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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 95

APPROVED:

MAR 27 2013

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Gregory R. Ellis, Administrative Law Judge

On January 29, 2013, 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 April, May and June 2013 for electric and steam service and to update monthly benchmarks for purchased power costs. On February 6, 2013 the Duke Energy Indiana Industrial Group (“Industrial Group”) filed its Petition to Intervene in this proceeding. Steel Dynamics, Inc. (“SDI”) filed its Petition to Intervene in this proceeding on February 11, 2013. The Commission granted the Industrial Group’s Petition to Intervene on February 18, 2013 and granted SDI’s Petition to Intervene on February 21, 2013. On February 28, 2013, Duke Energy Indiana filed the corrected testimony of John D. Swez. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its audit report and direct testimony on March 5, 2013. Duke Energy Indiana filed the rebuttal testimony of Scott A. Burnside on March 8, 2013.

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 March 12, 2013, at 10:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, the Industrial Group, and the OUCC appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits into the evidentiary record without objection. Neither SDI nor the Industrial Group offered any evidence into the record at the evidentiary hearing. No members of the general public appeared.

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 Ind. Code ch. 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 Applicant 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, 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 November 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 \$0.030519 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 November 30, 2012, to be \$402,660,000. 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.

¹ The Commission's July 3, 2002, Order in Cause Nos. 41744 S1 and 42061, and subsequent update Orders, up to and including the August 29, 2012, update in Cause No. 42061 ECR 19, 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 July 28, 2010 update in Cause No. 43114 IGCC 4, 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 as of January 18, 2013, coal inventories were approximately 3,228,000 tons (or 53 days of coal supply), slightly lower than what was reported in Cause No. 38707 FAC 94. Mr. Phipps testified that the Company continues to evaluate a host of options in order to effectively manage its coal inventories. Mr. Phipps testified that the Company has entered into a short-term storage agreement with one supplier to store coal at the supplier's mine facilities and began storing coal at this location during September 2012. He further stated that Duke Energy Indiana shaped and compacted the Gibson Remote Pile for receipt of additional coal for storage. He stated the Company continues to actively explore options to 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 testified that it was his opinion that the Company is purchasing coal and oil at the lowest prices reasonably possible.

Mr. Phipps testified that the price of delivered natural gas at the Company's gas burning generation stations increased slightly but stayed at relatively low levels during the three-month period from September through November 2012 with a range of delivered prices between \$2.63 per million BTU to \$4.25 per million BTU. Mr. Phipps testified that, in his opinion, Duke Energy Indiana purchased natural gas at the lowest cost reasonably possible.

The OUCC witness Mr. Michael Eckert recommended Duke Energy Indiana continue to update the Commission on its coal inventory, including the development of alternatives to manage the Company's supply of coal.

Mr. John D. Swez 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. He stated that starting at the end of February 2012 and continuing through May 2012, BCWF began to receive persistent negative day-ahead and real-time LMP's at the generator node. In addition, BCWF began to once again receive negative LMP's briefly in September through October 2012 and again in December 2012 and January 2013, but these were not as significant as seen in the spring of 2012. BCWF is currently registered at the Midwest Independent Transmission System Operator, Inc. ("MISO") as an Intermittent Resource, which means that it has no ability to be committed or decommitted by, or follow the setpoint instructions of, MISO. Mr. Swez indicated that due to the nature of the must-take contractual arrangement between the Company and BCWF and the way MISO treats offers from Intermittent Resources, the unit has a commitment status of must run, meaning that MISO will clear the generator at any LMP in the day-ahead market. Mr. Swez testified that as a result of this, negative revenue (i.e., payments must be made to send the power into the MISO system) could be received by this generator in the day-ahead markets. It is also possible to receive negative revenues in the real-time market. Mr. Swez testified that in order to rectify this situation, the Company is involved in discussions with BCWF and MISO to better understand the situation and work towards a solution. He testified that under MISO's rules, Duke Energy Indiana, as the Market Participant, submitted an attachment B form with MISO to register BCWF as a Dispatchable Intermittent Resource ("DIR") on November 15, 2012, and BCWF, as the generation resource, must be fully functional as a DIR by March 1, 2013. He testified MISO's

creation of the DIR construct will allow MISO to better manage the output of intermittent resources, thereby allowing for better management of congestion in certain areas. It is believed that the DIR construct will help to alleviate this negative LMP situation at BCWF.

OUCC witness Mr. Eckert recommended that Applicant report to the Commission any updates and resolutions to the negative LMP situation at BCWF in Duke Energy Indiana's next FAC filing.

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. 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. 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 realized a gain of \$22,350 from hedges bought for August 2012 native gas burn. He further testified the Company experienced realized power hedging gains (exclusive of MISO virtual trades and including prior period adjustments) for the period of \$359,873.

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, 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 150 MW of expected load unhedged on a forward forecasted basis.

Mr. Chen also noted the Company continues to hold discussions annually with the OUCC and its consultant (meeting most recently with the OUCC on July 10, 2012) as required by the FAC 68 S1 Order.

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 decisions are made. He also stated the hedging practice reduces volatility and 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 gains for gas and 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 will allow Petitioner to include \$22,350 of gains from native gas hedges as well as \$359,873 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, as authorized by the Commission in Cause Nos. 38707 FAC 77 and 38707 FAC 80.

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 September, October and November 2012, consistent with the Phase II Order, as well as appropriate period adjustments.

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)	Sept-12	Oct-12	Nov-12
Regulation Cost Dist.	0.0576	0.0626	0.0597
Spinning Cost Dist.	0.0316	0.0346	0.0338
Supplemental Cost Dist.	0.0142	0.0283	0.0268

OUC witness Mr. Eckert testified that Applicant reported the monthly average distribution costs for 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 Midwest ISO Day 2 directed dispatch and Day 2 energy markets as described in their testimony.” *Id.* at 13. 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 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 there were a number of operating conditions that affect the dispatch of Applicant’s operating units. He testified that as discussed in the last few FAC proceedings, low natural gas prices, extremely mild winter weather, and increased wind generation have caused the energy price in the MISO market to drop primarily during non-summer months, causing Duke Energy Indiana’s coal generating facilities to experience lower dispatch levels and even periods of economic shutdown which led to increased coal inventories.

He 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 reflect the economics of additional costs associated with avoiding or reducing surplus coal inventories. He stated that, to the extent units are dispatched (when they wouldn’t otherwise) with the price decrement in place, 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 the price decrement is working as designed as the Company has seen a significant increase in generation output from these units.

Mr. Eckert testified the coal decrement pricing should be a short-term solution and not a long-term response to market competition. 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 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 FAC 90, 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 regarding the outages which occurred during the reporting period that met this criterion. He stated that the first outage occurred on October 11, 2012, when Noblesville Station became unavailable due to the unit disconnect closing while the main power transformer was backfed.

The forced outage ended on October 19, 2012. The only other outage that met these criteria occurred on October 29, 2012, when Wabash River 6 was forced off-line due to a bearing issue on an auxiliary oil pump motor. The unit was repaired and returned to service on November 2, 2012.

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 November 30, 2012. Duke Energy Indiana's authorized jurisdictional operating expenses (excluding fuel costs) are \$816,735,000. For the 12-month period ended November 30, 2012, Duke Energy Indiana's jurisdictional operating expenses (excluding fuel costs) totaled \$1,145,489,000. 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 \$291,726,000, while its authorized phased-in jurisdictional electric operating income level for purposes of Ind. Code § 8-1-2-42(d)(3), was \$402,660,000. Therefore, the Commission finds that Duke Energy Indiana did not earn a return in excess of its authorized level during the 12 months ended November 30, 2012.

11. Estimation of Fuel Costs. Duke Energy Indiana estimates that its prospective average fuel cost for the months of April through June 2013 will be \$76,649,880 or \$0.030472 per kWh. Duke Energy Indiana previously made the following estimates of its fuel costs for the period September through November 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>
September 2012	29.848	27.745	7.58
October 2012	30.726	27.588	11.37
November 2012	<u>30.373</u>	<u>29.452</u>	<u>3.13</u>
Weighted Average	30.318	28.262	7.27

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 7.27%. Based on the evidence of record, we find Duke Energy Indiana’s estimating techniques appear reasonably sound and its estimates for April through June 2013 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 the 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>
September 2012	37.62	Gallagher 4
October 2012	40.15	Wheatland 4
November 2012	46.85	Vermillion 4

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

The OUCC’s witness Mr. Michael Eckert testified that in the current landscape of the electric markets, the purchased power over the benchmark standard should be compared to the actual cost of each hour, as opposed to a weekly average. He testified that although Duke Energy Indiana calculates the monthly purchased power benchmark in accordance with the Commission’s Order in Cause No. 41363 and the guidance of the Commission’s Orders in Cause Nos. 38706 FAC 45, 38708 FAC 45, and 38707 FAC 54, Duke Energy Indiana is unlikely to exceed the purchased power over the benchmark calculation because it calculates and uses an average purchased power price for the week. Mr. Eckert recommended that in Duke Energy Indiana’s next FAC, it should prepare and present two purchased power over the benchmark calculations – the first being its current purchased power over the benchmark calculation, and the second similar to the method established in Cause No. 43414 for Indianapolis Power & Light and Vectren South, and adopted by NIPSCO in Cause No. 43526.

In rebuttal testimony, Mr. Burnside disagreed with Mr. Eckert’s testimony concerning the benchmark. He testified that Duke Energy Indiana administers the benchmark in accordance with prior Commission precedent using the Company’s own incremental fuel costs as a proxy for the fuel component of power purchases.

Mr. Burnside testified that the benchmark concept as calculated by Duke Energy Indiana is still a reasonable method of protecting customers. There remains significant volatility in the energy markets. He stated that the benchmark is not frequently exceeded, however, because Duke Energy Indiana appropriately offers its generating units and bids its load into the MISO energy markets so as to take advantage of MISO’s regional economic dispatch for the benefit of its customers. Furthermore, he testified that with the emergence of the MISO Day 2 energy market, Duke Energy Indiana now purchases the vast majority of its power from the MISO energy markets. Because MISO is performing regional economic dispatch, he added, the purchases made by Duke Energy Indiana from that market are economic and reasonable, so it is natural that the benchmark would not come into play often.

Mr. Burnside disagreed with the OUCC's recommendation that Duke Energy Indiana provide a second analysis in the next FAC comparing the current benchmark method to the method proposed by the OUCC. Mr. Burnside testified that the additional analysis would create a significant, undue administrative burden in a summary proceeding.

Finally, Mr. Burnside noted that Mr. Eckert's recommended analysis relies on a previous Commission-approved settlement agreement to which Duke Energy Indiana was not a party. While not agreeable to the OUCC recommendation, Mr. Burnside said the Company remains willing to engage in informal dialogue with the OUCC and intervening parties regarding the benchmark.

The Commission is not persuaded by the evidence of record that additional administrative burden for the summary FAC proceedings as recommended by the OUCC is warranted. Nonetheless, we continue to encourage dialogue among the parties as while the present benchmark methodology is not unreasonable, based on the evidence, it may not be optimal or the best available methodology.

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 September through November 2012 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 April through June 2013 billing cycles is computed as follows:

	<u>\$/kWh</u>
Projected Average Fuel Cost	0.030472
Net Variance (current reconciliation period)	<u>0.001349</u>
Adjusted Fuel Cost Factor	0.031821
Less: Base Cost of Fuel	<u>0.014484</u>
Fuel Cost Adjustment Before Applicable Taxes	0.017337
Adjustment for Utility Receipts Tax	<u>0.000268</u>
Fuel Cost Adjustment Factor Adjusted for Applicable Taxes	0.017605

The net variance factor shown above reflects \$8,623,008 of under-billed fuel costs applicable to retail customers that occurred during the period of September through November 2012.

OUCC witness Mr. Gregory Guerrettaz testified that the fuel cost element of the Company's proposed fuel cost adjustment has been calculated in conformity with Ind. Code § 8-1-2-42 and numerous Commission Orders affecting this filing. He further concluded the fuel cost adjustment for the quarter ended November 30, 2012, 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, Post Analysis Cost Evaluation, and source documentation of the Company for the period reviewed.

14. Effect on Residential Customers. The approved factor represents a decrease of \$0.000715 per kWh from the factor approved in Cause No. 38707 FAC 94. The typical residential customer using 1,000 kWhs per month will experience a decrease of \$0.71 or 0.8% on his or her base electric bill compared to the factor approved in Cause No. 38707 FAC 94 (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, 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 \$1.5712338 per 1,000 pounds of steam was calculated on Exhibit B, Schedule 1, of the Verified Application; this factor will be effective for the April through June 2013 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 a \$12,025 payable to Temple-Inland for the months of September 2012 through November 2012.

The Commission finds that Duke Energy Indiana's proposed fuel cost adjustment factor for Temple-Inland of \$1.5712338 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 \$12,025 payable from Temple-Inland has been properly determined and should be approved.

17. 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. 10, Duke Energy Indiana did not have excess earnings for the 12 months ended November 2012. Therefore, we find Temple-Inland is not due a shared return revenue credit.

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.

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 April 2013, 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.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAR 27 2013

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



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