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**DECEMBER 22, 2016**  
**INDIANA UTILITY**  
**REGULATORY COMMISSION**

**44893**

**VERIFIED DIRECT TESTIMONY**

**OF**

**STEPHEN A. ALLAMANNO**

**ON BEHALF OF**

**INDIANAPOLIS POWER & LIGHT COMPANY**

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INDIANAPOLIS POWER & LIGHT COMPANY**

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

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

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

6 A2. I am the Interim Director – Regulatory Tax for the US Strategic Business Unit (“SBU”).

7 **Q3. Please describe your duties as Interim Director – Regulatory Tax.**

8 A3. I manage all aspects of federal and state income, property, sales and use tax for the  
9 regulated businesses that are part of the US SBU, including IPL. I work closely with US  
10 SBU accounting, finance, legal, operations and development teams. I also partner with  
11 the Arlington, Virginia tax group on a variety of US federal, state, and local tax matters.

12 **Q4. Please summarize your educational and professional qualifications.**

13 A4. I am a Certified Public Accountant and graduated with a Bachelor of Science in Business  
14 Administration degree in Accounting from The Ohio State University in 1987. I obtained  
15 a Master’s Degree in Business Administration (“MBA”) from The Ohio State University  
16 in 1993.

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

18 A5. I have spent my entire professional career of approximately 25 years working in the  
19 corporate tax field. From January 1988 to October 1998, I worked in the tax department

1 of Cummins Inc. in Columbus, Indiana. From 1988 to 1991, my responsibilities  
2 primarily related to US federal, state, and local tax compliance work. From September  
3 1991 to June 1993, I took a leave of absence from Cummins to obtain my MBA. I  
4 returned to Cummins on a full-time basis from July 1993 to October 1998. During this  
5 time, I focused on international tax compliance and planning efforts. From October 1998  
6 through March 1999, I served as Director of International Tax for Cardinal Health, Inc. in  
7 Dublin, Ohio, holding responsibility for all US tax aspects of the company's non-US  
8 operations. I once again returned to Cummins in May 1999 and remained with the  
9 company through July 2011. Over this period of time, I served in a variety of roles,  
10 handling tax compliance, planning, and provision work for both domestic and  
11 international operations. From August 2011 through December 2013, I served as Vice  
12 President – US Tax for Technicolor USA, Inc. in Carmel, Indiana. At Technicolor, I was  
13 responsible for managing all U.S. tax matters of the company. From January 2014  
14 through July 2016, I served as the Tax Director of the US SBU for AES Services US,  
15 LLC, with responsibility for managing all US tax matters of the company. I assumed my  
16 current role as Interim Director – Regulatory Tax in August 2016, focusing specifically  
17 on tax matters affecting the regulated businesses that are part of the US SBU, including  
18 IPL.

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

21 A6. Yes. I have previously offered testimony before the Indiana Commission in Cause No.  
22 44576 on behalf of IPL, and also in Ohio Case No. 15-1830-EL-AIR on behalf of The  
23 Dayton Power & Light Company.

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

2 A7. The purpose of my testimony in this proceeding is to present and support the federal,  
3 state, and local income taxes to which IPL is subject. I am also responsible for the  
4 calculation of the gross income conversion factor and adjustments to certain taxes other  
5 than income taxes.

6 **Q8. Are you sponsoring any exhibits or schedules?**

7 A8. Yes. I am sponsoring the following:

- 8 • IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2 – Gross Revenue  
9 Conversion Factor
- 10 • IPL Financial Exhibit IPL-OPER, Schedule OTX1 – Summary of Taxes Other  
11 Than Income Taxes
- 12 • IPL Financial Exhibit IPL-OPER, Schedule OTX2 – Real Estate and Personal  
13 Property Taxes, Including Rail Car Tax
- 14 • IPL Financial Exhibit IPL-OPER, Schedule OTX4 – Indiana Utility Receipts  
15 Tax
- 16 • IPL Financial Exhibit IPL-OPER, Schedule TX1 – Summary of Income Tax  
17 Expense
- 18 • IPL Financial Exhibit IPL-OPER, Schedule TX2 – Current Federal Income Tax  
19 Expense
- 20 • IPL Financial Exhibit IPL-OPER, Schedule TX3 – Current State Income Tax  
21 Expense
- 22 • IPL Financial Exhibit IPL-OPER, Schedule TX4 – Deferred Federal and State  
23 Income Tax Expense
- 24 • IPL Financial Exhibit IPL-OPER, Schedule TX5 – Investment Tax Credit  
25 Adjustments
- 26 • IPL Financial Exhibit IPL-OPER, Schedule TX6 – Interest Synchronization
- 27 • IPL Financial Exhibit IPL-OPER, Schedule TX7 – Imputation of Parent  
28 Company Interest

- IPL Financial Exhibit IPL-OPER, Schedule TX8 – Effective Income Tax Rate

**Q9. Were the Exhibits or portions of the Exhibits that you are sponsoring prepared or assembled by you or under your direction or supervision?**

A9. Yes.

**Q10. Did you submit any workpapers?**

A10. Yes. The calculations shown on the schedules identified above have been cross-referenced, when appropriate, to the workpapers which provide additional detailed support for these calculations.

**Q11. Please explain the normalization method of accounting used for income taxes and ratemaking.**

A11. For income tax return purposes, the Company's depreciation expense deductions are calculated using accelerated rates provided for in the Internal Revenue Code. For regulatory and book accounting purposes, depreciation expense is calculated on a straight-line basis over the useful life of the relevant property using depreciation rates approved by the Commission. The regulatory and book treatment of depreciation included in the income tax component of cost of service is referred to as the normalization method of accounting and is required by the Internal Revenue Code. The difference between accelerated depreciation for tax purposes and normalized depreciation for book purposes creates a timing (also referred to as "temporary") difference. Ultimately, the same amount of total depreciation expense will be claimed for both tax and book purposes; however, the depreciation deductions taken in individual years will differ. The timing differences created by the use of different depreciation methods for

1 tax and for book purposes are recorded on the Company's balance sheet in an  
2 accumulated deferred income tax reserve account.

3 **Q12. Please explain IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2 – Gross**  
4 **Revenue Conversion Factor.**

5 A12. IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2 shows the calculation of the  
6 factor necessary to determine the incremental amount of gross revenue required to  
7 generate an additional dollar of operating income after payment of all public utility  
8 assessment fees and federal and state income taxes. This exhibit calculates income tax  
9 expense based on the underlying financial data of the Company, including all applicable  
10 revenues and expenses. The income tax calculation includes both the current and  
11 deferred components of income tax expense, based upon the prevailing statutory rates.

12 **Q13. Please explain IPL Financial Exhibit IPL-OPER, Schedule OTX2 – Real Estate and**  
13 **Personal Property Taxes, Including Rail Car Tax.**

14 A13. IPL Financial Exhibit IPL-OPER, Schedule OTX2 summarizes the property tax liabilities  
15 of the Company based on the most recent assessments and rates. The detail concerning  
16 the most recent assessed values and the most recent tax rates is set forth in my  
17 workpapers. Property tax expense for the test year includes an adjustment for the  
18 property taxes associated with the CCGT for the initial year in which it is placed in  
19 service. The adjustment is necessary to annualize and normalize the increase to property  
20 tax expense that is caused by placing the CCGT in service during the adjustment period.  
21 During construction, property tax expense is accrued on construction work in progress.  
22 Once the CCGT is placed in service, property tax expense will accrue as utility plant in  
23 service. I have computed the property tax expense that will accrue the first tax year on

1 the CCGT, reflecting as well a 60% property tax abatement that has been granted by  
2 Morgan County and which will take effect once the CCGT is in service.

3 **Q14. Please explain IPL Financial Exhibit IPL-OPER, Schedule OTX4 – Indiana Utility**  
4 **Receipts Tax.**

5 A14. IPL Financial Exhibit IPL-OPER, Schedule OTX4 calculates the Company's Indiana  
6 Utility Receipts Tax liability for the test year based on the current tax rate of 1.4%. The  
7 test year calculation is then updated to include appropriate pro forma adjustments to the  
8 receipts subject to Utility Receipts Tax. By far the largest pro forma adjustment related  
9 to electric retail revenues, as illustrated in IPL Financial Exhibit IPL-OPER, Schedule  
10 REV1, which is addressed in IPL Witness Forestal's testimony.

11 **Q15. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX1 – Summary of**  
12 **Income Tax Expense.**

13 A15. This schedule summarizes the total amount of income tax expense incurred by the  
14 Company for the test year with adjustments. It is divided into current and deferred  
15 income tax expense. The detail supporting the calculations on this schedule is shown  
16 on IPL Financial Exhibit IPL-OPER, Schedules TX2 through TX7.

17 **Q16. Please explain IPL Financial Exhibit IPL-OPER, Schedules TX2 (Current Federal**  
18 **Income Tax Expense) and TX3 (Current State Income Tax Expense).**

19 A16. IPL Financial Exhibit IPL-OPER, Schedules TX2 and TX3 show the calculation of  
20 current federal and state income tax expense, both of which carry over into lines 1 and 2  
21 on IPL Financial Exhibit IPL-OPER, Schedule TX1. I will start my explanation with IPL  
22 Financial Exhibit IPL-OPER, Schedule TX2, which calculates current federal income tax

1 expense at present and proposed rates. The calculation of federal income tax expense  
2 (current and deferred) begins with the determination of net operating income before tax.  
3 Before we can apply the federal income tax rate of 35%, we must first adjust for  
4 permanent differences. These are items where, for instance, expenses may not be fully  
5 deductible for purposes of computing taxable income or where deductions may be  
6 allowed for tax purposes which are not reflected in the calculation of net operating  
7 income. These permanent differences are shown in lines 6 through 10 of IPL Financial  
8 Exhibit IPL-OPER, Schedule TX2. To compute the current portion of federal income tax  
9 expense (as compared to the deferred portion), we must account for temporary or timing  
10 differences. The most common of these differences is the use of accelerated methods of  
11 depreciation for tax. The temporary differences are indicated on lines 12 through 52  
12 of IPL Financial Exhibit IPL-OPER, Schedule TX2. Next, we deduct synchronized  
13 interest on line 54 of IPL Financial Exhibit IPL-OPER, Schedule TX2. IPL Financial  
14 Exhibit IPL-OPER, Schedule TX6 shows the calculation of the amount of interest  
15 expense deduction used by the Company for purposes of computing income tax expense.  
16 This amount is calculated by multiplying the adjusted rate base by the weighted cost of  
17 long-term debt. This interest expense deduction methodology is consistent with past  
18 Commission practice. The next adjustment is for the allocation of parent company  
19 interest, which is shown on line 55 of IPL Financial Exhibit IPL-OPER, Schedule TX2.  
20 Consistent with prior Commission Orders, this is an adjustment to reduce the Company's  
21 income tax expense for an allocated share of the tax benefit associated with the interest  
22 expense incurred by its parent company (The AES Corporation) as a result of the  
23 Company's participation in The AES Corporation's consolidated income tax return



1 filings. This calculation is illustrated in IPL Financial Exhibit IPL-OPER, Schedule TX7.  
2 The computation reflected in IPL Financial Exhibit IPL-OPER, Schedule TX7 includes  
3 an adjustment to remove the portion of the Company’s capital contributed by CDPQ,<sup>1</sup> as  
4 the Company neither engages in nor benefits from the filing of a consolidated income tax  
5 return with this entity. State income tax is then deducted to arrive at taxable income for  
6 purposes of computing current federal income tax expense at present and proposed  
7 rates. IPL Financial Exhibit IPL-OPER, Schedule TX3 then provides a calculation of  
8 current state income tax expense. The starting point for this calculation is federal taxable  
9 income.

10 **Q17. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX4 – Federal and State**  
11 **Deferred Income Tax Expense.**

12 A17. This schedule shows the itemization of the components of federal and state deferred  
13 income tax expense at present and proposed rates. The totals on lines 3 and 4 of IPL  
14 Financial Exhibit IPL-OPER, Schedule TX1 are drawn from lines 45-51 from IPL  
15 Financial Exhibit IPL-OPER, Schedule TX4. Each component feeding the calculation of  
16 deferred income tax is listed in this schedule.

17 **Q18. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX5 – Investment Tax**  
18 **Credit.**

19 A18. This schedule reflects the test year amortization of Investment Tax Credits previously  
20 reflected on Federal tax returns over the service life of the property that generated the  
21 credits.

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<sup>1</sup> CDP Infrastructure Fund GP, a wholly-owned subsidiary of La Caisse de depot et placement du Quebec (the “CDPQ”), owns a minority equity interest in IPALCO, IPL’s immediate parent company.

1 **Q19. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX6 – Interest**  
2 **Synchronization.**

3 A19. IPL Financial Exhibit IPL-OPER, Schedule TX6 shows the calculation of the amount of  
4 interest expense deduction used by the Company for purposes of computing income tax  
5 expense. This amount is calculated by multiplying the adjusted original cost rate base  
6 reflected on IPL Financial Exhibit IPL-RB, Schedule RB-2, which is sponsored by IPL  
7 Witness Forestal, by the weighted cost of long-term debt. This interest expense  
8 deduction methodology is consistent with past Commission practice.

9 **Q20. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX8 – Effective Tax**  
10 **Rate.**

11 A20. IPL Financial Exhibit IPL-OPER, Schedule TX8 calculates the Company's effective tax  
12 rate after taking into consideration permanent and flow-through timing differences and  
13 investment tax credit amortization. The total effective tax rate before rate relief is  
14 26.96% and is calculated by dividing total income tax expense by pre-tax electric  
15 operating income including interest expense.

16 **Q21. Does that include conclude your verified pre-filed direct testimony?**

17 A21. Yes.

**VERIFICATION**

I, Stephen A. Allamanno, Interim Director – Regulatory Accounting for AES U.S. Services, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

  
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Stephen A. Allamanno

Dated: December 22, 2016