

ORIGINAL

*AMM*  
*EB*  
*APW*

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA, INC. )  
FOR APPROVAL OF A CHANGE IN ITS FUEL COST )  
ADJUSTMENT FOR ELECTRIC SERVICE, FOR )  
APPROVAL OF A CHANGE IN ITS FUEL COST )  
ADJUSTMENT FOR HIGH PRESSURE STEAM )  
SERVICE, AND TO UPDATE MONTHLY )  
BENCHMARKS FOR CALCULATION OF )  
PURCHASED POWER COSTS IN ACCORDANCE )  
WITH INDIANA CODE § 8-1-2-42, INDIANA CODE § 8- )  
1-2-42.3 AND VARIOUS ORDERS OF THE INDIANA )  
UTILITY REGULATORY COMMISSION )

CAUSE NO. 38707 FAC 101

APPROVED: SEP 24 2014

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**David E. Veleta, Administrative Law Judge**

On July 31, 2014, Duke Energy Indiana, Inc. (“Duke Energy Indiana”, “Applicant” or “Company”) filed its Verified Application and direct testimony and exhibits for approval of a change in its fuel adjustment charge (“FAC”) to be applicable during the billing cycles of October, November, and December 2014 for electric and steam service and to update monthly benchmarks for purchased power costs. On August 6, 2014, Duke Energy Indiana filed its Amended Verified Application. On August 1, 2014, the Duke Energy Indiana Industrial Group (“Industrial Group”) filed its Petition to Intervene in this proceeding. On August 11, 2014, Steel Dynamics, Inc. (“SDI”) filed its Petition to Intervene in this proceeding. The Commission granted those Petitions to Intervene on August 13 and August 22, 2014, respectively. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its audit report and direct testimony on September 3, 2014. On September 9, 2014, Citizens Action Coalition of Indiana, Inc. (“CAC”) filed its Petition to Intervene, which was granted at the evidentiary hearing.

On September 17, 2014, the Industrial Group, SDI, and the OUCC filed the *Customer Groups’ Motion to Make Authorized Recovery Subject to Outcome of Cause No. 43114 IGCC-12 and IGCC-13*. Duke Energy Indiana filed its response on September 19, 2014.

Pursuant to public notice given and published as required by law, proof of which was incorporated into the record by reference, a public evidentiary hearing was held in this Cause on September 18, 2014, at 9:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant, the Industrial Group, CAC, and the OUCC appeared at the hearing by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits into the evidentiary record without objection. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicants rates and charges related to adjustments in fuel costs. Therefore, the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. **Applicant's Characteristics.** Duke Energy Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office in Plainfield, Indiana, and is a second tier wholly-owned subsidiary of Duke Energy Corporation. Duke Energy Indiana is engaged in rendering electric utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public. The Company also renders steam service to one customer, International Paper.<sup>1</sup>

3. **Available Data on Actual Fuel Costs and Authorized Jurisdictional Net Income.** On May 18, 2004, the Commission issued an Order in Cause No. 42359 ("May 18 Order") approving base retail electric rates and charges for Duke Energy Indiana. The Commission's May 18 Order found that Duke Energy Indiana's base cost of fuel should be 14.484 mills per kWh and that the Company's base rates for electric utility service should reflect an authorized jurisdictional net operating income of \$267,500,000, prior to any additional return on qualified pollution control property approved by the Commission, pursuant to Ind. Code §§ 8-1-2-6.6 and 6.8, not taken into account in the May 18 Order.

Applicant's cost of fuel to generate electricity and the cost of fuel included in the net cost of purchased electricity for the month of May 2014, based on the latest data known to Applicant at the time of filing after excluding prior period costs, hedging, and miscellaneous fuel adjustments, if applicable, was \$0.032928 per kWh as shown on Applicant's Exhibit A, Schedule 9. In accordance with previous Commission Orders,<sup>2</sup> Duke Energy Indiana calculated its phased-in authorized jurisdictional net operating income level for the 12-month period ending May 31, 2014, to be \$494,255,000. No evidence was offered objecting to the calculation of the authorized jurisdictional net operating income level proposed by Duke Energy Indiana, and we find it to be proper.

---

<sup>1</sup> International Paper acquired Temple-Inland's corrugated packaging business on February 13, 2013.

<sup>2</sup> The Commission's July 3, 2002, Order in Cause Nos. 41744 S1 and 42061, and subsequent update Orders, up to and including the March 26, 2014, update in Cause No. 42061 ECR 22, authorized Petitioner to add the value of certain qualified pollution control property to the value of the Company's property for ratemaking purposes. The Commission's Order in Cause No. 42061 ECR 3, dated March 11, 2004, stated that the applicable incremental increase to Duke Energy Indiana's authorized return, approved in that proceeding, shall be phased-in over the period of time that Petitioner's net operating income was affected by the applicable construction work in progress ("CWIP") update. The Commission's Order in Cause No. 43114 and subsequent update Orders, up to and including the September 11, 2013 update in Cause No. 43114 IGCC 10, authorized the Company to add the value of property at the Edwardsport Integrated Gasification Combined Cycle Generating Facility ("IGCC Project") to the value of the Company's property for ratemaking purposes. The Company has applied the same phase-in concepts ordered by the Commission in its Order in Cause No. 42061 ECR 3 for CWIP updates to the IGCC Project updates in making the calculations for this filing.

**4. Fuel Purchases.** Mr. Brett Phipps testified regarding Duke Energy Indiana's coal procurement practices and its coal inventories. Mr. Phipps testified that Duke Energy Indiana exercised its right to reopen the contract price under its Bear Run contract in accordance with the terms of the contract. The parties to that contract have engaged in negotiations and reached an impasse, which requires resolution in accordance with the provisions of the contract, through arbitration. The Company also has exercised its right to reopen the contract price of another long-term agreement in accordance with the terms of the contract by giving notice in April 2014. Mr. Phipps also testified that as of June 30, 2014, coal inventories were approximately 3,200,000 tons (or 51 days of coal supply), which is lower than what was reported in FAC100 due to higher demand for coal generation due to higher natural gas and power prices. Mr. Phipps added that the Company continues to evaluate a host of options in order to effectively manage its growing coal inventory. Furthermore, the Company has extended an existing storage agreement with one supplier to store coal at the supplier's mine facilities for up to one additional year. In addition, the Company has agreed to defer up to 475,000 tons of coal for delivery in 2014 to 2015 with one supplier. Mr. Phipps stated that as inventory levels dictate, the Company explores options to defer contract coal or resell surplus coal into the market; however, due to continued weak coal market conditions, resell opportunities will continue to be extremely difficult in the near term. Mr. Phipps also testified that the Company has not been receiving all of the scheduled shipments of coal at Cayuga station due to the increased demand for rail service across the entire rail system. As a result, inventory declined well below target levels and was forecasted to decline further if the Company did not find an alternative to support Cayuga's forecasted coal burns. Beginning in June 2014, the Company started trucking coal from Wabash River station to the Cayuga station in order to increase inventory levels and supplement the rail performance. Mr. Phipps testified that it was his opinion that the Company is purchasing coal and oil at prices as low as reasonably possible.

Mr. Phipps testified that spot natural gas prices are dynamic, volatile, and can change significantly day to day based on market fundamental drivers. During the three-month period from March through May 2014 the price the Company paid for delivered natural gas at its gas burning stations was between \$4.28 per million BTU to \$18.51 per million BTU, which is significantly lower than the price range in FAC100. Mr. Phipps noted that as a result of restrictions experienced with interruptible gas transportation arrangements the Company has executed a new firm transportation arrangement with Panhandle Eastern for firm pipeline capacity to support the Noblesville and Cayuga operations with service to begin in June 2014. Mr. Phipps testified that, in his opinion, Duke Energy Indiana purchased natural gas at the lowest cost reasonably possible.

The OUCC's witness Mr. Michael Eckert testified regarding Applicant's coal inventory and coal decrement pricing. He testified that Duke Energy Indiana has met with its suppliers, determined maximum storage at its facilities, is exploring options to resell surplus coal, and decrement coal pricing. He recommended Duke Energy Indiana should continue to update the Commission on its coal inventory.

Mr. John D. Swez, of Duke Energy Indiana, testified regarding the Company's efforts to mitigate the negative Locational Marginal Price ("LMP") situation associated with power

purchased from Benton County Wind Farm (“BCWF”), pursuant to the contract which was approved by the Commission in Cause No. 43097. Mr. Swez stated that due to the nature of the contractual agreement between the Company and BCWF and the way MISO treats offers from Intermittent Resources, the unit had a commitment status of must run with minimum and maximum loading equal to the forecasted generation amount, meaning that MISO would clear the generator at any LMP at the forecasted amount in the day-ahead market. Mr. Swez testified that as a result of this, negative revenue (meaning that payments must be made to send the power into the MISO system) was sometimes received by this generator in the day-ahead markets. It was also possible to receive negative revenues in the real-time market. Mr. Swez testified that on March 1, 2013, BCWF began operation as a Dispatchable Intermittent Resource (“DIR”). The DIR construct was designed to allow MISO to better manage the output of intermittent resources, thereby allowing for better management of congestion in certain areas, such as where BCWF is located. Mr. Swez testified that although it appears that the DIR construct is giving MISO additional tools to manage congestion at BCWF, negative LMPs at times do continue to be observed.

Mr. Swez also testified that Duke Energy Indiana received an invoice on June 17, 2013 for payment from BCWF for March, April, and May 2013 liquidated damages for production that was not generated. He noted that Duke Energy Indiana disputed this invoice and, as a result, there is no impact to this FAC proceeding. Although the Company and BCWF had continued negotiations regarding this invoice, BCWF filed a lawsuit against Duke Energy Indiana on December 16, 2013, alleging that the Company breached its contract with the wind farm. Once the dispute with Benton County Wind Farm is resolved, there is the potential for future adjustments for production that was not generated or changes in metered output due to power purchase share meter adjustments that may be reconciled in future FAC proceedings.

Mr. Eckert recommended that Duke Energy Indiana report to the Commission any updates and resolutions to the Benton County Wind Farm LMP situation in its next FAC filing.

Mr. Swez testified that since the Edwardsport IGCC generating station began commercial operation on June 7, 2013, it has performed as expected, although significant challenges did arise this winter, in part, as a result of the extreme winter weather. He testified that since this time, production at Edwardsport IGCC has rebounded sharply, with the station having its highest amount of monthly generation to date in May 2014 and continues to operate as expected.

On September 17, 2014, the Industrial Group, SDI, and the CAC (the “Customer Groups”) filed a Motion to Make Authorized Recovery Subject to Outcome of Cause No. 43114 IGCC-12 and IGCC-13 (“Motion”). In their Motion, the Customer Groups requested that the FAC101 fuel factor be made interim and subject to refund pending the outcome of Cause No. 43114 IGCC-12 and -13 because the month of March 2014 is included in the operational review of these proceedings and because one-half the variance from FAC100 has been carried over for collection in this proceeding. Duke Energy Indiana’s September 19, 2014 response did not oppose making the applicable March 2014 fuel costs subject to refund, but opposed making the entire fuel factor subject to refund. Duke Energy Indiana responded that the months of April 2014 and May 2014 are not subject to review in consolidated Cause Nos. 43114 IGCC-12 and -13. Our FAC100 Order noted that the consolidated Cause Nos. 43114 IGCC-12 and -13

provided an efficient review vehicle without the statutory time constraints of the FAC proceeding. That vehicle's time period of review includes only March 2014 of the reconciliation months in this FAC. Additionally, while the cross-examination at the hearing in this proceeding discussed Edwardsport IGCC operational aspects in general no party has presented any evidence in this proceeding that there were specific unreasonable operational issues at Edwardsport IGCC in April 2014 or May 2014 for which relief was requested. Accordingly, the March 2014 fuel costs reasonably related to the operational performance of the Edwardsport IGCC should remain subject to refund pending the outcome of the Order in consolidated Cause Nos. 43114 IGCC-12 and -13.

Based on the evidence presented, subject to further consideration of Edwardsport's operational issues in consolidated Cause Nos. 43114 IGCC-12 and -13 as discussed above, we find that Duke Energy Indiana made reasonable efforts to acquire fuel for its own generation or to purchase power so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible. With regard to its coal inventory levels and any updates to the situation with BCWF, Duke Energy Indiana will provide an update on the status in its next FAC proceeding as recommended by the OUCC.

**5. Hedging Activities.** Duke Energy Indiana's witness Mr. Wenbin (Michael) Chen testified the Company takes advantage of the hedging tools available to protect against natural gas price fluctuations. Mr. Chen testified the Company did not complete any gas hedging purchases since the last update to the Commission in FAC100, therefore there is no gas hedging profit or loss for this FAC proceeding. He further testified the Company experienced net realized power hedging gains (exclusive of MISO virtual trades and including prior period adjustments) for the period of \$685,886.

Mr. Chen explained that, consistent with the Commission's June 25, 2008 Order in Cause No. 38707 FAC 68 S1 ("FAC 68 S1 Order"), beginning on August 1, 2008, Duke Energy Indiana has not utilized its flat hedging methodology. Rather, Duke Energy Indiana will hedge up to approximately flat minus 150 MW on a forward, monthly and intra-month basis, and up to approximately flat on a Day Ahead/Real-Time basis. This methodology will leave the Company with at least 150 MW of expected load unhedged on a forward forecasted basis. Mr. Chen opined the Company's gas and power hedging practices are reasonable. He stated the Company never speculates on future prices, and that its hedging practice is economic at the time the decision is made and reduces volatility because the Company is transacting in a less volatile forward market, as opposed to more volatile spot markets. Mr. Chen testified that the Company restarted using virtual trades as a hedging tool for expected forced outages in the Real-Time market because of heightened LMP price volatility caused by gas supply issues and extremely cold weather experienced in the past winter. Mr. Chen testified that Duke Energy Indiana met with the OUCC and its consultant in July 2014 to discuss the Company's hedging strategy.

No evidence was offered in this Cause noting issues with the realized net gains for power hedging included in the fuel costs in this proceeding or challenging the prudence of the activities that gave rise to the realized net gains. In addition, the Company presented evidence that its power hedging practices relevant to this proceeding were consistent with the Agreement

previously approved in the FAC 68 S1 Order. Thus, we allow Applicant to include \$685,886 of realized power hedging gains in the calculation of fuel costs in this proceeding.

**6. Ancillary Services Market (“ASM”).** On June 1, 2005, the Commission issued an Order in Cause No. 42685 (“June 1 Order”), in which we approved certain changes in the operations of the investor-owned Indiana electric public utilities that are participating members of MISO. In this proceeding, Mr. Swez testified that Duke Energy Indiana included Energy Markets charges and credits incurred as a cost of reliably meeting the power needs of Duke Energy Indiana’s load, including: (1) Energy Markets charges and credits associated with Duke Energy Indiana’s own generation and bilateral purchases that were used to serve retail load; (2) purchases from MISO at the full LMP at Duke Energy Indiana’s load zone; (3) other Energy Markets charges and credits included in the list on page 37 of the June 1 Order; and (4) credits and charges related to auction revenue rights (“ARRs”) and Schedule 27 and Schedule 27-A.

Duke Energy Indiana’s witness Ms. Mary Ann Amburgey testified as to the procedures followed by the Company to verify the accuracy of the charges and credits allocated by MISO to the Company. She also discussed the process by which MISO issues multiple settlement statements for each trading day and the dispute resolution process with respect to such statements. She stated that every daily settlement statement received by the Company from MISO is reviewed utilizing the computer software tools described in her testimony. Ms. Amburgey testified that she is confident that the amounts paid by Duke Energy Indiana to MISO, net of any credits, are proper and that such amounts billed to customers through the FAC are proper.

In its Phase II Order in Cause No. 43426 (“Phase II Order”) the Commission authorized Duke Energy Indiana and the other Joint Petitioners to recover costs and credit revenues related to ASM. Mr. Swez explained that Duke Energy Indiana has included various ASM charges and credits in this proceeding incurred for March through May 2014, consistent with the Phase II Order, as well as appropriate period adjustments.

Duke Energy Indiana’s witness Mr. Scott A. Burnside testified that Duke Energy Indiana, in accordance with the Phase II Order, has calculated the monthly average ASM Cost Distribution Amounts it has paid for Regulation, Spinning and Supplemental Reserves. These amounts are as follows:

(in \$ per MWh)	March-14	April-14	May-14
Regulation Cost Dist.	0.0642	0.0623	0.0741
Spinning Cost Dist.	0.0516	0.0473	0.0446
Supplemental Cost Dist.	0.0192	0.0236	0.0283

OUC witness Mr. Eckert testified that Applicant’s treatment of ASM charges follows the treatment ordered by the Commission in its Phase II Order in Cause No. 43426, dated June 30, 2009.

Based upon the evidence presented, the Commission finds that Applicant's treatment of the new and modified Energy and ASM charges and credits in its cost of fuel is consistent with the June 1 Order, the December 28, 2006 Order in Cause No. 38707 FAC 70, as well as our Phase I and Phase II Orders in Cause No. 43426 and should be approved.

**7. Participation in the Energy and ASM Markets and MISO-Directed Dispatch.**

As previously noted, the June 1 Order approved certain changes in the operations of Duke Energy Indiana as a result of the implementation of the Energy Markets. Specifically, we found that Duke Energy Indiana (and the other electric utilities participating in Cause No. 42685) should be granted authority to participate in the MISO Day 2 directed dispatch and Day 2 energy markets as described in their testimony. Mr. Swez generally described Duke Energy Indiana's participation in the MISO energy markets and testified that it was consistent with the testimony presented in Cause No. 42685. Mr. Swez discussed in his filed testimony and under cross-examination from the Industrial Group and OUCC the offer process and noted there are a variety of reasons that Duke Energy Indiana will either offer a generating resource as must-run or self-schedule a unit to ensure the unit is operated as cost efficiently as possible.

Mr. Swez testified that beginning in late February 2012, a coal price decrement was applied to the dispatch costs of Gibson Units 1-5, Wabash River Units 2-6, and Cayuga Units 1-2 to correctly reflect the economics of additional costs associated with avoiding or reducing surplus coal inventories. He stated that, to the extent that the price decrement results in units being dispatched that otherwise would not be, coal coming to the station is consumed, other potential costs are avoided, and customers ultimately benefit because higher cost alternatives to manage the inventory are avoided. Mr. Swez testified the price decrement is working as designed as the Company initially saw a significant increase in generation output from these units. As the level of the coal price decrement has decreased over time, the impact of the decrement has lessened. Mr. Swez testified that on January 22, 2014, the coal price decrement dropped to zero and has remained at zero through July 2014. Thus, starting on this date, there is no difference between the non-decremented dispatch price and the as offered price of a generating unit. Mr. Swez testified that the Company continues to perform the coal price decrement calculation twice per month. If the results of this calculation show that a decrement is economic in the future, one will be added at that time. In the October 30, 2013 Order in Cause No. 38707 FAC96, the Commission ordered Duke Energy Indiana to present the inputs to its calculation of the coal price decrement applicable to each FAC filing as support for the reasonableness of its pricing. Mr. Swez testified that even though the coal price decrement process is performed twice a month, there has not been a projected excess inventory since January 22, 2014. Therefore, there was no need to create a coal price decrement stack after that point in time.

Based upon the evidence presented we find Duke Energy Indiana's participation in the Energy and Ancillary Services Markets and utilization of the coal price decrement constituted reasonable efforts to generate or purchase power, or both, to serve its retail customers at the lowest fuel cost reasonably possible. Further, as we noted in our Orders in Cause Nos. 38707 FAC 81 and 38707 FAC 82, should Applicant's bidding strategy alter the native/non-native load assignment of its units, such strategy may be subject to further prudence review.

**8. Major Forced Outages.** In the December 28, 2011 Order in Cause No. 38707 FAC90, the Commission ordered Duke Energy Indiana to discuss in future FAC proceedings major forced outages of units of 100 MW or more lasting more than 100 hours. Mr. Swez testified that there were no forced outages that met these criteria in this period.

**9. Operating Expenses.** Ind. Code § 8-1-2-42(d) (2) requires the Commission to determine whether actual increases in fuel costs have been offset by actual decreases in other operating expenses. Accordingly, Duke Energy Indiana filed operating cost data for the 12 months ended May 31, 2014. Duke Energy Indiana’s authorized jurisdictional operating expenses (excluding fuel costs) are \$863,654,000. For the 12-month period ended May 31, 2014, Duke Energy Indiana’s jurisdictional operating expenses (excluding fuel costs) totaled \$1,201,511,000. Accordingly, Duke Energy Indiana’s actual operating expenses exceeded jurisdictional authorized levels during the period at issue in this Cause. Therefore, the Commission finds that Duke Energy Indiana’s actual increases in fuel costs for the above referenced periods have not been offset by decreases in other jurisdictional operating expenses.

**10. Return Earned.** Ind. Code § 8-1-2-42(d)(3), subject to the provisions of Ind. Code § 8-1-2-42.3, generally prohibits a fuel cost adjustment charge that would result in regulated utilities earning a return in excess of its applicable authorized return. Should the fuel cost adjustment factor result in the utility earning a return in excess of its applicable authorized return, it must, in accordance with the provisions of Ind. Code § 8-1-2-42.3, determine if the sum of the differentials between actual earned returns and authorized returns for each of the 12-month periods considered during the relevant period is greater than zero. If so, a reduction to the fuel adjustment clause factor is deemed appropriate.

In accordance with previous Commission Orders, Duke Energy Indiana’s calculated jurisdictional electric operating income level was \$463,786,000, while its authorized phased-in jurisdictional electric operating income level for purposes of Ind. Code § 8-1-2-42(d)(3), was \$494,255,000. Therefore, the Commission finds that Duke Energy Indiana did not earn a return in excess of its authorized level during the 12 months ended May 31, 2014.

**11. Estimation of Fuel Costs.** Duke Energy Indiana estimates that its prospective average fuel cost for the months of October through December 2014 will be \$85,274,579 or \$0.032514 per kWh. Duke Energy Indiana previously made the following estimates of its fuel costs for the period March through May 2014, and experienced the following actual costs, resulting in percent deviation, as follows:

<u>Month</u>	<u>Actual Cost in Mills/kWh</u>	<u>Estimated Cost in Mills/kWh</u>	<u>Percent Actual is Over (Under) Estimate</u>
March 2014	35.135	29.682	18.37
April 2014	31.501	32.709	(3.69)
May 2014	<u>32.904</u>	<u>30.683</u>	<u>7.24</u>
Weighted Average	33.274	30,980	7.40

A comparison of Duke Energy Indiana's actual fuel costs with the respective estimated costs for these three periods results in a weighted average percentage difference of 7.40. Based on the evidence of record, we find Duke Energy Indiana's estimating techniques appear reasonably sound and its estimates for October through December 2014 should be accepted.

**12. Purchased Power Benchmark.** Duke Energy Indiana has calculated monthly purchased power benchmarks in accordance with the Commission's August 18, 1999 Order in Cause No. 41363 and the guidance of this Commission in Cause Nos. 38706 FAC 45, 38708 FAC 45, 38707 FAC 56, and 38707 FAC 59. The benchmarks are as follows:

<u>Month / Year</u>	<u>Benchmark</u> <u>\$/MWh</u> <u>1/</u>	<u>Facility</u>
March 2014	334.19	Connersville 1
April 2014	63.27	Vermillion 1
May 2014	59.58	Vermillion 1

1/ Calculated using most efficient unit heat rate.

Mr. Burnside testified that the Company did not exceed benchmarks for the reconciliation period at issue in this FAC proceeding.

The OUCC's witness Mr. Michael Eckert testified that Duke Energy Indiana's current purchased power over the benchmark calculation, which uses an average purchased power price for the week, tends to smooth out high prices and low prices of the purchased power and allows the Company to pass the test every time.

Based on the evidence of record, the Commission finds that Duke Energy Indiana has met the requirements necessary to establish monthly benchmarks for power purchases that occurred during the March through May 2014 reconciliation period.

**13. Fuel Cost Factor.** As discussed in Finding No. 3 above, Duke Energy Indiana's base cost of fuel is 14.484 mills per kWh. The evidence indicates that Duke Energy Indiana's fuel cost adjustment factor applicable to October through December 2014 billing cycles is computed as follows:

	<u>\$/ kWh</u>
Projected Average Fuel Cost	0.032514
Net Variance (current reconciliation period)	0.002240
Adjustment (remaining from FAC100 reconciliation)	<u>0.004635</u>
Adjusted Fuel Cost Factor	0.039389
Less: Base Cost of Fuel	<u>0.014484</u>
Fuel Cost Adjustment Before Applicable Taxes	0.024905
Adjustment for Utility Receipts Tax	<u>0.000382</u>
Fuel Cost Adjustment Factor Adjusted for Applicable Taxes	0.025287

The net variance factor shown above reflects \$14,896,853 of under-billed fuel costs applicable to retail customers that occurred during the period March through May 2014. Also included is an adjustment of \$0.004635 per kWh, reflecting the remaining portion (\$30,819,929) of the FAC100 reconciliation amount that the Company was authorized to recover over a six-month period (July 2014 – December 2014) rather than the normal three-month reconciliation period, pursuant to the Commission’s order in Cause No. 38707-FAC100.

OUCG witness Mr. Gregory Guerrettaz testified that the adjustment reflects the remaining portion of the FAC 100 variance over the two quarters. He stated that as recommended in the OUCG’s testimony and approved by the Commission, this adjustment was to spread the effect of the “Polar Vortex” over several quarters. He further concluded the fuel cost adjustment for the quarter ended May 2014, had been properly applied by the Company. In addition, he stated the figures used in the Application for a change in the FAC were supported by the Company’s books and records, the Post Analysis Cost Evaluator model, and source documentation of the Company for the period reviewed.

**14. Effect on Residential Customers.** The approved factor represents an increase of \$0.002090 per kWh from the factor approved in Cause No. 38707-FAC100. The typical residential customer using 1,000 kWhs per month will experience an increase of \$2.09 or 2.1% on his or her electric bill compared to the factor approved in Cause No. 38707 FAC 100 (excluding various tracking mechanisms and sales tax).

**15. Interim Rates.** Because we are unable to determine whether Duke Energy Indiana’s actual earned return will exceed the level authorized by the Commission during the period that this fuel cost adjustment factor is in effect, the Commission finds that the rates approved herein should be approved on an interim basis in the event an excess return is earned.

**16. Fuel Adjustment for Steam Service.** On December 30, 1992, this Commission issued its Order in Cause No. 39483 approving the June 18, 1992 Settlement Agreement between Duke Energy Indiana and Premier Boxboard, formerly referred to as Temple-Inland, n/k/a International Paper which included a change in the method used to calculate International Paper’s fuel cost adjustment as well as an update to the base cost of fuel.<sup>3</sup> The fuel cost adjustment factor for International Paper of \$1.8223259 per 1,000 pounds of steam was calculated on Exhibit B, Schedule 1, of the Verified Application; this factor will be effective for the October through December 2014 billing cycles. Exhibit B, Schedule 2, of the Verified Application is a reconciliation of the actual fuel cost incurred to estimated fuel cost billed to International Paper that resulted in an \$18,904 payable to International Paper for the months of March through May 2014.

The Commission finds that Duke Energy Indiana’s proposed fuel cost adjustment factor for International Paper of \$1.8223259 per 1,000 pounds of steam has been calculated in accordance with this Commission’s Order in Cause No. 39483, and that such factor should be approved. We further find that Duke Energy Indiana’s reconciliation amount of \$18,904 payable to International Paper has been properly determined and should be approved.

---

<sup>3</sup> On January 25, 2012, this Commission issued an Order approving the fourth amendment to Steam Supply Agreement between Duke Energy Indiana and Temple-Inland, Inc., n/k/a International Paper.

**17. Shared Return Revenue Credit Adjustment for International Paper.** In accordance with the June 18, 1992 Settlement Agreement, International Paper will receive shared return revenue credit adjustments to the extent incurred. As indicated above in Finding No. 10, Duke Energy Indiana did not have excess earnings for the 12 months ended May 2014. Therefore, we find International Paper is not due a shared return revenue credit.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. Duke Energy Indiana's fuel cost adjustment factor for electric service to be billed jurisdictional customers, as set forth in Finding No. 13, and the fuel cost adjustment for steam service as set forth in Finding No. 16 of this Order are hereby approved on an interim basis, subject to refund, in accordance with all of the Findings above.

2. Duke Energy Indiana's inclusion of Energy and Ancillary Services Markets charges and credits in its cost of fuel, as described in Finding No. 6 of this order, is hereby approved.

3. Duke Energy Indiana shall place into effect the fuel cost adjustment factors for electric service and steam service approved herein, applicable to all bills rendered beginning with and subsequent to the later of the effective date of the Commission's Order or the first billing cycle of October 2014, upon filing with the Electricity Division of the Commission, a separate amendment to its rate schedules with clear reference therein that such factor is applicable to the rate schedules reflected on the amendment.

4. Duke Energy Indiana shall provide an update on the status of its coal inventories and the situation with Benton County Wind Farm in its next FAC filing, as described in Finding No. 4 of this Order.

5. This Order shall be effective on and after the date of its approval.

**MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:**

**APPROVED:      SEP 24 2014**

**I hereby certify that the above is a true  
and correct copy of the Order as approved.**



**Brenda A. Howe  
Secretary to the Commission**