

DIRECT TESTIMONY OF
SCOTT M. KRAWEC
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY
IN MPSC CASE NO. U-12652

1 Q. Please state your name and address.

2 A. My name is Scott M. Krawec. My business address is 1 Riverside Plaza,
3 Columbus, Ohio 43215.

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

5 A. I am employed by American Electric Power Service Corporation (AEPSC) as a
6 Director of Regulated Accounting.

7 Q. Please summarize your educational background.

8 A. In 1976, I received a Bachelor of Science degree in Accounting from The Ohio
9 State University. In 1989, I received a Master of Business Administration degree
10 from Indiana University. I am a Certified Public Accountant licensed in the State
11 of Indiana and I am a member of the American Institute of Certified Public
12 Accountants.

13 Q. Please describe your professional experience.

14 A. Starting in 1976, I was employed until 1979 by Consumers Power Company in
15 Jackson, Michigan as an Internal Auditor. In February 1979, I joined AEPSC as
16 an Internal Auditor. In August 1979, I joined Indiana Michigan Power Company
17 (I&M), a subsidiary of American Electric Power Company (AEP or Company) as
18 a Statistical Accountant and in June 1980 I assumed the position of General
19 Records Accountant. In June 1982, I was named General Records Accounts
20 Supervisor and in February 1986, I assumed the position of Rates and Tariffs

1 Supervisor. In April 1990, I was named Accounting Services Supervisor and in
2 July 1997, I rejoined AEPSC as Project Supervisor for the Company's financial
3 accounting software upgrade project. In July 1998, I was named Manager of
4 Utility Ledgers and in February 2001, I was named to my current position of
5 Director of Regulated Accounting.

6 Q. What are your current duties and responsibilities?

7 A. My responsibilities include maintaining the corporate ledgers for the various
8 regulated subsidiaries of the Company, overseeing the recording of financial
9 transactions in the corporate ledgers in accordance with Generally Accepted
10 Accounting Principles, directing the preparation of financial reports to
11 management, and the various commissions, and serving as an expert witness for
12 the accounting-related portions of the Company's rate filings.

13 Q. Have you previously testified before this commission?

14 A. Yes. I testified before this commission on behalf of I&M in MPSC Case No. U-
15 10003 relating to the accounting authority for I&M to defer and amortize D. C.
16 Cook Nuclear Plant refueling outage costs and on behalf of I&M and the
17 Michigan Electric and Gas Association (MEGA) in MPSC Case No. U-10083, a
18 generic deferred income tax accounting proceeding.

19 Q. Have you previously testified before any other regulatory commissions?

20 A. Yes. I testified on behalf of I&M in proceedings before both the Federal Energy
21 Regulatory Commission and the Indiana Utility Regulatory Commission.

22 Q. What is the purpose of your testimony?

1 A. The purpose of my testimony is to support the amount of projected regulatory
2 assets of I&M, as specifically presented in Section J(5)(b) of the Company's
3 Restructuring Implementation Plan filed with the MPSC on October 2, 2000 to be
4 recovered in accordance with the provisions of 2000 PA 141, as addressed by
5 Company Witnesses DeLizio and Curry. Finally, I will request specific language
6 from the Commission that will confirm for financial accounting purposes the
7 existence of these generation-related, Michigan retail jurisdictional regulatory
8 assets and their recovery in regulated rates, so that I&M can maintain these
9 balances on its books and avoid a premature write-off of these regulatory assets in
10 its general purpose financial statements.

11 Q. Are there any updates or modifications to sections of the October 2, 2000
12 Restructuring Plan that you are sponsoring?

13 A. Yes, the amounts have been updated using more current information and are
14 detailed on Exhibit A- ____ (SMK-1), Indiana Michigan Power Company, Other
15 Regulatory Assets – Excluding SFAS 109 Deferred Tax Assets, Michigan
16 Jurisdictional, Actual 12/31/2000 and Projected 12/31/2001. Exhibit A-
17 ____(SMK-1) shows these other regulatory assets on a generation-related,
18 Michigan retail jurisdictional basis. All jurisdictional and functional allocation
19 factors have been provided to me by the Regulatory Services Department .

20 Q. Was this exhibit either prepared by you or under your supervision?

21 A. Yes.

22 Q. Please identify each generation-related Michigan jurisdictional projected
23 regulatory asset as of December 31, 2001.

1 A. The regulatory assets for I&M are:

2 VEBA Trust Contributions

3 SFAS No. 112 Postemployment Benefits

4 Cook Refueling Outage Levelization

5 Loss on Reacquired Debt

6 Deferred Preferred Stock Reacquisition Costs

7 Q. Please describe I&M's regulatory asset for VEBA trust contributions.

8 A. I&M's postretirement benefits VEBA trust contributions relate to pre-1995
9 contributions that were deferred for future recovery.

10 Q. Please describe I&M's SFAS No. 112 regulatory asset.

11 A. I&M has a regulatory asset for postemployment benefits recorded in accordance
12 with SFAS No. 112, *Employers' Accounting for Postemployment Benefits*. These
13 benefits are related to health care and life insurance continuation for employees
14 who are on long-term disability. These costs are required by SFAS No. 112 to be
15 accrued for financial reporting purposes, but they are deferred as a regulatory
16 asset because they have been treated by the Commission on a cash basis for
17 ratemaking purposes.

18 Q. Please describe I&M's regulatory asset for Cook Refueling Outage Levelization.

19 A. I&M received authority from the Commission in MPSC Case No. U-10003 to
20 defer and amortize the incremental operation and maintenance (O&M) expense
21 associated with refueling outages at the D. C. Cook Nuclear Plant. The deferred
22 amounts relate to the unamortized projected incremental refueling outage O&M
23 costs incurred as of December 31, 2001.

1 Q. Does I&M's regulatory asset for Cook Refueling Outage Levelization incorporate
2 any costs associated with I&M's 1997-2000 extended nuclear plant shutdown and
3 restart?

4 A. No.

5 Q. Please describe I&M's regulatory assets for Loss on Reacquired Debt.

6 A. I&M has regulatory assets for unamortized loss on reacquired debt related to the
7 sale/leaseback of Rockport Plant Unit 2, certain first mortgage bonds, installment
8 purchase contracts and debentures that are amortized over a future period of years
9 in accordance with Commission approval obtained with each new refinancing
10 authorization.

11 Q. Please describe I&M's regulatory assets for deferred preferred stock reacquisition
12 costs.

13 A. I&M has regulatory assets for unamortized deferred preferred stock reacquisition
14 costs that are amortized over a future period of years in accordance with
15 Commission approval obtained with each new refinancing authorization.

16 Q. Was the amortization of any of these regulatory assets included in the Company's
17 last Michigan rate filing?

18 A. No.

19 Q. Please describe I&M's Power Supply Cost Recovery (PSCR) related regulatory
20 assets.

21 A. I&M has regulatory assets for costs incurred for U. S. Department of Energy
22 uranium decommissioning and decontamination assessments and for SO₂
23 emission allowances. I&M is currently collecting these costs as an element of the

1 PSCR factor. Since customer choice affects the assurance of recovery through the
2 PSCR mechanism, these costs must be included in the recovery mechanism with
3 the other Michigan jurisdictional generation-related regulatory assets, for
4 customers choosing an alternative supplier. Customers remaining on regulated
5 rates would continue to pay these costs through the PSCR.

6 Q. Please explain why I&M is seeking regulatory asset recovery in this proceeding.

7 A. Without sufficient evidence that I&M's generation-related, Michigan retail
8 jurisdictional regulatory assets are being recovered, financial accounting rules as
9 promulgated by the Financial Accounting Standards Board require the Company
10 to write-off those regulatory assets to expense, thereby reducing net income and
11 retained earnings. Specifically, SFAS No. 101, *Regulated Enterprises –*
12 *Accounting for the Discontinuance of Application of SFAS No. 71*, as interpreted
13 by Emerging Issues Task Force (EITF) 97-4, addresses the requirement that when
14 rates are no longer cost-based regulated, related regulatory assets must be written-
15 off unless recovery through regulated cash flows (rates) is provided. Approval in
16 a Commission Order specifying the amount of generation-related, Michigan retail
17 jurisdictional regulatory assets that are being recovered in regulated rates, and the
18 timing of their recovery in accordance with the recovery plan included in the
19 Company's filing, would ensure that I&M would avoid a write-off of its
20 generation-related regulatory assets in Michigan. Since I&M's current Michigan
21 rates (absent PSCR) do not specifically include the amortization of regulatory
22 assets, the Commission could ensure that I&M will not have to write-off any of its
23 generation-related regulatory assets if customers were to choose an alternative

1 supplier by granting the requested wires charge. I&M would amortize those
2 regulatory assets commensurate with their recovery.

3 Q. Does this complete your direct testimony?

4 A. Yes.