VERIFIED DIRECT TESTIMONY

OF

MATTHEW J. DALTON

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

DBA AES INDIANA

IURC
PETITIONER'S
EXHIBIT NO. 14
12-18-23 AT
DATE REPORTER

VERIFIED DIRECT TESTIMONY OF MATTHEW J. DALTON

ON BEHALF OF AES INDIANA

1. INTRODUCTION

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 "the 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. No.

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

A8. My testimony addresses the Company's employee compensation programs, for both AES Indiana employees and AES Services employees who do work for AES Indiana, specifically its base salary and short-term and long-term incentive compensation programs. I explain that AES Indiana's incentive compensation includes financial and operational metrics, is reasonable in its amount 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.[1]

[1] Herein, I use short-term compensation and short-term incentive compensation interchangeably. I take the same approach with long term compensation.

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

A9. Yes. I co-sponsor with AES Indiana witness Whitehead the following financial exhibit schedule:

- AES Indiana Financial Exhibit AESI–OPER, Schedule OM15 – Operations and Maintenance Expense for Wages.

Q10. Did you submit any workpapers?

A10. Yes. I co-sponsor a workpaper with AES Indiana witness Whitehead. The workpaper is provided in electronic format that supports the financial exhibit that I sponsor.

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

A11. Yes.

2. MARKET BASED COMPENSATION

Q12. What are the goals and objectives of AES Indiana's compensation programs?

A12. The Company provides employees with market-competitive compensation through base salaries and short- and long-term incentive compensation, along with other employee benefits. AES Indiana's compensation programs are intended to attract, retain, and engage the talented employees necessary to deliver service to the Company's customers.

Q13. Is it important for AES Indiana to provide employee compensation consistent with market rates?

A13. Yes. The Company must attract and retain employees with specialized skills and experience specific to its industry and systems. AES Indiana competes for talent within both the utility and the non-utility sectors. Utility sector competition generally exists for jobs specific to electricity transmission, distribution and generation services. AES Indiana continually needs to attract and retain employees who have the technical expertise necessary to safely manage, operate and maintain its electric utility system such as engineers, technicians, professionals, and managers. Non-utility sector competition generally occurs for jobs that utilize a broader skill-set such as human resources, finance, customer service, and digital. To compete for talent, the Company must offer employees compensation packages competitive with those available in the market or the Company will lose talent to both the utility and non-utility sectors. AES Indiana's competitive Total Reward package (base salaries, short and long-term incentive compensation, and other employee benefits) has allowed it to attract and retain employees with the skill and talent needed to provide retail electric service.

Q14. Please generally describe AES Indiana's employee compensation programs.

A14. In order to attract and retain qualified candidates, AES Indiana offers a market-competitive Total Direct Compensation plan, which includes fixed base salaries and short- and long-term incentive compensation. Base salaries are a fixed form of compensation, which differ according to role, experience, and expertise, among other factors. Short- and long-term incentive compensation is tied to both individual employee performance and to company performance metrics, both operational and financial. Market data and salary surveys are used to evaluate the competitiveness and reasonableness of AES Indiana's Total Direct Compensation plan. As shown below, the Company's Total Direct Compensation plan is reasonable and competitive with the market.

Q15. With whom does the Company compete for employee talent?

A15. The Company faces a competitive market for employee talent. For example, just in Indiana (which is not the entirety of the competitive market) and just within the utility sector, AES Indiana competes with Duke Energy, AEP, NiSource, and the Midcontinent Independent System Operation ("MISO"), among others, to hire employees with the needed technical skills, including professional engineers and operators, to provide retail electric service. The Company also competes for talent with non-utility Indiana companies such as Cummins, Meritor, Allison Transmission, and Eli Lilly. Additionally, with the increase in remote work, the Company competes nationally for an ever-growing roster of job roles. To successfully attract and retain the necessary talent, AES Indiana must provide market-competitive compensation and benefits programs.

3. <u>BASE SALARY</u>

Q16. How does AES Indiana determine base salary?

A16. The Company's employee structure is organized according to general job family group and within each general family, according to career level, which is further broken down into job profile. Each job profile is then assigned a base salary range. All salary ranges are based on relevant market data. AES Indiana generally offers base salaries that take into consideration internal and external factors, such as Company goals and objectives, industry trends, the market for that particular job family and the economy.

Q17. Does AES Indiana propose any pro forma adjustments to test year base pay?

A17. Yes. AES Indiana witness Whitehead presents the pro forma adjustments to test year base pay in <u>AES Indiana Financial Exhibit AESI–OPER, Schedule OM15</u>. The adjustments reflect the following information, which I provided: non-bargaining employee base wages increased by an average 6.0 percent effective January 1, 2023; bargaining employee base wages increased by 4.5 percent for the Clerical group and increased by 4.0 percent for the Physical group. I further discuss this information below. The pro forma adjustments provided in AES Indiana Financial Exhibit AESI–OPER, Schedule OM15 also include expected labor costs for positions that were unfilled during the test year, which have since been filled, as well as positions that are currently unfilled but are necessary for business operations and are currently posted for hire or will be posted for hire and filled in 2023. These unfilled positions include new positions added for projects like Transmission, Distribution, Storage System Improvement Charge ("TDSIC"), expansion of vital business capabilities, and backfill for employees that have left the company.

Q18. Please explain why the average six percent increase in base salary for non-bargaining employees is appropriate.

A18. The corporate compensation team establishes guidelines for base salary increases each year that are determined by assessing market salary trends and inflation indicators. Remaining consistent with the market in salary trends and inflation indicators allows the Company to attract and retain talent necessary to meet Company objectives. To assess market salary trends, the corporate compensation team reviews nationally recognized surveys published by Willis Towers Watson which provide projected salary increases for the year in relevant sectors. Inflation was assessed by examining the year over year consumer price index ("CPI") changes published by the Bureau of Labor Statistics. The Company's analysis of these sources resulted in a six percent base salary increase to test year salaries. This adjustment was necessary in order to remain consistent with the market trends and the projected inflation rates.

Q19. What is the status of AES Indiana bargaining unit employees' compensation?

A19. Bargaining unit employee contracts are negotiated 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 6, 2021 to December 4, 2024. The negotiated increases are 4% for 2022 and 2023, effective as of December 2022 and December 2023, respectively. For our Clerical group, our current contract is effective from February 13, 2023 to February 13, 2026. The negotiated increase for 2023 is 4.5% effective as of February 2023. These negotiated increases are reflected in the pro forma adjustment to wages shown on AES Indiana Financial Exhibit AESI-OPER, Schedule OM15, which is also discussed by AES Indiana witness Whitehead.[2]

4. SHORT-TERM INCENTIVE COMPENSATION

Q20. Please describe the Short-Term Incentive Compensation plan.

A20. The short-term incentive compensation plan puts a portion of employees' compensation at risk to incentivize employee performance by tying that compensation to both the employee's and the Company's performance (referred to as the Company scorecard

[2] AES Indiana witness Whitehead, Direct Testimony Q/A 13.

below). All non-bargaining unit employees are eligible to receive short-term incentive compensation.

As discussed below, the Company's scorecard is composed of objectives in multiple areas: Safety, Financial, Leading in Renewables & Working in Partnership, Operations, Applying Innovation, and Diversity, Equity and Inclusion (DE&I). The targeted short-term compensation amount for each eligible employee is expressed as a percentage of the employee's base salary and is determined by the employee's job level. Annually, the employee and his or her supervisor work together to establish individual goals and objectives at the beginning of each year and have periodic performance touchpoints during the year. At the end of the year the supervisor performs a performance review and provides a rating of the employee's performance compared to the agreed-upon individual objectives, with the target being a 100% score. An employee who does not meet his or her performance objectives will receive a score lower than 100% which negatively impacts the amount of short-term incentive compensation the employee is awarded.

In summary, actual short-term incentive compensation is calculated based on targeted short-term compensation amount, Company scorecard results, and an employee's individual performance in the given year. As a result, an employee's actual short-term incentive compensation may exceed or fall below an employee's target for a given performance period.

Q21. Please describe the components of the Company scorecard.

A21. The Company's short-term compensation scorecard features the following objectives:

1. *Safety.* The Safety performance category consists of the following performance measures: (1) Serious Safety Incidents; (2) Non-injury SIP Rate; and (3) Safety Walks and Safety Meeting Attendance.

2. *Financial.* The Financial performance category consists of the following performance measures: (1) Adjusted Pre-Tax Contribution; and (2) Subsidiary Distributions.

3. *Leading Renewables & Working in Partnership.* The Leading Renewables & Working in Partnership category consists of Smart Grid Investment, Indiana Generation, and Q4 Customer Satisfaction Metric.

4. *Operations.* The operations goals consist of Key Performance Indicators ("KPIs"), specific to each area, including but not limited to the Distribution KPIs - System Average Interruption Duration Index, System Average Interruption Frequency Index, Customer Satisfaction Index and Generation KPIs including Commercial Availability, Equivalent Forced Outage Factor, Heat Rate and Days Sales Outstanding.

5. *Applying Innovation.* The Applying Innovation goal consists of the outcome of the Global Energy Star Program.

6. *Diversity & Inclusion (DE&I).* The DE&I goal consists of reviewing, developing, and implementing programs that promote diversity, equity, and inclusion.

The majority of these objectives are operational-based. Thus, not all of the criteria are financial based. The program encourages employees to meet safety, reliability, and other goals by linking a portion of their income to performance. For example, AES' first value is Safety, and as such, the Company's Safety Performance has a direct impact on the short-term incentive compensation payout compared to the target, which incentivizes employees to work safely. Likewise, operational strategic objectives such as service interruption rates and customer satisfaction scores directly impact the short-term compensation payout. Low interruption rates and high customer service scores are indicative of well-reasoned strategic and tactical managerial decision making that drives improved service reliability for customers.

Q22. If AES Indiana did not offer such short-term incentive compensation would its employee compensation costs be less?

A22. No. As noted above, to attract and retain the talent the Company needs, it must offer a total compensation package that is market-competitive. If short-term incentive compensation were not offered, then AES Indiana would need to increase base salaries to compensate for the absence of short-term incentive compensation. Short-term incentive compensation is a better mechanism than fixed base pay to achieve competitive total compensation. It creates a culture of high performance, rewards high performance from employees and the Company, and by basing short-term incentive compensation on operational metrics such as safety and reliability, it aligns the employee's financial interests with the customers' interest in safe, reliable energy.

Q23. What amount of Short-Term Compensation Plan is reflected in AES Indiana's proposed revenue requirement?

A23. The proposed revenue requirement reflects short-term compensation cost at target as shown in <u>AES Indiana Financial Exhibit AESI–OPER, Schedule OM15</u>. That means short-term compensation payouts above target are not reflected in the retail revenue requirement and will be borne by shareholders. As shown in Table 1 below, the five-year average payout has exceeded the annual target.

Table 1: STC Payout Compared to Target[3]

Performance Year	Target	Scorecard Result
5-year Average	100%	104.75%
2022	100%	87.0%
2021	100%	104.0%
2020	100%	94.0%
2019	100%	117.0%
2018	100%	121.6 %

Q24. How does the Company's Short-Term Compensation Plan meet the Commission's criteria for ratemaking recognition of incentive compensation?

A24. AES Indiana's Short-Term Compensation plan complies with the criteria set out by the Commission as follows:

1) AES Indiana's Short-Term Compensation Plan is not a pure profit-sharing plan but rather incorporates operational as well as financial performance goals.

2) As shown below, AES Indiana's Short-Term Compensation Plan is part of the Total Reward Package which does not result in pay levels beyond what is reasonably necessary to attract and retain a talented workforce.

3) Shareholders are allocated the portion of incentive compensation costs that exceed the target.

5. LONG-TERM INCENTIVE COMPENSATION

Q25. What is the purpose of Long-Term Incentive Compensation ("LTC").

A25. LTC is designed to recognize a sub-set of management employees for their performance and to incent these employees to create long-term value for the Company. LTC awards are a common element of management compensation across a wide array of industries, including the major U.S. utilities. The LTC plan also facilities retention of key talent

[3] The 2018 scorecard was split between Ops and Non-Ops. The 121.6% is the simple average of the two scores.

because the Restricted Stock Units ("RSUs") are time based and vest over a three-year period.

The Company's LTC rewards are comprised of a combination of Performance Units ("PUs") and 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.

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 Reward Package, including LTC must be competitive with other employers. If not, 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.

Q26. How common is it for utility organizations to offer LTC to their employees and how does AES Indiana compare to the market?

A26. LTC plans at utility and non-utilities companies are highly prevalent. The rationale behind LTC is that management employees are closer to the Company's decision making and are responsible for long-term results. Additionally, the vesting period helps drive retention in roles that typically require extensive industry and/or functional knowledge and are difficult to replace. LTC plans are a very important component of this subset of management's total compensation package as they represent around 18% to 35% of the total package. AES Indiana's LTC reinforces our pay-for-performance philosophy. Holding the executives accountable for long-term decisions and rewarding them for it has a direct impact on the Company's operational efficiency and this indirectly benefits customers. The LTC plan is reasonable and its inclusion in the total direct compensation does not create pay levels beyond what is reasonably necessary to attract and retain a talented workforce.

Q27. If AES Indiana did not offer long-term incentive compensation would its employee compensation costs be less?

A27. No. To attract and retain the talent the Company needs, it must offer a total compensation package that is market-competitive. Just like with the short-term compensation incentive, if long-term incentive compensation were not offered, then AES Indiana would need to increase base salaries of certain management employees to adjust for the absence of this incentive that is commonly offered by other employers across a wide variety of industries.

6. <u>REASONABLENESS OF EMPLOYEES' TOTAL DIRECT COMPENSATION</u>

Q28. How does the Company's Total Direct Compensation (base salary and incentive compensation) compare to the market?

A28. Multiple sources with robust market data are used to make sure AES Indiana's Total Reward package is consistent with the market. These sources include Mercer, Willis Towers Watson, and AON Hewitt. AES Indiana participates in salary surveys to get updated market information. Our Total Direct Compensation is reviewed annually based on survey results and updated when necessary to align to the median of the market. Each job profile is matched to survey benchmarks and positions are considered competitively paid if the position's compensation is close to +/- 15% of benchmark median compensation results detailed below. The Company's total direct compensation level falls within this range and is therefore competitive with the utility market and comparable to pay levels where AES Indiana competes for talent. Accordingly, AES Indiana's total direct compensation, which includes incentive compensation, is reasonable.

Q29. What were the results of the analyses you referenced in the above response?

A29. AES relied on data from two Willis Towers Watson surveys – namely the United States 2022 Energy Services Middle Management, Professional and Support Survey Report and the United States 2022 General Industry Middle Management, Professional and Support Survey Report, to generate the information in the table below. The base salary of job family groups at AES were compared to the benchmarks provided by the aforementioned surveys. As mentioned in A28, the Company deems positions as competitively paid if the position's compensation is close to +/- 15% of benchmark median compensation. The analysis demonstrated that the average compensation of positions in AES Indiana full-time job family groups are both reasonable and competitive. The table below shows how the total compensation package for job families at AES Indiana compares to the market.

Table 2: Job Family Groups Compared to Market Median

Job Family Group	% of market median
Administrative & Facilities Services	106%
Commercial	100%
Customer	110%
Digital	109%
EHS	106%
Engineering & Technical	98%
External Affairs	107%
Finance	94%
Generation	101%
Human Resources	113%
Innovation & Products	110%
Legal & Compliance	108%
Projects	114%
Supply Chain	116%
T&D Operations	107%
Total	**104%**

As the table above demonstrates the Total Direct Compensation plan offered to AES Indiana employees is within the Company's goal of being close to +/- 15% of the market benchmarks. AES Indiana's Short-Term Compensation plan complies with the criteria set out by the Commission and the inclusion of both the short-term compensation and long-term compensation does not create pay levels that are above what is reasonable to attract and retain the skilled employees necessary to business operations.

Q30. Is it common for companies to rely upon survey studies such as the ones referenced above for compensation comparison purposes?

A30. Yes. It is common for companies that are market-competitive to utilize a variety of independent consulting firm survey data information for benchmarking purposes.

7. SUMMARY AND RECOMMENDATIONS

Q31. Please summarize your testimony and recommendations.

A31. AES Indiana has taken the appropriate steps to maintain employee compensation at a competitive level to attract and retain the talent necessary to provide service to our customers. The Company's Short-Term Compensation Plan complies with the criteria set out by the Commission for ratemaking recognition. The total direct compensation provided to AES Indiana's employees, including both short-term and long-term incentives, is comparable to what other utilities companies offer as well as to what non-utility companies with whom AES Indiana competes for talent offer and, therefore, represents a reasonable and necessary cost of providing service.

Q32. Does this conclude your verified pre-filed direct testimony?

A32. 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

Matthew J. Dalton
Dated: June 28, 2023