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 34 APPROVED: JUN 26 2013

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On April 25, 2013, 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 July, August and September 2013 retail electric billing cycles.

Also on April 25, 2013, Petitioner filed its case-in-chief with the Commission, which consisted of the testimony and exhibits of Ms. Maria Teresa Diaz, Duke Energy Business Services LLC's Director, Rate Services, Indiana Rate Department and Mr. John D. Swez, Duke Energy Business Services LLC's Director, Fuels and Systems Optimization. The Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief with the Commission on May 30, 2013, 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 June 13, 2013 at 1:30 p.m., in Room 222 of the PNC Center, 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 Ind. Code § 8-1-2-1. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner's rates and charges, including tracking provisions approved by the Commission. Accordingly, 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, *PSI Energy, Inc.*, 2004 Ind. PUC LEXIS 150, Cause No. 42359 (IURC 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 certain Company costs and transmission revenues related to Duke Energy Indiana's participation in the Midcontinent Independent System Operator, Inc. ("MISO"), formerly Midwest Independent Transmission System Operator, Inc. 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) MISO management costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under Schedules 10 (ISO Cost Recovery Adder) and 10-FERC (FERC Annual Charges Recovery), or a successor provision of either, of the MISO Open Access Transmission and Energy Markets Tariff (now known as Open Access Transmission and Energy and Operating Reserve Markets Tariff and hereinafter "MISO Tariff"), or any successor tariff of MISO, which are allocable to Duke Energy Indiana's retail electric customers;

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

(iii) MISO management costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under Schedule 17 (Energy and Operating Reserve Markets Market Support Administrative Service Cost Recovery Adder), or a successor provision, of the MISO Tariff, or any successor tariff of MISO, 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 MISO under the MISO Tariff, or any successor tariff of MISO, 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 in Cause No. 42736 RTO 12 and the June 25, 2008 Order in Cause No. 42736 RTO 14, and Schedule 26-A, as authorized by the June 27, 2012 Order in Cause No. 42736 RTO 31);

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

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

(Petitioner's Exhibit A, pp. 11-12.)

The Commission's June 30, 2009 Order in Cause No. 43426 ("Ancillary Services Market ("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 MISO 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 MISO 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 this Commission on a quarterly basis. The current proposed Rider No. 68 adjustment factors would apply to Duke Energy Indiana's July, August and September 2013 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 July, August and September 2013 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	$1,405,676
b) MISO Management Cost, FTR – Schedule 16	$93,734
c) MISO Management Cost Energy and Operating Reserve Markets - Schedule 17	$1,522,373
d) MISO SMD or other Govt. mandated transmission costs	$3,646,003
e) MISO Transmission Revenue	$1,586,471
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	1.02137

Ms. Diaz 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. Diaz testified that 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 July, August and September 2013 retail electric billing cycles. The kWh amounts are based on the Company's actual sales to each retail rate group for the months of July, August and September 2012. (Petitioner's Exhibit A, pp. 15-16.)

Ms. Diaz 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 fuel cost proceedings rather than under Rider 68. Specifically, amounts for the aforementioned charge types were not included in this Rider 68 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. The 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. 9-10). Ms. Diaz testified that there was no single adjustment in excess of $3 million in this filing. (Petitioner's Exhibit A, p. 17.)

Ms. Diaz testified that Petitioner's Exhibit A-3 shows the actual booked costs and transmission revenues covered by Rider No. 68 for the months of December 2012, January and February 2013. Ms. Diaz explained that 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 $5,081,315) 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. Diaz further explained that the difference in these amounts (i.e., a charge amount of $6,418,315) is then increased by the applicable revenue conversion factor (i.e., 1.02137) and allocated to the respective retail rate groups by the percentage allocators shown on page 3 of Petitioner's Exhibit A-1. Ms. Diaz concluded that the result is a total retail current charge amount of $6,555,474 to be collected from Duke Energy Indiana's retail electric customers through the Rider No. 68 adjustment factors for its July, August and September 2013 billing cycles. (Petitioner's Exhibit A, pp. 17-19.)

Ms. Diaz indicated that Petitioner's Exhibit A-4 shows the calculation of the proposed Rider No. 68 adjustment factors by retail rate group, including the December 2012, January and February 2013 reconciliation total over-collection of $494,243, as developed on Petitioner's Exhibit A-5. Therefore, the total amount to be recovered through the Rider No. 68 adjustment factors for the July, August and September 2013 billing cycles is $6,061,231. Ms. Diaz testified that 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. Diaz stated that under the proposed Rider No. 68 adjustment a typical residential customer will experience a decrease of $0.90 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. 18-21.)

Ms. Diaz testified that Petitioner's Exhibit A-7 provides information relating to Company-owned Regional Expansion Criteria and Benefits ("RECB") projects and provides an estimate of Schedule 26 costs to be allocated to the Company. Ms. Diaz testified that the Company is seeking recovery in this proceeding for three RECB projects now in service: the first phase of a baseline reliability transmission line project spanning approximately 4 miles (MISO Project 852) completed by the Company in 2009; the second being the Edwardsport 345 kV substation and line project (MISO Project 1263) completed in 2010; and the third being the Dresser substation and transformer project (MISO Project 2050) completed in 2011. Ms. Diaz stated that the annual revenue requirement submitted to MISO for these projects totaled $3,140,923, and the Company began receiving updated revenues on June 1, 2012. Ms. Diaz stated that the Company has retained this revenue, pursuant to the June 25, 2008 Order in Cause No. 42736 RTO 14, and Rider 68 costs were not offset by the revenue from this project. She also testified that the Company excluded the revenues and expenses related to this project from the FAC earnings test. (Petitioner's Exhibit A, pp. 6-8, 21)

Ms. Diaz testified that to the extent there are prior period adjustments, 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; otherwise, the allocation of costs and credits are directly assigned to the Company. (Petitioner's Exhibit A, pp. 22).

Mr. Swez provided an overview of MISO's energy markets and the Company's participation in those markets. Mr. Swez also testified as to the types of energy markets costs billed by MISO to the Company pursuant to MISO's Tariff. Mr. Swez testified that in his opinion the Company's incurrence of the enumerated administrative charges and other MISO Tariff charges and credits included in this filing with the Commission is 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 July, August and September 2013 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's proposed Rider No. 68 adjustment factors for its July, August and September 2013 retail electric billing cycles are reasonable and shall be approved. Accordingly, we 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 July, August and September 2013 retail electric billing cycles, as described herein, are approved.

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, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:

APPROVED: JUN 26 2013

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