

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2014

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Commission file number 1-8644

**IPALCO ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or  
organization)

**One Monument Circle**

Indianapolis, Indiana

(Address of principal executive offices)

35-1575582

(I.R.S. Employer Identification No.)

46204

(Zip Code)

Registrant's telephone number, including area code: 317-261-8261

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

(Registrant is a voluntary filer that has filed all applicable reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At November 5, 2014, 89,685,177 shares of IPALCO Enterprises, Inc. common stock were outstanding. All of such shares were owned by The AES Corporation.

**THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS H(1)(a)  
AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED  
DISCLOSURE FORMAT**

**IPALCO ENTERPRISES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For Quarter Ended September 30, 2014**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “*forward-looking statements*” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”) including, in particular, the statements about our plans, strategies and prospects under the heading “*Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in Part I – Financial Information of this Form 10-Q. Forward-looking statements involve many risks and uncertainties and express an expectation or belief and contain a projection, plan or assumption with regard to, among other things, our future revenues, income, expenses or capital structure. Such statements of future events or performance are not guarantees of future performance and involve estimates, assumptions and uncertainties. The words “could,” “may,” “predict,” “anticipate,” “would,” “believe,” “estimate,” “expect,” “forecast,” “project,” “objective,” “intend,” “continue,” “should,” “plan,” and similar expressions, or the negatives thereof, are intended to identify forward-looking statements unless the context requires otherwise.

Some important factors that could cause our actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to:

- fluctuations in customer growth and demand;
- impacts of weather on retail sales and wholesale prices;
- impacts of renewable energy generation, natural gas prices and other market factors on wholesale prices;
- weather-related damage to our electrical system;
- fuel and other input costs;
- generating unit availability and capacity;
- transmission and distribution system reliability and capacity;
- purchased power costs and availability;
- availability and price of capacity;
- regulatory action, including, but not limited to, the review of our basic rates and charges by the Indiana Utility Regulatory Commission (“IURC”);
- federal and state legislation and regulations;
- changes in our credit ratings or the credit ratings of The AES Corporation (“AES”);
- fluctuations in the value of pension plan assets, fluctuations in pension plan expenses and our ability to fund defined benefit pension and other post-retirement plans;
- changes in financial or regulatory accounting policies;
- environmental matters, including costs of compliance with current and future environmental laws and requirements;
- interest rates and other costs of capital;
- the availability of capital;
- the use of derivative contracts;
- labor strikes or other workforce factors;
- facility or equipment maintenance, repairs and capital expenditures;
- significant delays associated with large construction projects;
- local economic conditions, including the fact that the local and regional economies have struggled through the recession and weak economic climate in recent years and may face uncertainty in the future;
- catastrophic events such as fires, explosions, cyber-attacks, terrorist acts, acts of war, pandemic events, or natural disasters such as floods, earthquakes, tornadoes, severe winds, ice or snow storms, droughts, or other similar occurrences;
- costs and effects of legal and administrative proceedings, audits, settlements, investigations and claims and the ultimate disposition of litigation;
- industry restructuring, deregulation and competition;
- issues related to our participation in the Midcontinent Independent System Operator, Inc. (“MISO”), including the cost associated with membership and the recovery of costs incurred; and
- product development and technology changes.

Most of these factors affect us through our consolidated subsidiary Indianapolis Power & Light Company (“IPL”). All such factors are difficult to predict, contain uncertainties that may materially affect actual results and many are beyond our control. Except as required by the federal securities laws, we undertake no obligation to publicly update or review any forward-looking information, whether as a result of new information, future events or otherwise. If one or more forward-looking statements are updated, no inference should be drawn that additional updates will be made with respect to those or other forward-looking statements.

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Income**  
*(In Thousands)*

|   | Three Months Ended,<br>September 30, |                  | Nine Months Ended,<br>September 30, |                  |
|---|--------------------------------------|------------------|-------------------------------------|------------------|
|   | 2014                                 | 2013             | 2014                                | 2013             |
| <b>UTILITY OPERATING REVENUES</b>                       | \$ 335,574                           | \$ 321,274       | \$ 1,005,037                        | \$ 947,860       |
| <b>UTILITY OPERATING EXPENSES:</b>                      |                                      |                  |                                     |                  |
| Operation:  |                                      |                  |                                     |                  |
| Fuel  | 113,550                              | 94,555           | 315,492                             | 294,354          |
| Other operating expenses                                | 51,081                               | 58,104           | 168,593                             | 171,653          |
| Power purchased   | 21,665                               | 21,344           | 85,797                              | 62,628           |
| Maintenance   | 20,995                               | 20,547           | 85,746                              | 74,654           |
| Depreciation and amortization                           | 46,396                               | 45,953           | 138,831                             | 136,458          |
| Taxes other than income taxes                           | 11,191                               | 11,228           | 34,403                              | 34,508           |
| Income taxes - net                                      | 21,385                               | 21,824           | 49,147                              | 51,141           |
| Total utility operating expenses                        | <u>286,263</u>                       | <u>273,555</u>   | <u>878,009</u>                      | <u>825,396</u>   |
| <b>UTILITY OPERATING INCOME</b>                         | <u>49,311</u>                        | <u>47,719</u>    | <u>127,028</u>                      | <u>122,464</u>   |
| <b>OTHER INCOME AND (DEDUCTIONS):</b>                   |                                      |                  |                                     |                  |
| Allowance for equity funds used during construction     | 2,051                                | 1,475            | 5,014                               | 3,086            |
| Miscellaneous income and (deductions) - net             | (391)                                | (530)            | (1,932)                             | (1,715)          |
| Income tax benefit applicable to nonoperating income    | 5,545                                | 5,570            | 16,696                              | 16,674           |
| Total other income and (deductions) - net               | <u>7,205</u>                         | <u>6,515</u>     | <u>19,778</u>                       | <u>18,045</u>    |
| <b>INTEREST AND OTHER CHARGES:</b>                      |                                      |                  |                                     |                  |
| Interest on long-term debt                              | 27,503                               | 26,047           | 80,602                              | 78,560           |
| Other interest  | 467                                  | 467              | 1,386                               | 1,329            |
| Allowance for borrowed funds used during construction   | (1,246)                              | (868)            | (2,978)                             | (1,789)          |
| Amortization of redemption premiums and expense on debt | 1,321                                | 1,252            | 3,956                               | 3,824            |
| Total interest and other charges - net                  | <u>28,045</u>                        | <u>26,898</u>    | <u>82,966</u>                       | <u>81,924</u>    |
| <b>NET INCOME</b>                                       | <u>28,471</u>                        | <u>27,336</u>    | <u>63,840</u>                       | <u>58,585</u>    |
| <b>LESS: PREFERRED DIVIDENDS OF SUBSIDIARY</b>          | <u>803</u>                           | <u>803</u>       | <u>2,410</u>                        | <u>2,410</u>     |
| <b>NET INCOME APPLICABLE TO COMMON STOCK</b>            | <u>\$ 27,668</u>                     | <u>\$ 26,533</u> | <u>\$ 61,430</u>                    | <u>\$ 56,175</u> |

See notes to unaudited condensed consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**  
**Unaudited Condensed Consolidated Balance Sheets**  
*(In Thousands)*

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| <b>UTILITY PLANT:</b>  |                       |                      |
| Utility plant in service   | \$ 4,557,498          | \$ 4,478,752         |
| Less accumulated depreciation  | 2,240,044             | 2,149,994            |
| Utility plant in service - net   | 2,317,454             | 2,328,758            |
| Construction work in progress  | 411,729               | 207,727              |
| Spare parts inventory  | 14,515                | 15,774               |
| Property held for future use   | 1,002                 | 1,002                |
| Utility plant - net  | 2,744,700             | 2,553,261            |
| <b>OTHER ASSETS:</b>   |                       |                      |
| Nonutility property - at cost, less accumulated depreciation   | 524                   | 528                  |
| Other investments  | 6,171                 | 5,902                |
| Other assets - net   | 6,695                 | 6,430                |
| <b>CURRENT ASSETS:</b>   |                       |                      |
| Cash and cash equivalents  | 120,889               | 19,067               |
| Accounts receivable and unbilled revenue (less allowance for doubtful accounts of \$1,897 and \$1,982, respectively) | 142,648               | 143,408              |
| Fuel inventories - at average cost   | 43,298                | 54,763               |
| Materials and supplies - at average cost   | 59,758                | 58,067               |
| Deferred tax asset - current   | 9,840                 | 11,990               |
| Regulatory assets  | 2,407                 | 2,409                |
| Prepayments and other current assets   | 32,193                | 23,247               |
| Total current assets   | 411,033               | 312,951              |
| <b>DEFERRED DEBITS:</b>  |                       |                      |
| Regulatory assets  | 361,913               | 369,447              |
| Miscellaneous  | 22,808                | 31,976               |
| Total deferred debits  | 384,721               | 401,423              |
| <b>TOTAL</b>   | <b>\$ 3,547,149</b>   | <b>\$ 3,274,065</b>  |
| <b>CAPITALIZATION AND LIABILITIES</b>  |                       |                      |
| <b>CAPITALIZATION:</b>   |                       |                      |
| Common shareholder's equity:   |                       |                      |
| Paid in capital  | \$ 168,255            | \$ 61,468            |
| Accumulated deficit  | (30,264)              | (13,694)             |
| Total common shareholder's equity  | 137,991               | 47,774               |
| Cumulative preferred stock of subsidiary   | 59,784                | 59,784               |
| Long-term debt (Note 5)  | 1,950,775             | 1,821,713            |
| Total capitalization   | 2,148,550             | 1,929,271            |
| <b>CURRENT LIABILITIES:</b>  |                       |                      |
| Short-term debt (Note 5)   | 50,000                | 50,000               |
| Accounts payable   | 116,536               | 99,966               |
| Accrued expenses   | 21,799                | 27,417               |
| Accrued real estate and personal property taxes  | 23,636                | 19,224               |
| Regulatory liabilities   | 29,309                | 12,436               |
| Accrued income taxes   | 32,982                | -                    |
| Accrued interest   | 48,842                | 29,691               |
| Customer deposits  | 27,726                | 26,241               |
| Other current liabilities  | 11,699                | 12,200               |
| Total current liabilities  | 362,529               | 277,175              |
| <b>DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES:</b>   |                       |                      |
| Regulatory liabilities   | 604,514               | 585,753              |
| Accumulated deferred income taxes - net  | 325,217               | 332,363              |
| Non-current income tax liability   | 6,973                 | 6,734                |
| Unamortized investment tax credit  | 5,587                 | 6,661                |
| Accrued pension and other postretirement benefits  | 37,335                | 93,680               |
| Asset retirement obligations   | 55,534                | 41,381               |
| Miscellaneous  | 910                   | 1,047                |
| Total deferred credits and other long-term liabilities   | 1,036,070             | 1,067,619            |
| <b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>  |                       |                      |
| <b>TOTAL</b>   | <b>\$ 3,547,149</b>   | <b>\$ 3,274,065</b>  |

See notes to unaudited condensed consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
*(In Thousands)*

|   | Nine Months Ended,<br>September 30, |                  |
|---|-------------------------------------|------------------|
|   | 2014                                | 2013             |
| <b>CASH FLOWS FROM OPERATIONS:</b>  |                                     |                  |
| Net income  | \$ 63,840                           | \$ 58,585        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                  |
| Depreciation and amortization   | 139,607                             | 136,621          |
| Amortization of regulatory assets   | 2,480                               | 2,877            |
| Amortization of debt premium  | 704                                 | 650              |
| Deferred income taxes and investment tax credit adjustments - net                 | (1,505)                             | (6,412)          |
| Allowance for equity funds used during construction                               | (4,831)                             | (2,904)          |
| Gain on sale of nonutility property   | -                                   | (297)            |
| Change in certain assets and liabilities:   |                                     |                  |
| Accounts receivable   | 761                                 | 843              |
| Fuel, materials and supplies  | 9,774                               | (6,182)          |
| Income taxes receivable or payable  | 33,956                              | 6,878            |
| Financial transmission rights   | (6,465)                             | (5,428)          |
| Accounts payable and accrued expenses   | (27,808)                            | (9,546)          |
| Accrued real estate and personal property taxes                                   | 4,412                               | 4,917            |
| Accrued interest  | 19,150                              | 14,441           |
| Pension and other postretirement benefit expenses                                 | (56,343)                            | (49,741)         |
| Short-term and long-term regulatory assets and liabilities                        | 16,250                              | 24,729           |
| Prepays and other current assets  | (3,453)                             | (5,082)          |
| Other - net   | 2,147                               | 2,297            |
| Net cash provided by operating activities   | <u>192,676</u>                      | <u>167,246</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                     |                  |
| Capital expenditures - utility  | (232,313)                           | (161,684)        |
| Project development costs   | (7,277)                             | (3,842)          |
| Grants under the American Recovery and Reinvestment Act of 2009                   | -                                   | 923              |
| Cost of removal, net of salvage   | (3,737)                             | (4,148)          |
| Other   | (43)                                | 47               |
| Net cash used in investing activities   | <u>(243,370)</u>                    | <u>(168,704)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                     |                  |
| Short-term debt borrowings  | 105,000                             | 145,500          |
| Short-term debt repayments  | (105,000)                           | (145,500)        |
| Long-term borrowings, net of discount   | 128,358                             | 169,728          |
| Retirement of long-term debt, including make-whole provision                      | -                                   | (110,377)        |
| Dividends on common stock   | (78,000)                            | (43,650)         |
| Equity contribution from AES  | 106,400                             | 49,091           |
| Preferred dividends of subsidiary   | (2,410)                             | (2,410)          |
| Deferred financing costs paid   | (1,724)                             | (1,844)          |
| Other   | (108)                               | (6)              |
| Net cash provided by financing activities   | <u>152,516</u>                      | <u>60,532</u>    |
| Net change in cash and cash equivalents   | 101,822                             | 59,074           |
| Cash and cash equivalents at beginning of period                                  | 19,067                              | 18,487           |
| Cash and cash equivalents at end of period  | <u>\$ 120,889</u>                   | <u>\$ 77,561</u> |
| <b>Supplemental disclosures of cash flow information:</b>                         |                                     |                  |
| Cash paid during the period for:  |                                     |                  |
| Interest (net of amount capitalized)  | \$ 59,833                           | \$ 63,673        |
| Income taxes  | \$ -                                | \$ 34,000        |
|   | <b>As of September 30,</b>          |                  |
|   | <b>2014</b>                         | <b>2013</b>      |
| Non-cash investing activities:  |                                     |                  |
| Accruals for capital expenditures   | \$ 49,218                           | \$ 23,770        |

See notes to unaudited condensed consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Common Shareholder's Equity (Deficit)**  
**and Noncontrolling Interest**  
*(In Thousands)*

|                                       | Paid in Capital   | Accumulated<br>Deficit | Total Common<br>Shareholder's<br>Equity (Deficit) | Cumulative<br>Preferred Stock of<br>Subsidiary |
|---------------------------------------|-------------------|------------------------|---|--|
| <b>2013</b>                           |                   |                        |   |  |
| Beginning Balance                     | \$ 11,811         | \$ (15,030)            | \$ (3,219)  | \$ 59,784                                      |
| Net income applicable to common stock |                   | 56,175                 | 56,175  |  |
| Distributions to AES                  |                   | (43,650)               | (43,650)  |  |
| Contributions from AES                | 49,604            |                        | 49,604  |  |
| <b>Balance at September 30, 2013</b>  | <u>\$ 61,415</u>  | <u>\$ (2,505)</u>      | <u>\$ 58,910</u>                                  | <u>\$ 59,784</u>                               |
| <b>2014</b>                           |                   |                        |   |  |
| Beginning Balance                     | \$ 61,468         | \$ (13,694)            | \$ 47,774   | \$ 59,784                                      |
| Net income applicable to common stock |                   | 61,430                 | 61,430  |  |
| Distributions to AES                  |                   | (78,000)               | (78,000)  |  |
| Contributions from AES                | 106,787           |                        | 106,787   |  |
| <b>Balance at September 30, 2014</b>  | <u>\$ 168,255</u> | <u>\$ (30,264)</u>     | <u>\$ 137,991</u>                                 | <u>\$ 59,784</u>                               |

See notes to unaudited condensed consolidated financial statements.

**IPALCO ENTERPRISES, INC. and SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

For a list of certain abbreviations or acronyms used in the Notes to Unaudited Condensed Consolidated Financial Statements, see “*Item 1B. Defined Terms*” included in Part I – Financial Information of this Form 10-Q.

**1. ORGANIZATION**

IPALCO Enterprises, Inc. (“IPALCO” or “we”) is a holding company incorporated under the laws of the state of Indiana. IPALCO is a wholly-owned subsidiary of The AES Corporation (“AES”). IPALCO was acquired by AES in March 2001. IPALCO owns all of the outstanding common stock of its subsidiaries. Substantially all of IPALCO’s business consists of the generation, transmission, distribution and sale of electric energy conducted through its principal subsidiary, Indianapolis Power & Light Company (“IPL”). IPL was incorporated under the laws of the state of Indiana in 1926. IPL has more than 470,000 retail customers in the city of Indianapolis and neighboring cities, towns and communities, and adjacent rural areas all within the state of Indiana, with the most distant point being approximately forty miles from Indianapolis. IPL has an exclusive right to provide electric service to those customers. IPL owns and operates two primarily coal-fired generating plants, one combination coal and gas-fired plant and two combustion turbines at a separate site that are all used for generating electricity. IPL’s net electric generation design capability for winter and summer is 3,241 Megawatts (“MW”) and 3,123 MW, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Unaudited Condensed Consolidated Financial Statements (the “Financial Statements”) include the accounts of IPALCO, IPL and Mid-America Capital Resources, Inc., a non-regulated wholly-owned subsidiary of IPALCO. All significant intercompany amounts have been eliminated. The accompanying Financial Statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for annual fiscal reporting periods. In the opinion of management, all adjustments of a normal recurring nature necessary for fair presentation have been included. The electric utility business is affected by seasonal weather patterns throughout the year and, therefore, the operating revenues and associated operating expenses are not generated evenly by month during the year. These unaudited Financial Statements have been prepared in accordance with the accounting policies described in IPALCO’s Annual Report on Form 10-K for the year ended December 31, 2013 (“2013 Form 10-K”) and should be read in conjunction therewith. Certain prior period amounts have been reclassified to conform to current year presentation.

**Use of Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may also be affected by the estimates and assumptions that management is required to make. Actual results may differ from those estimates.

**New Accounting Pronouncements**

*Accounting Standards Update (“ASU”) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08, “*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*,” effective for annual and interim periods beginning after December 15, 2014. ASU 2014-08 updates the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. In addition, an entity will be required to expand disclosures for discontinued operations by providing more information about the assets, liabilities, revenues and expenses of discontinued operations both on the face of the financial statements and in the notes to the financial



statements. For the disposal of an individually significant component of an entity that does not qualify for discontinued operations reporting, such entity will be required to disclose the pretax profit or loss of the component in the notes to the financial statements. Our early adoption of ASU No. 2014-08 in the third quarter of 2014 did not have any impact on our overall results of operations, financial position or cash flows.

*ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*

In May 2014, the FASB issued ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*,” effective for annual and interim periods beginning after December 15, 2016, with retrospective application. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Because the guidance in this ASU is principles-based, it can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. We have not yet determined the extent, if any, to which our overall results of operations, financial position or cash flows may be affected by the implementation of this accounting standard.

*ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*

In August 2014, the FASB issued ASU 2014-15, “*Presentation of Financial Statements – Going Concern (Subtopic 205-40: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern)*,” effective for annual and interim periods ending after December 15, 2016. ASU 2014-15 requires management to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. There are required disclosures if substantial doubt is identified including documentation of principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans), management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations, and management’s plans that alleviated substantial doubt about the entity’s ability to continue as a going concern. This ASU is not expected to have any impact on our overall results of operations, financial position or cash flows.

### **3. FAIR VALUE MEASUREMENTS**

#### **Fair Value Hierarchy**

FASB Accounting Standards Codification (“ASC”) 820 defined and established a framework for measuring fair value and expanded disclosures about fair value measurements for financial assets and liabilities that are adjusted to fair value on a recurring basis and/or financial assets and liabilities that are measured at fair value on a nonrecurring basis, which have been adjusted to fair value during the period. In accordance with ASC 820, we have categorized our financial assets and liabilities that are adjusted to fair value, based on the priority of the inputs to the valuation technique, following the prescribed three-level fair value hierarchy:

Level 1 - unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 - inputs from quoted prices in markets where trading occurs infrequently or quoted prices of instruments with similar attributes in active markets.

Level 3 - unobservable inputs reflecting management’s own assumptions about the inputs used in pricing the asset or liability.

As of September 30, 2014 and December 31, 2013, all of IPALCO’s financial assets or liabilities adjusted to fair value on a recurring basis (excluding pension assets – see Note 6, “*Pension and Other Postretirement Benefits*”) were considered Level 3, based on the above fair value hierarchy. These primarily consisted of financial transmission rights, which are used to offset MISO congestion charges. Because the benefit associated with financial transmission rights is a flow-through to IPL’s jurisdictional customers, IPL records a regulatory liability matching the value of the financial transmission rights. In addition, IPALCO had one financial asset, a nonutility investment accounted for using the cost method of accounting, which is measured at fair value on a nonrecurring basis, again using Level 3 measurements. No adjustments were made to this asset during the periods covered by this report. All

of these financial assets and liabilities were not material to the Financial Statements in the periods covered by this report, individually or in the aggregate.

Whenever possible, quoted prices in active markets are used to determine the fair value of our financial instruments. Our financial instruments are not held for trading or other speculative purposes. The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

### Cash Equivalents

As of September 30, 2014 and December 31, 2013, our cash equivalents consisted of money market funds. The fair value of cash equivalents approximates their book value due to their short maturity (Level 1), which was \$29.1 million and \$5.4 million as of September 30, 2014 and December 31, 2013, respectively.

### Indebtedness

The fair value of our outstanding fixed-rate debt has been determined on the basis of the quoted market prices of the specific securities issued and outstanding. Because trading of our debt occurs somewhat infrequently, we consider the fair values to be Level 2. Accordingly, the purpose of this disclosure is not to approximate the value on the basis of how the debt might be refinanced.

The following table shows the face value and the fair value of fixed-rate and variable-rate indebtedness for the periods ending:

|                           | September 30, 2014   |                   | December 31, 2013 |                   |
|---------------------------|----------------------|-------------------|-------------------|-------------------|
|                           | Face Value           | Fair Value        | Face Value        | Fair Value        |
|                           | <i>(In Millions)</i> |                   |                   |                   |
| Fixed-rate                | \$ 1,955.3           | \$ 2,156.9        | \$ 1,825.3        | \$ 1,941.8        |
| Variable-rate             | 50.0                 | 50.0              | 50.0              | 50.0              |
| <b>Total indebtedness</b> | <b>\$ 2,005.3</b>    | <b>\$ 2,206.9</b> | <b>\$ 1,875.3</b> | <b>\$ 1,991.8</b> |

The difference between the face value and the carrying value of this indebtedness represents unamortized discounts of \$4.5 million and \$3.6 million at September 30, 2014 and December 31, 2013, respectively.

### Other Non-Recurring Fair Value Measurements

ASC 410 "Asset Retirement and Environmental Obligations" addresses financial accounting and reporting for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation. A legal obligation for purposes of ASC 410 is an obligation that a party is required to settle as a result of an existing law, statute, ordinance, written or oral contract or the doctrine of promissory estoppel. IPL's Asset Retirement Obligations ("ARO") liabilities relate primarily to environmental issues involving asbestos-containing materials, ash ponds, landfills and miscellaneous contaminants associated with its generating plants, transmission system and distribution system. We use the cost approach to determine the fair value of IPL's ARO liabilities, which is estimated by discounting expected cash outflows to their present value at the initial recording of the liabilities. Cash outflows are based on the approximate future disposal costs as determined by market information, historical information or other management estimates. These inputs to the fair value of the ARO liabilities would be considered Level 3 inputs under the fair value hierarchy. Additions to the ARO liabilities in the three and nine months ended September 30, 2014 were \$12.6 million, primarily for ash pond-related ARO liabilities. Additions to ARO liabilities were not material during the three and nine months ended September 30, 2013. As of September 30, 2014 and December 31, 2013, ARO liabilities were \$55.5 million and \$41.4 million, respectively.

#### **4. SHAREHOLDER'S EQUITY**

On June 27, 2014, IPALCO received an equity capital contribution of \$106.4 million from AES for funding needs related to IPL's environmental and replacement generation projects. IPALCO then made the same equity capital contribution to IPL.

#### **5. INDEBTEDNESS**

##### *Line of Credit*

In May 2014, IPL entered into an amendment and restatement of its 5-year \$250 million revolving credit facility (the "Credit Agreement") with a syndication of banks. This Credit Agreement is an unsecured committed line of credit to be used (i) to finance capital expenditures, (ii) to refinance indebtedness under the existing credit agreement, (iii) to support working capital and (iv) for general corporate purposes. This agreement matures on May 6, 2019, and bears interest at variable rates as described in the Credit Agreement. It includes an uncommitted \$150 million accordion feature to provide IPL with an option to request an increase in the size of the facility at any time during the term of the agreement, subject to approval by the lenders. Prior to execution, IPL and IPALCO had existing general banking relationships with the parties in this agreement. As of September 30, 2014 and December 31, 2013, IPL had no outstanding borrowings on the committed line of credit.

##### *IPL First Mortgage Bonds*

In June 2014, IPL issued \$130 million aggregate principal amount of first mortgage bonds, 4.50% Series, due June 2044. Net proceeds from this offering were approximately \$126.8 million, after deducting the initial purchasers' discounts and fees and expenses for the offering payable by IPL. The net proceeds from the offering were used (i) to finance a portion of IPL's construction program, (ii) to finance a portion of IPL's capital costs related to environmental and replacement generation projects and (iii) for other general corporate purposes.

## 6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The following table (in thousands) presents information for the nine months ended September 30, 2014, relating to the Employees' Retirement Plan of Indianapolis Power & Light Company and the Supplemental Retirement Plan of Indianapolis Power & Light Company (the "Pension Plans"):

### Net unfunded status of plans:

|   |                    |
|---|--------------------|
| <b>Net unfunded status at December 31, 2013, before tax adjustments</b>             | \$ (89,127)        |
| Net benefit cost components reflected in net unfunded status during first quarter:  |                    |
| Service cost  | (1,808)            |
| Interest cost   | (7,788)            |
| Expected return on assets   | 10,473             |
| Employer contributions during quarter   | <u>54,100</u>      |
| <b>Net unfunded status at March 31, 2014, before tax adjustments</b>                | <u>\$ (34,150)</u> |
| Net benefit cost components reflected in net unfunded status during second quarter: |                    |
| Service cost  | (1,807)            |
| Interest cost   | (7,789)            |
| Expected return on assets   | 10,473             |
| Employer contributions during quarter   | <u>-</u>           |
| <b>Net unfunded status at June 30, 2014, before tax adjustments</b>                 | <u>\$ (33,273)</u> |
| Net benefit cost components reflected in net unfunded status during third quarter:  |                    |
| Service cost  | (1,808)            |
| Interest cost   | (7,788)            |
| Expected return on assets   | 10,474             |
| Employer contributions during quarter   | <u>-</u>           |
| <b>Net unfunded status at September 30, 2014, before tax adjustments</b>            | <u>\$ (32,395)</u> |
| <b>Regulatory assets related to pensions<sup>(1)</sup>:</b>                         |                    |
| <b>Regulatory assets at December 31, 2013, before tax adjustments</b>               | \$ 191,783         |
| Amount reclassified through net benefit cost:                                       |                    |
| Amortization of prior service cost  | (1,213)            |
| Amortization of net actuarial loss  | <u>(2,429)</u>     |
| <b>Regulatory assets at March 31, 2014, before tax adjustments</b>                  | <u>\$ 188,141</u>  |
| Amount reclassified through net benefit cost:                                       |                    |
| Amortization of prior service cost  | (1,213)            |
| Amortization of net actuarial loss  | <u>(2,426)</u>     |
| <b>Regulatory assets at June 30, 2014, before tax adjustments</b>                   | <u>\$ 184,502</u>  |
| Amount reclassified through net benefit cost:                                       |                    |
| Amortization of prior service cost  | (1,214)            |
| Amortization of net actuarial loss  | <u>(2,428)</u>     |
| <b>Regulatory assets at September 30, 2014, before tax adjustments</b>              | <u>\$ 180,860</u>  |

<sup>(1)</sup> Amounts that would otherwise be charged/credited to Accumulated Other Comprehensive Income or Loss upon application of ASC 715, "Compensation - Retirement Benefits," are recorded as a regulatory asset or liability because IPL has historically recovered and currently recovers pension and other postretirement benefit expenses in rates. These are unrecognized amounts yet to be recognized as components of net periodic benefit costs.

## Pension Expense

The following table presents net periodic benefit cost information relating to the Pension Plans combined:

|   | For the Three Months Ended,<br>September 30, |                 | For the Nine Months Ended,<br>September 30, |                  |
|---|--|-----------------|---|------------------|
|   | 2014   | 2013            | 2014  | 2013             |
|   | <i>(In Thousands)</i>                        |                 | <i>(In Thousands)</i>                       |                  |
| <b>Components of net periodic benefit cost:</b> |  |                 |   |                  |
| Service cost                                    | \$ 1,808                                     | \$ 2,298        | \$ 5,423                                    | \$ 6,896         |
| Interest cost                                   | 7,788  | 7,091           | 23,365                                      | 21,272           |
| Expected return on plan assets                  | (10,474)                                     | (9,571)         | (31,420)                                    | (28,715)         |
| Amortization of prior service cost              | 1,214  | 1,229           | 3,640                                       | 3,687            |
| Amortization of actuarial loss                  | 2,428  | 5,683           | 7,283                                       | 17,051           |
| <b>Net periodic benefit cost</b>                | <b>\$ 2,764</b>                              | <b>\$ 6,730</b> | <b>\$ 8,291</b>                             | <b>\$ 20,191</b> |

In addition, IPL provides postretirement health care benefits to certain active or retired employees and the spouses of certain active or retired employees. These postretirement health care benefits and the related obligation were not material to the Financial Statements in the periods covered by this report.

## 7. COMMITMENTS AND CONTINGENCIES

### Legal Loss Contingencies

IPALCO and IPL are involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management believes that the final outcome will not have a material adverse effect on IPALCO's results of operations, financial condition, or cash flows. Amounts accrued or expensed for legal or environmental contingencies collectively during the periods covered by this report have not been material to the Financial Statements of IPALCO.

### Environmental Loss Contingencies

We are subject to various federal, state, regional and local environmental protection and health and safety laws, as well as regulations governing, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of hazardous and other materials into the environment; and the health and safety of our employees. These laws and regulations often require a lengthy and complex process of obtaining and renewing permits and other governmental authorizations from federal, state and local agencies. Violation of these laws, regulations or permits can result in substantial fines, other sanctions, permit revocation and/or facility shutdowns. We cannot assure that we have been or will be at all times in full compliance with such laws, regulations and permits.

### *New Source Review*

In October 2009, IPL received a Notice of Violation ("NOV") and Finding of Violation from the U.S. Environmental Protection Agency ("EPA") pursuant to the U.S. Clean Air Act ("CAA") Section 113(a). The NOV alleges violations of the CAA at IPL's three primarily coal-fired electric generating facilities dating back to 1986. The alleged violations primarily pertain to the Prevention of Significant Deterioration ("PSD") and nonattainment New Source Review requirements under the CAA. Since receiving the letter, IPL management has met with EPA staff regarding possible resolutions of the NOV. At this time, we cannot predict the ultimate resolution of this matter. However, settlements and litigated outcomes of similar cases have required companies to pay civil penalties, install additional pollution control technology on coal-fired electric generating units, retire existing generating units, and invest in additional environmental projects. A similar outcome in this case could have a material impact on our business. We would seek recovery of any operating or capital expenditures related to air pollution control

technology to reduce regulated air emissions; however, there can be no assurances that we would be successful in that regard. IPL has recorded a contingent liability related to this matter.

## **8. INCOME TAXES**

On March 25, 2014, the State of Indiana enacted Senate Bill 001, which phases in an additional 1.6% reduction to the state corporate income tax rate that was initially being reduced by 2% in accordance with Indiana Code 6-3-2-1. While the statutory state income tax rate remains at 7.25% for the calendar year 2014, the deferred tax balances were adjusted according to the anticipated reversal of temporary differences. The change in required deferred taxes on plant and plant-related temporary differences resulted in a reduction to the associated regulatory asset of \$5.6 million. The change in required deferred taxes on non-property-related temporary differences which are not probable to cause a reduction in future base customer rates resulted in a tax benefit of \$1.2 million.

IPALCO's effective combined state and federal income tax rates were 36.4% and 34.6% for the three and nine months ended September 30, 2014, respectively, as compared to 38.0% and 38.0% for the three and nine months ended September 30, 2013, respectively. The decrease in the effective tax rates versus the comparable periods was primarily the result of the \$1.2 million state income tax benefit described above and an increase in the allowance for equity funds used during construction in 2014.

## **9. RELATED PARTY TRANSACTIONS**

In December 2013, an agreement was signed, effective January 1, 2014, whereby AES U.S. Services, LLC (the "Service Company") is to provide services including accounting, legal, human resources, information technology and other corporate services on behalf of companies that are part of the AES U.S. Strategic Business Unit ("U.S. SBU"), including among other companies, IPALCO and IPL. The Service Company allocates the costs for these services based on cost drivers designed to result in fair and equitable allocations. This includes ensuring that the regulated utilities served, including IPL, are not subsidizing costs incurred for the benefit of non-regulated businesses. Total costs incurred by the Service Company during the first nine months of 2014 on behalf of IPALCO were \$18.0 million. IPALCO had a prepaid balance of \$3.6 million to the Service Company as of September 30, 2014.

## **10. SEGMENT INFORMATION**

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in assessing performance and deciding how to allocate resources. Substantially all of our business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL which is a vertically integrated electric utility. IPALCO's reportable business segments are utility and nonutility. The nonutility category primarily includes the \$400 million of 7.25% Senior Secured Notes due April 1, 2016, and the \$400 million of 5.00% Senior Secured Notes due May 1, 2018; approximately \$6.1 million and \$6.9 million of nonutility cash and cash equivalents, as of September 30, 2014 and December 31, 2013, respectively; short-term and long-term nonutility investments of \$5.1 million and \$5.0 million at September 30, 2014 and December 31, 2013, respectively; and income taxes and interest related to those items. Nonutility assets represented less than 1% of IPALCO's total assets as of September 30, 2014 and December 31, 2013. Net income for the utility segment was \$87.5 million and \$82.0 million for the nine-month periods ended September 30, 2014 and 2013, respectively, and \$36.3 million and \$35.1 million for the three-month periods ended September 30, 2014 and 2013, respectively. The accounting policies of the identified segments are consistent with those policies and procedures described in the summary of significant accounting policies. Intersegment sales, if any, are generally based on prices that reflect the current market conditions.

## **ITEM 1B. DEFINED TERMS**

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### **DEFINED TERMS**

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The following is a list of frequently used abbreviations or acronyms that are found in this Form 10-Q:

|                      |   |
|----------------------|---|
| 2013 Form 10-K       | IPALCO's Annual Report on Form 10-K for the year ended December 31, 2013  |
| AES                  | The AES Corporation   |
| ARO                  | Asset Retirement Obligations  |
| ASC                  | Accounting Standards Codification   |
| ASU                  | Accounting Standards Update   |
| BACT                 | Best Achievable Control Technology  |
| BTA                  | Best Technology Available   |
| CAA                  | U.S. Clean Air Act  |
| CCB                  | Coal Combustion Byproducts  |
| CCGT                 | Combined Cycle Gas Turbine  |
| CPCN                 | Certificate of Public Convenience and Necessity   |
| COSO                 | Committee of Sponsoring Organizations of the Treadway Commission  |
| Credit Agreement     | \$250,000,000 Revolving Credit Facilities Amended and Restated Credit Agreement by and among Indianapolis Power & Light Company, the Lenders Party thereto, PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Bookrunner and Sole Lead Arranger, Fifth Third Bank, as Syndication Agent and BMO Harris Bank N.A., as Documentation Agent, Dated as of May 6, 2014 |
| CSAPR                | Cross-State Air Pollution Rule  |
| CWA                  | U.S. Clean Water Act  |
| DSM                  | Demand Side Management  |
| ELGs                 | Effluent Limitation Guidelines  |
| EPA                  | U.S. Environmental Protection Agency  |
| FAC                  | Fuel Adjustment Clause  |
| FASB                 | Financial Accounting Standards Board  |
| FERC                 | Federal Energy Regulatory Commission  |
| Financial Statements | Unaudited Condensed Consolidated Financial Statements of IPALCO in "Item 1. Financial Statements" included in Part I – Financial Information of this Form 10-Q  |
| GHG                  | Greenhouse Gas  |
| IDEM                 | Indiana Department of Environmental Management  |
| IPALCO               | IPALCO Enterprises, Inc.  |
| IPL                  | Indianapolis Power & Light Company  |
| IURC                 | Indiana Utility Regulatory Commission   |
| kWh                  | Kilowatt hours  |
| MATS                 | Mercury and Air Toxics Standards  |
| MW                   | Megawatt  |
| MISO                 | Midcontinent Independent System Operator, Inc.  |
| NOV                  | Notice of Violation   |
| NPDES                | National Pollutant Discharge Elimination System   |
| NSPS                 | New Source Performance Standards  |
| Pension Plans        | Employees' Retirement Plan of Indianapolis Power & Light Company and Supplemental Retirement Plan of Indianapolis Power & Light Company   |
| PSD                  | Prevention of Significant Deterioration   |
| RSG                  | Revenue Sufficiency Guarantee   |
| SEA 340              | Senate Enrolled Act 340   |
| Service Company      | AES U.S. Services, LLC  |
| U.S. SBU             | AES U.S. Strategic Business Unit  |

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**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the Financial Statements and the notes thereto included in “Item 1. Financial Statements” included in Part I – Financial Information of this Form 10-Q. The following discussion contains forward-looking statements. Our actual results may differ materially from the results suggested by these forward-looking statements. Please see “Cautionary Note Regarding Forward – Looking Statements” at the beginning of this Form 10-Q. For a list of certain abbreviations or acronyms used in this discussion, see “Item 1B. Defined Terms” included in Part I – Financial Information of this Form 10-Q.

**RESULTS OF OPERATIONS**

The electric utility business is affected by seasonal weather patterns throughout the year and, therefore, the operating revenues and associated expenses are not generated evenly by month during the year.

**Comparison of three months ended September 30, 2014 and three months ended September 30, 2013**

*Utility Operating Revenues*

Utility operating revenues during the three months ended September 30, 2014 increased by \$14.3 million compared to the same period in 2013, which resulted from the following changes (dollars in thousands):

|   | Three Months Ended |                   |                  | Percentage Change |
|---|--------------------|-------------------|------------------|-------------------|
|   | September 30,      |                   | Change           |                   |
|   | 2014               | 2013              |                  |                   |
| <b>Utility Operating Revenues:</b>      |                    |                   |                  |                   |
| Retail Revenues                         | \$ 307,598         | \$ 303,465        | \$ 4,133         | 1.4%              |
| Wholesale Revenues                      | 22,576             | 11,899            | 10,677           | 89.7%             |
| Miscellaneous Revenues                  | 5,400              | 5,910             | (510)            | (8.6%)            |
| <b>Total Utility Operating Revenues</b> | <b>\$ 335,574</b>  | <b>\$ 321,274</b> | <b>\$ 14,300</b> | <b>4.5%</b>       |
| <b>Heating Degree Days:</b>             |                    |                   |                  |                   |
| Actual                                  | 79                 | 34                | 45               | 132.4%            |
| 30-year Average                         | 67                 | 81                |                  |                   |
| <b>Cooling Degree Days:</b>             |                    |                   |                  |                   |
| Actual                                  | 549                | 774               | (225)            | (29.1%)           |
| 30-year Average                         | 793                | 725               |                  |                   |

The increase in retail revenues of \$4.1 million was primarily due to a net increase in the weighted average price per kilowatt hours (“kWh”) sold (\$16.6 million), partially offset by a 6% decrease in the volume of “kWh” sold (\$12.5 million). The \$16.6 million increase in the weighted average price of retail kWh sold was primarily due to increases in (i) fuel revenues of \$13.3 million; (ii) other retail variances of \$2.8 million; and (iii) environmental rate adjustment mechanism revenues of \$2.8 million; partially offset by a decrease in Demand Side Management (“DSM”) program rate adjustment mechanism revenues of \$1.9 million. The increase in fuel revenues was offset by increases in fuel costs as described below. Likewise, the vast majority of the increases in environmental rate adjustment mechanism revenues are offset by increased operating expenses, including depreciation and amortization, while the vast majority of the decreases in DSM rate adjustment mechanism revenues are offset by decreased operating expenses. The \$12.5 million decrease in the volume of electricity sold was primarily due to



cooler temperatures in our service territory during the summer of 2014 versus the comparable period (as demonstrated by the 29% decrease in cooling degree days, as shown above).

The increase in wholesale revenues of \$10.7 million was primarily due to a 78% increase in the quantity of kWh sold (\$9.3 million) as IPL's coal-fired generation has been called upon by MISO to produce electricity more often during the three months ended September 30, 2014 versus the comparable period in 2013. The increase in wholesale revenues was also due to the decrease in retail volumes (as explained above). Our ability to be dispatched in the MISO market is primarily impacted by the locational marginal price of electricity and variable generation costs. The amount of electricity available for wholesale sales is impacted by our retail load requirements, our generation capacity and unit availability.

#### *Utility Operating Expenses*

The following table illustrates our primary operating expense changes from the three months ended September 30, 2013 to the three months ended September 30, 2014 (in millions):

|   |           |              |
|---|-----------|--------------|
| <b>Operating expenses for the three months ended September 30, 2013</b> | \$        | 273.6        |
| Increase in fuel costs  |           | 19.0         |
| Decrease in pension expenses  |           | (4.0)        |
| Decrease in DSM program costs   |           | (1.9)        |
| Other miscellaneous variances   |           | (0.4)        |
| <b>Operating expenses for the three months ended September 30, 2014</b> | <b>\$</b> | <b>286.3</b> |

The \$19.0 million increase in fuel costs is primarily due to (i) a \$14.7 million increase in deferred fuel costs as the result of variances between estimated fuel and purchased power costs in our Fuel Adjustment Clause ("FAC") and actual fuel and purchased power costs, and (ii) a \$3.3 million increase in the price of coal we consumed during the comparable periods. We are generally permitted to recover underestimated fuel and purchased power costs to serve our retail customers in future rates through the FAC proceedings and, therefore, the costs are deferred when incurred and amortized into expense in the same period that our rates are adjusted to reflect these costs.

The \$4.0 million decrease in pension expenses, which is included in "Other operating expenses" on our Unaudited Condensed Consolidated Statements of Income, is primarily due to a \$3.3 million decrease in the recognized actuarial loss.

The decrease in DSM program costs of \$1.9 million, which are included in "Other operating expenses" on our Unaudited Condensed Consolidated Statements of income and are recoverable through customer rates, is correlated to a decrease in DSM program rate adjustment mechanism retail revenues.

#### *Other Income and Deductions*

Other income and deductions increased \$0.7 million from income of \$6.5 million for the three months ended September 30, 2013 to income of \$7.2 million for the same period in 2014, reflecting an 11% increase. The increase was primarily due to a \$0.6 million increase in the allowance for equity funds used during construction as a result of increased construction activity.

#### *Interest and Other Charges*

Interest and other charges increased \$1.1 million, or 4%, for the three months ended September 30, 2014 versus the same period in 2013, primarily due to higher interest on long-term debt of \$1.5 million mostly as a result of IPL's debt issuance in June 2014 of \$130 million aggregate principal amount of first mortgage bonds, 4.50% Series, due June 2044. This increase was partially offset by a \$0.4 million increase in the allowance for borrowed funds used during construction as a result of increased construction activity.

## Comparison of nine months ended September 30, 2014 and nine months ended September 30, 2013

### Utility Operating Revenues

Utility operating revenues during the nine months ended September 30, 2014 increased by \$57.2 million compared to the same period in 2013, which resulted from the following changes (dollars in thousands):

|   | Nine Months Ended   |                   |                  | Percentage<br>Change |
|---|---------------------|-------------------|------------------|----------------------|
|   | September 30,       |                   | Change           |                      |
|   | 2014                | 2013              |                  |                      |
| <b>Utility Operating Revenues:</b>      |                     |                   |                  |                      |
| Retail Revenues                         | \$ 925,082          | \$ 880,609        | \$ 44,473        | 5.1%                 |
| Wholesale Revenues                      | 63,929              | 51,523            | 12,406           | 24.1%                |
| Miscellaneous Revenues                  | 16,026              | 15,728            | 298              | 1.9%                 |
| <b>Total Utility Operating Revenues</b> | <b>\$ 1,005,037</b> | <b>\$ 947,860</b> | <b>\$ 57,177</b> | <b>6.0%</b>          |
| <b>Heating Degree Days:</b>             |                     |                   |                  |                      |
| Actual                                  | 4,064               | 3,460             | 604              | 17.5%                |
| 30-year Average                         | 3,284               | 3,460             |                  |                      |
| <b>Cooling Degree Days:</b>             |                     |                   |                  |                      |
| Actual                                  | 891                 | 1,129             | (238)            | (21.1%)              |
| 30-year Average                         | 1,136               | 1,034             |                  |                      |

The increase in retail revenues of \$44.5 million was primarily due to a net increase in the weighted average price per kWh sold (\$39.8 million) and a 1% increase in the volume of kWh sold (\$4.7 million). The \$39.8 million increase in the weighted average price of retail kWh sold was primarily due to increases in (i) fuel revenues of \$36.6 million; (ii) environmental rate adjustment mechanism revenues of \$4.0 million; and (iii) DSM program rate adjustment mechanism revenues of \$2.3 million; partially offset by other retail variances of \$2.7 million. The increase in fuel revenues was partially offset by increases in purchased power costs as described below. Likewise, the vast majority of the increases in environmental and DSM rate adjustment mechanism revenues are offset by increased operating expenses, including depreciation and amortization. The \$4.7 million increase in the volume of electricity sold was primarily due to colder temperatures in our service territory during the first quarter of 2014 versus the comparable period (as demonstrated by the 17.5% increase in heating degree days, as shown above).

The increase in wholesale revenues of \$12.4 million was primarily due to a 13% increase in the weighted average price per kWh sold (\$7.2 million) and a 10% increase in the quantity of kWh sold (\$5.2 million) as IPL's coal-fired generation has been called upon by MISO to produce electricity more often during the nine months ended September 30, 2014 versus the comparable period in 2013. Our ability to be dispatched in the MISO market is primarily impacted by the locational marginal price of electricity and variable generation costs. The amount of electricity available for wholesale sales is impacted by our retail load requirements, our generation capacity and unit availability.

### Utility Operating Expenses

The following table illustrates our primary operating expense changes from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 (in millions):

|  |           |              |
|--|-----------|--------------|
| <b>Operating expenses for the nine months ended September 30, 2013</b> | \$        | 825.4        |
| Increase in power purchased  |           | 23.2         |
| Increase in fuel costs   |           | 21.1         |
| Decrease in pension expenses   |           | (11.9)       |
| Increase in maintenance expenses                                       |           | 11.1         |
| Increase in DSM program costs  |           | 2.5          |
| Increase in depreciation and amortization costs                        |           | 2.4          |
| Other miscellaneous variances  |           | 4.2          |
| <b>Operating expenses for the nine months ended September 30, 2014</b> | <u>\$</u> | <u>878.0</u> |

The \$23.2 million increase in purchased power costs was primarily due to a 54% increase in the market price of purchased power (\$30.2 million), partially offset by a 17% decrease in the volume of power purchased during the period (\$8.9 million). The market price of purchased power is influenced primarily by changes in the market price of delivered fuel (primarily natural gas), the price of environmental emissions allowances, the supply of and demand for electricity, and the time of day in which power is purchased. In the comparable periods, the increase in natural gas prices had the largest impact on the market price of purchased power. The volume of power we purchase each period is primarily influenced by our retail demand, our generating unit capacity and outages, as well as that at times it is less expensive for us to buy power in the market than to produce it ourselves.

The \$21.1 million increase in fuel costs is primarily due to (i) a \$12.8 million increase in the price of coal we consumed during the comparable periods, (ii) a \$4.3 million increase in the price of natural gas we consumed during the comparable periods, and (iii) a \$3.3 million increase in deferred fuel costs as the result of variances between estimated fuel and purchased power costs in our FAC and actual fuel and purchased power costs. We are generally permitted to recover underestimated fuel and purchased power costs to serve our retail customers in future rates through the FAC proceedings and, therefore, the costs are deferred when incurred and amortized into expense in the same period that our rates are adjusted to reflect these costs.

The \$11.9 million decrease in pension expenses, which is included in “*Other operating expenses*” on our Unaudited Condensed Consolidated Statements of Income, is primarily due to a \$9.8 million decrease in the recognized actuarial loss.

Maintenance expenses increased \$11.1 million versus the comparable period primarily due to the timing and duration of major generating unit overhauls and increased outages, as well as higher storm-related operating expenses of \$4.2 million largely due to winter storms at the beginning of the year.

The increase in DSM program costs of \$2.5 million, which are included in “*Other operating expenses*” on our Unaudited Condensed Consolidated Statements of Income and are recoverable through customer rates, is attributed to the continued implementation of IPL’s energy efficiency program initiatives. The increase in DSM program costs is correlated to an increase in DSM program rate adjustment mechanism retail revenues.

The increase in depreciation and amortization costs of \$2.4 million was primarily due to additional assets placed in service.

### *Other Income and Deductions*

Other income and deductions increased \$1.8 million from income of \$18.0 million for the nine months ended September 30, 2013 to income of \$19.8 million for the same period in 2014, reflecting a 10% increase. The increase

was primarily due to a \$1.9 million increase in the allowance for equity funds used during construction as a result of increased construction activity.

#### *Interest and Other Charges*

Interest and other charges increased \$1.0 million, or 1%, for the nine months ended September 30, 2014 versus the same period in 2013, primarily due to higher interest on long-term debt of \$2.0 million mostly as a result of IPL's debt issuance in June 2014 of \$130 million aggregate principal amount of first mortgage bonds, 4.50% Series, due June 2044. This increase was partially offset by a \$1.2 million increase in the allowance for borrowed funds used during construction as a result of increased construction activity.

### **LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2014, we had unrestricted cash and cash equivalents of \$120.9 million and available borrowing capacity of \$249.3 million under our \$250 million unsecured revolving credit facility after outstanding borrowings and existing letters of credit. All of IPL's long-term borrowings must first be approved by the IURC and the aggregate amount of IPL's short-term indebtedness must be approved by the Federal Energy Regulatory Commission ("FERC"). We have approval from the FERC to borrow up to \$500 million of short-term indebtedness outstanding at any time through July 28, 2016. In December 2013, we received an order from the IURC granting us authority through December 31, 2016 to, among other things, issue up to \$425 million in aggregate principal amount of long-term debt (inclusive of \$130 million of IPL first mortgage bonds issued in June 2014), refinance up to \$171.9 million in existing indebtedness, and have up to \$500 million of long-term credit agreements and liquidity facilities outstanding at any one time. We also have restrictions on the amount of new debt that may be issued due to contractual obligations of AES and by financial covenant restrictions under our existing debt obligations. We do not believe such restrictions will be a limiting factor in our ability to issue debt in the ordinary course of prudent business operations.

We expect that existing cash balances, cash generated from operating activities and borrowing capacity on our committed credit facility will be adequate for the foreseeable future to meet anticipated operating expenses, interest expense on outstanding indebtedness and recurring capital expenditures, and to pay dividends to AES. Sources for principal payments on outstanding indebtedness and nonrecurring capital expenditures are expected to be obtained from: (i) existing cash balances; (ii) cash generated from operating activities; (iii) borrowing capacity on our committed credit facility; and (iv) additional debt financing. In addition, due to current and expected future environmental regulations, it is expected that equity capital will continue to be used as a significant funding source. AES has approved significant equity investments in IPL for its proposed nonrecurring capital expenditures from 2013 through 2017; however, AES is under no contractual obligation to provide such equity capital and there can be no assurance we will receive capital contributions in the amounts, or at the times, funding may be required. On June 27, 2014, IPALCO received an equity capital contribution of \$106.4 million from AES for funding needs related to IPL's environmental and replacement generation projects. IPALCO then made the same equity capital contribution to IPL.

#### *Line of Credit*

In May 2014, IPL entered into an amendment and restatement of its 5-year \$250 million Credit Agreement with a syndication of banks. This Credit Agreement is an unsecured committed line of credit to be used (i) to finance capital expenditures, (ii) to refinance indebtedness under the existing credit agreement, (iii) to support working capital and (iv) for general corporate purposes. This agreement matures on May 6, 2019, and bears interest at variable rates as described in the Credit Agreement. It includes an uncommitted \$150 million accordion feature to provide IPL with an option to request an increase in the size of the facility at any time during the term of the agreement, subject to approval by the lenders. Prior to execution, IPL and IPALCO had existing general banking relationships with the parties in this agreement. As of September 30, 2014 and December 31, 2013, IPL had no outstanding borrowings on the committed line of credit.

#### *IPL First Mortgage Bonds*

In June 2014, IPL issued \$130 million aggregate principal amount of first mortgage bonds, 4.50% Series, due June 2044. Net proceeds from this offering were approximately \$126.8 million, after deducting the initial purchasers' discounts and fees and expenses for the offering payable by IPL. The net proceeds from the offering were used (i) to

finance a portion of IPL's construction program, (ii) to finance a portion of IPL's capital costs related to environmental and replacement generation projects and (iii) for other general corporate purposes.

## **Capital Requirements**

### *Capital Expenditures*

Our construction program is composed of capital expenditures necessary for prudent utility operations and compliance with environmental laws and regulations, along with discretionary investments designed to replace aging equipment or improve overall performance. Our capital expenditures totaled \$232.3 million and \$161.7 million for the nine-month periods ended September 30, 2014 and 2013, respectively. The increase in capital expenditures of \$70.6 million in 2014 versus 2013 was primarily driven by our environmental construction program. Construction expenditures during the first nine months of 2014 and 2013 were financed primarily with internally generated cash provided by operations, borrowings on our credit facility, long-term borrowings, and equity capital contributions from AES.

Our capital expenditure program, including development and permitting costs, for the three-year period from 2014 to 2016 is currently estimated to cost approximately \$453 million (excluding environmental compliance and replacement generation costs). It includes approximately \$255 million for additions, improvements and extensions to transmission and distribution lines, substations, power factor and voltage regulating equipment, distribution transformers and street lighting facilities. The capital expenditure program also includes approximately \$163 million for power plant-related projects and \$35 million for other miscellaneous equipment.

In addition to the amounts listed above, IPL plans to spend additional amounts related to environmental compliance, including \$326 million for the three-year period from 2014 to 2016 to comply with the Mercury and Air Toxics Standards ("MATS") rule. IPL plans to spend a total of \$460 million for this project, including amounts already expended. Please see "*Environmental Matters – MATS*" below for more details.

IPL also plans to spend \$626 million on replacement generation costs through 2017 as a result of the retirement of existing facilities not equipped with advanced environmental control technologies required to comply with existing and expected regulations. Of this amount, \$611 million is projected to be expended in the three-year period from 2014 to 2016. Please see "*Environmental Matters – Unit Retirements and Replacement Generation*" below for more details.

Other environmental expenditures include costs for compliance with the National Pollutant Discharge Elimination System ("NPDES") permit program under the U.S. Clean Water Act ("CWA"). The costs for NPDES at our Petersburg Plant for 2014-2016 are expected to be \$213 million (IPL plans to spend a total of \$224 million for this project, including amounts already expended). Finally, as a result of environmental regulations, IPL plans to refuel Unit 7 at Harding Street converting from coal-fired to natural gas-fired. The 2014-2016 cost of the projects necessary to complete this conversion, including costs for NPDES, MATS preservation and dry ash handling, are expected to be \$98 million (IPL plans to spend a total of \$108 million on this project, including amounts already expended). Please see "*Environmental Matters – Environmental Wastewater Requirements*" below for more details.

### *Common Stock Dividends*

All of IPALCO's outstanding common stock is held by AES. During the first nine months of 2014 and 2013, we paid \$78.0 million and \$43.7 million, respectively, in dividends to AES. Future distributions will be determined at the discretion of our board of directors and will depend primarily on dividends received from IPL. Dividends from IPL are affected by IPL's actual results of operations, financial condition, cash flows, capital requirements, regulatory considerations, and such other factors as IPL's board of directors deems relevant.

### *Pension and Other Postretirement Benefits*

We contributed \$54.1 million and \$49.7 million to the Pension Plans during the first nine months of 2014 and 2013, respectively. We currently do not expect to make additional pension funding payments in 2014. Funding for the qualified Employees' Retirement Plan of Indianapolis Power & Light Company is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, as well as targeted funding levels necessary to meet certain thresholds.

In October 2014, the Society of Actuaries finalized new mortality tables and a new mortality improvement scale. We are planning to adopt these new mortality tables for the assumptions reflected in our December 31, 2014 valuation of our pension and postretirement plan obligations and this could have a material impact on our benefit obligation, as well as future benefit costs and contributions.

## **Regulatory Matters**

### *MISO Real Time Revenue Sufficiency Guarantee*

MISO collects Revenue Sufficiency Guarantee (“RSG”) charges from market participants to pay for generation dispatched when the costs of such generation are not recovered in the market clearing price. Over the past several years, there have been disagreements between interested parties regarding the calculation methodology for RSG charges and how such charges should be allocated to the individual MISO participants, including IPL. Under the methodology currently in effect, RSG charges have little effect on IPL’s financial statements as the vast majority of such charges are considered to be fuel costs and are recoverable through IPL’s FAC, while the remainder are being deferred for future recovery in accordance with generally accepted accounting principles. However, the IURC’s orders in IPL’s FAC 77, 78 and 79 proceedings approved IPL’s FAC factor on an interim basis, subject to refund, pending the outcome of a FERC proceeding regarding RSG charges and any subsequent appeals therefrom. In a recent FAC proceeding, IPL requested that the subject to refund designation be removed and that FAC 77, 78 and 79 proceedings be made final with no modifications. In February 2014, the IURC issued an order approving IPL’s request.

### *Demand Side Management*

In March 2014, legislation, referred to as the Senate Enrolled Act 340 (“SEA 340”), was approved that effectively ended the IURC’s energy efficiency targets established in a 2009 statewide Generic DSM Order. Although SEA 340 puts an end to established efficiency targets, IPL will continue to offer cost-effective energy efficiency and demand response programs as one of many resources to meet future demand for electricity.

In May 2014, IPL filed its 2015-2016 DSM Plan with the IURC, which is pending under Cause No. 44497. IPL has proposed a set of DSM programs to be offered in 2015-2016 that is similar to the 2014 set of programs. Similar to the current DSM framework, IPL requested to receive cost recovery of program costs, plus performance incentives. Additionally, IPL requested the authority to recover lost revenues resulting from decreased kWh and kW as a result of the implementation of DSM programs. While we expect to receive approval to offer DSM programs with cost recovery, no assurance can be given.

## **Environmental Matters**

We are subject to various federal, state, regional and local environmental protection and health and safety laws and regulations governing, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of hazardous and other materials into the environment; and the health and safety of our employees. These laws and regulations often require a lengthy and complex process of obtaining and renewing permits and other governmental authorizations from federal, state and local agencies. Violation of these laws, regulations or permits can result in substantial fines, other sanctions, and permit revocation and/or facility shutdowns.

### *MATS*

Several lawsuits challenging the MATS rule have been filed by other parties and consolidated into a single proceeding before the U.S. Court of Appeals for the District of Columbia Circuit. In April 2014, the U.S. Court of Appeals issued an opinion upholding the MATS rule. In July 2014, numerous states and two trade groups petitioned the U.S. Supreme Court to review this opinion; however, it is unclear whether this opinion will be successfully appealed. We currently cannot predict the outcome of this litigation, or its impact, if any, on our MATS compliance planning.

On June 20, 2014, IPL contemporaneously filed a waiver request or in the alternative, a complaint with the FERC requesting a waiver or changes to MISO rules that will allow IPL to keep 216 MW of reliable capacity available at its Eagle Valley generating station from June 1, 2015, through April 15, 2016. Both of these filings request that the FERC either waive or reform certain requirements of the MISO tariff for failing to address the specific

circumstances resulting from compliance with MATS. IPL maintains that MISO has not addressed several aspects of the issue created by the disconnect between the MATS compliance deadline and the end of the MISO planning year for capacity purposes (the difference between April 16, 2016, and June 1, 2016). On October 15, 2014, this waiver request was approved by the FERC.

#### *Unit Retirements and Replacement Generation*

In addition to the generating units IPL retired in the second quarter of 2013, IPL has several other generating units that we expect to retire or refuel by 2017. These units are primarily coal-fired and represent 472 MW of net capacity in total. To replace this generation, IPL filed a petition and case-in-chief with the IURC in April 2013 seeking a Certificate of Public Convenience and Necessity (“CPCN”) to build a 550 to 725 MW combined cycle gas turbine (“CCGT”) at its Eagle Valley Station site in Indiana and to refuel Harding Street Station Units 5 and 6 from coal to natural gas (about 100 MW net capacity each). In May 2014, IPL received an order on the CPCN from the IURC authorizing the refueling project and granting approval to build a 644 to 685 MW CCGT at a total budget of \$649 million. The current estimated cost of these projects is \$626 million. IPL was granted authority to accrue post in-service allowance for debt and equity funds used during construction and to defer the recognition of depreciation expense of the CCGT and refueling project until such time that we are allowed to collect both a return and depreciation expense on the CCGT and refueling project. The CCGT is expected to be placed into service in April 2017, and the refueling project is expected to be completed in early 2016. The costs to build and operate the CCGT and for the refueling project, other than fuel costs, will not be recoverable by IPL through rates until the conclusion of a base rate case proceeding with the IURC after the assets have been placed in service.

On August 15, 2014, IPL announced its intent to file plans with the IURC to refuel Unit 7 at Harding Street from coal-fired to natural gas. This conversion is part of IPL’s overall wastewater compliance plan for its power plants (as discussed in “*Environmental Wastewater Requirements*” below).

#### *Environmental Wastewater Requirements*

In August 2012, the Indiana Department of Environmental Management (“IDEM”) issued NPDES permits to the IPL Petersburg, Harding Street, and Eagle Valley generating stations, which became effective in October 2012. NPDES permits regulate specific industrial wastewater and storm water discharges to the waters of Indiana under Section 402 of the CWA. These permits set new water quality-based levels of acceptable metal effluent water discharges for the Petersburg and Harding Street facilities, as well as monitoring and other requirements designed to protect aquatic life, with full compliance with the new metal effluent limitations required by October 2015. In April 2013, IPL received an extension to the compliance deadline through September 2017 for IPL’s Harding Street and Petersburg facilities through agreed orders with IDEM.

IPL conducted studies to determine what operational changes and/or additional equipment will be required to comply with the new limitations. In developing its compliance plans, IPL must make assumptions about the outcomes and implications of Federal rulemakings with respect to coal combustion residuals (expected in December 2014), cooling water intake (final rule issued in May 2014) and wastewater effluents (expected in September 2015).

On October 16, 2014, IPL filed its wastewater compliance plans with the IURC. IPL is seeking approval for a CPCN to install and operate wastewater treatment technologies at its Petersburg Plant and Harding Street Station, as well as for the refueling of Unit 7 at Harding Street. If approved, IPL will invest \$332 million in these projects to ensure compliance with the wastewater treatment requirements by 2017.

We expect to recover through our environmental rate adjustment mechanism, operating or capital expenditures related to compliance with these NPDES permit requirements. Recovery of these costs is sought through an Indiana statute that allows for 80% recovery of qualifying costs through a rate adjustment mechanism with the remainder recorded as a regulatory asset to be considered for recovery in the next base rate case proceeding; however, there can be no assurances that we will be successful in that regard. In light of the uncertainties at this time, we cannot predict the impact of these permit requirements on our consolidated results of operations, cash flows, or financial condition, but it is expected to be material.

In June 2013, the EPA published proposed rules, commonly known as Effluent Limitation Guidelines (“ELGs”) to reduce toxic pollutants discharged into waterways by power plants. The proposed ELGs are intended to update the existing technology-based rules for controlling the discharge of pollutants from various waste streams associated with steam electric generating facilities. It is too early to determine whether the final version of the ELGs will

materially impact IPL or its current or future NPDES permits. Under a consent decree, the EPA is required to finalize the ELGs by September 2015.

In April 2014, the EPA along with the U.S. Army Corps of Engineers issued a proposed rule defining the waters of the U.S. The related public comment period closes in November 2014. This rulemaking has the potential to impact all programs under the CWA. Expansion of regulated waterways is possible based on initial review of the proposal, which may impact several permitting programs. Although we cannot at this time determine the timing or impact of compliance with any new regulations, more stringent regulations could have a material impact on our operations and/or consolidated financial results.

#### *Climate Change Legislation and Regulation*

The EPA issued proposed carbon dioxide emissions rules for existing power plants on June 2, 2014. Under the proposed rule, called the Clean Power Plan, states would be judged against state-specific carbon dioxide emissions targets beginning in 2020, with an expected total U.S. power sector emissions reduction of 30% from 2005 levels by 2030. For Indiana specifically, the Clean Power Plan proposes 2020-2029 interim reduction goals and proposed 2030 final reduction goals of 1,607 pounds of carbon dioxide per megawatt hour and 1,531 pounds of carbon dioxide per megawatt hour, respectively, a reduction of approximately 20% from 2012 levels. The proposed rule requires states to submit implementation plans to meet the standards set forth in the rule by June 30, 2016, with the possibility of one or two-year extensions under certain circumstances. The proposed rule will be subject to a public comment process ending December 1, 2014, after which time the EPA is expected to finalize it by President Obama's June 1, 2015 deadline. Among other things, we could be required to make efficiency improvements to our existing facilities. Various states, including Indiana, and certain regulated entities have filed lawsuits challenging the Clean Power Plan. However, it is too soon to determine what the rule, and Indiana's corresponding state implementation plan, will require once both are finalized, whether they will survive judicial and other challenges, and if so, whether and when the rule and Indiana's corresponding state implementation plan would materially impact our business, operations or financial condition.

In addition, in October 2013, the U.S. Supreme Court granted *certiorari* for several cases that address the EPA's authority to issue Greenhouse Gas ("GHG") PSD permits under Section 165 of the CAA. In June 2014, the U.S. Supreme Court ruled that the EPA had exceeded its statutory authority in issuing the so-called "Tailoring Rule" under Section 165 of the CAA by regulating under the PSD program sources solely based on their GHG emissions. However, the U.S. Supreme Court also held that the EPA could impose GHG Best Achievable Control Technology ("BACT") requirements for sources already required to implement PSD for other pollutants. Therefore, if future modifications to IPL's sources require PSD review for other pollutants, it may also trigger GHG BACT requirements. The EPA is still considering how to implement this ruling. For example, the EPA is evaluating whether to set *de minimis* GHG levels that could avoid BACT requirements. The EPA has already issued guidance on what BACT entails for the control of GHG and individual states are now required to determine what controls are required for facilities within their jurisdiction on a case-by-case basis.

There is some uncertainty with respect to the impact of GHG rules on IPL. The GHG BACT requirements will not apply at least until we construct a new major source or make a major modification of an existing major source, and the proposed New Source Performance Standards ("NSPS"), if finalized in its current form, will not require us to comply with an emissions standard until we construct a new electric generating unit. The planned CCGT at Eagle Valley is expected to comply with the applicable BACT requirements under the Tailoring Rule and the proposed NSPS limit. Other than the CCGT discussed above, we do not have any other major modifications of an existing source or plans to construct a new major source at this time. In light of these uncertainties, we cannot predict the impact of the EPA's current and future GHG regulations on our consolidated results of operations, cash flows, or financial condition, but they could be material.

#### *Cross-State Air Pollution Rule*

In April 2014, the U.S. Supreme Court reversed a 2012 decision by the D.C. Circuit Court that had vacated the Cross-State Air Pollution Rule ("CSAPR") and remanded the case back to the D.C. Circuit Court for further proceedings consistent with the U.S. Supreme Court decision. In June 2014, the U.S. Department of Justice, on behalf of the EPA, filed a motion with the D.C. Circuit Court to lift the current stay on CSAPR. On October 23, 2014, the D.C. Circuit Court lifted the stay on CSAPR. Oral arguments to address the remaining litigation regarding CSAPR is scheduled for March 2015. While we are unable to determine the full impact of the reinstatement of



CSAPR until the D.C. Circuit Court and the EPA take further action, we believe the rule may have a material impact on IPL.

#### *Coal Combustion Byproducts*

In the course of operating our coal-fired generating facilities, we produce coal combustion byproducts (“CCB”), including fly ash and bottom ash. In 2010, the EPA proposed a rule to regulate CCB, which we believe might require additional CCB handling, processing and storage equipment, or both. The EPA has agreed to issue a final rule by December 2014. While we cannot at this time estimate the impact and costs associated with future regulations of CCB, we believe the impact on our operations and consolidated financial results could be material.

#### *Cooling Water Intake Regulations*

We use water as a coolant at our generating facilities. Under the CWA, cooling water intake structures are required to reflect the Best Technology Available (“BTA”) for minimizing adverse environmental impact. On May 19, 2014, the EPA announced its final standards to protect fish and other aquatic organisms drawn into cooling water systems at large power plants and other industrial facilities, which standards took effect on October 14, 2014. The standards, based on Section 316(b) of the CWA, require subject facilities to choose amongst seven BTA options to reduce fish impingement. In addition, facilities that withdraw water from a source water body above a minimum volume and utilize at least 25% of the withdrawn water for cooling purposes must conduct studies to assist permitting authorities to determine whether and what site-specific controls, if any, would be required to reduce entrainment of aquatic organisms. This decision process would include public input as part of permit renewal or permit modification. It is possible this process could result in the need to install closed-cycle cooling systems (closed-cycle cooling towers), or other technology. Finally, the standards require that new units added to an existing facility must reduce both impingement and entrainment that achieves one of two alternatives under national BTA standards. IPL’s NPDES permits will be updated with the requirements of this rule, including any source-specific requirements arising from the evaluation process described above. As a result, it is not yet possible to predict the total impacts of this recent final rule at this time, including any challenges to such final rule and the outcome of any such challenges. However, if additional capital expenditures are necessary, they could be material. We would seek recovery of these capital expenditures; however, there is no guarantee we would be successful in that regard.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Not applicable pursuant to General Instruction H of the Form 10-Q.

#### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

##### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in the Exchange Act Rules 13a-15(e) and 15-d-15(e)), as required by paragraph (b) of the Exchange Act Rules 13a-15 or 15d-15, as of September 30, 2014. Our management, including the principal executive officer and principal financial officer, is engaged in a comprehensive effort to review, evaluate and improve our controls; however, management does not expect that our disclosure controls or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, or that the degree of compliance with the policies or procedures deteriorates. We have interests in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities is generally more limited than those we maintain with respect to our consolidated subsidiaries.

Based upon the controls evaluation performed, the principal executive officer and principal financial officer have concluded that as of September 30, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that material information relating to us and our consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

##### **Changes in Internal Controls**

On May 14, 2013, The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework"). Originally issued in 1992 (the "1992 Framework"), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. We have reviewed the 2013 Framework and integrated the changes into the Company's internal controls over financial reporting. We expect that management's assessment of the overall effectiveness of our internal controls over financial reporting for the year ending December 31, 2014 will be based on the 2013 Framework and that the change will not be significant to our overall control structure over financial reporting.

In the course of our evaluation of disclosure controls and procedures, management considered certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. Based upon that evaluation, the principal executive officer and principal financial officer concluded that there were no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of the Exchange Act Rules 13a-15 or 15d-15 that occurred during the nine months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Please see Note 7, “*Commitments and Contingencies*” to the Financial Statements for a summary of significant legal proceedings involving us. We are also subject to routine litigation, claims and administrative proceedings arising in the ordinary course of business, none of which we believe, based on currently available information, will result in a material adverse effect on our results of operations, financial condition, or cash flows.

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors as previously disclosed in the 2013 Form 10-K.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable pursuant to General Instruction H of the Form 10-Q.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable pursuant to General Instruction H of the Form 10-Q.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

| <b><u>Exhibit No.</u></b> | <b><u>Document</u></b>   |
|---------------------------|--|
| 31.1                      | Certification by Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a)                                       |
| 31.2                      | Certification by Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a)                                   |
| 32                        | Certification required by Rule 13a-14(b) or 15d-14(b)  |
| 101.INS                   | XBRL Instance Document (furnished herewith as provided in Rule 406T of Regulation S-T)                                 |
| 101.SCH                   | XBRL Taxonomy Extension Schema Document (furnished herewith as provided in Rule 406T of Regulation S-T)                |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith as provided in Rule 406T of Regulation S-T)  |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith as provided in Rule 406T of Regulation S-T)   |
| 101.LAB                   | XBRL Taxonomy Extension Label Linkbase Document (furnished herewith as provided in Rule 406T of Regulation S-T)        |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith as provided in Rule 406T of Regulation S-T) |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IPALCO ENTERPRISES, INC.  
(Registrant)

Date: November 5, 2014

/s/ Craig L. Jackson  
Craig L. Jackson  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 5, 2014

/s/ Kurt A. Tornquist  
Kurt A. Tornquist  
Controller  
(Principal Accounting Officer)

**Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934**

I, Kenneth J. Zagzebski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IPALCO Enterprises, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2014

/s/ Kenneth J. Zagzebski  
Kenneth J. Zagzebski  
Chief Executive Officer

**Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934**

I, Craig L. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IPALCO Enterprises, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2014

/s/ Craig L. Jackson  
Craig L. Jackson  
Chief Financial Officer

**Certification Pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2014 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Kenneth J. Zagzebski, Chief Executive Officer and Craig L. Jackson, Chief Financial Officer of IPALCO Enterprises, Inc. ("IPALCO"), each certifies that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of IPALCO.

Date: November 5, 2014

/s/ Kenneth J. Zagzebski  
Kenneth J. Zagzebski  
Chief Executive Officer

Date: November 5, 2014

/s/ Craig L. Jackson  
Craig L. Jackson  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to IPALCO and will be retained by IPALCO and furnished to the Securities and Exchange Commission or its staff upon request.