

0143721

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) CAUSE NO. 38707 FAC 92
 PRESSURE STEAM SERVICE, AND TO)
 UPDATE MONTHLY BENCHMARKS FOR)
 CALCULATION OF PURCHASED POWER) APPROVED: JUN 27 2012
 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)

ORDER OF THE COMMISSION

Presiding Officers:

James D. Atterholt, Chairman

Aaron A. Schmoll, Senior Administrative Law Judge

On April 30, 2012, Duke Energy Indiana, Inc. (“Duke Energy Indiana,” “Company,” or “Applicant”) filed with the Commission its Verified Application for approval of a change in its fuel adjustment charge (“FAC”) for electric service, approval of a change in its FAC for steam service, and to update monthly benchmarks, together with its case-in-chief testimony.

On May 2 and May 9, 2012, respectively, the Duke Energy Indiana Industrial Group (“Industrial Group”) and Steel Dynamics, Inc. (“SDI”) filed Petitions to Intervene in this proceeding. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its audit report and direct testimony of Gregory T. Guerrettaz and Michael D. Eckert on June 5, 2012. SDI filed direct testimony of Richard C. Thomas on June 6, 2012. On June 11, 2012, Applicant filed its rebuttal testimony.

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 June 13, 2012, at 10:00 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, the Industrial Group, OUCC and SDI appeared by counsel; Applicant, OUCC, and SDI offered their respective prefiled testimony and exhibits into the evidentiary record without objection. The Presiding Officers granted the Petitions to Intervene on the record at the evidentiary hearing. No members of the general public appeared or participated at the hearing.

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

1. **Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Indiana Code § 8-1-2, as amended, and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Therefore, the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. **Duke Energy Indiana'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, Temple-Inland, Inc. ("Temple-Inland").

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 February 2012, 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 \$0.028462 per kWh as shown on Exhibit A, Schedule 9. In accordance with previous Commission Orders¹, Duke Energy Indiana calculated its authorized jurisdictional net operating income level for the 12-month period ending February 29, 2012, to be \$405,710,000. 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.

4. **Fuel Purchases.** Mr. Elliott Batson, Jr. testified regarding Duke Energy Indiana's coal procurement practices and its coal inventories as well as discussed a long-term

¹ The Commission's July 3, 2002, Order in Cause Nos. 41744 S1 and 42061 ("Construction Work in Progress (CWIP) Order"), and subsequent update Orders up to and including the January 25, 2012, update in Cause No. 42061 ECR18 ("CWIP Update"), 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 CWIP update order in Cause No. 42061 ECR3, 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 CWIP update. The Commission's IGCC Order, and subsequent update Orders up to and including the July 28, 2010, update in Cause No. 43114 IGCC4, 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 ECR3 for CWIP updates to the IGCC Project updates in making the calculations for this filing.

contract that the Company entered into to purchase coal in late 2011 to comply with the Cross-State Air Pollution Rule (“CSAPR”).

Mr. Batson testified that coal inventories rose during this reconciliation period, but since implementing a coal decrement as described in Mr. Swez’ Supplemental Testimony in FAC 91 and taking a reduction in coal shipments, its inventories have decreased. He testified that the Applicant’s latest forecast for coal generation projects that coal inventories will increase through the remainder of 2012 and into 2013. Mr. Batson testified that the Company continues to evaluate a host of options in order to effectively manage the growing inventories, including meeting with suppliers to discuss deferral, cancellation and other commercial and operational options to decrease the shipments in 2012. Mr. Batson testified that Duke Energy Indiana is exploring options to increase the storage capabilities at both on-site and off-site facilities and is exploring options to resell surplus coal into the market or buy out existing contracts. Mr. Batson testified that it was his opinion that the Company is purchasing coal and oil at prices as low as reasonably possible.

Mr. John D. Swez testified that the price of delivered natural gas at the Company’s gas burning generation stations during the three-month period from December 2011 through February 2012 decreased from a high of approximately \$3.50 per million BTU to a low of \$2.15 per million BTU. Mr. Swez testified that, in his opinion, Duke Energy Indiana purchased natural gas at the lowest cost reasonably possible.

The OUCC did not raise any concerns regarding fuel purchases, but its witness, Mr. Michael Eckert recommended that Duke Energy Indiana continue to update the Commission on its coal inventory, including the development of alternatives to the decrement approach.

Mr. Eckert also testified regarding Duke Energy Indiana’s agreement to purchase power from Benton County Wind Farm, which was approved by the Commission in Cause No. 43097. Mr. Eckert testified that in certain situations when Benton County Wind Farm is experiencing negative Locational Marginal Prices (“LMPs”), Duke Energy Indiana is purchasing wind power from them (pursuant to the agreement) and paying the negative LMP associated with that power, which is more expensive than purchasing power from the MISO market. Mr. Eckert testified that Duke Energy Indiana is looking at solutions to mitigate the negative LMP situation and recommended that Applicant report to the Commission any updates and resolutions to the problem.

SDI witness Mr. Richard Thomas challenged Duke Energy Indiana’s coal purchasing practices and recommended that the Commission disallow \$28,564,782 of Duke Energy Indiana’s fuel cost on the basis of the unreasonable use of varying inflation indices and fixed percentage escalation that resulted in coal costs that were higher than those reasonably possible. Mr. Thomas stated his belief that Duke Energy Indiana’s use of inflation indices or fixed escalation amounts denies Applicant the opportunity to benefit from a retrenchment in market prices. Mr. Thomas also argued that the Company should have purchased a call option rather than enter into a long-term contract for the purchase of CSAPR-compliant coal and that the Commission deny Duke Energy Indiana recovery of any costs related to disposing of the high priced coal purchased to comply with CSAPR. Mr. Thomas further testified that Duke Energy Indiana should hedge its coal contracts well before the beginning of the year in order to protect

against rising prices when the purchases are finally made. He testified that Duke Energy Indiana did not use all available hedging tools that could have mitigated the effect of price volatility on the Company's fuel costs and recommended that the Commission order Applicant to begin financial hedging immediately. He stated financial hedging products available for Central Appalachian ("CAPP") coals are much more liquid than the financial hedging products available for the Illinois Basin and should, therefore be used until the Illinois Basin hedging volumes improve.

In rebuttal, Mr. Batson stated that he did not believe the Commission should disallow any costs in this proceeding because the coal contracts are reasonable and prudent. He testified that Applicant utilizes a mix of contract methods to keep coal pricing down, including the use of staggered durations for contracts, a diversified mix of suppliers, mine types, and contract structures, which provide a good form of physical hedging that has been successfully executed upon for several years. Mr. Batson testified that index-based pricing with periodic price reopeners that reset the contract price to market within a certain collar of prices over the term of the contract benefits the Company and its customers. Mr. Batson also argues that any fixed price would have likely been at a much higher rate than the actual base price agreed upon. Mr. Batson goes on to argue that entering into a call option for coal in compliance with CSAPR would not have been the best option for the customer, as the court did not issue a stay of CSAPR until December 30, 2011, there is no Illinois Basin over-the-counter product, and the coal quality differences between the Indiana coal placed under contract and the CAPP coals available under a call option would have further increased the costs to customers. As to using financial hedges, Mr. Batson testified that the Company does not agree that Central Appalachian futures contracts are an appropriate proxy for Illinois Basin coals because of issues with quality specifications and price correlations. Mr. Batson concluded his testimony by testifying that as new hedging instruments are developed, Duke Energy Indiana will evaluate their suitability to use as hedging tools and will discuss hedging options with the OUCC, pursuant to the Commission's Order in Cause No. 38707 FAC 68 S1.

Mr. Batson demonstrated that Duke Energy Indiana has a diverse group of long-term coal contracts with different types of price adjustment mechanisms. Based upon the evidence presented, we find that Duke Energy Indiana made reasonable efforts to acquire fuel for its own generation so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible, and we therefore reject SDI's proposed disallowances. We decline SDI's invitation to order Duke Energy Indiana to hedge its coal contracts in this proceeding. Although the Commission acknowledges that hedging may be an appropriate tool to manage coal price volatility, the evidence presented in this case does not support the creation of a hedging policy to be appropriate at this time. With regard to its coal inventory levels and any updates to the situation with Benton County Wind Farm, Duke Energy Indiana will provide an update on the status in its FAC93 proceeding as recommended by the OUCC.

5. Hedging Activities. Mr. Wenbin Chen testified that the Company takes advantage of the hedging tools available to protect against natural gas price fluctuations. Mr. Chen testified that the Company realized a loss of \$554,698 from hedges bought for January 2012 native gas burn. He further testified that the Company experienced realized power hedging losses (exclusive of Midwest Independent Transmission System Operator, Inc. ("MISO") virtual

trades and including prior period adjustments), including prior period adjustments, for the period of \$3,814,693.

Mr. Chen also explained that, consistent with the Commission's June 25, 2008 Order in Cause No. 38707 FAC 68 S1 ("FAC 68 S1"), beginning on August 1, 2008, and continuing until permanent hedging protocols are developed and approved by the Commission, Duke Energy Indiana will not utilize 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 approximately 150 MW of expected load unhedged on a forward forecasted basis.

Mr. Chen also noted that the Company continues to hold discussions with the OUCC and its consultant (meeting most recently with the OUCC on July 12, 2011) as required by the Order in FAC 68 S1.

Mr. Chen stated that the Company's gas and power hedging practices are reasonable. He stated that the Company never speculates on future prices, that its practice is economic at the time the hedging decisions are made, that it reduces volatility, and that it benefits customers by reducing customers' risk of paying potentially higher spot market prices.

No evidence was offered in this Cause noting issues with the realized net loss for power hedging included in the fuel costs in this proceeding or challenging the prudence of the power hedging activities that gave rise to the realized net loss. In addition, the Company presented evidence that its hedging practices relevant to this proceeding were consistent with the Agreement previously approved in FAC 68 S1. Thus, we will allow Petitioner to include \$554,698 of losses from hedges bought for January 2012 native gas burn as well as \$3,814,693 of realized power hedging losses in the calculation of fuel costs in this proceeding.

6. Ancillary Services Market. On June 1, 2005, the Commission issued its final 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: (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 the MISO at the full locational marginal price ("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, including Manual Re-Dispatch Make Whole Payments that resulted in credits from testing prior to the start of the Ancillary Services Market ("ASM"), as authorized by the Commission in Cause No. 38707 FAC 77 and Cause No. 38707 FAC 80.

Ms. Mary Ann Amburgey, Lead Accounting Analyst, testified as to the procedures followed by the Company to verify the accuracy of the charges and credits allocated by the MISO to the Company. She also discussed the process by which the 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 the

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 the MISO, net of any credits, are proper and that such amounts billed to customers through the fuel adjustment clause 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 December 2011, January and February 2012, consistent with the Phase II Order, as well as appropriate period adjustments. 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.

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)	Dec-11	Jan-12	Feb-12
Regulation Cost Dist	0.0535	0.0437	0.0488
Spinning Cost Dist	0.0250	0.0238	0.0280
Supplemental Cost Dist	0.0155	0.0138	0.0155

OUC witness Mr. Eckert testified that Applicant reported the average monthly distribution costs of Regulation, Spinning, and Supplemental Reserves charge types in accordance with the Commission’s Phase II Order.

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 of the Commission 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 directed dispatch and energy markets as described in their testimony.” *Id.* at p. 13. Mr. Swez generally described Duke Energy Indiana’s participation in the Midwest ISO energy markets and testified that it was consistent with the testimony presented in Cause No. 42685. Mr. Swez discussed 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 there were a number of operating conditions that affect the dispatch of Applicant’s operating units. He testified that low natural gas prices, extremely mild winter weather, and increased wind generation have caused the energy price in the MISO market

to drop, causing Duke Energy Indiana's coal generating facilities to experience lower dispatch levels and even periods of economic shutdown.

Mr. Swez testified that as a result of the Federal Court of Appeals blocking implementation of CSAPR, no change in dispatch and commitment of the Company's units has occurred due to the CSAPR rules. CSAPR creates four new interstate trading markets, of which Indiana is a member of three. He explained that these three markets are for Annual NO_x, Seasonal NO_x, and Group 1 SO₂ allowances. He testified that the allocation levels associated with this rule will require a significant reduction in emissions and the market prices associated with the allowances are likely to be considerably higher than emission allowance prices seen in recent years. Mr. Swez testified that the Company's preliminary model runs under CSAPR show significant reductions in capacity factor are possible at non-scrubbed generating units. He reiterated that these results are preliminary and significant changes in forecasted capacity factors could occur by changing data inputs.

Mr. Swez stated that beginning in late February 2012, a 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 units are dispatched with the price decrement in place that would otherwise not be dispatched, coal coming to the station is consumed, other potential costs are avoided, and customers ultimately benefit because higher cost options are not incurred. Mr. Swez testified that the price decrement is working as designed as the Company has seen a significant increase in generation output from these units.

Mr. Eckert testified that the coal decrement pricing should be a short-term solution and not a long-term competitive response to low LMP. He stated that if the Company continues this practice, the OUCC reserves its rights in future FACs or other proceedings with respect to this below cost bidding strategy and its impact on customers.

Based upon the evidence presented, we find that Duke Energy Indiana's participation in the Energy and Ancillary Services Markets and that the 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.

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 on December 3, 2011, Gibson 2 was forced off-line due to an increase in vibration on the unit's turbine. The unit was repaired and returned to service on January 28, 2012. Mr. Swez also testified that Gibson 3 suffered a reheat tube leak on December 16, 2011 and that the damage was repaired and the unit returned to service on December 24, 2011.

9. New Source Review ("NSR") Litigation Impacts on Operations. Mr. Swez testified that, pursuant to the Consent Decree reached in the NSR lawsuit, the Company was required to make a final decision by January 1, 2012, concerning whether Gallagher Units 1 and 3 would be converted to gas or retired. He stated that Gallagher Units 1 and 3 were retired on January 31, 2012, and demolition of the units has begun.

10. Operating Expenses. Indiana 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 February 29, 2012. Duke Energy Indiana's authorized jurisdictional operating expenses (excluding fuel costs) are \$815,384,000. For the 12-month period ended February 29, 2012, Duke Energy Indiana's jurisdictional operating expenses (excluding fuel costs) totaled \$1,135,061,000. 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.

11. Return Earned. Indiana 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 (earnings test). 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 Indiana 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 calculated its jurisdictional electric operating income level was \$270,907,000, while its authorized phased-in jurisdictional electric operating income level for purposes of Indiana Code § 8-1-2-42(d)(3), was \$405,710,000. Therefore, the Commission finds that Duke Energy Indiana did not earn a return in excess of its authorized level during the 12 months ended February 29, 2012.

12. Estimation of Fuel Costs. Duke Energy Indiana estimates that its prospective average fuel cost for the months of July through September 2012 will be \$82,022,867 or \$0.029471 per kWh. Duke Energy Indiana previously made the following estimates of its fuel costs for the period December 2011 through February 2012, 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>
December 2011	26.513	26.842	(1.23)
January 2012	30.265	31.788	(4.79)
February 2012	<u>29.356</u>	<u>31.187</u>	(5.87)
Weighted Average	28.733	29.951	(4.07)

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 (4.07)%. Based on the evidence of record, Duke Energy Indiana's estimating techniques appear

reasonably sound and its estimates for July through September 2012 should be accepted and we so find.

13. 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> ^{1/}	<u>Facility</u>
December 2011	44.46	Madison 1
January 2012	37.61	Madison 1
February 2012	32.52	Wabash River 5

^{1/} Calculated using most efficient unit heat rate.

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 December 2011 through February 2012 reconciliation period.

14. 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 July through September 2012 billing cycles is computed as follows:

	<u>\$/kWh</u>
Projected Average Fuel Cost	0.029471
Net Variance (current reconciliation period)	<u>(0.000858)</u>
Adjusted Fuel Cost Factor	0.028613
Less: Base Cost of Fuel	<u>0.014484</u>
Fuel Cost Adjustment Before Applicable Taxes	0.014129
Adjustment for Utility Receipts Tax	<u>0.000218</u>
Fuel Cost Adjustment Factor Adjusted for Applicable Taxes	0.014347

The net variance factor shown above reflects \$6,253,258 of over-billed fuel costs applicable to retail customers that occurred during the period of December 2011 through February 2012.

OUC witness Mr. Gregory Guerrettaz testified that the fuel cost element of the Company’s proposed fuel cost adjustment has been calculated in conformity with Indiana Code §8-1-2-42 and numerous Commission Orders affecting this filing. He further concluded that the fuel cost adjustment for the quarter ended February 29, 2012, had been properly applied by the Company. In addition, he stated that the figures used in the Application for a change in the fuel cost adjustment were supported by the Company’s books and records, Post Analysis Cost Evaluation (“PACE”), and source documentation of the Company for the period reviewed.

15. **Effect on Residential Customers.** The approved factor represents a decrease of \$0.005302 per kWh from the factor approved in Cause No. 38707 FAC 91. The typical residential customer using 1,000 kWhs per month will experience a decrease of \$5.30 or 5.6% on his or her base electric bill compared to the factor approved in Cause No. 38707 FAC 91 (excluding various tracking mechanisms and sales tax).

16. **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.

17. **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, n/k/a Temple-Inland, which included a change in the method used to calculate Temple-Inland's fuel cost adjustment as well as an update to the base cost of fuel.² The fuel cost adjustment factor for Temple-Inland of \$1.5615131 per 1,000 pounds of steam was calculated on Exhibit B, Schedule 1, of the Verified Application; this factor will be effective for the July through September 2012 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 Temple-Inland that resulted in an \$181,704 payable to Temple-Inland for the months of December 2011 through February 2012.

The Commission finds that Duke Energy Indiana's proposed fuel cost adjustment factor for Temple-Inland of \$1.5615131 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 \$181,704 payable to Temple-Inland has been properly determined and should be approved.

18. **Shared Return Revenue Credit Adjustment for Temple-Inland.** In accordance with the June 18, 1992 Settlement Agreement, Temple-Inland will receive shared return revenue credit adjustments to the extent incurred. As indicated above in Finding No. 11, Duke Energy Indiana did not have excess earnings for the 12 months ended February 2012. Therefore, we find Temple-Inland is not due a shared return revenue credit.

19. **Confidentiality.** On June 6, 2012, Applicant filed a motion for protective order regarding portions of the prefiled testimony and exhibits of Mr. Thomas that had been designated as confidential, proprietary, competitively sensitive, and/or trade secret information ("Confidential Information"). By docket entry dated June 6, 2012, the Presiding Officers made a preliminary finding of confidentiality and determined that the Confidential Information should be exempt from public disclosure and the unredacted version of the evidence was submitted and admitted into evidence under seal. On June 11, 2012, Applicant filed a motion for protective order for Confidential Information so designated in Mr. Batson's rebuttal testimony. At the Evidentiary Hearing, the Commission granted a preliminary finding of confidentiality and determined that the Confidential Information should be exempt from public disclosure and the

² 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., which is reflected in Petitioner's current FAC filing effective for February 2012.

unredacted version of the evidence was submitted and admitted into evidence under seal. The Commission affirms these rulings and finds that the Confidential Information should continue to be treated as confidential and not subject to public disclosure.

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. 14, and the fuel cost adjustment for steam service as set forth in Finding No. 17 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 July 2012, 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 FAC 93, as described in Finding No. 4 of this Order.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: JUN 27 2012

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


Brenda A. Howe
Secretary to the Commission