STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF IPL'S TDSIC PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-10.

CAUSE NO. 45264 TDSIC-1

Verified Direct Testimony and Attachments of

Michael P. Gorman

On behalf of

The City of Indianapolis and the IPL Industrial Group

August 17, 2020

BRUBAKER & ASSOCIATES, INC.

Project 10996

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Verified Direct Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A The City of Indianapolis ("City") and the IPL Industrial Group ("Industrial Group"). The City and Industrial Group Members purchase substantial quantities of electricity from

Indianapolis Power & Light Company ("IPL" or "Company") and therefore mutually share a direct interest in matters regarding IPL's recovery of TDSIC costs. Additionally, the City has an interest in the potential impact IPL's proposed rates and charges and its utility operations may have on the City, the local economy, economic development and the citizens of Indianapolis.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A I will respond to the proposed relief IPL is seeking in this case with respect to its Transmission, Distribution and Storage System Improvement Charge Plan ("TDSIC Plan"). Specifically, I will be addressing the development of IPL's TDSIC tracker adjustment. IPL witness Chad Rogers states the Company is requesting an adjustment to its electric service rates through a TDSIC adjustment that effectuates a timely recovery of 80% of the approved capital expenditures and TDSIC costs, in connection with IPL's approved TDSIC Plan. Further, the Company seeks to defer the remaining 20% of these costs for recovery as part of IPL's next general rate case. With respect to IPL's proposal, I will comment on the following:

1. With respect to the Company's development of the TDSIC revenue requirements subject to recovery through both periodic rate adjustments and regulatory deferral:

    a. I recommend the weighted average cost of capital used to set the TDSIC adjustment factor be adjusted to reflect the current capital market costs of common equity, and IPL's reduced investment risk created by the implementation of a TDSIC tracker mechanism. IPL's authorized return on equity from its last rate case is not fair and reasonable for use in the TDSIC rate adjustment factor.

    b. I propose to reflect IPL's incremental cost of debt in the weighted average cost of capital used to develop the TDSIC adjustment factor rather than its embedded debt cost. Market evidence indicates that the cost of new debt issuances to support IPL's incremental investment in TDSIC investments is lower than the Company's embedded cost of debt which is already being recovered in its base rates. Because of these two factors, lower debt costs and the

current recovery of embedded debt, IPL's incremental debt issue cost should be used in setting the TDSIC adjustment factor.

c. I recommend the Commission reject IPL's allegation that its limited netting of depreciation expense in producing an adjusted revenue requirement for TDSIC investments is sufficient to avoid other adjustments to IPL's pre-tax return.

d. IPL's proposal, while consistent with the previous recommendation of the OUCC, is not balanced. A balanced depreciation netting would include adjustments to the operating income component of the TDSIC revenue requirement, based on the Company's proposal to offset increases in depreciation expense for new TDSIC assets, with the elimination of depreciation expense for TDSIC assets that are retired. Also, and importantly, a complete and balanced netting adjustment would have the TDSIC revenue requirement reflect a roll-forward of accumulated depreciation reserve, in tracking net plant changes for TDSIC investments, as a means to ensure that the operating income level entitlement included in the TDSIC is no more than a just and reasonable amount on net TDSIC plant in-service investments.

The adjustments I propose to IPL's TDSIC revenue requirement will better reflect the Company's actual incremental costs associated with its TDSIC Plan, and will better balance the interest of just and reasonable rates with IPL's recovery of its incremental TDSIC costs.

Adjust Return on Equity to Reflect TDSIC Risk and Current Market Costs

Q IS THE COMMISSION REQUIRED TO APPROVE THE USE OF THE SAME RETURN ON EQUITY FOR THE TDSIC MECHANISM AS THE RETURN AUTHORIZED IN IPL'S MOST RECENT GENERAL RATE CASE?

A No. In its March 4, 2020 Order in Cause No. 45264, the Commission stated at pages 26-27 that the TDSIC statute authorizes the determination of a TDSIC-specific return that may be different from the return allowed in the last rate case. The Commission found it appropriate to consider an adjustment in this tracker proceeding based on Commission experience with the TDSIC mechanism over the past six years, "as well

as the OUCC's continued concerns with double recovery and the Industrial Group's concerns with the shifting of risks based on plan approval." *Id.* at 27. As referenced by the Commission, the TDSIC statute includes a provision addressing the determination of pretax return for purposes of calculating recoverable TDSIC costs, which does not require use of the return approved in the most recent rate case. Instead, the return approved in the last case is listed as a factor the Commission may consider, along with other factors including "[o]ther information that the commission determines is necessary."

Q DO YOU AGREE WITH IPL'S PROPOSAL TO USE THE 9.99% RETURN ON EQUITY THAT WAS APPROVED IN IPL'S LAST RATE CASE FOR THE TDSIC MECHANISM?

A No, I do not believe that proposal is reasonable for three reasons. First, the return on equity authorized in IPL's most recent general rate proceeding is significantly in excess of current market capital costs. Second, the TDSIC Plan substantially eliminates the risk to IPL investors with respect to preapproved expenditures and shifts that risk to IPL ratepayers, and that reallocation of risk is not reflected in the return on equity proposed by IPL. Third, the OUCC's concern with double counting as referenced in the Commission's March 4, 2020 Order is only partially addressed by IPL's proposal with respect to netting of depreciation, and IPL's proposal is inadequate to remove the double recovery associated with asset replacements.

Q ARE YOU PROPOSING AN ADJUSTMENT TO THE AUTHORIZED RETURN ON EQUITY INCLUDED IN IPL'S EXISTING BASE RATES, AS APPROVED IN THE COMMISSION'S ORDER DATED OCTOBER 31, 2018?

A No. The issue in this case relates only to the pretax return used for purposes of computing recoverable TDSIC costs. The reduced return I am supporting would apply only to TDSIC investments within the scope of the TDSIC mechanism, not to IPL's base rates or any other IPL tracker. As the Commission discussed in the March 4, 2020 Order, the TDSIC statute calls for the determination of a TDSIC-specific return.

Q DOES MS. COKLOW'S TDSIC REVENUE REQUIREMENT INCLUDE THE LAST AUTHORIZED RETURN ON EQUITY FOR IPL?

A Yes. IPL filed its last rate case in December 2017 and the Commission Order was October 2018. The Commission awarded IPL a 9.99% return on equity.[1] This return on equity is significantly in excess of the current market capital costs. I reach this conclusion for several reasons:

1. Bond yields have dropped considerably since IPL's last rate case. This is observable evidence of the decline in capital market costs.
2. Authorized returns on equity for utility companies have dropped significantly since IPL's last rate case. This is again observable market evidence that the previously approved return on equity no longer tracks IPL's incremental market cost of equity.
3. IPL's investment risk is no different now than it was in the last rate case. For these reasons, its cost of equity should be, at a minimum, reduced to current market capital costs.
4. A reduced return on equity for a TDSIC mechanism is appropriate because a TDSIC mechanism significantly reduces IPL's cost recovery risk, and supports a strengthening to its credit standing, and lowers its investment risk.

[1]IPL's response to City DR 2-8, Attachment 3, Final Order, Cause No. 45029, October 31, 2018, provided as Attachment MPG-1, pages 9-11.

Q PLEASE DESCRIBE THE REDUCTION IN OBSERVABLE CAPITAL MARKET COSTS SINCE IPL'S LAST RATE CASE.

A The most pronounced and observable evidence of declining capital market costs since IPL's last rate case is to observe changes in utility bond yields. I outline changes in utility bond yields for Baa rated utility bond yields, IPL's bond rating, on my Attachment MPG-2. In early 2018, Baa yields were around 4.5%. For the last six months, Baa bond yields have been about 3.6%.

Q HAVE COMMISSION AUTHORIZED RETURNS ON EQUITY DROPPED SINCE 2017, THE YEAR IPL FILED ITS LAST RATE CASE?

A Yes, as I discuss later in my testimony, authorized returns on equity have dropped approximately 30 basis points, from about 9.7% from the 2017-2018 timeframe to about 9.4%, in 2020. Over the same period, the returns allowed by the Commission in Indiana have dropped by a corresponding interval, from the 9.99% authorized for IPL in 2018 to the 9.7% authorized for both Indiana Michigan Power and Duke Energy in 2020.

Despite this decrease in authorized ROEs, the utility industry bond ratings have remained stable, and the industry has enjoyed access to significant amounts of capital to fund very large capital programs. All this is observable market evidence of the decline in capital market costs to utility companies, and shows that authorized returns on equity in the 9.4% to 9.7% area have been viewed by the market as fair compensation and supportive of strong credit standing and access to capital. I provide additional detail supporting these conclusions with regard to current capital market costs for utility companies later in my testimony.

Q WHAT ADJUSTMENT DO YOU RECOMMEND TO IPL'S AUTHORIZED RETURN ON EQUITY FOR USE IN THE TDSIC MECHANISM TO ACCOUNT FOR THE CHANGE IN MARKET CAPITAL COSTS?

A If I were addressing only the change in market capital costs since IPL's last rate case, without the further adjustments addressed below, I would recommend reducing IPL's return on equity from the 9.99% authorized in its last rate case, down to a return on equity of 9.4% in this proceeding. This return on equity reflects current industry average authorized returns on equity for electric utility companies, and would provide a fair rate of return for IPL. I also note that a 9.4% return on equity has proven to be sufficient to support a utility's financial integrity and to allow it to attract capital. As such, if the only issue were the market changes that have made IPL's previously approved return outdated and excessive, I would recommend a 9.4% return on equity. However, for the reasons explained below, further downward adjustments are appropriate to reflect both the inadequacies in IPL's depreciation proposal as well as the eliminated risk arising from approval of the TDSIC Plan.

Q IPL WITNESS CHAD ROGERS ASSERTS THAT IPL'S PROPOSAL FOR NETTING OF DEPRECIATION FOR REPLACED ASSETS IS SUFFICIENT TO ADDRESS THE CONCERNS RAISED IN THE COMMISSION ORDER, WITHOUT ANY ADJUSTMENT TO THE RETURN ON EQUITY APPROVED IN THE LAST RATE CASE. DO YOU AGREE?

A No. As I explain in greater detail later in my testimony, IPL is proposing only a partial solution in response to the OUCC's concern about double recovery. The IPL proposal would not eliminate the full extent of the double recovery arising from base rate recovery for removed assets combined with TDSIC recovery for replacement assets.

In addition, IPL's proposal for the netting of depreciation ignores the extent to which the 9.99% return on equity approved in 2018 greatly exceeds current market capital costs, nor the adjustment to return on equity needed to reflect the substantial reduction in investor risk associated with TDSIC projects.

Q WHY DO YOU BELIEVE THAT THE IMPLEMENTATION OF THE TDSIC MECHANISM WILL REDUCE IPL'S COST RECOVERY RISK?

A As a beginning point, I would note that all trackers reduce a utility's risk profile. The TDSIC tracker reduces IPL's risks in a number of ways. Through the adjustment mechanism IPL will be allowed to recover 80% of significant, $1.2 Billion, investments in TDSIC-related equipment outside of a general rate case. Under the TDSIC mechanism, the planned capital investments are preapproved for rate recovery up to the authorized cost estimates. With respect to the 80% subject to tracking, the TDSIC statute states that rate adjustments to recover authorized expenditures are "automatic," thus removing the risk of cost recovery disallowance. The use of a tracking mechanism accelerates recovery compared to rate case treatment, and thereby mitigates regulatory lag and improves utility cash flows. The process further permits CWIP recovery, in contrast to traditional ratemaking in which a system asset must be placed in service and must be used and useful before rate recovery is available. The opportunity to recover investment and earn a return while construction is ongoing again serves to accelerate recovery, reduce risk, and enhance cash flow. Moreover, in contrast to rate case recovery, the tracker is subject to reconciliation in subsequent filings, eliminating risk relating to load volatility and errors in the projections used to compute unit rates. With regard to the 20% recoverable in the next rate case, IPL is allowed to book a regulatory asset with assurance of recovery in its next rate case,

again eliminating the risk of disallowance through an after-the-fact prudence review. In connection with all of the investments, IPL recovers indirect capital, AFUDC, and post-in service carrying costs, providing compensation for all expenditures from the date they are made through the point of rate recovery. In short, before the first dollar of capital is put forward, investors have statutory assurance of full rate recovery up to the authorized estimates on an accelerated basis, without risk of disallowance.

Q IN LIGHT OF THE REDUCTION IN RISK TO IPL INVESTORS, IS THERE A CORRESPONDING INCREASE IN RISK TO IPL RATEPAYERS ASSOCIATED WITH THE APPROVED TDSIC PLAN?

A Yes. IPL has already secured preapproval for the TDSIC Plan up to the authorized expenditures, based on projected incremental benefits presented by IPL. Because the rate recovery is "automatic" under the TDSIC mechanism, ratepayers do not have the protection of any further prudence review once the investments have been made. IPL ratepayers will not have the opportunity to question whether TDSIC Plan investments were necessary, reasonable or excessive in light of actual experience. IPL will be able to recover TDSIC costs in rates, even if the projected benefits anticipated by IPL do not actually materialize or, prove to be less valuable than IPL's original projections. Within the scope of the approved TDSIC Plan, the risk of rate recovery and successful realization of anticipated benefits has shifted away from IPL and now rests on IPL's customers.

Q IS THERE MARKET EVIDENCE THAT THE TDSIC WILL BE VIEWED BY MARKET PARTICIPANTS AS A REGULATORY RISK REDUCTION MECHANISM?

A Yes. Standard & Poor's ("S&P") stated:

> Our assessment of IPALCO's business risk reflects its lower-risk, rate-regulated, vertically integrated electric utility operations through its fully owned subsidiary IPL. IPL has a below-average-sized customer base with about 500,000 electric customers in the City of Indianapolis and surrounding areas. Furthermore, the company currently has about 3,700 megawatts (MW) of generation capacity, and generates about 70% of its electricity from its coal-fired units.
>
> The Indiana Utility Regulatory Commission (IURC) regulates IPL and the company effectively manages regulatory risk, generally earning stable returns. IPL further benefits from numerous rate riders, allowing for the timely cost recovery of its fuel expenses and the majority of its incremental environmental capital spending. The company recently filed its Transmission Distribution Storage System Improvement Charge plan, which outlines a plan to invest in and earn a return of and on capital spent for about $1.2 billion of investments between 2020 and 2027. Should this plan be approved by the IURC, we would view it as supportive of IPALCO's credit quality, since these investments support low risk regulated growth for the company.[2]

As noted by S&P above, tracker mechanisms reduce cost recovery risk, and benefit IPL through credit supportive regulatory mechanisms. These tracker mechanisms increase charges to customers outside of a rate case, and as a result create significant increased costs to customers. As such, the implementation of rider mechanisms results in higher rates for customers, and reduces cost recovery risk to investors. For these reasons, the authorized return on equity for IPL should be reduced to reflect the reduction in risk, because IPL's risk, particularly with respect to the risk associated with recovery of the costs associated with the TDSIC Plan, after the November 2020 implementation of the TDSIC rider[3] will be lower than the return on equity the Commission found appropriate in its last rate case, before the TDSIC rider was implemented.

The TDSIC rider as noted by S&P will provide more immediate recovery of up to $1.2 Billion of TDSIC related investments over the next seven years, supporting "low

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[2] *S&P Global Ratings Research Update*: IPALCO Enterprises, Inc. And Subsidiary Ratings Affirmed Following Updated Methodologies; Outlooks Stable, at 2.

[3] Verified Direct Testimony of Natalie Herr Coklow at 8.

risk regulated growth." This is a material benefit to the Company, eliminating the risk of disallowance through prudence review and increasing cash recovery of these expenses much faster relative to IPL waiting for rate cases to adjust rates to reflect its increased rate base.

Q PLEASE RESPOND TO IPL WITNESS ROGERS' TESTIMONY IN SUPPORT OF USING IPL'S LAST AUTHORIZED ROE IN THE TDSIC MECHANISM.

A I disagree. Mr. Rogers asserts that IPL retains risk relating to potential costs in excess of approved estimates, for which specific justification is required to support rate recovery. That point ignores the fact that $1.2 Billion in system investments have already been preapproved for automatic rate recovery, eliminating disallowance risk for massive capital investments over the next 7 years. Even cost overruns may be eligible for potential recovery, with a showing of specific justification. Mr. Rogers further notes the TDSIC Plan involves a lot of capital over a number of years, but does not acknowledge that those capital expenditures are preapproved for automatic rate recovery on an accelerated basis through a mechanism that allows for rate increases between rate cases, CWIP treatment and full recovery of all carrying costs. He points out that there is a pending appeal challenging the approval of IPL's TDSIC Plan, but the question there is whether the Plan approval is consistent with Indiana law, not the appropriate return on equity applicable to rate recovery under that Plan. He suggests the TDSIC statute was already in existence at the time of IPL's last rate case and was taken into account by investors, but at that time IPL did not have a Plan in place involving $1.2 Billion in preapproved investments subject to automatic rate recovery. The S&P report quoted above clearly regarded the TDSIC Plan approval as a significant new development supporting low risk regulated growth for IPL. Mr. Rogers

further suggests that only trackers addressing cost volatility have an impact on risk, whereas the TDSIC mechanism only concerns regulatory lag. The approval of the TDSIC Plan here, however, effectively insulates IPL investors from risk of non-recovery with respect to $1.2 Billion in system investments. Finally, Mr. Rogers opines that a reduced return on equity would undermine the purpose of the TDSIC statute to incentivize system investments, but that theory is inconsistent with the statutory provision noted by the Commission in the March 4, 2020 Order, which allows for the determination of a TDSIC-specific return on equity. The exercise of Commission authority under that provision in the TDSIC statute cannot be contrary to the intent of the statute.

Q WHAT FURTHER ADJUSTMENT TO THE AUTHORIZED RETURN ON EQUITY FOR TDSIC PURPOSES DO YOU RECOMMEND TO ACCOUNT FOR THE CONCERNS RELATING TO AUTOMATIC RECOVERY AND REALLOCATION OF RISK?

A As explained previously, I believe a reduction to 9.4% would be reasonable and appropriate solely to account for current capital market costs for utility companies, without any accounting for the double recovery concern or the change in risk profile associated with TDSIC investments. For the reasons explained in more detail previously in my testimony, the IPL proposal for netting of depreciation discussed later in my testimony addresses only a portion of the double recovery arising from continued base rate recovery for removed assets concurrent with TDSIC recovery for replacement assets. This factor alone calls for a further downward adjustment to the authorized return on equity for TDSIC purposes. But additionally, the approval of the TDSIC Plan removes substantial risk from IPL investors with respect to $1.2 Billion in system investments and shifts the risk to IPL ratepayers, who are subject to automatic

rate recovery without regard to IPL's successfully achieving the projected benefits. To reflect the remaining double recovery under IPL's partial netting proposal, in combination with the shifted risk associated with TDSIC investments, I recommend a further downward adjustment of 100 basis points to the updated return adjusted to reflect current capital market costs. My recommendation, accordingly, is that the Commission determine that the appropriate pretax return on equity specific to the calculation of TDSIC costs should be 8.4%.

IPL's Embedded Cost of Debt Should Be Replaced in the TDSIC Mechanism with the Company's Incremental Cost of Debt

Q WHAT EMBEDDED COST OF DEBT DOES IPL WITNESS COKLOW PROPOSE IN DEVELOPING A TDSIC REVENUE REQUIREMENT?

A Ms. Coklow's weighted average cost of capital shown on her Attachment NHC-5, page 3, includes an embedded debt cost of 4.98%. As shown on my Attachment MPG-3, out of a total of about $1.8 Billion in debt, this embedded debt cost reflects $658.8 million of debt that was issued between January, 2004 and November, 2011. This debt, which accounts for about one-third of the Company's total debt, was issued at interest rates that are significantly higher than IPL's current market debt costs. The effective cost rate on this pre-2012 debt ranges from 4.011% up to 6.816%.

More recent issues of debt for IPL, however, shown on the same schedule, reflect effective cost rates that are generally lower. For example, the effective cost rate for the Company's November, 2018 bond issue of $105 million is 3.94%. The highest effective cost rate for this newer debt is only 4.807% on a September, 2015 issuance of $260 million.

Reviewing IPL's debt structure indicates that IPL's embedded cost of debt reflects a significant amount of older issuances at higher cost rates than the Company

has incurred for newer issuances or, as I will describe below, is likely to incur for future issuances. This calls into question the reasonableness of using IPL's embedded cost of debt to calculate the pretax return on TDSIC investments. This is particularly true because the Company is already collecting base rates that reflect the embedded cost of debt, meaning IPL is already recovery though base rates the cost of its existing debt.

Q IN MEASURING THE INCREMENTAL REVENUE REQUIREMENT TO IPL FOR ITS TDSIC INVESTMENTS, SHOULD THE COMPANY'S EMBEDDED DEBT COST OR ITS INCREMENTAL COST OF DEBT TO FUND TDSIC INVESTMENTS BE USED?

A Given that IPL's base rates are already providing the Company the means to recover its embedded debt cost, and that the cost of new debt is lower than significant portions of that embedded debt, the Company's marginal cost of debt to fund TDSIC investments should be used in order to reflect the Company's actual cost of debt. This is because to the extent the Company issues additional debt, it will be at current market interest rates, not rates reflective of issuances over ten years old. Stated differently, the interest rates on new debt will be different than the embedded interest rates reflected in the development of the Company's base rates developed in its last rate case. As such, it is the cost of the new debt issuances used to fund the TDSIC Plan investments that should be used to calculate the Company's proper pretax return.

Q WHAT IS IPL'S CURRENT MARGINAL COST OF DEBT?

A IPL's current bond rating is BBB from S&P and Baa1 from Moody's. As shown on my Attachment MPG-2, embedded marginal Baa-rated utility debt cost has consistently been below 4.0% over the last twelve months since August, 2019. This current market cost of debt more accurately aligns with IPL's actual, marginal, cost of financing its

incremental TDSIC Plan investments. For purposes of developing a TDSIC revenue requirement, then, this incremental debt cost should be used rather than IPL's embedded debt cost.

Q HOW SHOULD IPL ADJUST ITS COST OF DEBT IN CALCULATING THE TDSIC REVENUE REQUIREMENT DURING THE PERIOD THE TDSIC IS IN EFFECT?

A As a starting point, I recommend the cost of debt be set at 3.937%, which reflects IPL's most recent debt issuance in November, 2018. For incremental changes over the seven-year period the TDSIC charge is expected to be in effect, I recommend the Commission direct IPL to adjust its revenue requirement calculations in subsequent TDSIC adjustment proceedings to reflect all debt issues starting for the 12-month period ending March 30, 2020 up until filing of the next base rate case, or until the end of the seven-year proposed TDSIC tracker. In this way, IPL's marginal cost of debt will be reflected in IPL's TDSIC adjustment factor's weighted average cost of capital rather than the 2018 IURC approved embedded debt cost.

Additional Concerns with IPL's Proposed TDSIC Revenue Requirement

Q DID IPL DESCRIBE ITS PROPOSED METHODOLOGY FOR CALCULATING THE INCREMENTAL REVENUE REQUIREMENT TO BE RECOVERED THROUGH THE TDSIC ADJUSTMENT MECHANISM AND DEFERRED FOR RECOVERY IN IPL'S NEXT RATE CASE?

A Yes. IPL sets out its proposed method to calculate its TDSIC revenue requirement in the Verified Direct Testimony of IPL witness Natalie Herr Coklow, including in her Attachment NHC-6 on page 1 for distribution plant, and page 2 for transmission plant. Based on Ms. Coklow's Attachment NHC-6, the total revenue requirement for

distribution and transmission TDSIC plant will be developed with 80% subject to recovery through a TDSIC adjustment mechanism, and 20% deferred to a regulatory asset for future recovery.

Q DO YOU BELIEVE MS. COKLOW'S DEVELOPMENT OF A REVENUE REQUIREMENT FOR DISTRIBUTION AND TRANSMISSION TDSIC INVESTMENTS IS APPROPRIATE?

A No. I have concerns with the manner in which IPL is calculating its revenue requirement and am proposing several changes to the Company's proposed revenue requirement for distribution plant and transmission plant. These concerns and adjustments include the following:

1. Ms. Coklow's TDSIC revenue requirement is based on incremental capital investments that will be recorded as TDSIC gross plant in-service and Construction Work in Progress ("CWIP"). However, IPL's rate base investments should track changes in net plant investment, including gross plant additions that increase rate base, as well as increases in accumulated depreciation expense reserves that decrease rate base. If this were done, the TDSIC adjustment factor would accurately capture the operating income needed for changes in the Company's "net plant" in-service for distribution and transmission related TDSIC investments.

   Because the Company is not proposing to do so, however, the revenue requirement is overstated, allowing IPL to earn a return on rate base without taking into account both increases (through investment) and decreases (through recovery of accumulated depreciation in prior periods). The failure to do so helps justify, in part, a reduction to the Company's weighted average cost of capital ("WACC") for purposes of determining the pretax return on its TDSIC investments.

   This is consistent with the netting of depreciation expense proposed by IPL, but it expands the Company's proposal from simply adjusting for changes in depreciation expense on the operating income statement to also reflect the netting of changes in accumulated depreciation in measuring the change in net plant balances for measuring TDSIC investment rate base. This more complete depreciation netting would impact both the operating expenses and the measurement of incremental TDSIC rate base.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE 20% OF THE TDSIC REVENUE REQUIREMENT THAT WOULD BE SUBJECT TO INCLUSION IN A REGULATORY DEFERRAL?

A Yes. The amount of the TDSIC revenue requirement that should be included in the regulatory deferral should be based on the after-tax components of the TDSIC revenue requirement. Specifically, the incremental regulatory asset should reflect reductions for income tax deductibility of the carrying charge debt interest expense, depreciation expense, and any other tax deductible costs.

Their after-tax balance should be subject to a carrying charge. If IPL recovers the after-tax balance, it can be adjusted by the deferred balance for income tax in developing a revenue requirement cost recovery when the deferral balance is reflected in IPL's revenue requirement in its next rate case. This practice of carrying the deferral at the after-tax cost will reduce the carrying charge between the time the deferred cost is incurred, and the recovery of the cost in a subsequent rate case, and allows IPL to fully recover its TDSIC costs.

TDSIC Net Investments and Depreciation

Q HOW DOES MS. COKLOW'S ANALYSIS DEVELOP THE PLANT INVESTMENT FOR TDSIC-RELATED INVESTMENTS THAT ARE SUBJECT TO A RETURN?

A Ms. Coklow's calculation of the plant investment is developed on her Attachment NHC-6, and relates to gross distribution plant investment and transmission plant investment. Although Ms. Coklow makes an adjustment to reflect the netting of depreciation expense for assets retired as part of the implementation of the TDSIC Plan, she does not take into account the changes in "net plant in-service" that occur both as a result of TDSIC investment, and the recovery of depreciation expense through base rates by

IPL for assets in the same FERC accounts as the new TDSIC investments. As such, her proposed TDSIC revenue requirement does not accurately capture the total change in "net plant in-service" during the course of the TDSIC Plan.

Under IPL's proposal, the Company will impose charges on customers that fail to account for true changes in net plant investment in the same FERC accounts in which the Company's TDSIC Plan investments are being made. This will result in excessive and improperly inflated charges to customers.

Q PLEASE EXPLAIN WHY THE TDSIC INCREMENTAL REVENUE REQUIREMENT SHOULD REFLECT CHANGES IN THE "NET PLANT IN-SERVICE", RATHER THAN SIMPLY INCREMENTAL INVESTMENTS OR ADDITIONS TO GROSS PLANT,

A The Company is proposing the TDSIC as an extraordinary regulatory mechanism that is in addition to base rate recovery. Under traditional ratemaking where base rates provide recovery of the Company's full investment, its rate base will change over time due to both additions to gross plant in-service and the buildup of accumulated depreciation reserve between rate cases. Ultimately, the growth in rate base is caused by net plant growth described above, not gross plant growth that reflects only the addition of new investment to rate base.

Looking at net growth means there are year-to-year the changes in net plant in-service, and accordingly the used and useful rate base the Company is allowed a reasonable opportunity to earn a return on, and of, infrastructure investments through rates. Under IPL's TDSIC Plan, distribution plant investment is recorded in FERC Accounts 353, 355, 357, 364-369, 371 and 373. The Company's current base rates already reflect the Company's existing investments in these same FERC accounts.

Through its base rates IPL is therefore already recovering depreciation expense, and a return on, investments in the FERC accounts to which changes are being made as a part of the TDSIC Plan.

As time goes on, the depreciation expense IPL recovers from customers through base rates and the TDSIC adjustment mechanism for these specific FERC accounts will offset the increase in gross plant for the same accounts as capital investments are made under the Company's TDSIC Plan.

If accumulated depreciation for these specific FERC accounts is not properly accounted for and used to offset gross plant additions made as part of the TDSIC Plan, the Company will be overcharging customers for its combined TDSIC Plan investments because the rate base used to calculate the TDSIC revenue requirement will not reflect recovery of rate base investments through base rates.

Q CAN YOU PROVIDE AN EXAMPLE THAT ILLUSTRATES WHY CHARGES TO CUSTOMERS SHOULD TRACK CHANGES IN NET PLANT, AND NOT SIMPLY INCREMENTAL PLANT INVESTMENTS?

A Yes. Developing an appropriate operating income, and return on plant investment for the utility is very similar to an ordinary loan. A borrower will pay the lender back the principal, but also interest on the outstanding balance of the loan. This interest compensates the lender for the time value of money, as well as providing a return on their investment that reflects the risk of lending the funds to the borrower, and market-required risk-adjusted returns. As the borrower makes payments on the loan, the outstanding principal balance will decline, and so too will the amount of interest expense owed to the borrower.

Similarly, as IPL makes gross plant investments (capital investments), customers are charged rates that reflect both a return of and a return on those investments. The charge for recovery of the investment actually compensates or reimburses IPL for its original plant investment just as principal payments return the original loan balance to the lender. In the case of IPL, or any utility, this investment reimbursement is booked as annual depreciation expense recovery. The Company's return on the plant investments reflects the difference between IPL's original investment (gross plant) less the recovery of accumulated depreciation expense (recovery of gross plant) in basically the same way the amount of interest paid to the lender declines as the borrower pays down the loan principal balance. It is therefore critical to track the "net plant" investment, which represents the amount of IPL's original plant investment that has not yet been recovered from customers, and on which IPL is entitled to the opportunity to earn a return.

If that is not done, the effect is essentially the same as if the lender did not reflect a borrower's repayment of the loan principal balance for a period of time, and continued to charge interest on principal that has been paid back to the lender. By failing to reflect changes in principal (a utility's return of), the lender is increasing the amount of interest collected (return on) because the principal balance (rate base) is not changed.

Q HAVE YOU DEVELOPED A MEANS TO SHOW THE IMPACT ON IPL'S REVENUE REQUIREMENT TO REFLECT CHANGES IN "NET PLANT IN-SERVICE" FOR THE FERC ACCOUNTS AFFECTED BY IPL'S TDSIC INVESTMENTS?

A Yes. This is shown on my Attachment MPG-4. As shown on this schedule, I have added several lines to Ms. Coklow's Attachment NHC-6. One line is to reflect changes

in accumulated depreciation, which offset changes in gross plant investment based on incremental investments in TDSIC-related investments. The second line reflects the incremental net plant change which is the product of the incremental plant investment less the buildup of accumulated depreciation. The incremental net plant change then is used to develop the operating income, and related income tax expense components of the TDSIC revenue requirement. I make these changes for distribution plant in Attachment MPG-4, consistent with Ms. Coklow's development of Attachment NHC-6. The result illustrates that IPL has grossly over-calculated its TDSIC revenue requirement by failing to reflect changes to its "net plant in-service" due to the build-up of accumulated depreciation in the FERC accounts where assets installed as part of the Company's TDSIC Plan will be recorded.

Q HOW DID YOU DEVELOP THE AMOUNT OF DEPRECIATION EXPENSE TO REFLECT THE CHANGE IN ACCUMULATED DEPRECIATION RESERVE?

A I did this by developing the amount of depreciation expense using the previously Commission-approved depreciation rates by FERC account, and the TDSIC Plan plant investment by FERC account.

In my calculation, the 2019 depreciation expense was pulled into the 2020 TDSIC revenue requirement calculations. For 2021, the accumulated depreciation reserve would reflect the amount included in the previous year TDSIC revenue requirement, plus an additional year of depreciation expense based on the TDSIC gross plant account balances at the end of year, multiplied by the Commission-approved depreciation rates.

This would be done for each year the TDSIC revenue surcharge and deferrals are in effect. If the Company were to file a base rate case, then the TDSIC mechanism

would be zeroed out to accommodate the revised amount of depreciation expense reflected in base rates, including changes in rate base due to TDSIC Plan investment.

Q PLEASE DESCRIBE HOW YOU DEVELOPED THE END-OF-YEAR 2019 DEPRECIATION EXPENSE FOR DISTRIBUTION AND TRANSMISSION PLANT?

A This is shown on my Attachment MPG-5. This is based on end-of-year plant account for FERC Accounts 353, 355, 357, 364-369, 371 and 373 for distribution plant. IPL did not provide the FERC accounts where TDSIC transmission plant will be recorded.

The distribution FERC account depreciation rates were provided by the Company in response to City DR 2-4, provided as Attachment MPG-1, pages 2-3. As shown on Attachment MPG-5, using IPL's 2019 gross distribution plant in-service of approximately $1.6 billion and approved depreciation rates, produces distribution depreciation expense of $33 million per year that should be reflected in determining the "net plant in-service" for purposes of calculating the TDSIC revenue requirement.

Please note that the Company only identified the specific FERC accounts that are related to distribution TDSIC plant investment. For the period ending March 31, 2020, the Company's transmission TDSIC plant investment included only Construction Work in Progress. The Company did not identify the specific FERC accounts related to transmission functionalized TDSIC investments. The Commission should order the Company to identify the FERC accounts that relate to the transmission TDSIC investments, so that it is possible to calculate annual depreciation expense and the roll-forward of accumulated depreciation reserve for transmission plant in the same manner that I have done for distribution TDSIC plant here.

For both distribution and transmission plant, this would allow the Commission to evaluate the carry forward depreciation expense from the prior year in order to track changes in net TDSIC distribution and transmission plant.

Q DID IPL PROPOSE A NET DEPRECIATION ADJUSTMENT IN DEVELOPING A TDSIC REVENUE REQUIREMENT?

A . Yes, however, IPL's proposal will only make an adjustment to the operating income statement used to develop the TDSIC revenue requirement. IPL's net depreciation adjustment does not track changes in accumulated depreciation reserve, so it does not accurately track net plant changes due to plant investment under the TDSIC Plan plant investment, and corresponding changes in rate base due to both that investment and customer payment of depreciation expense through base rates.

Specifically, IPL's net depreciation adjustment is simply an operating expense adjustment. IPL's netting proposal reflects depreciation expense in the TDSIC revenue requirement by adjusting the depreciation expense for new TDSIC plant that has been placed in-service downward for the remaining original cost value of plant that is replaced by the new TDSIC plant investment. IPL's proposal is an incomplete adjustment to the TDSIC revenue requirement. The adjustment I describe above would reflect changes to the Company's rate base impacting both the return on, and of, IPL's plant in-service for purposes of the TDSIC revenue requirement.

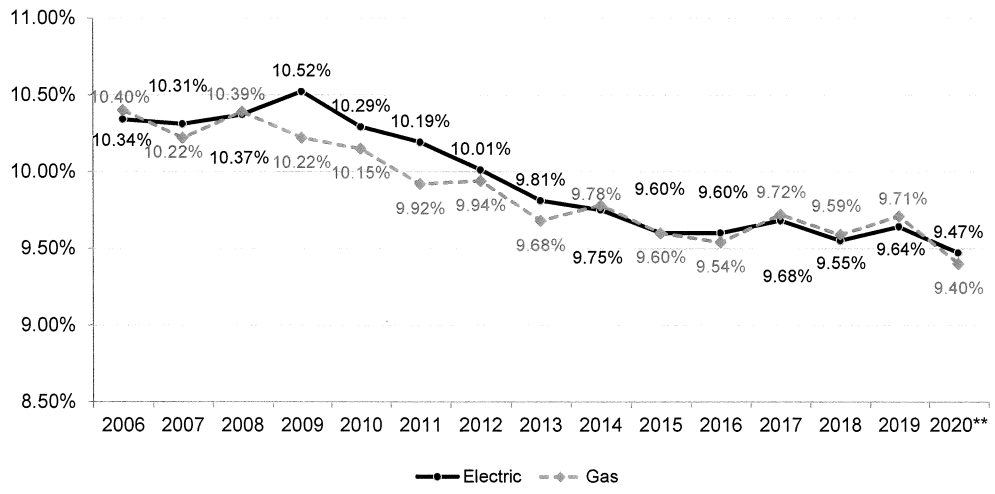
Additionally, because IPL is not making a complete adjustment, the Commission should reject any suggestion that IPL's proposed "netting" of depreciation expense is a tradeoff to any adjustment to its proposed return on equity.

Observable Market Evidence of Utility Cost of Equity

Q PLEASE DESCRIBE THE OBSERVABLE EVIDENCE ON TRENDS IN AUTHORIZED RETURNS ON EQUITY FOR REGULATED UTILITIES.

A As illustrated in Figure 1 below, authorized returns on equity for both electric and gas utilities have declined over the last several years and have been reasonably stable around the mid 9% range for both electric and gas regulated utilities.

FIGURE 1



Source and Notes:
[1] *S&P Global Market Intelligence*, RRA Regulatory Focus, Major Rate Case Decisions -- January - June 2020, July 22, 2020 at page 1.
* Electric Returns exclude Limited Issue Riders.
* RRA excludes the 2017 Alaska ENSTAR decision from its calculations.
**Data represents January - June.

As outlined above in Figure 1, authorized returns on equity have continued to follow capital market costs, which include reductions in capital market costs for utility companies most recently in 2020. The authorized return on equity for IPL in this case should reflect this clear and observable decline in capital market costs, and consider today's low capital market costs as fair and reasonable compensation for utilities.

Q SINCE 2017 DID THE CHANGE IN FEDERAL TAX LAW, THE TAX CUTS AND JOBS ACT ("TCJA"), INCREASE UTILITIES' COST OF EQUITY CAPITAL?

A No. The effects of the TCJA are already reflected in market values, bond ratings, and post-2018 bond yields. The TCJA reduced the Company's federal corporate income tax rates, but also reduced utilities' internal cash generation because of the impact on deferred taxes – reduced income tax rate and loss of bonus depreciation available under the previous federal tax law. However, these impacts on utility cash flows have already been noted by ratings companies, and utilities' cash flows have generally been found to be supportive of current bond ratings. More specifically, utilities have continued to access significant amounts of capital, maintained strong credit standing, and utility bond yields have declined since 2017, the time period IPL's last base rate case was litigated.

Q WHY DO YOU BELIEVE THAT THE DECLINE IN AUTHORIZED RETURNS ON EQUITY FOR REGULATED UTILITY COMPANIES, NOW AVERAGING AROUND 9.4% AND 9.5%, HAVE SUPPORTED UTILITIES' STRONG CREDIT STANDING AND ACCESS TO CAPITAL?

A The credit rating changes for the electric utility industry over the last several years are the result of marked improvement in overall financial health and credit quality in the industry. As shown below in Table 1, the credit rating of the industry has improved over the last 10 years. More recently, a significant majority (71%) of the electric utility companies have bond ratings in the range of BBB+ to A-.

TABLE 1

S&P Ratings by Category
Electric Utility Subsidiaries
(Year End)

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
A or higher	12%	12%	12%	11%	13%	13%	13%	10%	10%	8%	14%	15%
A-	18%	20%	19%	22%	26%	26%	34%	43%	52%	54%	54%	53%
BBB+	23%	24%	28%	28%	25%	28%	24%	32%	21%	22%	18%	18%
BBB	36%	26%	24%	22%	26%	23%	18%	4%	7%	13%	12%	13%
BBB-	9%	16%	15%	17%	11%	11%	11%	11%	11%	2%	1%	1%
Below BBB-	2%	2%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: S&P CAPITAL IQ, downloaded 05/06/20.
Note: Value Line Electric Subsidiary ratings used.

In Table 2 below, I show the same trend in bond ratings for natural gas regulated utility companies. Similar to electric companies outlined in Table 1 above, natural gas utilities' credit ratings strengthened over time. Currently, approximately 71% of the natural gas companies have bond ratings of BBB+ or A-, which is an improvement relative to the recent past, specifically, the time period of IPL's last rate case.

TABLE 2

S&P Ratings by Category
Natural Gas Utilities
(Year End)

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
A or higher	50%	50%	50%	50%	38%	38%	38%	38%	38%	13%	14%	14%
A-	0%	0%	0%	0%	25%	25%	25%	25%	25%	25%	57%	57%
BBB+	13%	13%	25%	25%	13%	25%	38%	38%	38%	50%	14%	14%
BBB	25%	25%	13%	13%	0%	0%	0%	0%	0%	13%	14%	14%
BBB-	13%	13%	13%	13%	25%	13%	0%	0%	0%	0%	0%	0%
Below BBB-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: S&P CAPITAL IQ and Market Intelligence, downloaded 5/1/20.
Note: Subsidiary ratings used.

Q PLEASE EXPLAIN YOUR VIEW THAT UTILITIES HAVE BEEN ABLE TO ACCESS SIGNIFICANT AMOUNTS OF CAPITAL TO SUPPORT LARGE CAPITAL PROGRAMS IN THE FACE OF DECLINING AUTHORIZED RETURNS ON EQUITY IN THE MID 9% AREA.

A The market is fully aware that authorized returns on equity have been declining to around the mid 9% area. The RRA data noted above is available to all market participants. With this as a background, utilities continue to attract significant amounts of capital to fund very large capital programs.

In its June, 2020 Utility Capital Expenditures Update report, *RRA Financial Focus*, a division of S&P Global Market Intelligence, made several relevant comments about utility investments generally:

> - Projected 2020 capital expenditures for the 48 energy utilities in the Regulatory Research Associates', a group with S&P Global Market Intelligence, universe currently stands at roughly $140.9 billion, well above 2019's $121.3 billion in capital investment.
>
> - 2019's energy capital expenditures were a record high, and 5% above the $115.1 billion posted in 2018.
>
> * * *
>
> The nation's electric and gas utilities are investing in infrastructure to upgrade aging transmission and distribution systems, build new natural gas, solar and wind generation, and implement new technologies, including smart meter deployment, smart grid systems, cybersecurity measures and battery storage. We expect considerable levels of spending to serve as the basis for solid profit expansion for the foreseeable future.[4]

As shown in Figure 2 below, capital expenditures for electric and natural gas utilities have increased considerably over the period 2007 into 2020, and the forecasted capital expenditures remain elevated, but slightly below current levels.

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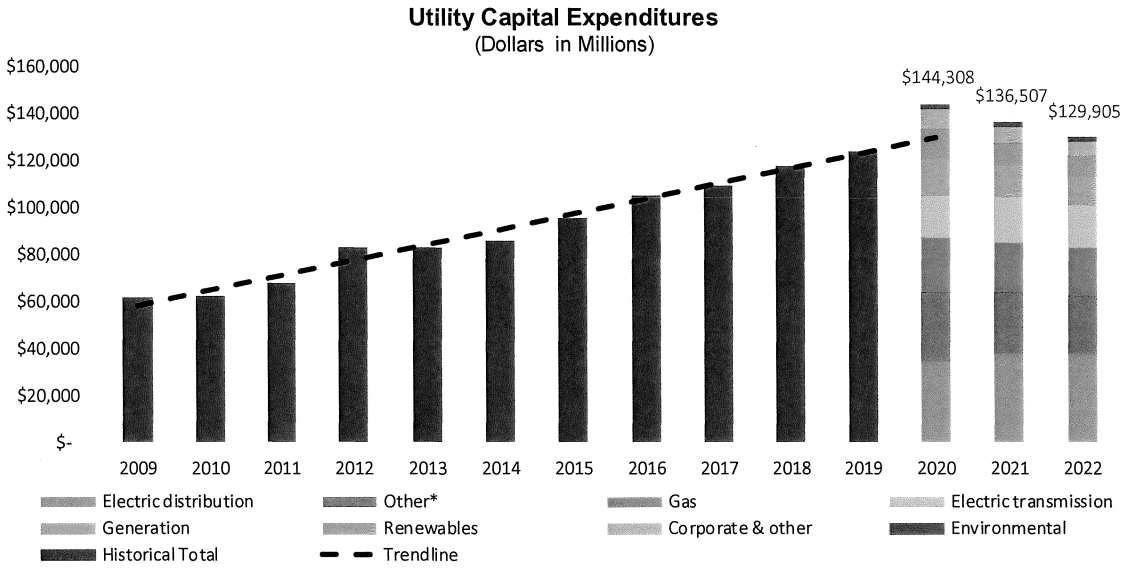
[4] *S&P Global Market Intelligence, RRA Financial Focus*: "Utility Capital Expenditures Update," June 8, 2020, at 1.

FIGURE 2



*Other category consists of utilities that do not report capital expenditures by category: Avangrid, Hawaiian Electric, PG&E and Portland General Electric.
Source: *S&P Global Market Intelligence, RRA Financial Focus*, Utility Capital Expenditures Update, June 8, 2020, Tables 1 and 3.

As outlined in Figure 2 above, and in the comments made by *RRA S&P Global Market Intelligence*, capital investments for the utility industry continue to stay at elevated levels, and to fuel utilities' profit expansion into the foreseeable future. This is clear evidence that the capital investments are enhancing shareholder value, and are attracting both equity and debt capital to the utility industry in a manner that allows for these accelerated capital investment levels. While these profit driven capital investments are embraced by the capital markets, regulatory commissions must also keep a careful view toward maintaining reasonable tariff prices, and terms and conditions to protect customers' need for competitive prices for reliable service.

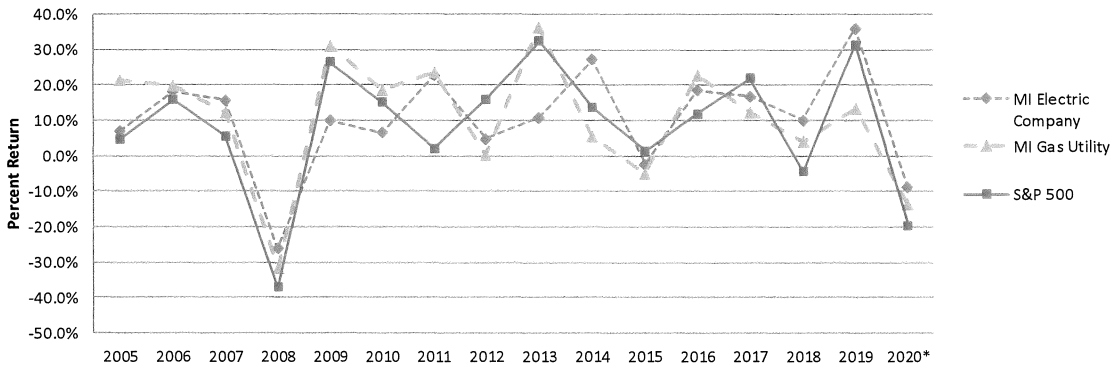
Q HAVE DECLINING AUTHORIZED RETURNS ON EQUITY IMPACTED UTILITY STOCK PRICES?

A No. As shown in Figure 3 below, S&P Global Market Intelligence ("MI") has recorded utility stock price performance compared to the market. The industry's stock

performance data from 2005 through 2020 shows that the MI Electric Company and MI Gas Utility Indices have followed the market through downturns and recoveries. However, notably, utility investments have been less volatile during extreme market downturns. This more stable price performance for utilities supports my conclusion that market participants regard utility stock sectors as a moderate- to low-risk investment option.

FIGURE 3

Index Comparison



Source: S&P Global Market Intelligence.
*Data through March 2020

While utility stocks have not exhibited the same volatility as the S&P 500, stock prices have remained strong, relative to the market in general, and support the utilities' access to equity capital markets under reasonable terms and prices.

Q ARE THERE CREDIT RATING REPORTS THAT SUPPORT YOUR CONTENTION THAT THE CHANGE IN FEDERAL TAX LAW, AND, THE MORE RECENT COVID-19 PANDEMIC, HAVE NOT IMPACTED UTILITIES' CREDIT STANDING OR ACCESS TO CAPITAL?

A Yes. The global economy has faced the extraordinary challenges of the Coronavirus (Covid-19), which led to nearly a complete shutdown of the global economy. This

unprecedented event has impacted all sectors and capital markets. With regard to regulated utilities, S&P made the following statement:

> **Key Takeaways**
> - S&P Global economists' now forecast a global recession this year, with the U.S. expected to post a seasonally adjusted second quarter contraction of about 6% before recovery begins in the second half of the year.
> - We believe that the majority of North American regulated utilities are well positioned to handle the immediate impact of COVID-19. However, the pandemic could negatively affect a few outliers and those issuers already facing downside ratings pressure prior to the arrival of the coronavirus.[5]

Moody's opines that there may be delays in rate case decisions due to COVID-19, but views the regulated utilities resilient to withstand the current economic situation. Specifically, Moody's states:

> When considering the short-term credit implications of coronavirus-related regulatory delays, we will view any modest weakening in financial metrics as temporary and not detrimental to long-term credit quality, unless it is accompanied by a more contentious regulatory or political environment. We will continue to expect utilities to make proactive financial policy adjustments if the dip is material, or appears likely to remain for an extended period of time. For now, we expect state regulatory commissions to continue to provide a broad suite of timely cost recovery mechanisms and to address current challenges like lost revenue and incremental expenses. As a result, we think the overall relationship with the sector remains supportive.[6]

Similarly, Fitch states:

> **Fitch's Sector Outlook: Stable**
> Fitch Ratings' stable outlook embeds an expectation that sector credit metrics will begin to stabilize in 2020, driven by an increase in FFO after the record capex in 2019 and conclusion of a majority of tax reform-related refunds. Low commodity prices and interest rates, O&M cost savings, in part due to the ongoing transition to cleaner generation mix, and tax refunds are providing ample headroom to utilities to seek

[5] *S&P Global Ratings*: "North American Regulated Utilities Face Additional Risks Amid Coronavirus Outbreak," March 19, 2020, at 1, emphasis added.

[6] *Moody's Investors Service Sector Comment*: "Regulated Electric, Gas and Water Utilities – US: Coronavirus outbreak delays rate cases, but regulatory support remains intact," April 6, 2020 (emphasis added).

recovery for capital investments without undue pressure on customer bills.[7]

Q HAVE YOU ALSO CONSIDERED THE POTENTIAL IMPACT ON CAPITAL MARKET COSTS DUE TO FEDERAL RESERVE MONETARY ACTIONS?

A Yes. I considered the Federal Reserve's ("Fed") impacts on short-term and long-term market securities, and the resulting impact on short-term and long-term interest rates. I find that the Fed's interactions in interest rate markets are fully known to market participants, and these interactions are fully considered in market participants' assessment of the current and projected interest rate markets.

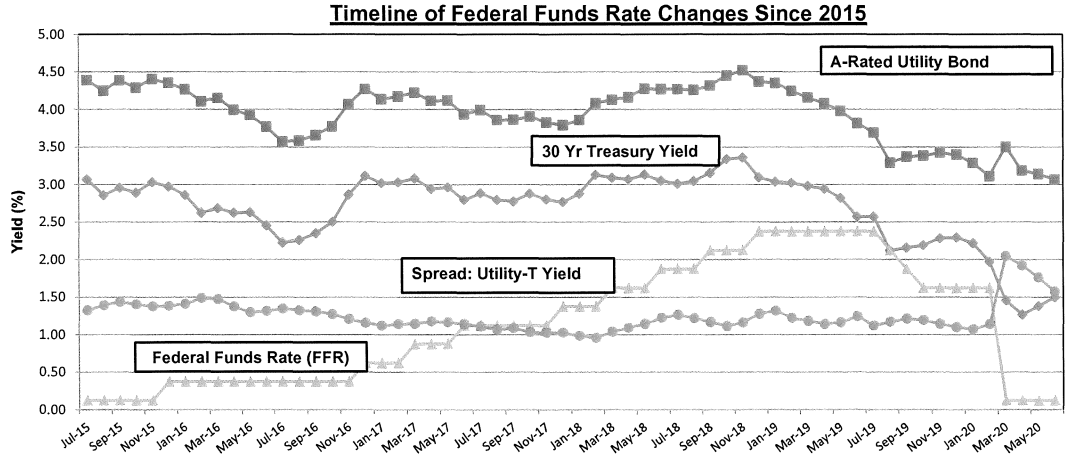
Q IS THERE EVIDENCE THAT THE FED'S NORMALIZATION POLICY HAS HAD MINIMAL IMPACT ON LONG-TERM DEBT RATES?

A Yes. The Fed has raised the Federal Funds Rate ("FFR") nine times over the last few years, raising the short-end of the yield curve. However, comparable increases for longer maturity bonds have not been realized. This has had the effect of flattening the yield curve. This is illustrated in Figure 4 below.

[7] *Fitch Ratings*: "Fitch Ratings 2020 Outlook: North American Utilities, Power & Gas," December 4, 2019, (emphasis added).

FIGURE 4

Timeline of Federal Funds Rate Changes Since 2015



Fed FFR Actions:

1	December 2015	0.25	→	0.50	8	September 2018	2.00	→	2.25
2	December 2016	0.50	→	0.75	9	December 2018	2.25	→	2.50
3	March 2017	0.75	→	1.00	10	August 2019	2.00	→	2.25
4	June 2017	1.00	→	1.25	11	September 2019	1.75	→	2.00
5	December 2017	1.25	→	1.50	12	October 2019	1.50	→	1.75
6	March 2018	1.50	→	1.75	13	March 2020	1.00	→	1.25
7	June 2018	1.75	→	2.00	14	March 2020	0.00	→	0.25

Sources:
Federal Reserve Bank of New York, https://apps.newyorkfed.org/markets/autorates/fed-funds-search-page
Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/datadownload/
Moody's Credit Trends, https://credittrends.moodys.com/

As shown in Figure 4 above, the previous actions the Fed had taken to increase the FFR simply flattened the yield curve and did not result in a corresponding increase in long-term interest rates. Importantly, the Fed's most recent action was to reduce the FFR due to a slowdown in the economy. In the past year, the FFR was reduced five times. In August, September and October of 2019, the target rate was reduced 25 basis points. In response to COVID-19, in March 2020, the Fed reduced the target rate by 50 basis points due to a market slowdown resulting from fears regarding the spread of the coronavirus. Again in March 2020, the Fed had an emergency meeting and cut the FFR by another 100 basis points, putting the target range between 0.00% and 0.25%. This Fed action suggests there will be limited pressure by the Fed at least over the next several years to increase short-term rates.

Q DO MARKET PARTICIPANTS RECOGNIZE THE FED'S MONETARY POLICY IN FORMING THEIR PROJECTIONS ON INTEREST RATE MARKETS?

A Yes. Because the Fed's actions are well-followed by market participants and captured in independent economists' outlooks for changes in capital market costs, as illustrated in economists' interest rate projections, the Fed's actions, along with all other relevant factors, are considered by consensus professional economists in forming their outlooks for changes in interest rates and capital market conditions.

Q WHAT DO INDEPENDENT ECONOMISTS' OUTLOOKS FOR FUTURE INTEREST RATES INDICATE?

A As shown in Tables 3 and 4 below, independent economists expect the current low capital costs to prevail over at least the intermediate term. This is illustrated in projections for both short- and long-term changes in interest rates. Further, there is a clear trend in forecasted changes in interest rates over time, indicating that capital market participants are becoming more comfortable with today's low-cost capital market and expect it to prevail over at least the intermediate future.

For example, short-term projections suggest that the market expects capital market costs to remain relatively low. My Table 3 below shows capital cost projections over the next two years, and demonstrates that projected Treasury bond yields are not expected to increase significantly over the next two years.

TABLE 3

Blue Chip Financial Forecasts
Projected Federal Funds Rate, 30-Year Treasury Bond Yields, and GDP Price Index

Publication Date	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
Federal Funds Rate									
Feb-20	**1.7**	1.6	1.6	1.5	1.5	1.5	1.5		
Mar-20	**1.6**	1.6	1.6	1.5	1.5	1.5	1.5		
Apr-20		1.4	0.1	0.1	0.1	0.2	0.3	0.3	
May-20		**1.3**	0.1	0.1	0.1	0.1	0.2	0.2	
Jun-20		**1.3**	0.1	0.1	0.1	0.1	0.1	0.2	
Jul-20			0.1	0.1	0.1	0.1	0.1	0.1	0.1
T-Bond, 30 yr.									
Feb-20	**2.3**	2.3	2.3	2.4	2.4	2.5	2.6		
Mar-20	**2.3**	2.1	2.2	2.3	2.4	2.4	2.5		
Apr-20		1.9	1.5	1.5	1.7	1.8	2.0	2.0	
May-20		**1.9**	1.3	1.4	1.5	1.6	1.7	1.8	
Jun-20		**1.9**	1.4	1.5	1.5	1.7	1.8	1.9	
Jul-20			1.4	1.5	1.6	1.7	1.8	1.8	1.9
GDP Price Index									
Feb-20	**1.4**	1.9	2.0	2.0	2.0	2.0	2.1		
Mar-20	**1.4**	1.8	1.9	1.9	1.9	2.0	2.0		
Apr-20		1.4	-0.1	1.2	1.5	1.8	1.9	1.8	
May-20		**1.3**	0.1	1.1	1.3	1.7	1.9	1.8	
Jun-20		**1.4**	-0.4	1.0	1.3	1.5	1.7	1.7	
Jul-20			-0.6	1.2	1.4	1.5	1.6	1.7	1.7

Source and Note:
Blue Chip Financial Forecasts, January 2020 through July 2020.
Actual Yields in Bold

Furthermore, GDP growth is also expected to stay relatively stable over the forecast period.

TABLE 4

30-Year Treasury Bond Yield Actual Vs. Projection

Description	Quarterly Average	2-Year Projected	5- to 10-Year Projected
2015			
Q1	2.97%	4.00%	4.9% - 5.1%
Q2	2.55%	3.70%	
Q3	2.83%	4.00%	4.8% - 5.0%
Q4	2.84%	3.90%	
2016			
Q1	2.96%	3.80%	4.5% - 4.8%
Q2	2.72%	3.60%	
Q3	2.64%	3.40%	4.3% - 4.6%
Q4	2.29%	3.10%	
2017			
Q1	2.82%	3.70%	4.2% - 4.5%
Q2	3.05%	3.80%	
Q3	2.91%	3.70%	4.3% - 4.5%
Q4	2.82%	3.60%	
2018			
Q1	2.82%	3.60%	4.1% - 4.3%
Q2	3.02%	3.80%	
Q3	3.09%	3.80%	4.2% - 4.4%
Q4	3.07%	3.70%	
2019			
Q1	3.27%	3.40%	3.9% - 4.2%
Q2	3.01%	3.10%	
Q3	2.78%	2.60%	3.6% - 3.8%
Q4	2.30%	2.50%	
2020			
Q1	2.30%	2.60%	3.2% - 3.7%
Q2	1.89%	1.90%	3.0% - 3.8%

Sources:

Blue Chip Financial Forecasts,
December 2013 through June 2020.

Table 4 above shows that in June 2020, independent economists projected relatively low interest rates over the next five to ten years, and did not anticipate significant increases in long-term 30-year Treasury bond yields relative to current bond yields. Table 4 also illustrates that this current outlook is significantly different than the outlook for substantial increases in interest rates that prevailed for most of the last five years, and particularly prior to 2016. This is clear evidence that market participants are comfortable with today's low capital market costs and expect them to prevail over at least the intermediate period.

Q DOES THIS CONCLUDE YOUR VERIFIED DIRECT TESTIMONY?

A Yes, it does.

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Qualifications of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelor of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Master's Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate

design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF IPL'S TDSIC PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-10.	**CAUSE NO. 45264 TDSIC-1**

Verification

I, Michael P. Gorman, a Managing Principal of Brubaker & Associates, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Michael P. Gorman
August 17, 2020

Data Responses Referenced in
the Verified Direct Testimony and Attachments
of City/IG Witness Michael P. Gorman

Pages

- IPL Response to City 2-4 2-3
- IPL Response to City 2-5 4-8
- IPL Response to City 2-8 9-11

Data Request City DR 2 - 4

Referring to page 8 of Ms. Coklow's testimony, she outlines the Company's netting of depreciation expense in arriving at the revenue requirement included in Attachment NHC-6. With respect to this proposal, please answer the following:
a. Please identify the FERC regulatory account that will record all transmission and distribution investments planned under the TDSIC Plan that will be incurred for each year of the forecast period.
b. Please identify the amount of depreciation expense, and depreciation rate, for each of the same FERC accounts in a. above, that were included in IPL's last base rate case.
c. Please identify the incremental increase in depreciation expense for each FERC account identified in a. above that is attributable to the last test year expense and incremental plant TDSIC investment made after the last rate case.
d. Please identify the change in accumulated deferred income taxes resulting from the change in depreciation expense each year over the forecast time period that relates to the same FERC accounts listed in a. above, which will be used to record TDSIC Plan investments.

Objection:

IPL objects to the Request (subpart d in particular) on the grounds that it solicits a calculation, compilation or analysis that IPL has not performed. IPL further objects to the Request on the grounds and to the extent it is vague and ambiguous. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

a. Please see City DR 2-7 Confidential Attachment 1 for the planned TDSIC investments by FERC account for the TDSIC Plan years. See also Exhibit A IPL's TDSIC Plan, Appendix 8.7.
b. Please see City DR 2-8 Attachment 2 for depreciation expense and depreciation rates included in IPL's last base rate case.
c. IPL's last base rate case had a test year ending June 30, 2017, therefore, no TDSIC projects were included in IPL's last base rate case. Please see below for accumulated TDSIC depreciation by FERC account and associated depreciation rates for these FERC accounts for both TDSIC additions, and the calculation for the depreciation credit included in this filing. The calculation of the depreciation expense credit was also included in Workpaper NHC-7 of this filing. The depreciation rates were approved in IPL's last base rate case.

FERC Accou	Depreciation Expense TDSIC-1	Annual Depr. Rate
353.00	11.58	2.53%
355.00	26.07	2.92%
357.00	0.70	1.88%
364.00	18,171.32	2.06%
365.00	59,738.55	2.35%
366.00	1,007.68	2.62%
367.00	1,176.41	2.55%
368.00	284.96	0.65%
369.00	284.56	3.24%
371.00	37.81	0.35%
373.00	157.66	0.81%
Grand Total	**80,897.30**	

FERC Account	Original Cost of Equipment Retired	Annual Depr Rates	Annual Credit
353	(14.42)	0.0253	(0.36)
355	(13,446.94)	0.0292	(392.65)
364	(225,925.40)	0.0206	(4,654.06)
365	(252,191.26)	0.0235	(5,926.49)
366	(2,184.26)	0.0262	(57.23)
367	(7,050.16)	0.0255	(179.78)
368	(372,206.55)	0.0065	(2,419.34)
369	(1,826.47)	0.0324	(59.18)
371	(13,249.36)	0.0035	(46.37)
373	(2,006.57)	0.0081	(16.25)
	(890,101.39)		(14,320.47)

d. IPL does not understand what information is being solicited by this request. The forecast period is a one-year period. Given this, the phrase "each year over the forecast time period" is unclear as to what this request is seeking. This data request is seeking information for which IPL has not performed an analysis. As per the TDSIC statute, IPL uses its most recent capital structure for the TDSIC filings, which includes the deferred income tax balance as of the filing cut off date.

Indianapolis Power & Light Company
Cause No. 45264 TDSIC 1
Response to City of Indianapolis Data Request Set No. 2

Data Request City DR 2 - 5

Concerning IPL witness Coklow's testimony on IPL Attachment NHC-5, please provide complete copies of all workpapers used to develop the long-term embedded debt cost of 4.98%, and preferred equity cost of 5.37%.

Objection:

Response:

Please see City DR 2-5 Attachment 1.

Indianapolis Power & Light Company
Cause No. 45264 TDSIC-1
City DR 2-5 Attachment 1
Page 1 of 4

INDIANAPOLIS POWER & LIGHT COMPANY
Weighted Average Cost of Capital
March 31, 2020
(Thousands of Dollars)

	Total Company Capitalization	Capitalization Ratio	Total Cost of Capital	Weighted Cost of Capital
Long-Term Debt	1,801,151	47.95%	4.98%	2.39%
Preferred Equity	59,784	1.59%	5.37%	0.09%
Common Equity	1,559,018	41.50%	9.99%	4.15%
Post-1970 Investment Tax Credit	27	0.00%	7.27%	0.00%
Prepaid Pension Asset	(88,063)	-2.34%	0.00%	0.00%
Deferred Taxes and Pre-1971 Investment Tax Credit	390,468	10.39%	-	-
Customer Deposits	34,218	0.91%	6.00%	0.05%
Total	3,756,603	100.00%		6.68%

INDIANAPOLIS POWER & LIGHT COMPANY
Schedules Showing Details of Cumulative Preferred Stock
And Long-Term Debt at March 31, 2020
(Thousands of Dollars)

Cumulative Preferred Stock

Series	Shares Outstanding	Amount	Pro Forma Adjustment	Amount Outstanding	Effective Cost Rate	Annual Cost
4.00%	47,611	$4,761		$4,761	4.00%	$190
4.20%	19,331	1,933		1,933	4.20%	81
4.60%	2,481	248		248	4.60%	11
4.80%	21,930	2,193		2,193	4.80%	105
5.65%	500,000	50,000		50,000	5.65%	2,825
Premium on 4% Cum Pfd Stk		649		649		
	591,353	59,784		59,784		3,212
Unamortized Issuance Costs		0		0		0
Total Preferred Stock	591,353	59,784	0	59,784		3,212
	Weighted average effective cost of preferred stock					5.37%

Long-Term Debt

Series	Long-Term Debt	Sinking Fund Requirements	Total Long-Term Debt	Pro Forma Adjustment	Total Long-Term Debt	Effective Cost Rate	Annual Cost	
First Mortgage Bonds:								
3.875% series, due 8/1/21	55,000		55,000		55,000	4.011%	2,206	181189
3.875% series, due 8/1/21	40,000		40,000		40,000	4.170%	1,668	181190
3.125% series, due 12/1/24	40,000		40,000		40,000	3.806%	1,522	181201
6.60% series, due 1/1/34	100,000		100,000		100,000	6.816%	6,816	181173
6.05% series, due 10/1/36	158,800		158,800		158,800	6.230%	9,893	181179
6.60% series, due 6/1/37	165,000		165,000		165,000	6.680%	11,022	181181
4.875% series, due 11/1/41	140,000		140,000		140,000	5.743%	8,040	181191
4.650% series, due 6/1/43	170,000		170,000		170,000	4.734%	8,048	181192
4.500% series, due 6/1/44	130,000		130,000		130,000	4.657%	6,054	181194
4.700% series, due 9/1/45	260,000		260,000		260,000	4.807%	12,498	181196
4.050% series, due 5/1/46	350,000		350,000		350,000	4.154%	14,539	181200
4.875% series, due 1/11/48	105,000		105,000		105,000	3.937%	4,134	181203
Total First Mortage Bonds	1,713,800		1,713,800		1,713,800		86,440	
Unsecured Notes and Capital Leases:								
Variable Rate loan Due 2020	30,000		30,000		30,000	2.792%	838	181198
Variable Rate loan Due 2020	60,000		60,000		60,000	2.792%	1,675	181198
Total Unsecured Debt	90,000		90,000		90,000		2,513	
Total Before Premium	$1,803,800	$0	$1,803,800	$0	$1,803,800		$88,953	
Straight-Line reacquired premium*			(2,649)		(2,649)		728	
Total Long-term Debt	$1,803,800	$0	$1,801,151	$0	$1,801,151		$89,681	
			Weighted average effective cost of long-term debt				4.98%	

*The annual cost for the reacquired premiums amortized under the effective interest method is included under the corresponding debt.

Computation of cost of Post-1970 ITC

type of capital	amount (000's)	% of capital structure	cost of capital	weighted cost
Long-term debt	1,801,151	52.67%	4.98%	2.62%
Preferred equity	59,784	1.75%	5.37%	0.09%
Common equity	1,559,018	45.58%	9.99%	4.55%
	3,419,953	100.00%		7.26%

1,559,018	Total Common Equity
0	Less: 1S Retained Earnings
0	Less: Appropriated Retained Earnings
1,559,018	Common Equity

Deferred Taxes for Weighted Cost of Capital

Description	Balance @ March 31, 2020
Accum. Deferred Income Taxes -- net	407,356,163
Unamortized ITC	27,431
- Pre-1971 ITC	0
= Post 1970 ITC	27,431
Accum. Deferred Income Taxes -- net	407,356,163
+ Pre-1971 ITC	0
	407,356,163

Total Accumulated Deferred Income Taxes	284,183,670
FIN 48 deferred tax liability	4,657,643
FAS 109 Reg Diability DFIT	118,514,850
Deferred tax assets LT	0
Deferred tax assets current	0
	407,356,163

Data Request City DR 2 - 8

Please provide the annual depreciation expense for each FERC account listed in the previous question as included in the Company's last rate case approved by the Commission. Please identify the calendar year of this depreciation expense by FERC account, and show how it sums to the total depreciation expense approved by the Commission within IPL's full revenue requirement.

Objection:

Response:

In IPL's most recent rate case Cause No. 45029 IPL Witness JLC Attachment 4S is Petitioner's Exhibit IPL-OPER, Schedule DEPR-S, which shows the Annual Pro forma depreciation expense for the Twelve Month Period Ended June 30, 2017 and applies Depreciation and Amortization Rates to Utility Plant in Service accounts in Original Cost Rate Base.

See City DR 2-8 Attachment 1 for Cause No. 45029 IPL Witness JLC Attachment 4S Petitioner's Exhibit IPL-OPER, Schedule DEPR-S.

See City DR 2-8 Attachment 2 for the DEPR-S workpapers.

See City DR 2-8 Attachment 3 for the total depreciation expense approved by the Commission within IPL's full revenue requirement in IPL's most recent rate case (Cause No. 45029).

Indianapolis Power && Light Company
Cause No. 45264 TDSIC-1
City DR 2-8 Attachment 3
Page 1 of 2

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY ("IPL") FOR (1) AUTHORITY TO INCREASE RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE, (2) APPROVAL OF REVISED DEPRECIATION RATES, ACCOUNTING RELIEF, INCLUDING UPDATE OF THE MAJOR STORM DAMAGE RESTORATION RESERVE ACCOUNT, APPROVAL OF A VEGETATION MANAGEMENT RESERVE ACCOUNT, INCLUSION IN BASIC RATES AND CHARGES OF THE COSTS OF CERTAIN PREVIOUSLY APPROVED PROJECTS, INCLUDING THE EAGLE VALLEY COMBINED CYCLE GAS TURBINE, THE NATIONAL POLLUTION DISCHARGE ELIMINATION SYSTEM AND COAL COMBUSTION RESIDUALS COMPLIANCE PROJECTS, RATE ADJUSTMENT MECHANISM PROPOSALS, COST DEFERRALS, AMORTIZATIONS, AND (3) APPROVAL OF NEW SCHEDULES OF RATES, RULES AND REGULATIONS FOR SERVICE.	**CAUSE NO. 45029**	
	APPROVED:	OCT 31 2018

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Carol Sparks Drake, Administrative Law Judge

On December 21, 2017, Indianapolis Power & Light Company ("Petitioner" or "IPL") filed a Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to increase its rates and charges for electric utility service and associated relief and requesting administrative notice of certain Commission orders and other pertinent documents.[1] On December 21, 2017, Petitioner also filed its case-in-chief, workpapers, and information required by the minimum standard filing requirements set forth at 170 IAC 1-5-1 *et seq.* That same day IPL also filed testimony and exhibits from the following witnesses:

- Ann E. Bulkley, Vice President of Concentric Energy Advisors, Inc.
- Elaine K. Chambers, IPL Manager, Rates and Regulations
- Natalie Herr Coklow, Senior Accountant in Regulatory Accounting for AES U.S. Services, LLC ("AES Services")
- James L. Cutshaw, IPL Revenue Requirements Manager
- Dennis C. Dininger, IPL Director, Commercial Operations
- Craig A. Forestal, AES Services Director of Regulatory Accounting
- Eric Fox, Director, Forecast Solutions for Itron, Inc.

[1] On November 20, 2017, IPL provided its notice of intent to file a rate case in accordance with the Commission's General Administrative Order 2013-5.

B. Depreciation. In his direct testimony, IPL witness Spanos presented his depreciation study and proposed annual depreciation rates. OUCC witness Rutter and Industrial Group witness Andrews challenged the overall net salvage percentage applied to generating facilities. Mr. Andrews also challenged the currently approved utilization of the ELG methodology, although he recommended a change in procedure for only the newly constructed Eagle Valley CCGT facility. IPL witness Spanos explained in rebuttal why he disagreed with the OUCC and Industrial Group positions, identifying previous Commission decisions which he testified support his proposals.

While IPL does not, in the Settlement Agreement, accept the ALG procedure, the Settlement Agreement reduces the Eagle Valley CCGT depreciation expense by $3.441 million as reflected in Schedule DEPR-S (included with Settlement Agreement Attachment A). The Settling Parties request the Commission approve the resulting revised Eagle Valley CCGT depreciation rates and all remaining depreciation rates as proposed by IPL. We find the agreement regarding the CCGT depreciation expense recognizes this is a new unit. The revision to the depreciation expense is a means to lessen the impact of this new unit on current rates. The Commission finds the negotiated agreement regarding depreciation expense is reasonable, and the depreciation rates the Settling Parties agreed to are reasonable, supported by the evidence, and should be approved.

C. Cost of Capital Components.

1. ROE and Fair Value Increment. The Settling Parties agreed IPL's ROE will be 9.99% with no fair value increment. This reduction from IPL's initial ROE request of 10.32% and increase to the OUCC and intervenors' initial ROE proposals represents a compromise among the Settling Parties. The agreed ROE of 9.99% is within the range of ROEs the parties proposed and is, the Commission finds, reasonable and supported by the settlement testimony of Ms. Gruca and Mr. Cutshaw.

2. Prepaid Pension Asset. IPL's original proposal and the Settlement Agreement reflect inclusion of the prepaid pension asset as a component of the weighted cost of capital as shown in the table included in Finding No. 9 below. The Settlement Agreement reduces the amount of the prepaid pension asset to be reflected in the capital structure. The amount of the prepaid pension asset the Settling Parties agreed to include in the capital structure ($95.9 million) is consistent with the calculation accepted in the Commission's 44576 Order. Based upon the testimony, the Commission finds the treatment of the prepaid pension asset is reasonable. In so finding, however, the Commission notes that while the Settlement Agreement presents the Settling Parties' agreement on the capital structure for purposes of setting IPL's base rates, it is silent as to the capital structure to be applied in future investment trackers.

The impact of including the prepaid pension asset in future investment trackers is displayed by IPL's response to the August 2018 Docket Entry. When the prepaid pension asset is included in the capital structure as a negative amount and at a zero cost it has the effect of authorizing a higher weighted average cost of capital for a given authorized cost of equity in such trackers than a capital structure absent the asset. In responding to the August 2018 Docket Entry question, IPL suggested it plans to be consistent with NIPSCO's compliance filing in Cause No. 44688. In that filing, although the rate case settlement reflected the prepaid pension asset in NIPSCO's capital structure, NIPSCO's compliance filing did not. NIPSCO's treatment would also be consistent with IPL's intent identified in the direct testimony of IPL witness Cutshaw and Section I.D. of the Settlement

Indianapolis Power & Light Company

Monthly Baa Utility Bond Yields

Line	Month	"Baa" Rated Utility Bond Yield[1]
1	January 2018	4.18%
2	February	4.42%
3	March	4.52%
4	April	4.58%
5	May	4.71%
6	June	4.71%
7	July	4.67%
8	August	4.64%
9	September	4.74%
10	October	4.91%
11	November	5.03%
12	December	4.92%
13	January 2019	4.91%
14	February	4.76%
15	March	4.65%
16	April	4.55%
17	May	4.47%
18	June	4.31%
19	July	4.13%
20	August	3.63%
21	September	3.71%
22	October	3.72%
23	November	3.76%
24	December	3.73%
25	January 2020	3.60%
26	February	3.42%
27	March	3.96%
28	April	3.82%
29	May	3.64%
30	June	3.44%
31	July	3.09%
32	6-month Average ending June 2018	4.52%
33	6-month Average ending July 2020	3.56%

Source:

[1] http://credittrends.moodys.com/.

Indianapolis Power & Light Company

Embedded Cost of Debt[1]
($ 000s)

Cumulative Preferred Stock

Line	Series	Shares Outstanding (1)	Amount (2)	Pro Forma Adjustment (3)	Amount Outstanding (4)	Effective Cost Rate (5)	Annual Cost (6)
1	4.00%	47,611	$4,761		$4,761	4.00%	$190
2	4.20%	19,331	1,933		1,933	4.20%	81
3	4.60%	2,481	248		248	4.60%	11
4	4.80%	21,930	2,193		2,193	4.80%	105
5	5.65%	500,000	50,000		50,000	5.65%	2,825
6	Premium on 4% Cum Pfd Stk		649		649		
		591,353	59,784		59,784		3,212
7	Unamortized Issuance Costs		0		0		0
8	Total Preferred Stock	591,353	59,784	0	59,784		3,212
9	**Weighted average effective cost of preferred stock**						5.37%

Long-Term Debt

	Series	Date Issued (1)	Baa Bond Yield[2] (2)	Long-Term Debt (3)	Sinking Fund Requirements (4)	Total Long-Term Debt (5)	Pro Forma Adjustment (6)	Total Long-Term Debt (7)	Effective Cost Rate (8)	Annual Cost (9)
	First Mortgage Bonds:									
10	3.875% series, due 8/1/21	Sep 2011	5.11%	55,000		55,000		55,000	4.011%	2,206
11	3.875% series, due 8/1/21	Sep 2011	5.11%	40,000		40,000		40,000	4.170%	1,668
12	3.125% series, due 12/1/24	Dec 2016	4.79%	40,000		40,000		40,000	3.806%	1,522
13	6.60% series, due 1/1/34	Jan 2004	6.47%	100,000		100,000		100,000	6.816%	6,816
14	6.05% series, due 10/1/36	Oct 2006	6.23%	158,800		158,800		158,800	6.230%	9,893
15	6.60% series, due 6/1/37	Jun 2007	6.54%	165,000		165,000		165,000	6.680%	11,022
16	4.875% series, due 11/1/41	Nov 2011	4.94%	140,000		140,000		140,000	5.743%	8,040
17	4.650% series, due 6/1/43	Jun 2013	5.08%	170,000		170,000		170,000	4.734%	8,048
18	4.500% series, due 6/1/44	Jun 2014	4.73%	130,000		130,000		130,000	4.657%	6,054
19	4.700% series, due 9/1/45	Sep 2015	5.42%	260,000		260,000		260,000	4.807%	12,498
20	4.050% series, due 5/1/46	May 2016	4.60%	350,000		350,000		350,000	4.154%	14,539
21	4.875% series, due 1/11/48	Nov 2018	5.03%	105,000		105,000		105,000	3.937%	4,134
22	Total First Mortage Bonds			1,713,800		1,713,800		1,713,800		86,440
	Unsecured Notes and Capital Leases:									
23	Variable Rate loan Due 2020			30,000		30,000		30,000	2.792%	838
24	Variable Rate loan Due 2020			60,000		60,000		60,000	2.792%	1,675
25	Total Unsecured Debt			90,000		90,000		90,000		2,513
26	**Total Before Premium**			$1,803,800	$0	$1,803,800	$0	$1,803,800		$88,953
27	**Straight-Line reacquired premium***					(2,649)		(2,649)		728
28	**Total Long-term Debt**			$1,803,800	$0	$1,801,151	$0	$1,801,151		$89,681
29	**Weighted average effective cost of long-term debt**									4.98%

*The annual cost for the reacquired premiums amortized under the effective interest method is included under the corresponding debt.

Sources:

[1] City DR 2-5 Attachment 1, Page 2, provided as Attachment MPG-1, pages 4 - 8.

[2] January 2004, Mergent Bond Record. 2006 - 2018, https://credittrends.moodys.com/

Indianapolis Power & Light Company

Adjusted Distribution Utility Plant And Associated Expenses To Be Reflected
In The Transmission, Distribution, And System Improvement Charge (TDSIC) Tracker ($ x 1000)[1]
For the period ending 31-March-20

Line No.	Description	Rate Base Items: TDSIC Distribution Utility Plant In-Service (5)	Rate Base Items: TDSIC Distribution Utility Plant CWIP (5)	Rate Base Items: Carrying Charges at AFUDC Rate (1)	Income Statement Items: Amortization of Carrying Charges	Income Statement Items: Amortization of Plan Development Costs (2)	Income Statement Items: Property Tax Expense	Income Statement Items: Depreciation Expense	Total
	FERC Acts 353, 355, 357, 364 - 369, 371, 373	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1	Distribution Plant	17,505	20,472	226			108	415	
2	Incremental Accumulated Depreciation[2]	(33,080)							
3	Change in Net Plant In-Service	(15,575)							
4	Credit for Depreciation Expense of Original Equipment							(14)	
5	Amortization of Deferrals				6	647	43	2	
6	Totals	(15,575)	20,472	226	6	647	151	403	
7	TDISIC Distribution Net Plant Change including AFUDC Inception to Date (A + B)	4,897							
8	Carrying Charges at AFUDC Rate (C)	226							
9	Deferred Depreciation Balance, net of Amortization through March 31, 2020	81							
10	Less: Accumulated Depreciation through March 31, 2020	(81)							
11	Total TDSIC Distribution Utility Plant to be reflected in TDSIC-1	5,124							
12	Allowed Rate of Return on TDSIC Utility Plant (3)	6.68%							
13	Allowed Return on TDSIC Utility Plant	342							
14	Revenue Conversion Factors (4)	1.23886			1.01995	1.01995	1.01995	1.01995	
15	Adjusted For Revenue Conversion Factor - Annual Revenue Requirement	424			6	660	154	411	1,656
16	Less: 20% Deferral to Regulatory Asset (6)	(85)			(1)	(132)	(31)	(82)	(331)
17	Twelve Month Distribution Revenue Requirement Recovered through TDSIC	339			5	528	123	329	1,324

(1) Total unamortized portion of carrying charges thru TDSIC 1

(2) Amortization of regulatory asset (TDSIC plan development costs) were authorized in Cause No. 45029 over a three (3) year period. Allocation between distribution and transmission was based on estimated capital spend per Cause No. 45264- Petitioner's Attachment BJB-2, Appendix 8.7.

(3) See NHC-5, Page 2, Line 1

(4) See NHC-5, Page 1

(5) Agree to IPL's Attachment JS-1

(6) The order in Cause No. 45029 required that IPL remove the gross up for taxes associated with the 20% deferred regulatory asset from future filings .
This will be done by breaking out the tax gross-up on the allowed return for the 20% TDSIC property separately and reflecting two separate regulatory asset on NHC-10.
Tax gross-up on 20% deferral: gross-up factor for capital of 1.23910 - gross-up of expense of 1.01996 = tax gross-up of 0.21914 (see NHC-5, page 1).

Allowed return on 20% TDSIC property (Ln 11 above)	342	X 20% =	68
Tax gross-up on allowed return on 20% TDSIC property	68	X 0.21914 =	15
20% Deferral to Regulatory Asset	331	(15)	316
Total (Ln 14 above)			331

Note: See Workpapers NHC-1 - NHC-8 for detail supporting these figures, including regulatory asset balances, amortization calculations, and forecast of expenses.

Sources:
[1]Attachment NHC-6.
[1]Attachment MPG-5, line 12, column 4.

Indianapolis Power & Light Company

TDSIC Depreciation Expense
(Distribution)

Line	FERC Account (1)	Gross Plant-In-Service[1] (2)	Depreciation Rate[2] (3)	2019 Depreciation Expense (4)
1	353	$200,084,452	2.53%	$5,062,137
2	355	53,977,312	2.92%	1,576,138
3	357	1,568	1.88%	29
4	364	173,453,954	2.06%	3,573,151
5	365	236,624,138	2.35%	5,560,667
6	366	125,576,697	2.62%	3,290,109
7	367	285,732,573	2.55%	7,286,181
8	368	244,111,073	0.65%	1,586,722
9	369	137,482,447	3.24%	4,454,431
10	371	41,685,064	0.35%	145,898
11	373	67,214,433	0.81%	544,437
12	**Total**	**$1,565,943,711**		**$33,079,900**

Sources:

[1]Indianapolis Power & Light Company 2019 FERC Form 1.

[2]City DR 2-4, response c, provided as Attachment MPG-1, pages 2 - 3.