44893

VERIFIED DIRECT TESTIMONY

OF

EDWARD J. KUNZ

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

INCLUDING IPL WITNESS EJK ATTACHMENTS 1 THROUGH 4

VERIFIED DIRECT TESTIMONY OF EDWARD J. KUNZ
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY

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

A1. My name is Edward J. Kunz. I am employed by Indianapolis Power and Light Company ("IPL"), 1 Monument Circle, Indianapolis, IN 46204.

Q2. What is your position with Indianapolis Power & Light Company ("IPL" or "Company")?

A2. I am Manager, Retirement Services.

Q3. Please describe your duties as Retirement Services Manager.

A3. In my current position, I manage the defined benefit plans, the defined contribution plans, and the fiduciary benefit committee.

Q4. Please summarize your educational and professional qualifications.

A4. I have a Master's in Business Administration from Butler University. I have a Bachelor of Science in Accounting from University of Southern Indiana. I also am an Accredited Investment Fiduciary.

Q5. Please summarize your prior work experience.

A5. I have worked at IPL for a total of 38 years, primarily in the benefits and payroll area.

Q6. Have you testified previously before the Indiana Utility Regulatory Commission ("IURC" or "Commission") or other regulatory agencies?

A6. Yes. I testified in IPL's last general rate case docketed as Cause No. 44576.

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

A7. My testimony supports the test year adjustment for pensions and other postretirement benefit ("OPEB") cost included in the Company's proposed revenue requirement. These adjustments are presented by IPL Witness Steadman and are reflected on IPL Financial Exhibit IPL-OPER, Schedule OM17.[1] My testimony also explains the basis for including IPL's Prepaid Pension Asset net of the OPEB liability in the capital structure as shown on IPL Financial Exhibit IPL-CC, Schedule CC3.

Q8. Are you sponsoring any attachments to you testimony?

A8. Yes. My testimony includes:

- IPL Witness EJK Attachment 1, which sets forth the pension and OPEB costs.
- IPL Witness EJK Attachment 2, which sets forth the Prepaid Pension Asset and OPEB Liability included in the capital structure.
- IPL Witness EJK Attachment 3, which sets forth the Pension Benefit Guaranty Corporation ("PBGC") savings related to the Prepaid Pension Asset.
- IPL Witness EJK Attachment 4, which sets forth the Pro Forma Pension and OPEB costs for the year 2016.

These attachments are supported by the actuarial reports provided pursuant to MFSR 1-5-8 (a) 15 and 16.

Q9. Were these attachments prepared or assembled by you or under your direction or supervision?

A9. Yes. I prepared and directed that these attachments be included with my testimony.

Q10. Did you submit any workpapers?

[1] See also supporting workpaper for Schedule OM17, page B1, lines 8 and 23.

A10. Yes. I provided IPL Workpaper 1 – IPL Witness EJK Attachment 1, IPL Workpaper 2 – IPL Witness EJK Attachment 2, IPL Workpaper 3 – IPL Witness EJK Attachment 3, and IPL Workpaper 4 – IPL Witness EJK Attachment 4, which are electronic copies of the spreadsheets set forth in IPL Witness EJK Attachments 1 through 4.

ANNUAL PENSION AND OPEB COST

Q11. How is net periodic benefit cost ("pension cost" or "pension expense") determined for pensions?

A11. Pensions represent obligations of IPL related to providing pension benefits to employees upon retirement. The annual pension cost is determined under Generally Accepted Accounting Principles ("GAAP") in a manner that charges each period with the net pension cost of such benefits attributable ("earned") during the period. The accounting for pensions is promulgated in Topic 715, Compensation-Retirement Benefits, of the Accounting Standards Codification ("ASC 715"), as formerly contained in Financial Accounting Standards Board Opinion No. 87, Employers' Accounting for Pensions. Under GAAP, the annual pension cost is determined using an actuarial valuation based on various factors. Mercer performs the valuation for the Company using reasonable actuarial methods and assumptions, which are detailed in their actuarial report provided with MFSR 1-5-8 (a) 15 and 16. Because pension expense represents appropriate pension costs related to providing service to IPL customers, this Commission has generally permitted pension costs determined in accordance with ASC 715 as allowable operating expenses when determining revenue requirements.

Q12. What are the components of pension cost under GAAP?

A12. ASC 715 requires an annual, actuarially-determined calculation of pension cost. The net pension cost for the period (also referred to as the "net periodic benefit cost") recognizes the consequence of events and transactions affecting a pension plan and is recorded in the financial statements. This approach aggregates the compensation cost of pension benefit accruals, interest cost resulting from deferred payments of these benefits and the results of investing plan assets.

Under ASC 715, the pension cost consists of the following factors:

1) Service cost. The service cost is the actuarial present value of pension benefits calculated under the applicable pension benefit formula and attributed to current employees' service during the period. Actuarial assumptions reflecting the time value of money (discount rate) and the probability of payment (assumptions about mortality, turnover, early retirement, etc.) are factored into the computation.

2) Interest cost. The interest cost or accretion component is the increase in the projected benefit obligation due to the passage of time. This component essentially recognizes that the anticipated benefit plan payments are one year closer to being paid from the pension plan.

3) Expected return on plan assets. The expected return on plan assets is calculated by applying the expected long-term rate of return on plan assets to the market value of the plan assets at the beginning of the year. It is important to note that the expected long-term rate of return is used, meaning that actual investment returns are not directly recognized in this component of pension costs. The market value of plan assets can be either fair market value or a calculated value that recognizes changes in fair value

in a systematic and rational manner over not more than five years. IPL uses the fair market value method.

4) Amortization of gains and losses. Gains and losses are changes in the level of either the projected benefit obligation or plan assets resulting from actual experience compared to the assumptions. Asset gains and losses are the differences between the actual and expected return on plan assets during a period. Plan obligation gains and losses are differences between the actual liability and the expected liability at the end of the measurement period. This includes assumption changes such as discount rate used to value pension liabilities, mortality, etc. ASC 715 does not require such gains and losses be recognized as a component of pension costs in the period in which they occur; instead, such gains and losses are amortized. The amortization of unrecognized gains and losses will be included as a component of net pension cost for a year if, as of the beginning of the year, the unrecognized gain or loss exceeds ten percent of the greater of the projected benefit obligation or the market value of the plan assets (this is referred to as the "corridor"). If amounts exceed the corridor, pension cost is increased by the gain or loss in excess of the corridor divided by the average remaining future service of active plan participants.

5) Amortization of prior service costs. Prior service costs generally arise from plan amendments increasing or decreasing the value of plan liabilities. ASC 715 provides for changes in benefits due to plan amendments be recognized over the average remaining future service of active plan participants.

6) Settlement Charge (Credit). A settlement is defined as an irrevocable action that relieves the employer (or the plan) of primary responsibility for an obligation

and elimates signicant risks related to the obligations and the assets used to effect the settlement. This component of expense will only exist if there is settlement.

7) <u>Curtailment (Gain)/Loss.</u> A curtailment is defined as a significant reduction in, or an elimation of, defined benefit accruals for present employees' future service. This component of expense will only exist if there is curtailment.

Q13. Please discuss the actuarial analyses performed annually for IPL by Mercer concerning the calculation of pension and OPEB costs.

A13. IPL engages Mercer to perform an actuarial valuation of the pension and OPEB plans each year in order to prepare IPL's financial statements in accordance with the relevant requirements, as well as calculating the minimum funding requirements for the pension plan under the Internal Revenue Code.

For the actuarial valuation, IPL provides Mercer with information regarding plan provisions, participant census data, and plan asset detail, including contribution and benefit payment information. Using this information, along with various actuarial assumptions, Mercer projects the expected future benefit payments under the plans based on current information. These future benefit payments are discounted with interest to determine the current present value of plan benefits (*e.g.*, current benefit obligations).

Mercer provides assistance to IPL in selecting the assumptions and methods used to estimate future benefit payments from the plans, by providing background information and professional expertise. Periodically, assumption studies comparing expected experience to actual observed experience are performed, and if necessary, the actuarial assumptions are refined.

Based on the plans' obligations and accumulated assets, Mercer prepares reports detailing the financial statement reporting information, including annual cost calculations and year-end disclosure information. IPL reviews this information, which is then used to prepare the financial statements.

ASC 715 PENSION COST ADJUSTMENT

Q14. What amount of pension cost is included in IPL's proposed revenue requirement?

A14. IPL Witness EJK Attachment 1 shows IPL's actual pension cost is $10,334,126 for the fiscal year ended June 30, 2016. This amount has been adjusted downward by $1,937,569 to $8,396,557 to represent the net periodic benefit pension cost expected to be incurred in 2016 (see IPL Witness EJK Attachment 4, as well as, MFSR 1-5-8 (a) 15 Response 3, page B-1). The adjustment is included in IPL Financial Exhibit IPL-OPER, Schedule OM17 and discussed by IPL Witness Steadman. IPL will further update the pension cost once IPL receives the year-end 2016 Mercer Actuarial Report which will contain the annualized 2017 pension cost. IPL expects to receive the Mercer certified actuarial report in February 2017 and proposes to update the pension cost adjustment based on that report. This is the same approach that IPL used in IPL's last basic rates case docketed as Cause No. 44576.

Q15. Can you explain the basis for the above referenced test year adjustment?

A15. As discussed above, annual pension expense (also referred to as "pension cost" and "net periodic benefit cost"), is based on the annual Mercer Actuarial Report. The test year adjustment is necessary to reflect changes in annual pension expense that will occur prior to June 30, 2017. The amount of the adjustment is based on the annualization of the ASC 715 pension expense for the year 2016 which is set forth in IPL Witness EJK Attachment

4, as well as, MFSR 1-5-8 (a) 15 Response 3, page B-1. As noted above, IPL expects to receive the Mercer's 2017 pension cost calculation in February 2017 and will update this adjustment upon receipt of this certified annual report.[2]

OTHER POSTRETIREMENT BENEFITS ("OPEB")

Q16. Please describe IPL's OPEB plan.

A16. IPL provides a variety of benefits, including medical and coverage, prescription drug coverage and life insurance benefits, to certain employees who retire from the Company.

Q17. How is OPEB cost determined?

A17. The accounting for OPEB is also contained in ASC 715, which codified the accounting previously required under Financial Accounting Standards Board Opinion No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. The accounting requirements for OPEB plans are similar, in many respects, to those for pensions. Under ASC 715, accounting for both OPEB and pension plans require measurement, on an actuarially determined basis, of the promise to provide benefits to retirees or employees upon retirement. Mercer performs the valuation using reasonable actuarial methods and assumptions which are consistent with the requirements of ASC 715. The annual OPEB cost determination consists of 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of gains and losses and 5) amortization of prior service costs. In addition, a settlement charge (credit) or a curtailment may occur during any given year**.** These factors are similar to those described previously for pensions. Unlike pensions, there are no Employee Retirement Income Security Act of

[2] The Mercer report will also include any changes in assumptions (e.g. discount rate) reflected in the year end disclosures.

1974 (“ERISA”) or Internal Revenue Service (“IRS”) requirements with respect to contributions or minimum/maximum funding levels for OPEBs.

Q18. What amount of OPEB cost is included in IPL’s proposed revenue requirement?

A18. IPL Witness EJK Attachment 1 shows IPL’s actual OPEB cost is $(144,748) for the fiscal year ended June 30, 2016. This amount has been adjusted downward by $(111,778) to $(256,526) to represent the net periodic benefit OPEB cost expected to be incurred in 2016 (see IPL Witness EJK Attachment 4, as well as, MFSR 1-5-8 (a) 15 Response 3, page B-1). The adjustment is included in IPL Financial Exhibit IPL-OPER, Schedule OM17 and discussed by IPL Witness Steadman. IPL will further update the OPEB cost once IPL receives the year-end 2016 Mercer Actuarial Report which will contain the annualized 2017 OPEB cost. IPL expects to receive the Mercer certified actuarial report in February 2017 and proposes to update the OPEB cost adjustment based on that report. This is the same approach that IPL used in IPL’s last basic rates case docketed as Cause No. 44576.

Q19. Can you explain the basis for the above referenced test year adjustment?

A19. As discussed above, annual OPEB expense (also referred to as “pension cost” and “net periodic benefit cost”), is based on the annual Mercer Actuarial Report. The test year adjustment is necessary to reflect changes in annual pension expense that will occur prior to June 30, 2017. The amount of the adjustment is based on the annualization of the ASC 715 OPEB expense for the year 2016 which is set forth in IPL Witness EJK Attachment 4, as well as, MFSR 1-5-8 (a) 15 Response 3, page B-1. As noted above, IPL expects to receive the Mercer's 2017 OPEB cost calculation in February 2017 and will update this adjustment upon receipt of this certified annual report.[3]

PREPAID PENSION ASSET

Q20. Please describe IPL's ongoing funding for the employee pension plan.

A20. Funding for the qualified Defined Benefit Pension Plan is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds. IPL's funding policy for the Pension Plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.

Q21. How does IPL define a Prepaid Pension Asset?

A21. IPL is using the term 'Prepaid Pension Asset' as the cumulative amount of actual cash pension contributions to the pension trust fund made by IPL beyond the cumulative amount of pension cost that has been accrued to expense for IPL. The Prepaid Pension Asset is investor-supplied and should be included in cost of capital in order to reflect the Company's cost of funds on the additional cash contributions. The 'Prepaid Pension Asset' could also be defined as the net amount of the funded status and the regulatory asset which are reflected on IPL's books as detailed below.

[3] The Mercer report will also include any changes in assumptions (e.g. discount rate) reflected in the year end disclosures.

Q22. Is the Prepaid Pension Asset reflected on IPL's books?

A22. Yes. IPL recognizes a pension liability on its balance sheet equal to the difference between assets and benefit obligations, as required under US GAAP. Additionally, IPL recognizes a regulatory asset on its balance sheet equal to actuarial gains/losses and prior service costs that have not yet been amortized through expense. The net amount of the funded status and the regulatory asset is equal to the plan's Prepaid Pension Asset.

Q23. What is the difference between the ASC 715 net periodic benefit cost and the Prepaid Pension Asset?

A23. The ASC 715 calculation of net periodic benefit cost is used to develop the pension expense for the revenue requirement. This calculation does not capture the time value of money cost of the prepaid pension asset. In order to capture this reasonable and necessary cost, the prepaid pension asset must be recognized in cost of capital.

Q24. Why does IPL have a Prepaid Pension Asset?

A24. A Prepaid Pension Asset arises when cumulative contributions to the plan exceed cumulative expense under US GAAP. Because plan contributions are determined under ERISA and IRS regulations, while pension expense is determined under ASC 715, the amount contributed to the plan each year is generally different than the expense. As of June 30, 2016, IPL has contributed approximately $170.5 million more than the cumulative amount of pension cost determined in accordance with ASC 715. The ASC 715 cumulative pension cost and the cumulative pension contributions are shown on <u>IPL Witness EJK Attachment 2</u>.

Q25. Can IPL access these pension assets?

A25. No. ERISA requirements generally do not permit employers to remove money from the qualified pension funds.

Q26. Why does IPL propose to include the Prepaid Pension Asset in the capital structure?

A26. In our most recent rate case, IPL proposed to include the net prepaid pension asset in rate base, but the Office of Utility Consumer Counselor ("OUCC") opposed that treatment. The Commission accepted IPL's position, with modifications. In an effort perhaps to simplify and minimize the issues in this case, IPL is proposing a treatment of the net prepaid pension asset which hopefully responds to the OUCC's objections to rate base treatment by instead including the net asset in the capital structure as a source of net capital at zero cost.

Q27. Is inclusion of the net prepaid pension asset in the capital structure appropriate?

A27. Yes. The Prepaid Pension Asset represents investor capital residing in the pension plan and thus investors should be compensated for their investment. The Prepaid Pension Asset should be included as a component of cost of capital.

The Prepaid Pension Asset recorded on IPL's balance sheet comes about by contributions made by IPL to the pension fund and/or crediting pension expense in accordance with ASC 715. In either case, this balance sheet amount is investor-supplied with IPL either crediting the cash account with a contribution to the pension fund or crediting its pension costs on the income statement (based on the ASC 715 computation), reducing revenue requirements.

Including the prepaid pension asset in cost of capital will allow recognition of IPL's cost of funds on the additional cash contributions. These additional contributions also serve to control future pension costs that would otherwise need to be reflected in rates. Including the prepaid pension asset in cost of capital is appropriate because IPL's customers benefit from the existence of the appropriate pension funding and the lower pension expense that results from IPL having made these contributions. The additional pension contributions have been prudently incurred by IPL to provide service to its customers, are necessary for the provision of service, and constitute property that is used and useful in providing public service.

Q28. Is there a benefit to customers when contributions in excess of ASC 715 accruals are made to the Company's pension plan?

A28. Yes, as I have stated, IPL customers have benefited because these additional contributions resulted in additional investment income in the pension trust and this in turn reduced pension cost that is recognized for ratemaking purposes. In addition, fully funding the pension plan made IPL's pension plan more secure. This benefits customers because a strong pension plan is important to attracting and retaining a good work force so that IPL can provide customers cost effective and reliable electric service. In addition, the PBGC annual fee was reduced by approximately $691 thousand in 2016. The PBGC reduction in fees is shown on <u>IPL Witness EJK Attachment 3</u>. This fee is not a direct cost to the IPL since it is paid out of the IPL pension plan trust. However, the PBGC fee reduces the funded status which increases required IPL pension funding over time.

Q29. Has the Commission previously approved the inclusion of a utility's prepaid pension assets as a component of the capital structure ?

A29. Yes. In Cause No. 44450, an Indiana American Water Company rate case, OUCC Witness Heather Poole recommended the prepaid pension asset be netted with the OPEB liability within the capital structure at a zero cost of capital and this approach was incorporated in the settlement agreement and approved by the Commission. In Cause No. 44688, Northern Indiana Public Service Company sought to include a prepaid pension asset in cost of capital, and the Commission approved this request as part of the settlement agreement in that docket.

Q30. Does IPL also have a prepaid asset related to OPEBs?

A30. No. As shown on IPL Financial Exhibit IPL-CC, Schedule CC3, in the case of OPEBs, a liability exists. This liability represents the cumulative difference between the actual OPEB claims at the end of the test period and the ASC 715 calculated OPEB expense. Unlike pensions, IPL has not made contributions to a separate fund for postretirement benefits other than pensions. As a result, the postretirement benefits other than pensions are in a net liability status at the end of the test year. The Commission Order dated December 30, 1992 in Cause No. 39348 (the Generic SFAS 106 Proceeding), page 36-37, authorizes this amount to be reflected either as zero-cost capital or as a rate base reduction. We are proposing that it be treated as zero-cost capital. This treatment is consistent with the inclusion of the prepaid pension asset in cost of capital described above.

Q31. Does that conclude your verified pre-filed direct testimony?

A31. Yes.

VERIFICATION

I, Edward J. Kunz, Manager, Retirement Services for Indianapolis Power& Light Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Edward J. Kunz

Edward J. Kunz

Dated: December 22, 2016

INDIANAPOLIS POWER & LIGHT COMPANY
Computation of Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended June 30, 2016

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	July - December 2015:						2
3	Service cost	$ 4,157,005	$ -	$ 4,157,005	$ 171,825	$ 4,328,830	3
4	Interest cost	14,703,792	117,470	14,821,262	111,983	14,933,245	4
5	Expected return on assets	(22,250,011)	(157,722)	(22,407,733)	-	(22,407,733)	5
6	Amortization of prior service cost	2,433,746	-	2,433,746	(185,539)	2,248,207	6
7	Amortization of net actuarial loss	6,875,431	64,952	6,940,383	(114,522)	6,825,861	7
8	Settlement charge (credit)	-	206,164	206,164	-	206,164	8
9		$ 5,919,963	$ 230,864	$ 6,150,827	$ (16,253)	$ 6,134,574	9
10	January - June 2016:						10
11	Service cost	$ 3,508,770	$ -	$ 3,508,770	$ 127,914	$ 3,636,684	11
12	Interest cost	12,817,056	90,484	12,907,540	93,111	13,000,651	12
13	Expected return on assets	(21,597,783)	(148,310)	(21,746,093)	-	(21,746,093)	13
14	Amortization of prior service cost	2,591,874	-	2,591,874	(185,883)	2,405,991	14
15	Amortization of net actuarial loss	6,874,116	73,808	6,947,924	(163,275)	6,784,649	15
16	Settlement charge (credit)	-	-	-	-	-	16
17		$ 4,194,033	$ 15,982	$ 4,210,015	$ (128,133)	$ 4,081,882	17
18							18
19	Total Net Periodic Benefit Cost - Total	$ 10,113,996	$ 246,846	$ 10,360,842	$ (144,386)	$ 10,216,456	19
20							20
21	Non-Utility Allocations:						21
22	July - December 2015:						22
23	Service cost	$ (10,287)	$ -	$ (10,287)	$ (473)	$ (10,760)	23
24	Interest cost	(36,561)	(260)	(36,821)	(297)	(37,118)	24
25	Expected return on assets	55,199	501	55,700	-	55,700	25
26	Amortization of prior service cost	(5,985)	-	(5,985)	397	(5,588)	26
27	Amortization of net actuarial loss	(17,464)	(122)	(17,586)	140	(17,446)	27
28	Settlement charge (credit)	-	-	-	-	-	28
29		$ (15,098)	$ 119	$ (14,979)	$ (233)	$ (15,212)	29
30	January - June 2016:						30
31	Service cost	$ (9,755)	$ -	$ (9,755)	$ (449)	$ (10,204)	31
32	Interest cost	(35,724)	(254)	(35,978)	(290)	(36,268)	32
33	Expected return on assets	59,136	537	59,673	-	59,673	33
34	Amortization of prior service cost	(6,975)	-	(6,975)	462	(6,513)	34
35	Amortization of net actuarial loss	(18,572)	(130)	(18,702)	148	(18,554)	35
36	Settlement charge (credit)	-	-	-	-	-	36
37		$ (11,890)	$ 153	$ (11,737)	$ (129)	$ (11,866)	37
38							38
39	Total Net Periodic Benefit Cost - Non-Utility	$ (26,988)	$ 272	$ (26,716)	$ (362)	$ (27,078)	39
40							40
41	Net IPL:						41
42	July - December 2015:						42
43	Service cost	$ 4,146,718	$ -	$ 4,146,718	$ 171,352	$ 4,318,070	43
44	Interest cost	14,667,231	117,210	14,784,441	111,686	14,896,127	44
45	Expected return on assets	(22,194,812)	(157,221)	(22,352,033)	-	(22,352,033)	45
46	Amortization of prior service cost	2,427,761	-	2,427,761	(185,142)	2,242,619	46
47	Amortization of net actuarial loss	6,857,967	64,830	6,922,797	(114,382)	6,808,415	47
48	Settlement charge (credit)	-	206,164	206,164	-	206,164	48
49		$ 5,904,865	$ 230,983	$ 6,135,848	$ (16,486)	$ 6,119,362	49
50	January - June 2016:						50
51	Service cost	$ 3,499,015	$ -	$ 3,499,015	$ 127,465	$ 3,626,480	51
52	Interest cost	12,781,332	90,230	12,871,562	92,821	12,964,383	52
53	Expected return on assets	(21,538,647)	(147,773)	(21,686,420)	-	(21,686,420)	53
54	Amortization of prior service cost	2,584,899	-	2,584,899	(185,421)	2,399,478	54
55	Amortization of net actuarial loss	6,855,544	73,678	6,929,222	(163,127)	6,766,095	55
56	Settlement charge (credit)	-	-	-	-	-	56
57		$ 4,182,143	$ 16,135	$ 4,198,278	$ (128,262)	$ 4,070,016	57
58							58
59	12 Months Ended - June 2016:						59
60	Service cost	$ 7,645,733	$ -	$ 7,645,733	$ 298,817	$ 7,944,550	60
61	Interest cost	27,448,563	207,440	27,656,003	204,507	27,860,510	61
62	Expected return on assets	(43,733,459)	(304,994)	(44,038,453)	-	(44,038,453)	62
63	Amortization of prior service cost	5,012,660	-	5,012,660	(370,563)	4,642,097	63
64	Amortization of net actuarial loss	13,713,511	138,508	13,852,019	(277,509)	13,574,510	64
65	Settlement charge (credit)	-	206,164	206,164	-	206,164	65
66		$ 10,087,008	$ 247,118	$ 10,334,126	$ (144,748)	$ 10,189,378	66

INDIANAPOLIS POWER & LIGHT COMPANY
Prepaid Pension Asset and OPEB Liability for the Twelve Months Ended June 30, 2016

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost (per Mercer)**	$ 156,687,021	$ 2,092,773	$ 158,779,794	$ (12,700,519)	$ 146,079,275	1
2	Adjustment - difference between Mercer and actual IPL Books (due to estimating OPEB claims paid)	-	-	-	(83)	(83)	2
3	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost (per IPL books)**	$ 156,687,021	$ 2,092,773	$ 158,779,794	$ (12,700,602)	$ 146,079,192	3
4	Employer contributions	15,900,000	-	15,900,000	9,774	15,909,774	4
5	Net periodic benefit cost:						5
6	Service cost	(3,508,770)	-	(3,508,770)	(127,914)	(3,636,684)	6
7	Interest cost	(12,817,056)	(90,484)	(12,907,540)	(93,111)	(13,000,651)	7
8	Expected return on assets	21,597,783	148,310	21,746,093	-	21,746,093	8
9	Amortization of prior service cost	(2,591,874)	-	(2,591,874)	185,883	(2,405,991)	9
10	Amortization of net actuarial loss	(6,874,116)	(73,808)	(6,947,924)	163,275	(6,784,649)	10
11	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost**	$ 168,392,988	$ 2,076,791	$ 170,469,779	$ (12,562,695)	$ 157,907,084	11

INDIANAPOLIS POWER & LIGHT COMPANY
PBGC Reduction in Fees
Calculation of reduction based on Prepaid Pension asset and rate (per PBGC)
(thousands)

Line No.				Line No.
1	Prepaid Pension Asset (Qualifed Plan only)	$	168,393	1
2	Variable rate premium as specified by the PBGC		3.00%	2
3	Calculated PBGC premium	$	5,052	3
4	There is a cap on the maximum PBGC premium determined by:			4
	# of eligible participants	$	500	
	Rate per participant		2,772	
5	Maximum PBGC premium	$	1,386	5
6	PBGC variable rate premium paid by October 15, 2016		695	6
7	Estimate reduction in PBGC contribution due to Prepaid Pension Asset	$	691	7

INDIANAPOLIS POWER & LIGHT COMPANY

Pro Forma Computation of Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2016

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	Service cost	$ 7,017,541	$ -	$ 7,017,541	$ 255,828	$ 7,273,369	2
3	Interest cost	25,634,113	180,968	25,815,081	186,221	26,001,302	3
4	Expected return on assets	(43,195,566)	(296,619)	(43,492,185)	-	(43,492,185)	4
5	Amortization of prior service cost	5,183,748	-	5,183,748	(371,767)	4,811,981	5
6	Amortization of net actuarial loss	13,748,231	147,615	13,895,846	(326,550)	13,569,296	6
7	Expected return on assets	-	-	-	-	-	7
8		$ 8,388,067.0	$ 31,964.0	$ 8,420,031.0	$ (256,268.0)	$ 8,163,763.0	8
9							9
10	Non-Utility Allocations:						10
11	January - June 2016:						11
12	Service cost	$ (9,755)	$ -	$ (9,755)	$ (449)	$ (10,204)	12
13	Interest cost	(35,724)	(254)	(35,978)	(290)	(36,268)	13
14	Expected return on assets	59,136	537	59,673	-	59,673	14
15	Amortization of prior service cost	(6,975)	-	(6,975)	462	(6,513)	15
16	Amortization of net actuarial loss	(18,572)	(130)	(18,702)	148	(18,554)	16
17	Settlement charge (credit)	-	-	-	-	-	17
18		$ (11,890)	$ 153	$ (11,737)	$ (129)	$ (11,866)	18
19							19
20	July - Dec 2016 (estimated - same as Jan - Jul 2016):						20
21	Service cost	$ (9,755)	$ -	$ (9,755)	$ (449)	$ (10,204)	21
22	Interest cost	(35,724)	(254)	(35,978)	(290)	(36,268)	22
23	Expected return on assets	59,136	537	59,673	-	59,673	23
24	Amortization of prior service cost	(6,975)	-	(6,975)	462	(6,513)	24
25	Amortization of net actuarial loss	(18,572)	(130)	(18,702)	148	(18,554)	25
26	Settlement charge (credit)	-	-	-	-	-	26
27		$ (11,890)	$ 153	$ (11,737)	$ (129)	$ (11,866)	27
28							28
29	Total Net Periodic Benefit Cost - Non-Utility	$ (23,780)	$ 306	$ (23,474)	$ (258)	$ (23,732)	29
30							30
31	Net IPL:						31
32	12 Months Ended - June 2016:						32
33	Service cost	$ 6,998,031	$ -	$ 6,998,031	$ 254,930	$ 7,252,961	33
34	Interest cost	25,562,665	180,460	25,743,125	185,641	25,928,766	34
35	Expected return on assets	(43,077,294)	(295,545)	(43,372,839)	-	(43,372,839)	35
36	Amortization of prior service cost	5,169,798	-	5,169,798	(370,843)	4,798,955	36
37	Amortization of net actuarial loss	13,711,087	147,355	13,858,442	(326,254)	13,532,188	37
38	Settlement charge (credit)	-	-	-	-	-	38
39		$ 8,364,287	$ 32,270	$ 8,396,557	$ (256,526)	$ 8,140,031	39