ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY, AN INDIANA CORPORATION, FOR AUTHORITY TO (1) ISSUE FIXED OR VARIABLE RATE SECURED OR UNSECURED LONG-TERM DEBT IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$477,350,000; (2) ENTER INTO CAPITAL LEASE OBLIGATIONS IN AN AGGREGATE AMOUNT OUTSTANDING AT ANY ONE TIME NOT TO EXCEED \$10,000,000; (3) ENTER INTO AND USE LONG-TERM CREDIT AGREEMENTS AND LIQUIDITY FACILITIES PROVIDING ACCESS TO BORROWINGS AND OTHER FORMS OF LIQUIDITY IN AN AGGREGATE AMOUNT OUTSTANDING THEREUNDER AT ANY ONE TIME NOT TO EXCEED \$250,000,000; (4) EXECUTE AND DELIVER ONE OR MORE SUPPLEMENTAL INDENTURES TO ITS MORTGAGE AND DEED OF TRUST DATED AS OF MAY 1, 1940 AS SUPPLEMENTED AND AMENDED, FOR THE PURPOSE OF CREATING OR SECURING ANY NEW SERIES OF FIRST MORTGAGE BONDS; (5) EXECUTE AND DELIVER PROMISSORY NOTES, LOAN AGREEMENTS AND OTHER DOCUMENTS EVIDENCING THE LONG-TERM DEBT AUTHORIZED HEREIN; (6) ENTER INTO INTEREST RATE RISK MANAGEMENT TRANSACTIONS IN CONNECTION WITH ITS OBLIGATIONS CURRENTLY OUTSTANDING AND AS PROPOSED TO BE ISSUED HEREIN, THROUGHOUT THE LIFE OF THE UNDERLYING OBLIGATIONS; (7) APPLY THE NET CASH PROCEEDS FROM THE SALE OF SUCH LONG-TERM DEBT, AFTER PAYMENT OF EXPENSES INCURRED IN CONNECTION THEREWITH, TO RETIRE, REFUND OR REDEEM CERTAIN SERIES OF ITS OUTSTANDING INDEBTEDNESS, TO REIMBURSE ITS TREASURY, REPAY SHORT-TERM BORROWINGS, AND FINANCE ITS CONSTRUCTION PROGRAM.	CAUSE NO. 43914 APPROVED: OCT 27 2010

<u>BY THE COMMISSION</u>:
Carolene R. Mays, Commissioner
Angela Rapp Weber, Administrative Law Judge

On June 18, 2010, Indianapolis Power & Light Company ("IPL" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition and supporting testimony in this Cause seeking authority to carry out its financing program ("Proposed Financing Program") for the period through December 31, 2013. On August 20, 2010, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Greg A. Foster. Finally, on September 3, 2010, Petitioner filed its Notice of Intent Not to File Rebuttal Testimony.

Pursuant to notice of hearing duly given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on September 22, 2010 at 1:00 p.m. in Room 224 of the PNC Center, Indianapolis, Indiana. Petitioner and the OUCC presented their pre-filed testimony. No members of the general public appeared, sought to testify or otherwise participated in these proceedings.

Based upon the applicable law and the evidence herein, the Commission now finds as follows:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the time and place of the public hearing conducted by the Commission in this Cause was given and published as required by law. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana including, among other things, with respect to the issuance and sale of securities. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Its principal office is located at One Monument Circle, Indianapolis, Indiana. IPL owns, operates, manages and controls electric generating, transmission and distribution plant, property and equipment and related facilities, which are used and useful for the convenience of the public in the production, transmission, delivery and furnishing of such utility service.

3. **Petitioner's Evidence.** Petitioner presented the following evidence through its Verified Petition and the direct testimony of Connie R. Horwitz, Treasurer and Assistant Secretary of IPL:

A. **Petitioner's Capitalization and Outstanding Securities.** Petitioner's Balance Sheet as of March 31, 2010 and Income Statement for the twelve months ended March 31, 2010 were admitted into evidence. At March 31, 2010, Petitioner's capitalization amounted to $1,706,303,000 and consisted of long-term debt in the amount of $936,608,000 (net of unamortized discount of $1,042,000); cumulative preferred stock in the amount of $59,784,000; and common equity in the amount of $709,911,000. All of the outstanding bonds, preferred stock and common stock have been duly authorized by Orders of the Commission.

As of March 31, 2010, Petitioner's long-term debt was represented by thirteen series of First Mortgage Bonds and two unsecured notes. The outstanding First Mortgage Bonds have been issued under and pursuant to a Mortgage and Deed of Trust dated as of May 1, 1940, as supplemented and modified by supplemental indentures (hereinafter collectively referred to as the "Mortgage"). In addition, Petitioner shows on its balance sheet $40,000,000 in long-term indebtedness which represents funds drawn on Petitioner's liquidity facility to purchase Variable-Rate Demand Notes ("1995B Notes") issued by the City of Petersburg on Petitioner's behalf. At March 31, 2010, the First Mortgage Bonds, two unsecured notes, liquidity facility draw and capital lease obligations constitute Petitioner's only long-term debt obligations. Petitioner had no other outstanding indebtedness except current liabilities at March 31, 2010.

The issued and outstanding capital stock at March 31, 2010 was comprised of five separate issues of Cumulative Preferred Stock totaling 591,353 shares with a par value of $100 per share, 17,206,630 shares of Common Stock without par value, and Retained Earnings.

B. Proposed Financing. IPL seeks Commission approval of its Proposed Financing Program for the three year period ending December 31, 2013 that would permit IPL, from time to time, during this period, to (1) issue up to $200,000,000 in aggregate principal amount of long-term debt issued to finance IPL's construction program, the payment of short-term debt and other purposes described herein that do not include the refunding of currently outstanding debt issues; (2) issue up to an additional $277,350,000 in aggregate principal amount of long-term debt to retire, refund, or redeem some or all of seven debt issues currently outstanding ("Lawful Refundings"); (3) enter into Capital Lease ("Lease") obligations in an aggregate amount at any time outstanding not to exceed $10,000,000; and (4) enter into and use long-term credit agreements and liquidity facilities in the aggregate amount outstanding thereunder at any one time of up to $250,000,000 that provide for, among other things, the issuance of unsecured promissory notes, evidences of indebtedness, letters of credit and liquidity for variable interest rate obligations.

The rate of interest at the time of issuance of the debt described in (1) and (2) above (collectively, the "New Debt") shall not exceed rates generally obtainable at the time of pricing or repricing of such New Debt for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utilities of the same or reasonably comparable credit quality. However, the rate of interest at the time of the reissuance of the Redemption Series (described below) shall be less than the economic break-even rate that allows the net present value of such indebtedness, including all redemption premiums and issuance expenses, but not including the swap termination payment related to the 1995B Notes, to equal the net present value of the existing Redemption Series, considering the remaining life of such securities. The New Debt shall have a term not greater than sixty (60) years and may have the benefit of one or more letters of credit or bond insurance policies, or may be issued without the benefit of such letters of credit or insurance policies.

C. Purpose of the Proposed Financing. The proceeds from Petitioner's Proposed Financing Program, after payment of relevant expenses incurred, would be used for (1) the reimbursement of its treasury for monies actually expended in the acquisition of property, material, or working capital; (2) the construction, completion, extension, or improvement of its facilities, plant, or distribution system; (3) improvement of its service; (4) the discharge or lawful refunding of its obligations, which may include the redemption of debt and the termination of Petitioner's interest rate swap agreement; (5) the costs associated with Petitioner's construction program; and (6) other lawful purposes. Proceeds from Petitioner's Lawful Refundings shall be used to refund securities that (a) mature within the next three years ("Maturing Series") or (b) are callable within the next three years ("Redemption Series") as shown in Table 1 below.

TABLE 1

Description	Balance Outstanding (000's)	Redemption Date	Redemption Price
Maturing Series 6.30% 47th Supplemental Indenture First Mortgage Bon due 01-July-2013 - taxable	$110,000	*matures*	100%
Redemption Series City of Petersburg Pollution Control Refunding Revenue Bonds Series 1991 5.75% 43rd Supplemental Indenture due 01-Aug-2021	$40,000	8/01/2011 – 7/31/2012 8/01/2012 – 7/31/2013 8/01/2013 – 7/31/2014 8/01/2014 – 7/31/2015 8/01/2015 and thereafter	102.0% 101.5% 101.0% 100.5% 100.0%
City of Petersburg Pollution Control Refunding Revenue Bonds Series 1995B Adjustable Rate Tender Securities ("ARTS") due 01-Jan-2023	$40,000		100%
City of Petersburg Solid Waste Disposal Revenue Bonds Series 1994A 5.90% 44th Supplemental Indenture due 01-Dec-2024	$20,000	8/01/2011 – 7/31/2012 8/01/2012 – 7/31/2013 8/01/2013 – 7/31/2014 8/01/2014 – 7/31/2015 8/01/2015 and thereafter	102.0% 101.5% 101.0% 100.5% 100.0%
City of Petersburg Solid Waste Disposal Revenue Bonds Series 1996 6.375%, unsecured, due 01-Nov-2029	$20,000	8/01/2011 – 7/31/2012 8/01/2012 – 7/31/2013 8/01/2013 – 7/31/2014 8/01/2014 – 7/31/2015 8/01/2015 and thereafter	102.0% 101.5% 101.0% 100.5% 100.0%
City of Petersburg Solid Waste Disposal Revenue Bonds Series 1995C 5.95% 45th Supplemental Indenture due 01-Dec-2029	$30,000	8/01/2011 – 7/31/2012 8/01/2012 – 7/31/2013 8/01/2013 – 7/31/2014 8/01/2014 – 7/31/2015 8/01/2015 and thereafter	102.0% 101.5% 101.0% 100.5% 100.0%
Indiana Development Finance Authority Exempt Facilities Revenue Bonds Series 5.95% 46th Supplemental Indenture due 01-Aug-2030	$17,350	8/01/2011 – 7/31/2012 8/01/2012 – 7/31/2013 8/01/2013 and thereafter	101.0% 100.5% 100.0%
Total Lawful Refundings	$ 277,350		

Petitioner also requests authority to issue First Mortgage Bonds in order to secure its repayment obligations for the New Debt issued as secured debt, and for the ability to enter into liquidity facilities or other similar facilities as credit enhancers on any or all secured or unsecured notes.

The $200,000,000 in aggregate principal amount of long-term debt that IPL is requesting to issue for purposes other than refunding currently outstanding debt would be used primarily to finance IPL's construction program. Ms. Horwitz described the construction program, which primarily involves Commission-approved environmental compliance projects pursuant to the certificate of public convenience and necessity ("CPCN") granted to IPL by the Commission's Order dated November 14, 2002 in Cause No. 42170, as subsequently modified on a number of occasions. The CPCN authorized the installation and use of clean coal technology and qualified pollution control property at IPL's generating units in connection with its plan to comply with air emission regulations of the United States Environmental Protection Agency ("Multi-Pollutant Plan"). Ms. Horwitz stated that the $200,000,000 of increased indebtedness for which authority is sought by IPL in this Cause will be used primarily to finance the projects in the Multi-Pollutant Plan.

The $200,000,000 of new long-term debt for purposes other than refunding currently outstanding debt might also be used to replace short-term debt associated with IPL's accounts receivable securitization program. Ms. Horwitz explained IPL has a program to sell its accounts receivable ultimately to a bank conduit that specializes in such transactions. For accounting purposes, the arrangement is treated as short-term securitized debt and amounted to $50,000,000 as of March 31, 2010. Ms. Horwitz explained if IPL determines it is in its best interest not to renew the accounts receivable securitization program, IPL will finance on a long-term basis the debt that is currently classified as short-term that relates to the securitization program. Ms. Horwitz testified the accounts receivable securitization program is, and has been, advantageous to both IPL and the public since its inception. However, she stated the all-in rate on the program of 1.93% per annum as of March 31, 2010 may not be sustainable. Further, the bank that originated the transaction was acquired by a bank which subsequently received financial support from governmental regulators. IPL therefore seeks the flexibility to replace the securitization program with long-term debt should disruptions to either the financial markets or the successor bank make the program untenable.

IPL may also use a portion of the additional $200,000,000 in long-term debt for purposes other than refunding currently outstanding debt to reimburse IPL's treasury for termination of an interest rate swap agreement relating to $40,000,000 of 1995B Notes for which IPL is seeking refinancing authority. Ms. Horwitz stated if IPL determines that refunding the 1995B Notes is prudent, IPL must terminate the interest rate swap agreement. Termination of the swap agreement could occur even if the 1995B Notes are not refunded, either at IPL's option or because termination is required by the terms of the swap agreement. Upon termination, IPL will likely have to pay the swap provider an "unwind payment" as determined by the terms of the swap agreement based on a discounted cash flow calculation of all future interest and principal payments using a spread over a tax-exempt index.

Ms. Horwitz then described IPL's request to issue up to an additional $277,350,000 in aggregate principal amount of long-term debt to retire, refund or redeem some or all of certain outstanding debt issues. Petitioner's potential Lawful Refundings consist of one taxable issue and six tax-exempt issues. As shown in Table 1 above, IPL has one long-term issue maturing during the period of the Proposed Financing Program: the First Mortgage Bonds, 6.30% Series, due July 1, 2013, in the aggregate principal amount of $110,000,000. Ms. Horwitz described the Redemption Series that will be callable at IPL's option during the period of the Proposed Financing Program, consisting of five tax-exempt bond series issued through the City of Petersburg, Indiana (the "City"), and one tax-exempt bond series issued through the Indiana Development Finance Authority (currently named the Indiana Finance Authority and referred to herein as the "IFA"). She stated the Redemption Series totals $167,350,000, which combined with the Maturing Series, results in current potential refundings of $277,350,000. The New Debt used for Lawful Refundings may be issued as tax-exempt or taxable issues. Petitioner provides both the City and the IFA with evidence of indebtedness for such issues, either through (a) a First Mortgage Bond at a fixed or variable rate of interest or (b) one or more new Unsecured Notes, with a corresponding Promissory Note to the City or the IFA, and/or issuance of letters of credit or revolving credit facilities to the City or the IFA, to evidence such repayment of proceeds from the tax-exempt bonds issued by the City or by the IFA. Petitioner may also execute loan agreements and trust indentures in connection with such Lawful Refundings or other New Debt. The tax-exempt issues currently outstanding and subject to redemption may be refinanced through the City or through the IFA, or refinanced as taxable debt.

D. Petitioner's Request to Execute and Deliver Supplemental Indentures to its Mortgage. Petitioner seeks authority to issue for the purpose of securing its repayment obligation relating to the New Debt issued as secured debt or to issue and sell, as New Debt, for cash, at not less than 95% of the face value thereof, plus accrued interest (if any) to the date of delivery thereof, its First Mortgage Bonds. Each series shall be created under a supplemental indenture to the Mortgage, to be executed and issued under and pursuant to the provisions of the Mortgage and supplemental indenture; each series shall be dated as of the date of such supplemental indenture or as of such other date or dates as may be permitted by the Mortgage and such supplemental indenture; each series shall be due and payable not less than twelve months or more than sixty (60) years after the date thereof; each series to bear interest at fixed or variable rates; and each series to be issued and sold at such price and to have such other terms and characteristics as hereafter shall be determined by the Board of Directors of the Petitioner within the limitations and in accordance with the terms and provisions of the Mortgage.

Ms. Horwitz described the primary criteria governing IPL's choice between fixed or variable-rate debt financing. She stated a major consideration is the type of assets being financed. She explained that variable-rate debt typically is used to finance shorter-lived assets or is used for a particular portion of a longer-lived asset's life, such as during its construction period, whereas long-lived assets, such as utility plant and equipment, are often financed with long-term, fixed-rate debt because that type of financing most closely matches the nature of the assets. She stated all but $80,000,000 of IPL's long-term debt currently outstanding is at fixed rates.

Ms. Horwitz explained market conditions can often dictate exceptions to these general rules. For example, during periods of relatively high fixed interest rates, variable-rate financing is often used in expectation that the variable-rate financing will be replaced later by fixed-rate financing when interest rates subsequently fall. Ms. Horwitz explained variable-rate financing with interest periods that reset in intervals of less than one year typically can be called at par at any time, whereas long-term fixed-rate financing typically cannot be called or refunded for five to ten years. Retiring long-term fixed-rate debt often requires a premium once the non-call or non-refunding restriction expires. Variable-rate debt often has a lower initial interest rate than debt with longer fixed interest rate periods, which can generate substantial savings to the issuer. However, as the interest rate floats, there is a risk that variable rates could move above the fixed-rate level that existed at the time of the financings and the initial savings could be eliminated. Accordingly, it may be more advantageous to issue fixed-rate debt with a relatively short non-call or non-refunding restriction rather than issue variable-rate date. However, the market usually requires a somewhat higher interest rate in exchange for more generous prepayment terms.

IPL believes its strong financials and its long-standing tradition as a low-cost provider of electric service are evidence of its prudence in financial management and justify its request for discretion and flexibility in determining whether to issue fixed or variable rate securities. Ms. Horwitz described how, since the credit markets have become more volatile, and variable interest rates have increased due to concerns about liquidity, IPL has taken the opportunity to fix a significant portion of its variable rate debt to reduce the volatility in its portfolio. As a result, at March 31, 2010, only 8.5% of IPL's outstanding long-term debt was variable-rate debt, comprised of the 1995B Notes and the draw on IPL's committed liquidity facility.

E. The Proposed Unsecured Notes. Petitioner proposes to issue, sell, and deliver for cash new promissory notes or other unsecured evidences of indebtedness ("Notes") at such prices and with such other terms and characteristics as shall be determined by Petitioner's Board of Directors, provided that the issuance of such Notes as described in this paragraph in combination with any secured debt as heretofore described shall not, in aggregate, exceed the maximum aggregate amount of New Debt requested in this Cause.

F. The Proposed Capital Lease Obligations. Petitioner also seeks Commission approval to enter into, from time to time over a period ending December 31, 2013, up to $10,000,000 in Capital Lease obligations outstanding at any one time, for terms not to exceed ten years. Petitioner proposes to utilize Leases to acquire property and equipment in order to optimize the cost of financing commensurate with the underlying asset's expected life. The Leases shall have structures and terms similar to other forms of debt financing, but with the potential, in certain instances, to lower the overall cost associated with financing property and equipment acquisitions. The amount financed under such Leases, excluding transaction and/or add-on service and support costs, is not expected to be more than the net capitalized cost of the appraised value of the underlying property or equipment, in conformity with accounting principles generally accepted in the United States of America.

G. The Proposed Credit Agreements and Liquidity Facilities. Petitioner seeks authority to enter into and use long-term Credit Agreements and liquidity facilities in the aggregate amount outstanding thereunder at any one time not to exceed $250,000,000, which would, among other things, provide for the issuance of unsecured promissory notes, evidences of indebtedness, letters of credit and liquidity for variable interest rate obligations.

The Petitioner's current multi-year credit facility intended for its short-term liquidity needs expires on May 16, 2011. Credit providers continue to indicate that long-term, or multi-year, credit facilities generally reduce fees associated with establishing lines of credit and can provide both parties with comfort as to credit availability. Ms. Horwitz explained a multi-year credit facility would provide IPL with committed capital for its short-term liquidity needs on a long-term basis without the need to renew the facility on an annual basis and could be reduced or cancelled at any time without any prepayment penalties. She noted this type of facility is common within the utility industry and would fix the pricing grid and structure for the term of the agreement. She stated the requested authority would maximize IPL's flexibility in the event market conditions change.

Petitioner seeks authority to enter into, at any time on or before December 31, 2013, Credit Agreements having a term not to exceed five (5) years. Thus, Petitioner would be authorized to enter into a five-year Credit Agreement in 2013 with a term extending through 2018. These Credit Agreements could provide for the issuance of letters of credit and liquidity facilities. The letters of credit or liquidity facilities may be contained within, or separate from, Petitioner's other Credit Agreements.

Liquidity facilities are also utilized to provide liquidity for variable interest rate obligations currently outstanding and as entered into as part of the Proposed Financing Program discussed herein. Petitioner seeks authority to enter into any such liquidity facilities throughout the life of its outstanding indebtedness and throughout the life of the New Debt in order to provide liquidity for such securities. Such liquidity facilities are often required in order to persuade investors of certain variable interest rate obligations to buy such securities, particularly those securities with mandatory put features that must be remarketed to other investors.

Petitioner proposes to enter into credit agreements with terms and characteristics as shall be determined by Petitioner's Board of Directors. Petitioner requests the Commission to approve authority to enter into any liquidity facilities in connection with the New Debt issued in this Cause, which will not expire with the expiration of the authority to issue the New Debt in this Cause, but shall remain throughout the term of the New Debt.

Petitioner anticipates that it will normally make borrowings under its Credit Agreements on a short-term revolving basis. However, the accounting treatment of such borrowings as short-term debt or long-term debt is not assured. Therefore, Petitioner requests authority to borrow under its Credit Agreements in the event that the borrowings are classified as long-term debt so long as the aggregate amount of all obligations outstanding thereunder at any one time does not exceed $250,000,000.

H. <u>The Proposed Interest Rate Risk Management Transactions</u>. Petitioner seeks authority to enter into interest rate risk management transactions for currently outstanding obligations and the obligations issued as part of the New Debt. Petitioner seeks authority to enter into any such interest rate risk management transactions throughout the life of any of these underlying obligations in order to mitigate the interest rate risk associated with such securities. Petitioner seeks to utilize, when available and appropriate, interest rate hedging transactions and enter into related interest rate hedging agreements to reduce and manage interest costs. The flexibility to enter into such transactions will enable Petitioner to select, when and where appropriate, mechanisms in which it can: (1) synthetically convert variable rate debt to fixed-rate debt; (2) synthetically convert fixed-rate debt to variable rate debt; (3) limit the impact of changes in interest rates resulting from variable rate debt; and (4) provide for the ability to enter into interest rate risk management transactions for future issuances of debt securities.

Ms. Horwitz described in detail IPL's contemplated interest rate risk management transactions, which serve to establish an effective ceiling rate for variable-rate debt for a specified period of time. In order to assure this maximum interest rate, IPL would pay a premium, much like an insurance policy. The interest rate risk management products commonly used in today's capital markets include: interest rate swaps, caps, collars, floors, forwards, treasury locks, forward starting swaps, or other such similar products with the express purpose of managing interest rate risk and costs. Ms. Horwitz provided illustrations of each of these types of interest rate risk management transactions. Petitioner expects to enter into these agreements with counterparties that are highly-rated institutions. Net fees and commissions in connection with interest rate risk management agreement(s) will not exceed those generally obtainable for reasonably similar products with comparable terms and conditions. The transactions will be for a fixed period and a stated notional amount and may be for Petitioner's underlying fixed or variable obligations. Interest rate management agreements would be entered into solely to hedge and manage interest rate risk. Petitioner will not utilize such instruments for speculative purposes.

Petitioner proposes to enter into such interest rate risk management transactions with terms and characteristics as shall be determined by Petitioner's Board of Directors. Because the opportunities in the market for these alternatives are transitory, Ms. Horwitz explained IPL's need to have in place approval to enter into any or all of the interest rate risk management transactions described in connection with the Proposed Financing Program during the entire term of the underlying obligations. Accordingly, Petitioner requests that the authority to enter into the interest rate risk management transactions shall not expire with the expiration of the authority to issue the New Debt in this Cause, but such authority shall remain throughout the term of the currently outstanding obligations or the New Debt.

I. Petitioner's 1995B Notes and Related Interest Rate Swap Agreement. As described by Petitioner and authorized in prior proceedings, Petitioner secured bond insurance for some outstanding debt, including the 1995B Notes, in order to improve the credit ratings for the obligations and therefore to lower the costs of such financings. Ms. Horwitz testified that until September 2009, interest on the 1995B Notes varied weekly and was set through a remarketing process. IPL maintains a $40,600,000 liquidity facility supporting the 1995B Notes. The liquidity facility expires in May 2011. Simultaneously with obtaining the bond insurance, Petitioner entered into an interest rate swap to synthetically fix the interest rate on the 1995B Notes at 5.21%. This contrasts to a similar fixed-rate bond issued by Petitioner in 1995 at 6.625%. Accordingly, since the issuance in 1995 until the recent financial market deterioration, the 1995B Notes and related interest rate swap agreement proved advantageous to the utility and its customers.

However, credit ratings for bond insurers decreased in the aftermath of the financial markets' deterioration and remained depressed as of the date of the Petition in this Cause. As a result, the interest rate on the 1995B Notes increased significantly during portions of 2008 and 2009. In 2009, as permitted in the swap agreement, the swap provider changed the rate that Petitioner received from the swap provider to an alternative floating rate due to credit ratings agencies' downgrades on the insurer of the 1995B Notes. Thereafter, Petitioner paid the standard fixed-rate to the swap provider (5.21%), and paid the variable rate on the bonds (at times, as high as 10%) that was in excess of the alternative floating rate paid by the swap provider (as low as 0.15%).

In accordance with the terms provided in the 1995B Notes' bond documents, on September 1, 2009, Petitioner converted the 1995B Notes from tax-exempt weekly interest rate mode to commercial paper mode and directed the remarketing agent to no longer remarket the 1995B Notes. All of the 1995B Notes were then tendered back to the trustee. In accordance with the terms of Petitioner's committed liquidity facility, the trustee drew $40,000,000 against this facility to fund the tender, and the trustee is holding the 1995B Notes on Petitioner's behalf at this time. While held at the trustee, the 1995B Notes bear no interest while in commercial paper mode. Petitioner continues to pay the interest due on the liquidity facility, pay the fixed-rate portion of the swap, and receive the alternative floating rate portion of the swap. As of March 31, 2010, Petitioner paid 5.21% on the fixed-rate portion of the swap; Petitioner received 0.287% on the variable-rate portion of the swap; and Petitioner paid 0.702% on the liquidity facility draw for an effective rate on the 1995B Notes of 5.62% as of March 31, 2010.

If Petitioner determines refunding the 1995B Notes is prudent, Petitioner will terminate the swap agreement entered into in connection with the 1995B Notes. Petitioner will likely have to pay the swap provider a swap termination amount, as determined by the terms of the swap agreement. As of March 31, 2010, the swap termination payment would have been approximately $8,700,000. From its inception until the advent of the recent market disruptions, this transaction was advantageous, yielding an annual cost savings on the synthetically-fixed bonds of approximately $500,000 as compared to the previously stated fixed rate of 6.625% available at the time of this original financing. Petitioner cannot predict if or when market conditions will normalize sufficiently to restore these financial benefits. Therefore, given the financial benefits of the transaction since its inception and the market anomaly that eliminated those benefits, Petitioner also requests the authority to finance the cost of unwinding the swap agreement for an amount not to exceed $10,000,000. This $10,000,000 is included as part of the requested $200,000,000 increase in long-term debt for purposes other than refunding currently outstanding debt.

Petitioner further requests authority to treat any resultant swap termination expense as a redemption expense to be amortized over the life of the New Debt.

J. Amortization of Premiums, Issuance and Discount Expenses and Interest Rate Risk Management Costs. Petitioner also requests authority to amortize issuance costs and interest rate risk management costs associated with the New Debt issued pursuant to authority granted herein over the life of the New Debt (and in the case of interest rate risk management costs associated with currently outstanding debt, over the remaining life of such debt). Petitioner requests authority to treat all costs associated with early redemption of outstanding debt, including any unamortized issuance expense, discount expense, and redemption premiums relating to the redeemed issues, as an issuance expense to be amortized either (1) over the life of the New Debt issued to refund the outstanding debt (for unamortized issuance and discount expenses) or (2) over the life of the redeemed issue (for redemption premiums).

For tax purposes, Petitioner also intends to utilize deferred tax accounting for any premium expense related to the redeemed issues. This tax method also amortizes any premium expense over the remaining life of the redeemed issue.

Ms. Horwitz testified IPL's proposed treatment of premiums and unamortized issuance and discount expenses associated with the Redemption Series bonds is consistent with that previously authorized by the Commission. IPL has also proposed that any such cost of issuance be considered in determining its overall cost of capital in any subsequent rate case. Ms. Horwitz explained the proposed refinancings, if market conditions allow them to be consummated, will lower IPL's cost of capital, which will accrue to the benefit of customers in any subsequent general rate case. She stated it would be equitable to allow IPL to recover through rates such costs incurred to lower its cost of capital. She stated IPL would account for all payments or receipts related to such transactions, including administrative costs, as a decrease or increase in interest expense. For ratemaking purposes, Ms. Horwitz stated the net effect of such transactions would be reflected in IPL's embedded cost of debt. She testified this accounting treatment is consistent with the Commission's determination in IPL's latest financing petition in Cause No. 43565.

K. Presently Existing Financing Authority. Petitioner's existing financing authority granted in Cause No. 43565 extends through December 31, 2010. Most of the authority granted in that Cause has already been utilized by Petitioner. However, Petitioner has remaining authority to refund the 1995B Notes and enter into additional Lease obligations, which has not yet been used. Petitioner proposes that upon the issuance of this Order, the authority granted herein supersede and replace any remaining authority from Cause No. 43565.

L. Timing. Ms. Horwitz stated in order to take advantage of improving bank markets for credit and to reduce refinancing risk, IPL requests issuance of a timely Order in this proceeding to allow it to negotiate and execute a new credit agreement in the fourth quarter of 2010. Ms. Horwitz stated that action authorizing the filing of the Petition in this Cause was taken by the Board of Directors by unanimous consent effective May 26, 2010.

4. Testimony of the OUCC. The OUCC offered the prefiled testimony of Greg A. Foster as its evidence in this case. Mr. Foster testified that his review of IPL's Petition focused on the following main areas: the specified uses of the proceeds; the interest rate structure; IPL's capitalization, earnings, and cash flows; and IPL's credit ratings. Based on his review, Mr. Foster testified that the OUCC does not object to IPL's additional requested financing authority. He stated the OUCC does not have any concerns regarding Petitioner's proposed use of the debt proceeds. Additionally, Mr. Foster testified that the OUCC does not oppose the Petitioner's request for authority to enter into contractual agreements in order to mitigate the interest rate risk associated with its proposed securities. However, he emphasized the need for Petitioner to prudently exercise such authority. He also stated the OUCC does not waive its rights in future proceedings to review Petitioner's financing decisions to determine whether such transactions were consistent with the authority granted in this Cause and were reasonable and prudent at the time they were made.

As part of his analysis, Mr. Foster compared standard measures of the Petitioner's financial performance and position to twenty comparable companies monitored by the North American Electric Reliability Corporation. Mr. Foster chose the members of the peer group based on total assets. Based on his analysis, IPL's total assets were reasonably comparable to the peer group. He analyzed Petitioner's cash flow and checked credit ratings assigned to the Petitioner, IPALCO and AES by Standard and Poor's and compared them to those of three different proxy groups of ten companies. The results of Mr. Foster's analyses are found in Exhibits A and B to his prefiled testimony.

Mr. Foster testified IPL has a Total Debt/Total Equity Ratio slightly higher than the peer group average and median. Mr. Foster noted IPL has a significantly higher Cash Flow from Operating Activities and Recurring Operating Earnings than the average of the peer group, which has contributed to stable cash flows.

Mr. Foster stated IPL and its parent company, IPALCO, both have a BBB- credit rating from Standard and Poor's ("S&P"). IPL's ratings reflect the consolidated credit profile of parent IPALCO Enterprises Inc., IPL's excellent business profile and IPALCO's highly leveraged financial profile. He further stated S&P rated IPL's strength and weaknesses. As strengths, S&P noted a constructive regulatory environment; cumulative enhancements that insulate the subsidiaries; and AES' credit neutral financial policy towards its subsidiaries. The weaknesses as noted by S&P were AES's weaker credit quality and IPALCO's high debt leverage.

He testified that IPL's ratio of Common Equity to Total Capital was close to the average of its proxy group. IPALCO has negative Common Equity to Total Capital, which is well outside the range of its proxy group. Finally, AES's Common Equity to Total Capital ratio is also well out of range of its proxy group.

In light of this analysis, Mr. Foster stated that while the OUCC does not object to IPL's requested financing authority, the non-objection should not be viewed as an endorsement of IPL's capital structure in light of IPALCO's negative equity ratio. Mr. Foster noted IPALCO's equity ratio will likely be important in future IPL proceedings (including rate cases), and the OUCC will address this issue at that time. Mr. Foster raised the issue in this proceeding to protect against any future attempt by any party to state that the OUCC had acceded to this capital structure as a consequence of not mentioning it in this Cause.

As part of his conclusion supporting approval of IPL's requested authority in this Cause, Mr. Foster requested that both the Commission and the OUCC be notified, in writing, within thirty (30) days of Petitioner exercising any of the financing authority approved in this Cause. He recommended that each notice of issuance state the principal amount borrowed, the applicable interest rate(s), how the interest rate(s) was (were) determined, any collateral required, the term of the borrowing and any other pertinent repayment terms.

5. Commission Discussion and Findings. The Commission finds that based on the evidence presented in this Cause, approval of the Proposed Financing Program is in accordance with the relevant provisions of Indiana law including, but not limited to, Ind. Code §§ 8-1-2-76 to -81 and is necessary and advantageous to Petitioner and in the best interest of Petitioner, the public it serves and its security holders.

We find that Petitioner's proposed use of fixed or variable rate securities is reasonable and should be approved. The Commission authorizes Petitioner to issue long-term debt, to enter into Capital Lease obligations and to enter into and use long-term credit facilities and liquidity facilities as described above and in the Petition and evidence. The Commission also authorizes Petitioner to enter into interest rate risk management transactions as described above and in the evidence submitted in this Cause. We find Petitioner's proposal with respect to the amortization, accounting and ratemaking treatment applicable to issuance and interest rate risk management costs and the premiums and unamortized issuance and discount expenses associated with prematurely redeemed debt issues as described above is reasonable and should be approved. The evidence submitted in this Cause shows that the original cost net utility plant exceeds the total capitalization of Petitioner. The Commission has recognized that due to historic inflation and other factors, Petitioner's fair value of its net utility plant would exceed its net original cost. Thus, once Petitioner completes the financing transactions contemplated herein, Petitioner's total capitalization will not exceed the fair value of Petitioner's net utility plant.

Petitioner has agreed to notify both the Commission and the OUCC, in writing, within thirty (30) days of Petitioner exercising any of the New Debt authority approved in this Cause and that each notice of issuance should state the principal amount borrowed, the applicable interest rate(s), how the interest rate(s) was (were) determined, any collateral required, the term of the borrowing and any other pertinent repayment terms.

Accordingly, the Commission finds that IPL's Proposed Financing Program should be approved and a Certificate of Authority should be issued to Petitioner to proceed with such financing program.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. There shall be, and hereby is issued to Petitioner, a Certificate of Authority for the issuance of securities, upon the terms and conditions, of the character, for the consideration, in the manner, and for the purposes, set forth in this Order, including:

(i) authority to issue from time to time over the period ending December 31, 2013, up to $477,350,000 in aggregate principal amount of fixed or variable rate secured or unsecured long-term debt in amounts and on terms consistent with the Petition and evidence submitted herein;

(ii) authority to execute and deliver promissory notes and other evidence of secured or unsecured indebtedness relating to such long-term debt, including, but not limited to, Loan Agreements entered into in connection with such long-term debt;

(iii) authority to enter into Capital Lease obligations not to exceed $10,000,000 outstanding at any one time on terms consistent with the Petition and evidence submitted herein;

(iv) authority to enter into and use long-term Credit Agreements and liquidity facilities in the aggregate amount outstanding thereunder at any one time not to exceed $250,000,000, which Credit Agreements and liquidity facilities may provide for, among other things, the issuance of unsecured promissory notes, evidences of indebtedness, letters of credit and liquidity for variable interest rate obligations (which liquidity facilities may be contained within or separate from other credit agreements), on terms consistent with the Petition and evidence submitted herein;

(v) authority, to the extent long-term debt issued pursuant to this authority is secured, to execute and deliver Supplemental Indentures supplementing and amending the Mortgage in order to create new series of Mortgage Bonds and to specify the characteristics thereof in accordance with the terms and provisions of the Mortgage;

(vi) authority to execute interest rate risk management transactions on terms consistent with the Petition and evidence submitted herein;

(vii) authority to treat costs incurred to redeem long-term debt, including premiums, that is refunded pursuant to the authority granted herein, unamortized issuance and discount expenses associated with such redeemed issues and the cost of interest rate risk management transactions as described in the Petition and evidence submitted herein; and

(viii) authority to use and apply the cash proceeds and account for the related costs arising from the issue and issuance of the long-term debt and Capital Lease obligations for the purposes of and in accordance with the terms set forth in the Petition and evidence submitted herein.

2. Within thirty (30) days after exercising any of the authority to issue New Debt approved in this Cause, Petitioner shall file a report to the Commission under this Cause with a

copy submitted to the OUCC. Such report shall state the principal amount borrowed, the applicable interest rate(s), how the interest rate(s) was (were) determined, any collateral required, the term of the borrowing and any other pertinent repayment terms.

3. The authority granted in this Order shall expire on December 31, 2013 to the extent it has not been utilized by that date. However, Petitioner's authority to execute interest rate risk management transactions, long-term liquidity facilities or other credit enhancements related to the financing transactions authorized herein shall remain in effect throughout the life of the underlying obligations in order to mitigate the interest rate risk associated with such securities.

4. This Order shall be effective on and after the date of its approval. The authority granted in this Order supersedes and replaces any remaining authority from Cause No. 43565.

LANDIS, MAYS AND ZIEGNER CONCUR; ATTERHOLT ABSENT:

APPROVED: OCT 27 2010

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission