

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

July 26, 2017

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER)
COMPANY, AN INDIANA CORPORATION, FOR)
(1) AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE)
THROUGH A PHASE IN RATE ADJUSTMENT; (2))
APPROVAL OF: REVISED DEPRECIATION)
RATES; ACCOUNTING RELIEF; INCLUSION IN)
BASIC RATES AND CHARGES OF QUALIFIED)
POLLUTION CONTROL PROPERTY, CLEAN)
ENERGY PROJECTS AND COST OF BRINGING)
I&M'S SYSTEM TO ITS PRESENT STATE OF)
EFFICIENCY; RATE ADJUSTMENT MECHANISM)
PROPOSALS; COST DEFERRALS; MAJOR)
STORM DAMAGE RESTORATION RESERVE)
AND DISTRIBUTION VEGETATION)
MANAGEMENT PROGRAM RESERVE; AND)
AMORTIZATIONS; AND (3) FOR APPROVAL OF)
NEW SCHEDULES OF RATES, RULES AND)
REGULATIONS.)

CAUSE NO. 44967-NONE

**SUBMISSION OF DIRECT TESTIMONY OF
TOBY L. THOMAS**

Petitioner, Indiana Michigan Power Company (I&M), by counsel, respectfully submits the direct testimony and attachments of Toby L. Thomas in this Cause.



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INDIANA MICHIGAN POWER COMPANY

PRE-FILED VERIFIED DIRECT TESTIMONY

OF

TOBY L. THOMAS

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**PRE-FILED VERIFIED DIRECT TESTIMONY OF TOBY L. THOMAS
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY**

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

2 A. My name is Toby L. Thomas, and my business address is Indiana Michigan Power
3 Center, P.O. Box 60, Fort Wayne, Indiana 46801.

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

5 A. I am President and Chief Operating Officer of Indiana Michigan Power Company
6 (I&M or Company).

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

8 A. I hold a Bachelor of Science Degree in Mechanical Engineering from the Rose
9 Hulman Institute of Technology. I joined American Electric Power Company, Inc.
10 (AEP) in 2001 as a project engineer involved in the development and optimization of
11 competitive power generation and industrial steam generation projects across the
12 United States. I have performed various roles of increasing responsibility including
13 serving as the Managing Director for Kentucky Power, Gas Turbine and Wind
14 Generation. In 2013, I was named Vice-President Competitive Generation for AEP
15 Generation Resources, where I was responsible for the safe, efficient, and
16 environmentally compliant operation of AEP's competitive generating assets – i.e.,
17 the AEP plants that are not part of a vertically integrated AEP operating company. I
18 became President and Chief Operating Officer of I&M on January 1, 2017.

19 **Q. What are your principal areas of responsibility with I&M?**

20 A. I am responsible for the safe, reliable, and efficient day-to-day operation of I&M,
21 which is an operating company subsidiary of AEP. I am accountable and responsible

1 for I&M's financial performance and the quality of the services we provide to our
2 customers. My responsibilities include I&M's community involvement and economic
3 development, and ensuring compliance with federal regulatory and statutory rules,
4 as well as laws of Indiana and Michigan, the states comprising the Company's
5 electric service territory. Essentially, I am accountable for the Company's distribution,
6 customer service, transmission, and generation functions to provide safe, adequate
7 and reliable service to I&M's customers.

8 **Q. Have you previously testified in any regulatory proceedings?**

9 A. Yes. I provided testimony in Michigan Public Service Commission (MPSC or
10 Commission) Case No. U-18092 establishing the method and avoided cost
11 calculation for I&M to fully comply with the Public Utilities Regulatory Policy Act of
12 1978. I also testified before the Public Utilities Commission of Ohio in Case Nos. 14-
13 1693-EL-RDR et seq. on behalf of Ohio Power Company.

14 **PURPOSE OF TESTIMONY**

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

16 A. The purpose of all of I&M's testimony, including mine, is to present comprehensive
17 and detailed descriptions of who we are, what we do, and how we plan to meet the
18 needs of I&M's customers and our system that serves them. I&M is at a point of
19 transition in serving our customers, and the purpose of my testimony is to describe
20 I&M's efforts to continue to provide safe, reliable, and efficient service to our
21 customers during 2018 and going forward.

22 I will explain I&M's plans to support resource adequacy for our customers in
23 the state of Indiana and to bolster the reliability and efficiency of I&M's energy delivery

1 system, including the costs incurred by the Company to bring our system to its
2 present state of efficiency. I&M's proposal allows for the transitioning of our system
3 to an adaptive platform that provides customers the capability to take advantage of
4 new technologies and distributed resources. I will also discuss the means by which
5 the Commission can help us succeed in transitioning our company to better serve
6 our customers.

7 I ask the Commission to timely approve the proposed rate relief so that I&M
8 can continue to provide customers safe, adequate, and reliable electric service and
9 facilities in compliance with environmental regulation and other rules and
10 requirements.

11 **Q. Are you sponsoring any Attachments in this proceeding?**

12 A. Yes. I am sponsoring the following Attachments:

- 13 • Attachment TLT-1 Petition
- 14 • Attachment TLT-2 Index of Witnesses & Subject Matters
- 15 • Attachment TLT-3 Rockport Ownership Diagram

16 **Q. Were the Attachments that you are sponsoring prepared by you or under your
17 direction?**

18 A. Yes.

19 **OVERVIEW OF I&M'S REQUEST**

20 **Q. Please provide an overview of the Company's request.**

21 A. I&M is requesting that the Commission approve a total annual increase in revenues
22 of approximately \$263.2 million, or 19.7%, to be made effective July 1, 2018 or as
23 close to that date as practicable. The amount is based on a forward looking calendar

1 test year ending December 31, 2018 and is primarily driven by the need to adjust
2 rates to reflect appropriate depreciation rates, investments made to serve customers,
3 and actions that are underway to enhance the reliability of I&M's service. The
4 Company's request is supported by the witnesses identified on Attachment TLT-2.
5 This support includes testimony and evidence from subject matter experts, including
6 personnel responsible for providing generation and energy delivery services. We will
7 also present financial experts to discuss the financial condition and needs of the
8 Company and technical witnesses to describe the level of costs and revenues going
9 forward. Company witness Nollenberger supports our proposed customer charge,
10 an important factor in ensuring customers are receiving appropriate price signals for
11 the service I&M provides. Company witness Williamson describes I&M's requested
12 rate relief and together with the Company's other witnesses support the accounting
13 and ratemaking reflected in the Company's filing.

14 Last, I&M's filing includes the Company's proposed treatment of the Rockport
15 Plant for depreciation expense purposes and provides an updated depreciation
16 study.

17 **Q. Has it been more than fifteen months since I&M filed its most recent request**
18 **for a general increase in its basic rates and charges?**¹

19 A. Yes.

¹ This rule, commonly referred to as the 15 month test, is found in Ind. Code § 8-1-2-42(a).

I&M OVERVIEW

1 **Q. Please describe I&M and its organizational structure.**

2 A. I&M supplies electric service to approximately 128,000 retail customers in
3 southwestern Michigan and 458,000 retail customers in northern and east-central
4 Indiana. I&M operates plant and equipment in Indiana and Michigan that are in
5 service and used and useful in the generation, transmission, and distribution of
6 electric service to the public.

7 The Company's principal offices are located in Fort Wayne, Indiana. I&M's
8 four distribution and customer service districts (Benton Harbor, Fort Wayne, South
9 Bend/Elkhart, and Muncie/Marion) are each responsible for a specific geographic
10 portion of I&M's service territory.

11 Currently, I&M owns and operates two major generating plants: The two unit,
12 2278 megawatt (MW) Cook Nuclear Plant in Bridgman, Michigan and the two unit,
13 2600 MW coal-fired Rockport Plant in Spencer County, Indiana.² I&M also owns and
14 operates 14.7 MW of universal solar power sites consisting of four sites, six small
15 hydroelectric plants comprising 22.4 MW on the St. Joseph River in southwestern
16 Michigan and northern Indiana and is under contract to purchase 450 MW of wind
17 energy. This results in a Company-owned generation resource mix as shown on
18 Figure TLT-1:

² These MW ratings are all nominal. I&M owns 50% of Rockport Unit 1 and leases 50% of Rockport Unit 2 under a sale and leaseback arrangement. I&M also purchases 35% of the capacity and energy of Rockport 1 and 2 from AEP Generating Company. In total, through these arrangements 2210 MWs of the combined 2600 MWs of the Rockport Plant is available to serve I&M customers. Please refer to Attachment TLT-3 for a graphical depiction of the Rockport arrangements.

**Figure TLT-1
I&M Generation Resource Mix**

Nuclear	Solar	Hydro	Wind	Coal
45.8%	0.3%	0.5%	9.0%	44.4%
2,278MW	14.7MW	22.4MW	450MW	2,210 MW
Cook Unit 1 Cook Unit 2	Four Solar Plants	Six Run-of-River Hydroelectric Dams	Wildcat Headwaters Fowler Ridge	Rockport 1 Rockport 2

1 I&M is subject to the regulatory authority of the Indiana Utility Regulatory Commission
 2 (IURC or Commission), the Michigan Public Service Commission (MPSC), and the
 3 Federal Energy Regulatory Commission (FERC). I&M is a member of PJM
 4 Interconnection, LLC (PJM), which is a regional transmission organization (RTO)
 5 serving the eastern portion of the country.

6 **Q. Please describe I&M’s Indiana service territory.**

7 A. I&M’s Indiana service territory consists of over 3,200 square miles and includes the
 8 Cities of Fort Wayne, South Bend, Elkhart, Muncie, Marion, Kendallville and Decatur.
 9 In addition, I&M’s Indiana service territory consists of approximately 4300 circuit
 10 miles of transmission facilities. This is in addition to more than 15,059 miles of
 11 distribution lines and general plant facilities. I&M’s energy delivery system is
 12 discussed in further detail by Company witness Kratt.

13 I&M also currently provides wholesale electric service in Indiana to the
 14 Wabash Valley Power Authority, Indiana Municipal Power Association (IMPA),
 15 Indiana Michigan Municipal Distributors Association (IMMDA) (consisting of
 16 Mishawaka, New Carlisle, Avila, Garrett, Bluffton, Warren, Indiana), and Auburn,
 17 Indiana.

1 **Q. Please describe the relationship between AEP and I&M.**

2 A. AEP owns nine operating companies located in the Midwestern and central parts of
3 the country, including I&M. In key respects, the operating companies function as an
4 integrated utility system that provides electric service to 5.4 million customers located
5 in eleven states. To effectively manage the costs of joint activities, AEP provides
6 corporate support services to the operating companies through the American Electric
7 Power Service Corp. (AEPSC). These joint activities include generation-related
8 services, human resources, accounting, finance and legal.

9 I&M is located in the AEP System – East Zone (AEP East),³ which is an
10 integrated generation and transmission network that includes over 26,000 MWs of
11 generating capacity and approximately 40,000 miles of transmission lines located in
12 Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia, and West Virginia. AEP's
13 operating companies, including I&M, are responsible for day-to-day operations and
14 management of local business affairs, including responsibility and accountability for
15 the operation of each operating company's generating plants.

16 I&M participates in a FERC-approved Power Coordination Agreement (PCA)
17 with the two of the three regulated, vertically-integrated AEP East Operating
18 Companies (APCo and KPCo). The PCA is the successor agreement to the AEP
19 Interconnection Agreement that was terminated in January 2014. Through the PCA,
20 I&M is essentially a stand-alone entity for purposes of planning for and ultimately

³ The AEP East consists of the following operating companies with generation capabilities: I&M, Appalachian Power Company (APCo), Wheeling Power Company (WPCo), and Kentucky Power Company (KPCo). In addition, there are two operating companies located within AEP East, Ohio Power Company and Kingsport Power Company, that do not currently own generating facilities and instead contract for generation.

1 achieving its customers' capacity and energy resource needs, which facilitates
2 independent decision-making. The PCA also provides for the direct assignment of
3 traditional OSS sales and for the allocation of asset hedges and trading.

4 **I&M'S SERVICE TO CUSTOMERS**

5 **Q. Please discuss I&M's ongoing efforts to meet the needs of its customers and**
6 **its system.**

7 A. I&M faces many challenges and opportunities as we transform from an electric utility
8 to the energy company of the future. While some may hold on to the erroneous
9 notion that companies like I&M are inefficient monopolies that do not face competitive
10 pressures, I know firsthand that is far from reality. Our customers, both retail and
11 wholesale, have options and alternatives to our service, such as where they locate
12 and whether to use distributed generation, such as solar or combined heat and
13 power. While Indiana currently has exclusive service areas and is a vertically-
14 integrated utility provider state, it is not certain it will remain that way. Thus, we work
15 hard every day to demonstrate the value of our service to them. We have
16 successfully achieved cost savings and are eager to offer new and innovative
17 services so that customers will continue to choose us as their energy company.

18 To accomplish our goals and meet the needs and expectations of our
19 customers, it is paramount to routinely assess and prioritize needs and opportunities.
20 Meeting the needs of our customers and transforming our business requires
21 significant capital and O&M investment. We use our Integrated Resource Plan (IRP)
22 as a tool for making cost-effective, long-term decisions. The IRP represents a set of
23 facts, circumstances, and assumptions as of a point in time that helps us provide a

1 balanced approach to managing our business in an ever evolving industry, mindful
2 of impact long-term decisions have on our customers' bills.

3 I&M's long-term plan is to provide its customers a system that has an
4 adequate and reliable set of resources, a robust energy delivery system that is both
5 reliable and efficient, and ultimately a platform which enables customers to be served
6 the way they want to be served – all at a reasonable cost. For example, our
7 experience and knowledge of the benefits of Advanced Metering Infrastructure (AMI)
8 provides us the recognition that investing in that technology as a means for gathering
9 and disseminating information may be beneficial for our customers. A full
10 deployment of AMI requires a significant capital investment, including taking into
11 account any residual net book value of our existing meters. The timing of that
12 investment must be coordinated with investments necessary to secure the adequacy
13 and reliability of our generation and energy delivery system. We must first manage
14 the reliability of our system and then expand into investments that allow for its optimal
15 use by our customers.

16 **Q. Please explain the critical role that clear and accurate price signals play in**
17 **servicing customers.**

18 A. New technologies, energy efficiency, reliability expectations, distributed resources,
19 and competitive suppliers are causing an unprecedented transformation in the
20 electric utility business and the manner in which customers want to receive service.

21 As customers within and amongst classes continue to differentiate
22 themselves from one another, it becomes increasingly important that the way a
23 customer uses the system is accurately and fairly reflected in our rates so that

1 customers can reasonably evaluate options and make rational decisions. A
2 fundamental principle of rate regulation is that rates and charges accurately reflect
3 the cost of providing that service. This concept underlies I&M's request in this case
4 to update its depreciation rates and customer charge.

5 **Q. Please explain the importance of revising depreciation rates.**

6 A. Depreciation is intended to reflect the cost of an asset over its remaining useful life.
7 Whereas in the past, useful lives were primarily set based on how long an asset can
8 physically operate, today many external pressures are requiring economic and
9 technological obsolescence to be a limiting factor. The new depreciation study,
10 which is supported by Company witness Cash, shows that significant changes in
11 circumstances have caused I&M's existing depreciation rates to become too low and
12 in need of revision. The proposed depreciation rate changes are reasonable and
13 necessary to provide the Company with a more appropriate and accurate
14 depreciation accrual based upon current regulatory circumstances and which better
15 match the cost of I&M's plant in service with the remaining period such plant may be
16 expected to benefit customers.

17 Setting proper depreciation rates is an important task to ensure the timely
18 recovery of investments in assets needed to fulfill a utility's obligation to serve
19 customers, over the time period in which those assets can be reasonably expected
20 to be used to serve customers. The depreciation study in this case is important
21 because several factors have contributed to a need to shorten the timeframe that
22 I&M's investment in its Rockport Plant can reasonably be expected to be available to
23 serve customers, and it is necessary and proper to revise I&M's depreciation rates

1 to allow the timely recovery of those investments. I&M is also requesting that the
2 Commission support a reasonable transition toward full deployment of AMI through
3 a revised depreciation rate for our existing automatic meter reading (AMR) meters.
4 Company witness Cash discusses this further and supports I&M's requested
5 depreciation rates.

6 **Q. Please summarize how transforming into an energy service provider helps**
7 **position the Company to better serve its customers.**

8 A. As stated above, the Company's filing supports our ongoing effort to transform into
9 an energy service provider that not only meets the energy and capacity needs of its
10 customers, but also serves customers the way they want to be served. We must look
11 beyond the traditional customer classes (i.e., industrial, commercial, and residential),
12 recognize that customers are not homogenous in their expectations, and reach out
13 to customers to meet their unique needs and desires. We are also focused on
14 improving the way we communicate with customers through a new billing format,
15 mobile alerts, improved outage management system, and greater use of social
16 media. We are also committed to providing more options to our customers through
17 voluntary tariffs, greater access to renewable energy and enhanced payment
18 options. Ultimately, we seek to build an energy services platform in which customers
19 can choose which services they want to plug into so as to meet their energy
20 objectives.

21 For example, I&M has received a considerable amount of customer feedback
22 regarding the additional fees associated with paying by credit card or paying in-
23 person at pay stations located throughout I&M's service territory. Today, customers

1 are accustomed to the convenience of paying for services by credit card with no
2 additional charge. Essentially, the cost of using these services is included in the cost
3 of the product or service they are purchasing. As part of this case, the associated
4 costs of this service are included in the forecast used to calculate our base rate cost
5 of service in this case.

6 **Q. Does I&M's proposal in this case support the expansion of PEV charging**
7 **technology?**

8 A. Yes. The Company's vision of creating a "plug and play" platform includes expansion
9 of PEV charging technology in a way that allows customers and the system to reap
10 the greatest benefits. I&M is proposing to expand its Residential Off-Peak Energy
11 Storage/Plug-in Electric Vehicle tariff to offer customers using charging stations for
12 Plug-in Electric Vehicles (PEV) to consume electrical energy primarily during off-peak
13 hours. Over the long-term, we see deployment of PEV chargers at scale being
14 capable of providing demand response capability. To achieve this will require the
15 proper equipment to be installed at customer's premises and the ability for the
16 Company to control the equipment. Deployment of PEV technology at scale may be
17 a great opportunity and we would expect to include in a future filing if supported by
18 our assessment of the technology and its benefits.

19 **Q. Please explain the Company's request in this case to transition toward future**
20 **deployment of Advanced Metering Infrastructure or AMI.**

21 A. I&M's current metering infrastructure is based on AMR technology and was placed
22 in service approximately five years ago. I&M recognizes the many benefits AMI
23 meter technology brings to the distribution system and its customers. While I&M is

1 not proposing an AMI deployment now, we do anticipate making this transition within
2 the next five years following this case. Therefore, a necessary step in that transition
3 is to set depreciation rates that reduce the net book value of I&M's current metering
4 infrastructure in a responsible way.

5 **Q. What is I&M's request for meter depreciation rates?**

6 A. I&M is requesting approval of depreciation rates based on a five year remaining life
7 to allow the depreciation of I&M's current AMR meters to better track the period of
8 time which I&M anticipates they will be in-service before replacing them with AMI
9 meter technology. As discussed by Company witness Cash, the depreciation rate
10 approved in our last base rate case was reflective of historical service lives and did
11 not fully reflect the typical service life of an AMR meter so it is necessary to adjust
12 the service life in current depreciation rates in any event. Using a five year remaining
13 life for the AMR meters serving I&M's customers will better match the expected
14 remaining service life of the assets and better position I&M to economically provide
15 customers access to AMI meters in a reasonable timeframe.

16 **ENERGY DELIVERY SYSTEM**

17 **Q. Please summarize the Company's plans with respect to its distribution system.**

18 A. As noted above, the Company is focused on creating a customer-centric platform
19 that is "plug and play" in nature, meaning it is capable of effectively and efficiently
20 integrating new technologies and distributed resources while managing the
21 associated complexities. To accomplish this first requires substantial investment in
22 the existing distribution system to address aging infrastructure, secure long-term
23 reliability, and increase modernization. This is the fundamental driver of our

1 investments and activities within the Distribution Management Plan described by
2 Company witness Kratt.

3 **Q. Is I&M transitioning its focus toward investments in its distribution system?**

4 A. For many years our distribution system provided reliable service that met our
5 customers' expectations. However, I&M's distribution reliability metrics reflect an
6 increasing breakdown of distribution equipment due to an aging infrastructure and
7 outages caused by vegetation, as discussed in detail by Company witness Kratt.
8 Over these last few years a few distinct factors converged.

- 9 • I&M's traditional vegetation management practices have been challenged to
10 keep up with the pace of vegetation-caused outages.
- 11 • I&M's capital investments were more focused on critical investments to
12 ensure resource adequacy for its customers through the Cook Plant's Life
13 Cycle Management (LCM) Project and required investments in environmental
14 control equipment at the Rockport Plant.
- 15 • Equipment issues on our distribution system have increased due to the age
16 of many of the assets.
- 17 • Customers' expectations related to reliability are higher due to the widespread
18 use and reliance on technology.

19 The convergence of these factors brings us to a point of transition and the need to
20 focus more on the reliability and resiliency of our distribution system. Increasing our
21 investments and activities related to our distribution system at this point in time in the
22 transition away from significant investments in resource adequacy allows us to
23 balance the impact on our cost of service with the needs of our customers and
24 system.

1 **Q. Is vegetation management a critical component of I&M's distribution**
2 **management plan?**

3 A. Yes. While distribution automation and replacing aging infrastructure are essential
4 elements of our plan, a critical component of the distribution management plan is
5 vegetation management – specifically, the transition to a system-wide expansion of
6 the clearance zones surrounding I&M's distribution facilities. Essentially, clearance
7 zone widening creates a critical asset that acts as a barrier between our heavily-
8 vegetated system and the distribution assets serving our customers and one of the
9 most important investments we can make to improve and secure the long-term
10 reliability of our service to customers. To accomplish this requires substantial
11 investment over the next four years, but once it is completed, we can establish a four-
12 year trim cycle to maintain the expanded clearances and sustain service reliability.

13 **Q. Is I&M proposing regulatory treatment that will assure its commitment to**
14 **carrying out its vegetation management program?**

15 A. Yes. I&M is requesting a deferral mechanism that will provide for the ongoing
16 tracking of actual costs to what was included in I&M's Test Year. Company witness
17 Williamson supports this request.

18 This deferral mechanism provides many benefits for customers and
19 stakeholders. First and foremost, it aligns our prospective vegetation management
20 activities with our system goals and ensures customer rates ultimately reflect actual
21 costs. Since this program increases the investment in vegetation management, it
22 also provides assurance that the level of dollars included in our base rates will be
23 spent on vegetation management activities or will accrue back to customers. In this

1 manner, I&M is proposing a framework that offers transparency and commitment to
2 both customers and the Commission and provides the needed flexibility to mitigate
3 the impact external factors can have on I&M's distribution operations in any given
4 year – for example, labor availability and equipment constraints.

5 **Q. Please summarize the Company's plans with respect to its transmission**
6 **system.**

7 A. Another component of the Company's focus on energy delivery is enhancing its
8 transmission service by increasing its reliability and integrating new technologies to
9 modernize the system. I&M's transmission plan is designed to address aging
10 infrastructure, add intelligence and further sectionalize the system, invest in
11 automation, and build more resiliency. In addition, I&M's transmission strategy
12 includes investing in cyber and physical security to protect the integrity of the
13 transmission system and defend our ability to serve customers. Company witness
14 Ali supports I&M's transmission investments.

15 **Q. Please explain I&M's requested relief regarding PJM Network Integration**
16 **Transmission service (NITS) charges.**

17 A. I&M is requesting approval to continue to recover PJM NITS charges through the
18 PJM Cost Rider. The PJM Cost Rider provides a means to timely recognize in rates
19 the costs that are variable from year to year and outside of I&M's control. Currently,
20 I&M is allowed to recover 100% of the PJM NITS until the effective date of a final
21 order in this base rate. I&M's filing provides for the PJM Cost Rider to track and
22 recover 100% of all costs related to I&M's membership in PJM, which removes PJM
23 costs from basic rates and assures that customers are only charged I&M's actual

1 PJM costs. Company witness Ali describes the transmission system and the charges
2 I&M incurs under the FERC-approved PJM Open Access Transmission Tariff (PJM
3 OATT). Company witness Williamson discusses I&M's request to recognize these
4 costs in I&M's PJM Cost Rider.

5 **GENERATION RESOURCES**

6 **Q. Please describe I&M's portfolio of generation resources and its objectives for**
7 **generation.**

8 A. I&M's generation portfolio consists of the coal-fired Rockport Plant, the Cook Nuclear
9 Plant, six run-of-the-river hydro plants, four universal solar plants, and power
10 purchase agreements with the Fowler Ridge, Wildcat, and Headwaters wind farms.

11 I&M's generation objectives are is focused on maintaining resource adequacy
12 and at the same time transforming toward a more diverse set of resources, while also
13 prioritizing investments and making decisions to provide the greatest benefit for its
14 customers. A key aspect of our decision making has been to retain flexibility and
15 optionality to better manage and balance the needs of our customers with future risks
16 and uncertainty. To accomplish this, I&M has made and continues to make
17 significant investments in the Rockport Plant and the Cook Nuclear Plant to ensure
18 they are available to supply safe, reliable, and efficient generation for customers'
19 needs. As we move forward, the Company continues to evaluate its mix of
20 generation resources in light of changing technological advancements, power market
21 conditions and evolving environmental compliance obligations.

1 **Q. Please describe the Cook Plant and its importance to I&M's generation fleet.**

2 A. As described in detail by Company witness Lies and noted above, the Cook Plant is
3 a two-unit nuclear power plant with a combined net electrical output of 2278 MW
4 located along the eastern shore of Lake Michigan in Bridgman, Michigan. For many
5 years, the Cook Plant has provided safe, reliable, emission-free, and low-cost power
6 to I&M's customers. The Cook Plant is a cornerstone of the Company's generation
7 fleet; as noted above in Figure TLT-1, it provides 45.8% of I&M's generation resource
8 mix.

9 **Q. Please describe the Cook LCM Project.**

10 A. Cook Unit 1 received its operating license in 1974 and commenced operations in
11 1975; Cook Unit 2 received its operating license in 1977 and commenced operations
12 in 1978. Originally, the NRC granted each Unit a license to operate for forty years.
13 However, in 2005, after a rigorous review process, the NRC granted twenty-year
14 license extensions to the operating licenses of each Unit, so that Unit 1 is currently
15 licensed to operate until 2034 and Unit 2 is licensed to operate until 2037.

16 As part of the license extension process, the Company initiated a detailed and
17 wide-ranging study of the potential to optimize the value of the Cook Plant to I&M's
18 customers, known as the Cook Improvement Plan (CIP). The CIP study was a
19 valuable tool to identifying options available to the Company, including the potential
20 to significantly increase the capacity of the Cook Plant, and is discussed in more
21 detail by Company witness Lies. The CIP study was of significant importance to
22 maintaining the Cook Plant as a resource for I&M's customers and provided the
23 foundation for developing the Cook LCM Project, a comprehensive effort to identify

1 and undertake the capital investments necessary to extend the operating lives of
2 Units 1 and 2 through the end of their new licensing periods.

3 In Cause No. 44182, the Commission approved the LCM Project as
4 reasonable and necessary, and when completed will be used and useful in the
5 provision of retail electric utility service to I&M's customers. As described in that
6 proceeding, the Company proposed a \$1.169 billion LCM project that involved
7 numerous capital improvements to the Cook Plant. Further, as the Company
8 emphasized in the LCM Project proceeding, flexibility was paramount in the
9 Company's plans to complete the LCM Project. Thus, the Company made clear that
10 it would approach the LCM Project as a single project and would flexibly manage the
11 various subprojects to achieve the overall LCM project goal – namely, two nuclear
12 generating units able to operate through 2034 and 2037.

13 **Q. Has the LCM Project been successful?**

14 A. Yes. As Company witness Lies explains in detail, the Company has made
15 substantial progress on the LCM Project and currently anticipates that it will complete
16 the Project within the original \$1.169 billion projection the Company presented in the
17 original LCM Project proceeding.

18 The key to the success of the Project has been the flexible approach that the
19 Company described in the CON proceeding. Overall, the Company has been able
20 to offset unforeseeable challenges on some subprojects by finding cost savings and
21 efficiencies in other subprojects. Prudent project management has also allowed the
22 Company to pause certain LCM subprojects when this was in the Company's and
23 customers' best interest. In particular, while the LCM Project was in process, new

1 requirements arose that required the Company's immediate response to maintain
2 compliance with its operating licenses. The Company prioritized investments related
3 to these emerging license requirements and deferred certain LCM subprojects that
4 were less urgent. Thus, although some LCM work has been deferred, these
5 decisions were prudent and cost-beneficial because the Company prioritized its
6 capital resources and sought to minimize the length of outages.

7 Complete details on the LCM Project are provided by Company witness Lies.
8 In addition, Company witness Williamson describes the Company's proposed
9 treatment of LCM costs and presents the Company's request to modify and continue
10 the LCM Rider until the completion of the LCM Project and the costs are included in
11 I&M's base rates.

12 **Q. Please describe the Rockport Plant and its importance to I&M's generation**
13 **fleet.**

14 A. The Rockport Plant is a coal-fired generation facility that provides valuable baseload
15 capacity and reasonable-cost energy. The plant is located in Spencer County,
16 Indiana, and consists of two nominally-rated 1,300-megawatt coal-fired generating
17 units – these are among the largest coal-fired units in the country. The units were
18 placed in service in 1984 and 1989 and have been efficient and reliable performers
19 for I&M and its customers.

20 I&M operates the two Rockport units and jointly owns or leases the units with
21 AEP Generating Company (AEG), an I&M affiliate. I&M and AEG each own 50% of
22 Rockport Unit 1. In accordance with the Commission approval in Cause Nos. 38690
23 and 38691, in 1989, I&M and AEG entered into a 33-year sale and leaseback

1 financing arrangement regarding Rockport Unit 2 (Rockport Unit 2 Lease). The
2 Rockport Unit 2 Lease expires on December 7, 2022.

3 Under a FERC-filed Unit Power Agreement, AEG sells 70% of its 50% share
4 of Rockport to I&M, and AEG sells the remaining 30% of its 50% share of Rockport
5 to Kentucky Power Company, another I&M affiliate. All told, I&M controls 85% of the
6 capacity and energy of both units, which amounts to 2210 of the 2600 MWs. As
7 noted above on Figure TLT-1, these 2210 MWs represent approximately 48.5% of
8 I&M's generation resource mix. Please see Attachment TLT-3 for a diagram of the
9 Rockport Plant ownership and lease.

10 Since I&M's last rate case, the Company's has undertaken three major
11 environmental projects at the Rockport Plant (a) installation of DSI technology on
12 both Units, which the Company completed and placed in service in 2015 pursuant to
13 Certificate of Public Convenience and Necessity (CPCN) issued by the Commission
14 on November 13, 2013 in Cause No. 44331; (b) installation of SCR technology on
15 Unit 1, which the Company has been constructing and expects to place in service by
16 the December 31, 2017 pursuant to a CPCN issued by the Commission on May 13,
17 2015 in Cause No. 44523; and (c) installation of SCR technology on Unit 2, which is
18 subject to a request for a CPCN pending before the Commission in Cause No. 44871.

19 **Q. What challenges does the Company face with respect to the Rockport Plant?**

20 A. The Company faces two main challenges related to the Rockport Plant.

21 First, the outlook for coal generation is changing. Environmental regulations,
22 low natural gas prices, and increasing public support for and decreasing cost of
23 renewable energy resources are affecting the role of coal as a source for low-cost

1 power. As of now, and for the near future, the continued operation of the Rockport
2 plant is vital to meeting the needs of I&M's customers, and as noted above, installing
3 the DSI and SCR technology at the Rockport Plant was shown to be the reasonable,
4 cost-effective option for customers. As we move forward, the Company will continue
5 to evaluate the viability of the Rockport Plant against other potential solutions that
6 could meet our customers' needs. I&M will keep the Commission informed on this
7 important matter, including in its next Integrated Resource Plan.

8 Second, the Rockport Unit 2 Lease expires on December 7, 2022. Under the
9 terms of the Lease, I&M has an option to extend the Lease at the current fixed lease
10 payment or to attempt to agree with lessors on a new lease payment based on the
11 Unit's fair market value. Although I&M remains engaged in confidential discussions
12 with the lessors, I&M does not currently believe that extending the term of the Lease
13 is advisable, and I&M will be seeking other options to supply the capacity and energy
14 needs of its customers. I&M is committed to seeking any appropriate state regulatory
15 approvals to replace the energy and capacity provided by Rockport Unit 2, including
16 any action with respect to the Rockport Unit 2 lease. In addition, the Company will
17 address the replacement of Rockport Unit 2 energy and capacity in its next Integrated
18 Resource Plan.

DEPRECIATION RATES

1
2 **Q. Given the challenges facing the Rockport Plant, is the Company proposing to**
3 **adjust the service life of Rockport Unit 1 plant-in-service for purposes of**
4 **setting depreciation rates?**

5 A. Yes. The depreciation of Rockport Unit 1 has reflected a service life through 2044,
6 which is based on the Unit's potential life from an engineering perspective. However,
7 given the challenges described above, it is a fact that I&M, AEP, and the country are
8 moving away from coal as a generating resource, and 2044 can no longer be viewed
9 as the most realistic date through which Rockport Unit 1 will operate. As the role of
10 coal has changed, a more realistic date through which Rockport Unit 1 can be
11 expected to be in operation with any reasonable degree of certainty is December
12 2028. This shorter timeframe has been used in the Company's economic analysis
13 of its environmental compliance investments at Rockport Unit 1. This shorter timeline
14 is also consistent with the recent motion by I&M and its AEP affiliates to amend the
15 Federal Consent Decree governing the Rockport Plant.⁴ Accordingly, the Company
16 is requesting authority to change its depreciation rates so that Rockport Unit 1 is
17 depreciated through 2028.

18 Without this adjustment in Rockport Unit 1's expected service life and
19 depreciation rate, there is an ever increasing risk that the Company's customers may
20 experience substantial intergenerational inequities from a significant undepreciated
21 balance if Rockport Unit 1 is retired in the mid-2020s. It is a basic principle of utility
22 regulation that costs of assets should be recovered during the time in which those

⁴ See Indiana Michigan Power Company's Submission of Additional Information Concerning Rockport Unit 2 Lease, Cause No. 44871 (July 21, 2017).

1 assets are expected to be used by the utility to provide electric service. To better
2 balance the impact this change has on customers, and due to the fact no formal
3 decision has been made, we have chosen the latest date Scrubbers could be
4 required (2028). Of course, the decisions about Rockport Unit 1 will continue to be
5 evaluated, and if a course correction is proven to be appropriate, the depreciation
6 rate can be adjusted accordingly. It is better for customers to use a more realistic
7 date now and lengthen the service life later if that is shown to be the best path
8 forward.

9 CONCLUSION

10 **Q. Are I&M's current rates and charges adequate to meet the costs it will incur**
11 **going forward to carry out its service plans?**

12 A. No. Our current rates are not sufficient to cover the cost of providing service going
13 forward and thus will be confiscatory unless increased by the Commission. We
14 recognize that electricity and the underlying infrastructure are critical components to
15 economic vitality in the State of Indiana and that we are responsible for incurring
16 costs that are reasonable for operating our business. Our goal is to invest wisely,
17 operate our business efficiently, and provide a customer experience that reflects the
18 value we bring to our customers. We will, however, need support from the
19 Commission to use the regulatory tools it has available to help us meet that goal.

20 **Q. What is the importance of regulatory support from the Commission?**

21 A. Providing resource adequacy and securing a delivery system that is reliable and able
22 to meet the needs and expectations of our customers today and into the future
23 requires a substantial capital and O&M expenditure program. I&M needs the support

1 of the Commission to implement our service plans timely and effectively in a manner
2 that works best for our customers. Specifically, in this case, we are presenting
3 evidence on several aspects of our business that are critical to I&M's ability to provide
4 service in a manner that best balances the rate impact over time and keeps our rates
5 reasonable into the future, including:

- 6 • Return on equity
- 7 • Credit metrics
- 8 • Depreciation
- 9 • Distribution management program

10 Our goal in this case is to review with the Commission the decisions that make
11 the most sense for our customers and our system, and how we can proceed in a
12 manner that reduces the impact of those decisions as much as possible. While there
13 are many valuable investments that I&M could make, I&M is not able to simply
14 choose all of those because of the need to balance the cost on customers with the
15 associated benefit. I&M's ability to secure access to low cost capital to fund its
16 operations is heavily dependent on regulatory support that manages known risks,
17 provides increased transparency and predictability and fairly compensates equity
18 investors.

19 **Q. Do I&M's customers benefit from I&M being in a healthy financial position?**

20 A. Yes. Maintaining access to the capital markets for competitive low cost debt and
21 equity financing will be paramount for I&M and its customers. Being in good financial
22 health benefits customers by allowing I&M to compete both internally and
23 externally for access to capital at reasonable terms relative to others in the utility

1 industry. Increased predictability in revenues also allows I&M to more effectively
2 secure the resources it needs to serve and meet the needs of its customers.

3 **Q. Are the expenses reflected in I&M's filing and the proposed rates reasonable**
4 **and necessary to allow I&M to provide service to its customers?**

5 A. Yes. The outcome of this case will have a clear impact on the financial health of the
6 Company, and ultimately on I&M's ability to meet customer needs going forward. As
7 we invest in our customers' energy future, it is critical that the Company's financial
8 health and integrity be maintained; that it continue to have the ability to attract
9 significant capital at a reasonable cost necessary to finance the critical and
10 substantial projects being undertaken to maintain reliable service for our customers;
11 that its rates are set at levels that allow it to earn an authorized rate of return that
12 recognizes I&M's operating characteristics; and that capital is returned to it in a timely
13 manner. The proposed rates will provide I&M an opportunity to earn a reasonable
14 return on and return of its investments and the projected 2018 expenses are
15 reasonable and necessary to provide safe, adequate and reliable service during the
16 time the rates are expected to be in effect.

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

18 A. Yes, it does.

VERIFICATION

I, Toby L. Thomas, President & Chief Operating Officer for Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Date: 7/25/2017


Toby L. Thomas

ATTACHMENT TLT-1 – VERIFIED PETITION

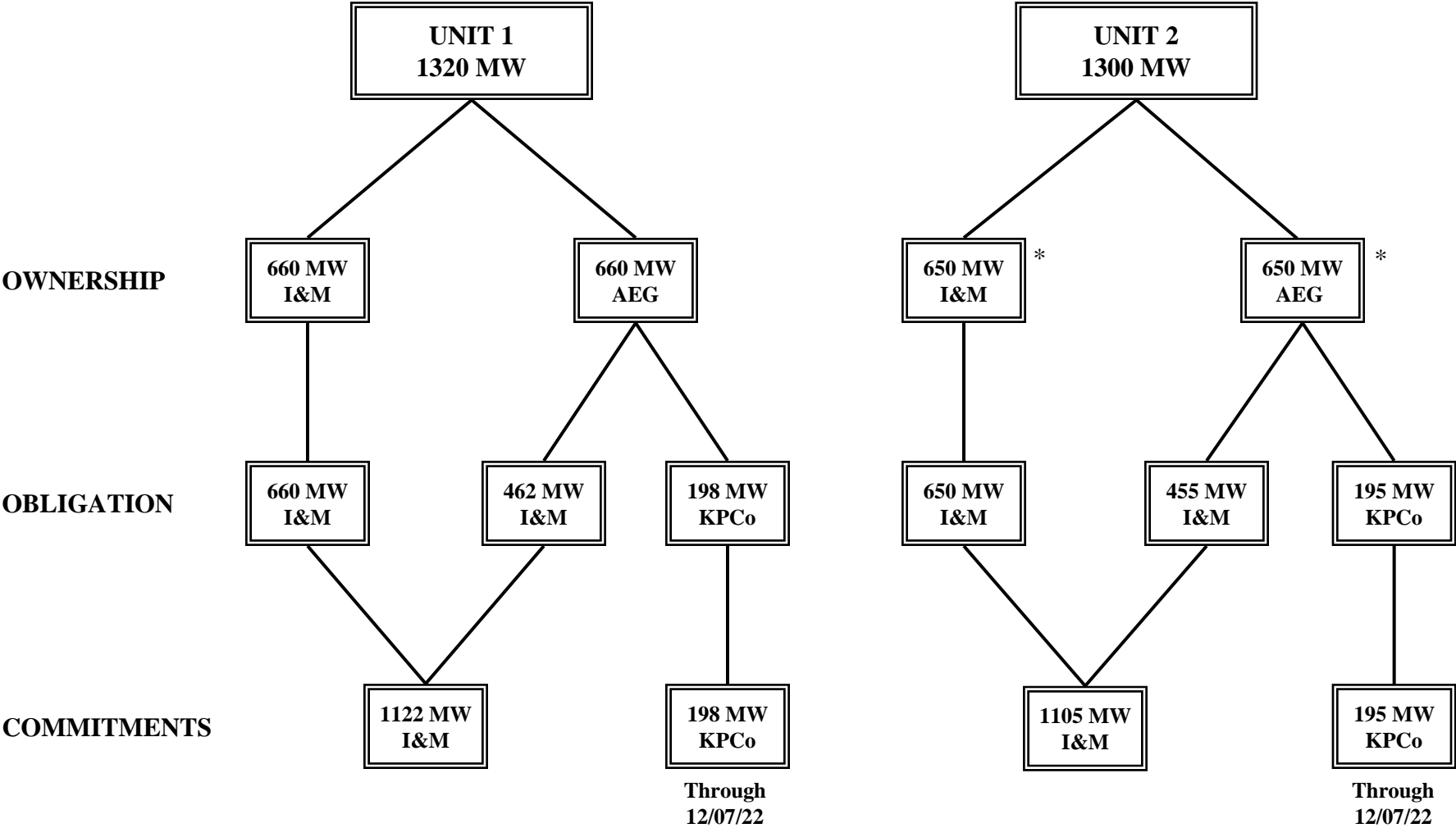
[NOT REPRODUCED HEREIN]

INDEX OF WITNESSES AND SUBJECT MATTERS

Witness	Major Subject Areas
Toby L. Thomas	<ul style="list-style-type: none"> • Summary of I&M's Testimony • I&M Overview • I&M's Service to Customers • Energy Delivery System • Generation Resources • Need for I&M's Requested Depreciation Rates
David A. Lucas	<ul style="list-style-type: none"> • 2018 Test Year Forecast • Methodology and Reasonableness of Forecast
Thomas A. Kratt	<ul style="list-style-type: none"> • Distribution System • Distribution Management Plan • Forecasted Levels of Distribution Capital and O&M Expenditures, Including Major Storm Expenditures
Q. Shane Lies	<ul style="list-style-type: none"> • D.C. Cook Nuclear Power Plant • Forecasted Levels of Nuclear Capital and O&M Expenditures • Cook Regulatory Projects
Timothy C. Kerns	<ul style="list-style-type: none"> • Fossil, Solar, and Hydro Generation Plants • Forecasted Levels of Fossil, Solar, and Hydro Plant Capital and O&M Expenditures
Kamran Ali	<ul style="list-style-type: none"> • PJM Interconnection and Transmission Investment • Forecasted Levels of PJM Costs Recovered Through the PJM Rider
Jason A. Cash	<ul style="list-style-type: none"> • Depreciation Study for I&M's Electric Utility Plant-in-Service
Jeffrey L. Brubaker	<ul style="list-style-type: none"> • Various Rate Making Adjustments • Regulatory Asset Treatment and Recovery
Chad Burnett	<ul style="list-style-type: none"> • Load Forecast Including Energy, Demand, and Customer Forecasts Used for Test Year Billing Determinants
Rod Knight	<ul style="list-style-type: none"> • Nuclear Decommissioning Study
Aaron L. Hill	<ul style="list-style-type: none"> • Provision For Nuclear Decommissioning Expense • Pre-Paid Pension Asset

Witness	Major Subject Areas
Jeffrey B. Bartsch	<ul style="list-style-type: none"> • Taxes Assessed on I&M • Effective Tax Rates • Gross Revenue Conversion Factor
Robert B. Hevert	<ul style="list-style-type: none"> • Fair Rate of Return on Equity • Reasonableness of Capital Structure and Specific I&M Risks
Franz D. Messner	<ul style="list-style-type: none"> • Capital Structure and Overall Cost of Capital • Credit Ratings • Financing Activity
Andrew J. Williamson	<ul style="list-style-type: none"> • Appropriateness of 2016 Historical Base Period and 2018 Test Year • Application of General Administrative Order (GAO) 2013-5 and the Minimum Standard Filing Requirements (MSFR) • Discuss the Company's Requested Rate Relief • Phase-in Rate Adjustment (PRA) Mechanism • Rate Base Treatment for Prepaid Pension Asset • Proposed Changes to the Company's Riders and Request for New Riders • Continuation of Major Storm Damage Restoration Reserve and Request for New Deferral Authority • Allocation Methodology for Nuclear Decommissioning • Final Accounting and Ratemaking for the Tanners Creek Plant • Requested Waiver of the Purchased Power Benchmark
Christopher M. Halsey	<ul style="list-style-type: none"> • Revenue Requirements for Existing Riders and Rider Proposals
Jason M. Stegall	<ul style="list-style-type: none"> • Jurisdictional Adjustments and Separation Study • Phase-In Rate Adjustments
Daniel E. High	<ul style="list-style-type: none"> • Indiana Customer Class Cost of Service Study
Matthew W. Nollenberger	<ul style="list-style-type: none"> • Revenue Allocation to the Customer Classes • Rate Design
Kurt C. Cooper	<ul style="list-style-type: none"> • Revised Terms and Conditions of Service and Tariffs

ROCKPORT PLANT OWNERSHIP, OBLIGATION AND COMMITMENTS



* Both I&M and AEG sell and leaseback their respective shares of Rockport Unit 2. The lessors are non-affiliated, non-utility institutions. During the term of the lease, I&M and AEG each has full entitlement to 50% of the power and energy from Rockport Unit 2.