiana jurisdictional share of these investments. I&M continued to properly record AFUDC on the Michigan and FERC jurisdictional shares of these investments. Because of this, I&M must make the adjustments described below to remove the Michigan and FERC jurisdictional shares of AFUDC from electric plant in service and accumulated depreciation in order to correctly reflect I&M's rate base on an Indiana jurisdictional basis as previously approved by this Commission. Rate Base Adjustment RB-4 also includes an adjustment for

IURC-approved LCM end-of-life depreciation rates previously approved for ratemaking purposes. If these adjustments were not made, I&M's Indiana jurisdictional rate base would be misstated.

Part A of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 1 DSI project. The IURC approved CWIP recovery for these projects in Cause No. 44331. In order to arrive at the correct value of the Rockport Unit 1 DSI project on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service and accumulated depreciation is decreased by $511,312 and $340,658, respectively.

Part B of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 1 SCR project. The IURC approved CWIP recovery for this project in Cause No. 44523. In order to arrive at the correct value of the Rockport Unit 1 SCR project on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service and accumulated depreciation is decreased by $2,155,223 and $1,088,175, respectively.

Part C of Rate Base Adjustment RB-4 results in a reduction to electric plant in service and an increase to accumulated depreciation to reflect I&M's Indiana jurisdictional rate base for: a) AFUDC associated with the Cook LCM project and b) IURC-approved end-of-life depreciation rates for ratemaking purposes related to Cook Plant LCM. The IURC initially approved return on CWIP recovery and end-of-life depreciation rates for I&M's Indiana jurisdictional share of this project in Cause No. 44182. As described in the settlement agreement approved in Cause No. 44967, I&M ceased recording a return on CWIP and began recording AFUDC on the I&M Indiana jurisdictional share of Cook Plant LCM starting July 1, 2018. In order to arrive at the correct value of the Cook LCM project on an I&M Indiana jurisdictional basis, I&M Total Company electric plant in service is decreased by $20,797,256 while accumulated depreciation is increased by $14,795,930 for Indiana ratemaking purposes.

These adjustments are consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-RB-4 for further support.

Q19. Please explain Rate Base Adjustment RB-5 in Exhibit A-6.

Adjustment RB-5 removes from rate base I&M's per books $5,129,941 original purchase price of land related to the operations of the St. Joseph Solar Farm (SJSF) in South Bend, Indiana. The SJSF was placed in service in March 2021. In the settlement agreement approved in Cause No. 45245, I&M agreed to forego an Indiana jurisdictional return on I&M's per books original purchase price of land related to the SJSF. This adjustment is consistent with the adjustment reflected in I&M's base rates approved in Cause No. 45576. In adjustment RIDER-3, Company witness Gruca describes the removal of Total Company SJSF costs recovered through the SPR.

Q20. Please explain Rate Base Adjustment RB-6 in Exhibit A-6.

Adjustment RB-6 reflects a $15,270,762 increase in rate base for I&M's forecasted December 31, 2024 regulatory asset related to Indiana jurisdictional distribution major storm reserve under-recovery. If this adjustment was not made, I&M's Indiana jurisdictional rate base and I&M's base rates would be understated. This forecasted I&M Indiana distribution major storm reserve regulatory asset is based on: a) I&M's distribution major storm reserve regulatory asset balance of $24,309,075 as of December 31, 2022; b) estimated ongoing amortization of distribution major storm reserve regulatory asset reflected in I&M's base rates approved in Cause No. 45576; and c) I&M's proposed amortization of forecasted distribution major storm reserve regulatory asset of $24,309,075 over two years starting June 1, 2024 as described in adjustment O&M-5. As included in Cause No. 45576 and prior I&M Indiana base rate cases, the Company continues to perform over-/under-recovery accounting by comparing actual I&M Indiana jurisdictional distribution major storm expenses against the level of distribution major storm expense reflected in base rates and recording either a regulatory asset for an under-recovery or a regulatory liability for an over-recovery. Company witness Seger-Lawson sponsors the Company's proposal to continue the distribution major storm reserve over-/under-recovery accounting and Company witness Isaacson sponsors the Company's historical period distribution major storm expenses.

This adjustment is consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-RB-6 for further support.

Q21. Please describe the rationale for the amortization period proposed in Adjustment RB-6 for amortization of distribution major storm under-recovery and the starting point for the period of amortization.

For purposes of determining the distribution major storm reserve regulatory asset rate base adjustment described in RB-6 above, the Company proposes a two-year amortization. The amortization period is based on a reasonable period of time the base rates approved in this proceeding may be in effect, as further described by Company witness Seger-Lawson.

In determining the December 31, 2024 regulatory asset balance in RB-6, updated amortization is based on a June 1, 2024 estimated change in base rates. Actual amortization of the regulatory asset balance in RB-6 will begin upon Commission approval of the change in tariff rates associated with this proceeding.

Q22. Please explain Rate Base Adjustment RB/O&M-1 in Exhibits A-5 and A-6.

In the Settlement Agreement approved in I&M's most recent base rate case, Cause No. 45576, the settling parties agreed that effective upon I&M's January

2023 Phase-In Rate Adjustment (PRA) compliance filing to implement Phase II Indiana base rates, “I&M will be permitted to recover a total of $95,639,514 (Indiana jurisdictional) associated with the NBV [Net Book Value] of Rockport Unit 2 on a levelized basis in I&M’s ECR [Environmental Cost Rider] (or alternative rate adjustment mechanism if the ECR is discontinued in the future).”[1]

In accordance with the Rockport Unit 2 settlement terms in Cause No. 45576 as described above, adjustment RB/O&M-1 removes from rate base I&M’s forecasted December 31, 2024 I&M Total Company Rockport Unit 2 severable leasehold improvement balances - a $207,921,839 reduction to electric plant in service and a $135,334,620 reduction to accumulated depreciation. Adjustment RB/O&M-1 also removes forecasted 2024 I&M Total Company Rockport Unit 2 severable leasehold improvement depreciation expense of $18,146,805.

Adjustment RB/O&M-1 increases depreciation expense and accumulated depreciation by $1,834,464 to properly reflect annual depreciation expense accrual for Rockport Unit 2’s share of cost of removal. Company witness Williamson supports the proposed regulatory recovery of this going level of cost of removal related to Rockport Unit 2.

Finally, adjustment RB/O&M-1 removes from rate base forecasted December 31, 2024 I&M Total Company Rockport Unit 2 non-severable leasehold improvement balances – a $94,589,698 reduction to electric plant service and a $92,705,170 reduction to accumulated depreciation. There was no depreciation expense included in I&M’s 2024 forecast related to non-severable leasehold improvements.

These adjustments were determined based on forecasted I&M Total Company Rockport Unit 2 December 31, 2024 property balances and 2024 depreciation expense provided by Company witness Sloan.

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[1] Cause No. 45576 Settlement Agreement, p. 6 (Section A.3).

Q23. Did you consider the proposed rate base adjustments described above in your proposed depreciation adjustments described below?

Yes, I included the rate base adjustments described above in the following depreciation adjustments described below: a) Application of the Company's current depreciation rates previously approved by the Commission to the Company's forecasted depreciable plant balances (DEP-1), and b) Application of the Company's proposed depreciation rates as provided by Company witness Cash in this case to the Company's forecasted depreciable plant balances (DEP-2).

Q24. Did you also provide the rate base adjustments described above to Company witness Duncan for inclusion in I&M's jurisdictional separation study?

Yes, I did.

IV. Adjustments to Net Operating Income

Q25. Please explain Adjustment DEP-1.

Adjustment DEP-1 adjusts accumulated depreciation and depreciation expense by applying I&M Indiana jurisdictional depreciation rates previously approved by the Commission to the Company's forecasted depreciable plant balances. This adjustment results in an I&M Total Company net decrease to depreciation expense of $1,054,925 and an I&M Total Company net decrease to accumulated depreciation of $29,285,069.

Q26. Please explain Adjustment DEP-2.

Adjustment DEP-2 adjusts accumulated depreciation and depreciation expense by applying I&M Indiana jurisdictional depreciation rates proposed in this case to the Company's forecasted depreciable plant balances. This adjustment results in I&M Total Company net increases to depreciation expense and accumulated depreciation of $19,418,952 and $18,482,876, respectively.

Q27. Please explain Adjustment O&M-5.

Adjustment O&M-5 increases O&M expense by $11,902,184 annually for the amortization of I&M's forecasted under-recovery of Indiana distribution major storm expenses. I&M proposes to amortize its December 31, 2022 Indiana distribution major storm regulatory asset of $24,309,075 over two years, resulting in an annual amortization expense of $12,154,537. When compared to the 2024 forecasted amortization of $252,353 based on the distribution major storm reserve regulatory asset reflected in I&M's base rates approved in Cause No. 45576, it is determined that I&M must increase annual Indiana distribution major storm amortization expense by $11,902,184. If this adjustment is not made, amortization of the major storm regulatory asset would not be properly included in the Test Year, O&M would be understated, and I&M's base rates would be understated. Company witness Seger-Lawson sponsors the Company's proposed amortization period for its distribution major storm regulatory asset and Company witness Isaacson sponsors the Company's historical period distribution major storm expenses incurred.

This adjustment is consistent with the similar adjustments made by the Company in Cause Nos. 45576 and 45235. See WP-A-O&M-5 for further support.

Q28. For the proposed regulatory asset amortization adjustment described in O&M-5 above, please describe the rationale for the amortization period proposed and the starting point for the period of amortization.

For purposes of determining the adjustment to retail rates for amortization of the distribution major storm reserve regulatory asset as described O&M-5, the Company proposes a two-year amortization. The amortization period is based on a reasonable period of time the base rates approved in this proceeding may be in effect as further described by Company witness Seger-Lawson.

Q29. Please explain Adjustment O&M-6.

Adjustment O&M-6 increases forecasted 2024 I&M Indiana distribution major storm expenses by $3,760,941 annually to reflect I&M's most recent five-year average of Indiana major storm expenses of $7,808,470 for the period 2018 through 2022. Company witness Seger-Lawson supports the proposed regulatory recovery of this going level of I&M Indiana major storm expenses while Company witness Isaacson provides support for historical period major storm expenses incurred. If this adjustment is not made, a reasonable level of major storm expenses would not be included in the Test Year, O&M would be understated and I&M's base rates would be understated.

This adjustment is consistent with the adjustments reflected in I&M's base rates approved in Cause Nos. 45576 and 45235. See WP-A-O&M-6 for further support.

Q30. Please explain Adjustment O&M-7.

Adjustment O&M-7 increases annual O&M expense by $38,320 to reflect the Company's proposed annual amortization of I&M's December 31, 2022 "IM Plugged In" regulatory asset balance. I&M's three-year "IM Plugged In" pilot program and related rebate deferral authority was granted by the Commission in Cause No. 45235. The Company proposes to amortize I&M's December 31, 2022 IM Plugged In regulatory asset balance of $76,640 over two years. If this adjustment is not made, these IM Plugged In costs would not be included in the Test Year, O&M would be understated, and I&M's base rates would be understated.

This adjustment is consistent with the adjustment reflected in I&M's base rates approved in Cause No. 45576. See Workpaper WP-A-O&M-7 for further support.

V. Proposed New Deferral Accounting

Q31. Does the Company request any new or modified deferral accounting in this base case filing?

Yes. The Company seeks new deferral accounting authority for the proposed Grant Projects Rider (GPR) and costs incurred related to a new Customer Information System (CIS). I&M also seeks modified deferral accounting authority for the existing Tax Rider.

Q32. What is needed to establish deferral accounting as proposed by the Company?

Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 980 prescribes deferral accounting when a regulatory commission requires over-/under-recovery accounting for certain costs that are recovered in current rates charged to customers or when a commission provides deferral authority for certain costs with recovery to be determined at a later date. Eligible costs for recovery in these scenarios are subject to any prudency and audit reviews ordered by the Commission. In order to perform regulatory deferral over-/under-recovery true-up accounting and record regulatory liabilities or regulatory assets, it must be probable that the regulatory liability will be refunded to customers in the future or that the regulatory asset will be recovered from customers in the future.

Q33. Please provide an overview of the GPR and related costs that will be incurred.

The Company requests recovery of all incremental costs incurred, net of applicable grants and other revenues, related to GPR projects identified by Company witness Osterholt that are not already included in the forecast period. As further described by Company witness Seger-Lawson, I&M is seeking state and federal grants for certain qualifying projects, including grid reliability and resilience and other infrastructure investments. The Company proposes that the GPR will recover I&M's depreciation expense and debt and pre-tax equity return on GPR investments placed in service after the 2024 Test Year. The Company also proposes that the rider include O&M costs and property taxes related to GPR assets placed in service after the 2024 Test Year. The Company will reflect all government grant dollars received (net of grant writing and application costs and income taxes incurred) as reductions to I&M's eligible costs for recovery when determining the Company's monthly GPR over-/under-recovery calculations and entries. I&M will also reflect any fiber lease revenues from third party use of fiber in the Company's Middle Mile Broadband project, as described by Company witnesses Osterholt and Seger-Lawson, as a reduction to eligible costs for recovery in monthly GPR over-/under-recovery calculations and entries.

Q34. Please describe the Company's proposed GPR over-/under-recovery accounting following the implementation of GPR rates.

I&M currently plans to only include projects in the GPR that have been approved for state or federal funding. If I&M GPR expenses incurred (net of government grants received and fiber lease rental revenues) are less than I&M GPR revenues and in accordance with FASB ASC 980, the Company will credit a regulatory liability (FERC Account 254) and charge an expense account for this difference. Similarly, if I&M GPR expenses incurred (net of government grants received and fiber lease rental revenues) are more than the monthly approved I&M GPR revenues, the Company will record a regulatory asset (FERC Account 182.3) and credit an expense account for this difference.

Q35. Does the Company propose deferral accounting in advance of initially establishing GPR rates?

Yes. The Company also requests authority from the Commission to defer all post 2024 GPR costs incurred (net of government grants received and fiber lease rental revenues) in advance of initial GPR rates. The Company will record these deferrals of net GPR costs as a regulatory asset (FERC Account 182.3) and request recovery of this deferral in a future GPR or base rate proceeding.

Q36. Please describe the Company's CIS project.

As further discussed by Company witnesses Seger-Lawson, Davis and Brenner, the CIS will be used by all AEP Operating Companies, including I&M, and will replace the existing billing system.

Q37. Please describe the Company's proposed deferral accounting for the CIS project.

With the Commission's approval, the Company will defer as a FERC Account 182.3 regulatory asset, I&M's Indiana jurisdictional depreciation expense and debt and pre-tax equity return on CIS rate base (plant in service less accumulated depreciation) for assets placed in service after the 2024 Test Year. As further discussed by Company witness Seger-Lawson, the Company will continue to defer CIS depreciation expense and debt and equity return until the related assets are reflected in base rates in a future I&M Indiana base rate proceeding. The Company will then seek recovery of these CIS regulatory asset deferrals in a future regulatory filing with the Commission.

Q38. How will the Company identify and account for costs related to proposed rider mechanisms/cost deferrals?

I&M will use unique project and work orders to identify and track the costs associated with approved rider mechanisms/cost deferrals described above.

Q39. Please describe the Company's proposed modifications to the existing Tax Rider.

As further described by Company witnesses Seger-Lawson and Criss, I&M proposes to modify the existing Tax Rider to incorporate certain components of the Inflation Reduction Act (IRA). Specifically, the Company proposes to utilize the Tax Rider to: a) reflect Production Tax Credits (PTC) applicable due to electricity produced by the Cook Plant nuclear generating facility related to the period 2024 through 2032, and b) collect the impact of the Corporate Alternative Minimum Tax (CAMT). The direct testimony of Company witness Criss proposes to reflect the benefit of Cook Plant PTCs after they have been monetized. This lag between the monetization of PTCs and when the PTCs are reflected in Tax Rider rates will be accounted for as a regulatory liability. As a result I&M also proposes to include in monthly Tax Rider over-/under-recovery calculations and entries a return on the regulatory liability balance for the benefit of customers.

Q40. Does the Company intend to include the impact of any other tax related matters in the Tax Rider?

I&M awaits a Private Letter Ruling from the Internal Revenue Service (IRS) determining whether I&M's proposed Net Operating Loss Carryforward (NOLC) adjustment in Cause No. 45576 must be made in order to avoid a tax normalization violation. If the IRS issues a PLR concluding that failure to include I&M's proposed NOLC adjustment would result in a normalization violation and based on the Settlement Agreement to Cause No. 45576, the

Company will initiate a filing with the Commission to include the impact of NOLC as an eligible cost for recovery/credit for refund in future Tax Rider rates. Company witness Criss provides further background on I&M's NOLC.

Q41. Please describe the Company's Tax Rider over-/under-recovery accounting.

Monthly Tax Rider over-/under-recovery will be calculated by comparing monthly Tax Rider revenues/revenue credits against the per books I&M Indiana jurisdictional level of net Tax Rider expense/credits that are described above for: a) Cook Plant PTCs, b) CAMT and c) NOLC. I&M will then record a Tax Rider under-recovery or over-recovery adjustment to FERC Account 182.3 or 254, respectively, in accordance with GAAP, specifically ASC 980 in accounting for regulated operations.

Q42. Does the Company propose deferral accounting related to CAMT expense incurred in advance of I&M's next update to Tax Rider rates?

Yes. The Company also requests authority from the Commission to defer all CAMT tax expense incurred in advance of I&M's next update to Tax Rider rates. The Company will record this net deferral as a regulatory asset (FERC Account 182.3) and request recovery of this deferral in either a future Tax Rider or base rate case proceeding.

VI. Other Regulatory Accounting–Subsequent License Renewal (SLR)

Q43. Company witnesses Seger-Lawson and Ferneau discuss the Company's plans to initiate efforts to evaluate relicensing of the Cook Plant nuclear

generating facility. How does the Company plan to account for these SLR-related costs?

The SLR project is expected to span across several years. I&M will account for preliminary study/survey costs associated with the possible extension of Cook Plant licenses (SLR Costs) in accordance with the FERC USofA, specifically FERC Account 183. FERC USofA states that Account 183 "shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation."

Q44. How would the Company account for SLR costs incurred if the SLR results in the construction of an asset?

FERC USofA further states for costs initially recorded to Account 183 that "if construction results, this account (Account 183) shall be credited and the appropriate utility plant account charged." Accordingly, if the construction of assets results from the Cook Plant SLR, I&M will record proper accounting adjustments to ensure that Cook Plant SLR costs are included with the Cook Plant asset when placed in service (FERC Account 101 – Electric Plant in Service). This asset will then be depreciated over the remaining life of the Cook Plant.

Q45. How would the Company account for the SLR costs if these study costs do not result in the construction of an asset?

As included in the testimony of Company witness Seger-Lawson, I&M requests deferral authority, as a FERC Account 182.3 regulatory asset, for any SLR costs incurred that do not result in the construction of an asset. If the Commission grants this deferral authority and the Company's SLR work performed does not result in the construction of an asset, I&M will reclassify all SLR costs incurred from Account 183 to Account 182.3. The Company will then seek recovery of this regulatory asset in a future regulatory filing with the Commission.

VII. Rate Base Treatment for Prepaid Pension and OPEB Assets

Q46. At a high level, please provide an overview of I&M's pension and OPEB plans.

As described further by Company witness Hill, AEP sponsors a pension plan (providing a source of retirement income) and an OPEB plan (providing health and life insurance benefits) for I&M employees during retirement.

Q47. Please define a prepaid pension/OPEB asset.

A prepaid pension/OPEB asset is defined as cumulative pension/OPEB cash contributions to the related trust fund less cumulative actuarily-determined pension/OPEB cost recorded on the Company's books. In Cause No. 44075, the Commission concluded that "the record reflects that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards." I&M continues to record prepaid pension and prepaid OPEB in accordance with these governing accounting standards.

Q48. Please describe how the Company's accounting for the prepaid pension and OPEB plan assets impacts I&M's cost of service.

For the Company's pension plan, I&M continues to record pension service cost to Account 9260003 for benefits earned by active employees. I&M records current year interest cost, return on plan assets, amortization of prior service cost (credit) and amortization of actuarial losses to Account 9260062.

For the Company's OPEB plan, I&M continues to record OPEB service cost to Account 9260021 for benefits earned by active employees. I&M records current year interest cost, return on plan assets, amortization of prior service cost (credit) and amortization of actuarial losses to Account 9260043.

Accounts 9260003 and 9260062 (pension plan) and 9260021 and 9260043 (OPEB plan) are included in the Company's cost of service used to determine I&M's Indiana base rates.

Q49. Has I&M included its prepaid pension asset in rate base in this case?

Yes. Consistent with I&M's last four rate cases (Cause Nos. 45576, 45235, 44967 and 44075), I&M continues to include its prepaid pension asset in rate base. The March 11, 2020 Order in Cause No. 45235 found (at pgs. 27-28) that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards and was properly reflected in the Company's approved level of rate base. The Company continues to reflect its prepaid pension asset in rate base in this filing.

I&M's prepaid pension asset is a long-term asset (cumulative contributions less cumulative GAAP-determined benefit cost) funded by investor supplied capital. On a cumulative basis, I&M's cost of service has only included the level of GAAP-determined pension cost and nothing more. The only pension funds included in cost of service have been the level of GAAP-determined pension expense. Amounts in Account 165 represent cumulative contributions in excess of pension costs, which are funded by investor supplied capital.

Q50. Has the Company included a pension-related credit to expense in its cost of service used in determining I&M Indiana base rates?

Yes. The Company continues to record an annual credit to expense primarily due to the amortization of pension-related unrecognized prior service credit. As summarized in the table below, I&M's 2024 Test Year cost of service reflects I&M Total Company pension non-service cost credit to expense of $17.5 million

($12.7 million Indiana jurisdictional) primarily due to the amortization of pension prior service credit:

Figure THR-1. Components of 2024 Forecasted Pension Expense

2024 Forecasted Pension Expense	Forecasted I&M Total Company Pension Expense (Credit) (a)	I&M Indiana Jurisdictional Percentage – Payroll Allocator	Forecasted I&M Indiana Jurisdictional Pension Expense/(Credit)
Account 9260003 – Service Cost	$12,252,000	0.7272709	$8,910,523
Account 9260062 – Non-Service Cost	(17,464,000)	0.7272709	(12,701,059)
Total	$(5,212,000)		$(3,790,536)

(a) 2024 Forecasted I&M Total Company pension expense amounts were determined by I&M's third party actuary, Willis Towers Watson.

A similar forecasted level of pension non-service credit to expense was included in previous I&M Indiana base rate case costs of service used to determine base rates. I&M's forecasted 2024 Indiana jurisdictional pension non-service credit to expense of $12.7 million as shown in the table above serves to reduce the Company's cost of service in this case.

Q51. How does I&M's prepaid pension asset provide benefit to customers?

I&M's prepaid pension asset earns a return that serves to decrease the cost of service. Therefore, the prepaid pension asset is used and useful as it lowers future pension expense, resulting in a lower cost of service. The Company's additional pension contributions beyond the amount of pension cost included in cost of service were made to reduce the shortfall between pension plan assets and the pension benefit obligation. These additional pension contributions create additional trust fund investment income that serves to reduce each subsequent year's pension cost included in the cost of service, benefitting customers. The prepaid pension asset represents a reasonable investment made to help meet utility obligations and to reduce cost of service for customers, is used and useful in providing public utility service, and is necessary for the responsible management of the Company's pension plan.

Q52. Has the Company also included its prepaid OPEB asset in rate base in this case?

Yes.

Q53. Has the Commission previously approved prepaid OPEB in rate base?

Yes. In prior I&M Indiana base rate cases, Cause Nos. 39314, 43306 and 44075, the cost of service approved by the IURC included in rate base I&M's Indiana jurisdictional OPEB prepaid asset balances that were recorded on the Company's books in accordance with governing accounting standards.[2]

Q54. Has the Company included an OPEB-related credit to expense in its cost of service used in determining I&M Indiana base rates?

Yes. The Company continues to record an annual credit to expense for amortization of unrecognized prior service credit that reflects the Company's previous decisions to cap contributions and close the OPEB plan to new employees. The prepaid OPEB asset is the product of the Company's prudent decisions to manage the cost of service for customers and is used and useful in providing public utility service.

As summarized in the table below, I&M's cost of service reflects a 2024 forecasted I&M Total Company OPEB non-service cost credit to expense of $8.3 million ($6 million Indiana jurisdictional) primarily due to the amortization of OPEB prior service cost credit:

[2] *Re Ind. Mich. Power Co.*, Cause No. 44075, 2013 WL 653036 at 21 (IURC Feb. 13, 2013); *Re Ind. Mich. Power Co.*, Cause No. 43306, 2009 WL 902295 at 39 (IURC Mar. 4, 2009); *Re Ind. Mich. Power Co.*, Cause No. 39314, 1993 WL 602559 at 33 (IURC Nov. 12, 1993).

Figure THR-2. Components of 2024 Forecasted OPEB Expense

2024 Forecasted OPEB Expense	Forecasted I&M Total Company OPEB Expense (Credit) (a)	I&M Indiana Jurisdictional Percentage – Payroll Allocator	Forecasted I&M Indiana Jurisdictional OPEB Expense/(Credit)
Account 9260021 – Service Cost	$562,000	0.7272709	$408,726
Account 9260043 – Non-Service Cost	(8,260,000)	0.7272709	(6,007,258)
Total	$(7,698,000)		$(5,598,532)

(a) 2024 Forecasted I&M Total Company OPEB Expense (Credit) amounts were determined by I&M's third party actuary, Willis Towers Watson.

A similar forecasted level of OPEB non-service credit to expense was included in previous I&M Indiana base rate case costs of service calculations used to determine base rates. Without AEP's and I&M's business decisions to cap contributions to retiree medical costs effective January 1, 2013 and to close the OPEB plan to new employees effective January 1, 2014, the Company's OPEB expenses and cost of service would be significantly higher.

Q55. Why has the Company experienced OPEB credits to expense starting in 2013?

Based on the changes to I&M's OPEB plan identified above, I&M began amortizing the prior service credit to expense in accordance with GAAP, specifically ASC 715-60-35-20:

> A plan amendment that retroactively reduces, rather than increases, benefits decreases the accumulated postretirement benefit obligation. The reduction in benefits shall be recognized as a corresponding credit (prior service credit) to other comprehensive income that shall be used first to reduce any remaining prior service cost included in accumulated other comprehensive income, then to reduce any transition obligation remaining in accumulated other comprehensive income. The excess, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same

> basis as specified in paragraphs 715-60-35-16 through 35-17 for prior service cost. Immediate recognition of the excess is not permitted. However, as with a plan amendment that increases benefits, the effect of a negative plan amendment (an amendment that decreases benefits) is reflected immediately in the measurement of the accumulated postretirement benefit obligation.

As a fully regulated utility, I&M recorded the prior service credit to a regulatory asset instead of accumulated other comprehensive income. Annual amortization of the prior service credit (credit to expense) is recorded as a component of the Company's net periodic benefit cost which is included in I&M's cost of service.

The Expected Return on Assets has also resulted in a specific monthly credit to expense.

Q56. Is the Company's monthly OPEB entry also impacted by the OPEB-related VEBA trust?

Yes. As described by Company witness Hill, I&M's OPEB plan has a separate Voluntary Employees Beneficiary Association (VEBA) trust fund that requires I&M to keep within the trust all funds not used to pay employee retiree benefits. Since the Company is unable to access funds in its OPEB trust due to VEBA restrictions, I&M's entry to record OPEB cost, including the prior service credit amortization, results in both a monthly credit (reduction) to expense as described above and a corresponding debit (increase) to I&M's prepaid OPEB asset.

Q57. Please clarify how the prepaid OPEB asset exists given that the OPEB costs have been reflected in rates as either an expense or credit?

As explained above, in 1990, the Company established a VEBA trust fund related to the Company's OPEB obligations. The Company did not use the OPEB-related cost of service as cost-free capital. Instead, the Company contributed to the VEBA trust fund, which is invested and earns a return that stays within the trust fund. The return earned by the VEBA trust increased the funds available to satisfy the OPEB obligations.

Over time, due to the trust fund returns and changes in the OPEB benefits discussed above, the trust fund has grown to an amount that exceeds the expected OPEB obligation. In accordance with GAAP accounting guidance as described above (specifically ASC 715-60-35-20), annual actuarial reports prepared by I&M's third party actuary, Willis Towers Watson, continue to reflect annual net negative OPEB expense due to the expected return on assets and amortization of the prior service credit. While I&M continues to experience negative OPEB expense, the funds in the VEBA trust must remain in the trust until the trust is terminated, which is not until the last beneficiary is deceased.

For retail ratemaking purposes, the negative OPEB expense is reflected as a credit to the retail revenue requirement. As a result, this credit effectively reflects an "overfunding" in I&M's cost of service. However, since the funds in the VEBA trust cannot be withdrawn until the trust is terminated, the credit is not tied to the actual return of dollars. Rather, the ratemaking credit is essentially an advance payment with the Company fronting the cost of the advance. As explained above, I&M currently records a significant net credit to expense that is reflected in the Company's previous and currently proposed cost of service and resulting Indiana base rates. Since the funds in its OPEB trusts cannot be accessed, the resulting GAAP accounting creates I&M's prepaid OPEB asset, which continues to grow. The return of this asset to customers is being financed by investor funding. Therefore, I&M reasonably seeks a fair return on this asset balance through rate base treatment, similar to the Company's prepaid pension asset.

Q58. Why is it reasonable to include the prepaid pension asset and the prepaid OPEB asset in rate base?

Costs incurred by the Company related to its pension and OPEB plans are reasonable and necessary costs of providing service to customers. As described previously, these prepayments represent long-term cash investments the Company has made that serve to reduce future pension and OPEB costs and it is reasonable that the prepaid balances are included in rate base in order to provide the Company an opportunity to recover the cost of capital for investor funds dedicated to utility service.

Q59. Does this conclude your pre-filed verified direct testimony?

Yes.

VERIFICATION

I, Tyler H. Ross, Director of Regulatory Accounting Services at American Electric Power Service Corporation, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 8/8/23 Tyler H Ross

Tyler H. Ross