STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY ("IPL") FOR AUTHORITY TO INCREASE RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE AND FOR APPROVAL OF: (1) ACCOUNTING RELIEF, INCLUDING IMPLEMENTATION OF MAJOR STORM DAMAGE RESTORATION RESERVE ACCOUNT; (2) REVISED DEPRECIATION RATES; (3) THE INCLUSION IN BASIC RATES AND CHARGES OF THE COSTS OF CERTAIN PREVIOUSLY APPROVED QUALIFIED POLLUTION CONTROL PROPERTY; (4) IMPLEMENTATION OF NEW OR MODIFIED RATE ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE FOR RATEMAKING PURPOSES LOST REVENUES FROM DEMAND-SIDE MANAGEMENT PROGRAMS AND CHANGES IN (A) CAPACITY PURCHASE COSTS; (B) REGIONAL TRANSMISSION ORGANIZATION COSTS; AND (C) OFF SYSTEM SALES MARGINS; AND (5) NEW SCHEDULES OF RATES, RULES ANDREGULATIONS FOR SERVICE.	**)))))))))))))))))**	**CAUSE NO. 44576**
IN THE MATTER OF THE INDIANA UTILITY REGULATORY COMMISSION'S INVESTIGATION INTO INDIANAPOLIS POWER & LIGHT COMPANY'S ONGOING INVESTMENT IN, AND OPERATION AND MAINTENANCE OF, ITS NETWORK FACILITIES	**)))))**	**CAUSE NO. 44602**

TESTIMONY OF

BRADLEY E. LORTON – PUBLIC'S EXHIBIT NO. 12

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF OUCC WITNESS BRADLEY E. LORTON
CAUSE NOS. 44576/44602
INDIANANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Bradley E. Lorton, and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana, 46204.

Q: By whom are you employed and in what capacity?

A: I am a Utility Analyst in the Natural Gas Division of the Indiana Office of Utility Consumer Counselor (“OUCC”). For a summary of my educational and professional experience and my preparation for this case, please see Appendix A attached to my testimony.

Q: What is the purpose of your testimony?

A: My testimony refutes Mr. Jackson’s and Dr. Avera’s assertions that IPL’s financial strength is tied to the Commission granting IPL’s requested increase. I support OUCC witness Kaufman’s recommendation of a 9.2% cost of common equity (“return on equity” or “ROE”) for Indianapolis Power and Light Company (“IPL” or “Petitioner”). I conclude Petitioner will likely maintain its current credit rating if the Commission authorizes the OUCC’s recommended return on equity. This conclusion does, however, assume that IPL’s parent company, IPALCO, and IPL’s ultimate parent company, AES, take no further actions that have negative credit implications for IPL.

I will focus primarily on the Moody's, Fitch and S&P credit reports. I will review IPL's ownership structure and the concerns raised by credit rating agencies about IPALCO's extremely heavy reliance on debt financing and AES's "speculative" ventures. The credit rating agencies generally do not view IPL as a hypothetical stand-alone company; they recognize the reality that IPL is an integral part of the AES family of companies. Mr. Jackson attached these reports to his testimony supporting IPL's request. However, my testimony demonstrates that these same reports can be relied upon to support the conclusion that IPL's credit rating will not be harmed by a 9.2% ROE. For the reader's ease of reference, and to avoid duplicative exhibits, I will cite to the reports referring to Mr. Jackson's attachments.

II. RELIEF REQUESTED

Q: What is Petitioner's recommendation for the cost of common equity in this Cause?

A: Petitioner's witness William E. Avera's models support his recommended 10.93% cost of equity (also "return on equity" and "ROE") on an original cost rate base. Dr. Avera also engages in a fair value analysis – attempting to add inflation to the rate base and remove inflation from the cost of capital. He recommends a "fair return on equity" of 7.75% on IPL's proposed fair value rate base..

Q: What is the OUCC's recommendation for Petitioner's cost of common equity?

A: OUCC witness Edward Kaufman, CRRA, presents testimony and exhibits recommending a 9.2% cost of common equity.

III. IMPORTANCE OF CREDIT RATINGS

Q: Why is it important for the Commission to consider and understand IPL's credit ratings?

A: IPL's financial condition must be considered when establishing its authorized rate of return on equity capital. The standards to establish a reasonable ROE are derived from two decisions of the United States Supreme Court. In Bluefield Water Works & Improvement Co. v. Public Service Commission, 262 U.S. 679 [1923], the Court found:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties . . .

In Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 [1944], the Court further stated:

> The rate-making process under the [Natural Gas] Act, i.e., the fixing of "just and reasonable" rates, involves a balancing of the investor and consumer interests . . . . From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business.

> These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Q: Is a utility and its management also responsible for implementing policies that help maintain a healthy credit rating?

A: Yes. Favorable regulatory treatment alone will not assure strong credit quality. Management practices at the utility or at parent company levels may harm utility credit. For example, a company's capital structure and dividend policy play important roles in helping a utility maintain a healthy credit rating. Both are under the direct control of the utility or its parent company. IPL's ownership structure is complex. Credit rating agencies consider the risks of IPL's parents, IPALCO and AES, when evaluating IPL's credit quality.

IV. PETITIONER'S OWNERSHIP STRUCTURE AND RISK

Q: Please describe IPL's ownership structure.

A: IPL is wholly owned by IPALCO Enterprises, Inc. ("IPALCO"). According to IPL Witness Craig L. Jackson's CLJ Attachment 1(a), *Moody's Investor Services*, Credit Opinion for IPL, Global Credit Research, July 1, 2014, IPL "accounts for over 99% of consolidated revenues, cash flows and assets" of IPALCO. IPALCO is an intermediate holding company that owns IPL. IPALCO's parent company is AES Corporation. IPL's ownership structure and ultimate parent company AES is described in the testimony of Former IPL President Kelly M. Huntington:

> In 2001, AES became the ultimate parent company of IPL. AES is a global power company that owns and operates a diverse portfolio of electricity generation and distribution services. *AES owns businesses in 20 countries on five different continents* with a combined generation of 36 Gigawatts. AES operates power plants that encompass a broad range of technologies and fuel types, including coal, diesel, hydropower, natural gas, oil, wind and biomass. Huntington Direct at page 4, lines 15-20. [emphasis added.]

Q: Does this ownership structure impact credit agencies' opinions about Petitioner?

A: Yes. While IPL is generally considered a strong and stable business, AES Corporation is considered speculative, and a source of risk when IPL and IPALCO are rated as a group with the parent company. The Moody's IPL <u>Credit Opinion</u> under the headline "Ownership Structure Raises Risk Profile," states:

> The ratings of IPALCO and IPL are constrained by the highly leveraged ownership structure and the ownership by speculatively rated AES.

Moody's goes on to observe:

> Historically, IPALCO, and indirectly IPL, has been one of AES's largest and most stable sources of cash.

Q: Standing alone, how is IPL viewed by the rating agencies?

A: Standard & Poor's Rating Services ("S&P") May 6, 2014 Research Summary ("S&P IPL Summary") rates IPL's business risk as "excellent," stating:

> Our "excellent" business risk assessment on IP&L incorporates our "very low" industry risk assessment of the regulated utility industry and a "very low" country risk based on the company's focus on U.S. operations and markets. The business risk profile also incorporates our assessment of its strategy to focus on its regulated utility operations that have roughly 470,000 electric customers in the city of Indianapolis and surrounding areas. The excellent business risk profile also reflects the company's lower-risk utility business, its competitive rates, and its effective management of regulatory risk. The company has been able to maintain current returns without filing a rate case since 1994. We

> expect the company to continue to manage its regulatory risk, especially with its impending large capital spending program, which includes $500 million of mercury-reducing controls to comply with the U.S. Environmental Protection Agency's new regulations. [2]

Q: What does the term "business risk" mean as used in the above quote from S&P?

A: According to Dr. Roger Morin, Professor of Finance for Regulated Industry at Georgia State University:

> Business risk encompasses all the operating factors that collectively increase the probability that expected future income flows accruing to investors may not be realized, because of the fundamental nature of the firm's business. (Morin, <u>Regulatory Finance: Utilities' Cost of Capital</u>, Public Utilities Reports, Inc., Arlington, VA, 1994, p. 36).

Q: What does the term "financial risk" mean in the context of credit ratings?

A: According to Dr. Roger Morin:

> Financial risk stems from the method used by the firm to finance its investments and is reflected in its capital structure. It refers to the additional variability imparted to income available to common shareholders by the employment of fixed-costs financing, that is, debt and preferred stock capital. Although the use of fixed-cost capital can offer financial advantages (financial leverage), it creates additional risk due to the fixed contractual obligations associated with such capital. (*Id.*, p. 41).

Q: Does S&P view IPL's financial risk differently than business risk?

A: Yes. In contrast to IPL's "excellent" business risk rating, S&P views IPL's financial risk profile as "aggressive," primarily due to capital expenditures. S&P expects "operating results will benefit from recent improvements in recovery mechanisms issued by the state." S&P also rated IPL's liquidity as "adequate" saying, "The company's projected

[2] See Mr. Jackson's CLJ Attachment 2(c), p. 3.

liquidity sources – mostly operating cash flow and available bank lines – exceed its projected manageable debt maturity profile should support its liquidity."[3]

Q: Does the ownership structure burden IPL in other ways?

A: Yes. IPALCO's reliance on IPL is cited as a burden by the ratings agencies. According to Fitch Ratings:

> . . . IPALCO's reliance on IPL to support debt service and the subordination of IPALCO's debt to IPL's are key elements in IPALCO's credit profile. *Fitch Ratings*, Corporates (Electric-Corporate/U.S.A. for IPALCO and IPL, Full Rating Report, October 7, 2014.[4]

> IPALCO is a holding company with no tangible assets, except its investment in IPL. IPALCO relies on dividends from IPL and it is the sole source of funding for IPALCO. Fitch Ratings, Press Release, Fitch Affirms IPALCO and Sub., IPL; Outlook Stable, April 24, 2014.[5]

According to Moody's IPL Credit Opinion of July 1, 2014, IPL has an "extremely thin capitalization" and a "100% dividend payout-ratio." Describing the rating impact of corporate structure and leverage, the report says:

> IPALCO's Baa3 senior secured rating incorporates its 100% ownership by the speculative-rated AES, a highly leveraged consolidated balance sheet and its subordinated position to approximately $1.0 billion of funded debt at its regulated utility subsidiary drives the two notch difference between the ratings of IPALCO and IPL.[6]

[3] See Mr. Jackson's CLJ Attachment 2(c), p. 4.

[4] See Mr. Jackson's CLJ Attachment 3(b).

[5] See Mr. Jackson's CLJ Attachment 3(b).

[6] See Mr. Jackson's CLJ Attachment 1(b) p. 2.

V. IPL CREDIT RATINGS AND METRICS

Q: Please describe the types of credit ratings and metrics generated by credit rating agencies.

A: A credit rating is a forward-looking measure of the ability of a company to pay its debts, or its likelihood of default. Each of the three major credit rating agencies in the United States has its own rating system and definitions.

S&P describes its ratings as:

> Standard & Poor's credit ratings are designed primarily to provide relative rankings among issuers and obligations of overall creditworthiness; the ratings are not measures of absolute default probability. Creditworthiness encompasses likelihood of default, and also includes (i) payment priority, (ii) recovery, and (iii) credit stability. S&P Capital IQ, Understanding Standard and Poor's Rating Definitions, June 3, 2009.[7]

Moody's Investor Service describes its ratings as:

> Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Moody's Investor Service, Rating Symbols and Definitions, August 2014, p. 4.[8]

Fitch Ratings describes its ratings as:

> Fitch Ratings' credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. The agency's credit ratings cover the global spectrum of corporate, sovereign

[7] https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1331219&SctArtId=257653&from=CM&nsl_code=LIME&sourceObjectId=5435305&sourceRevId=7&fee_ind=N&exp_date=20240818-02:07:33

[8] https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

> (including supranational and sub-national), financial, bank, insurance, municipal and other public finance entities and the securities or other obligations they issue, as well as structured finance securities backed by receivables or other financial assets. [9]

Q: Please describe Standard and Poor's IPL current credit ratings.

A: The S&P IPL Summary gave IPL a stand-alone credit profile of "bbb", as compared to its group credit profile (including IPALCO and AES), of "bb-." [10] S&P describes a "BBB" rating as:

> An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. S&P Capital IQ, Understanding Standard and Poor's Rating Definitions, June 3, 2009.[11]

Q: What main factors do Standard and Poor's consider as threats to IPL's rating?

A: The S&P IPL Summary states on page 3:

> We would lower the ratings if we downgraded AES and no additional insulation measures were put in place. We could also downgrade IPALCO if the stand-alone credit profile were to weaken the financial measures such as FFO to debt weakened to less than 9% and debt to EBITDA rose to more than 5.5x on a sustained basis.

Q: Please describe Moody's current IPL credit ratings.

A: The Moody's IPL Credit Opinion gives IPL an issuer rating of Baa1 and its first mortgage bonds a rating of A2. Moody's considers IPL's outlook to be stable. Moody's describes the ratings as:

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[9] https://www.fitchratings.com/creditdesk/public/ratings_defintions/index.cfm

[10] See Mr. Jackson's CLJ Attachment 2(c), p. 5.

[11] https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1331219&SctArtId=257653&from=CM&nsl_code=LIME&sourceObjectId=5435305&sourceRevId=7&fee_ind=N&exp_date=20240818-02:07:33

> Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
>
> Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
>
> Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. [12]

The Moody's rating for IPALCO and the AES "Corporate Family" are Baa3 and Ba3, respectively.

Q: What are the main factors Moody's considers as threats to IPL's rating?

A: Page 5 of the Credit Opinion says:

> The rating could face downward pressure if IPALCO is downgraded or if IPL's CFO pre-W/C to debt ratio and interest coverage metrics deteriorate unexpectedly to levels below 15% and 3.5 times, respectively, for an extended period.

Q: Please describe Fitch Ratings' current rating for IPL.

A: The Fitch Ratings, Corporates (Electric-Corporate/U.S.A.) for IPALCO and IPL, Full Rating Report, October 7, 2014 (Fitch October Report) rated IPL's Senior Secured bonds at BBB+ and its Long Term Issuer Default Rating at BBB-. IPALCO received only a BB+ rating, which is below investment grade. Fitch considers IPL's rating outlook to be stable. Fitch describes the BBB rating as "Good credit quality":

> "BBB" ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments

[12] https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

> is considered adequate but adverse business or economic conditions are more likely to impair this capacity. [13]

See Mr. Jackson's CLJ Attachment 3(a) p. 1.

Q: What metrics do ratings agencies use to support their ratings?

A: Each agency employs slightly different approaches and formulas to assess each company's relative financial strength. These ratios are generally designed to measure a company's ability to meet its future debt obligations. Commonly used ratios measure the ability of companies to cover debt and interest payments from cash flow generated by operations, and a comparison of debt to the company's overall capitalization.

Q: Please summarize Standard and Poor's view of IPL's financial strength.

A: S&P has a stable outlook for IPL. While IPL's "stand alone credit profile" is bbb, its "Corporate Credit Rating" of BB+ results from the "group ratings methodology" used by the rating agency. This methodology takes into account both IPALCO and AES in its view of IPL, which inevitably leads to a below investment grade rating for IPL from S&P. In its research update for IPL of May 6, 2014, S&P states:

> Standard & Poor's bases its rating on IPALCO and IP&L on the consolidated group credit profile and application of our group ratings methodology. We deem IPALCO to be a "moderately strategic" subsidiary of AES. IPALCO is the intermediate holding company for regulated electric utility IP&L, which we deem to be a "core" entity that is integral to IPALCO.

S&P's outlook for IPL hinges upon the parent company:

[13] https://www.fitchratings.com/creditdesk/public/ratings_defintions/index.cfm?rd_file=ltr#LTR

> The outlook for Indianapolis Power & Light Co. (IP&L) reflects that of parent IPALCO Enterprises Inc. (IPALCO). The stable outlook on the ratings reflects Standard & Poor's Rating Services' expectation that IPALCO will not issue additional debt for the purpose of distributing the proceeds as a dividend to the AES Corp. Should IPALCO Enterprises Inc. do so, our analysis of the company's financial policy would be significantly altered, and we would most likely lower the rating multiple notches. Under Standard & Poor's baseline forecast, we expect IPALCO's funds from operations to debt to equal about 12% to 13% and the debt to EBITDA of 5x over the next three years. Fundamental to our forecast is the timing and the ultimate cost of the environmental capital spending and a gradual economic recovery. [14]

The above S&P ratings and analysis provide an excellent illustration of how the risks of IPALCO and AES negatively impact the credit quality of IPL. Again, this causes IPL to receive a below investment grade rating from S&P. The term "junk" is often used to describe below investment grade debt obligations.

Q: Please summarize Moody's view of IPL's financial strength.

A: Moody's publishes an interest coverage ratio for IPL defined as "cash flow from operations pre-working capital plus interest to interest (three year average)." The Moody's IPL <u>Credit Opinion</u> published this ratio for IPL at 4.7x as of March 31, 2014, with a 12-18 month forward view of a range of 5.0x to 5.5x. Moody's scores these results consistent with a rating of A.

Moody's publishes a coverage ratio defined as "cash flow from operations pre-working capital divided by debt (3 year average)." Moody's gives IPL a

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[14] See Mr. Jackson's Attachment 2(c), p. 3.

coverage ratio of 19.8% with a 12-18 month forward view of 15% to 20%. Moody's scores these results consistent with a rating of Baa.

Finally Moody's publishes a debt to capitalization (3 year average) ratio for IPL of 52.7%, with a 12-18 month forward view of 47% to 52%. Moody's scores these results consistent with a rating of Baa. [15].

Q: How does Moody's expect Petitioner's credit metrics to impact its credit rating?

A: Moody's expects IPL's credit metric to deteriorate as a result of its capital expenditures:

> . . . we anticipate a deterioration in the credit metrics of IPL and IPALCO over the next three years as it uses incremental indebtedness along with equity contributions from AES to help fund its sizable capex program while maintaining its aggressive dividend policy.

Despite the challenges with capital expenditures, Moody's goes on to assume stability in Petitioner's credit rating:

> . . . IPL's rating assumes that its credit metrics will remain commensurate with the Baa-rating category according to the guidelines provided for standard business risk in the Regulated Electric and Gas Utility Methodology published in December 2013. Specifically, IPL's 3-year average CFO pre-changes in W/C (CFO pre-WC) to debt, interest coverage and CFO pre-WC dividends to debt will remain above 15%, 3.5x and 9%, respectively. [16]

Moody's, therefore, anticipates some deterioration of IPL's credit metrics, but not of any magnitude that would cause a downgrade to IPL's rating.

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[15] See Mr. Jackson's CLJ Attachment 1(a), p. 5.

[16] See Mr. Jackson's CLJ Attachment 1(a), p. 4.

Q: Please summarize Fitch Ratings view of IPL's financial strength.

A: The Fitch October Report also rates IPL's long term debt as stable. Fitch estimates a Funds From Operations (FFO) to Interest Expense ration of 4.42x for IPL, along with a FFO to debt of 17.36%. Fitch expects some "volatility" in IPL's credit metrics:

> The affirmation of the ratings takes into account the expected decline in the credit metrics through 2015 and recover to reasonable levels by 2018, for both issuers [IPL and IPALCO]. IPL's adjusted debt to fund from operations (FFO) and FFO-to-interest ratios at the end of 2013 were 3.7x and 4.8x respectively. These ratios are within Fitch's guidelines for IPL's current IDR ('BBB-'), but are expected to decline over the current capex cycle ending in 2017. Fitch projects IPL's credit metrics to remain constrained until the regulators approve increase in IPL's retail tariffs, especially to recover its investment in the new generating capacity. Fitch expects IPL's FFO based leverage (adjusted-debt-to-FFO) to be around 4x at the end of 2018 and FFO based interest coverage (FFO-to-interest) is expected to be around 4.3x at the end of the same period, in line with Fitch's expectations for the assigned IDR. Fitch Ratings, Press Release, Fitch Affirms IPALCO and Sub., IPL; Outlook Stable, April 24, 2014.[17]

VI. CREDIT METRICS FROM SNL

Q: Do you have any other source of credit metrics for Petitioner?

A: Yes. SNL Financial ("SNL") publishes multiple credit metrics for IPL, including:

(1) Adjusted Cash Flow (FFO) coverage ratios, including:

(2) FFO to average debt,

(3) FFO to capital expenditures, and

(4) Debt to book capitalization.

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[17] See Mr. Jackson's CLJ Attachment 3(b), p. 1.

SNL calculates these ratios from data supplied in Form 10-K filings with the U.S. Securities and Exchange Commission.

Q: Please describe IPL's credit metrics performance in the SNL data.

A: IPL's ability to pay its interest obligations strengthened over the five fiscal years from 2010 to 2014. IPL's FFO coverage ratio in 2014 was 6.53x, compared with 5.86x in 2010.

IPL's adjusted cash flow compared to total debt was relatively stable during the same period. In 2014 the FFO to debt ratio stood at 28.65%, slightly stronger than 28.04% in 2010.

These improvements took place despite IPL's growing capital expenditures. In the period since 2010, IPL experienced a significant drop in FFO to capital expenditures, from 94.59% to 49.65%.

IPL also showed stability in the ratio of debt to book capital. In 2014, IPL's debt to book capitalization ratio was 54.97%, as compared to 54.64% in 2010. SNL's credit metrics, therefore, describe a company improving its FFO coverage ratio and holding key financial ratios stable during a period of large capital expenditures. See Attachment BEL-1.

I have also assembled comparative data using SNL's Peer Group Analytics in Attachment BEL-2. The peer group includes 44 comparisons, consisting of U.S. power companies with electric distribution customers within a range of 50% to 150% of IPL's customer base. It includes power utilities such as Louisville Gas and Electric, Indiana Michigan Power Company and Dayton Power and Light.

IPL's FFO coverage ratio of 6.53x compares well to the SNL peer group for investor-owned power companies. The peer group median for 2014 is 5.88x, and the average is 5.77x. IPL's FFO to debt ratio of 28.65% compares well to the peer group median of 24.06% and an average of 23.15%. IPL's FFO to capital expenditures of 49.65% ranks below the peer group median of 88.18% and average of 86.58%. IPL's debt to book capitalization for 2014 was 54.97% compared to a peer group median of 51.17% and an average of 53.00%.

Q: Have you compared IPL with IPALCO and AES Corporation?

A: Yes. The results bear out the conclusion that IPALCO and AES have a credit-negative influence on IPL. Although AES does not fall within the peer group, SNL Financial provides AES' metrics. IPALCO and AES have weaker credit metrics than IPL, and weak compared to the peer group. For instance, the adjusted cash flow (FFO) coverage ratio for long term maturities for IPL is 6.53x, for IPALCO 3.48x, and for AES Corporation 2.69x. Adjusted Operating Cash Flow to Average Debt, IPL's 28.65% compares to 13.99% for IPALCO and 12.22% for AES. Also, IPL's debt to book capitalization stood at 54.97%; this compares with 90.46% for IPALCO, and 73.86% for AES. These metrics reinforce my testimony that IPL's parent companies are more highly leveraged, more financially risky, and have a credit-negative influence on IPL.

In terms of the adjusted cash flow (FFO) coverage ratio for long term maturities coverage ratio, IPALCO is next to the lowest in the peer group. The AES coverage ratio is lower than IPALCO's.

Q: What other companies within the AES family are included in the peer group?

A: AES subsidiary DPL, Inc. is the holding company for Dayton Power and Light Company. DPL's 2.76x adjusted cash flow (FFO) coverage ratio is the only peer group ratio lower than IPALCO's. DPL, Inc. has an adjusted operating cash flow to average debt ratio of 9.91%, again the only ratio in the peer group lower than IPALCO.

VI. IMPACT OF LOWER ROEs ON CREDIT RATINGS

Q: Do the credit rating agencies believe the trend toward lower ROEs will continue?

A: Yes. On March 10, 2015, Moody's released a report titled, "U.S. Regulated Utilities: Lower Authorized Equity Returns Will Not Hurt Near-Term Credit Profiles" (Attachment BEL-3) which states:

> The credit profiles of US regulated utilities will remain intact over the next few years despite our expectation that regulators will continue to trim the sector's profitability by lowering it authorized returns on equity (ROE).

Moody's expects a lag time between increases in interest rates, and increases in ROE:

> . . . we think that interest rates will go up, eventually. When they do, we think ROEs will trend up as well. However, just as authorized ROEs declined in a lagging fashion when compared with falling interest rates, we expect authorized ROEs to rise in a lagging fashion when interest rates rise.

Q: Why does Moody's believe that lower ROEs will not hurt utilities' credit profiles?

A: Moody's lists three main reasons: (1) More timely cost recovery helps offset falling ROEs; (2) Utilities' cash flows are somewhat insulated from lower ROEs;

(3) Utilities' actual performance remains stable. Moody's points to "a robust suite of mechanisms that enable utilities to recoup prudently incurred operating costs." It also observes that "Net income represents about 30% - 40% of utilities' cash flow, so lower authorized returns won't necessarily affect cash flow or key financial credit ratios, especially when the denominator (equity) is rising." Finally, Moody's observes that "Earned ROE's, which typically lag authorized ROEs, have not fallen as much as authorized returns in recent years." *Id*., pp. 1 - 5.

Q: What earned ROEs has IPL achieved in recent years?

A: According to SNL, IPL's Return on Average Equity of 11.63% in 2014, up slightly from 11.07% in 2013. See Attachment BEL-4.

Q: What do the credit rating agencies say about expectations for Petitioner's ROE?

A: The Moody's IPL Credit Opinion stated, "While also declining its reported ROE still exceeds 10% which compares well with other utilities in the industry."[18]

Fitch Ratings was explicit in its expectation that IPL's authorized ROE will decline in this proceeding, "Given the capital market trend, Fitch expects IURC to approve a lower ROE than the last approved in its general rate case of 1996." [19]

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[18] See Mr. Jackson's CLJ Attachment 1(a) p. 4.

[19] See Mr. Jackson's CLJ Attachment 3(c).

VI. SUMMARY AND CONCLUSIONS

Q: What do you conclude about the impact of adopting the ROE proposed by the OUCC on Petitioner's credit ratings?

A: I conclude that the ROE proposed by OUCC witness Edward Kaufman will not adversely impact Petitioner's credit rating, or its ability to attract capital. This conclusion assumes neither IPALCO nor AES take further action to raise their risk profiles and cause additional harm to IPL's credit quality. Indeed, the major threat to IPL's credit going forward is not the OUCC's advocacy or the Commission's regulation. The more likely source of credit challenges for IPL is the heavy use of debt leverage by IPALCO and AES, and AES's global investment ventures. The S&P reports reviewed above make plain the significant, negative impacts of IPALCO and AES on IPL's credit rating.

Moody's specifically concluded that lower authorized returns are not likely to damage near term credit profiles and that timely cost recovery mechanisms have offset much of the impact of reductions in ROE for many regulated utilities. It also acknowledges that ROE has only a limited impact upon utilities' cash flow. Information and opinions from the three main credit rating agencies and from SNL Financial describe IPL as a stable company, well positioned to cover its future obligations. While the credit rating agencies anticipate some deterioration of IPL's credit metrics in the near future, due primarily to its large capital expenditure programs, none of them anticipate IPL falling from their current ratings. Fitch expects a decline in Petitioner's authorized ROE, and Moody's expects lower authorized ROEs throughout the industry, but does not anticipate significant impact on utility credit ratings. None of the ratings agencies see a lower ROE as a significant threat to IPL's credit rating.

In regards to Petitioner, the credit ratings agencies seem far more concerned about IPL's corporate ownership structure and IPL's 100% dividend-payout ratio to IPALCO. The credit ratings agencies are more concerned about the speculative rating of AES as a constraint on IPL and have further concerns about the debt burden held by IPALCO *which pays its debts with dividends from IPL*. I conclude, therefore, that the ROE proposed by OUCC witness Edward Kaufman will not adversely impact Petitioner's credit rating, or ability to attract capital.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: My expertise is in economics and public utility regulation. I hold Bachelor of Science and Master of Science degrees in Economics from Indiana State University. I also completed additional courses in Economics, Mathematics and Labor Studies at Indiana University-Purdue University at Indianapolis. I have completed the Regulatory Studies Program sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") at Michigan State University. I recently completed NARUC's Advanced Regulatory Studies Program: Ratemaking, Accounting and Economics.

I have over thirty-five years of experience in government and private industry. My career in public utility regulation began in 2001 when I accepted my current position with the OUCC. Prior to that, I served in management and business analyst positions with the U.S. Department of the Navy at the Naval Air Warfare Center in Indianapolis, and its privatized successor organizations. I also served as an Economist at the Bureau of Labor Statistics, United States Department of Labor, and as a Statistician for the Indiana Division of Labor.

Q: Have you previously testified before the Indiana Utility Regulatory Commission?

A: Yes. I have previously testified before this Commission addressing economic and financial issues over the past thirteen years.

Q: Please describe the review and analysis you conducted in order to prepare your testimony.

A: I reviewed the Petition of Indianapolis Power and Light Company ("Petitioner"), Petitioner's Case-in-Chief and exhibits, data requests, and Petitioner's responses. I have researched data and reports from credit rating agencies, including Moody's, Standard and Poor's and Fitch and SNL Financial. I have participated in several meetings with the OUCC Case Team and analysts to familiarize myself with the issues in this case.

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Indianapolis Power & Light Company

EBITDA Analysis

Periods Last Four Years & YTD

	2010 FY	2011 FY	2012 FY	2013 FY	2014 FY
Period Ended	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Period Restated?	No	No	No	No	No
Restatement Date	NA	NA	NA	NA	NA
Accounting Principle	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP
Calculation of EBITDA Values ($000)					
Net Income before Taxes	195,475	171,806	171,945	154,272	178,810
Interest Expense	55,199	56,837	57,747	57,372	58,516
Allowance for Borrowed Funds - Construction	2,437	2,674	1,059	2,517	4,963
EBIT	250,674	228,643	229,692	211,644	237,326
Cash Flow: Depreciation and Amortization	161,300	167,216	176,771	180,917	186,614
Cash Flow: Amortization of Nuclear Fuel	NA	NA	NA	NA	NA
EBITDA	411,974	395,859	406,463	392,561	423,940
Nonrecurring Revenue	0	0	0	0	0
Nonrecurring Expense	0	0	0	0	0
Recurring EBITDA	411,974	395,859	406,463	392,561	423,940
Allowance for Borrowed Funds - Construction	2,437	2,674	1,059	2,517	4,963
Allowance for Equity Funds - Construction	3,990	3,950	1,087	4,331	7,381
Adjusted EBITDA	405,547	389,235	404,317	385,713	411,596
Calculation of Free Cash Flow (FCF) Values ($000)					
EBITDA	411,974	395,859	406,463	392,561	423,940
Cash Flow: Capital Expenditures	(163,652)	(209,851)	(129,747)	(242,124)	(381,626)
Income Taxes Paid	86,900	66,350	78,402	64,950	0
Unlevered Free Cash Flow	161,422	119,658	198,314	85,487	42,314
Interest Paid	52,114	53,686	54,254	57,175	54,938
Total Preferred Dividends	3,213	3,213	3,213	3,213	3,213
Levered Free Cash Flow	106,095	62,759	140,847	25,099	(15,837)
Recurring EBITDA	411,974	395,859	406,463	392,561	423,940
Cash Flow: Capital Expenditures	(163,652)	(209,851)	(129,747)	(242,124)	(381,626)
Income Taxes Paid	86,900	66,350	78,402	64,950	0
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Interest Paid	52,114	53,686	54,254	57,175	54,938
Total Preferred Dividends	3,213	3,213	3,213	3,213	3,213
Recurring Levered Free Cash Flow	106,095	62,759	140,847	25,099	(15,837)
EBITDA Ratios (x)					
EBITDA/ Adjusted Interest and Preferred Dividends	6.77	6.31	6.55	6.22	6.36
EBITDA/ Fixed Charges	NA	NA	NA	NA	NA
EBITDA/ Adjusted Interest Expense	7.15	6.65	6.91	6.55	6.68

EBITDA/ Pre-tax Earnings	2.11	2.30	2.36	2.54	2.37
Recurring EBITDA/ Adjusted Interest & Preferred	6.77	6.31	6.55	6.22	6.36
Recurring EBITDA/ Fixed Charges	NA	NA	NA	NA	NA
Recurring EBITDA/ Adjusted Interest Expense	7.15	6.65	6.91	6.55	6.68
Recurring EBITDA/ Earnings	2.11	2.30	2.36	2.54	2.37
Adjusted EBITDA/ Interest and Preferred Dividends	6.66	6.21	6.52	6.11	6.17
Adjusted EBITDA/ Fixed Charges	NA	NA	NA	NA	NA
Adjusted EBITDA/ InterestExpense	7.04	6.54	6.88	6.44	6.48
Adjusted EBITDA Margin	2.07	2.27	2.35	2.50	2.30
Debt/ EBITDA	2.33	2.54	2.51	2.66	2.68
Debt/ Recurring EBITDA	2.33	2.54	2.51	2.66	2.68
Adjusted Operating Cash Flow (FFO)					
Adjusted Cash Flow from Operations ($000)	269,682	213,158	253,326	245,320	326,054
Adjusted Cash Flow Coverage (x)	5.86	4.73	5.39	5.25	6.53
Adjusted Operating Cash Flow/ Avg Debt (%)	28.04	21.16	24.81	23.50	28.65
Adjusted Operating Cash Flow/ Capital Expenditures (%)	94.59	60.47	118.71	61.78	49.65
Free Cash Flow (FCF) Ratios					
Debt/ Unlevered FCF (x)	5.96	8.42	5.15	12.21	26.90
Net Debt and Preferred/ Unlevered FCF (x)	6.13	8.74	5.37	12.77	27.92
Unlevered FCF Margin (%)	14.10	10.21	16.13	6.81	3.20
Debt/ Recurring Unlevered FCF (x)	5.96	8.42	5.15	12.21	26.90
Net Debt and Preferred/ Recurring UFCF (x)	6.13	8.74	5.37	12.77	27.92
Unlevered Recurring FCF Margin (%)	14.10	10.21	16.13	6.81	3.20
Levered Free Cash Flow/ EBITDA (%)	25.75	15.85	34.65	6.39	NM
Levered FCF/ Net Income (%)	88.57	59.54	135.26	26.00	(14.46)
Levered Free Cash Flow Margin (%)	9.27	5.36	11.45	2.00	(1.20)
Recurring Levered Free Cash Flow/ Recurring EBITDA (%)	25.75	15.85	34.65	6.39	NM
Recurring Levered FCF/ Net Income (%)	88.57	59.54	135.26	26.00	(14.46)
Recurring Levered FCF Margin (%)	9.27	5.36	11.45	2.00	(1.20)

Note: SNL uses a variety of sources to retrieve financial information for each company we cover. For Energy companies, SNL mines data from documents filed by the company, surveys, and other sources of public information.

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Indianapolis Power & Light Company

Debt Analysis

Periods Last Four Years & YTD

	2010 FY	2011 FY	2012 FY	2013 FY	2014 FY
Period Ended	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Period Restated?	No	No	No	No	No
Restatement Date	NA	NA	NA	NA	NA
Accounting Principle	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP
Capitalization Ratios (%)					
Common Equity/ Book Capital	42.05	41.81	42.27	42.53	42.30
Preferred Incl. Mezzanine/ Book-Value Capital	3.31	3.20	3.21	3.03	2.73
Debt/ Book Capitalization	54.64	55.00	54.52	54.44	54.97
Short-term Debt/ Debt	5.07	6.22	15.78	4.66	4.16
Long-term Debt/ Debt	94.93	93.78	84.22	95.34	95.84
Liquidity Ratios (x)					
Current Ratio	1.22	1.19	0.85	1.15	1.13
Total Debt/ Total Equity	1.20	1.22	1.20	1.19	1.22
Debt Ratios (%)					
Long-term Sub Debt/ Debt	0.00	0.00	0.00	0.00	0.00
First Mortgage Bonds/ Debt	84.90	93.88	95.18	95.46	96.09
Long-term Senior Notes/ Debt	10.14	0.00	0.00	0.00	0.00
Credit Facilities/ Debt	4.05	1.36	0.00	0.00	0.00
Commercial Paper/ Debt	0.00	0.00	0.00	0.00	0.00
Credit Lines Drawn/ Available	16.00	5.60	0.00	0.00	0.00
Commercial Paper Out/ Available	NA	NA	NA	NA	NA
Coverage Ratios (x)					
Pre-tax Interest Coverage Excl. AFUDC	4.31	3.62	3.91	3.49	3.64
Pre-tax Interest and Pfd Coverage Excl. AFUDC	4.08	3.43	3.71	3.32	3.47
Recurring EBITDA/ Adjusted Interest Expense	7.15	6.65	6.91	6.55	6.68
Debt/ Recurring EBITDA	2.33	2.54	2.51	2.66	2.68
Debt Detail - Current ($000)					
Short-term Debt	50,000	64,000	50,000	50,000	50,000
Current Portion of Long-term Debt	0	0	110,000	0	0
Debt Detail - Long-term ($000)					
Redeemable Preferred Securities (FAS 150)	0	0	0	0	0
Trust Preferred Securities	0	0	0	0	0
Subordinated Long-term Debt	0	0	0	0	0
Long-term Subordinated Obligations	0	0	0	0	0
Municipal Bonds	0	0	0	0	0
First Mortgage Bonds	837,650	965,300	965,300	1,025,300	1,155,300
Long-term Senior Notes	100,000	0	0	0	0
Obligations under Capital Leases	38	12	6	53	0
Stranded Cost Securitizations	0	0	0	0	0

Other Long-term Debt	0	0	0	0	0
Long-term Senior Debt	937,688	965,312	965,306	1,025,353	1,155,300
Adjustments to Long-term Debt	(1,024)	(1,125)	(1,096)	(1,339)	(2,940)
Long-term Debt, Including Current Portion	936,664	964,187	964,210	1,024,014	1,152,360
Total Debt	986,664	1,028,187	1,014,210	1,074,014	1,202,360

Short-term and Current Long-term Debt	50,000	64,000	160,000	50,000	50,000
Non-current Long-term Debt	936,664	964,187	854,210	1,024,014	1,152,360
Total Debt	986,664	1,028,187	1,014,210	1,074,014	1,202,360

Additional Debt Detail ($000)

Hedged Fixed-rate Debt	0	0	0	0	0
Hedged Variable-rate Debt	40,000	0	0	0	0
Capped-out Debt	0	0	0	0	0
Unhedged Debt	946,664	1,028,187	1,014,210	1,074,014	1,202,360

Revolving Credit Facilities	250,000	250,000	250,000	250,000	250,000
Revolving Credit Facilities Drawn	40,000	14,000	0	0	0
Commercial Paper Facility	0	0	0	0	0
Commercial Paper Outstanding	0	0	0	0	0
Letters of Credit Outstanding	NA	1,300	3,100	700	700

Commercial Paper Rate	NA	NA	NA	NA	NA

Debt Maturity Schedule ($000)

Debt Maturing, Current Fiscal Year	50,000	64,000	160,000	50,000	50,000
Debt Maturing, Next Fiscal Year	0	110,000	0	0	131,850
Debt Maturing, Second Fiscal Year	110,000	0	0	131,850	24,650
Debt Maturing, Third Fiscal Year	0	0	131,850	24,650	0
Debt Maturing, Fourth Fiscal Year	40,000	131,850	24,650	0	0
Debt Maturing, Thereafter	786,664	722,337	697,710	867,514	995,860

Operating Lease Obligations ($000)

Operating Lease Obligations, Current Fiscal Year	NA	37	39	NA	NA
Operating Lease Obligations, Next Fiscal Year	NA	29	34	NA	NA
Operating Lease Obligations, Second Fiscal Year	NA	21	18	NA	NA
Operating Lease Obligations, Third Fiscal Year	NA	0	14	NA	NA
Operating Lease Obligations, Fourth Fiscal Year	NA	0	0	NA	NA
Operating Lease Obligations, due Thereafter	NA	0	0	NA	NA

Note: SNL uses a variety of sources to retrieve financial information for each company we cover. For Energy companies, SNL mines data from documents filed by the company, surveys, and other sources of public information.

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SNL Private Power Report

Peer Group For Indianapolis Power and Light - Financial Ratios, 2014

Includes comparison with AES Corp.

Company Name	Adjusted Cash Flow Coverage LTM (x)	Adjusted Operating Cash Flow/ Avg Debt LTM (%)	Adjusted Operating Cash Flow/ Capital Expenditures LTM (%)	EBITDA/ Interest Expense LTM (x)	Debt/ EBITDA LTM (x)	Debt/ Book Capitalization LTM (%)	Common Equity/ Book Capital LTM (%)	Electric Customers MRY (actual)
Atlantic City Electric Co.	5.22	21.30	106.73	4.65	4.25	58.42	41.58	547,000
Central Hudson Gas & Electric	4.64	22.29	97.26	4.17	3.90	48.55	51.45	300,000
Central Maine Power Co.	6.14	24.98	65.87	7.14	2.88	41.04	58.81	612,000
CH Energy Group Inc.	4.61	22.28	38.86	3.74	4.32	50.06	49.94	300,000
Cleco Power LLC	5.95	28.20	125.87	6.12	2.90	45.89	54.11	286,000
Dayton Power and Light Co.	8.06	28.37	78.81	9.83	2.64	42.92	55.96	515,622
Delmarva Power & Light Co.	6.75	21.78	49.86	7.13	3.69	52.11	47.89	510,000
DPL Inc.	2.76	9.91	190.52	1.67	10.76	92.84	6.37	644,483
Entergy Arkansas Inc.	7.29	22.43	101.80	7.58	3.68	58.36	39.15	702,000
Entergy Gulf States LA LLC	7.18	32.46	119.44	6.85	2.76	53.15	46.52	396,000
Entergy Louisiana LLC	7.24	26.54	124.77	5.99	3.84	53.85	44.57	680,000
Entergy Mississippi Inc.	6.02	25.64	121.06	5.38	3.62	51.23	46.34	442,000
Entergy Texas Inc.	4.00	16.94	96.51	3.61	4.88	62.38	37.62	427,000
Gulf Power Co.	7.35	24.44	58.92	8.32	3.18	50.40	44.61	444,047
Hawaiian Electric Co.	6.10	25.24	73.23	7.35	2.78	41.28	57.55	455,416
Idaho Power Co.	5.52	22.85	102.69	5.34	3.80	47.06	52.94	515,763
Indiana Michigan Power Co.	7.33	29.02	98.35	7.20	3.08	53.77	46.23	588,000
Interstate Power & Light Co.	5.67	24.41	42.15	5.20	3.76	46.77	47.94	530,570
IPALCO Enterprises Inc.	3.48	13.99	49.18	3.85	4.63	90.46	6.84	481,094
Kansas City Power & Light	5.02	19.03	66.03	5.09	4.19	55.03	44.97	520,700
Louisville Gas & Electric Co.	10.18	31.13	51.52	10.00	2.95	42.65	57.35	400,000
Metropolitan Edison Co.	4.25	18.16	84.67	3.52	5.19	53.15	46.85	558,000
MidAmerican Energy Co.	7.45	25.90	67.10	5.20	4.71	49.14	50.86	700,000
MidAmerican Funding LLC	6.62	23.10	66.96	4.59	5.22	47.38	52.62	700,000
Monongahela Power Co.	3.84	14.39	100.84	4.49	4.66	58.89	41.11	390,000
Northern States Power Co - WI	7.12	28.29	38.94	8.48	2.61	48.11	51.89	254,547
Orange & Rockland Utlts Inc.	6.14	26.88	95.83	5.46	3.49	51.96	48.04	300,000
Pennsylvania Electric Co.	3.65	15.86	128.87	2.60	6.52	53.01	46.99	588,000
Public Service Co. of NH	7.41	26.05	89.60	7.27	3.44	48.75	51.25	504,000
Public Service Co. of NM	4.98	23.72	94.19	4.74	3.72	52.51	44.49	511,200
Public Service Co. of OK	4.97	19.13	58.77	5.36	3.89	54.05	45.95	542,000
Rochester Gas & Electric Corp.	4.05	27.78	115.15	4.25	2.58	50.24	49.76	371,000
Sierra Pacific Power Co.	5.29	21.16	75.39	5.05	4.03	54.60	45.40	331,000
South Carolina Electric & Gas	3.93	14.70	42.49	5.56	3.66	51.34	47.41	687,866

SNL Private Power Report

Peer Group For Indianapolis Power and Light - Financial Ratios, 2014

Includes comparison with AES Corp.

Company Name	Adjusted Cash Flow Coverage LTM (x)	Adjusted Operating Cash Flow/ Avg Debt LTM (%)	Adjusted Operating Cash Flow/ Capital Expenditures LTM (%)	EBITDA/ Interest Expense LTM (x)	Debt/ EBITDA LTM (x)	Debt/ Book Capitalization LTM (%)	Common Equity/ Book Capital LTM (%)	Electric Customers MRY (actual)
Southwestern Electric Power Co	5.33	24.52	87.74	4.14	4.30	51.75	48.24	528,000
Southwestern Public Service Co	6.45	29.90	56.21	5.69	3.25	47.05	52.95	386,012
Tampa Electric Co.	6.82	30.67	52.22	7.74	2.47	47.01	52.99	709,873
Toledo Edison Co.	2.82	13.16	109.51	2.57	5.38	58.07	41.63	308,000
Tucson Electric Power Co.	5.29	18.99	84.35	5.68	4.28	58.31	41.69	414,749
United Illuminating Co.	6.56	29.10	103.43	5.90	3.34	50.25	49.75	317,031
UNS Energy Corp.	5.03	20.56	85.20	5.55	3.79	63.99	36.01	506,000
West Penn Power Co.	8.67	28.31	88.62	7.87	3.59	50.08	49.92	721,000
Wisconsin Power and Light Co	6.12	27.03	99.57	6.93	2.75	49.37	50.38	465,395
Wisconsin Public Service Corp.	5.82	21.98	48.61	6.91	3.12	47.74	50.42	450,000
Minimum	**2.76**	**9.91**	**38.86**	**1.67**	**2.47**	**41.04**	**6.37**	**254,547**
Median	**5.88**	**24.06**	**86.47**	**5.50**	**3.71**	**51.28**	**47.92**	**505,000**
Average	**5.80**	**23.24**	**84.86**	**5.72**	**3.92**	**53.07**	**46.26**	**489,577**
Maximum	**10.18**	**32.46**	**190.52**	**10.00**	**10.76**	**92.84**	**58.81**	**721,000**
Indianapolis Power & Light Co.	**6.53**	**28.65**	**49.65**	**7.24**	**2.68**	**54.97**	**42.30**	**481,094**
IPALCO Enterprises Inc.	**3.48**	**13.99**	**49.18**	**3.85**	**4.63**	**90.46**	**6.84**	**481,094**
AES Corp.	**2.69**	**12.22**	**122.12**	**2.93**	**4.95**	**73.86**	**15.08**	**1,125,000**

Source: SNL Peer Analytics

Parameters: U.S. Power Industry, with Electric Distribution, with customer count between 50% and 150% of IPL's count. AES Corporation added for comparison, but not figured into Minimum, Median, Average and Maximum calculations. IPALCO's entry is repeated at the bottom for comparison purposes.

MOODY'S
INVESTORS SERVICE

SECTOR IN-DEPTH
10 MARCH 2015

Rate this Research

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US Regulated Utilities

Lower Authorized Equity Returns Will Not Hurt Near-Term Credit Profiles

The credit profiles of US regulated utilities will remain intact over the next few years despite our expectation that regulators will continue to trim the sector's profitability by lowering its authorized returns on equity (ROE). Persistently low interest rates and a comprehensive suite of cost recovery mechanisms ensure a low business risk profile for utilities, prompting regulators to scrutinise their profitability, which is defined as the ratio of net income to book equity. We view cash flow measures as a more important rating driver than authorized ROEs, and we note that regulators can lower authorized ROEs without hurting cash flow, for instance by targeting depreciation, or through special rate structures. Regulators can also adjust a utility's equity capitalization in its rate base. All else being equal, we think most utilities would prefer a thicker equity base and a lower authorized ROE over a small equity layer and a high authorized ROE.

» **More timely cost recovery helps offset falling ROEs**. Regulators continue to permit a robust suite of mechanisms that enable utilities to recoup prudently incurred operating costs, including capital investments such as environment related or infrastructure hardening expenditures. Strong cost recovery is credit positive because it ensures a stable financial profile. Despite lower authorized ROEs, we see the sector maintaining a ratio of Funds From Operations (FFO) to debt near 20%, a level that continues to support strong investment-grade ratings.

» **Utilities' cash flow is somewhat insulated from lower ROEs**. Net income represents about 30% - 40% of utilities' cash flow, so lower authorized returns won't necessarily affect cash flow or key financial credit ratios, especially when the denominator (equity) is rising. Regulators set the equity layer when capitalizing rate base, and the equity layer multiplied by the authorized ROE drives the annual revenue requirements. Across the sector, the ratio of equity to total assets has remained flat in the 30% range since 2007.

» **Utilities' actual financial performance remains stable**. Earned ROEs, which typically lag authorized ROEs, have not fallen as much as authorized returns in recent years. Since 2007, vertically integrated utilities, transmission and distribution only utilities, and natural gas local distribution companies have maintained steady earned ROE's in the 9% - 10% range. Holding companies with primarily regulated businesses also earned ROEs of around 9% - 10%, while returns for holding companies with diversified operations, namely unregulated generation, have fallen from 11% (over the past seven year average) to around 9% today.

Cause No. 44576-44602
Attachment BEL-3
Page 2 of 15

Robust Suite of Cost Recovery Mechanisms Is Credit Positive

Over the past few years, the US regulatory environment has been very supportive of utilities. We think this is partly because regulators acknowledge that utility infrastructure needs a material amount of ongoing investment for maintenance, refurbishment and renovation. Utilities have also been able to garner support from both politicians and regulators for prudent investment in these critical assets because it helps create jobs, spurring economic growth. We also think regulators prefer to regulate financially healthy utilities.

Across the US, we continue to see regulators approving mechanisms that allow for more timely recovery of costs, a material credit positive. These mechanisms, which keep utilities' business risk profile low compared to most industrial corporate sectors, include: formulaic rate structures; special purpose trackers or riders; decoupling programs (which delink volumes from revenue); the use of future test years or other pre-approval arrangements. We also see a sustained increase in the frequency of rate case filings.

A supportive regulatory environment translates into a more transparent and stable financial profile, which in turn results in reasonably unfettered access to capital markets - for both debt and equity. Today, we think utilities enjoy an attractive set of market conditions that will remain in place over the next few years. By themselves, neither a slow (but steady) decline in authorized profitability, nor a material revision in equity market valuation multiples, will derail the stable credit profile of US regulated utilities.

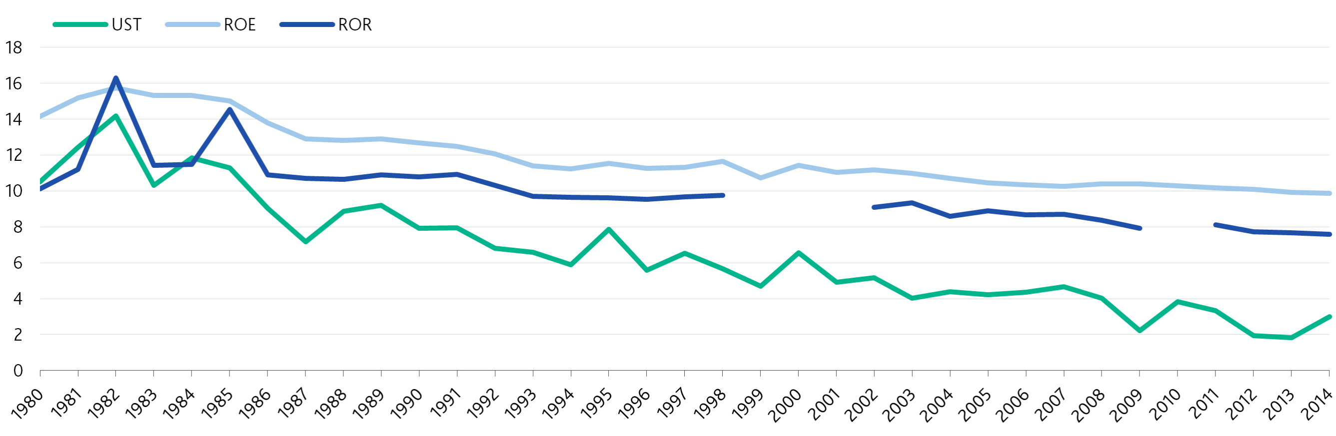
Cost recovery will help offset falling ROEs

Robust cost recovery mechanisms will help ensure that US regulated utilities' credit quality remains intact over the next few years. As a result, falling authorized ROEs are not a material credit driver at this time, but rather reflect regulators' struggle to justify the cost of capital gap between the industry's authorized ROEs and persistently low interest rates. We also see utilities struggling to defend this gap, while at the same time recovering the vast majority of their costs and investments through a variety of rate mechanisms.

In the table below, we show the US Treasury 10-year yield, which has steadily fallen from the 5% range in the summer of 2007 to the 2% range today. US utilities benefit from these lower interest rates because they borrow approximately $50 billion a year. For some utilities, a lower cost of debt translates directly into a higher return on equity, as long as their rate structure includes an embedded weighted average cost of capital (and the utilities can stay out of a general rate case proceeding).

Exhibit 1

Regulators hold up their end of the bargain by limiting reduction in return on equity (ROE) and overall rate of return (ROR) when compared with the decline in US Treasury 10-year yields



SOURCE: SNL Financial, LP, Moody's

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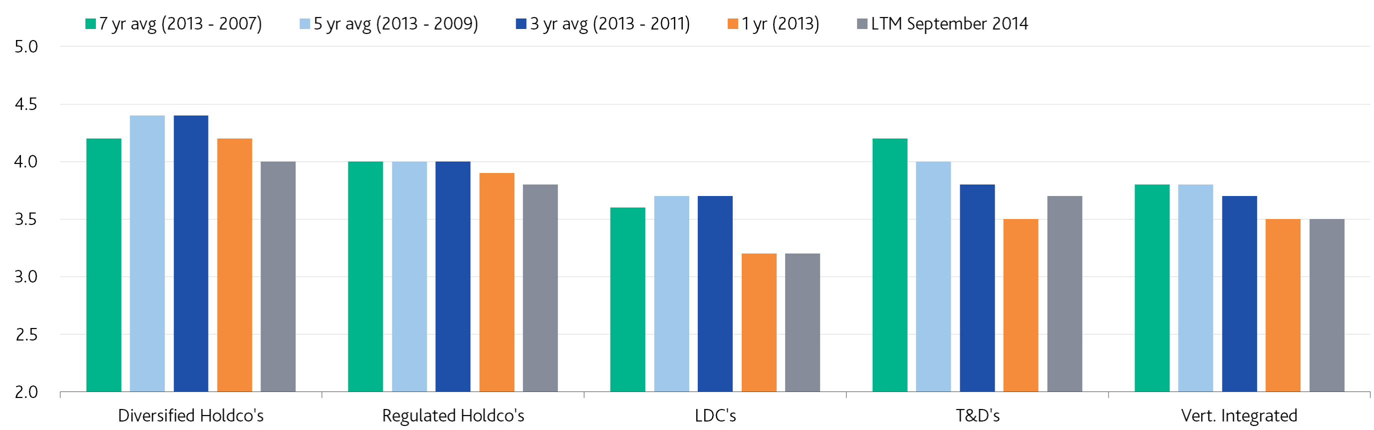
As utilities increasingly secure more up-front assurance for cost recovery in their rate proceedings, we think regulators will increasingly view the sector as less risky. The combination of low capital costs, high equity market valuation multiples (which are better than or on par with the broader market despite the regulated utilities' low risk profile), and a transparent assurance of cost recovery tend to support the case for lower authorized returns, although because utilities will argue they should rise, or at least stay unchanged.

One of the arguments for keeping authorized ROEs steady is that lowering them would make utilities less attractive to providers of capital. Utility holding companies assert that they would rather invest in higher risk-adjusted opportunities than in a regulated utility with sub-par return prospects. We see a risk that this argument could lead to a more contentious regulatory environment, a material credit negative. We do not think this scenario will develop over the next few years.

Our default and recovery data provides strong evidence that regulated utilities are indeed less risky (from the perspective of a probability of default and expected loss given default, as defined by Moody's) than their non-financial corporate peers. On a global basis, we nonetheless see a material amount of capital looking for regulated utility investment opportunities, and the same is true in the US despite, despite a lower authorized return. This is partly because investors can use holding company leverage to increase their actual equity returns, by borrowing capital at today's low interest rates and investing in the equity of a regulated utility.

Despite the reduction in authorized ROEs, US utilities are thankful to their regulators for the robust suite of timely cost recovery mechanisms which allow them to recoup prudently incurred operating costs such as fuel, as well as some investment expenses. These recovery mechanisms drive a stable and transparent dividend policy, which translates into historically very high equity multiples. Moreover, cost recovery helps keep the sector's overall financial profile stable, thereby supporting strong investment-grade ratings.

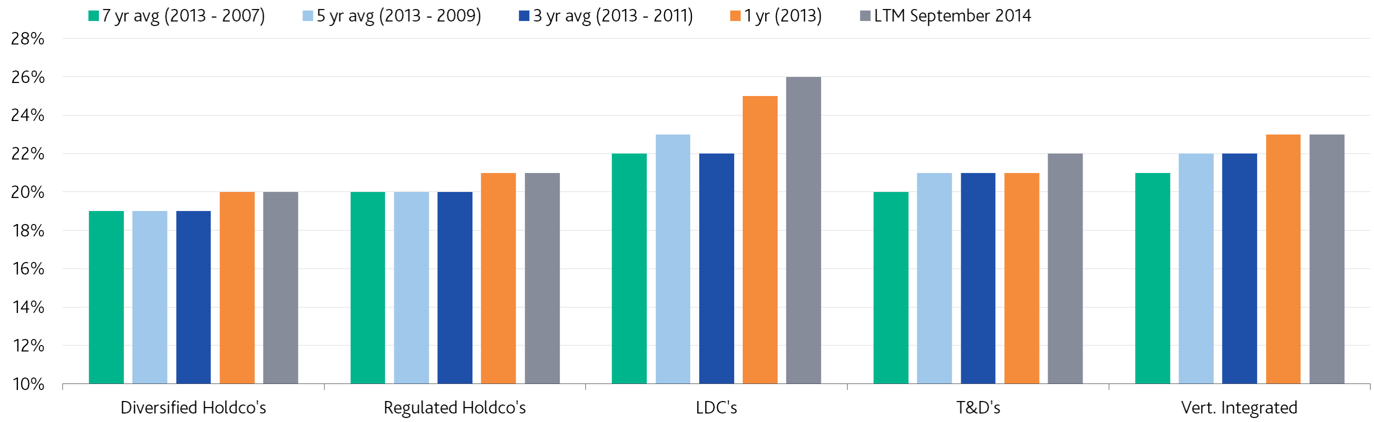
Exhibit 2
With better recovery mechanisms, the ratio of debt-to-EBITDA can rise, modestly, without negatively impacting credit profiles



SOURCE: Company filings; Moody's

Exhibit 3

The ratio of Funds From Operations to debt is rising, a material credit positive,
but the rise is partly funded by bonus depreciation and deferred taxes, which will eventually reverse



SOURCE: Company filings; Moody's

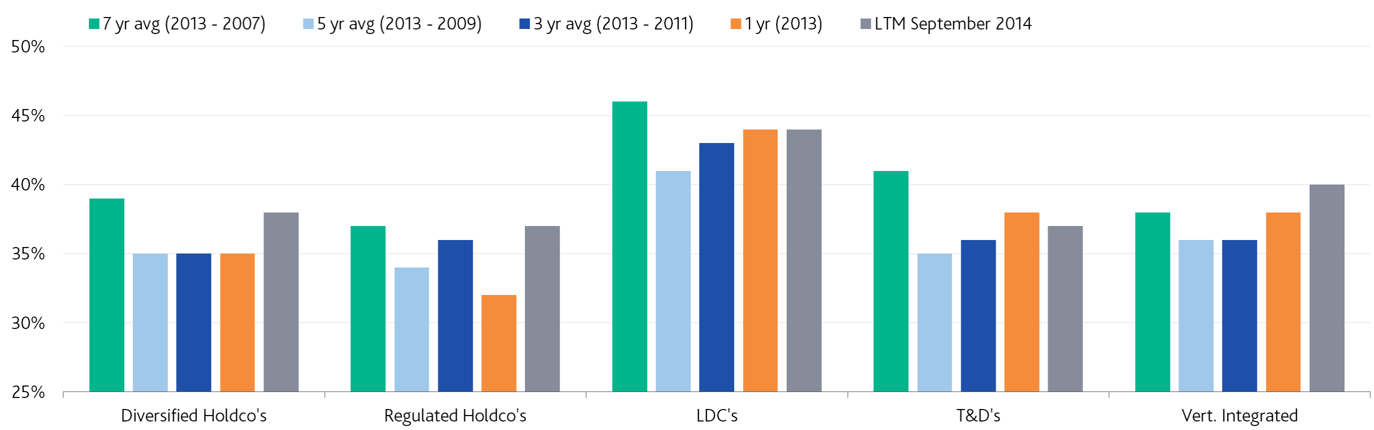
Utilities' cash flow is somewhat insulated from declining ROEs

Across all our utility group sub-sectors (see Appendix), net income - the numerator in the calculation of ROE – accounts for between 30% - 40% of cash flow. While net income is important, cash flow exerts a much greater influence over creditworthiness. This is primarily because cash flow takes into account depreciation and amortization expenses, along with other deferred tax adjustments. We note that deferred taxes have risen over the past few years, in part due to bonus depreciation elections, which will eventually reverse. From a credit perspective, there is a difference between the nominal amount of net income, which goes into cash flow, and the relationship of net income to book equity (a measure of profitability).

In the chart below, we highlight the ratio of net income to cash flow from operations (CFO) for our selected peer groups. Across all of the sectors, the longer term historical average of net income to CFO has fallen compared with the late 2000s, but has been rising over the more recent past. This is partly a function of deferred taxes, which have become a larger component of CFO over the past decade.

Exhibit 4

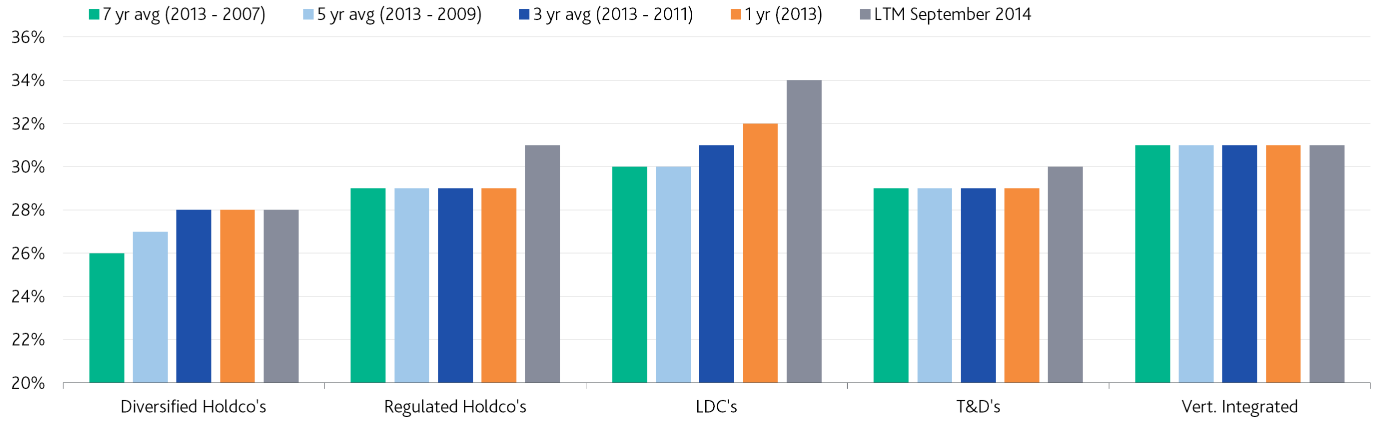
Net income as a % of cash flow from operations has been steadily rising (since 2011)



SOURCE: Company filings, Moody's

We can also envisage scenarios where regulators seek to achieve a reduction in authorized ROEs without harming credit profiles by focusing on utilities' equity layer. In the chart below, we illustrate median equity as a percentage of total assets for our selected peer groups. In our illustration, utilities will benefit from acquisition related goodwill on one hand, and impairments on the other.

Exhibit 5
Equity as a % of total assets, not capitalization, includes both goodwill and impairments



SOURCE: Company filings; Moody's

Utilities' actual financial performance remains stable

Earned ROE's, as reported by utilities and adjusted by Moody's, have been relatively flat over the past few years, despite the decline in authorized ROEs. This means utilities are closer to earning their authorized equity returns, which is positive from an equity market valuation perspective.

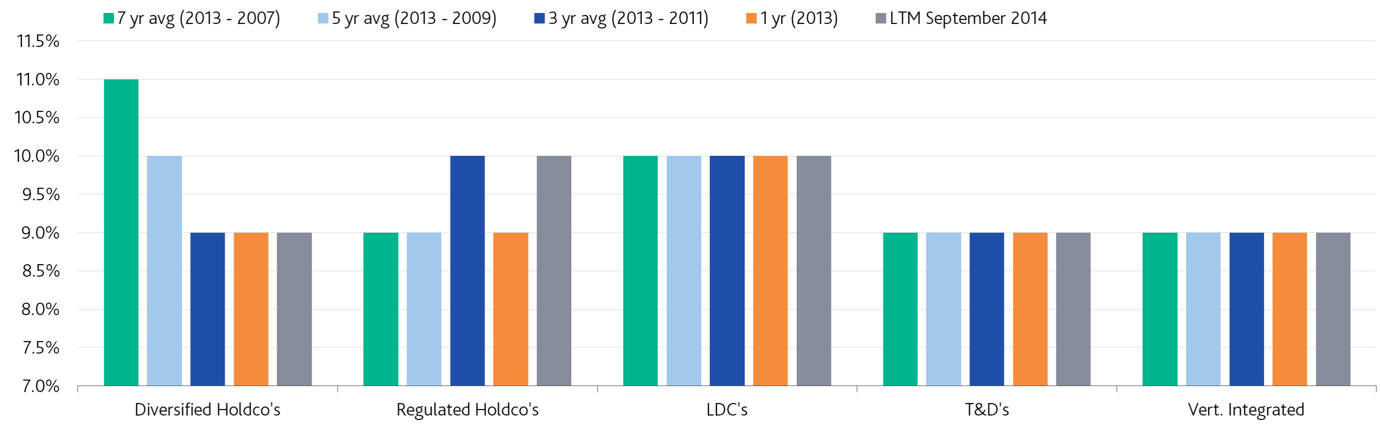
The authorized ROE is a popular focal point in many regulatory rate case proceedings. In addition, many regulatory jurisdictions look to established precedents that rely on various methodologies to determine an appropriate ROE, such as the capital asset pricing model or discounted cash flow analysis. In some jurisdictions where formulaic based rate structures point to lower ROEs for a longer projected period of time, regulators are incorporating a view that today's interest rate environment is “artificially” being held low.

Regardless, we think interest rates will go up, eventually. When they do, we also think authorized ROEs will trend up as well. However, just as authorized ROEs declined in a lagging fashion when compared to falling interest rates, we expect authorized ROEs to rise in a lagging fashion when interest rates rise.

Depending on alternative sources of risk-adjusted capital investment opportunities, this could spell trouble for utilities. For now, utilities can enjoy their (historically) high equity valuations, in terms of dividend yield and price-earnings ratios.

Exhibit 6

GAAP adjusted earned ROE's are relatively flat across all sub-sectors except Holding Companies with Diversified Operations, while the lower-risk LDC sector is outperforming



NOTE: GAAP adjusted ROE, not regulated ROE, does not adjust for goodwill or impairments.

Source: Company filings; Moody's

Appendix

Exhibit 7

Utilities with the highest earned ROEs (ranked by 7-year average)

Company Name	Sector	Rating	1-year average (2013) ROE	3-year average (2013 - 2011) ROE	5-year average (2013 - 2009) ROE	7-year average (2013 - 2007) ROE
CenterPoint Energy Houston Electric, LLC	T&D	A3	33%	32%	25%	23%
Questar Corporation	Holdco - Primarily Regulated	A2	14%	18%	20%	20%
AEP Texas Central Company	T&D	Baa1	14%	28%	22%	20%
Exelon Corporation	Holdco - Diversified	Baa2	7%	10%	14%	17%
CenterPoint Energy, Inc.	Holdco - Primarily Regulated	Baa1	7%	16%	15%	17%
Ohio Edison Company	T&D	Baa1	23%	18%	17%	16%
Public Service Enterprise Group	Holdco - Diversified	Baa2	11%	12%	14%	15%
Dayton Power & Light Company	T&D	Baa3	7%	9%	13%	15%
Dominion Resources Inc.	Holdco - Diversified	Baa2	13%	9%	12%	15%
Southern California Gas Company	LDC	A1	14%	13%	14%	15%
PECO Energy Company	T&D	A2	12%	12%	12%	14%
PPL Corporation	Holdco - Diversified	Baa3	9%	12%	11%	14%
UGI Utilities, Inc.	LDC	A2	15%	13%	13%	13%
Entergy Corporation	Holdco - Diversified	Baa3	7%	11%	12%	13%
Cleco Corporation	Holdco - Primarily Regulated	Baa1	10%	12%	13%	13%
Alabama Gas Corporation	LDC	A2	4%	11%	12%	13%
Entergy New Orleans, Inc.	Vertically Integrated Utility	Ba2	5%	10%	11%	12%
Entergy Gulf States Louisiana, LLC	Vertically Integrated Utility	Baa1	11%	13%	12%	12%
Piedmont Natural Gas Company, Inc.	LDC	A2	11%	11%	12%	12%
Ohio Power Company	T&D	Baa1	25%	14%	13%	12%
Southern Company (The)	Holdco - Primarily Regulated	Baa1	9%	11%	11%	12%
Georgia Power Company	Vertically Integrated Utility	A3	12%	12%	12%	12%
Alabama Power Company	Vertically Integrated Utility	A1	12%	12%	12%	12%
Southern California Edison Company	Vertically Integrated Utility	A2	8%	12%	12%	12%
NextEra Energy, Inc.	Holdco - Diversified	Baa1	10%	11%	11%	12%
Wisconsin Energy Corporation	Holdco - Primarily Regulated	A2	13%	13%	12%	12%
West Penn Power Company	T&D	Baa1	17%	13%	12%	12%
San Diego Gas & Electric Company	Vertically Integrated Utility	A1	9%	10%	11%	12%
Interstate Power and Light Company	Vertically Integrated Utility	A3	10%	9%	9%	12%

NOTE: GAAP adjusted ROE, not regulated ROE, does not adjust for goodwill or impairments.

SOURCE: Moody's; company filings

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Exhibit 8

Highest (over 30%) and lowest (less than 20%) equity level as a % of total assets (ranked by 7-year average) [NOTE: Book equity is not adjusted for goodwill or impairments]

Company Name	Sector	Rating	1-year average (2013)	3-year average (2013 - 2011)	5-year average (2013 - 2009)	7-year average (2013 - 2007)
Duke Energy Ohio, Inc.	T&D	Baa1	48%	47%	48%	50%
Yankee Gas Services Company	LDC	Baa1	41%	42%	43%	43%
Texas-New Mexico Power Company	T&D	Baa1	43%	43%	43%	43%
Oncor Electric Delivery Company LLC	T&D	Baa1	40%	41%	41%	43%
Dayton Power & Light Company	T&D	Baa3	37%	38%	39%	40%
Pennsylvania Power Company	T&D	Baa1	25%	30%	34%	40%
Black Hills Power, Inc.	Vertically Integrated Utility	A3	38%	38%	37%	38%
ALLETE, Inc.	Vertically Integrated Utility	A3	38%	37%	37%	38%
Central Maine Power Company	T&D	A3	39%	38%	38%	38%
MGE Energy, Inc.	Holdco - Primarily Regulated	NR	39%	37%	38%	38%
Duke Energy Corporation	Holdco - Primarily Regulated	A3	36%	36%	37%	38%
Jersey Central Power & Light Company	T&D	Baa2	32%	33%	36%	38%
Oklahoma Gas & Electric Company	Vertically Integrated Utility	A1	36%	37%	37%	37%
Public Service Company of Colorado	Vertically Integrated Utility	A3	37%	37%	37%	37%
Virginia Electric and Power Company	Vertically Integrated Utility	A2	37%	37%	37%	35%
Wisconsin Public Service Corporation	Vertically Integrated Utility	A1	34%	34%	34%	35%
PacifiCorp	Vertically Integrated Utility	A3	36%	35%	35%	35%
UGI Utilities, Inc.	LDC	A2	35%	34%	34%	34%
Cleco Corporation	Holdco - Primarily Regulated	Baa1	37%	36%	34%	34%
Empire District Electric Company (The)	Vertically Integrated Utility	Baa1	35%	34%	34%	34%
Great Plains Energy Incorporated	Holdco - Primarily Regulated	Baa2	35%	35%	34%	34%
Nevada Power Company	Vertically Integrated Utility	Baa1	32%	33%	33%	33%
Tampa Electric Company	Vertically Integrated Utility	A2	34%	33%	33%	33%
Wisconsin Power and Light Company	Vertically Integrated Utility	A1	34%	33%	32%	33%
Questar Corporation	Holdco - Primarily Regulated	A2	29%	28%	31%	33%
Duke Energy Kentucky, Inc.	Vertically Integrated Utility	Baa1	31%	30%	33%	33%
Florida Power & Light Company	Vertically Integrated Utility	A1	36%	35%	34%	33%
Alabama Gas Corporation	LDC	A2	59%	40%	35%	33%
El Paso Electric Company	Vertically Integrated Utility	Baa1	34%	32%	32%	33%
IDACORP, Inc.	Holdco - Primarily Regulated	Baa1	34%	33%	33%	33%
PPL Electric Utilities Corporation	Vertically Integrated Utility	Baa1	34%	34%	34%	33%
Commonwealth Edison Company	T&D	Baa1	31%	32%	32%	33%
Georgia Power Company	Vertically Integrated Utility	A3	33%	33%	33%	33%
CMS Energy Corporation	Holdco - Primarily Regulated	Baa2	20%	19%	18%	18%
Hawaiian Electric Industries, Inc.	Holdco - Diversified		17%	16%	16%	16%
CenterPoint Energy, Inc.	Holdco - Primarily Regulated	Baa1	20%	19%	17%	15%
CenterPoint Energy Houston Electric, LLC	T&D	A3	9%	15%	15%	15%
AEP Texas Central Company	T&D	Baa1	13%	15%	14%	13%

SOURCE: Moody's; company filings

Exhibit 9

Highest (over 30%) and lowest (less than 15%) ratio of FFO to debt (ranked by 7-year average)

Company Name	Sector	Rating	1-year average (2013)	3-year average (2013 - 2011)	5-year average (2013 - 2009)	7-year average (2013 - 2007)
Dayton Power & Light Company	T&D	Baa3	32%	34%	42%	42%
Questar Corporation	Holdco - Primarily Regulated	A2	29%	30%	31%	42%
Pennsylvania Power Company	T&D	Baa1	30%	34%	32%	37%
Exelon Corporation	Holdco - Diversified	Baa2	28%	34%	37%	37%
Alabama Gas Corporation	LDC	A2	23%	27%	32%	36%
Florida Power & Light Company	Vertically Integrated Utility	A1	34%	35%	35%	35%
Southern California Gas Company	LDC	A1	42%	37%	35%	34%
Southern California Edison Company	Vertically Integrated Utility	A2	32%	33%	35%	32%
Madison Gas and Electric Company	Vertically Integrated Utility	A1	39%	35%	34%	31%
PECO Energy Company	T&D	A2	29%	31%	33%	31%
Dominion Resources Inc.	Holdco - Diversified	Baa2	16%	17%	16%	14%
Entergy Texas, Inc.	Vertically Integrated Utility	Baa3	15%	14%	12%	14%
Monongahela Power Company	T&D	Baa2	13%	16%	15%	14%
CMS Energy Corporation	Holdco - Primarily Regulated	Baa2	18%	16%	15%	14%
Appalachian Power Company	Vertically Integrated Utility	Baa1	15%	13%	14%	14%
Pennsylvania Electric Company	T&D	Baa2	15%	14%	12%	13%
NiSource Inc.	Holdco - Diversified	Baa2	15%	14%	14%	13%
Puget Energy, Inc.	Vertically Integrated Utility	Baa3	14%	12%	12%	13%
Toledo Edison Company	T&D	Baa3	10%	10%	8%	13%
Cleveland Electric Illuminating Company	T&D	Baa3	11%	11%	12%	13%
AEP Texas Central Company	T&D	Baa1	14%	15%	13%	12%

SOURCE: Moody's; company filings

Exhibit 10

Highest (over 4.5x) and lowest (less than 3.0x) ratio of debt to EBITDA (ranked by 1-year average, 2013, to focus on more recent performance)

Company Name	Sector	Rating	1-year average (2013)	3-year average (2013 - 2011)	5-year average (2013 - 2009)	7-year average (2013 - 2007)
Berkshire Hathaway Energy Company	Holdco - Diversified	A3	7.1	5.8	5.6	5.3
FirstEnergy Corp.	Holdco - Diversified	Baa3	6.0	5.2	4.8	4.4
Wisconsin Electric Power Company	Vertically Integrated Utility	A1	5.9	6.1	5.6	5.0
Entergy Texas, Inc.	Vertically Integrated Utility	Baa3	5.8	6.1	6.2	6.1
Monongahela Power Company	T&D	Baa2	5.6	5.2	5.7	6.0
NiSource Inc.	Holdco - Diversified	Baa2	5.2	5.5	5.4	5.5
PPL Corporation	Holdco - Diversified	Baa3	5.1	4.9	5.1	4.6
Appalachian Power Company	Vertically Integrated Utility	Baa1	5.0	5.0	5.2	5.4
Progress Energy, Inc.	Holdco - Primarily Regulated	Baa1	4.9	5.6	5.1	4.9
Puget Energy, Inc.	Vertically Integrated Utility	Baa3	4.9	5.6	5.9	5.6
Cleveland Electric Illuminating Company	T&D	Baa3	4.9	5.2	4.7	4.2
Northwest Natural Gas Company	LDC	A3	4.8	4.8	4.5	4.2
Jersey Central Power & Light Company	T&D	Baa2	4.7	5.5	4.2	3.6
NorthWestern Corporation	Vertically Integrated Utility	A3	4.7	4.5	4.4	4.3
Pepco Holdings, Inc.	Holdco - Primarily Regulated	Baa3	4.7	5.1	5.2	5.2
Laclede Gas Company	LDC	A3	4.7	5.5	5.3	5.6
Atlantic City Electric Company	T&D	Baa2	4.7	4.9	4.8	4.7
Nevada Power Company	Vertically Integrated Utility	Baa1	4.6	4.6	4.9	5.0
Black Hills Power, Inc.	Vertically Integrated Utility	A3	2.9	3.2	3.8	3.6
Virginia Electric and Power Company	Vertically Integrated Utility	A2	2.9	3.1	3.4	3.4
Duke Energy Kentucky, Inc.	Vertically Integrated Utility	Baa1	2.9	3.3	3.3	3.4
Texas-New Mexico Power Company	T&D	Baa1	2.9	2.9	3.2	3.3
Oklahoma Gas & Electric Company	Vertically Integrated Utility	A1	2.9	2.9	2.9	3.0
Cleco Power LLC	Vertically Integrated Utility	A3	2.9	3.2	3.6	3.7
Consumers Energy Company	Vertically Integrated Utility	A1	2.9	3.1	3.3	3.5
Alabama Power Company	Vertically Integrated Utility	A1	2.8	2.9	3.0	3.1
Public Service Electric and Gas Company	T&D	A2	2.8	3.0	3.2	3.3
Alabama Gas Corporation	LDC	A2	2.8	2.7	2.5	2.4
Pinnacle West Capital Corporation	Holdco - Primarily Regulated	Baa1	2.8	3.1	3.3	3.6
Cleco Corporation	Holdco - Primarily Regulated	Baa1	2.8	2.9	3.4	3.6
PECO Energy Company	T&D	A2	2.8	3.0	2.6	2.6
Northern States Power Company (Wisconsin)	Vertically Integrated Utility	A2	2.8	2.9	2.8	2.8
Duke Energy Carolinas, LLC	Vertically Integrated Utility	A1	2.8	3.1	3.2	3.1
UGI Utilities, Inc.	LDC	A2	2.7	3.0	3.1	3.3
Exelon Corporation	Holdco - Diversified	Baa2	2.7	2.8	2.5	2.5
West Penn Power Company	T&D	Baa1	2.7	3.3	3.3	3.4
Questar Corporation	Holdco - Primarily Regulated	A2	2.7	2.8	2.7	2.3
Tampa Electric Company	Vertically Integrated Utility	A2	2.6	2.7	2.8	2.9
Arizona Public Service Company	Vertically Integrated Utility	A3	2.6	2.9	3.1	3.3
New York State Electric and Gas Corporation	T&D	A3	2.6	2.9	3.2	4.3
Dayton Power & Light Company	T&D	Baa3	2.5	2.2	2.0	1.9
Florida Power & Light Company	Vertically Integrated Utility	A1	2.4	2.7	2.6	2.6
Ohio Power Company	T&D	Baa1	2.4	2.8	3.1	3.3
Madison Gas and Electric Company	Vertically Integrated Utility	A1	2.4	2.8	2.8	2.9
Pennsylvania Power Company	T&D	Baa1	2.4	2.3	2.4	2.2
MGE Energy, Inc.	Holdco - Primarily Regulated	NR	2.3	2.7	2.9	3.1
Rochester Gas & Electric Corporation	T&D	Baa1	2.3	2.9	3.0	3.5
Public Service Enterprise Group Incorporated	Holdco - Diversified	Baa2	2.3	2.3	2.3	2.4
NSTAR Electric Company	T&D	A2	2.2	2.6	2.7	2.8
Southern California Gas Company	LDC	A1	2.2	2.5	2.4	2.5
Mississippi Power Company	Vertically Integrated Utility	Baa1	(3.2)	3.5	3.4	3.1

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Exhibit 11
List of Companies (NOTE: in our appendix tables, we exclude utilities with private ratings)

Company Name	Sector	Rating
Berkshire Hathaway Energy Company	Holdco - Diversified	A3
Black Hills Corporation	Holdco - Diversified	Baa1
Dominion Resources Inc.	Holdco - Diversified	Baa2
DTE Energy Company	Holdco - Diversified	A3
Entergy Corporation	Holdco - Diversified	Baa3
Exelon Corporation	Holdco - Diversified	Baa2
FirstEnergy Corp.	Holdco - Diversified	Baa3
Hawaiian Electric Industries, Inc.	Holdco - Diversified	NR
Integrys Energy Group, Inc.	Holdco - Diversified	A3
NextEra Energy, Inc.	Holdco - Diversified	Baa1
NiSource Inc.	Holdco - Diversified	Baa2
PPL Corporation	Holdco - Diversified	Baa3
Public Service Enterprise Group Incorporated	Holdco - Diversified	Baa2
Sempra Energy	Holdco - Diversified	Baa1
Alliant Energy Corporation	Holdco - Primarily Regulated	A3
Ameren Corporation	Holdco - Primarily Regulated	Baa2
American Electric Power Company, Inc.	Holdco - Primarily Regulated	Baa1
CenterPoint Energy, Inc.	Holdco - Primarily Regulated	Baa1
Cleco Corporation	Holdco - Primarily Regulated	Baa1
CMS Energy Corporation	Holdco - Primarily Regulated	Baa2
Consolidated Edison, Inc.	Holdco - Primarily Regulated	A3
Duke Energy Corporation	Holdco - Primarily Regulated	A3
Edison International	Holdco - Primarily Regulated	A3
Great Plains Energy Incorporated	Holdco - Primarily Regulated	Baa2
IDACORP, Inc.	Holdco - Primarily Regulated	Baa1
MGE Energy, Inc.	Holdco - Primarily Regulated	NR
Northeast Utilities	Holdco - Primarily Regulated	Baa1
Pepco Holdings, Inc.	Holdco - Primarily Regulated	Baa3
PG&E Corporation	Holdco - Primarily Regulated	Baa1
Pinnacle West Capital Corporation	Holdco - Primarily Regulated	Baa1
PNM Resources, Inc.	Holdco - Primarily Regulated	Baa3
Progress Energy, Inc.	Holdco - Primarily Regulated	Baa1
Questar Corporation	Holdco - Primarily Regulated	A2
SCANA Corporation	Holdco - Primarily Regulated	Baa3
Southern Company (The)	Holdco - Primarily Regulated	Baa1
Wisconsin Energy Corporation	Holdco - Primarily Regulated	A2
Xcel Energy Inc.	Holdco - Primarily Regulated	A3
Alabama Gas Corporation	LDC	A2
Atmos Energy Corporation	LDC	A2
DTE Gas Company	LDC	Aa3
Laclede Gas Company	LDC	A3
New Jersey Natural Gas Company	LDC	Aa2
Northern Natural Gas Company [Private]	LDC	A2
Northwest Natural Gas Company	LDC	A3
Piedmont Natural Gas Company, Inc.	LDC	A2
South Jersey Gas Company	LDC	A2
Southern California Gas Company	LDC	A1
Southwest Gas Corporation	LDC	A3
UGI Utilities, Inc.	LDC	A2
Washington Gas Light Company	LDC	A1
Wisconsin Gas LLC [Private]	LDC	A1
Yankee Gas Services Company	LDC	Baa1
AEP Texas Central Company	T&D	Baa1
AEP Texas North Company	T&D	Baa1
Atlantic City Electric Company	T&D	Baa2

Baltimore Gas and Electric Company	T&D	A3
CenterPoint Energy Houston Electric, LLC	T&D	A3
Central Hudson Gas & Electric Corporation	T&D	A2
Central Maine Power Company	T&D	A3
Cleveland Electric Illuminating Company (The)	T&D	Baa3
Commonwealth Edison Company	T&D	Baa1
Connecticut Light and Power Company	T&D	Baa1
Consolidated Edison Company of New York, Inc.	T&D	A2
Dayton Power & Light Company	T&D	Baa3
Delmarva Power & Light Company	T&D	Baa1
Duke Energy Ohio, Inc.	T&D	Baa1
Jersey Central Power & Light Company	T&D	Baa2
Metropolitan Edison Company	T&D	Baa1
Monongahela Power Company	T&D	Baa2
New York State Electric and Gas Corporation	T&D	A3
NSTAR Electric Company	T&D	A2
Ohio Edison Company	T&D	Baa1
Ohio Power Company	T&D	Baa1
Oncor Electric Delivery Company LLC	T&D	Baa1
Orange and Rockland Utilities, Inc.	T&D	A3
PECO Energy Company	T&D	A2
Pennsylvania Electric Company	T&D	Baa2
Pennsylvania Power Company	T&D	Baa1
Potomac Edison Company (The)	T&D	Baa2
Potomac Electric Power Company	T&D	Baa1
Public Service Electric and Gas Company	T&D	A2
Rochester Gas & Electric Corporation	T&D	Baa1
Texas-New Mexico Power Company	T&D	Baa1
Toledo Edison Company	T&D	Baa3
West Penn Power Company	T&D	Baa1
Western Massachusetts Electric Company	T&D	A3
Alabama Power Company	Vertically Integrated Utility	A1
ALLETE, Inc.	Vertically Integrated Utility	A3
Appalachian Power Company	Vertically Integrated Utility	Baa1
Arizona Public Service Company	Vertically Integrated Utility	A3
Avista Corp.	Vertically Integrated Utility	Baa1
Black Hills Power, Inc.	Vertically Integrated Utility	A3
Cleco Power LLC	Vertically Integrated Utility	A3
Consumers Energy Company	Vertically Integrated Utility	A1
DTE Electric Company	Vertically Integrated Utility	A2
Duke Energy Carolinas, LLC	Vertically Integrated Utility	A1
Duke Energy Florida, Inc.	Vertically Integrated Utility	A3
Duke Energy Kentucky, Inc.	Vertically Integrated Utility	Baa1
Duke Energy Progress, Inc.	Vertically Integrated Utility	A1
El Paso Electric Company	Vertically Integrated Utility	Baa1
Empire District Electric Company (The)	Vertically Integrated Utility	Baa1
Entergy Arkansas, Inc.	Vertically Integrated Utility	Baa2
Entergy Gulf States Louisiana, LLC	Vertically Integrated Utility	Baa1
Entergy Louisiana, LLC	Vertically Integrated Utility	Baa1
Entergy Mississippi, Inc.	Vertically Integrated Utility	Baa2
Entergy New Orleans, Inc.	Vertically Integrated Utility	Ba2
Entergy Texas, Inc.	Vertically Integrated Utility	Baa3
Florida Power & Light Company	Vertically Integrated Utility	A1
Georgia Power Company	Vertically Integrated Utility	A3
Gulf Power Company	Vertically Integrated Utility	A2
Hawaiian Electric Company, Inc.	Vertically Integrated Utility	Baa1
Idaho Power Company	Vertically Integrated Utility	A3
Indiana Michigan Power Company	Vertically Integrated Utility	Baa1
Interstate Power and Light Company	Vertically Integrated Utility	A3
Kansas City Power & Light Company	Vertically Integrated Utility	Baa1
Kentucky Power Company	Vertically Integrated Utility	Baa2

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Madison Gas and Electric Company	Vertically Integrated Utility	A1
MidAmerican Energy Company	Vertically Integrated Utility	A1
Mississippi Power Company	Vertically Integrated Utility	Baa1
Nevada Power Company	Vertically Integrated Utility	Baa1
Northern States Power Company (Minnesota)	Vertically Integrated Utility	A2
Northern States Power Company (Wisconsin)	Vertically Integrated Utility	A2
NorthWestern Corporation	Vertically Integrated Utility	A3
Oklahoma Gas & Electric Company	Vertically Integrated Utility	A1
Pacific Gas & Electric Company	Vertically Integrated Utility	A3
PacifiCorp	Vertically Integrated Utility	A3
Portland General Electric Company	Vertically Integrated Utility	A3
PPL Electric Utilities Corporation	Vertically Integrated Utility	Baa1
Public Service Company of Colorado	Vertically Integrated Utility	A3
Public Service Company of New Hampshire	Vertically Integrated Utility	Baa1
Public Service Company of New Mexico	Vertically Integrated Utility	Baa2
Public Service Company of Oklahoma	Vertically Integrated Utility	A3
Puget Energy, Inc.	Vertically Integrated Utility	Baa3
Puget Sound Energy, Inc.	Vertically Integrated Utility	Baa1
San Diego Gas & Electric Company	Vertically Integrated Utility	A1
Sierra Pacific Power Company	Vertically Integrated Utility	Baa1
South Carolina Electric & Gas Company	Vertically Integrated Utility	Baa2
Southern California Edison Company	Vertically Integrated Utility	A2
Southwestern Electric Power Company	Vertically Integrated Utility	Baa2
Southwestern Public Service Company	Vertically Integrated Utility	Baa1
Tampa Electric Company	Vertically Integrated Utility	A2
Tucson Electric Power Company	Vertically Integrated Utility	Baa1
Union Electric Company	Vertically Integrated Utility	Baa1
Virginia Electric and Power Company	Vertically Integrated Utility	A2
Wisconsin Electric Power Company	Vertically Integrated Utility	A1
Wisconsin Power and Light Company	Vertically Integrated Utility	A1
Wisconsin Public Service Corporation	Vertically Integrated Utility	A1

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ANALYST CONTACTS

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MOODY'S
INVESTORS SERVICE

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SNL Financial

Indianapolis Power & Light Company

Financial Highlights

Periods Last Four Years & YTD

	2010 FY	2011 FY	2012 FY	2013 FY	2014 FY
Period Ended	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Period Restated?	No	No	No	No	No
Restatement Date	NA	NA	NA	NA	NA
Accounting Principle	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP	U.S. GAAP
Balance Sheet Highlights ($000)					
Current Assets	284,001	299,665	293,776	306,446	333,118
Net PP&E	2,361,509	2,441,347	2,425,610	2,553,261	2,856,634
Total Assets	3,119,140	3,250,232	3,266,855	3,256,118	3,631,877
Non-current Long-term Debt	936,664	964,187	854,210	1,024,014	1,152,360
Total Equity	819,067	841,381	846,019	898,845	984,893
Total Capitalization, at Book Value	1,805,731	1,869,568	1,860,229	1,972,859	2,187,253
Income Statement Highlights ($000)					
Energy Operating Revenue	1,144,903	1,171,924	1,229,777	1,255,734	1,321,674
Operating Expense	896,526	956,662	999,715	1,046,440	1,090,526
Recurring EBITDA	411,974	395,859	406,463	392,561	423,940
Recurring EBIT	250,674	228,643	229,692	211,644	237,326
Net Income before Taxes	195,475	171,806	171,945	154,272	178,810
Net Income before Extra	119,788	105,398	104,129	96,552	109,528
Net Income	119,788	105,398	104,129	96,552	109,528
Reported Net Operating Income	172,438	152,653	162,900	150,746	160,913
Cash Flow Statement Highlights ($000)					
Cash Flow from Operating Activities	257,358	210,100	245,280	241,540	304,029
Cash Flow from Investing Activities	(168,953)	(205,330)	(139,759)	(254,537)	(397,375)
Cash Flow from Financing Activities	(106,867)	(7,417)	(114,085)	13,075	102,225
Other Cash Flow	0	0	0	0	0
Net Increase in Cash and Cash Equivalents	(18,462)	(2,647)	(8,564)	78	8,879
Operating Free Cash Flow	93,706	249	115,533	(584)	(77,597)
Balance Sheet Ratios/ Capital (%)					
Total Equity/ Total Assets	26.26	25.89	25.90	27.60	27.12
Working Capital ($000)	51,600	48,262	(53,680)	40,457	39,282
Long-term Debt/ Book Capital	51.87	51.57	45.92	51.91	52.69
Debt/ Book Capitalization	54.64	55.00	54.52	54.44	54.97
Total Debt/ Total Equity	1.20	1.22	1.20	1.19	1.22
Preferred Incl. Mezzanine/ Book-Value Capital	3.31	3.20	3.21	3.03	2.73
Income Statement Ratios (%)					
Recurring Revenue Growth	7.35	3.32	3.72	2.33	5.55
Net Income Growth	5.90	(12.01)	(1.20)	(7.28)	13.44
EPS after Extra Growth	NA	NA	NA	NA	NA
Dividend Payout Ratio	NA	NA	NA	NA	NA
Electric Revenue/ Operating Revenue	100.00	100.00	100.00	100.00	100.00

Gas Revenue/ Operating Revenue	0.00	0.00	0.00	0.00	0.00
Operations & Maintenance/ Operating Expense	35.14	33.70	31.68	33.26	30.46
Electric Generation/ Operating Expense	42.16	44.38	46.20	44.98	48.40
Gas Cost/ Operating Expense	0.00	0.00	0.00	0.00	0.00
Operating D&A/ Operating Expense	18.30	17.48	17.69	17.42	16.99

Profitability Ratios (%)

ROAA	3.91	3.31	3.20	2.96	3.18
ROAE	14.68	12.70	12.34	11.07	11.63
ROACE	15.41	13.26	12.87	11.49	12.05

Liquidity Ratios (x)

Pre-tax Interest Coverage Excl. AFUDC	4.31	3.62	3.91	3.49	3.64
Pre-tax Interest and Pfd Coverage Excl. AFUDC	4.08	3.43	3.71	3.32	3.47
Adjusted Cash Flow Coverage	5.86	4.73	5.39	5.25	6.53
Recurring EBITDA/ Adjusted Interest & Preferred	6.77	6.31	6.55	6.22	6.36
Rprtd: Fixed Charge Ratio	NA	NA	NA	NA	NA
Adjusted Operating Cash Flow/ Capital Expenditures (%)	94.59	60.47	118.71	61.78	49.65

Per Share Information ($)

Common Shares Outstanding (actual)	NA	NA	NA	NA	NA
Avg Diluted Shares (actual)	NA	NA	NA	NA	NA
Basic Book Value per Share	NA	NA	NA	NA	NA
Basic Tangible Book Value per Share	NA	NA	NA	NA	NA
Price/ Operating Cash Flow	NA	NA	NA	NA	NA
Common Dividends Declared per Share	NA	NA	NA	NA	NA
Basic EPS after Extra	NA	NA	NA	NA	NA
Diluted EPS after Extraordinary	NA	NA	NA	NA	NA
EPS after Extra Growth (%)	NA	NA	NA	NA	NA

Note: SNL uses a variety of sources to retrieve financial information for each company we cover. For Energy companies, SNL mines data from documents filed by the company, surveys, and other sources of public information.

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AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Bradley E. Lorton
Utility Analyst
Indiana Office of Utility Consumer Counselor

July 27, 2015
Date

Cause No. 44576/44602
IPL