I&M Exhibit: _____

INDIANA MICHIGAN POWER COMPANY

CAUSE NO. 45235

PRE-FILED VERIFIED REBUTTAL TESTIMONY

OF

MICHAEL M. SPAETH

IURC
PETITIONER'S
EXHIBIT NO. 32
10-11-19
DATE REPORTER

**PRE-FILED VERIFIED REBUTTAL TESTIMONY OF MICHAEL M. SPAETH
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

Q. Please state your name and business address.

A. My name is Michael M. Spaeth. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

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

Q. Are you the same Michael M. Spaeth who previously filed testimony in this proceeding?

A. Yes.

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

A. The purpose of my rebuttal testimony is to respond to portions of the testimony offered by the Indiana Office of Utility Consumer Counselor (OUCC), Joint Municipal (JM), Industrial Group (IG), City of South Bend (SB), and Citizens Action Coalition of Indiana, Inc. (CAC) concerning certain allocation methodologies in the class cost-of-service (CCOS) study.

Q. If you do not respond to a particular issue or position addressed in an intervenor's testimony, does that imply acceptance of his/her position over that proposed by I&M?

A. No, it does not.

<u>Production Plant Cost Allocation</u>

Q. Can you briefly describe the recommendations of the other parties concerning the methods used to allocate costs to the various classes to which you wish to respond?

A. The following list summarizes the parties' recommendations.

- OUCC witness Watkins opposes the Company's use of a 6 coincident peak (CP) (summer/winter) demand allocation for production plant and a 6 CP (summer/winter) demand allocation for transmission plant. OUCC witness Watkins proposes the Company should allocate production plant on either a Peak & Average, 12 CP, or Base-Intermediate-Peak method and a 12 CP demand allocation for transmission plant.
- JM witness Mancinelli proposes that the Company allocate both production and transmission plant on either a 4 CP or 5 CP method due to his belief that I&M Indiana is a summer-peaking utility.
- IG witness Phillips proposes that the Company allocate its production plant and transmission plant on either a 5 CP (PJM PLC) or 4 CP summer method. He also proposes that the Company utilize the minimum system approach for the allocation of certain distribution costs.
- SB witness Seelye believes that I&M is a summer-peaking utility and should

utilize a 3 CP methodology for allocating production plant, transmission plant, and certain distribution capacity costs. He also proposes to classify a portion of distribution accounts as customer-related.

- CAC witness Wallach proposes the use of an energy-weighted demand allocation methodology for the allocation of production plant.

Q. Do you agree with the recommendation to use energy-weighted demand allocation methodologies for production plant as proposed by OUCC witness Watkins in pages 26 through 33 of his testimony and by CAC witness Wallach in pages 14 through 15 of his testimony?

A. No. The use of a combined demand and energy weighting in the allocation of production plant should not be utilized. Production plant is built to meet peak demand; it is a fixed, demand-related cost that does not vary or change based on the level of energy consumption. Fixed production costs should therefore be classified as 100 percent demand-related. The Peak & Average energy weighted allocation methodology, proposed by Mr. Watkins, and the Equivalent Peaker energy weighted allocation methodology, proposed by Mr. Wallach, do not recognize the fact that production plant costs are fixed in nature and still exist regardless of how much energy customers consume. The level or fluctuation of energy has no impact on production plant costs.

The Company's 100 percent demand allocation approach appropriately recognizes that fixed costs do not vary with usage and should be classified as demand related. All fixed production plant costs are demand-related since production plant capacity is required to meet peak demand requirements.

Accordingly, plant capacity costs are allocated to customers based on their contribution to peak demands since there is a direct relationship to the demand that customers place on the system.

The benefit of the Company's 6 CP production demand allocator is that each customer class is allocated their share of production plant demand costs based on measures of cost causation. The Company's 6 CP demand allocation factors recognize each customer class's contribution to the Company's two seasonal, three winter and three summer months, peaks during the test period.

The Company does utilize a production energy allocator to assign certain production O&M expenses, such as fuel, since these are energy-related expenses.

Q. CAC witness Wallach claims (p. 14) that the Equivalent Peaker classification method is supported by NARUC's *Electric Utility Cost Allocation Manual.* Please respond.

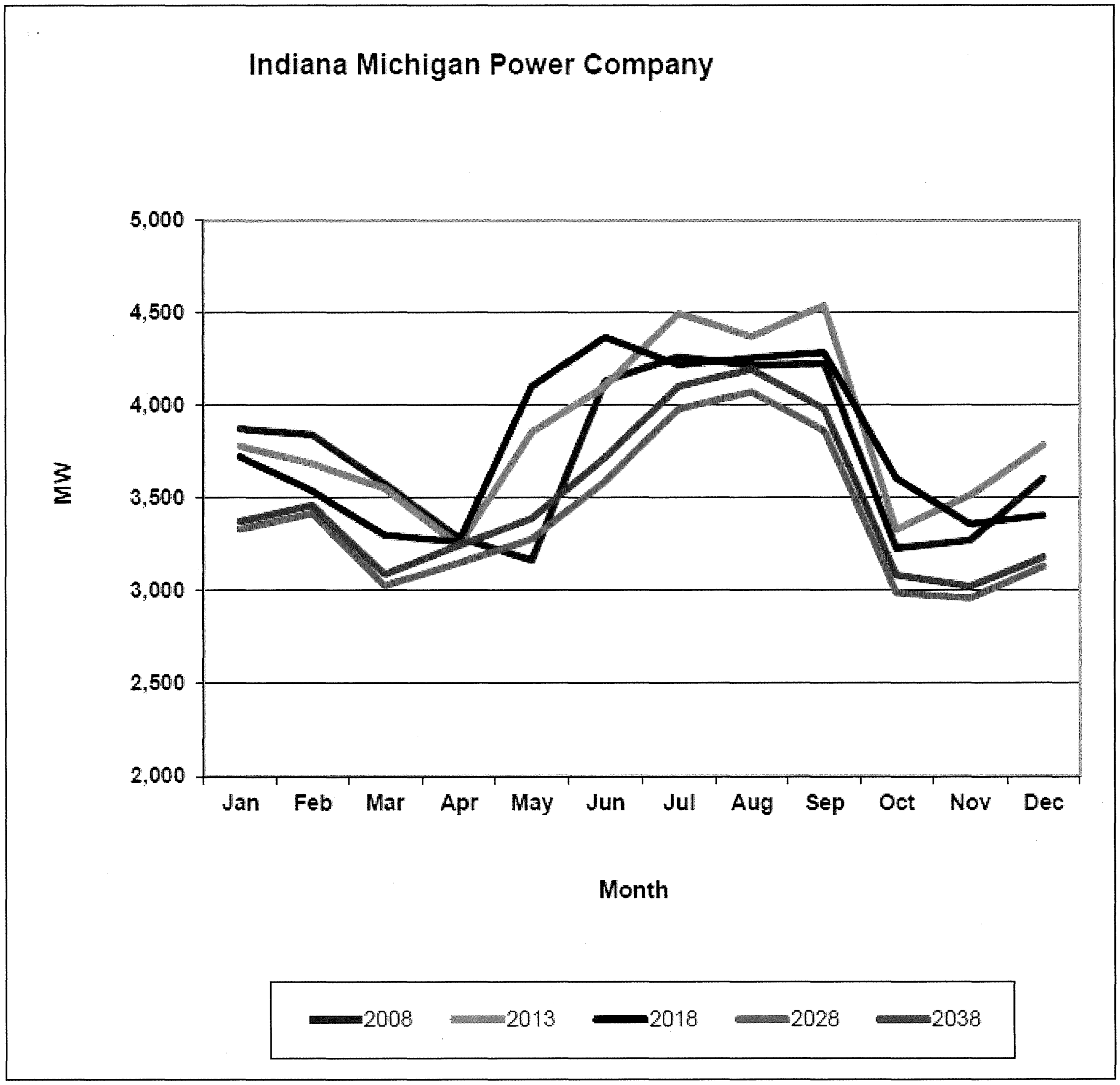
A. The NARUC Manual does not advocate for one methodology or another. The preface of the NARUC Manual (at page ii) specifically states that the Manual's "writing style should be non-judgmental" and that the Manual is "not advocating any one particular method but trying to include all currently used methods with pros and cons." Indeed, the NARUC Manual also describes certain demand allocation methodologies that support the Company's proposal.

Q. Do you agree with OUCC witness Watkins' use of a 12 CP production demand allocator as described in pages 9-10 and 24-33 of his testimony?

A. No. The 12 CP demand allocator would be an appropriate allocation methodology if the load profile reflected a constant flat monthly load profile where there is not much variation from month-to-month. However, since the Company reflects two seasonal monthly peaks during the test period, the 12 CP demand allocator is not an appropriate peak demand cost allocation methodology. I&M Indiana has historically been a two-seasonal peaking utility, reflecting both summer and winter peak months. This supports I&M's use of a 6 CP demand allocator. In the Company's most recent Integrated Resource Planning Report (IRP) filed with the Commission the Company states the "most recent (summer 2018 and winter 2018/19) actual I&M summer and winter peak demands were 4,369MW and 3,770MW, occurring on June 18, 2018 and January 30, 2019, respectively." Further, the Company's record winter peak of 3,952MW occurred during the polar vortex of January, 2015. Shown below in Figure MMS-R1 is Exhibit A-6 from the Company's 2018-2019 IRP and is a graphical representation of the load profiles of monthly internal peak demand for 2008, 2013, 2018 (Actual), 2028, and 2038.

Figure MMS-R1

Indiana Michigan Power Company
Profiles of Monthly Peak Internal Demands
2008, 2013, 2018 (Actual)
2028 and 2038



When examining the graph it is evident that during the shoulder months (*i.e.*, March-May and September-November), for each year represented, the Company's load is depressed relative to the winter months of December, January, and February and the summer months of June, July, and August. This profile has occurred since 2008 and is projected to continue through 2038. This underscores the reasonableness of the Company's 6 CP demand allocator.

Q. Are there other reasons why Mr. Watkins' proposed 12 CP demand allocator is less preferable to the Company's 6 CP demand allocator?

A. Yes. The Company's 6 CP demand allocator is consistent with the Company's treatment of production costs in past cases, including its most recent base cases (Cause Nos. 44967 and 44075). On page 116 of the Order in Cause No. 44075, the Commission stated that its "preference is to utilize the previously approved allocation methodology, given sufficient evidence, unless system operating characteristics are demonstrated to have changed since the last approved cost of service study allocation methodology." Here, the Company's operating characteristics have not changed to the extent of supporting another production demand allocator. Since the Company has a long standing production plant allocation methodology utilizing the 6 CP demand allocator, and considering the load profile during the test period still supports the 6 CP methodology, it is appropriate and reasonable to continue to use the 6 CP methodology in this proceeding.

Q. On page 9 of his testimony, SB witness Seelye notes that I&M's summer peaks "are dramatically above all the winter monthly peaks" and on pages 9-10 states that this supports the use of a 3 CP demand allocator. Both IG witness Phillips (page 13) and JM witness Mancinelli (pages 37-40) offer the 4 CP (summer months) method as superior to the Company's allocation of

production plant and transmission plant. Do you agree?

A. No. Although it is true the Company peaks higher during the summer months, the Company's allocation factor also appropriately reflects winter peak months as mentioned above and in my direct testimony. Notably, the winter peaks of December, January, and February are higher than the shoulder months of the historical test year and must be accounted for in system planning. The Company not only incurs costs to provide for the expected peak demands of our customers during the summer months, but also to meet the peak demands for the winter months as well. Therefore, the Company considers the use of a 6 CP production allocator to be a reasonable approach for cost allocation. Mr. Seelye's proposed 3 CP methodology would ignore the winter peaks experienced by I&M's system.

Q. Do you agree with IG witness Phillips (pages 12 and 13 of his testimony) and JM witness Mancinelli (pages 37 and 38 of his testimony) regarding their recommendations for a 5 CP (PJM PLC) five peak hour production demand allocator?

A. No. Both Mr. Phillips and Mr. Mancinelli recommend that the Company use a 5 CP (PJM PLC) method for its demand allocator based on the Company's capacity obligation with its regional transmission operator, PJM, to meet PJM's summer demand requirements. Each year, American Electric Power does provide to PJM the Company's contribution to the five PJM peak hours for the months of June through September, which is used to determine the Company's capacity obligation. However, the recommendation of Mr. Phillips and Mr. Mancinelli does not fully reflect how the Company actually incurs costs. The concern with using the PJM five summer peaks hours approach is that it dismisses the Company's winter peak months and the need to provide required capacity during these months as well. Company engineers plan and size I&M's facilities to meet the expected peak demands of its customers; therefore, the Company's six monthly peaks during the test period best represent how costs are incurred.

Unlike the PJM PLC five peak hours method, which uses I&M's peak load data coincident with the five PJM peak hours, it is reasonable to consider how I&M's customer classes are contributing to I&M's six monthly peaks (not just PJM's five peak hours). In addition, there is no assurance that I&M will peak at the same time as PJM peaks. Furthermore, PJM's five peak hours over the past two summers have occurred in only two months. Since I&M has two seasonal peaks, the PJM PLC approach does not represent I&M's need for planning its facilities based on the three summer and three winter month peak demands. The benefit of the Company's 6 CP demand allocation approach is that the 6 CP does consider the three summer and three winter months, thereby giving equal weight to both of these two peak seasons.

Q. Please comment on IG witness Phillips' statement on pages 14 and 15 of his testimony that no winter peaks were created during the extreme winter cold pattern for the polar vortices in 2014-2015.

A. I disagree with Mr. Phillips' statement the Company did not create any winter peaks during 2015. After reviewing a coincident peak demand report the Company created for the historic calendar year 2015, the Company's monthly peak in January of that year exceeded the months of June and September in 2015. Mr.

Phillips' source was the Company's FERC Form 1 of 2015 (shown in his Attachment NP-2), which displays January peaking higher than June in 2015. The Company did not create a coincident peak demand report for calendar year 2014 to compare it to Attachment NP-2 for that same year.

Q. Please comment on IG witness Phillips' statement that the Company uses a 4 CP allocation method in Michigan as described on page 14 of his testimony.

A. The use of different production plant allocation methods in Michigan versus Indiana simply reflects the different load profiles in each jurisdiction. In both instances the Company has used the allocation methodology that is best supported by the test year class load data and approved by the respective Commission. I&M Michigan class load data in Case No. U-17698 supported four prominent summer peaks, whereas I&M Indiana has historically been a summer and winter peaking Company. The Company's load data is generated from a coincident peak demand report which determines each customer class's monthly loss-adjusted coincident peak demands during the test period. A coincident peak demand report is calculated for each of the Company's Indiana and Michigan jurisdictions. Indiana and Michigan are two separate jurisdictions of I&M with two different sets of rates. Therefore, the Company disagrees with Mr. Phillips' claim that I&M's Michigan jurisdiction load profile supports his arguments in the Company's Indiana jurisdiction.

<u>Transmission Cost Allocation</u>

Q. Do you agree with OUCC witness Watkins' recommendation to use a 12 CP demand allocator to allocate transmission costs within the CCOS study as described on pages 24-25, 27-28, 30, 31, and 33 of his testimony?

A. No. The Company's retail class load profiles during the test period do not reflect a flat load curve, which would support a 12 CP demand allocator. I&M's load profile, again, is comprised of two seasonal peaks. summer and winter. Company engineers plan and size transmission facilities to meet the expected peak demand on its transmission system. Therefore, since the Company experiences summer and winter peak months, the Company builds its transmission facilities to meet the peak demand requirements of these two peak seasons. As a result, the 6 CP demand allocator best represents how costs should be allocated among the customer classes, which is based on each customer class's contribution to the six monthly peaks during the test period.

<u>Distribution Plant Allocation</u>

Q. Do you agree with Mr. Phillips' recommendation, starting at page 16 of his testimony, that the current demand classification of distribution plant accounts 364 through 368 be changed to classify and allocate a portion of these accounts as customer-related using the Minimum System method?

A. No. The Minimum System approach of classifying a portion of the costs included in accounts 364 through 368 as customer related, as Mr. Phillips is recommending, does not recognize the Company's standard engineering practice of planning and sizing distribution facilities to meet the peak demand of the customers served by those facilities. As such, the peak demand on Company facilities, not the number of customers served by the facilities, causes the Company to incur distribution facility costs. Mr. Phillips states (p. 23) that a reduction in residential and commercial use per customer bolsters his argument that a customer cost be included in distribution accounts 364 through 368, but offers no evidence to support this assertion. A reduction in use per customer does not inherently mean that there is a reduction in peak demand. The maximum power recorded during a certain period of time is peak demand while energy, or usage, is the product of power supplied multiplied by the length of time it is used. A customer could reduce their usage time of energy with no change to their connected load, thereby reducing their customer usage without reducing their peak demand. Customer usage reductions may not have any effect on peak demand and, as such, would have no effect on the sizing of the Company's distribution facilities.

Mr. Phillips' proposal also does not fully recognize the fact that the facilities, even the minimum facilities, included in accounts 364-368 have a load carrying capability. It is the Company's actual practice to plan and construct the equipment included in these accounts to meet expected peak demand. Demand is the clear cost driver.

I&M's standard engineering practice is to plan its distribution facilities to meet the maximum expected demand on each component of the system, and there is no reason to believe that the allocation of distribution costs would be made more accurate if a portion of the costs, determined based on a wholly theoretical construct, were allocated based on the number of customers being served by the facilities. Given I&M's practice, it is appropriate to classify and allocate I&M's

distribution costs in the manner proposed by the Company.

As further support for the Company's classification and allocation of costs included in accounts 364-368, in the Commission's Order at page 117 in Cause No. 44075 (the Company's last litigated base case proceeding), the Commission stated: "Accordingly, we are persuaded that distribution plant costs included in accounts 364-368 are incurred based on peak demand and should be classified as demand-related and allocated using the Company's demand allocation factors. I&M's proposed classification and allocation of distribution plant continues to be an appropriate method due to its foundation in cost-causation." The Commission should reach the same conclusion here.

Q. Mr. Seelye proposes an approach similar to Mr. Phillips, as described in his testimony starting at page 12, to classify certain distribution accounts (364-368) as customer and demand-related utilizing the Minimum-Intercept method. Do you agree with his method?

A. No I do not. Along with the many reasons Mr. Phillips' Minimum System method should be rejected, the approach offered by Mr. Seelye is flawed and should not be adopted. Mr. Seelye's approach endeavors to determine the "zero-load point (y-intercept) of the cost-relationship between demand and cost" which theoretically provides the customer cost of the installed component, absent all demand costs. It is illogical to attempt to reduce distribution accounts 364-368 to a non-load carrying "customer-related component" because, without load-carrying ability, the Company would not install this equipment. The absence of load would not necessitate the installation of distribution facilities. Again, the Company sizes its distribution system based on expected peak demand and accordingly classifies accounts 364-368 as demand-related costs. Mr. Seelye cites the NARUC Manual as a basis for utilizing the Minimum-Intercept method, but the manual, at page 20 where assignment of costs is discussed, contradicts his approach when it states, "customer costs (costs that are directly related to the number of customers served)." The facilities included in these accounts are jointly used by customers and assigning a customer cost would go against the NARUC Manual and proper cost-causation principles.

Q. Has the Company appropriately classified and allocated distribution plant accounts 364-368 in this proceeding?

A. Yes. The Company's classification of distribution plant accounts 364-368 is consistent with actual Company distribution engineering practice of sizing distribution poles, lines and transformers based on expected peak demand, and therefore, is consistent with principles of cost causation. Distribution plant costs included in accounts 364-368 are incurred based on peak demand. Therefore, the costs included in these accounts should be classified as demand-related and allocated using the Company's demand allocation factors. This classification and allocation of distribution plant used by the Company continues to be an appropriate method due to its foundation in cost-causation. The Company continues to appropriately classify distribution plant accounts 360-368 as demand-related and accounts 369-373 as customer-related.

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

A. Yes it does.

VERIFICATION

I, Michael M. Spaeth, Senior Regulatory Consultant for American Electric Power Service Corporation, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 9-12-2019

Michael M. Spaeth