

FILED

December 21, 2017

INDIANA UTILITY

REGULATORY COMMISSION

**Cause No. 45029**

**VERIFIED DIRECT TESTIMONY**

**OF**

**CRAIG A. FORESTAL, CPA**

**ON BEHALF OF**

**INDIANAPOLIS POWER & LIGHT COMPANY**

**VERIFIED DIRECT TESTIMONY OF CRAIG A. FORESTAL, CPA  
ON BEHALF OF  
INDIANAPOLIS POWER & LIGHT COMPANY**

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

2 A1. My name is Craig 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. The Service  
6 Company provides accounting, legal, human resources, information technology and other  
7 corporate services to the businesses owned by AES Corporation in the United States of  
8 America, including IPL.

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

10 A2. I am the Director of Regulatory Accounting.

11 **Q3. Please describe your duties as Director of Regulatory Accounting.**

12 A3. I am in charge of regulatory accounting for both Indianapolis Power & Light Company  
13 and The Dayton Power and Light Company. In that capacity, I serve as the primary  
14 accounting witness in regulatory commission filings for both companies. Additionally,  
15 the accounting journal entries for both entities related to most regulatory accounts are  
16 prepared under my direction and/or review.

17 **Q4. Please summarize your educational qualifications.**

18 A4. I hold a Bachelor of Science degree in Accounting from Ball State University. I received  
19 my Certified Public Accountant license for the State of Indiana and have fulfilled the  
20 necessary educational requirements to allow use of the CPA designation.

1 **Q5. Please summarize your prior work experience.**

2 A5. After graduating from Ball State University in 1991, I worked for three years in public  
3 accounting for Brady, Ware & Schoenfeld, CPAs. My primary focus there was preparing  
4 and/or auditing financial statements in accordance with Generally Accepted Accounting  
5 Principles. I later worked for Simon Property Group for six years where I was a manager  
6 in charge of preparing debt compliance reports and preparing quarterly and annual  
7 financial reports and filing them with the Securities and Exchange Commission. After  
8 that, I worked as Director of SEC Reporting and Treasury for a publishing company  
9 called Hungry Minds until May of 2002.

10 I was an employee of IPL from May 2002 through December 2013. During my tenure  
11 with IPL, I worked in various positions including Senior Accountant, Section Leader of  
12 Reporting, Team Leader of Corporate Accounting, and Director of Regulatory  
13 Accounting. For most of that time, I was responsible for the Company's financial  
14 reporting and a substantial portion of the monthly journal entries. I also served as the  
15 primary accounting witness in regulatory commission filings for IPL since 2006 and  
16 continue to serve in that capacity today. Beginning in December 2013, I have been  
17 employed by the Service Company.

18 **Q6. Have you previously testified before the Indiana Utility Regulatory Commission**  
19 **(“Commission”) or other regulatory agencies?**

20 A6. Yes, I have submitted testimony in support of IPL's: quarterly fuel cost (Cause No.  
21 38703-FAC-XX); demand side management adjustment proceedings (Cause No. 40292-  
22 DSM-XX); Green Power Initiative approved in Cause No. 43251 and revised in Cause  
23 Nos. 43506 and 43693; requests for approval of a Green Power Initiative rate (Cause No.

1 44121 GPR X); semi-annual Environmental Compliance Cost Recovery Adjustment  
2 (Cause No. 42170-ECR-XX) proceedings; semi-annual Core and Core Plus Demand-Side  
3 Management (43623-DSM-X) adjustment proceedings; IPL's Regional Transmission  
4 Organization Adjustment (Cause No. 44808-RTO-1); and in IPL's most recent basic rate  
5 case (Cause No. 44576).

6 **Q7. What is the purpose of your testimony in this proceeding?**

7 A7. The purpose of my testimony is to: (i) sponsor the Company's financial statements; and  
8 (ii) explain how the Company calculated the pro forma adjustments which I sponsor. In  
9 addition to sponsoring the Company's financial statements (IPL Financial Exhibit IPL-FS  
10 Schedules FS1 through FS4), I sponsor the following schedules that contain many of  
11 IPL's pro forma adjustments to the test year period:

12 **Rate Base**

- 13 • IPL Financial Exhibit IPL-RB, Schedule RB1 - Pro Forma Electric Rate Base at  
14 Original Cost and at Fair Value. For this schedule, I organized the framework of the  
15 schedule, while the calculation of current value and the methodology for calculating  
16 fair value come from outside experts. IPL Witness Bulkley sponsors the calculation  
17 of current value and IPL Witness McKenzie sponsors the method for calculating fair  
18 value rate base.
- 19 • IPL Financial Exhibit IPL-RB, Schedule RB2 - Original Cost Electric Rate Base Per  
20 Books at June 30, 2017 and Pro Forma.
- 21 • IPL Financial Exhibit IPL-RB, Schedule RB8 - Electric Materials and Supplies  
22 Inventory Per Books at June 30, 2017 and Pro Forma. I sponsor the framework of  
23 this Schedule, while IPL Witness Scott supports the reasonableness of the pro forma  
24 adjustments to power supply related inventory values.
- 25 • IPL Financial Exhibit IPL-RB, Schedule RB11 - Miscellaneous Rate Base  
26 Adjustments.

1           **Revenues**

- 2           • IPL Financial Exhibit IPL-OPER, Schedule OPINC – Statements of Electric  
3           Operating Income for the Twelve Months Ended June 30, 2017, Per books and  
4           Jurisdictional Pro Forma at Present and Proposed Rates.
- 5           • IPL Financial Exhibit IPL-OPER, Schedule REV1 – Summary of Electric Operating  
6           Revenue for the Twelve Months Ended June 30, 2017, Total Electric Per Books and  
7           Pro Forma Total Electric at Present and Proposed Rates.
- 8           • IPL Financial Exhibit IPL-OPER, Schedule REV2 – Summary of Electric Operating  
9           Revenue Adjustments, Taking Per Books Total Electric to Pro Forma Total Electric at  
10          Present Rates.
- 11          • IPL Financial Exhibit IPL-OPER, Schedule REV4 – Summary of Electric Retail  
12          Basic Rate Revenue Adjustments, for Weatherization, Customer Annualization and  
13          DSM Installations Annualization and to Remove and Unbilled Revenues for the  
14          Twelve Months Ended June 30, 2017. For this schedule, the adjustments shown in  
15          columns 2 and 3 are sponsored by IPL Witness Chambers, while the DSM installation  
16          annualization adjustment in column 4 is sponsored by IPL Witness Cutshaw.
- 17          • IPL Financial Exhibit IPL-OPER, Schedule REV7 – Summary of Electric Rent  
18          Revenue, Per Books and Pro Forma Total Electric at Present Rates for the Twelve  
19          Months Ended June 30, 2017.

20          **Operating Expenses**

- 21          • IPL Financial Exhibit IPL-OPER, Schedule OM1 – Summary of Pro Forma  
22          Adjustments to Electric Operation and Maintenance Expense for the Twelve Months  
23          Ended June 30, 2017.
- 24          • IPL Financial Exhibit IPL-OPER, Schedule OM5 – Adjustment to Include IURC  
25          Approved Environmental Compliance Projects for the Twelve Months Ended June  
26          30, 2017. For this schedule, the pro forma level of non-labor operating and  
27          maintenance costs shown on row 1 are sponsored by IPL Witness Scott, and I sponsor  
28          the per books amounts in rows 2 through 5.
- 29          • IPL Financial Exhibit IPL-OPER, Schedule OM11 – Obsolete/Damaged Materials  
30          and supplies inventory write-offs expense.
- 31          • IPL Financial Exhibit IPL-OPER, Schedule OM19 – Injuries and Damages Expense.
- 32          • IPL Financial Exhibit IPL-OPER, Schedule OM20 - Amortization of Rate Case  
33          Expense.
- 34          • IPL Financial Exhibit IPL-OPER, Schedule OM21 - Miscellaneous Expense  
35          Adjustments.

1 **Q8. Were these financial statements and schedules or portions of these financial**  
2 **statements and schedules prepared or assembled by you or under your direction or**  
3 **supervision?**

4 A8. Yes.

5 **Q9. Did you submit any workpapers?**

6 A9. Yes. I am sponsoring the workpapers that support the financial statements and schedules  
7 that I sponsor.

8 **Q10. Did IPL provide the workpapers and other information required by sections 7**  
9 **through 16 of the Minimum Standard Filing Requirement (“MSFR”)?**

10 A10. Yes. This information was submitted to the Commission and the parties  
11 contemporaneously with our Case in Chief filing.

12 **Q11. Please explain IPL Financial Exhibit IPL-FS, Schedules FS1 through FS4.**

13 A11. See the following explanations:

14 Schedules FS1 and FS2 entitled Balance Sheets as of June 30, 2017 and June 30, 2016

15 These schedules present IPL’s Comparative Balance Sheets in accordance with the  
16 accounting requirements of the Federal Energy Regulatory Commission (“FERC”) as set  
17 forth in its applicable Uniform System of Accounts and published accounting releases.

18 This information is provided as of the end of the test period, which is June 30, 2017, and  
19 as of June 30, 2016. The schedules include assets held, liabilities owed or accrued and  
20 owner’s equity, and are prepared on the accrual basis of accounting. These schedules  
21 were prepared from the books of IPL.

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Schedule FS3 entitled Statements of Income

This schedule depicts IPL's actual per books, unadjusted operating results and financial performance for the 12 months ended June 30, 2017 and for the 12 months ended June 30, 2016. It is prepared on an accrual basis in accordance with the accounting requirements of FERC.

Schedule FS4 entitled Statement of Cash Flows

This schedule presents the net increase in cash and cash equivalents for the 12 months ended June 30, 2017, on a per books basis. In accordance with the accounting requirements of FERC, it is segregated into three categories: Operating Activities, Investing Activities and Financing Activities. It also states the amount of cash and cash equivalents at the end of the test period, June 30, 2017.

**Q12. Please explain IPL Financial Exhibit IPL-RB, Schedule RB1 entitled **Pro Forma Electric Rate Base at Original Cost and at Fair Value**.**

A12. This schedule reflects the calculation of IPL's total fair value rate base, which is used in the calculation of IPL's revenue requirement in this proceeding. The schedule first shows the calculation of net electric utility plant in service at original cost, which simply takes IPL's electric utility plant in service at original cost from IPL Financial Exhibit RB Schedule RB2 and reduces it by accumulated depreciation and amortization, also from IPL Financial Exhibit RB Schedule RB2.

IPL's net electric utility plant in service at original cost is then multiplied by the percentage of IPL's capitalization from IPL Financial Exhibit CC Schedule CC-3 that is not derived from common equity. This can be calculated as line 8 of column 2, less line 3 of column 2 on IPL Financial Exhibit CC Schedule CC-3. The product of IPL's net

1 electric utility plant in service at original cost multiplied by the portion of IPL's  
2 capitalization not from common equity makes up IPL's original cost contribution to fair  
3 value net electric plant which is shown on line 5 of IPL Financial Exhibit IPL-RB,  
4 Schedule RB1 and supported by IPL Witness McKenzie.

5 The schedule then shows the calculation of IPL's current cost contribution to fair value  
6 net electric plant, which is also supported by IPL Witness McKenzie. That calculation is  
7 the product of IPL's net electric utility plant in service at current value (as calculated by  
8 IPL Witness Bulkley on Petitioner's Exhibit AES-2) and the common equity percentage  
9 of IPL's capitalization as shown on line 3, column 2 of IPL Financial Exhibit CC  
10 Schedule CC-3. When IPL's original cost contribution to fair value net electric plant is  
11 added to the current cost contribution to fair value net electric plant, the result is IPL's  
12 total net electric plant in service at fair value, as shown on line 9 of IPL Financial Exhibit  
13 IPL-RB, Schedule RB1 and supported by IPL Witness McKenzie. To this amount, the  
14 schedule then adds the pro forma original cost rate base values of materials and supplies  
15 inventory, fuel stock inventory and regulatory assets, all of which were derived from IPL  
16 Financial Exhibit RB, Schedule RB2. The sum of these amounts, which is \$3,998.1  
17 million, is displayed on line 13 as IPL's total fair value rate base and carried forward to  
18 line 1 of IPL Financial Exhibit REVREQ, Schedule REVREQ1. IPL Witness McKenzie  
19 supports the rationale for this method of calculating fair value rate base.

20 **Q13. Please explain IPL Financial Exhibit IPL-RB, Schedule RB2 entitled Original Cost**  
21 **Electric Rate Base Per Books at June 30, 2017 and Pro Forma.**

22 A13. This schedule illustrates how IPL's pro forma rate base at original cost was derived.  
23 Beginning with the original cost rate base per books at June 30, 2017 (Line 1), the



1 schedule is a summary of the adjustments necessary to arrive at the appropriate amount  
2 for IPL's pro forma rate base (at original cost). Each of such adjustments is derived from  
3 other RB schedules. On the left side of the page, there is a description of each  
4 adjustment, with a reference to the appropriate RB schedule that contains the detail. For  
5 example, in column 3, one can see that \$6.1 million is added to the per books amount and  
6 the description on that row (Line 6) shows that the details of this adjustment can be found  
7 on IPL Financial Exhibit IPL-RB, Schedule RB8. The totals in line 10 of IPL Financial  
8 Exhibit IPL-RB, Schedule RB2 carry forward to IPL Financial Exhibit IPL-RB, Schedule  
9 RB1.

10 **Q14. Please explain IPL Financial Exhibit IPL-RB, Schedule RB8 entitled **Electric****  
11 **Materials and Supplies Inventory Per Books at June 30, 2017 and Pro Forma.**

12 A14. This schedule displays in column 1, the 13-month end of period per books balances of  
13 materials and supplies inventories consisting of general materials, parts, and tools and  
14 undistributed stores expense. Because the ending balance of June 30, 2016 represents the  
15 beginning balance on July 1, 2016, the average of these 13 periods represents the average  
16 balance for the test year. The per books amounts must be adjusted to reflect the fact the  
17 inventory balances in the test year for Eagle Valley Generating station are not  
18 representative of the total cost of materials and supplies that will be on hand when the  
19 combined cycle gas turbine ("CCGT") is in ongoing operation. Accordingly, column 2  
20 of the schedule removes the book balances for materials and supplies at Eagle Valley  
21 Generating Station and column 4 replaces those values with the estimated materials and  
22 supplies needed to support the CCGT. Similarly, the per books amounts must be adjusted  
23 to reflect the estimated level of materials and supplies inventory necessary for IPL's

1 National Pollutant Discharge Elimination System (“NPDES”), which was approved by  
2 the IURC on July 29, 2015, in Cause No 44540. In a manner similar to how the Eagle  
3 Valley equipment was adjusted to reflect the new CCGT, column 3 removes the per  
4 books materials and supplies inventory related to the NPDES equipment and column 5  
5 adds in the full amount the Company estimates is necessary when the project is fully  
6 operational. IPL Witness Bradley Scott supports the reasonableness of the estimated  
7 CCGT and NPDES inventory levels.

8 Column 6 is a total of columns 1-5. The average balance of column 6 is \$78.2 million,  
9 which the Company believes is representative of the average materials and supplies  
10 inventory balance IPL will have going forward. This amount represents an increase from  
11 the ending per books balance on June 30, 2017. The \$6.1 million increase shown on line  
12 18 is carried forward to IPL Financial Exhibit IPL-RB, Schedule RB2 to be included in  
13 IPL’s pro forma original cost rate base. If the \$6.1 million adjustment is not made, the  
14 pro forma electric materials and supplies inventory would not be representative of  
15 continuing operations expected during the period when rates requested in this Cause are  
16 to be in effect (including the CCGT and NPDES equipment in particular) and would not  
17 represent an appropriate basis upon which to establish new rates in this Cause.

18 **Q15. Please explain IPL Financial Exhibit IPL-RB, Schedule RB11 entitled **Miscellaneous**  
19 **Rate Base Adjustments.****

20 A15. This schedule contains miscellaneous adjustments that either adjust per books utility  
21 plant or accumulated depreciation to appropriately reflect known future events, or correct  
22 the book balances as of June 30, 2017.

1 **Q16. Please continue by describing each Miscellaneous Rate Base Adjustment more fully.**

2 A16. Lines 1 and 2 of this schedule update accumulated depreciation for deferred depreciation  
3 on RB9, lines 10 and 11 (column 2, less column 3) to prevent double collecting the return  
4 on the related asset balances. The items on lines 4 and 5 are corrections to the books and  
5 records that were discovered after the accounting books were closed for the test year.  
6 The corrections to the books was determined to be immaterial to the financial statements  
7 and therefore were corrected in the books after the test year.

8 The first correction (on line 4) relates to liquidated damages on an ash disposal contract  
9 that were erroneously recorded to completed construction not classified – Electric (FERC  
10 106) instead of to operating expenses. Because FERC account 106 is included in the  
11 utility plant in service on IPL Financial Exhibit IPL-RB, Schedule RB3, the \$55 thousand  
12 liquidated damages value would get included in rate base if it were not for this  
13 adjustment to remove it. While this expense did occur during the test year, we are not  
14 proposing an adjustment to add it to operating expenses, because we expect the cost to be  
15 nonrecurring.

16 The second correction (on line 5) relates to capital maintenance costs on IPL's MATS  
17 equipment that was physically in service during the test year, but had not been reflected  
18 as such in IPL's books and records until after the test year ended. The \$829 thousand  
19 adjustment is needed to properly include this in service plant item in original cost rate  
20 base.

21 These adjustments are carried forward to IPL Financial Exhibit IPL-RB, Schedule RB2  
22 on line 9 and represent a net decrease to IPL's pro forma net electric utility plant in  
23 service at original cost and pro forma original cost rate base of \$15.4 million. If the

1 \$15.4 million net decrease is not made, the pro forma net electric utility plant in service at  
2 original cost would be overstated and would not represent an appropriate basis upon  
3 which to establish new rates in this Cause.

4 **Q17. Could you briefly explain IPL Financial Exhibit IPL-OPER, Schedule OPINC**  
5 **entitled Statements of Electric Operating Income for the Twelve Months Ended**  
6 **June 30, 2017 Per Books and Jurisdictional Pro Forma at Present and Proposed**  
7 **Rates?**

8 A17. This schedule is a summary statement showing IPL's test year operating revenues,  
9 operating expenses (including operation and maintenance expenses, depreciation and  
10 amortization expenses, and taxes), and the resulting electric operating income per books  
11 and jurisdictional pro forma, based upon the electric rates now in effect and also upon the  
12 electric rates proposed by IPL for this Cause. This schedule does not include anticipated  
13 revenues from the following sources: (i) transmission plant assets recovered by IPL  
14 through MISO transmission cost sharing; (ii) the return or expense recovery IPL receives  
15 on projects related to National Ambient Air Quality Standards ("NAAQS") (excluding  
16 the Di Basic Acid ("DBA") system) permit requirements which will remain as part of  
17 IPL's environmental rate rider; or (iii) shared savings incentives IPL receives for  
18 successful implementation of demand side management programs. Such revenues are not  
19 based on IPL's pro forma rate base or pro forma operating expenses included in this  
20 Petition and therefore are not included in the revenue requirement IPL seeks through  
21 basic rates and charges in this proceeding. The return, expense recovery and expenses  
22 related to the NAAQS DBA system are included on this schedule because that project

1 was in service on June 30, 2017 and IPL proposes to move that project from the  
2 environmental rider into basic rates through this proceeding.

3 Column 2 of this schedule sets forth the actual per books electric operations of IPL for  
4 the test year ending June 30, 2017. Column 3 shows the adjustments at present rates that  
5 yield in column 4 the pro forma operating revenues, pro forma operating expenses, and  
6 pro forma operating income at present rates, on a normalized and annualized basis.  
7 Column 5 presents pro forma adjustments that would result from the change in IPL's  
8 proposed rates in this Cause and column 6 shows the resulting pro forma operating  
9 revenues, pro forma operating expenses, and pro forma operating income at proposed  
10 rates, on a normalized and annualized basis.

11 The actual per books electric operating income for the period was \$185.3 million. The  
12 pro jurisdictional forma electric operating income at present rates is shown to be \$160.0  
13 million. The jurisdictional pro forma level of operating revenues at rates proposed by  
14 IPL is \$1,492.1 million, resulting in pro forma jurisdictional electric net operating income  
15 at proposed rates of \$238.3 million.

16 **Q18. Please explain the general nature of the adjustments at present rates, as**  
17 **summarized in column 3 of IPL Financial Exhibit IPL-OPER, Schedule OPINC.**

18 A18. The adjustments made in column 3 are necessary in order to reflect, on a normalized and  
19 annualized basis, changes in operating conditions on IPL's electric system which are not  
20 fully reflected in the actual operating results, as shown in column 2. These adjustments  
21 reflect changes through the 12 months following the end of the test year which are  
22 representative of utility operations and which are fixed in time, known to be occurring,  
23 and measurable in amount. Consequently, it is necessary to give effect to these

1 adjustments in order to properly determine the pro forma electric operating revenues,  
2 operating expenses, and operating income at present rates, as shown in column 4, before  
3 proceeding to reflect the additional adjustments needed to determine these amounts at  
4 proposed rates.

5 **Q19. Please explain the general nature of the adjustments at proposed rates, as**  
6 **summarized in column 5 of IPL Financial Exhibit IPL-OPER, Schedule OPINC.**

7 A19. These adjustments are necessary to reflect the additional operating revenues produced by  
8 proposed rates, as sponsored by IPL Witness Gaske, and the related additional operating  
9 expenses and taxes resulting from such additional revenues. When these amounts are  
10 added to the pro forma adjusted revenues, operating expenses and income taxes at present  
11 rates (column 4), the result is pro forma revenues, operating expenses and income taxes at  
12 proposed rates (column 6).

13 **Q20. In your opinion, does IPL Financial Exhibit IPL-OPER, Schedule OPINC fairly**  
14 **present the estimated operating results of IPL's electric business on an annualized**  
15 **and normalized basis under the existing rates, as now in effect for IPL's electric**  
16 **service and at proposed rates?**

17 A20. Yes. The 12-month period ending June 30, 2017 is a recent full year of actual operating  
18 experience in IPL's books and records, which has been reviewed by IPL's independent  
19 certified public accountants, Ernst & Young. After considering the effects of the pro  
20 forma adjustments, this test period is representative of a typical year, from a financial  
21 standpoint, as a basis for setting future rates. Therefore, the annual results as of that date,  
22 as adjusted in IPL Financial Exhibit IPL-OPER, Schedule OPINC, provide a sound basis  
23 for fixing new rates.

1 **Q21. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV1 – Summary of**  
2 **Electric Operating Revenue for the Twelve Months Ended June 30, 2017, Total**  
3 **Electric Per Books and Pro Forma Total Electric at Present and Proposed Rates.**

4 A21. This schedule summarizes the per books, test year amounts of revenues and the pro forma  
5 adjustments required to arrive at revenues at both present and proposed rates. The details  
6 supporting the pro forma adjustments at present and proposed rates are included on the  
7 schedules that follow. These adjustments to the test year per books results are necessary  
8 to give effect on a pro forma annual basis to increases and decreases in revenues that are  
9 fixed in time, known to be occurring and measurable in amount.

10 The total electric operating revenue increase shown on line 13 of column 4 agrees with  
11 the increase calculated on IPL Financial Exhibit REVREQ – Schedule REVREQ1, Line  
12 7. The distribution of that increase to the various customer classes is supported by IPL  
13 Witness Gaske. The net amount of these adjustments is shown on line 1 in columns 3  
14 and 5 of Petitioner’s Exhibit IPL-OPER, Schedule OPINC.

15 **Q22. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV2 – Summary of**  
16 **Electric Operating Revenue Adjustments, Taking Per Books to Pro Forma at**  
17 **Present Rates.**

18 A22. This schedule first includes a reclassification to the per books amounts to eliminate the  
19 impacts of a correction we recorded in July 2016 that relates to revenues earned from  
20 April through June of 2016. This correction only impacted the revenue categories  
21 illustrated on IPL Financial Exhibit IPL-OPER, Schedule REV2 and by the amounts  
22 displayed in column 1. Since the correction relates to a prior period, it is being reversed  
23 on this schedule, to adjust the per books amounts to exclude activity outside of the test

1 year. IPL Financial Exhibit IPL-OPER, Schedule REV2 also summarizes the pro forma  
2 adjustments to test year results required to arrive at revenues at pro forma total electric  
3 operating revenues at present rates. The details supporting each pro forma adjustment are  
4 included on the schedules named at the top of each column 2-8 of this schedule. These  
5 adjustments to the test year per books results are necessary to give effect on a pro forma  
6 annual basis to increases and decreases in revenues that are fixed in time, known to be  
7 occurring and measurable in amount. Column 9 is a total of these adjustments, including  
8 the aforementioned reclassification in column 1. The amounts shown in column 9 also  
9 appear on IPL Financial Exhibit IPL-OPER, Schedule REV1 (column 2).

10 **Q23. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV4 – Summary of**  
11 **Electric Retail Basic Rate Revenue Adjustments, for Weatherization, Customer**  
12 **Annualization, DSM Installation Annualization and Unbilled Revenues for the**  
13 **Twelve Months Ended June 30, 2017.**

14 A23. IPL Financial Exhibit IPL-OPER, Schedule REV4 begins with the per books basic rate  
15 revenues for the test year ended June 30, 2017 and then normalizes and annualizes  
16 activity within the test year to adjust to a full year of billed revenues for the customers  
17 and demand side management (“DSM”) initiatives existing at June 30, 2017.  
18 Adjustments are made to normalize weather, annualize revenues to the current customer  
19 base, annualize the impact on demand for DSM initiatives implemented during the test  
20 year, and eliminate unbilled revenues. I sponsor the schedule and the adjustment to  
21 remove unbilled revenues. The other adjustments on this schedule are sponsored by IPL  
22 Witness Chambers.



1 **Q24. Please explain the adjustment to eliminate unbilled revenues.**

2 A24. The analysis IPL performs to calculate normalized revenues provides a full year level of  
3 revenues. Unbilled revenues are recorded in the books in accordance with generally  
4 accepted accounting principles to recognize the fact that energy has been sold at the end  
5 of each accounting period that has not yet been billed. Unbilled revenues are not an exact  
6 amount due to estimates of both price and quantity that are used in the calculations. Such  
7 adjustment is not needed in the pro forma test year, because the normalized revenues  
8 include a full year of sales, and therefore it has been removed.

9 **Q25. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV7 – Summary of**  
10 **Electric Rent Revenue, Per Books and Pro Forma Total Electric at Present Rates**  
11 **for the Twelve Months Ended June 30, 2017.**

12 A25. IPL Financial Exhibit IPL-OPER, Schedule REV7 adjusts rental revenues in the test year  
13 for fixed, known and measurable items. The first adjustment, which is on line 2, adjusts  
14 pole contact rental revenue to the amount of the annual billings for 2016, which is the  
15 most recent period for which billing information is available. That amount is the best  
16 available estimate for future pole contact rental revenues. The next adjustment (on line 3)  
17 increases test year revenues for lease income related to two contracts executed by IPL in  
18 the first six months of 2016 for leasing out portions of its headquarters building at One  
19 Monument Circle in Indianapolis. All lease income for these contracts recorded during in  
20 the test year was recorded in FERC account 418, which is not part of operating income,  
21 and therefore the entire amount of the annual contractual payments of \$659 thousand has  
22 been added to pro forma total electric revenues at present rates. This adjustment reduces  
23 the revenue requirement IPL is seeking in this proceeding by increasing IPL's electric

1 operating income pro forma at present rates shown on IPL Financial Exhibit REVREQ,  
2 Schedule REVREQ1.

3 **PRO FORMA ADJUSTMENTS AT PRESENT RATES AND**  
4 **AT PROPOSED RATES TO OPERATIONS AND**  
5 **MAINTENANCE EXPENSES**

6 **Q26. Turning to IPL Financial Exhibit IPL-OPER, Schedule OM1, which summarizes**  
7 **the pro forma operation and maintenance expense adjustments, could you briefly**  
8 **explain this schedule?**

9 A26. This schedule lists the various adjustments to test year operation and maintenance  
10 expenses necessary to arrive at pro forma jurisdictional operation and maintenance  
11 expenses at present rates and pro forma jurisdictional operation and maintenance  
12 expenses at proposed rates. These adjustments to the test year per books results are  
13 necessary to give effect on a pro forma annual basis to increases and decreases in  
14 operation and maintenance expenses that are fixed in time, known to be occurring and  
15 measurable in amount. The net amount of these adjustments is shown on Line 2 in  
16 columns 3 and 5 of IPL Financial Exhibit IPL-OPER, Schedule OPINC. Details of the  
17 operation and maintenance expense adjustments are reflected on adjustment IPL  
18 Financial Exhibit IPL-OPER, Schedules OM2 through OM27, inclusive, and each  
19 adjustment is further addressed by the corresponding witness in the Index of Financial  
20 Exhibits.

21 The net pro forma adjustment at proposed rates, shown on IPL Financial Exhibit IPL-  
22 OPER, Schedule OPINC, Line 2, column 5, involves only the pro forma uncollectible  
23 accounts expense and the pro forma public utility fee expense. Each of these items was  
24 adjusted using current rates multiplied by the pro forma level of applicable revenues.

1 If the respective adjustments are not made, the pro forma net utility operating income at  
2 present rates and jurisdictional net operating income at proposed rates would not be  
3 representative of continuing operations expected during the period when rates requested  
4 in this Cause are to be in effect and would not represent an appropriate basis upon which  
5 to establish new rates in this Cause. The following questions and answers focus on the  
6 operation and maintenance expense pro forma adjustments which are sponsored by me.

7 **Q27. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM5 which is an**  
8 **adjustment to include IURC Approved Environmental Compliance Projects for the**  
9 **Twelve Months Ended June 30, 2017.**

10 A27. IPL Witness Scott explained that IPL Financial Exhibit IPL-OPER, Schedule OM5  
11 adjusts test year operating results to reflect the expected ongoing level of expenses  
12 (excluding labor and benefits) associated with operating and maintaining certain  
13 equipment approved by the IURC for IPL's compliance with certain environmental  
14 regulations and IPL Witness Cutshaw explained that IPL is proposing to roll each of  
15 these completed projects out of the ECCRA rider and into basic rates and charges through  
16 this proceeding. As I stated previously, for this schedule, the pro forma level of non-  
17 labor operating and maintenance costs shown on row 1 are sponsored by IPL Witness  
18 Scott, and I sponsor the per books amounts in rows 2 through 5.

19 **Q28. Please explain how you derived at the “per books” amounts for the three**  
20 **environmental compliance projects illustrated on IPL Financial Exhibit IPL-OPER,**  
21 **Schedule OM5.**

22 A28. Each of these projects has been assigned unique identifiers in IPL's accounting system  
23 for purposes of tracking costs. When the projects incur expenses, the expenses (including

1 both invoiced amounts and accounting accruals) are coded to such unique identifiers. In  
2 order to ascertain the expenses charged during the test year to these projects, I ran a  
3 report from our accounting system limiting the output to the identifiers associated with  
4 these environmental projects. This same process is used for tracking the costs for these  
5 projects in preparing IPL's semi-annual ECRRA filings and each month for purposes of  
6 recording regulatory deferral entries. Because such projects were included in the  
7 ECCRA proceedings, portions of the O&M expenses in the test year were deferred as  
8 regulatory assets to coincide with recovery through the rider. To determine the amount  
9 of the regulatory deferrals related to these projects, I reviewed each of the deferral journal  
10 entries posted during the test year for these projects and summarized the results on a  
11 spreadsheet which I have included as IPL Financial Exhibit IPL-OPER, Schedule OM5  
12 Workpaper 5. When these projects are included in basic rates and charges, such  
13 regulatory deferrals will no longer be necessary. Accordingly, the impact and purpose of  
14 IPL Financial Exhibit IPL-OPER, Schedule OM5 is to adjust the operating expense level  
15 for these projects to the expected ongoing level as supported by IPL Witness Scott.

16 **Q29. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM11 which is an**  
17 **adjustment to write-offs expense for obsolete or damaged inventory.**

18 A29. IPL Financial Exhibit IPL-OPER, Schedule OM11 adjusts test year operating expenses to  
19 reduce the impact of materials and supplies inventory obsolescence write-off's during the  
20 test year. The schedule includes inventory obsolescence expenses incurred for each of  
21 the three years ended June 30, 2017 and calculates an average expense for that three year  
22 period. The per books amount in the test year is then adjusted down by \$668 thousand to  
23 equal the average expense for the three-year period.

1 **Q30. Why is the IPL Financial Exhibit IPL-OPER, Schedule OM11 adjustment**  
2 **necessary?**

3 A30. The level of expense incurred during the test year was unusually high due to the write off  
4 of a regulatory asset during the test year. Such regulatory asset represented the per books  
5 value of coal handling materials and supplies for Harding Street Unit 7 that were unused  
6 and deemed obsolete when IPL retrofitted that unit to utilize 100% natural gas as its  
7 primary fuel source. During the test year of this proceeding, on October 26, 2016, the  
8 IURC issued an Order in IPL's semi-annual Environmental Compliance Cost Recovery  
9 Adjustment (Cause No. 42170-ECR-27) proceeding denying IPL recovery of such  
10 regulatory asset through the ECR proceedings. IPL Witnesses Cutshaw and Scott  
11 testified in the ECR-27 proceeding that all of such costs were prudently incurred and  
12 necessary for the continued availability of such units in IPL's efforts to provide  
13 electricity to its retail customers at the lowest cost reasonably possible. The IURC,  
14 however, explained in its Order dated October 26, 2016, on page 7, that "IPL already  
15 recovers the cost of the average net inventory through the materials and supplies expense  
16 embedded in its rates" and "IPL's proposal seeks to address only one aspect of the  
17 existing ratemaking treatment, namely the return of." The IURC concluded, "Therefore,  
18 because IPL's proposal does not provide reasonable symmetry in how it addresses the  
19 traditional base rate cost recovery of the items, we decline to authorize IPL's proposal to  
20 earn a return of the \$3.17 million in net inventory costs." The IURC noted, however, (in  
21 footnote 3 to page 7) that they "are aware that IPL is considering filing another base rate  
22 case proceeding in the near future" and "In the event that these expenses fall within the  
23 test year, IPL may again have the opportunity to address the appropriate ratemaking

1 treatment of the net inventory costs.” Accordingly, I will now address what I believe to  
2 be the appropriate ratemaking treatment of the net inventory costs, which expense fell  
3 within the test year of this proceeding.

4 Including such costs at the level incurred during the test year would overstate the  
5 Company’s recurring expenses and would not be not representative of future operating  
6 costs during the period when the requested rates are expected to be in effect. As such, I  
7 am proposing to normalize the expense by adjusting total materials and supplies  
8 inventory obsolescence expense to the average expense incurred for the three year period  
9 ended June 30, 2017. Such time period is consistent with the period of time IPL witness  
10 Rogers proposes to normalize write-offs of preliminary survey and investigation charges  
11 as described in his testimony, as well as the time period I am proposing to normalize  
12 injuries and damages expense as described below. Regarding the “return on” component,  
13 because the Harding Street 7 coal handling materials and supplies inventory was removed  
14 from IPL’s inventory balances prior to the start of the test year in this proceeding, it is not  
15 included in the pro forma materials and supplies inventory balance IPL proposes to be  
16 included in rate base in this proceeding on IPL Financial Exhibit IPL-RB, Schedule RB8.  
17 Accordingly, the rates IPL proposes in this proceeding do not include receiving a return  
18 on the inventory investment, which should allay the concerns identified by the IURC in  
19 the ECR 27 Order.

20 **Q31. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM19, which is an**  
21 **adjustment for Injuries and Damages Expense.**

22 A31. I am proposing through IPL Financial Exhibit IPL-OPER, Schedule OM19 to normalize  
23 IPL’s expenses for injuries and damages by adjusting to a three-year average. Costs for

1 injuries and damages can be volatile, because they include sporadic injury or damage  
2 claims that can cause a \$1 million expense from a single event, which is the level of  
3 IPL's insurance deductible. In addition, since injury claims can take multiple years to  
4 settle, and the amount of the loss is often difficult to estimate, this expense is subject to  
5 out-of-period adjustments for changes in estimates of prior period claims. The level of  
6 expense in the test year was unusually low and included a \$500,000 reduction stemming  
7 from a new estimated loss level from a claim originating in 2015. In conclusion, the pro  
8 forma adjustment I am proposing is an increase of \$1.2 million to adjust the expense level  
9 to the average of the three years ended June 30, 2017. If the \$1.2 million adjustment is  
10 not made, the pro forma injuries and damage claims expenses would not be representative  
11 of continuing operations and would not represent an appropriate basis upon which to  
12 establish new rates in this Cause.

13 **Q32. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM20, regarding the**  
14 **proposed amortization of the expenses associated with this and IPL's previous basic**  
15 **rate proceeding.**

16 A32. This adjustment is required to reflect amortization of the estimated expenses associated  
17 with this proceeding, as well as the remaining unamortized amount of expenses IPL was  
18 authorized to recovery in Cause No. 44576. For ease of administrative burden, IPL is  
19 proposing a three-year amortization period for all rate case expenses, even though that  
20 means expenses from Cause No. 44576 will take longer for IPL to recover. The schedule  
21 shows our expected legal and consulting costs (Lines 1 through 14) and then adds to that,  
22 the remaining unamortized balance of expenses from Cause No. 44576. In Cause No.  
23 44576, the majority of those costs were authorized to be recovered over a two-year

1 period, which began April 1, 2016, while the depreciation and demolition study costs  
2 were authorized for a five-year recovery also beginning on April 1, 2016. The rate case  
3 costs from Cause No. 44576 that were amortized over a two-year period are assumed to  
4 be fully collected by the time new rates go into effect related to this Petition and are  
5 therefore not included in the pro forma level of amortization on IPL Financial Exhibit  
6 IPL-OPER, Schedule OM20. The result of this calculation is a decrease in the level of  
7 amortization of rate case expenses of \$145 thousand. The \$145 thousand pro forma  
8 expense decrease is included in the summary of electric operation and maintenance  
9 expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule OM1, Line 20,  
10 column 2.

11 **Q33. How did you determine how much costs would be unrecovered from the Cause No.**  
12 **44576?**

13 A33. Those costs were recorded as a regulatory asset, which IPL began amortizing to expense  
14 beginning April 1, 2016. In this schedule, we have included the unamortized balance that  
15 will remain at October 31, 2017. We used that date, because it corresponds to when I  
16 would expect IPL to be authorized to implement new base rates under the provisions of  
17 Ind. Code § 8-1-2-42.7. For simplicity, we assumed rates would be implemented  
18 November 1, 2017, which is a little more than 300 days after our filing date.

19 **Q34. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM21, which is an**  
20 **adjustment for miscellaneous, out-of-period, and other expenses.**

21 A34. This adjustment includes the results of a detailed review of the operation and  
22 maintenance expense accounts activity for the test year. This review was conducted for  
23 the purpose of identifying any items recorded in the test year that were: (i) out-of-period



1 expenses, (ii) items miscoded to IPL's operating expenses, (iii) expenses for which IPL is  
2 contracted at an ongoing rate that is different than the level included in the test year, and  
3 (iv) items that may be viewed as being excessive or not reasonably necessary to provide  
4 reliable electric service to our customers. Examples of items excluded are: certain meals  
5 and entertainment expenses, sponsorships, out of period adjustments, sports outings and  
6 the amortization of certain electric vehicle costs that IPL was authorized to recover in its  
7 current rates in the IURC's Order in Cause No. 44576 which I expect will be fully  
8 amortized before the rates IPL seeks in this Petition take effect.

9 Column 1 of this schedule includes the net amount of such adjustments by functional  
10 category. Column 2 is the subtotal for each category.

11 If this net adjustment is not made, the pro forma electric operation and maintenance  
12 expense included in the determination of IPL's electric operating income at present and at  
13 proposed rates would be overstated and not representative of future operating costs  
14 during the period when the requested rates are expected to be in effect.

15 The \$946 thousand pro forma expense net decrease is included in the summary of electric  
16 operation and maintenance expense adjustments on IPL Financial Exhibit IPL-OPER,  
17 Schedule OM1, Line 21, column 2.

18 **Q35. Does that conclude your verified pre-filed direct testimony?**

19 A35. Yes.

**VERIFICATION**

I, Craig A. Forestal, Director of Regulatory Accounting for AES U.S. Services, LLC, affirm under penalties of 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: December 20, 2017