I&M Exhibit: _____

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INDIANA UTILITY
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INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

ANDREW J. WILLIAMSON

Cause No. 45933

Content

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

I. Introduction of Witness

Q1. Please state your name and business address.

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

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

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

Q3. Please briefly describe your educational background and professional experience.

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

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

In January 2008, I joined American Electric Power (AEP) as a Staff Accountant in the Accounting Policy and Research department. Thereafter, I held positions as a Staff and Senior Accountant in Financial Policy Transaction and Analysis, Senior Financial Analyst in Transmission Investment Strategy and Manager of

Regulatory Accounting Services. In March 2014, I assumed my current position as Director of Regulatory Services for I&M.

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

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

Q5. Have you previously testified before any regulatory commissions?

Yes. I have testified before the Indiana Utility Regulatory Commission (IURC or Commission) on behalf of I&M in numerous cases, including I&M’s most recent general rate case filings, Cause Nos. 45576, 45235, and 44967. I also filed testimony in Cause Nos. 45868 and 45869, seeking approval of additional generation resources consistent with I&M’s 2021 Integrated Resource Plan as submitted to the Commission on January 31, 2022.

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

II. Purpose of Testimony

Q6. What is the purpose of your testimony in this proceeding?

The purpose of my testimony is to support the continued recovery of Asset Retirement Obligation (ARO) and other decommissioning costs (also referred to as “cost of removal” and “net salvage”) associated with Rockport Unit 2. These obligations were created as a result of the service Rockport Unit 2 provided to I&M's Indiana retail customers. The associated costs are therefore reasonable and necessary and should continue to be reflected in I&M's cost of service until the ARO and other decommissioning costs are finally settled upon closure of the plant.

Q7. Are you sponsoring any other workpapers in this proceeding?

Yes. I am co-sponsoring, with Company witness Ross, 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 (supports Adjustment RB/O&M-1). Specifically, I will support the cost of removal adjustment associated with Rockport Unit 2 included in Adjustment RB/O&M-1.

III. Rockport ARO and Other Decommissioning Costs

Q8. Please generally explain what ARO and other decommissioning obligations represent.

ARO and other decommissioning obligations are the liabilities that are created as a result of the existence and operation of a power plant. The obligations themselves represent the expected cost to remove a power plant and the associated components of equipment and related facilities from service, including compliance with environmental requirements, removal of equipment and structures and returning the site to certain conditions. The majority of these liabilities come due after a plant is permanently retired.

Q9. What is the difference between an ARO and cost of removal?

An ARO represents a liability for the *legal obligation* associated with the retirement of a tangible long-lived asset that a company is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.

An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. Examples of AROs would be the remediation and removal of asbestos and the closure of ash ponds. Cost of removal means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. Examples of the types of costs include the cost to permanently remove the plant equipment and physical structures from the site and returning the site to certain conditions. Net salvage refers to cost of removal less the salvage value of the property retired.

Q10. Please generally explain the accounting and ratemaking for AROs.

Generally Accepted Accounting Standards (GAAP) and Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USofA) specifically prescribe certain accounting for AROs. Generally speaking, upon existence of the ARO, GAAP and FERC USofA both require a noncash ARO asset and ARO liability to be initially recorded to the balance sheet. These are initially recorded as the net present value (NPV) of the future estimated liability. Over the remaining life of the related asset, the ARO asset is depreciated to zero and the ARO liability is accreted to its future value based on an assumed discount rate. The sum of this depreciation expense and accretion expense recognizes the cost of the ARO over the life of the asset. Periodically ARO obligations are reevaluated and changes in estimate are reflected in the ARO asset and liability balances, and remaining depreciation and accretion expense is adjusted accordingly. At the end of an asset's life the ARO asset and accumulated depreciation is retired (i.e. removed from the balance sheet) and the liability remains on the balance sheet until the costs are incurred and the liability is satisfied. For ratemaking purposes, the ARO noncash balance sheet accounts are excluded from rate base and the ARO depreciation and accretion expenses are included in operating expenses and cost of service.

Q11. Please generally explain the accounting and ratemaking for cost of removal less salvage, also known as net salvage.

Total net salvage is an input to the depreciation studies of the related asset such that depreciation rates are developed to allow for recovery of the depreciable cost of the asset itself as well as the estimated decommissioning costs, net of estimated salvage or scrap value. When removal costs exceed the salvage received, we commonly refer to this scenario as “negative net salvage” and is often supported by demolition estimates that are performed and updated periodically. As is the case with Rockport, negative net salvage is a net cost in addition to the cost of the asset itself, meaning that to fully depreciate the asset, including fully recognizing net salvage, the asset must be depreciated in excess of its original cost. For example, if an asset with a cost of $1,000,000 has an estimated net salvage of $100,000, it would need to be depreciated to a value of $1,100,000 in order to fully depreciate the asset cost and recognize the negative net salvage. Therefore, at the end of the asset’s life it would have a net plant value (original cost less accumulated depreciation) of negative $100,000 (i.e. representing the remaining non-legal liability or non-legal obligation the company has). As the decommissioning costs are incurred and salvage credits are realized, each are recorded to accumulated depreciation, offsetting the remaining net-credit balance for the plant and effectively eliminating the liability associated with the plant.

For ratemaking purposes, net salvage is a component of total depreciation expense and the accumulated depreciation balance which are included in cost of service. However, as mentioned above, until the asset is fully depreciated and the accumulated depreciation balance exceeds the original cost of the asset by the amount of net salvage, the full amount of net salvage has not been reflected in I&M's rates. Company witness Cash supports I&M's proposed depreciation rates, including the estimated net salvage and associated demolition studies.

Q12. Is I&M responsible for the AROs and general decommissioning of Rockport Unit 2?

Yes. These obligations have been I&M's since the unit began operation in 1989.

Q13. Please explain the current status of Rockport Unit 2.

In Cause No. 45546, the Commission approved a settlement agreement whereby the Commission declined jurisdiction over I&M's reacquisition of Rockport Unit 2 at the end of the Lease[1] and established a transition plan. Under the transition plan, after termination of the Lease Rockport Unit 2 became a merchant generating unit but I&M's ownership share remained committed to be available to provide short-term capacity to customers through May 31, 2024. The transition plan also committed I&M to retire Rockport Unit 2 by December 31, 2028. The settlement agreement in Cause No. 45546 also addressed certain ratemaking matters related to the recovery which were then addressed through a Commission approved settlement agreement in I&M's base rate case that was pending at the time in Cause No. 45576. Per the settlement agreement in Cause No 45576, I&M agreed to certain ratemaking adjustments that effectively removed all Rockport Unit 2 costs from I&M's cost of service with the exception of ARO and net salvage and recovery of the remaining NBV of the Rockport Unit 2 investments I&M made during the Lease.

[1] The Rockport Unit 2 lease ended December 7, 2022.

Q14. Did the reacquisition of Rockport Unit 2 as approved by the IURC in Cause No. 45546 change I&M's ARO and other decommissioning obligations?

No.

Q15. Please summarize the adjustments associated with Rockport Unit 2 included in Adjustment RB/O&M-1?

Adjustment RB/O&M-1 involves 3 adjustments as summarized below:

1. Reduces rate base to remove Rockport Unit 2's remaining NBV (original cost and accumulated depreciation) as of December 31, 2024;
2. Reduces O&M to remove Rockport Unit 2's Test Year level of depreciation expense; and
3. Increases O&M to include net salvage related to Rockport Unit 2.

Components one and two are necessary as a result of the settlement agreement in Cause No. 45576 which required I&M to remove the remaining NBV of Rockport Unit 2 from base rates and recover it on a levelized basis in I&M's Environmental Cost Rider through 2028. This levelized recovery was specific to the remaining NBV of Rockport Unit 2, meaning the net salvage remained in base rates. Component three above is necessary to ensure I&M's cost of service continues to fully reflect the estimated net salvage for Rockport Unit 2 which I will explain further below. Company witness Ross further discusses these adjustments.

Q16. Please explain the net salvage adjustment associated with Rockport Unit 2 included in Adjustment RB/O&M-1?

In this proceeding, Company witness Cash presents I&M's updated depreciation study which proposes updated depreciation rates for Rockport Unit 1 and Unit 2[2]

[2] The remaining NBV of Rockport Unit 2 is limited to the investments made during the term of the lease in accordance with the settlement agreements approved in Cause Nos. 45546 and 45576.

that are designed to recover the remaining NBV and net salvage estimates associated with both units. The depreciation study effectively spreads the estimated net salvage for Rockport over each unit based on the original cost balance of each unit when calculating the proposed depreciation rates. Meaning, in order to properly reflect the full net salvage in I&M's ongoing cost of service, it would need to reflect depreciation expense based on the calculated rates applied to the original cost of Rockport Unit 2. However, as described previously, in the settlement agreement in I&M's last rate case, Cause No. 45576, I&M agreed to remove the remaining NBV of Rockport Unit 2 (original cost less accumulated depreciation) from base rates and recover this amount through the ECR on a levelized basis through 2028. This levelized amount only reflected the original cost and the net salvage associated with Rockport Unit 2 remained in base rates. Therefore, due to the fact that net salvage is reflected in cost of service by applying the proposed depreciation rates to original cost and Adjustment RB/O&M-1 removes the original cost of Rockport Unit 2 from base rates, it is necessary to add back the net salvage that was designed to be reflected in cost of service according to Company witness Cash's depreciation study. This ensures I&M's cost of service continues to reflect a reasonable and necessary level of net salvage for Rockport Unit 2, recognizing the fact that Rockport Unit 2 will not be fully depreciated until 2028 and net salvage has not yet been fully recognized.

Q17. Are there any adjustments related to ARO costs?

No.

Q18. Is it reasonable and necessary for I&M to continue recovering ARO and net salvage related to Rockport Unit 2?

Yes. These obligations arose during the period of time Rockport Unit 2 was used and useful in the provision of service to customers. Also, at the time the Lease ended, I&M's remaining NBV was approximately $78 million (Indiana

Jurisdictional) which was agreed to be recovered through 2028. Since I&M had not yet recovered the original cost of the investments, it also had not recovered the net salvage necessary to decommission the unit. As explained above, the net salvage component is effectively not recovered until the asset is fully depreciated and the accumulated depreciation balance exceeds the original cost by the amount of net salvage required to decommission the unit.

Q19. Does this conclude your pre-filed verified direct testimony?

Yes.

VERIFICATION

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

Date: _____8/8/2023__________

Andrew J. Williamson

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