

**VERIFIED DIRECT TESTIMONY
OF
YVONNA K. STEADMAN
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

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

2 A1. My name is Yvonna Steadman. I am employed by AES U.S. Services, LLC (“AES
3 Services”), whose business address is One Monument Circle, Indianapolis, Indiana
4 46204.

5 **Q2. What is your position with the AES Services?**

6 A2. I am a Manager in the Regulatory Accounting area.

7 **Q3. Please describe your duties as a Manager in Regulatory Accounting.**

8 A3. I am responsible for the preparation and review of various general ledger entries, the
9 reconciliation of regulatory asset and liability accounts, the computation of and tracking
10 of various costs for regulatory filings, and the preparation of supporting schedules and
11 testimony for regulatory filings.

12 **Q4. Please summarize your educational background.**

13 A4. I graduated from the University of Indianapolis in 1978, with a Bachelor of Science
14 degree in Accounting.

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

16 A5. I was employed by Indianapolis Power & Light Company (“IPL”) as an accountant in
17 various capacities, entry-level accountant up to and including Manager of Corporate
18 Accounting, from 1982 through 2001. From 2002 through 2007, I held the position of
19 accountant for The Monroe Utilities Network, in Monroe, Georgia. My responsibilities
20 included overseeing all accounting and billing functions for the utilities owned by

1 Monroe. I held this position through the end of 2007. Late in 2012, I returned to the
2 Indianapolis area and began working for IPL in a consulting capacity. In July, 2013, I
3 was hired as an employee of AES Services.

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

6 A6. Yes, I submitted testimony in support of IPL’s 1994 Electric Rate Case, Cause No.
7 39938, and in support of IPL’s 2014 Electric Rate Case, Cause No. 44576. I have
8 submitted testimony before this Commission in support of IPL’s Green Power Initiative
9 rate, (Cause No. 44121 GPR 9), IPL’s Capacity Adjustment and Off-System Sales
10 Margin Sharing Adjustment rates, (Cause No. 44795), and IPL’s pending Demand Side
11 Management Adjustment rates, (Cause No. 43623 DSM-14).

12 In addition, I submitted testimony in support of The Dayton Power and Light Company’s
13 (“DP&L”) Distribution rate case before the Public Utility Commission of Ohio, (Case
14 No. 15-1830-EL-AIR).

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

16 A7. My testimony reviews various pro forma adjustments made to the results of operations
17 for the twelve (12) months ended June 30, 2016. These adjustments relate to wages and
18 the related payroll taxes, benefits, as well as the expenses and revenues from AES
19 Services.

20 **Q8. Are you sponsoring any exhibits?**

21 A8. Yes. I am sponsoring:

1 IPL Financial Exhibit IPL-OPER, Schedule OM17 – Wages and Benefits of IPL
2 Employees and AES U.S. Services, LLC Employees.

3 IPL Financial Exhibit IPL-OPER, Schedule OM22 – AES U.S. Services, LLC
4 Occupancy and Non-Labor Costs.

5 IPL Financial Exhibit IPL-OPER, Schedule OTX3 – Payroll Taxes Applicable to Pro
6 Forma Wage Adjustments and Changes in Tax Rates.

7 **Q9. Were these exhibits or portions of exhibits you are sponsoring prepared or**
8 **assembled by you or under your direction or supervision?**

9 A9. Yes.

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

11 A10. Yes. I sponsor the workpapers supporting the three schedules identified above.

12 **IPL Financial Exhibit IPL-OPER, Schedule OM17**

13 **Wages and Benefits for IPL and AES Services, LLC Employees**

14 **Q11. Please describe IPL Financial Exhibit IPL-OPER, Schedule OM17.**

15 A11. This schedule sets forth an adjustment to the test year per books, electric operation and
16 maintenance (“O&M”) expense required to recognize changes fixed in time, known to be
17 occurring within the twelve (12) months following the test year and measurable in
18 amount with regard to labor and employee benefit costs.

19 The pro forma results on this schedule are the computational results of applying payroll
20 and benefits information obtained from IPL and DP&L human resource personnel and
21 pension information from IPL Witness Kunz.

1 To move through the discussion of this schedule, I would like to begin by addressing the
2 IPL employee labor costs.

3 **IPL Employee Labor Costs**

4 **Q12. For purposes of calculating your adjustment, did you analyze pro forma labor costs**
5 **for each employee?**

6 A12. Yes. Information pertaining to the IPL workforce, as it existed at June 30, 2016, was
7 obtained from the IPL payroll department records. The detailed, person-by-person
8 information was annualized and adjusted for fixed and measurable changes known to be
9 occurring prior to June 30, 2017.

10 The total pro forma base wages amount was determined by taking the active employees
11 as of June 30, 2016, adding 15 employees hired for a new lineman class in July 2016, and
12 identifying the respective pay rates for each employee position. Full-time position pay
13 rates were then multiplied by 2,088 hours. Part-time positions used the actual hours
14 worked by that employee during the test year.

15 **Q13. How did you account for wage increases?**

16 A13. Merit increases related to IPL union positions, are given as an employee reaches certain
17 levels of experience in a position. These increases are negotiated and contractual. They
18 are specific as to each employee; and as such, information was obtained from payroll
19 records to identify any individual eligible for a merit increase on or before June 30, 2017.
20 These merit increases have been annualized and represent a portion of the pro forma
21 adjustment.

1 The annual pay increase for IPL's International Brotherhood of Electrical Workers,
2 ("IBEW") physical union employees is negotiated and contractual, and will be an across-
3 the-board increase effective December 12, 2016. The contracted percentage of increase
4 is 2.5%, and has been applied to all physical union base pay after adjustment for merit
5 increases.

6 The annual pay increase for the IPL IBEW clerical/technical union employees is also
7 negotiated and contractual. The current contract with the IPL IBEW clerical/technical
8 union will expire in February 2017. For purposes of the labor pro forma, a 3.0% across-
9 the-board increase was assumed, consistent with the annual increase included in IPL's
10 2017 budget. This increase has been applied to all clerical/technical union base pay after
11 adjustment for merit increases.

12 For non-union employees, the 3.0% annual pay increase was applied consistent with both
13 historical increases and IPL's 2017 budget.

14 The IPL pro forma base wages were adjusted to include shift differentials and acting
15 supervisor pay at the frequency experienced during the test year, while considering the
16 impact of employee pay increases.

17 **Q14. Did you include incentive pay?**

18 A14. Yes. Short-term and long-term compensation is applicable to specific employees, at
19 specific potential targets, and is appropriately includable in the pro forma labor cost.

20 The computation for the short-term compensation cost was applied at target to each
21 applicable employee's pay rate after annualization for pay changes through June 30,
22 2017, times their potential incentive rate. IPL has historically paid out more than target.

1 The pro forma for long-term compensation was determined by using the cost information
2 for the month of June 2016 times twelve months. As per the Order in IURC Cause No.
3 44576, this pro forma is reflective of Restricted Stock only. The per books amount of
4 long-term compensation includes both the components of Restricted Stock and
5 Performance Units. By excluding Performance Units from the pro forma cost, this
6 expense is effectively removed from consideration in this filing.

7 **Q15. Is overtime pay included?**

8 A15. Yes. Overtime experienced during the test year was adjusted to consider the effect of pay
9 rate changes which will occur prior to June 30, 2017, exclusive of overtime pertaining to
10 storms (see IPL Financial Exhibit IPL-OPER, Schedule OM13, sponsored by IPL
11 Witness Cutshaw, for the overtime adjustment for all storms) and exclusive of overtime
12 pertaining to plant overhauls (see IPL Financial Exhibit IPL-OPER, Schedule OM7,
13 sponsored by IPL Witness Scott, for the overtime adjustment for plant outage
14 maintenance costs).

15 Non-storm/non-outage pro forma overtime costs were additionally increased to bring the
16 test year level of non-storm/non-outage overtime hours to a level consistent with the
17 average of hours experienced during the calendar years of 2013 through 2015. This
18 adjustment also included bringing the change in average overtime hours to current cost
19 levels by using the average non-storm/non-outage hourly rates after adjustment for pay
20 increases which will be effective prior to June 30, 2017.

21 **Q16. What is the total gross pro forma wages for IPL employees?**

22 A16. In total, the gross pro forma annualized wages for IPL employees is \$139,292 thousand.

1 **Q17. Were there further adjustments to the gross annualized wages?**

2 A17. Yes. The IPL pro forma wages cost was then reduced to recognize the allocation of IPL
3 employee pay to IPALCO Enterprises, Inc. and to AES Services.

4 The net remaining IPL pro forma wages were then allocated to construction and
5 retirement accounts (*i.e.* capitalized labor), other balance sheet accounts (*e.g.* project
6 development costs and green power program costs), non-operating expense accounts and
7 electric operating expense based upon the distribution of actual charges experienced
8 during the test year.

9 The resulting net pro forma IPL employee wages charged to electric operating income is
10 \$111,904 thousand. This appears on Line 1, Column 2 of IPL Financial Exhibit IPL-
11 OPER, Schedule OM17.

12 **Q18. What is the total adjustment to IPL employee wages?**

13 A18. The IPL employee labor cost charged to electric operating income during the test year
14 amounted to \$108,047 thousand. (See Line 1, Column 1 of IPL Financial Exhibit IPL-
15 OPER, Schedule OM17.)

16 The result is a pro forma adjustment increase to the test year operating expense of \$3,857
17 thousand, which appears on Line 1, in Column 3 of IPL Financial Exhibit IPL-OPER,
18 Schedule OM17.

19 **Q19. In your opinion, are the information used and the processes applied to determine**
20 **the total pro forma labor costs applicable to IPL electric operating income**
21 **appropriate and of sufficient detail to produce an accurate representation of labor**
22 **costs for this Cause?**

1 A19. Yes. This was a detailed and involved process wherein individual employee information
2 was used to compute pro forma wages, appropriately adjusted for fixed, known and
3 measurable changes. This is the same methodology which was used and accepted in
4 IPL's Cause No. 44576.

5 **AES Services Labor Costs to IPL**

6 **Q20. What costs are recognized on Line 2 of IPL Financial Exhibit IPL-OPER, Schedule**
7 **OM17?**

8 A20. Those are the labor costs chargeable to IPL for the AES Services employees who perform
9 tasks which benefit IPL. It also includes the portion of IPL employee labor costs charged
10 to AES Services and identified for multi-affiliate cost sharing which, through the AES
11 Services Cost Alignment and Allocation Manual ("CAAM") allocation process,
12 identified labor cost dollars to be allocated to IPL.

13 **Q21. Please describe the process used to determine the pro forma AES Services labor**
14 **costs.**

15 A21. As was done for the IPL employees, the beginning point was obtaining detailed
16 employee-by-employee information for the employees as of June 30, 2016. Nine (9)
17 iSOC positions were added with regard to recently established North American Electric
18 Reliability Corporation ("NERC") requirements.¹ All nine positions were filled during
19 July and August 2016.

¹ iSOC stands for intelligence-based Security Operations Center. The positions for the iSOC were added in response to NERC Critical Infrastructure Protection ("CIP") v5 requirements requiring physical and cyber security at T&D and generation locations. The iSOC monitors the physical access control systems and critical cyber assets at all T&D and generation locations.

1 For all employees, the pay rates as of June 30, 2016 were annualized and increased for a
2 3% annual pay raise. The short-term compensation and long-term compensation
3 programs for AES Services are basically the same as that for the IPL employees. So, in
4 the same manner used for the IPL employees, the pro forma short-term compensation
5 cost was computed using a target payout and the pro forma long-term compensation
6 recognizes only the Restricted Stock portion.

7 **Q22. What was the next step in determining the AES Services employee labor costs which**
8 **are ultimately applicable to IPL operations?**

9 A22. The costs to be apportioned from AES Services to the operations of IPL contain both the
10 AES Services employee pro forma annualized wages and the IPL employee pro forma
11 annualized wages which were allocated to the AES Services through the CAAM process
12 described by IPL Witness Tornquist. The individual employee wages were identified by
13 their specific task assignments to determine what wages represented a direct charge to
14 IPL (at 100%), to a non-IPL affiliate, or as an indirect charge – wherein the work being
15 performed was beneficial and chargeable to more than one AES Services client.

16 When the assignment was direct to IPL at 100%, I allocated those costs directly to IPL
17 operations. When the assignment was a project wherein only a portion of the costs were
18 chargeable to IPL (this includes the costs charged to AES Services by the IPL
19 employees), I allocated those costs as defined by the CAAM.

20 The portion chargeable to IPL operations was determined, resulting in \$493 thousand of
21 IPL employee labor costs charging back to IPL (out of \$2,546 thousand charged to AES
22 Services by IPL). The portion chargeable to IPL operations for AES Services employees

1 was also determined, resulting in \$15,840 thousand of labor costs charged to IPL (out of
2 \$57,164 thousand in total AES Services pro forma labor costs).

3 The total of labor costs charged from AES Services to IPL (made up of the allocated
4 labor costs of IPL employees and AES Services employees) was \$16,333 thousand. I
5 then reduced that amount to recognize that a portion of it would be capitalized or
6 recorded to non-operating expense. To accomplish this, I used the test year actual
7 allocation percentages, which resulted in total pro forma operating expense labor costs
8 billed to IPL by AES Services of \$15,820 thousand. The actual, per books operating
9 expense labor costs charged to IPL by AES Services for the twelve (12) months ended
10 June 30, 2016 totaled \$13,427 thousand. This results in a net pro forma increase to IPL
11 electric operating expense of \$2,393 thousand, which appears on Line 2, in Column 3
12 of IPL Financial Exhibit IPL-OPER, Schedule OM17.

13 **Q23. In your opinion, are the information used and the processes applied to determine**
14 **the total pro forma labor costs applicable to IPL electric operating income**
15 **appropriate and of sufficient detail to produce an accurate representation of labor**
16 **costs for this Cause?**

17 A23. Yes. As with the IPL employee labor, this was a detailed and involved process wherein
18 individual employee information was used to compute pro forma wages, appropriately
19 adjusted for fixed, known and measurable changes. The resulting individual employee
20 information, after adjustment, was identified and distributed directly to the affiliates or
21 was identified and was allocated in accordance with the CAAM. This is the same
22 methodology which was used and accepted in IPL's Cause No. 44576.

Employee Benefits

1
2 **Q24. Turning now to the employee benefit costs on Lines 3 and 4 of IPL Financial Exhibit**
3 **IPL-OPER, Schedule OM17, would you please explain the process used in**
4 **determining the pro forma benefit costs?**

5 A24. The adjustment is to reflect the difference in benefit costs experienced during the test
6 year and the costs expected to occur during the adjustment period for IPL employees and
7 AES Services employees. The pro forma benefit costs computation includes components
8 of change which are fixed in time, known to be occurring on or before June 30, 2017 and
9 measurable in amount. The benefits, other than pensions and 401k offerings, are
10 comparable between IPL and AES Services.

11 **Q25. Please describe the types of benefit costs included in IPL Financial Exhibit IPL-**
12 **OPER, Schedule OM17.**

13 A25. The benefit costs include:

- 14 • Medical insurance
- 15 • Dental insurance
- 16 • Vision insurance
- 17 • Life insurance
- 18 • Long-term disability insurance
- 19 • 401k matching plans
- 20 • Defined contribution pension plans for AES Services employees, and IPL employees
21 who were hired after the AES acquisition of IPL.
- 22 • Defined benefit pension plans for IPL employees hired prior to the AES acquisition
23 of IPL.

24 **Q26. Where did you obtain the information to determine the pro forma benefit costs?**

1 A26. Cost information for the benefits represent a mixture of known benefit pricing
2 information and known benefit pricing formulas obtained from human resource
3 personnel, and also includes the 2016 pension and other post-retirement-benefit
4 (“OPEB”) costs discussed by IPL Witness Kunz.

5 The information to compute the company matching of the various 401k plans was
6 derived using the individual employee contribution rates in effect at June 30, 2016. I
7 made no changes to the rates or limits of company matching, as none are expected. The
8 June 30, 2016 rates were recomputed for the pro forma cost using the individual base
9 wages information after the adjustments for fixed, known and measurable pay rate
10 changes had been applied. Further information on the individual benefit pro forma
11 computations can be found in the workpapers filed in support of this schedule at IPL
12 Workpaper – OM17.

13 **Q27. How did you determine what portion of the pro forma benefit costs for IPL**
14 **employees were applicable to electric O&M expense?**

15 A27. I applied the same cost causation time allocations as were used for the labor costs. Then,
16 I reduced the total for an amount to be charged to AES Services using the same
17 percentages that were used to allocate each employee’s labor costs to AES Services.
18 Lastly, I applied the distribution to general ledger accounts actually recorded for base
19 labor by IPL during the test year to determine the pro forma amount charged to operating
20 expense. In general terms, the benefits follow the labor. It is appropriate to use the
21 account distribution of only base labor here, rather than total labor, as the cost of benefits
22 does not fluctuate due to overtime worked or short-term compensation earned. The total
23 pro forma benefits cost for IPL employees charged directly to IPL is \$30,971 thousand,

1 which is an increase from the test year of \$426 thousand. This appears on Line 3, in
2 Column 3 of IPL Financial Exhibit IPL-OPER, Schedule OM17.

3 **Q28. How was the amount of pro forma AES Services benefit costs chargeable to IPL**
4 **determined?**

5 A28. Detailed information, by employee, was obtained from payroll department records and
6 the pro forma costs were determined in substantially the same manner as they were for
7 IPL employees.

8 The employee time assignments and the related cost causation distribution factors used
9 for the AES Services labor computation were applied to the benefit costs to determine the
10 portion chargeable to IPL. This amounted to a pro forma cost of \$2,616 thousand
11 chargeable to IPL operating income for AES Services employees.

12 The AES Services benefit costs also include the portion of IPL employee benefits
13 charged to AES Services that relates to work done for IPL, which, through multi-affiliate
14 allocations, returns as a cost to IPL. This amounted to a pro forma cost of \$91 thousand.
15 This, with the AES Services employee benefit costs chargeable to IPL, reduced for a
16 small percentage not charged to operating expense, makes up the pro forma benefits cost
17 of \$2,622 thousand.

18 The total test year per books benefit costs charged to IPL operating expense via AES
19 Services amounted to \$2,854 thousand. This resulted in a decrease in benefit expenses
20 charged to IPL operating income from AES Services of \$232 thousand, which appears on
21 Line 3, in Column 3 of IPL Financial Exhibit IPL-OPER, Schedule OM17.

1 **Q29. What is the resulting pro forma adjustment for benefit costs on Lines 3 and 4 of IPL**
2 **Financial Exhibit IPL-OPER, Schedule OM17?**

3 A29. The total pro forma net benefits cost chargeable to IPL electric O&M expense is \$33,593
4 thousand. This is made up of \$30,971 thousand directly from IPL, and \$2,622 thousand
5 from AES Services.

6 The per books net benefits cost applicable to IPL electric O&M expense, including costs
7 which initiated at IPL totaling \$30,545 thousand and the costs that were charged by AES
8 Services during the test year totaling \$2,854, came to a combined \$33,399 thousand. The
9 result is a pro forma benefits increase to the IPL test year operating expense of \$194
10 thousand.

11 **IPL Financial Exhibit IPL-OPER, Schedule OM22**
12 **AES Services Occupancy and Non-Labor Costs**

13 **Q30. IPL Financial Exhibit IPL-OPER, Schedule OM22 is labeled as AES Services**
14 **Occupancy and Non-Labor costs. Please describe the purpose of this schedule.**

15 A30. This schedule recognizes that there are AES Services costs (other than wages and
16 benefits) which benefit IPL and are normal and necessary to conduct day-to-day business
17 operations. It is appropriate for IPL to bear its proportional amount of the occupancy
18 charges and non-labor costs of operations which AES Services incurs in the performance
19 of work for the benefit of IPL. The purpose of this schedule is to present the pro forma
20 adjustment to the test year levels of these costs.

21 **Q31. Please explain the occupancy charge revenue included in the adjustment on IPL**
22 **Financial Exhibit IPL-OPER, Schedule OM22, Column 1.**

1 A31. AES Services does not occupy any stand-alone office space. All AES Services
2 employees work in buildings owned by IPL and DP&L. Each month, IPL charges an
3 occupancy fee for the IPL office space occupied by AES Services employees. IPL also
4 charges a proportional cost each month to AES Services for occupancy fees when an IPL
5 employee performs tasks chargeable to AES Services. These are revenues to IPL, which
6 offset the costs IPL incurs to maintain certain office space and to provide office-related
7 amenities and services, and are booked as a credit to account 921100.

8 A discussion of the components making up the occupancy charge is included in the
9 testimony of IPL Witness Tornquist.

10 **Q32. What is the pro forma adjustment to test year operating results applicable to the**
11 **occupancy charge revenue shown on IPL Financial Exhibit IPL-OPER, Schedule**
12 **OM22, Column 1?**

13 A32. The pro forma occupancy charge revenue totals \$5,211 thousand. This amount includes
14 charges totaling \$4,829 thousand for the AES Services employees working on IPL
15 premises, and \$382 thousand for the proportional time of IPL employees charged to AES
16 Services tasks.

17 During the test year IPL billed a total of \$3,653 thousand to AES Services, which was
18 credited to IPL's electric operating expense account 921100. This was made up of
19 \$3,285 thousand for the AES Services employees working on IPL premises, and \$368
20 thousand for the proportional time of IPL employees charged to AES Services tasks.

21 The resulting pro forma occupancy revenue adjustment is a decrease to electric operating
22 expenses of \$1,558 thousand.

1 **Q33. Please describe the occupancy costs charged to IPL by AES Services.**

2 A33. As noted above, AES Services does not own its own facilities but instead occupies space
3 owned by IPL and DP&L. AES Services pays an occupancy charge to IPL, or DP&L as
4 the case may be, as explained by IPL Witness Tornquist. A portion of the occupancy
5 charges are then billed back to IPL, relative to the portion of time AES Services
6 employees spend working for the benefit of IPL. The occupancy costs billed to IPL by
7 AES Services are presented in Column 2 of IPL Financial Exhibit IPL-OPER, Schedule
8 OM22. The occupancy cost amount charged back to IPL is based upon the allocation
9 manual methodology described by IPL Witness Tornquist.

10 The resulting total pro forma occupancy cost charged to IPL by AES Services for the test
11 year is \$2,262 thousand. The pro forma amount was determined by annualizing the
12 occupancy rate charged to AES Services for the month of June 2016 by DP&L, plus the
13 pro forma annual occupancy rate based upon what IPL began charging AES Services
14 upon completion of the Electric Building remodel, and then applying the allocation
15 methodology in accordance with the CAAM. The per book occupancy costs charged to
16 IPL by AES Services during the test year was \$1,699 thousand. The resulting net
17 increase in occupancy costs billed to IPL by AES Services is a pro forma increase to
18 electric operating expenses of \$563 thousand.

19 **Q34. Please continue, and describe what is labeled as Non-Labor Expenses in Column 3**
20 **of IPL Financial Exhibit IPL-OPER, Schedule OM22.**

21 A34. In the course of business, employees of AES Services will incur expenses other than
22 those already recognized in the occupancy fee. Such costs may be for non-standard

1 office equipment or supplies other than those included in the occupancy charge,
2 employee training, employee travel for business purposes, outside consultants, etc.

3 **Q35. Why are these types of costs charged to IPL operating expense?**

4 A35. These costs are a normal part of doing business and, as incurred, are either in conjunction
5 with employee activities directly attributable to IPL operations or partially distributed to
6 IPL operations via the CAAM. It is appropriate for IPL to be allocated the costs, or
7 portion thereof, related to work performed on its behalf. The costs are identified by using
8 project numbers in the accounting entry which identifies the affiliate or affiliates which
9 should be responsible for the expense. A cost can be directly charged to IPL, directly
10 charged to an AES affiliate other than IPL, directly charged to multiple affiliates
11 (including or excluding IPL) which splits the cost among the affiliates identified using
12 the basis identified in the CAAM. Employees are directed to direct charge whenever
13 possible, and to use the splitting allocator projects only when a clear-cut division is not
14 available.

15 The pro forma and per book amounts in Column 3 of IPL Financial Exhibit IPL-OPER,
16 Schedule OM22 include both those costs initiated at IPL and charged to AES Services
17 through multi-affiliate projects, (wherein a portion returns to IPL through the distribution
18 process), and those costs that are initiated at DP&L or AES Services and are identified as
19 wholly or partially distributable to IPL operations through the project numbers.

20 **Q36. Please describe the resulting overall pro forma adjustment on IPL Financial Exhibit**
21 **IPL-OPER, Schedule OM22 for the non-labor expenses and net occupancy charges.**

1 A36. The total pro forma for the non-labor and occupancy charges amounts to a net cost to IPL
2 of \$1,605 thousand. The per books costs incurred for non-labor expenses and net
3 occupancy charges during the test year amounted to \$2,620 thousand. Therefore, the net
4 pro forma adjustment is a decrease in costs chargeable to IPL electric operating income in
5 the amount of \$1,015 thousand. This decrease is mainly attributable to an increase in the
6 occupancy revenue which IPL charges AES Services, the pro forma of which has been
7 adjusted to incorporate the cost of the recent remodeling of the Electric Building.

8 **IPL Financial Exhibit IPL-OPER, Schedule OTX3**

9 **Payroll Taxes**

10 **Q37. What is the purpose of IPL Financial Exhibit IPL-OPER, Schedule OTX3?**

11 A37. This schedule calculates the net change in employer-paid payroll taxes, in accordance
12 with the payroll cost changes on IPL Financial Exhibit IPL-OPER, Schedule OM17.
13 Lines 1 through 13 of the schedule focus on the pro forma payroll taxes for IPL
14 employees. Pro forma payroll taxes in connection with AES Services labor chargeable to
15 IPL is addressed on Line 14.

16 **Q38. Please describe how the FICA tax on Line 1 of this schedule was determined?**

17 A38. During the course of computing the detailed wages pro forma for IPL employees, the
18 process was carried further to also compute the wages per employee applicable to each
19 component of FICA tax. This allowed the computation of the FICA expense using the
20 known tax rates and the known wage contribution limits on a person-by-person basis.
21 Because the detailed wages computation did not include overtime on a person-by-person
22 basis, Line 1 of this schedule does not include FICA taxes incurred due to overtime pay.

1 The resulting cost for FICA taxes on non-overtime pay for IPL employees was \$8,952
2 thousand.

3 **Q39. Please continue your discussion by describing Line 2 of this schedule.**

4 A39. Line 2 of IPL Financial Exhibit IPL-OPER, Schedule OTX3 reflects the pro forma
5 amount of FICA taxes incurred in connection with overtime paid to IPL employees. The
6 overtime used for this computation is in accordance with the pro forma overtime cost
7 included in Line 1 of IPL Financial Exhibit IPL-OPER, Schedule OM17. The overtime
8 used to compute the FICA tax on Line 2 of IPL Financial Exhibit IPL-OPER, Schedule
9 OTX3 does not include overtime in connection with overhauls nor does it include
10 overtime in connection with storms (see IPL Financial Exhibit IPL-OPER, Schedules
11 OM7 and OM13, respectively).

12 The non-overhaul, non-storm overtime dollars were multiplied by the full FICA rate of
13 7.65% to determine a pro forma FICA cost of \$1,266 thousand.

14 **Q40. Lines 3 and 4 of IPL Financial Exhibit IPL-OPER, Schedule OTX3 are labeled as**
15 **being the FICA taxes for overtime in connection with overhauls and storms,**
16 **respectively. Please describe the purpose and computations behind these pro forma**
17 **amounts.**

18 A40. To compute the FICA taxes pro forma cost of \$194 thousand, presented on Line 3 of IPL
19 Financial Exhibit IPL-OPER, Schedule OTX3, the pro forma cost of overtime for
20 overhauls included on IPL Financial Exhibit IPL-OPER, Schedule OM7 was multiplied
21 by the full FICA rate of 7.65%.

1 To compute the FICA taxes pro forma cost of \$57 thousand, presented on Line 4 of IPL
2 Financial Exhibit IPL-OPER, Schedule OTX3, the pro forma cost of overtime included
3 on IPL Financial Exhibit IPL-OPER, Schedule OM13 (storms) was multiplied by the full
4 FICA rate of 7.65%.

5 **Q41. For the FICA taxes on Line 1 of IPL Financial Exhibit IPL-OPER, Schedule OTX3,**
6 **you described using person-by-person detail to determine if or when an employee's**
7 **pay exceeded the Social Security Tax limit of \$118,500. The FICA taxes on Lines 2,**
8 **3 and 4 connected with overtime pay was computed by taking the full FICA rate of**
9 **7.65% times the full overtime pay amounts. Please describe why this is appropriate**
10 **treatment to determine the FICA taxes on overtime.**

11 A41. Generally, most employees do not reach the Social Security Tax limit with their annual
12 pay, even including overtime. Those who do reach the limit tend to be the employees
13 who are not eligible to earn overtime.

14 **Q42. Do you believe that the methods used to compute the pro forma FICA tax are**
15 **reasonable?**

16 A42. Yes. For the pay which was computed in detail, the pro forma FICA tax was computed
17 in detail. For the pro forma overtime pay, where such detail was not specifically
18 available, the pro forma FICA tax was computed using an all-inclusive approach. I
19 believe that the resulting pro forma FICA taxes, in total, are reasonable and
20 representative of the cost IPL would expect to incur given the total pro forma IPL wages
21 included in this Cause.

1 **Q43. Please continue and describe the computations for FUTA and SUTA payroll taxes**
2 **for IPL employees included on Lines 5 and 6 of IPL Financial Exhibit IPL-OPER,**
3 **Schedule OTX3.**

4 A43. Line 5 of this schedule presents a pro forma cost of \$57 thousand for the FUTA tax
5 payable for IPL employees. The pay limit applicable to FUTA is \$7,000 per employee.
6 Being that wages for purposes of this Cause are annualized, each employee reaches this
7 limit. When performing the detailed analysis to pro forma the employee annualized
8 wages, the FUTA cost was computed on a person-by-person basis. It would basically be
9 the same amount if you took the number of employees times the \$7,000 limit times the
10 annual rate. The FUTA rate used was the 2016 rate of 0.6%

11 Line 6 of this schedule presents the pro forma cost for SUTA tax payable for IPL
12 employees, which amounts to \$65 thousand. The SUTA wage limit is \$9,500 per person,
13 and IPL's current SUTA rate is .505%. The SUTA cost was computed in the same
14 manner as the FUTA cost.

15 **Q44. There are several deductions to the payroll tax pro forma on Lines 8 through 12**
16 **on IPL Financial Exhibit IPL-OPER, Schedule OTX3. Please describe the purpose**
17 **of these deductions.**

18 A44. The total pro forma payroll taxes for all IPL employees amounted to \$10,591 thousand.
19 This total is all-inclusive and does not reflect the disposition of the employee labor costs
20 as they are charged to various accounts on the books and records of IPL. Line 8 is to
21 deduct a portion of the payroll tax pro forma to recognize that some IPL employee labor
22 is charged to other subsidiaries of IPALCO, the parent company of IPL, amounting to \$3
23 thousand. Lines 9 through 11 are deducting portions from the total pro forma payroll

1 taxes based upon the account distribution of the IPL employee wages during the test year.
2 This results in removing \$1,591 thousand of the pro forma payroll taxes for application to
3 construction and retirement capital projects on Line 9. There is an increase on Line 10 of
4 \$2 thousand recognizing that a portion of IPL employee labor is charged to balance sheet
5 accounts other than those for capital projects, which during the test year was a negative
6 amount. The third deduction of \$17 thousand, on Line 11, is to recognize that a portion
7 of IPL employee wages are charged to expense accounts which are not operating expense
8 accounts.

9 **Q45. Moving on to Line 12 of IPL Financial Exhibit IPL-OPER, Schedule OTX3, this**
10 **appears to represent a \$157 thousand deduction from the total pro forma payroll**
11 **taxes for taxes being charged to AES Services. Please discuss the determination of**
12 **this amount.**

13 A45. Just as the wages and payroll taxes were determined on a person-by-person basis, the
14 portion of those wages and payroll taxes incurred for IPL employees who routinely
15 perform tasks assignable to AES Services was also determined on a person-by-person
16 basis. As I explained above during the discussion of the pro forma wages computation,
17 when individual IPL employee task assignments are not directly assignable to IPL, but
18 are instead chargeable to AES Services, the IPL pro forma wages were reduced. This
19 follows the same course on Line 12 for the related payroll taxes.

20 **Q46. What is the resulting IPL employee payroll tax pro forma presented on IPL**
21 **Financial Exhibit IPL-OPER, Schedule OTX3?**

22 A46. After deductions for charges outside of operating income and charges applicable to other
23 IPALCO companies and AES Services, the total pro forma payroll taxes of \$10,591

1 thousand is reduced to \$8,825 thousand. The resulting net cost, shown on Line 13 of this
2 schedule, is assignable to electric operating income in this Cause for payroll taxes
3 directly chargeable to IPL.

4 **Q47. Line 14 of IPL Financial Exhibit IPL-OPER, Schedule OTX3 is labeled as**
5 **representing payroll taxes from AES Services. Please describe the process to**
6 **determine this cost.**

7 A47. The pro forma payroll taxes charged to IPL for AES Services employee labor costs,
8 shown on Line 14, is \$1,018 thousand. This cost is related to the wages from AES
9 Services determined to be chargeable to IPL operations on IPL Financial Exhibit IPL-
10 OPER, Schedule OM17. This was also determined on a person-by-person time
11 assignment basis, and was more fully described when I discussed the pro forma wages
12 earlier.

13 **Q48. What is the resulting pro forma adjustment applicable to IPL electric operating**
14 **income for purposes of this Cause?**

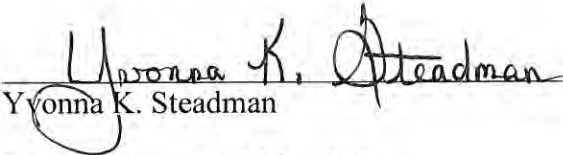
15 A48. The net pro forma payroll taxes chargeable to IPL electric operating income is \$9,843
16 thousand. From this, the per books charges to electric operating income for the twelve
17 months ended June 30, 2016 were deducted. The per book costs amounted to \$8,427
18 thousand for payroll taxes directly expensed by IPL and \$947 thousand for payroll taxes
19 charged to IPL operations by AES Services. The resulting pro forma adjustment to
20 payroll taxes on IPL Financial Exhibit IPL-OPER, Schedule OTX3 amounts to an
21 increase of \$469 thousand.

22 **Q49. Does that conclude your verified pre-filed direct testimony?**

1 A49. Yes.

VERIFICATION

I, Yvonna K. Steadman, Manager of Regulatory Accounting for AES U.S. Services, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Yvonna K. Steadman

Dated: December 22, 2016