I&M Exhibit: _____

Cause No. 45235

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

ANDREW J. WILLIAMSON

INDEX

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

Q. Please state your name and business address.

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

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

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

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

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

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

In January 2008, I joined American Electric Power (AEP) as a Staff Accountant in the Accounting Policy and Research department. Thereafter, I've held positions as a Staff and Senior Accountant in Financial Policy Transaction and Analysis, as a Senior Financial Analyst in Transmission Investment Strategy and as a Manager of Regulatory Accounting Services. In March 2014, I assumed my current position as Director of Regulatory Services for I&M.

Q. Have you previously testified before any regulatory commissions?

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

- 43775 OSS-5 Off System Sales Rider Reconciliation
- 44523 Certificate of Public Convenience and Necessity
- 44331 ECR X Federal Mandate Rider Reconciliations
- 44542 TDSIC Plan
- 44543 TDSIC Rider
- 44655 SDI Contract Amendment
- 44696 Generation Hedging Plan
- 44967 Base Rate Case
- 43827 DSM 8 – 2017 Reconciliation

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

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

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

I. PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to:

- Summarize the Company's forward-looking test year.
- Discuss the application of General Administrative Order (GAO) 2013-5 and the Minimum Standard Filing Requirements (MSFR).
- Discuss the Company's requested rate relief.
- Support the proposed amortization periods and certain adjustments to net electric operating income and rate base.
- Support the continued rate base treatment for the prepaid pension asset.
- Explain the Company's request for a new Advance Metering Infrastructure (AMI) Rider.
- Explain the Company's proposals for rate adjustment mechanism (also referred to as riders) which include changes to the Company's existing riders and an ongoing waiver of the purchased power benchmark procedures in the FAC.
- Support the Company's requests to continue both the Major Storm Damage Restoration Reserve and the Dry Cask Storage deferral.
- Support the Company's request for a transportation electrification deferral and an excess accumulated deferred federal income taxes (ADFIT) deferral.
- Support the requested accounting treatment for the EZ Bill program approved in Cause No. 45114.

Q. Are you sponsoring any exhibits in this proceeding?

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

- I&M Exhibit A-1 (calculation of required Indiana jurisdictional rate relief).
- I&M Exhibit A-5 (net electric operating income) and certain adjustments to net electric operating income also shown on I&M Exhibit A-5.
- I&M Exhibit A-6 (rate base) and certain adjustments to rate base also shown on I&M Exhibit A-6.

Q. Are you sponsoring any attachments in this proceeding?

A. Yes I am sponsoring Attachment AJW-1 – AMI Annual Revenue Requirement Summary.

Q. Are you sponsoring any workpapers in this proceeding?

A. Yes, I have filed the following workpapers (WP) in support of my testimony in this proceeding:

- WP AJW-1 - OR-1 Rider Revenue Requirement Calculations.
- WP AJW-2 - Adjustment Rider 1 – DSM Rider.
- WP AJW-3 – Adjustment Rider 2 – OSS/PJM Rider.
- WP AJW-4 – Adjustment RB-6 – Unprotected Excess ADFIT.
- WP AJW-5 – Adjustment RB/O&M-2 – Rockport Enhanced Dry Sorbent Injection (DSI).
- WP AJW-6 – Adjustment RB/O&M-3 – Cook 316b Compliance Costs.
- WP AJW-7 – Adjustment RB/O&M-4 – Rate Case and Nuclear Decommissioning Expense.
- WP AJW-8 – Adjustment O&M-1 – IEA Lobbying/Legislative Expenses.
- WP AJW-9 – Adjustment O&M-4 – Rockport Unit 2 SCR Consumables.
- WP AJW-10 – Adjustment O&M-5 – Michigan Choice PJM Transmission Expenses.
- WP AJW-11 – Adjustment O&M-6 – PJM Capacity Performance Insurance.

Q. Were the exhibits, attachment and workpapers that you sponsor prepared by you or under your direction?

A. Yes.

II. OVERVIEW OF TESTIMONY

Q. Please provide an overview of your testimony and recommendations.

A. I&M proposes the Commission authorize recovery of I&M's cost to serve customers using the forward-looking calendar year test year of January 1, 2020 through December 31, 2020 (Test Year). This cost recovery will be implemented through a combination of base rates and rate adjustment mechanisms. I&M's overall requested rate relief for the Test Year is approximately $172 million, or approximately 11.75%. I&M proposes to implement the requested rate increase in three steps through the Phase-in Rate Adjustment (PRA) process. In Phase I, revenue would increase by approximately $82.5 million or 5.63%. In Phase II, revenue would increase by approximately $129 million or 8.81%. The overall increase identified above would be implemented in Phase III, which would commence January 1, 2021.

I&M's Financial Exhibit A shows the calculation of the revenue increase. In accordance with the GAO-2013-5 and the MSFR, the Company has presented substantial support for the revenue increase and related relief. This is consistent with the level of support provided in the Company's last general rate case (Cause No. 44967) as well as other past cases.

Many of the Company's proposals reflect a continuation of existing rate structures and processes. For example, I&M proposes to implement the rate increase in phases consistent with the PRA process used to implement rates resulting from our last general rate case. The PRA proposal also reflects a revenue requirement credit to provide retail customers the benefit of the Indiana Michigan Municipal Distributors Association (IMMDA) wholesale contracts through the end of their term (May 31, 2020).[1] The Company also proposes to continue both the Major Storm Restoration Reserve and Dry Cask Storage deferral, and to continue to include the prepaid pension asset in rate base consistent with the treatment authorized in the Company's last two rate cases (Cause Nos. 44075 and 44967).

Similarly, I&M proposes to retain all existing rate adjustment mechanisms (*i.e.* riders) with certain modifications as discussed below and to add one new mechanism -- the Advanced Metering Infrastructure (AMI) Rider. The AMI project lays the foundation for substantial customer and system benefits as discussed by Company witnesses Thomas, Isaacson and Lucas. The new AMI Rider provides the regulatory support necessary for this significant capital investment.

Q. Please continue with your overview, focusing now on the Company's rate adjustment mechanism proposals.

A. The Company's proposals for its ongoing rate adjustment mechanisms include the following:

1. DSM/EE Rider: To recognize that I&M's demand side management / energy efficiency (DSM/EE) plan for 2020 and beyond will be addressed in a separate docket, we have removed the associated costs from the Test Year and propose to recover these costs through the DSM/EE Rider based on the outcome of the separate DSM/EE case.

2. ECR: Consumables and allowances expenses are much like fuel costs: the total amount of consumables and allowances expenses incurred by the Company each year is largely outside the Company's control and

[1] The PRA mechanism is further discussed by Company witness Duncan.

can vary considerably based on how much Rockport operates and changes in operation of environmental control equipment. Therefore, I&M proposes that the Environmental Cost Rider (ECR) be used to track the consumables and allowances costs the Company incurs in operating its generating assets for the benefit of its customers.

3. <u>FAC</u>: With respect to the FAC, the Company seeks to update the base cost of fuel, continue the previously approved waiver of the purchased power benchmark on an ongoing basis, and continue crediting customers for revenues associated with participation in I&M's voluntary renewable programs.

4. <u>Life Cycle Management (LCM) Rider</u>: I&M proposes to coordinate the LCM Rider with the new rates established in this case in essentially the same way as in our last rate case. In other words, I&M's proposed base rates in this proceeding include LCM plant that is forecasted to be placed in service as of Test Year end and the PRA will be used to reflect this new in-service plant. The remaining LCM Project capital-related costs will be recovered through the LCM Rider until the LCM Project is fully completed and reflected in base rates.

5. <u>OSS/PJM Rider</u>: I&M's PJM costs are significant, variable, and largely outside the utility's control. I&M is proposing that the OSS/PJM Rider continue consistent with the structure agreed to in the settlement agreement approved in Cause No. 44967 with the exception of removing the sunset provision and cap on certain PJM Network Integration

Transmission Service (NITS) charges, and commence tracking the cost of PJM Capacity Performance insurance, which is a new cost incurred as a result of PJM requirements. Restricting the recovery of reasonable and necessary costs incurred to provide service to customers is unnecessary and potentially harmful to the Company and its customers. The OSS/PJM Rider structure proposed by the Company continues sharing of OSS margins on a 95/5 basis, meaning that 95% goes to customers and 5% goes to the Company, with zero embedded in base rates. Continuing to share OSS margins 95/5 (customer/Company) provides an incentive for the Company to maximize the benefits of OSS for both the Company and its customers.

6. Resource Adequacy Rider (RAR): The RAR, in conjunction with the FAC, ensures that rates only reflect the actual cost of purchased power that I&M incurs to provide service to customers. As agreed in Cause No. 44967, the RAR tracks the incremental non-fuel purchased power costs that I&M incurs above or below the level of such costs embedded in base rates. To recognize that these costs continue to be significant in amount and subject to variability due to factors largely outside of I&M's control, I&M proposes to continue this structure with no cap or sunset provisions.

Q. Please provide an overview of the adjustments and accounting authority supported by your testimony.

A. In order for the Test Year to reasonably represent ongoing costs and revenues, the Company's filing includes various adjustments, normalizations and annualizations, each of which is identified in I&M Exhibit A. The adjustments I support include adjustments:

- to reflect the enhancements to the DSI system at Rockport;
- to recognize the study costs incurred for the Cook Nuclear Plant's compliance with the Clean Water Act Rule 316b;
- to remove lobbying/legislative expenses associated with the Indiana Energy Association (IEA); and
- to reduce Total Company PJM transmission charges for the estimated amount that will be billed to Michigan Choice customers.

For purposes of this rate case, most deferred balances, including rate case expense and nuclear decommissioning study expense, are amortized over a period of two years as this period represents the most likely period between re-setting base rates in this case. However, the Cook Nuclear Plant 316b compliance study costs are amortized over a period of 15 years, which reasonably approximates the remaining license life of the Cook Plant.

My testimony addresses two requests for new deferral authority. One request concerns the transportation electrification program (IM Plugged In) discussed by Company witness Lehman and the other concerns the ongoing implementation of the Tax Cuts and Jobs Act of 2017 (TCJA) excess ADFIT settlement agreement approved in Cause No. 44967. The first deferral is sought because the level at which customers will participate in I&M's transportation electrification program is difficult to predict. The second deferral is proposed to clarify the ongoing treatment of normalized and non-normalized excess ADFIT so that customers will receive the agreed benefit of the Settlement Agreement approved in the Company's last rate case.

In addition, my testimony addresses the ongoing regulatory accounting for the EZ Bill program costs and revenues. I&M's EZ Bill Program is a voluntary billing option designed to allow eligible residential and small commercial customers to be charged a fixed amount per month for electric service over a 12-month period. The settlement agreement for the EZ Bill Program approved in Cause No. 45114 provided that the issue of whether any EZ Bill Program revenues or costs can or should be accounted for above-the-line will be addressed in I&M's next base rate case. The Company proposes that EZ Bill Program costs and revenues be accounted for above the line. This is consistent with the treatment of the revenues and costs of I&M's other tariff offerings.

Q. Before proceeding further, please summarize how the balance of your testimony is organized.

A. My remaining testimony summarizes the Test Year and outlines the organization of the Company's Exhibit A. I then discuss the historical data and other information provided to support this filing. After summarizing the overall revenue relief sought, I next address the amortization periods reflected in the case and the continued inclusion of the prepaid pension asset in rate base. I then step through various calculations and adjustments that I support for the proposed revenue requirement; and discuss the deferred accounting authority sought in this case. Thereafter, I discuss the Company's rate adjustment mechanism proposals. I conclude my presentation with the Company's proposed accounting for the EZ Bill program approved in Cause No. 45114.

III. SUMMARY OF TEST YEAR

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

A. The Company has proposed rates based on a forward-looking calendar year of January 1, 2020 through December 31, 2020 (Test Year). This includes both base rates and rider rates.

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

A. No. I&M has similarly used forward-looking test years to establish base rates in its Indiana and Michigan jurisdictions, including I&M's most recent Indiana base rate case filed in July 2017 (docketed as Cause No. 44967) and Michigan base rate case filed in May 2017 (docketed as MPSC Case No. U-18370).

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

A. Yes. Under Indiana Code 8-1-2-42.7(d) and (d)(1), in a petition, such as this, "to change basic rates and charges," a utility "may designate a test period for the [C]ommission to use." Further, the Commission "shall approve a test period that is one (1) of the following: . . . A forward looking test period determined on the basis of projected data for the twelve (12) month period beginning not later than twenty-four (24) months after the date on which the utility petitions the commission for a change in its basic rates and charges." The Test Year I&M has designated for the case meets these statutory criteria and thus is appropriate and reasonable.

Q. Please describe I&M Exhibit A.

A. I&M Exhibit A consolidates the data supporting I&M's projected costs and revenues for the Test Year. The items included in I&M's Exhibit A satisfy the

MSFRs in Section 6 for the Test Year. I&M's documentation in support of the Company's filing includes workpapers which provide further detail.

Q. Has the Company provided historical data?

A. Yes. The Company has provided historical data using a 2018 calendar year historic base period. The Company has provided this historical data on workpaper WP-I&M-1 and, where appropriate, in its response to the MSFRs.

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

A. Yes. Adjustments to the Test Year forecast are necessary to reflect impacts to the forecast that relate to requests that become effective upon Commission approval. For example, changes in net operating income and/or rate base resulting from changes in depreciation rates, amortization of deferred costs, and removing from base rates certain revenues and expenses requested to be recovered in riders. Each Test Year adjustment is sponsored and described by an I&M witness as shown on I&M Exhibit A. Where applicable, these adjustments are supported by workpapers.

IV. GAO 2013-5

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

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

Q. Please summarize GAO 2013-5.

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

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

A. Yes, in combination with the Commission's prehearing conference order from the Indiana American Water forward-looking test year case, Cause No. 44450. In addition, I&M developed this filing consistent with our last forward-looking base case filed in Cause No. 44967.

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

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

<u>Notice of Intent:</u>

- I&M submitted a Notice of Intent on April 10, 2019, at least 30 days prior to the date of filing for a change in base rates.
- I&M has discussed this filing with the OUCC and other stakeholders. The Company remains willing to continue to discuss its filing with interested parties.

<u>Case in Chief and Supporting Documentation</u>:

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

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

- Proposed test year and rate base cutoff dates – MSFR Section 5: I&M selected calendar year 2020 as its Test Year, and has provided calendar year 2018 data as its historic base period. I&M has provided documentation supporting the Test Year, including calculations, assumptions, and results. The differences from the historic base period to the Test Year are discussed in more detail by various Company witnesses and are summarized by Company witness Lucas.
- Proposed revenue requirement – MSFR Sections 7-12.
- Jurisdictional operating revenues and expenses, including taxes and depreciation – MSFR Section 8.
- Balance sheet and income statements – MSFR Sections 6, 8-9.
- Jurisdictional rate base – MSFR Section 9-12. I&M's jurisdictional rate base is as of the end of the Test Year or December 31, 2020 (Test Year end), along with a Phase-in Rate Adjustment. The Phase-in Rate Adjustment takes into account changes in plant in service, accumulated depreciation, and cost of capital. Therefore, the GAO's recommendation to calculate an average of the monthly rate base over the projected test period was not necessary.
- Proposed cost of capital and capital structure – MSFR Sections 12-13.
- Jurisdictional class cost of service study – MSFR Section 15.
- Proposed rate design and pro forma tariff sheets – MSFR Section 16.

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

A. Yes. In addition to testimony, I&M's witnesses have provided various attachments and workpapers, many in executable electronic format, that support and document the Test Year. I&M has provided support for the Test Year consistent with that provided in Cause No. 44967 as well as other past cases. In addition, I&M has provided responses to the MSFRs for the Test Year and, where appropriate, for the historic base period. I&M has also provided data for the historic base period in Workpaper WP-I&M-1.

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

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

Q. Does the GAO provide for deviations?

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

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

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

- I&M has provided detailed "supporting documentation" and "supporting calculations" for the forward-looking Test Year. However, I&M has not provided this supporting documentation in the form of "individual adjustments" from the historic base period to the Test Year under GAO 2013-5 ¶ II.A.2.c. See the testimony of Company witness Heimberger for the explanation of I&M's forecasting process, which is essentially the same process relied on in the Company's last general rate case (Cause No 44967).

- Because of the Phase-In Rate Adjustment, it was not necessary to use an average monthly rate base under GAO 2013-5 ¶ II.A.6.b.

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

A. Yes. I&M will publish a notice of the filing of the Petition in this Cause in newspapers of general circulation in each of the counties in the State of Indiana in which I&M renders retail electric service. Following publication of notice, I&M will certify to the Commission that the publication has occurred.[2] In addition, in accordance with 170 IAC 4-1-18(C), I&M will provide notice of this filing to each residential customer within 45 days of the filing of this Petition. This notice will fairly summarize the nature and extent of the proposed changes. This notice is in the form of a bill insert in residential customers' bills.

V. REQUESTED RATE RELIEF

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

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

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

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

A. I&M Exhibit A-1 presents I&M's overall requested rate relief for the Test Year, including I&M's proposed base rates and riders. I&M's overall requested rate relief for the Test Year, as found on line 12, is approximately $172 million. Line 9 represents the rate relief specific to proposed base rates. I&M's proposed base rates have been calculated using I&M's requested return on the Test Year end rate base. In certain cases, I&M's proposed riders include the removal of certain expenses from the Test Year base rates which will be fully included in the rider revenue requirements going forward. I discuss I&M's rider proposals in detail later in my testimony. In order to reflect the impact of I&M's rider proposals, the Company made adjustments to its Test Year net electric operating income to remove both the existing Test Year revenue and Test Year expenses associated with I&M's rider proposals. These adjustments, shown on I&M Exhibit A-5, are sponsored and explained by Company witnesses Duncan and myself.

Consistent with I&M's last base case filed in Cause No. 44967, I&M's PRA proposal will adjust rates during the Test Year, which will constitute just and reasonable rates. To demonstrate that the proposed rates are just and reasonable, I&M has presented substantial information, as summarized in I&M Exhibit A.

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

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

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

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

Lines 10 and 11 relate to I&M's proposed riders. In order to ensure that I&M Exhibit A-1 shows I&M's *total* requested rate relief inclusive of both base rates and riders, Lines 10-11 show the impact of all revenues and expenses that I&M proposes to recover in riders. That is, Lines 10 and 11 both incorporate (a) all revenues and expenses that I&M currently recovers in riders and proposes to continue to recover in riders and (b) all revenues and expenses that I&M currently recovers in base rates and proposes to recover in riders. The difference between the values in Lines 10 and 11 reflect changes in certain rider mechanisms in this proceeding.

The final line, Line 12, represents I&M's overall requested rate relief inclusive of both base rates and rider proposals.

Q. Do I&M's proposed base rates reflect long-term wholesale customer contracts ending during the Test Year?

A. Yes. As mentioned by Company witness Thomas, I&M has a number of wholesale contracts that are ending June 1, 2020.[3] These are contracts with certain members of IMMDA; in total the contracts represent approximately 300 MW of load. As discussed by Company witness Duncan, certain adjustments have been made to the Test Year and phase-in of base rates to annualize the impact of the contracts ending and to ensure that customers continue to benefit until the contracts expire.

VI. AMORTIZATION PERIODS

Q. Do you support the amortization periods for deferred balances?

A. Yes. For purposes of this rate case, most deferred balances are amortized over a period of two years as this period represents the most likely period between resetting base rates in this case. This includes the amortization reflected in I&M's RB/O&M 4 discussed below and RB/O&M5 discussed by Company witness Ross. However, the Cook Nuclear Plant 316b compliance study costs are amortized over a period of 15 years, which reasonably approximates the remaining license life of the Cook Plant.

[3] The wholesale contracts with IMMDA members Avilla, Bluffton, Mishawaka, New Carlisle, Niles, Paw Paw, South Haven, Sturgis and Niles end as of 2400 Eastern Prevailing Time May 31, 2020. A separate IMMDA member contract continues until at least 2025.

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

A. The Company's accounting will occur based on the actual costs that accrue to the deferral balance prospectively. Upon implementation of new rates as a result of this case, monthly amortization will occur based on the Commission's final order. Since it was necessary to estimate these balances for purposes of the Test Year, when new base rates are implemented, the actual deferral balance may not be the same as the projection. Amortization of actual deferred balances will continue until the balance is fully amortized.

VII. ADJUSTMENTS TO NET ELECTRIC OPERATING INCOME AND RATE BASE

Q. What adjustments do you support?

A. Figure AJW-1 below identifies the adjustments I support, as well as any co-sponsors. Each of these adjustments is necessary to ensure that the final cost of service used to set base rates reasonably reflects I&M's cost of providing service to customers on an ongoing basis. Note that the Adjustment ID (Adj. ID) corresponds with the type of adjustment and how it impacts the cost of service as described below:

- Operating Revenue (OR) adjustments impact Test Year operating revenues.
- Rider adjustments impact Test Year operating revenues and expenses for costs which are removed from base rates and fully recovered through ongoing rider filings.
- Rate Base (RB) adjustments impact Test Year rate base.

- Rate Base / Operation and Maintenance (RB/O&M) adjustments impact both Test Year rate base and O&M expenses.
- O&M adjustments impact only Test Year O&M expenses.

Figure AJW-1
Summary of Adjustments Supported by Andrew Williamson

Adj. ID	Description	Co-Sponsor
OR-1	Adjust Indiana firm and interruptible sales revenues to detailed tariff-level forecast revenue, including rider revenues	Duncan
OR-2	Annualize revenues and expenses for the impact of IMMDA wholesale contracts ending May 31, 2020	Nollenberger
Rider-1	Remove O&M expenses (and corresponding rider revenues) associated with DSM/EE programs that will be fully recovered through the DSM/EE Rider	Duncan
Rider-2	Remove OSS margins and PJM NITS expenses (and corresponding rider revenues) that will be fully recovered through the OSS/PJM Rider	Duncan
RB-6	Reduce rate base for the Indiana jurisdictional share of the non-normalized excess ADFIT unamortized balance	Kelly
RB/O&M-2	Increase rate base and O&M expenses for the Rockport Enhanced DSI project	Kerns
RB/O&M-3	Increase rate base to include the Cook Nuclear Plant's study costs to comply with Clean Water Act Rule 316b	Lies
RB/O&M-4	Increase rate base and O&M expenses to include rate case and nuclear decommissioning study expenses	None
O&M-1	Remove lobbying/legislative expenses associated with the Indiana Energy Association (IEA)	None
O&M-4	Increase O&M expenses to reflect an annualized level of consumables for Rockport Unit 2	Kerns
O&M-5	Reduce PJM transmission charges for estimated amount that will be billed to Michigan Choice customers	None
O&M-6	Add annual level of PJM Capacity Performance insurance expense	Thomas

Q. Please explain Adjustment OR-1.

A. Adjustment OR-1 adjusts Indiana retail revenue to detailed tariff-level revenues including riders. Company witness Duncan supports the overall calculation of Indiana tariff revenues, and I support the calculation of Test Year revenues for I&M's rider mechanisms. Rider revenues in Adjustment OR-1 are calculated to represent the revenues the respective riders would be expected to collect during 2020 absent any changes to base rates or riders as a result of this filing. As explained below, I provided the test year rider revenues to Company witness Duncan for purposes of Adjustment OR-1.

Q. What existing rider mechanisms were included in Test Year revenues in Adjustment OR-1?

A. Below is a list of those riders:

- Demand Side Management / Energy Efficiency Rider (DSM/EE).
- Environmental Cost Rider (ECR).
- Life Cycle Management Rider (LCM).
- Off-System Sales Margin/PJM Rider (OSS/PJM).
- Resource Adequacy Rider (RAR).

Q. How were Test Year revenues calculated for each of the riders?

A. Revenues for the DSM/EE Rider were based on the revenue requirement associated with the current DSM/EE tariff rates with adjustments to estimate an increase in net lost revenue recovery from 2019 to 2020. Revenues for ECR, LCM, OSS/PJM, and RAR Riders were calculated using the Test Year forecast, consistent with the current methodology approved by the Commission. In addition, the OSS/PJM and RAR Riders take into account the impact of the cumulative cost recovery cap agreed to in the settlement agreement in Cause No. 44967.

Q. How did you estimate the increase in net lost revenues for the EE/DSM Rider?

A. Current DSM/EE Rider rates are based on calendar year 2019 and include net lost revenue recovery for 50% of the measures installed in 2018 and 50% of the measures installed in 2019. In 2020, I&M is authorized to recover net lost revenues associated with 50% of the 2018 measures, 100% of the 2019 measures, and 50% of the 2020 measures installed. As a result, to reasonably estimate net lost revenues for 2020, I multiplied the net lost revenues approved for recovery in current rates by two.

Q. Did the Test Year rider revenues you provided to Company witness Duncan for purposes of Adjustment OR-1 include any other rate adjustment mechanism?

A. Yes. As noted by Company witness Kerns, I&M will be placing into service a 20 MW solar project in 2020. Although I&M will be requesting associated timely cost recovery in a separate proceeding pursuant to IC 8-1-8.8, the costs, investments, and revenues associated with this project are included in I&M's Test Year. As stated above, this adheres to the requirement of this rate case to forecast what Indiana retail revenue would be if the rate case was not filed. Because we must make an assumption about the solar project, the rate case filing assumes the project and rider rate recovery will be approved in the separate proceeding. To calculate forecasted Test Year revenue for Adjustment OR-1, revenues associated with timely cost recovery of the solar project were calculated consistent with the revenue requirements methodology approved in Cause No. 44511 for a previous I&M solar project.

Q. Do you have workpapers supporting the calculations provided for Adjustment OR-1?

A. Yes, please see Workpaper WP-AJW-1.

Q. Please explain Adjustment OR-2.

A. Adjustment OR-2 reduces Total Company revenue to annualize the impact of the IMMDA wholesale contracts ending May 31, 2020. Since these contracts are ending during the Test Year and shortly after I&M expects to implement new base rates from this proceeding, Adjustment OR-2 is necessary to ensure that Test Year operating revenues reasonably reflect expected revenues on an ongoing basis. If this adjustment were not made, Test Year revenue would be overstated, and I&M's base rates would be understated. Company witness Nollenberger supports the calculated values for Adjustment OR-2. This adjustment also impacts the OSS margin component of Adjustment Rider-2.

Q. Please explain Adjustment Rider-1.

A. Adjustment Rider-1 removes Total Company O&M expenses associated with DSM/EE programs in Indiana and Michigan to recognize that in Indiana these costs will be fully recovered through the DSM/EE Rider. In addition, this adjustment removes the DSM/EE Rider revenues (Indiana retail) related to the costs I&M incurs for its Commission approved programs, lost revenue and financial incentives. Without this adjustment, the Test Year forecast includes DSM/EE costs for Indiana and Michigan (Total Company) and Indiana retail revenues expected to be collected through the DSM/EE Rider in 2020. The DSM/EE Rider revenues include forecasted recovery of program expenses, financial incentives, and net lost revenues. Once base rates are reset as a result of this proceeding, net lost revenue will be reset to zero for the DSM/EE Rider because base rates will reflect the lower load as a result of DSM/EE programs through 2020. Adjustment Rider-1 is necessary to ensure that base rate operating revenue and O&M expenses exclude revenue and expenses that will be fully recovered through the DSM/EE Rider. If this adjustment were not made, Test Year revenue and O&M would be overstated, and I&M's base rates would be overstated. See Workpaper WP-AJW-2 for further support. Company witness Duncan supports the firm and non-firm split of revenue.

Q. Please explain Adjustment Rider-2.

A. Adjustment Rider-2 removes Total Company OSS margins and PJM Network Integration Transmission Service (NITS) expenses that will be fully recovered through the OSS/PJM Rider. In addition, this adjustment removes the corresponding OSS/PJM Rider revenue (Indiana retail). Without this adjustment, the Test Year forecast includes OSS margins and PJM NITS expenses on a Total Company basis and a corresponding level of Indiana retail revenue expected to be collected through the OSS/PJM Rider in 2020. This adjustment also incorporates the impact of Adjustment OR-2 on OSS margins and the impact of Adjustment O&M-5 on PJM NITS expenses. Adjustment Rider-2 is necessary to ensure base rate operating revenue and O&M expenses exclude revenues and expenses that will be fully recovered through the OSS/PJM Rider. If this adjustment was not made, Test Year revenue and O&M would be overstated, and I&M's base rates would be overstated. See Workpaper WP-AJW-3 for further support. Company witness Duncan supports the firm and non-firm split of revenue.

Q. Please explain Adjustment RB-6.

A. Adjustment RB-6 removes Total Company unprotected excess accumulated deferred federal income tax (ADFIT) unamortized balance from the weighted average cost of capital (WACC) calculation and reduces rate base for the Indiana retail amount.

As a result of the TCJA, excess ADFIT was created. I&M continues to reduce base rates to reflect the amortization of excess ADFIT according to the settlement agreement in Cause No. 44967. Excess ADFIT is generally categorized as normalized and non-normalized (also referred to as protected and unprotected). The Internal Revenue Service (IRS) dictates how protected excess ADFIT shall be amortized to ensure compliance with tax normalization rules. Conversely, unprotected excess ADFIT is amortized over a period determined by the Commission and was set at approximately six years in Cause No. 44967. In addition, the Commission approved adjusting the annual unprotected excess ADFIT amortization to reflect the difference between the actual amortization of protected excess ADFIT and the level included in base rates. Since base rates were implemented in Cause No. 44967, actual amortization of protected excess ADFIT has been lower than the level included in base rates and as a result the actual amortization of unprotected excess ADFIT has been higher. If this difference continues, the unprotected excess ADFIT balance may be fully amortized over a period closer to four years. In my testimony below, I discuss the Company's proposal to use deferral accounting to address the fulfillment of the Settlement Agreement approved in Cause No. 44967. Adjustment RB-6 accounts for the differences in amortization periods established in Indiana and Michigan.

Q. Please explain how Adjustment RB-6 accounts for the differences in amortization periods established in Indiana and Michigan.

A. Traditionally, ADFIT (Total Company) is treated as zero cost capital and included in the WACC supported by Company witness Messner. I&M continues to include the protected excess ADFIT balance on a Total Company basis in the WACC. Since the unprotected excess ADFIT balance is amortized according to each retail commission's determination, the remaining balance for one jurisdiction can be very different than another. Specifically, the amortization period can be very different, as well as when the balance begins amortizing. For example, Indiana began amortizing on July 1, 2018, over a period of six years (adjusted as explained above) and at the time of this filing the Michigan Commission has not decided this issue yet and the balance has not begun amortizing. Due to these differences, the most appropriate way to ensure base rates accurately reflect the remaining customer benefit is by reducing rate base by the Indiana specific unamortized balance. If this adjustment were not made, the agreed customer benefits associated with the unprotected excess ADFIT unamortized balance would not be accurately reflected in base rates. See Workpaper WP-AJW-4 for further support.

Company witness Kelly discusses excess ADFIT in more detail and supports the unprotected excess ADFIT unamortized balance.

Q. Please explain Adjustment RB/O&M-2.

A. Adjustment RB/O&M-2 increases rate base and O&M expense to include the Rockport Enhanced DSI (Dry Sorbent Injection) project. Without this adjustment, none of the capital or O&M expenses associated with the Rockport Enhanced DSI project is included in the Test Year forecast. The project is further supported by Company witness Kerns. This project involves capital investments that will be placed in service during 2020 to enhance the performance of the DSI equipment on Rockport Unit 1 and Unit 2.[4] The project also involves increased consumables (sodium bicarbonate) expense to reflect operation of the environmental controls on an ongoing basis. Adjustment RB/O&M-2 reflects the incremental capital investment and O&M expense associated with I&M's 50% share of Rockport as well as the incremental purchased power expense I&M will incur from the Unit Power Agreement (UPA) with AEP Generating Company (AEG). AEG owns and leases 50% of Rockport and I&M's UPA purchases 70% of the output from AEG's share of Rockport.[5] The cost of power I&M pays under the UPA is determined according to a FERC-approved cost-based formula rate. Once the equipment is placed into service during the Test Year, the AEG bill will be incrementally higher due to the increased capital and O&M. I estimated the increase in purchased power expense using the pre-tax WACC and depreciation rates from the February

[4] The Commission approved a CPCN for the DSI equipment in Cause No. 44331.

[5] See Company witness Thomas, Attachment TLT-3 for a graphical depiction of the Rockport arrangements.

2019 UPA bill. These adjustments are necessary to ensure that base rates include the capital and O&M I&M will reasonably incur to provide service to customers during the Test Year and on an ongoing basis. If this adjustment were not made, Test Year capital and O&M would be understated, and I&M's base rates would be understated. See Workpaper WP-AJW-5 for further support. Company witness Kerns supports the forecasted capital and O&M on an I&M basis (50% of Rockport).

Q. Please explain Adjustment RB/O&M-3.

A. Adjustment RB/O&M-3 increases rate base and O&M expense to include the Cook Nuclear Plant's cost of compliance with Section 316b of the Clean Water Act (316b). Without this adjustment, the cost of compliance would be deferred in a balance sheet account and not amortized in the Test Year forecast. To comply with 316b, the Cook Nuclear Plant undertook studies internally and hired a third-party consultant. The cumulative cost associated with these activities was deferred. The results of the study show that the Cook Plant's current operation complies with 316b, and no additional capital improvements are needed. As a result, we are requesting recovery of the deferred cost by including it in rate base and amortizing over a period of 15 years. This 15 year period was chosen as it reasonably approximates the remaining life of the Cook Nuclear Plant. This adjustment is necessary to ensure base rates include the capital and O&M I&M has reasonably incurred to provide service customers during the Test Year and on an ongoing basis. If this adjustment was not made, Test Year capital and O&M would be understated and I&M's base rates would be understated. See workpaper

WP-AJW-6 for further support. Company witness Lies supports the 316b compliance costs.

Q. Please explain Adjustment RB/O&M-4.

A. Adjustment RB/O&M-4 increases rate base and O&M expense to include the deferral and amortization of retail rate case expense and incremental nuclear decommissioning study expense over a period of two years. Without this adjustment, these costs and the related amortization would not be included in the Test Year forecast. The proposed rate case expenses includes incremental costs such as the cost of outside counsel, outside witness/consulting services, and the cost of internal personnel travel-related expenses in direct support of the hearings associated with this base rate case. These types of costs are consistent with those approved in past rate case filings, including Cause No. 44967. If this adjustment were not made, Test Year capital and O&M would be understated and I&M's base rates would be understated. See Workpaper WP-AJW-7 for further support.

Q. Please explain Adjustment O&M-1.

A. Adjustment O&M-1 decreases O&M expense to remove lobbying/legislative-related costs from I&M's annual Indiana Energy Association (IEA) dues. If this adjustment were not made, these costs would be included in the Test Year forecast and O&M would be overstated and I&M's base rates would be overstated. See Workpaper WP-AJW-8 for further support.

Q. Please explain Adjustment O&M-4.

A. Adjustment O&M-4 increases O&M expense to annualize the Test Year level of consumables (ammonia) for the operation of the Rockport Unit 2 SCR. The

Rockport Unit 2 SCR is expected to go into service during May 2020. Without this adjustment, only seven full months of consumables expense for the Rockport Unit 2 SCR is included in the Test Year forecast. The adjustment divides the consumables expense in the Test Year forecast by seven and multiplies that amount by twelve. This adjustment is necessary to ensure that the Test Year reasonably reflects an annual level of consumables expense on an ongoing basis. If this adjustment were not made, Test Year O&M would be understated and I&M's base rates would be understated. See Workpaper WP-AJW-9 for further support. Company witness Kerns supports the Rockport Unit 2 SCR consumables costs.

Q. Please explain Adjustment O&M-5.

A. Adjustment O&M-5 reduces O&M expense to remove an estimated level of PJM transmission charges that will be paid by Michigan customers that have chosen an alternative supplier under Michigan Customer Choice (Choice or Shopping), which allows these consumers to shop for their energy supplier. In February 2019, approximately 10% of I&M's retail load in Michigan migrated to Choice. Choice customers will continue to be responsible for their share of PJM transmission charges. Because the Test Year forecast was finalized prior to February 2019, an adjustment to Total Company Test Year retail expense is necessary to reflect the impact of the Choice shopping program on I&M's PJM transmission charges. If this adjustment were not made, Test Year O&M would be overstated, and I&M's base rates would be overstated. Continuing to track all PJM costs through the OSS/PJM rider will ensure that the actual impact of Choice is accurately reflected in Indiana retail rates. This adjustment is also reflected in Adjustment Rider-2 related to the OSS/PJM rider. See Workpaper WP-AJW-10 for further support.

Q. Please explain Adjustment O&M-6.

A. Adjustment O&M-6 increases O&M expense to include the annual expense to purchase insurance to cover the final risk associated with PJM Capacity Performance rules. The Capacity Performance provisions of the PJM tariff impose fees on generation facilities that are unable to meet their capacity commitments when PJM determines that there is a system emergency and calls a Capacity Performance "event." Capacity Performance events are unpredictable and outside the Company's control. Therefore, a generation resource may have exceptionally good performance, but if a forced outage were to occur during a Capacity Performance event (for example, due to unexpected equipment failure), I&M would be required to pay substantial fees. Company witness Thomas further discusses these risks and the reasonableness and necessity of the insurance. The Capacity Performance insurance for I&M's generation fleet will reimburse the Company (and ultimately customers) for Capacity Performance fees should a forced outage occur during a Capacity Performance event. Prior to this adjustment, this expense was not included in the Test Year forecast. If this adjustment was not made, Test Year O&M would be understated and I&M's base rates would be understated. See Workpaper WP-AJW-11 for further support. In addition, my testimony below discusses I&M's request to track this cost in the OSS/PJM Rider.

VIII. CONTINUED RATE BASE TREATMENT FOR PREPAID PENSION

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

A. Yes, I&M has continued to include the retail jurisdictional amount of the forecasted Test Year end Prepaid Pension Asset, approximately $89 million (Total Company), in rate base. Pension contributions and costs are accounted for consistent with Generally Accepted Accounting Principles (GAAP) under Accounting Standards Codification (ASC) 715 (formerly Financial Accounting Standard No. 87 or "FAS 87"). The Prepaid Pension Asset presented in this case is the cumulative amount of cash contributions to the pension trust fund in excess of the cumulative amount of pension cost accrued to expense. The Test Year end balance is based on the actual balance as of December 31, 2018, and the net change associated with forecasted contributions and pension expense for 2019 and 2020. Company witness Hill further discusses I&M's forecasted Prepaid Pension Asset. The continued inclusion of the Prepaid Pension Asset in rate base is consistent with the Commission's Orders in Cause Nos. 44967 and 44075. As noted by the Commission in its February 13, 2013 Order in Cause No. 44075, inclusion in rate base recognizes the benefit of I&M's management decision to make use of available cash to secure pension funds and reduce the liquidity risk of future payments.

IX. AMI REGULATORY TREATMENT

Q. What aspect of I&M's AMI deployment are you supporting in your testimony?

A. I am supporting I&M's requested regulatory treatment of its AMI deployment. Other aspects of the AMI deployment are supported by the following witnesses:

- Company witness Thomas supports the AMI deployment from a policy perspective.
- Company witness Isaacson supports the costs and physical deployment of the meters and communication infrastructure, along with how AMI will benefit the distribution system and the service customers receive.
- Company witness Lucas supports the costs of the related software/technology investment and customer engagement strategy. In addition, he discusses additional ways customers benefit from this technology.
- Company witness Cooper supports I&M's proposed AMI Opt-Out and AMI Rider tariffs.
- Company witness Cash supports I&M's proposed treatment of depreciation rates for meters (FERC Plant Account 370).
- Company witness Nollenberger supports I&M's proposed rate design for the AMI Rider.

Q. Please summarize the Company's requested regulatory treatment of its AMI meter deployment.

A. First, as mentioned by Company witness Thomas, I&M is requesting that the Commission approve I&M's overall AMI meter deployment plan pursuant to IC 8-1-2-23. Second, I&M is requesting that the Commission, pursuant to its authority under IC 8-1-2-42(a), approve the AMI Rider to track AMI deployment costs.

Q. Why is I&M seeking preapproval of its AMI deployment?

A. As explained by Company witness Isaacson, I&M's planned AMI deployment in its Indiana service territory will begin during the 2020 Test Year and is expected to be completed in 2022, with the majority of I&M's expenditures taking place in 2021-22. Before I&M undertakes this significant investment, I&M requests that the Commission approve the overall AMI deployment plan to avoid potential disputes over the used and usefulness of this investment once it has been placed in service. Also, this is a large and important investment spanning multiple years that will provide significant benefits for our customers and distribution system. Much like a large investment in a generation resource it is important that the Commission assess the overall investment and not just the amount spent in one particular year. Furthermore, the benefits of this investment can only be optimally realized if the technology is fully deployed. I&M's 3-year deployment plan ensures all customers and the entire Indiana distribution system realize those benefits efficiently.

Q. Why is it reasonable to track AMI deployment costs?

A. It is reasonable to track the AMI deployment costs due to the significant nature of the investment that will occur in a relatively short time period following the Test Year. It would be impractical and an inefficient and an ineffective use of resources to require I&M to file another general rate case immediately after this proceeding to address the majority of the cost recovery associated with an investment the Commission already determined to be reasonable and necessary. Notwithstanding the foregoing, without Commission approval of a tracker mechanism in this proceeding, I&M would be required to wait another 15 months to request cost recovery. The requested rider simply provides timely financial support for this significant capital investment and ensures that customer rates ultimately reflect only the actual cost of the AMI deployment overtime. In addition, our proposal provides the Commission and stakeholders with valuable periodic updates on the progress of the deployment and associated cost.

Q. Please summarize the AMI Rider costs.

A. Figures AJW-2 and AJW-3 below provide a summary of the estimated capital investment in total and specific to the Test Year, and the estimated annual O&M included in the Test Year.

Figure AJW-2

AMI Estimated Capital Investment Summary (Indiana Jurisdictional) ($000s)			
	Test Year	Total	Witness
AMI Meters & Communication Network	$ 10,777	$ 90,229	Isaacson
AMI Software/Technology	$ 3,390	$ 3,390	Lucas
Total =	$ 14,167	$ 93,619	

Figure AJW-3

AMI Estimated O&M Summary (Indiana Jurisdictional) ($000s)		
	Test Year	Witness
AMI Meters & Communication Network[1]	$ 2,250,000	Isaacson
AMI Software/Technology	$ 160,722	Lucas
Customer Engagement	$ 329,940	Lucas
Total =	$ 2,410,722	

1 - Amount represented here is based on Test Year forecast

Q. What is I&M's proposal for the AMI Rider?

A. To provide timely cost recovery for this significant modernization project, I&M is proposing the AMI Rider track the full costs associated with I&M's deployment until the deployment is completed and the associated costs are reflected in base rates. Specifically, I&M is proposing to track the following costs incremental to the level included in base rates:

1. Pre-tax return on net plant in-service
2. Depreciation and amortization expense
3. Property tax expense
4. O&M expense
5. Gross Revenue Conversion Factor (GRCF) costs

Q. How will these costs be determined?

A. I address each specific category below.

1. Pre-tax return on capital will be calculated consistent with I&M's long-standing practice for capital riders. The return on equity (ROE) approved in this proceeding will be utilized until I&M's next base rate case.
2. Depreciation expense will be determined by applying the rates approved by the Commission to AMI plant investment, net of AMR retirements. Specifically, the rate for FERC Plant Account 370 will be used for meters and FERC Plant Account 397 will be used for communication equipment. Capitalized software will be amortized over a five-year period.

3. Property tax expense will be determined using the effective rate for net distribution plant in this case, 0.70%.[6]
4. O&M expense will be specifically identified by unique work order coding. O&M specific to Indiana will be direct assigned and O&M applicable to AMI in both Indiana and Michigan will be allocated based on the Number of Customers jurisdictional allocation factor (78.25573%) approved by the Commission in this proceeding.
5. GRCF costs will be determined consistent with I&M's other riders and as further explained below in my testimony.

Attachment AJW-1 provides a summary of the estimated annual AMI revenue requirement over the three year deployment period.

Q. What is I&M's proposal with respect to its existing AMR meters?

A. I&M is not seeking any rider recovery or other special regulatory treatment for its existing AMR meters. As supported by Company witness Cash, I&M will follow FERC Electric Plant Instruction No. 10 "Additions and Retirements of Electric Plant" when the AMR Meters are retired and removed from service.

Q. Is I&M requesting deferred accounting treatment?

A. Yes. Upon implementation of new base rates, I&M will begin tracking for regulatory accounting purposes above and below the level of AMI-related costs included in base rates, taking into account the timing associated with recovery of plant-related costs as a result of the PRA. The resulting over- or under-recovered balance (regulatory liability or regulatory asset) will be included in future AMI Rider filings

[6] Calculated in Attachment AJW-1.

such that customer rates ultimately reflect only the actual costs of the AMI deployment.

Q. How will I&M's AMI Rider proposal be implemented?

A. After base rates are implemented in this proceeding, I&M will make a filing to establish initial AMI Rider rates according to the Commission's Order. AMI Rider rates will be set based on an annual level of forecasted capital investment to be placed in service and O&M. In addition, I&M will use the AMI Rider to reconcile actual AMI costs to the level included in base rates and the AMI Rider. The AMI Rider will continue until the deployment is completed and the full costs are included in I&M's base rates. As indicated above, the Company will include progress reports with each AMI Rider filing to update the Commission on the status of the AMI deployment.

X. <u>OTHER RIDER PROPOSALS</u>

Q. What other rate adjustment mechanisms is I&M proposing?

A. As noted previously, I&M is proposing to retain all existing rate adjustment mechanisms (i.e. riders) with certain modifications, as described below, and to add one new mechanism, the AMI Rider (as discussed above). I&M's proposals for its existing riders are provided on Figure AJW-4:

Figure AJW-4

Rider	Modifications
Demand-Side Management / Energy Efficiency Program Cost Rider (DSM/EE Rider)	Adjust net lost revenues, remove DSM/EE-related capital included in base rates
Environmental Cost Rider (ECR)	Remove Rockport U2 SCR when included in base rates and track all consumable and allowance expenses
Fuel Cost Adjustment Rider (FAC)	Reset base cost of fuel, track renewable program REC revenues
Life-Cycle Management Rider (LCM Rider)	Update for new LCM-related capital included in base rates
Off-System Sales Margin Sharing / PJM Cost Rider (OSS/PJM Rider)	Reset the base cost of PJM non-NITS charges, track Capacity Performance insurance costs and remove the sunset and cost cap provisions associated with the settlement in Cause No. 44967
Resource Adequacy Rider (RAR)	Reset base cost and remove the sunset and cost cap provisions associated with the settlement in Cause No. 44967

Q. Does I&M have any proposals applicable to each of the riders?

A. I&M proposes to continue including the GRCF to determine all rider rates. The GRCF is in addition to the gross-up for applicable federal and state income taxes and accounts for the additional costs associated with taxes and fees assessed on revenue and uncollectible revenue (bad debt) specific to each rider. To say this another way, each rider mechanism collects a level of revenue on which I&M is assessed additional taxes and fees (e.g., Indiana Utility Receipts Tax and Public Utility Assessment Fee) and of which a portion of the revenue billed is ultimately not collected from certain customers. If the GRCF was not included as a component of each rider mechanisms overall costs, I&M would be financially harmed due to incurring and not recovering unavoidable incremental costs specific to each rider. This is consistent with the Commission's previous findings that GRCF costs are incremental to each rider and recoverable components of the cost of providing service to customers.

Q. How is I&M proposing to update rider rates to reflect the Commission order in this proceeding?

A. Once the Commission issues its final order in this proceeding, I&M will revise existing rider rates based on the Commission's findings and include revised rider rates (as applicable) in the compliance filing for new base rates in this proceeding. The reconciliation process for each rider will continue to account for any differences in rider revenues and recoverable costs. Over- or under-recovery balances included in rider rates at the time new base rates are implemented will continue to be reflected in those rider rates. This process will support both the timely and accurate update of rider rates according to the Commission order.

A. DSM/EE RIDER

Q. What is I&M proposing with respect to the DSM/EE Rider?

A. Consistent with I&M's last base rate case in Cause No. 44967, I&M is proposing the following with respect to the DSM/EE Rider:

- All DSM/EE-related capital forecasted to go into service through Test Year end will be moved into base rates.
- Net lost revenues will be reset to zero, beginning when new base rates are implemented. Beginning in 2021, the DSM Rider will recover net

lost revenues beginning with those associated with one-half the measures installed in 2020.

- Direct and indirect program costs, including costs for evaluation, measurement, and verification (EM&V) services, performance incentives, and DSM labor will continue to be recovered through rider rates (consistent with current treatment).

Q. When new base rates are implemented how will the recovery of costs in the DSM/EE Rider change?

A. Consistent with Cause No. 44967, net lost revenues will be reset to $0 and DSM-related capital recovered through base rates will removed from the DSM/EE Rider. Specifically, during 2020 the PRA mechanism will adjust base rates to reflect the net plant in-service as of December 31, 2019 and the DSM/EE Rider rates will continue to recover capital placed in service after 2019. Once I&M makes its final compliance filing for the PRA, the DSM/EE Rider will be adjusted to recover capital placed in service after 2020. Additionally, I&M's current DSM/EE Three-Year Plan, approved in Cause No. 44841, ends in 2019. In a separate subsequent proceeding, I&M will propose a new DSM/EE plan covering plan years 2020 and beyond. This separate proceeding will establish the necessary rider rates to track the costs of this new plan through the DSM/EE Rider. As explained above, Adjustment Rider-1 adjusts the Test Year base rate cost of service to remove the appropriate level of DSM/EE Plan program expenses and rider revenues.

B. ECR

Q. Please explain the ECR.

A. Currently, the ECR tracks a credit that reflects the net over-recovery associated with the riders that were discontinued in Cause No. 44967 and the Rockport Unit 2 SCR approved in Cause No. 44871.[7] The credit stemming from the riders discontinued in Cause No. 44967 will be returned to customers prior to new base rates being implemented in this proceeding and therefore this credit will no longer be tracked in the ECR. As discussed by Company witness Kerns, the Rockport Unit 2 SCR is forecasted to be placed into service during the Test Year (May 2020), and therefore the costs associated with the project are reflected in I&M's proposed base rates.

Q. What is I&M proposing with respect to the ECR?

A. Upon implementation of new base rates, I&M proposes that the ECR be used to track the consumables[8] and net allowances costs the Company incurs in operating its generating assets for the benefit of its customers. Specifically, the Company is proposing to embed the forecasted Test Year level of consumables and allowances costs in base rates $21,785,467 (Total Company) and track any annual over/under variances in the ECR from the embedded level in base rates. In this way, customer rates ultimately reflect only the actual cost of consumables and allowances costs incurred to provide them service.

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[7] A description of the riders that were discontinued and/or merged in the ECR can be found in the Commission's December 27, 2018 Order in Cause No. 44871 ECR 2.

[8] Consumables are the reagents used to reduce emissions, such as anhydrous ammonia, sodium bicarbonate and activated carbon.

Q. Why is it reasonable to track consumables and allowances expenses?

A. As further supported by Company witness Kerns, consumables and allowances expenses are much like fuel costs: the total amount of consumables and allowances expense incurred by the Company each year varies considerably based on how much the Rockport Units operate. As a member of PJM, the dispatch of I&M's generating assets, including Rockport, is determined by PJM, largely based on market conditions. For example, when PJM market prices are sufficiently high, I&M's units are dispatched; if market prices fall too low, some of I&M's units may reduce output or be placed in reserve shut down. Consumables and allowances expenses also vary due to volatility in the price I&M pays to purchase consumables and allowances in the commodities market. In this way, the Company's annual total consumables and allowances expense is substantial, highly variable, and outside the Company's control, just as fuel costs are. Therefore, because of the variables that drive these expenses any forecasted base level of this cost is potentially not representative during the applicable time period. As a result, consumables and allowances expenses should be tracked through the ECR.

Q. When new base rates are implemented how will the recovery of costs in the ECR change?

A. During 2020, the PRA mechanism adjusts base rates to reflect the net plant in-service as of December 31, 2019. Therefore, during 2020, the ECR rates will continue to recover the capital-related Rockport Unit 2 SCR costs. Once I&M makes its final compliance filing for the PRA, the Rockport Unit 2 SCR will be included in base rates and no longer recovered in the ECR Rider. Finally, upon implementation of new base rates, I&M will begin tracking above and below the $21,785,467 (Total Company) Test Year level of consumables and allowances costs in base rates.

C. FAC

Q. What is I&M proposing with respect to the FAC?

A. I&M proposes to continue the current structure of the FAC, including semiannual filings, with two changes:

- Company witness Heimberger calculates an updated base cost of fuel for FAC-related costs in the Test Year at 12.989 mills per kWh. This base cost of fuel is reflected in I&M's proposed base rates in this proceeding, and after new base rates are placed into effect, the FAC will track any over/under variances from the new base.
- I&M is proposing to use the FAC as the mechanism to track and provide a rate credit to reflect the revenues the Company will receive for renewable energy certificate (REC) sales under I&M's proposed IM Green tariff, which is further discussed by Company witness Lucas. This proposal is consistent with the current practice of using the FAC as a vehicle to flow net proceeds from the Company's current renewable tariffs to customers and ensures that customer rates timely reflect the credits produced from the voluntary renewable programs.

Q. What is the Company's proposal with respect to the purchased power benchmark procedures?

A. The Company is requesting an ongoing waiver of the purchase power benchmark procedures as applied to I&M in Cause No. 43306. That is, the Company is requesting that the Commission waive those procedures for I&M in this case and all future proceedings. As discussed below, circumstances today render it unnecessary for this issue to be revisited in each general rate case.

Q. What is I&M's basis for requesting a permanent waiver of the purchase power benchmark procedures?

A. In my testimony in Cause No. 44967, I explained that the procedures established in Cause No. 43306 were initiated at a time when I&M was a member of the AEP System Pool Agreement and a relatively new member of PJM. These two factors were significant drivers in the development of the defined conditions adopted in Cause No. 43306. I explained that since then, the AEP System Pool Agreement has dissolved, and I&M has been a member of PJM for many years and, therefore, purchase power transactions now occur through the PJM, which is regulated by FERC and has developed into a sophisticated and competitive marketplace. Furthermore, the shale gas revolution, among other factors, has had a significant downward impact on the average market price of energy. All of these factors remain true and support that the purchase power price risks contemplated in Cause No. 43306 have been heavily mitigated and a permanent waiver is reasonable.

Q. How will I&M's FAC Rider proposal be implemented?

A. The two proposed changes above will be implemented concurrent with the effective date of new base rates and will be reflected in I&M's regular semi-annual FAC filings that occur after the effective date of new base rates.

D. LCM RIDER

Q. Please describe the LCM Rider.

A. The LCM Rider recovers capital-related costs associated with the LCM Project approved in Cause No. 44182. Company witness Lies discusses the LCM Project in more detail. As a result of I&M's final PRA compliance filing in Cause No. 44967, all LCM capital investments through December 31, 2018 are now included in base rates and the LCM Rider recovers the capital-related costs of LCM projects placed in-service beginning January 1, 2019 forward. Capital-related costs include, pre-tax return on investment (net of accumulated depreciation), depreciation (net of retirements), property taxes and GRCF. In addition, upon implementation of new base rates in Cause No. 44967, I&M ceased recovering a return on construction work in progress (CWIP recovery) in the LCM rider and instead began accruing allowance for funds used during construction on all LCM capital investments and began depreciating LCM plant investments based on the Commission approved depreciation rates for the respective FERC 300-level plant account.

Q. How is I&M proposing to coordinate this case with the LCM Rider?

A. I&M is proposing to continue recovering the remaining LCM Project capital-related costs beyond the test year through the LCM Rider until the LCM Project is fully completed and reflected in base rates.

Q. When new base rates are implemented how will the recovery of costs in the LCM Rider change?

A. Consistent with Cause No. 44967, I&M's proposed base rates in this proceeding include LCM plant that is forecasted to be placed in service as of Test Year end. Similarly, during 2020 the PRA mechanism adjusts base rates to reflect the LCM plant that was forecasted to be in-service through December 31, 2019. Therefore, during 2020, the LCM Rider rates will continue to recover LCM projects that are placed in-service during 2020. Prior to 2021, I&M will file in a separate proceeding under Cause No. 44182 to revise LCM Rider rates for 2021 removing all LCM plant placed in-service through 2020 and begin recovery of LCM projects that go into service in 2021. This recognizes that once I&M makes its final compliance filing for the PRA, LCM plant placed in-service through December 31, 2020 will be reflected in base rates.

E. <u>OSS/PJM RIDER</u>

Q. Please explain the OSS/PJM Rider.

A. The OSS/PJM Rider flows to customers the net benefits of I&M's off-system sales and tracks all of the net costs charged to I&M by PJM due to its status as a Transmission Owner (TO), Generating owner and a Load-Serving Entity (LSE). Company witness Ali further discusses the PJM charges. The OSS/PJM Rider tracks OSS margins from $0 and shares the margins on a 95/5 basis, meaning that 95% goes to customers and 5% goes to the Company. OSS margins and PJM Network Integration Service (NITS) charges are fully recovered in the rider, with no costs embedded in base rates. All other PJM charges (also referred to as non-NITS) are embedded in base rates and tracked above and below the level in base rates through the rider. As a result of the settlement in Cause No. 44967, cost recovery of certain PJM NITS charges[9] are capped on a cumulative basis and the tracking of PJM costs through the OSS/PJM Rider currently sunsets on the date that rates go into effect in I&M's next base rate case (i.e., this case) or December 31, 2021. The settlement in Cause No. 44967 does not preclude the Company from proposing to continue PJM cost tracking in this case.

Q. What is I&M proposing with respect to the OSS/PJM Rider?

A. I&M is proposing that the OSS/PJM Rider remain consistent with the structure agreed to in the settlement in Cause No. 44967 with the exception of removing the sunset provision and cap on certain PJM NITS charges and beginning to track the cost of PJM Capacity Performance insurance. This is explained in more detail below.

Q. Specifically, what is I&M's proposal for tracking OSS margins?

A. I&M proposes to continue tracking from $0, all positive or negative OSS margins through the Rider (with no margins embedded in base rates), and flow to customers 95% of these margins.

Q. Why is I&M's proposed tracking and sharing of OSS margins reasonable?

A. Continuing to share 95/5 (customer/Company) of OSS margins is reasonable because it provides an incentive for the Company to maximize the benefits of OSS for both the Company and its customers. In addition, continued sharing recognizes the value of I&M's Commercial Operations organization, which is responsible for the PJM market bidding and hedging strategy for I&M's generation fleet, providing

[9] FERC accounts 4561035 and 5650016.

substantial value to I&M and its customers by optimizing I&M's OSS margins. Further, tracking OSS margins, and aligning OSS incentives, are even more important as the IMMDA contracts expire and there are additional opportunities for I&M and its customers to realize the benefits of OSS. Finally, it is both reasonable and necessary to track OSS margins from $0 (rather than embed a certain level in base rates) as OSS margins are largely contingent on PJM market energy prices which are variable due to a number of factors outside the control of the Company and in total OSS margins are significant and can vary significantly from year to year as shown in Figure AJW-5.

Figure AJW-5

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 - 6/2017	a	$	3.76	$	26.90	$	(23.14)
7/2017 - 6/2018	a	$	7.29	$	26.90	$	(19.61)
1/2020 - 12/2020	f	$	38.44	$	-	$	38.44

1 - The level of OSS Margin embedded in base rates was $37.5 million prior to Mar 2013, changed to $26.9 million beginning Mar 2013 as a result of Cause No. 44075 and changed to $0 beginning July 1, 2018 as a result of Cause No. 44967.

a - actual dollars

f - I&M's Test Year forecast (including adjustments)

Q. Please explain I&M's proposal for the PJM component of the OSS/PJM Rider.

A. I&M proposes the following with respect to the PJM component of the OSS/PJM Rider:

- Continue to track all PJM-related charges I&M incurs consistent with how those costs are recovered currently, specifically:
    - o Embed in base rates the forecasted Test Year level of all <u>non</u>-NITS PJM costs, and track any annual over/under variance from the embedded level; and
    - o NITS charges be fully recovered through the OSS/PJM Rider, with no amount of NITS costs embedded in base rates.
- Remove the sunset provision and cap for certain NITS accounts.[10]
- Embed in base rates the annual cost of PJM Capacity Performance insurance and track any annual over/under variance from the embedded level.

Q. Why is it reasonable to include the cost of Capacity Performance insurance in the OSS/PJM Rider?

A. The application of the Capacity Performance provisions of the PJM tariff to Fixed Resource Requirement (FRR) entities such as I&M is a recent development, so the need for Capacity Performance insurance had not yet arisen in Cause No. 44967. As explained previously, PJM imposes fees on generation facilities that are unable to meet their capacity commitments when PJM calls a Capacity Performance "event." The OSS/PJM rider is designed to track all the costs I&M incurs as a member of PJM. Since Capacity Performance insurance covers the Company and its customers from the significant financial risk of incurring a

[10] FERC accounts 4561035 and 5650016.

Capacity Performance fee from PJM, it is reasonable to track the actual cost of the insurance with other PJM costs.

Q. Why is I&M's proposal to continue tracking PJM costs reasonable?

A. As explained further by Company witness Ali, it is reasonable to fully track I&M's PJM NITS costs because they are significant, variable, and largely outside the utility's control. Figure AJW-6 below identifies the significant and variable nature of these costs. If I&M were unable to track the annual variability of these costs, we would have to file annual general rate cases to update base rates on a timely basis or otherwise incur significant financial harm. To put this in perspective, a 100 basis points reduction in our earned ROE is approximately $25 million. Two out of 3 of the most recent periods in the table below would have resulted in I&M's earned ROE declining by more than 200 bps if we were unable to track these costs. In addition, annual general rate case filings are impractical and costly; they are also precluded by the 15 month rule in Indiana's utility regulatory framework.[11]

[11] See Ind. Code § 8-1-2-42(a).

Figure AJW-6
I&M Summary of PJM Charges
Indiana Jurisdictional Basis
(dollars in millions)

Period		Non-NITS	NITS [1]	Total	Annual Change
7/2014 - 6/2015 [2]	a	$ 52.51	$ 110.52	$ 163.03	
7/2015 - 6/2016	a	$ 42.20	$ 122.67	$ 164.87	$ (1.84)
7/2016 - 6/2017	a	$ 61.42	$ 156.27	$ 217.69	$ (52.82)
7/2017 - 6/2018	a	$ 64.55	$ 155.88	$ 220.43	$ (2.74)
1/2020 - 12/2020	f	$ 49.36	$ 233.04	$ 282.40	$ (61.97)

1 - NITS expenses are those recorded to FERC accounts 4561002, 4561003, 4561035, 5650016, 4561036, 5650015 and 5650021
2 - NITS expense estimated as 2 times the 1/2015-6/2015 amount of $55.26 million
a - actual dollars
f - I&M's Test Year forecast (including adjustments)

Q. Why is it reasonable not to apply a "cap" or "sunset" to NITS charges?

A. The cost cap was a matter of settlement in Cause No. 44967 for purposes of that case only. In addition, the cost cap was based on forecasted costs as of a point in time which doesn't reasonably account for the risk that future costs change due to reasons that could not have been reasonably known before, but does not change the fact that they are reasonable and necessary for the provision of service to customers. Restricting the recovery of reasonable and necessary costs incurred to provide service to customers is unnecessary and potentially harmful to the Company and its customers.

Q. When new base rates are implemented how will the recovery of costs in the OSS/PJM Rider change?

A. Upon implementation of new base rates, I&M will begin tracking above and below the $49,356,916 (Indiana Retail) Test Year level of non-NITS costs and $1,513,220 (Total Company) Test Year level of PJM Capacity Performance insurance costs.

In addition, the OSS/PJM Rider will fully include and recover all forecasted OSS margins and PJM NITS costs which have been removed from I&M's cost of service for purposes of calculating base rates in this proceeding through Adjustment Rider-2. The Test Year PJM NITS costs and OSS margins are $233,040,725 and ($36,516,065), respectively, on an Indiana Retail basis.

F. RAR

Q. What is I&M proposing with respect to the RAR?

A. In accordance with the settlement agreement in Cause No. 44967, the RAR tracks the incremental non-fuel purchased power costs that I&M incurs above or below the level of such costs embedded in base rates. "Non-FAC purchased power costs" means all purchased power costs not reflected in the FAC base cost of fuel or the FAC rider. I&M proposes to continue this structure with the following changes:

- Include in base rates the forecasted level of non-FAC purchased power costs for the Test Year, so the RAR will track incremental annual costs above or below this new embedded Test Year level.
- No "cap" or "sunset" will apply to the RAR once new base rates go into effect.

Q. Why is it reasonable to track non-fuel purchased power costs?

A. The RAR, in conjunction with the FAC, ensures that rates only reflect the actual cost of purchased power that I&M incurs to provide service to customers. Currently, I&M's purchased power contracts included in the RAR consist of the UPA with AEG for a portion of the Rockport Plant and the Inter-Company Power

Agreement with Ohio Valley Electric Corporation (OVEC). These wholesale power agreements are subject to FERC-approved tariffs. The AEG and OVEC costs are significant in amount and subject to variability due to factors largely outside of I&M's control. For example, these costs are subject to change due to ongoing requirements of the underlying production assets to comply with emerging environmental rules. This has been the case with the DSI and SCR investments that have been made on the Rockport Units that have a direct incremental impact on the AEG purchased power bill and I&M's cost to serve its customers. Finally, these purchased power contracts are directly tied to the reliability of I&M's system and ability to meet the capacity and energy needs of its customers.

Q. Why is it reasonable not to apply a "cap" or "sunset" to the RAR?

A. The cap was a matter of settlement in Cause No. 44967 for purposes of that case only. Restricting the recovery of reasonable and necessary costs incurred to provide service to customers is unnecessary and potentially harmful to the Company and its customers.

Q. When new base rates are implemented how will the recovery of costs in the RAR change?

A. Upon implementation of new base rates, I&M will begin tracking above and below the $190,132,242[12] (Total Company) Test Year level of non-fuel purchased power costs.

[12] Sum of the Test Year balances in FERC accounts 5550027 and 5550096, including Adjustment RB/O&M-2.

XI. DEFERRAL ACCOUNTING AUTHORITY

Q. Please summarize I&M's requests for deferral accounting authority.

A. I&M seeks to continue its current deferral accounting authority for dry cask storage and major storm damage restoration costs and to establish new deferral accounting authority for two additional items, transportation electrification (IM Plugged In) incentive costs and excess ADFIT. I&M's deferral requests are listed in Figure AJW-7 below:

Figure AJW-7

Deferral Accounting Authority	Continuing or New?
Dry Cask Storage	Continuing
Major Storm Damage Restoration	Continuing
Transportation Electrification	New
Excess ADFIT	New

A. DRY CASK STORAGE DEFERRAL

Q. Please explain I&M's request to continue deferral accounting for dry cask storage costs.

A. As agreed in Cause No. 44967, I&M currently defers all costs associated with dry cask storage costs that are not reimbursed by the Department of Energy (DOE). I&M requests to continue this deferral and to continue to accrue carrying costs on the deferred balance using the pre-tax WACC rate approved by the Commission in this proceeding.

Q. Is I&M seeking recovery of any deferred costs in this proceeding pursuant to the Commission's order in Cause No. 44967?

A. Not at this time. The results of the DOE's settlement related to the time period of July 2018 through June 2019 is expected in August 2019. I&M will address any related deferral in I&M's next base case proceeding.

Q. Why is it reasonable to continue to defer dry cask storage costs?

A. As described by Company witness Lies, I&M entered into a contract with the DOE under which the DOE was required to accept spent nuclear fuel (SNF) and high-level radioactive waste (HLW) from the Cook Plant. However, the DOE has partially breached this contract and has never accepted this material, requiring Cook to store the material onsite in dry cask storage. I&M has entered into settlement agreements with the DOE since October 2011 under which the DOE has, to date, reimbursed I&M for $146.2 million (or 96%) of the cost of dry cask storage at Cook.

Consistent with Cause No. 44967, there are no dry cask storage costs included in the 2020 Test Year because I&M anticipates that the DOE will continue to reimburse I&M for these costs. However, if the DOE reimbursements should cease or if ongoing costs should exceed the amount reimbursed, then I&M requests to continue to record the unreimbursed amount as a regulatory asset for recovery in subsequent base rate case proceedings.

B. DISTRIBUTION MAJOR STORM DAMAGE RESTORATION RESERVE

Q. Please explain I&M's request to continue the Major Storm Damage Restoration Reserve.

A. I&M requests to continue the Major Storm Damage Restoration Reserve as approved in Cause Nos. 44075 and 44967. I&M's distribution O&M expenses associated with major storm restoration efforts can be significant, are volatile in nature, and are largely outside the Company's control, as explained by Company witness Isaacson. I&M's Indiana jurisdictional, major storm distribution O&M expense has ranged from as high as $12.5 million to as low as $1.2 million from 2008 to 2018, compared to the baseline of $4,047,529 (Indiana jurisdictional, distribution only) approved in Cause No. 44967. As shown on Figure DSI-19 of Mr. Isaacson's testimony, there has been substantial variability in these costs from year to year. This evidence shows that these costs are highly variable and that I&M's request to continue the Major Storm Restoration Reserve is reasonable.

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

A. I&M requests to continue the same accounting authority approved in Cause Nos. 44075 and 44967. To summarize, if actual Major Storm Damage Restoration distribution O&M for a given month is less than the monthly amount reflected in the revenue requirement (one twelfth of $4,047,528 or $337,294), the Company will record a regulatory liability for the difference. If actual O&M exceeds the monthly amount included in the revenue requirement, the Company will record a regulatory asset for the difference. The cumulative regulatory liability or regulatory asset balance will continue to be adjusted each month based on actual major storm damage distribution O&M expense incurred versus the embedded amount. Company witness Ross sponsors Adjustment RB/O&M 5 which presents the related regulatory liability balance as of December 31, 2018, which I propose amortizing over two years.

C. <u>TRANSPORTATION ELECTRIFICATION DEFERRAL</u>

Q. Please explain I&M's request to defer transportation electrification costs.

A. As supported by Company witness Lehman, I&M is proposing to provide incentives to customers to adopt transportation technology that is powered by electricity, such as electric vehicles (EVs). We call this program "IM Plugged In." Because the level at which customers will participate in I&M's transportation electrification program is difficult to predict, I&M has not included any transportation electrification costs in its Test Year cost of service. Instead, I&M requests deferral accounting authority to defer the actual cost of transportation electrification incentives as a regulatory asset to be recovered in I&M's next base rate case. I&M has had similar deferral accounting authority for an EV incentive program in its Michigan jurisdiction for several years, and it has worked well.

Q. Please explain the requested accounting for I&M's proposed transportation electrification deferral.

A. I&M proposes that as such incentives are paid to customers, I&M will record the incentive amount as a regulatory asset and begin recovery of such costs through I&M's next base rate case proceeding. To recognize the time value of money/opportunity cost incurred by the Company we will accrue carrying costs on the deferred unrecovered balance using the pre-tax WACC rate approved by the Commission in this proceeding.

D. EXCESS ADFIT DEFERRAL

Q. Please describe how normalized and non-normalized excess ADFIT were treated in the settlement agreement approved in Cause No. 44967.

A. As mentioned above, Paragraph I.A.1.4 of the settlement agreement in Cause No. 44967 provided that I&M's cost of service would reflect a total amortization of $29.9 million for both normalized and non-normalized excess ADFIT. The settlement specified that I&M will amortize normalized excess ADFIT "over the life of the assets as required by statute" – that is, I&M will amortize normalized excess ADFIT according to ARAM and non-normalized excess ADFIT over a period of six years. The settlement then provided: "To the extent that the actual annual amortization differs from the estimated amount, the amortization of the non-normalized excess ADIT will be increased or decreased to ensure that the total amortization of normalized and non-normalized excess ADIT is equal to $29.9 million." Cause No. 44967, Settlement Agreement ¶1.4. In other words, as the amortization of normalized excess ADFIT rises and falls each year pursuant to ARAM, the amortization of non-normalized excess ADFIT each year will to be adjusted to "balance" the fluctuations in ARAM and ensure that the combined amortization each year equals $29.9 million. Figure AJW-8 below provides an illustrative example of how this works with hypothetical values for future years:

Figure AJW-8

Year	(1) Normalized Excess ADFIT Amortization (Required by ARAM)	(2) Non-Normalized Excess ADFIT Amort. $29.9M – (1)	(3) Total Amortization (1) + (2)
2021	$8.8M	$21.1M	$29.9M
2022	$7.0M	$22.9M	$29.9M
2023	$10.9M	$19.0M	$29.9M

This "balancing" methodology ensures both (a) that I&M follows ARAM for normalized excess ADFIT and therefore does not commit a normalization violation and (b) that I&M's total amortization each year equals $29.9 million as agreed in the settlement.

Q. How do the annual amortization levels for normalized and non-normalized excess ADFIT in the Test Year compare to the settlement agreement in Cause No. 44967?

A. They are the same in total. On an Indiana jurisdictional basis, normalized excess ADFIT amortization is $5.2 million and non-normalized excess ADFIT is $24.7 million annually.

Q. What is I&M proposing in this proceeding concerning the deferral of excess ADFIT?

A. As stated above in my discussion of Adjustment RB-6, based on the methodology established in Cause No. 44967, I&M's balance of non-normalized excess ADFIT will "run out" (i.e., be fully amortized) before I&M's balance of normalized excess ADFIT runs out. Indeed, I&M estimates that it will run out of non-normalized excess ADFIT as early as 2022, whereas I&M expects to amortize excess normalized ADFIT well past 2022, at least until 2050. Once I&M no longer has a balance of non-normalized ADFIT, the balancing methodology agreed to in the settlement will no longer be possible.

To address this issue, once the non-normalized excess ADFIT is fully amortized, I&M is requesting accounting authority to defer and record as a regulatory asset the annual difference between (i) the annual amortization of normalized and non-normalized excess ADFIT reflected in base rates (i.e. $29.9 million in this case) and (ii) the actual annual normalized ADFIT amortization required by ARAM.

Q. Why is the proposed excess ADFIT deferral reasonable?

A. As an initial matter, the deferral will ensure that I&M does not commit a normalization violation. If this occurred, I&M could not incur depreciation-related deferred taxes in future years. Because accelerated depreciation is, by far, the largest component of ADFIT, this loss would result in higher rates due to the loss of this zero cost of capital component. In addition, the deferral will ensure that customers receive the agreed benefit of the precise balance of excess ADFIT recorded on I&M's books as a result of the TCJA.

Q. When will the deferral account authority begin?

A. I&M will continue to follow the "balancing" methodology set forth in the Settlement Agreement approved in Cause No. 44967 until I&M's balance of non-normalized excess ADFIT runs out. As soon as this happens, the deferral will begin. Based on current estimates of I&M's rate of amortizing normalized excess ADFIT under the "balancing" methodology, the non-normalized ADFIT balance will run out and the deferral will begin at the end of 2022.

Q. Does the proposed excess ADFIT deferral alter the Settlement Agreement in Cause No. 44967?

A. No. We are clarifying how the Company will fulfill this agreement. Under I&M's proposal here, customers will receive the full benefit of the Settlement Agreement in Cause No. 44967 because I&M will continue to amortize normalized and non-normalized excess ADFIT as provided in the settlement – and I&M will continue to reflect the full $29.9 million amortization expense in rates – until I&M's balance of non-normalized excess ADFIT runs out and it is no longer possible to continue the settlement methodology. Put another way, the proposed deferral does not alter the settlement itself, but rather clarifies how I&M will fulfill the agreement.

XII. EZ BILL ACCOUNTING

Q. What is I&M's EZ Bill Program?

A. I&M's EZ Bill Program is a voluntary billing option designed to allow eligible residential and small commercial customers to be charged a fixed amount per month for electric service over a 12-month period. The EZ Bill Program was approved in Cause No. 45114.

Q. What issue relating to the EZ Bill program did the parties agree to address in this case?

A. In Paragraph 6 of the settlement agreement approved in Cause No. 45114, the parties stipulated as follows:

> The issue of whether any EZ Bill Program revenues or costs can or should be accounted for above-the-line will be addressed in I&M's next base rate case. Until I&M's next base rate case, I&M will

> separately account for all EZ Bill revenues, expenses, and other expenditures. At the time of I&M's next base rate case, I&M will propose regulatory accounting treatment in its case in chief.

Q. What regulatory accounting treatment is I&M proposing for the EZ Bill Program?

A. I&M is proposing that both EZ Bill Program costs and EZ Bill Program revenues be accounted for above the line. That is, I&M proposes that all EZ Bill Program costs and revenues be included in I&M's cost of service for purposes of setting rates.

Q. Why is I&M's proposed EZ Bill accounting treatment reasonable?

A. The EZ Bill Program is a customer rate offering like any other I&M rate offering. I&M proposed the EZ Bill Program as an option for residential and small commercial customers who strongly value rate stability. The Program was not intended as a separate line of business or product for I&M but rather as a customer-friendly option for paying for the same electric service I&M provides all its customers.

Therefore, just as the revenues and costs of all of I&M's tariff offerings (e.g., the Equal Payment Plan (EPP), Alternative Feed Service Rider, and Economic Development Rider) are included in I&M's cost of service for purposes of setting I&M's rates, so too should all revenues and costs of I&M's EZ Bill Program be included in I&M's cost of service for purposes of rate setting.

Q. Has I&M's position on this issue changed since Cause No. 45114?

A. Partially. I&M has always maintained that the costs of the EZ Bill Program should be accounted for above the line because the costs of I&M's EZ Bill Program are just like the costs of I&M's other rate offerings.[13] However, in Cause No. 45114, I&M proposed that the "profits and losses" from the EZ Bill Program should be accounted for below the line in order to insulate I&M's customers from potential losses.[14] That said, over the long-run, EZ Program profits are expected to exceed losses, and overall EZ Bill Program revenue are expected to exceed what I&M's revenue would be under the otherwise applicable standard rates. Therefore, accounting for EZ Bill program revenue above the line is expected to benefit I&M's customers by offsetting I&M's cost of service and mitigating potential future rate increases.

Q. Has I&M been "separately account[ing] for all EZ Bill revenues, expenses, and other expenditures" as required by the settlement agreement in Cause No. 45114?

A. Yes. I&M has been separately accounting for the ongoing EZ Bill program expenses and revenues. Customer program enrollment just recently began and to date there have been no EZ Bill program revenues to track.

Q. Does I&M propose to include any EZ Bill revenues in its cost of service in this proceeding?

A. No. I&M has just begun to enroll customers in the EZ Bill program, so as noted above, I&M has not yet received any EZ Bill revenues. I&M does not know how

[13] As I&M explained in Cause No. 45114 (Direct Testimony of Brent Auer at 12-13), EZ Bill Program costs include the costs for solicitation, processing applications, usage modeling and fixed bill amount calculation, and program monitoring.

[14] As I&M explained in Cause No. 45114 (Direct Testimony of Brent Auer at 11), each month I&M will calculate the difference between what each customer was billed under the EZ Bill Program and what he or she would have been billed under the standard base rate tariff and applicable riders. See Cause No. 45114, Direct Testimony of Brent Auer at 11. This difference is the EZ Bill "profits and losses" that I&M proposed accounting for below the line in Cause No. 45114.

many customers will chose to participate in the EZ Bill program, and I&M does not yet have any experience with how EZ Bill revenues may differ from revenues under standard tariffs (*i.e.*, I&M does not yet have any actual data on EZ Bill program "profits and losses"). Therefore, I&M's forecasted Test Year in this proceeding is based on an assumption that all customers will be served under standard rates and does not include any EZ Bill revenues. This is the most reasonable assumption at this time due to lack of data. However, in I&M's next base rate proceeding, I&M plans to include an assumed level of EZ Bill participation – and, therefore, a level of EZ Bill revenues above the line – based on historical participation rates and actual data concerning EZ Bill revenues.

Q. Does I&M propose to include any EZ Bill costs in its cost of service in this proceeding?

A. No. Although I&M has already begun to incur costs related to EZ Bill customer solicitation and education – and I&M will likely incur additional costs as it continues to administer the Program in the 2020 Test Year and beyond – I&M is not proposing to reflect any such costs in its cost of service in this proceeding. As with EZ Bill Program revenues, in I&M's next base rate proceeding, I&M plans to include a representative level of EZ Bill costs above the line based on actual cost data that will be available at that time.

XIII. <u>SUMMARY</u>

Q. Please provide an overall summary of your testimony.

A. The Company has provided substantial support for its proposed revenue increase. The Test Year adjustments presented by the Company are necessary to annualize, normalize and otherwise reflect conditions representative of the period during which these requested rates will be in effect. I ask the Commission to approve the revenue increase together with the package of relief addressed in my testimony, including:

- I&M's proposed base rates and rider rates.
- The proposed amortization periods and adjustments to electric operating income and rate base.
- Continued recognition of the Prepaid Pension Asset in I&M's rate base.
- The rate adjustment mechanism (rider) proposals, including
    - the new AMI Rider,
    - Tracking of consumables and allowances expenses through its existing ECR,
    - 100% recovery of I&M's PJM costs, including NITS, through its existing OSS/PJM Rider,
    - Continuation of the RAR as proposed above,
    - ongoing waiver of the generic purchase power procedures in the FAC, and
    - other changes to I&M's existing rider mechanisms as outlined above.
- Continued deferral authority for the distribution Major Storm Damage Restoration Reserve and the Cook Plant's ongoing Dry Cask Storage program.
- New deferral authority for the transportation electrification and excess ADFIT.
- The request that EZ Bill Program costs and revenues be accounted for above the line.

Commission approval of the Company's proposed revenue increase through the package of base rates and riders presented in the Company's filing is necessary to ensure I&M is provided a reasonable opportunity to recover its cost to serve customers, including a fair return on its underlying investments used to serve customers. The regulatory support sought by the Company is important to the ongoing provision of retail electric service. The Test Year commences January 1, 2020. I&M asks the Commission to issue an order within 300 days in accordance with Section 42.7 and GAO 2013-5.

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

A. Yes.

<u>**VERIFICATION**</u>

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

Date: 5/9/19

Andrew J. Williamson

Andrew J. Williamson

Indiana AMI Deployment
Estimated Annual Revenue Requirement
($000s)

Rate Base:	2020	2021	2022	Support Witness
AMI Meters & Communication Network	$ 9,648	$ 46,031	$ 80,825	Isaacson
AMI Communication Network	$ 1,129	$ 5,374	$ 9,404	Isaacson
Accumulated Depreciation[1]	$ (469)	$ (3,177)	$ (9,346)	
AMI IT Software	$ 3,390	$ 3,390	$ 3,390	Lucas
Accumulated Amortization[1]	$ (339)	$ (1,017)	$ (1,695)	
Total Net Plant =	$ 13,359	$ 50,601	$ 82,578	

Revenue Requirement:	2020	2021	2022	Support Witness
Pre-tax Return on Rate Base[1]	$ 460	$ 2,222	$ 4,635	
Meter Depreciation Expense[1]	$ 447	$ 2,581	$ 5,880	
Network Depreciation Expense[1]	$ 22	$ 127	$ 289	
IT Amortization Expense[1]	$ 339	$ 678	$ 678	
Meter Deployment O&M	$ 309	$ 1,253	$ 1,239	Isaacson
Software O&M	$ 161	$ 161	$ 161	Lucas
Customer Engagement O&M	$ 330	$ 330	$ 330	Lucas
Property Tax Expense	$ -	$ 99	$ 381	
Gross Revenue Conversion Factor Costs	$ 36	$ 129	$ 236	
Annual Revenue Requirement =	$ 2,104	$ 7,580	$ 13,829	

1 - calculated using a half year convention

Additional Information:

	Rates	Source	Witness
Pre-tax WACC =	7.34%	Exhibit A-7	Messner/Kelly
Meter Depreciation rate =	9.27%	Proposed rate (acct 370)	Cash
Network Depreciation rate =	3.91%	Proposed rate (acct 397)	Cash
IT Amortization rate =	20%	5 year period	
Property tax rate =	0.70%	Test Year forecast Rx	
GRCF rate =	1.7060%	6/30/2018 from WP-AJW-1	