

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
ANDREW J. WILLIAMSON**

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony of Andrew J. Williamson in this Cause.



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I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

ANDREW J. WILLIAMSON

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**PRE-FILED VERIFIED DIRECT TESTIMONY OF WITNESS ANDREW J. WILLIAMSON
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

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

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

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

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

7 **Q. Please briefly describe your educational background and professional
8 experience.**

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

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

18 In January 2008, I joined American Electric Power (AEP) as a Staff
19 Accountant in the Accounting Policy and Research department. Thereafter, I've
20 held positions as a Staff and Senior Accountant in Financial Policy Transaction

1 and Analysis, as a Senior Financial Analyst in Transmission Investment Strategy
2 and as a Manager of Regulatory Accounting Services. In March 2014, I
3 assumed my current position as Director of Regulatory Services for I&M.

4 **Q. Have you previously testified before any regulatory commissions?**

5 A. Yes. I have testified before the Indiana Utility Regulatory Commission (IURC or
6 Commission) on behalf of I&M in the following matters:

7	)	43775 OSS-5	Off System Sales Rider Reconciliation
8	)	44523	Certificate of Public Convenience and Necessity
9	)	44331 ECR X	Federal Mandate Rider Reconciliations
10	)	44542	TDSIC Plan
11	)	44543	TDSIC Rider
12	)	44655	SDI Contract Amendment
13	)	44696	Generation Hedging Plan

14 In addition, I have testified before the Michigan Public Service Commission
15 (MPSC) in Case Nos. U-18370, U-17919, and U-17698. I have also testified
16 before the Public Utility Commission of Texas on behalf of AEP Texas Central
17 Company (TCC), AEP Texas North Company (TNC), Electric Transmission
18 Texas, LLC (ETT) and Southwestern Electric Power Company (SWEPCO), and
19 before the Corporation Commission of the State Of Oklahoma on behalf of Public
20 Service Company of Oklahoma (PSO).

21 **Q. What are your responsibilities as Director of Regulatory Services?**

22 A. I am responsible for the supervision and direction of I&M's Regulatory Services
23 Department, which has responsibility for all rate and regulatory matters affecting
24 I&M's Indiana and Michigan jurisdictions. I report directly to I&M's Vice President
25 of Regulatory and External Affairs.

1 **PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony is to:

4) Summarize the Company's forward-looking test year.

5) Discuss the application of General Administrative Order (GAO) 2013-5 and
6 the Minimum Standard Filing Requirements (MSFR).

7) Discuss the Company's requested rate relief.

8) Support adjustments to net electric operating income and rate base.

9) Explain the Company's proposed Phase-in Rate Adjustment (PRA)
10 mechanism designed to phase-in I&M's requested rate change during the
11 forward-looking test year.

12) Support the Company's rate base treatment for its prepaid pension asset.

13) Explain the Company's rider proposals which include changes to the
14 Company's existing riders, the Company's request for new riders and the
15 voluntary Renewable Energy Option (REO).

16) Support the Company's need for and requests to continue the Major Storm
17 Damage Restoration Reserve and for new deferral authority.

18) Explain the final accounting and ratemaking associated with the Tanners
19 Creek plant.

20) Explain the allocation methodology for nuclear decommissioning.

21) Explain the Company's request for a waiver of the purchased power
22 benchmark procedures.

23) Explain a wholesale contract change and updated special contract revenue
24 assumptions.

25 **Q. Are you sponsoring any exhibits in this proceeding?**

26 A. I am sponsoring or co-sponsoring the following portions of I&M Exhibit A:

27) I&M Exhibit A-1 (calculation of required Indiana jurisdictional rate relief).

1) I&M Exhibit A-5 (net electric operating income) and certain adjustments to
2 net electric operating income also shown on I&M Exhibit A-5.

3) I&M Exhibit A-6 (rate base) and certain adjustments to rate base also
4 shown on I&M Exhibit A-6.

5 **Q. Are you sponsoring any workpapers in this proceeding?**

6 A. Yes. I sponsor WP-AJW-1: O&M Expense Adjustment 4 (Rate Case Expense)
7 and WP-AJW-2: Special Contract Adjustment.

8 **Q. Were the exhibits and workpapers that you sponsor prepared by you or
9 under your direction?**

10 A. Yes.

11 **SUMMARY OF TEST YEAR**

12 **Q. What test year has the Company proposed for setting rates in this
13 proceeding?**

14 A. The Company has proposed rates based on a forward-looking calendar year test
15 year of January 1, 2018 through December 31, 2018 (Test Year). This includes
16 both base rates and rider rates.

17 **Q. Is using a forward-looking test year for ratemaking a new concept for I&M?**

18 A. No. I&M has similarly used forward-looking test years to establish base rates in
19 its Michigan jurisdiction, including the base rate case I&M filed in May 2017, in
20 MPSC Case No. U-18370.

21 **Q. Is I&M's Test Year appropriate and reasonable?**

22 A. Yes. Under Indiana Code 8-1-2-42.7(d) and (d)(1), in a petition, such as this, "to
23 change basic rates and charges," a utility "may designate a test period for the
24 [C]ommission to use." Further, the Commission "shall approve a test period that

1 is one (1) of the following: . . . A forward looking test period determined on the
2 basis of projected data for the twelve (12) month period beginning not later than
3 twenty-four (24) months after the date on which the utility petitions the
4 commission for a change in its basic rates and charges.” The Test Year I&M has
5 designated for the case meets these statutory criteria and thus is appropriate and
6 reasonable under Indiana law.

7 **Q. Please explain I&M Exhibit A.**

8 A. I&M Exhibit A consolidates the data supporting I&M’s projected costs and
9 revenues for the Test Year. The items included in I&M’s Exhibit A satisfy the
10 MSFRs in Section 6 for the Test Year. I&M’s documentation in support of the
11 Company’s filing includes workpapers (WPs) which provide further detail.

12 **Q. Has the Company provided historical data?**

13 A. Yes. The Company has provided historical data using a 2016 calendar year
14 historic base period. The Company has provided this historical data on
15 Workpaper WP-I&M-1 and, where appropriate, in its response to the MSFRs.

16 **Q. Has the Company made adjustments to the Test Year?**

17 A. Yes. Adjustments to the Test Year are necessary, primarily in support of
18 ratemaking adjustments to reflect impacts to the forecast that relate to requests
19 that become effective upon Commission approval. For example changes in net
20 operating income and/or rate base resulting from, changes in depreciation rates,
21 amortization of deferred costs, and removing from base rates certain revenues
22 and expenses requested to be recovered in riders. Each adjustment is

1 sponsored and described by an I&M witness and, where applicable, supported by
2 workpapers, as shown on Exhibit A.

3 **GAO 2013-5**

4 **Q. Have you reviewed GAO 2013-5 in preparation of this filing?**

5 A. Yes. In preparation of this filing I reviewed the guidance provided by the
6 Commission in GAO 2013-5.

7 **Q. Please summarize GAO 2013-5.**

8 A. GAO 2013-5 describes the 300-day rate case standard procedural schedule and
9 the Commission's guidance for rate cases. GAO 2013-5 was released on July 3,
10 2013, a few months after the statute concerning rate case changes was enacted.
11 The guidance outlines the information that the Commission recommended be
12 included with the filing to reduce discovery issues and facilitate a more efficient
13 and timely process for identifying critical issues in a rate case. The guidance
14 discusses the use of the MSFRs and using a forward-looking test year.

15 **Q. Is I&M proposing that rates be implemented on the first day of the Test**
16 **Year as provided in Indiana Code 8-1-2-42.7 (Section 42.7)?**

17 A. No. I&M is proposing the Commission issue an order in this Cause in
18 accordance with the Section 42.7 timeline. In accordance with the settlement in
19 Cause No. 43774 PJM-4 S1, I&M agreed to not file a base rate case earlier than
20 July 1, 2017 and not implement new base rates prior to July 1, 2018.
21 Accordingly, I&M is proposing that rates take effect on July 1, 2018 or as soon as
22 practicable thereafter.

1 **Q. Did I&M incorporate the guidance provided in GAO 2013-5 in this filing?**

2 A. Yes, in combination with the Commission's prehearing conference order from the
3 Indiana American Water forward-looking test year case, Cause No. 44450. In
4 addition, I&M developed this filing using its experience from filing forward-looking
5 test year rate cases in Michigan.

6 **Q. Please describe how I&M has applied GAO 2013-5.**

7 A. I&M has applied the GAO as follows:

8 Notice of Intent:

9) I&M submitted a Notice of Intent on May 26, 2017, at least 30 days prior to
10 the date of filing for a change in base rates.

11) I&M has reached out to the OUCC and other stakeholders to discuss the
12 filing. The Company remains willing to continue to discuss its filing with
13 interested parties.

14 Case in Chief and Supporting Documentation:

15 As recognized in the GAO, because the MSFR contemplates a historical test
16 period, the documentation requirements are not a precise match for a forward-
17 looking test period. With that in mind, and as recommended by the GAO, I&M
18 used the MSFRs as guidance as to the categories of information to include in its
19 case in chief and supporting documentation. Specifically I&M's filing includes the
20 following:

21) Testimony, exhibits, attachments and supporting workpapers – MSFR
22 Sections 6-16: I&M's case in chief includes a complete description of the
23 rate relief requested.

24) Proposed test year and rate base cutoff dates – MSFR Section 5: I&M
25 selected calendar year 2018 as its Test Year, and has provided calendar
26 year 2016 data as its historic base period. I&M has provided
27 documentation supporting the Test Year, including calculations,

1 assumptions, and results. The differences from the historic base period to
2 the Test Year are discussed in more detail by various Company witnesses
3 and are summarized by Company witness Lucas.

4) Proposed revenue requirement – MSFR Sections 7-12.

5) Jurisdictional operating revenues and expenses, including taxes and
6 depreciation – MSFR Section 8.

7) Balance sheet and income statements – MSFR Sections 6, 8-9.

8) Jurisdictional rate base – MSFR Section 9-12. I&M's jurisdictional rate
9 base is as of the end of the Test Year or December 31, 2018 (Test Year
10 End), along with a Phase-in Rate Adjustment as explained later in my
11 testimony. The Phase-in Rate Adjustment takes into account changes in
12 plant in service, accumulated depreciation, and cost of capital. Therefore,
13 the GAO's recommendation to calculate an average of the monthly rate
14 base over the projected test period was not necessary.

15) Proposed cost of capital and capital structure – MSFR Sections 12-13.

16) Jurisdictional class cost of service study – MSFR Section 15.

17) Proposed rate design and pro forma tariff sheets – MSFR Section 16.

18 **Q. Does I&M's filing include supporting documentation for its forward-looking**
19 **Test Year as suggested in the GAO?**

20 A. Yes. In addition to testimony, I&M's witnesses have provided various
21 attachments and workpapers, many in executable electronic format, that support
22 and document the Test Year. I&M has provided the same level of support for the
23 Test Year as it has provided in past historical test year cases. In addition, I&M
24 has provided responses to the MSFRs for the Test Year and, where appropriate,
25 for the historic base period. I&M has also provided data for the historic base
26 period in Workpaper WP-I&M-1.

1 **Q. Please explain how the Test Year and historic base period data are used to**
2 **calculate and support the rates requested in this case.**

3 A. For purposes of calculating I&M's proposed base rates and rider rates, the
4 ratemaking process is focused on the Test Year. The use of a forward-looking
5 test year does not change this focus. The historic base period data presented in
6 this filing serves as a representative set of data which, in most cases, can be
7 reasonably compared to I&M's Test Year. Company witness Lucas explains that
8 the historic base period data presented has not been adjusted for inflation, but
9 inflation must be considered when comparing historical data to the Test Year.

10 **Q. Does the GAO provide for deviations?**

11 A. Yes. I&M followed the Commission's guidance, but deviated from the guidance
12 when the change produced a result that would facilitate a more efficient and
13 timely process for identifying critical issues in this rate case. I&M has explained
14 in testimony why these deviations are reasonable.

15 **Q. Please summarize how I&M's filing deviates from the guidance provided in**
16 **GAO 2013-5.**

17 A. Below is a summary of the two notable deviations from the guidance set forth in
18 the GAO:

19) I&M has provided detailed "supporting documentation" and "supporting
20 calculations" for the forward-looking Test Year. However, I&M has not
21 provided this supporting documentation in the form of "individual
22 adjustments" from the historic base period to the Test Year under GAO
23 2013-5 ¶ II.A.2.c. See the testimony of Company witness Lucas for the
24 explanation of I&M's forecasting process.

1) Because of the Phase-In Rate Adjustment described later in my testimony,
2 it was not necessary to use an average monthly rate base under GAO
3 2013-5 ¶ II.A.6.b.

4 **Q. Will I&M provide notice to its customers regarding the filing of the Petition?**

5 A. Yes. I&M will publish a notice of the filing of the Petition in this Cause in
6 newspapers of general circulation in each of the counties in the State of Indiana
7 in which I&M renders retail electric service. Following publication of notice, I&M
8 will certify to the Commission that the publication has occurred.¹

9 In addition, in accordance with 170 IAC 4-1-18(C), I&M will provide notice
10 of this filing to each residential customer within 45 days of the filing of this
11 Petition. This notice will fairly summarize the nature and extent of the proposed
12 changes. This notice is in the form of a bill insert in residential customers' bills.

13 **REQUESTED RATE RELIEF**

14 **Q. Please explain I&M's Test Year cost of service and requested rate relief.**

15 A. Recovery of I&M's cost to serve customers during the Test Year is accomplished
16 through a combination of base rates and rider rates. The Commission's approval
17 of both I&M's proposed base rates and I&M's proposed rider rates is necessary
18 to ensure I&M is provided a reasonable opportunity to recover its cost to serve
19 customers, including a fair return on its underlying investments. If the
20 Commission were to remove the recovery of certain expenses from I&M's
21 proposed rider rates, adjustments would need to be made to I&M's base rate
22 cost of service to reflect inclusion of all such expenses. I&M's requested rate
23 relief is summarized on I&M Exhibit A-1.

¹ See Ind. Code 8-1-2-61(a) for the notice requirement.

1 **Q. Please explain I&M Exhibit A-1.**

2 A. I&M Exhibit A-1 presents I&M's overall requested rate relief for the Test Year,
3 including I&M's proposed base rates and rider rates. I&M's overall requested
4 rate relief for the Test Year, as found on line 12, is approximately \$263 million.
5 Line 9 represents the rate relief specific to proposed base rates. I&M's proposed
6 base rates have been calculated using I&M's requested return on the Test Year
7 End rate base. I&M's proposed rider rates reflect the removal of certain
8 expenses from the Test Year which have been included in the rider revenue
9 requirements. I discuss I&M's rider proposals in detail later in my testimony. In
10 order to reflect the impact of I&M's rider proposals, the Company made
11 adjustments to its Test Year net electric operating income to remove both the
12 existing Test Year revenue and Test Year expenses associated with I&M's rider
13 proposals. These adjustments, shown on Exhibit A-5, are sponsored and
14 explained by Company witnesses Stegall and Halsey.

15 Later in my testimony I also discuss I&M's Phase-in Rate Adjustment
16 (PRA) proposal that will adjust rates during the Test Year, which will constitute
17 just and reasonable rates. To demonstrate that the proposed rates are just and
18 reasonable, I&M has presented substantial information, as summarized in I&M
19 Exhibit A.

20 Under these circumstances, assuming the Company's rider proposals are
21 accepted, I&M considers its proposed base rates and rider rates to be sufficient
22 and reasonable.

1 **Q. Please explain how the requested rate relief on Exhibit A-1 reflects I&M's**
2 **base rates and rider proposals?**

3 A. Exhibit A-1 provides a comprehensive view of I&M's Test Year cost of service
4 compared that to what revenues would be during the Test Year if I&M did not file
5 the requested rate changes in this Cause (these revenues are otherwise referred
6 to as "current" or "existing").

7 Lines 1 through 9 relate to I&M's proposed base rates. As described
8 above, all revenue and expenses that I&M proposes to recover in riders are
9 removed from I&M's Net Electric Operating Income (Line 4). As a result, Lines 1-
10 9 are inclusive of all revenues and expenses that I&M proposes to recover in
11 base rates. This includes both (a) all revenues and expenses that I&M currently
12 recovers in base rates and proposes to continue recovering in base rates and
13 (b) all revenues and expenses that I&M currently recovers in riders but is
14 proposing in this proceeding to recover in base rates.

15 Lines 10 and 11 relate to I&M's proposed rider rates. In order to ensure
16 that Exhibit A-1 shows I&M's *total* requested rate relief inclusive of both base
17 rates and riders, Lines 10-11 show the impact of all revenues and expenses that
18 I&M proposes to recover in riders. That is, Lines 10 and 11 both incorporate
19 (a) all revenues and expenses that I&M currently recovers in riders and proposes
20 to continue to recover in riders and (b) all revenues and expenses that I&M
21 currently recovers in base rates and proposes to recover in riders. The

1 difference between the values in Lines 10 and 11 reflect changes in certain rider
2 mechanisms in this proceeding.

3 The final line, Line 12, represents I&M’s overall requested rate relief
4 inclusive of both base rates and riders.

5 **ADJUSTMENTS TO NET ELECTRIC OPERATING**
6 **INCOME (EXHIBIT A-5) AND RATE BASE (EXHIBIT A-6)**

7 **Q. Please describe I&M Exhibit A-5.**

8 A. I&M Exhibit A-5 supports I&M’s Test Year Net Electric Operating Income. This
9 exhibit also provides detail for each adjustment including the name of the
10 Company witness that specifically supports the adjustment.

11 **Q. Please explain the net electric operating income adjustments included in**
12 **I&M Exhibit A-5 that you sponsor or co-sponsor.**

13 A. I support the following adjustments in I&M Exhibit A-5 to I&M’s Test Year net
14 electric operating income:

- 15) O&M Expense Adjustment 4 – Rate Case Expense amortization
- 16) Deferral Adjustment 1 – Cook Turbine Replacement (co-sponsored with
17 Company witness Brubaker)
- 18) Deferral Adjustment 2 – Rockport DSI Deferral (co-sponsored with
19 Company witness Brubaker)
- 20) Deferral Adjustment 3 – Cook Improvement Project (CIP) Deferral (co-
21 sponsored with Company witness Lies)
- 22) Deferral Adjustment 4 – Deferred Major Storm Balance (co-sponsored
23 with Company witness Brubaker)

1 **Q. Please describe I&M Exhibit A-6 rate base.**

2 A. I&M Exhibit A-6 supports I&M's December 31, 2018, or Test Year End, rate base
3 by component. This exhibit also provides detail for each adjustment including the
4 name of the Company witness that specifically supports the adjustment.
5 Company witness Lucas presents the net plant-in-service roll forward for the
6 period January 1, 2017 through December 31, 2018 (Capital Forecast Period).

7 **Q. Please explain the rate base adjustments included in I&M Exhibit A-6 that**
8 **you sponsor or co-sponsor.**

9 A. I support the following adjustments in I&M Exhibit A-6 to I&M's Test Year End
10 rate base:

11) Rate Base Adjustment 6 – Cook Turbine Replacement Deferral (co-
12 sponsored with Company witness Brubaker)

13) Rate Base Adjustment 7 – Rockport DSI Deferral (co-sponsored with
14 Company witness Brubaker)

15) Rate Base Adjustment 8 – Cook Improvement Project (CIP) Deferral (co-
16 sponsored with Company witness Lies)

17) Rate Base Adjustment 11 – Deferred Major Storm Balance (co-sponsored
18 with Company witness Brubaker)

19 **Q. How has the Company projected its deferred balances for purposes of**
20 **ratemaking in its Test Year revenue requirement?**

21 A. For purposes of projecting deferred balances, the Company estimated each
22 balance through December 31, 2017 (i.e. the beginning of the Test Year) and
23 used this period end balance as the basis for determining an annualized level of
24 amortization, beginning January 2018. This approach provides a reasonable
25 basis for forecasting the deferred balance and calculating amortization expense.

1 **Q. Please explain how the Company's accounting for each deferral will occur**
2 **prospectively.**

3 A. The Company's accounting will occur based on the actual costs that accrue to
4 the deferral balance prospectively. Upon implementation of new rates as a result
5 of this case, monthly amortization will occur based on the Commission's final
6 order. Since it was necessary to estimate these balances for purposes of the
7 Test Year, when new base rates are implemented, the actual deferral balance
8 may not be the same as the projection. For example, in this instance, December
9 31, 2017 was used to estimate the deferred balance for a July 2017 filing with an
10 expected July 2018 rate change. Amortization of actual deferred balances will
11 continue until the balance is fully amortized.

12 **Q. Please explain Operation and Maintenance Expense Adjustment No. 4 of**
13 **I&M Exhibit A-5.**

14 A. Operation and Maintenance Expense Adjustment No. 4 is an adjustment to
15 reflect the amortization of retail rate case expense and nuclear decommissioning
16 study expense over a period of three years. This amortization period is the same
17 as used in Cause No. 44075. The proposed rate case expenses includes
18 incremental costs such as the cost of outside counsel, outside witness/consulting
19 services, and the cost of internal personnel travel-related expenses in direct
20 support of the hearings associated with this base rate case as shown on WP-
21 AJW-1. If this adjustment was not made, I&M's Test Year operating expenses
22 included in the determination of required rate relief would be understated.

1 **Q. Please explain Deferral Adjustment No. 1 of I&M Exhibit A-5 and Rate Base**
2 **Adjustment No. 6 of I&M Exhibit A-6.**

3 A. The Cook Unit 1 turbine replacement was placed in-service on October 26, 2011,
4 and was identified as a used and useful major project in I&M's last base case,
5 Cause No. 44075. However, at the time of the last base case there was a
6 pending insurance claim with Nuclear Electric Insurance Limited (NEIL) that
7 would ultimately impact the amount booked to net plant-in-service. Therefore,
8 I&M proposed to defer the return on the Cook Unit 1 turbine replacement until
9 I&M's next base case, and the Commission's order approved this request.

10 I&M's proposed ratemaking treatment for the Cook Turbine Replacement
11 is a two-part adjustment supported by myself and Company witness Brubaker.
12 I&M Exhibit A-5 Deferral Adjustment No. 1 is the amortization (return of the
13 asset) over a three year period. I&M Exhibit A-6 Rate Base Adjustment No. 6 is
14 the rate base treatment for the deferral (return on the asset). Company witness
15 Brubaker supports the deferred balance and calculation of the annual level of
16 amortization.

17 **Q. Please explain Deferral Adjustment No. 2 of I&M Exhibit A-5 and Rate Base**
18 **Adjustment No. 7 of I&M Exhibit A-6.**

19 A. On November 13, 2013, the Commission approved a Settlement in Cause No.
20 44331, providing ratemaking recognition of the DSI system costs on both units at
21 the Rockport Plant (Rockport CCT Project). The approved Settlement provided

1 80% recovery through the Federal Mandate Rider (FMR) and deferral of the
2 remaining 20% until the next base case (20% FMR Deferral).

3 I&M's proposed ratemaking treatment for the 20% FMR Deferral (i.e. 20%
4 of the DSI system costs that were deferred) is a two-part adjustment supported
5 by myself and Company witness Brubaker. I&M Exhibit A-5 Deferral Adjustment
6 No. 2 is the amortization (return *of* the asset) over a three year period. I&M
7 Exhibit A-6 Rate Base Adjustment No. 7 is the rate base treatment for the
8 deferral (return *on* the asset). Company witness Brubaker supports the deferred
9 balance and the calculation of the annual level of amortization.

10 **Q. Please explain Deferral Adjustment No. 3 of I&M Exhibit A-5 and Rate Base**
11 **Adjustment No. 8 of I&M Exhibit A-6.**

12 A. I&M is requesting ratemaking treatment of the costs associated with the CIP. As
13 discussed by Company witness Lies, these costs were reasonably incurred to lay
14 the foundation for the ongoing management of the Cook Plant and to otherwise
15 bring the system to its present state of efficiency. For accounting purposes, the
16 CIP originated in Federal Energy Regulatory Commission (FERC) Account 107 -
17 Construction Work In Progress. As explained by Company witness Lies, the
18 precise timing and nature of the next CIP projects will depend on economic
19 conditions, I&M's customers' need for electricity as the future unfolds, and other
20 factors, such as the impact of environmental regulation and commodity markets.
21 To reflect the fact that there are no immediate plans to implement the remaining

1 CIP projects, the CIP costs were later charged to FERC Account 182.3 -
2 Regulatory Debits.

3 I&M's proposed ratemaking treatment for the CIP is a two-part adjustment.
4 I&M Exhibit A-5 Deferral Adjustment No. 3 is the amortization of the CIP asset
5 (return of the asset) over a fifteen year period. I&M Exhibit A-6 Rate Base
6 Adjustment No. 8 is the rate base treatment for the deferral (return on the asset).
7 The fifteen year amortization period was chosen because it approximates the
8 remaining life of the Cook Plant once new base rates are implemented.

9 **Q. Please explain Deferral Adjustment No. 4 of I&M Exhibit A-5 and Rate Base**
10 **Adjustment No. 11 of I&M Exhibit A-6.**

11 A. In I&M's last base case, Cause No. 44075, the Commission approved I&M's
12 request for a distribution Major Storm Damage Restoration Reserve. The
13 approval allowed I&M to defer actual expenses above and below the baseline
14 level included in base rates.

15 I&M's proposed ratemaking treatment for the deferred major storm
16 balance is a two-part adjustment supported by myself and Company witness
17 Brubaker. For purposes of estimating the balance for the forecasted Test Year,
18 I&M used the March 31, 2017 regulatory liability (over-recovery) balance of
19 \$1,607,024. I&M Exhibit A-5 Deferral Adjustment No. 4 is the amortization
20 (return of the liability) over a three year period. I&M Exhibit A-6 Rate Base
21 Adjustment No. 11 is the rate base treatment for the deferral (return on the

1 liability). Company witness Brubaker supports the deferred balance and
2 calculation of the annual level of amortization.

3 **Q. Has I&M made any adjustments to net operating income or rate base for a**
4 **deferral of distribution vegetation management costs according to the**
5 **Company’s settlement in Cause No. 43774 PJM-4 S1?**

6 A. No. I&M’s PJM “Contested Costs” (as defined in the above referenced
7 settlement) during the 18-month period ending June 2018 are forecasted to
8 exceed the \$109 million cap established in the settlement, and therefore I&M did
9 not forecast a deferral of distribution vegetation management costs allowable
10 under the settlement. If actual Contested Costs during the 18-month period
11 ending June 2018 are less than the cap, I&M will address the resulting deferral in
12 a future proceeding.

13 **Q. Are there any updates to I&M’s proposed rate base that are not reflected in**
14 **the filing?**

15 A. Yes, in calculating forecasted accumulated depreciation for 2017, the manner in
16 which functional depreciation rates were calculated using I&M’s authorized
17 depreciation rates caused I&M’s forecasted Test Year End rate base in this filing
18 to be understated by approximately \$4 million on an Indiana jurisdictional basis.
19 I&M is proposing to reconcile its rate base to actual Test Year End levels through
20 the PRA process (discussed below), so no correction to I&M’s rate base is
21 needed in this filing. However, I&M clarifies that the PRA reconciliation limits

1 I&M's final rates to the understated Test Year End rate base level proposed in
2 this filing. Please see the PRA section for further explanation.

3 **PHASE-IN RATE ADJUSTMENT**

4 **Q. What is the purpose of I&M's Phase-in Rate Adjustment request?**

5 A. I&M's proposed base rates in this proceeding are calculated based on forecasted
6 rate base at Test Year End. I&M proposes to implement the requested rate
7 increase in phases to reasonably reflect the utility property that is used and
8 useful at the time rates are placed into effect. The Phase-in Rate Adjustment
9 (PRA) is the mechanism that will be used to implement this phase-in. As
10 proposed, the PRA will adjust customer rates in two distinct steps: First, the PRA
11 will adjust rates when new base rates are implemented. Second, the PRA will
12 adjust rates at the end of the Test Year. The PRA will ensure that the rates
13 established in this proceeding are timely adjusted to reasonably reflect utility
14 property that is used and useful at the time rates are in effect.

15 I&M has also aligned the timing of its capital structure with net plant in-
16 service for purposes of developing the PRA rates. Company witnesses Messner,
17 Hevert, and Bartsch support the components of the capital structure. Company
18 witnesses Stegall and Nollenberger discuss the calculation of the PRA and
19 associated rates.

20 **Q. Please describe the PRA rate adjustments in more detail.**

21 A. The PRA will adjust rates as follows:

22 **1. *When base rates are implemented*** – Simultaneous with the
23 implementation of the TYE base rates, the PRA will reduce customer rates to

1 effectively reflect net plant in-service (gross plant in-service less accumulated
2 depreciation) and cost of capital as of December 31, 2017 which is
3 representative of the beginning of the Test Year. In this way, the rates paid by
4 customers will reflect used and useful property as of the date of implementation.

5 **2. At the end of the Test Year** – The PRA will be adjusted to zero such
6 that the PRA in combination with I&M's base rate charge will produce an overall
7 rate that reflects the cost of service at I&M's Test Year End, subject to the
8 reconciliation process I later describe.

9 **Q. Is I&M requesting that the Commission approve the Test Year End**
10 **adjustment to the PRA in its final order?**

11 A. Yes. I&M is requesting that the Commission's final order in this Cause pre-
12 approve the Test Year End PRA adjustment to be implemented for bills rendered
13 beginning cycle 1 January 2019. Similar to a historical base rate case, I&M will
14 file a compliance filing shortly after the final order to reflect the Commission's
15 findings, which will include the approved PRA rates.

16 **Q. Please describe the proposed reconciliation of the PRA.**

17 A. Following the Test Year End, I&M proposes to make a compliance filing as soon
18 as practicable. This compliance filing will reconcile actual net plant in-service as
19 of the Test Year End to the net plant in-service approved by the Commission. If
20 actual net plant in-service at Test Year End does not exceed the forecasted Test
21 Year End level authorized in the Commission's order, I&M proposes to file a final
22 update and use the PRA to prospectively adjust customer rates for the revenue

1 requirement impact associated with the shortfall. I&M proposes to maintain this
2 credit until I&M's next base rate case. Under I&M's proposal, if actual net plant
3 in-service at Test Year End exceeds the forecasted Test Year End level
4 authorized in the Commission's order, then I&M requests no further rate change.
5 In this situation, I&M will discontinue the PRA and will address this additional
6 plant balance in a future proceeding. This final reconciliation will ensure that
7 customer rates reflect the lesser of actual net plant in-service or the forecasted
8 amount approved by the Commission.

9 **Q. Is this approach reasonable?**

10 A. Yes. This approach reasonably represents I&M's cost to serve customers during
11 the Test Year, while ensuring that I&M's rates for service reflect used and useful
12 property.

13 **RATE BASE TREATMENT FOR PREPAID PENSION**

14 **Q. Has I&M included a Prepaid Pension Asset in rate base?**

15 A. Yes, I&M has included the forecasted Test Year End Prepaid Pension Asset,
16 approximately \$104 million (Total Company), in rate base. The Prepaid Pension
17 Asset is the cumulative amount of cash contributions to the pension trust fund in
18 excess of the cumulative amount of pension cost accrued to expense. The
19 Prepaid Pension Asset presented in the case is calculated consistent with
20 Generally Accepted Accounting Principles (GAAP) under Accounting Standards
21 Codification (ASC) 715, (formerly Financial Accounting Standard No. 87 or "FAS
22 87"). The Test Year End balance is based on the actual balance as of December

1 31, 2016, and the net change associated with forecasted contributions and
2 pension expense for 2017 and 2018. Company witness Hill further discusses
3 I&M's forecasted Prepaid Pension Asset. The inclusion of the Prepaid Pension
4 Asset in rate base is consistent with the Commission's February 13, 2013 Order
5 in I&M's last base case, Cause No. 44075. The Commission in that Cause
6 recognized the benefit of I&M's management decision to make use of available
7 cash to secure pension funds and reduce the liquidity risk of future payments.

8 RIDER PROPOSALS

9 **Q. Please briefly summarize I&M's existing rider mechanisms and the**
10 **proposed changes to these mechanisms.**

11 A. Figure AJW-1 below provides a summary of I&M's existing riders. Figure AJW-1
12 also provides I&M's proposals to consolidate, modify, discontinue, or reduce to
13 zero certain existing riders. In order to streamline the rider review process and
14 ensure that riders are used and reviewed efficiently, I&M is proposing to
15 consolidate several existing environmental riders, or components thereof, and
16 rename the prospective rate adjustment mechanism the Environmental Cost
17 Rider (ECR). For the riders that the Company requests to continue subsequent
18 to this proceeding, Company witness Halsey calculates and supports the
19 revenue requirements, Company witness Nollenberger calculates the proposed
20 rider rates, and Company witness Cooper presents the revised rider sheets for
21 I&M's tariff book.

Figure AJW-1

Current Riders	Summary of Current Mechanism	Action
PJM Cost (PJM)	Recognizes certain PJM costs above the level included in I&M's base rates approved in Cause No. 44075, as approved in Cause No. 43774 and specifically 43774 PJM-4 S1.	Modified and Consolidated with OSS
Off-System Sales Margin Sharing (OSS)	Shares 50% of the margins above or below the level embedded in base rates in Cause No. 44075 down to \$0.	Modified and Consolidated with PJM
Demand Side Management / Energy Efficiency (DSM)	Recognizes DSM plan costs, including direct and indirect program costs, net lost revenues and shared savings.	Modified and Continued
Environmental Compliance Cost Rider (ECCR)	Recognizes I&M's net emission allowance costs related to consumption of allowances, and gains and losses on disposition of allowances.	Consolidated into ECR
Capacity Settlement (CSR)	Reconciliation of actual capacity equalization settlement receipts or payments compared to the level embedded in base rates approved in Cause No. 44075, as approved in Cause No. 44422.	Discontinued
Life Cycle Management (LCM)	Recognizes the cost of service associated with the Cook Nuclear Plant (Cook) LCM Project as approved in Cause No. 44182.	Modified and Continued
FMR	Recognizes the cost of service, including preconstruction and consumables cost, associated with the Rockport CCT Project to install a DSI system as approved in Cause No. 44331.	Reduced to Zero and Retained, Consumables Consolidated into ECR
Clean Coal Technology (CCTR)	Recognizes the cost of service associated with I&M's ownership share of the Rockport Unit 1 SCR project as approved in Cause No. 44523.	Consolidated into ECR
Depreciation Credit	Credit rider to reflect the retirement of Tanners Creek Plant and I&M's adjusted steam production plant depreciation expense as approved in Cause No. 44555.	Discontinued
Solar Power (SPR)	Recognizes the cost of service associated with I&M's Clean Energy Solar Pilot Project (CESPP), including GPR marketing expenses, as approved in Cause No. 44511.	Reduced to Zero and Retained

Current Riders	Summary of Current Mechanism	Action
Green Power (GPR)	Voluntary offering for customers to subscribe to support the development of solar power at I&M. GPR revenues are used to offset the SPR revenue requirement or deferred marketing expenses as authorized in the Settlement Agreement in Cause No. 44511 SPR-1. The last approved filing was 30-Day Filing ID No. 3466.	Continued
Fuel Cost Adjustment (FAC)	I&M's generation fuel related costs, purchase power energy costs and purchase power hedging related costs.	Modified and Continued

1 **Q. Is the Company requesting any new rider mechanisms or rate schedules?**

2 A. Yes. I&M is seeking to add the PRA described previously, the voluntary REO
 3 supported by Company witness Cooper, and the Resource Adequacy Rider
 4 (RAR) which I describe in more detail below.

5 **Q. Please describe I&M's PJM Cost Rider.**

6 A. The PJM Cost Rider was initially established by the Commission's order issued
 7 March 4, 2009 in I&M's base rate case, Cause No. 43306. The PJM Cost Rider
 8 adjusts customer rates to recognize changes in costs related to I&M's
 9 membership in PJM as a Transmission Owner (TO), Generator and I&M's
 10 obligation as a Load Serving Entity (LSE). The costs currently tracked primarily
 11 include:

- 12) The variance from the administrative costs embedded in base rates
- 13) The cost of PJM RTEP projects
- 14) Ancillary services
- 15) Net transmission congestion costs

1) Effective January 2017, 100% of Open Access Transmission Tariff
2 (OATT) costs above the level included in I&M's base rates, according to
3 the settlement agreement approved in Cause No. 43774 PJM-4 S1.
4 During the eighteen month period ended June 30, 2018, these incremental
5 costs are subject to a \$109 million cap. Beginning July 1, 2018, I&M is no
6 longer subject to a cap on the recovery of such OATT costs.

7 For purposes of discussing I&M's PJM Rider, this collective category of
8 costs is referred to as "PJM Rider Costs."

9 **Q. Please explain the requested modifications to the PJM Rider.**

10 A. I&M is requesting the following modifications to the PJM Rider:

11) Consolidate the PJM Rider and OSS Rider into one OSS/PJM Rider with a
12 single annual filing.

13) Remove all PJM Rider Costs from base rates and recover these costs fully
14 within the OSS/PJM Rider.

15 The proposed modifications will simplify the ongoing rider filings and
16 provide more transparency to the cost of related service. The substance of the
17 PJM component of I&M's ongoing OSS/PJM Rider filings would be consistent
18 with current filings. Combining the OSS and PJM Riders into one singular filing
19 will allow for the same level and frequency of review but will provide additional
20 administrative efficiency to the process by combining two filings into one. In
21 addition, I&M requests that the PJM component of the OSS/PJM Rider recover
22 PJM Rider costs as they evolve and charges are cancelled or added. These
23 additions and cancellations will be addressed in prospective filings as they occur.
24 Test Year net operating income has been adjusted to remove 100% of these
25 PJM Rider Costs from the calculation of base rates, as supported by Company

1 witness Halsey. Continuation of the PJM rider mechanism for 100% of I&M's
2 PJM Rider Costs is appropriate due to the significance and variability of these
3 costs.

4 I&M is requesting these modifications to commence with the
5 implementation of new base rates in this Cause, which as noted above would be
6 after June 30, 2018 as agreed to in the Settlement Agreement approved in
7 Cause No. 43774 PJM-4 S1. Company witness Halsey calculates and supports
8 the OSS/PJM Rider revenue requirement and Company witness Nollenberger
9 calculates the proposed OSS/PJM Rider rates.

10 **Q. Which Company witness discusses the significance and variability of I&M's**
11 **PJM Rider Costs?**

12 A. Company witness Ali discusses I&M's PJM Rider Costs, including its
13 transmission-related costs. As discussed by Mr. Ali, a major component of PJM
14 Rider Costs relates to the OATT, and the single largest component of I&M's
15 annual OATT costs relates to Network Integration Transmission Service (NITS).
16 Ali discusses the significance and variability of these costs. For example, NITS
17 costs from 2012 through 2016 have risen from approximately \$100 million to
18 approximately \$157 million. This equates to an approximate increase of \$57
19 million or 57%. On a forecasted basis NITS costs for the period 2017 through
20 2021 are expected to rise from approximately \$157 million to approximately \$336
21 million. This equates to an approximate increase of \$179 million or 114% from

1 2016 levels. This change in expense supports its significance and variability year
2 over year.

3 **Q. Please explain the requested modifications to the OSS Rider.**

4 A. I&M is requesting the following modifications to the OSS Rider:

5) Consolidate the PJM Rider and OSS Rider into one OSS/PJM Rider with a
6 single annual filing.

7) Remove all OSS margin from base rates and include OSS margin fully
8 within the OSS/PJM Rider.

9) Begin 50/50 sharing of OSS margin at \$0.

10) Remove OVEC demand-related costs that will be recovered in the RAR
11 from the calculation of OSS margin.

12 I&M is requesting these modifications to commence with the
13 implementation of new base rates in this Cause. As noted above, Company
14 witness Halsey calculates and supports the OSS/PJM Rider revenue
15 requirement, and Company witness Nollenberger calculates the proposed
16 OSS/PJM Rider rates.

17 **Q. Company witness Ali describes two FERC proceedings that could impact
18 the amount of PJM transmission expense that I&M incurs. How does the
19 Company propose to address the impact of these proceedings?**

20 A. I&M proposes to address any impact associated with the pending FERC
21 proceedings in a subsequent PJM Rider or OSS/PJM Rider filing.

1 **Q. Please explain I&M's request to modify the baseline level of OSS margins**
2 **from which it will begin tracking.**

3 A. Market energy prices have been volatile since I&M's last rate case, as depicted
4 in Figure AJW-2 below. Period over period, OSS margins have fluctuated
5 significantly. Most notably, over the last two years, market energy prices have
6 been historically low and had a significant downward impact on realized OSS
7 margins. The July 2013 to June 2014 period is an outlier due to the impact of the
8 2014 Polar Vortex, which involved record low temperatures from January into
9 March. Of the \$98 million realized during this twelve month period, \$68 million
10 relates to the period of January through March 2014. If not for the 2014 Polar
11 Vortex, it is unlikely that I&M would have realized sufficient OSS margins to offset
12 the level of OSS margin embedded in I&M's rates since its last base rate case.
13 Furthermore, in May, 2015, the Tanners Creek Plant retired, reducing the
14 capacity available to serve OSS by approximately 1,000 megawatts.

Figure AJW-2

**I&M OSS Margin Summary
Indiana Jurisdictional Basis
(dollars in millions)**

Period		Dollars		Base Line ¹		Difference
7/2012 - 6/2013	a	\$ 26.52	\$	33.97	\$	(7.45)
7/2013 - 6/2014	a	\$ 98.04	\$	26.90	\$	71.14
7/2014 - 6/2015	a	\$ 31.54	\$	26.90	\$	4.64
7/2015 - 6/2016	a	\$ 9.66	\$	26.90	\$	(17.25)
7/2016 - 4/2017	a	\$ 4.01	\$	26.90	\$	(22.89)
1/2018 - 12/2018	f	\$ 0.80	\$	26.90	\$	(26.10)

1 - The level of OSS Margin embedded in base rates was \$37.5 million prior to Mar 2013, and changed to \$26.9 million beginning Mar 2013 as a result of Cause No. 44075

a - actual dollars

f - I&M's test year forecast (unadjusted for I&M's proposed OSS Rider modifications)

1 The factors discussed above – the trend in market energy prices since the
2 2014 Polar Vortex and I&M’s reduced excess capacity levels – have substantially
3 impacted the outlook for ongoing OSS margin realization. I&M’s requested
4 tracking of OSS margins is reasonable due to the significance and variability of
5 OSS margins and the fact that realization of OSS margins are contingent on
6 many factors largely outside I&M’s control.

7 **Q. Is the Company’s proposal to continue OSS margin sharing reasonable?**

8 A. Yes. The continuation of the OSS margin sharing as proposed by the Company
9 is reasonable. Under this mechanism, customers will continue to benefit from
10 I&M’s optimization of its assets. Adjusting the baseline to \$0 appropriately
11 recognizes market price uncertainty and reduced capability as a result of retiring
12 Tanners Creek in 2015. It also strikes a fair balance between ensuring that

1 customers continue to receive substantial benefits from actual OSS and not
2 imposing undue risk on I&M by embedding a level of margin in base rates that
3 ongoing market conditions may not support.

4 **Q. Please explain the requested modifications to the DSM Rider.**

5 A. I&M is requesting to modify the DSM Rider to remove capital and O&M costs
6 recovered in current DSM Rider rates that have been included in I&M's proposed
7 base rates. Specifically, I&M has moved costs to base rates that relate to the
8 Electric Energy Consumption Optimization (EECO) and Work Energy
9 Management (Innovari) DSM programs. I&M's proposed base rates include
10 these programs' in-service capital and associated O&M costs other than the
11 supporting costs for evaluation, measurement, and verification (EM&V) services,
12 program incentives, and DSM labor. EECO and WEM assets and related costs
13 that are placed in service after December 31, 2018 will continue to be recovered
14 in DSM Rider.

15 I&M is requesting these modifications to commence with the
16 implementation of new base rates in this Cause. Company witness Halsey
17 calculates and supports the DSM Rider revenue requirement, and Company
18 witness Nollenberger calculates the proposed DSM Rider rates.

19 **Q. Please explain the request to consolidate the ECCR into the ECR.**

20 A. I&M is requesting to consolidate the ECCR with other environmental-related
21 costs and rename the ongoing proceedings as ECR to streamline the review and
22 efficiency of such filings. The proposed ECR reflects the continued recovery of

1 I&M's Test Year net emission allowance costs related to consumption of
2 allowances, and gains and losses on disposition of allowances. Commencing
3 with the implementation of new base rates in this Cause, the ECCR tariff sheet
4 will be discontinued, and I&M proposes to file a final reconciliation of the ECCR
5 in I&M's first ECR proceeding subsequent to the final order in this Cause. I&M
6 proposes to allocate the costs associated with the final reconciled balance
7 consistent with the originating ECCR rider filings.

8 **Q. Please explain the discontinuance of the CSR.**

9 A. The Capacity Settlement Rider reconciles the level of capacity equalization
10 settlement receipts in I&M's base rates to the actual level of ongoing capacity
11 equalization settlement receipts or payments. I&M's proposed base rates
12 appropriately reflect these receipts or payments no longer exist, therefore this
13 rider is no longer applicable. Commencing with the implementation of new base
14 rates in this Cause, the CSR tariff will be discontinued, and I&M proposes to file a
15 final reconciliation of the CSR in I&M's first ECR proceeding subsequent to the
16 final order in this Cause. I&M proposes to allocate the costs associated with the
17 final reconciled balance consistent with the originating CSR rider filings.

18 **Q. Please explain the modifications to the LCM Rider.**

19 A. I&M's filing reflects the continuation of the LCM Rider to recover the LCM Project
20 costs approved in Cause No. 44182 that will be incurred during and after I&M's
21 Test Year. As supported by Company witness Lies, at the Test Year End the
22 LCM project will be largely completed and the remaining portion of the LCM

1 Project is expected to be completed by 2022. I&M is requesting to modify the
2 LCM Rider to synchronize the depreciation rate used to calculate ongoing LCM
3 Rider depreciation with the rates approved by the Commission in this proceeding.
4 I&M also proposes to accrue an allowance for funds used during construction
5 (AFUDC) in lieu of a return on construction work in progress (CWIP) for the
6 remaining LCM Rider period. Therefore, once new base rates are implemented,
7 the LCM Rider revenue requirement will include a return on plant in-service but
8 not a return on CWIP and AFUDC accruals will begin. These changes recognize
9 the LCM Project is largely complete and will simplify the remaining accounting
10 and ratemaking in the LCM Rider filings.

11 **Q. Please explain how proposed LCM Rider rates correspond with I&M's**
12 **proposed base rates and PRA.**

13 A. I&M's proposed base rates in this proceeding include LCM plant that is
14 forecasted to be placed in service as of Test Year End. Similarly, the PRA
15 mechanism adjusts base rates to reflect the LCM plant that forecasted to be in-
16 service as of December 31, 2017. Therefore, I&M's proposed LCM Rider rates
17 are based on a 2018 Test Year that will provide recovery for the LCM projects
18 that go into service during 2018. Prior to 2019, I&M will file in a separate
19 proceeding under Cause No. 44182 to revise LCM Rider rates to reflect recovery
20 for the LCM projects that go into service after 2018.

21 I&M is requesting these modifications to commence with the
22 implementation of new base rates in this Cause. Company witness Halsey

1 calculates the LCM Rider revenue requirement, and Company witness
2 Nollenberger calculates the proposed LCM Rider rates.

3 **Q. Please explain the requested modifications to the FMR Rider.**

4 A. Currently, the FMR is recovering costs associated with the Rockport CCT Project
5 to install a DSI system as approved in Cause No. 44331, including
6 preconstruction and related consumable costs. The FMR recovers 80% of the
7 Rockport CCT Project costs, and the remaining 20% are deferred (20% FMR
8 Deferral). I&M's Rockport CCT Project and was placed in service during 2015,
9 and the net plant balance, including preconstruction costs, is included in I&M's
10 rate base. The Rockport CCT Project non-consumable costs are included in the
11 Test Year. I&M is requesting that all consumables costs be recovered in the
12 ECR, including 100% of the Rockport CCT Project consumable costs currently
13 recovered in the FMR and subject to the FMR deferral.

14 Commencing with the implementation of new base rates in this Cause,
15 I&M will zero the FMR factors (also referred to as rider rates). I&M proposes to
16 file a final reconciliation of the FMR in I&M's first ECR proceeding subsequent to
17 the final order in this Cause. I&M proposes to allocate the costs associated with
18 the final reconciled balance consistent with the originating FMR rider filings.
19 After the final reconciliation, I&M intends to leave the FMR tariff in place at a zero
20 factor in anticipation of future FMR filings.

1 **Q. Please explain the request to consolidate the CCTR into the ECR.**

2 A. Currently, the CCTR is recovering costs associated with I&M's Rockport Unit 1
3 SCR project (SCR), as approved in Cause No. 44523. The SCR is forecasted to
4 be completed and placed in service before the beginning of the Test Year and
5 thus is included in I&M's rate base. The non-consumable SCR costs are
6 included in the Test Year. As previously discussed, I&M is requesting all
7 consumables costs, including the SCR consumable costs currently recovered in
8 the CCTR, be recovered in the ECR. I&M is further requesting to consolidate
9 future Clean Coal Technology cost recovery into I&M's ongoing ECR filings to
10 streamline the review and efficiency of such filings.

11 I&M is requesting these modifications to commence with the
12 implementation of new base rates in this Cause. I&M proposes to file a final
13 reconciliation of the CCTR through I&M's ECR proceeding subsequent to the
14 final order in this Cause. I&M proposes to allocate the costs associated with the
15 final reconciled balance consistent with the originating CCTR filings.

16 **Q. Does I&M have a pending request for incremental cost recovery through
17 the CCTR?**

18 A. Yes. I&M has a pending request in Cause No. 44871 for recovery of costs
19 associated with the Rockport Unit 2 SCR project through the CCTR. There are
20 no Rockport Unit 2 SCR costs included in this base rate case filing or in current
21 CCTR tariff rates.

1 If the Rockport Unit 2 SCR project is approved in Cause No. 44871 and
2 I&M has filed for or has revised CCTR tariff rates to include such costs upon
3 implementation of new base rates, the CCTR tariff rates should continue to
4 include Rockport Unit 2 SCR cost recovery. In this case, I&M will subsequently
5 file a final CCTR proceeding to provide a final reconciliation of the CCTR and
6 request to transfer the Rockport Unit 2 SCR costs to the ECR and incrementally
7 update ECR tariff rates accordingly. If I&M has not filed for revised CCTR tariff
8 rates to include Rockport Unit 2 SCR costs upon implementation of new base
9 rates, I&M will file to revise the ECR to include such cost recovery.

10 **Q. Please explain the discontinuance of the Depreciation Credit Rider.**

11 A. The Depreciation Credit Rider was approved in connection with the approval of
12 new depreciation accrual rates in Cause No. 44555. This credit should be
13 discontinued once the new proposed base rates are established and steam
14 production depreciation expense is reset. Commencing with the implementation
15 of new base rates in this Cause, I&M will discontinue and remove the
16 Depreciation Credit Rider from I&M's tariff book.

17 **Q. Please explain the requested modifications to the SPR.**

18 A. Currently, the SPR adjusts rates to recognize costs associated with I&M's Clean
19 Energy Solar Pilot Project (CESPP) including GPR marketing costs, as approved
20 in Cause Nos. 44511 and 44511-SPR-1. All four facilities within the CESPP
21 were placed in-service prior to the Test Year and are included in I&M's Test Year
22 rate base and operating expenses. Commencing with the implementation of new

1 base rates in this Cause, I&M will zero the SPR factors and I&M proposes to file
2 a final reconciliation of the SPR in I&M's first ECR proceeding subsequent to the
3 final order in this Cause. I&M proposes to allocate the costs associated with the
4 final reconciled balance consistent with the originating SPR rider filings. I&M
5 intends to leave the SPR tariff in place at a zero factor in anticipation of future
6 SPR filings.

7 **Q. Is I&M requesting any changes to the GPR?**

8 A. I&M is not requesting any changes to the structure of the GPR, but is requesting
9 that the voluntary credits in excess of GPR marketing costs, realized through the
10 GPR, be reflected in customer rates through future FAC filings within the
11 reconciliation. This change will allow I&M to continue the timely reflection of the
12 associated credits in customer rates without continuing to file separate docketed
13 SPR proceedings. I&M will continue to follow the accounting and ratemaking for
14 GPR marketing costs consistent with the Commission's orders in Cause No.
15 44511.

16 I&M is requesting this ratemaking commence with the implementation of
17 new base rates in this Cause.

18 **Q. Is I&M requesting any modifications to the FAC?**

19 A. Yes. As just explained, I&M is requesting excess revenue credits realized
20 through the GPR mechanism to be included in ongoing FAC filings. I&M is also
21 requesting to update the FAC base cost of fuel to reflect the FAC related costs in
22 the Test Year; this calculation is performed by Company witness Stegall.

1 Also, similar to the GPR, I&M is proposing that the revenues collected in
2 excess of associated marketing costs from I&M's proposed REO be included as
3 a revenue credit in ongoing FAC filings within the reconciliation. The REO is
4 explained in more detail by Company witness Cooper. All the costs associated
5 with I&M's current portfolio of renewable resources will continue to be recovered
6 through base rates and fuel (or FAC). Including the REO revenues in the FAC
7 will ensure all customers rates timely reflect the credits produced from the
8 voluntary offering.

9 I&M is requesting these modifications to commence with the
10 implementation of new base rates in this Cause.

11 **Q. Please summarize the requested ECR and the effect on the existing**
12 **environmental riders.**

13 A. I&M is requesting to implement the ECR which will recover environmental-related
14 costs of the type that are currently being recovered through three existing riders,
15 the ECCR, CCTR and FMR. The proposed ECR includes environmental
16 compliance costs associated with 100% of I&M's consumables expense, as
17 currently tracked in the CCTR and FMR. It is appropriate to continue to track
18 consumables costs as they are significant, variable and volatile. PJM market
19 energy prices, consumable commodity pricing, weather, etc. can individually or in
20 the aggregate have a significant impact on the dispatch of I&M's fossil units and
21 as a result the consumables expense I&M incurs to meet its customers energy
22 requirements. For these reasons, consumables costs are largely outside I&M's

1 control. Company witness Kerns describes I&M's consumables expense in
2 further detail and supports the significance and variability of consumables costs.
3 The proposed ECR will also continue to track I&M's net emission allowance costs
4 related to consumption of allowances, and gains and losses on disposition of
5 allowances as currently tracked in the ECCR. Finally, the ECR is also adjusted
6 to reflect an appropriate amount of gross revenue conversion factor costs,
7 consistent with that approved and included in I&M's current CCTR, FMR and
8 ECCR factors.

9 I&M is requesting these modifications to commence with the
10 implementation of new base rates in this Cause. I&M is also requesting to file
11 annual ECR proceedings. Company witness Halsey calculates the ECR revenue
12 requirement and Company witness Nollenberger calculates the proposed rider
13 rates.

14 **Q. Please explain the proposed RAR.**

15 A. I&M requests the RAR to track incremental changes in the Company's purchased
16 power costs, excluding those recovered through the FAC, compared to the
17 amount embedded in base rates. This mechanism, in conjunction with the FAC,
18 will ensure customer rates only reflect the actual cost of purchased power
19 incurred to provide service. Currently, I&M's purchased power contracts included
20 in the RAR consist of the Unit Power Agreement with AEP Generating Company
21 (AEG) for a portion of the Rockport Plant and the Inter-Company Power
22 Agreement with Ohio Valley Electric Corporation (OVEC). These costs during

1 the Test Year are \$169,883,355 on a total Company basis, please see Company
2 Witness Halsey's testimony. This baseline will be used for purposes of
3 calculating the incremental change in ongoing RAR filings. Subsequent to
4 implementing new base rates as a result of this Cause, I&M will commence an
5 initial RAR rate proceeding. I&M is requesting annual RAR filings and rate
6 updates to begin at that time. Company witness Halsey further describes the
7 RAR. Company witness Cooper supports I&M's requested tariff sheet.

8 **Q. Why are the costs I&M seeks to track through the RAR reasonable for**
9 **recovery through a rider mechanism?**

10 A. The AEG and OVEC costs I&M is seeking to initially track through the RAR are
11 significant in amount and subject to variability due to factors outside of I&M's
12 control. For example, these costs are subject to change due to ongoing
13 requirements of the underlying production assets to comply with emerging
14 environmental rules. This has been the case with the DSI and SCR investments
15 that have been made on the Rockport Units that have a direct incremental impact
16 on the AEG purchased power bill and I&M's cost to serve its customers. Finally,
17 these purchased power contracts are directly tied to the reliability of I&M's
18 system and ability to meet the capacity, including reserve requirements, and
19 energy needs of its customers.

1 **Q. If I&M incurs purchased power costs beyond the AEG and OVEC costs**
2 **identified above, would such costs be eligible for recovery through the**
3 **RAR?**

4 A. Yes, if approved by the Commission. In the event I&M incurs purchased power
5 costs beyond the contracts identified herein, that are not recoverable through the
6 FAC, the Company would seek Commission approval to include such costs
7 during future RAR filings.

8 **Q. Is the Company proposing to continue recovering gross revenue**
9 **conversion factor (GRCF) costs in its riders?**

10 A. Yes, I&M proposes GRCF costs be recovered in its riders consistent with how
11 such costs are determined and recovered currently.

12 **MAJOR STORM DAMAGE RESTORATION RESERVE AND**
13 **NEW DEFERRAL REQUESTS**

14 **Q. Please summarize I&M's proposed deferral mechanisms.**

15 A. I&M is requesting to continue the distribution Major Storm Damage Restoration
16 Reserve and begin three new deferral mechanisms:

17) O&M costs associated with I&M's proposed distribution vegetation
18 management program.

19) O&M costs associated with ongoing Cook dry cask nuclear fuel storage.

20) Marketing costs associated with I&M's proposed REO.

1 **Q. Please explain I&M's proposal to continue the distribution Major Storm**
2 **Damage Restoration Reserve.**

3 A. I&M requests to continue the distribution Major Storm Damage Restoration
4 Reserve as approved in Cause No. 44075.² I&M's distribution related O&M
5 expenses associated with restoration efforts as a result of major storm damage
6 can be significant, are volatile in nature, and are largely outside the Company's
7 control, as explained by Company witness Kratt. I&M's 5-year average historical
8 Major Storm Damage Restoration O&M expense, as supported by Company
9 witness Kratt, has on average closely approximated the \$4,047,529 (Indiana
10 jurisdictional, distribution only) baseline approved in Cause No. 44075. As
11 represented in Figure TAK-17 in Mr. Kratt's testimony, over the period 2012-
12 2016, the 5-year average was approximately \$4.6 million, the lowest year was
13 \$1.2 million, and the highest year was \$8.5 million. This evidence shows that
14 these costs are highly variable and that I&M's request to continue the Major
15 Storm Reserve is reasonable.

16 **Q. Please explain the requested accounting for I&M's Major Storm Damage**
17 **Restoration Reserve.**

18 A. I&M is requesting continuation of the same accounting authority granted in
19 Cause No. 44075. To summarize, if actual Major Storm Damage Restoration
20 distribution O&M for a given month is less than the monthly amount reflected in
21 the revenue requirement (one twelfth of \$4,047,529 or \$337,294), the Company

² In Cause No. 44075, the Commission approved \$4,213,127 for Major Storm Damage Restoration O&M expense, which included \$4,047,529 for Indiana jurisdictional distribution O&M expense and \$165,598 for Total Company transmission O&M expense.

1 will record a regulatory liability for the difference. If actual O&M exceeds the
2 monthly amount included in the revenue requirement, the Company will record a
3 regulatory asset for the difference. The cumulative regulatory liability or
4 regulatory asset balance would continue to be adjusted each month based on
5 actual major storm damage O&M incurred versus the embedded amount.

6 **Q. Please explain the deferral request associated with I&M's Distribution**
7 **Vegetation Management Program.**

8 A. Company witnesses Kratt and Thomas support the reasonableness, necessity,
9 and customer benefits of I&M's Distribution Vegetation Management Program.
10 To support this program, I&M is requesting a deferral mechanism that would
11 work the same as the Major Storm Damage Restoration Reserve. This deferral
12 mechanism would track actual distribution vegetation management O&M costs
13 (excluding major storm costs) as compared to the level embedded in the revenue
14 requirement used to establish I&M's base rates. The projected level of
15 distribution vegetation management O&M in the Test Year is \$18,191,103
16 (Indiana only), as supported by Company witness Kratt. Actual costs greater
17 than the amount included in I&M's base rates approved in this proceeding would
18 be recorded as a regulatory asset (under-recovery), and actual costs less than
19 the amount included in I&M's base rates approved in this proceeding would be
20 recorded as a regulatory liability (over-recovery). The cumulative under- or over-
21 recovery would be amortized in I&M's next base rate case.

1 **Q. Does I&M propose carrying costs be applied to the cumulative monthly**
2 **deferred over- or under-recovered balance?**

3 A. No, we are not proposing to accrue carrying costs.

4 **Q. How will I&M identify the costs it seeks deferral authority for?**

5 A. To ensure accurate and complete identification of actual costs associated with
6 the proposed distribution vegetation management program, I&M will establish a
7 set of work orders specifically for this project.

8 **Q. Do customers benefit from the Commission approving I&M's deferral**
9 **request as opposed to only embedding an ongoing level in I&M's base**
10 **rates?**

11 A. Yes. The deferral mechanism ensures that customer rates ultimately reflect the
12 actual level of distribution vegetation management O&M incurred by the
13 Company to improve reliability. It also ensures that the costs included in the
14 determination of customer rates are used for distribution vegetation management
15 O&M activities. For example, the deferral mechanism would reduce future
16 customer rates if I&M's actual costs are less than the level included in rates
17 approved in this Cause. This would occur via subsequent amortization of a
18 regulatory liability balance in a future base rate case.

19 The request will also provide I&M flexibility to successfully manage the
20 program over a period of multiple years, which is important for various reasons,
21 as described by Company witness Kratt. The primary goal is to improve
22 customer reliability and sustain the benefits by achieving a 4-year trim cycle on a

1 going forward basis. Once the 4-year trim cycle is achieved, the ongoing cost
2 will decrease because the cost of maintaining the vegetation over a 4-year cycle
3 is less than the cost of establishing the 4-year trim cycle as explained by
4 Company witness Kratt. This deferral mechanism will support I&M's efforts to
5 maintain and improve service reliability and lower ongoing annual O&M expense.
6 Since the deferral will apply to actual expense compared to the level embedded
7 in the revenue requirement used to establish rates, as soon as actual expense
8 decreases, the deferral will accrue the difference for subsequent recognition in
9 customer rates.

10 **Q. Please further explain the mechanics of the proposed Distribution**
11 **Vegetation Management Program deferral.**

12 A. I&M is requesting both under- and over-recovery accounting authority, including
13 the flexibility to spend more or less within a given year, as necessary. Figure
14 AJW-3 below sets forth an example over the course of 5 years of how I&M's
15 proposed deferral would work. For this example I have used I&M's Test Year
16 level of distribution vegetation management O&M (\$18.2 million) and assumed
17 an annual level of "actual costs" over a 5 year period. This is for illustration
18 purposes only, the assumed annual level of "actual costs" are not based on any
19 forecasted or known value.

Figure AJW-3
Distribution Vegetation Management Deferral Example
(in millions)

Period	Actual Costs	Baseline Value	Period Variance	Cumulative Deferral Balance
Year 1	\$18.5	\$18.2	\$0.3	\$0.3
Year 2	\$17.7	\$18.2	<\$0.5>	<\$0.2>
Year 3	\$18.8	\$18.2	\$0.6	\$0.4
Year 4	\$17.9	\$18.2	<\$0.3>	\$0.1
Year 5	\$17.0	\$18.2	<\$1.2>	<\$1.1>

1 **Q. Is I&M agreeable to providing an annual report on the Distribution**
2 **Vegetation Management Program to the Commission, the OUCC, and**
3 **Intervenors?**

4 A. Yes. If the proposal is approved, I&M is committing to file an annual report in this
5 docket on the program’s status and progress, including a summary of dollars
6 spent compared to the level included in I&M’s base rates.

7 **Q. Please describe I&M’s deferral cost recovery proposal for costs related to**
8 **the dry cask storage program at the Cook Plant.**

9 A. Historically, dry cask storage costs have been covered by reimbursements from
10 the Department of Energy (DOE). I&M reached a settlement on February 22,
11 2017 with the DOE recognizing the DOE’s obligation to continue settlement
12 negotiations seeking reimbursement of dry cask storage costs. There are
13 currently no dry cask storage costs included in the Test Year because the costs
14 are anticipated to be largely covered by reimbursements from the DOE.
15 However, if the DOE reimbursements should cease in the future or if ongoing

1 costs should exceed the amount reimbursed, then I&M requests that the
2 Commission approve deferral accounting authority to record as a regulatory
3 asset the unreimbursed amount for recovery in I&M's next base rate case
4 proceeding. Company witness Lies further describes the Cook Plant dry cask
5 storage program.

6 **Q. Does I&M request authority to accrue carrying cost on the dry cask storage**
7 **deferred balance?**

8 A. Yes. While the DOE has continued to enter into settlement negotiations with
9 I&M, there is future uncertainty that the DOE may not fully reimburse the dry cask
10 storage costs the Cook Plant incurs. If this DOE would cease reimbursing such
11 costs, a deferred balance would grow into the future and be carried more than
12 one year. Therefore, I&M proposes to accrue carrying costs on the deferred
13 balance using the pre-tax weighted average cost of capital (WACC) rate
14 approved by the Commission in this case. The proposed accounting is more fully
15 described by Company witness Brubaker, and I&M's proposed WACC is
16 supported by Company witness Messner.

17 **Q. Please explain I&M's request to defer marketing costs associated with the**
18 **proposed REO.**

19 A. I&M is requesting to defer marketing costs, up to \$250,000 annually, associated
20 with the REO. It is reasonable and necessary to engage in a modest level of
21 marketing activity, less than \$0.60 per customer per year, to support the launch
22 and establishment of this new offering to I&M's customers. I&M expects annual

1 REO marketing costs to decline over time as customer awareness and
2 participation increases. The deferred marketing costs will be offset by revenue
3 produced from the REO. As explained previously, REO revenue in excess of
4 marketing costs will be credited back to customers through I&M's FAC
5 mechanism. This treatment of marketing costs is consistent with the settlement
6 approved in Cause No. 44511-SPR-1.

7 **TANNERS CREEK PLANT**
8 **FINAL ACCOUNTING AND RATEMAKING**

9 **Q. What is the status of the Tanners Creek Plant?**

10 A. The Tanners Creek Plant, consisting of four units, was retired May 31, 2015.
11 The Commission's order in Cause No. 44555 addressed the retirement of the
12 Tanners Creek Plant and authorized I&M to adjust steam production plant
13 depreciation rates to reflect the retirement. Company witness Kerns describes
14 the retirement in more detail, including the Company's efforts to mitigate the
15 remaining costs associated with the plant including, fuel inventory, materials and
16 supplies inventory (M&S), and work performed to determine the reasonable path
17 forward for the Tanners Creek Plant (hereafter referred to as Remaining Work
18 Performed).

19 Furthermore, as described by Company witness Lucas, the Tanners
20 Creek Plant was transferred to Environmental Liability Partners (ELT) in October
21 2016. The transfer effectively results in a sale of all remaining assets at the plant
22 site, including remaining M&S and land. In addition, ELT assumed the liabilities

1 associated with decommissioning, removal, and environmental remediation at
2 the Tanners Creek site.

3 **Q. Please describe the accounting and ratemaking associated with the**
4 **transfer of the Tanners Creek Plant.**

5 A. Upon the transfer closing, I&M accounted for the net result of the transfer
6 (including the environmental liability cost in excess of the Tanners Creek Plant
7 ARO liability, remaining M&S, Remaining Work Performed, and unamortized
8 ARO asset) as a net cost of retirement to FERC Account 108 (Accumulated
9 Provision for Depreciation), consistent with the retirement of the Tanners Creek
10 Plant and traditional accounting for cost of removal. Company witness Cash
11 further describes the accounting and the inclusion in I&M's depreciation study
12 and proposed rates. The proposed ratemaking treatment strikes a reasonable
13 balance between mitigation of the impact on customer rates and timely recovery
14 of the final remaining costs associated with the Tanners Creek Plant. It is
15 appropriate for the Commission to authorize recovery of these remaining costs
16 as they were reasonably and necessarily incurred to provide service to
17 customers, to comply with environmental mandates, and to bring the Company's
18 property to its present state of efficiency.

19 **Q. Is there an alternative ratemaking treatment that the Commission could**
20 **consider?**

21 A. Yes. The Commission could approve recovery of these costs as a regulatory
22 asset. If the Commission chose this path, I&M would request approval to

1 establish a regulatory asset in Test Year rate base and amortize the balance
2 over ten years. Ten years approximates the remaining life of I&M's steam
3 production assets. This treatment would produce a similar result as I&M's
4 treatment in its proposed base rates.

5 **NUCLEAR DECOMMISSIONING**

6 **Q. What is the purpose of your testimony in regard to nuclear**
7 **decommissioning?**

8 A. My testimony describes the methodology used to allocate nuclear
9 decommissioning costs to the Indiana retail jurisdiction. Witnesses Knight and
10 Hill discuss the estimated cost of decommissioning and the appropriate annual
11 nuclear decommissioning funding level reflected in the cost-of-service.

12 **Q. How has I&M historically allocated projected nuclear decommissioning**
13 **costs?**

14 A. The respective jurisdictional share of total projected nuclear decommissioning
15 costs has historically been estimated for I&M's Indiana, Michigan, and FERC
16 jurisdictions by multiplying the total decommissioning cost by the most recent
17 base rate case demand allocation factors.

18 **Q. What has caused I&M to modify the allocation factor methodology?**

19 A. The modified allocation factor methodology recognizes the realities of the
20 current wholesale market. I&M's wholesale (or FERC) customers are no longer
21 obligated to take service from I&M. Existing wholesale customers have access
22 to transmission service and can purchase power from other suppliers. As a

1 result, decommissioning responsibility is associated with the provision of the
2 state retail service. That amount can be offset by any amounts collected from
3 wholesale customers that have contracts with the Company. Each of I&M's
4 wholesale customers has a contract with a finite length, and some contain
5 clauses that allow the customer to end its contract early with proper notice. In
6 addition, each of I&M's current wholesale customers, by contract, contribute to
7 the cost of decommissioning the Cook Plant at a level commensurate with the
8 level approved for either the Indiana or Michigan retail jurisdiction. All of these
9 facts indicate that it is appropriate, for ratemaking purposes, to modify the
10 allocation factor methodology.

11 **Q. Please describe the allocation methodology modification.**

12 A. In order to determine the decommissioning cost associated with I&M's retail
13 jurisdictions, it is necessary to first deduct from the total decommission liability
14 the contributions from wholesale customers and associated earnings. This
15 properly recognizes the reduced decommission liability for retail customers as a
16 result of wholesale customers' contributions over time. It also accurately reflects
17 that wholesale customers' contributions to nuclear decommissioning are limited
18 in nature. The remaining decommissioning costs, after deducting the wholesale
19 customer contributions, are then multiplied by the Indiana retail jurisdictional
20 demand factor to determine the portion of the nuclear decommissioning costs
21 properly allocable to the Indiana jurisdiction. The Indiana jurisdictional retail-
22 only demand allocation factor is 81.89071%, as calculated by Company witness

1 Stegall. This factor represents Indiana retail as a percent of I&M's total Indiana
2 and Michigan retail demand.

3 **PURCHASE POWER BENCHMARKING**

4 **Q. Is I&M currently subject to the purchase power benchmarks established in**
5 **the August 18, 1999 order in Cause No. 41363, purchase power generic**
6 **investigation?**

7 A. Yes. The March 4, 2009 Order in I&M's base rate case, Cause No. 43306,
8 defined the conditions under which purchased power benchmark procedures
9 required in Cause No. 41363 would be applied to I&M. In each FAC filing since
10 that Cause, the purchased power benchmarks have been waived based on the
11 defined conditions.

12 **Q What is the general basis of the Commission's purchased power**
13 **benchmark procedures?**

14 A. The purchase power benchmarking investigation in Cause No. 41363 was
15 initiated as a result of purchase power prices that spiked in the summer of 1998.
16 At that time, I&M and the other Indiana investor-owned utilities were not
17 members of RTOs, as there were no RTOs, and purchase power transactions
18 occurred on a bilateral basis. PJM became the nation's first fully functioning
19 RTO in 2001 and numerous utility transmission systems joined its operations
20 from 2002 to 2005, including AEP in October 2004. Purchase power
21 transactions now occur through the PJM and MISO RTOs which are regulated by
22 FERC and have developed into sophisticated and competitive marketplaces.

1 **Q. What facts and circumstances have changed since the Commission's order**
2 **in Cause No. 43306?**

3 A. The procedures established in Cause No. 43306 were initiated at a time when
4 I&M was a member of the AEP System Pool Agreement and a relatively new
5 member of PJM. These two factors were significant drivers in the development
6 of the defined conditions. Since then, the AEP System Pool Agreement has
7 dissolved, and I&M has been a member of PJM for many years. Furthermore,
8 the shale gas revolution, among other factors, has had a significant downward
9 impact on the average market price of energy. All of these factors suggest that
10 the risk that the conditions imposed in Cause No. 43306 were established to
11 address has been heavily mitigated.

12 **Q. Please describe I&M's benchmark proposal.**

13 A. I&M requests the generic purchase power procedures established in Cause No.
14 41363 be waived upon the effective date of the Commission's Order in this
15 Cause.

16 **Q. Does this proposal in anyway prohibit review of I&M's purchase power**
17 **transactions?**

18 A. No. I&M purchase power costs would continue to remain subject to review and
19 approval in each of I&M's FAC filings.

1 **WHOLESALE CONTRACT AND SPECIAL CONTRACT CHANGES**

2 **Q. Please explain the wholesale load change impacting the Test Year.**

3 A. Effective January 1, 2018, Wabash Valley Power Authority (WVPA) is reducing
4 its wholesale load that I&M serves by an expected 100MW. This load loss is due
5 to WVPA losing a delivery point that it served.

6 **Q. What actions did I&M take to secure long-term customer benefits in
7 response to this wholesale load loss?**

8 A. I&M renegotiated its contract with WVPA to secure long-term benefits for I&M's
9 customers. Prior to renegotiation, I&M's contract with WVPA provided wholesale
10 generation and transmission service to approximately 200MW of load based on a
11 formula rate cost of service that was set to expire in 2026. As a result of
12 thorough negotiations, WVPA was unable to replace the lost load, but I&M was
13 able to renegotiate the contract to extend service for an additional seven years,
14 through December 31, 2033, and secure a minimum billing demand of 70 MWs.
15 This result provides a continued contribution to I&M's fixed cost of service.

16 **Q. Does Net Electric Operating Income reflect updated revenue assumptions
17 for I&M's Special Contract with Steel Dynamics, Inc. (SDI)?**

18 A. Yes. The contract I&M has with SDI currently expires December 31, 2017 and
19 I&M and the customer have recently completed the negotiation of a one-year
20 extension. A filing will soon be made with the Commission to seek approval of
21 the extension to the Special Contract. Operating Revenue Adjustment No. 1
22 reflects new assumptions based on this extension; see WP-AJW-2. If the

1 Commission does not approve the extension as filed, I&M’s base rate cost of
2 service will need to be revised to reflect any modifications.

3 **SUMMARY**

4 **Q. Please provide an overall summary of your testimony.**

5 A. I&M requests the Commission approve the requests laid out in my testimony,
6 including:

- 7) I&M’s proposed base rates and rider rates.
- 8) The proposed Phase-in Rate Adjustment.
- 9) Recognition of the Prepaid Pension Asset in I&M’s rate base.
- 10) The proposed Resource Adequacy Rider, including annual filing interval
- 11 beginning when initial rider rates are established.
- 12) Consolidation of the recovery for certain environmental costs currently
- 13 recovered through the ECCR, CCTR, and FMR into ongoing ECR filings.
- 14) 100% recovery of I&M’s PJM costs, including NITS, through its existing
- 15 PJM Rider, combining the PJM Rider and OSS Rider into a singular
- 16 annual rider filing, and other changes to I&M’s existing rider mechanisms
- 17 as outlined above.
- 18) Amortization and rate base treatment of deferred costs associated with
- 19 the Cook Plant turbine replacement, FMR 20% Deferral, Cook
- 20 Improvement Project costs, and rate case and nuclear decommissioning
- 21 study expenses.
- 22) Deferral authority of the O&M costs associated with I&M’s distribution
- 23 vegetation management plan, the Cook Plant’s ongoing dry cask storage
- 24 program, REO marketing costs, and continued deferral authority for the
- 25 distribution Major Storm Damage Restoration Reserve.
- 26) Accounting and ratemaking treatment of the final costs associated with the
- 27 Tanners Creek Plant.
- 28) The allocation methodology for determining the Indiana jurisdictional
- 29 share of the Cook Plant nuclear decommissioning liability.

1) A waiver of the generic purchase power procedures established in Cause
2 No. 41363.

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

4 **A. Yes.**

VERIFICATION

I, Andrew J. Williamson, Director of Regulatory Services 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: 7/25/17

Andrew J. Williamson
Andrew J. Williamson