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INDIANA UTILITY
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VERIFIED DIRECT TESTIMONY

OF

CRAIG A. FORESTAL

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 U.S. Services, LLC (“Service
3 Company”), which is a wholly-owned subsidiary of The AES Corporation. The Service
4 Company is located at the headquarters of Indianapolis Power & Light Company (“IPL”
5 or the “Company”) at One Monument Circle, Indianapolis, Indiana 46204. The Service
6 Company provides accounting, legal, human resources, information technology and other
7 corporate services to the businesses owned by AES Corporation in the United States of
8 America, including IPL.

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

10 A2. I am the Director of Regulatory Accounting.

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

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

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

18 A4. I hold a Bachelor of Science degree in Accounting from Ball State University.

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

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

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

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

19 A6. Yes, I have submitted testimony in support of IPL's: quarterly fuel cost (Cause No.
20 38703-FAC-XX); demand side management adjustment proceedings (Cause No. 40292-
21 DSM-XX); Green Power Initiative approved in Cause No. 43251 and revised in Cause
22 Nos. 43506 and 43693; requests for approval of a Green Power Initiative rate (Cause No.
23 44121 GPR X); semi-annual Environmental Compliance Cost Recovery Adjustment

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

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

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

11 **Rate Base**

- 12 • IPL Financial Exhibit IPL-RB, Schedule RB1 - Pro Forma Electric Rate Base at
13 Original Cost and at Fair Value. For this schedule, I organized the framework of the
14 schedule, while the calculation of current value and the methodology for calculating
15 fair value come from outside experts. IPL Witness Bulkley sponsors the calculation
16 of current value and IPL Witness McKenzie sponsors the method for calculating
17 fair value rate base.
- 18 • IPL Financial Exhibit IPL-RB, Schedule RB2 - Original Cost Electric Rate Base
19 Per Books at June 30, 2016 and Pro Forma.
- 20 • IPL Financial Exhibit IPL-RB, Schedule RB7 - Electric Materials and Supplies
21 Inventory Per Books at June 30, 2016 and Pro Forma.
- 22 • IPL Financial Exhibit IPL-RB, Schedule RB10 - Miscellaneous Rate Base
23 Adjustments.

24 **Revenues**

- 25 • IPL Financial Exhibit IPL-OPER, Schedule OPINC – Statements of Jurisdictional
26 Electric Operating Income for the Twelve Months Ended June 30, 2016, Per books
27 and Jurisdictional Pro Forma at Present and Proposed Rates.
- 28 • IPL Financial Exhibit IPL-OPER, Schedule REV1 – Summary of Electric
29 Operating Revenue for the Twelve Months Ended June 30, 2016, Total Electric Per
30 Books and Pro Forma Total Electric at Present and Proposed Rates.

- 1 • IPL Financial Exhibit IPL-OPER, Schedule REV2 – Summary of Electric
2 Operating Revenue Adjustments, Taking Per Books Total Electric to Pro Forma
3 Total Electric at Present Rates.
- 4 • IPL Financial Exhibit IPL-OPER, Schedule REV4 – Summary of Electric Retail
5 Basic Rate Revenue Adjustments, for Weatherization and Customer Annualization
6 and to Remove Out-of-Period Activity and Unbilled Revenues for the Twelve
7 Months Ended June 30, 2016. For this schedule, the adjustments shown in columns
8 2 through 4 are sponsored by IPL Witness Chambers.
- 9 • IPL Financial Exhibit IPL-OPER, Schedule REV7 – Summary of Electric Rent
10 Revenue, Per Books and Pro Forma Total Electric at Present Rates for the Twelve
11 Months Ended June 30, 2016.

12 **Operating Expenses**

- 13 • IPL Financial Exhibit IPL-OPER, Schedule OM1 – Summary of Pro Forma
14 Adjustments to Electric Operation and Maintenance Expense for the Twelve
15 Months Ended June 30, 2016.
- 16 • IPL Financial Exhibit IPL-OPER, Schedule OM20 - Amortization of Rate Case
17 Expense.
- 18 • IPL Financial Exhibit IPL-OPER, Schedule OM21 - Miscellaneous Expense
19 Adjustments.
- 20 • IPL Financial Exhibit IPL-OPER, Schedule OM23 – Electric Building Renovation
21 Expenses.
- 22 • IPL Financial Exhibit IPL-OPER, Schedule OM24 – Changes in Property
23 Insurance.
- 24 • IPL Financial Exhibit IPL-OPER, Schedule OM25 – Adjustment for Battery
25 Storage System Operating and Maintenance Costs.
- 26 • IPL Financial Exhibit IPL-OPER, Schedule OM26 – Obsolete/Damaged Materials
27 and Supplies Inventory Adjustment.
- 28 • IPL Financial Exhibit IPL-OPER, Schedule OM27 – Adjust Write-Offs of
29 Preliminary Survey and Investigation Charges.

30 **Q8. Were these financial statements and schedules or portions of these financial**
31 **statements and schedules prepared or assembled by you or under your direction or**
32 **supervision?**

33 A8. Yes. I prepared the above referenced financial statements and schedules as noted above.

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

2 A9. Yes. I am sponsoring the workpapers that support the financial statements and schedules
3 that I sponsor.

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

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

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

9 A11. See the following explanations:

10 Schedules FS1 and FS2 entitled Balance Sheets as of June 30, 2016 and June 30, 2015
11 These schedules present IPL’s Comparative Balance Sheets in accordance with the
12 accounting requirements of the Federal Energy Regulatory Commission (“FERC”) as set
13 forth in its applicable Uniform System of Accounts and published accounting releases.
14 This information is provided as of the end of the test period, which is June 30, 2016, and
15 as of June 30, 2015. The schedules include assets held, liabilities owed or accrued and
16 owner’s equity, and are prepared on the accrual basis of accounting. These schedules
17 were prepared from the books of IPL.

18 Schedule FS3 entitled Statements of Income

19 This schedule depicts IPL’s actual per books, unadjusted operating results and financial
20 performance for the 12 months ended June 30, 2016 and for the 12 months ended June 30,
21 2015. It is prepared on an accrual basis in accordance with the accounting requirements of
22 FERC.

1 Schedule FS4 entitled Statement of Cash Flows

2 This schedule presents the net increase in cash and cash equivalents for the 12 months
3 ended June 30, 2016, on a per books basis. In accordance with the accounting
4 requirements of FERC, it is segregated into three categories: Operating Activities,
5 Investing Activities and Financing Activities. It also states the amount of cash and cash
6 equivalents at the end of the test period, June 30, 2016.

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

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

15 IPL's net electric utility plant in service at original cost is then multiplied by the percentage
16 of IPL's capitalization from IPL Financial Exhibit CC Schedule CC-3 that is not derived
17 from common equity. This can be calculated as line 8 of column 2, less line 3 of column 2
18 on IPL Financial Exhibit CC Schedule CC-3. The product of IPL's net electric utility
19 plant in service at original cost multiplied by the portion of IPL's capitalization not from
20 common equity makes up what IPL Witness McKenzie refers to as IPL's "original cost
21 contribution to fair value net electric plant" which is shown on line 5 of IPL Financial
22 Exhibit IPL-RB, Schedule RB1.

1 The schedule then shows the calculation of what IPL Witness McKenzie refers to as IPL's
2 "current cost contribution to fair value net electric plant." That calculation is the product
3 of IPL's net electric utility plant in service at current value (as calculated by IPL Witness
4 Bulkley on Petitioner's Exhibit AES-2) and the common equity percentage of IPL's
5 capitalization as shown on line 3, column 2 of IPL Financial Exhibit CC Schedule CC-3.
6 When IPL's original cost contribution to fair value net electric plant is added to the current
7 cost contribution to fair value net electric plant, the result is what IPL Witness McKenzie
8 refers to as IPL's "total net electric plant in service at fair value" as shown on line 9 of IPL
9 Financial Exhibit IPL-RB, Schedule RB1. To this amount, the schedule then adds the pro
10 forma original cost rate base values of materials and supplies inventory, fuel stock
11 inventory and regulatory assets, all of which were derived from IPL Financial Exhibit RB,
12 Schedule RB2. The sum of these amounts, which is \$3,749.9 million, is displayed on line
13 13 as IPL's total fair value rate base and carried forward to line 1 of IPL Financial Exhibit
14 REVREQ, Schedule REVREQ1. IPL Witness McKenzie supports the rationale for this
15 method of calculating fair value rate base and the reasonableness of the \$3,749.9 million
16 result for representing IPL's fair value rate base.

17 **Q13. Please explain IPL Financial Exhibit IPL-RB, Schedule RB2 entitled **Original Cost****
18 **Electric Rate Base Per Books at June 30, 2016 and Pro Forma.**

19 A13. This schedule illustrates how IPL's pro forma rate base at original cost was derived.
20 Beginning with the original cost rate base per books at June 30, 2016 (Line 1), the
21 schedule is a summary of the adjustments necessary to arrive at the appropriate amount for
22 IPL's pro forma rate base (at original cost). Each of such adjustments is derived from
23 other RB schedules. Column 1 is a description of each adjustment, with a reference to the

1 appropriate RB schedule that contains the detail. The totals in line 9 of IPL Financial
2 Exhibit IPL-RB, Schedule RB2 carry forward to IPL Financial Exhibit IPL-RB, Schedule
3 RB1.

4 **Q14. Please explain IPL Financial Exhibit IPL-RB, Schedule RB7 entitled **Electric****
5 **Materials and Supplies Inventory Per Books at June 30, 2016 and Pro Forma.**

6 A14. This schedule displays in column 1, the 13-month end of period per books balances of
7 materials and supplies inventories consisting of general materials, parts, and tools and
8 undistributed stores expense. Because the ending balance of June 30, 2015 represents the
9 beginning balance on July 1, 2015, the average of these 13 periods represents the average
10 balance for the test year. The per books amounts must be adjusted to reflect the fact that
11 multiple units at Harding Street Generating Station and Eagle Valley Generating station
12 were still burning coal for portions of the test year, but none of the units at these stations
13 continue to burn coal today. Accordingly, column 2 of the schedule removes the book
14 balances for materials and supplies at Harding Street and Eagle Valley Generating Stations
15 and columns 3 and 4 replace those values with the materials and supplies needed to support
16 those generating stations with gas fired generating units. IPL Witness Scott supports the
17 reasonableness of the inventory estimates. Column five is a total of columns 1-4. The
18 average balance of column 5 is \$72.2 million, which the Company believes is representative
19 of the average materials and supplies inventory balance IPL will have going forward. This
20 amount represents a decrease from both the ending per books balance on June 30, 2016 and
21 the average of the test year ending balances. The \$443,000 decrease shown on line 18 is
22 carried forward to IPL Financial Exhibit IPL-RB, Schedule RB2 to be included in IPL's pro
23 forma original cost rate base.

1 **Q15. Please compare the materials and supplies inventory balance for Harding Street**
2 **Station that IPL proposes to include in rate base in this proceeding to the book**
3 **balances at the end of July, August and September 2016.**

4 A15. The monthly average Harding Street Station materials and supplies inventory balance
5 increased by a little more than \$0.5 million for the three months ended September 2016 as
6 compared to the amount of \$9.8 million used on IPL Financial Exhibit IPL-RB, Schedule
7 RB7. I believe this increase helps to substantiate that the amount IPL proposes to include
8 in rate base is not overstated. IPL has submitted Workpaper RB7 in support of this
9 information.

10 **Q16. Please explain IPL Financial Exhibit IPL-RB, Schedule RB10 entitled Miscellaneous**
11 **Rate Base Adjustments.**

12 A16. This schedule contains several miscellaneous adjustments that either adjust per books
13 utility plant or accumulated depreciation to appropriately reflect known future events or
14 correct the book balances as of June 30, 2016.

15 **Q17. Please continue by describing each Miscellaneous Rate Base Adjustment more fully.**

16 A17. Line 1 of this schedule eliminates from rate base, utility plant items that will remain in
17 IPL's environmental rider. Lines 2 and 3 update accumulated depreciation for deferred
18 depreciation on RB9, lines 10 and 11 (column 2, less column 3) to prevent double
19 collecting the return on the related asset balances. The remaining items are corrections to
20 the books and records that were either discovered after the accounting books were closed
21 for the test year or due to additional information becoming available after the accounting
22 books were closed for the test year. The corrections to the books were determined to be
23 immaterial to the financial statements and therefore were corrected in the books after the

1 test year. Line 5 corrects for an accounting system error that resulted in no Allowance for
2 Funds Used During Construction (“AFUDC”) being recorded on the Harding Street 5 and
3 6 conversion projects for the final six months they were under construction. Line 6
4 corrects for utility plant that was physically in-service at June 30, 2016, but did not get
5 reflected as such on IPL’s general ledger prior to June 30, 2016. Line 7 of IPL Financial
6 Exhibit IPL-RB, Schedule RB10 adjusts utility plant and accumulated depreciation to
7 reverse a bookkeeping error that resulted in IPL recording too many dollars as retirement
8 of meters. The retirements were booked as normal, meaning the entries each included a
9 credit to utility plant and an equal debit to accumulated depreciation with no impact on net
10 utility plant. Accordingly, this adjustment does not change net utility plant, but is
11 necessary to allow the depreciation study in this case to properly reflect the appropriate
12 utility plant and accumulated depreciation balances. Finally, line 8 is the result of an order
13 issued by the Commission in Cause No. 42170 on October 26, 2016. Such order denied
14 IPL’s request for authority to create a regulatory asset for approximately \$3.17 million in
15 net inventory costs incurred during the test year in this proceeding in connection with the
16 HS-7 refueling project. As a consequence to that order, IPL eliminated the \$3.17 million
17 regulatory asset. The amount on line 8 of this schedule is the portion of such materials
18 and supplies inventory for which “normal retirement treatment” is appropriate. This
19 represents the portion of such inventory that constitutes “retirement units” and therefore
20 would have been included in Utility Plant at the time it was issued into operations as
21 opposed to the portion that is appropriately charged to repairs and maintenance expense
22 when issued. IPL Witness Spanos explains why this accounting treatment is appropriate.

1 Because this item results from a Commission Order pertaining to test year events, I
2 believe it would be inappropriate to exclude it from the test year.

3 **Q18. Could you briefly explain IPL Financial Exhibit IPL-OPER, Schedule OPINC?**

4 A18. This schedule is a summary statement showing IPL's test year electric operating revenues,
5 operating expenses (including operation and maintenance expenses, depreciation and
6 amortization expenses, and taxes), and the resulting electric operating income per books
7 and jurisdictional pro forma, based upon the electric rates now in effect and also upon the
8 electric rates proposed by IPL for this Cause. It does not include anticipated revenues
9 from the following sources: (i) transmission plant assets recovered by IPL through MISO
10 transmission cost sharing; (ii) the return or expense recovery IPL receives on projects
11 related to National Pollutant Discharge Elimination System ("NPDES") permit
12 requirements which will remain as part of IPL's environmental rate rider; or (iii) shared
13 savings incentives IPL receives for successful implementation of demand side
14 management programs. Such revenues are not based on IPL's pro forma rate base or pro
15 forma operating expenses included in this petition and therefore are not included in the
16 revenue requirement IPL seeks through basic rates and charges in this proceeding.

17 Column 2 sets forth the actual per books electric operations of IPL for the test year ending
18 June 30, 2016. Column 3 shows the adjustments at present rates that yield in column 4 the
19 pro forma operating revenues, pro forma operating expenses, and pro forma operating
20 income at present rates, on a normalized and annualized basis. Column 5 presents pro
21 forma adjustments that would result from the change in IPL's proposed rates in this Cause
22 and column 6 shows the resulting pro forma operating revenues, pro forma operating

1 expenses, and pro forma operating income at proposed rates, on a normalized and
2 annualized basis.

3 The actual per books electric operating income for the period was \$163.0 million. The pro
4 jurisdictional forma electric operating income at present rates is shown to be \$156.2
5 million. The jurisdictional pro forma level of operating revenues at rates proposed by IPL
6 is \$1,410.9 million, resulting in pro forma jurisdictional electric net operating income at
7 proposed rates of \$213.7 million.

8 **Q19. Please explain the general nature of the adjustments at present rates, as summarized**
9 **in column 3 of IPL Financial Exhibit IPL-OPER, Schedule OPINC.**

10 A19. The adjustments made in column 3 are necessary in order to reflect, on a normalized and
11 annualized basis, changes in operating conditions on IPL's electric system which are not
12 fully reflected in the actual operating results, as shown in column 2. These adjustments
13 reflect changes through the 12 months following the end of the test year which are
14 representative of utility operations and which are fixed in time, known to be occurring,
15 and measurable in amount. Consequently, it is necessary to give effect to these
16 adjustments in order to properly determine the pro forma electric operating revenues,
17 operating expenses, and operating income at present rates, as shown in column 4, before
18 proceeding to reflect the additional adjustments needed to determine these amounts at
19 proposed rates.

20 **Q20. Please explain the general nature of the adjustments at proposed rates, as**
21 **summarized in column 5 of IPL Financial Exhibit IPL-OPER, Schedule OPINC.**

1 A20. These adjustments are necessary to reflect the additional operating revenues produced by
2 proposed rates, as sponsored by IPL Witness Gaske, and the related additional operating
3 expenses and taxes resulting from such additional revenues. When these amounts are
4 added to the pro forma adjusted revenues, operating expenses and income taxes at present
5 rates (column 4), the result is pro forma revenues, operating expenses and income taxes at
6 proposed rates (column 6).

7 **Q21. In your opinion, does IPL Financial Exhibit IPL-OPER, Schedule OPINC fairly**
8 **present the estimated operating results of IPL's electric business on an annualized**
9 **and normalized basis under the existing rates, as now in effect for IPL's electric**
10 **service and at proposed rates?**

11 A21. Yes. The 12-month period ending June 30, 2016 is a recent full year of actual operating
12 experience in IPL's books and records, which has been reviewed by IPL's independent
13 certified public accountants, Ernst & Young. After considering the effects of the pro
14 forma adjustments, this test period is representative of a typical year, from a financial
15 standpoint, as a basis for setting future rates. Therefore, the annual results as of that date,
16 as adjusted in IPL Financial Exhibit IPL-OPER, Schedule OPINC, provide a sound basis
17 for fixing new rates.

18 **Q22. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV1 – Summary of**
19 **Electric Operating Revenue for the Twelve Months Ended June 30, 2016, Total**
20 **Electric Per Books and Pro Forma Total Electric at Present and Proposed Rates.**

21 A22. This schedule summarizes the per books, test year amounts of revenues and the pro forma
22 adjustments required to arrive at revenues at both present and proposed rates. The details
23 supporting the pro forma adjustments at present and proposed rates are included on the

1 schedules that follow. These adjustments to the test year per books results are necessary
2 to give effect on a pro forma annual basis to increases and decreases in revenues that are
3 fixed in time, known to be occurring and measurable in amount.

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

9 **Q23. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV2 – Summary of**
10 **Electric Operating Revenue Adjustments, Taking Per Books Total Electric to Pro**
11 **Forma Total Electric at Present Rates.**

12 A23. This schedule summarizes the pro forma adjustments to test year results required to arrive
13 at revenues at present rates. The details supporting each pro forma adjustment are
14 included on the schedules named at the top of each column 1-7 of this schedule. These
15 adjustments to the test year per books results are necessary to give effect on a pro forma
16 annual basis to increases and decreases in revenues that are fixed in time, known to be
17 occurring and measurable in amount. Column 8 is a total of these adjustments. The
18 amounts shown in column 8 also appear on IPL Financial Exhibit IPL-OPER, Schedule
19 REV1 (column 2).

20 **Q24. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV4 – Summary of**
21 **Electric Retail Basic Rate Revenue Adjustments, for Weatherization and Customer**

1 **Annualization and to Remove Out-of-Period Activity and Unbilled Revenues for the**
2 **Twelve Months Ended June 30, 2016.**

3 A24. IPL Financial Exhibit IPL-OPER, Schedule REV4 begins with the per books basic rate
4 revenues for the test year ended June 30, 2016 and then removes unusual or out-of-period
5 items to normalize to a full year of billed revenues at the rates in effect at June 30, 2016.
6 Adjustments are made to normalize weather, annualize revenues to the current customer
7 base, increase revenues to reflect the basic rate increase authorized in Cause No. 44576,
8 and eliminate unbilled revenues. I sponsor the schedule and the adjustment to remove
9 unbilled revenues. The other adjustments on this schedule are sponsored by IPL Witness
10 Chambers.

11 **Q25. Please explain the adjustment to eliminate unbilled revenues.**

12 A25. The analysis IPL performs to calculate normalized revenues provides a full year level of
13 revenues. Unbilled revenues are recorded in the books in accordance with generally
14 accepted accounting principles to recognize the fact that energy has been sold at the end of
15 each accounting period that has not yet been billed. Unbilled revenues are not an exact
16 amount due to estimates of both price and quantity that are used in the calculations. Such
17 adjustment is not needed in the pro forma test year, because the normalized revenues
18 include a full year of sales, and therefore it has been removed.

19 **Q26. Please explain IPL Financial Exhibit IPL-OPER, Schedule REV7 – Summary of**
20 **Electric Rent Revenue, Per Books and Pro Forma Total Electric at Present Rates for**
21 **the Twelve Months Ended June 30, 2016.**

22 A26. IPL Financial Exhibit IPL-OPER, Schedule REV7 adjusts rental revenues in the test year
23 for fixed, known and measurable items. This adjustment increases test year revenues for

1 lease income related to two contracts executed by IPL in the first six months of 2016 for
2 leasing out portions of its headquarters building at One Monument Circle in Indianapolis.
3 No lease income was received or recorded in the test year and therefore the entire amount
4 of the annual contractual payments of \$659 thousand has been added to pro forma total
5 electric revenues at present rates. This adjustment reduces the revenue requirement IPL is
6 seeking in this proceeding by increasing IPL's electric operating income pro forma at
7 present rates shown on IPL Financial Exhibit REVREQ, Schedule REVREQ1.

8 **PRO FORMA ADJUSTMENTS AT PRESENT RATES AND**
9 **AT PROPOSED RATES TO OPERATIONS AND**
10 **MAINTENANCE EXPENSES**

11 **Q27. Turning to IPL Financial Exhibit IPL-OPER, Schedule OM1, which summarizes the**
12 **pro forma operation and maintenance expense adjustments, could you briefly**
13 **explain this schedule?**

14 A27. This schedule lists the various adjustments to test year operation and maintenance
15 expenses necessary to arrive at pro forma total electric operation and maintenance
16 expenses at present rates and pro forma jurisdictional electric operation and maintenance
17 expenses at proposed rates. These adjustments to the test year per books results are
18 necessary to give effect on a pro forma annual basis to increases and decreases in
19 operation and maintenance expenses that are fixed in time, known to be occurring and
20 measurable in amount. The net amount of these adjustments is shown on Line 2 in
21 columns 3 and 5 of IPL Financial Exhibit IPL-OPER, Schedule OPINC. Details of the
22 operation and maintenance expense adjustments are reflected on adjustment IPL Financial
23 Exhibit IPL-OPER, Schedules OM2 through OM29, inclusive, and each adjustment is
24 further addressed by the corresponding witness in the Index of Financial Exhibits.

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

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

12 **Q28. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM20, regarding the**
13 **proposed amortization of the expenses associated with this and IPL's previous basic**
14 **rate proceeding.**

15 A28. This adjustment is required to reflect amortization of the estimated expenses associated
16 with this proceeding, as well as a full year of amortization of the expenses IPL was
17 authorized to recovery in Cause No. 44576. For ease of administrative burden, IPL is
18 proposing a three-year amortization period for all rate case expenses, even though that
19 means expenses from Cause No. 44576 will take longer for IPL to recover. The schedule
20 shows our expected legal and consulting costs and then adds to that, the remaining
21 unamortized balance of expenses from Cause No. 44576. In Cause No. 44576, the
22 majority of those costs were authorized to be recovered over a two-year period, which
23 began April 1, 2016, while the depreciation and demolition study costs were authorized

1 for a five-year recovery also beginning on April 1, 2016. The \$1.6 million pro forma
2 expense increase is included in the summary of electric operation and maintenance
3 expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule OM1, Line 20,
4 column 2.

5 **Q29. How did you determine how much costs would be unrecovered from the Cause No.**
6 **44576?**

7 A29. Those costs were recorded as a regulatory asset, which IPL began amortizing to expense
8 beginning April 1, 2016. In this schedule, we have included the unamortized balance that
9 will remain at October 31, 2017. We used that date, because it corresponds to when I
10 would expect IPL to be authorized to implement new base rates under the provisions of
11 Ind. Code § 8-1-2-42.7. For simplicity, we assumed rates would be implemented
12 November 1, 2017, which is a little more than 300 days after our filing date.

13 **Q30. Please explain the amount you reduced the amortization by what is described on line**
14 **19 of IPL Financial Exhibit IPL-OPER, Schedule OM20 as a write off of the 2014**
15 **rate case expenses.**

16 A30. During our test period, we wrote off a regulatory asset of \$236 thousand relating to
17 expenses from our last rate case, which were challenged by OUCC Witness Eckert. In the
18 interest of moving that case forward, we accepted the proposed adjustment to remove such
19 costs in my rebuttal testimony (see Forestal Rebuttal Testimony Q&A 11, Cause No.
20 44576). This line reflects the removal of these costs from IPL's per books test year
21 expenses.

1 **Q31. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM21, which is an**
2 **adjustment for miscellaneous, out-of-period, and other expenses.**

3 A31. This adjustment includes the results of a detailed review of the operation and maintenance
4 expense accounts activity for the test year. This review was conducted to find items
5 recorded in the test year that were out-of-period expenses, items miscoded to IPL's
6 operating expenses or anything else that may be viewed as being excessive or not
7 reasonably necessary to provide reliable electric service to our customers. Examples of
8 items excluded are: certain meals and entertainment expenses, sponsorships, image-
9 building advertising, and sports outings.

10 In addition, this schedule includes pro forma adjustments to adjust rating agency fees,
11 some dues and memberships, and a service agreement to the current run rate. For each of
12 such items, we calculated a full year's cost using the most recent invoices or contracts and
13 compared that to the level of expense in the test period. The increase is included in IPL
14 Financial Exhibit IPL-OPER, Schedule OM21 as a pro forma adjustment.

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

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

21 The \$684 thousand pro forma expense net decrease is included in the summary of electric
22 operation and maintenance expense adjustments on IPL Financial Exhibit IPL-OPER,
23 Schedule OM1, Line 21, column 2.

1 **Q32. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM23, which is an**
2 **adjustment for Electric Building Renovation Expenses.**

3 A32. This adjustment relates to the Modern Voltage Project (“MVP”), which is described in the
4 direct testimony of IPL Witness Tornquist as “a comprehensive facility renovation that
5 IPL completed at the corporate center located at One Monument Circle.” To allow for
6 construction activities, many of IPL’s employees and employees of AES U.S. Services,
7 LLC were temporarily relocated to nearby office space. As this does not represent a
8 normal, ongoing cost, IPL has proposed adjustments to remove the following costs from
9 its test year operating expenses: (1) the lease cost of the temporary office space and (2) the
10 cost of moving employees’ office furniture, equipment and supplies to and from the
11 temporary space. These costs were prudently incurred to produce the efficiencies and
12 space optimization discussed by IPL Witness Tornquist. These are the type of
13 nonrecurring costs that are often amortized over a reasonable period of years in a revenue
14 requirement. Nevertheless, to reduce controversy and attempt to narrow the issues, IPL
15 has eliminated these expenses. This adjustment reduces the level of IPL’s operating
16 expenses for the benefit of customers. If this net adjustment is not made, the pro forma
17 electric operation and maintenance expense included in the determination of IPL’s electric
18 operating income at present and at proposed rates would overstate the Company’s
19 recurring expenses and would not be not representative of future recurring operating costs
20 during the period when the requested rates are expected to be in effect.

21 **Q33. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM24, which is an**
22 **adjustment for Changes in Property Insurance.**

1 A33. In preparing to make this filing, we looked at the insurance policies and premiums that we
2 currently have and any known changes in our insurance needs. As a result, we have
3 prepared adjustments to eliminate certain coverage and to add certain coverage for known
4 expenditures. Specifically, as detailed in the footnote to IPL Financial Exhibit IPL-OPER,
5 Schedule OM24, we are proposing adjustments to remove the expense for coverage for the
6 Eagle Valley coal fired units, and for separate sabotage and terrorism premiums, which
7 were consolidated into other policies. Additionally, we are proposing adjustments to add
8 coverage for the CCGT and utility plant equipment related to environmental controls to
9 comply with the Environmental Protection Agency’s Mercury and Air Toxics Standards
10 and NPDES permitting requirements. The estimated cost of such policies was provided to
11 me by AES’s in-house insurance experts. If this net adjustment is not made, the pro forma
12 electric operation and maintenance expense included in the determination of IPL’s electric
13 operating income at present and at proposed rates would be understated and not
14 representative of future operating costs during the period when the requested rates are
15 expected to be in effect.

16 **Q34. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM25, which is an**
17 **adjustment for Battery Storage System Operating and Maintenance Costs.**

18 A34. As described by IPL Witness Sadtler, in May 2016 IPL placed in service a 20 megawatt
19 Energy Storage Array, referred to as the HSS Battery Energy Storage System (“HSS
20 BESS”). As the HSS BESS was placed into service near the end of IPL’s test year, there
21 were no operating and maintenance costs recorded for this project during the test year.
22 The adjustment on IPL Financial Exhibit IPL-OPER, Schedule OM25 adjusts IPL’s pro
23 forma at present rates operation and maintenance expenses to include all expected annual

1 operating and maintenance costs for the HSS BESS, excluding labor and benefits. The
2 pro forma level of expense equals what IPL expects to incur during the adjustment period,
3 which is the twelve months ending June 30, 2017. It includes an amount that IPL is
4 contractually obligated to pay to AES during the adjustment period for various asset
5 management and operations and maintenance support, as well as our estimate of
6 maintenance to be performed on the battery nodes, building maintenance, and other
7 miscellaneous costs. Such amounts and further descriptions of the services AES is to
8 provide to IPL under the Affiliate Services Agreement can be found in my workpapers
9 to IPL Financial Exhibit IPL-OPER, Schedule OM25. A copy of the underlying
10 agreement, has also been filed in response to MSFR 1-5-7-(8)-CONFIDENTIAL.

11 **Q35. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM26.**

12 A35. IPL Financial Exhibit IPL-OPER, Schedule OM26 adjusts test year operating results to
13 reduce the impact of materials and supplies inventory obsolescence write-off's during the
14 test year. The schedule includes inventory obsolescence expenses incurred for each of the
15 three years ended June 30, 2016 and calculates an average expense for that three year
16 period. The per books amount in the test year is then adjusted down by \$1.1 million to
17 equal the average expense for the three-year period.

18 **Q36. Why is the IPL Financial Exhibit IPL-OPER, Schedule OM26 adjustment**
19 **necessary?**

20 A36. The level of expense incurred during the test year was unusually high due to several coal-
21 fired units being either permanently retired (as was the case with the Eagle Valley coal-
22 fired units) or retrofitted to utilize 100% natural gas as their primary fuel source (as was
23 the case with Harding Street Units 5, 6 and 7) during the test year. As a result of such

1 activity, approximately \$6.915 million of materials and supplies inventory became
2 obsolete during the test year. IPL has demonstrated through the testimonies of IPL
3 Witnesses Cutshaw and Scott in its Environmental Cost Recovery (“ECR”) rider
4 proceedings in Cause No. 42170 that all of such costs were prudently incurred and
5 necessary for the continued availability of such units in IPL’s efforts to provide electricity
6 to its retail customers at the lowest cost reasonably possible. However, including such
7 costs at the level incurred during the test year would overstate the Company’s recurring
8 expenses and would not be not representative of future operating costs during the period
9 when the requested rates are expected to be in effect. As such, we are proposing to
10 normalize the expense by adjusting it to the average expense incurred for the three year
11 period ended June 30, 2016. Such time period is consistent with the period of time I am
12 proposing to normalize write-offs of preliminary survey and investigation charges as
13 described later in my testimony.

14 **Q37. Why was a portion of the \$6.915 million write off shown on IPL Financial Exhibit IP-**
15 **OPER, Schedule OM26, not included in per books test year operating expenses in**
16 **this proceeding as indicated in the footnote on IPL Financial Exhibit IPL-OPER,**
17 **Schedule OM26?**

18 A37. IPL meets the requirements to apply the provisions of Financial Accounting Standards
19 Codification Rule 980 “Regulated Operations” (“ASC 980”), which prescribes that IPL
20 defer costs as a regulatory asset if they meet certain provisions. Primarily, costs are
21 deferred when we expect such costs will be recoverable through customer billing rates in a
22 future period. The Company sought recovery of \$3.17 million of the total amount shown
23 on Schedule OM 26 (line 3) through its ECR rider in Cause No. 42170. This represented

1 the portion of these costs related to the additional inventory obsolescence at Harding
2 Street Unit 7 from that unit being retrofitted to burn natural gas during IPL's test period.
3 Because the activity which caused the Harding Street Unit 7 inventory to be obsolete
4 occurred in the test year, I believe it would be inappropriate to exclude the O&M cost
5 relating to such obsolescence from my three-year average of inventory obsolescence costs.
6 The only reason why such costs were not expensed on IPL's books and records during the
7 test year is that the Company falsely predicted they would be recovered through its ECR
8 rider. The O&M portion of such obsolescence is \$2.65 million. As I described
9 previously, the remaining portion of the \$3.17 million obsolescence was recorded to
10 accumulated depreciation.

11 **Q38. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM27, which is an**
12 **adjustment for Write-Offs of Preliminary Survey and Investigation Charges.**

13 A38. As I stated previously, IPL prepares its financial statements on an accrual basis in
14 accordance with the accounting requirements of FERC. FERC guidelines require that "all
15 expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of
16 determining the feasibility of utility projects under contemplations"¹ be recorded to
17 account 183 *Preliminary survey and investigation charges*. FERC guidelines further
18 stipulate that such costs be expensed to 426.5, Other Deductions, or to the appropriate
19 operating expense account if the work is abandoned. During IPL's test period, the charges
20 to operating expenses for abandoned projects that had previously been recorded to account
21 183 were higher than our normal experience. As such, we are proposing to normalize the
22 expense by adjusting it to the average expense for the three year period ended June 30,

¹ Title 18 of FERC Code of Federal Regulations, Part 101, Uniform System of accounts prescribed for public utilities and licensees subject to the provisions of the Federal Power Act, Definition of Account 183.

1 2016. If this net adjustment is not made, the pro forma electric operation and maintenance
2 expense included in the determination of IPL's electric operating income at present and at
3 proposed rates would be overstated and not representative of future operating costs during
4 the period when the requested rates are expected to be in effect.

5 **Q39. Does that conclude your verified pre-filed direct testimony?**

6 A39. 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.



Craig A. Forestal

Dated: December 22, 2016