Petitioner's Exhibit 3

VERIFIED DIRECT TESTIMONY

OF

KIMBERLY ALIFF

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

SPONSORING PETITIONER'S ATTACHMENTS KA-1 THROUGH KA-5

VERIFIED DIRECT TESTIMONY OF KIMBERLY ALIFF

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

A1. My name is Kimberly Aliff. I am employed by Indianapolis Power & Light Company ("IPL" or "Company"), whose business address is One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with IPL?

A2. I am a Senior Regulatory Analyst in Regulatory Affairs.

Q3. What are your duties and responsibilities as Senior Regulatory Analyst?

A3. I am involved with the planning, development and analysis of Demand Side Management ("DSM") programs, as well as tracking and reporting program results. I am a representative member of IPL's DSM Oversight Board. I am also responsible for directing the filings supporting changes in the DSM cost recovery factors, the fuel cost adjustment factors and other rate recovery mechanisms.

Q4. What is your work experience with IPL?

A4. I have been an employee of IPL since April 25, 2005. During my tenure with the Company, I have worked in various accounting staff roles as well as Research Analyst and my current position of Senior Regulatory Analyst in Regulatory Affairs.

Q5. Please summarize your education and professional qualifications.

A5. I hold a Bachelor of Science Degree in Accounting and Computer Information Systems from Indiana University and a Master of Business Administration from the University of Indianapolis. I have also attended workshops, seminars, and conferences pertaining to planning, implementation, and evaluation of DSM programs.

Q6. Have you previously testified before this Commission?

A6. Yes, I have previously testified before the Commission regarding accounting and ratemaking treatment for IPL's Electric Vehicle Sharing Program in Cause No. 44478. I have also testified regarding cost recovery and cost allocation for several of IPL's DSM Plans including the 2014 DSM Plan in Cause No. 44328, the 2015-2016 DSM Plan in Cause No. 44497, in Cause No. 44792 extending IPL's 2015-2016 DSM Programs through 2017 as well as the 2018-2020 DSM Plan in Cause No. 44945. I have been a witness in several of the Company's prior semi-annual Demand Side Management Adjustment (Cause No. 43623-DSM-XX) proceedings beginning with DSM-10.

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

A7. The purpose of my testimony is to (1) describe the impact of the 2021-2023 DSM Plan on the previously approved cost recovery mechanism utilized in the Company's annual filings (Cause No. 43623-DSM-X), including the allocation of cost recovery among the customer classes; (2) describe IPL's proposal to earn a financial incentive calculated as a percentage of DSM expenditures and how IPL proposes to account for the financial incentive in the Fuel Adjustment Clause ("FAC") earnings test; (3) discuss the calculation of lost revenues and how IPL proposes to account for the proposed lost revenue recovery in the FAC earnings test; and (4) describe the bill impacts associated with implementation of the 2021-2023 DSM Plan.

Q8. What attachments are you sponsoring in this proceeding?

A8. I am sponsoring the following attachments:

<u>Petitioner's Attachment KA-1</u>	Cost Allocation Basis by Program to reflect the 2021-2023 DSM Plan

Petitioner's Attachment KA-2	Calculation of Financial Incentives for 2021-2023
Petitioner's Attachment KA-3	Derivation of Lost Revenue Margin Rates
Petitioner's Attachment KA-4	Determination of Projected DSM Lost Revenues for the 2021-2023 Plan Years
Petitioner's Attachment KA-5	Determination of Rate Impact of DSM Adjustment – Standard Contract Rider No. 22 for the 2021-2023 DSM Plan

Q9. Did you submit any workpapers?

A9. Yes. I submitted electronic versions of the spreadsheets underlying my attachments.

I. Cost Recovery

Q10. Is IPL proposing any changes to its cost recovery mechanism from what is currently in place?

A10. No. IPL is seeking the same cost recovery mechanism that has been previously authorized by the Commission most recently in Cause No. 44945. IPL proposes to continue to use the forecast and reconciliation method currently approved for program operating costs, lost revenues and financial incentives. IPL proposes to continue to submit annual filings[1] under Standard Contract Rider 22 ("Rider 22") which will continue to establish a January through December billing period for this rider.

Q11. Please summarize the accounting and ratemaking treatment that is currently in place.

A11. IPL currently submits annual filings under Rider 22 to recover forecasted direct and indirect program operating costs, financial incentives and lost revenues associated with the DSM Plan over 12-month periods. Program operating costs are forecast on a calendar

[1] IPL changed from semi-annual to annual filings in Cause No. 43623 DSM-18.

year basis and reconciled to actual expenditures in a subsequent annual filing. Lost revenues and financial incentives are also forecast on an annual basis using estimated program participation obtained from the DSM implementation vendors for the forecast period. Lost revenues and financial incentives are then trued up to Evaluation, Measurement and Verification ("EM&V") results upon completion of annual EM&V.

Q12. Have you prepared an attachment which shows the cost allocation basis of the 2021-2023 DSM Plan?

A12. Yes. Petitioner's Attachment KA-1 presents the cost allocation basis to each of the customer classes for each component of the 2021-2023 DSM Plan.

The Residential allocation factors are calculated for two classes – Residential (RS, CW) and Residential Lighting (APL, MU1). These factors are based on each class' share of the twelve monthly coincident system peaks used to allocate production plant, operating expenses and depreciation expenses from the Company's cost of service study as approved in IPL's most recent basic rates and charges case in Cause No. 45029.

C&I allocation factors are calculated for Small C&I, Large C&I and C&I Lighting (APL, MU1) classes. These allocation factors are also based on each class' share of the twelve monthly coincident system peaks from Cause No. 45029, excluding the kW related to those customers who have chosen to opt out of participation in IPL's DSM programs (as of the 2019 opportunity). As of January 1, 2020, there were 123 customers, representing about 3,135 GWhs of energy usage annually, that have opted out of participation in IPL's DSM programs. The C&I allocation factors are updated with each Rider 22 filing to exclude all kW related to opt outs.

Q13. What process will IPL use to record and segregate the 2021-2023 DSM Plan costs for each component of the program?

A13. Expenditures for each component of the proposed plan will be recorded in the Company's accounting system using individual work breakdown structures to separate cost components for accounting and reporting purposes. The Company's work management and timekeeping systems will facilitate this segregation for labor, materials, and other expenses incurred to implement the individual programs. IPL's accounting process requires an estimate of services received during the month to be recorded when an invoice has not been received by the closing date of the books for the same month. Due to the lag experienced in program implementation vendor invoicing, this means that the cost recovery for the 2021-2023 DSM Plan costs will include costs for program implementation (including program incentives through the Business Prescriptive or Custom programs) incurred during 2023 but not invoiced or paid until early 2024.

II. Financial Incentive

Q14. Please describe the financial incentive mechanism IPL is requesting.

A14. As a component of its 2021-2023 DSM Plan, and as discussed by Witness Elliot, IPL is proposing to modify the financial incentive mechanism currently in place (Shared Savings) to a tiered performance based mechanism to be calculated as a percentage of total spending on direct program costs.[2] The performance level achieved on a Portfolio basis will determine the financial incentive percentage to be awarded. Performance will be based on ex-post gross kWh savings achieved compared to the planned kWh savings

[2] Direct program costs include (but are not limited to) program administrative costs, vendor administrative costs, equipment, labor, and customer rebates and incentives.

approved in this proceeding. The table below details the incentive levels and the performance tiers proposed:

Portfolio Performance Level Achievement	% of Direct Program Costs
110%	15%
100-109.99%	12%
90-99.99%	10%
80-89.99%	8%
75-79.99%	6%
0-74.99%	4%

The forecasted financial incentives associated with the proposed DSM Plan are also shown in <u>Petitioner's Attachment KA-2.</u> As shown in <u>Petitioner's Attachment KA-2</u>, the forecast uses the Tiered Incentive level achieved calculated at 12% of the proposed Direct Program Costs. The 3-year total amount of financial incentives forecast in this filing is approximately 14% less than the total financial incentives that were forecast in the Settlement Agreement approved in Cause No. 44945. IPL proposes to reflect financial incentives in Rider 22 on a forecast basis subject to true-up as explained below.

Q15. Is IPL proposing to earn a financial incentive on all programs in the 2021-2023 DSM Plan?

A15. No. IPL is proposing to earn a financial incentive on all programs except the Income Qualified Weatherization program.

Q16. Will there be a true-up process of the financial incentive forecast based upon actual program performance?

A16. Yes. As mentioned previously, the financial incentive will be based on actual (ex-post) gross savings to determine the performance tier and incentive percentage and will be trued-up to actual expenditures in a subsequent Rider 22 filing after the annual EM&V is completed (as described by IPL Witness Miller).

Q17. How does IPL propose to treat the financial incentives in the FAC earnings test?

A17. To ensure the financial incentives can be retained, IPL proposes that its authorized net operating income for purposes of the FAC earnings test be adjusted by the actual amount of financial incentives earned.

Q18. Is this proposed treatment of financial incentives in the FAC earnings test different from what is currently approved?

A18. Yes. The financial incentives approved in IPL's previous DSM Plans are included in the FAC earnings test with no adjustment to its authorized net operating income.

Q19. Why is it appropriate to change how the financial incentives are treated in this proceeding?

A19. As discussed by Witness Elliot, the ability to recover a reasonable financial incentive places DSM on a more level playing field with supply side resources on which a utility would normally earn a return. The Company's authorized return does not currently include the financial incentives resulting from the DSM Plan. Adjusting the authorized net operating income to reflect the DSM Plan financial incentive is comparable to the treatment of the approved earnings on projects reflected in the Company's capital investment rider filings (*i.e.*, clean coal technology, transmission and distribution investment).

III. Lost Revenues

Q20. How were the projected lost revenues for the 2021-2023 DSM Plan determined?

A20. Estimates of the kWh consumption and kW demand reductions per participant and the number of participants for each program were determined from the analysis prepared by IPL Witnesses Elliot and Miller. For programs where historical participation was reported by rate code, estimated participants were allocated between the individual rate codes based upon the historical participation. For other programs, estimated participants were allocated based upon the ratio of the annual historical kWh consumption within their rate class. Allocated participants by rate were then multiplied by the estimated kWh consumption and kW demand reductions by participant to determine the total kWh consumption and kW demand amounts by rate within each program and then totaled by rate. For the 2021-2023 DSM Plan estimates, these amounts for each individual rate were then multiplied by the lost revenue margin rates per kWh and kW as approved in the Order in Cause No. 45029 effective December 5, 2108 and reflected in Petitioner's Attachment KA-3.

Q21. Have you prepared an attachment which shows the calculation of lost revenues for the 2021-2023 Plan years?

A21. Yes. Petitioner's Attachment KA-4 reflects an estimate of the lost revenue for the 2021-2023 plan years. This attachment also shows the legacy lost revenues from delivery of programs related to IPL's Commission-approved 2018-2020 DSM Plan.

Q22. Do the estimates of kWh consumption and kW demand reductions per participant utilized in the lost revenues calculation reflect an adjustment to account for free ridership?

A22. Yes. The estimates of kWh consumption and kW demand reductions tie directly to the net kWh and net kW in the 2021-2023 DSM Implementation Plan (Petitioner's Attachment ZE-2), which have been adjusted to reflect the net to gross ratio for each program to account for free ridership.

Q23. Are lost revenues a real and calculable cost of implementing DSM programs?

A23. Yes. As also discussed by IPL Witness Elliot, the participation in DSM programs by customers reduces kWh consumption and kW demand which results in reduced revenue collections for utilities (such as IPL) which are only partially offset by a reduction in base fuel and variable O&M costs. The lost revenue margin rates shown on Petitioner's Attachment KA-3 begin with IPL's approved rate block (Column 4) for each rate schedule at which customers' marginal energy consumption or demand occurs (determining the impact to IPL's revenues) and are adjusted to remove the base cost of fuel, variable O&M expenses, and applicable Indiana Utility Receipts Tax (Columns 5, 7 and 8) to determine the expenses IPL avoids by not generating the electricity that would have otherwise been consumed. The result is a decrease to operating margin (a financial penalty) that IPL experiences as a result of implementing energy efficiency programs. This impact to operating margin continues until the earlier of the end of the energy efficiency measure life, or the effective date of rates established in accordance with a new basic rates and charges case order.

Q24. Has IPL historically projected the recovery of DSM program costs?

A24. Yes. IPL has been projecting DSM program costs for contemporary recovery since 2010, effective with the Order in Cause No. 43623.

Q25. How will the "earnings test" within IPL's FAC account for lost revenue recovery?

A25. The DSM lost revenues reflected in IPL's billing for retail service under Rider 22, including any reconciled amount of over/under recovery, will continue to be included in the FAC earnings test.

Q26. Why is it appropriate to treat lost revenues differently from financial incentives in the FAC earnings test?

A26. As previously discussed, recovery of lost revenues is intended to make the company "whole" from the reduced kWh consumption and kW demand. As discussed by IPL Witness Elliot, the financial incentives are provided to encourage implementation of cost effective energy efficiency and eliminate or offset regulatory or financial bias.

Q27. Have you prepared examples to show the specific calculation to determine the impact of Rider 22 for calendar years 2021-2023?

A27. Yes. Petitioner's Attachment KA-5 provides examples that use forecasted annual costs (including financial incentives and lost revenues) and forecasted kWh sales in order to approximate an annual average DSM Adjustment Factor for each customer class for the 2021-2023 DSM Plan. However, as noted above, the DSM Adjustment factors will be calculated and included in the Company's annual filings using twelve months of projected costs and forecasted kWh sales (adjusted for opt outs). The estimated overall annual impacts reflect recovery of the projected expenditures, financial incentives and lost revenues related to the 2021-2023 DSM Plan as proposed in this proceeding taking into account the effect of opt-out customers on the allocation factors.

Q28. What effect will the proposed 2021-2023 DSM Plan related costs have on an average residential customer using 1,000 kWh per month?

A28. Based on the calculated factors excluding legacy lost revenues on Petitioner's Attachment KA-5, the overall average monthly impact, relative to basic rates and charges, is shown in Table KA-1 below:

Table KA-1

Estimated Bill Impact EXCLUDING legacy lost revenues				
	DSM-19 Factor	Forecast 2021 Factor	Forecast 2022 Factor	Forecast 2023 Factor
Base Rates	$115.60	$115.60	$115.60	$115.60
DSM factor	$5.13	$3.99	$4.57	$5.03
Bill including factor	$120.73	$119.59	$120.17	$120.63
Change relative to Base Rates	4.44%	3.45%	3.95%	4.35%
Change relative to prior factor		-0.95%	0.48%	0.39%

Based on the calculated factors including legacy lost revenues from the 2018-2020 DSM Plan as shown on Petitioner's Attachment KA-5, the overall average monthly impact, relative to basic rates and charges, is shown in Table KA-2 below:

Table KA-2

Estimated Bill Impact INCLUDING legacy lost revenues				
	DSM-19 Factor	Forecast 2021 Factor	Forecast 2022 Factor	Forecast 2023 Factor
Base Rates	$115.60	$115.60	$115.60	$115.60
DSM factor	$5.13	$4.93	$5.50	$5.23
Bill including factor	$120.73	$120.53	$121.10	$120.83
Change relative to Base Rates	4.44%	4.26%	4.76%	4.52%
Change relative to prior factor		-0.17%	0.48%	-0.22%

Q29. Are there any changes to Rider 22 that the Company proposes in this case?

A29. There are no substantive changes to Rider 22 as a result of the proposed DSM Plan. IPL will update the Rider to incude a reference to this docket in a subsequent annual Rider 22 filing after approval of this plan.

Q30. Does this conclude your prepared direct testimony?

A30. Yes, at this time.

VERIFICATION

I, Kimberly Aliff, Senior Regulatory Analyst for Indianapolis Power & Light Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

____
Kimberly Aliff
Dated: April __, 2020