

**United States
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act
of 1934**

For the quarterly period ended June 30, 2005

IPALCO ENTERPRISES, INC.

(Exact name of Registrant as specified in its charter)

Commission File Number 1-8644

Indiana

(State or other jurisdiction
of incorporation or organization)

35-1575582

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

One Monument Circle

Indianapolis, Indiana

(Address of principal executive offices)

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 at least the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes No X

At August 22, 2005, 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
FORM 10-Q
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IPALCO ENTERPRISES, INC. and SUBSIDIARIES
Unaudited Consolidated Statements of Income
(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
UTILITY OPERATING REVENUES	\$ 228,799	\$ 214,538	\$ 455,688	\$ 429,894
UTILITY OPERATING EXPENSES:				
Operation:				
Fuel	46,162	49,414	92,533	95,269
Other operating expenses	35,953	30,688	69,437	58,033
Power purchased	6,448	3,181	10,653	5,864
Maintenance	21,438	20,384	39,260	40,075
Depreciation and amortization	33,331	29,350	67,445	58,846
Taxes other than income taxes	8,870	8,175	18,214	17,104
Income taxes - net	25,514	24,202	52,789	52,279
Total utility operating expenses	177,716	165,394	350,331	327,470
UTILITY OPERATING INCOME	51,083	49,144	105,357	102,424
OTHER INCOME AND (DEDUCTIONS):				
Allowance for equity funds used during construction	715	299	1,321	1,338
Gains (loss) on sales of assets - net	-	(2)	-	852
Other - net	(254)	(1,302)	401	(290)
Income tax benefit - net	6,514	7,074	12,853	13,288
Total other income and (deductions) - net	6,975	6,069	14,575	15,188
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	27,940	28,198	56,178	56,579
Other interest	168	144	308	269
Allowance for borrowed funds used during construction	(354)	(534)	(697)	(1,254)
Amortization of redemption premiums and expense on debt-net	716	678	1,364	1,282
Preferred dividends of subsidiary	804	804	1,607	1,607
Total interest and other charges - net	29,274	29,290	58,760	58,483
NET INCOME	<u>\$ 28,784</u>	<u>\$ 25,923</u>	<u>\$ 61,172</u>	<u>\$ 59,129</u>

See notes to unaudited consolidated financial statements.

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

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
UTILITY PLANT:		
Utility plant in service	\$ 3,491,109	\$ 3,421,828
Less accumulated depreciation	1,403,292	1,356,364
Utility plant in service - net	2,087,817	2,065,464
Construction work in progress	65,492	76,303
Property held for future use	1,085	1,085
Utility plant - net	2,154,394	2,142,852
OTHER ASSETS:		
Nonutility property - at cost, less accumulated depreciation	1,494	1,499
Other investments	8,781	7,270
Other assets - net	10,275	8,769
CURRENT ASSETS:		
Cash and cash equivalents	3,316	3,779
Short-term investments	9,100	12,250
Accounts receivable and unbilled revenue (less allowance for doubtful accounts of \$2,230 and \$2,137 respectively)	54,743	56,125
Fuel - at average cost	21,207	22,392
Materials and supplies - at average cost	50,306	48,929
Net income tax refunds receivable	-	2,998
Prepayments and other current assets	14,702	4,543
Total current assets	153,374	151,016
DEFERRED DEBITS:		
Regulatory assets	155,793	146,678
Miscellaneous	31,798	32,669
Total deferred debits	187,591	179,347
TOTAL	\$ 2,505,634	\$ 2,481,984
 <u>CAPITALIZATION AND LIABILITIES</u>		
CAPITALIZATION:		
Common shareholder's deficit:		
Premium on 4% cumulative preferred stock	\$ 649	\$ 649
Paid in capital	1,437	791
Accumulated deficit	(44,644)	(58,194)
Accumulated other comprehensive loss	(52,170)	(51,328)
Total common shareholder's deficit	(94,728)	(108,082)
Cumulative preferred stock of subsidiary	59,135	59,135
Long-term debt	1,502,080	1,502,064
Total capitalization	1,466,487	1,453,117
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	52,951	55,611
Dividends payable	803	-
Accrued real estate and personal property taxes	16,422	15,840
Accrued income taxes	6,848	9,700
Accrued interest	26,131	27,869
Customer deposits	12,523	11,706
Other current liabilities	9,657	4,847
Total current liabilities	125,335	125,573
DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES:		
Accumulated deferred income taxes - net	364,070	369,921
Regulatory liabilities and other removal costs	394,647	382,559
Unamortized investment tax credit	24,142	25,464
Accrued postretirement benefits	7,574	6,799
Accrued pension benefits	110,908	107,080
Miscellaneous	12,471	11,471
Total deferred credits and other long-term liabilities	913,812	903,294
COMMITMENTS AND CONTINGENCIES (Note 8)		
TOTAL	\$ 2,505,634	\$ 2,481,984

See notes to unaudited consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2005	2004
CASH FLOWS FROM OPERATIONS:		
Net income	\$ 61,172	\$ 59,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,562	59,059
Amortization of regulatory assets	2,698	1,460
Deferred income taxes and investment tax credit adjustments - net	(10,678)	(6,650)
Gain on sale of land held for sale	-	(5,922)
Gain on sales of assets	-	(852)
(Gain) loss on investments	(427)	154
Allowance for funds used during construction	(1,321)	(1,338)
Change in certain assets and liabilities:		
Accounts receivable	1,382	(4,580)
Fuel, materials and supplies	(192)	3,139
Income taxes receivable or payable	146	18,802
Accounts payable and accrued expenses	(7,410)	4,591
Accrued real estate and personal property taxes	582	(2,007)
Pension benefits	3,828	4,976
Accrued interest	(1,738)	1,811
Short-term and long-term regulatory assets	(14,668)	83
Other - net	2,691	(2,782)
Net cash provided by operating activities	<u>102,627</u>	<u>129,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures - utility	(58,127)	(104,603)
Proceeds from the sales of assets	-	14,309
Purchase of short-term investments	(544,237)	(552,275)
Proceeds from sales and maturities of short-term investments	547,387	556,775
Other	(1,558)	(4,352)
Net cash used in investing activities	<u>(56,535)</u>	<u>(90,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	2,000	-
Long-term borrowings	71,850	98,957
Retirement of long-term debt	(71,850)	(80,000)
Dividends on common stock	(47,622)	(58,133)
Other	(933)	-
Net cash used in financing activities	<u>(46,555)</u>	<u>(39,176)</u>
Net change in cash and cash equivalents	(463)	(249)
Cash and cash equivalents at beginning of period	3,779	4,274
Cash and cash equivalents at end of period	<u>\$ 3,316</u>	<u>\$ 4,025</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amount capitalized)	<u>\$ 57,728</u>	<u>\$ 53,787</u>
Income taxes	<u>\$ 49,893</u>	<u>\$ 30,667</u>

See notes to unaudited consolidated financial statements.

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

1. ORGANIZATION

IPALCO Enterprises, Inc. ("IPALCO") is a wholly-owned subsidiary of The AES Corporation ("AES"). IPALCO owns all of the outstanding common stock of its subsidiaries. These include its regulated electric utility subsidiary, Indianapolis Power & Light Company ("IPL"), and its unregulated subsidiary, Mid-America Capital Resources, Inc. ("Mid-America"). Substantially all of IPALCO's business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL. IPL has more than 460,000 retail customers in the city of Indianapolis and neighboring cities, towns and communities, and adjacent rural areas all within the state of Indiana, 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 a separately-sited combustion turbine that are all used for generating electricity. IPL's net electric generation capability for winter is 3,370 megawatts and net summer capability is 3,252 megawatts. Mid-America conducts IPALCO's unregulated activities.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of IPALCO, IPL and Mid-America. 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 ("GAAP") 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 GAAP 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 audited financial statements for the year ended December 31, 2004, included in its annual report on Form 10-K and should be read in conjunction therewith.

The preparation of financial statements in conformity with GAAP 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 management is required to make. Actual results may differ from those estimates.

Certain prior period amounts have been reclassified to conform to current year presentation. The accompanying unaudited consolidated balance sheet as of December 31, 2004 reflects a reclassification of instruments used in IPALCO's cash management program from cash and cash equivalents to short-term investments of \$12.3 million. This reclassification is to present certain auction rate securities and other highly-liquid instruments as short-term investments rather than as cash equivalents. The reclassification was made based on recent accounting interpretations considering the stated tenor of the maturities of these investments. Corresponding changes were also made to the accompanying unaudited consolidated statements of cash flows. The change resulted in reductions of \$5.2 million and \$9.7 million, in amounts presented as cash and cash equivalents June 30, 2004 and December 31, 2003, respectively.

In addition, IPALCO recently determined that the amounts recorded for both deferred income taxes and regulatory assets were understated as of December 31, 2004 by \$14.6 million. The December 31, 2004 balances have been adjusted in the accompanying financial statements to reflect the correction.

Certain other prior period amounts have been reclassified to conform to current year presentation, all of which management deems to be immaterial individually and in the aggregate with the reclassifications described above.

3. NEW ACCOUNTING PRONOUNCEMENTS

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143"* ("FIN 47"). FASB Statement No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS 143"), addressed financial

accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated asset retirement costs. FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of FIN 47 are effective for IPALCO no later than the fiscal year ending December 31, 2005. Retrospective application for interim financial information is permitted but is not required. Management is evaluating what impact, if any, the provisions of FIN 47 will have on our financial statements.

In May 2005, the FASB issued FASB Statement No. 154, "*Accounting Changes and Error Corrections*" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "*Accounting Changes*", and FASB Statement No. 3, "*Reporting Accounting Changes in Interim Financial Statements*", and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

4. SEGMENT INFORMATION

IPALCO's operations are made up almost entirely of its ownership of IPL, its consolidated electric utility, which is a reportable business segment. In addition, IPALCO has outstanding \$750 million of Senior Secured Notes; approximately \$0.5 million and \$0.8 million of nonutility cash and cash equivalents, as of June 30, 2005 and December 31, 2004, respectively; short-term and long-term nonutility investments of \$16.7 million and \$8.3 million at June 30, 2005 and December 31, 2004, respectively; and income taxes and interest related to those items. There was no utility operating income other than the activities of IPL during the periods covered by this report. Nonutility assets represented less than 1% of IPALCO's total assets as of June 30, 2005 and December 31, 2004 and there were no nonutility capital expenditures during the six month periods ended June 30, 2005 and 2004.

5. REGULATORY ASSETS

IPL is a transmission owner of the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") network and receives a portion of the transmission service revenues from all wholesale kWh sales on the network based on its percentage of transmission system investment within the Midwest ISO footprint. In addition, IPL pays the Midwest ISO a transmission cost adder on its retail load and a fee for each wholesale transaction. A portion of the transmission cost adder paid to the Midwest ISO is deferred as a regulatory asset and the remaining transmission costs, along with all transaction fees, are expensed in other operating expenses.

Midwest Independent Transmission System Operators "Day 2" Operations. Energy transactions under the Open Access Transmission and Energy Markets Tariff became financially binding April 1, 2005 ("Day 2"). This initiative includes a market-based transmission congestion management system that relies on Locational Marginal Pricing ("LMP"), *i.e.*, pricing for energy at a given location based on a market clearing price that takes into account physical limitations, generation and demand throughout the Midwest ISO region. Market participants are able to hedge their exposure to congestion by acquiring certain Financial Transmission Rights ("FTRs") which offset congestion related charges. Participants are allocated FTRs each year and are permitted to purchase additional FTRs. Expenses related to congestion charges and/or FTRs were not material to our financial statements during the current period. On July 9, 2004, IPL and other Indiana utilities filed a joint petition with the Indiana Utility Regulatory Commission (the "IURC") requesting approval of certain changes in operations and determination of cost recovery resulting from the Midwest ISO implementation of day-ahead and real-time energy markets. On June 1, 2005, the IURC issued an order approving the changes in operations and allowing for recovery of the Midwest ISO components of the cost of fuel through fuel adjustment charge proceedings as well as the deferral of certain administrative and socialized Midwest ISO costs. The deferral treatment of Midwest ISO costs has increased our regulatory assets by \$6.7 million during the six months ended June 30, 2005.

IPL's regulated operations are subject to SFAS No. 71. Accordingly, IPL records assets and liabilities that result from the regulated ratemaking processes that would not be recorded under GAAP for non-regulated entities if it is probable that there will be a corresponding increase or decrease in future rates through the rate-making process.

Accordingly, IPL has deferred certain costs, which will be amortized over various future periods. These costs are deferred based on rate orders issued by the IURC or from IPL's experience with prior rate cases. As of June 30, 2005 and December 31, 2004, there were no regulatory liabilities on the accompanying unaudited consolidated balance sheets.

The amounts of regulatory assets are as follows:

	June 30, 2005	As of December 31, 2004	Recovery Period
	<i>(In Thousands)</i>		
Related to Deferred Income Taxes	\$ 99,644	\$ 96,140	Various Over remaining life of debt
Unamortized reacquisition premium on debt	15,790	15,463	
Unamortized Petersburg unit 4 carrying charges and certain other costs	22,320	22,847	Through 2026 (1)(2)
Deferred Midwest ISO costs	14,453	7,791	To be determined
Nox project expenses - Pete Unit 2 Precipitator	2,382	2,488	Through 2021 (2)
NOx project expenses	817	1,726	Through 2006 (2)
Air Conditioning Load Management (Demand Mgmt)	178	143	Through 2006 (2)
Other Demand Side Mgmt Program Costs	209	80	Through 2006 (1)(2)
Total Regulatory Assets	<u>\$ 155,793</u>	<u>\$ 146,678</u>	

(1) Recovered with a current return

(2) Recovered per specific rate orders

Deferred Income Taxes: This amount represents the portion of deferred income taxes that will be recovered through future rates, based upon established regulatory practices, which permit the recovery of current taxes. Accordingly, this regulatory asset is offset by a deferred tax liability and is expected to be recovered, without interest, over the period underlying book-tax timing differences reverse and become current taxes.

Deferred Midwest ISO costs: These consist of administrative and socialized costs from IPL's participation in the Midwest ISO market. We received an order from the IURC that granted authority for the deferral of Midwest ISO administrative and socialized costs for recovery in a future base rate case.

6. INDEBTEDNESS

During April 2005, IPL issued, in two separate series, \$71.9 million of variable-rate first mortgage bonds. The interest rate for each series is established through a weekly auction. The initial interest rate on both series was 2.25%. The 2005A Series bonds in the principal amount of \$41.9 million mature January 1, 2016. The 2005B Series bonds in the principal amount of \$30.0 million mature October 1, 2023. In May 2005, the net proceeds of the new debt were used to retire two series of existing fixed-rate first mortgage bonds: (i) \$41.9 million at 6.1% maturing January 2016 and (ii) \$30.0 million at 5.5% maturing October 2023.

In May 2005, IPL amended three financing arrangements to extend the maturity dates. IPL's \$45 million committed line of credit was extended to May 18, 2006. IPL's credit agreement, which includes a \$30 million committed line of credit and a \$40.6 million liquidity facility (related to \$40 million of IPL variable rate bonds, which are remarketed weekly), was extended to May 30, 2006. IPL's receivable sale agreement was extended to May 30, 2006.

7. PENSION BENEFITS

Employees' Retirement Plan: Most of IPL's employees are covered by the Employees' Retirement Plan of Indianapolis Power & Light Company (the "Defined Benefit Pension Plan"). The Defined Benefit Pension Plan is noncontributory and is funded through a trust. Benefits are based on each individual employee's pension band and years of service as opposed to their compensation. Pension bands are based primarily on job duties and responsibilities.

Supplemental Retirement Plan: Additionally, a select group of former management employees of IPALCO and IPL who have terminated vested benefits are covered under a funded supplemental retirement plan.

Pension Funding: IPL's funding policy for the Defined Benefit Pension Plan and the supplemental retirement plan (the "Pension Plans") is to contribute annually not less than the minimum required by applicable law, nor more than the maximum amount that can be deducted for federal income tax purposes. IPL has not made any contributions to the Pension Plans during the first six months of 2005. Depending on the timing of contributions, pending legislation, and other factors related to our funding strategy, we estimate potential cash contributions to the Pension Plans of up to \$25 million in 2005, but we may elect not to make any contributions since none are anticipated to be required to meet our minimum funding targets. We do, however, anticipate larger pension funding commitments in 2006. This estimate is based on actuarial assumptions using a discount rate of 6.0% and an assumed long-term rate of return on plan assets of 8.0%.

The following table presents information relating to the Defined Benefit Pension Plan and supplemental retirement plan:

Pension Benefits	For the Three Months Ended, June 30,		For the Six Months Ended, June 30,	
	2005	2004	2005	2004
Components of net periodic benefit cost	<i>(In Thousands)</i>			
Service cost	\$ 1,034	\$ 913	\$ 2,067	\$ 1,827
Interest cost	6,473	6,426	12,946	12,852
Expected return on plan assets	(6,489)	(6,788)	(12,978)	(13,505)
Amortization of prior service cost	116	34	233	67
Recognized actuarial gain	780	953	1,561	1,906
Net periodic benefit cost	<u>\$ 1,914</u>	<u>\$ 1,538</u>	<u>\$ 3,829</u>	<u>\$ 3,147</u>

8. COMMITMENTS AND CONTINGENCIES

Legal

IPALCO and certain former officers and directors of IPALCO are named as defendants in class action lawsuits under the Employment Retirement Income Security Act ("ERISA") and the Federal securities laws (see below), respectively, each filed in the U.S. District Court for the Southern District of Indiana, and each making allegations regarding matters arising from the acquisition of IPALCO by AES. The class action ERISA lawsuit was filed in March 2002 and the class action lawsuit under the Federal securities laws was filed in September 2002. The ERISA suit alleges breach of fiduciary duties with respect to shares held in IPL's 401(k) thrift plan. IPALCO filed a motion for summary judgment in the ERISA suit in October 2003, as did the plaintiffs. On August 11, 2005, an Order was entered denying both motions for summary judgment. The Order indicates that the court will meet with counsel in the near future to schedule a bench trial addressed to the fiduciary duty issues. While we cannot predict the outcomes, we do not believe that the suits will have a material adverse effect on IPALCO's consolidated financial statements.

In September 2002, IPALCO and certain of its former officers and directors were sued in the U.S. District Court for the Southern District of Indiana in connection with IPALCO's acquisition by AES. That suit was consolidated with other actions in that court with the result that until recently, the only remaining IPALCO defendants were three former officers who were insured under IPALCO's liability insurance policies. The lawsuit was filed on behalf of all persons who exchanged their shares of IPALCO common stock for shares of AES common stock. The complaint alleged violations of Section 11 of the Securities Act; Sections 10(b), 14(a) and 20(a) of the Exchange Act and Rules 10b-5 and 14a-9. On November 17, 2004, the court entered an order dismissing the claims against the former IPALCO officers and, on July 7, 2005, dismissed all claims against all remaining defendants. The plaintiffs' right to file an appeal expired on August 8, 2005.

Since May 2003, IPALCO, IPL, AES and certain former directors and officers of IPALCO and/or IPL received subpoenas from the Securities Division of the Indiana Secretary of State seeking information related to the acquisition of IPALCO by AES. IPALCO, IPL, AES and the individuals have produced various materials in response to the subpoenas and otherwise cooperated with the Secretary of State in connection with the inquiry. While we cannot predict the outcome, we do not expect this matter to have a material adverse effect on IPALCO's consolidated financial statements.

In November 2002, IPL was sued in a Fair Labor Standards Act ("FLSA") collective action lawsuit filed in the U.S. District Court for the Southern District of Indiana. The complaint alleges that certain of IPL's current and former employees were not paid overtime pay at the rate required by the FLSA. We believe that IPL did not violate the FLSA. While we cannot predict the outcome, we do not believe the suit will have a material adverse effect on IPALCO's consolidated financial statements.

Many years ago, IPL obtained, through purchases from several owners, a substantial tract of land as a potential site for a future power plant. IPL later determined it no longer intended to build a power plant on that land and sold it in 2004. In September 2004, a former owner of a parcel included within IPL's land sued IPL in Morgan County Superior Court in a purported class action to force IPL to pay any profit on the sale to the various former owners, as well as profits received from ground leases and timber sales. The plaintiff contended, in essence, that IPL obtained the various parcels through eminent domain or the threat of eminent domain and alleged violations of Indiana's eminent domain statute, conversion and unjust enrichment. IPL believes the suit is without merit. At this time discovery has not yet begun and the court has not certified a class. While we cannot predict the outcome, we do not expect the matter will have a material adverse effect on IPALCO's consolidated financial statements.

As of June 30, 2005 and December 31, 2004, IPL is a defendant in approximately 112 and 113 pending lawsuits, respectively, alleging personal injury or wrongful death stemming from exposure to asbestos and asbestos containing products formerly located in IPL power plants. IPL has been named as a "premises defendant" in that IPL did not mine, manufacture, distribute or install asbestos or asbestos containing products. These suits have been brought on behalf of persons who worked for contractors or subcontractors hired by IPL. IPL has insurance which may cover some portions of these claims; currently, these cases are being defended by counsel retained by various insurers who wrote policies applicable to the period of time during which much of the exposure has been alleged.

IPL has settled a number of asbestos related lawsuits for amounts which, individually and in the aggregate, are not material to IPL or IPALCO's financial position, results of operations, or cash flows. Historically, settlements paid on IPL's behalf have been comprised of proceeds from one or more insurers along with comparatively smaller contributions by IPL. Although we do not believe that any of the pending asbestos suits in which IPL is a named defendant will have a material adverse effect on IPALCO's business or operations, we are unable to estimate the number of, the effect of, or losses or range of loss which are reasonably possible from, these or any additional asbestos suits. Furthermore, we are unable to estimate the portion of a settlement amount, if any, that may be paid from any insurance coverage for any known or unknown claims. Accordingly, we cannot assure that the pending or any additional suits will not have a material adverse effect on IPALCO's consolidated financial statements.

In addition, 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, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on IPALCO's consolidated financial statements.

Environmental

We are subject to various federal, state 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, permit revocation and/or facility shutdowns. We believe that we operate in material compliance with environmental laws, regulations and permits and health and safety laws. We cannot assure, however, that we have been or will be at all times in full compliance with such laws, regulations and permits. Please see Note 12 "Commitments and Contingencies – Environmental" of IPALCO's audited financial statements for the year ended December 31, 2004, included in its annual report on Form 10-K, for a more comprehensive discussion of environmental matters impacting IPALCO and IPL.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Cautionary Note Regarding Forward-Looking Statements

This Report on Form 10-Q includes "forward-looking statements" 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." Forward-looking statements express an expectation or belief and contain a projection, plan or assumption with regard to, among other things, our future revenues, income 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," and similar expressions are intended to identify forward-looking statements.

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:

- changes in our credit ratings
- performance of pension plan assets
- fluctuations in customer growth and demand
- weather and weather-related damage
- fuel costs
- generating unit availability and capacity
- transmission and distribution system reliability and capacity
- purchased power costs and availability
- regulatory action
- our ownership by The AES Corporation
- federal and state legislation
- changes in financial or regulatory accounting policies
- environmental matters
- interest rates and the availability and other cost of capital
- labor strikes or other workforce factors
- unanticipated maintenance and capital expenditures
- local economic conditions
- acts of terrorism
- unanticipated generation outages, facility maintenance or repairs
- costs and effects of legal and administrative proceedings, settlements, investigations and claims and the ultimate disposition of litigation
- industry restructuring, deregulation and competition
- issues related to our participation in the Midwest ISO, including recovery of costs incurred
- product development and technology changes

Most of these factors affect us through our consolidated subsidiary Indianapolis Power & Light Company. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and many are beyond our control. We undertake no obligation to publicly update or review any forward-looking information, future events or otherwise.

Overview

IPALCO Enterprises, Inc. is a holding company incorporated under the laws of the state of Indiana. Our principal subsidiary is Indianapolis Power & Light Company, a regulated electric utility operating in the state of Indiana. Substantially all of our business consists of the generation, transmission, distribution and sale of electric energy conducted through IPL. Our other direct subsidiary, Mid-America Capital Resources, Inc., is the holding company for our unregulated activities. Mid-America's only significant investment is a small minority ownership interest in EnerTech Capital Partners II L.P., a venture capital fund. The investment was valued at \$4.9 million, as of June 30, 2005. Our business segments are electric and "all other."

IPL is engaged primarily in generating, transmitting, distributing and selling electric energy to more than 460,000 retail customers in the city of Indianapolis and neighboring areas within the state of Indiana. IPL has an exclusive right

to provide electric service to those customers. IPL owns and operates four generating stations, all within the state of Indiana. Historically, approximately 99% of the total electricity produced by IPL was generated from coal. Natural gas and fuel oil combined to provide the remaining kWh generation (primarily for peaking capacity). IPL's net electric generation capability for winter and summer is 3,370 and 3,252 megawatts, respectively. Our overall corporate mission is to serve our community's need for electric power in ways that benefit all of our stakeholders, to build long-term value for our shareholder, and to assure sustained excellence in performance for our owner, our people, and other individuals and organizations which depend upon our company.

Midwest Independent Transmission System Operators "Day 2" Operations. Energy transactions under the Open Access Transmission and Energy Markets Tariff became financially binding April 1, 2005 ("Day 2"). This initiative includes a market-based transmission congestion management system that relies on Locational Marginal Pricing ("LMP"), *i.e.*, pricing for energy at a given location based on a market clearing price that takes into account physical limitations, generation and demand throughout the Midwest ISO region. As anticipated and in keeping with similar market start-ups around the world, LMPs are volatile and there are process, data, and model issues requiring editing and enhancement. IPL and other market participants have raised concerns with certain Midwest ISO transactions and the resolution of these items could impact our results of operations. Market participants are able to hedge their exposure to congestion with certain Financial Transmission Rights ("FTRs") which offset congestion related charges. Participants are allocated FTRs each year and are permitted to purchase additional FTRs. Expenses related to congestion charges and/or FTRs were not material to our financial statements during the current period and we do not expect them to be material in the near term. IPL was a participant in the pre market trials and continues to be engaged in Day 2 operations as both a market participant and a participant in helping to resolve the remaining process and data issues.

On July 9, 2004, IPL and other Indiana utilities filed a joint petition with the IURC requesting approval of certain changes in operations and determination of cost recovery resulting from the Midwest ISO implementation of Day 2 Operations. On June 1, 2005, the IURC issued an order (the "Midwest ISO Order") approving the changes in operations and allowing for recovery of the Midwest ISO components of the cost of fuel through fuel adjustment charge proceedings as well as the deferral of certain administrative and socialized Midwest ISO costs. Total deferred Midwest ISO costs were \$7.8 million and \$14.5 million as of December 31, 2004 and June 30, 2005, respectively (See also Note 5).

Material changes in our consolidated financial condition and results of operations, except where noted, are attributed to the operations of IPL. Consequently, the following discussion is centered on IPL.

Results Of Operations

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.

Comparison of Quarters Ended June 30, 2005 and June 30, 2004

Our second quarter 2005 net income of \$28.8 million increased \$2.9 million from net income of \$25.9 million in the second quarter of 2004. The following discussion highlights the significant factors contributing to this change.

Utility Operating Revenues

Utility operating revenues increased by \$14.3 million during the three months ended June 30, 2005 compared to the prior year as a result of the following (dollars in thousands):

	June 30, 2005	June 30, 2004	Increase (Decrease)	Percentage Change
Retail Revenues	\$ 209,148	\$ 196,063	\$ 13,085	6.7%
Wholesale Revenues	14,439	14,212	227	1.6%
Miscellaneous Revenues	<u>5,212</u>	<u>4,263</u>	<u>949</u>	22.3%
Total Utility Operating Revenues	<u>\$ 228,799</u>	<u>\$ 214,538</u>	<u>\$ 14,261</u>	6.6%
Heating Degree Days	487	401	86	21.4%
Cooling Degree Days	353	360	(7)	(1.9%)

The 6.7% increase in retail revenues was primarily due to a 4.6% increase in the weighted average price of retail kWhs sold (approximately \$9.1 million) and a 2.0% increase in the quantity of kWhs sold (\$4.0 million). The increase in the price of retail kWhs sold is primarily the result of costs associated with IPL's NO_x compliance construction program recovered through rates (\$5.2 million), an 8.7% increase in the price of electricity sold to our non jurisdictional retail customers (\$1.3 million) which recognizes increases in our cost to produce electricity and an increase in fuel costs charged to residential customers in 2005 (approximately \$0.3 million). The increase in the quantity of retail kWhs sold is primarily due to a 21.4% increase in heating degree days during the quarter and because we increased our retail customer base by approximately 3,500 customers or 0.7% from June 30, 2004 to June 30, 2005. Wholesale prices in the Midwest ISO Day 2 market, which began April 1, 2005 were based upon cleared cost-based generation offers and demand bids during the first 60 days of the market. After the first 60 days, market prices are based upon cleared market-based generation offers and demand bids. The increase in wholesale revenues was primarily due to a 21.8% increase in the average price of wholesale kWhs sold (approximately \$3.1 million), partially offset by a 16.6% decrease in the quantity of wholesale kWhs sold (approximately \$2.9 million). The price of wholesale electricity is impacted by increases in fuel prices, coal transportation costs and environmental emission allowance prices, as well as the supply of electricity and demand for electricity. The quantity of wholesale kWh sales is impacted primarily by our replacement cost of coal, the market price of electricity, our retail load requirements and our generation capacity and unit availability.

Utility Operating Expenses

The following table illustrates the primary operating expense changes from the quarter ended June 30, 2004 to the quarter ended June 30, 2005 for IPALCO (in millions):

Operating Expenses for the Quarter Ended June 30, 2004	\$ 165.4
Increase in depreciation and amortization	4.0
Increase in cost of power purchased	3.3
Increase in wages and benefits	3.0
Land sale gain in 2004	1.8
Decrease in fuel expenses	(3.3)
Other miscellaneous variances	3.5
Operating Expenses for the Quarter Ended June 30, 2005	<u>\$ 177.7</u>

The increase in depreciation and amortization is primarily due to a \$1.6 million increase in depreciation on \$156.9 million of equipment placed in service in May of 2004 and \$53.5 million placed in service in May 2005 designed to reduce NO_x emissions and a \$1.8 million increase in amortization of regulatory assets related to such equipment. Purchased power expense increased \$3.3 million, primarily due to \$3.1 million of Midwest ISO Day 2 purchased power expenses including costs recoverable through the fuel adjustment clause. The increase in wages and employee benefits includes a \$1.5 million increase in payroll costs, a \$0.5 million increase in employee group insurance benefit expenses

and a \$0.5 million increase in pension and other postretirement benefits. The increase in payroll costs reflects annual wage increases and additional employees. The increase in employee group insurance benefit expenses results primarily from escalating health insurance premiums and additional employees. The increase in pension and postretirement benefits is primarily due to increased service costs (\$0.3 million) and because we decreased the expected return rate on the defined benefit pension plan assets from 8.5% in 2004 to 8.0% in 2005 (\$0.3 million). The gain on the sale of land held for sale, recorded as a reduction of other operating expenses, is a portion of the total gain of \$5.9 million recognized during 2004 for the sale of approximately 4,000 acres of undeveloped property near Martinsville, Indiana. The remaining \$4.1 million gain was recognized in the first quarter of 2004.

The decrease in fuel expenses is primarily driven by a decrease in the deferred fuel adjustments (\$7.5 million), partially offset by an increase in the cost of fuel (\$4.9 million). The deferred fuel adjustment is the result of variances between estimated fuel costs in IPL's fuel adjustment charge and actual fuel costs. IPL is permitted to recover underestimated fuel costs in future rates through the fuel adjustment charge proceeding and therefore the costs are deferred and amortized into expense in the same period that IPL's rates are adjusted. The increase in fuel costs is driven by an 8.6% increase in the average price of coal consumed and because we produced a greater portion of our electricity during 2005 using peaking unit resources as a result of average temperatures in June of 2005 being significantly higher than normal.

Additionally, we expect maintenance expenses to be higher in 2006 as more scheduled unit overhauls are planned to coincide with our environmental compliance construction program.

Furthermore, while we continued to rely on our SO₂ air emissions allowance bank to remain in compliance with EPA SO₂ regulations in the second quarter of 2005, we will be purchasing SO₂ air emissions allowances during the second half of 2005 and in 2006. In July 2005, we purchased 3,500 SO₂ air emissions allowances at the then current market price of \$840 per ton, for a total of \$2.9 million. The market price for SO₂ air emissions allowances has risen significantly in recent years. The price per ton of SO₂ air emissions allowances has increased from approximately \$150 on January 1, 2003 to over \$700 in December 2004 to approximately \$860 in August 2005. Because the price of such allowances has been volatile, it is difficult to predict what our cost may be in the future, but we do expect our SO₂ air emissions allowance costs to increase in the second half of 2005 and in 2006 relative to prior years.

Other Income and Deductions

Other income and deductions increased from income of \$6.1 million in the second quarter of 2004 to \$7.0 million in the second quarter of 2005. This increase includes a \$0.4 million increase in the allowance for funds used during construction related to the NO_x compliance construction program and various smaller miscellaneous items. These increases are partially offset by a \$0.6 million decrease in the income tax benefit resulting primarily from a \$1.5 million increase in the pretax nonoperating net loss.

Interest and Other Charges

Interest and other charges was \$29.3 million in each of the quarters ended June 30, 2005 and 2004.

Comparison of Six Month Periods Ended June 30, 2005 and June 30, 2004

Our net income during the six month period ended June 30, 2005 increased by \$2.0 million to \$61.2 million from the \$59.1 million in the same period in 2004. The following discussion highlights the significant factors contributing to this change.

Utility Operating Revenues

Utility operating revenues increased by \$25.8 million during the six months ended June 30, 2005 compared to the prior year as a result of the following (dollars in thousands):

	June 30, 2005	June 30, 2004	Increase (Decrease)	Percentage Change
Retail Revenues	\$ 419,760	\$ 397,551	\$ 22,209	5.6%
Wholesale Revenues	27,244	24,586	2,658	10.8%
Miscellaneous Revenues	<u>8,684</u>	<u>7,757</u>	<u>927</u>	12.0%
Total Utility Operating Revenues	<u>\$ 455,688</u>	<u>\$ 429,894</u>	<u>\$ 25,794</u>	6.0%
Heating Degree Days	3,163	3,181	(18)	(0.6%)
Cooling Degree Days	353	363	(10)	(2.8%)

The 5.6% increase in retail revenues was primarily due to a 4.9% increase in the weighted average price per kWh sold (approximately \$19.6 million), which is primarily the result of costs associated with our NO_x compliance construction program (\$13.2 million), an increase in fuel costs charged to residential customers in 2005 (approximately \$2.3 million) and a 7.4% increase in the price of electricity sold to our non jurisdictional retail customers (\$2.2 million) which recognizes increases in our cost to produce electricity. In addition, we increased our retail customer base by approximately 3,500 customers or 0.7% from June 30, 2004 to June 30, 2005. The increase in wholesale revenues was primarily due to a 26.6% increase in the price of wholesale kWhs sold (approximately \$6.5 million), partially offset by a 12.4% decrease in the quantity of wholesale kWhs sold (approximately \$3.9 million). As described previously, the price of wholesale electricity is impacted by increases in fuel prices, coal transportation costs and environmental emission allowance prices, as well as the supply of electricity and demand for electricity. The quantity of wholesale kWh sales is impacted primarily by our replacement cost of coal, the market price of electricity, and our generation capacity and unit availability.

Utility Operating Expenses

The following table illustrates the primary operating expense changes from the six month ended June 30, 2004 to the six months ended June 30, 2005 for IPALCO (in millions):

Operating Expenses for the Six Months Ended June 30, 2004	\$ 327.5
Increase in depreciation and amortization	8.6
Land sale gain in 2004	5.9
Increase in wages and benefits	5.8
Increase in cost of power purchased	4.8
Decrease in fuel expenses	(2.7)
Other miscellaneous variances	0.4
Operating Expenses for the Six Months Ended June 30, 2005	<u>\$ 350.3</u>

The increase in depreciation and amortization is primarily due to a \$4.0 million increase in depreciation on \$156.9 million of equipment placed in service in May of 2004 and \$53.5 million placed in service in May 2005 designed to reduce NO_x emissions and a \$3.2 million increase in amortization of regulatory assets related to such equipment. The gain from the sale of land held for sale, recorded as a reduction of other operating expenses, was recognized during 2004 for the sale of approximately 4,000 acres of undeveloped property near Martinsville, Indiana. The increase in wages and employee benefits includes a \$2.8 million increase in payroll costs, a \$1.1 million increase in employee group insurance benefit expenses and a \$1.0 million increase in pension and other postretirement benefits. The increase in payroll costs reflects annual wage increases and additional employees. The increase in employee group insurance benefit expenses results primarily from escalating health insurance premiums and additional employees. The increase in pension and postretirement benefits is primarily due to increased service costs (\$0.6 million) and because we decreased the expected return rate on the defined benefit pension plan assets from 8.5% in 2004 to 8.0% in 2005 (\$0.5 million). Purchased power expense increased \$4.8 million, primarily due to a \$3.9 million price increase including \$3.1 million of Midwest ISO Day 2 purchased power expenses, including costs recoverable through the fuel adjustment clause. In

addition, we purchased 14.7% more kWh (\$0.9 million) during the six months ended June 30, 2005, as compared to the same period in 2004.

The decrease in the fuel expenses is primarily driven by deferred fuel (\$8.7 million) partially offset by an increase in fuel costs (\$7.0 million). The deferred fuel adjustment is the result of variances between estimated fuel costs in IPL's fuel adjustment charge and actual fuel costs. Our fuel costs have risen 7.8% in the comparative periods, primarily as a result of a 7.0% increase in the average price of coal consumed and because we produced a greater portion of our electricity during 2005 using peaking unit resources as a result of average temperatures in June of 2005 being significantly higher than normal.

Other Income and Deductions

Other income and deductions decreased slightly from income of \$15.2 million to \$14.6 million during the six month periods ended June 30, 2004 and 2005, respectively, primarily due to a \$0.9 million gain on the sale of noncore real estate assets in 2004.

Interest and Other Charges

Interest and other charges increased less than 1% during the six month period ended June 30, 2005 as compared to the same period in 2004, but included a 44.4% decrease in the allowance for borrowed funds used during construction. This decrease is primarily related to the NO_x compliance construction program.

Liquidity and Capital Resources

As of June 30, 2005, IPALCO had cash and cash equivalents of \$3.3 million and highly liquid short-term investments of \$9.1 million. In addition, as of June 30, 2005, IPL has available borrowing capacity of \$72.3 million under its \$75.0 million committed credit facilities after outstanding borrowings of \$2.0 million and existing letters of credit. All long-term borrowings by IPL must first be approved by the IURC and the aggregate amount of IPL's short-term borrowings must be approved by FERC. IPL has approval from FERC to borrow up to \$500 million of short-term indebtedness outstanding at any time through July 29, 2006. IPL and IPALCO 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 their existing debt obligations. Under such restrictions, IPL is generally allowed to fully draw the amounts available on its committed credit facilities, refinance existing debt, issue an additional \$30 million of long-term debt approved by the IURC and incur certain other indebtedness. We believe that existing cash balances, cash generated from operating activities and borrowing capacity on IPL's committed credit facilities will be adequate on a short-term and long-term basis to meet anticipated operating expenses, interest expense on outstanding indebtedness, recurring capital expenditures and 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 IPL's committed credit facilities and (iv) additional debt financing.

We actively invest a portion of our available cash balances in various financial instruments, such as tax-exempt debt securities that frequently have stated maturities of 20 years or more and taxable and tax-exempt auction rate securities. These instruments provide for a high degree of liquidity through features such as daily and seven day notice put options and 7, 28, and 35 day auctions which allow for the redemption of the investments at their face amounts plus earned income. As we intend to sell these instruments within one year or less, they are classified as current assets.

During April 2005, IPL issued, in two separate series, \$71.9 million of variable-rate first mortgage bonds. The interest rate for each series is established through a weekly auction. The initial interest rate on both series was 2.25%. The 2005A Series bonds in the principal amount of \$41.9 million mature January 1, 2016. The 2005B Series bonds in the principal amount of \$30.0 million mature October 1, 2023. In May 2005, the net proceeds of the new debt were used to retire two series of existing fixed-rate first mortgage bonds: (i) \$41.9 million at 6.10% maturing January 2016 and (ii) \$30.0 million at 5.5% maturing October 2023.

In May 2005, IPL amended three financing arrangements to extend the maturity dates. IPL's \$45 million committed line of credit was extended to May 18, 2006. IPL's credit agreement, which includes a \$30 million committed line of credit and a \$40.6 million liquidity facility (related to \$40 million of IPL variable rate bonds, which are remarketed weekly), was extended to May 30, 2006. IPL's receivable sale agreement was extended to May 30, 2006.

Capital Requirements. Our capital requirements are primarily related to IPL's construction expenditures needed to meet customers' needs for electricity and for environmental compliance. IPL's capital expenditures totaled \$58.1 million during the six months ended June 30, 2005. This represented a decrease of \$46.5 million from the comparable period in 2004, primarily because expenditures associated with NO_x emission reductions have decreased as the NO_x compliance construction program nears completion. Construction expenditures during the first six months of 2005 were financed with internally generated cash provided by operations. IPL's 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 improve overall performance. Our capital expenditure program for the three-year period 2005-2007 is currently estimated to be approximately \$476 million. The estimated cost of the overall program by year is \$134 million in 2005, \$215 million in 2006 and \$127 million in 2007. It includes approximately \$131 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 \$28 million for construction projects designed to reduce NO_x emissions; \$204 million for construction projects designed to reduce SO₂ and mercury emissions; \$102 million for power plant related projects; and \$11 million primarily for miscellaneous office equipment and furniture.

Pension Funding. IPL has not made any contributions to the Pension Plans during 2005. Depending on the timing of contributions, pending legislation, and other factors related to our funding strategy, we estimate potential cash contributions to the Pension Plans of up to \$25 million in 2005, but we may elect not to make any contributions since none are anticipated to be required to meet our minimum funding targets. We do, however, anticipate pension funding commitments in 2006 to be greater than \$25 million. This estimate is based on actuarial assumptions using a discount rate of 6.0% and an assumed long-term rate of return on plan assets of 8.0%.

Dividends. All of our outstanding common stock is held by AES. During the first six months of 2005, we paid \$47.6 million 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 results of operations, cash flows, the timing of financings, financial condition, capital requirements, regulatory considerations, and such other factors as IPL's board of directors deems relevant.

Other Regulatory Matters

Purchased Power. IPL is generally allowed to recover, through its fuel adjustment charge, the fuel portion of purchased power costs incurred to meet jurisdictional retail load. Purchased power costs below an established benchmark are presumed to be fuel costs. Prior to March 2005, the benchmark for IPL was fixed at \$77.50 per MWh. Under a new settlement agreement approved by the IURC in March 2005, which expires March 31, 2007, the benchmark for IPL is established prospectively each month based on the higher of the prompt month price (futures settlement price on the last trading day of the current month for next month) for natural gas or no. 2 fuel oil. The settlement also generally provides for recovery of 85% of power purchased up to \$700/MWh to replace capacity losses for certain full forced outages and environmental derates (unit impairment for environmental conditions) for power purchases up to the first 11% of IPL's total rated summer capacity in any hour and full recovery for power purchases exceeding 11% of IPL's total rated summer capacity in any hour.

Fuel Adjustment Charge Proceeding. In our most recent quarterly fuel adjustment charge proceeding, the IURC issued an order ("the FAC Order") which stated that our request for recovery of the Midwest ISO components of the cost of fuel was in conformance with the Midwest ISO Order. The Office of the Utility Consumer Counselor (the "OUCC") is responsible for reviewing the costs included in our fuel filings and they are working with each of the Indiana utilities, including IPL, to better understand the Midwest ISO Day 2 costs. Due to the continued discussions with the OUCC about the implementation of the Midwest ISO Order as well as questions regarding our jurisdictional allocators, the FAC Order in the fuel adjustment charge proceeding stated that the rates approved should be interim rates, subject to refund. The allocators referenced in the FAC Order are used to determine our jurisdictional net operating income.

Domenici-Barton Energy Policy Act of 2005. On August 8, the Domenici-Barton Energy Policy Act of 2005 (the "Energy Bill") was signed into law. We are in the process of reviewing the Energy Bill to determine what affect it may have on us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including the chief executive officer (“CEO”) and chief financial officer (“CFO”), of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 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 June 30, 2005. IPL’s management, including the CEO and CFO, 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. In addition, 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 CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, including ensuring that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that such disclosure controls and procedures were effective, as of June 30, 2005 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Controls: On April 1, 2005, the Midwest ISO Day 2 market became effective which impacted IPL’s electric generation business and purchased power processes. In connection with the implementation of Midwest ISO Day 2, we have implemented new processes and modified existing processes to facilitate our participation in the Midwest ISO market, including the transaction settlement process. IPL and other market participants have raised concerns with certain transactions and the resolution of these items could impact our results of operations. There have not been any other changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Compliance with Section 404 of the Sarbanes Oxley Act of 2002. Beginning with the year ending December 31, 2006, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include an internal control report of management with our annual report on Form 10-K. The internal control report must contain (1) a statement of management’s responsibility for establishing and maintaining adequate internal controls over financial reporting for our Company, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal controls over financial reporting, (3) management’s assessment of the effectiveness of our internal controls over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective, and (4) a statement that our independent auditors have issued an attestation report on management’s assessment of our internal controls over financial reporting.

Management has developed a comprehensive plan in order to achieve compliance with Section 404 within the prescribed period and to review, evaluate and improve the design and effectiveness of our controls and procedures on an on-going basis. The comprehensive compliance plan includes (1) documentation and assessment of the adequacy of our internal controls over financial reporting, (2) remediation of control weaknesses, (3) validation through testing that controls are functioning as documented and (4) implementation of a continuous reporting and improvement process for internal controls over financial reporting. As a result of this initiative, we have made and will continue to make changes from time to time in our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 8 of the accompanying consolidated financial statements for a summary of significant legal proceedings involving IPALCO and/or IPL. We are also subject to routine litigation, claims and administrative proceedings arising in the ordinary course of business, none of which is expected to have a material adverse effect on our financial position or results of operations.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Document</u>
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|------|---|
| 31.1 | Certification by Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a). |
| 31.2 | Certification by Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a). |
| 32 | Certification required by Rule 13a-14(b) or 15d-14(b). |
| 99.1 | Second Amendment, dated as of May 31, 2005, to Credit Agreement, dated as of June 4, 2003, Among IPL, the Institutions from time to time Parties Thereto, as Lenders, and Lasalle Bank National Association, as Agent. |
| 99.2 | First Modification, dated as of May 18, 2005, to Credit Agreement, Dated as of May 20, 2004, Among IPL, the Institutions from time to time Parties Thereto, as Lenders, and the Huntington National Bank, as Agent. |
| 99.3 | Second Amendment, dated as of May 31, 2005, to Amended and Restated Receivables Sale Agreement, Dated as of July 20, 2004, Among IPL Funding Corporation, ABN AMRO Bank N.V., the Liquidity Providers from time to time Parties Thereto and Windmill Funding Corporation. |

Signature

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: August 22, 2005

/s/ Hamsa Shadaksharappa

Hamsa Shadaksharappa

Senior Vice President - Financial Services, Chief Financial
Officer and Secretary

(Principal Financial Officer and Duly Authorized Officer)