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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 96

APPROVED:

OCT 30 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**Kari A.E. Bennett, Commissioner**  
**Gregory R. Ellis, Administrative Law Judge**

On April 25, 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 July, August and September 2013 for electric and steam service and to update monthly benchmarks for purchased power costs. On April 29, 2013, Steel Dynamics, Inc. (“SDI”) filed its Petition to Intervene in this proceeding. The Duke Energy Indiana Industrial Group (“Industrial Group”) filed its Petition to Intervene in this proceeding on May 1, 2013. The Commission granted both the Industrial Group’s and SDI’s Petitions to Intervene on May 14, 2013. The parties filed their Joint Motion to Modify Procedural Schedule (“Joint Motion”) on May 30, 2013, requesting the evidentiary hearing in this Cause be held concurrent with the evidentiary hearing in Cause No. 38707 FAC 97.<sup>1</sup> The parties indicated the extension of the procedural schedule was needed so that Duke Energy Indiana could provide requested information to the other parties regarding its coal decrement and other issues arising from its testimony. The Commission granted the Joint Motion on May 31, 2013. On July 15, 2013, Duke Energy Indiana filed an Amended Verified Application and revised testimony and exhibits. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its audit report and direct testimony on August 20, 2013. The Industrial Group filed its direct testimony and exhibits on August 22, 2013. The OUCC filed amended testimony and exhibits on August 23, 2013. Duke Energy Indiana filed its rebuttal testimony on September 3, 2013.

<sup>1</sup> Given the concurrent nature of the FAC96 and 97 proceedings, the FAC factor for FAC96 will not be implemented. Accordingly, this Order will address the reasonableness of actual costs and will omit discussion on the estimated fuels cost component used in developing FAC96 factors and the FAC96 factors that will not be implemented.

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 11, 2013, at 9:30 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant, the Industrial Group and the OUCC appeared at the hearing by counsel. Applicant, the Industrial Group and the OUCC offered their respective prefiled testimony and exhibits into the evidentiary record without objection. SDI did not offer 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 § 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, 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 2013, 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 \$0.029481 per kWh as shown on Exhibit A, Schedule 9. In accordance with previous Commission Orders,<sup>2</sup> Duke Energy Indiana calculated its authorized

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<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 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

jurisdictional net operating income level for the 12-month period ending February 28, 2013, to be \$418,205,000. 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. Brett Phipps testified regarding Duke Energy Indiana's coal procurement practices and its coal inventories. Mr. Phipps testified that as of April 15, 2013, coal inventories were approximately 3,306,000 tons (or 54 days of coal supply), slightly higher than what was reported in Cause No. 38707 FAC 95. 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 prices as low as 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 December 2012 through February 2013 with a range of delivered prices between \$3.11 per million BTU to \$5.15 per million BTU. Mr. Phipps testified that, in his opinion, Duke Energy Indiana purchased natural gas at the lowest cost reasonably possible.

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. He stated that starting in 2012, during various times primarily in the spring, fall, and winter seasons, BCWF received persistent negative day-ahead and real-time LMPs at the generator node. During this time, BCWF was registered at the Midcontinent Independent System Operator, Inc. ("MISO") as an Intermittent Resource, which means that it had 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 had a commitment status of must run, meaning that MISO would 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 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 was designed to allow MISO to better manage the output of intermittent resources, thereby allowing for better

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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.

management of congestion in certain areas, such as where BCWF is located. Mr. Swez testified that although it is early in the process, the DIR construct is giving MISO additional tools to manage congestion at BCWF and as a result, fewer negative LMPs are appearing.

The Industrial Group's witness Mr. James Dauphinais testified that Duke Energy Indiana has more coal than it needs to meet expected use at its coal-fired generating units and that its existing coal storage will be at or near capacity through 2014. He noted that Duke Energy Indiana began to apply a price decrement to its coal in determining the dispatch cost starting in February 2012. He testified that none of the other major investor-owned electric utilities in Indiana have reported a need to perform coal price decrementing or other extraordinary means such as must running generation facilities to address rising coal inventories. He indicated that Duke Energy Indiana's analyses forecasts that its coal price decrementing will provide a net reduction in its total cost to serve retail customers in the FAC 96 forecast period.

Mr. Dauphinais made four recommendations regarding Duke Energy Indiana's coal inventory management including coal price decrementing. First, Applicant should be required to file detailed testimony in future FACs that reasonably estimates the forecasted net cost savings and the cost impact through the FAC during the forecast period. Second, Applicant should be required to file detailed testimony and analysis demonstrating the reasonableness of entering into the new long-term coal contracts when delivery would occur during the FAC forecast period. Third, Applicant should be required to file detailed testimony and analysis that demonstrates the reasonableness of any proposal to extend the use of coal price decrementing beyond December 31, 2014. Fourth, Applicant should be required to file detailed testimony in any FAC for which it seeks storage, resale or buyout option costs used to manage its coal inventory.

The OUCC's witness Mr. Michael Eckert recommended that Duke Energy Indiana report to the Commission any updates and resolutions to the negative LMP situation at BCWF in its next FAC filing. Mr. Eckert testified regarding Applicant's excess coal and coal decrement pricing. He testified that the Applicant's assumptions and calculations show that coal decrement pricing has not harmed ratepayers. He testified that coal contract pricing and the operational delays at the Edwardsport IGCC plant may also have aggravated the coal inventory issue. He recommended Duke Energy Indiana continue to update the Commission on its coal inventory, including the development of alternatives to its below cost bidding approach to manage the Company's supply of coal. He also recommended that Duke Energy Indiana's FAC be made interim subject to refund until Duke Energy Indiana is able to show the benefits of the coal decrement pricing.

Mr. Phipps provided rebuttal testimony in which he disagreed with the Industrial Group's recommendation that would require Duke Energy Indiana to file detailed testimony demonstrating the reasonableness of any long-term coal contract. He testified that Duke Energy Indiana has historically provided testimony and analysis concerning significant long-term coal contracts and that Duke Energy Indiana will continue to provide testimony and analysis concerning significant long-term coal contracts. He indicated providing detailed testimony and analysis of each contract individually will make the FAC process substantially more complex and unnecessarily burden each FAC proceeding. Mr. Phipps testified that no party to this proceeding has argued that any of the Company's long-term coal contracts are imprudent nor

have they identified any discrepancies, errors, or unreasonable practices regarding the Company's coal purchasing and/or procedures. Mr. Phipps also testified that Duke Energy Indiana does not believe operational delays at Edwardsport IGCC are the reason for the coal inventory issues that have required coal decrement pricing. He indicated that several issues have caused this problem, including low natural gas prices, mild weather, lower dispatch levels, and lower demand for coal fired energy. He also stated that the decrement has had no impact to the operations at the Edwardsport IGCC plant. Currently the coal decrement pricing is being applied only to Cayuga, Gibson and Wabash River stations.

Duke Energy Indiana's witness Suzanne E. Sieferman testified that the Company's forecast of its fuel costs for native load customers in this proceeding, as well as prior FAC proceedings, reflects the estimated decremented offer prices for Cayuga, Gibson, and Wabash River steam generating units in calculating how those units would likely be dispatched during the forecasted period. Those projected fuel costs are what is reflected in the Company's estimates for the forecasted period, which are used to develop the proposed FAC factor in each proceeding. She also testified that Duke Energy Indiana is not the only utility in Indiana to have recently faced excess coal inventory issues. Ms. Sieferman stated that Duke Energy Indiana has acted prudently and has met its obligation to acquire fuel and generate or purchase power to provide electricity at the lowest reasonable cost. She concluded that there is no reason to make this FAC subject to refund related to the decrement pricing and that the Company has shown the decrement is reasonable and provides for the lowest fuel cost reasonably possible.

Mr. Swez provided rebuttal testimony in which he explained coal price decrement represents the cost that is avoided by burning an additional ton of coal and is based on the physical options that are available to manage that ton, such as storage or resale. He indicated that in this Cause the decrement accounts for the costs avoided and serves to increase generation from Duke Energy Indiana's units in the most economic option available. He testified that the decrement impacts the FAC by incorporating another variable cost component into the unit offer price. He stated the decrement is designed to increase the production of energy from Company generating units, but only when doing so is the most economic option available. Mr. Swez testified that in response to conversations and data requests by the OUCC, the Industrial Group and SDI, Duke Energy Indiana agreed to conduct an analysis of the decrement's impact for the forecasted FAC96 period. He explained the results of the analysis were consistent with the concepts previously explained. The costs of offering generation with the variable costs of production and the avoided costs (e.g., storage) was projected to be lower than not offering units with the avoided costs and incurring the avoided costs (e.g., storage). Mr. Swez suggests that instead of conducting a time-consuming analysis each quarter, examination of the inputs to the calculation of the decrement would allow for a better understanding of the surplus coal issue. He concluded that if Duke Energy Indiana did not include the decrement, customer costs would be reduced in the short term but the customer would ultimately have increased total costs over a longer period of time.

As an initial matter, 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.

We find that Duke Energy Indiana has laid a reasonable foundation for the mechanics of its coal decrement pricing impacts and that examination of the inputs to the calculation is the appropriate initial review point in regards to the submission of detailed testimony and analysis of the coal decrement cost impacts as recommended by the Industrial Group. Accordingly, we find that Duke Energy Indiana should conduct and present as support for the reasonableness of its pricing the changes in inputs to the calculations in each applicable future FAC filing.

With regard to the submission of detailed testimony and analysis demonstrating the reasonableness of entering into any new long-term contract as recommended by the Industrial Group, we decline to make such a requirement explicit. Duke Energy Indiana has reasonably presented detailed discussion in the past, for example its testimony filed in Cause No. 38707 FAC 80 concerning the coal contract with Bear Run mine, for significant long-term commitments. As Duke Energy Indiana is required to show the reasonableness of its actions as a working of the FAC summary proceeding, we will afford it the opportunity to do so absent a showing that it has failed to do so thus far.

Further, Duke Energy Indiana will provide an update on the status of its coal inventory levels and any updates to the situation with BCWF 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 that there was no realized profit or loss for the Company from gas hedges applicable to this reconciliation period. He further testified the Company experienced realized power hedging losses (exclusive of MISO virtual trades and including prior period adjustments) for the period of \$367,378.

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 testified that on April 1, 2013, the Company implemented a change to extend its hedging horizon for both native and non-native power hedging programs to current month plus six months, replacing its practice of current month plus three months before the change. This change was implemented to mitigate the impact of buying a big amount of hedge when a new month becomes under management and to better take advantage of dollar averaging over a longer hedging period.

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 \$367,378 of realized power hedging losses 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.

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 December 2012, January and February 2013, 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)	Dec-12	Jan-13	Feb-13
Regulation Cost Dist.	0.0429	0.0468	0.0418
Spinning Cost Dist.	0.0213	0.0189	0.0268
Supplemental Cost Dist.	0.0133	0.0126	0.0110

OUCC 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.

In Duke Energy Indiana's September 4, 2013 response to docket entry questions from the Commission, Duke Energy Indiana explained changes in its accounting for regulation reserves. The Company explained that in December 2012, MISO made changes to the regulation market by adding a regulation mileage product to comply with Federal Energy Regulatory Commission's Order 755. These changes necessitated a change in the way the Company accounted for regulation reserves and resulted in the inclusion of detail related to this accounting in Exhibit A, Schedule 11, to the Amended Application.

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 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, prior to the application of a coal price decrement, a number of factors caused the Company's coal generating facilities to experience lower dispatch levels and even periods of economic shutdown which led to increased coal inventories. To remedy this situation, 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 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. He indicated the Company initially saw a significant increase in generation output from these units with the price decrement in place. As

the level of the coal price decrement has decreased in recent months, the impact of the decrement is lessened. He concluded the price decrement is working as designed.

Mr. Eckert provided testimony on behalf of the OUCC regarding ASM charges. He concluded Duke Energy Indiana reported ASM charges in accordance with the Phase II Order.

Based upon the evidence presented and incorporating our previous discussion on coal decrement pricing above, 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 that there was one outage that met these criteria in this period. He stated that on December 4, 2012, Wabash River 6 entered a forced outage for a steam leak on the left throttle valve at the bonnet flange. The valve was repaired and the unit returned to service on December 9, 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 February 28, 2013. Duke Energy Indiana's authorized jurisdictional operating expenses (excluding fuel costs) are \$825,750,000. For the 12-month period ended February 28, 2013, Duke Energy Indiana's jurisdictional operating expenses (excluding fuel costs) totaled \$1,170,399,000. 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 \$286,637,000, while its authorized phased-in jurisdictional electric operating income level for purposes of Ind. Code § 8-1-2-42(d)(3), was

\$418,205,000. 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 28, 2013.

**11. 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> <sup>1/</sup>	<u>Facility</u>
December 2012	44.44	Vermillion 4
January 2013	46.85	Vermillion 2
February 2013	43.14	Vermillion 4

<sup>1/</sup> 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 testified that he performed an hourly comparison using a method similar to the methodology approved in Cause No. 43414 and found that on the days and hours that the LMP prices exceeded the benchmark price, MISO did not dispatch Duke Energy Indiana's generation even though Duke Energy Indiana had offered enough generation to cover its power purchases. He stated that the OUCC will continue to do an hourly purchased power over the benchmark calculation in future FACs.

In rebuttal testimony, Mr. Burnside disagreed with Mr. Eckert's testimony concerning the benchmark standard. He testified that Duke Energy Indiana administers the benchmark in accordance with prior Commission Orders in Cause Nos. 41363, 38707 FAC 45, 38707 FAC 56, 38707 FAC 59, and 38707 FAC 75, using the Company's own incremental fuel costs as a proxy for the fuel component of power purchases in a methodology designed to minimize administrative costs. He indicated that FAC proceedings are statutorily required to be summary in nature. He also noted that Duke Energy Indiana remains willing to explore how changes over time may affect the value of the applied benchmark 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 December 2012 through February 2013 reconciliation period. Specifically, we do not find that Duke Energy Indiana has misapplied the approved methodology. While the Commission is not persuaded by the evidence of record that the presently approved methodology is unreasonable, we continue to encourage dialogue among the parties to identify any potential improvements.

12. **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.<sup>3</sup> 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 \$26,181 receivable from Temple-Inland for the months of December 2012 through February 2013.

The Commission finds that Duke Energy Indiana's reconciliation amount of \$26,181 receivable from Temple-Inland has been properly determined and should be approved.

13. **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 February 2013. Therefore, we find Temple-Inland is not due a shared return revenue credit.

14. **Confidential Information.** Duke Energy Indiana sought a determination that designated confidential information involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The request was supported by the affidavits and testimony of John D. Swez and Brett J. Phipps, showing documents offered into evidence at the evidentiary hearing were trade secret information within the scope of Ind. Code § 5-14-3-4(a)(4) and Ind. Code § 24-2-3-2. The Presiding Officers made rulings from the bench finding such information confidential on a preliminary basis after which such information was entered into the evidentiary record under seal. After reviewing the designated confidential information, we find all such information qualifies as confidential trade secret information pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2. This information has independent economic value from not being generally known or readily ascertainable by proper means. Duke Energy Indiana takes reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to Duke Energy Indiana. Therefore, we affirm the preliminary ruling and find this information should be exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29, and held confidential and protected from public disclosure by this Commission.

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

1. Duke Energy Indiana's reconciliation of fuel costs are hereby approved 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.

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<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.

3. 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.

4. The material submitted to the Commission under seal shall be and hereby is declared to contain trade secret information as defined in Ind. Code § 24-2-3-2 and therefore is exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29.

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

**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**

**APPROVED: OCT 30 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**