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INDIANA UTILITY  
REGULATORY COMMISSION

OFFICIAL  
EXHIBITS

CAUSE NO. 45029

IURC  
PETITIONER'S  
EXHIBIT NO. 10  
8-9-18 AT  
DATE REPORTER

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

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

2   A1.   My name is Craig Forestal. I am employed by AES US Services, LLC (“the 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.   Are you the same Craig Forestal who provided direct testimony in this Cause?**

10   A2.   Yes I am.

11   **Q3.   What is the purpose of your supplemental testimony in this proceeding?**

12   A3.   IPL filed its case-in-chief in this Cause on December 21, 2017 using the then statutory  
13       United States federal income tax rate of 35% for purposes of calculating a revenue  
14       requirement. On December 22, 2017, United States President Donald Trump signed into  
15       law the Tax Cuts and Jobs Act of 2017 (the “TCJA”), which, among other things,  
16       contains provisions reducing the federal corporate income tax rate from 35% to 21%,  
17       beginning January 1, 2018 and eliminating a deduction for domestic manufacturing  
18       production commonly known as the IRC Section 199 deduction. Now that this event has  
19       occurred, it meets the threshold of being a change within the 12 months following the end

1 of the test year which is fixed in time, known to be occurring, and measurable in amount.  
2 Accordingly, IPL is updating its case-in-chief to reflect all of the known impacts of the  
3 TCJA. My supplemental testimony supports revised Financial Exhibits and a revised  
4 revenue requirement. My testimony also explains the process we followed to update the  
5 case-in-chief and I will give a summary of the major impacts of the TCJA.

6 **Q4. Have the Company's Financial Exhibits, supporting workpapers or MSFRs (see**  
7 **next page) been updated for any events other than the TCJA?**

8 A4. No.

9 **Q5. Please explain the process IPL followed to update its original filing in this Cause.**

10 A5. In general, a goal of this filing is to rely as much as possible on the original case-in-chief  
11 filing and update only the items that are impacted by the TCJA. The one exception to  
12 that is, we are providing a complete new set of Financial Exhibits for ease of utilizing  
13 those schedules. There are no additional Financial Exhibits and none were removed.  
14 Each Financial Exhibit that changed in any way is denoted by the same name as in our  
15 original case-in-chief, except that we have added "-T" at the end of the name, which  
16 indicates they are updated for the impacts of the TCJA. For example, IPL Financial  
17 Exhibit IPL-REVREQ, Schedule REVREQ2 is now called IPL Financial Exhibit IPL-  
18 REVREQ, Schedule REVREQ2-T.

19 In addition, many of the Financial Exhibits refer to other Financial Exhibits. For  
20 example, on IPL Financial Exhibit IPL-OPER, Schedule REV3, Line 13 has a  
21 parenthetical reference to IPL Financial Exhibit IPL-OPER, Schedule OPINC. We chose  
22 not to update such references to add a "-T". In all cases, when a Financial Exhibit is

1 referenced, the reference is to such Financial Exhibit in the new set of Financial Exhibits  
2 we are filing with this update. We did this to simplify the filing so that one can identify  
3 which Schedules actually changed by looking for the “-T” in the name.

4 **Q6. Did IPL update the information required by the Minimum Standard Filing**  
5 **Requirements (“MSFRs”)?**

6 A6. Yes. Because relatively few of the schedules required by the MSFR were impacted, we  
7 have revised only those that required changes. Certain MSFR schedules are satisfied in  
8 whole or in part by information contained in the Financial Exhibits. In those  
9 circumstances, in our original case-in-chief we noted on the MSFR schedules which  
10 Financial Exhibit contained the required information. In all of such cases, one should  
11 refer to the updated Financial Exhibits to obtain the information required by the MSFRs.  
12 To avoid confusion, we have only included in this supplemental filing the one MSFR  
13 document that actually changed, which is 1-5-13 (a) (7), pages 1 and 3. If the MSFR  
14 information changed only because the Financial Exhibit we have referenced has been  
15 updated, we are not including an updated MSFR, but simply guide you to always use the  
16 updated Financial Exhibits to seek the required information.

17 **Q7. Was it necessary for all the IPL witnesses to revise their direct testimonies?**

18 A7. No, this was not necessary. The goal is to rely as much as possible on the original case-  
19 in-chief filing and update only the items that are impacted by the TCJA. Many of the  
20 witnesses’ testimonies are unaffected and therefore no supplements or revisions to those  
21 testimonies are required. To the extent any witnesses refer to Financial Exhibits in their  
22 testimonies, these references are to the updated Financial Exhibit package we are filing  
23 with this supplement. We are not submitting updates to each testimony to make that

1 point; rather I am making that point here for each witness. Some of the witness  
2 testimonies are minimally impacted and for those witnesses, revised testimonies are being  
3 filed to update for changes related to the TCJA.

4 My testimony is the exception as I am filing this supplemental testimony to both give the  
5 overall explanation of the update to our case-in-chief and update the portions of my direct  
6 testimony that were impacted.

7 **Q8. Was it necessary for all of the IPL witnesses to revise their workpapers?**

8 A8. No, this too was not necessary. We are not updating workpapers unless there are new  
9 supporting pages to offer into evidence. The vast majority of the supporting workpapers  
10 did not change. For workpapers where the support has changed, the updated supporting  
11 pages are being filed as revised workpapers. The income tax workpapers changed  
12 significantly enough that we are filing a complete revised set.

13 Additionally, each set of workpapers starts with a clean copy of the Financial Exhibit  
14 being supported and is followed by another copy, which has “tickmark” references to the  
15 support. In some cases, the Financial Exhibit being supported has been updated, but none  
16 of the support pages changed. In another case, the only support page that changed is  
17 where IPL Financial Exhibit IPL-CC, Schedule CC2 was included as a supporting  
18 workpaper for IPL Financial Exhibit IPL-CC, Schedule CC3. In each of those cases, no  
19 updates are being filed, because we have filed a complete new set of Financial Exhibits,  
20 which should be used in all aspects of this case-in-chief where a Financial Exhibit has  
21 been referenced.

1   **Q9.   What are the primary ways that the TCJA impacted IPL's case-in-chief?**

2   A9.   IPL Witness Frank Salatto will give more details on the income tax calculation changes,  
3       but I will give a high-level summary. There were seven primary impacts as follows:

4           1.     Current tax expenses for both pro forma at present rates and pro forma at  
5                 proposed rates have been adjusted from 35% to 21%, significantly reducing  
6                 current tax expense. Current taxes at proposed rates were updated by  
7                 changing IPL's revenue conversion factor as shown on IPL Financial Exhibit  
8                 IPL-REVREQ, Schedule REVREQ2-T by reducing the federal tax rate to  
9                 21%. This change, along with the elimination of the IRC Section 199  
10                deduction described below, decreased the overall revenue conversion factor  
11                from 0.628816 to 0.728928. Each of these changes reduced the revenue  
12                requirement calculated in this Cause.

13          2.     As described by IPL Witness Salatto, the TCJA eliminated the IRC Section  
14                 199 deduction, which increases IPL's taxable income and current income  
15                 taxes at both present and proposed rates.

16          3.     IPL re-measured its temporary income tax differences. These differences  
17                 create accumulated deferred income taxes at December 31, 2017 to account  
18                 for the fact that the differences would turn around at the reduced rate of 21%.  
19                 These changes will be amortized into expense over time. Therefore, IPL has  
20                 reduced pro forma income tax expenses to include a full twelve months of  
21                 amortization, which is another reduction to income tax expense and further  
22                 reduces the revenue requirement calculated in this Cause.

1           4.     The amortization described in item 3 above began on January 1, 2018, which  
2                 reduces the deferred income tax component of IPL's capital structure as  
3                 included in IPL's weighted average cost of capital. As such, IPL has made  
4                 updates to the deferred income taxes included on IPL Financial Exhibit IPL-  
5                 CC, Schedule CC3 to reflect the amortization of those excess deferred taxes  
6                 that we expect to incur from January 1, 2018 through June 30, 2018. This  
7                 change increases IPL's overall weighted average cost of capital.

8           5.     IPL has outstanding two tranches of tax-exempt, variable-rate debt totaling  
9                 \$90 million. Such debt was included in IPL's original case-in-chief weighted  
10                average cost of capital calculation and can be seen on IPL Financial Exhibit  
11                IPL-CC, Schedule CC2 on lines 13 and 14. Provisions in the agreements for  
12                the tax-exempt debt provide for the debt holders to be made whole by the  
13                borrower (IPL) in the event of a change in federal income tax rates for  
14                corporations. On January 4, 2018, the holders of the tax-exempt debt  
15                notified IPL as follows, "As a result of the tax rate change, the taxable  
16                effective yield to the banks on the Environmental Facilities Refunding  
17                Revenue Notes, Series 2015A and the Environmental Facilities Refunding  
18                Revenue Notes, Series 2015B (the Notes) has decreased. Accordingly,  
19                pursuant to Section 2.9(a)(iii) of the Note Purchase and Covenants  
20                Agreement dated December 22, 2015, the interest payable on the Notes shall  
21                be increased to compensate for such change in the taxable effective yield on  
22                the indebtedness." Accordingly, we have adjusted the effective interest rates  
23                on IPL Financial Exhibit IPL-CC, Schedule CC2-T for these tax-exempt

1 issues to 2.373%, which increases IPL's return rate on long-term debt and  
2 overall weighted average cost of capital.

3 6. In IPL's original case-in-chief filing, on IPL Financial Exhibit IPL-OPER,  
4 Schedule REV5, IPL included adjustments to include the expected level of  
5 rider revenues into pro forma revenues at current rates. One of such  
6 adjustments, which is shown on Page 1 in column 3 of such Schedule, is to  
7 include recovery of environmental projects that are currently in IPL's ECR  
8 Rider. The calculation of such revenues includes a return on rate base for  
9 those ECR projects, which includes a revenue conversion factor to gross up  
10 the return for the level of income taxes IPL will incur. We have adjusted  
11 such revenue conversion factor to include a federal income tax rate of 21%.  
12 This change reduced the pro forma level of revenues.

13 7. Each of the changes described in 1 through 5 above had an impact on the  
14 revenue requirement proposed in this Cause as shown on IPL Financial  
15 Exhibit IPL-OPER, Schedule OPINC-T, line 1, column 6. This amount is  
16 used in the calculations of the following expenses for pro forma at proposed  
17 rates: uncollectible accounts expense, public utility fee and Indiana utility  
18 receipts taxes. Each of these expenses have been reduced proportionate to  
19 the reduction in pro forma revenues at proposed rates.

20 **Q10. Specifically, what impact did the TCJA have on IPL's weighted average cost of**  
21 **capital reflected on IPL Financial Exhibit IPL-CC, Schedule CC3-T?**



1 A10. The weighted average cost of long-term debt increased from 4.97% to 5.03% as a result  
2 of the increase in the variable-rate, tax-exempt debt I described previously. That change,  
3 coupled with the decrease in deferred income taxes I described previously, increased the  
4 total weighted average cost of capital rate from 6.77% to 6.82%. Such rate is utilized on  
5 IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ1 to calculate the original cost  
6 allowable electric operating income before fair value on line 11.

7 **Q11. Did any of the schedules that you sponsor in the original case-in-chief filing change?**

8 A11. Some of the schedules I sponsor changed, but only to the extent that those schedules  
9 pulled numbers from other schedules that were directly modified. For example, I sponsor  
10 IPL Financial Exhibit IPL-OPER, Schedule OM1, which summarizes the pro forma  
11 adjustments contained in schedules OM2 through OM27. The only changes to OM1  
12 were the updates to uncollectible accounts expense and public utility fee at proposed  
13 rates, which numbers were updated to reflect the changes made on IPL Financial Exhibit  
14 IPL-OPER, Schedule OM26 and IPL Financial Exhibit IPL-OPER, Schedule OM27.  
15 Those updates are described by the witness that sponsors those schedules. This same  
16 type of change occurred on IPL Financial Exhibit IPL-OPER, Schedule OPINC and IPL  
17 Financial Exhibit IPL-OPER, Schedule REV1. All of such changes were the result of  
18 changes to other exhibits, which were driven by the TCJA impacts I described previously  
19 in my answer to question nine.

20 **Q12. Did any of the workpapers that you sponsor in the original case-in-chief filing**  
21 **change?**

22 A12. No.

1   **Q13. Are there any changes to your prefiled direct testimony as a result of the TCJA?**

2   A13. Yes. There are three numbers listed in my direct testimony that have changed, which are  
3       all in my answer to question 17, on page 12 of my prefiled direct testimony in which I  
4       described IPL Financial Exhibit IPL-OPER, Schedule OPINC. Here are the updates to  
5       those amounts:

- 6       • The jurisdictional pro forma electric operating income at present rates has been  
7       increased from \$160.0 million to \$169.1 million;
- 8       • The jurisdictional pro forma level of operating revenues at rates proposed by IPL has  
9       been reduced from \$1,492.1 million to \$1,456.0 million; and
- 10      • The resulting pro forma jurisdictional electric net operating income at proposed rates  
11      has changed from \$238.3 million to \$239.6 million.

12   **Q14. What is the overall result of incorporating the impacts of the TCJA into the revenue**  
13    **requirement?**

14   A14. After incorporating the impacts of the TCJA, the annual revenue increase requested by  
15    IPL has dropped from \$124.5 million to \$96.7 million for a decrease of \$27.8 million.

16   **Q15. Does that conclude your prefiled supplemental testimony?**

17   A15. 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.



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Craig A. Forestal

Dated: February 15, 2018