44893

VERIFIED DIRECT TESTIMONY

OF

CRAIG L. JACKSON

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

INCLUDING IPL WITNESS CLJ ATTACHMENTS 1 THROUGH 3

VERIFIED DIRECT TESTIMONY OF CRAIG L. JACKSON
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY

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

A1. My name is Craig Jackson. I am employed by AES US Services, LLC, which is the service company that serves Indianapolis Power and Light Company. My business address is One Monument Circle, Indianapolis, IN 46204.

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

A2. I am IPL's Chief Financial Officer and Director, Vice President, and Chief Financial Officer of AES US Services, LLC.

Q3. Please describe your duties.

A3. I have direct responsibility and oversight for the accounting, tax, financial planning, treasury, risk management, and internal audit functions of IPL and other AES affiliates.

Q4. Please summarize your educational and professional qualifications.

A4. I received a Bachelor of Science degree in Business Administration from Bloomsburg University in 1996. I also earned a Master of Business Administration degree in Finance from Wright State University in 2001.

Q5. Please summarize your prior work experience.

A5. I joined The Dayton Power & Light Company ("DP&L") in February 2000 as a Financial Analyst, Corporate Modeling. In December 2002, I accepted the position of Team Leader, ISO Settlements, with PPL Corporation. In June 2004, I returned to DP&L as

Manager, Financial Planning and Analysis, reporting to the Chief Financial Officer. From June 2004 to May 2012, I was promoted through several positions of increasing responsibility within the Treasury organization at DP&L, the last of which was as Vice President and Treasurer. In May 2012, I was promoted to Chief Financial Officer at DP&L. In May 2013, I accepted my current position.

Prior to joining DP&L in February of 2000, I served in the United States Air Force ("Air Force") as a Finance Technician. I began my service with the Air Force in May 1996.

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

A6. Yes. I provided written testimony in Cause No. 44339 (Eagle Valley Combined Cycle Gas Turbine and Harding Street Units 5 & 6 Refueling) and testimony in Cause No. 44576 (IPL 2014 Basic Rates Case). Additionally, I provided testimony in DP&L's Electric Security Plan proceedings (Case No. 12-426-EL-SSO et al and Case No. 16-0395-EL-SSO et al).

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

A7. My testimony and accompanying attachments present the Company's capital structure, Weighted Average Cost of Capital ("WACC") and credit ratings.

Q8. Does your testimony include any attachments?

A8. Yes. I have attached to my testimony the credit rating agency reports that were published about IPL and IPALCO during and subsequent to the test year. These are identified as <u>IPL Witness CLJ Attachment 1.0, 1.1, 1.2 and 1.3</u> (Moody's Investors Service

("Moody's")), IPL Witness CLJ Attachment 2.0 and 2.1 (S&P Global Ratings ("S&P")) and IPL Witness CLJ Attachment 3.0 and 3.1 (Fitch Ratings ("Fitch")).

Q9. Are you sponsoring any Exhibits?

A9. Yes. I am sponsoring IPL Financial Exhibit IPL-CC, Schedules CC1 through CC3.

Q10. Were these schedules prepared by you or under your direction or supervision?

A10. Yes.

Q11. Did you submit any workpapers?

A11. Yes. I sponsor the workpapers supporting the schedules identified above.

Capital Structure

Q12. What is IPL's capital structure and weighted average cost of capital as of June 30, 2016?

A12. IPL's WACC as of June 30, 2016 is 6.81%. IPL Financial Exhibit IPL-CC, Schedule CC3 depicts how this calculation is derived. This schedule computes the total cost of capital for IPL, including common equity, long term debt, Accumulated Deferred Federal Income Taxes ("DFIT") and customer deposits. Line Nos. 1 - 3 identify the investor-supplied capital, whereas Lines Nos. 4 - 7 are added to show the regulatory capital structure. As shown on IPL Financial Exhibit IPL-CC, Schedule CC3, IPL's WACC is calculated by taking the cost of each capital component multiplied by its proportional weight and then summing those percentages. The cost of each line item in the capital structure is determined separately as explained herein.

Q13. Please describe the investor-supplied capital structure components that you have reflected in the calculation of IPL's cost of capital.

A13. IPL seeks to maintain the financial strength of an investment grade utility so that we can deliver service at a reasonable cost to our customers. Maintaining an investment grade profile is important to ensure we have reliable access to the credit markets at attractive interest rates during all types of economic cycles. This in turn provides the ability to meet our financial obligations during periods of heavy capital expenditures which I will discuss later in my testimony. <u>IPL Financial Exhibit IPL-CC, Schedule CC3</u> includes IPL's investor-supplied capitalization as of June 30, 2016. This includes components of long-term debt, preferred stock, and common equity. The investor-supplied capital structure consists of 55.15% long-term debt, 1.92% preferred stock and 42.93% common equity.

Q14. What is the basis for the common equity rate of 10.40% shown on <u>IPL Financial Exhibit IPL-CC, Schedule CC3</u>?

A14. The common equity rate of 10.40% has been developed and recommended by IPL Witness McKenzie.

Q15. How was the cost rate for Customer Deposits as shown on <u>IPL Financial Exhibit IPL-CC, Schedule CC3</u> developed?

A15. The cost rate for Customer Deposits is 6%, which is the interest rate on customer deposits as provided for in the Commission's rules.

Q16. Please discuss the long-term debt and cost included in the capital structure.

A16. As shown on IPL Financial Exhibit IPL-CC, Schedule CC2, the long-term debt included in the capital structure is comprised of twelve (12) series of First Mortgage Bonds which have been issued under a Mortgage and Deed of Trust dated May 1, 1940 as supplemented and modified by various Supplemental Indentures and two (2) series of unsecured debt. The twelve series of first mortgage debt mature at various dates from August 2017 through May 2046; range in interest rates from 3.875% to 6.60%; and represents a total principal amount outstanding before the unamortized redemption premium of $1,633,450,000. Both series of unsecured debt mature in December 2038, but have mandatory put dates of December 2020; carry variable interest rates that are adjusted monthly based on a tax effected spread over LIBOR[1]; and represents a total principal amount outstanding before the unamortized redemption premium of $90,000,000. Therefore, the total principal amount of long-term debt outstanding before the unamortized redemption premium is $1,723,450,000. Each series of debt has been issued pursuant to Orders of this Commission. The calculation of the weighted average effective interest rate for the long-term debt included in IPL's capitalization is 5.00%. The unamortized reacquisition premiums pertain to debt series which have been previously retired from the general funds of IPL and amortized to interest expense on a straight-line basis, as authorized by the Commission Orders in Cause Nos. 38603, 39076, and 39511. This method is required by Accounting Standard Update ("ASU") No. 835-30-35 and ASU No. 835-30-20. The long-term debt balances and associated costs are the actual balances as of the end of the test year – June 30, 2016. IPL expects to refinance its 4.55% First Mortgage Bonds totaling $40,000,000 before year-end 2016 to take

[1] The variable rate range from December 22, 2015 (debt issuance date) and August 1, 2016 was 1.113% to 1.153%.

advantage of the par call feature available at December 1, 2016. Since the principal amount of this refinancing is not changing and the effective cost is not yet available, there are no pro forma adjustments currently proposed to the long-term debt portion of the capital structure.

Q17. Did IPL acquire new debt during the test year?

A17. Yes, IPL issued new debt during the test year. As stated above, IPL's debt at June 30, 2016 is composed of twelve (12) series of First Mortgage Bonds totaling $1,633,450,000 and two (2) series of unsecured debt totaling $90,000,000 representing total long-term debt of $1,723,450,000 as illustrated on <u>IPL Financial Exhibit IPL-CC, Schedule CC2</u>. Two (2) series of First Mortgage Bonds included in this total were issued during the test year ending June 30, 2016. Those issues were the 4.70% series, due September 2045 in the amount of $260,000,000 and the 4.05% series, due May 2046 in the amount of $350,000,000. The proceeds of these issues were used to finance a portion of our construction program, to finance a portion of our capital costs related to environmental and replacement generation projects and for other general corporate purposes.

Q18. What is IPL's cost of preferred stock?

A18. IPL has five (5) series of cumulative preferred stock outstanding at an annual cost of $3,212,000 and a weighted average effective cost of 5.37% as illustrated in <u>IPL Financial Exhibit IPL-CC, Schedule CC1</u>. The total amount of cumulative preferred stock outstanding at June 30, 2016 is $59,784,000.

Q19. Does <u>IPL Financial Exhibit IPL-CC, Schedule CC3</u> include capital structure components for purposes of determining IPL's WAAC other than the long-term

debt, preferred stock, common equity, and customer deposits that have previously been discussed?

A19. Yes. The WAAC also includes components for deferred income taxes and Post-1970 Investment Tax Credits ("ITC"). Deferred income taxes was included at zero cost. The Post-1970 ITC were included at the overall weighted required return on investor-supplied capital at 7.32%. Additionally, the WACC includes the net pre-paid pension asset at zero cost as discussed by IPL Witness Kunz.

Q20. Did the Company's shareholder invest equity in the Company during the test year?

A20. Yes. In March 2016 and June 2016, IPL received equity capital contributions of $134.3 million and $78.7 million, respectively from its shareholder for funding needs related to IPL's environmental and replacement generation projects.

Q21. Does the Company have an ongoing need to maintain its financial strength and to attract additional capital?

A21. Yes. Much of the new investment reflected in rate base in this case is not yet reflected in IPL rates. As discussed by IPL Witness Reed, a timely rate order that provides a realistic opportunity for the Company to actually earn a fair return on and of its significant capital investments is important to the Company's shareholders and to the credit rating agencies. It is important to maintain financial strength to allow the Company to continue to provide adequate and reliable service and to attract capital on reasonable terms. The (a) $260 million and $350 million debt issuances discussed above and (b) the equity contributions received from its parent in 2015 and 2016 will enable the completion of the Company's large environmental and replacement generation projects. However, the Company has future environmental capital expenditures related to National Ambient Air Quality

Standards ("NAAQS") and Coal Combustion Residual rules ("CCR") along with its on-going maintenance programs that may require it to access the capital markets over the next few years, including equity contributions from its parent.

Credit Ratings

Q22. What are credit ratings?

A22. Credit ratings reflect a credit rating agency's independent judgment of the Company's credit worthiness and its ability to meet its debt obligations. Credit committees at each agency determine the ratings of a company based on certain quantitative and qualitative measures. These factors are used to assess the financial and business risks of fixed-income issuers. Both Fitch and S&P delineate investment grade as any rating equal to "BBB-" or above. Moody's delineates investment grade as any rating equal to "Baa3" or above. Non-investment grade ratings at Fitch and S&P are "BB+" or below and "Ba1" or below at Moody's.

Q23. Why are credit ratings important to IPL?

A23. When IPL issues debt, credit rating agencies rate it as to the safety of principal and interest based on the Company's ability to pay. Credit ratings are important to investors because the higher the rating, the safer the debt. But credit ratings are also important to issuers of debt because they may affect the cost of doing business and access to capital. The higher the credit rating, the less interest a company has to pay on its bonds because investors are willing to accept slightly lower interest for more safety. Also, the higher the credit rating, the more demand there is for a bond and the easier it is for a company to sell it. This is especially important to IPL during our high periods of capital expenditures associated with environmental compliance projects and the construction of replacement generation. This capital intensive time requires IPL to be out in the debt markets more frequently than normal. The ability to issue debt at the lowest coupon possible is advantageous not only to IPL but to our customers.

Q24. Please discuss the impact to the Company and its customers if IPL's investment grade rating is not maintained.

A24. Financial strength and flexibility provide the framework for operational effectiveness which is necessary to provide safe and reliable service to customers at a reasonable cost. A non-investment grade rating would lead to an increase in overall financing costs and result in a higher cost of capital. Customers would be adversely affected because higher capital costs lead to higher rates for electric service and strain resources that could otherwise be utilized to meet our customers' ongoing need for reliable electric service.

Q25. Is cost control important to IPL and its credit rating?

A25. Yes. The Company strives to be efficient in the planning, selection and construction of assets, the contracting for goods and services and the management of our people and assets. Our approach to cost management balances acceptable levels of customer service, equipment efficiency/reliability and compliance with regulatory and legal requirements, while incorporating best practices for managing costs.

Rating agencies view the Company's ability to efficiently manage costs, which directly impact operating cash flow and credit metrics, as a key component of financial viability and credit ratings.

Q26. Is regulatory treatment important to the rating agencies?

A26. Yes. Predictability, full and timely cost recovery and a regulatory environment supportive of a utility's financial strength are key credit considerations at all three credit rating agencies. A utility operating in a stable, reliable, and highly predictable regulatory environment will be scored higher than a utility that operates in an unstable, unreliable or highly unpredictable regulatory environment.

Q27. What were IPL's credit ratings as of June 30, 2016?

A27. As of June 30, 2016, IPL's credit ratings assigned by the credit rating agencies were as follows:

	Moody's Investors Service	**S&P Global Ratings**	**Fitch Ratings**
Corporate Credit Rating/Issuer Rating	Baa1	BBB-	BBB-
Secured Debt	A2	BBB+	BBB+

All ratings have a stable outlook and are substantiated in the reports issued by Moody's, S&P and Fitch, which are included as <u>IPL Witness CLJ Attachments 1 through 3</u>.

Q28. Does that conclude your verified pre-filed direct testimony?

A28. Yes.

VERIFICATION

I, Craig L. Jackson, Chief Financial Officer of Indianapolis Power& Light Company and Director, Vice President, and Chief Financial Officer of AES US 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 L. Jackson

Dated: December 22, 2016

MOODY'S
INVESTORS SERVICE

Credit Opinion: IPALCO Enterprises, Inc.

Global Credit Research - 07 Oct 2015

Indianapolis, Indiana (State of), United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured	Baa3
Parent: AES Corporation, (The)	
Outlook	Stable
Corporate Family Rating	Ba3
Sr Sec Bank Credit Facility	Ba1/LGD2
Senior Unsecured	Ba3/LGD4
Pref. Shelf	(P)B2
Speculative Grade Liquidity	SGL-2
Indianapolis Power & Light Company	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Pref. Stock	Baa3

Contacts

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Key Indicators

[1]**IPALCO Enterprises, Inc.**

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	6/30/2015(L)
CFO pre-WC + Interest / Interest	**2.7x**	**3.1x**	**3.0x**	**3.7x**	**3.8x**
CFO pre-WC / Debt	**10.1%**	**12.4%**	**12.5%**	**14.7%**	**14.4%**
CFO pre-WC - Dividends / Debt	**7.2%**	**9.2%**	**9.4%**	**10.9%**	**11.1%**
Debt / Capitalization	**84.9%**	**85.1%**	**82.9%**	**77.9%**	**73.5%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

-Parent company of a fully regulated utility subsidiary that operates in an overall credit supportive regulatory environment which allows for a suite of cost recovery mechanisms

-IPL's ongoing rate case, first in the last 20 years, is key in our future assessment

- Financial metrics commensurate with the rating category despite incremental indebtedness to fund capex including new CCGT and aggressive dividends

- Significant parent financial leverage caps IPL's ratings and drives the two notch difference

- Changes in ownership structure are credit neutral

Corporate Profile

Indianapolis Power & Light Company (IPL; Baa1 Issuer Rating) is a regulated vertically integrated utility that provides retail electric service to approximately 480,000 retail customers in and around the city of Indianapolis (estimated population: 928,000). IPL, a member of the Midcontinent Independent System Operator, Inc (MISO), has 3,115 MW of net summer capacity.

IPL is subject to the purview of the Indiana Utility Regulatory Commission (IURC).

IPALCO Enterprises, Inc (IPALCO: Baa3 senior secured) is the parent holding company that owns 100% of the common stock of IPL that accounts for over 99% of consolidated revenues, cash flows and assets.

In April 2015, the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ) made a $214 million equity contribution into IPALCO. As a result, CDPQ's direct and indirect ownership-stake in IPALCO increased to 24.9% after the 15% indirect interest acquired end at the end of last year for $244 million. CDPQ has committed to make additional equity contributions up to $134.6 million through 2016. This will further reduce AES Corp's (Corporate Family Rating: Ba3 stable) indirect majority ownership-stake in IPALCO to around 70%.

Since January 2014, AES US Services, LLC provides services to all of AES' US subsidiaries that form the US Strategic Business Unit, including IPALCO and IPL. The costs are allocated based on drivers designed to avoid having regulated utilities subsidize any costs incurred for the benefit of non-regulated businesses.

Rating Rationale

IPL's Baa1 issuer rating reflects the overall credit supportive environment in which the utility renders its fully regulated operations that allow for certain recovery mechanisms. This enhances the utility's ability to recover costs and environmental related investments on a timely basis albeit 2015 and 2017 rate cases will be key drivers in our assessment. It further factors our expectation that IPL's credit metrics will remain commensurate with the Baa-rating category despite the expected deterioration in light of its current material capital expenditure (capex) program and aggressive dividend policy. The rating further considers the significant amount of leverage at IPALCO as IPL's dividends are the only source of cash flows to service that holding company's debt.

IPALCO's Baa3 senior secured rating incorporates its majority ownership by the speculative-rated AES, a highly leveraged consolidated balance sheet and its subordinated position to approximately $1.2 billion of funded debt at its regulated utility subsidiary which drives the two notch difference between the ratings of IPALCO and IPL.

DETAILED RATING CONSIDERATIONS

HIGHLY LEVERAGE OWNERSHIP-STRUCTURE DRIVES STRUCTURAL SUBORDINATION CONSIDERATIONS

IPALCO has currently two series of Notes (secured with IPL's shares) outstanding following the issuance in June 2015 of the $405 million 2020 Notes and the subsequent redemption in July of the $400 million 2016 Notes, respectively. This holding-company debt aggregates to $805 million and accounts for around 41% of the consolidated IPALCO indebtedness outstanding at the end of June 2015.

The ratings anticipate a decline in the relative weight of holding-company indebtedness as a proportion of total consolidated debt. This will result from IPL's incremental use of debt to finance its significant capex program while IPALCO's indebtedness remains unchanged. That said, the latter is expected to remain material at the 30% level for the next several years. This highly leveraged ownership structure limits both entities financial flexibility, particularly as the utility remains the holding company's only source of cash to meet its debt service obligations. Moreover, we also calculate that while IPL's debt to rate base hovered last year at around 68% (assuming a rate base of about US$1.9 billion) this metric approximates 108% after considering the holding-company indebtedness which caps the utility's rating while also driving the two notch difference between the senior unsecured ratings of

IPALCO and IPL.

The ratings are tempered by our expectation that going forward IPALCO's and IPL's dividend policy will remain aggressive despite IPL's material capex program, a credit negative. IPALCO, and indirectly IPL, has been one of AES' largest and most stable sources of cash flows with annual dividend distributions that averaged around $68 million between 2008 and 2014. IPL's dividend payout averaged 90% during the same period, exceeding the industry average of approximately 70%.

We view the 2014 change in IPALCO's ownership structure overall credit neutral. As explained in the Issuer comment published on our website in December 2014 we consider the resulting amendments to its corporate governance have no material credit implications. These included changes in IPALCO's Board of Directors' composition, amendment of the Articles of Incorporation and Bylaws as well as the termination of the Separateness Agreement between AES and IPALCO. IPALCO's Articles of Incorporation still limit its ability to make dividend distributions and intercompany loans to AES. This is subject to recording debt to adjusted capitalization not greater than 67% and interest coverage below 2.5x, respectively. IPL's ability to dividend cash is also limited under the amended Articles of Incorporation, the mortgage and deed of trust as well as its credit facility (requirement to record total debt to total capitalization not greater than 65%). However, all these restrictions are relatively lenient. IPALCO, for example, has historically faced no challenges in complying with them despite its extremely thin capitalization that resulted from a substantial distribution and capital reduction in 2001 and its aggressive dividend payout-ratio since then.

That said, the contractual commitment of CDPQ, a stronger credit quality entity compared to the speculative rated AES, to contribute additional equity via IPALCO (total: $349 million) in order to help IPL record its authorized capital structure and fund its material investments is credit positive. AES will fund on a proportional basis an additional $62 million of equity (after contributing $155.5 million in 2014 and 2013).

SIGNIFICANT CAPEX PROGRAM FOR ENVIRONMENTAL COMPLIANCE AND FUEL MIX CHANGE

IPL has disclosed it has earmarked investments of around $1.5 billion in the 2015 to 2017 period to complete its current capex program . With investments peaking this year (1H: $286.3 million) the completion of its key initiatives is anticipated during 2016 and 2017.

IPL plans to invest total of $513 million to add, improve and extend its infrastructure including transmission and distribution assets ($283 million), in power plant-related projects ($162 million) as well as other miscellaneous equipment ($68 million). IPL is also undergoing material investments to comply with environmental requirements. For example, an additional $136 million (out of total: $454 million) will be invested for the Mercury and Air Toxics Standards (MATS) rule at its 1,723MW Petersburg (4-units) and its 410MW Unit 7 Harding Street Station (HSS) coal-fired facilities. It has also disclosed that $207 million is slotted (total budget: $224 million) for investments to comply with the National Pollutant Discharge Elimination System (NPDES) permit program under the US Clean Water Act (CWA) by 2017 at its Petersburg plant. The utility is further reviewing the associated capital outlays required to comply with other environmental rules including the 316(b) under the Cooling Water Intake (2020; CWA), the National Ambient Air Quality Standards (NAAQS; 2018-2020) or Greenhouse Gas emission cuts as the proposed rules are defined.

The third leg of its capex initiatives foresees the replacement or refueling of 472MW capacity by 2017, mainly coal. The IURC issued in 2013 and 2014 Certificates of Public Convenience and Necessity (CPCN) authorizing the utility to refuel to natural gas its coal-fired HSS Units 5 and 6 (100MW each; capex: $102 million) as well as the construction of a new 644MW to 685MW combined cycle gas turbine, the Eagle Valley CCGT). IPL will take advantage of the minimum required additional infrastructure given the proximity (12 miles) of the Eagle Valley Station site to intra- and interstate pipelines. Out of the aggregated $626 million (excluding Allowed Funds During Construction; AFUDC) a total of $526 million of related capital outlays are outstanding. Completion of these two projects is scheduled in early 2016 and April 2017, respectively. In July 2015, IPL also received a CPCN to refuel and comply with environmental requirements at its 410MW (net) HSS Unit 7 (total capex: $108 million including costs to comply with MATS preservation and NPDES).

All this will grow the NG-fired fleet to around 1,800MW (currently 660MW) and account for around 45% of IPL's total installed capacity in 2017. IPL's retired units include the 342MW Eagle Valley 1-6 Units (and associated diesel generator) as well as the 80MW HSS Units 3 and 4 coal-fired plants after the retirement in 2013 of its five oil-fired units (168MW; around 5% of its installed fleet but low capacity factors).

Upon completion of the current capex program IPL's coal-fired plants will represent around 49% of its total installed capacity, a significant drop from the current 80% level. This will also reduce the concentration risk of IPL's fleet on the 1,752 MW Petersburg coal-fired Station (four units) as well as improve the competitive position of its fleet in the MISO, where increased interconnection of renewables is negatively impacting the economic dispatch of its coal-fired units resulting in reduced sales, another credit positive.

Until the completion of the Eagle Valley CCGT the utility expects to be short of power and then become long of power after 2017. To meet its obligations in the interim it will maintain its access to wholesale market purchases while also continuing to use load management and conservation measures, including its Demand Side Management (DSM), as well as wind and solar resources.

CREDIT SUPPORTIVE REGULATORY ENVIRONMENT BUT IPL'S ONGOING RATE CASE REMAINS KEY

We consider the regulatory environment in Indiana overall credit supportive. This view is supported by a suite of recovery mechanisms that have been implemented over the last few years upon the passing of several Senate Bills (SB).

These include the semi-annual recovery under SB29 of 100% of the costs incurred for installation, upgrade or operation of Clean Coal Technology (CCT) facilities to comply with environmental requirements via the Environmental Compliance Cost Recovery Adjustment (ECCRA) tracker. Recovery of IPL's MATS related compliance requirements qualify under this tracker, a credit positive. As of year-end 2014, IPL had been authorized to recover via ECCRA-filings a total of $827 million (total investments by end of June 2015: $390 million) and to include $78.4 million in rates for the half-year September 2015-February 2016. Furthermore, under SB251 (law since May 2011) 80% of the investments associated with federal mandated initiatives are also recoverable via an automatic rate adjustment mechanism while 20% of the approved costs are deferred and recovered as part of the next general rate case. For example, this mechanism is applicable to IPL's investments associated with the compliance of NPDES, cooling water intake regulation, waste management and coal ash, and wastewater effluent. Although the recovery under SB251 is less timely than under SB29, both tracker mechanisms are a significant credit positive, and critical for IPL's rating in view of its significant capex program.

Although this investment program will grow IPL's rate base by around $1.4 billion by 2017, the utility anticipates that its rates will remain competitive compared to the other utilities operating within the state. We believe this competitive position has historically helped IPL to benefit from a constructive relationship with the IURC. Examples of the latter include IPL's ability to attain the CPCN for the re-fueling programs and the Eagle Valley CCGT projects.

Similar to other utilities IPL is allowed to recover via a quarterly fuel cost adjustment surcharges (FAC) for its actual fuel costs (including the energy portion of purchased power costs) that may be above or below the levels included in IPL's basic rates; however, these adjustments are subject to hearings. Although State legislation requirements ended earlier this year, IPL plans to continue offering the IURC's energy efficiency targets and demand response initiatives. For example, its 2015-2016 demand side management (DSM) program was approved by the IURC.

As part of the ongoing rate case, filed in December 2014, IPL is seeking rate adjustment mechanisms to recover lost revenues associated with the existing DSM-program as well as Off-System sales margins (including a sharing mechanism), deferred capacity purchase and transmission costs (MISO non-fuel charges). Given that IPL has stayed out of rate cases since 1996 and in the absence of automatic riders it is recording material amounts of deferred costs (June 2015: $425.6 million; 2014: $419.2 million), particularly related to pension or MISO transmission costs (non-FAC costs), a credit negative. The utility requested authorization to implement a Major Storm Damage Restoration Reserve Account and revised depreciation rates to reflect changes in the service lives of certain generation assets. It also requested approval to adjust basic rates in order to include amounts previously recovered via the ECCRA-tracker mentioned earlier approved for the Qualified Pollution Control Property.

IPL is seeking in total a $67.8 million hike in basic rates and charges (+5.6%). IPL's request is premised on a rate base for the historical test year ended June 2014 of $1.96 billion (adjusted for known-and-measurable changes), a 10.93% return on equity (RoE) and a regulatory capital structure of 37.33% (this equates to a 45% financial capital structure). As part of this rate case the utility has also requested changes in its rate structure to increase its fix charges to $17.0 (currently: $11.25). We understand this would help align the utility's revenues to its cost structure, particularly should distributed generation further expand. An increase in the fixed charges would be a credit positive, especially given that between 2004-2014 the utility registered declining retail sales at a compound annual rate of 0.4% while its customer base increased by a 0.4% CARG during the same period.

The utility is facing some challenges in the current regulatory proceeding after the IURC opened an investigation early this year following some explosions in downtown Indianapolis as well as the intervenors' recommendation in July for the IURC to approve a rate-hike of only $5.9 million (+0.5%). According to the revised schedule IPL filed early September rebuttal testimony to the intervenors' recommendation submitted in July. The material gap between the two recommendations results largely from a lower 9.2% RoE and a $1.8 billion rate base. The intervenors also oppose IPL's sought increase in fixed charges. Hearings started on September 21 with an order expected before year-end and new rates becoming effective early 2016. SB560 (law in April 2013) allows utilities to implement temporary rates including 50% of the proposed increase if the IURC fails to act within 360 days (including a 60-day extension for good cause) after the filing date. The temporary increase is subject to refund if the final order is less than the interim rate.

IPL's rating assumes that the utility will receive fair treatment in these regulatory procedures; however, the outcome will be key in our future assessment of the utility's relationship with the IURC and the credit supportiveness of the regulatory environment given the last rate case was decided in 1996.

SB560 further allows the utilities to propose to the IURC a 7-year infrastructure plan for distribution, transmission and storage as well as the possibility of using a forward test year. We understand that IPL is not using a forward test year in its current rate case as it is not able to start recouping costs before the completion the capital outlays associated with the re-fueling and new Eagle Valley CCGT initiatives. IPL has disclosed its intention to file another rate case in 2017 pursuant to the current statutes wherein the IURC is required to review rates at least once every four years.

DETERIORATING CREDIT METRICS ARE EXPECTED TO REMAIN COMMENSURATE WITH THE RATING CATEGORY

Staying out of rate cases for the last 20 years has clearly affected the group's financial performance. For example, IPL's EBITDA margin has trended downward (2009: around 23%; 2013: 16.9% 2014: 18%); however, the cost savings after AES US Services started rendering its services early 2014 contributed to a slight improvement last year. The incremental indebtedness to help fund its significant capex has offset the positive effects associated with the significant reduction in Moody's debt adjustment associated with unfunded defined pension obligations. This resulted (2014:$91.2 million; 2013: $89.1 million; 2012:$269 million) from actuarial updates and annual contributions (2014:$54.1 million; 2013: $49.7 million) that exceed its service costs. On the other hand, the company's CFO pre-W/C continued to be negatively impacted by the growing balance of regulatory assets mentioned earlier albeit this was partially offset by the deferred taxes recorded for the first time last year ($47.5 million; 2013: $-10.3 million). These helped the group's key credit metrics last year.

Going forward, IPL and IPALCO's credit metrics will largely depend on the outcome of its current and the 2017 rate cases. This considers that IPL's cash recovery of the investments associated with the natural gas refueling and new Eagle Valley CCGT Station will not start until after their completion in 2016 and 2017, respectively. That said, the ratings assume credit constructive outcomes. They also anticipate a deterioration in credit metrics over the next two years as the utility continues incurring debt to fund its sizeable capex program (based on a financial capital structure of 45% equity and 55% debt) while the group maintains its aggressive dividend policy. However, they also assume that on average they will remain commensurate with their rating category according to the guidelines provided for standard business risk in the Regulated Electric and Gas Utility Methodology published in December 2013. Specifically, we anticipate IPL's 3-year average CFO pre-changes in W/C (CFO pre-WC) to debt, interest coverage and CFO pre-WC less dividends to debt will remain above 15%, 3.5x and 9%, respectively. In the case of IPALCO, given its material holding company indebtedness, we expect its 3-year CFO pre-WC to debt, interest coverage and CFO pre-W/C less dividends to debt will drop to its low teens over the next two years. However, after the completion of the group's capex program we anticipate IPALCO will be able to record CFO pre-W//C debt, interest coverage and CFO pre-W/C - dividends/debt of at least 13%, 3.0x and 9%, respectively.

Liquidity

At the end of June 2015, IPALCO and IPL reported $57 million and $13 million of cash and cash equivalents, respectively (IPALCO: year-end 2014: $27; IPL; $21 million). It also had $194.5 million available under its 5-year $250 million revolving credit facility maturing in May 2019 . This also includes a $150 million accordion feature. IPL will use the net proceeds raised in connection with its September 2015 $260 million first mortgage bond (FMB) offerings due in 2045 (last issuance in June 2014: $130 million FMB) to finance a portion of the company's capital costs related to environmental and replacement generation projects and for other general corporate purposes.

We expect IPALCO and IPL will continue funding over the next two years the group's material capital outlays (LTM1H2015: $550 million; year 2014: $382 million) and dividend distributions (LTM1H2015: $73 million; 2014: $78 million) with internally generated operating cash flows (1H2015: $281 million; 2014: $254 million), some smaller portion coming from federal grants for Smart Energy Projects, proceeds from debt issuances as well as the remaining equity contributions from CDPQ ($135million) and AES ($62 million; 2014: $106.4 million; 2013: $49.1 million). During 2015, IPL contributed $25 million to its defined pension fund (after electing to make a $54.1 million pension contribution in January, 2014; 2013: $49.7 million). Three series of FMBs aggregating $131.9 million will mature in January 2016 and one FMB $24.7 million in August 2017 with no additional maturities before August 2021 ($95 million). As of June 2015, the vast majority of IPL's $1.15 billion indebtedness was subject to fixed rates except for $105.0 million variable rate notes.

As mentioned earlier IPL is IPALCO's main source of cash flow to meet its financial obligations including dividend distributions to AES and interest payments on its holding company debt of around $9 million p.a.

Rating Outlook

IPALCO's and IPL's stable outlooks reflect the credit supportive regulatory environment in the state of Indiana and an expectation that IPL will be able to maintain a CFO pre-W/C to debt ratio in excess of 15% through its capital spending program. The stable outlook also assumes that the holding-company will not incur any additional indebtedness.

What Could Change the Rating - Up

IPALCO's rating could experience positive momentum if IPL's ratings would be upgraded, after a reduction of holding company debt and/or if consolidated CFO pre-W/C to debt ratio and interest coverage metrics in excess 15% and 11%, respectively, on a sustainable basis.

What Could Change the Rating - Down

IPALCO's rating could face downward pressure if IPL is downgraded or if IPALCO's CFO pre-W/C to debt ratio and interest coverage metrics deteriorated to levels below 9% and 2.2 times, respectively, for an extended period.

Other Considerations

As mentioned earlier, Moody's evaluates the financial performance of IPL and IPALCO relative to the standard business risk under the Regulated Electric and Gas Utility Methodology published in December 2013. As depicted in the grid below IPALCO's indicated rating based on historical and projected credit metrics is Ba1, one notch below its current assigned senior secured rating. IPALCO's debt collateral package consist of the pledged shares in IPL providing limited uplift to its secured rating according to Moody's guidelines.

Rating Factors

IPALCO Enterprises, Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 9/16/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year	3.4x	Baa	3.5x - 4x	Baa

Avg)				
b) CFO pre-WC / Debt (3 Year Avg)	12.9%	Ba	12.5% - 13.5%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	9.6%	Baa	9.5% - 10.5%	Baa
d) Debt / Capitalization (3 Year Avg)	79.6%	Caa	70% - 75%	B
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching	-2	-2	-2	-2
a) Indicated Rating from Grid		Ba1		Baa3
b) Actual Rating Assigned		Baa3		Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S
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Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
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MOODY'S
INVESTORS SERVICE

Credit Opinion: Indianapolis Power & Light Company

Global Credit Research - 29 Sep 2015

Indianapolis, Indiana (State of), United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Pref. Stock	Baa3
Ult Parent: AES Corporation, (The)	
Outlook	Stable
Corporate Family Rating	Ba3
Sr Sec Bank Credit Facility	Ba1/LGD2
Senior Unsecured	Ba3/LGD4
Pref. Shelf	(P)B2
Speculative Grade Liquidity	SGL-2
Parent: IPALCO Enterprises, Inc.	
Outlook	Stable
Senior Secured	Baa3

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Key Indicators

[1]**Indianapolis Power & Light Company**

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	6/30/2015(L)
CFO pre-WC + Interest / Interest	**4.4x**	**5.1x**	**5.1x**	**6.2x**	**9.2x**
CFO pre-WC / Debt	**18.1%**	**22.1%**	**23.5%**	**27.1%**	**32.6%**
CFO pre-WC - Dividends / Debt	**11.9%**	**14.6%**	**15.8%**	**17.4%**	**23.1%**
Debt / Capitalization	**53.0%**	**53.1%**	**49.8%**	**49.1%**	**45.8%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

-Fully regulated utility that operates in an overall credit supportive regulatory environment that allows for a suite of cost recovery mechanisms

-IPL's ongoing rate case, first in the last 20 years, is key in our future assessment

- Financial metrics commensurate with the rating category despite incremental indebtedness to fund capex including new CCGT and aggressive dividends

- Significant financial leverage of parent IPALCO caps IPL's ratings and drives two notch difference

- Changes in ownership structure are credit neutral

Corporate Profile

Indianapolis Power & Light Company (IPL; Baa1 Issuer Rating) is a regulated vertically integrated utility that provides retail electric service to approximately 480,000 retail customers in and around the city of Indianapolis (estimated population: 928,000). IPL, a member of the Midcontinent Independent System Operator, Inc (MISO), has 3,115 MW of net summer capacity.

IPL is subject to the purview of the Indiana Utility Regulatory Commission (IURC).

IPALCO Enterprises, Inc (IPALCO: Baa3 senior secured) is the parent holding company that owns 100% of the common stock of IPL that accounts for over 99% of consolidated revenues, cash flows and assets.

In April 2015, the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ) made a $214 million equity contribution into IPALCO. As a result, CDPQ's direct and indirect ownership-stake in IPALCO increased to 24.9% after the 15% indirect interest acquired end at the end of last year for $244 million. CDPQ has committed to make additional equity contributions up to $134.6 million through 2016. This will further reduce AES Corp's (Corporate Family Rating: Ba3 stable) indirect majority ownership-stake in IPALCO to around 70%.

Since January 2014, AES US Services, LLC provides services to all of AES' US subsidiaries that form the US Strategic Business Unit, including IPALCO and IPL. The costs are allocated based on drivers designed to avoid having regulated utilities subsidize any costs incurred for the benefit of non-regulated businesses.

Rating Rationale

IPL's Baa1 issuer rating reflects the overall credit supportive environment in which the utility renders its fully regulated operations that allow for certain recovery mechanisms. This enhances the utility's ability to recover costs and environmental related investments on a timely basis albeit 2015 and 2017 rate cases will be key drivers in our assessment. It further factors our expectation that IPL's credit metrics will remain commensurate with the Baa-rating category despite the expected deterioration in light of its current material capital expenditure (capex) program and aggressive dividend policy. The rating further considers the significant amount of leverage at IPALCO as IPL's dividends are the only source of cash flows to service that holding company's debt.

IPALCO's Baa3 senior secured rating incorporates its majority ownership by the speculative-rated AES, a highly leveraged consolidated balance sheet and its subordinated position to approximately $1.2 billion of funded debt at its regulated utility subsidiary which drives the two notch difference between the ratings of IPALCO and IPL.

DETAILED RATING CONSIDERATIONS

HIGHLY LEVERAGE OWNERSHIP-STRUCTURE DRIVES STRUCTURAL SUBORDINATION CONSIDERATIONS

IPALCO has currently two series of Notes (secured with IPL's shares) outstanding following the issuance in June 2015 of the $405 million 2020 Notes and the subsequent redemption in July of the $400 million 2016 Notes, respectively. This holding-company debt aggregates to $805 million and accounts for around 41% of the consolidated IPALCO indebtedness outstanding at the end of June 2015.

The ratings anticipate a decline in the relative weight of holding-company indebtedness as a proportion of total consolidated debt. This will result from IPL's incremental use of debt to finance its significant capex program while IPALCO's indebtedness remains unchanged. That said, the latter is expected to remain material at the 30% level for the next several years. This highly leveraged ownership structure limits both entities financial flexibility, particularly as the utility remains the holding company's only source of cash to meet its debt service obligations. Moreover, we also calculate that while IPL's debt to rate base hovered last year at around 68% (assuming a rate base of about US$1.9 billion) this metric approximates 108% after considering the holding-company indebtedness which caps the utility's rating while also driving the two notch difference between the senior unsecured ratings of

IPALCO and IPL.

The ratings are tempered by our expectation that going forward IPALCO's and IPL's dividend policy will remain aggressive despite IPL's material capex program, a credit negative. IPALCO, and indirectly IPL, has been one of AES' largest and most stable sources of cash flows with annual dividend distributions that averaged around $68 million between 2008 and 2014. IPL's dividend payout averaged 90% during the same period, exceeding the industry average of approximately 70%.

We view the 2014 change in IPALCO's ownership structure overall credit neutral. As explained in the Issuer comment published on our website in December 2014 we consider the resulting amendments to its corporate governance have no material credit implications. These included changes in IPALCO's Board of Directors' composition, amendment of the Articles of Incorporation and Bylaws as well as the termination of the Separateness Agreement between AES and IPALCO. IPALCO's Articles of Incorporation still limit its ability to make dividend distributions and intercompany loans to AES. This is subject to recording debt to adjusted capitalization not greater than 67% and interest coverage below 2.5x, respectively. IPL's ability to dividend cash is also limited under the amended Articles of Incorporation, the mortgage and deed of trust as well as its credit facility (requirement to record total debt to total capitalization not greater than 65%). However, all these restrictions are relatively lenient. IPALCO, for example, has historically faced no challenges in complying with them despite its extremely thin capitalization that resulted from a substantial distribution and capital reduction in 2001 and its aggressive dividend payout-ratio since then.

That said, the contractual commitment of CDPQ, a stronger credit quality entity compared to the speculative rated AES, to contribute additional equity via IPALCO (total: $349 million) in order to help IPL record its authorized capital structure and fund its material investments is credit positive. AES will fund on a proportional basis an additional $62 million of equity (after contributing $155.5 million in 2014 and 2013).

SIGNIFICANT CAPEX PROGRAM FOR ENVIRONMENTAL COMPLIANCE AND FUEL MIX CHANGE

IPL has disclosed it has earmarked investments of around $1.5 billion in the 2015 to 2017 period to complete its current capex program . With investments peaking this year (1H: $286.3 million) the completion of its key initiatives is anticipated during 2016 and 2017.

IPL plans to invest total of $513 million to add, improve and extend its infrastructure including transmission and distribution assets ($283 million), in power plant-related projects ($162 million) as well as other miscellaneous equipment ($68 million). IPL is also undergoing material investments to comply with environmental requirements. For example, an additional $136 million (out of total: $454 million) will be invested for the Mercury and Air Toxics Standards (MATS) rule at its 1,723MW Petersburg (4-units) and its 410MW Unit 7 Harding Street Station (HSS) coal-fired facilities. It has also disclosed that $207 million is slotted (total budget: $224 million) for investments to comply with the National Pollutant Discharge Elimination System (NPDES) permit program under the US Clean Water Act (CWA) by 2017 at its Petersburg plant. The utility is further reviewing the associated capital outlays required to comply with other environmental rules including the 316(b) under the Cooling Water Intake (2020; CWA), the National Ambient Air Quality Standards (NAAQS; 2018-2020) or Greenhouse Gas emission cuts as the proposed rules are defined.

The third leg of its capex initiatives foresees the replacement or refueling of 472MW capacity by 2017, mainly coal. The IURC issued in 2013 and 2014 Certificates of Public Convenience and Necessity (CPCN) authorizing the utility to refuel to natural gas its coal-fired HSS Units 5 and 6 (100MW each; capex: $102 million) as well as the construction of a new 644MW to 685MW combined cycle gas turbine, the Eagle Valley CCGT). IPL will take advantage of the minimum required additional infrastructure given the proximity (12 miles) of the Eagle Valley Station site to intra- and interstate pipelines. Out of the aggregated $626 million (excluding Allowed Funds During Construction; AFUDC) a total of $526 million of related capital outlays are outstanding. Completion of these two projects is scheduled in early 2016 and April 2017, respectively. In July 2015, IPL also received a CPCN to refuel and comply with environmental requirements at its 410MW (net) HSS Unit 7 (total capex: $108 million including costs to comply with MATS preservation and NPDES).

All this will grow the NG-fired fleet to around 1,800MW (currently 660MW) and account for around 45% of IPL's total installed capacity in 2017. IPL's retired units include the 342MW Eagle Valley 1-6 Units (and associated diesel generator) as well as the 80MW HSS Units 3 and 4 coal-fired plants after the retirement in 2013 of its five oil-fired units (168MW; around 5% of its installed fleet but low capacity factors).

Upon completion of the current capex program IPL's coal-fired plants will represent around 49% of its total installed capacity, a significant drop from the current 80% level. This will also reduce the concentration risk of IPL's fleet on the 1,752 MW Petersburg coal-fired Station (four units) as well as improve the competitive position of its fleet in the MISO, where increased interconnection of renewables is negatively impacting the economic dispatch of its coal-fired units resulting in reduced sales, another credit positive.

Until the completion of the Eagle Valley CCGT the utility expects to be short of power and then become long of power after 2017. To meet its obligations in the interim it will maintain its access to wholesale market purchases while also continuing to use load management and conservation measures, including its Demand Side Management (DSM), as well as wind and solar resources.

CREDIT SUPPORTIVE REGULATORY ENVIRONMENT BUT IPL'S ONGOING RATE CASE REMAINS KEY

We consider the regulatory environment in Indiana overall credit supportive. This view is supported by a suite of recovery mechanisms that have been implemented over the last few years upon the passing of several Senate Bills (SB).

These include the semi-annual recovery under SB29 of 100% of the costs incurred for installation, upgrade or operation of Clean Coal Technology (CCT) facilities to comply with environmental requirements via the Environmental Compliance Cost Recovery Adjustment (ECCRA) tracker. Recovery of IPL's MATS related compliance requirements qualify under this tracker, a credit positive. As of year-end 2014, IPL had been authorized to recover via ECCRA-filings a total of $827 million (total investments by end of June 2015: $390 million) and to include $78.4 million in rates for the half-year September 2015-February 2016. Furthermore, under SB251 (law since May 2011) 80% of the investments associated with federal mandated initiatives are also recoverable via an automatic rate adjustment mechanism while 20% of the approved costs are deferred and recovered as part of the next general rate case. For example, this mechanism is applicable to IPL's investments associated with the compliance of NPDES, cooling water intake regulation, waste management and coal ash, and wastewater effluent. Although the recovery under SB251 is less timely than under SB29, both tracker mechanisms are a significant credit positive, and critical for IPL's rating in view of its significant capex program.

Although this investment program will grow IPL's rate base by around $1.4 billion by 2017, the utility anticipates that its rates will remain competitive compared to the other utilities operating within the state. We believe this competitive position has historically helped IPL to benefit from a constructive relationship with the IURC. Examples of the latter include IPL's ability to attain the CPCN for the re-fueling programs and the Eagle Valley CCGT projects.

Similar to other utilities IPL is allowed to recover via a quarterly fuel cost adjustment surcharges (FAC) for its actual fuel costs (including the energy portion of purchased power costs) that may be above or below the levels included in IPL's basic rates; however, these adjustments are subject to hearings. Although State legislation requirements ended earlier this year, IPL plans to continue offering the IURC's energy efficiency targets and demand response initiatives. For example, its 2015-2016 demand side management (DSM) program was approved by the IURC.

As part of the ongoing rate case, filed in December 2014, IPL is seeking rate adjustment mechanisms to recover lost revenues associated with the existing DSM-program as well as Off-System sales margins (including a sharing mechanism), deferred capacity purchase and transmission costs (MISO non-fuel charges). Given that IPL has stayed out of rate cases since 1996 and in the absence of automatic riders it is recording material amounts of deferred costs (June 2015: $425.6 million; 2014: $419.2 million), particularly related to pension or MISO transmission costs (non-FAC costs), a credit negative. The utility requested authorization to implement a Major Storm Damage Restoration Reserve Account and revised depreciation rates to reflect changes in the service lives of certain generation assets. It also requested approval to adjust basic rates in order to include amounts previously recovered via the ECCRA-tracker mentioned earlier approved for the Qualified Pollution Control Property.

IPL is seeking in total a $67.8 million hike in basic rates and charges (+5.6%). IPL's request is premised on a rate base for the historical test year ended June 2014 of $1.96 billion (adjusted for known-and-measurable changes), a 10.93% return on equity (RoE) and a regulatory capital structure of 37.33% (this equates to a 45% financial capital structure). As part of this rate case the utility has also requested changes in its rate structure to increase its fix charges to $17.0 (currently: $11.25). We understand this would help align the utility's revenues to its cost structure, particularly should distributed generation further expand. An increase in the fixed charges would be a credit positive, especially given that between 2004-2014 the utility registered declining retail sales at a compound annual rate of 0.4% while its customer base increased by a 0.4% CARG during the same period.

The utility is facing some challenges in the current regulatory proceeding after the IURC opened an investigation early this year following some explosions in downtown Indianapolis as well as the intervenors' recommendation in July for the IURC to approve a rate-hike of only $5.9 million (+0.5%). According to the revised schedule IPL filed early September rebuttal testimony to the intervenors' recommendation submitted in July. The material gap between the two recommendations results largely from a lower 9.2% RoE and a $1.8 billion rate base. The intervenors also oppose IPL's sought increase in fixed charges. Hearings started on September 21 with an order expected before year-end and new rates becoming effective early 2016. SB560 (law in April 2013) allows utilities to implement temporary rates including 50% of the proposed increase if the IURC fails to act within 360 days (including a 60-day extension for good cause) after the filing date. The temporary increase is subject to refund if the final order is less than the interim rate.

IPL's rating assumes that the utility will receive fair treatment in these regulatory procedures; however, the outcome will be key in our future assessment of the utility's relationship with the IURC and the credit supportiveness of the regulatory environment given the last rate case was decided in 1996.

SB560 further allows the utilities to propose to the IURC a 7-year infrastructure plan for distribution, transmission and storage as well as the possibility of using a forward test year. We understand that IPL is not using a forward test year in its current rate case as it is not able to start recouping costs before the completion the capital outlays associated with the re-fueling and new Eagle Valley CCGT initiatives. IPL has disclosed its intention to file another rate case in 2017 pursuant to the current statutes wherein the IURC is required to review rates at least once every four years.

DETERIORATING CREDIT METRICS ARE EXPECTED TO REMAIN COMMENSURATE WITH THE RATING CATEGORY

Staying out of rate cases for the last 20 years has clearly affected IPL's financial performance. For example, its EBITDA margin has trended downward (2009: around 23%; 2013: 16.9% 2014: 18%); however, the cost savings after AES US Services started rendering its services early 2014 contributed to a slight improvement last year. The incremental indebtedness to help fund its significant capex has offset the positive effects associated with the significant reduction in Moody's debt adjustment associated with unfunded defined pension obligations. This resulted (2014:$91.2 million; 2013: $89.1 million; 2012:$269 million) from actuarial updates and annual contributions (2014:$54.1 million; 2013: $49.7 million) that exceed its service costs. On the other hand, the company's CFO pre-W/C continued to be negatively impacted by the growing balance of regulatory assets mentioned earlier albeit this was partially offset by the deferred taxes recorded for the first time last year ($47.5 million; 2013: $-10.3 million). These helped the group's key credit metrics last year.

Going forward, IPL and IPALCO's credit metrics will largely depend on the outcome of its current and the 2017 rate cases. This considers that IPL's cash recovery of the investments associated with the natural gas refueling and new Eagle Valley CCGT Station will not start until after their completion in 2016 and 2017, respectively. That said, the ratings assume credit constructive outcomes. They also anticipate a deterioration in credit metrics over the next two years as the utility continues incurring debt to fund its sizeable capex program (based on a financial capital structure of 45% equity and 55% debt) while the group maintains its aggressive dividend policy. However, they also assume that on average they will remain commensurate with their rating category according to the guidelines provided for standard business risk in the Regulated Electric and Gas Utility Methodology published in December 2013. Specifically, we anticipate IPL's 3-year average CFO pre-changes in W/C (CFO pre-WC) to debt, interest coverage and CFO pre-WC less dividends to debt will remain above 15%, 3.5x and 9%, respectively. In the case of IPALCO, given its material holding company indebtedness, we expect its 3-year CFO pre-WC to debt, interest coverage and CFO pre-W/C less dividends to debt will drop to its low teens over the next two years. However, after the completion of the group's capex program we anticipate IPALCO will be able to record CFO pre-W//C debt, interest coverage and CFO pre-W/C - dividends/debt of at least 13%, 3.0x and 9%, respectively.

Liquidity

At the end of June 2015, IPALCO and IPL reported $57 million and $13 million of cash and cash equivalents, respectively (IPALCO: year-end 2014: $27; IPL; $21 million). It also had $194.5 million available under its 5-year $250 million revolving credit facility maturing in May 2019 . This also includes a $150 million accordion feature. IPL will use the net proceeds raised in connection with its September 2015 $260 million first mortgage bond (FMB) offerings due in 2045 (last issuance in June 2014: $130 million FMB) to finance a portion of the company's capital costs related to environmental and replacement generation projects and for other general corporate purposes.

We expect IPALCO and IPL will continue funding over the next two years the group's material capital outlays (consolidated LTM1H2015: $550 million; year 2014: $382 million) and dividend distributions (consolidated

LTM1H2015: $73 million; 2014: $78 million) with internally generated operating cash flows (consolidated 1H2015: $281 million; 2014: $254 million), some smaller portion coming from federal grants for Smart Energy Projects, proceeds from debt issuances as well as the remaining equity contributions from CDPQ ($135million) and AES ($62 million; 2014: $106.4 million; 2013: $49.1 million). During 2015, IPL contributed $25 million to its defined pension fund (after electing to make a $54.1 million pension contribution in January, 2014; 2013: $49.7 million).

Three series of FMBs aggregating $131.9 million will mature in January 2016 and one FMB $24.7 million in August 2017 with no additional maturities before August 2021 ($95 million). As of June 2015, the vast majority of IPL's $1.15 billion indebtedness was subject to fixed rates except for $105.0 million variable rate notes.

As mentioned earlier IPL is IPALCO's main source of cash flow to meet its financial obligations including dividend distributions to AES and interest payments on its holding company debt of around $9 million p.a.

Rating Outlook

IPALCO's and IPL's stable outlooks reflect the credit supportive regulatory environment in the state of Indiana and an expectation that IPL will be able to maintain a CFO pre-W/C to debt ratio in excess of 15% through its capital spending program. The stable outlook also assumes that the holding-company will not incur any additional indebtedness.

What Could Change the Rating - Up

IPL's rating could rise if Moody's perceives a significant improvement in the regulatory environment and if IPL's CFO pre-W/C to debt ratio and RCF to debt were to exceed 22% and 17%, respectively, on a sustainable basis. An improvement in the consolidated metrics could also trigger an upgrade of IPL's rating.

What Could Change the Rating - Down

IPL's rating could face downward pressure if IPALCO is downgraded or if IPL's CFO pre-W/C to debt ratio and interest coverage metrics deteriorated unexpectedly to levels below 15% and 3.5 times, respectively, for an extended period. A deterioration in the consolidated could also trigger an upgrade of IPL's rating.

Other Considerations

As mentioned earlier, Moody's evaluates the financial performance of IPL and IPALCO relative to the standard business risk under the Regulated Electric and Gas Utility Methodology published in December 2013.

As depicted in the grid below IPL's indicated rating based on historical and projected credit metrics is Baa1 on a historical and projected basis, the same current assigned senior unsecured rating

Rating Factors

Indianapolis Power & Light Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 9/24/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				

a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.8x	A	5.5x - 6.5x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	24.2%	A	21% - 26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.9%	Baa	14% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	50.1%	Baa	47% - 53%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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INVESTORS SERVICE

CREDIT OPINION
4 October 2016

Update

Rate this Research

RATINGS

Indianapolis Power & Light Company

Domicile	Indianapolis - Marion County, Indiana, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Indianapolis Power & Light Company

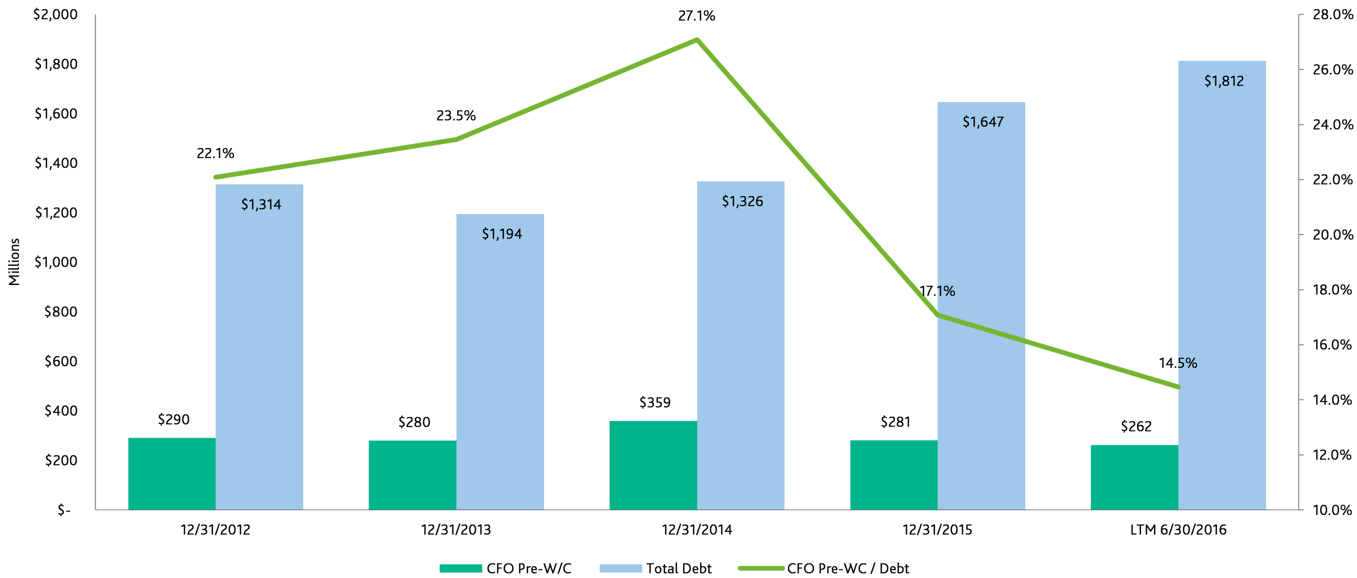
Regulated vertically integrated utility subsidiary of IPALCO Enterprises, Inc.

Summary Rating Rationale

The Baa1 Issuer rating of Indianapolis Power & Light Company (IPL) reflects its fully regulated operations, the utility's overall constructive relationship with the Indiana Utility Regulatory Commission (IURC), and a credit supportive environment where its cash flows benefit from a suite of rider mechanisms.

The rating is tempered by IPL's credit metrics which, despite a recent material deterioration, are expected to become well positioned within the Baa-rating category as the utility enters the tail-end of its significant multi-year capital expenditure (capex) program, despite the group's aggressive dividend policy. IPL's rating is also constrained by the significant amount of holding-company debt outstanding at its direct parent company, IPALCO Enterprises, Inc.'s (IPALCO; Baa3 stable) which also records consolidated key credit metrics that are somewhat weak for the Baa-rating category. The utility's dividends are the only source of cash flow to service holding company debt that approximates $805 million and represents around 32% of the consolidated debt. This drives the two notch difference between the ratings of IPALCO and IPL. The utility's rating also factors in that the speculative rated AES Corporation (AES; Corporate Family rating: Ba3 positive) is IPALCO's majority shareholder but also that the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ, unrated) has held an approximate 30% direct and indirect interest stake since 2014.

Exhibit 1
Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt
($ in millions)



Source: Moody's Financial Metrics

Credit Strengths

» Fully regulated utility that operates in an overall credit supportive regulatory environment that allows for a suite of cost recovery mechanisms

» Overall financial metrics expected to be commensurate with the rating category despite aggressive dividends and incremental indebtedness to fund capex

» Changes in ownership structure are credit neutral

Credit Challenges

» Significant financial leverage of parent IPALCO constrains IPL's ratings and drives two notch differential

Rating Outlook

The stable outlook of IPL reflects our expectation that its key credit metrics will improve after the material deterioration recorded in 2015 and LTM June 2016 as the utility approaches the tail-end of its material capex program. The stable outlook assumes that the regulatory environment in the state of Indiana will remain credit supportive and that the utility's cash flows will benefit from a credit constructive outcome in its next rate case proceeding. The outlook assumes the utility will be able to record a cash flow from operation pre-working capital (CFO pre-W/C) to debt ratio in excess of 18% going forward. The stable outlook also assumes that the holding company will not incur any additional indebtedness going forward.

Factors that Could Lead to an Upgrade

IPL's rating could be upgraded if Moody's perceives a significant improvement in the regulatory environment and if IPL's CFO pre-W/C to debt ratio and retained cash flow (RCF) to debt ratio were to exceed 22% and 17%, respectively, on a sustainable basis. An improvement in the consolidated metrics could also trigger an upgrade of IPL's rating.

Factors that Could Lead to a Downgrade

IPL's rating could face downward pressure if IPALCO is downgraded or if IPL's CFO pre-W/C to debt ratio and interest coverage metrics deteriorated unexpectedly to levels below 15% and 3.5 times, respectively, for an extended period. A deterioration in the consolidated metrics could also trigger an upgrade of IPL's rating.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Indianapolis Power & Light Company -Private

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	6/30/2016(L)
CFO pre-WC + Interest / Interest	5.1x	5.1x	6.2x	4.8x	4.5x
CFO pre-WC / Debt	22.1%	23.5%	27.1%	17.1%	14.5%
CFO pre-WC – Dividends / Debt	14.6%	15.8%	17.4%	10.7%	8.4%
Debt / Capitalization	53.2%	49.9%	49.2%	51.4%	50.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

OVERALL CREDIT SUPPORTIVE REGULATORY ENVIRONMENT AND CONSTRUCTIVE RELATIONSHIP WITH IURC

IPL benefits from an overall credit supportive regulatory environment in Indiana as well as a constructive relationship with the Indiana Utility Regulatory Commission (IURC). This opinion considers that the utility's cash flows benefit from a suite of recovery mechanisms that reduces regulatory lag. We also consider the utility's rate case outcome in March 2016 to be credit neutral, the utility's first rate case in the last twenty years (1996). The outcome of IPL's next rate case proceeding (2017) will be also key in our assessment going forward.

On March 30, 2016, IURC's authorized $30.8 million increase in IPL's base rates became effective, which equaled to only around 44% of IPL's $67.8 million request. A key driver of the significant gap was the difference between the requested (10.93%) and authorized (9.85%) RoE, which we note compares well with other US utilities. On a negative note, the order allowed the requested 37.33% regulatory capital structure (which equates to a 45% financial capital structure) which is thin compared to other regulatory jurisdictions. The changes to the submitted rate base of around $1.9 billion (adjusted for known-and-measurable changes) was modest. The utility chose to file the rate case based on a historical test year (June 30, 2014) although Senate Bill (SB)560 allows the utilities the possibility of using a forward test year in Indiana.

The utility initiated the regulatory proceedings in December 2014; however, the IURC's decision in March 2015 to open an investigation in connection with two underground network explosions that occurred that month, contributed to the length of the rate case proceeding. On a positive note, the IURC did not impose any restrictive conditions on the utility after the findings albeit the allowed RoE includes a downward adjustment to incentivize the company's participation in a collaborative process that the regulator requested to address operating and infrastructure management.

The IURC's March 2016 order also authorized IPL's requested changes in its rate structure such that the fixed charges increase to $17/ $11.25 (previously: $11.25/$6.70) depending on the customer class. This helps to align the utility's revenues to its fixed cost structure and to insulate its cash flows from drops in retail sales. The IURC also authorized the implementation of rate adjustment mechanisms requested by IP&L and implemented in the State over the last few years, another credit positive. This includes the recovery in-between rate cases of net costs associated with purchasing generation capacity, storm related costs, allocation of off-system sales as well as transmission related costs. The latter is particularly relevant because historical lag to recover deferred MISO related costs contributed to the utility's material regulatory asset (2015: $128.6 million; 2014: $110.5 million). We acknowledge that the IURC allowed IPL to amortize the related balances (annual revenue requirement: $11.8 million) but over a 10-year period (requested: 6 years). The utility's requested implementation of a Major Storm Damage Restoration Reserve Account was also approved as was IPL's proposed revised depreciation rates to reflect changes in the service lives of certain generation assets.

These recovery mechanisms underpin our opinion that the regulatory environment in Indiana is credit supportive. IPL is able to recover MATS related compliance requirements via the semi-annual Environmental Compliance Cost Recovery Adjustment (ECCRA) tracker. Under Senate Bill (SB)29, this rider allows the company to recoup 100% of the costs incurred for installation, upgrade or operation of Clean Coal Technology (CCT) facilities to comply with environmental requirements. As of year-end 2015, IPL had been authorized to recover via ECCRA-filings a total of $978 million and to include $82 million in rates for the half-year September 2015-February 2016. Following the March 2016 rate case proceeding, IPL's base rates now include related amounts previously recouped via this tracker.

Furthermore, under SB251 (law since May 2011), 80% of the investments associated with federally mandated initiatives are also recoverable via an automatic rate adjustment mechanism while 20% of the approved costs are deferred and recovered as part of the next general rate case. For example, this mechanism is applicable to IPL's investments associated with the compliance of National Pollutant Discharge Elimination System (NPDES), cooling water intake regulation, waste management and coal ash, and wastewater effluent. Although the recovery under SB251 is less timely than under SB29, both tracker mechanisms are a significant credit positive, and critical for IPL's rating in view of its significant capex program.

SB560 (law in April 2013) also allows utilities to implement temporary rates including 50% of the proposed increase if the IURC fails to act within 360 days (including a 60-day extension for good cause) after the filing date. The temporary increase is subject to refund/ credit. SB560 also allows utilities to propose to the IURC a 7-year infrastructure plan for distribution, transmission and storage whereas pursuant to the current statutes wherein the IURC is required to review rates at least once every four years. Similar to other utilities, IPL is allowed to recover via a quarterly fuel cost adjustment surcharges (FAC) its actual fuel costs (including the energy portion of purchased power costs) that may be above or below the levels included in IPL's basic rates; however, these adjustments are subject to hearings.

TAIL-END OF UTILITY'S MATERIAL CAPEX PROGRAM FOR ENVIRONMENTAL COMPLIANCE AND FUEL MIX CHANGE

IPL expects to invest around $1.2 billion during the 2016-2018 period to complete its current capex program (2013-2015: $1.7 billion). During 2016, IPL's investments have remained elevated (estimated to be over $600 million in 2016) after peaking in 2015 at $673 million. After IPL commissions several of its remaining key projects during 2016 and 2017, we expect its capex to halve in 2017 and 2018 and become more comparable with historical levels (2014: $382 million; 2013: $242 million).

Despite the material capex program, the utility anticipates that its rates will remain competitive compared to the other utilities operating within the state. IPL believes this has helped it to maintain its constructive relationship with the IURC. Examples of the latter include IPL's ability to attain the Certificate of Public Convenience and Necessity (CPCN) for the re-fueling programs and the Eagle Valley CCGT project (see below).

The bulk of the remaining investments are earmarked to grow its transmission and distribution assets ($294 million), power plant-related projects ($178 million) as well as other miscellaneous equipment ($69 million). It will also install environment related equipment in order to comply with the NPDES permit program under the US Clean Water Act (CWA) at its 1,732MW coal-fired Petersburg plant (4 units; total capex: $224 million) by 2017. In June 2016, IPL requested state regulator approval of this project which would allow it to recover via automatic riders 80% of the approved costs (see above), a credit positive.

The investment program also seeks to reduce reliance on its coal-fired fleet. These include re-fueling to natural gas the coal-fired Harding Street Station (HSS) 410MW Unit 7 (expected before year-end; total capex: $101 million) after completing the same initiative in HSS Units 5 and 6 last year. IPL will also retire its Eagle Valley plant (4 units) by year-end 2016 while it expects to commission the 685MW Eagle Valley combined cycle gas turbine (CCGT) in April 2017 (total capex: $632 million). The utility is further reviewing the associated capital outlays required to comply with other environmental rules including the 316(b) under the Cooling Water Intake (2020; CWA), the National Ambient Air Quality Standards (NAAQS; 2018-2020) or Greenhouse Gas emission cuts as the proposed rules are defined.

Upon completion of the current capex program, IPL's natural gas-fired fleet will total around 1,900MW and account for around 52% of total installed capacity in 2017 and its coal-fired plants will represent around 46% of its total installed capacity. This will also reduce the concentration risk in IPL's fleet associated with the 1,714MW Petersburg coal-fired Station (four units) as well as improve the competitive position of its fleet in the MISO. Increased penetration of renewables is negatively impacting the economic dispatch of its coal-fired units resulting in reduced sales. Until the completion of the Eagle Valley CCGT, the utility expects to be short of power and then become long power in 2017. To meet its obligations in the interim it will maintain its access to wholesale market purchases while also continuing to use load management and conservation measures, including its Demand Side Management (DSM), as well as wind and solar resources.

HIGHLY LEVERAGED OWNERSHIP-STRUCTURE DRIVES STRUCTURAL SUBORDINATION CONSIDERATIONS

The material amount of IPALCO's holding company debt that currently aggregates to $805 million (two series of Notes secured with IPL's shares due in 2018 and 2020, respectively) represents around 32% of the consolidated IPALCO long-term indebtedness outstanding at the end of June 2016.

The ratings anticipate a decline in the relative weight of holding-company indebtedness as a proportion of total consolidated debt as IPL incurs new indebtedness going forward. However, this is expected to remain material at the 30% level for the next several years. This highly leveraged ownership structure limits both entities financial flexibility, particularly as the utility remains the holding company's only source of cash to meet its debt service obligations. Moreover, we also calculate that while IPL's reported debt (2015: $1.37 billion) to rate base hovered in the 70-75% range last year (assuming a rate base of about US$1.9 billion) this metric almost reaches 115% after considering the holding-company indebtedness (2015: $2.18 billion) which constrains the utility's rating, while also driving the two notch difference between the senior unsecured ratings of IPALCO and IPL.

IPALCO, and indirectly IPL, has been one of AES' largest and most stable sources of cash flow with annual dividend distributions that averaged around $67 million between 2011 and 2015. IPL's dividend payout averaged close to 100% during the same period despite its material, multi-year capex program, considerably exceeding the industry average of approximately 70%. Both companies' track record of aggressive dividend policies amid IPL's material capex program temper their ratings.

IPALCO's Articles of Incorporation limits its ability to make dividend distributions and intercompany loans to AES. This is subject to the company recording debt to adjusted capitalization not greater than 67% and interest coverage below 2.5x, respectively. IPL's ability to dividend cash is also limited under the amended Articles of Incorporation, the mortgage and deed of trust as well as its credit facility (where there is a requirement to record total debt to total capitalization not greater than 65%). However, all these restrictions are relatively lenient. IPALCO, for example, has historically faced no challenges in complying with them despite its extremely thin capitalization that resulted from a substantial distribution and capital reduction in 2001 and its aggressive dividend payout-ratio since then. After CDPQ became IPALCO's minority shareholder, it resulted in some amendments to its corporate governance with no material credit implications.

DETERIORATING CREDIT METRICS ARE EXPECTED TO REMAIN COMMENSURATE WITH THE RATING

The table above depicts the significant deterioration in IPL's historically robust credit metrics at year-end 2015 and LTM June 30, 2016. This deterioration resulted largely from the incremental indebtedness incurred to finance its material capex program (peaking 2015 and 2016), the decision to stay out of rate cases for the last 20 years and the increasing balance of regulatory assets mentioned earlier. The utility has been able to partially offset these negative impacts via the riders that allow for the recovery of portions of its investments, cost savings resulting from the implementation of the AES US Services (which renders services to all AES utility subsidiaries in the US), and tax savings associated with bonus depreciation. There has also been a significant reduction in Moody's debt adjustment associated with unfunded defined pension obligations since 2013 (2015: $76 million; 2012: $269 million). Nevertheless, IPL's LTM key credit metrics as of June 30, 2016, including CFO pre-W/C to debt and RCF to debt of 14.5% and 8.4%, respectively, were weak for the utility's Baa1-rating according to the guidelines provided under the standard grid in our Regulated Electric and Gas Utilities Rating Methodology.

That said, we anticipate an improvement in IPL's key credit metrics before year-end due to a combination of the outcome of the recent rate case, including the allowed rate hike and the new suite of rider mechanisms that should help the utility recover certain operational costs on a more timely basis. Specifically, we anticipate that IPL's CFO pre-W/C to debt will consistently exceed 19% going forward. However, its RCF to debt will continue to score within the lower-range of the Baa-rating category due to the utility's aggressive dividend policy amid an authorized regulatory and financial capital structure that is somewhat thinner than in most other jurisdictions, a credit negative.

Liquidity Analysis

IPL exhibits an adequate liquidity profile. At the end of June 2016, IPALCO and IPL reported $44 million and $29 million of cash and cash equivalents, respectively (IPALCO: year-end 2015: $22; IPL; $20 million). As of June 30, 2016, IPL had full availability under its 5-year $250 million revolving credit facility maturing in October 2020. The facility also includes a $150 million accordion feature until October 16, 2019 (subject to lenders' approval).

On a reported basis, over the next two years, we expect that IPALCO and IPL will continue to fund the group's declining investments (consolidated 2015: $673 million; 2014: $382 million) and dividend distributions (consolidated 2015: $69 million; 2014: $78 million) with internally generated operating cash flows (consolidated 2015: $252 million; 2014: $254 million), and proceeds from debt issuances. During 2015 and 2016 IPALCO received total equity contributions that totaled $427 million from CDPQ ($363 million) and AES (2015: $60 million; 2014 and 2013: $155.5 million). During 2016, IPL contributed $15.9 million to its defined pension fund (2015: $25 million).

IPL's next long-term debt maturity is its $24.7 million first mortgage bond due in August 2017, with no additional maturities before August 2021 ($95 million). As of June 30, 2016, the vast majority of IPL's $1.75 billion indebtedness was subject to fixed rates except for $90.0 million of variable rate notes (due December 2020). As mentioned earlier, IPL is IPALCO's main source of cash flow used to meet its financial obligations including dividend distributions to AES and interest payments on its holding company debt of around $39 million p.a. IPALCO's Notes are due in May 2018 ($400 million) and in July 2020 ($405 million).

Other Considerations

Moody's evaluates the financial performance of IPL and IPALCO relative to the standard business risk grid under the Regulated Electric and Gas Utility Methodology published in December 2013. As depicted in the grid below, IPL's indicated rating based on historical and projected credit metrics is Baa1 on a historical and projected basis, the same as the senior unsecured rating.

Corporate Profile

Indianapolis Power & Light Company (IPL; Baa1 Issuer Rating) is a regulated vertically integrated utility that provides retail electric service to approximately 480,000 retail customers in and around the city of Indianapolis (estimated population: 934,000). IPL, a member of the Midcontinent Independent System Operator, Inc (MISO), has 3,123 MW of net summer capacity.

IPALCO Enterprises, Inc (IPALCO: Baa3 senior secured) is the parent holding company that owns 100% of the common stock of IPL that accounts for over 99% of consolidated revenues, cash flows and assets. At the end of 2014, the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ, unrated) became IPALCO's minority shareholder. Its current ownership approximates 30% (including a 17.65% direct interest stake in IPALCO in exchange for a $349 million total equity contribution in 2015 and 2016 as well as a 12.3% indirect ownership-stake in IPALCO via AES US Investments which owns 82.35% of IPALCO). The balance is held by AES Corporation (AES, CFR: Ba3 positive).

Since January 2014, AES US Services, LLC provides services to all of AES' US subsidiaries, including IPALCO and IPL. The costs are allocated based on drivers designed to avoid having regulated utilities subsidize any costs incurred for the benefit of non-regulated businesses.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Indianapolis Power & Light Company -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2016**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.4x	A	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.7%	Baa	19% - 24%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	13.0%	Baa	11% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	49.5%	Baa	47% - 53%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
INDIANAPOLIS POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Pref. Stock	Baa3
ULT PARENT: AES CORPORATION, (THE)	
Outlook	Positive
Corporate Family Rating	Ba3
Senior Unsecured	Ba3/LGD4
Speculative Grade Liquidity	SGL-2
PARENT: IPALCO ENTERPRISES, INC.	
Outlook	Stable
Senior Secured	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1043924

MOODY'S
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CREDIT OPINION
13 October 2016

Update

Rate this Research

RATINGS

IPALCO Enterprises, Inc.

Domicile	Indianapolis - Marion County, Indiana, United States
Long Term Rating	Baa3
Type	Senior Secured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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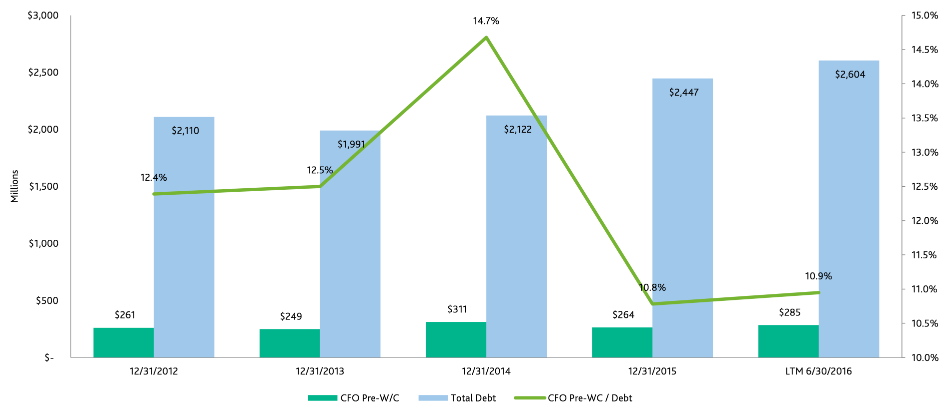
IPALCO Enterprises, Inc.

Holding company of wholly-owned utility subsidiary Indianapolis Power & Light Company

Summary Rating Rationale

The Baa3 senior secured rating of IPALCO Enterprises Inc. (IPALCO) reflects structural subordination considerations vis-a-vis the debt outstanding at its fully regulated subsidiary, Indianapolis Power & Light Company (IPL; Issuer rating: Baa1 stable). The utility's dividends are the only source of cash flow to service the holding company debt that approximates $805 million and represents around 32% of the consolidated debt. This largely drives the two notch difference between the ratings of IPALCO and IPL. This highly leveraged consolidated balance sheet also results in consolidated key credit metrics that are somewhat weak for the Baa-rating category. In addition, the group's aggressive dividend policy amid IPL's material capital expenditure (capex) program constrains the Baa3 rating. The rating also considers that speculative grade rated AES Corporation (AES; Corporate Family rating: Ba3 positive) is IPALCO's majority shareholder along with the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ, unrated), which has held an approximate 30% direct and indirect interest stake since 2014.

Exhibit 1
Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt
($ in millions)



Source: Moody's Investors Service

Credit Strengths

» Parent company of IPL, whose fully regulated operations enhance its dividend visibility

» IPL operates in an overall credit supportive regulatory environment that allows for a suite of cost recovery mechanisms

Credit Challenges

» Significant financial leverage at the holding company exacerbates structural subordination considerations

» Consolidated key credit metrics are weak for the Baa-rating category amid aggressive dividends and incremental indebtedness to fund IPL's capex

Rating Outlook

The stable outlook of IPALCO largely reflects our expectation that both consolidated and IPL key credit metrics will improve after the material deterioration recorded in 2015 and LTM June 2016 as the utility approaches the tail-end of its material capex program. The stable outlook assumes that the regulatory environment in the state of Indiana will remain credit supportive and that the utility's cash flow will benefit from a credit constructive outcome in its next rate case proceeding. The outlook assumes that consolidated key credit metrics will become commensurate with the low range of the Baa-rating category no later than 2018. Specifically, we anticipate that IPALCO will record a cash flow from operation pre-working capital (CFO pre-W/C) to debt ratio in excess of 13% going forward. The stable outlook also assumes that the holding company will not incur any additional indebtedness going forward.

Factors that Could Lead to an Upgrade

IPALCO's rating could experience positive momentum if IPL's ratings are upgraded, holding company debt is reduced, and if the consolidated CFO pre-W/C to debt and retained cash flow (RCF) to debt ratios were to exceed 15% and 13%, respectively, on a sustainable basis.

Factors that Could Lead to a Downgrade

IPALCO's rating could face downward pressure if IPL is downgraded or if, after completion of its currently elevated capital expenditure program, IPALCO's consolidated CFO pre-W/C to debt and RCF to debt ratios remain below 13% and 9%, respectively, for an extended period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

IPALCO Enterprises, Inc.

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	6/30/2016(L)
CFO pre-WC + Interest / Interest	3.1x	3.0x	3.7x	3.2x	3.5x
CFO pre-WC / Debt	12.4%	12.5%	14.7%	10.8%	10.9%
CFO pre-WC – Dividends / Debt	9.2%	9.4%	10.9%	7.9%	7.7%
Debt / Capitalization	85.1%	82.9%	77.9%	76.1%	72.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

HIGHLY LEVERAGED OWNERSHIP STRUCTURE DRIVES STRUCTURAL SUBORDINATION CONSIDERATIONS

The material amount of IPALCO's holding company debt that currently aggregates to $805 million (two series of Notes secured with IPL's shares due in 2018 and 2020, respectively) represents around 32% of the consolidated IPALCO long-term indebtedness outstanding at the end of June 2016.

The ratings anticipate a slight decline in the relative proportion of holding-company indebtedness as a percentage of total consolidated debt as IPL incurs new debt going forward. However, holding company debt is expected to remain material at the 30% level for the next several years. This highly leveraged ownership structure limits both entities' financial flexibility, particularly as the utility remains the holding company's only source of cash to meet its debt service obligations. Moreover, we also calculate that while IPL's reported debt (2015: $1.37 billion) to rate base hovered in the 70-75% range last year (assuming a rate base of about $1.9 billion). This metric reaches almost 115% after considering the holding-company debt (2015: $2.18 billion), which constrains the utility's rating and drives the two notch difference between the senior unsecured rating of IPL and the senior secured rating of IPALCO. IPALCO's notes are only secured by a pledge of all of the outstanding common stock of IPL.

IPALCO, through IPL, has been one of AES' largest and most stable sources of cash flow with annual dividend distributions that have averaged around $67 million between 2011 and 2015. IPL's dividend payout averaged close to 100% during the same period despite its material, multi-year capex program, considerably exceeding the industry average of approximately 70%. Both companies' track record of aggressive dividend policies amid IPL's material capex program constrain their ratings.

IPALCO's Articles of Incorporation limits its ability to make dividend distributions and intercompany loans to AES. This is subject to the company recording debt to adjusted capitalization not greater than 67% and interest coverage below 2.5x, respectively. IPL's ability to dividend cash is also limited under the amended Articles of Incorporation, the mortgage and deed of trust, as well as its credit facility (where there is a requirement to record total debt to total capitalization not greater than 65%). However, all of these restrictions are relatively lenient. IPALCO, for example, has historically faced no challenges in complying with them despite its extremely thin capitalization that resulted from a substantial distribution and capital reduction in 2001 and its aggressive dividend payout ratio since then. After CDPQ became IPALCO's minority shareholder, there were some amendments to its corporate governance with no material credit implications.

IPL's DIVIDENDS UNDERPINNED BY OVERALL CREDIT SUPPORTIVE REGULATORY ENVIRONMENT AND CONSTRUCTIVE RELATIONSHIP WITH IURC

IPL benefits from an overall credit supportive regulatory environment in Indiana as well as a constructive relationship with the Indiana Utility Regulatory Commission (IURC). As described in detail in IPL's Credit Opinion available in our website, our view considers that the utility's cash flows benefit from a suite of mechanisms which reduce regulatory lag, a credit positive. They allow for the interim recovery between rate cases of portions of its material investments to grow its rate base. Beginning in March 2016, IPL has also been able to recoup net operating costs, including transmission related costs (MISO), which have historically contributed to the utility's material regulatory asset balance (2015: $128.6 million; 2014: $110.5 million).

We consider the utility's rate case outcome in March 2016 to be credit neutral (rate increase: $30.8 million). It was premised on a 9.85% RoE (which compares well with its utility peers), although the requested 37.33% regulatory capital structure (which equates to a 45% financial capital structure) is thin compared to other regulatory jurisdictions. This was the utility's first rate case in the last twenty years (1996). The outcome of IPL's next rate case proceeding (2017) will be key in our assessment going forward.

TAIL-END OF UTILITY'S MATERIAL CAPEX PROGRAM FOR ENVIRONMENTAL COMPLIANCE AND FUEL MIX CHANGE

IPL expects to invest around $1.2 billion during the 2016-2018 period to complete its currently elevated capex program (2013-2015: $1.7 billion). During 2016, IPL's investments have remained high (estimated to be over $600 million in 2016) after peaking in 2015 at $673 million. After IPL commissions several of its remaining key projects during 2016 and 2017, we expect its capex to halve in 2017 and 2018 and become more comparable with historical levels (2014: $382 million; 2013: $242 million).

The bulk of the remaining investments are earmarked to grow its transmission and distribution assets ($294 million), power plant related projects ($178 million), as well as other miscellaneous equipment ($69 million). Investments also focus on completing the installation of environment related equipment in order to comply with the National Pollutant Discharge Elimination System (NPDES) permit program under the US Clean Water Act (CWA) at its 1,732MW coal-fired Petersburg plant (4 units; total capex: $224 million) by 2017. In June 2016, IPL requested state regulator approval of this federally mandated initiative that would allow it to recover 80% of the approved costs via an automatic rate adjustment mechanism (SB251, law since May 2011), while the balance (20%) is deferred and recovered as part of the next general rate case.

IPL's investment program also seeks to reduce its reliance on coal and grow its natural gas-fired fleet such that in 2017, coal is expected to represent 46% and natural gas 52% of the utility's total installed capacity. These initiatives include re-fueling Units 5 and 6 (completed last year) as well as Unit 7 (expected this year) of the coal-fired Harding Street Station (HSS) to natural gas. IPL will also retire its Eagle Valley plant (4 units) by year-end 2016 while it expects to commission the 685MW Eagle Valley combined cycle gas turbine (CCGT) in April 2017 (total capex: $632 million). To that end, IPL attained a Certificate of Public Convenience and Necessity (CPCN) for both the re-fueling programs and the Eagle Valley CCGT project which reduces the likelihood of cost disallowances, a credit positive.

CONSOLIDATED KEY CREDIT METRICS ARE SOMEWHAT WEAK FOR THE Baa RATING

The table above depicts the significant deterioration in IPALCO'S consolidated key credit metrics at year-end 2015 and LTM June 30, 2016. This deterioration resulted largely from IPL's incremental indebtedness incurred to finance its material capex program (peaking in 2015 and 2016), the decision to stay out of rate cases for the last 20 years, and the increasing balance of regulatory assets mentioned earlier. The utility has been able to partially offset these negative impacts via riders that allow for the recovery of portions of its investments, cost savings resulting from the implementation of the AES US Services (which renders services to all AES utility subsidiaries in the US), and tax savings associated with bonus depreciation. There has also been a significant reduction in Moody's debt adjustment associated with unfunded defined pension obligations since 2013 (2015: $76 million; 2012: $269 million). However, the material amount of holding company debt results in consolidated key credit metrics that are currently weak for its Baa rating according to the guidelines provided under the standard grid in our Regulated Electric and Gas Utilities Rating Methodology. Specifically, the 2014 through LTM June 2016 CFO pre-W/C to debt and RCF to debt averaged 12.1% and 8.7%, respectively.

That said, we anticipate an improvement in IPL's and IPALCO'S key credit metrics due to the outcome of IPL's recent rate case, including the allowed rate increase and the new suite of rider mechanisms that should help the utility recover certain operational costs on a more timely basis. These factors, along with the completion of the elevated capex program and our assumption that the holding company will not incur any additional indebtedness going forward, drives our expectation that IPALCO will be able to report consolidated metrics that are in the low range of the Baa rating range no later than 2018. Specifically, we anticipate that its consolidated CFO pre-W/C to debt and RCF pre-W/C to debt ratios will consistently exceed 13% and 9%, respectively, on a sustainable basis.

Liquidity Analysis

IPALCO and IPL both exhibit an adequate liquidity profile. At the end of June 2016, they reported $44 million and $29 million of cash and cash equivalents, respectively (IPALCO: year-end 2015: $22; IPL; $20 million). As of June 30, 2016, IPL had full availability under its 5-year $250 million revolving credit facility maturing in October 2020. The facility also includes a $150 million accordion feature until October 16, 2019 (subject to lenders' approval).

On a reported basis, over the next two years, we expect that IPALCO and IPL will continue to fund the group's declining investments (consolidated 2015: $673 million; 2014: $382 million) and dividend distributions (consolidated 2015: $69 million; 2014: $78 million) with internally generated operating cash flow (consolidated 2015: $252 million; 2014: $254 million) and proceeds from the utility's debt issuances. During 2015 and 2016, IPALCO received total equity contributions of $427 million from CDPQ ($363 million) and AES (2015: $60 million; 2014 and 2013: $155.5 million) while it contributed $214.4 million last year to IPL. During 2016, IPL contributed $15.9 million to its defined pension fund (2015: $25 million).

As mentioned earlier, IPL is IPALCO's main source of cash flow used to meet its financial obligations including dividend distributions to AES and interest payments on its holding company debt of around $34 million p.a. IPALCO's Notes are due in May 2018 ($400 million) and in July 2020 ($405 million).

Other Considerations

Moody's evaluates the financial performance of IPALCO and IPL relative to the standard business risk grid under the Regulated Electric and Gas Utility Methodology published in December 2013. As depicted in the grid below, IPALCO's indicated rating based on historical and projected credit metrics is Ba1 on a historical and projected basis, one notch below its current assigned senior secured rating.

Corporate Profile

IPALCO Enterprises, Inc (IPALCO: Baa3 senior secured) is the parent holding company of its wholly-owned subsidiary Indianapolis Power & Light Company (IPL; Baa1 Issuer Rating), a regulated vertically integrated utility that provides retail electric service to approximately 480,000 retail customers in and around the city of Indianapolis (estimated population: 934,000). IPL, a member of the Midcontinent Independent System Operator, Inc (MISO), has 3,123 MW of net summer capacity.

The utility accounts for over 99% of IPALCO's consolidated revenues, cash flows and assets. At the end of 2014, the Canadian fund Caisse de Dépôt et Placement du Québec (CDPQ, unrated) became IPALCO's minority shareholder. Its current ownership approximates 30% (including a 17.65% direct interest stake in IPALCO)in exchange for a $349 million total equity contribution in 2015 and 2016 as well as a 12.3% indirect ownership-stake in IPALCO via AES US Investments which owns 82.35% of IPALCO). The balance is held by AES Corporation (AES, CFR: Ba3 positive).

Since January 2014, AES US Services, LLC provides services to all of AES' US subsidiaries, including IPALCO and IPL.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
IPALCO Enterprises, Inc.				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2016**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.4x	Baa	3.3x - 3.8x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	12.1%	Ba	10% - 15%	Ba
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.7%	Ba	5% - 10%	Ba
d) Debt / Capitalization (3 Year Avg)	75.1%	Caa	72% - 77%	B
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching	-2	-2	-2	-2
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned		Baa3		Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
IPALCO ENTERPRISES, INC.	
Outlook	Stable
Senior Secured	Baa3
PARENT: AES CORPORATION, (THE)	
Outlook	Positive
Corporate Family Rating	Ba3
Senior Unsecured	Ba3/LGD4
Speculative Grade Liquidity	SGL-2
INDIANAPOLIS POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Pref. Stock	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1045265

MOODY'S
INVESTORS SERVICE

STANDARD & POOR'S RATINGS SERVICES
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Research

Research Update:

IPALCO Enterprises Inc. And Sub Corp Credit Rating Raised To 'BBB-'; Issue-Level Ratings Affirmed On Parent Upgrade

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Research Update:

IPALCO Enterprises Inc. And Sub Corp Credit Rating Raised To 'BBB-'; Issue-Level Ratings Affirmed On Parent Upgrade

Overview

- We are raising our issuer credit rating on IPALCO Enterprises Inc. and its subsidiary Indianapolis Power & Light Co. (IP&L) to 'BBB-' from 'BB+', based on our one-notch upgrade of parent company, The AES Corp. (AES).
- At the same time, we are affirming the rating on IPALCO's senior unsecured debt at 'BB+' and affirming IP&L's 'BBB+' senior secured first mortgage bonds and leaving the '1+' recovery rating on the bonds unchanged. The outlook is stable.
- The stable outlook reflects our expectations that AES' business and financial risk profiles are not likely to change and that IPALCO will maintain consistent financial measures and financial policies, refraining from issuing debt to pay dividends.

Rating Action

On April 13, 2016, Standard & Poor's Ratings Services raised its issuer credit rating on IPALCO Enterprises Inc. and subsidiary Indianapolis Power & Light Co. (IP&L) to 'BBB-' from 'BB+'. We are affirming the rating on IPALCO's senior unsecured debt at 'BB+'. We are also affirming the 'BBB+' rating on IP&L's senior secured first mortgage bonds and leaving the '1+' recovery rating on the bonds unchanged. The outlook is stable.

Rationale

The issuer credit rating upgrade on IPALCO and IP&L to 'BBB-' from 'BB+' reflects the upgrade to parent AES. We rate IPALCO two notches higher than AES because of IPALCO's higher stand-alone credit profile (SACP) and structural protections in place that insulate IPALCO. These protections include dividend limitations, a significant minority shareholder with an economic interest and certain veto rights, and a nonconsolidation opinion. We rate IP&L in line with IPALCO because in our view it is an integral and fully supported subsidiary.

Our business risk assessment on IPALCO incorporates its strategy to focus on its regulated utility operations that serve about 470,000 electric customers in Indianapolis and surrounding areas. The excellent business risk profile also reflects the company's lower-risk utility business, its competitive rates, and its effective management of regulatory risk. Recently, the company received an approximate $30 million rate case order, its first in more than 20 years. We expect that the company will continue to effectively manage regulatory risk, especially with its increasing capital spending program, reflecting a 671-megawatt, combined-cycle gas plant that we expect will begin operations in 2017.

We base our assessment of IPALCO's financial risk profile on financial targets applicable to a utility holding company whose ownership is limited to lower-risk regulated utility businesses operating moderately higher-risk regulated generation. Under our base case scenario of higher capital spending in 2016 and future rate increases, we expect funds from operations (FFO) to debt to approximate 9.5%-11%. We expect AES to maintain a prudent financial policy toward IPALCO and IP&L that is commensurate with their current credit quality.

Liquidity

IPALCO's stand-alone liquidity is adequate. This reflects its FFO, credit availability, and minimal debt maturities. We expect IPALCO's liquidity sources to cover uses by more than 1.1x over the next 12 months.

Principal liquidity sources:
- Assumed ongoing revolving credit availability of about $200 million, and
- FFO of about $250 million.

Principal liquidity uses:
- Maintenance capital spending of more than $300 million in 2016, and
- Dividends of about $75 million annually.

Outlook

The stable outlook on the ratings reflects our expectation that IPALCO will maintain consistent financial policies and will not issue additional debt to pay dividends to AES. If IPALCO did so, our analysis of the company's financial policy would be significantly altered, and we would most likely lower the ratings. Under Standard & Poor's baseline forecast, we expect IPALCO's FFO to debt to approximate 9.5% to 11% over the next three years. Fundamental to our forecast is the timing and the ultimate cost of environmental capital spending and satisfactory outcomes for future rate cases.

Downside scenario

We would lower the ratings if we downgraded AES and the company did not add any additional insulating measures. We could also downgrade IPALCO if financial measures weakened, reflecting FFO to debt below 9% on a sustained basis.

Upside scenario

Absent further enhancement to the insulation provisions, higher ratings at IPALCO and IP&L are unlikely at this time. We could raise the ratings if we raise the ratings on AES and IPALCO maintains its SACP.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Aggressive
- Cash flow/Leverage: Aggressive

Anchor: 'bbb'

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'bbb'
- Group credit profile: 'bb'
- Entity status within group: Insulated (-1 notch from SACP)

Recovery Analysis

We rate the senior unsecured debt at IPALCO one notch lower than the issuer credit rating because of structural subordination. This results from priority obligations exceeding 20% of assets.

We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories, depending on the calculated ratio.

IP&L's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Raised

	To	From
IPALCO Enterprises Inc.		
Indianapolis Power & Light Co.		
Corp credit rating	BBB-/Stable/--	BB+/Stable/--

Ratings Affirmed

IPALCO Enterprises Inc.	
Senior unsecured	BB+
Indianapolis Power & Light	
Co. Senior secured	BBB+
Recovery rating	1+
Preferred stock	BB

S&P Global
Ratings

RatingsDirect®

Summary:

Indianapolis Power & Light Co.

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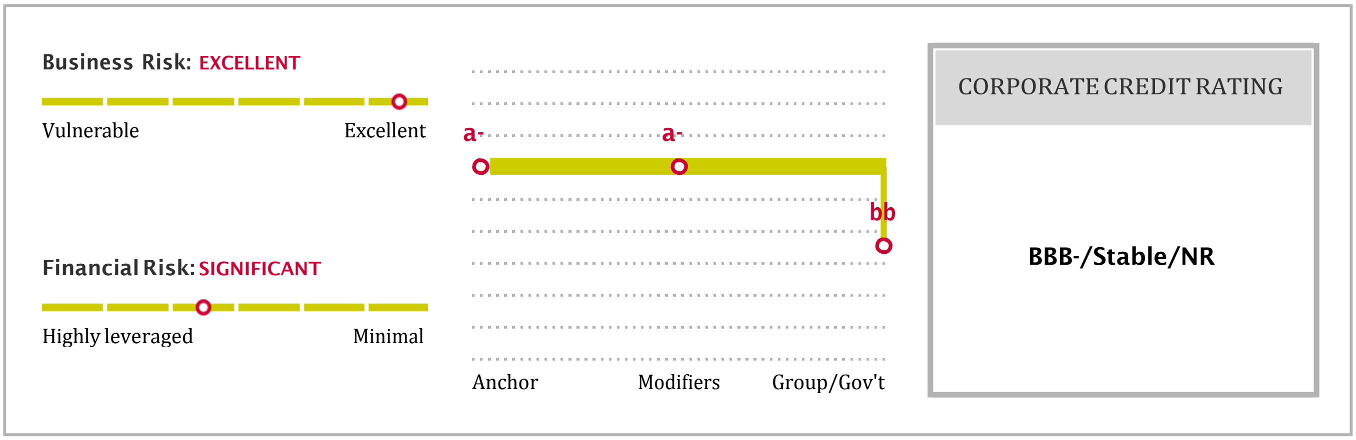
Summary:

Indianapolis Power & Light Co.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Lower-risk, rate-regulated, vertically-integrated electric utility. • Ongoing recovery through base rate increases and rate surcharges. • Limited geographical and regulatory diversity.	• Our financial risk assessment incorporates the use of our medial volatility table, reflecting the company's lower-risk, rate-regulated utility business and higher operating risk of its regulated generation. • Heightened capital spending reflecting environmental compliance expenditures and a combined-cycle gas plant expected online in early 2017. • Funds from operations (FFO) to debt of approximately 20%.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that Indianapolis Power & Light Co.'s (IP&L) immediate parent IPALCO Enterprises will maintain consistent financial policies and not issue additional debt to pay dividends to owners AES Corp. and Caise de dépôt et placement du Québec (CDPQ). If IPALCO did so, our analysis of the company's financial policy would be significantly altered, and we would most likely lower the ratings. Under our base case forecast, we expect IPALCO's FFO to debt to range from 9.5%-11% over the next three years. Fundamental aspects to our base case include the timing and cost of environmental capital spending and satisfactory outcomes on the company's future rate cases.

Downside scenario

We would lower the ratings if we downgraded ultimate parent AES. We could also downgrade IP&L if consolidated IPALCO financial measures weaken, reflecting FFO to debt consistently below 9%.

Upside scenario

We could raise the ratings on IP&L if we upgrade parent AES and IPALCO maintains its credit measures that support its current stand-alone credit profile.

Our Base-Case Scenario

Assumptions

- Approximately $1.2 billion of capital spending through 2018, reflecting environmental compliance programs and replacement generation.
- Dividends averaging about $100 million per year.
- 2016 rate increase of about $30 million.
- Ongoing recovery through riders.

Key Metrics

	2015A	2016E	2017E
FFO to debt (%)	18.2	20-22	18-19
Debt to EBITDA (x)	4.1	3.7-3.9	3.7-3.9
FFO to cash interest coverage (x)	5.6	6.0– 6.2	5.0-5.2

A--Actual. E--Estimate. FFO--Funds from operations.

Business Risk: Excellent

Our assessment of IP&L's business risk reflects its relatively lower-risk, rate-regulated, vertically-integrated electric utility operations that provide an essential service to about 480,000 customers in the city of Indianapolis and surrounding areas. IP&L also provides wholesale electric power to customers as a member of Midcontinent Independent System Operator (MISO). IP&L is primarily regulated by the Indiana Utility Regulatory Commission (IURC) and benefits from rate riders that allow for the timely cost recovery of its fuel expenses and the majority of its incremental environmental capital spending. Recently, the company implemented an approximately $30 million rate increase, its first in more than 20 years. We expect IP&L to file rate cases more regularly, reflecting our expectations for the timely recovery of the company's high capital spending program. Overall, we expect that the company will continue to effectively manage regulatory risk in line with its peers.

Financial Risk: Significant

Our assessment of IP&L's financial risk profile reflects credit measures for a utility that owns both lower-risk regulated utility operations, and moderately higher-risk regulated generation. We expect ultimate parent, AES to maintain a prudent financial policy toward IP&L and its immediate parent IPALCO that is commensurate with their current credit quality. Under our base-case scenario of higher capital spending through early 2017 and future rate increases, we expect FFO to debt of approximately 18%-22%, consistent with our significant financial risk profile category.

Liquidity: Adequate

We assess IP&L's liquidity as adequate. We expect IP&L to cover its liquidity needs for the next 12 months even if EBITDA declines by 10%. We also expect IP&L's liquidity sources over the next 12 months will exceed uses by more than 1.1x. IP&L also benefits from sound relationships with its banks, and has the likely ability to absorb high-impact, low-probability events, with limited need for refinancing.

Principal Liquidity Sources	Principal Liquidity Uses
• Credit facility availability of about $225 million. • Cash on hand of about $50 million. • FFO of about $330 million.	• Maintenance capital expenditures of about $400 million. • Dividends of averaging about $100 million. • Debt maturities of approximately $25 million in 2017.

Other Credit Considerations

Modifiers have no impact on the rating outcome.

Group Influence

S&P Global Ratings bases its ratings on IP&L on the consolidated group credit profile of its parent IPALCO and the application of our group ratings methodology. We deem IPALCO to be a moderately strategic subsidiary of AES, and consider IP&L a core entity that is integral to IPALCO. We rate IPALCO 'BBB-', two notches higher than the 'bb' consolidated group credit profile of ultimate parent AES due to the cumulative value of structural protections that insulate it from AES and the strength of its stand-alone credit profile. We rate IP&L in line with IPALCO since we consider it to be an integral and fully supported subsidiary.

Ratings Score Snapshot

Corporate Credit Rating

BBB-/Stable/NR

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile : a-

- Group credit profile: bb
- Entity status within group: Insulated (-3 notches from SACP)

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating depending on the rating category and the extent of the collateral coverage. FMBs issued by U.S. utilities are a form of secured utility bond (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for '1+' And '1' Recovery Ratings On Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in U.S. utility bankruptcies and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two in the 'BBB' category, and three in speculative-grade categories, depending on the calculated ratio.

- IP&L's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

Related Criteria

- Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Ratios And Adjustments, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	

Indianapolis Power & Light Company

A Subsidiary of IPALCO Enterprises, Inc.

Full Rating Report

Ratings

Indianapolis Power & Light Co.

Long-Term IDR	BBB–
Senior Secured	BBB+
Preferred Stock	BB+

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Indianapolis Power & Light Co.

	LTM 3/31/15	2014
Adjusted Revenue	1,299	1,322
Operating EBITDAR	416	418
Cash Flow from Operations	350	304
Total Adjusted Debt	1,295	1,202
Total Capitalization	2,236	2,127
Capex/ Depreciation (%)	2.5	2.1
FFO Fixed-Charge Coverage (x)	6.6	5.8
FFO-Adjusted Leverage (x)	2.9	3.1
Total Adjusted Debt/EBITDAR (x)	3.1	2.9

Related Research

Off to a Good Start (1Q15 Earnings Calls Wrap-Up) (May 2015)

Analysts

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Key Rating Drivers

Ratings Linkage: The legal ownership structure and lack of explicit ring-fencing between Indianapolis Power & Light Company (IPL) and its parent, IPALCO Enterprises, Inc. (IPALCO), are key reasons for linking IPL's Issuer Default Rating (IDR) to the IDR of IPALCO. Fitch Ratings places IPL's IDR one notch higher than IPALCO's due to its low-risk business profile and moderate capital structure

High Capex: The intensity of the current capex cycle at IPL is expected to rise. IPL's current capex plans include retrofitting most of its economical coal-fired electricity generation units with new emission-control equipment and replacing its inefficient generation units with new capacity. IPL has received a certificate of public convenience and necessity (CPCN) from the Indiana Utility Regulatory Commission (IURC) to build a new 650-MW combined-cycle gas turbine plant and to convert 200 MW of its coal-fired units to natural gas.

GRC Supports Credit Profile: A recently filed general rate case (GRC) application by IPL supports a consolidated credit profile. Fitch views Indiana's regulatory environment as supportive of IPL's business profile. Fitch expects a positive regulatory outcome of the GRC. A regulator-approved increase in cash flow will support high capex spending at IPL.

Consolidated Leverage-Based Credit Profile: Consolidated leverage, IPALCO's reliance on IPL to support debt service and the subordination of IPALCO's debt to IPL's debt are key elements in IPALCO's credit profile. The stability of upstream cash flow from IPL and a currently constructive regulatory environment in Indiana partially alleviate the credit concerns arising from IPALCO's exceptionally leveraged capital structure.

Environmental Policy Challenges: Management expects about 44% of IPL's long-term power generation capacity to remain coal-based. Even with the installation of new emission controls, the long-term public policy challenges to coal-fired generation remain a threat to the long-term viability of these assets. In assigning the IDR, Fitch relies on the environmental compliance cost rider and Indiana Senate Bills 29 and 251 for timely recovery of these investments.

Rating Outlook: Expected equity support from IPALCO shareholders AES Corporation (AES) and Caisse de dépôt et placement du Québec (CDPQ), manageable debt maturities through 2015 and the current liquidity level all support the Stable Rating Outlook.

Rating Sensitivities

Positive Rating Action: A positive rating action is unlikely over the rating horizon (2015–2018) given the rising capex at IPL and the regulatory lag in the recovery of the new capacity-related investments and increased operating costs.

Negative Rating Action: Fitch will downgrade the IDR of both companies if IPL's credit metrics fail to be within the guidelines for a 'BBB' rated entity on a sustainable basis. Fitch expects funds from operations-based leverage to remain below 4.3x. A restrictive regulatory outcome in the upcoming rate proceedings, if adverse for the credit protection measures on a sustainable basis, will also result in a negative rating action.

Financial Overview

Liquidity and Debt Structure

Liquidity is adequate, but IPL will depend on external debt financing for its large capex program. IPL currently maintains $250 million in a bank-syndicated credit facility that extends until 2019. IPALCO has no liquidity facility and depends on upstream distributions from IPL to service its debt-related obligations and operating expenses. There are no significant debt maturities until 2016 and Fitch expects IPALCO to refinance its debt maturities in a timely manner.

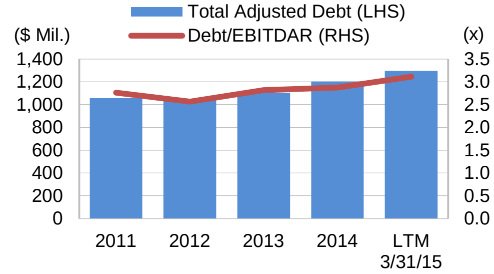
Debt Maturities and Liquidity

($ Mil., As of March 31, 2015)

2015	—
2016	132
2017	25
2018	—
Thereafter	999
Cash and Cash Equivalents	24
Undrawn Committed Facilities	188

Source: Company data, Fitch.

Total Debt and Leverage

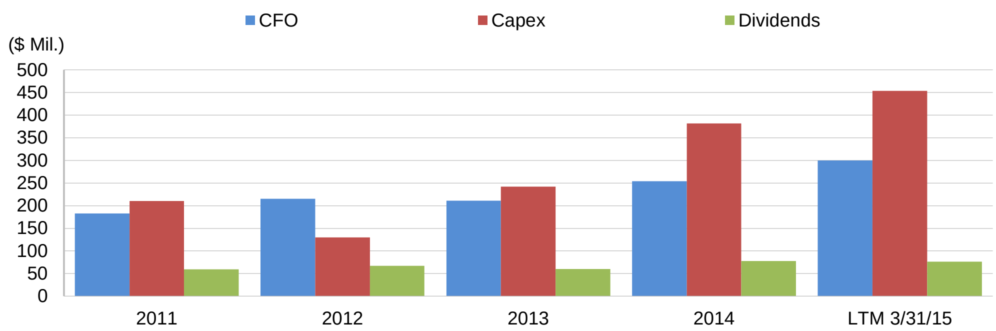


Source: Company data, Fitch.

Cash Flow Analysis

Environmental regulation compliance related spending by IPL has dominated capex through LTM 2015. Fitch believes that IPL's capex spending will remain elevated over next several years as it installs additional emission-control equipment on its efficient coal-fired power plants, constructs a new combined-cycle gas turbine power plant, and converts 200 MW of its existing coal-fired generating capacity to natural gas. Rising operating costs and declining wholesale power prices have adversely affected operating cash flow in the past and Fitch does not expect any improvement in wholesale electricity margins over short-to-mid-term horizon. A decline in upstream dividends reflects the equity support required for IPL to maintain the regulatory capital structure during high capex periods. Fitch expects improved operating cash flows once the IURC approved base rate increase is implemented.

CFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Recovery Ratings and Notching Criteria for Utilities (November 2013)

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure (August 2013)

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB-	
Indiana Michigan Power Co.	United States
Appalachian Power Co.	United States

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Dec. 15, 2014	BBB–	Stable
April 24, 2014	BBB–	Stable
April 7, 2014	BBB–	Stable
April 17, 2013	BBB–	Stable
April 18, 2012	BBB–	Stable
April 20, 2011	BBB–	Stable
June 28, 2010	BBB–	Stable
April 3, 2009	BBB–	Stable
April 1, 2008	BBB–	Positive
Dec. 11, 2006	BBB–	Stable
Dec. 6, 2005	BBB–	Stable
Oct. 18, 2005	BBB	Stable
Jan. 18, 2005	BBB–	RWP
Jan. 7, 2004	BBB–	Stable
July 29, 2003	BBB–	Stable
July 16, 2003	BBB–	Stable
Jan. 28, 2003	BB+	Negative
June 21, 2002	BB+	RWN
Feb. 15, 2002	BBB–	Stable
Dec. 20, 2001	BBB	—
Oct. 3, 2001	BBB	—
March 28, 2001	BBB	—
July 7, 2000	AA	—
June 30, 1999	AA	—
April 29, 1991	AA–	—

LT IDR – Long-term Issuer Default Rating. FC – Foreign currency. RWP – Rating Watch Positive. RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	Indianapolis Power & Light Co.	Indiana Michigan Power Co.	Appalachian Power Co.
As of	03/31/15	03/31/15	03/31/15
IDR	BBB–	BBB–	BBB–
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)			
Operating EBITDAR/ (Gross Interest Expense + Rents)	6.60	3.04	4.61
FFO Fixed-Charge Coverage	6.58	3.85	4.22
Total Adjusted Debt/Operating EBITDAR	3.11	3.76	3.91
FFO/Total Adjusted Debt (%)	34.1	33.7	23.4
FFO-Adjusted Leverage	2.94	2.97	4.28
Common Dividend Payout (%)	120.2	91.5	45.5
Internal Cash/Capex (%)	48.7	102.5	121.3
Capex/Depreciation (%)	245.4	238.3	136.7
Return on Equity (%)	11.9	7.1	7.5
Financial Information			
Revenue	1,299	2,194	3,017
Revenue Growth (%)	1.2	(9.5)	(10.6)
EBITDA	416	485	997
Operating EBITDA Margin (%)	31.6	30.0	41.5
FCF	(233)	12	112
Total Adjusted Debt with Equity Credit	1,295	2,169	3,969
Cash and Cash Equivalents	24	2	4
Funds Flow From Operations	374	541	708
Capex	(454)	(479)	(525)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Increased Capital Spending

About 80% of IPL's electricity generation capacity is subject to stringent environmental regulations. IPL must retrofit its coal-fired power plants with new emission-control equipment or close these facilities over the short- to medium term to comply with these regulations. The company plans to retire about 470 MW of its generating capacity by 2016. The IURC has already issued a certificate of public convenience and necessity (CPCN) for the construction of replacement generation capacity. However, the replacement generation capacity-related costs will not be recovered until the IURC approves the GRC application IPL intends to file once the new capacity is in service. This will adversely affect the credit metrics at least through 2016.

Approval of GRC Application

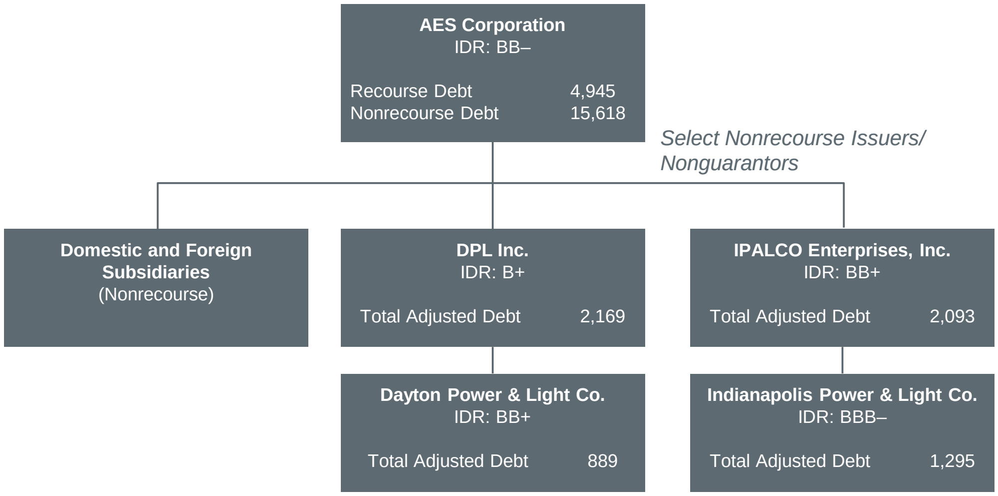
IPL has filed a GRC application with the IURC to recover elevated operating capex and recover its investment in environmental upgrades at its power plants and the construction of a new combined cycle gas plant. A positive IURC order permitting IPL to increase its retail rates for elevated operating costs and capex will be positive for IPL's cash flows.

Declining Electricity Demand

Demand-side management (DSM), energy efficiency, and smart meters will adversely affect retail volume. Electricity sales volumes have declined at 0.2% (compounded) over the last 10 years. Implementation of new DSM and energy-efficiency measures will continue to see a decline in retail electricity volume despite customer growth of about 0.5% over the last 10 years. The company does not currently have any regulatory mechanism to recover lost revenue from DSM and energy efficiency. The decline in electricity sales volume from these activities, without a regulatory offset, will be cash-flow negative. This trend of lower electricity sales volume could result in stranded investments in generating assets, and uncertainty in the regulatory mechanisms to allow for timely recovery may adversely affect credit protection measures if proportional reduction in leverage is not achieved.

Organizational Structure

Organizational and Debt Structure
($ Mil., as of March 31, 2015)



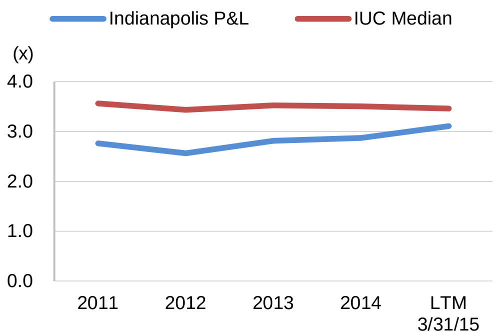
IDR – Issuer Default Rating. Note: Recourse debt is direct borrowings by the parent company and is used to fund development, construction or acquisitions, including serving as funding for equity investments or loans to the affiliates. Nonrecourse debt is designed to limit cross-default risk to the parent or other subsidiaries and affiliates. Most of the debt of AES Corporation's subsidiaries is nonrecourse and is secured substantially by all of the assets of those subsidiaries.
Source: Company filings, Fitch.

Key Metrics

Definitions

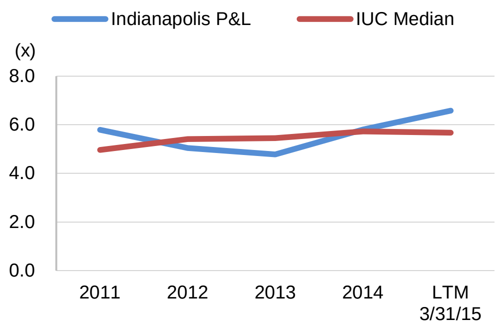
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance-sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Op. EBITDAR



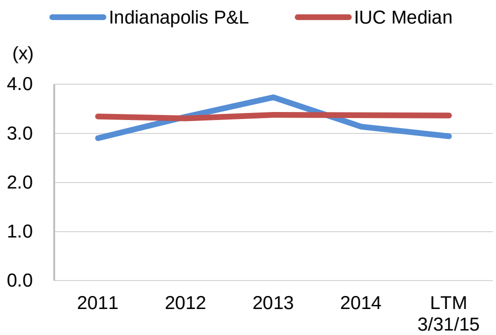
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



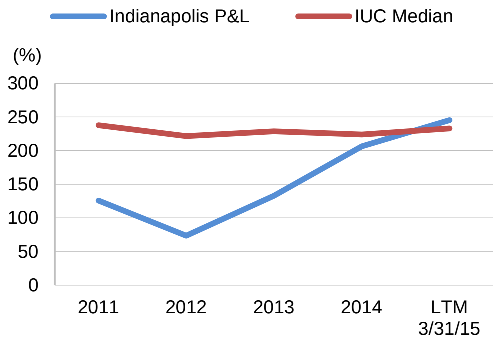
Source: Company data, Fitch.

FFO-Adjusted Leverage



Source: Company data, Fitch.

Capex/Depreciation



Source: Company data, Fitch.

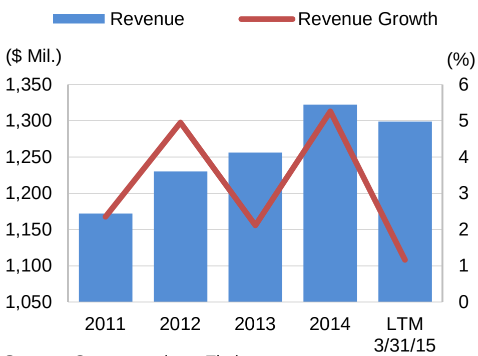
Company Profile

IPL provides retail electric service to more than 480,000 residential, commercial and industrial customers in Indianapolis and other central Indiana communities. IPALCO is an intermediary holding company that relies solely on upstream dividend distribution from IPL to service its debt and pay for business related expenses and upstream the remainder of the cash to its ultimate investors, AES and CDPQ. IPL owns about 3,200 MW of generating capacity, of which about 2,700 MW capacity uses coal as fuel source. About 99% of total electricity generation in 2014 was from its coal-fired power stations.

Business Trends

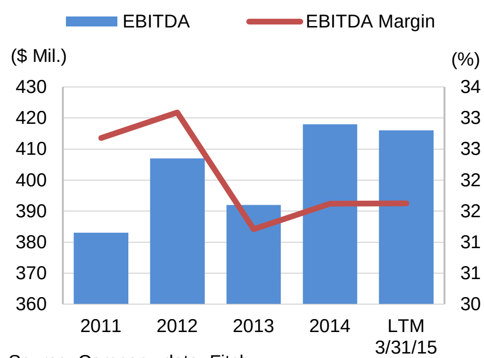
The polar vortex resulted in higher sales volume and increased average wholesale electricity prices in first-quarter 2014. Decline in revenues reflects the absence of any extreme weather-related event in LTM 2015 revenues. Reduced electricity demand and absence of purchased power costs improved EBITDA margins. IPL has a stable industrial and residential load base, and Fitch assumptions include a flat sales forecast over the rating period (2015–2018). The decline in EBITDA margins from a high of 33% in 2012 reflects increasing cost pressure that will require an increase in general rates. Fitch does not expect any significant improvement in wholesale margins and sales volume over the rating horizon.

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Indianapolis Power & Light Co.

(IDR: BBB–/Rating Outlook Stable) ($ Mil., As of March 31, 2015)	**2011**	**2012**	**2013**	**2014**	**LTM Ended 2015**
Fundamental Ratios (x)					
Operating EBITDAR/(Gross Interest Expense + Rents)	6.4	6.9	6.6	6.7	6.6
FFO Fixed-Charge Coverage	5.8	5.0	4.8	5.8	6.6
Total Adjusted Debt/Operating EBITDAR	2.8	2.6	2.8	2.9	3.1
FFO/Total Adjusted Debt (%)	34.5	30.0	26.8	31.1	34.1
FFO-Adjusted Leverage	2.9	3.3	3.7	3.2	2.9
Common Dividend Payout (%)	79.4	96.0	96.8	119.8	120.2
Internal Cash/Capex (%)	60.5	111.5	61.6	45.3	48.7
Capex/Depreciation (%)	125.7	73.4	133.0	206.5	245.4
Return on Equity (%)	13.2	12.9	11.4	12.0	11.9
Profitability					
Revenues	1,172	1,230	1,256	1,322	1,299
Revenue Growth (%)	2.4	4.9	2.1	5.3	1.2
Net Revenues	748	768	786	794	785
Operating and Maintenance Expense	323	317	349	331	330
Operating EBITDA	383	407	392	418	416
Operating EBITDAR	383	407	392	418	416
Depreciation and Amortization Expense	167	177	182	185	185
Operating EBIT	216	230	210	233	231
Gross Interest Expense	60	59	59	62	63
Net Income for Common	102	101	93	106	104
Operating Maintenance Expense % of Net Revenues	43.2	41.3	44.4	41.7	42.0
Operating EBIT % of Net Revenues	28.9	29.9	26.7	29.3	29.4
Cash Flow					
Cash Flow from Operations	211	245	242	304	350
Change in Working Capital	(91)	(6)	8	(13)	(24)
Funds from Operations	302	251	234	317	374
Dividends	(84)	(100)	(93)	(131)	(129)
Capex	(210)	(130)	(242)	(382)	(454)
FCF	(83)	15	(93)	(209)	(233)
Net Other Investment Cash Flow	(9)	(10)	(13)	(15)	(16)
Net Change in Debt	79	(14)	59	128	130
Net Equity Proceeds	—	—	49	106	106
Capital Structure					
Short-Term Debt	64	160	50	50	244
Total Long-Term Debt	994	884	1,054	1,182	1,051
Total Debt with Equity Credit	1,058	1,044	1,104	1,232	1,295
Total Adjusted Debt with Equity Credit	1,058	1,044	1,104	1,232	1,295
Total Hybrid Equity and Minority Interest	30	30	30	30	30
Total Common Shareholder's Equity	782	786	839	925	911
Total Capital	1,870	1,860	1,973	2,187	2,236
Total Debt/Total Capital (%)	56.6	56.1	56.0	56.3	57.9
Total Hybrid Equity and Minority Interest/Total Capital (%)	1.6	1.6	1.5	1.4	1.3
Common Equity/Total Capital (%)	41.8	42.3	42.5	42.3	40.7

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

FitchRatings

Corporates

Utilities, Power & Gas / U.S.A.

IPALCO Enterprises, Inc.

Full Rating Report

Ratings

Long-Term IDR	BB+
Senior Secured	BB+

IDR – Issuer Default Rating.

Rating Outlook

Long-Term IDR	Stable

Financial Data

IPALCO Enterprises, Inc.

($ Mil.)	2Q15	2014
Adjusted Revenue	1,277	1,322
Operating EBITDAR	400	416
CFFO	280	254
Total Adjusted Debt	2,125	2,031
Total Capitalization	2,499	2,212
Capex/ Depreciation (%)	3.0	2.1
FFO Fixed-Charge Coverage (x)	3.5	3.2
FFO-Adjusted Leverage (x)	5.1	5.3
Total Adjusted Debt/EBITDAR (x)	5.3	4.9

Related Research

U.S. Utilities: Winning at Halftime (Second-Quarter 2015 Earnings Wrap-Up) (September 2015)

Analysts

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Key Rating Drivers

Highly Leveraged Credit Profile: IPALCO Enterprises, Inc.'s (IPALCO) Issuer Default Rating (IDR) reflects a highly leveraged capital structure. Fitch Ratings views consolidated leverage as a key rating driver, along with the subordination of IPALCO's debt to that of regulated subsidiary Indianapolis Power & Light Co.'s (IPL, BBB–/Stable) debt. Stability of upstream cash flow from IPL and a currently constructive regulatory environment in Indiana partially alleviate the credit concerns arising from an exceptionally leveraged capital structure.

Elevated Capex at IPL: IPL will rely on cash flow from operations, debt markets and equity funding from IPALCO's shareholders to fund its elevated capex plan. The regulatory certification process for new generation capacity and other capex should enable IPL to recover these investments in a timely manner. In addition, an environmental cost recovery mechanism further supports the timely recovery of federally mandated compliance costs.

Credit Metrics Volatility Expected: IPALCO's consolidated debt-to-EBITDAR and FFO fixed-charge coverage ratios are expected to decline, at least through 2017, before moderately recovering in 2018, when Fitch anticipates implementation of higher electricity rates to recover invested capital. Fitch expects IPALCO's consolidated adjusted debt-to-EBITDAR ratio to remain around 5.0x at the end of 2018 and the FFO-to-fixed-charge coverage ratio to remain between 3.0x and 4.0x for the same period.

AES's Ownership: IPALCO's IDR is not directly linked to the ratings of its majority owner The AES Corporation (AES, BB–/Negative) due to weak legal ties. AES has not extended any guarantees to IPALCO's debtholders. AES currently owns 75.1% of IPALCO and Caisse de dépôt et placement du Québec (CDPQ) owns 24.9%.

Rating Sensitivities

Positive Rating Action: Positive rating action is unlikely over the 2015–2018 rating horizon given the elevated capex at IPL that will be partially debt financed. External financing of increasingly stringent environmental regulation-based investment at IPL will constrain credit protection measures over the rating horizon.

Negative Rating Action: Fitch would consider negative rating action on IPALCO in the event of certain adverse regulatory developments, such as changes that reduce the likelihood of timely recovery of operating costs (fuel, purchased power or environmental costs). Imputation of less than a full income tax rate in IPL's retail rates by the regulators will adversely affect IPALCO's credit protection measures and the ratings. A material increase in debt at IPALCO would also result in a negative rating action at IPALCO.

Financial Overview

Liquidity and Debt Structure

IPALCO had about $56 million in cash and cash equivalents as of June 30, 2015. IPALCO does not have a revolving credit facility and relies mainly on IPL for its cash flow needs. About $194.5 million was available to IPL under its $250.0 million committed revolving credit facility that expires in 2019. In June 2015, IPALCO issued $405 million in 3.45% senior secured notes, maturing in 2020, to refinance its 2016 notes.

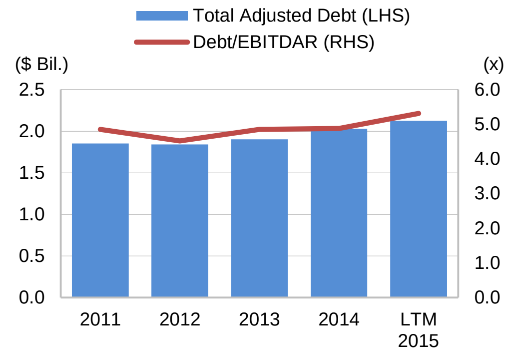
Debt Maturities and Liquidity

($ Mil., As of June 30, 2015)

2015	—
2016	165
2017	25
2018	400
Thereafter	1,404
Cash and Cash Equivalents	57
Undrawn Committed Facilities	195

Source: Company data, Fitch.

Total Debt and Leverage

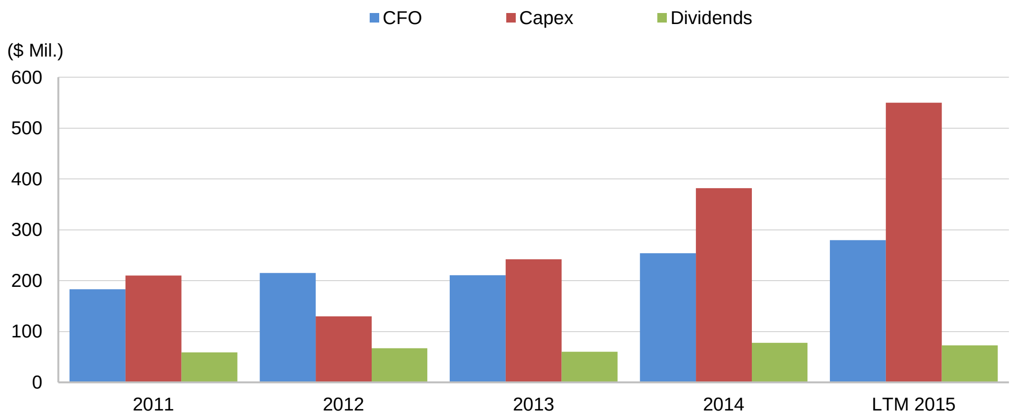


Source: Company data, Fitch.

Cash Flow Analysis

Concurrent recovery of environmental capex in rates improved cash flows for the LTM ending June 2015. The company is undertaking a large capex program that includes construction of a 600-MW natural gas-fired power plant and conversion of its 600-MW coal-fired power plant to natural gas. Indiana regulators have approved these projects and Fitch expects operating cash flows to improve once the new retail rates are approved by the Indiana Utility Regulatory Commission (IURC).

CFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage (August 2015)

Recovery Ratings and Notching Criteria for Utilities (March 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB–	
CMS Energy Corporation	U.S.
BB+	
FirstEnergy Corp.	U.S.
B+	
DPL Inc.	U.S.

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Dec. 15, 2014	BB+	Stable
April 24, 2014	BB+	Stable
April 7, 2014	BB+	Stable
April 17, 2013	BB+	Stable
April 18, 2012	BB+	Stable
April 20, 2011	BBB–	Stable
June 28, 2010	BBB–	Stable
April 3, 2009	BBB–	Stable
April 1, 2008	BBB–	Positive
Dec. 11, 2006	BBB–	Stable
Dec. 6, 2005	BBB–	Stable
Oct. 18, 2005	BBB–	Stable
Jan. 18, 2005	BB	RWP
Jan. 28, 2003	BB	Stable
Oct. 3, 2002	BB	RWN
June 21, 2002	BB+	RWN
Feb. 15, 2002	BBB–	Stable
Dec. 20, 2001	BBB	RWN
Nov. 6, 2001	BBB	Negative
Oct. 3, 2001	BBB	Negative
March 28, 2001	BBB	Stable
July 17, 2000	AA–	RWN
June 30, 1999	AA–	—

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
RWP – Rating Watch Positive.
RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	IPALCO Enterprises, Inc.	CMS Energy Corporation	FirstEnergy Corp.	DPL Inc.
As of	6/30/15	3/31/15	3/31/15	6/30/15
IDR	BB+	BBB–	BB+	B+
Rating Outlook	Stable	Stable	Stable	Stable
Fundamental Ratios (x)				
Operating EBITDAR/(Gross Interest Expense + Rents)	3.45	4.37	2.54	3.45
FFO Fixed-Charge Coverage (x)	3.48	4.45	3.41	4.09
Total Adjusted Debt/Operating EBITDAR	5.31	4.58	7.23	4.91
FFO/Total Adjusted Debt (%)	19.7	22.3	18.5	24.1
FFO-Adjusted Leverage (x)	5.08	4.49	5.39	4.15
Common Dividend Payout (%)	130.4	65.2	193.3	—
Internal Cash/Capex (%)	36.9	78.7	65.8	283.6
Capex/Depreciation (%)	302.2	231.2	285.3	92.1
ROE (%)	22.9	12.5	2.5	182.8
Financial Information				
Revenue	1,277	6,756	14,622	1,781
Revenue Growth (%)	(1.6)	(4.3)	(4.2)	3.7
EBITDA	400	1,838	2,958	442
Operating EBITDA Margin (%)	26.7	29.3	24.2	23.1
FCF	(347)	(345)	(1,196)	235
Total Adjusted Debt with Equity Credit	2,125	8,501	22,808	2,169
Cash and Cash Equivalents	57	522	90	117
FFO	298	1,468	2,987	395
Capex	(550)	(1,621)	(3,498)	(128)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Large Capital Spending Plan

The EPA's rule to control hazardous air pollutants from coal- and oil-fired electricity generating plants under the U.S. Clean Air Act, also known as Mercury and Air Toxics Standards (MATS), will become effective on April 16, 2016. IPL will face a large capital investment to upgrade certain coal-generating plants (about 2,400 MW) to comply with the new environmental regulations.

The company will spend approximately $454 million for the forecast period ending December 2017 to comply with the MATS rule. Fitch expects IPL to recover these costs through an environmental rate-adjustment mechanism once the IURC approves the projects. Other environmental expenditures over 2015–2017 will total $207 million. IPALCO also faces retirement of certain less-efficient fossil fuel-fired electricity generating capacity and will need to build replacement capacity. Fitch anticipates IPL will need an additional $670 million–$700 million in new investment to replace the deactivated generating capacity.

To fund the utility capex plan at IPL, CDPQ plans to increase its ownership in IPALCO to 30.0% from its current ownership interest of 24.9%. Fitch believes the sale of equity interest in IPALCO by AES to CDPQ improves IPALCO's financial flexibility and lends support to IPL's construction program.

Need for a General Rate Increase

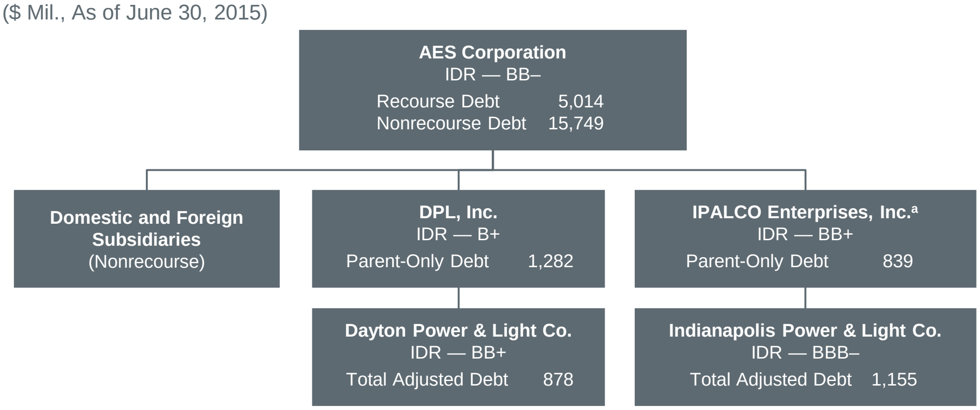
IPL's ROE has been falling due to rising operating costs and a decline in the wholesale electricity margins from weaker wholesale electricity prices within its load area. Consequently, IPL has filed a GRC application requesting a $68 million increase in base rates. The IURC is likely to issue a regulatory order by the end of 2015 or early 2016, with new rates becoming effective in early 2016. An increase in the retail rates is imperative for IPL to maintain sufficient cash flow to mitigate the negative credit impact of higher capex during the 2013–2017 construction period. The last general rate increase was approved by the IURC in 1996. Given the current interest rate environment, Fitch expects the IURC to approve a lower ROE than the one last approved in its GRC order of 1996.

Regulatory Matters

Senate Bill 560 was signed into law by the Indiana governor in April 2013. The bill allows utilities to propose a seven-year infrastructure plan for distribution, transmission and storage to the IURC and provides for timely recovery if the IURC considers the plan reasonable. The bill also allows the utility to implement 50% of the proposed increase in its GRC application if not approved by the IURC within 300 days after the utility files its application. The IURC is allowed to extend the 300-day deadline by 60 days for a good cause. The bill also allows utilities to utilize a forward-looking test year in its GRC application. These developments are positive for IPL's credit profile.

Organizational Structure

Organizational and Debt Structure — IPALCO Enterprises, Inc.
($ Mil., As of June 30, 2015)



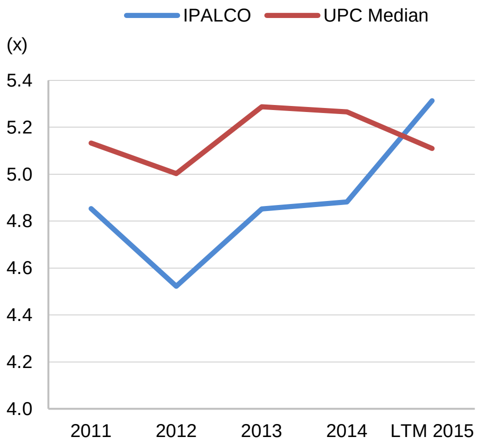
[a]AES owns 75.14%. Caisse de dépôt et placement du Québec (CDPQ) owns 24.86% through its subsidiary, CDP Infrastructure Fund GP. IDR – Issuer Default Rating.
Source: Company reports, Fitch analysis.

Key Metrics

Definitions

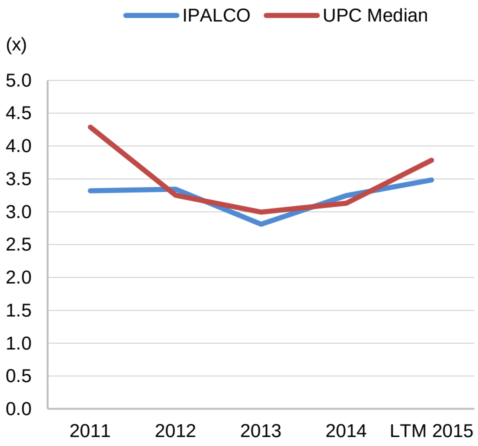
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Operating EBITDAR



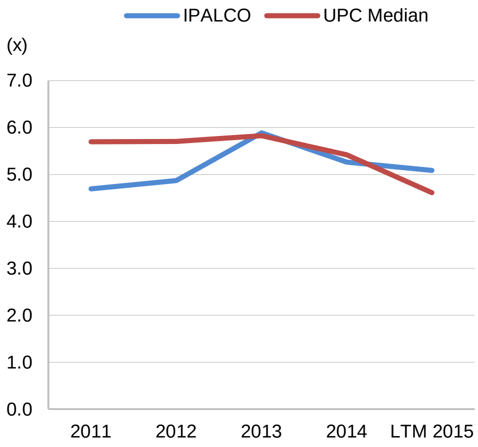
UPC – Utility parent company.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



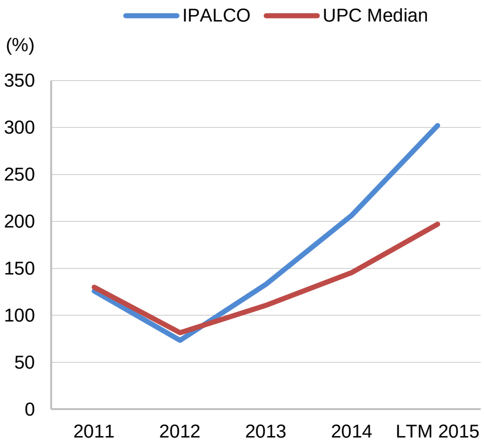
UPC – Utility parent company.
Source: Company data, Fitch.

FFO-Adjusted Leverage



UPC – Utility parent company.
Source: Company data, Fitch.

Capex/Depreciation



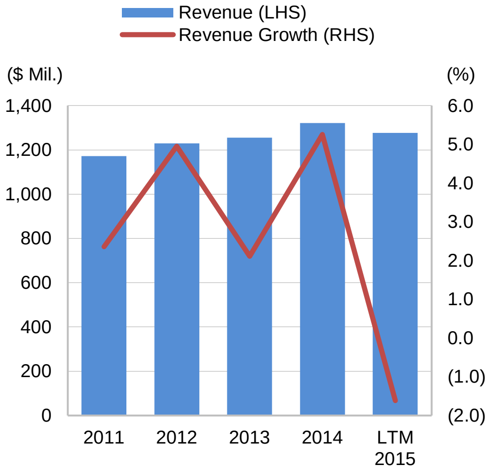
UPC – Utility parent company.
Source: Company data, Fitch.

Company Profile

AES U.S. Investments, Inc. (AUI) owns 88.4% equity interest in IPALCO, and CDPQ owns the remaining 11.6% through its subsidiary CDP Infrastructure Fund GP (CDP). CDPQ, through CDP, also owns 15% of AUI, which equates to a 24.9% ownership of IPALCO. CDPQ plans to increase its ownership interest in IPALCO to 30% with the purchase of additional IPALCO shares in 2016. IPALCO owns all outstanding common stock of IPL, a regulated and vertically integrated utility in Indiana. IPL has approximately 480,000 retail customers, and owns and operates about 3,115 MW of mainly coal-fired generating capacity. IPALCO is a highly leveraged entity and is solely supported by cash flow from IPL.

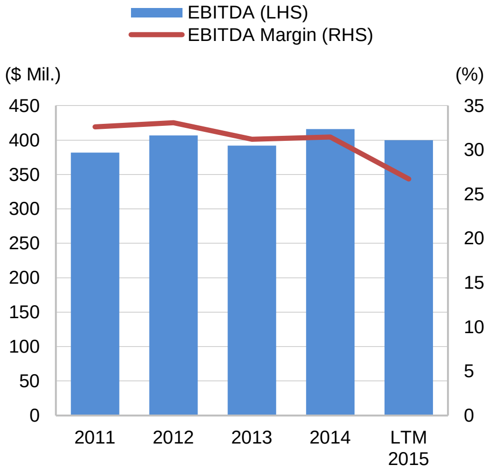
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — IPALCO Enterprises, Inc.

($ Mil., As of June 30, 2015; IDR: BB+/Rating Outlook Stable)	2011	2012	2013	2014	LTM 6/30/15
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	3.3	3.7	3.5	3.6	3.4
FFO Fixed-Charge Coverage (x)	3.3	3.3	2.8	3.2	3.5
Total Adjusted Debt/Operating EBITDAR (x)	4.9	4.5	4.9	4.9	5.3
FFO/Total Adjusted Debt (%)	21.3	20.5	17.0	19.0	19.7
FFO-Adjusted Leverage (x)	4.7	4.9	5.9	5.3	5.1
Common Dividend Payout (%)	103.5	97.1	98.4	104.0	130.4
Internal Cash/Capex (%)	57.6	111.5	61.2	45.0	36.9
Capex/Depreciation (%)	125.7	73.4	133.0	206.5	302.2
ROE (%)	(1,036.4)	(1,533.3)	271.1	75.4	22.9
Profitability					
Revenues	1,172	1,230	1,256	1,322	1,277
Revenue Growth (%)	2.4	4.9	2.1	5.3	(1.6)
Net Revenues	748	768	786	794	779
Operating and Maintenance Expense	324	317	349	333	333
Operating EBITDA	382	407	392	416	400
Operating EBITDAR	382	407	392	416	400
Depreciation and Amortization Expense	167	177	182	185	182
Operating EBIT	215	230	210	231	218
Gross Interest Expense	116	110	112	115	116
Net Income for Common	57	69	61	75	56
Operating Maintenance Expense % of Net Revenues	43.3	41.3	44.4	41.9	42.7
Operating EBIT % of Net Revenues	28.7	29.9	26.7	29.1	28.0
Cash Flow					
Cash Flow from Operations	183	215	211	254	280
Change in Working Capital	(93)	(50)	3	(13)	(18)
Funds from Operations	276	265	208	267	298
Dividends	(62)	(70)	(63)	(82)	(77)
Capex	(210)	(130)	(242)	(382)	(550)
FCF	**(89)**	**15**	**(94)**	**(210)**	**(347)**
Net Other Investment Cash Flow	(9)	(10)	(13)	(15)	(10)
Net Change in Debt	89	(14)	59	128	75
Net Equity Proceeds	—	—	49	106	214
Capital Structure					
Short-Term Debt	64	160	50	50	270
Total Long-Term Debt	1,790	1,681	1,852	1,981	1,855
Total Debt with Equity Credit	**1,854**	**1,841**	**1,902**	**2,031**	**2,125**
Total Adjusted Debt with Equity Credit	1,854	1,841	1,902	2,031	2,125
Total Hybrid Equity and Minority Interest	30	30	30	30	30
Total Common Shareholders' Equity	(6)	(3)	48	151	344
Total Capital	**1,878**	**1,868**	**1,980**	**2,212**	**2,499**
Total Debt/Total Capital (%)	98.7	98.6	96.1	91.8	85.0
Total Hybrid Equity and Minority Interest/Total Capital (%)	1.6	1.6	1.5	1.4	1.2
Common Equity/Total Capital (%)	(0.3)	(0.2)	2.4	6.8	13.8

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.