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

MARGARET A. STULL – PUBLIC'S EXHIBIT NO. 9

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NOS. 44576/44602
INDIANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Margaret A. Stull, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.

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

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior Utility Analyst. I have worked as a member of the OUCC's Water/Wastewater Division since August of 2003. My qualifications, experience and preparations for this case are set forth in Appendix A.

Q: What is the purpose of your testimony?

A: My testimony explains why the Commission should reject Indianapolis Power and Light Company's ("IPL") proposal to include $138,460,459 of net prepaid pension assets in rate base as of June 30, 2014.

II. NET PREPAID PENSION ASSET – RATE BASE TREATMENT

Q: How is a prepaid pension asset or liability created?

A: A prepaid pension asset or liability results from the implementation of accounting rules promulgated under Accounting Standards Codification ("ASC") 715

"Compensation–Retirement Benefits."[1] ASC 715 governs the recording of both pension and other postemployment benefits ("OPEB") and, among other things, requires that the difference between cumulative contributions to the pension plan and cumulative accrued pension expense be recognized as either a prepaid asset or liability on a company's balance sheet. To the extent that cumulative pension contributions are greater than cumulative pension expenses, the result is a prepaid pension asset. To the extent that cumulative pension expenses are greater than cumulative pension contributions, the result is a prepaid pension liability.

Q: Does IPL currently have a prepaid pension or OPEB asset?

A: Yes. IPL's witness Mr. Edward J. Kunz explains that, as of June 30, 2014, IPL had recorded a net prepaid pension asset of $138,460,459 on its balance sheet in accordance with ASC 715. This net prepaid pension asset is composed of a prepaid pension asset of $151,227,949, which is partially offset by a prepaid OPEB liability of $(12,767,490) (EJK Attachment 2).

Q: What ratemaking treatment does IPL seek in this cause for its net prepaid pension asset?

A: IPL is seeking to include its net prepaid pension asset in rate base and earn a return on that asset.

Q: Does the OUCC agree with IPL's proposal to include its net prepaid pension asset in rate base?

A: No. IPL's net prepaid pension asset is not an investment in utility plant as defined by Ind. Code § 8-1-2-6, nor is it working capital. In Cause No. 38868, the

[1] ASC 715 includes rules previously promulgated under Financial Accounting Standard ("FAS") No. 87 "Accounting for Pensions" and FAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Commission stated "[i]t has long been accepted that an allowance for working capital may be added to a utility's investment in physical properties to accurately determine rate base."[2]

Q: Please explain how the term "working capital" is defined for regulatory purposes.

A: Although accountants generally define working capital as a measure of liquidity based on a comparison of current assets to current liabilities, for ratemaking purposes working capital generally has been defined as the average amount of capital provided by investors to bridge the gap between the time expenditures are required to provide service and the time collections are received for that service.

Q: How is working capital calculated or measured for regulatory purposes?

A: The most reliable method to calculate working capital is to perform a lead-lag study. A lead-lag study uses historical data and actual payment requirements to measure the differences in the time frames between (1) the time services are rendered until the revenues for those services are received and (2) the time that the costs associated with providing those services, such as labor and materials, are incurred until they are paid for by the utility. The difference between these periods, expressed in days, multiplied by the average daily operating expense, provides the amount of cash working capital required.

Q: Did IPL request working capital in this Cause?

A: No. IPL did not request working capital in this Cause nor did it include working capital in its rate base calculation.

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[2] *In re Indianapolis Water Co.*, Cause No. 38868, 112 P.U.R.4th 520, 1990 WL 488732 at 3 (Ind. Util. Regulatory Comm'n May 16, 1990).

Q: Did IPL perform a lead-lag study in this case?

A: No. IPL did not perform a lead-lag study in this case and, therefore, we do not know what, if any, its working capital needs are.

Q: What should be included in rate base as used and useful plant under Ind. Code § 8-1-2-6?

A: Ind. Code § 8-1-2-6(a) states that the Commission "shall value all property of every public utility actually used and useful for the convenience of the public at its fair value." Ind. Code § 8-1-2-6(b) further states, "all public utility valuations shall be based upon *tangible* property, that is, property as has value by reason of construction costs." (Emphasis added.) A prepaid pension asset does not qualify as "tangible property" and is thus ineligible for inclusion in rate base on those grounds.

Q: Have exceptions been allowed for inventory investment?

A: Yes. In addition to the inclusion of working capital discussed above, the Commission has also recognized a utility's investments in inventory as a component of rate base and allowed a utility to earn a return on those investments.

Q: Does IPL's prepaid pension asset qualify for inclusion in rate base under these exceptions?

A: No. IPL's prepaid pension asset is not inventory. And while the cash disbursements related to IPL's pension plan contributions and OPEB payments might be one of the factors considered to determine IPL's overall working capital needs, the net prepaid pension asset itself would not be considered working capital for regulatory purposes.

Q: Should IPL's prepaid pension asset be included in rate base?

A: No. IPL's prepaid pension asset is not used and useful plant under I.C. § 8-1-2-6. It cannot be considered inventory, nor is it working capital. IPL has neither requested working capital nor presented evidence supporting the inclusion of working capital in its rate base. Further, cherry-picking one component of working capital and including it in rate base without a full analysis of IPL's overall working capital needs is inappropriate. For these reasons, IPL's proposed net prepaid pension asset should not be included in rate base in this Cause.

Q: Is there case law in Indiana regarding the inclusion of a prepaid pension asset in rate base?

A: Yes. Two utilities have requested the inclusion of a prepaid pension asset in rate base: (1) Indiana Michigan Power Company ("I&M") (Cause No. 44075) and (2) Indiana-American Water Company, Inc. ("IAWC") (Cause No. 44450). In Cause No. 44075, which was appealed to the Indiana Court of Appeals, the Commission allowed I&M to include a prepaid pension asset in rate base. The OUCC opposed I&M's inclusion of the prepaid pension asset in rate base. The Commission recited the parties' evidence and found as follows:

> The record reflects that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards. The record also reflects that the prepaid pension asset has reduced the pension cost reflected in the revenue requirement in this case and preserves the integrity of the pension fund. Petitioner made a discretionary management decision to make use of available cash to secure its pension funds and reduce the liquidity risk of future payments. In addition, the prepayment benefits ratepayers by reducing total pension costs in the Company's revenue requirement. Therefore, we find that the prepaid pension asset should be included in Petitioner's rate base.[3]

The Commission made no findings expressing how the prepaid pension asset qualified to be included in rate base under the strictures of I.C. § 8-1-2-6. The OUCC subsequently appealed the I&M order, and in a memorandum opinion the Court of Appeals affirmed the Commission and accorded the Commission's decision deference. The Court did not discuss how the asset qualified to be included in rates under the terms of I.C. § 8-1-2-6. The OUCC opposed I&M's inclusion of the prepaid pension asset in rate base, and continues to do so in this case.

In Cause No. 44450, the Commission approved a settlement agreement that included Indiana-American's prepaid pension asset as a component of the capital structure rather than including it as a component of the utility's rate base. Since the case was settled, the order is not precedential as to other parties and

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[3] *In re Indiana Michigan Power Co.,* Cause No. 44075, 303 P.U.R.4th 384, 2013 WL 653036 p. 18 (Ind. Util. Regulatory Comm'n Feb. 13, 2013) *aff'd,* (mem. Dec. 2014).

does not provide any useful analysis addressing how a prepaid pension asset qualifies to be included in rate base.[4]

Q: Is the magnitude of IPL's request in this case different from that requested in Cause Nos. 44075 and 44450?

A: Yes. In Cause No. 44075, I&M proposed the inclusion of a prepaid pension asset of $61,691,738, representing approximately 2.5% of total rate base. In Cause No. 44450, IAWC proposed the inclusion of a prepaid pension asset of $5,541,209, representing approximately 0.7% of its total rate base. In this Cause, IPL is proposing the inclusion of a net prepaid pension asset of $138,460,459, representing approximately 7.0% of its total rate base, nearly three times the amount proposed by I&M. (*See* MAS Attachment 1.)

III. PREPAID PENSION ASSET – OTHER RATEMAKING TREATMENT

Q: Should IPL's net prepaid pension asset be allowed any treatment for ratemaking purposes?

A: No. It isn't necessary to provide additional ratemaking treatment for IPL's net prepaid pension asset above and beyond what has already been included in IPL's revenue requirement for pension and OPEB expense. As discussed more fully in

[4] As with many cases settled before the Commission, the Final Order in Cause No. 44450 contained the following language:

> The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light,* Cause No. 40434, 1997 Ind. PUC LEXIS 459, at *19-22 (IURC March 19, 1997).

In re Indiana American Water, 2015 WL 429993 p. 11 (Ind. Util. Regulatory Comm'n Jan. 28, 2015).

my testimony below, there are two reasons why no additional ratemaking treatment is necessary. First, the amount of pension/OPEB cost included in IPL's revenue requirement should be based on either the annual expense as calculated under U.S. GAAP, or the amount of actual cash contributions made to its pension plan. But IPL should not be allowed to recover its pension expense while also earning a return from ratepayers on its discretionary pension contributions. Further, IPL established in Cause No. 39938 that U.S. GAAP is the appropriate basis on which to measure its pension and OPEB costs for regulatory purposes.[5] Second, embedding a fixed amount of prepaid pension dollars in rate base is inappropriate because the value of IPL's net prepaid pension asset is not static, as discussed later in my testimony.

A. Recovery of the Cost of Postemployment Benefits for Ratemaking Purposes

Q: How is the amount of pension expense included in the revenue requirement determined for ratemaking purposes?

A: Since December 1985, pension costs included in a utility's revenue requirement have generally been based on the calculation of pension expense under FAS No. 87 (issued in December 1985). IPL calculated its pension expense in Cause No. 39938 (its last base rate case) using FAS No. 87. Prior to the promulgation of FAS No. 87, pension costs included in a utility's revenue requirement were based on cash pension plan contributions required under the Employee Retirement Income Security Act of 1974 ("ERISA") as amended.

[5] See testimony of Jan Umbaugh, Cause No. 39938, pp. 4 – 28.

Q: Does the expense calculated under FAS No. 87 represent 100% of IPL's annual cost of providing a pension benefit to its employees?

A: Yes. The expense calculated under FAS No. 87 and included in IPL's revenue requirement represents 100% of the estimated annual cost of providing a pension benefit to IPL's employees.

Q: Does ERISA require 100% funding of IPL's pension obligations?

A: No. ERISA does not require 100% funding of IPL's pension obligation. ERISA mandates that the funding level of a pension trust be maintained at certain minimum levels. Within certain parameters, IPL has discretion in both the timing and amount of pension plan contributions. As long as IPL maintains at least the ERISA mandated minimum levels in its pension plan, it has a considerable amount of discretion regarding the funding of the pension obligation.

Q: Should ratepayers be required to fund both the pension expense calculated under FAS No. 87 as well as a return on discretionary pension plan contributions included in the prepaid asset?

A: No. The cost of providing a pension benefit is based on either the expense calculated under FAS No. 87 or the cash pension plan contributions required under ERISA, but not both.

The cost of providing a pension benefit to IPL's employees is included as pension expense in IPL's revenue requirement and ratepayers are responsible for funding 100% of this cost through their electric rates. IPL collects funds for pension costs through rates and is responsible for making the cash contributions to the pension plan from which future benefits will be paid to its employees. IPL has the discretion to make greater pension contributions now in order to reduce the amount of funding required in the future.

Ratepayers are already paying 100% of the cost of providing pension benefits for IPL employees through the pension expense included in the revenue requirements and should not be expected to pay even more because of management decisions regarding the timing and amount of pension fund contributions, as described more fully below.

Q: Aren't IPL's discretionary pension fund contributions already earning a return?

A: Yes. All contributions to the pension fund are invested by the fund. As such, the fund earns a return on these investments. The investment income earned by the fund inures to the benefit of both IPL and its ratepayers in that it reduces the amount of future contributions necessary to provide a pension benefit to IPL employees.

Q: Is an investment in a pension fund the same as investment in rate base?

A: No. The pension fund is an asset held in trust and invested for the beneficiaries (IPL employees). Rate base is a collection of assets managed for the benefit of ratepayers. Pension funds and rate base are distinctly different assets. A dollar "contributed" to the pension fund can be invested in the pension fund's portfolio. That same dollar cannot also be invested in utility rate base.

B. The Value of the Net Prepaid Pension Asset is not Static

Q: Does the amount of IPL's prepaid pension asset fluctuate?

A: Yes. The balance of the prepaid pension asset fluctuates from one period to the next and is not a static "investment" like investments made in physical utility plant providing service to electric customers. As discussed previously, this "prepaid" asset or liability is the difference between cumulative pension expense and cumulative pension plan contributions. These cumulative amounts are affected by several factors impacting pension expense as well as the amount of cash contributions, if any, made to the pension plan. An "asset" can become a "liability," and can flip between these classifications over time.

At the end of the test year, IPL's prepaid pension asset[6] was $151,227,949, but by December 31, 2014 it had declined by approximately $6.0 million to $145,709,715.[7] Table 1 below summarizes the balance of the prepaid pension asset (liability) during the period 1995 – 2014[8] and shows that IPL had a prepaid pension liability until 2005.

[6] This prepaid pension asset includes pension expense and contributions for both IPL's qualified pension plan as well as its Supplemental Retirement Plan and Trust for a Select Group of Management Employees ("SERP").
[7] IPL filed updated pension information on March 12, 2015 and updated its proposed pension expense at that time. However, IPL did not update the amount of its proposed prepaid pension asset included in rate base or its proposed return on rate base as part of that filing.
[8] Information provided by IPL in response to OUCC Data Request No. 74.1 (MAS Attachment 2).

Table 1: Summary of Prepaid Pension Asset (Liability)
(Thousands of Dollars)

Year	Balance		Year	Balance
1995	N/A	(A)	2005	(695)
1996	(37,492)	(B)	2006	22,982
1997	(39,582)	(B)	2007	10,956
1998	N/A	(A)	2008	58,045
1999	(28,750)		2009	43,880
2000	(87,347)		2010	48,145
2001	(104,631)		2011	60,944
2002	(96,226)		2012	79,875
2003	(10,944)		2013	102,655
2004	(11,051)		2014	145,710

(A) No information available for this year.
(B) Represents prepaid pension liability associated with IPL's qualified pension plan only. No information was available for SERP for this year.

Q: Have there been years when IPL did not make a contribution to its pension plan?

A: Yes. Although IPL has made annual contributions to its pension plan in recent years, it has not always done so. The following table presents IPL's cash pension contributions for each of the years during the period 1995 – 2014.[9]

[9] Information provided by IPL in response to OUCC Data Request No. 72.14 (MAS Attachment 3).

Table 2: Summary of Contributions to IPL Pension Plans
(Thousands of Dollars)

	Contributions				Contributions		
Year	**Minimum**	**Additonal**	**Total**	**Year**	**Minimum**	**Additonal**	**Total**
1995	-	-	-	2005	79	17,525	17,604
1996	-	-	-	2006	202	37,000	37,202
1997	559	-	559	2007	-	-	-
1998	-	3,324	3,324	2008	16,360	40,300	56,660
1999	-	3,324	3,324	2009	13,627	6,500	20,127
2000	642	-	642	2010	17,701	11,000	28,701
2001	7,639	4,000	11,639	2011	22,245	15,100	37,345
2002	871	14,300	15,171	2012	29,112	19,200	48,312
2003	74	96,000	96,074	2013	47,702	2,000	49,702
2004	148	6,000	6,148	2014	9	54,100	54,109
				2015	-	25,000	25,000

The minimum contribution reflected for 2015 was provided by IPL in response to OUCC Data Request No. 76.2 and 76.3 (MAS Attachment 4).

Q: Is IPL required to make annual contributions to its pension plan?

A: No, not necessarily. While ERISA dictates the calculation of a minimum annual contribution to IPL's pension plan, depending upon many factors including market conditions and cumulative prior year contributions to the pension plan, it is possible that in any particular year the minimum pension plan contribution under ERISA could be zero.

The fact that IPL did not make an annual contribution does not mean that it has violated any statutes or legal requirements related to its pension plans. However, it does highlight the discretionary nature of pension plan contributions. In contrast, ratepayers do not have any discretion regarding the amount of pension costs included in the revenue requirement.

Q: Are the funds for pension plan costs that are embedded in rates restricted so that IPL is required to set these funds aside to make pension plan contributions?

A: No. Although the rates IPL collects from its ratepayers include monies for pension plan costs, the Commission has placed no restrictions on the use of these funds and IPL is not required to use those funds to make pension plan contributions. IPL is responsible for making contributions to the pension plan and it decides when to make these contributions and how much the contribution should be in any given year. If not required to make a pension plan contribution, these funds are available for other purposes including the payment of dividends to shareholders.

Q: What is IPL's pension funding policy?

A: Mr. Kunz states that "IPL's funding policy for the Pension Plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes."[10]

Q: Does IPL's pension funding policy form the basis for the pension plan costs included in its revenue requirement?

A: No. As discussed above, pension plan costs included in IPL's revenue requirement are determined under ASC 715 and are the result of complex calculations based on actuarial and other assumptions. The costs included in the revenue requirement may be more or less than the annual pension plan funding determined under IPL's pension funding policy. The minimum amount of funding under IPL's pension funding policy could be zero or some amount less (or more) than the costs included in IPL's revenue requirement and recovered through rates.

[10] Direct Testimony of Edward J. Kunz, pp. 9-10.

Similarly, the maximum amount of funding could be more (or less) than the amount of costs included in IPL's revenue requirement and recovered through rates.

Q: Does Mr. Kunz make any assertions regarding IPL's access to pension funds once those funds have been contributed to the pension plan?

A: Yes. Mr. Kunz stated that ERISA requirements do not permit employers to remove money from the qualified pension funds.[11] A dollar contributed to the pension fund can finance pension fund investments (stock, bonds etc.). That same dollar cannot also fund property, plant, or equipment.

IV. OTHER CONSIDERATIONS

Q: Is there other information the Commission should consider in determining how to treat IPL's net prepaid pension asset?

A: Yes, as I explain in detail below. First, IPL's pension plan is not fully funded. Second, pension and OPEB expenses are unlike other operating expenses included in IPL's revenue requirement. Third, despite IPL's inclusion of its net prepaid pension asset in its original cost rate base, this prepaid pension asset does not appear to be included in IPL's proposed fair value rate base and, therefore, a return on this asset is not included in IPL's proposed revenue requirement. Finally, IPL shareholders also derive a benefit from its discretionary pension plan contributions.

[11] *Id.*, p. 11, lines 9-11.

A. IPL's Pension Plan is Not Fully Funded

Q: Is IPL's pension plan fully funded?

A: No. According to IPL's updated pension information,[12] as of December 31, 2014, the Qualified Plan is 87.87% funded while the SERP is 82.01% funded. IPL has no OPEB fund. The funding percentage for the Qualified Plan has increased slightly while the funding percentage for the SERP has decreased, but overall, the funding percentages are similar to those at December 31, 2013 even after taking into consideration the additional discretionary contributions made by IPL.

Table 3: Comparison of Funded Status of IPL Pension Funds

	12/31/2013	12/31/2014	Increase (Decrease)
Qualified Plan			
Benefit Obligation	$ 645,351,565	$ 742,215,687	$ 96,864,122
Fair Value of Plan Assets	556,433,806	652,150,475	95,716,669
Underfunded	$ (88,917,759)	$ (90,065,212)	$ (1,147,453)
Percent Funded	86.22%	87.87%	
SERP			
Benefit Obligation	$ 5,362,866	$ 6,205,260	$ 842,394
Fair Value of Plan Assets	5,153,724	5,088,746	(64,978)
Funded Status	$ (209,142)	$ (1,116,514)	$ (907,372)
Percent Funded	96.10%	82.01%	
Total Pension Funds			
Benefit Obligation	$ 650,714,431	$ 748,420,947	$ 97,706,516
Fair Value of Plan Assets	561,587,530	657,239,221	95,651,691
Funded Status	$ (89,126,901)	$ (91,181,726)	$ (2,054,825)
Percent Funded	86.30%	87.82%	

Q: Does Mr. Kunz state that IPL's pension plan is fully funded?

A: Mr. Kunz states that "fully funding the pension plan made IPL's pension plan more secure." As demonstrated above in Table 3, it is not fully funded.

[12] Submission of Updated Pension Information and Second Revisions to Direct Testimony filed on March 12, 2015, Updated MSFR Attachments 1-5-8(a)(15) and Updated MSFR Attachment 1-5-8(a)(16).

B. Pension/OPEB Expense is an Estimate of a Future Cost

Q: Is pension expense different from other operating expenses typically included in utility revenue requirements?

A: Yes. Unlike most other expenses included in rates, pension expense includes both a current and a future component. Pension expense includes a current component to provide payments to currently retired employees, and a future component to provide for the accrual of costs for current employees who will be paid a pension in the future when they retire. Thus, funds will be authorized in current rates, but will provide a pension payment for employees that may not retire for 20 to 30 years or more and may be receiving pension payments 50 years from now. The determination of pension expense is further complicated by the volatility of stock market returns, the fluidity of the workforce, and ever-changing assumptions regarding discount rates, rates of return, and mortality rates. The determination of the current cost of these future pension payments requires complex estimations that rely on numerous assumptions.

C. IPL Prepaid Pension Asset is Not Included in Proposed Fair Value Rate Base

Q: Is IPL's net prepaid pension asset included in its proposed fair value rate base?

A: No. Despite the inclusion of IPL's prepaid pension asset in its original cost rate base it is not included in JPK Attachment 2, which provides the detailed calculation of IPL's proposed fair value rate base of $4,101,416,000.[13]

[13] *See* testimony of IPL Witness James L. Cutshaw, page 9-10, response to Q13.

Q: Has IPL included a return on its net prepaid pension asset as part of its revenue requirement in this Cause?

A: No. Because IPL's net prepaid pension asset is not included in its proposed fair value rate base, no return on this asset is included in IPL's proposed revenue requirement in this Cause.

D. Shareholders Derive a Benefit from Discretionary Pension Plan Contributions

Q: Do IPL shareholders derive a benefit from discretionary pension plan contributions?

A: Yes. Mr. Kunz states that "IPL customers have benefitted because these additional contributions resulted in additional investment income in the pension trust and this in turn reduced pension cost that is recognized for ratemaking purposes."[14] What Mr. Kunz neglects to mention is that IPL shareholders also benefit from these additional discretionary pension plan contributions in a number of ways. Additional contributions in current and prior years mean lower contributions will be required in future years, all other things being equal. IPL shareholders will also benefit from the income the plan earns from investing these additional contributions, further reducing future required contributions.

If a dollar has been contributed to the pension trust fund, then that dollar is invested in the pension trust fund's portfolio but not in utility rate base. Contributions to the pension fund earn a return through the fund's portfolio investments. Treating some portion of contributions as "rate base" is a form of double recovery – charging the ratepayers a return when the funds in question already earn a return through IPL's investment in the pension fund's portfolio.

[14] *See* Kunz testimony, page 12, lines 10-12.

V. RECOMMENDATIONS

Q: What does the OUCC propose regarding the ratemaking treatment of IPL's net prepaid pension asset?

A: The OUCC proposes that no ratemaking treatment be allowed for IPL's net prepaid pension asset of $138,460,459. The prepaid pension asset represents a portion of all the funds that have been contributed to the pension trust fund. These funds can earn a return through investment in the pension trust fund's portfolio of investments. Once made, pension fund contributions are not available to invest in used and useful property, plant, and equipment.

The prepaid pension asset is not used and useful physical property, nor does it qualify as working capital. Therefore, the prepaid pension asset should not be treated as rate base. Petitioner has recognized this by excluding it from its fair value rate base. It is not rate base and should not be included in the original cost or fair value rate base calculations. It isn't necessary to provide additional ratemaking treatment for IPL's net prepaid pension asset above and beyond what has already been included in IPL's revenue requirement for pension and OPEB expenses.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from the University of Houston at Clear Lake City in August 1982 with a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to 2001, I worked for Enron in various positions of increasing responsibility and authority. I began in gas pipeline accounting, was promoted to a position in the financial planning and reporting department, for both the gas pipeline division and the international division, and finally was promoted to a position providing accounting support for infrastructure projects in Central and South America. In 2002, I moved to Indiana, where I held non-utility accounting positions in Indianapolis. In August 2003, I accepted my current position with the OUCC. In 2011, I was promoted to Senior Utility Analyst. Since joining the OUCC I have attended the National Association of Regulatory Utility Commissioners (“NARUC”) Eastern Utility Rate School in Clearwater Beach, Florida, and the Institute of Public Utilities’ Advanced Regulatory Studies Program in East Lansing, Michigan.

Q: Have you held any professional licenses?

A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of Texas until I moved to Indiana in 2002.

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

A: Yes. I have testified before the Commission as an accounting witness in various causes involving water, wastewater, electric, and gas utilities.

Q: Please describe the review and analysis you performed.

A: I reviewed IPL's testimony, exhibits, and supporting documentation concerning its proposed prepaid pension asset. I also reviewed IPL's 2014 SEC 10K filing as it pertains to IPL's pensions and other postemployment benefits ("OPEBs"). I prepared discovery questions and reviewed responses to those questions. Finally, I *participated in meetings with other OUCC staff members to identify and discuss* the issues in this Cause.

Indianapolis Power and Light Company
Cause No. 44576
Analysis of Prepaid Pension Asset Proposals

	I&M 44075	IAWC 44450	IPL 44576
Proposed Total Rate Base	$ 2,398,831,408	$ 813,051,628	$ 1,964,992,000
Proposed Prepaid Pension Asset	61,691,738	5,541,209	138,460,459
Percent of Rate Base	2.57%	0.68%	7.05%

Data Request OUCC DR 74 - 01

Please state the balance of the prepaid pension asset/liability as of December 31st for each year during the period 1995 through 2014 and clearly identify whether the amount reflected is an asset or a liability.

Objection:

IPL objects to the Request on the grounds and to the extent the request solicits information that exceeds the scope of this proceeding and is not reasonably calculated to lead to the discovery of relevant or admissible evidence. IPL further objects to the Request on the grounds and to the extent the request seeks a compilation, analysis or study that IPL has not performed and to which IPL objects to performing. IPL further objects to the Request on the grounds and to the extent it is overly broad and unduly burdensome, particularly to the extent it solicits detailed information going back to 1995. This rate case concerns the adjusted test year period. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

See OUCC DR 74-1 Attachment 1.

Prepaid Pension Asset (Net)

Qualified Pension Plan, Supplemental Pension Plan, and Postretirement Benefit Plan (FAS 106)

	1995	1996	1997	1998	1999	2000	2001	2002
IPL Qualified Pension Plan	*	$ (37,492,281)	$ (39,581,509)	*	$ (36,114,030)	$ (87,161,462)	$ (105,910,390)	$ (98,277,368)
IPL Supplemental Pension Plan	*	*	*	*	$ 7,363,556	$ (185,159)	$ 1,279,101	$ 2,050,902
Postretirement Medical (FAS 106)	*	*	*	*	$ -	$ (5,236,774)	$ (6,586,215)	$ (5,965,347)

*These requested year-end balances cannot be located.

Prepaid Pension Asset (Net)
Qualified Pension Plan, Supplemental

	2003	2004	2005	2006	2007	2008	2009
IPL Qualified Pension Plan	$ (12,954,247)	$ (13,089,258)	$ (2,673,851)	$ 20,996,382	$ 9,026,984	$ 55,459,709	$ 41,604,648
IPL Supplemental Pension Plan	$ 2,010,241	$ 2,038,726	$ 1,979,027	$ 2,025,538	$ 1,928,619	$ 2,585,438	$ 2,275,137
Postretirement Medical (FAS 106)	$ (6,059,177)	$ (6,798,643)	$ (8,263,020)	$ (9,958,605)	$ (11,601,901)	$ (12,693,143)	$ (13,038,491)

*These requested year-end balances c

Prepaid Pension Asset (Net)
Qualified Pension Plan, Supplemental

	2010	2011	2012	2013	2014
IPL Qualified Pension Plan	$ 45,982,192	$ 58,801,670	$ 77,766,452	$ 100,481,590	$ 143,526,956
IPL Supplemental Pension Plan	$ 2,162,982	$ 2,142,635	$ 2,108,567	$ 2,173,775	$ 2,182,759
Postretirement Medical (FAS 106)	$ (12,560,538)	$ (12,561,057)	$ (12,709,728)	$ (12,818,970)	$ (12,738,025)

*These requested year-end balances c

Data Request OUCC DR 72 - 14

Do any of the employer pension contributions, as reflected in Attachment 1 provided in response to OUCC Data Request No. 56.03, include additional (voluntary) contributions above the minimum contribution required by ERISA? If yes, please state the amount of each additional (voluntary) contribution and the year the contribution was made.

Objection:

IPL objects to the Request on the grounds and to the extent the request solicits information that exceeds the scope of this proceeding and is not reasonably calculated to lead to the discovery of relevant or admissible evidence. IPL further objects to the Request on the grounds and to the extent it is overly broad and unduly burdensome, particularly to the extent it solicits detailed information going back to 1995. This rate case concerns the adjusted test year period. IPL further objects to the Request on the grounds and to the extent the request seeks a compilation, analysis or study that IPL has not performed and to which IPL objects to performing. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

IPL is in the process of preparing this response and will supplement this response.

Supplemental Response:

Yes. Please see OUCC DR 72-14 Supplemental Attachment 1 for the minimum, discretionary, and total Qualified and Supplemental Pension Plan contributions. Please note Columns B through D are by Plan Year and Columns F through H are by Calendar Year. For example, in 2008, the Plan Year contribution was $21,500,000. As shown in cell F19, $15,000,000 was contributed in the Current Plan Year and as shown in cell G20, $6,500,000 was contributed from the Prior Plan Year.

THOUSANDS	Qualified Pension Plan - By Plan Year			Qualified Pension Plan - By Calendar Year			Supplemental Pension Plan - By Calendar Year			Total
	Minimum[1]	Discretionary[2]	Total	Current Plan Year	Prior Plan Year	Total	Minimum	Discretionary	Total	Contributions
1995	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
1996	$ -	$ -	$ -			$ -	$ -	$ -	$ -	$ -
1997	$ -	$ -	$ -	$ -	$ -	$ -	$ 559	$ -	$ 559	$ 559
1998	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,324	$ 3,324	$ 3,324
1999	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,324	$ 3,324	$ 3,324
2000	$ -	$ 4,000	$ 4,000	$ -	$ -	$ -	$ 642	$ -	$ 642	$ 642
2001	$ -	$ 14,300	$ 14,300	$ -	$ 4,000	$ 4,000	$ 7,639	$ -	$ 7,639	$ 11,639
2002	$ -	$ 96,000	$ 96,000	$ -	$ 14,300	$ 14,300	$ 871	$ -	$ 871	$ 15,171
2003	$ -	$ 6,000	$ 6,000	$ -	$ 96,000	$ 96,000	$ 74	$ -	$ 74	$ 96,074
2004	$ -	$ 17,525	$ 17,525	$ -	$ 6,000	$ 6,000	$ 148	$ -	$ 148	$ 6,148
2005	$ -	$ 37,000	$ 37,000	$ -	$ 17,525	$ 17,525	$ 79	$ -	$ 79	$ 17,604
2006	$ -	$ -	$ -	$ -	$ 37,000	$ 37,000	$ 202	$ -	$ 202	$ 37,202
2007	$ -	$ 40,300	$ 40,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2008	$ 17,563	$ 3,937	$ 21,500	$ 15,000	$ 40,300	$ 55,300	$ 1,360	$ -	$ 1,360	$ 56,660
2009	$ 22,177	$ 2,323	$ 24,500	$ 13,500	$ 6,500	$ 20,000	$ 127	$ -	$ 127	$ 20,127
2010	$ 29,496	$ 3,135	$ 32,631	$ 17,531	$ 11,000	$ 28,531	$ 170	$ -	$ 170	$ 28,701
2011	$ 38,584	$ 2,861	$ 41,445	$ 22,245	$ 15,100	$ 37,345	$ -	$ -	$ -	$ 37,345
2012	$ 29,566	$ 1,534	$ 31,100	$ 29,100	$ 19,200	$ 48,300	$ 12	$ -	$ 12	$ 48,312
2013	$ 30,036	$ 71,664	$ 101,700	$ 47,600	$ 2,000	$ 49,600	$ 102	$ -	$ 102	$ 49,702
2014	$ -	$ -	$ -	$ -	$ 54,100	$ 54,100	$ 9	$ -	$ 9	$ 54,109

[1] These numbers have not been interest adjusted for contribution timing.

[2] Years 2007 and prior have not been interest adjusted for contribution timing.

Additional note: Year 2007 for the Qualified Pension Plan, $40,300, was needed to avoid benefit restrictions, but was not a minimum required contribution under ERISA.

Data Request OUCC DR 76 - 03

The following questions refer to IPALCO's 2014 SEC 10-K, page 33, under the heading "Pension Plans." According to the discussion on page 33, Petitioner has elected to fund $25.0 million in January 2015 and this funding "satisfies all funding requirements for the calendar year 2015." Please answer the following questions:
a. Did Petitioner make the $25.0 million pension fund contribution in January 2015? If yes, please state the date and amount funded. If not, please explain why not and state the estimated amount to be funded and the date this funding is estimated to take place.
b. Does $25.0 million represent IPL's total pension fund contributions for 2015?
c. If the response to (b) is no, please state the total pension fund contributions expected to be made in 2015.

Objection:

IPL objects to the Request on the grounds and to the extent the request seeks a compilation, analysis or study that IPL has not performed and to which IPL objects to performing. IPL further objects to the request on the grounds and to the extent it calls for speculation. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

a. Yes, IPL contributed $25 million on January 12, 2015

b. Since the actuary is currently working on the Adjusted Funding Target Attainment Percentage ("AFTAP") certification which determines if there is any additional funding required or desirable, we cannot say with 100% certainty that the $25 million contribution represents IPL's total fund contributions for 2015. However, IPL believes no additional contributions will be required for 2015.

c. We currently do not expect any additional contributions to be made; however, see response to (b) above.

Data Request OUCC DR 76 - 02

The following questions refer to IPALCO's 2014 SEC 10-K, page 33, under the heading "Pension Plans." According to the discussion on page 33, ERISA funding of "normal cost is expected to be about $7.8 million in 2015, which includes $3.0 million for plan expenses." Please answer the following questions:

a. What is the estimated 2015 minimum funding level under ERISA, including plan expenses?
b. What is the estimated 2015 maximum funding level that can be deducted for federal income tax purposes, including plan expenses?
c. Explain what is included in the $3.0 million of plan expenses and how these costs are determined.
d. State the actual amount of pension plan expenses for each of the past five years (2010 - 2015).

Objection:

IPL objects to the Request on the grounds and to the extent the request seeks a compilation, analysis or study that IPL has not performed and to which IPL objects to performing. IPL further objects to the request on the grounds and to the extent it calls for speculation. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

a. Since the actuary is currently working on the Adjusted Funding Target Attainment Percentage ("AFTAP") certification, IPL cannot say with 100% certainty what the 2015 minimum funding level will be under ERISA, but the Company believes it will be zero.

b. IPL will not know the estimated 2015 maximum funding level until after the AFTAP analysis is complete.

c. Plan expenses are mainly comprised of investment consulting fees, trustee fees, actuarial expenses, Pension Benefit Guaranty Corporation fees, and benefit payment processing. The $3.0 million is an estimate of plan expenses in the upcoming year.

d. Please see response to OUCC DR 56-3.

AFFIRMATION

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

Margaret A. Stull

Margaret A. Stull
Indiana Office of Utility Consumer Counselor

July 27, 2015
Date

Cause No. 44576/44602
Indianapolis Power & Light Company