

The AES Corporation: Capital Allocation During a Pending Take-Private

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The decision

On the evening of August 5, 2026, AES Corporation faced a portfolio decision under unusual constraints. The company had signed a \$15-per-share agreement to be acquired by a consortium led by Global Infrastructure Partners and EQT. Shareholders had approved the transaction, and the HSR waiting period had expired, but other regulatory approvals and closing conditions remained. The merger agreement constrained certain capital expenditures and contracts before closing. At the same time, AES was investing in renewables and utility infrastructure, including a proposed package of projects and customer agreements in Indiana tied to a large data-center campus. (AES-1, Note 1, pp. 11-12; AES-2, §§1.03, 2.01, 5.01; AES-4, Item 1.01; AES-5, Items 5.07/7.01.)

The board had not disclosed a vote on the choice posed here. For teaching purposes, assume a strategy committee asks you to recommend a policy for the period before the merger either closes or changes course. How should AES preserve parent-level liquidity and flexibility while deciding which contracted-growth and reliability commitments to advance, stage, or defer? Your answer must fit the public terms of the interim covenants, recognize the unknowns in the filed project proposals, and explain what AES should be prepared to do if closing is delayed or the transaction does not close.

This is a strategy and governance question, not a valuation exercise. The public record does not disclose project-level returns, the detailed capital plan, unused facility capacity, or the customer-specific commercial terms needed to calculate a single optimal allocation.

A global portfolio under transaction constraints

AES combines power generation, renewable project development, and regulated utilities across several markets. Its Q2 2026 filing describes growth investment in U.S. and Chilean renewables and U.S. utility transmission and distribution. Those activities do not have identical risk profiles: a contracted project, a development-stage opportunity, a regulated utility investment, and generation exposed to spot prices can require different capital, timing, approvals, and financing. The filing reports consolidated totals and selected management explanations, not a comparable project-by-project return schedule. (AES-1, MD&A, “Capital Expenditures,” pp. 79-80; “Cash Sources and Uses,” p. 78.)

The merger agreement did not put AES under the buyer’s day-to-day control. AES retained operating control before closing, subject to the agreement’s ordinary-course and consent provisions. Capital spending generally followed a Capital Plan, with a 10% variance allowed by

principal category. The agreement also provided exceptions—for example, certain maintenance, operational emergencies, legally required spending, specified U.S. utility capital expenditures reasonably expected to be recoverable in a rate case, and prior written consent. Separate restrictions applied to certain large renewable and other energy contracts, again subject to exceptions and consent procedures. (AES-2, §5.01(a), (a)(xii), (a)(xx), and (c), internal pp. 37, 46-49.)

The SEC-filed merger agreement referred to a Company Disclosure Letter containing the detailed Capital Plan and specified projects, but that letter was not included in the public exhibit. The public record therefore does not show category headroom, whether a named project was on the plan, or whether a particular commitment fit a disclosed-project exception. Nor does the agreement establish that all renewable investments were contracted. Any recommendation must distinguish a policy for sorting opportunities from a claim that a specific project can legally proceed. (AES-2, §5.01(a)(xii), (a)(xx); public exhibit and disclosed-letter limitation.)

Growth, cash flows, and parent liquidity

For the six months ended June 30, 2026, AES reported \$2.247 billion of cash provided by operating activities and \$3.409 billion of capital expenditures as a cash use; the latter included \$227 million of capitalized interest. The simple difference is \$1.162 billion, calculated as \$3.409 billion minus \$2.247 billion. That subtraction compares two consolidated cash-flow totals. It is not free cash flow, a project funding gap, or proof that AES could not fund investment: debt issuance and repayments, nonrecourse project financing, supplier financing, distributions to noncontrolling interests, asset sales, and other sources and uses also mattered. (AES-1, MD&A, “Cash Sources and Uses,” p. 78.)

AES reported that first-half capital expenditures rose \$823 million from the prior-year period. Management attributed \$799 million of the increase to growth expenditures, primarily higher U.S. and Chile renewables spending and U.S. utility transmission and distribution investment; it attributed another \$24 million to maintenance spending, mainly the timing of AES Ohio maintenance. These are management’s explanations of year-over-year changes, not a full-year budget or project-level split. (AES-1, MD&A, “Capital Expenditures,” pp. 79-80.)

At June 30, AES reported Parent Company Liquidity of \$1.834 billion: \$43 million of cash at the parent and qualified holding companies plus \$1.791 billion available under parent credit facilities. The measure was \$1.381 billion at December 31, 2025. Parent Company Liquidity is a management-defined, non-GAAP measure; it is not consolidated cash or a pool of project-subsidiary cash. AES described parent facilities as helping bridge the timing of subsidiary distributions. The company also relied on nonrecourse financing at many subsidiaries. Students should ask which entity funds a commitment and receives its cash flows rather than combine parent liquidity and subsidiary financing into one number. (AES-1, MD&A, “Parent Company Liquidity,” pp. 81-82.)

On August 5, AES reported that the Citi revolving-commitment termination date had been extended from August 23, 2027 to August 23, 2028. Exhibit 10.1 applies the extension to \$1.452 billion of “Extending Lender” commitments and provides that it takes effect on the Amendment Effective Date after the \$5 conditions are satisfied; the 8-K reports that the Citi date was extended. Associated Bank’s \$48 million non-extending commitment remains due August 23, 2027. Separately, AES reported that the SMBC termination date “will be extended” from December 6, 2026 to December 6, 2027, subject to conditions; Exhibit 10.2 says it cannot become effective before December 4, 2026. Thus, at the cutoff, AES reported the Citi extension as effected, while the SMBC extension remained future-conditional. Neither amendment increased the stated commitment size or disclosed a new borrowing, current facility usage,

unused availability, or a capital-allocation decision. The Citi extension changes only the maturity of the specified commitments; it does not answer how much parent liquidity AES could deploy. (AES-3, 8-K Item 1.01; Ex. 10.1 §§1(a), 5 and Schedule I; Ex. 10.2 §§1(a), 4.)

The Indiana large-load proposal

AES Indiana filed a petition with the Indiana Utility Regulatory Commission on April 22, 2026. The requested approvals covered acquisition of two development-stage Indiana renewable projects, storage at Hardy Hills, specified transmission upgrades, and construction-services and electric-services agreements with a customer planning a new data-center campus. AES described the agreements as including financial assurances, minimum-demand commitments, and exit provisions. The company presented the package as protecting existing customers through cost allocation and cost-causation features. Those descriptions were management's statements about filed agreements, not an IURC finding or a disclosed credit assessment. (AES-1, MD&A, "AES Indiana Large Load Customer Project Filing," p. 71.)

The hearing was scheduled for August 5-6, with a final order anticipated in the fourth quarter. At this case's cutoff, the hearing was not yet complete and its outcome was unknown. The Q2 filing sections used here do not disclose the customer's identity, load ramp, project costs, rates, expected margin, detailed exit remedies, amount of financial assurance, or capex schedule. They also do not establish that a particular expenditure qualified for the merger agreement's utility rate-case exception. (AES-1, p. 71; AES-2, §5.01(a)(xii)(D).)

The proposals create both an opportunity and an exposure. Customer commitments could help support infrastructure investment and reliability, but the public filing does not quantify the extent of that support or show how forecast demand, permitting, construction timing, and regulatory recovery fit together. A disciplined recommendation should identify what information would change its treatment of the package, rather than assume either that customer protections eliminate risk or that uncertainty makes the investment unattractive.

What peer disclosures can-and cannot-tell you

American Electric Power's Q2 filing described a five-year \$78 billion capital plan and large-load tariff proposals with contracts of up to 20 years and take-or-pay minimums that can require customers to pay for 80-90% of contracted demand. Duke Energy reported that its data-center agreements included financial protections intended to support reliability and align service costs with the large-load customers driving investment. These disclosures illustrate approaches to assigning risk between utilities and large customers. Their territories, regulatory frameworks, project mix, and customer terms differ from AES Indiana; they are not direct project comparables and do not reveal the terms of AES Indiana's customer agreement. (AEP-1, MD&A, "Electric Industry Transformation," section p. 3; DUK-1, MD&A, "Economic Development," p. 99.)

Decision alternatives

Consider three policy directions. Each must comply with the merger agreement, respect existing contractual and legal obligations, and address reliability needs.

1. **Advance permitted, customer-backed growth.** Continue projects or commitments that can proceed under the current plan, applicable exceptions, or consent path, emphasizing those with demonstrable customer commitments, regulatory support, and clear ownership of funding and cash flows. Explain what evidence is needed before describing an opportunity as contracted or economically protected.

2. **Stage discretionary commitments.** Preserve essential maintenance, reliability, and customer work while slowing or sequencing more discretionary commitments until regulatory, project, or transaction uncertainty is reduced. Explain the opportunity cost of delay, the risks of lost development value, and how AES would decide when to release a staged commitment.
3. **Prepare a conditional standalone path.** Set decision triggers and funding contingencies for a delay or failure to close, while continuing obligations and investments that remain permitted and strategically important. Identify which actions require Parent consent and which information would be needed to revise the policy.

These are policy archetypes, not claims that every project fits one category or that the company had disclosed these as management alternatives. A strong recommendation may combine elements, but should state priorities, sequencing logic, guardrails, and trigger conditions.

Exhibits

Exhibit 1. Transaction and decision timeline

Date	Event known by the cutoff
March 1, 2026	AES and the GIP/EQT-led consortium signed the merger agreement; cash consideration was \$15 per share.
June 22, 2026	HSR waiting period expired, as reported by AES.
June 26, 2026	AES stockholders approved the merger.
June 30, 2026	Quarter-end for the Q2 Form 10-Q.
August 4, 2026	AES filed its Q2 Form 10-Q.
August 5, 2026	AES filed the credit-amendment 8-K; the IURC hearing on the AES Indiana petition was scheduled for August 5-6.
August 5-6, 2026	Scheduled hearing dates; no outcome is available at the case cutoff.
August 5, 2026, 11:59 p.m. ET	Case information cutoff. Other regulatory and closing conditions remained.

Sources: AES-1, Note 1, pp. 11-12 and p. 71; AES-2; AES-3; AES-4; AES-5.

Exhibit 2. Selected reported funding figures

Reported item	Amount / period	Source and boundary
Cash provided by operating activities	\$2.247bn, six months ended June 30, 2026	Consolidated cash-flow figure; AES-1, p. 78
Capital expenditures as cash use	\$3.409bn, same period, including \$227m capitalized interest	Consolidated cash-flow figure; AES-1, p. 78
Difference: capex less operating cash	\$1.162bn	Derived arithmetic: \$3.409bn – \$2.247bn; not free cash flow or a funding deficit
Parent Company Liquidity	\$1.834bn at June 30, 2026	\$43m cash plus \$1.791bn available under parent facilities; management-defined non-GAAP measure; AES-1, pp. 81-82
Parent Company Liquidity	\$1.381bn at Dec. 31, 2025	Comparative reported measure; AES-1, pp. 81-82
Increase in reported Parent Company Liquidity	\$453m	Derived arithmetic: \$1.834bn – \$1.381bn; not cash growth alone

Exhibit 3. Covenant and consent questions

Public agreement term	Decision implication
Ordinary-course conduct and Capital Plan compliance; capex generally within the plan plus 10% by principal category	The public case does not disclose the plan, category headroom, or project schedule.
Exceptions for specified maintenance/emergency/legal needs and certain U.S. utility capex reasonably expected to be rate-case recoverable	Eligibility for a specific expenditure is not established by the public evidence.
Restrictions on specified large project contracts and certain other new contracts; exceptions and a consent process apply	A project's size or technology alone does not establish that it is prohibited or permitted.
AES retained operating control before closing; consent rights apply to specified actions	The buyer did not simply run AES before closing; students should identify where consent or more facts are needed.

Source: AES-2, §§5.01(a), (a)(xii), (a)(xx), (c); disclosed project exceptions and Company Disclosure Letter were not in the public exhibit reviewed.

Student assignment

Prepare a two-page executive recommendation for the hypothetical strategy committee.
Address:

1. Which policy should AES follow for the pre-closing period, and what should it prioritize, stage, or defer?

2. How should AES evaluate the Indiana large-load package and other renewable or utility commitments when project economics, contract details, and Capital Plan headroom are not publicly available?
3. What are the strongest strategic and financial arguments against your recommendation?
4. Which decisions require additional evidence, Parent consent, or a regulatory outcome? Name the information and decision triggers that would change your position.

Separate reported facts, your calculations, and any explicitly labeled assumptions. Do not assume all renewable investments are contracted; do not equate project-level cash with parent liquidity; do not infer that the credit amendments created additional borrowing capacity. Cite the source and locator for material factual claims.

Source note and scope

The case uses public SEC filings and peer 10-Q disclosures available by August 5, 2026, 11:59 p.m. ET. Citations use the source IDs and locators in the companion research materials. AES-1 was read in targeted sections, not in full; AES-2's operative covenant clauses and AES-3's credit amendments were reviewed as identified in the source register. Later merger approvals and events are excluded. All figures are reported unless expressly labeled as derived arithmetic. The case contains no project-return model or invented company forecasts.