OFFICIAL
EXHIBITS

IURC
PETITIONER'S
EXHIBIT NO. 13-R
9-23-15 AT
DATE REPORTER

VERIFIED REBUTTAL TESTIMONY

OF

STEPHEN A. ALLAMANNO

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

IURC CAUSE NOS. 44576 / 44602

<u>INCLUDING IPL WITNESS SAA ATTACHMENT 1-R</u>

**VERIFIED REBUTTAL TESTIMONY OF STEPHEN A. ALLAMANNO
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

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

A1. My name is Stephen A. Allamanno. I am employed by AES U.S. Services, LLC, the service company of Indianapolis Power & Light Company ("IPL" or "Company"). My business address is One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with AES US Services, LLC?

A2. I am the Tax Director for the US Strategic Business Unit ("SBU").

Q3. Are you the same Stephen A. Allamanno who previously submitted direct testimony in this Cause?

A3. Yes.

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

A4. The purpose of my rebuttal testimony is to respond to issues raised in Office of Utility Consumer Counselor ("OUCC") Witness Morgan's, Witness Kaufman's, and Witness Stull's testimony relating to: 1) the correct state income tax rate to use for ratemaking purposes in this proceeding, 2) the appropriate treatment of customer deposits in the interest synchronization calculation, 3) the impact of leverage at the parent company level on the ratemaking process, and 4) the deferred tax considerations associated with the treatment of the Company's prepaid pension asset.

Q5. Are you sponsoring any attachments in support of your testimony?

A5. Yes. I am sponsoring IPL Witness SAA Attachment 1-R, which includes a copy of the portion of the Indiana Form IT-20 ("Indiana Corporate Adjusted Gross Income Tax Return") instructions addressing how a calendar-year taxpayer, like IPL, should calculate the Indiana State Income Tax Rate applicable to it for the tax year ended December 31, 2015. This attachment also includes a schedule calculating the applicable state income tax rate for IPL's 2015 tax year, pursuant to the Indiana Form IT-20 instructions.

Q6. Was the attachment prepared or assembled by you or under your direction or supervision?

A6. Yes.

Q7. On page 16 of OUCC Witness Morgan's testimony, he notes the use of an Indiana state income tax rate of 6.50% to calculate state income tax expense for the tax year. In the Company's originally-filed testimony and related exhibits, an Indiana state income tax rate of 6.75% is used. What is the correct Indiana state income tax rate to apply in calculating state income tax expense for ratemaking purposes in this proceeding?

A7. The correct Indiana state income tax rate to be used for ratemaking in this proceeding is 6.75%. The 6.50% rate reflected in Witness Morgan's calculations represents the Indiana Corporate Income Tax Rate in effect for fiscal year 2016, which begins on July 1, 2015 and ends on June 30, 2016. IPL files its Indiana Corporate Income Tax Returns based on a calendar, not a fiscal, year. Based on the instructions provided by the Indiana Department of Revenue accompanying Indiana Form IT-20 ("Indiana Corporate Adjusted Gross Income Tax Return"; see IPL Witness SAA Attachment 1-R), the Indiana state income tax rate applicable to IPL's calendar year 2015 results is 6.75%.

Q8. In Schedule LKM-18 accompanying OUCC Witness Morgan's testimony, customer deposits are included in the computation of the weighted cost of debt used for purposes of calculating synchronized interest expense. This differs from the Company's originally-filed calculation, which does not include customer deposits. Should customer deposits be included or excluded from the weighted cost of debt calculation in this proceeding?

A8. Customer deposits should be excluded from the weighted cost of debt calculation, as interest on customer deposits is not included in utility operating income. We followed the approach in Indiana Michigan Power Co., Cause No. 39314, p. 164 (IURC 11/12/1993), where the Commission ruled: "We have reviewed the OUCC's arguments and, as we stated in our February 6, 1991 Order in Cause No. 38728, we are unpersuaded that customer deposits should be included in the calculation. The interest revenues from customer deposits are not operating revenues to the utility. Therefore, the ratepayers should not receive a deduction for interest on customer deposits." See also *PSI Energy*, Cause No. 40003, p. 83, 172 PUR4th 393 (IURC 9/27/1996); *Midwest Nat. Gas Corp.*, Cause No. 39097, 1991 Ind. PUC LEXIS 352, *27-29 (IURC 11/1/1991); *Northern Ind. Public Serv. Co.*, Cause No. 38380, 97 PUR4th 259, 1988 Ind. PUC LEXIS 400, *95-96 (IURC 10/26/1988); and *Northern Ind. Public Serv. Co.*, Cause No. 38045, 91 PUR4th 407, 1988 Ind. PUC LEXIS 131, *53-55 (PSCI 3/9/1988).

Q9. OUCC Witness Kaufman states on page 37 of his testimony that "the different tax treatments of equity versus debt capital exacerbate the inequities caused by double leverage." Does Mr. Kaufman claim that any adjustment to IPL's requested relief should be made based on this statement?

A9. No. He makes the statement, but neither he nor anyone else claims that any further adjustment is necessary based on this statement. Per Q&A 16 in my direct testimony, the Company has reasonably addressed this issue through the calculation of its income tax expense in accordance with prior Commission Orders.

Q10. Is Ms. Stull's proposal to exclude the prepaid pension asset from IPL's original cost rate base reasonable?

A10. No. This issue is addressed by IPL Witnesses Felsenthal and Reed. I would add that IPL included its prepaid pension asset in original cost rate base and also included the related Accumulated Deferred Income Taxes ("ADIT") in its capital structure as zero cost capital. Ms. Stull's direct testimony excludes the net prepaid pension asset from rate base but unfairly ignores the related and balanced treatment of ADIT in IPL's proposal. This is another reason why Ms. Stull's proposal should be rejected.

Q11. Does that conclude your prefiled rebuttal testimony?

A11. Yes.

VERIFICATION

I, Stephen A. Allamanno, Tax Director for AES US Services, LLC, the service company of Indianapolis Power & Light Company, affirm under penalties of perjury that the forgoing representations are true and correct to the best of my knowledge, information and belief.

Stephen A. Allamanno

Stephen A. Allamanno

Dated: September 2, 2015

An RRMC must be displayed at each location where you are doing business. A company that provides a service but has no employees might not need to register. If you are unsure, contact the department at (317) 232-0129.

Sales Tax Exemption Certificates

Registered retail merchants must assess Indiana sales tax on any sale of tangible personal property unless the customer presents a valid exemption certificate. The exemption certificate is kept by the seller as part of its business records and sales invoices. It must:

- Be legible;
- Be signed; and
- Include the customer's tax exempt number.

A business registered as a retail merchant can issue an exemption certificate and purchase tangible personal property exempt from sales tax when the property is:

- Purchased for resale;
- Made into property being resold;
- Directly used in the manufacturing of tangible personal property to be sold; or
- Exempt by law.

How Do I Register?

A single application (Form BT-1) is used to register with the department for the following:

- Alcohol and tobacco tax;
- Sales tax;
- Withholding tax;
- Food and beverage tax;
- County innkeeper's tax;
- Motor vehicle rental excise tax; and
- Prepaid sales tax on gasoline.

A separate application is required for each business location.

Internet: If you need to register your business with the department, you can do so online using the department's Online BT-1 application at https://secure.in.gov/apps/dor/bt1/.

INtax: Legislation now requires the filing and remitting of withholding and sales tax electronically.

One way businesses can file and remit their sales and withholding taxes is through INtax, Indiana's free online tool that enables businesses to manage business tax obligations for Indiana retail sales, withholding, out-of-state sales, prepaid sales, metered pump sales, tire fees, fuel taxes, wireless prepaid fees, and type II gaming taxes. The tax forms currently supported in INtax include the following:

- ST-103;
- ST-103P;
- ST-103MP;
- WH-1;
- WH-3;
- TF-103;
- SF-401;
- SF-900;
- MF-360;
- WPC-103; and
- TTG-103.

In INtax, businesses can make payments with either ACH Debit or credit card. ACH Debit is an EFT method of payment. Alternatively, businesses can have a software vendor or tax professional manage their tax obligations. This still meets the electronic mandate requirement because the software vendor or tax professional will file and pay electronically. Another option for sales taxes is using Streamlined Sales Tax. For more information, visit www.in.gov/dor/3341.htm.

Registering Multiple Locations: You must complete a separate BT-1 for each location you need to register. If you want to consolidate tax filings for all or some of your locations, complete Form BT-1C (Authorization for Consolidated Sales Tax Filing Number). This form is included in the BT-1 Packet.

Business Entities (in General)

Which Indiana Income Tax Form(s) to File?

The type of form you file varies depending on how your corporation is organized and the type of income it earns. An organization filing a federal return and doing business in Indiana must also file the comparable Indiana return. The name of the corporation (which must include the word *Corporation, Company, Incorporated, Limited,* or an abbreviation thereof) must be included on all returns. When filing your Indiana corporate forms, use your federal employer identification number (EIN) to identify your return. The IRS assigns this number to business entities at http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/.

For Indiana tax purposes, a corporation's tax filing includes other less formal organizations and unincorporated entities, such as general partnerships and nonprofit associations. To determine which return to file, use the following list. File the specified state form(s) to report the income, gains, losses, deductions, and credits. Also use it to figure your entity's corporate income tax liability.

The state returns are due 30 days after the due date for the filing of the federal return. Unless otherwise specified, the state tax returns are due on the 15th day of the 4th month following the close of the corporation's taxable year.

A corporation or an entity doing business in Indiana is subject to the corporate adjusted gross income tax (AGIT). The corporate AGIT tax rate is as follows:

After June 30, 2013, and before July 1, 2014	7.5%
After June 30, 2014, and before July 1, 2015	7.0%
After June 30, 2015, and before July 1, 2016	6.5%
After June 30, 2016, and before July 1, 2017	6.25%
After June 30, 2017, and before July 1, 2018	6.0%

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After June 30, 2018, and before July 1, 2019	5.75%
After June 30, 2019, and before July 1, 2020	5.5%
After June 30, 2020, and before July 1, 2021	5.25%
After June 30, 2021	4.9%

How to Determine the Tax Rate for Calendar-Year Filers and Fiscal-Year Filers Whose Tax Year Endings Are Not June 30

Pursuant to IC 6-3-2-1(c), the following steps must be used to determine the tax rate if a taxpayer is subject to different tax rates for a taxable period:

1. Multiply the rate in effect before the rate change by the number of months in the taxpayer's taxable year that precede the month the rate changed.
2. Multiply the rate in effect after the rate change by the number of months in the taxpayer's taxable year that follow the month before the rate changed.
3. Add the amounts in Step 1 and Step 2, and then divide the sum by 12.
4. Round the rate determined in Step 3 to the nearest 0.01%.

How to Determine the Tax Rate for Short Periods and 52/53-Week Filers

For taxpayers who file on a short period or 52/53-week period basis, for whom the steps outlined previously are not appropriate, the following steps should be used to determine the tax rate if a taxpayer is subject to different tax rates for a taxable period:

1. Multiply the tax rate in effect on June 30 of the taxable period by the number of days in the taxpayer's taxable period that occurred before July 1 of the taxable year.
2. Multiply the tax rate in effect on July 1 of the taxable period by the number of days in the taxpayer's taxable period that occurred after June 30 of the taxable year.
3. Add the amounts in Step 1 and Step 2, and then divide the sum by the total number of days in the taxpayer's taxable year.
4. Round the rate determined in Step 3 to the nearest 0.01%.

Certain entities are exempt from the tax (see IC 6-3-2-2.8 and 6-3-2-3.1). A brief explanation of the AGI tax treatment for each type follows.

Types of Corporate Entities and Returns to File

For-Profit Corporations (Domestic and Foreign)

A corporation can be formed for profit or nonprofit purposes. Forming a corporation creates a specific legal entity. An organization incorporated in this state (a domestic corporation) must have on file *Articles of Incorporation 4159* with the Corporations Division of the Secretary of State.

An organization incorporated in another state or with a foreign government must have on file an *Application for Certificate of Authority 38784* with the Indiana Secretary of State. This allows a foreign (outside Indiana) corporation to do business in Indiana.

General or Regular Corporations	State Return(s) to File
Filing federal Form 1120, file:	**Form IT-20, or**
If meeting 80% income test as a financial institution, file:	**Form FIT-20**
If a utility service provider, also file:	**Form URT-1**

80% Income Test: Is the corporation primarily in the business of extending credit? If so, it might be subject to the financial institution franchise tax (FIT) in Indiana. If 80% or more of the taxpayer's gross income comes from extending credit, servicing loans, or a credit card operation, the FIT applies (see 45 IAC 17-2-4). You can also see Commissioner's Directive #14 at www.in.gov/dor/3617.htm for more information.

For taxable years beginning before Jan. 1, 2014, the FIT rate is 8.5%. After that, it will decrease by 0.5% each year until it is 6.5% in 2017. If the taxpayer is subject to the FIT, it is exempt from the AGIT (IC 6-5.5-9-4). *It must instead file on Form FIT-20.*

Utility Service Provider: Are you in business as a utility service? If so, you might be subject to the utility receipts tax (URT) on those gross receipts. *Gross receipts* are defined as the value received for the retail sale of utility services.

You owe this tax if you furnish any of the following:

- Electrical energy;
- Natural gas;
- Water;
- Steam;
- Sewage; or
- Telecommunications services.

The URT is due on the retail sale of these services in Indiana. The URT tax rate is 1.4%. See Commissioner's Directive #18 at www.in.gov/dor/3617.htm for more information. *Entities subject to this tax must also file Form URT-1.*

Forms for Specific Organizations

Cooperative Association	State Return(s) to File
Filing federal Form 1120-C, file:	**Form IT-20**
If a utility service provider, also file:	**Form URT-1**

A cooperative association (including a subchapter T cooperative) that engages in farming and reports its income and deductions on federal Form 1120-C must file Form IT-20. If this applies to you, check box J-5 in the taxpayer identification section on the front of the return.

IPL Witness SAA Attachment 1-R

Calculation of IPL Indiana State Income Tax Rate for Tax Year Ending December 31, 2015

Step	Action	Tax Rate	Months	Result
1	Multiply rate in effect prior to rate change by months in tax year preceding change	7.00%	6	42.00%
2	Multiply rate in effect after the rate change by months in tax year following month prior to change	6.50%	6	39.00%
3	Add the amounts from Steps 1 and 2 and divide by 12	81.00%	12	6.75%
4	Round the result in Step 3 to the nearest 0.01%			6.75%

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