

VERIFIED REBUTTAL TESTIMONY
OF
CRAIG A. FORESTAL
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY

CAUSE NO. 45029

**VERIFIED REBUTTAL TESTIMONY OF CRAIG A. FORESTAL
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

1 **Q1. Please state your name, employer and business address.**

2 A1. My name is Craig A. Forestal. I am employed by AES U.S. Services, LLC (“Service
3 Company”), which is a wholly-owned subsidiary of The AES Corporation. The Service
4 Company is located at the headquarters of Indianapolis Power & Light Company (“IPL”
5 or the “Company”) at One Monument Circle, Indianapolis, Indiana 46204.

6 **Q2. What is your position with the Service Company?**

7 A2. I am the Director of Regulatory Accounting.

8 **Q3. Are you the same Craig A. Forestal who previously submitted direct testimony in**
9 **this Cause?**

10 A3. Yes.

11 **Q4. What is the purpose of your rebuttal testimony in this proceeding?**

12 A4. I respond to accounting and ratemaking issues raised in the direct testimonies of Office
13 of Utility Consumer Counselor (“OUCC”) witnesses Rohita Ramaraj (Public’s Exhibit
14 No. 2), Michael D. Eckert (Public’s Exhibit No. 1) and Margaret A. Stull (Public’s
15 Exhibit No. 6). These issues include rate case expense, miscellaneous expenses, injuries
16 and damage claims, and IPL’s compliance with IURC Order 45032. I am also providing
17 the updated revenue requirement which incorporates IPL’s response to some of the issues
18 that have been raised by the other parties in their respective cases-in-chief.

1 **Q5. You said that the revenue requirement IPL is seeking has been updated. Why is**
2 **that so?**

3 A5. IPL has made revisions to several items in response to the cases-in-chief filed by the
4 other parties in this Cause. We did this to allow the Commission and the parties to
5 understand the impact of these proposals on the revenue requirement. IPL Witness
6 Cutshaw addresses the impact such an increase would have on the average residential
7 customer.

8 **Q6. Is IPL filing a revised set of Financial Exhibits to support the updated revenue**
9 **requirement?**

10 A6. Yes. Each Financial Exhibit Schedule we previously filed has been updated, if
11 necessary, and filed with the same name as before, with an extension of “-R” at the end.
12 For example, IPL Financial Exhibit IPL-OPER, Schedule OM1 has now been filed as IPL
13 Financial Exhibit IPL-OPER, Schedule OM1-R. While not every Schedule has changed
14 from the supplemental filing in February of 2018, there were enough changes that we
15 decided to file a complete revised set. Only Schedules with a change have been denoted
16 with the “-R” to help others identify which Schedules are revised. The witnesses
17 supporting such Schedules have not changed, with one exception; IPL Witness Cutshaw
18 has replaced IPL Witness Chambers on IPL Financial Exhibit IPL-OPER, Schedule
19 REV4. As before, an index showing which witnesses sponsor each Schedule has been
20 filed as the first page in the IPL Financial Exhibits.

1 **Q7. Can you please summarize the changes that were made?**

2 A7. Yes. The following summarizes all the changes IPL is now proposing to the revenue
3 requirement sought in this Cause:

4 **Allowable Electric Operating Income Requirement:**

5 **Schedule REVREQ1-R, Allowance Electric Operating Income Requirement** – In
6 addition to changes that flow through to this Schedule from other Schedules, IPL updated
7 the fair value rate of return on line 2, as explained by IPL Witness McKenzie.

8 **Rate Base Changes:**

9 **Schedule RB1-R, Pro Forma Electric Rate Base at Fair Value** – Changed to reflect
10 the updated net electric utility plant in service current value at May 31, 2018, which was
11 updated using current data on IPL's Eagle Valley Combined Cycle Gas Turbine CCGT,
12 as described in the rebuttal testimony of IPL Witness Bulkley. In addition, the Electric
13 utility plant in service at original cost for IPL's Major Projects was updated from their
14 original cost estimates to the actual net book values at May 31, 2018 as further described
15 below.

16 **Schedule RB2-R, Original Cost Electric Rate Base Per Books at June 30, 2017 and**
17 **Pro Forma** – Changed to reflect changes in Schedules RB 4 and RB 5, including adding
18 accumulated depreciation at May 31, 2018 in column 2, line 3 for the approved
19 environmental projects as shown on Schedule RB5.

20 **Schedule RB4-R, Pro Forma Adjustment to Include Eagle Valley Combined Cycle**
21 **Gas Turbine** – Changed to reflect a reduction in the net book value of the Eagle Valley
22 CCGT from the original estimate of \$690 million to the actual net book value at May 31,
23 2018 of \$677 million, as described in the rebuttal testimony of IPL Witness Scott.

24 **Schedule RB5-R, Pro Forma Adjustment to Include IURC Approved**
25 **Environmental Compliance Projects** – Changed to reflect a reduction in the gross book
26 values of the NPDES and CCR projects from their original estimates of \$261.5 million
27 and \$49.6 million, respectively, to their actual net book values at May 31, 2018 of \$255.3
28 million and \$48.6 million, respectively. Additionally, the actual per books accumulated
29 depreciation amounts at May 31, 2018 for these projects have been added to the
30 Schedule, which further reduce IPL's rate base by \$8.2 million, as described in the
31 rebuttal testimony of IPL Witness Scott.

Revenue Changes:

Schedule Rev10-R, Electric Operating Revenue Adjustment Taking Pro Forma at Present Rates to Pro Forma at Proposed Rates – Changed to reflect, by customer class, the updated proposed revenue increase IPL is seeking in this Cause.

O&M Changes:

Schedule OM10-R, Seasonal NOx Emission Allowance Expense – Changed to lower expense by \$0.15 million to reflect current emission allowance pricing as described in the rebuttal testimony of IPL Witness Dininger.

Schedule OM17-R, Pro Forma Adjustment to Total Electric Operation and Maintenance Expenses for Wages and Benefits of IPL and AES U.S. Services, LLP Employees – Changed to: (1) reduce wages and benefits by \$5.21 million to reflect the restructuring announced by AES in February 2018; (2) increase pension expense and OPEB expense by a total of \$3.03 million; and (3) reduce wages and benefits for open positions by \$0.95 million. Each of the changes is described in the rebuttal testimony of IPL Witness Coklow.

Schedule OM19-R, Injuries and Damages Expense – Changed to remove \$0.7 million of expense as proposed by OUCC Witness Eckert.

Schedule OM20-R, Amortization of Rate Case Expenses – Reduced by \$0.67 million in response to testimony of OUCC Witness Ramaraj and updated to reflect actual expenses incurred through May 31, 2018 and IPL's current projections for the remaining costs.

Schedule DEPR-R, Annual Provision for Depreciation and Amortization Expense – Reduced by \$1.16 million to reflect changes in proposed depreciation expense from using the actual per books utility plant values of IPL's CCGT, NPDES and CCR projects at May 31, 2018.

Schedule OTX3-R, Pro Forma Adjustment to Reflect the Change in Payroll Taxes – Changed by \$0.28 million to reflect reduced payroll taxes in conjunction with the reduction to wages and benefits related to the restructuring announced by AES in February 2018 as described by IPL Witness Coklow.

The above describes all manual changes IPL made to the Financial Exhibits. Through linked formulas, these specific items caused many other amounts to change such as: fair value rate base, deficiency in electric operating income, income taxes, payroll taxes, uncollectible accounts expense, public utility fee, *etc.* Such amounts have been adjusted to appropriately reflect the impact of the above adjustments.

1 **Q8. What is the deficiency in electric operating revenue reflected in the updated**
2 **Schedules?**

3 A8. As is shown on IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ1-R on Line 7,
4 the deficiency in electric operating revenue is \$88.35 million, a decrease of \$8.38 million
5 from IPL's revised case-in-chief filing in February 2018. Please see the rebuttal
6 testimony of IPL Witness Cutshaw for a discussion of how IPL's proposed revenue
7 increase would impact the average bill of residential customers.

8 **Q9. Are you sponsoring any attachments in support of your testimony?**

9 A9. Yes. As noted above, I am sponsoring the revised versions of the IPL Financial Exhibits
10 which I originally sponsored. The index at the beginning of such exhibits lists each
11 exhibit's sponsor.

12 **Q10. Were these attachments prepared or assembled by you or under your direction or**
13 **supervision?**

14 A10. Yes.

15 **Q11. Did you submit any workpapers?**

16 A11. Yes, I am submitting workpaper OM21 in support of my later explanation of certain
17 Miscellaneous expenses.

1 Schedule OM19 – Injuries and Damages Expense

2 **Q12. On page 11 lines 14-18 of his direct testimony, OUCC Witness Eckert proposed to**
3 **reduce IPL’s Injuries and Damages Pro Forma Expense Adjustment by \$0.7 million**
4 **to \$1,144,672. What is IPL’s response to this proposal?**

5 A12. IPL accepts this proposal and has adjusted IPL Financial Exhibit IPL-OPER, Schedule
6 OM19 accordingly.

7 Schedule OM20 - Rate Case Expense

8 **Q13. On page 4 lines 1-9 of her direct testimony, Ms. Ramaraj recommended a rate case**
9 **expense of \$3.3 million after being reduced to eliminate \$2.69 million of costs for**
10 **unidentified issues, which results in an annual amortization of \$1.14 million or a pro**
11 **forma adjustment that decreases the per books amortization by \$1.4 million. Do you**
12 **agree with Ms. Ramaraj’s proposal?**

13 A13. No. Ms. Ramaraj challenged this one category of rate case expense based upon only *one*
14 *factor*, namely that this category relates to the cost of having consultants address issues
15 which had not yet been identified in March 2018 when IPL responded to OUCC Data
16 Request 12-8. Ms. Ramaraj does not dispute the likelihood of issues being raised during
17 this case that will require IPL to use industry experts and legal professionals to support its
18 case.

19 **Q14. In Cause No. 44576, what was the approved level of rate case expenses and what was**
20 **IPL’s actual level of rate case expenses?**

1 A14. IPL's approved level of rate case expenses for that Cause was \$4.5 million. IPL actually
2 incurred rate case expenses of \$4.89 million related to that Cause, which resulted in IPL
3 having to write-off \$0.4 million of unrecovered rate case costs. These amounts exclude
4 certain rate case costs (Heid Rate and Regulatory, and Energy Group Inc.) which were
5 challenged by other parties and IPL agreed to remove from the amount it was seeking to
6 recover.

7 **Q15. Has IPL now identified any changes to its estimates for the category of rate case**
8 **expense challenged by Mr. Ms. Ramaraj, i.e. estimated costs for unidentified issues?**

9 A15. Yes. IPL now estimates consultant costs related to cost of service and rate design to
10 increase from \$625,000 to \$875,000, an increase of \$250,000. In addition, as a result of
11 challenges to IPL's prepaid pension asset, IPL now estimates consulting costs for that
12 issue to increase from \$50,000 to \$90,000, an increase of \$40,000. Finally, as a result of
13 challenges to IPL's fair value calculations, IPL now estimates consulting costs for that
14 issue to increase from \$280,000 to \$303,000, an increase of \$23,000. These are the types
15 of things IPL expected and included on line 12 of our filed Schedule IPL Financial
16 Exhibit IPL-OPER, Schedule OM20 as, "Other – (e.g. Additional Witness/Consulting
17 Support, Postage)". Accordingly, these updates do not increase IPL's total estimate of
18 rate case expense, but rather reduced the estimate of our remaining amount for
19 unidentified issues from \$2.69 million to \$2.38 million. As I will explain below, IPL is
20 further reducing this estimate to \$0.36 million.

21 **Q16. Has IPL hired consultants for the issues you just mentioned?**

22 A16. Yes.

1 **Q17. Besides Ms. Ramaraj's challenge of the amount of rate case expenses to be**
2 **recovered for unidentified issues, did the OUCC or any other party to this Cause**
3 **make any other challenges to IPL's proposed pro forma adjusted level of rate case**
4 **expenses to be included in the revenue requirement in this Cause?**

5 A17. No.

6 **Q18. So what does IPL now propose in terms of the pro forma adjusted level of rate case**
7 **expenses to be included in the revenue requirement in this Cause?**

8 A18. As a result of our review of the issues challenged so far in the testimonies of the parties
9 intervening in this Cause, IPL now estimates the level of costs for issues not yet
10 identified has likely decreased and we propose to reduce the estimate from \$2.69 million
11 to \$0.36 million. Taking this reduction into consideration, IPL proposes to reduce the
12 amount of rate case expenses to prepare and defend this case to \$3.98 million. Such
13 amount is a total reduction of IPL's original requested rate case expenses for this Cause
14 of \$2.02 million and represents a decrease of \$0.92 million from the amount of expense
15 IPL incurred for the basic rates case which established IPL's current rates and charges.

16 **Q19. How did you arrive at \$0.36 million as an estimate for rate case consulting expenses**
17 **for issues not yet identified?**

18 A19. This amount represents 10% of the level of costs for expenses identified through today. I
19 believe this to be a reasonable contingency for additional issues not yet identified and
20 should prevent IPL from having to write off unrecovered rate case expenses as we did in
21 the 44576 case.

1 **Q20. In conclusion, what level of amortization of rate case expense is IPL proposing be**
2 **included in the revenue requirement in this Cause?**

3 A20. IPL proposes an annual amortization expense for rate case costs of \$1.37 million, which
4 is a decrease of \$0.81 million as compared to the actual per books amount of amortization
5 IPL incurred in the Test Year. This amount is also a decrease of \$0.67 million from the
6 amount originally requested by IPL.

7 **Schedule OM21 – Miscellaneous Expense Items**

8 **Q21. On page 6 lines 3-5 of her direct testimony, OUCC Witness Ramaraj proposed to**
9 **reduce IPL’s Miscellaneous General Expense Items by \$1.09 million, as compared to**
10 **IPL’s proposed pro forma decrease of \$946,000. What is IPL’s response to this**
11 **proposal?**

12 A21. IPL objects to this proposal. OUCC Witness Ramaraj cites the basis for her adjustment
13 as: (i) “certain transactions that were double-counted, such as the annual membership
14 dues paid to Central Indiana Corporate Partnership and Indiana Chamber of Commerce
15 for 2016 and 2017”; and (ii) “they provide no benefit to the ratepayers.” IPL disagrees
16 with both of those assertions. Further, IPL confirms that all of such items represent
17 actual operating costs incurred by IPL during the Test Year.

18 **Q22. Please start by explaining why IPL disagrees with Ms. Ramaraj’s assertion that**
19 **certain transactions were double-counted.**

20 A22. Ms. Ramaraj cited two examples of items that she claimed were double-counted, which
21 were dues paid to Central Indiana Corporate Partnership and Indiana Chamber of
22 Commerce. Both of these items represent costs that are prepaid and then amortized to

1 expense over the year IPL received the membership benefit. It is true that both of such
2 items increased IPL's expense twice; once when the invoice is first entered into IPL's
3 accounts payable subledger, and once when the prepaid expense balance for each item is
4 amortized to expense. However, what Ms. Ramaraj appears to have missed is the step in
5 between that ensures the expense is not double-counted. When these items entered
6 accounts payable, the responsible accountant prepared journal entries to remove the
7 expense (an accounting credit) and set up a prepaid asset (accounting debit). This
8 accounting is common and the end result is that the expense was only included in the Test
9 Year one time.

10 **Q23. What does it mean when you said the costs were, "then amortized to expense over**
11 **the year IPL received the membership benefit"?**

12 A23. This means, the expense account was increased (debited) each month for one-twelfth of
13 the total annual cost. The result is that, when you look at any twelve-month period for
14 such a cost, it includes exactly 12 months of expense and no double-counting.

15 **Q24. Are there any other items on Ms. Ramaraj's Table 2: Miscellaneous Expense Items**
16 **to be excluded which fit the accounting pattern you described above regarding their**
17 **being set up as a prepaid expense and then amortized monthly?**

18 A24. Yes. This accounting method is also utilized for the Indiana Manufacturers Association
19 dues of \$11,640. I believe it is reasonable to assume Ms. Ramaraj was objecting to this
20 expense based upon the same flawed assumption that it was double-counted.

21 **Q25. Is it possible that Ms. Ramaraj's statement is not an error, but merely a difference**
22 **of opinion or estimate from your point of view?**

1 A25. No. The expense detail, which I have included as Workpaper OM21 illustrates that the
2 original expense amount has been reversed and therefore each invoice Ms. Ramaraj cited
3 is only included in IPL's Test Year one time.

4 **Q26. How much of Ms. Ramaraj's suggested \$144,252 decrease to IPL's Test Year**
5 **Miscellaneous Expenses was based upon the flawed basis that it was double-**
6 **counted?**

7 A26. It is not totally clear, because Ms. Ramaraj's testimony did not provide separate totals for
8 each objection she was making. It is at least \$58,000 and more likely \$69,640 of her
9 suggested decrease. Ms. Ramaraj stated that certain transactions were double-counted
10 and then used the words, "such as" to list the two items I discussed above, which
11 indicates that her rationale likely lends to additional items on her list. As I explained
12 above, the other item with that same accounting pattern is the \$11,640 expense for
13 Indiana Manufacturer's Association. Consequently, I believe \$69,640 of her objection
14 was based upon a flawed premise of an accounting error.

15 **Q27. Please respond to Ms. Ramaraj's assertion that the remaining items on her table**
16 **"provide no benefit to the ratepayers".**

17 A27. IPL disagrees with this assertion. First of all, all of such items are *de minimis* in terms of
18 their impact on the revenue requirement IPL is seeking in this Cause as the total of such
19 items contributes less than \$0.1 million to the revenue requirement. Second, these
20 challenged items do not reflect lobbying or image building advertising activities, which
21 are not permitted to be included in the revenue requirement. Finally, I believe these

1 items do benefit IPL's customers in many ways. For expedience, I will address the three
2 largest items.

3 I. Hyatt Regency Indianapolis expense of \$39,757.69 to host IPL's annual employee
4 holiday celebration – This represents the only IPL party for all Indianapolis
5 employees and I believe this to be a reasonable and expected employee benefit for
6 companies of IPL's size. The benefit to IPL's customers from this employee
7 benefit is that it helps IPL attract and retain a talented workforce. Further, in my
8 experience, the celebration has generally been very well received by my
9 coworkers and I, and therefore serves a valuable role in maintaining and
10 enhancing employee morale, which I believe benefits productivity and job
11 satisfaction. Finally, for a company of IPL's size, the amount of this expense is
12 not exorbitant considering over 500 people attended.

13 II. Tourism Tomorrow, Inc. expense of \$20,000 for the US Conference of Mayors
14 Annual Conference - The United States Conference of Mayors' 84th Annual
15 Meeting took place in Indianapolis and was hosted by Indianapolis Mayor Joe
16 Hogsett. The United States Conference of Mayors is the official non-partisan
17 organization of cities with populations of 30,000 or more. During the
18 Conference's Annual Meeting, standing committees, including an Energy
19 Standing Committee, recommend policy positions they believe should be adopted
20 by the organization. At this time, every member attending the annual meeting is
21 given the opportunity to discuss and then vote on each policy resolution. The
22 policy positions adopted at the annual meeting are distributed to the President of

1 the United States and Congress. IPL's support of this annual convention helps
2 ensure the people of Indianapolis, who generally represent IPL customers, get a
3 voice in such policy positions. In addition, the conference in question was held in
4 Indianapolis and therefore provided an economic boost to the City of
5 Indianapolis.

6 III. Visit Indy annual partnership dues of \$5,000 - According to its website, Visit Indy
7 is the official tourism site of Indianapolis. It encourages tourism of Indianapolis
8 by providing visitor guides, a plethora of suggested things to do in Indianapolis
9 and a means for booking lodging at Indianapolis hotels through its website at
10 www.visitindy.com. I contend that there is a direct benefit to IPL's customers as it
11 supports the economic development of the community in which they live.
12 Indianapolis area retailers, which are predominantly IPL customers, benefit from
13 an influx of tourism because it increases the number of potential customers.
14 Further, a substantial portion of IPL's revenue requirement is based upon fixed
15 costs (costs that generally do not vary per kWh of electricity produced). As
16 Indianapolis tourism grows, a larger portion of IPL's fixed costs are paid for by
17 the retailers who used more electricity to serve additional customers, which means
18 the rest of IPL's customers pay lower rates.

19 **Q28. Some of the items that Ms. Ramaraj opposed represent dues and memberships. Did**
20 **IPL properly include all of such items on its Minimum Standard Filing**
21 **Requirements submission 1-5-8(a)(23)?**

1 A28. Yes.

2 **Q29. Please summarize your response to Ms. Ramaraj's recommendation to reduce IPL's**
3 **revenue requirement in this Cause by \$144,252 for Miscellaneous General Expense**
4 **Items.**

5 A29. I recommend that all of such items remain in IPL's Test Year, because (i) all of such
6 items represent actual costs incurred by IPL during its Test Year and (ii) neither the
7 OUCC or any other party has provided credible arguments for removing them.

8 **Compliance with Commission's order in the tax investigation case (Cause No. 45032)**

9 **Q30. In the testimony of OUCC Witness Stull, on page 30, she opines that IPL is not in**
10 **compliance with the Commission's order in the tax investigation case (Cause No.**
11 **45032). Is IPL failing to comply with such Commission Order?**

12 A30. No. IPL is compliant with the Order. IPL has recorded a regulatory liability each month
13 beginning January 2018 for the estimated impact the TCJA would have had on the
14 revenue requirement that established IPL's current rates and charges in Cause No. 44576.

15 **Q31. Please describe your interpretation of how the regulatory liability related to the**
16 **TCJA should be calculated.**

17 A31. When interpreting that Order, IPL concluded the Commission was directing utilities to
18 look at their previous orders setting their current rates and calculate the difference in the
19 revenue requirement had the TCJA been in effect before those orders were issued, which
20 is what IPL did. After all, since income taxes are not "trued up" as costs in most rate
21 riders are, it is evident that IPL's rates do not include a precise charge in the current

1 period designed to match current period income tax expense. Therefore, looking back to
2 the level of income tax expense included in current rates as compared to the level that
3 would have been included had the TCJA been in effect at the time the historical revenue
4 requirement was approved is the only fair interpretation of the Commission's direction.

5 **Q32. Did additional guidance come from the Commission that impacted your**
6 **interpretation of how to calculate such regulatory liability?**

7 A32. Yes. We were further convinced our interpretation is correct after reading the following
8 language in the Commission's February 16, 2018 Order in that same Cause:

9 **Phase 1.** This phase of the proceeding is intended to ascertain the real time¹
10 existing customer rate impact directly related² to the change in the federal income
11 tax rate on the ongoing revenue requirement for each Respondent and to foster an
12 expedient process to reflect such impact in customer rates going forward.
13 Accordingly, on or before March 25, 2018, each Respondent shall submit for
14 Commission approval revised tariff sheets reflecting the new tax rate applicable to
15 Respondent as a result of the Act, for all affected rates and charges, including
16 base rates, riders, trackers, and miscellaneous charges ("Rates and Charges").³
17 Pursuant to 170 IAC 1-6-3(8), the submission shall be made in accordance with
18 the Commission's Thirty-Day Administrative Filing Procedures and Guidelines
19 ("30-Day filing rules") at 170 IAC 1-6, including the filing and notice
20 requirements of 170 IAC 1-6-5 and 1-6-6. The revised Rates and Charges shall
21 be designed to remove the difference between (1) the amount of federal taxes that
22 the given Rate or Charge was designed to recover based on the tax rate in effect at
23 the time the Rate or Charge was approved, and (2) the amount of federal taxes

1 that would have been embedded in the given Rate or Charge had the new tax rate
2 applicable to Respondent as a result of the Act been in effect at the time of
3 approval.

4 This language clearly guides utilities to file tariffs to change their current rates and
5 charges to adjust to the revenue requirement that would have been calculated if the TCJA
6 tax rates had been in effect at the time of their approval. Such direction was completely
7 in sync with our interpretation of the original Commission order and therefore IPL
8 continues to believe we have followed the directive completely. Further, the Commission
9 describes this rate change as the, “customer rate impact directly related to the change in
10 the federal income tax rate on the ongoing revenue requirement,” which is very similar to
11 the language used in the original 45032 Order that Respondents apply regulatory
12 accounting, “for all estimated impacts resulting from the Act.” I believe the fact that both
13 directives were described to be the impacts related to the Act, or change in federal
14 income tax rate, is not coincidental and indicates the additional guidance should be
15 applied to estimate the regulatory liability.

16 **Q33. The February 16, 2018 order you referenced focuses on ratemaking, rather than**
17 **accounting. Is it appropriate to consider this ratemaking order in the context of**
18 **determining the appropriate accounting?**

19 A33. Absolutely. Generally Accepted Accounting Principles require the use of regulatory
20 assets and liabilities to comply directly with expected rate actions of regulators. To say it
21 another way, the accounting must follow the ratemaking.

1 **Q34. Is there any accounting guidance you can provide that supports your assertion that**
2 **accounting must follow the expected ratemaking?**

3 A34. Yes. The Financial Accounting Standards Board codification of accounting rules Topic
4 980 describes the specific accounting requirements for regulated operations. Paragraph
5 980-10-05-7 and 8 state:

6 Accounting requirements that are not directly related to the economic effects of
7 rate actions may be imposed on regulated businesses by order of regulatory
8 authorities and occasionally by court decisions or statutes. This does not
9 necessarily mean that those accounting requirements conform with generally
10 accepted accounting principles (GAAP). For example, a regulatory authority may
11 order an entity to capitalize and amortize a cost that would be charged to income
12 currently by an unregulated entity. Unless capitalization of that cost is appropriate
13 under this Topic, GAAP requires the regulated entity to charge the cost to current
14 income. Unless an accounting order indicates the way a cost will be handled for
15 rate-making purposes, it causes no economic effects that would justify deviation
16 from the GAAP applicable to business entities in general. The mere issuance of
17 an accounting order not tied to rate treatment does not change an entity's
18 economic resources or obligations. In other words, the economic effect of
19 regulatory decisions - not the mere existence of regulation - is the pervasive factor
20 that determines the application of GAAP.

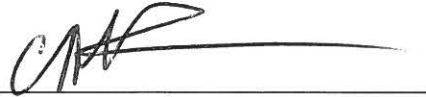
21 In summary, the Order 45032 direction from the Commission issued on February 16,
22 2018, which directs utilities to make specific ratemaking actions must be considered in
23 determining the calculations to establish the appropriate regulatory accounting related to
24 the TCJA. Such guidance is completely aligned with IPL's established regulatory
25 liability.

26 **Q35. Does this conclude your prepared verified rebuttal testimony?**

27 A35. Yes, at this time.

VERIFICATION

I, Craig A. Forestal, Director of Regulatory Accounting for AES US Services, LLC, affirm under penalties for perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read 'CAF', is written over a horizontal line.

Craig A. Forestal

Dated: June 18, 2018