I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

FRANZ D. MESSNER

Cause No. 45933

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DIRECT TESTIMONY OF FRANZ D. MESSNER
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

I. Introduction of Witness

Q1. Please state your name and business address.

My name is Franz D. Messner, 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 Managing Director of Corporate Finance. 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. Describe your educational background and professional experience.

I earned a Bachelor of Science in Systems Engineering from the United States Naval Academy in 1990. I earned a Master of Business Administration from the Fisher College of Business at the Ohio State University in 1999. Prior to joining AEP, I served for seven years as a U.S. Naval officer and completed both chief engineer and submarine officer qualifications.

In June 1999, I was hired by AEPSC as an associate in a finance associate development program. My primary roles have been in the areas of financial analysis, budgeting, and forecasting. In July 2007, I was named Manager in Corporate Planning and Budgeting and subsequently promoted to Director in November 2009. In May 2016, I assumed my current position as Managing Director of Corporate Finance.

Q4. What are your responsibilities as Managing Director of Corporate Finance?

I am responsible for planning and executing the corporate finance programs of the regulated AEP System operating companies, including I&M. My responsibilities also include preparing recommendations for the payment of dividends by those companies, maintaining capitalization targets, and managing the relationships of AEP and its subsidiaries with the credit rating agencies.

Q5. Have you previously testified before any regulatory commissions?

Yes, I have submitted testimony on behalf of Indiana Michigan Power before the Indiana Utility Regulatory Commission and the Michigan Public Service Commission, Ohio Power before the Public Utilities Commission of Ohio, Kentucky Power before the Public Service Commission of Kentucky, Appalachian Power before the Virginia State Corporation Commission and Kingsport Power before the Tennessee Public Utility Commission.

II. Purpose of Testimony

Q6. What is the purpose of your testimony?

The purpose of my testimony is to:

- Present and support the capital structure and weighted average cost of capital (WACC) for I&M.
- Describe the forecast financing activity between December 31, 2022, the end of the Historical Period, and December 31, 2024, the end of the forward-looking Test Year.
- Describe I&M's credit ratings and why regulatory outcomes are important in the rating process.

Q7. Are you sponsoring any exhibits?

Yes, I am sponsoring I&M Exhibit A-7: Forecasted Capital Structure and Weighted Average Cost of Capital.

Q8. Are you sponsoring any workpapers?

Yes, I am sponsoring WP-I&M-1-6: Historical Capital Structure and Weighted Average Cost of Capital.

Q9. Were the exhibits and workpapers prepared or assembled by you or under your direction?

Yes.

Q10. Summarize your testimony.

This testimony presents the capital structure and weighted average cost of capital for I&M, describes the forecasted financing activity between December 31, 2022, the end of the historical period, and December 31, 2024, the end of the forward-looking Test Year, and describes I&M's credit ratings and why regulatory outcomes are important in the rating process.

I&M proposes a WACC of 6.49%, which is a reasonable value reflecting the forecasted Test Year end December 31, 2024 capital structure which, based on investor-supplied capital, includes a 48.8%/51.2% ratio of long-term debt to equity and a reasonable return on equity (ROE) of 10.5% as supported by witness Bulkley.

The Test Year capital structure and WACC are shown in I&M Exhibit A-7. I&M's forecasted WACC is 6.44% at the beginning of the Test Year (December 31, 2023), and 6.49% at the end of the Test Year (December 31, 2024). In both cases, the Company utilizes a 10.50% cost of equity supported by witness

Bulkley. I&M's overall proposal will help maintain solid credit ratings and ready access to capital over the forecast period. The projected cost rate for long-term debt is 4.59% at the beginning of the Test Year (December 31, 2023) and 4.58% at the end of the Test Year (December 31, 2024) as shown on pages 1 and 3 of Exhibit A-7.

Financing activity forecasted for the period between the end of the historical period (December 31, 2022) and the end of the Test Year (December 31, 2024) includes a March 2023, $500,000,000 issuance of new long-term debt to offset a $250,000,000 long-term debt maturity in March 2023 and to supplement the needs of its ongoing capital investment program.

Credit ratings are opinions on a company's ability to repay its debt and other obligations in full and on time. The credit ratings facilitate the process of issuing bonds by providing a widely recognized measure of relative credit risk. Investors may also use ratings as a screening device to determine investments. Credit ratings are important to I&M. A higher credit rating results in lower cost of debt and better access to capital in times of financial volatility. The credit rating is the primary criteria by which fixed income investors evaluate debt investments. Additionally, fixed income investors are limited in the amount of non-investment grade securities that they can purchase, so it is important for a utility to maintain investment grade ratings. A portion of the Company's credit rating is based on qualitative factors related to regulatory environment. Rating agencies closely follow regulatory outcomes for a utility. Consistent and appropriate regulatory treatment is a credit positive and supports the Company's credit ratings which in turn affords the Company better access to capital markets to better source capital at lower cost.

III. Weighted Average Cost of Capital

Q11. Describe I&M's capital structure and WACC at the beginning and end of the Test Year as shown in I&M Exhibit A-7.

I&M Exhibit A-7 depicts the calculation of the WACC for I&M with both permanent capital and ratemaking adjustments, which include deferred taxes and customer deposits.

I&M's forecasted overall WACC, inclusive of ratemaking adjustments, is 6.44% at the beginning of the Test Year (December 31, 2023), and 6.49% at the end of the Test Year (December 31, 2024). In both cases, the Company utilizes a 10.50% ROE supported by witness Bulkley.

Pages 1 and 3 of I&M Exhibit A-7 (also shown in *Figures FDM-1* and *FDM-2*) show the computation of the WACC for I&M at the beginning and end of the Test Year.

Figure FDM-1. Forecast WACC at the beginning of the Test Year, 12/31/2023

	(a)	(b)	(c)	(d)	(e)
Line No.	Description	Total Company Capitalization	Percent of Total	% Cost Rate	% Weighted Average Cost Rate
1		$			
2	Long-Term Debt	3,067,720,499	41.79%	4.59%	1.92%
3	Common Equity	3,138,664,653	42.76%	10.50%	4.49%
4	Customer Deposits	48,606,762	0.66%	2.00%	0.01%
5	ADFIT[1]	1,071,672,429	14.60%	0.00%	0.00%
6	ADITC[2]	13,457,227	0.18%	7.58%	0.01%
7					
8	Total	7,340,121,570	100.00%		6.44%
9					
10					
11					
12	Cost of Investor Supplied Capital				
13	Long-Term Debt	3,067,720,499	49.43%	4.59%	2.27%
14	Common Equity	3,138,664,653	50.57%	10.50%	5.31%
15	Total	6,206,385,152	100.00%		7.58%

[1]Accumulated Deferred Federal Income Taxes
[2]Accumulated Deferred Job Development Investment Tax Credits

Figure FDM-2. Forecasted WACC at the End of the Test Year, 12/31/2024

	(a)	(b)	(c)	(d)	(e)
Line No.	Description	Total Company Capitalization	Percent of Total	% Cost Rate	% Weighted Average Cost Rate
1		$			
2	Long-Term Debt	3,065,215,589	41.45%	4.58%	1.90%
3	Common Equity	3,216,351,502	43.49%	10.50%	4.57%
4	Customer Deposits	48,606,762	0.66%	2.00%	0.01%
5	ADFIT[1]	1,055,959,131	14.28%	0.00%	0.00%
6	ADITC[2]	9,563,755	0.13%	7.61%	0.01%
7					
8	Total	7,395,696,738	100.00%		6.49%
9					
10					
11					
12	Cost of Investor Supplied Capital				
13	Long-Term Debt	3,065,215,589	48.80%	4.58%	2.23%
14	Common Equity	3,216,351,502	51.20%	10.50%	5.38%
15	Total	6,281,567,091	100.00%		7.61%

[1]Accumulated Deferred Federal Income Taxes
[2]Accumulated Deferred Job Development Investment Tax Credits

Column (a) shows the components of capital, including long-term debt, common equity, customer deposits, accumulated deferred federal income taxes (ADFIT), and accumulated deferred job development investment tax credits (ADITC).

Column (b) shows the capitalization by component at December 31, 2023 (*Figure FDM-1*) and December 31, 2024 (*Figure FDM-2*). Column (c) identifies each component's percentage of I&M's total capital, and Column (d) identifies the cost rates associated with each component. Column (e) shows the WACC by component.

Q12. Describe I&M's Test Year cost of long-term debt shown in I&M Exhibit A-7.

The forecasted cost rates for long-term debt at the beginning of the Test Year (December 31, 2023) and end of the Test Year (December 31, 2024) shown on pages 1 and 3 of I&M Exhibit A-7 are 4.59% and 4.58%.

The calculation of these forecasted costs is shown on pages 2 and 4 of I&M Exhibit A-7 and is inclusive of all costs associated with long-term debt issuances.

Q13. What is the source of the other cost rates in I&M Exhibit A-7?

The 10.50% ROE was provided to me by witness Bulkley. A 2.0% cost rate was applied to the balance of customer deposits consistent with the Settlement Agreement approved in Cause No. 44967 and the cost of capital reflected in the February 23, 2022 Order in Cause No. 45576 (45576 Order), the Company's last base rate proceeding.

A 0.0% cost rate was assigned to accumulated deferred federal income taxes. The cost rate assigned to accumulated deferred job development investment tax credits is the weighted average cost rate of investor-supplied capital. The Test Year cost of capital calculation is consistent with the methodology used to calculate the WACC in Cause No. 45576.

Q14. What are I&M's forecasted common equity balances in I&M Exhibit A-7?

I&M's forecasted common equity balances in I&M Exhibit A-7 are $3,138,664,653 at December 31, 2023 and $3,216,351,502 at December 31, 2024. These were derived from the Company's forecast for 2023-2024 supported by Company witness Sloan.

Q15. What are I&M's forecasted customer deposit balances in I&M Exhibit A-7?

I&M's forecasted customer deposit balances in I&M Exhibit A-7 are $48,606,762 at both December 31, 2023 and December 31, 2024. These were derived from the Company forecast for 2023-2024 supported by Company witness Sloan.

Q16. What are I&M's forecasted balances of accumulated deferred income taxes (ADFIT) and accumulated deferred job development investment tax credits (ADITC) in I&M Exhibit A-7?

I&M's forecasted balances of ADFIT and ADITC in I&M Exhibit A-7 are $1,071,672,429 and $13,457,227, respectively, at December 31, 2023 and $1,055,959,131 and $9,563,755, respectively, at December 31, 2024. The balances of ADFIT and ADITC were calculated and provided by Company witness Criss.

Q17. How were the historical capital structure and WACC determined in workpaper WP-I&M-1-6?

The historical calculation in WP-I&M-1-6 is based on actual data as of December 31, 2022. The calculation was prepared in the same manner as the Test Year calculation in I&M Exhibit A-7 and is used to answer certain minimum standard filing requirement schedules.

IV. Financing Activity

Q18. Describe I&M's financing activity forecasted for the period between December 31, 2022, the end of the Historical Period, and December 31, 2024, the end of Test Year.

The Company forecast reflects a $500,000,000 issuance of new long-term debt to repay the $250,000,000 Series J senior notes that matured March 15, 2023, and to supplement the needs of its ongoing capital investment program. The $500,000,000 Series P senior notes were issued and closed on March 23, 2023.

V. Credit Ratings

Q19. What are credit ratings and what is an investment grade rating?

Credit ratings are opinions on a company's ability to repay its debt and other obligations in full and on time. The credit ratings facilitate the process of issuing bonds by providing a widely recognized measure of relative credit risk. Investors may also use ratings as a screening device to determine investments. For example, an investor may choose only to invest in investment grade corporations or utilities.

The credit ratings scale ranges from the highest ratings of ‘AAA’ for Standard and Poor’s (S&P) and Fitch which is the highest rating and generally associated with U.S. and similar government securities and a handful of corporations to the lowest rating of ‘D’ which indicates that the entity has defaulted on its payments. Moody Investor Service’s (Moody’s) scale is from the highest credit rating of ‘Aaa’ to a lowest credit rating of ‘C’.

Investment grade ratings are those instruments or corporations that are rated from ‘AAA/Aaa’ to ‘BBB/Baa’ respectively by S&P and Fitch/Moody’s. Any ratings below investment grade are considered by investors to be either speculative, with less likelihood of repayment, or already in default.

Q20. Generally describe the methodology of each rating agency.

S&P evaluates the credit of each operating company utilizing a family approach, factoring in the ratings of all AEP system subsidiaries. S&P’s family approach to bond ratings for individual operating companies emphasizes the inherent benefits and risks associated with having a diversified family of operating companies across AEP’s eleven-state service territory.

Moody’s and Fitch rate each operating company individually based on the merits of the company’s underlying regulatory environment, operations, and credit profile but recognize that each is part of a larger holding company.

Q21. Why are credit ratings important to I&M?

A higher credit rating typically results in lower cost of debt and better access to capital in times of financial volatility as compared to entities with a lower credit rating. The credit rating is the primary criteria by which fixed income investors evaluate debt investments. Additionally, fixed income investors are limited in the amount of non-investment grade securities that they can purchase, so it is important for a utility to maintain investment grade ratings.

Q22. Please discuss I&M's position with the credit rating agencies.

As shown in the Company's response to Minimum Standard Filing Requirement 170 IAC 1-5-13(a)(10), I&M's senior unsecured ratings are A- (stable) at S&P, A3 (stable) at Moody's, and A (stable) at Fitch. All are solidly investment grade.

Q23. Is regulatory treatment important to the rating agencies?

Yes, a portion of the Company's credit rating is based on qualitative factors related to regulatory environment. Rating agencies closely follow regulatory outcomes for a utility. Consistent and appropriate regulatory treatment is a credit positive and supports the Company's credit ratings which in turn affords the Company better access to capital markets to better source capital at lower cost.

Q24. Does this conclude your pre-filed verified direct testimony?

Yes.

VERIFICATION

I, Franz D. Messner, Managing Director Corporate Finance AEPSC, 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

Franz D. Messner