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INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED DIRECT TESTIMONY

OF

MATTHEW J. DALTON

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

D/B/A AES INDIANA

Cause No. 46258

VERIFIED DIRECT TESTIMONY OF MATTHEW J. DALTON

ON BEHALF OF AES INDIANA

1. <u>INTRODUCTION</u>

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

A1. My name is Matthew J. Dalton. I am employed by AES US Services, LLC, ("AES Services," also "Service Company"), which is the service company that serves Indianapolis Power & Light Company d/b/a AES Indiana ("AES Indiana", "IPL", or "Company"). The Service Company is located at One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with AES Services?

A2. I am the Director of Human Resources.

Q3. On whose behalf are you submitting this direct testimony?

A3. I am submitting this testimony on behalf of AES Indiana.

Q4. Please describe your duties as the Director of Human Resources.

A4. As the Director of Human Resources, I oversee a team of HR professionals. We provide HR services to all of the AES US businesses, including AES Indiana. We oversee the daily HR operations for AES Indiana such as employee relations, labor relations, annual compensation; performance; succession planning; and other HR operational services.

Q5. Please summarize your education and professional qualifications.

A5. I have a bachelor's degree in Business from Fairmont State University in Fairmont, West Virginia. I also have a Master of Industrial and Labor Relations from West Virginia University.

Q6. Please summarize your prior work experience.

A6. My career in the Human Resources field began at Norfolk Southern Railway as a labor relations management trainee. I worked for Norfolk Southern in various human resources roles for approximately ten years. My final role was Director, Labor Relations. In 2020, I accepted a position with the Service Company as a Strategic Human Resources Business Partner. In 2022, I was promoted to my current position, Director, Human Resources.

Q7. Have you testified previously before the Indiana Utility Regulatory Commission ("Commission") or any other regulatory agency?

A7. Yes, I provided testimony in Commission Cause No. 45911, AES Indiana's most recent basic rate case.

Q8. What is the purpose of your testimony in this proceeding?

A8. My testimony supports Adjusted Test Year compensation and benefits costs. I address the Company's forecasted employee compensation and benefits programs, for both AES Indiana employees and AES Services employees who do work for AES Indiana. I discuss base salary, short-term and long-term incentive compensation programs ("STC" and "LTC", respectively) and benefits. I explain that AES Indiana's incentive compensation includes financial, operational and individual metrics, is reasonable and necessary to attract and retain talent, and that shareholders bear a portion of the incentive compensation costs. I also address bargaining unit employee compensation, which is determined by a multi-year Collective Bargaining Agreement. My testimony addresses forecasted Adjusted Test Year payroll tax as well. Finally, my testimony describes the Company's Test Year labor costs at Peterburg Station reflected in the two-step phase-in plan presented by Company witness Aliff.

Q9. Are you sponsoring or co-sponsoring any financial exhibits or attachments?

A9. Yes. I sponsor the following financial exhibit schedule:

- AES Indiana Financial Exhibit AESI–OPER, Schedule OM15 and OM15 (P1)[1] – Operations and Maintenance Expense for Wages.
- AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 and OM16 (P1) – Operations and Maintenance Expense for Employer Insurance Benefits.
- AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3 and OTX3 (P1) – Payroll Taxes.

Q10. Did you submit any workpapers?

A10. Yes. The workpapers ("WP") are provided in electronic format that support the financial exhibit schedules that I sponsor or co-sponsor.

Q11. Were the exhibits, attachments, and workpapers, or portions thereof, that you are sponsoring or co-sponsoring prepared or assembled by you or under your direction and supervision?

A11. Yes.

Q12. For ease of reference, please summarize the key terms utilized in the Company's filing.

A12. Key terms as defined by AES Indiana witness Peters include the following.[2] First, the per books twelve months ended December 31, 2024, is the Historical Base Period. Second, the forecasted twelve months ending December 31, 2025, is the Linking Period. Next, the

[1] The title of "(P1)" refers to the Phase 1 schedules.
[2] AES Indiana witness Peters, Q/A 13.

unadjusted forward-looking test year for twelve months ending December 31, 2026, is the Unadjusted Test Year. Finally, the adjusted forward-looking test year for the twelve months ending December 31, 2026, is the Adjusted Test Year.

2. TOTAL DIRECT COMPENSATION

Q13. What are the goals and objectives of AES Indiana's compensation programs?

A13. The goal of AES Indiana's compensation programs is to deliver a Total Compensation package that is competitive in the market and aligned with our business objectives. We design compensation to attract, retain, and motivate the talent necessary to provide safe, reliable, and affordable electric service to our customers.

Our Total Compensation approach includes base salary, STC and LTC, and a comprehensive suite of employee benefits, which I discuss further below. This mix is intentional. It allows us to remain competitive in the labor market while also aligning employee performance with Company goals. Rather than viewing compensation components in isolation, we evaluate and manage them as an integrated system that reflects the full value of employment at AES Indiana. Total Direct Compensation includes base salary, STC, and LTC, which I discuss further below.

Q14. Why is it important for AES Indiana to provide employees Total Direct Compensation consistent with market rates?

A14. Providing Total Direct Compensation that is consistent with market rates is essential to attracting and retaining the talent required to operate a modern electric utility. AES Indiana competes for employees across a broad spectrum of industries, including utilities, manufacturing, technology, and professional services. Locally, we compete with companies like Cummins, Rolls-Royce, and Eli Lilly (to only name a few). Nationally, the rise of remote work has expanded the competitive landscape even further.

To remain competitive in this environment, we must offer a Total Direct Compensation package that reflects what employees could earn elsewhere. This includes not only base salary, but also performance-based incentives. If we were to fall short in any one area, we would risk losing qualified candidates and experienced employees to other employers who offer more complete or attractive compensation packages.

Q15. How are AES Indiana's Total Direct Compensation programs structured to respond to this competitive market?

A15. Each component of AES Indiana's Total Direct Compensation program is designed to work together to deliver a competitive and performance-aligned compensation experience.

Base salaries are determined based on the role, the employee's experience, and their expertise. This ensures that compensation reflects both the responsibilities of the position and the qualifications of the individual. STC is tied to both Company performance—measured through our Company performance scorecard—and individual performance, which is assessed through annual goal-setting and performance reviews. This dual alignment ensures that employees are rewarded for both personal contributions and collective success.

To ensure our compensation remains competitive and reasonable, we regularly benchmark our Total Direct Compensation against market data using nationally recognized salary surveys from firms such as Willis Towers Watson, Mercer, and AON Hewitt. These surveys help us evaluate how our compensation compares to the market median and guide adjustments to maintain alignment. By managing compensation as an integrated system—rather than as isolated components—we are able to offer a package that is competitive, performance-driven, and responsive to market conditions.

Q16. Please describe <u>AES Indiana Financial Exhibit AESI-OPER, Schedule OM15 and OM15(P1)</u>.

A16. This schedule sets forth the Adjusted Test Year Operation and Maintenance expenses for the labor of AES Indiana and the portion of AES Service employees that benefit AES Indiana. Column 1 represents the Unadjusted Test Year compensation costs and column 2 represents the Adjusted Test Year compensation costs. As discussed by Company witness Ellis, the repowering project underway at Petersburg Units 3 and 4 is scheduled for completion by the end of 2026. Once this project is completed, the headcount at Petersburg is forecasted to decrease. As further discussed below, the Company proposes to reflect the Test Year compensation at Petersburg in the Phase 1 rates presented by Company witness Aliff. The Company proposes to capture the post-repowering headcount reduction in the Phase 2 rates presented by Company witness Aliff.

Q17. Do you provide any additional information in support of <u>AES Indiana Financial Exhibit AESI-OPER, Schedule OM15 and OM15(P1)</u>?

A17. Yes. <u>AES Indiana Financial Exhibit AESI–OPER, Schedule OM15-WP1</u> shows the breakdown of the payroll components included in the Adjusted and Unadjusted Test Year Total Direct Compensation forecast. Lines 1-8 show AES Indiana and lines 9-17 show the amount of AES Services payroll allocated to AES Indiana. <u>AES Indiana Financial Exhibit AESI–OPER, Schedule OM15-WP2</u> shows the calculations resulting in the difference between the Unadjusted Test Year and Adjusted Test Year Total Direct Compensation cost for Phase 1 rates prior to the Petersburg repowering. The Unadjusted Test Year and Adjusted Test Year totals for Total Direct Compensation, benefits and payroll tax are shown in lines 32-35, columns 1-4. AES Indiana Financial Exhibit AESI–OPER, Schedule OM15-WP3 lines 1-6, columns 1 and 2 show the Total Direct Compensation expenses for the Historical Base Period and for the Linking Period for AES Indiana. lines 12-16, columns 1 and 2 show the Total Direct Compensation expenses for the Historical Base Period and for the Linking Period for AES Services.

A. FORECAST METHODOLOGY

Q18. Please generally describe the Company's forecast methodology for its Adjusted Test Year compensation expense.

A18. In general, the compensation expense is a product of headcount and compensation rate. In order to determine the Total Direct Compensation expense for the Adjusted Test Year, the 2024 Historical Year headcount, comprised of active positions and open positions expected to be filled for the test year, were loaded into our headcount and budget planning system. The headcount and budget planning system considers 2024 compensation data and applies annual compensation increases (wage and salary that are described in my testimony below) that are effective in 2025 and 2026 for union and non-union employees. The headcount levels reflect the 2025 reorganization and operating assumptions as of April 2025. Compensation costs not recoverable through base rates, such as costs associated with lobbying or costs recovered though a rider, were removed.

As stated above, the Company proposes to address changes in the Test Year headcount at Petersburg which will change from 242 to 106 following the completion of the Petersburg repowering. Phase 1 rates reflect Test Year headcount at Petersburg prior to repowering.

Implementation of Phase 1 rates is described by AES Indiana witness Aliff.[3] Phase 2 rates reflect a decrease in Petersburg headcount (and associated costs) following the repowering and are estimated to go in effect in January 1, 2027, as described by AES Indiana witness Aliff.[4] See AES Indiana Financial Exhibit AESI-OPER, Schedule OM15 (P1), line 4; also lines 20 and 35 of AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP2.

B. BASE COMPENSATION

Q19. How is base compensation for salaried employees generally determined?

A19. Base compensation for salaried employees is determined through a structured process that considers the responsibilities of the role, the employee's experience, and their level of expertise. This ensures that pay is aligned with the value the employee brings to the organization and the demands of the position.

Importantly, base salary is not viewed in isolation. It serves as the foundation of our Total Compensation framework, which also includes incentive compensation and a comprehensive benefits package. Because STC is calculated as a percentage of base salary, any increase in base compensation also increases the potential value of STC. This reinforces the importance of viewing compensation holistically, rather than as separate and unrelated components.

As stated above and further discussed below, we use benchmarking and review base salary information to ensure our compensation remains competitive and reasonable.

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[3] AES Indiana witness Aliff Direct Testimony, Q/A 52.
[4] AES Indiana witness Aliff Direct Testimony, Q/A 53.

Q20. What is the forecasted increase in salaried compensation?

A20. For salaried employees, base compensation wages are expected to increase by 3.5 percent effective January 1, 2026.

Q21. Is the increase in base compensation for salaried employees reasonable?

A21. Yes. The 3.5% increase is reasonable and appropriate given current market conditions and the Company's need to maintain a competitive Total Direct Compensation package. This figure is informed by nationally recognized compensation surveys, including those published by Willis Towers Watson and Mercer, which reflect projected salary trends across relevant industries. These surveys are a key input in our process, but they are not the sole determinant.

In practice, we consider a range of factors when setting compensation levels, including market data, internal equity, inflationary trends, and the Company's overall performance and business needs. The 3.5% increase reflects a balanced approach that aligns with external benchmarks while supporting our ability to attract and retain the talent necessary to deliver safe, reliable, and affordable service to our customers.

Q22. Please explain how the increase in hourly wage compensation was forecasted.

A22. Except for approximately 28 non-union security guards, AES Indiana's hourly employees are comprised of union represented employees. Bargaining unit contracts are negotiated with the unions on a multi-year basis. We have two categories of bargaining units, the Physical group, and the Clerical group. Our Physical group typically includes bargaining unit employees who work in the field and in power plants, while our Clerical group typically includes bargaining unit employees who work in customer service and computer technology. Generally, increases are provided annually in the same month of the contract's effective date, or in some cases semi-annually starting from the month in which the contract becomes effective. For our Physical group, our current contract is effective from December 5, 2024, to December 5, 2027. The negotiated increases are 4.5% for 2026 and 5% 2027, effective as of December 2025 and December 2026, respectively. For our Clerical group, our current contract is effective from February 13, 2025, to February 13, 2026. The negotiated increase for 2025 was 4.25% effective as of February 2025. For the Adjusted Test Year, the Company assumed, as described below, an increase of [redacted]% for the Clerical union to be effective in 2026. These increases are reflected as part of the Adjusted Test Year Labor Costs shown on line 1 of AES Indiana Financial Exhibit AESI-OPER, Schedule OM15.

Q23. Is there overtime included in the Adjusted Test Year compensation cost forecast?

A23. Yes. The overtime included in the Adjusted Test Year is based on historical average of overtime costs. No different than base compensation costs for hourly positions, overtime costs are a common and measurable component of the compensation costs the Company incurs.

Q24. Is the forecasted overtime expense reasonable?

A24. Yes. The overtime costs forecasted are based on actual Historical Base Period costs incurred by the Company. Some level of overtime work is always necessary to ensure projects are completed on time and to respond to emergency or outage events in order to restore power to customers as soon as possible.

Q25. Are the increases in base compensation for hourly employees reasonable?

A25. Yes. Increases in base compensation for our hourly positions are initially forecasted in the same manner as the base wage increases for salaried employees but using a version of the WTW and Mercer reports that more specifically pertains to the types of job classifications of the hourly employees. The WTW report provides projections for "Production and Manual Labor" type roles that was 3.5% in 2024. The Mercer report provides projections in a similar group called "Para-professional blue collar" positions which projected a 4% increase. However, increases for union represented hourly employees are also dependent upon the entirety of topics subject to collective bargaining. Base wage increases are but one of the many subjects discussed during collective bargaining along with health care, shift premiums, paid time off and work rules, among many others. Provisions in the collective bargaining agreement also provide for periodic "step rate" increases for employees in each job classification until they reach the defined maximum rate for that classification. The forecasted [redacted]% increase for the Clerical union in the Adjusted Test Year is reasonable and within the scope of the projections made in the WTW and Mercer reports. The forecasted increase is necessary to remain competitive in the market and provide for recovery of the step rate increases required by the applicable collective bargaining agreement.

C. INCENTIVE COMPENSATION

Q26. Please describe the Company's STC Plan.

A26. The STC Plan is a performance-based incentive program and a key component of AES Indiana's Total Direct Compensation. It is designed to align employee performance with the Company’s operational goals and customer-focused outcomes, while supporting talent attraction and retention.

The STC Plan is available to all non-bargaining unit employees, including both salaried exempt and salaried non-exempt employees. While most STC-eligible employees are exempt from overtime under the Fair Labor Standards Act (FLSA), a small subset of salaried, non-exempt employees are also eligible to participate. Part-time non-union employees are not eligible for STC.

Each eligible employee has an individual STC target, expressed as a percentage of their base salary, which varies by job level. The actual payouts are determined by a combination of individual performance and Company performance (referred to as the scorecard). I explain how this payout is calculated below.

This structure ensures that compensation is tied to both personal contribution and the Company’s ability to meet its service obligations. By linking a portion of compensation to measurable outcomes, the STC Plan reinforces a high-performance culture and provides a flexible, market-aligned mechanism for rewarding results—without relying solely on fixed base pay.

Q27. Please describe the scorecard used for the STC Plan.

A27. The scorecard used in the STC Plan is designed to measure performance in areas that directly support the Company’s ability to deliver safe, reliable, and customer-focused electric service. It is composed of operational metrics that reflect how well the Company executes on its core responsibilities.

These metrics are supported by measurable indicators—for example, safety incident rates, service interruption metrics, and customer service performance. These indicators are selected to reflect the day-to-day work of employees and the outcomes that matter most to customers and regulators.

The scorecard is applied uniformly across eligible employees and is used to determine the portion of the STC payout tied to Company performance. This ensures that incentive compensation is aligned with the Company's operational priorities and reinforces a culture of accountability and continuous improvement.

By focusing on operational execution, the scorecard supports the Company's service obligations and aligns employee incentives with the interests of customers and the public.

Q28. Please describe the components of the scorecard.

A28. The Company's current scorecard is organized around four goals that reflect AES Indiana's operational priorities and its commitment to delivering safe, reliable, and customer-focused service. Each category is designed to align employee incentives with outcomes that are important to customers and other stakeholders. The Company's scorecard includes the following components:

- *Safety*. This category reinforces AES Indiana's foundational value of protecting employees, contractors, and the public. It includes measures that promote a proactive safety culture and continuous improvement in workplace safety practices. This category consists of the following performance measures: (1) Serious Safety Incidents (no contact injury or fatality); (2) Safety Walks; (3) Non-injury Significant Injury Potential (SIP) rate; and (4) Safety Meeting Attendance.

- *Customer Affordability*. This category reflects the Company's commitment to delivering value through efficient operations and cost management. It includes metrics that encourage on-time and on-budget project execution and operational discipline, helping ensure customers receive reliable service at a reasonable cost. This category consists of the following performance measures: (1) Capital Expenditures on time and on budget; and (2) Energy Star 3.0 cost and efficiency savings.[5]

- *Economic Development.* This category supports AES Indiana's role in enabling local and regional growth. It includes measures that track the Company's responsiveness to large-load customers and its ability to support infrastructure readiness for economic expansion—contributing to job creation and long-term community investment. This category consists of work on economic development opportunities for large load customers like data centers or advanced manufacturing (e.g., Service framework such as Electrical Service Agreements and Construction Service Agreements).

- *Customer and Operational Performance.* This category focuses on the reliability and quality of service delivered to customers. It includes metrics related to system performance, service continuity, and customer satisfaction, and is intended to incentivize employees to deliver reliable service. The Key Performance Indicators ("KPIs") for this category, include Customer Satisfaction, Days Sales Outstanding, System Average Interruption Frequency Index (SAIFI), System Average

[5] Energy Star 3.0 is the name of the Company initiative focused on driving operational efficiency, cost savings, and performance improvements across the organization.

Interruption Duration Index (SAIDI), Equivalent Availability Factor (EAF) and Equivalent Forced Outage Factor (EFOF).

Each of these categories is evaluated based on performance against their established targets. The results are used to determine the portion of the STC payout tied to Company performance. This structure ensures that incentive compensation is earned through the achievement of meaningful, measurable outcomes that align with operational objectives and service expectations. As noted above, each employee's STC payout also reflects individual performance.

Q29. Please elaborate on how the STC payout is determined.

A29. As just explained, the Company's STC program begins with a company performance evaluation based on the scorecard. The AES Executive Compensation team—together with the AES US Utilities CEO—reviews the scorecard results and determines a performance multiplier known as the "funding factor." The formula used is:

Scorecard Results × Funding Factor = Total Scorecard Result

The funding factor adjusts the payout based on overall Company performance. The Total Scorecard Result is targeted at 100% but cannot exceed 150%. This ensures that STC payouts reflect both operational achievement and financial prudence.

Each eligible employee's actual STC payout is calculated by incorporating their individual performance. Each employee receives an individual performance rating. The full formula for calculating an employee's STC payout is:

Annual Base Salary × Individual Target × Total Scorecard Result × Individual Performance Factor = Employee STC Payout

This structure leads to payouts that reflect both Company-wide performance and individual contributions. It reinforces a culture of accountability and aligns employee incentives with AES Indiana's operational goals and service commitments.

Q30. If AES Indiana did not offer STC, would overall compensation costs be lower?

A30. No. While eliminating STC might reduce variable compensation on paper, it would not reduce the total compensation required to attract and retain the skilled workforce necessary to operate a safe and reliable utility. AES Indiana's compensation strategy is built around offering a market-competitive Total Direct Compensation package, which includes both base salary and STC.

STC is a performance-based tool that aligns employee incentives with customer outcomes, particularly when tied to operational metrics in the Company's scorecard. Employees whose compensation includes STC are directly engaged in providing safe, reliable electric service to customers.

If STC were removed, the Company would need to increase base salaries to remain competitive—likely beyond market medians—to achieve the same outcomes in performance and retention. This would shift compensation from a performance-based model to a fixed-cost model, reducing flexibility and potentially increasing long-term costs.

Q31. Are STC Plan costs in <u>AES Indiana Financial Exhibit AESI-OPER, Schedule OM15</u>?

A31. Yes. STC is a crucial part of total compensation earned by AES Indiana employees. The Company budgets for STC costs at 105% of target. This practice is to ensure high performing employees are able to be compensated accordingly. The Adjusted Test Year, which reflects $11.7 million in STC, adjusts out this 5% budget escalation, decreasing the Test Year STC amount by $0.6 million to reflect an STC amount of 100% target.[6] As such, STC payouts above target are not reflected in the retail revenue requirement and will be borne by shareholders. The budgeted 105% payout is consistent with the average actual payout of 105% since the Company's last rate case, which used a 2022 test year. The payout for the STC Plan in place during the Historical Base Period was 110%, with the payout exceeding amounts embedded in rates for STC by $1.2 million.[7]

Q32. What is your understanding of the Commission's policy with respect to including incentive compensation costs in base rates?

A32. My understanding is that the Commission applies a three-prong test to cost recovery, where (1) the incentive compensation plan is not a pure profit sharing plan, but rather incorporates operational as well as individual performance objectives; (2) the plan does not result in excessive pay levels beyond what is necessary to attract and retain a talented workforce; and (3) shareholders bear part of the cost of the program.

Q33. Does AES Indiana's proposed incentive compensation plan comply with those requirements?

A33. Yes. AES Indiana's compensation plan complies with the foregoing criteria as follows:

First, AES Indiana's incentive compensation plan is not a pure profit-sharing plan which only incents employees to focus on profitability. To the contrary, the Company scorecard

[6] AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP1. The combination of lines 3 and 12, Col. 2, shows the STC amount reflected in the Adjusted Test Year. Line 18 shows the reduction to reach the 100% STC target.

[7] AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP3, lines 21 through 25.

is based on operational objectives and the STC plan also factors in individual employee performance. Thus, the plan acts as a company-wide improvement plan which incentivizes the day-to-day activities of individual employees to maintain and improve service.[8]

Second, AES Indiana's incentive compensation plan is part of the Total Direct Compensation which does not result in pay levels beyond what is reasonably necessary to attract and retain a talented workforce.[9]

Third, shareholders have borne a portion of incentive compensation costs as discussed above and the proposed revenue requirement reflects this approach.[10] The scorecard structure of operational components applied to a funding factor enables operational execution to lead directly to higher Total Scorecard results. Finally, STC is part of Total Direct Compensation. As the Company continues to increase Total Direct Compensation after the Test Year, shareholders bear the cost incurred to maintain market competitiveness over time. As noted above, because STC is calculated as a percentage of base salary, any increase in base compensation also increases the potential value of STC. This too adds to shareholder borne costs.

Q34. What is Long Term Compensation ("LTC")?

A34. LTC is a compensation strategy that defers portions of performance incentives for a sub-set of management employees in a manner that drives retention. Instead of being provided immediate cash rewards like in an STC Plan, LTC plan benefits accumulate and vest over time. This not only incentivizes performance, but also gives employees a reason to remain with the Company until the incentives are vested and available for liquidation. The

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[8] See this testimony Q/A 28.
[9] See this testimony Q/As 38-39.
[10] See this testimony Q/A 31.

Company LTC rewards are comprised of a combination of Performance Units ("PUs") and Restricted Stock Units ("RSUs"), which are split evenly at grant (50% PUs and 50% RSUs). LTC awards are formula-based and vest over a three-year period. The PU award is based on AES Indiana's achievement of the Proportional Free Cash Flow metric. Proportional Free Cash Flow is defined as Net Cash from Operating Activities less Maintenance and Environmental Capital Expenditures adjusted for AES ownership percentage. The targeted RSU amount for each eligible employee is determined by the employee's job level.

It is important for the Company to be able to attract and retain high-quality talent, and to do so, all aspects of the Total Direct Compensation including long-term compensation must be competitive with other employers. LTC incentivizes employees to stay with the Company while their awards continue to vest. Without this retention tool, the Company is placed at high risk of losing top talent to competitors. This would create a loss of valuable skills and leadership and would have a significant financial impact in the form of turnover costs, which would ultimately be borne by the Company's customers.

Q35. What is the forecasted level of LTC included in the Adjusted Test Year?

A35. The forecasted LTC for AES Indiana for the Adjusted Test Year is $0.1 million and the forecasted LTC for US Services allocated to AES Indiana is $2.7 Million, for a total forecasted cost of $2.8 Million.[11]

[11] AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP1. The combination of lines 4 and 13, column 2, shows the LTC amount reflected in the Adjusted Test Year.

Q36. How was this forecast developed?

A36. The LTC forecast for the test year was developed by multiplying the test year base salary for each eligible employee by the LTC target for their specific job level. That amount is then split between PUs and RSUs as mentioned above.

Q37. Is the forecasted level of Long-Term Compensation (LTC) reasonable?

A37. Yes. The forecasted level of LTC included in the Test Year is reasonable and consistent with market practices. The forecast was developed by applying a target LTC percentage—based on each eligible employee's job level—to their Test Year base salary.

Eligibility and target percentages are determined by the Corporate Compensation team using market data from reputable sources such as WTW and Aon Hewitt. This ensures that the Company's Total Direct Compensation, including LTC, remains competitive with peer utilities and other employers in the labor market.

Without the LTC component, compensation for key leadership roles would fall below market levels, which could negatively impact AES Indiana's ability to attract and retain the talent necessary to deliver safe, reliable, and affordable electric service.

D. TOTAL DIRECT COMPENSATION REASONABLENESS

Q38. Is the Total Direct Compensation package included in the Adjusted Test Year reasonable?

A38. Yes. AES Indiana's Total Direct Compensation package is reasonable and consistent with market practices. The Company uses multiple robust sources of market data—including Mercer, WTW, and Aon Hewitt—to benchmark compensation levels. AES Indiana participates in annual salary surveys and updates its compensation structure as needed to align with the median of the market. Each job profile is matched to survey benchmarks, and positions are considered competitively paid if compensation falls within ±15% of the benchmark median. The Company's Total Direct Compensation levels fall within this range, indicating that compensation is neither excessive nor below market expectations.

Q39. What were the results of the analyses you referenced in the above response concerning Total Direct Compensation?

A39. AES relied on data from two WTW surveys – the United States 2025 Energy Services Middle Management, Professional and Support Survey Report and the United States 2025 General Industry Middle Management, Professional and Support Survey Report, as well as the AON Hewitt Radford McLagan Compensation Database/ Independent Energy Human Resources Association (RMCD/IEHRA) report to generate the information in the table below. The Total Direct Compensation of job family groups at AES Indiana were compared to the benchmarks provided by the aforementioned surveys. As mentioned above, the Company deems positions competitively paid if the position's compensation is close to +/- 15% of benchmark median compensation. The analysis demonstrated that the average Total Direct Compensation of positions in AES Indiana full-time job family groups are both reasonable and competitive. The table below shows how the Total Direct Compensation package for job families at AES Indiana compares to the market.

Table MJD-1: Job Family Group Total Compensation Compared to Market Median

Job Family Group	Percent Compared to Market Median
Administrative & Facilities Services	105%
Commercial	107%
Customer	112%
Digital	109%
EHS	112%
Engineering & Technical	103%
External Affairs	112%
Finance	103%
Generation	100%
Human Resources	110%
Legal & Compliance	108%
Projects	115%
Supply Chain	111%
T&D Operations	106%
Average	**106%**

As the table above demonstrates, the Total Direct Compensation plan offered to employees is within the Company's goal of being close to +/- 15% of the market benchmarks. Thus, the Total Direct Compensation package does not create pay levels that are above what is reasonable to attract and retain the skilled employees necessary for business operations. The Company's philosophy of utilizing incentive compensation as part of its Total Direct Compensation package has the same cost as providing market competitive compensation through a fixed base salary philosophy.

E. PHASE 1 COMPENSATION LEVEL

Q40. Please explain the adjustment shown on AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP2.

A40. AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP2 line 32 shows the adjustments made to the Adjusted Test Year for Phase 1 rates to reflect the higher employee headcount and costs at Petersburg during the Test Year. AES Indiana Financial Exhibit AESI-OPER, OM15-WP2 identifies $6.5 million in incremental costs for this 2026 period.

Q41. Does the Company's phase-in rate proposal reasonably reflect the Company's test year cost of compensation as well as the decrease in the cost of compensation following the Petersburg repowering?

A41. Yes. This adjustment reasonably captures the compensation expense associated with the necessary headcount employed at Petersburg prior to the Petersburg repowering that is not included in the Adjusted Test Year benefits expense.

3. BENEFITS

Q42. Please describe the information provided on AES Indiana Financial Exhibits AESI-OPER, Schedule OM16.

A42. Similar to the description in Q/A 19 above, AES Indiana Financial Exhibits AESI-OPER, Schedule OM16 shows the Adjusted and Unadjusted Test Year benefits forecast associated with various insurance policies offered as a benefit to the employees of both AES Indiana and AES Services.

Q43. Do you present any further information supporting AES Indiana Financial Exhibit AESI-OPER, Schedule OM16?

A43. Yes, I present two workpapers in support of AES Indiana Financial Exhibit AESI-OPER, Schedule OM16. First, AES Indiana Financial Exhibit AESI-OPER, Schedule OM16-WP1 shows the 2026 AES Indiana benefits charges for the Unadjusted and Adjusted Test Year. Next, AES Indiana Financial Exhibit AESI-OPER, Schedule OM16-WP2 shows the 2026 estimated AES Services benefit charges allocated to AES Indiana for the Unadjusted and Adjusted Test Years.

Like AES Indiana Financial Exhibit AESI-OPER, Schedule OM15, the Company is proposing two phases for its Adjusted Test Year benefits costs to capture the headcount changes at Petersburg following the repowering which is scheduled for completion in December 2026. See AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 (P1), line 4.

A. FORECAST METHODOLOGY

Q44. Please generally describe the Company's forecast methodology for its Adjusted Test Year benefits expense.

A44. In general, the Adjusted Test Year benefits expense is a product of headcount and benefits expense rate. Headcount was forecast using the methodology explained in Q/A 18. Each year benefits expense is forecasted for the upcoming year by taking actuarial assumptions that WTW performs to predict how many employees will select each AES benefit plan option, determining the weighted average of benefits cost per person and then multiplying the number of employees in the headcount by that cost.

Q45. What are the components of the benefits expense used in the forecast methodology?

A45. The components of the benefits rate include Medical insurance, Dental insurance, Vision insurance, Life insurance and Long-term disability insurance applicable to union and non-union employees.

Q46. What is the forecasted benefits expense?

A46. The forecasted benefits expense for the Adjusted Test Year is $31.2 million.[12] The benefits expense for AES Indiana is $25.5 million of that total; the remaining $5.7 million reflects costs of AES Services.

Q47. How was the forecasted benefits expense developed?

A47. The adjustment to benefits expense was calculated by multiplying the average cost of benefits per employee by the headcount reduction figure and subtracting that cost from the Adjusted Test Year benefits cost. Applying the actuarial assumptions mentioned above, the amount per non-union full-time position for health/life/dental insurance is $19,084. The amount per union position is $27,572.

Q48. Is the Adjusted Test Year benefits expense reasonable?

A48. Yes. The benefits expense is based on a combination of the average cost, as determined by the actuarial survey described above, and forecasted headcount for the Adjusted Test Year.

B. PHASE 1 BENEFITS LEVEL

Q49. Please explain the adjustment shown on AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 (P1).

A49. AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 (P1) shows the forecasted employer insurance benefits of AES Indiana and AES Services for the anticipated period of time in which Phase 1 rates will be recovered. The proposed benefits expense includes the Phase 1 adjustment (line 4) of benefits expense related to the headcount above 106 at

[12] AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 line 3, column 2.

Petersburg for June – December 2026. This increases the Adjusted Test Year benefits expense by $1.4 million compared to Phase 2.

Q50. How was this adjustment calculated?

A50. The adjustment included for AES Indiana Financial Exhibit AESI-OPER, Schedule OM16 (P1) was calculated just as described in Q/A 40 above. See line 33 of AES Indiana Financial Exhibit AESI-OPER, Schedule OM 15-WP2.

Q51. Does the Company's phase-in rate proposal reasonably reflect the Company's Test Year cost of benefits including the change in benefit costs associated with the headcount at Petersburg Station during the Test Year and following the completion of the repowering?

A51. Yes.

4. PAYROLL TAX

Q52. Please describe AES Indiana Financial Exhibits AESI-OPER, Schedule OTX3.

A52. AES Indiana Financial Exhibits AESI-OPER, Schedule OTX3 calculates the change in employer-paid payroll taxes, resulting from the payroll cost changes on AES Indiana Financial Exhibit AESI OPER, Schedule OM15. Unadjusted and Adjusted Test Year Payroll Tax costs for AES Indiana are shown on line 1, columns 1 and 2 respectively, with the total adjustment cost shown one line 1, column 3. Unadjusted and Adjusted Test Year Payroll Tax costs for AES Services are shown on line 2, columns 1 and 2 respectively, with the total adjustment cost shown on line 2, column 3.

Q53. Do you provide further information in support of AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3?

A53. Yes, I provided a workpaper in support of this schedule, AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3-WP1, which shows the payroll tax adjustments for both AES Indiana and AES Services.

Like AES Indiana Financial Exhibit AESI-OPER, Schedule OM15, the Company is proposing two phases for its Adjusted Test Year benefits costs to capture the headcount changes at Petersburg following the repowering which is scheduled for completion in December 2026. See AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3 (P1), line 4.

A. FORECAST METHODOLOGY

Q54. Please generally describe the Company's forecast methodology for its Adjusted Test Year Payroll Tax expense.

A54. In general, the payroll tax expense is forecasted by taking the Adjusted Test Year headcount and multiplying it by the forecasted payroll tax rates. In order to calculate the payroll tax expense for the Adjusted Test Year, and as shown in AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3-WP1, the total taxable wages for the Adjusted Test Year were multiplied by the applicable forecasted tax rate of each individual component; Social Security Tax, Medicare Tax, Federal Unemployment Tax and State Unemployment Tax. The forecasted tax rates assumed no change from the rates charged for the Historical Base Period. The headcount was forecasted using the same methodology as explained in Q/A 18 above.

Q55. What is the forecasted payroll tax expense?

A55. The forecasted payroll tax expense for the Adjusted Test Year is $8.9 million.[13]

Q56. How was the forecasted payroll tax expense developed?

A56. The payroll tax expense was calculated by multiplying the total taxable wages for the Adjusted Test Year by the applicable tax rates. Federal Insurance Contributions Act ("FICA") tax consists of two components, Social Security tax and Medicare tax. The pro forma for Social Security tax is calculated by employee at 6.2% of total taxable wages with a maximum employer tax of $10,843.80 per employee. Medicare tax is calculated at 1.45% of total taxable wages with no employer max per employee.

Unemployment tax also consists of two components, Federal and State Unemployment tax. Federal Unemployment tax is calculated at 0.6% of taxable wages with a maximum employer tax of $42.00 per employee. The State Unemployment tax rate varies by company, for AES Indiana it is calculated at 0.5% of taxable wages with a maximum employer tax of $47.50.

Q57. Is the Adjusted Test Year payroll tax expense reasonable?

A57. Yes. The tax rates are set by either Federal or State law and those amounts were applied to the forecasted total taxable wages.

[13] AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3, line 3, column 2.

B. PHASE 1 PAYROLL TAX LEVEL

Q58. Please explain the adjustment shown on AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3 (P1).

A58. Similar to Q/As 40 and 49, AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3 (P1) shows the forecasted payroll tax expense of AES Indiana and AES Services for the anticipated period of time in which Phase 1 rates will be recovered. The proposed payroll tax expense includes the Phase 1 adjustment (line 4) expense related to headcount above 106 at Petersburg. This increases the Adjusted Test Year payroll tax expense by $0.4 million compared to Phase 2.

Q59. How was this adjustment calculated?

A59. The adjustment included for AES Indiana Financial Exhibit AESI-OPER, Schedule OTX3 (P1) was calculated just as described in Q/A 40 above. See line 34 of AES Indiana Financial Exhibit AESI-OPER, Schedule OM15-WP2.

Q60. Does the Company's phase-in rate proposal reasonably reflect the Company's test year cost of payroll tax as well as the decrease in the cost of payroll tax following the Petersburg repowering?

A60. Yes.

5. SUMMARY

Q61. Please summarize your testimony.

A61. My testimony supports the reasonableness of AES Indiana's forecasted compensation expenses included in the Adjusted Test Year. The Company's Total Direct Compensation is designed to be market competitive and is necessary to attract and retain the talent required to provide safe, reliable, and affordable electric service.

The Company uses multiple reputable market data sources to benchmark compensation levels. The Adjusted Test Year Total Direct Compensation package is aligned with the median of the market and is comparable to what other utilities and non-utility employers offer for similar roles.

The Company's incentive programs are structured to reward operational performance and customer-focused outcomes, supporting the delivery of high-quality utility service. Incentive compensation included in the Adjusted Test Year complies with the Commission's three-prong test for ratemaking recognition.

My testimony also supports the reasonableness of the forecasted benefits and payroll tax expenses. Benefits expenses are reasonably forecasted and support employee retention and well-being. Payroll tax expenses are calculated using applicable federal and state tax rates applied to the forecasted payroll.

Finally, the Company's two-step phase-in rate plan reasonably reflects the changes in compensation, benefits, and payroll tax costs associated with the headcount transition at Petersburg Station during the Test Year and following the completion of the repowering.

Q62. Does this conclude your verified pre-filed direct testimony?

A62. Yes.

VERIFICATION

I, Matthew J. Dalton, Director of Human Resources for AES US Services, LLC, affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

Matthew J. Dalton
Dated: May 30, 2025