

VERIFIED REBUTTAL TESTIMONY
OF
NATALIE HERR COKLOW
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY

CAUSE NO. 45029

IURC
PETITIONER'S
EXHIBIT NO. 13
8-9-18 AT
DATE REPORTER

SPONSORING IPL WITNESS NHC ATTACHMENTS 1R THROUGH 3R

**VERIFIED REBUTTAL TESTIMONY OF NATALIE HERR COKLOW
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

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

2 A1. My name is Natalie Herr Coklow. I am employed by AES U.S. Services, LLC (“AES
3 Services”), which is a wholly-owned subsidiary of The AES Corporation and the service
4 company of Indianapolis Power & Light Company (“IPL” or “Company”). AES
5 Services’ business address is One Monument Circle, Indianapolis, Indiana 46204.

6 **Q2. What is your position with AES Services?**

7 A2. I am a Senior Accountant in the Regulatory Accounting department.

8 **Q3. Are you the same Natalie Herr Coklow who previously submitted direct testimony
9 in this Cause?**

10 A3. Yes.

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

12 A4. My rebuttal testimony responds to various adjustments to the results of operations related
13 to labor, benefits, and payroll taxes for the twelve (12) months ended June 30, 2017, pro
14 forma at present rates, proposed by Indiana Office of the Utility Counselor (“OUCC”)
15 Witnesses Michael D. Eckert and Margaret A. Stull and by the IPL Industrial Group
16 (“IG”) Witness Michael P. Gorman. These adjustments include the AES/IPL
17 restructuring announcement, 2018 pension costs, and open headcount.

18 **Q5. Are you sponsoring any attachments?**

19 A5. Yes. I am sponsoring:

- 1 • IPL Witness NHC Attachment 1R
- 2 • IPL Witness NHC Attachment 2R
- 3 • IPL Witness NHC Attachment 3R

4 **Q6. Were the attachments you are sponsoring prepared or assembled by you or under**
5 **your direction or supervision?**

6 A6. Yes.

7 **Q7. Are you sponsoring any Financial Exhibits?**

8 A7. Yes. I am sponsoring:

- 9 • IPL Financial Exhibit IPL-OPER, Schedule OM17-R addressing wages and
10 benefits for IPL employees, and wages and benefits for AES Services employees
11 charged to IPL.
- 12 • IPL Financial Exhibit IPL-OPER, Schedule OTX3-R addressing the Federal
13 Insurance Contributions Act (“FICA”) taxes, the Federal Unemployment Tax Act
14 (“FUTA”) and State Unemployment Tax Act (“SUTA”) taxes in connection with
15 IPL employee payroll and AES Services payroll charged to IPL.

16 **Q8. Are you submitting any workpapers?**

17 A8. Yes. I am sponsoring as workpapers the labor working files and payroll tax schedule that
18 were used to calculate the effect of the restructuring and pension cost update and were
19 filed originally as attachment in IPL’s response to IG Data Request 5-1. These files
20 include:

- 1 • CONFIDENTIAL IPL Witness NHC Workpaper 1R - Labor working file used for
- 2 the restructuring calculation (originally provided in discovery as IG DR 5-1
- 3 Confidential Attachment 1)
- 4 • IPL Witness NHC Workpaper 2R - Payroll tax exhibit updated for the
- 5 restructuring (originally provided in discovery as IG DR 5-1 Attachment 2)
- 6 • CONFIDENTIAL IPL Witness NHC Workpaper 3R - Labor working file used for
- 7 the pension cost update calculation (originally provided in discovery as IG DR 5-
- 8 1 Confidential Attachment 3)

9

10 **IPL Financial Exhibit IPL-OPER, Schedule OM17-R, Schedule OTX3-R**

11 **Wages and Benefits of IPL and AES Service Employees**

12 **Payroll Taxes Applicable to Pro Forma Wage Adjustments**

13

14 **Adjustment for IPL Restructuring**

15 **Q9. Please summarize the corporate restructuring issue.**

16 A9. When computing the pro forma labor expense for IPL in this Cause, it was first based on

17 employee headcount as of June 30, 2017. During the preparation of the schedules,

18 employee headcount was updated through August 31, 2017. On February 5, 2018, AES

19 made an announcement regarding organizational and structural changes that impacted

20 IPL. This restructuring resulted in a reduction to headcount of both IPL and AES

21 Services workforce. Subsequently, IPL provided updated labor, benefit, and payroll tax

22 costs in response to IG Data Request 5-1 (see IPL Witness Coklow Attachment 1R). Both

23 OUCC Witness Eckert and IG Witness Gorman propose reductions to labor, benefit and

24 payroll taxes as a result of this restructuring.

1 **Q10. Please explain the adjustment proposed for the restructuring by OUCC Witness**
2 **Eckert to the originally filed IPL Financial Exhibit IPL-OPER, Schedule OM17.**

3 A10. Mr. Eckert's testimony includes three different amounts for his proposed reduction to
4 labor, benefits, and payroll taxes related to the restructuring as shown in the chart below.

Restructuring Adjustment Proposed by Mr. Eckert

	Page 9 of Written Testimony	MDE-5, page 1	MDE 5, Page 2
IPL	(6,303)	(6,303)	(6,009)
AES Services	(5,495)	808	797
Payroll Taxes		(305)	(283)
Total Reduction	(11,798)	(5,800)	(5,495)

5 Note: Figures are rounded to the nearest thousand.

6 I discuss the discrepancies in the amounts proposed by OUCC Witness Eckert in Q13
7 below.

8 **Q11. Please explain the adjustment proposed for the restructuring by IG Witness**
9 **Gorman to the originally filed IPL Financial Exhibit IPL-OPER, Schedule OM17.**

10 A11. Mr. Gorman proposes to remove labor and benefits expense of \$5,000 thousand on IPL
11 Financial Exhibit IPL OPER, Schedule OM17 due to the restructuring per page 30 and
12 Table 10 of his testimony. Table 10 only appears to address payroll and benefit costs, but
13 does not address payroll taxes. This table also includes an additional deduction related to
14 open headcount which is discuss later in my testimony.

1 **Q12. Please explain where OUCC Witness Eckert and IG Witness Gorman said they**
2 **obtained the amounts they are each proposing as adjustments to labor, benefit and**
3 **payroll taxes as a result of the restructuring.**

4 A12. Both witnesses state that they obtained the information from IPL's response to IG Data
5 Request 5-1, which I have included herein as IPL Witness NHC Attachment 1R. The total
6 adjustment included in this data request response was a reduction to IPL O&M and
7 payroll tax expense of \$5,495 thousand. This includes the effect of the restructuring on
8 labor, benefits, and payroll taxes for both IPL and AES Services.

9 **Q13. Do you agree with the adjustment(s) proposed by OUCC Witness Eckert for the**
10 **restructuring?**

11 A13. I agree with the adjustment Mr. Eckert included on Schedule MDE-5, page 2 of his
12 testimony (which agrees to IPL response to IG Data Request 5-1), but I disagree with the
13 adjustments included for this same adjustment on page 9 of his testimony and on
14 Schedule MDE-5, page 1. IPL's position is that the \$5,495 thousand adjustment included
15 on Schedule MDE-5, page 2, is the correct adjustment to make for the effect of the
16 restructuring. This adjustment includes the impact on labor, benefits, and payroll taxes. It
17 appears that OUCC Witness Eckert mistakenly quoted an incorrect total on page 9 of his
18 testimony and effectively included the payroll tax adjustment twice on Schedule MDE-5,
19 page 1.

20 Based on Schedule MDE-5, page 2, which shows the summary of adjustments to net
21 income that is being proposed by the OUCC related to payroll, benefits, and payroll
22 taxes, it seems that Witness Eckert intended to include a total adjustment of \$5,495
23 thousand which corresponds to IPL's response in IG Data Request 5-1. I believe the

1 \$11,798 thousand adjustment on page 9 of Witness Eckert's testimony was calculated by
2 Mr. Eckert inadvertently adding together the IPL adjustment (\$6,303 thousand) to the
3 grand total adjustment (\$5,495 thousand) per the chart in subparts c) and d) of IPL's
4 response to IG Data Request 5-1 (see IPL Witness NHC Attachment 1R). The grand total
5 adjustment includes both the adjustment for IPL and AES Services. In other words, the
6 \$11,798 thousand amount set forth on page 9 of Mr. Eckert's testimony mistakenly
7 double counts the IPL adjustment.

8 Furthermore, the \$5,495 thousand total adjustment included in IPL's response to IG Data
9 Request 5-1 included a reduction to payroll taxes of \$283 thousand. On Schedule MDE-
10 5, page 1 OUCC Witness Eckert includes a reduction to O&M expense of \$5,495
11 thousand for the restructuring but then also proposes an additional deduction to taxes
12 other than payroll taxes of \$305 thousand. The first issue with this treatment is that the
13 \$5,495 thousand deduction for the restructuring already includes a payroll tax reduction
14 and thus, OUCC Witness Eckert has included the payroll tax deduction twice. The second
15 issue is that Mr. Eckert uses an incorrect total for his proposed payroll tax deduction of
16 \$305 thousand. It appears that this number was obtained from the chart included in
17 subparts c) and d) of IPL's response to the IG data request 5-1, but calculated incorrectly.
18 The restructuring results in a decrease to IPL payroll taxes of \$294 thousand and an
19 increase to AES Service payroll taxes of \$11 thousand for a net decrease of \$283
20 thousand. It seems as though Mr. Eckert mistakenly treated the change in AES Service
21 payroll taxes as a reduction to costs and added it to the decrease in IPL payroll taxes even
22 though the restructuring resulted in an increase in AES Services payroll taxes.

1 In summary, the correct amount of the adjustment for the restructuring is a total reduction
2 of \$5,495 thousand as shown on OUCC Witness Eckert's Schedule MDE-5, page 2, not
3 \$11,798 thousand as included on page 9 of Mr. Eckert's testimony or \$5,800 thousand as
4 included on Schedule MDE-5, page 1. Of this adjustment, \$5,212 thousand is related to
5 labor and benefits and \$283 thousand is related to payroll taxes.

6 **Q14. Do you agree with the adjustment proposed by IG Witness Gorman for the**
7 **restructuring?**

8 A14. I do agree with his position that labor and benefits should be reduced for the restructuring
9 in accordance with IPL's response to IG data request 5-1, but I believe Table 10 in his
10 testimony (page 30) is only addressing labor and benefits and is ignoring the change
11 related to payroll taxes. When adjusting for impacts of the restructuring, I believe you
12 must recognize and incorporate both pieces. I have included the change to payroll taxes
13 on IPL Financial Exhibit IPL-OPER, Schedule OTX3-R in order to fully incorporate the
14 decrease in these costs as a result of the restructuring. The result, as I described above, is
15 a reduction in payroll taxes of \$283 thousand.

16 **Q15. Is there any other portion of Mr. Gorman's proposal with which you disagree?**

17 A15. Yes. On page 10 (footnote 10) Mr. Gorman states, "IPL's revised Schedule OM17
18 reflects different Per Books values than the schedule filed on December 21, 2017. The
19 values in my Direct Testimony reflect adjustments relative to IPL's December schedule".
20 I agree with this statement made by Mr. Gorman, but the reason for the change is due to a
21 reduction for employee parking costs included in the adjustment. As a result of the
22 restructuring, a decrease in parking expenses of \$208 thousand was included to reflect a
23 decrease in parking costs due to IPL and AES Services having fewer employees than

1 during the test year. This decrease was included as a reduction in the per books benefits
2 cost from AES Services. By Mr. Gorman using the per books values from the December
3 filing, he is failing to include this deduction in his adjustment. Since this reduction is
4 related to the restructuring, I believe it should be included to recognize the full impact of
5 the restructuring.

6 **Q16. What have you included in IPL Financial Exhibit IPL-OPER, Schedule OM17-R for**
7 **the adjustment related to the corporate restructuring?**

8 A16. Schedule OM17-R includes the adjustments to IPL and AES Services for payroll and
9 benefits. The restructuring results in a decrease to IPL pro forma labor of \$4,853
10 thousand and an increase in AES Services pro forma labor costs of \$1,037 thousand. In
11 addition, I have decreased IPL pro forma benefits by \$1,156 thousand and AES Services
12 pro forma benefits by \$240 thousand. The total adjustment for labor and benefits is a
13 reduction of \$5,212 thousand. This information is also shown on IPL Witness NHC
14 Attachment 3R.

15 **Q17. What have you included in IPL Financial Exhibit IPL-OPER, Schedule OTX3-R for**
16 **the adjustment related to the corporate restructuring?**

17 A17. Schedule OTX3-R includes the adjustment to IPL and AES Services for pro forma
18 payroll taxes. The restructuring results in a decrease in IPL pro forma payroll taxes of
19 \$294 thousand and an increase in AES Service pro forma payroll taxes of \$11 thousand.
20 This results in a total reduction to payroll taxes of \$283 thousand. This information is
21 also shown on IPL Witness NHC Attachment 3R.

22 **Q18. What is the total change to IPL's pro forma proposed O&M expense as a result of**
23 **the corporate restructuring?**

1 A18. In total, the restructuring is a reduction to IPL pro forma O&M expense of \$5,495
2 thousand. This agrees to the response in subparts c) and d) of IG Data Request 5-1 and is
3 the same data request response both Mr. Eckert and Mr. Gorman refer to as the basis for
4 the adjustments they have proposed for the restructuring. In addition, these adjustments
5 are summarized on IPL Witness NHC Attachment 3R. This adjustment is included in IPL
6 Financial Exhibit IPL-OPER, Schedule OM17-R and IPL Financial Exhibit IPL-OPER,
7 Schedule OTX3-R.

8 *Adjustment for Updated Pension Costs*

9 **Q19. Turning now to the IPL pension and OPEB expense adjustment proposed by OUCC**
10 **Witness Eckert on Schedule MDE-5, page 3, what is being included in this**
11 **adjustment?**

12 A19. The total adjustment proposed by the OUCC is an increase in pension costs of \$7,932
13 thousand. This is a two-part adjustment that includes: (1) an adjustment to recognize the
14 increase in 2018 pension costs as a result of the updated Mercer Actuarial Reports; and
15 (2) additional pension expense to recognize the timing difference between the ERISA
16 minimum pension contribution and the pension expense calculation required by U.S.
17 GAAP. The updated pension costs make up \$3,085 of the OUCC proposed adjustment
18 and the ERISA timing difference makes up \$4,847 of the OUCC proposed adjustment.
19 My testimony here will only address the increase in pension costs as a result of the
20 updated actuarial reports. IPL Witness Alan Felsenthal will address Ms. Stull's proposal
21 to adjust pension expense as a means of addressing the prepaid pension asset.

22 **Q20. How was the adjustment included on OUCC Witness Eckert's Schedule MDE-5,**
23 **page 3 determined?**

1 A20. OUCC Witness Eckert's Schedule MDE-5, page 3 includes a pro forma pension expense
2 amount of \$13,349 thousand, which is derived from OUCC Witness Stull's testimony,
3 Table 2 (page 15). This total includes \$8,503 thousand for 2018 pro forma pension
4 expense and \$4,847 thousand for additional pension expense related to the proposed
5 adjustment for the ERISA timing difference. Per OUCC Witness Stull, the \$8,503
6 thousand is per IPL Witness Kunz testimony, page 8, line 17. Again, IPL Witness
7 Felsenthal will focus on Ms. Stull's proposed \$4,847 thousand increase in pension
8 expense to address the prepaid pension asset.

9 **Q21. Do you agree with the OUCC's adjustment to recognize the increase in 2018 pension**
10 **costs?**

11 A21. In theory, yes. However, I disagree with the OUCC's computation of this adjustment.

12 **Q22. Please identify your disagreements.**

13 A22. While I agree that IPL's pro forma O&M expense should include an increase in pension
14 expense to recognize the updated 2018 Mercer Actuarial Reports, I take issue with three
15 aspects of the OUCC's computation of this adjustment. First, the amount of 2018 pro
16 forma pension expense that OUCC Witness Stull has included is only addressing pension
17 *service cost* and fails to include the remainder of the pension expense.¹ Secondly, the
18 pension expense used by OUCC Witness Stull also includes a reduction for the
19 restructuring which was already included in the restructuring adjustment discussed earlier
20 in my testimony. Lastly, OUCC Witness Stull's pension adjustment does not recognize
21 that some of IPL employees perform work for AES Services and thus, a portion of their

¹ See IPL Witness Kunz Direct testimony at pages 5-6 for definition of "service cost" and discussion of the other components of pension cost under ASC 715.

1 time and benefits will be charged to AES affiliates and should not be included in the
2 O&M expense in this proceeding. I discuss each of these issues below.

3 **Q23. Please explain the issue with the remainder of the pension costs that OUCC Witness**
4 **Stull has not included in her calculation.**

5 A23. The pension costs OUCC witness Stull includes in Table 2 (page 15) of her testimony is
6 only addressing pension service costs. The other costs of the pension plan that are not
7 being included are interest cost, amortizations, SERP, and postretirement benefits. These
8 other pension costs total \$41 thousand. After adding all of these costs together, 2018
9 pension expense will be \$8,561 thousand. See IPL Witness NHC Attachment 2R for a
10 copy of the Mercer letter detailing each of these costs which are identified by the yellow
11 highlights. This letter was filed on April 23, 2018 as part of IPL's submission of updated
12 pension information and was identified as IPL Witness EJK Workpaper 5.

13 **Q24. Please explain the issues regarding restructuring savings being included in the**
14 **OUCC's proposed pro forma pension costs.**

15 A24. OUCC Witness Stull has included a net reduction in pension costs of \$17 thousand
16 because of the restructuring. This figure was derived from IPL Witness Ed Kunz's
17 testimony (page 8). While I do agree with this figure, I have already included this
18 reduction in the adjustment that I proposed for the restructuring. Thus, it should be
19 removed from OUCC Witness Stull's pension adjustment to avoid double counting.

20 **Q25. Please explain the issue regarding pension costs that will be charged to AES**
21 **Services.**

22 A25. There are some IPL employees that perform work for AES Services, and thus a portion of
23 their time and benefits are allocated to AES affiliates. Pension expense must be reduced

1 to recognize that only a portion of the adjustment is applicable to IPL. Using the updated
2 2018 pension costs, \$71 thousand is estimated to be allocated to AES affiliates which can
3 be derived from the summary tab (pension column) of CONFIDENTIAL IPL Witness
4 NHC Workpaper 3R. This workpaper was originally filed as Confidential Attachment 3
5 in IPL's response to IG data request 5-1.

6 **Q26. What pension adjustment are you proposing?**

7 A26. After factoring in these three changes, the total correct pro forma adjustment to O&M
8 expense for the change in pension cost would be an increase of \$3,031 thousand. This is
9 actually a slight decrease from the increase that was proposed by the OUCC. This
10 adjustment is the same amount that was presented in IPL's response to IG Data Request
11 5-1 and is included here as IPL Witness NHC Attachment 1R. The pension adjustment is
12 also included on IPL Witness NHC Attachment 3R.

13 **Q27. Does IG Witness Gorman include an adjustment for pension costs in his testimony?**

14 A27. Yes. IG Witness Gorman recognizes that in the response to IG Data Request 5-1, IPL
15 indicates that some of the savings created through a reduction in number of employees
16 was offset by an increase in pension expenses. He furthers states that while he has not
17 independently verified the change in pension expense, he is accepting IPL's adjustment
18 only for illustrative purposes to quantify his proposed labor expense adjustment.

19 **Adjustment for Open Headcount**

20 **Q28. Did IG Witness Gorman propose an adjustment for open headcount?**

21 A28. Yes. IG Witness Gorman proposes that a decrease of \$948 thousand be included in IPL's
22 O&M expense for open headcount. IG Witness Gorman states (page 30) that "I believe

1 IPL's pro forma wages and benefits should only reflect currently staffed positions and
2 should not include any unfilled positions or positions that are held open."

3 **Q29. Do you accept the IG's proposal to remove \$948 thousand from IPL's pro forma**
4 **labor expense amount for open headcount?**

5 A29. Yes. First, I would like to make the clarification that I did not include all positions that
6 are considered to be open in the proposed pro forma adjustment, but rather only open
7 positions that IPL was currently recruiting for at the time the rate case schedules were
8 prepared. While I included these positions in the pro forma labor amount because I felt
9 that there was a good likelihood they would be filled, I can recognize that some of these
10 positions may have in fact not been filled. In the spirit of cooperation, I would propose
11 that the IG's adjustment be accepted, and thus, a reduction of \$948 thousand be included
12 in IPL's O&M expense. This amount is included in the summary of adjustments in IPL
13 Witness NHC Attachment 3R.

14 **Q30. Are there any final comments which you want to make?**

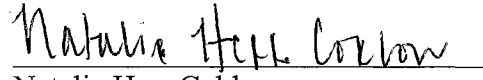
15 A30. Yes. I have prepared a reconciliation of the adjustments I have proposed herein and the
16 related change from the original IPL Financial Exhibit IPL-OPER, Schedules OM17 and
17 OTX3 versus IPL Financial Exhibit IPL-OPER, Schedules OM17R and OTX3-R
18 submitted with this rebuttal filing. This reconciliation is included as IPL Witness NHC
19 Attachment 3R.

20 **Q31. Does this conclude your prepared verified rebuttal testimony?**

21 A31. Yes.

VERIFICATION

I, Natalie Herr Coklow, Senior Accountant in the Regulatory Accounting department, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Natalie Herr Coklow

Dated: June 21, 2018

Data Request IG DR 5 - 1

On February 5, 2018 the following announcement regarding organizational and structural changes within IPL and Dayton Power and Light was made:

Indianapolis Power & Light Company (IPL) and Dayton Power & Light (DP&L), both subsidiaries of The AES Corporation (NYSE: AES), today announced organizational and structural changes which will position both companies to operate more efficiently and continue to provide safe, reliable and affordable energy solutions for their customers.

These changes will occur as part of the reorganization announced earlier today by AES as the next step of its ongoing strategy to simplify its portfolio, optimize its cost structure, and reduce its carbon intensity.

AES will align their structure and reshape the workforce, resulting in the reduction of approximately 100 jobs in Indiana and 60 jobs in Ohio by the second quarter of this year.

Please answer the following related to reorganization and structural change.

- a) Identify each witness in this proceeding whose position was or will be changed or eliminated, or whose employment was terminated as a result of the announced organizational and structural changes.
- b) For each such witness identified in DR 4-1a above, please provide:
 - a. A description of their current relationship with AES, IPL, or DP&L
 - b. If the position was changed, to what position such witness has been or will be moved, together with the date of such move
 - c. If the position was eliminated, to what position such witness has been or will be moved, together with the date of such move
 - d. If the individual was terminated, the effective date of such termination.
- c) Provide a calculation of changes in annual labor expense, including but not limited to salaries, wages, and benefits, as a result of the "organizational and structural changes" announced on February 5, 2018.
- d) Provide a calculation of changes in annual AES expenses allocated to IPL, including but not limited to rent, salaries, wages, and benefits, as a result of the "organizational and structural changes" announced on February 5, 2018.
- e) Please provide an updated organizational chart of IPL's current management following the announced changes, identifying persons in each position and a description of areas of responsibility and job duties.

Objection:

IPL objects to the request on the grounds and to the extent the request seeks information that is confidential, proprietary, competitively-sensitive and/or trade secret. IPL further objects to the request, and in particular subparts a) and b) to the extent it seeks the identification of employee

names and positions on the grounds and to the extent such information exceeds the scope of this proceeding and is not reasonably calculated to lead to the discovery of relevant or admissible evidence. IPL further objects to the request on the grounds and to the extent the request seeks a compilation, analysis or study that IPL has not performed and to which IPL objects to performing. IPL further objects to producing the information requested in the format requested; to the extent the requested information is available, IPL will produce such information in the format maintained by IPL. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

- a) Bradley D. Scott, Dennis C. Dininger, Jayme Stemle, Kurt A. Tornquist, and Nicholas Grimmer.
- b) A description of their current relationship or job duties with AES or IPL for each person identified in subpart a) of this response can be found in the witnesses' direct testimony filed in this proceeding. Each person's employment is scheduled for termination as a result of the restructuring. Termination date for these witnesses is expected to be July 31, 2018. In addition, Kurt Tornquist resigned as the Controller of IPL effective March 31, 2018.
- c) & d) See IG DR 5-1 Confidential Attachment 1 for an updated labor working file which incorporates changes that occurred or will occur due to the restructuring. In addition, see IG DR 5-1 Attachment 2 for an updated payroll taxes file that also incorporates changes as a result of the restructuring. The charts below (see columns C) show the updated pro forma adjustments as a result of the restructuring for IPL/VEBA and AES Services employees. A summary of the updated pro forma adjustment post restructuring can be found on the "OM17" tab of IG DR 5-1 Confidential Attachment 1 file and the "OTX3" tab of the IG DR 5-1 Attachment 2 file. See the cells and rows that are highlighted yellow for changes that have been made. The following tables illustrate the changes:

IPL Employee Labor Costs	Original Pro Forma (A)	Impact of Restructuring (B)	Revised Pro Forma with Restructuring (C)=(A)+(B)	Impact of Updated Actuarial Report (D)	Revised Pro Forma with all Changes (E)= (C) + (D)	Difference Between Original and Revised Pro Forma (F)= (A) – (E)
(Thousands of dollars)						
IPL Payroll (OM17)	\$ 3,918	\$ (4,853)	\$ (935)	\$ 0	\$ (935)	\$(4,853)
IPL Benefits (OM17)	140	(1,156)	(1,016)	3,028	2,012	1,872

IPL Payroll Taxes (OTX3)	213	(294)	(81)	0	(81)	(294)
Total	\$ 4,271	\$ (6,303)	\$ (2,032)	\$ 3,028	\$ 996	\$(3,275)

AES Services and AES Labor Costs	Original Pro Forma (A)	Impact of Restructuring (B)	Revised Pro Forma with Restructuring (C)=(A)+(B)	Impact of Updated Actuarial Report (D)	Revised Pro Forma with all Changes (E)=(C) + (D)	Difference Between Original and Revised Pro Forma (F)=(A) – (E)
(Thousands of dollars)						
Payroll (OM17)	\$ 745	\$1,037	\$ 1,782		\$ 1,782	\$1,037
Benefits (OM17)	159	(240)	(81)	3	(78)	(237)
Payroll Taxes (OTX3)	76	11	87		87	11
Total	980	808	1,788	3	1,791	811
Grand Total	\$ 5,251	(5,495)	\$ (244)	\$ 3,031	\$ 2,787	\$(2,464)

The net of these changes results in a decrease in the post-restructuring pro forma adjustment for IPL/VEBA and AES Services for labor, benefits, and payroll taxes of \$5.5 million (Column (B)). This change is prior to factoring in the updated pension costs from the December 31, 2017 Mercer actuarial report (see below). It does, however, factor in the decrease to pension costs as a result of the restructuring. Further details on the restructuring were filed in both the original response and the supplemental response to OUCC DR 1-1.

In addition to the changes as a result of the restructuring, the labor pro forma adjustment was then updated to include the change in pension costs as a result of the new Mercer actuarial study as of December 31, 2017. See IG DR 5-1 Confidential Attachment 3 for an updated labor working file with both the restructuring changes and the updated pension cost information. Again, see the cells and rows that are highlighted yellow for changes that have been made. The amounts in columns (D) above represent that changes to O&M IPL benefit costs as a result of the December 31, 2017 Mercer actuarial report. Columns (E) above represent the revised labor, benefits, and payroll tax pro forma adjustments after factoring in the changes as a result of both the restructuring and the updated actuarial report for pension costs. Lastly, columns (F) show the full impact of the restructuring and updated actuarial report. The ending change after these adjustments is a

decrease in the pro forma adjustment for IPL/VEBA and AES Services for labor, benefits, and payroll taxes of \$2.5 million. The updated actuarial report will be filed in the response to IG DR 6-1.

IPL does not pay rent to AES. The amount of rent, occupancy charge, that AES Services pays to IPL for use of IPL facilities is not expected to change as a result of the organizational and structural changes. Other non-labor costs allocated from AES to IPL may change as a result of the organizational and structural changes but the impact is not yet available at this time.

- e) The final, detailed, IPL and AES organizational charts post restructuring are in the process of being prepared and are not yet available. That said, please see OUCC DR 1-1 Attachment 2 for the current executive-level organizational chart for AES, post-restructuring.



James Baughman, ASA, EA, MAAA
Principal

1050 Connecticut Avenue, NW, Suite 700
Washington, DC 20036
+1 202 331 5200
james.baughman@mercer.com
www.mercer.com

Mr. Matt Roach
Senior Director, Global Benefits
AES Corporation
A4300 Wilson Blvd #1100
Arlington, VA 22203

April 9, 2018

Private & Confidential

Subject: Curtailment Accounting for Reduction in Force

Dear Matt:

As requested, we have updated the fiscal 2018 ASC 715 expense calculation for the Employees' Retirement Plan of Indianapolis Power & Light Co. due to the reduction in force that was known to occur at some point near the end of 2017. Details of the curtailment calculation are shown in Exhibit I.

The curtailment will affect the total ASC 715 expense for fiscal 2018 due to the beginning of year remeasurement. The remeasurement is expected to occur immediately after the fiscal 2017 ASC 715 disclosure. The expense for the year is shown below as pre- and post-curtailment:

	2018 Expense prior to Curtailment	2018 Expense after Curtailment	Effect of Curtailment
1. Service cost	\$ 8,519,763	\$ 8,450,581	\$ (69,182)
2. Interest cost	25,039,966	25,054,462	14,496
3. Expected return on assets	(40,556,989)	(40,556,989)	0
4. Amortizations			
a. Transition (asset)/obligation	0	0	0
b. Prior service cost	4,034,263	3,837,111	(197,152)
c. (Gain)/loss	11,432,172	11,257,242	(174,930)
5. Net periodic benefit cost before one-time charge	\$ 8,469,175	\$ 8,042,407	\$ (426,768)
6. Curtailment Charge	0	1,230,413	1,230,413
7. Net periodic benefit cost	\$ 8,469,175	\$ 9,272,820	\$ 803,645





Page 2
April 9, 2018
Mr. Matt Roach
AES Corporation

As shown in Exhibit I, the curtailment charge amount is \$1,230,413. This is comprised of a \$449,619 liability increase and a \$780,794 prior service cost acceleration.

The (gain)/loss amortization has also been updated as a result of the curtailment. Details of this calculation can be found in Exhibit II. The updated estimated fiscal 2018 net periodic benefit cost, including the curtailment is \$9,272,820 (\$8,042,407 + \$1,230,413).

Note that the 2018 expense shown does not reflect any further settlement or curtailment accounting during fiscal 2018. If another significant event occurs during fiscal 2018 (e.g. special termination benefit), the expense for the year will need to be adjusted again. We understand that Indianapolis Power & Light Company will be providing special termination benefits for select employees near rule of 85 eligibility that were part of the reduction in force, as communicated in our March 13, 2018 letter. Any accounting impact for this benefit will likely be reflected in the second quarter of 2018, and that the 2018 expense would also be remeasured to reflect updated assets and discount rates at that time.

Important Notices

Mercer has prepared this letter exclusively for Indianapolis Power & Light Company; subject to this limitation, Indianapolis Power & Light Company may direct that this letter be provided to its auditors in connection with the audit of its financial statements. Mercer is not responsible for use of this letter by any other party.

The only purpose of this letter is to provide IPL with curtailment accounting information for the Employees' Retirement Plan of Indianapolis Power & Light Co.

This letter may not be used for any other purpose. Mercer is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

This letter was prepared in accordance with generally accepted actuarial principles and procedures. The actuarial assumptions were selected by Indianapolis Power & Light Company. Based on the information provided to us, we believe that the actuarial assumptions are reasonable for the purposes described in this letter.

All parts of this letter, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used, or relied upon without reference to the letter as a whole.



Page 3
April 9, 2018
Mr. Matt Roach
AES Corporation

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security, and/or benefit-related issues should not be made solely on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic, and societal factors, including financial scenarios that assume future sustained investment losses.

Indianapolis Power & Light Company is ultimately responsible for selecting the plan's accounting policies, methods, and assumptions. This information in this report is based on the report titled *ASC 715 (US GAAP) Actuarial Valuation Report as of December 31, 2017 – Consolidated Total for All IPL Plans – Indianapolis Power & Light Company* issued January 2018, and incorporates by reference and is subject to all of the Important Notices contained or referenced therein. Except as noted otherwise, this report is based on the participant data, assumptions, methods, and provisions (DAMP) summarized in that report and therefore incorporates by reference the DAMP report issued September 2017.

Indianapolis Power & Light Company is solely responsible for selecting the plan's investment policies, asset allocations, and individual investments. The Mercer actuaries who prepared this letter have not provided any investment advice to Indianapolis Power & Light Company.

This letter is based on our understanding of applicable law and regulations as of the valuation date. Mercer is not an accountant or auditor and is not responsible for the interpretation of, or compliance with, accounting standards; citations to, and descriptions of accounting standards provided in this letter are for reference purposes only. Mercer is not engaged in the practice of law. This letter does not constitute and is not a substitute for legal advice.

Indianapolis Power & Light Company should notify Mercer promptly after receipt of this valuation letter if Indianapolis Power & Light Company disagrees with anything contained herein or is aware of any information that would affect the results of this letter that has not been communicated to Mercer or incorporated therein. The valuation letter will be deemed final and acceptable to Indianapolis Power & Light Company unless Indianapolis Power & Light Company promptly provides such notice to Mercer.



Page 4
April 9, 2018
Mr. Matt Roach
AES Corporation

Professional qualifications

I am available to answer any questions on the material contained in this letter, or to provide explanations or further details as may be appropriate. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter. I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of this work.

Sincerely,

A handwritten signature in black ink, appearing to read 'James Baughman', with a long horizontal flourish extending to the right.

James Baughman, ASA, EA, MAAA
Principal

Copy:
Ed Kunz – IPL
Matt McDaniel, TJ Chukwueke, Kyle Parrish – Mercer

Enclosure

\\MERCER.COM\US_EWORKING\RET\CONS\BLT\PLIND\2018\8YR\SPECIALPROJ\RIF\2018 IPL RIF CURTAILMENT 04092018.DOCX



Exhibit I: Summary of Curtailment Accounting as of January 1, 2018

Reconciliation of net amount recognized	As of prior year-end Disclosure	Changes due to Curtailment	After Curtailment
1. Projected benefit obligation (PBO)	\$(776,667,382)	\$(449,619)	\$(777,117,001)
2. Fair value of plan assets	734,301,900	0	734,301,900
3. Funded status (1. + 2.)	(42,365,482)	(449,619)	(42,815,101)
4. Unrecognized transition (asset)/obligation	0	0	0
5. Unrecognized prior service cost	(17,318,172)	780,794	(16,537,378)
6. Unrecognized gain/(loss)	(190,959,558)	0	(190,959,558)
7. Accumulated other comprehensive income (loss) (4. + 5. + 6.)	\$(208,277,730)	\$780,794	\$(207,496,936)
8. Accumulated contributions in excess of net periodic benefit cost	165,912,248	(1,230,413)	164,681,835
9. Net amount recognized (7. + 8.)	\$(42,365,482)	\$(449,619)	\$(42,815,101)

Exhibit II: Details of (Gain)/Loss Amortization during 2018

	As of prior year-end Disclosure	After Curtailment
1. Unrecognized (gain)/loss	\$190,959,558	\$190,959,558
2. Larger of PBO and Assets	\$776,667,382	\$777,117,001
3. Amortization Corridor (10% of 2.)	77,666,738	77,711,700
4. Amount Subject to Amortization (2. - 3.)	\$113,292,820	\$113,247,858
5. Future Working Lifetime	9.01	10.06
6. (Gain)/Loss Amortization (4. / 5.)	\$11,432,172	\$11,257,242

The data, assumptions, methodologies, and plan provisions for the Employees' Retirement Plan of Indianapolis Power & Light Co. remain the same as those detailed in our December 31, 2017 ASC 715 disclosure report dated January 2018.

The estimated NPBC for the fiscal year ending December 31, 2018, is \$8,560,922.

Estimated NPBC for FYE 2018	
Qualified Plan	\$8,469,175
SERP	66,511
Postretirement Benefits	25,236
Total	\$8,560,922

Please note that the actual net periodic benefit cost for the fiscal year ending December 31, 2018, may be substantially different from the estimate and may be revised if assets and/or liabilities are remeasured during the year due to a significant event and/or cash flows are updated.

INDIANAPOLIS POWER & LIGHT COMPANY
Summary of Update to Pro Forma Adjustments to Operation and Maintenance Expenses for
Wages, Benefits and Payroll Taxes of IPL and AES U.S. Services, LLC (AES Services) Employees
(Thousands of Dollars)

Line No.		Pro Forma Original Filing (1)	Less Restructuring (2)	Actuarial Update (3)	Less Open Headcount (4)	Pro Forma Rebuttal (5)	Line No.
	<u>OM 17 Costs:</u>						
1	Labor costs (IPL employees)	\$ 110,178	\$ (4,853)	\$ -	\$ (948)	\$ 104,377	1
2	Labor costs (from AES Services)	17,565	1,037			18,602	2
3	Benefit costs (IPL employees)	27,765	(1,156)	3,028		29,637	3
4	Benefit costs (from AES Services)	3,200	(240)	3		2,963	4
5	Net labor, benefits and AES Services costs	<u>\$ 158,708</u>	<u>\$ (5,212)</u>	<u>\$ 3,031</u>	<u>\$ (948)</u>	<u>\$ 155,579</u>	5
	<u>OTX3 Costs:</u>						
6	Pro Forma IPL payroll taxes chargeable to electric operating expense	8748	-294			\$ 8,454	6
7	Pro Forma AES Services payroll taxes chargeable to electric operating expense	1087	11			1,098	7
8	Total Pro Forma payroll taxes chargeable to electric operating expense	<u>\$ 9,835</u>	<u>\$ (283)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,552</u>	8
9	<u>Combined Labor, Benefits and Payroll Tax Costs:</u>						
	Total labor, benefits and payroll taxes chargeable to electric operating expense	<u>\$ 168,543</u>	<u>\$ (5,495)</u>	<u>\$ 3,031</u>	<u>\$ (948)</u>	<u>\$ 165,131</u>	9

- 1 See Schedule OM17, column 2 for labor and benefits costs originally proposed by IPL, and Schedule OTX3, column 1, rows 13 and 14 for pro forma payroll taxes originally proposed by IPL.
- 2 Agrees to column (B) of the tables in the IPL Data Request Response IG 5-1 at the bottom of page 2 and the top of page 3, referenced by OUCC Witness Eckert and IG Witness Gorman in their rebuttal testimony proposals.
- 3 Agrees to column (D) of the tables in the IPL Data Request Response IG 5-1 at the bottom of page 2 and the top of page 3, referenced by OUCC Witness Eckert and IG Witness Gorman in their rebuttal testimony proposals.
- 4 Agrees to proposed wage reduction for open positions in IG Witness Gorman's testimony at page 30.
- 5 See Schedule OM17R, column 2 for revised labor and benefits costs proposed by IPL, and Schedule OTX3R, column 1, rows 13 and 14 for revised pro forma payroll taxes proposed by IPL.