VERIFIED DIRECT TESTIMONY

OF

HAMPTON MATTHEW ROACH

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

D/B/A AES INDIANA

Cause No. 46258

SPONSORING AES INDIANA ATTACHMENTS HMR-1 THROUGH HMR-4

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ON BEHALF OF AES INDIANA

1. INTRODUCTION

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

A1. My name is Hampton Matthew Roach. 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", or "the Company"). The Service Company is located at One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with AES US Services?

A2. I am the Senior Director, Global Benefits.

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 Senior Director, Global Benefits.

A4. I oversee the administration of all US benefits, including Health and Welfare plans, as well as all US retirement plans, including both defined contribution plans and defined benefit plans. AES Indiana's Employees' Retirement Plan (pension plan) is one of the defined benefit plans under my purview. I am also a member of the fiduciary committee responsible for this pension plan.

Q5. Please summarize your education and professional qualifications.

A5. I earned a Bachelor of Science degree in Accounting from George Mason University. I additionally passed the Uniform CPA Examination in Virginia.

Q6. Please summarize your prior work experience.

A6. I worked in various roles throughout my career, ranging from auditing for a public accounting firm, budgeting and forecasting, internal audit, and various corporate accounting roles as well as financial system implementations. I transitioned from accounting into human resources in 2009 and worked in long-term compensation (including stock-based), executive compensation, retirement, and benefits.

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

A7. Yes. I filed written testimony before the Commission in Cause No. 45911, AES Indiana's last basic rate case. I have also submitted pension-related testimony to the Public Utilities Commission of Ohio on behalf of Dayton Power and Light d/b/a AES Ohio in their Distribution rate case, Case No. 20-1651-EL-AIR, *et al*.

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

A8. My testimony supports the costs of pensions and other postemployment benefits ("OPEB") included in the proposed revenue requirement. My testimony also explains the basis for including AES Indiana's Prepaid Pension Asset net of the OPEB liability in the capital structure.

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

A9. Yes. I sponsor or co-sponsor the following financial exhibits or attachments:

- AES Indiana Financial Exhibit AESI-CC, Schedule CC2 – Forecasted Prepaid Pension Asset (net of OPEB liability) included in Weighted Average Cost of Capital.

- AES Indiana Financial Exhibit AESI-OPER, Schedule OM17 – Forecasted Pension and OPEB Expense.
- AES Indiana Attachment HMR-1 – Pension and OPEB expense for 2024.
- AES Indiana Attachment HMR-2 – Pension and OPEB expense for 2025.
- AES Indiana Attachment HMR-3 – Pension and OPEB expense for 2026.
- AES Indiana Attachment HMR-4 – Prepaid Pension Asset and OPEB Liability roll forward through December 31, 2026 to support the amount included in the capital structure.

These attachments are supported by the actuarial reports provided pursuant to Minimum Standard Filing Requirements ("MSFR") 1-5-8(a)(15) and (16).

Q10. Did you submit any workpapers?

A10. Yes. AES Indiana is submitting workpapers in electronic format that support the basic rate case schedules. I am sponsoring the workpapers that support the financial statements and schedules that I sponsor. I also sponsor AES Indiana Workpapers HMR-1 through HMR-4 which are the Excel versions of AES Indiana Attachments HMR-1 through HMR-4.

Q11. Were these exhibits, attachments, or 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 utilized in the filing include the following.[1] 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 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. ANNUAL PENSION AND OPEB COST

Q13. How is Net Periodic Benefit Cost ("pension cost" or "pension expense") determined for pensions?

A13. A pension represents an obligation of AES Indiana to provide retirement benefits to employees. Net Periodic Benefit Cost is a calculation determined under Generally Accepted Accounting Principles ("GAAP") that records a pension expense related to such benefits earned during a given accounting period. The accounting for pension expense is codified in Accounting Standards Codification ("ASC") Topic 715, Compensation-Retirement Benefits. Annual pension cost is determined by using an actuarial valuation based on various factors and assumptions. The Company's actuary, Mercer (US) LLC ("Mercer"), performs the pension valuations using reasonable actuarial methods and assumptions, which are detailed in their actuarial reports provided with MSFR 1-5-8(a)(15) Attachments 1 through 3. Since pension expense, as calculated under GAAP, represents a cost related to providing service to AES Indiana customers, this Commission has generally permitted pension costs as calculated under GAAP as allowable operating expenses when determining revenue requirements.

[1] AES Indiana witness Peters, Q/A 13.

Q14. What are the components of pension cost under GAAP?

A14. Accounting Standards Codification ("ASC") 715 requires an annual, actuarially determined calculation of pension cost. The net periodic benefit cost is the aggregate of several pension components discussed further below. Under ASC 715, pension expense consists of:

1. Service cost. Service cost is the actuarial present value of pension benefits calculated under the benefit formula and attributed to current employees' service during the accounting period. Actuarial assumptions reflecting the discount rate of future payment streams as well as assumptions about mortality, employee turnover and retirement age factor into the actuarial value.

2. Interest cost. The interest cost represents the increase in the pension obligation due to the passage of time. This component recognizes that the anticipated benefit plan payments are one year closer to being paid from the pension plan.

3. Expected return on plan assets. The expected return on plan assets is calculated by applying the expected long-term rate of return on plan assets to the market value of the plan assets at the beginning of the year. Since expected return on assets is used, the actual investment returns are not directly recognized in this component of annual pension cost. The difference between the expected return on plan assets and the actual return on plan assets is amortized to provide a more consistent annual pension expense over time under the amortization of gains and losses component of pension expense discussed below.

4. Amortization of gains and losses. The plan can recognize gains and losses in either the plan assets or the projected benefit obligation resulting from actual experience

compared to the assumptions. Asset gains and losses represent the differences between the actual and expected return on plan assets assumption during the period. Plan obligation gains and losses are differences between the actual liability and the expected liability at the end of the measurement period. This includes assumption changes such as discount rate used to value pension liabilities, mortality, and others. ASC 715 does not require such gains and losses to be recognized as a component of pension costs in the period in which they occur; instead, such gains and losses are amortized. The amortization of unrecognized gains and losses will be included as a component of net pension cost for a year if, as of the beginning of the year, the unrecognized gain or loss exceeds ten percent of the greater of the projected benefit obligation or the market value of the plan assets (this is referred to as the "corridor"). If amounts exceed the corridor, pension cost is increased by the gain or loss over the corridor divided by the average remaining future service of active plan participants.

5. Amortization of prior service costs. Prior service costs generally arise from plan amendments increasing or decreasing the value of plan liabilities. ASC 715 directs changes in benefits due to plan amendments be recognized over the average remaining future service of active plan participants.

6. Settlement Charge (Credit). A settlement charge is a non-cash charge that accelerates the recognition of unrecognized pension cost that would have been incurred in future periods if plan payments exceed a given threshold of service and interest cost for an accounting period. This component of expense only exists if there is settlement in the period.

7. Curtailment (Gain)/Loss. A curtailment is defined as a significant reduction in, or an elimination of, defined benefit accruals for present employees' future service. This component of expense will only exist if there is curtailment.

Q15. Please describe the actuarial analyses performed annually by Mercer concerning the calculation of pension and OPEB costs.

A15. Mercer performs an actuarial valuation of the pension and OPEB plans each year as directed by AES Indiana to prepare the Company's financial statements in accordance with GAAP.

AES Indiana provides Mercer with the participant census, plan amendments as well as plan asset detail, including contribution and benefit payment information. Mercer projects the expected future benefit payments under the plans based on current information and reasonable actuarial assumptions. Mercer then discounts the future benefit payments to determine the pension benefit obligations.

When developing reasonable assumptions, Mercer assists AES Indiana based on Mercer's experience in this area. Mercer also assists in determining appropriate methods used to estimate future benefit payments from the plans, by providing background information and professional expertise. Periodically, assumption studies comparing expected experience to actual observed experience are performed, and if necessary, the actuarial assumptions are refined.

Based on the plans' obligations and accumulated assets, Mercer prepares reports detailing the financial statement reporting information, including annual cost calculations and year-

end disclosure information. AES Indiana reviews this information and uses it to prepare the financial statements and monthly pension expense entries for the following year.

3. TEST YEAR PENSION COST

Q16. How much pension cost is included in AES Indiana's proposed revenue requirement?

A16. The pension cost included in AES Indiana's Adjusted Test Year revenue requirements is $7.6 million as shown on AES Indiana Attachment HMR-3, line 26 (Total Pension column). This decreases the Unadjusted Test Year of $8.2 million by $0.6 million. The Unadjusted Test Year amount is shown on AES Indiana Financial Exhibit AESI-OPER, Schedule OM17, line 7 (column 1). This adjustment, plus the OPEB adjustment discussed in Q/A 22 below, is included on line 8 in AES Indiana Financial Exhibit AESI-OPER, Schedule OM17.

Q17. Can you explain the basis for the above-referenced Test Year adjustment?

A17. The Unadjusted Test Year reflected projected 2026 pension cost based on the August 2024 Mercer projection. AES Indiana received an updated 2026 pension cost projection in January 2025 that reduced Test Year pension expense by $0.6 million. This new projection was done in conjunction with our current year-end disclosures and included final 2024 performance as well as more current assessments of the actuarial assumptions. Since this is a more current assessment of actual performance and actuarial assumptions than the Mercer projection used for the Unadjusted Test Year estimate, it provides a reasonable projection for the level of pension expense expected to be incurred during the Test Year. The adjustment represents the difference between the Unadjusted Test Year pension expense estimate and the current 2026 annualized ASC 715 pension expense projection shown in AES Indiana Attachment HMR-3. The pension expense included in the Adjusted

Test Year is also supported by MFSR 1-5-8 (a)(15) Attachment 3, page B-4, which includes the 2025 pension assumptions that were incorporated into the 2025 actual pension cost and are projected to continue into the Test Year. If this adjustment were not made, the pension expense reflected in the Test Year revenue requirement would be expected to be overstated.

Q18. Please describe how the Adjusted Test Year level of pension expense compares to the Historical Base Period.

A18. The 2026 projected pension cost in the Adjusted Test Year is $7.6 million as shown on AES Indiana Attachment HMR-3, line 26 (Total Pension column). The 2024 actual pension cost was $8.9 million as shown on AES Indiana Attachment HMR-1, line 26 (Total Pension column). Upon review of each of the components of pension cost on those two schedules, the main drivers of the $1.3 million reduction were service cost ($0.8 million) and expected return on assets ($0.7 million) with a slight increase in interest cost ($0.2 million).

The service cost reduction is mainly due to an increase in the effective discount rate increasing from 5.14% to 5.81% from 2024 to 2026. That rate increase is also the reason for the increase in interest cost with assumption rates increasing from 5.13% in 2024 to 5.70% in 2026. Finally, the reason for the increase in expected return on assets (which is a decrease to pension cost) is that there is a higher expected rate of return on a smaller asset base with the rate of return increasing from 5.20% in 2024 to 5.75% in 2026.

Q19. Please describe how the Adjusted Test Year level of pension expense compares to the Linking Period.

A19. The 2026 projected pension cost in the Adjusted Test Year is $7.6 million as shown on AES Indiana Attachment HMR-3, line 26 (Total Pension column). The 2025 actual pension

cost was $8.1 million as shown on AES Indiana Attachment HMR-2, line 26 (Total Pension column). Upon review of each of the components of pension cost on those two schedules, the main drivers of the $0.5 million reduction were reductions in amortization of prior service cost ($0.4 million) and interest cost ($0.4 million) with an offsetting decrease in expected earnings on assets which increases pension cost ($0.5 million).

The 2026 interest cost is reduced from 2025 based on a consistent effective rate of interest on a smaller expected liability amount. Similarly, the difference for 2026 expected return on assets is based on a consistent expected rate of return on a lower expected asset base. Finally, the change in prior service cost amortization represents two separate prior service cost bases completing their multiyear amortization in 2025.

4. OTHER POSTEMPLOYMENT (OPEB) BENEFITS

Q20. Please describe AES Indiana's OPEB plan.

A20. AES Indiana continues to provide retiree benefits including medical, prescription drug coverage and life insurance benefits, to certain employees who retire from the Company.

Q21. How is OPEB cost determined?

A21. OPEB accounting requirements are also contained in ASC 715. The requirements for OPEB plans are like those for pensions. Under ASC 715, accounting for both OPEB and pension plans require measurement on an actuarially determined basis, of the promise to provide benefits to employees upon retirement. Mercer performs the valuation using reasonable actuarial methods and assumptions which are consistent with the requirements of ASC 715. The annual OPEB cost determination consists of 1) service cost, 2) interest cost, 3) expected return on plan assets, 4) amortization of gains and losses, and 5) amortization of prior service costs. In addition, a settlement charge (credit) or a curtailment

may occur during any given year**.** These factors are like those described previously for pensions.

Q22. What amount of OPEB cost is included in AES Indiana's proposed revenue requirement?

A22. The amount of OPEB included in AES Indiana's proposed revenue requirement is $(0.3) million. AES Indiana's Unadjusted Test Year did not specifically forecast 2026 OPEB cost due to its relatively small size. AES Indiana proposes to make an adjustment to the Unadjusted Test Year revenue requirement to reduce OPEB expense by $0.3 million, resulting in Adjusted Test Year OPEB expense of $(0.3) million. As with the adjustment discussed above for pension expense, the adjustment for OPEB expense is based on Mercer's January 2025 projections. It is reasonable to use this updated projection for purposes of establishing the level of OPEB expense to include in the Test Year revenue requirement as it incorporates 2024 actual performance and a current assessment of OPEB assumptions. The current estimate for 2026 OPEB is shown on AES Indiana Attachment HMR-3, line 26 (OPEB column) and represents the net periodic benefit OPEB cost expected to be incurred in 2026. The Adjusted Test Year pension and OPEB expenses are included in AES Indiana Financial Exhibit AESI-OPER, Schedule OM17, line 7. If the adjustment to OPEB expense were not included, then the Test Year level of OPEB expenses would be expected to be overstated.

Q23. Why is the forecasted annual OPEB expense negative?

A23. As noted in AES Indiana Attachment HMR-3, the 2026 OPEB expense is $(0.3) million. While the annual OPEB expense is negative, the information provided shows that the proposed service cost is a positive expense of $0.1 million and the proposed interest cost

is a positive expense of $0.2 million. These items are offset by larger negative expenses due to the amortization of prior service costs and amortization of gains of $(0.6) million. The main driver of the total negative OPEB expense is the amortization of the net gain. This gain was derived heavily from experience studies showing delayed retirements and lower participation rates as well as claims assumption changes based upon lower benefit usage. The current net gain of $(6.5) million is being amortized over the average remaining years of service of just over ten years so there is an expectation that this negative OPEB expense will continue for several years to come unless large changes in plan experience or assumptions arise.

5. PREPAID PENSION ASSET

Q24. Please describe AES Indiana's ongoing funding for the employee pension plan.

A24. Funding of the trust for the qualified defined benefit pension plan is based upon actuarially determined contributions that account for the amount deductible for income tax purposes and the minimum required contributions ("MRC") under the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006 and updated by the Internal Revenue Code. AES Indiana's funding policy for the Pension Plans is to contribute annually no less than the minimum required by applicable law, and no more than the maximum amount that can be deducted for federal income tax purposes.

Q25. Please describe ERISA Minimum Required Contributions, how those differ from GAAP pension expense, and whether those factor into rates.

A25. Minimum required contributions under ERISA and pension expense under GAAP (as described earlier) are two separate and distinct calculations with different purposes. The purpose of ERISA minimum funding is to require contributions by the employer to

maintain an appropriately funded plan reducing the risks of a future inability to pay the retirement benefits promised. The required contribution amount for any given year is a function of the plan's funded status that year, which is dependent on the level of contributions (required or discretionary) made in prior years.

In contrast, the purpose of GAAP accounting is to attribute pension costs to each fiscal year in a systematic and rational manner. The GAAP calculation of pension expense is not based in any way on ERISA minimum funding but as noted earlier, is based upon an actuarial valuation of the pension assets and liabilities and allocating a portion of the expected overall pension benefits earned to an accounting period.

In the ratemaking process, the test period expense, as adjusted, is used to determine the revenue requirement. One element of that cost is pension expense determined under GAAP. As noted earlier, the ERISA MRC does not factor into GAAP pension expense and therefore does not factor into ratemaking.

Q26. How does AES Indiana define a Prepaid Pension Asset?

A26. A Prepaid Pension Asset is defined as the cumulative excess of pension contributions to the trust over pension expense (and recovery as a component of Adjusted Test Year expenses) and unamortized prior service costs and gains or losses. In other words, the prepaid pension asset is the excess of the cumulative amounts contributed to the pension trust minus the cumulative amount of GAAP calculated pension expense and unamortized pension costs to be recognized in the future.

Q27. Is the Prepaid Pension Asset reflected on AES Indiana's books?

A27. Yes. AES Indiana recognizes the pension on its books as required under GAAP. Since the pension assets exceed benefit obligations, AES Indiana has a pension asset on its balance sheet equal to the excess of assets over benefit obligations. AES Indiana also recognizes a regulatory asset on its balance sheet equal to actuarial gains/losses and prior service costs that have yet to be amortized through income or expense. The net amount of the funded status (pension asset) and the regulatory asset is equal to the Prepaid Pension Asset.

Q28. What is the difference between the annual GAAP calculated pension expense and the Prepaid Pension Asset?

A28. The annual GAAP calculated pension expense represents an actuarial estimation of the cost of the pension in any given year and is used to develop the revenue requirement. As defined above, the Prepaid Pension Asset is a calculation of cumulative funding into the pension trust minus cumulative pension expense recorded and unamortized pension costs that will be recognized in the future.

Q29. Why does AES Indiana have a Prepaid Pension Asset?

A29. Because plan contributions are determined under ERISA and IRS regulations, while pension expense is determined under ASC 715, the amount contributed to the plan each year is different than the expense. It is the difference between the funding and the pension expense that is included in the revenue requirement that creates the Prepaid Pension Asset. At December 31, 2025, AES Indiana is projected to have a Prepaid Pension Asset of $140.6 million. At December 31, 2026, AES Indiana is projected to have a Prepaid Pension Asset in the amount of $133.5 million. The projected Prepaid Pension Asset is shown on AES Indiana Attachment HMR-4 and shows actual and expected annual changes in the Prepaid Pension Asset from December 31, 2022 through December 31, 2026.

Q30. How does the forecasted Prepaid Pension Asset compare to the Prepaid Pension Asset at the end of the Historical Base Period?

A30. As shown on AES Indiana Attachment HMR-4, AES Indiana has provided a complete roll forward of the Prepaid Pension Asset balance from December 31, 2022 through December 31, 2026. The Prepaid Pension Asset decreased from $148.2 million at the end of the Historical Base Period to $140.6 million projected at December 31, 2025 and then down to $133.5 million projected at December 31, 2026.

As discussed earlier regarding the prepaid pension asset concept, all annual funding payments to the pension, SERP and OPEB represent increases to the Prepaid Pension Asset balance and then annual expense recorded acts as a reduction to the balance. This information is provided in detail on AES Indiana Attachment HMR-4.

Q31. Can AES Indiana access these pension assets in the trust?

A31. No. Under ERISA, assets held in trust to fund a tax-qualified defined benefit plan may be used only to pay benefits to participants and beneficiaries and to pay certain administrative expenses. There are very few exceptions to this requirement including mistaken contributions or conditional funding where the condition was not met and none of those situations apply to the contributions made by AES Indiana.

Q32. Does AES Indiana also have a prepaid asset related to OPEBs?

A32. AES Indiana does not have a prepaid asset related to OPEB. As shown on AES Indiana Attachment HMR-4, in the case of OPEBs, there is a regulatory liability rather than an asset. This liability represents the cumulative difference between the actual OPEB claims at the end of the Test Year and the GAAP calculated OPEB expense. Unlike pensions, AES

Indiana does not make contributions to a separate trust account for OPEB. Because of this, the postemployment benefits other than pensions are projected to be in a net liability status at the end of the Test Year.

Q33. Is there a benefit to customers when contributions in excess of GAAP pension expense are made to the Company's pension trust?

A33. Yes. AES Indiana customers have benefited from all the previous contributions made to the pension trust. Contributions were used to purchase additional plan assets, which drive additional investment income. The additional investment earnings reduce the GAAP pension expense and thus have reduced the annual revenue requirements for AES Indiana in the past and will continue to do so in the future.

Since AES Indiana has reached a fully funded position for the qualified pension plan since February 2021, the Company has also been able to de-risk the investments in the pension trust, which reduces volatility and risk in the pension moving forward. Also, additional funding that has been made to the pension plan trust has also resulted in reduced PBGC variable premiums for the plan which represents reduced usage of existing plan assets going forward.

In addition to the customer benefits of reduced annual and cumulative pension expense recognized for financial and ratemaking purposes, customers also benefit from the Company's ability to attract and retain employees knowing their pension is adequately funded. Further, companies with a well-funded pension plan are viewed as having less risk to the investment community.

Q34. What is the source of the contributions used to fund the Prepaid Pension Asset?

A34. The prepaid pension asset, by definition, is the amount by which cumulative contributions have exceeded cumulative GAAP pension expense and unamortized pension costs. Because ratemaking has recognized pension expenses based on GAAP, the "source" of the Prepaid Pension Asset (aggregate contributions in excess of aggregate GAAP pension expense) could not be the pension expense component of the revenue requirement used to establish customer rates and therefore must be investor sourced.

Q35. How does AES Indiana propose to treat the Prepaid Pension Asset and OPEB regulatory liability in this case?

A35. AES Indiana proposes to include the Prepaid Pension Asset net of the OPEB regulatory liability in the capital structure.

The Commission Order dated December 30, 1992 in Cause No. 39348 (the Generic SFAS 106 Proceeding), page 36-37, authorizes the OPEB regulatory liability amount to be reflected either as zero-cost capital or as a rate base reduction. We are proposing that it be treated as zero-cost capital. This proposal also recognizes the OPEB liability as the mirror image of the prepaid pension asset.

In other words, netting the Prepaid Pension Asset against the OPEB liability recognizes the OPEB liability as a zero-cost source of capital in accordance with the Order in Cause No. 39348 while providing investors a return on the Prepaid Pension Asset. The weighted average cost of capital is shown on AES Indiana Financial Exhibit AESI-CC, Schedule CC2.

This treatment also recognizes that there is a known customer benefit of the prepaid pension asset net of the OPEB liability in the form of reduced rates, validates that the

prepaid pension asset is investor sourced as contributions above the GAAP pension expense used in ratemaking, and that the funding of the additional assets driving these investor-funded benefits deserves a return.

Q36. Is inclusion of the net prepaid pension asset in the capital structure appropriate?

A36. Yes. The Prepaid Pension Asset, as described earlier, represents contributions made by AES Indiana to the pension fund in excess of the annual pension expense calculated in accordance with GAAP. Those contributions represent investor capital residing in the pension plan and thus investors should be compensated for their investment.

Including the net Prepaid Pension Asset in cost of capital will allow recognition of AES Indiana's cost of funds on the additional cash contributions to the pension fund. As stated above and discussed below, AES Indiana's customers benefit from the existence of the pension funding made because the assets in the pension trust create investment returns and therefore reduce annual pension expense included in rates. Therefore, the net Prepaid Pension Asset should be included as a component of cost of capital as a reduction to other zero-cost capital.

Q37. Has the Commission previously authorized a return on a utility's prepaid pension assets as part of the revenue requirement?

A37. Yes, both for AES Indiana and for other Indiana utilities. For example, in its January 29, 2025 Order in Duke Energy Indiana's most recent rate case, Cause No. 46038, the Commission approved the inclusion of Duke's prepaid pension asset in rate base. The Commission explained as follows:

The Commission must address two issues in considering the inclusion of a pension asset in rate base. First, the Commission must determine whether pension assets are prepayments that were prudently made for the benefit of customers and were made using investor-supplied funds and therefore would be considered working capital and effectively the same as used and useful utility property under Ind. Code § 8-1-2-6. We have previously found that a prepaid pension asset may be classified as working capital, and thus treated as used and useful utility property, if the prepayments were prudently made for the benefit of customers and were made using investor-supplied funds. *See Indianapolis Power & Light Company,* Cause Nos. 44576 and 44602 (IURC Mar. 16, 2016). If the prepaid pension asset is working capital, then we must then address what amount of the prepaid asset should be recognized as investor capital on which a return should be provided.[2]

The Commission in that case found the evidence presented by Duke demonstrated that the prepaid pension asset was appropriately recognized as working capital and that the entire prepaid pension asset of $229.8 million was appropriate to include in rate base. In doing so, the Commission rejected the Industrial Group's argument that a portion of the prepaid pension asset should be excluded based on a comparison of cumulative contributions to the amount of pension expense that had been included in the revenue requirement in prior cases.

In Cause No. 44075, the Commission made the following finding with respect to Indiana Michigan Power Company's prepaid pension asset:

> The record reflects that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards. The record also reflects that the prepaid pension asset has reduced the pension

[2] *Re Duke Energy Indiana, LLC*, Cause No. 46038 (IURC Jan. 29, 2025) at 27.

> cost reflected in the revenue requirement in this case and preserves the integrity of the pension fund. Petitioner made a discretionary management decision to make use of available cash to secure its pension funds and reduce the liquidity risk of future payments. In addition, the prepayment benefits ratepayers by reducing total pension costs in the Company's revenue requirement. Therefore, we find that the prepaid pension asset should be included in Petitioner's rate base.[3]

In Cause No. 44576, IPL proposed to include the net prepaid pension asset in rate base, but the Office of Utility Consumer Counselor ("OUCC") opposed that treatment. The Commission accepted IPL's position, with modification. The Commission's March 16, 2016 Order in Cause No. 44576 (p. 24 footnote 5) also stated that its conclusion in that case should not be read to foreclose alternative proposals to address prepaid pension assets. As noted in the Order in Cause No. 44576 (p. 32), the Commission authorized I&M to include its prepaid pension asset in rate base in Cause No. 45576, 44075, 44967 and 45235.[4] The Commission June 29, 2020 Order in Cause No. 45253 (p. 27) authorized this treatment for Duke Energy Indiana's prepaid pension asset.

In Cause No. 44450, an Indiana American Water Company rate case, the OUCC witness recommended the prepaid pension asset be netted with the OPEB liability within the capital structure at a zero cost of capital and this approach was incorporated in the settlement agreement and approved by the Commission. Additionally, in Cause No. 44688, Northern Indiana Public Service Company sought to include a prepaid pension asset in cost of capital, and the Commission approved this request as part of the settlement agreement in that docket.

[3] Indiana Michigan Power Company, Cause No. 44075 (IURC 2/13/2013), at 10.
[4] The Commission's February 23, 2022 Order in I&M Cause No. 45576 approved a settlement. Cause No. 44967 was also a settled case.

Consistent with these decisions, in AES Indiana's two most recent rate cases (Cause Nos. 45911 and 45029), the Company proposed to include the net prepaid pension asset in cost of capital. As part of the negotiated package, the settlement agreement approved in Cause No. 45911 included a reduced Prepaid Pension Asset (Net of OPEB) of $131.1 million in the capital structure.[5]

Q38. Is the Company's proposed inclusion of the prepaid pension asset in rate base in this proceeding consistent with the Commission's prior decisions?

A38. Yes. Consistent with the Commission's prior Orders involving AES Indiana, the pension asset in this case represents prepayments that were prudently made for the benefit of customers and were made using investor-supplied funds. The pension asset should therefore be considered working capital and effectively the same as used and useful utility property under Ind. Code § 8-1-2-6. The Company's proposal to include the prepaid pension asset in rate base is consistent with the Company's proposals in prior cases and with the decisions by the Commission granting such relief as discussed above.

Q39. Should the amount of the Prepaid Pension Asset be reduced as provided in the Order in Cause No. 44576?

A39. No. As I explained in my direct testimony in Cause No. 45911, in Cause No. 45029 AES Indiana witness Felsenthal testified:

> I think it is possible that there was a misunderstanding in IPL's prior Cause that the calculated pension expense was based or partially based on ERISA minimum funding levels. That is not the case. Pension expense is based on GAAP considering service costs, interest costs, return on pension assets and amortizations. Contributions are based on separate determinations to comply with ERISA and IRS requirements. Any amounts, regardless if due

[5] Cause No. 45911 Settlement Agreement at Section I.A.3.2.

> to ERISA rules or the discretion of the Company, contributed to the pension trust above GAAP pension expense, included in the revenue requirement, are funded by investors and should not receive different regulatory treatment.[6]

Because the entire prepaid pension asset was funded by investors, the Commission should permit a return on such amount.

6. SUMMARY

Q40. Please summarize your testimony.

A40. AES Indiana is requesting $7.3 million of pension and OPEB expense to be reflected in the Adjusted Test Year revenue requirement. This amount represents the most current projection of GAAP pension and OPEB expense for the year 2026 and reasonably incorporates 2024 actual performance as well as the most recent actuarial assumptions.

Additionally, AES Indiana is requesting the net prepaid pension asset be included in the Company's authorized cost of capital. The prepaid pension asset represents cumulative pension contributions in excess of cumulative pension expense under GAAP (which is the amount included in the revenue requirement) and unamortized pension costs. The prepaid pension asset is recorded on the Company's books and preserves the integrity of the pension fund. This additional funding is investor sourced as discussed above. The additional funding is used to purchase additional assets in the pension trust and earns additional returns and thus provides a benefit to customers in reduced annual pension expense that is included in the revenue requirement. AES Indiana has provided several references to other rate cases where inclusion of the full prepaid pension asset was allowed to earn a return in either cost of capital or rate base. Therefore, it is reasonable to include

[6] Cause No. 45029, Felsenthal rebuttal at 17.

the projected full prepaid pension asset net of the OPEB liability as of the end of the Test Year, totaling $133.5 million, in the cost of capital calculation as shown on AES Indiana Attachment HMR-4.

Q41. Does that conclude your verified pre-filed direct testimony?

A41. Yes, this concludes my testimony.

VERIFICATION

I, Hampton Matthew Roach, Senior Director, Benefits of AES US Services, LLC, affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

Hampton Matthew Roach
Dated: May 30, 2025

AES Indiana
Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2024

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	Service cost	$ 5,011,190	$ -	$ 5,011,190	$ 91,703	$ 5,102,893	2
3	Interest cost	$ 26,773,249	$ 184,497	$ 26,957,746	$ 167,024	$ 27,124,770	3
4	Expected return on assets	$ (29,557,248)	$ (216,632)	$ (29,773,880)	$ -	$ (29,773,880)	4
5	Amortization of prior service cost	$ 1,900,457	$ -	$ 1,900,457	$ (48,384)	$ 1,852,073	5
6	Amortization of net actuarial loss	$ 4,693,694	$ 133,981	$ 4,827,675	$ (611,398)	$ 4,216,277	6
7	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	7
8	Total Net Periodic Benefit Cost - Total	$ 8,821,342	$ 101,846	$ 8,923,188	$ (401,055)	$ 8,522,133	8
9							9
10	Non-Utility Allocations:						10
11	Service cost	$ 18,106	$ -	$ 18,106	$ 331	$ 18,437	11
12	Interest cost	$ 96,733	$ 667	$ 97,400	$ 603	$ 98,003	12
13	Expected return on assets	$ (106,792)	$ (783)	$ (107,574)	$ -	$ (107,574)	13
14	Amortization of prior service cost	$ 6,866	$ -	$ 6,866	$ (175)	$ 6,692	14
15	Amortization of net actuarial loss	$ 16,959	$ 484	$ 17,443	$ (2,209)	$ 15,234	15
16	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	16
17		$ 31,872	$ 368	$ 32,240	$ (1,449)	$ 30,791	17
18							18
19	Net AES Indiana:						19
20	Service cost	$ 4,993,084	$ -	$ 4,993,084	$ 91,372	$ 5,084,456	20
21	Interest cost	$ 26,676,516	$ 183,830	$ 26,860,346	$ 166,421	$ 27,026,767	21
22	Expected return on assets	$ (29,450,456)	$ (215,849)	$ (29,666,306)	$ -	$ (29,666,306)	22
23	Amortization of prior service cost	$ 1,893,591	$ -	$ 1,893,591	$ (48,209)	$ 1,845,381	23
24	Amortization of net actuarial loss	$ 4,676,735	$ 133,497	$ 4,810,232	$ (609,189)	$ 4,201,043	24
25	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	25
26		$ 8,789,470	$ 101,478	$ 8,890,948	$ (399,606)	$ 8,491,342	26

AES Indiana
Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2025

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	Service cost	$ 4,259,735	$ -	$ 4,259,735	$ 83,000	$ 4,342,735	2
3	Interest cost	$ 27,401,734	$ 163,507	$ 27,565,241	$ 148,092	$ 27,713,333	3
4	Expected return on assets	$ (30,808,550)	$ (223,258)	$ (31,031,808)	$ -	$ (31,031,808)	4
5	Amortization of prior service cost	$ 2,336,411	$ -	$ 2,336,411	$ (23,034)	$ 2,313,377	5
6	Amortization of net actuarial loss	$ 4,921,062	$ 109,708	$ 5,030,770	$ (620,384)	$ 4,410,386	6
7	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	7
8	Total Net Periodic Benefit Cost - Total	$ 8,110,392	$ 49,957	$ 8,160,349	$ (412,326)	$ 7,748,023	8
9							9
10	Non-Utility Allocations:						10
11	Service cost	$ 16,399	$ -	$ 16,399	$ 320	$ 16,719	11
12	Interest cost	$ 105,492	$ 629	$ 106,122	$ 570	$ 106,692	12
13	Expected return on assets	$ (118,608)	$ (860)	$ (119,468)	$ -	$ (119,468)	13
14	Amortization of prior service cost	$ 8,995	$ -	$ 8,995	$ (89)	$ 8,906	14
15	Amortization of net actuarial loss	$ 18,945	$ 422	$ 19,368	$ (2,388)	$ 16,979	15
16	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	16
17		$ 31,224	$ 192	$ 31,416	$ (1,587)	$ 29,829	17
18							18
19	Net AES Indiana:						19
20	Service cost	$ 4,243,336	$ -	$ 4,243,336	$ 82,680	$ 4,326,016	20
21	Interest cost	$ 27,296,242	$ 162,878	$ 27,459,119	$ 147,522	$ 27,606,641	21
22	Expected return on assets	$ (30,689,942)	$ (222,398)	$ (30,912,340)	$ -	$ (30,912,340)	22
23	Amortization of prior service cost	$ 2,327,416	$ -	$ 2,327,416	$ (22,945)	$ 2,304,471	23
24	Amortization of net actuarial loss	$ 4,902,117	$ 109,286	$ 5,011,402	$ (617,996)	$ 4,393,407	24
25	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	25
26		$ 8,079,168	$ 49,765	$ 8,128,933	$ (410,739)	$ 7,718,194	26

AES Indiana
Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2026

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	Service cost	$ 4,200,000	$ -	$ 4,200,000	$ 100,000	$ 4,300,000	2
3	Interest cost	$ 27,000,000	$ 163,507	$ 27,163,507	$ 200,000	$ 27,363,507	3
4	Expected return on assets	$ (30,300,000)	$ (223,258)	$ (30,523,258)	$ -	$ (30,523,258)	4
5	Amortization of prior service cost	$ 1,900,000	$ -	$ 1,900,000	$ -	$ 1,900,000	5
6	Amortization of net actuarial loss	$ 4,800,000	$ 109,708	$ 4,909,708	$ (600,000)	$ 4,309,708	6
7	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	7
8	Total Net Periodic Benefit Cost - Total	$ 7,600,000	$ 49,957	$ 7,649,957	$ (300,000)	$ 7,349,957	8
9							9
10	Non-Utility Allocations:						10
11	Service cost	$ 16,169	$ -	$ 16,169	$ 385	$ 16,554	11
12	Interest cost	$ 103,946	$ 629	$ 104,575	$ 770	$ 105,345	12
13	Expected return on assets	$ (116,650)	$ (860)	$ (117,510)	$ -	$ (117,510)	13
14	Amortization of prior service cost	$ 7,315	$ -	$ 7,315	$ -	$ 7,315	14
15	Amortization of net actuarial loss	$ 18,479	$ 422	$ 18,902	$ (2,310)	$ 16,592	15
16	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	16
17		$ 29,259	$ 192	$ 29,451	$ (1,155)	$ 28,296	17
18							18
19	Net AES Indiana:						19
20	Service cost	$ 4,183,831	$ -	$ 4,183,831	$ 99,615	$ 4,283,446	20
21	Interest cost	$ 26,896,054	$ 162,878	$ 27,058,932	$ 199,230	$ 27,258,162	21
22	Expected return on assets	$ (30,183,350)	$ (222,398)	$ (30,405,748)	$ -	$ (30,405,748)	22
23	Amortization of prior service cost	$ 1,892,685	$ -	$ 1,892,685	$ -	$ 1,892,685	23
24	Amortization of net actuarial loss	$ 4,781,521	$ 109,286	$ 4,890,806	$ (597,690)	$ 4,293,116	24
25	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	25
26		$ 7,570,741	$ 49,765	$ 7,620,506	$ (298,845)	$ 7,321,661	26

AES Indiana
Prepaid Pension Asset and OPEB Liability Rollforward Through December 31, 2026

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost - December 31, 2022**	**$ 174,881,194**	**$ 1,928,711**	**$ 176,809,905**	**$ (10,642,757)**	**$ 166,167,148**	1
2	Employer contributions	$ 0	$ 113,158	$ 113,158	$ 0	$ 113,158	2
3	Benefits paid directly by employer	$ 0	$ 0	$ 0	$ 61,940	$ 61,940	3
4	Net periodic benefit cost:						4
5	Service cost	$ (5,188,858)	$ 0	$ (5,188,858)	$ (89,413)	$ (5,278,271)	5
6	Interest cost	$ (29,635,503)	$ (182,784)	$ (29,818,287)	$ (155,019)	$ (29,973,306)	6
7	Expected return on assets	$ 32,881,748	$ 225,140	$ 33,106,888	$ 0	$ 33,106,888	7
8	Amortization of prior service cost	$ (2,172,284)	$ 0	$ (2,172,284)	$ 111,453	$ (2,060,831)	8
9	Amortization of net actuarial loss	$ (6,009,084)	$ (135,517)	$ (6,144,601)	$ 641,283	$ (5,503,318)	9
10	Settlement (gain) / loss recognized	$ 0	$ 0	$ 0	$ 0	$ 0	10
11	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost - December 31, 2023**	**$ 164,757,213**	**$ 1,948,708**	**$ 166,705,921**	**$ (10,072,513)**	**$ 156,633,408**	11
12	Employer contributions	$ 0	$ 15,911	$ 15,911	$ 0	$ 15,911	12
13	Benefits paid directly by employer	$ 0	$ 0	$ 0	$ 112,395	$ 112,395	13
14	Net periodic benefit cost:						14
15	Service cost	$ (5,011,190)	$ 0	$ (5,011,190)	$ (91,703)	$ (5,102,893)	15
16	Interest cost	$ (26,773,249)	$ (184,497)	$ (26,957,746)	$ (167,024)	$ (27,124,770)	16
17	Expected return on assets	$ 29,557,248	$ 216,632	$ 29,773,880	$ 0	$ 29,773,880	17
18	Amortization of prior service cost	$ (1,900,457)	$ 0	$ (1,900,457)	$ 48,384	$ (1,852,073)	18
19	Amortization of net actuarial loss	$ (4,693,694)	$ (133,981)	$ (4,827,675)	$ 611,398	$ (4,216,277)	19
20	Settlement (gain) / loss recognized	$ 0	$ 0	$ 0	$ 0	$ 0	20
21	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost - December 31, 2024**	**$ 155,935,871**	**$ 1,862,773**	**$ 157,798,644**	**$ (9,559,063)**	**$ 148,239,581**	21
22	Employer contributions	$ 0	$ 0	$ 0	$ 0	$ 0	22
23	Benefits paid directly by employer	$ 0	$ 0	$ 0	$ 157,622	$ 157,622	23
24	Net periodic benefit cost:						24
25	Service cost	$ (4,259,735)	$ 0	$ (4,259,735)	$ (83,000)	$ (4,342,735)	25
26	Interest cost	$ (27,401,734)	$ (163,507)	$ (27,565,241)	$ (148,092)	$ (27,713,333)	26
27	Expected return on assets	$ 30,808,550	$ 223,258	$ 31,031,808	$ 0	$ 31,031,808	27
28	Amortization of prior service cost	$ (2,336,411)	$ 0	$ (2,336,411)	$ 23,034	$ (2,313,377)	28
29	Amortization of net actuarial loss	$ (4,921,062)	$ (109,708)	$ (5,030,770)	$ 620,384	$ (4,410,386)	29
30	Settlement (gain) / loss recognized	$ 0	$ 0	$ 0	$ 0	$ 0	30
31	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost - December 31, 2025**	**$ 147,825,479**	**$ 1,812,816**	**$ 149,638,295**	**$ (8,989,115)**	**$ 140,649,180**	31
32	Employer contributions	$ 0	$ 0	$ 0	$ 0	$ 0	32
33	Benefits paid directly by employer	$ 0	$ 0	$ 0	$ 195,163	$ 195,163	33
34	Net periodic benefit cost:						34
35	Service cost	$ (4,200,000)	$ 0	$ (4,200,000)	$ (100,000)	$ (4,300,000)	35
36	Interest cost	$ (27,000,000)	$ (163,507)	$ (27,163,507)	$ (200,000)	$ (27,363,507)	36
37	Expected return on assets	$ 30,300,000	$ 223,258	$ 30,523,258	$ 0	$ 30,523,258	37
38	Amortization of prior service cost	$ (1,900,000)	$ 0	$ (1,900,000)	$ 0	$ (1,900,000)	38
39	Amortization of net actuarial loss	$ (4,800,000)	$ (109,708)	$ (4,909,708)	$ 600,000	$ (4,309,708)	39
40	Settlement (gain) / loss recognized	$ 0	$ 0	$ 0	$ 0	$ 0	40
41	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost - December 31, 2026**	**$ 140,225,479**	**$ 1,762,859**	**$ 141,988,338**	**$ (8,493,952)**	**$ 133,494,386**	41