VERIFIED DIRECT TESTIMONY

OF

HAMPTON MATTHEW ROACH

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

D/B/A AES INDIANA

Cause No. 45911

SPONSORING AES INDIANA ATTACHMENTS HMR-1 THROUGH HMR-5

VERIFIED DIRECT TESTIMONY OF HAMPTON MATTHEW ROACH

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", "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 Senior Director, 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, Benefits.

A4. I oversee the administration of all US benefits for the Company, 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. I have not testified before the IURC but have submitted pension-related testimony to the Public Utilities Commission of Ohio in the recent 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 an adjustment to the test year expense for 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 – Prepaid Pension Asset (net of OPEB liability) included in Weighted Average Cost of Capital.
- AES Indiana Financial Exhibit AESI-OPER, Schedule OM17 – Pension and OPEB Expense.

- AES Indiana Attachment HMR-1 - summarizing pension and OPEB costs.
- AES Indiana Attachment HMR-2 - summarizing the Prepaid Pension Asset and OPEB Liability included in the capital structure.
- AES Indiana Attachment HMR-3 - which sets forth the expected Pension Benefit Guaranty Corporation ("PBGC") savings related to the Prepaid Pension Asset.
- AES Indiana Attachment HMR-4 - which provides the Pro Forma Pension and OPEB costs for the year 2023.
- AES Indiana Attachment HMR-5 - which provides the variance between the test year and pro forma Pension and OPEB costs.

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, workpapers are provided in electronic format that support the financial exhibits that I sponsor. I also sponsor workpapers which are electronic copies of the spreadsheets set forth in 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.

2. ANNUAL PENSION AND OPEB COST

Q12. How is Net Periodic Benefit Cost ("pension cost" or "pension expense") determined for pensions?

A12. A pension represents an obligation of AES Indiana to provide a retirement benefit 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 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 report provided with MSFR 1-5-8(a)(15) and (16). Due to the fact that 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.

Q13. What are the components of pension cost under GAAP?

A13. 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 a 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 in excess of 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 provides that 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.

Q14. Please describe the actuarial analyses performed annually by Mercer concerning the calculation of pension and OPEB costs.

A14. 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 provides assistance to AES Indiana based on their experience. 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.

3. ASC 715 PENSION COST ADJUSTMENT

Q15. What amount of pension cost is included in AES Indiana's proposed revenue requirement?

A15. The amount of pension cost included in AES Indiana's proposed revenue requirement is $10.2 million as shown on AES Indiana Attachment HMR-4, line 28 (Total Pension column). This is a $13.6 million increase when compared to the actual pension cost of

$(3.4) million for the year ended December 31, 2022.[1] The proposed amount represents the net periodic benefit pension cost calculated in accordance with GAAP expected to be incurred in 2023 (see AES Indiana Attachment HMR-4 and MFSR 1-5-8 (a)(15) Attachment 3, page B-1). This adjustment plus the OPEB adjustment discussed in Q/A 20 below is included on line 7 in AES Indiana Financial Exhibit AESI-OPER, Schedule OM17. The pension adjustment is the same approach that AES Indiana used in the Company's last two basic rates cases, docketed as Cause No. 45029 and Cause No. 44576. Additionally, there is $0.2 million adjustment included in AES Indiana Financial Exhibit AESI-OPER, Schedule OM17, line 8 to correct benefits claims that were charged to an expense account that should have been charged to the prepaid pension asset account. This adjustment removes the costs from expense and a corresponding adjustment is added in the same amount to the prepaid pension asset included in Workpaper CC2-WP2 supporting AES Indiana Financial Exhibit AESI-CC, Schedule CC2.

Q16. Can you explain the basis for the above referenced test year adjustment?

A16. As discussed above, annual pension expense is based on the most recent annual Mercer Actuarial Report, which was not available until January 2023, after the test year was completed. A test year adjustment is necessary to reflect changes in annual pension expense to reflect the most current actuarial data available, which is 2023 GAAP calculated pension expense. The amount of the adjustment is the amount to increase the test year actual pension expense incurred to the annualized ASC 715 pension expense 2023 as documented

[1] Actual pension cost is provided in AES Indiana Attachment HMR-1, line 30 (Total Pension column).

in AES Indiana Attachment HMR-4 and supported by MFSR 1-5-8 (a)(15) Attachment 3, page B-1.

Q17. Why was the test year pension expense negative and is that expected to occur again?

A17. The qualified pension was the main reason behind the negative pension expense in 2022 as well as the increases to 2023 pension expense. The largest differences between the two annual pension cost numbers, and the main reason behind the negative pension cost for 2022, were the components driven by interest rates including both service cost (impacted by discount rates) and the interest cost (recognizing that the liabilities are one year closer to payout). The interest cost component of pension expense increased by $11.7 million for the qualified pension from 2022 to 2023 due to an interest rate assumption increase from 2.40% to 5.35% as provided in MSFR Attachment 1-5-8(a)(15), Attachment 3, page B-4.[2] This was offset by a $3.8 million reduction in service cost from 2022 to 2023 due to a discount rate increase from 2.83% to 5.41% as provided in MSFR Attachment 1-5-8(a)(15), Attachment 3, page B-4.[3] This increase in interest rates is consistent with market rates as the Federal Reserve was raising interest rates heavily during 2022 to combat inflation. While we do not know how rates will move in the future, we do not expect them to return to the levels seen during the COVID crisis and thus we do not expect a return to negative pension expense without additional unforeseen drivers.

The other factors causing the change in the qualified pension cost from the test year were expected return on plan assets and amortizations of net gains and losses. The expected

[2] The $11.7 million increase is shown on AES Indiana Attachment HMR-5, line 3, column 3.
[3] The $3.8 million reduction is shown on AES Indiana Attachment HMR-5, line 2, column 3.

return on plan assets, which is a reduction to pension cost, decreased from 2022 to 2023 by $2.6 million thus increasing expense.[4] This was due to a smaller asset base at the end of 2022, due to depressed markets during the year, with a larger expected rate of return on plan assets of 5.60% in 2023 versus 4.45% in 2022 as provided in MSFR Attachment 1-5-8(a)(15), Attachment 3, page B-4. The amortization of net gains and losses increased qualified pension expense by $3.7 million from the test year to 2023 actuarial results.[5] The net loss being amortized increased in 2022 by $21.8 million ($206 million asset loss versus expected returns offset by a liability gain of $182 million and $2 million in 2022 amortization) as provided by Mercer. Lastly, the qualified pension had a decreased amortization in 2023 of $0.4 million and the remaining differences for pension expense between 2022 and 2023 related to the SERP.[6]

4. OTHER POSTEMPLOYMENT BENEFITS

Q18. Please describe AES Indiana's OPEB plan.

A18. AES Indiana continues to provide retiree benefits including medical, prescription drug coverage and life insurance benefits, to certain employees who retire from the Company.

Q19. How is OPEB cost determined?

A19. OPEB accounting requirements are also contained in ASC 715. The requirements for OPEB plans are similar to 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

[4] The $2.6 million increase is shown on AES Indiana Attachment HMR-5, line 4, column 3.
[5] The $3.7 million increase is shown on AES Indiana Attachment HMR-5, row 6, column 3.
[6] The $0.4 million decrease is shown on AES Indiana Attachment HMR-5, line 5, column 3.

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 similar to those described previously for pensions.

Q20. What amount of OPEB cost is included in AES Indiana's proposed revenue requirement?

A20. The amount of OPEB cost included in AES Indiana's proposed revenue requirement is $(0.5) million as shown on AES Indiana Attachment HMR-4, line 28 (OPEB column). This is a $0.2 million increase when compared to the actual OPEB cost of $(0.7) million for the test year ended December 31, 2022.[7] The proposed amount represents the net periodic benefit OPEB cost expected to be incurred in 2023 (see AES Indiana Attachment HMR-4 and MFSR 1-5-8 (a)(15) Attachment 3). This adjustment plus the pension adjustment discussed in Q/A 15 above is included in AES Indiana Financial Exhibit AESI-OPER, Schedule OM17, line 7. This is the same approach that AES Indiana used in the Company's last two basic rates case docketed as Cause No. 45029 (settled case) and Cause No. 44576 (contested case).

Q21. Why is the annual OPEB expense negative?

A21. As noted in AES Indiana Attachment HMR-1, the test year OPEB expense was $(0.7) million with a proposed increased OPEB expense to $(0.5) million noted in AES Indiana Attachment HMR-4. While the annual OPEB expense is negative, the information provided

[7] Actual OPEB cost is provided in AES Indiana Attachment HMR-1, line 30 (OPEB column).

in MSFR 1-5-8(a)(15) Attachment 3, page B-1 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 of $(0.1) million 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 $(7.4) million is being amortized over the average remaining years of service of just over 11 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.

Q22. Can you explain the basis for the above-referenced test year adjustment?

A22. As discussed with the adjustment for pension expense above, annual OPEB expense is based on the most current annual Mercer Actuarial Report which became available after the test year was completed. The test year adjustment is necessary to reflect changes in annual OPEB expense to the most current actuarial analysis available, which is 2023. The amount of the adjustment is the amount required to increase test year ASC 715 OPEB expense to the current actuarial expense for 2023 as shown in AES Indiana Attachment HMR-4 and MFSR 1-5-8 (a)(15) Attachment 3, page B-1.

5. PREPAID PENSION ASSET

Q23. Please describe AES Indiana's ongoing funding for the employee pension plan.

A23. Funding of the trust for the qualified defined benefit pension plan is based upon actuarially determined contributions that take into account 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.

Q24. Describe ERISA MRC, how they differ from GAAP pension expense, and whether they factor into rates.

A24. 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 in order to maintain an appropriately-funded plan reducing risks of a future inability to pay the benefits promised. The required contribution amount for any given year is a function of the plan's relative 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.

Q25. How does AES Indiana define a Prepaid Pension Asset?

A25. A Prepaid Pension Asset is defined as the cumulative difference between contributions to the pension trust and amounts expensed for GAAP (and recovery as a component of adjusted test year expenses). In other words, the prepaid pension asset is the excess of the cumulative amounts contributed to the pension trust versus the cumulative amount of GAAP calculated pension expense. Again it is important to note that the ERISA minimum required contributions do not factor into GAAP pension expense.

Q26. Is the Prepaid Pension Asset reflected on AES Indiana's books?

A26. Yes. AES Indiana recognizes a pension asset or liability on its balance sheet equal to the difference between assets and benefit obligations, as required under GAAP. The balance sheet will show an asset where plan assets exceed plan obligations or a liability if the situation is reversed. 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.

Q27. What is the difference between the annual GAAP calculated pension expense and the Prepaid Pension Asset?

A27. 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 pension expense for the revenue requirement. This calculation does not capture the time value of money on the funds

sourced to create the prepaid pension asset. These additional contributions fund purchase of additional assets that drive reduced pension cost and reduce plan risk. In order to capture this reasonable and necessary cost that decreases the annual revenue requirement, the prepaid pension asset must be recognized in cost of capital.

Q28. Why does AES Indiana have a Prepaid Pension Asset?

A28. 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. At December 31, 2022, AES Indiana has contributed approximately $166.2 million more than the cumulative amount of pension cost determined in accordance with GAAP (ASC 715). The GAAP calculated cumulative pension cost and the cumulative pension contributions are shown on AES Indiana Attachment HMR-2, line 13.

Q29. Can AES Indiana access these pension assets in the trust?

A29. 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.

Q30. Does AES Indiana also have a prepaid asset related to OPEBs?

A30. AES Indiana does not have a prepaid asset related to OPEB. As shown on AES Indiana Attachment HMR-2, 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 period and the ASC 715 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 in a net liability status at the end of the test year.

Q31. Is there a benefit to customers when contributions in excess of GAAP pension expense are made to the Company's pension trust?

A31. Yes. AES Indiana customers have benefited from all the previous contributions made to the pension trust. These 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 fully funded the plan, 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, the 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 as shown in AES Indiana Attachment HMR-3.

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.

Q32. What is the source of the contributions used to fund the Prepaid Pension Asset?

A32. The prepaid pension asset, by definition, is the amount (at any given point in time) by which total cumulative contributions have exceeded total cumulative GAAP pension expense, which is in no way a function of ERISA minimum funding. 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.

Q33. How does AES Indiana propose to treat the Prepaid Pension Asset and OPEB regulatory liability in this case?

A33. 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.

Q34. Is inclusion of the net prepaid pension asset in the capital structure appropriate?

A34. 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 (ASC 715). 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.

Q35. Has the Commission previously authorized a return on a utility's prepaid pension assets as part of the revenue requirement?

A35. Yes. 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 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.[8]

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.

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. Consistent with these decisions, in AES Indiana's most recent rate case (Cause No. 45029), the Company proposed to include the net prepaid pension asset in cost of capital. The settlement agreement approved in that proceeding included a reduced Prepaid Pension Asset (Net of OPEB) of $95.9 million in the capital structure.[9]

[8] Indiana Michigan Power Company, Cause No. 44075 (IURC 2/13/2013), at 10.
[9] Cause No. 45029 Settlement Agreement at Section I.A. 2.4.

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.[10] The Commission June 29, 2020 Order in Cause No. 45253 (p. 27) authorized this treatment for Duke Energy Indiana's prepaid pension asset.

Q36. Should the amount of the Prepaid Pension Asset be reduced as provided in the Order in Cause No. 45029?

A36. No. 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 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.[11]

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

6. SUMMARY AND RECOMMENDATIONS

Q37. Please summarize your testimony and recommendations.

A37. In summary of my testimony, AES Indiana is requesting $9.7 million of pension and OPEB expense as adjusted to be reflected in the revenue requirement in rates. This amount represents the most current actuarial valuation of GAAP pension expense for the year 2023 and is consistent with how we have included pension cost in the revenue requirement in

[10] The Commission's February 23, 2022 Order in I&M Cause No. 45576 approved a settlement. Cause No. 44967 was also a settled case.
[11] Cause No. 45029, Felsenthal rebuttal at 17.

the past. While the amount is higher than the test year, this was fully explained by assumption changes as mainly driven by interest rate increases as rates increased to deter inflation and are unlikely to return to prior low levels in the near future.

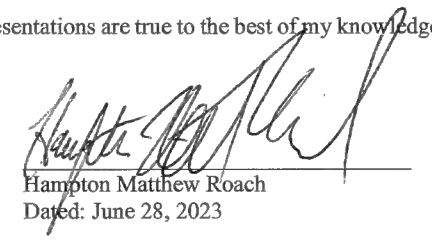
Additionally, AES Indiana is requesting the net prepaid pension asset be included in the Company's authorized cost of capital. The prepaid pension asset represents cumulative pension contributions in excess of cumulative pension expense under GAAP (which is the amount included in the revenue requirement). 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 the full prepaid pension asset net of the OPEB liability of $166.2 million in the cost of capital calculation.

Q38. Does that conclude your verified pre-filed direct testimony?

A38. 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: June 28, 2023

AES Indiana
Computation of Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2022

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2							2
3	Service cost	8,948,997	-	8,948,997	127,476	9,076,473	3
4	Interest cost	17,959,288	140,035	18,099,323	90,350	18,189,673	4
5	Expected return on assets	(35,439,808)	(216,333)	(35,656,141)	-	(35,656,141)	5
6	Amortization of prior service cost	2,588,804	-	2,588,804	(373,827)	2,214,977	6
7	Amortization of net actuarial loss	2,291,894	127,479	2,419,373	(571,062)	1,848,311	7
8	Settlement (gain) / loss recognized	-	203,029	203,029	-	203,029	8
9							9
10	Total Net Periodic Benefit Cost - Total	(3,650,825)	254,211	(3,396,615)	(727,063)	(4,123,678)	10
11		-	-		-		11
12	Non-Utility Allocations:						12
13							13
14	Service cost	(27,423)	-	(27,423)	(391)	(27,814)	14
15	Interest cost	(55,034)	170,986	115,952	(277)	115,675	15
16	Expected return on assets	108,602	(407,875)	(299,273)	-	(299,273)	16
17	Amortization of prior service cost	(7,933)	-	(7,933)	1,146	(6,788)	17
18	Amortization of net actuarial loss	(7,023)	236,216	229,193	1,750	230,943	18
19	Settlement (gain) / loss recognized	-	(106)	(106)	-	(106)	19
20		11,188	(779)	10,409	2,228	12,637	20
21		-	-		-		21
22	Net AES Indiana:						22
23	12 Months Ended - December 31, 2022						23
24	Service cost	8,921,574	-	8,921,574	127,085	9,048,659	24
25	Interest cost	17,904,254	311,021	18,215,274	90,073	18,305,348	25
26	Expected return on assets	(35,331,206)	(624,208)	(35,955,414)	-	(35,955,414)	26
27	Amortization of prior service cost	2,580,871	-	2,580,871	(372,681)	2,208,189	27
28	Amortization of net actuarial loss	2,284,871	363,695	2,648,566	(569,312)	2,079,254	28
29	Settlement (gain) / loss recognized	-	202,923	202,923	-	202,923	29
30		(3,639,638)	253,432	(3,386,206)	(724,835)	(4,111,041)	30
31							31

AES Indiana
Prepaid Pension Asset and OPEB Liability for the Twelve Months Ended December 31, 2022

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost (per Mercer)**	$ 171,230,368	$ 1,770,437	$ 173,000,805	$ (11,516,911)	$ 161,483,894	1
2	Adjustment - difference between Mercer and actual AES Indiana Books (due to estimating OPEB claims paid)	-	-	-	-	-	2
3	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost (per AES Indiana books)**	$ 171,230,368	$ 1,770,437	$ 173,000,805	$ (11,516,911)	$ 161,483,894	3
4	Employer contributions	-	412,484	412,484	-	412,484	4
5	Benefits paid directly by employer	-	-	-	147,091	147,091	
6	Net periodic benefit cost:						5
7	Service cost	(8,948,996.00)	-	(8,948,996.00)	(127,476.00)	(9,076,472.00)	6
8	Interest cost	(17,959,288.00)	(140,035.00)	(18,099,323.00)	(90,350.00)	(18,189,673.00)	7
9	Expected return on assets	35,439,808.00	216,333.00	35,656,141.00	-	35,656,141.00	8
10	Amortization of prior service cost	(2,588,804.00)	-	(2,588,804.00)	373,827.00	(2,214,977.00)	9
11	Amortization of net actuarial loss	(2,291,894.00)	(131,738.00)	(2,423,632.00)	571,062.00	(1,852,570.00)	10
12	Settlement (gain) / loss recognized	-	(198,771.00)	(198,771.00)	-	(198,771.00)	11
13	**Cumulative Employer Contributions in Excess of Net Periodic Benefit Cost**	$ 174,881,194	$ 1,928,710	$ 176,809,904	$ (10,642,757)	$ 166,167,147	12

AES Indiana
Projected PBGC Reduction in Fees
Calculation of reduction based on Prepaid Pension asset and rate (per PBGC)
(thousands)

Line No.				Line No.
1	Prepaid Pension Asset (Qualifed Plan only)	$	174,881	1
2	Variable rate premium as specified by the PBGC		4.80%	2
3	Uncapped PBGC premium (assuming prepaid pension asset is unfunded)	$	8,394	3
4	Cap on the maximum variable rate PBGC premium determined by:			4
	Rate per participant	$	598	
	# of eligible participants		2,131	
5	Maximum PBGC variable rate premium	$	1,274	5
6	PBGC variable rate premium paid by October 15, 2022	$	-	6
7	Estimate reduction in PBGC premium due to Prepaid Pension Asset	$	1,274	7

AES Indiana
Pro Forma Computation of Pension and OPEB Net Periodic Benefit Cost for the Twelve Months Ended December 31, 2023

Line No.		Qualified Pension	Supplemental Pension	Total Pension	OPEB	Total	Line No.
1	Actuarial Reports:						1
2	Service cost	$ 5,188,858	$ -	$ 5,188,858	$ 89,413	$ 5,278,271	2
3	Interest cost	$ 29,635,503	182,784	29,818,287	155,019	29,973,306	3
4	Expected return on assets	$ (32,881,748)	(225,140)	(33,106,888)	-	(33,106,888)	4
5	Amortization of prior service cost	$ 2,172,284	-	2,172,284	(111,453)	2,060,831	5
6	Amortization of net actuarial loss	$ 6,009,084	135,517	6,144,601	(641,283)	5,503,318	6
7	Settlement (gain) / loss recognized	$ -	-	-	-	-	7
8		$ 10,123,981	$ 93,161	$ 10,217,142	$ (508,304)	$ 9,708,838	8
9							9
10	Non-Utility Allocations:						10
11	January - December 2023						11
12	Service cost	$ (15,900)	$ -	$ (15,900)	$ (274)	$ (16,174)	12
13	Interest cost	(90,811)	(560)	$ (91,371)	(475)	$ (91,846)	13
14	Expected return on assets	100,758	690	$ 101,448	-	$ 101,448	14
15	Amortization of prior service cost	(6,656)	-	$ (6,656)	342	$ (6,315)	15
16	Amortization of net actuarial loss	(18,413)	(415)	$ (18,829)	1,965	$ (16,864)	16
17	Settlement (gain) / loss recognized	-	-	$ -	-	$ -	17
18		$ (31,022)	$ (285)	$ (31,308)	$ 1,558	$ (29,750)	18
19							19
20	Net AES Indiana:						20
21	12 Months Ended - December 31, 2023						21
22	Service cost	$ 5,172,958	$ -	$ 5,172,958	$ 89,139	$ 5,262,097	22
23	Interest cost	$ 29,544,692	$ 182,224	$ 29,726,916	$ 154,544	$ 29,881,460	23
24	Expected return on assets	$ (32,780,990)	$ (224,450)	$ (33,005,440)	$ -	$ (33,005,440)	24
25	Amortization of prior service cost	$ 2,165,628	$ -	$ 2,165,628	$ (111,111)	$ 2,054,516	25
26	Amortization of net actuarial loss	$ 5,990,671	$ 135,102	$ 6,125,772	$ (639,318)	$ 5,486,454	26
27	Settlement (gain) / loss recognized	$ -	$ -	$ -	$ -	$ -	27
28		$ 10,092,959	$ 92,876	$ 10,185,834	$ (506,746)	$ 9,679,088	28

AES Indiana
Pension and OPEB Net Periodic Benefit Cost Variances

Line No.		Qualified Pension			Supplemental Pension			Total Pension			OPEB				Line No.
		2022	2023	Variance	2022	2023	Variance	2022	2023	Variance	2022	2023	Variance	Total Variance	
1	Actuarial Reports:	(Column 1)	(Column 2)	(Column 3)	(Column 4)	(Column 5)	(Column 6)	(Column 7)	(Column 8)	(Column 9)	(Column 10)	(Column 11)	(Column 12)	(Column 13)	1
2	Service cost	$ 8,948,997	$ 5,188,858	$ (3,760,139)	$ -	$ -	$ -	$ 8,948,997	$ 5,188,858	$ (3,760,139)	$ 127,476	$ 89,413	$ (38,063)	$ (3,798,202)	2
3	Interest cost	17,959,288	29,635,503	11,676,215	140,035	182,784	42,749	$ 18,099,323	$ 29,818,287	11,718,964	90,350	155,019	64,669	11,783,633	3
4	Expected return on assets	(35,439,808)	(32,881,748)	2,558,060	(216,333)	(225,140)	(8,807)	$ (35,656,141)	$ (33,106,888)	2,549,253	-	-	-	2,549,253	4
5	Amortization of prior service cost	2,588,804	2,172,284	(416,520)	-	-	-	$ 2,588,804	$ 2,172,284	(416,520)	(373,827)	(111,453)	262,374	(154,146)	5
6	Amortization of net actuarial loss	2,291,894	6,009,084	3,717,190	127,479	135,517	8,038	$ 2,419,373	$ 6,144,601	3,725,228	(571,062)	(641,283)	(70,221)	3,655,007	6
7	Settlement (gain) / loss recognized	-	-	-	203,029	-	(203,029)	$ 203,029	$ -	(203,029)	-	-	-	(203,029)	7
8		$ (3,650,825)	$ 10,123,981	$ 13,774,806	$ 254,211	$ 93,161	$ (161,050)	$ (3,396,615)	$ 10,217,142	$ 13,613,757	$ (727,063)	$ (508,304)	$ 218,759	$ 13,832,516	8