I&M Exhibit: _____

Cause No. 45235

INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

TYLER H. ROSS

INDEX

PURPOSE OF TESTIMONY 2

DETAILS OF ADJUSTMENTS TO NET OPERATING INCOME, RATE BASE 6

MISCELLANEOUS CHANGES IN ACCOUNTING STANDARDS 13

PRE-FILED VERIFIED DIRECT TESTIMONY OF TYLER H. ROSS
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

Q. Please state your name and business address.

A. My name is Tyler H. Ross. 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 the American Electric Power Service Corporation (AEPSC) as Director of Regulatory Accounting Services. AEPSC supplies engineering, financing, accounting, planning, advisory and other services to the subsidiaries of the American Electric Power (AEP) system, one of which is Indiana Michigan Power Company (I&M or the Company).

Q. Please briefly summarize your educational background and professional background.

A. I received a Bachelor of Science Degree in Accounting from The Ohio State University in 1996. I have been a Certified Public Accountant since 2003 and am a member of the Ohio Society of Certified Public Accountants. Starting with my hiring by AEPSC in August 2001, I held staff and leadership positions within AEP's External Financial Reporting department. I was a Staff Accountant in External Financial Reporting from August 2001 through February 2005. In March 2005, I was promoted to Manager of External Financial Reporting and in August 2008, I was promoted to Director of External Financial Reporting. For AEP and its reporting subsidiaries, I led External Financial Reporting in the preparation and filing of quarterly and annual reports in accordance with both Generally Accepted

Accounting Principles (GAAP) and the reporting requirements of both the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC). In January 2014, I started my present position as Director of Regulatory Accounting Services.

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

A. As Director of Regulatory Accounting Services, my primary responsibilities include providing the AEP electric operating subsidiaries, such as I&M, with regulatory and general accounting expertise in support of regulatory filings, including the preparation of cost of service adjustments, accounting schedules and accounting testimony. Also, I monitor regulatory proceedings, settlements, orders and legislation for accounting implications and participate in determining the appropriate regulatory accounting and financial reporting treatment of regulatory transactions.

Q. Have you previously submitted testimony or testified before any regulatory commissions?

A. Yes. I have filed testimony with and testified before both the Kentucky Public Service Commission and the Public Utilities Commission of Ohio.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to present and support certain adjustments to net operating income and rate base for the 2020 forward-looking test year. In my testimony, I discuss total Company amounts unless the balance is 100%

jurisdictional to Indiana, in which case I specifically identify it as Indiana jurisdictional. For the total Company amounts, Company witness Duncan supports I&M's Indiana jurisdictional separation study. Also in my testimony, when I refer to the Rockport Plant, I am referring to only I&M's ownership share of the Rockport Plant that excludes the portion of Rockport Plant owned by AEP Generating Company. The data I rely on were acquired from numerous sources, including but not limited to I&M and AEPSC accounting records. This is the type of supportable data that has been found to be reliable and regularly used in I&M's business for this type of analysis. I&M's financial reporting to the SEC relies on the same accounting records used in preparing the historical data provided in this case.

Q. Are you sponsoring any portion of Company workpaper WP-I&M-1?

A. Yes. I sponsor the following portions of Company workpaper WP-I&M-1:

- WP-I&M-1-1: Historic Balance Sheet
- WP-I&M-1-2: Historic Monthly Balance Sheets (January-March 2019)
- WP-I&M-1-3: Historic Statement of Cash Flows
- WP-I&M-1-4: Historic Income Statement
- WP-I&M-1-5: Historic Monthly Income Statements (January-March 2019)

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

A. Yes. I am also sponsoring the following workpapers:

- WP-THR-1: Electric Plant in Service and Accumulated Depreciation to reflect treatment of legacy test energy and CWIP ratemaking for Rockport Unit 1 (supports Adjustment RB-1).

- WP-THR-2: Electric Plant in Service and Accumulated Depreciation related to Asset Retirement Obligations (AROs) (supports Adjustment RB-2).
- WP-THR-3: Electric Plant in Service and Accumulated Depreciation related to South Bend Smart Meter Pilot Project (supports Adjustment RB-3).
- WP-THR-4: Electric Plant in Service and Accumulated Depreciation adjustments related to: a) CWIP ratemaking approved in Indiana for Dry Sorbent Injection (DSI) on Rockport Units 1 and 2, Selective Catalytic Reduction (SCR) on Rockport Unit 1 and Cook Plant Life Cycle Management (LCM) and b) IURC-approved depreciation rates related to Cook Plant LCM (supports Adjustment RB-4).
- WP-THR-5: Electric Plant in Service adjustment for SCR on Rockport Unit 2 related to CWIP ratemaking approved in Indiana (supports Adjustment RB-5).
- WP-THR-6: Indiana storm over-recovery amortization adjustment (supports Adjustment RB/O&M-5).

Q. Were the workpapers that you are sponsoring prepared or by you or under your direction?

A. Yes.

Q. Which of the net operating income adjustments included in I&M Exhibit A-5 and the rate base adjustments included in I&M Exhibit A-6 do you sponsor or co-sponsor?

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

- Rate Base Adjustment No. 1 (RB-1) – Adjust various elements of rate base to reflect legacy test energy and pollution control investments related to Rockport Unit No. 1 on an Indiana jurisdictional ratemaking basis.
- Rate Base Adjustment No. 2 (RB-2) – Adjust various elements of rate base to remove Asset Retirement Obligations (ARO).
- Rate Base Adjustment No. 3 (RB-3) – Adjust various elements of rate base to remove the Smart Meter Pilot Project.
- Rate Base Adjustment No. 4 (RB-4) – Adjust various elements of rate base to reflect the following items on an Indiana jurisdictional ratemaking basis:
    - Rockport Unit 1 and Unit 2 DSI
    - Rockport Unit 1 SCR
    - Cook Plant LCM
- Rate Base Adjustment No. 5 (RB-5) – Adjust electric plant in service to reflect Rockport Unit 2 SCR on an Indiana jurisdictional ratemaking basis.

I also sponsor Rate Base/Operation & Maintenance Adjustment No. 5 (RB/O&M-5) as included in I&M Exhibit A-5 and I&M Exhibit A-6 for the amortization of the December 31, 2018 Indiana major storm regulatory liability balance and the forecasted December 31, 2020 Indiana major storm regulatory liability balance.

Q. Are these adjustments that you are sponsoring consistent with adjustments made in I&M's most recent Indiana Base Rate Case?

A. Yes, all of the adjustments described in my testimony are consistent with adjustments made in Cause No. 44967.

Q. Are the books and records of I&M maintained in accordance with the uniform system of accounts?

A. Yes, I&M's books and records follow the directives of the FERC Uniform System of Accounts. As an SEC registrant company, I&M is also required by the Securities and Exchange Commission to follow Generally Accepted Accounting Principles

(GAAP), comply with specific SEC reporting requirements and maintain controls over financial reporting in compliance with the Sarbanes Oxley Act of 2002.

DETAILS OF ADJUSTMENTS TO NET OPERATING INCOME, RATE BASE

Q. What is the purpose of Rate Base Adjustment RB-1 of Exhibit A-6?

A. Rate Base Adjustment RB-1 is a two-part adjustment to present certain components of net electric plant in service on an accounting basis as required by this Commission. I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the Michigan Public Service Commission (MPSC), and FERC. Because of this, certain adjustments to net electric plant balances are required to reflect the conventions used by this Commission for filings in this jurisdiction.

Part A of Rate Base Adjustment RB-1 recognizes a reduction in net electric plant in service and accumulated depreciation related to the treatment of test energy by the MPSC. MPSC accounting requirements provided that test energy be valued on a displacement basis; that is, the average cost of fuel that would have been consumed at the Company's other generating units had the test energy not been available. The value of test energy serves to reduce the amount of electric plant in service. Such accounting was practiced for the Michigan jurisdictional share of Rockport Unit 1 test energy. In Indiana, test energy is valued at the actual cost of fuel consumed by the unit being tested. The "actual cost" method used in Indiana produces a larger reduction to electric plant in service than the "displacement" method used in Michigan for Rockport Unit 1 test energy. Therefore, a reduction must be made to net electric plant in service in order to fully reflect, for ratemaking purposes, the test energy methodology required by this Commission. This part of the adjustment decreases electric plant in service and accumulated depreciation by $1,030,391 and $1,016,300, respectively.

Part B of Rate Base Adjustment RB-1 recognizes additional Allowance for Funds Used During Construction (AFUDC) related to Rockport Plant Unit 1. The FERC and MPSC allowed I&M to include Rockport Unit 1 pollution control facilities in rate base during the construction period of 1978 through 1984. Therefore, I&M ceased recording AFUDC on the Michigan and FERC jurisdictional CWIP amounts. The IURC did not include any portion of Construction Work in Progress (CWIP) in rate base. In order to arrive at a value for the investment in Rockport Unit 1 on an Indiana jurisdictional basis, the effect of cessation of AFUDC allowed by the FERC and MPSC must be added back to net electric plant in service for Indiana ratemaking purposes. This part of the adjustment increases electric plant in service and accumulated depreciation by $12,761,000 and $12,586,552, respectively.

Rate Base Adjustment RB-1 makes the above-described adjustments to electric plant in service, as well as the related adjustments to the accumulated provision for depreciation. If these adjustments were not made, certain elements of I&M's Indiana jurisdictional rate base would be misstated by the accounting and ratemaking conventions of regulatory commissions outside of Indiana.

Q. What is the purpose of Rate Base Adjustment RB-2 of Exhibit A-6?

A. Rate Base Adjustment RB-2 decreases I&M's electric plant in service by $454,229,362 and decreases I&M's accumulated depreciation by $110,659,288.

Electric plant in service is reduced to remove from rate base the original cost of legal AROs for ash ponds, asbestos removal, and nuclear decommissioning included in plant in service in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410. The accumulated provision for depreciation is reduced to remove from rate base the accumulated depreciation associated with the original cost of legal AROs for ash ponds, asbestos removal, and nuclear decommissioning since the ARO assets were also removed from rate base in this adjustment. If this adjustment was not made, I&M's rate base would be overstated.

Rate Base Adjustment RB-2 also decreases I&M's total company accumulated depreciation by $3,638,273 for forecasted 2019 and 2020 Indiana jurisdictional depreciation related to I&M's steam and nuclear AROs.

Rate Base Adjustment RB-2 also increases accumulated depreciation by $2,428,416 for I&M's Michigan jurisdictional share of ARO depreciation and accretion expense currently being recorded to Account 108. I&M's Michigan jurisdictional share of ARO depreciation and accretion expense is recovered through I&M's Michigan jurisdictional depreciation rates.

Q. What is the purpose of Rate Base Adjustment RB-3 of Exhibit A-6?

A. Rate Base Adjustment RB-3 decreases I&M's Indiana jurisdictional distribution and general electric plant in service by $3,714,977 and $335,375, respectively. This adjustment also decreases I&M's Indiana jurisdictional distribution and general accumulated depreciation by $3,551,781 and $290,885, respectively. Rate Base Adjustment RB-3 removes electric plant in service and accumulated depreciation balances for all assets associated with the South Bend Smart Meter Pilot Project in accordance with the IURC's June 13, 2007 Order in Cause No. 43231. These amounts include actual costs through December 31, 2018. If this adjustment was not made, I&M's rate base would be overstated.

Q. What is the purpose of Rate Base Adjustment RB-4 of Exhibit A-6?

A. Rate Base Adjustment RB-4 is a three-part adjustment of both electric plant in service and accumulated depreciation for presentation on an accounting basis as required by this Commission. These amounts include actual costs through December 31, 2018. As mentioned earlier in my testimony, I&M's retail and wholesale rates are regulated by three Commissions: the IURC, the MPSC and FERC. Following the IURC's approvals for I&M to recover a return on construction work in progress (instead of AFUDC) related to the Rockport DSI, Rockport SCR Unit 1 and Cook LCM projects described below, I&M ceased recording AFUDC for the Indiana jurisdictional share of these investments. I&M has continued to properly record AFUDC on the Michigan and FERC jurisdictional shares of these investments. Because of this, I&M must make the adjustments described below to remove the Michigan and FERC jurisdictional shares of AFUDC from electric plant in service and accumulated depreciation in order to present I&M rate base on an Indiana jurisdictional basis as previously approved by the Commission. Rate Base Adjustment RB-4 also includes an adjustment for accelerated LCM Indiana depreciation rates. If these adjustments were not made, I&M's Indiana jurisdictional rate base would be misstated.

Part A of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport DSI Project. The IURC approved CWIP recovery for this project in Cause No. 44331. In order to arrive at the correct value of the for Indiana ratemaking purposes, electric plant in service must decrease by $797,819 for Rockport DSI projects while accumulated depreciation must decrease by $273,210.

Part B of Rate Base Adjustment RB-4 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 1 SCR Project. The IURC approved CWIP recovery for this project in Cause No. 44523. In order to arrive at the correct value of the Rockport Unit 1 SCR project on an Indiana jurisdictional basis, electric plant in service and accumulated depreciation must decrease by $2,155,223 and $280,107, respectively, for Indiana ratemaking purposes.

Part C of Rate Base Adjustment RB-4 results in a reduction to electric plant in service and an increase to accumulated depreciation to reflect I&M's Indiana jurisdictional rate base for: a) AFUDC associated with the Cook LCM Project and b) IURC-approved depreciation rates related to Cook Plant LCM. The IURC approved CWIP recovery and end-of-life depreciation rates for this project in Cause No. 44182. In order to arrive at the correct value of the Cook LCM project on an Indiana jurisdictional basis, electric plant in service must be decreased by $16,538,929 while accumulated depreciation must be increased by $18,100,068 for Indiana ratemaking purposes.

Since the Rockport DSI, Rockport Unit 1 SCR and Cook LCM projects have been placed in service, the respective adjustments described above for electric plant in service will remain constant in future I&M Indiana base rate case filings until these plant assets are retired. Conversely, future adjustments to accumulated depreciation for Rockport DSI, Rockport Unit 1 SCR and Cook LCM will vary from the proposed adjustments described above due to future depreciation of Michigan and FERC jurisdictional AFUDC.

Q. What is the purpose of Rate Base Adjustment RB-5 of Exhibit A-6?

A. Rate Base Adjustment RB-5 results in a net reduction of Indiana jurisdictional rate base for AFUDC associated with the Rockport Unit 2 SCR Project. Following the IURC's October 31, 2018 order in Cause No. 44871 ECR 1 approving CWIP recovery, I&M ceased recording AFUDC on the Indiana jurisdictional share of Rockport Unit 2 SCR starting November 1, 2018. The Rockport Unit 2 SCR Project is scheduled to go into service in May 2020. In order to arrive at the correct value of the Rockport Unit 2 SCR project on an Indiana jurisdictional basis, electric plant in service must be decreased by the forecasted May 2020 level of AFUDC of $9,654,737 related to the Rockport Unit 2 SCR for Indiana ratemaking purposes. If this adjustment was not made, I&M's Indiana jurisdictional rate base would be overstated.

Q. What is the purpose of Rate Base/O&M Adjustment RB/O&M-5 in Exhibit A-5 and Exhibit A-6?

A. Adjustment RB/O&M-5 is for the amortization of the December 31, 2018 Indiana Storm Reserve regulatory liability balance relating to the actual incurred cost compared to the $4,047,529 level of annual distribution major storm O&M expense in basic rates beginning July 2018 as approved in Cause No. 44967.

Q. What is I&M's request related to the amortization of this regulatory liability balance in Adjustment RB/O&M-5?

A. Adjustment RB/O&M-5 increases Indiana jurisdictional amortization of a regulatory liability (reduction to expense/reduction to revenue requirement) by $2,053,300 to reflect the projected December 31, 2019 I&M Indiana Storm Reserve regulatory liability balance of $5,177,950. I&M proposes to amortize this over-recovery over two years, resulting in a proposed annual amortization of $2,588,975. The Test Year 2020 forecast supported by Company witness Heimberger includes $535,675 of amortization of Indiana storm over-recovery as approved in Cause No. 44967. This adjustment is necessary to ensure that the amortization of storm expense regulatory liability is not under-stated during the Test Year. Company witness Duncan has included the $2,588,975 annual amortization credit in the development of the Indiana retail jurisdictional revenue requirement. Adjustment RB/O&M-5 also reflects a $2,588,975 reduction in rate base for the forecasted December 31, 2020 I&M Indiana jurisdictional storm regulatory liability. If this adjustment was not made, I&M's Indiana jurisdictional rate base and I&M's base rates would be overstated.

Q. For the adjustments that you describe above related to rate base, did you provide the applicable adjustments to Company witness Heimberger for inclusion in her calculation of forecasted depreciation expense and accumulated depreciation?

A. Yes. All of the adjustments described above related to changes in electric plant-in service and accumulated depreciation were provided to Company witness Heimberger for appropriate calculations of depreciation expense and accumulated depreciation in the forecasted test year.

Q. Did you also provide the rate base adjustments described above to Company witness Duncan for inclusion in her jurisdictional separation study?

A. Yes I did.

MISCELLANEOUS CHANGES IN ACCOUNTING STANDARDS

Q. Are there any accounting changes as the result of the Company's adoption of the new accounting standard for leases?

A. Yes. In addition to the recognition of operating leases as assets and liabilities on the balance sheet in accordance with FASB Accounting Standards Update (ASU) 2016-02 in the first quarter of 2019, I&M was also initially required to reclassify its remaining deferred gain on sale/leaseback related to Rockport Plant Unit 2 from other noncurrent liabilities (Account 253) to equity. However, since the deferred gain has historically been provided to customers in rates, I&M instead reclassified the deferred gain on sale/leaseback to Account 254 (Regulatory Liability) in March 2019. This was done so that I&M's customers will continue to receive the benefit of this deferred gain. As of December 31, 2018, I&M's remaining deferred gain on sale/leaseback of Rockport Unit 2 was $14,577,785.

Q. Will the balance sheet reclassification of the gain on Rockport Unit 2 to Account 254 (Regulatory Liability) have any impact on I&M's cost of service?

A. No. I&M will continue to amortize the remaining deferred gain on Rockport Unit 2 to Account 507, which serves to reduce I&M's cost of service and provide this deferred gain to customers.

Q. Are there any other new accounting standards that will impact I&M's future financial statements?

A. Yes. In August 2018, the FASB issued ASU 2018-15 regarding accounting for implementation costs incurred in a cloud computing service arrangement. The new ASU requires that cloud service contract implementation costs be presented on balance sheets in the same manner as a prepayment for the associated hosting fees. I&M currently presents software implementation costs in property, plant and equipment (PP&E) on its balance sheet. Under the new standard, I&M's amortization of capitalized implementation costs incurred after January 1, 2020 for cloud service arrangements will be recorded in O&M expense over the term of the cloud service arrangement, rather than Depreciation and Amortization expense on the statement of income.

The FERC is currently reviewing this accounting change and FERC staff have unofficially indicated that cloud computing implementation costs should remain in PP&E for FERC reporting and be included in rate base, potentially creating a FERC-GAAP accounting difference.

Q. If the FERC requires utilities to report cloud computing implementation costs as Prepayments rather than PP&E, does I&M propose changes to its Indiana jurisdictional ratemaking treatment for these costs?

A. Yes. Following the change in accounting for cloud computing implementation costs effective January 1, 2020 and if the FERC requires utilities to reflect cloud computing implementation costs in Prepayments (Account 165), I&M proposes to include these cloud computing implementation prepayments in rate base with amortization expense recorded to applicable O&M expense accounts. Cloud based implementation costs provide benefits over the multiple periods that the application is used, not just in the period in which costs are incurred, in the same manner that an on-site software application benefits multiple periods of use.

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

A. Yes.

VERIFICATION

I, Tyler H. Ross, Director of Regulatory Accounting Services of American Electric Power Service Corporation (AEPSC), affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 5/8/19

Tyler H Ross

Tyler H. Ross