ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA, INC. FOR APPROVAL OF A CHANGE IN ITS MIDWEST INDEPENDENT SYSTEM OPERATOR MANAGEMENT COST AND REVENUE ADJUSTMENT FACTOR UNDER ITS STANDARD CONTRACT RIDER NO. 68	)	**CAUSE NO. 42736 RTO 27** **APPROVED:** SEP 21 2011

BY THE COMMISSION:
Kari A. E. Bennett, Commissioner
David E. Veleta, Administrative Law Judge

On July 27, 2011, Duke Energy Indiana, Inc. ("Duke Energy Indiana," "Petitioner" or "Company") filed its Verified Application requesting that the Indiana Utility Regulatory Commission ("Commission") approve a change in the adjustment factor under Duke Energy Indiana's Standard Contract Rider No. 68 entitled Midwest Independent System Operator Management Cost and Revenue Adjustment ("Rider No. 68") to be used for Duke Energy Indiana's October, November, and December 2011 retail electric billing cycles.

Also on July 27, 2011, Petitioner filed its case-in-chief with the Commission, which consisted of the testimony and exhibits of Ms. Maria T. Birnbaum, Duke Energy Business Services LLC's Director, Rate Services, Indiana Rate Department; and Mr. John D. Swez, Duke Energy Business Services LLC's Director, Bulk Power Marketing and Trading. The Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief with the Commission on September 6, 2011, which consisted of the testimony and exhibits of Wes R. Blakely, a Senior Utility Analyst for the OUCC.

Pursuant to proper notice of hearing, 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 12, 2011 at 1:30 p.m. in Room 224, 101 West Washington Street, Indianapolis, Indiana. Duke Energy Indiana and the OUCC appeared and participated at the Hearing. All evidence and exhibits were admitted into the record without objection. No members of the general public appeared or participated at the Hearing.

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

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the Evidentiary Hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Indiana Code § 8-1-2-1, 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. The Commission has jurisdiction over Duke Energy Indiana 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 the Town of Plainfield, Indiana, and is a second tier, wholly-owned subsidiary of Duke Energy Corporation. Duke Energy Indiana is engaged in rendering retail 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.

3. **Background and Relief Requested in this Cause.** In its most recent rate case, Cause No. 42359 (*Ind. Util. Reg. Comm'n*, May 18, 2004), Duke Energy Indiana proposed, among other matters, Rider No. 68 to track for recovery from (or credit to) its retail electric customers for certain Company costs and transmission revenues related to Duke Energy Indiana's participation in the Midwest ISO.

Under Rider No. 68, Duke Energy Indiana tracks for recovery from, or credit to, Duke Energy Indiana's retail electric customers, the following on a quarterly reconciled basis:

(i) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedules 10 (ISO Cost Recovery Adder) and 10-FERC (FERC Annual Charges Recovery), or a successor provision of either, of the Midwest ISO Open Access Transmission and Energy Markets Tariff (now known as Open Access Transmission and Energy and Operating Reserve Markets Tariff and hereinafter "Midwest ISO Tariff"), or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers;

(ii) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedule 16 (Financial Transmission Rights ("FTR") Administrative Service Cost Recovery Adder), or a successor provision, of the Midwest ISO Tariff, or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers;

(iii) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedule 17 (Energy and Operating Reserve Markets Market Support Administrative Service Cost Recovery Adder), or a successor provision, of the Midwest ISO Tariff, or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers;

(iv) costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under the Midwest ISO Tariff, or any successor tariff of the Midwest ISO, for standard market design ("SMD"), which are allocable to Duke Energy Indiana's retail electric customers (including charges under Schedule 26, as authorized by the December 19, 2007 Order and June 25, 2008 Order);

(v) other government mandated transmission costs Duke Energy Indiana is required to pay on behalf of its retail electric customers; and

(vi) certain Midwest ISO transmission revenues assigned to Duke Energy Indiana (or a designee of the Company), collected by the Midwest ISO under the Midwest ISO Tariff, or any successor tariff of the Midwest ISO, and which are allocable to Duke Energy Indiana's retail electric customers.

(Petitioner's Exhibit A, pp. 10-11).

The Commission's June 30, 2009 Order in Cause No. 43426 ("ASM Final Order"), authorized Petitioner to recover through retail electric rates the jurisdictional costs incurred by Duke Energy Indiana in connection with its participation in the Midwest ISO Ancillary Services Market ("ASM"). The ASM Final Order authorized rate treatment for various ASM credits and charges (or modified charge types) pursuant to either Duke Energy Indiana's fuel adjustment proceedings or Rider No. 68 proceedings. This authorization is in addition to recovery of Midwest ISO costs previously authorized by the Commission. As a result of the ASM Final Order, Duke Energy Indiana is required to include Day Ahead Revenue Sufficiency Guarantee ("RSG") Distribution Amounts and Real Time RSG First Pass Distribution Amounts in future fuel cost recovery proceedings rather than under Rider No. 68. (Petitioner's Exhibit A, pp. 8-9).

Proposed Rider No. 68 adjustment factors are presented to the Commission on a quarterly basis. The current proposed Rider No. 68 adjustment factors would apply to Duke Energy Indiana's October, November, and December 2011 retail electric billing cycles. (Petitioner's Exhibit A, p. 2).

4. **Testimony Presented Regarding Proposed Rider No. 68 Adjustment Factors.** Duke Energy Indiana presented information relative to adjustments for Duke Energy Indiana's October, November, and December 2011 Retail Electric Billing Cycles:

Duke Energy Indiana's Proposed Rider No. 68
Adjustment Factor Formula Inputs

Charge Category	Amount
a) MISO Management Cost Adder -- Schedules 10 & 10-FERC	$1,499,072
b) MISO Management Cost, FTR – Schedule 16	$79,077
c) MISO Management Cost Energy and Operating Reserve Markets - Schedule 17	$1,384,053
d) MISO SMD or other Govt. mandated transmission costs	$2,290,339
e) MISO Transmission Revenue	$1,522,734
f) Individual retail rate group's allocated share of retail peak demand	Petitioner's Exhibit A-1, page 3 of 4 (Rate group specific)
g) Individual retail rate group's kWh sales	Petitioner's Exhibit A-2 (Rate group specific)
h) Revenue Conversion Factor	1.02143

Ms. Birnbaum sponsored Petitioner's Exhibit A-1, which is Duke Energy Indiana's proposed revised Standard Contract Rider No. 68. Page 3 of this exhibit shows the Percent Share of Retail Peak developed for cost of service purposes in Cause No. 42359 based on the twelve-month period ended September 30, 2002, which is used to allocate cost to each retail group.

Ms. Birnbaum testified Petitioner's Exhibit A-2 shows the individual retail rate group's billing cycle kilowatt-hour ("kWh") amount used to develop the respective proposed Rider No. 68 adjustment factors for Duke Energy Indiana's October, November, and December 2011 retail electric billing cycles. The kWh amounts are based on the Company's actual sales to each retail rate group for the months of October, November, and December 2010. (Petitioner's Exhibit A, pp. 14-15).

Ms. Birnbaum testified that as a result of the ASM Final Order in Cause No. 43426, charges for Day Ahead RSG Distribution Amounts and Real Time RSG First Pass Distribution Amounts are to be recovered in future fuel cost proceedings rather than under Rider 68. The Company implemented the reclassification of these charge types beginning with the March 2009 delivery period, the first period that is in common to both Rider 68 and the fuel cost recovery proceeding subsequent to receipt of the Final ASM Order. Specifically, amounts for the aforementioned charge types were not included in this Rider 68 proceeding and there were no prior period adjustments (i.e., prior to March 2009) in this proceeding. Also, as a result of the ASM Final Order, the Company tracks credits associated with the Contingency Reserve Deployment Failure Uplift Amount ("CRDFUA") in fuel cost recovery proceedings. ASM charges the Company seeks to recover in this proceeding are the Real Time Revenue Neutrality Uplift Amount, exclusive of credits associated with the CRDFUA, the Day Ahead Market Administration Amount, and the Real Time Market Administration Amount. (Petitioner's Exhibit A, pp. 8-10). Ms. Birnbaum said there was no single adjustment in excess of $3 million in this filing. (Petitioner's Exhibit A, p. 16).

Ms. Birnbaum testified Petitioner's Exhibit A-3 shows the actual booked costs and transmission revenues covered by Rider No. 68 for the months of March, April, and May 2011. Ms. Birnbaum explained Petitioner's Exhibit A-3 also compares the actual net amount of the "a", "b", "c", "d", and "e" factors of the Rider No. 68 formula for the quarter (i.e., a charge amount of $3,729,807) to the quarterly level built into Duke Energy Indiana's base retail electric rates (i.e., a credit amount of $1,337,000) as calculated on page 1 of Petitioner's Exhibit A-1. Ms. Birnbaum further explained that the difference in these amounts (i.e., a charge amount of $5,066,807) is then increased by the applicable revenue conversion factor (i.e., 1.02143) and allocated to the respective retail rate groups by the percentage allocators shown on page 3 of Petitioner's Exhibit A-1. Ms. Birnbaum concluded that the result is a total retail current charge amount of $5,175,389, to be collected from Duke Energy Indiana's retail electric customers through the Rider No. 68 adjustment factors for its October, November, and December 2011 billing cycles. (Petitioner's Exhibit A, pp. 17-18).

Ms. Birnbaum indicated Petitioner's Exhibit A-4 shows the calculation of the proposed Rider No. 68 adjustment factors by retail rate group, including the March, April, and May 2011 reconciliation total under-collection of $152,289, as depicted on Petitioner's Exhibit A-5. Therefore, the total amount to be recovered through the Rider No. 68 adjustment factors for the

October, November, and December 2011 billing cycles is $5,327,678. Ms. Birnbaum testified Petitioner's Exhibit A-6 compares the bill of a typical residential customer using 1,000 kWhs per month based upon the proposed Rider No. 68 adjustment factor to the bill of a typical residential customer using 1,000 kWhs per month based upon the approved factor from the most recent quarter. Ms. Birnbaum stated that under the proposed Rider No. 68 adjustment, a typical residential customer will experience an increase of $0.35 on his or her base electric bill when compared to the previous quarter's base bill (excluding the effect of various "tracking mechanisms" as noted on Petitioner's Exhibit A-6). (Petitioner's Exhibit A, pp. 18-20).

Ms. Birnbaum testified Petitioner's Exhibit A-7 provides information relating to Company-owned Regional Expansion Criteria Benefits ("RECB") projects and provides an estimate of Schedule 26 costs to be allocated to the Company. Ms. Birnbaum said the Company is seeking recovery in this proceeding of the first phase of a baseline reliability transmission line project completed by the Company in 2009. Ms. Birnbaum stated the annual revenue requirement submitted to the Midwest ISO for this project totaled $167,284, for which the Company began receiving revenue June 1, 2010. Ms. Birnbaum stated the Company has retained this revenue, pursuant to the June 25, 2008 Order, and Rider 68 costs were not offset by the revenue from this project. She also testified the Company excluded the revenues and expenses related to this project from the FAC earnings test. (Petitioner's Exhibit A, pp. 7-8, 20).

Ms. Birnbaum testified that the same allocation methods used in Cause Nos. 42736-RTO 3 and 42736-RTO 5 have been used in this filing to distribute the same types of costs between Duke Energy Indiana and Duke Energy Ohio, Inc. (Petitioner's Exhibit A, p. 20).

Mr. Swez provided an overview of the Midwest ISO's energy markets and the Company's participation in those markets. Mr. Swez also testified concerning the types of energy markets costs billed by the Midwest ISO to the Company pursuant to the Midwest ISO's Tariff. Mr. Swez testified that in his opinion the Company's incurrence of the enumerated administrative charges and other Midwest ISO Tariff charges and credits included in this filing with the Commission are reasonable.

The testimony of OUCC witness Wes R. Blakley confirmed Duke Energy Indiana's calculation of the amount to be recovered under the proposed Rider No. 68 adjustment factors for Duke Energy Indiana's October, November, and December 2011 retail electric billing cycles. (Public's Exhibit No. 1).

5. <u>Commission Findings</u>. Based on the evidence presented in this Cause, the Commission finds that Duke Energy Indiana has adequately explained the proposed Rider No. 68 adjustment factors for its October, November, and December 2011 retail electric billing cycles. Accordingly, we hereby approve such adjustment factors and direct Duke Energy Indiana to include such adjustment factors in the Rider No. 68 filed with this Commission in compliance with this Order.

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

1. Duke Energy Indiana's Rider No. 68 adjustment factors for its October, November, and December 2011 retail electric billing cycles, as described herein, are hereby approved, including charges and credits under ASM in accordance with the Commission's September 24, 2008 Order in Cause No. 42736 RTO 15 and the Commission's June 30, 2009 Order in Cause No. 43426.

2. Prior to placing in effect the Rider No. 68 adjustment factors approved herein, Duke Energy Indiana shall file with the Electricity Division of this Commission a separate amendment to its rate schedules, with clear reference therein that such Rider No. 68 adjustment factors are applicable to the rate schedules reflected on the amendment.

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

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

APPROVED: SEP 21 2011

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission