

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JJA
[Handwritten signature]
[Handwritten signature]
[Handwritten signature]

VERIFIED PETITION OF DUKE ENERGY INDIANA,)
INC. SEEKING (1) APPROVAL OF AN ONGOING)
REVIEW PROGRESS REPORT PURSUANT TO IND.)
CODE §§8-1-8.5 AND 8-1-8.7; AND (2) AUTHORITY)
TO REFLECT COSTS INCURRED FOR THE)
EDWARDSPORT INTEGRATED GASIFICATION)
COMBINED CYCLE GENERATING FACILITY)
("IGCC PROJECT") PROPERTY UNDER)
CONSTRUCTION IN ITS RATES AND AUTHORITY)
TO RECOVER APPLICABLE RELATED COSTS)
THROUGH ITS INTEGRATED COAL)
GASIFICATION COMBINED CYCLE GENERATING)
FACILITY COST RECOVERY ADJUSTMENT,)
STANDARD CONTRACT RIDER NO. 61 PURSUANT)
TO IND. CODE §§ 8-1-8.8-11 AND -12; AND (3) FOR)
APPROVAL OF DEPRECIATION RATES FOR THE)
IGCC PROJECT)

CAUSE NO. 43114 IGCC 8

APPROVED: DEC 27 2012

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

David E. Veleta, Administrative Law Judge

On November 30, 2011, Duke Energy Indiana, Inc. ("Duke", "Petitioner" or "Company") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in this Cause. In its Petition, Duke requested: (1) approval of an ongoing review progress report; and (2) authority to reflect costs incurred for the Edwardsport Integrated Gasification Combined Cycle Generating Facility ("IGCC Project") property under construction in its retail electric rates, and authority to recover certain other applicable related costs through its Integrated Coal Gasification Combined Cycle Generating Facility Cost Recovery Adjustment, Standard Contract Rider No. 61 ("Rider 61" or "IGCC Rider"); and (3) approval of the Company's proposed depreciation rates for the IGCC Project (including the estimated costs of removal).

Pursuant to notice as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an evidentiary hearing was held in this Cause on August 6-8, 2012, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Duke, the Sierra Club, Citizens Action Coalition of Indiana, Save the Valley, and Valley Watch (collectively "Joint Intervenors"), the Duke Energy Indiana Industrial Group ("Industrial Group"), Nucor Steel-Indiana, a division of Nucor Corporation ("Nucor"), and the Indiana Office of Utility Consumer Counselor (the "OUCC") appeared and participated. No members of the general public were present or sought to testify.

At the evidentiary hearing, Petitioner presented the testimony and exhibits of W. Michael Womack, Vice President, Edwardsport IGCC Project; Jack L. Stultz, General Manager II, Regulated Fossil Stations; Diana L. Douglas, Director of Rates for Duke Energy Indiana; John J. Spanos, Vice President of Gannett Fleming, Inc.; Robert G. Presnak, Senior Vice President of Sargent & Lundy. The testimony and exhibits offered by the Petitioner were admitted into evidence without objection. The OUCC presented the testimony of Mr. Wes R. Blakley, Senior Utility Analyst, which was admitted into evidence without objection. Joint Intervenors presented the testimony of Mr. Kerwin L. Olson, Executive Director of the Citizens Action Coalition, David Schlissel, President of Schlissel Technical Consulting, and a Verified Statement In Lieu of Prefiled Testimony from Ralph C. Smith, Senior Regulatory Consultant at Larkin & Associates, all of which were also admitted into evidence without objection.

On December 18, 2012, Joint Intervenors filed *Joint Intervenors' Objection To Participation of Chief Administrative Law Judge Loraine Seyfried In All Commission Deliberations In This and Related Proceedings*.¹ The Commission has not conducted any Executive Sessions in the IGCC-8 proceeding. Furthermore, with the issuance of this Order, any further discussion of this matter in the IGCC-8 proceeding is unnecessary.

Based upon applicable law and the evidence presented herein, the Commission finds as follows:

1. Notice and Jurisdiction. Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Duke is a public utility as defined by Indiana Code § 8-1-2-1, and is subject to regulation by the Commission to the extent provided for in the Public Service Commission Act, as amended. Accordingly, the Commission has jurisdiction over Duke and the subject matter of this proceeding.

2. Petitioner's Characteristics. Duke is an Indiana corporation with its principal office located at 1000 East Main Street, Plainfield, Indiana. Duke is engaged in the business of supplying electric utility service to the public in the State of Indiana. The Company owns, operates, manages, and controls plant, property, and equipment used and useful for the production, transmission, distribution, and furnishing of electric utility service to the public in the State of Indiana. Duke directly supplies electric energy to approximately 780,000 customers located in 69 counties in the central, north central, and southern parts of the State of Indiana. The Company also sells electric energy for resale to municipal utilities, Wabash Valley Power Association, Inc., Indiana Municipal Power Agency, and to other public utilities that in turn supply electric utility service to numerous customers in areas not served directly by Duke.

¹ It is a practice of the Commission for the Chief Administrative Law Judge to attend Executive Sessions regardless of whether they are the assigned Administrative Law Judge. See *Northern Indiana Public Service Company*, Cause No. 43969, 2011 Ind. PUC LEXIS 369 (IURC December 21, 2011), *Indiana Finance Authority*, Cause No. 43976, 2011 Ind. PUC LEXIS 345 (IURC November 22, 2011), *Duke Energy Indiana, Inc.*, Cause No. 43743, 2011 Ind. PUC LEXIS 300 (IURC October 19, 2011), *Northern Indiana Public Service Company*, Cause No. 38706 FAC 80 S2, 2010 Ind. PUC LEXIS 326 (IURC September 22, 2010).

3. **Relief Requested.** In its Verified Petition, Duke requested: (1) approval of an ongoing review progress report pursuant to Indiana Code §§ 8-1-8.5-6 and 8-1-8.7-7; and (2) authority to add to the valuation of its utility property for ratemaking purposes the actual IGCC Project costs incurred through September 30, 2011, and authority to recover the financing costs and its other applicable related costs through its IGCC Rider; and (3) approval of proposed depreciation rates (including costs of removal) for the IGCC Project. However, as discussed in more detail below, due to a Settlement Agreement entered into in Cause No. 43114 IGCC-4S1 (“Subdocket”), the Company and the other settling parties now request that, if the Commission approves the Settlement Agreement, the Commission should also issue contemporaneous orders in the IGCC-5, IGCC-6, IGCC-7, and IGCC-8 Rider proceedings. In such case, the Company and the other settling parties suggest that the most efficient course of action would be to review and approve the IGCC-7 (and IGCC-5 and IGCC-6) costs and rates, but implement only the more recent proposed rates in IGCC-8, up to the Settlement Agreement’s Hard Cost Cap.

4. **Prior Proceedings.** In its November 2007 Order in Cause Nos. 43114 and 43114-S1 (the “CPCN Order”), the Commission issued certificates of public convenience and necessity and clean coal technology (“CPCNs”) authorizing Petitioner to construct the 630 megawatt IGCC plant in Knox County, Indiana near the location of the Company’s existing Edwardsport generation station. The CPCN Order approved Petitioner’s estimated construction cost for the IGCC Project of \$1.985 billion and Petitioner’s proposed IGCC Rider, which provides for the timely recovery of costs incurred in connection with the IGCC Project. The Commission also directed Petitioner to file semi-annual IGCC Rider and ongoing review progress report proceedings.

On May 1, 2008, Petitioner filed its first semi-annual IGCC Rider and ongoing review progress report proceeding related to the IGCC Project, designated as Cause No. 43114 IGCC-1. In addition to the ongoing review process approved by the Commission in its CPCN Order, the first semi-annual IGCC filing also included a request by the Company to revise the cost estimate of the IGCC Project from \$1.985 billion to \$2.350 billion, and a request for approval to undertake studies related to carbon capture at the IGCC Project and for cost recovery for such studies. On January 7, 2009, the Commission issued its order in Cause No. 43114 IGCC-1 (the “IGCC-1 Order”), in which it approved Petitioner’s revised construction cost estimate for the IGCC Project of \$2.350 billion and its ongoing review progress report. In the IGCC-1 Order, the Commission also approved the timely recovery of construction and operating costs through the IGCC Rider reflecting actual expenditures through February 28, 2008. Finally, the Commission approved the Company’s request for authority to undertake studies related to carbon capture at the IGCC Project and cost recovery for such studies.

On November 3, 2008, Petitioner filed its second semi-annual IGCC Rider and ongoing review progress report proceeding related to the IGCC Project, designated as Cause No. 43114 IGCC-2. On May 13, 2009, the Commission issued its order in Cause No. 43114 IGCC-2 (the “IGCC-2 Order”), in which it approved the Company’s updated ongoing progress report for the IGCC Project, as well as the Company’s request for recovery under the IGCC Rider of the additional actual costs of the IGCC Project through September 30, 2008, and certain external costs related to the IGCC Project.

On May 1, 2009, Petitioner filed its third semi-annual IGCC Rider and ongoing review progress report proceeding related to the IGCC Project, designated as Cause No. 43114 IGCC-3. On December 2, 2009, the Commission issued its order in Cause No. 43114 IGCC-3 (the “IGCC-3

Order”), in which it approved the Company’s updated ongoing progress report for the IGCC Project, as well as the Company’s request for recovery under the IGCC Rider of the additional actual costs of the IGCC Project through March 31, 2009, and for certain external costs related to the IGCC Project.

On November 24, 2009, Petitioner filed its fourth semi-annual IGCC Rider and ongoing review progress report proceeding, designated as Cause No. 43114 IGCC-4. In that proceeding, Petitioner requested approval of: (1) the Company’s updated ongoing progress report for the IGCC Project; (2) recovery under the IGCC Rider of the additional actual costs of the IGCC Project through September 30, 2009, and for certain other applicable related costs; and (3) the establishment of a subdocket proceeding to provide a further review of the cost estimate for the IGCC Project. On July 28, 2010, the Commission issued its interim order in Cause No. 43114 IGCC-4 (the “IGCC-4 Order”) in which it approved the requested relief on an interim and subject to refund basis, pending the outcome of the Subdocket.

On June 2, 2010, Petitioner filed its fifth semi-annual IGCC Rider and ongoing review progress report proceeding, designated as Cause No. 43114 IGCC-5. In that proceeding, Petitioner requested approval of: (1) the Company’s updated ongoing progress report for the IGCC Project; (2) recovery under the IGCC Rider of the additional actual costs of the IGCC Project through March 31, 2010, and for certain other applicable related costs.

On November 5, 2010, Petitioner filed its sixth semi-annual IGCC Rider and ongoing review progress report proceeding, designated as Cause No. 43114 IGCC-6 and requesting approval of: (1) the Company’s updated ongoing progress report for the IGCC Project; and (2) recovery under the IGCC Rider of the additional actual costs of the IGCC Project through September 30, 2010, and certain other applicable related costs.

On May 31, 2011, Petitioner filed its seventh semi-annual IGCC Rider and ongoing review progress report proceeding, designated as Cause No. 43114 IGCC-7 and requesting approval of: (1) the Company’s updated ongoing progress report for the IGCC Project; and (2) recovery under the IGCC Rider of the additional actual costs of the IGCC Project through March 31, 2011, and certain other applicable related costs.

5. Ongoing Review Progress Report of IGCC Project.

A. Petitioner’s Testimony on this Issue. Mr. Womack testified that, as of the end of September 2011, the engineering work for the IGCC Project was complete (with the exception of construction support that will stretch out to the end of the IGCC Project), procurement progress (including delivery of equipment and materials) was complete, construction was 93% complete, and pre-commissioning start-up was approximately 36% complete. Taking all of these phases of the IGCC Project into account, the IGCC Project overall was approximately 95% complete as the end of September 2011.

As of September 2011, the concrete work and structural steel erection at the IGCC Project site were complete, with minor exceptions; the above ground piping was approximately 99% complete and electrical work was approximately 97% complete. Fire protections systems were 97% complete, insulation of the equipment was 27% complete, and roofing and siding of the buildings was 100% complete. Viewing the IGCC Project by functional areas rather than by work type, Mr.

Womack explained that as of September 2011, the gasification area was 97% complete, the power block was 94% complete, the water treatment area was 100% complete, the air separation unit was 100% complete, the coal handling area was 100% complete, the grey water treatment area was 90% complete, and the rail spur was 83% complete.

With regard to the grey water disposal system, Mr. Womack testified that as of September 2011, the design and procurement of the system was complete, and construction was 90% complete. As of the end of November 2011, construction was essentially complete, and all systems had been turned over to the test and start-up group, and testing and cleaning was underway.

With regard to procurement, Mr. Womack testified that purchasing of equipment, materials, and construction contracts was complete as of September 2011. Only small amounts of make-up orders are necessary, for missing or previously unpurchased items, or for services in support of testing and start-up.

Mr. Womack testified that all transmission and substation work for the IGCC Project was complete.

With regard to the rail spur for the IGCC Project, Mr. Womack testified that as of September 2011, the bulk of the earthmoving and grading necessary to prepare the road bed for the rail spur had been completed. The water crossing bridges were complete. The road crossings were complete, as well, and the installation of the signals was in progress. The cross ties and the rail had been laid from Sandborn to just south of Westphalia. Much of that rail section had been attached and aligned. The rail work from Westphalia to the IGCC Project site was progressing on schedule, and the overall rail work was on schedule to support the planned plant operations dates.

With regard to environmental permitting, Mr. Womack stated that the administrative appeal of the air permit remained pending before the Indiana Office of Environmental Adjudication; the NPDES permit for the IGCC Project was in place and effective; and the Indiana Department of Environmental Management had issued a public notice of the proposed issuance of a renewal of the Title V operating permit for the Edwardsport Station (including the IGCC Project). Authorization received under previous permits remains effective for the Company to continue IGCC Project construction and engage in start-up activities.

Mr. Womack explained that, as construction is completed in certain portions of the IGCC Project, the work is turned over from the construction group to the test and start-up group. For purposes of dividing up the work that is to be turned over, the IGCC Project components have been assigned to one of 215 different systems. To qualify for turnover, the systems must be physically inspected by a team with representatives from the construction, start-up, and operations groups. Minor work activities, which are not completed, but which are not serious enough to endanger the safety of people or the equipment, are placed on a punchlist. The punchlist activities are tracked and completed as soon as possible. As of the end of September 2011, 118 systems had been turned over to the test and start up group for them to begin their testing work. As of mid-November 2011, all systems had been turned over from the construction group to the test and start up group.

Mr. Womack further testified that, as of the filing date of his prefiled testimony, the primary activities at the site are focused on the test and start-up work. These activities are designed to verify that the construction work has been conducted properly and that individual components of the plant

will function as designed. Examples of tests include: hydro-tests for pipe (to assure there are no leaks); continuity checks for cables and control wires (to assure that no wire is broken); loop checks for control wires and instruments (to assure that a signal sent from the control room will be received at the intended instrument and that the instrument can send a status signal back to the control room); motor bumps (to assure that the wiring is not reversed which would cause the motor to run backwards); initial pump runs (to assure they are properly aligned and don't have excessive vibration); valve stroking (to assure that the valves do not stick and that they will open and close as planned); and trip checks (to assure that equipment and personnel protective devices will work to shut off the equipment when a serious malfunction occurs).

According to Mr. Womack, as of the end of September 2011, pre-commissioning testing was 36% complete, and as of the end of November 2011, pre-commissioning testing was 51% complete. In addition to testing, pre-commissioning activities can include flushing and cleaning of piping systems and equipment, including lube oil flushes, air blows, steam blows, and chemical cleaning processes, to prepare for operation of the IGCC Project.

Once the pre-commissioning testing and cleaning is complete for a given area of the plant, multiple systems can be operated together to commission larger areas of the plant. Within recent weeks at the site, the auxiliary boiler, the coal handling facilities, and the raw water treatment facilities have been successfully operated. The air separation unit commissioning began in November 2011. A non-integrated test of the operational capabilities of the first unit of the air separation unit was completed in November 2011 with the results being generally acceptable. Unfortunately, the second unit testing was delayed by damage to the compander equipment in both units.

The companders were damaged during testing as a result of an incompatible alignment that allowed the equipment to begin rotating near full speed without the lubricating oil system in service while the equipment was being tested. Without lubricating oil, the rotating sections of the compander, including the bearings, were damaged. A full incident investigation is underway. As of the date of filing this testimony, the companders were in the vendor's repair shop and were being evaluated to determine the best path forward to return the equipment to service. If the equipment is not available for service by early February 2012, the commissioning of the plant (specifically the "first-fire" operation of the second gas turbine) may be delayed by a period of time commensurate with the period the equipment is unavailable.

Mr. Womack reported that the General Electric Company ("GE") is actively preparing to support the commissioning and operating of the IGCC Project in 2012. According to Mr. Womack, GE has a large contingent of engineering and technical support people on the site and is very active in multiple aspects of the IGCC Project. Their start-up and commissioning team is working with Duke's planners to fine-tune the plant start-up sequence and schedule durations. They are also very active in the Joint Validation Review Board, as described by witness Stultz. As to physical work, GE is focused primarily on three areas: (1) installation of the gasifier refractory brick, (2) installation of the data acquisition and communication network which will allow them to fully monitor the Plant's performance during the New Product Introduction ("NPI") testing period, and (3) modifications to the gas turbines required because of fleet-wide concerns with the potential breakdown of a coating on the compressor casing section of the gas turbines.

With regard to the gasifier refractory brick installation, Mr. Womack explained that this work has always been part of the scope of the IGCC Project. Because the brick material is a new composition (making it part of the NPI program) and the performance of the refractory is crucial to the long-term performance of the Plant, this work is being performed by a specialty contractor working as a subcontractor to GE. The work was bid and awarded in the summer of 2011 and has progressed as planned. The contract was awarded on a lump sum basis and the price was within the budgeted amount for the work.

With regard to the data acquisition and communication network installation, Mr. Womack testified that, in order to fully monitor and capture data necessary to validate the design certain critical portions of the Plant, GE is installing thousands of temporary data collection instruments (temperature, pressure, vibration, strain, etc.) and connecting them by hundreds of thousands of feet of cable to computers in an operations center on the IGCC Project site as well as to their "command center" in Houston. Engineers and scientists in both locations will be able to monitor the performance of various components of the Plant in real time and make adjustments to improve performance. GE is installing these temporary devices and cable with their own experienced technicians and the cost of this work is part of the fixed price portion of the overall 2007 Duke/GE Agreement. The installation of the devices and cable is progressing as planned.

With regard to the modifications to the gas turbines due to a coating concern, GE has issued a fleet-wide requirement to remove a coating from the compressor discharge casing of their gas turbines. Under the right combination of operating conditions such as discharge temperature, firing temperature, and start-stop cycles, some GE equipment has experienced a breakdown of the coating. When the coating breaks down, small pieces of it can enter and clog the gas flow nozzles and effect the operation of the turbines, possibly causing damage in the process. Removal of the coating does not affect the operation of the turbines in any way because the coating's only purpose is to protect the equipment from corrosion during ocean transport. GE is performing the removal with its own crews and at its own expense. As of the date of the pre-filing of Mr. Womack's testimony, the work on gas turbine unit #2 was nearly complete; the work on gas turbine unit #1 is scheduled to be performed during the first rotor change out, which was already a part of the planned commissioning process for the Plant. The IGCC Project is not expected to see any cost or schedule impact from this work.

Mr. Womack's prefiled testimony indicated that, at the end of September 2011, the IGCC Project master schedule projected an in-service date of September 2012, and a substantial completion date of late December 2012. At the evidentiary hearing in this Cause, Mr. Womack testified that the current estimated in-service date was January 2013, and the current estimated substantial completion date was March 2013.

Mr. Womack explained that, at the time of his prefiled testimony, the biggest issue affecting the schedule was the need to complete the electrical heat tracing and certain critical areas of piping insulation so that these areas would not freeze during the upcoming winter months. A second issue being monitored closely was the progress of the pre-commissioning test and start-up activities. Mr. Womack noted that progress in this area had been slowed by somewhat higher than expected levels of work required to address engineering oversights, control software deficiencies, workmanship issues, and equipment flaws. Mr. Womack explained that while these issues are normal to every major project, and while they have not yet been excessive on the IGCC Project, they have the potential to cause future schedule delays. According to Mr. Womack, the damage to the air

separation unit companders (described in more detail previously) was the largest start-up issue to date. In addition, he noted that start-up progress had also been slowed by software glitches in the raw water treatment plant, factory alignment quality issues with some electrical motors, and damage to control valves by workers performing high pressure hydro-testing on piping systems.

Mr. Womack testified that the Duke Energy Board of Directors approved a revised cost budget for the IGCC Project of \$3.27 billion in October 2011. This amount includes a direct cost budget of \$2.917 billion plus a \$62 million contingency allowance and a \$291 million AFUDC allowance. Mr. Womack explained that the primary cost drivers of the cost increase from the previous \$2.88 billion budget were increased AFUDC (primarily caused by delays in implementation of CWIP ratemaking treatment in the IGCC-5, 6 and 7 proceedings), worse than planned labor productivity, and further increases in bulk commodity quantities.

Regarding the further bulk commodity quantity increases, Mr. Womack testified that the piping quantity increased by an additional 70,000 linear feet (10%) after the development of the \$2.88 billion estimate, as the piping design for the power block area continued throughout the remainder of 2010. Also, according to Mr. Womack, electrical cable and wire quantities increased by 900,000 linear feet (18%), again largely in the power block area, as the power and heat tracing designs were finished. These, along with smaller quantity increases in other commodities, added about \$90 million to the cost of the IGCC Project, which was unanticipated in the \$2.88 billion estimate.

Regarding labor productivity, Mr. Womack testified that at the time the \$2.88 billion estimate was prepared in early 2010, the labor productivity index for the pipe installation was close to 1.0. In the \$2.88 billion estimate, in order to be appropriately conservative, the Company estimated that the labor productivity index for the entire IGCC Project would be approximately 1.3 – 30% worse than the actual rate being achieved at the time. In actuality, despite the best efforts of Duke and its contractors, with the IGCC Project piping work now complete, the actual labor productivity index experienced by the various contractors was worse than that assumed in the \$2.88 billion estimate. As a result, the labor productivity factors caused labor cost increases that could not be absorbed by the contingency in the \$2.88 billion estimate.

Details concerning the IGCC Project cost forecast and IGCC Project expenditures as of September 2011 were presented in Petitioner's Confidential Exhibit A-2.

Finally, Mr. Womack presented the Commission with additional IGCC Project information, as requested by the Commission in its IGCC-1 and IGCC-2 Orders. This information requested by the Commission was outlined by Mr. Womack and contained in Petitioner's Exhibit A-4, Petitioner's Confidential Exhibit A-4, and Petitioner's Confidential Exhibit A-3. Mr. Womack noted that much of this information pertained to the design and construction phases of the IGCC Project, which are now essentially complete. Accordingly, Mr. Womack recommended that, in future proceedings (starting with IGCC-9), the information provided in the filings should focus more on pre-commissioning, commissioning, and operations issues and status.

Jack L. Stultz testified on behalf of the Company concerning the start-up and testing activities that have been and will be occurring at the IGCC Project. He noted that as the construction phase of the IGCC Project wraps up, an increased focus on updating the Commission as to start up, testing and validation activities is appropriate.

With regard to start-up and testing, Mr. Stultz testified that, as of the date of the pre-filing of his testimony, all systems have been turned over for start-up and testing. He noted that as of September 30, 2011, 118 systems had been turned over for start-up and testing from the construction group. He explained that for a system to be turned over for start-up and testing means that construction of the system is complete with identified punch list items that are not critical to the safe and reliable operation of the system. The identified items will be completed as testing and start-up are being completed. Examples of punch list items may include painting, limited heat trace or insulation.

Mr. Stultz explained that other start-up and testing activities are ongoing, as well. He stated that generally multiple systems are being tested, commissioned and prepared for startup at the same time. He informed the Commission that there are many activities going on in preparation for operation of the IGCC Project. Among the numerous on-going activities are employee training by classroom or simulator, field assistance of start-up efforts, walk downs confirming that the plant construction matches the drawings developed by design, development of budgets, safety procedures, operating procedures and general administration needs, such as time reporting and hiring. With regard to simulators, Mr. Stultz noted that the IGCC Project has three simulators designed by GE for Edwardsport. One is in Houston being used by GE and the Company's engineers validating process control parameters and testing operation of the plant in a virtual world. A second simulator is on site being used to train operators and validate procedures for start-up, shutdown, and emergency operation. The third simulator is used in conjunction with control system testing. Plant operations personnel will continue to use the on-site simulator. Once the plant is up and running, the simulator will then continue to be used as a training simulator for re-certifying control room operators, training new employees and validating any potential availability and efficiency improvements to the plant.

With regard to GE's validation process for the IGCC Project, Mr. Stultz explained that, from first fire on natural gas, there is an expected 10-month period where the Company will be testing and validating the operations of the GE supplied equipment for the IGCC Project. Duke will be operating the plant, collecting and reviewing equipment run data, tuning plant controls and working out any issues identified, such as operations procedure changes, start-up/shut down sequences, temperature ramps, trip events and many other relationships in the plant. GE's specific validation process requires extensive testing and review to ensure the plant equipment operates as designed and that the integration of equipment operates within the design envelopes.

Mr. Stultz explained that the IGCC Project Joint Validation Review Board was implemented for management of start up and testing. It is made up of personnel from both GE and Duke, including himself. This board develops, reviews and approves the unit test plans for various testing scenarios with 100% consensus required to go forward with testing plans prior to initiating the test.

Mr. Stultz explained that the Company is performing extended real-world testing of the IGCC Project under a variety of load scenarios, weather and other conditions to reduce unexpected outcomes and provide clear and pointed direction for validation of the plant systems and the plant as a whole. This is done to verify that the plant operates as designed, and that flows, temperatures and pressures are as predicted. In Mr. Stultz's view, all of this adds to Duke's confidence that the Project will perform in commercial operation as expected.

B. Joint Intervenors' Testimony On This Issue. Joint Intervenors presented the testimony of David A. Schlissel, President of Schlissel Technical Consulting, Inc., to discuss his view of the prudence of Duke's management of design, engineering, construction and start-up of the IGCC Project during the period April 1, 2011 through September 30, 2011.

At the outset of his testimony, Mr. Schlissel stated that he had not had a reasonable opportunity to complete his review of the Company's management of the design, engineering, construction and start-up of the IGCC Project during the period covered by this proceeding, primarily because the pre-filing date did not provide him with adequate opportunity to coordinate with another Joint Intervenor witness, Ralph Smith.

Nevertheless, Mr. Schlissel provided the Commission with his preliminary conclusions. First, he noted that in his opinion, the Commission's ongoing review in IGCC-8 is especially important because of the time period and expenditures involved. The time period of April through September 2011 represents a very important transition period for the IGCC Project when there were both important activities being performed and expenditures being made approaching the conclusion of the Engineering, Procurement and Construction ("EPC") phase and during the ramp-up of the Startup, Testing, Validation and Commissioning ("STVC") phase (including the GE NPI component) of the IGCC Project. It also involves a time period during which total plant investment increased very substantially, from \$2,447,575,000 to \$2,901,508,000 or \$453,933,000.

Mr. Schlissel also testified that April 2011 through September 2011 also was a period during which progress on the IGCC Project significantly lagged not only the Company's original plan, but its revised plan (the so-called B2 Plan of April 2010), and its revised, revised plan (the so-called B3 Plan of October 2010). According to Mr. Schlissel, even the rate of progress slowed (that is, the slope of progress curve flattened). This same pattern is reflected in the Company's progress (and lack thereof) with respect to both Construction and Startup.

With respect to Construction, Mr. Schlissel testified that much of the lag continued to be attributable to the "cascade effect" of problems which had developed from virtually the outset of the EPC phase. For instance, he noted that the April 2011 Duke Monthly Progress Report reported that "mechanical piping continues to be a major risk to the project's schedule and cost with the focus being in the power block area. The project continues to have unfilled requisitions for pipefitter/welders."

Mr. Schlissel next cited Duke's July 2011 Monthly Progress Report for the IGCC Project, which noted:

Mechanical continues to be the major risk to the project's schedule and cost with the focus being on completion of the small amount of remaining pipework. Graycor continues to struggle with installation rates, hydros and punch list items necessary for turnover. They have had to re-work the steam pipe that connects to the HP/IP turbine as they did not maintain pipe location. We are having Sterling perform mechanical installation in the power block area to improve Graycor completion dates. In the Gasification Area, ICI is not meeting their system turnover dates. Their major issues include completing hydros and system restoration necessary to release pipe for heat trace and insulation. There is less than 1,000 feet of pipe actually left to install but there is over 10,000 feet of pipe to complete according to the rules of credit.

Completion of heat trace and insulation installation has lagged due to the late mechanical system completions. The project will be challenged to complete all the heat trace and insulation prior to winter.

Mr. Schlissel next noted that Duke's September 2011 Monthly Progress Report showed that the "cascade effect" of the chronic piping/welding problems on the IGCC Project were not even resolved by the September 30, 2011 end of the IGCC-8 review period:

In the Power Block, Graycor completed all but 2 hydros. All of these mechanical packages are expected to be complete by the first week of October. They are working to meet final alignment and bearing tolerances on the SIC. This is holding up lube oil flushing and crossover pipe installation. They are working with Start-up and GE to finish the air blows and cleaning on the CT's. In the Gasification Area, ICI has made significant progress completing the remaining hydros and restorations. All mechanical packages should be ready for T/O by mid-month. This has not allowed for a significant number of pipe to be released for heat trace and insulation.

According to Mr. Schlissel, these "cascade effects" were not limited to piping and welding as Duke's September Monthly Progress Report) noted:

Power Block electrical systems are being pushed out due to additional scope. Sachs is pushing to have all system work and HI pipe circuits complete by the end of October with the exception of the combustion turbine wiring. The CT's area is experiencing the most congestion on the project with activities including GE fleet modifications, mechanical cleaning, electrical installation, and start-up all taking place at the same time. Gasification electrical system packages are experiencing the same scope additions as the Power Block. The previous mid-October completion has slipped to the end of the month. The other focus is to complete installation of HT circuits on piping by the end of the month.

According to Mr. Schlissel, start-up also was affected by a combination of unexpected issues resulting from both design and construction problems. For example, the April 2011 Duke Monthly Progress Report stated:

The common DCS system is in service and checkout of IO and logic has started. We are finding a significant number of communication and engineering issues as we are proceeding with initial startup, checkout and verification.

Similarly, Mr. Schlissel pointed to Duke's July 2011 Monthly Progress Report:

Start-up is about 25% complete with their checkout of instruments and mechanical and electrical components. Start-up has had to deal with a significant number of technical and operational problems as they work through the systems and component in their possession.

Mr. Schlissel contended that Duke's September 2011 Monthly Progress Report showed that these problems continued and compounded during the review period:

Start-up is working through the backlog of system walk downs and turnovers. There is now a substantial backlog of equipment and instruments available. Significant focus is being place[d] on mechanical cleaning of systems as this is currently the critical path for first fire. Start-up continues to deal with a significant number of technical and operational problems as they work through the systems and components in their possession.

Mr. Schlissel also alleged that the “sharp and deep conflict” which has developed between Duke and GE with respect to the integration of the GE NPI process into the overall schedule of Startup, Testing, Validation and Commissioning also began to have a significant impact on the IGCC Project during the IGCC-8 review period. Mr. Schlissel stated that “[t]he problems that the Company has only recently and partially disclosed to the Commission in its pre-filed testimony in Cause 43114 IGCC-9 clearly began to emerge between April and September 2011.”

Further, according to Mr. Schlissel, the Company’s activities and expenditures during the April 1, 2011 through September 30, 2011 time period covered in this docket have become even more important as a result of the Settlement Agreement that was filed on April 30, 2012 in Cause No. 43114 IGCC-4S1 and subsequently filed in this docket on May 23, 2012 as Exhibit F-1 in Company witness Douglas’ Supplemental Testimony. In Mr. Schlissel’s view, the Settlement Agreement effectively converts its proposed “hard cap” of \$2.595 billion into a “firm floor” on the Company’s recovery through rates of its direct investment and AFUDC accruals for the IGCC Project. Moreover, Mr. Schlissel took issue with the fact that the Settlement Agreement calls for the cost recovery through rates to apply to the first \$2.595 billion of direct investment and AFUDC accruals. At the conclusion of the review period in IGCC-7 on March 31, 2011, the Company’s expenditures on Edwardsport totaled only \$2,447,575,000. As a result, the Settlement Agreement effectively would allow the Company to recover the first \$147,425,000 of the total costs incurred during the IGCC-8 review period. According to Mr. Schlissel, recovery in IGCC-8 of the first dollars expended in the ongoing review period is contrary to both the logic of construction project expenditures generally and the record evidence developed in the Subdocket proceeding regarding the Company’s gross mismanagement and imprudent management of its expenditures on Edwardsport. When there are significant cost overruns and delays on major construction projects, those impacts do not materialize only at the end of a project. Instead, they emerge, develop and aggregate over the entire life of the IGCC Project.

Finally, Mr. Schlissel noted that, when initially approved by the Commission, Edwardsport was projected to cost \$1.985 billion and to be completed in October 2011. Currently, Edwardsport is projected to cost \$3.35 billion with a “substantially complete” date of no earlier than February or March 2013. In Mr. Schlissel’s opinion, that \$2.595 billion could in no way be the first \$2.595 billion spent on the project through roughly April 2011. Instead, unless specific disallowances are made for specific expenditures, customer responsibility would be an appropriately allocated share of the total expenditures from the IGCC Project’s inception through its final completion – whenever that occurs. Moreover, Mr. Schlissel stressed that this difference in the timing of cost recovery through rates has important financial as well as technical and operational implications because of the relationship between direct costs and financing costs. Mr. Schlissel concluded by emphasizing that customers will pay considerably more in financing costs (considering both AFUDC accruals and CWIP cash payments) if they are assigned responsibility for the first \$2.595 billion of the direct construction costs rather than a pro-rata share of the project’s total cost spread over the actual design, construction and start-up period.

C. Petitioner's rebuttal testimony on this issue. Mr. Womack stated that it was true that progress at the IGCC Project had fallen behind the Company's B-3 baseline construction plan developed in October 2010. The construction schedule put together in October 2010 was compiled based on the most accurate information at the time and was, therefore, a snapshot view of the IGCC Project's plan as of that date. As the IGCC Project activities unfold and more information becomes available, the schedule is continuously updated. As for the cause of the lag, based on the April, June and September 2011 Duke Monthly Progress Reports quoted by Mr. Schlissel, it appears that his "cascade effect" comment is primarily referring to "chronic piping/welding problems" at the IGCC Project. The Company did experience some challenges in the pipe-fitting and welding work, which the Company addressed with its primary contractors in a variety of ways, including revisions to the welding procedures, additional training for welders, recruitment of specialty welders on a national basis, analysis of welding challenges by industry experts, frequent conversations with the national leadership of the United Association trade union (the trade which includes pipefitters and pipe welders), and productivity improvement workshops with the welders themselves. All of these mitigating activities have been described in more detail in Mr. Womack's testimony in other IGCC proceedings.

Mr. Womack noted that electrical work necessarily follows the piping work. So, if there are delays in the piping work, there will be delays in the electrical work. However, Mr. Womack strongly disputed Mr. Schlissel's implication that these problems are evidence of imprudence. Rather, these delays occurred despite the prudent decisions and actions of our experienced IGCC Project team in response to the scope increases. Mr. Womack explained that 770,000 feet of pipe simply cannot be installed in the same time period as the originally planned 450,000 feet. Similarly, 6 million feet of wire and cable cannot be installed in the same time period as the originally planned 3 million feet of wire and cable. All these issues have been described extensively in previous testimony.

Similarly, Mr. Womack indicated that the impact on the start-up schedule should not be a surprise given the extent of the commodity quantity growth. In order to preserve as much of the schedule as possible, however, the timing of the test and start-up activities was more closely coupled with the construction activities. This approach helped mitigate the impact of construction delays on the test and start-up program.

Mr. Womack explained that during the April to September 2011 period, the primary testing activities were device checks. As with other commodities, such as tons of steel and linear feet of pipe, the number of devices to be checked out during the test and start-up program increased from a little over 20,000 to over 30,000. With over 30,000 device checks to be performed, this was a major challenge. The problems encountered during this period were generally typical of other projects, but because of the increase in the number of devices they occurred in a much more significant volume. However, Mr. Womack also pointed out that the backlog of system walkdowns and turnovers mentioned in the September 2011 monthly progress report has not impacted the IGCC Project schedule; the IGCC Project team was able to assemble enough walkdown teams to quickly work through the backlog.

Mr. Womack also took issue with Mr. Schlissel's assertion that a "sharp and deep conflict" between Duke and GE regarding the IGCC Project schedule began to have a significant impact on the IGCC Project during the IGCC-8 review period. Mr. Womack explained that there has been

and, to some extent, there continues to be a lack of consensus between Duke and GE regarding the sequence and timing of certain critical NPI and safety system testing, which GE will perform. This testing occurs between March 14, 2012 and the eventual Substantial Completion milestone. And this disagreement, in and of itself, does not impact the IGCC Project schedule. It simply means that Duke believes certain commissioning activities can be performed at different times and with different durations than does GE. Mr. Womack noted that Duke and GE were meeting frequently on this issue, and that within the last few weeks, GE has begun to provide previously unrevealed sequencing restrictions of certain testing activities, which may bring Duke's view of sequence and timing more in line with GE's view. Mr. Womack emphasized that Duke and GE continue to discuss and evaluate the evolving information from GE and ways to mitigate the potential delays, and in any event, the Company's view versus GE's view are now less than one month apart.

6. Testimony on Proposed Depreciation Rates, Costs of Removal and Ratemaking Treatment.

A. Petitioner's Testimony. As discussed in the testimony of Ms. Douglas, the Commission's Order in Cause No. 43114 ordered the Company to conduct a depreciation and cost of removal study prior to the IGCC Project going in-service and provide the results of such study, including any amount of negative net salvage value requested, to the Commission in one of its semi-annual IGCC Rider filings, prior to the commercial operation date of the IGCC Project.

Mr. John J. Spanos, Vice President of Gannett Fleming, Inc., sponsored the electric plant depreciation study performed for Duke Energy Indiana for the IGCC Project. Mr. Spanos' report, entitled "Depreciation Study - Calculated Annual Depreciation Accruals Related to Edwardsport IGCC Electric Plant as of June 30, 2011" and submitted into evidence as Petitioner's Exhibit D-1, sets forth the results of Mr. Spanos' depreciation study for Duke. Mr. Spanos testified that in preparing the depreciation study, he followed generally accepted practices in the field of depreciation and valuation. More specifically, Mr. Spanos testified that he used the straight line remaining life method of depreciation, with the equal life group procedure. He explained that the annual depreciation is based on a method of depreciation accounting that seeks to distribute the unrecovered cost of fixed capital assets over the estimated remaining useful life of each unit, or group of assets, in a systematic and rational manner. Mr. Spanos testified that, using the life span technique, he has estimated an overall probable life of the IGCC Project of 34 years. Net salvage percentages were estimated using historical data from existing Duke facilities, as well as data from other electric utility companies. Mr. Spanos also incorporated a decommissioning estimate in his net salvage percentage for the IGCC Project, which decommissioning estimate was based upon a IGCC Project-specific decommissioning study performed by Sargent & Lundy. Mr. Spanos explained that he then calculated the annual depreciation accrual rates for each group based on the straight line remaining life method, using remaining lives weighted consistent with the equal life group procedure. The resulting depreciation calculations are shown in Petitioner's Exhibit D-1, beginning on page III-13.

Mr. Robert G. Presnak, Senior Vice President of Sargent & Lundy, sponsored the dismantling study which Mr. Spanos incorporated in his net salvage percentage for the IGCC Project. Mr. Presnak explained that Sargent & Lundy performed the dismantling study by referencing previous demolition cost studies for Duke and by performing a literature search to assess current public information relative to demolition costs for decommissioning of generating units. Mr. Presnak explained that his firm also queried a number of demolition contractors for information relative to

dismantling buildings and equipment with the intent to assess local labor requirements for demolition work, types of demolition equipment used, and demolition work schedules. According to Mr. Presnak, Sargent & Lundy then made several assumptions with respect to the decommissioning of the IGCC Project, with respect to removal of chemicals, de-energizing of electrical and control equipment, and status of foundations, underground utilities, and underground piping. Assumptions were also made that there would be sufficient room on site to dispose of all non-hazardous debris, and that there was sufficient fill material on site to cover all of that debris. In Mr. Presnak's opinion, many of these assumptions are very conservative and minimize the dismantling costs to the extent that the estimated costs represent the lower end of the range of potential dismantling costs. Mr. Presnak explained that next, Sargent & Lundy used the general arrangement drawings of the IGCC facilities, site photographs, and information collected during site visits to estimate the quantities of materials that would have to be removed. Sargent & Lundy then applied the cost information developed above to these quantities and the anticipated project schedule to estimate the overall cost of decommissioning the facilities. Petitioner's Ex. E-2 contains Sargent & Lundy's estimate for the cost of demolition of the IGCC Project. In Mr. Presnak's opinion, these estimates were carefully prepared, using standard and accepted estimating techniques and the best information available, and are consistent with other available data and industry experience. Although assumptions were necessary, Mr. Presnak opined that the assumptions were reasonable and that the estimates are as accurate as possible.

Ms. Diana Douglas testified on behalf of the Company with respect to ratemaking issues. She explained that the purpose of her testimony was to explain the Company's request for timely recovery of costs in connection with the Company's IGCC Project, including CWIP ratemaking treatment for retail jurisdictional IGCC Project expenditures. Ms. Douglas explained that she developed rates, and presented exhibits, under two different scenarios: (1) using the currently approved ratemaking for the IGCC Project, as approved by the Commission in its orders in the IGCC CPCN case, IGCC-1 and subsequent semi-annual update filings, including most recently on an interim basis in the IGCC-4 case; and (2) reflecting rate mitigation measures set forth in the Supplemental Testimony of Mr. Kent K. Freeman filed in the pending Subdocket proceeding. As discussed in Freeman's Supplemental Testimony in the Subdocket Proceeding, the Company proposed, on a prospective basis, to eliminate the approved incentive deferred income tax ratemaking treatment by including accumulated deferred income taxes as a zero cost source of funds in the capital structure for the entire cost of the IGCC Project. In addition, the Company proposed to include a reduction to the retail revenue requirement to reflect a reduction in depreciation expense resulting from the implementation of new depreciation rates from a new depreciation study for in-service plant (other than the IGCC Project).

Following the execution of the Settlement Agreement in the Subdocket Proceeding, Ms. Douglas filed Supplemental Testimony in this proceeding, identifying the specific changes to the proposed IGCC 8 Rider required by the Settlement Agreement, specifically: (1) the elimination of the deferred tax incentive, as proposed in Mr. Freeman's Supplemental Subdocket testimony; (2) a reduction in retail revenue requirements to reflect the reduction in depreciation expense as proposed in Mr. Freeman's Supplemental Subdocket testimony; and (3) the implementation of the Settlement Agreement's Hard Cost Cap. In her Supplemental Testimony, Ms. Douglas thus presented rates developed under a third scenario, the Subdocket Settlement scenario.

On behalf of Duke, Ms. Diana Douglas requested that the Commission approve the following: (1) the value of the IGCC Project (as of September 2011) upon which the Company is

requesting authorization to earn a return; (2) the amount of Duke's expenditures for the IGCC facility incurred through September 30, 2011; (3) recovery of amortized regulatory filing expenses (related to the IGCC CPCN proceeding); (4) recovery of incremental fees and expenses of Black & Veatch (the Commission's independent engineering firm for the IGCC Project, paid for by the Company), incurred by the Company from April 2011 through September 2011; (5) recovery of a portion of the external costs, incurred through September 2011, of preparing and presenting the depreciation rates and dismantlement study for the IGCC Project; (6) reconciliation of actual depreciation expense incurred from April 2011 through September 2011 to the estimated depreciation expense amount previously included in IGCC-6 on the portion of the IGCC Project that has been placed into service (certain IGCC Project-related transmission facilities); (7) recovery of estimated depreciation expense from April 2012 through September 2012 on the portion of the IGCC Project that has been placed in-service (certain IGCC Project-related transmission facilities); (8) reconciliation of revenue requirements for operating expenses pending approval for recovery in Cause No. 43114 IGCC-6 to actual collections from April 2011 through September 2011; (9) the inclusion of a voluntary credit to HLF customers to correct for a clerical error in the development of IGCC-4 rates; and (10) adjustment of Petitioner's retail electric rates, via the IGCC Rider (Rider 61), to reflect the revenue effect of such investment and cost recovery. Ms. Douglas' testimony also discussed the impact of depreciation rates proposed by the Company. In the event of Commission approval of the terms of the Subdocket Settlement Agreement, including the approval of the proposed depreciation rates presented in the Subdocket, Ms. Douglas also requested on behalf of the Company that the Commission approve a credit to reflect the jurisdictional impact of the proposed change in depreciation rates for in-service plant, and that Petitioner's Exhibit F-2, (consisting of its updated Rider 61 modified to reflect the Subdocket Settlement Agreement provisions) be approved.

Ms. Douglas' testimony provided an overview of Rider 61 (Petitioner's Exhibit F-2), and identified proposed changes to the Company's Rider 61. Her testimony explained that Petitioner's Rider 61 includes definitions of the components of the formula used to develop the IGCC Revenue Adjustment Factors, a formulaic representation of the calculations used in developing the factors, revenue adjustment factors by retail rate group, a listing of retail allocation factors (based on the allocation factors approved in the Company's last general retail electric base rate case), and the billing cycle kWh and/or non-coincident peak demands used to develop the proposed IGCC Cost Recovery Adjustment.

In addition, Ms. Douglas' testimony explained Petitioner's Exhibit C-3, indicating that this exhibit sets forth schedules for the IGCC Project and includes the following data, consistent with the requirements of 170 IAC 4-6-12 and the Commission's Orders in Cause Nos. 43114, 43114-S1 and 43114 IGCC-1: total expenditures for the IGCC Project as of September 30, 2011; IGCC Project expenditures applicable to the Company's wholesale jurisdictional customers; retail IGCC facility investment as of September 30, 2011; and the amount of retail AFUDC included in the cost of the IGCC Project as of September 30, 2011. Ms. Douglas stated that Mr. Womack provided in his direct prefiled testimony and exhibits the estimated cost of completing the IGCC Project; the construction start date; the current stage of completion; the estimated or actual in-service date.

Ms. Douglas testified that the jurisdictional balance of the Company's investment in the IGCC Project subject to CWIP ratemaking treatment per the Company's accounting books and records was \$2,679,438,000 as of September 30, 2011. However, with the implementation of the Settlement Agreement's Hard Cost Cap, the jurisdictional balance of the Company's investment in

the IGCC Project subject to CWIP ratemaking treatment is limited to \$2,405,000,000 as of September 30, 2011.

Ms. Douglas also explained the proposed ratemaking treatment for the costs of four IGCC Project-related transmission projects, which are in-service and were included in the Commission-approved IGCC Project estimate and listed on Petitioner's Exhibit C-3, page 1. Ms. Douglas explained that for the two transmission projects that qualify as part of the Midwest Independent Transmission System Operator's ("MISO") transmission expansion plan and are recognized by the MISO as Regional Expansion and Criteria Benefit ("RECB") projects, the Company will first seek cost recovery for such projects pursuant to its Rider No. 68 and the MISO's Schedule 26, consistent with the Commission's June 25, 2008 Order in Cause No. 42736-RTO14. If and to the extent that costs for an IGCC-related transmission project are not eligible for recovery through Rider No. 68 and Schedule 26, then the Company will seek cost recovery for such project (or portion of a project) through the IGCC Rider. The projects are in-service, and the Company expects a 50% reimbursement for such RECB projects; therefore, the Company has included 50% of the value of the projects in its IGCC Project valuation for CWIP ratemaking purposes (representing the 50% of the projects that are not expected to receive MISO RECB reimbursement). Accordingly, Page 1 of Petitioner's Exhibit C-3 shows the expenditures for the two RECB projects, including the reduction in IGCC Project expenses by the 50% amount for which the Company expects to be reimbursed by MISO through the RECB process. The retail jurisdictional IGCC Project investment at September 30, 2011 (before netting of accumulated depreciation) was \$2,405,000,000, as shown on Petitioner's Ex. F-3, page 1.

Ms. Douglas' testimony presented the calculation of the jurisdictional revenue requirement applicable to the IGCC Project investment through September 30, 2011, net of accumulated depreciation. Ms. Douglas explained that page 2 of Petitioner's Ex. C-3 shows the amount of accumulated depreciation as of September 30, 2011, applicable to the IGCC Project investment. Currently, the only portions of the IGCC Project that have been placed in service and are being depreciated are the four transmission projects. The retail jurisdictional accumulated depreciation applicable to the jurisdictional IGCC Project investment as of September 30, 2011, was approximately \$415,000, which reflects the reduction due to the anticipated 50% MISO RECB reimbursement amount. The net retail jurisdictional IGCC Project investment at September 30, 2011 was, therefore, \$2,679,023,000. After imposition of the Settlement Agreement Hard Cost Cap, the net retail jurisdictional IGCC Project investment as of September 30, 2011 was \$2,404,585,000.

Page 1 of Petitioner's Exhibit F-3 shows the calculation of the jurisdictional revenue requirement for the return on the net jurisdictional IGCC Project investment. The net retail jurisdictional plant amount of \$2,404,575,000 was multiplied by the Company's overall weighted average cost of capital of 6.99% as of September 30, 2011, which was computed consistent with traditional Indiana ratemaking (*i.e.*, deferred income taxes were included in the capital structure as zero cost capital), resulting in a six-month after tax return in the amount of \$84,040,000. After application of the revenue conversion factor, the total jurisdictional revenue requirement for the IGCC net book value requested for this six-month filing is \$126,116,000. This compares to a total revenue requirement of \$140,511,000 prior to the imposition of the Hard Cost Cap.

Ms. Douglas discussed the derivation of the Company's weighted average cost of capital as of September 30, 2011, as shown on Petitioner's Exhibit C-3, pages 9 and 10. Ms. Douglas stated

that the weighted average cost of capital has been calculated consistent with the Commission's administrative rules, the Commission's CPCN Order, and the Company's proposal (and now a provision of the Subdocket Settlement Agreement) to prospectively terminate the deferred income tax incentive for the Project and include deferred income taxes in the capital structure as zero cost capital.

Page 3 of Petitioner's Exhibit F-3, shows the calculation of the IGCC Revenue Adjustment Factors, by jurisdictional rate group. Also, in accordance with the Subdocket Settlement Agreement (and Company's proposal and as discussed in Mr. Freeman's Supplemental Subdocket testimony), the Company has included one half of an annual \$35.175 million credit for reduced depreciation (\$17,587,500) on this schedule, thereby reducing the total revenue requirement and IGCC generating facility revenue adjustment factors.

Ms. Douglas also summarized AFUDC applied to the Project for the period April 2011 through September 2011, as shown on page 11 of Petitioner's Exhibit C-3. Ms. Douglas said that AFUDC is accrued on the IGCC Project expenditures, including previously computed AFUDC amounts, until such expenditures and AFUDC amounts begin earning a return through Rider 61 or through base rates.

Ms. Douglas noted that consistent with 170 IAC 4-6-22 and in accordance with the Commission's CPCN Order, the IGCC Project will be deemed to be under construction, and Duke will continue to receive revenues through Rider 61, until the Commission determines that this project is used and useful in a proceeding that involves the establishment or investigation of Duke's retail electric base rates and charges.

Ms. Douglas explained the calculation of the jurisdictional revenue requirement applicable to IGCC Project-related operating expenses. These operating expenses included: external costs associated with the IGCC CPCN retail regulatory filing (excluding employee expenses, and modified to achieve recovery over a 4-year amortization period); fees and expenses incurred by the Company for services by Black & Veatch relating to IGCC Project oversight for the Commission from April 2011 through September 2011; external costs through September 2011 of preparing and presenting for Commission approval the dismantlement study for the IGCC Project; actual depreciation expense, reconciled against forecasted depreciation expense; and forecasted depreciation expense. In addition, Ms. Douglas explained in her supplemental testimony that a credit for one-half of the annual amount of the Indiana Coal Gasification Technology Investment Tax Credit (\$15 million on an annual basis), which the Company will be eligible to receive once the Project is in-service, was also included.

The Company's external costs associated with the IGCC CPCN retail regulatory filing, excluding employee expenses, through December 31, 2007, totaled \$632,571. The Commission's CPCN and IGCC-1 Orders authorize the Company to amortize and recover these external costs over a 48-month amortization period. In previous IGCC Rider proceedings, the Company included 42 months of amortization for a total of \$553,518, leaving \$79,053 to be recovered in this proceeding, which will complete the amortization.

Ms. Douglas' testimony also demonstrated that the fees and expenses incurred by the Company from April 2011 through September 2011, for services by Black & Veatch for IGCC Project oversight, totaled \$383,409.

Ms. Douglas noted that the Company was ordered in the Commission's CPCN Order to conduct and present a depreciation study, including the results of a dismantlement study developing the cost of removal or negative net salvage value for the Project, in one of the semi-annual IGCC Rider filings before the plant goes into service. Accordingly, the Company has conducted and is presenting in this proceeding such study for Commission approval of the resulting depreciation rates to be used once the IGCC Project is declared in-service and depreciation of the plant begins. The Company has included in this filing a portion (\$23,455) of the incremental external costs the Company has incurred to conduct and present these studies through September 2011, relating to the dismantlement study only. The Company expects it may incur additional external costs related to the presentation of the studies, and it would propose to include any additional costs relating to the dismantlement study for recovery in a future IGCC Rider proceeding. The Company does not intend to ask for recovery of the other non-dismantlement study external costs incurred or to be incurred for the depreciation study.

Ms. Douglas stated that actual retail jurisdictional depreciation expense during the April 2011 through September 2011 period totaled \$111,180. This amount was reconciled with the estimated amount of depreciation for the same period that was included in IGCC-6 (\$102,903), and the variance of \$8,277 was included in this filing.

Ms. Douglas testified that the estimated depreciation expense for the April 2012 through September 2012 six-month forecast period was \$119,587.

The total of all these operating expense items, \$613,781, was included in the calculation of the total revenue to be recovered from retail customers. After application of the revenue conversion factor, the total retail jurisdictional amount to be recovered for operating expenses in this filing is \$626,885. In her Supplemental Testimony, however, Ms. Douglas noted that this six-month retail jurisdictional amount for operating expenses was being reduced by \$7,642,619, to reflect the impact of the state investment tax credit discussed previously, resulting in a credit to retail revenue requirements in this filing of \$7,015,734.

Next, Ms. Douglas explained that she had reconciled the retail jurisdictional revenue requirements pending approval for recovery in IGCC-6 applicable to operating expenses, to actual collections through retail rates received from April 2011 through September 30, 2011. This reconciliation resulted in an over collection of \$32,811, which amount has also been included as a credit in the development of the IGCC rider factors proposed in the current proceeding.

Finally, Ms. Douglas explained the Company's voluntary credit adjustment to revenue requirements in the amount of \$663,557, reducing the proposed rate for HLF customers, to correct for a tracker administration clerical error. This error affected the rates that were proposed, approved, and billed to HLF customers beginning in July 2010. The error stemmed from the use of an incorrect value for the kW billing determinants used to establish the rates approved in IGCC-4. The billing determinant used was understated, which caused the IGCC-4 factor to be overstated. Accordingly, the Company proposed in this proceeding to provide the HLF customer class with a credit for the amount of the difference between what they were billed under IGCC-4 rates through September and what they would have been billed had the error not occurred. Ms. Douglas stated that the kW billing determinants for HLF have been computed correcting for this error in this proceeding.

According to Ms. Douglas, the total adjusted revenue requirement for this filing, consistent with the Subdocket Settlement Agreement provisions and reflecting inclusion of the state tax credit, is \$100,816,398, a \$22,037,619 reduction from what was initially filed in this case.

Ms. Douglas also described the impact of the proposed IGCC Project ratemaking treatment on the monthly bill of a typical residential customer using 1,000 kilowatt-hours. The factor initially proposed in this proceeding would result in an increase in the monthly bill of a residential customer using 1,000 kilowatt-hours by \$2.86 or approximately 3.5%, over the factor proposed in IGCC-7, which equates to an increase of \$5.51 or 6.9% over the base bill plus the IGCC-4 factor currently in place. However, with the incorporation of the Subdocket Settlement terms and the state tax credit impact, the monthly impact on a typical residential customer using 1000 kWhs would be reduced \$1.80 from that initial proposal.

Ms. Douglas explained that the Company is requesting Commission approval of the depreciation rates by FERC account presented in Mr. Spanos' testimony (Petitioner's Exhibit D-1). The Company is proposing that these rates be used to depreciate the Project investment (other than the transmission projects which are already in-service) once the Project is declared in-service. Ms. Douglas emphasized that, as with all depreciation rates, the rates are estimates requiring assumptions for useful lives of equipment and costs to dismantle the equipment. Mr. Spanos' estimated depreciation rates, along with the dismantlement (negative net salvage) amounts determined by Mr. Presnak's dismantlement study (Petitioner's Exhibit E-2), produced an average depreciation rate of 4.20%. (This compares to the Company's previous estimated average depreciation rate of 3.67, which was used in the Company's previous rate impact analyses in the Subdocket proceeding.)

B. OUCC's Testimony. OUCC witness Mr. Wes Blakley, Senior Utility Analyst for the OUCC, testified concerning the IGCC-8 Rider rates contained in Ms. Douglas' initial and supplemental testimony. Mr. Blakley's testimony indicated that the original revenue requirement requested in IGCC-8, which reflected previous rate mitigations proposed by Petitioner in the Subdocket, was approximately \$123 million. With all the rate mitigations contained in the Subdocket Settlement Agreement, Petitioner's revenue requirement request in its supplemental IGCC-8 testimony becomes approximately \$101 million, a \$22 million reduction. This lowers the request from the original IGCC-8 filing for residential customers from \$10.05 per 1000 kWh to \$8.26 per 1000 kWh, and lowers the proposed rate approximately \$1.80 a month for residential customers using 1000 kWh.

Mr. Blakley also confirmed that the figures used in the calculation of its IGCC-8 adjustments factors, including the rate mitigations per the settlement agreement in IGCC 4S1, are supported by the testimony, exhibits, and workpapers filed by the Petitioner.

C. Joint Intervenors' Testimony. Joint Intervenors' witness Mr. Kerwin L. Olson testified that the purpose of his testimony was to address why granting Duke relief would not be appropriate. Mr. Olson emphasized that the limited nature of his testimony did not signal agreement with Petitioner's positions or its requested relief.

First, Mr. Olson opposed the requested relief because in his opinion, the proceeding is premature at best due to problems with the timing of the procedural schedule, which deprives Joint

Intervenors of the opportunity for adequate review and therefore deprives the Commission of the information it needs to fairly and adequately adjudicate this proceeding. In support of his assertion, Mr. Olson stated that this proceeding is dependent upon findings to be made in the 4S1 Subdocket case. In further support, he stated that the Joint Intervenors have not had adequate time complete their review for this proceeding, in large part because Joint Intervenors' outside experts (Messrs. Schlissel and Smith) needed several more weeks in order to complete their review and coordinate their testimony. Third, Mr. Olson emphasized that a close review of this IGCC-8 proceeding is important because the review and ratemaking period in this proceeding also includes the critical initial phases of startup, testing, validation and commissioning for this "first of a kind at its scale" "mega-project." Mr. Olson stated that startup, testing, validation and commissioning at Edwardsport are especially significant and complex, because they necessarily inter-relate with General Electric's extensive and intensive NPI process for both the Project as a whole and major components of the Project individually. Further, Mr. Olson asserted that Joint Intervenors have recently learned through discovery that there have been issues and problems of major significance during the start-up, testing, validation and commissioning phase.

Mr. Olson also opposed the ratemaking relief requested because the Joint Intervenors do not believe that CWIP ratemaking treatment is appropriate for this Project. He testified that, traditionally, the ratemaking principles of used and useful and interperiod equity have resulted in regulatory commissions refusing to allow CWIP in rate base. In effect, the rationale for the traditional treatment is that present utility customers should not be required to pay for a plant that is not providing or capable of providing their specific service. Also, present utility customers should not be required to pay for a plant under construction because that plant is for the benefit and use of future customers. Thus, rather than violate the regulatory principles of used and useful and interperiod equity, CWIP has generally been excluded from rate base. By excluding CWIP from rate base, the utility does not earn a return on the capital it has expended for the construction. In order to allow the utility an opportunity to earn a return on capital expended for construction and also to defer actual payment by the ratepayers of that return until the plant is in service, the accounting entry known as AFUDC is utilized and capitalized and added to the construction costs in the CWIP account upon the in-service date of the plant in question. This increases the size of the addition to rate base when the project comes online.

According to Mr. Olson, many regulatory jurisdictions still do not permit CWIP in the rate base and very few allow 100% of CWIP in the rate base for inmajor construction projects. Others, like Indiana in his view, allow CWIP in rate base in some amount in some circumstances, for example: (1) for certain projects; (2) for projects being constructed by financially distressed utilities; or (3) on some part of the CWIP balance. In support of this assertion, Mr. Olson referred to CAC Exhibit KLO-1, the *Current Return on CWIP versus AFUDC Regulatory Survey Results*, March 2006, which was produced by the Wisconsin Public Service Commission and reports the varying regulatory treatment for CWIP in the limited number of jurisdictions that completed the survey.

Mr. Olson stated that Joint Intervenors have consistently opposed the inclusion of CWIP for the IGCC Project. Mr. Olson explained that he believes CWIP ratemaking treatment is bad for customers because it: (1) converts consumers into involuntary investors; (2) costs consumers more, sooner than AFUDC; (3) exacerbates the weak financial position of many ratepayers, especially coming out of the recent Great Recession; (4) insulates utilities from marketplace discipline on

controlling costs and uses of capital; and (5) rewards utilities for their inability to control construction costs. He testified to as to his rationale on these points.

Mr. Olson testified that it is the position of Joint Intervenors that Duke is not entitled to recovery through rates of a current cash return on the costs of the additional construction work in progress investment made by the Company during the six-month ongoing review period covered by this proceeding, unless and until the Commission affirmatively finds in the Subdocket that the Project still is needed and that the costs incurred were prudent and unaffected by fraud, concealment and gross mismanagement. As of the date of the prefiling of Mr. Olson's testimony, the Commission had not made those findings.

Mr. Olson emphasized that he was not offering any opinions on the prudence of the costs at issue, or whether those costs have been affected by fraud, concealment, or gross mismanagement. Rather, consistent with the legal position and testimony filed by Joint Intervenors in the IGCC-5 and IGCC-6 cases, the issue of prudence relating to the Company's decisions, actions and expenditures with respect to the Edwardsport Project during the six-month ongoing review period covered by this proceeding should be contingent upon the results of the investigation in the Subdocket proceeding.

Mr. Olson emphasized his belief that Joint Intervenors, OUCC, and the Industrial Group filed compelling evidence in both Phase I and Phase II of the Subdocket proceeding that Duke has been imprudent, and that its conduct constituted concealment and gross mismanagement. In particular, according to Mr. Olson, Joint Intervenors filed testimony that the Company imprudently failed to update its economic analysis after April 1, 2009, in a reasonable and timely manner after it recognized that the Edwardsport Project was going to cost more than the \$2.35 billion that the Commission had approved in the IGCC-1 case. In addition, Mr. Olson noted that both the OUCC and the IG also filed testimony arguing for significant cost disallowances. Furthermore, Joint Intervenors and others have filed testimony in the Subdocket case alleging fraud, concealment and gross mismanagement.

More specifically, Mr. Olson testified that Joint Intervenors recommended in the Subdocket proceeding that the Commission find that:

The Company should not be permitted to rely on the Commission's IGCC-1 Order for any recovery through rates of the cost of building the Edwardsport Project, whether that recovery is associated with completion or cancellation of the Project; and

The Company also should not be permitted to rely on the Commission's IGCC CPCN Order for any recovery through rates of the cost of building the Edwardsport Project, whether that recovery is associated with completion or cancellation of the Project.

According to Mr. Olson, the cost recovery being sought in this proceeding would be inconsistent with the Commission making either or both of those findings. Likewise, the cost recovery requested in this proceeding would also be inconsistent with the Commission making a

finding adopting the recommendation opposing CWIP that Mr. Olson made in his supplemental testimony in the IGCC-5 case.

D. Petitioner's Rebuttal Testimony. Ms. Douglas first responded to Mr. Olson's contention that CWIP ratemaking was inappropriate for the IGCC Project. Ms. Douglas emphasized that there are valid arguments in favor of CWIP ratemaking treatment, notably that such treatment provides for a more gradual phase-in of rate increases and is supportive of utility credit quality, which translates into lower debt financing costs in customer rates. In addition, she noted that the Indiana legislature has already made the decision that "clean coal and energy projects" and "eligible businesses" building "new energy producing and generating facilities" should be eligible for CWIP ratemaking treatment, citing Ind. Code Chapter 8-1-8.8. Moreover, she stated that the Commission has determined that the IGCC Project meets the statutory definitions set forth in Ind. Code Chapter 8-1-8.8, and as such, has appropriately approved CWIP ratemaking treatment for the IGCC Project in the IGCC CPCN case and in subsequent IGCC Rider cases. In Ms. Douglas' view, the proper forum for Mr. Olson's argument continues to be the Indiana General Assembly rather than the Commission.

Ms. Douglas also pointed out that Mr. Olson was incorrect in stating that the formula for calculating CWIP rates includes both debt and equity, while the formula for calculating AFUDC rates includes only debt. Ms. Douglas explained that the general instructions for the computation of AFUDC rates from the Federal Energy Regulatory Commission (found in the Code of Federal Regulations) shows that the AFUDC computation includes equity capital as well as debt capital, using the cost rate for common equity granted in the last rate proceeding before the ratemaking body having primary rate jurisdiction. Ms. Douglas stated that this is the same equity cost rate used in CWIP cost of capital calculations.

Finally, Ms. Douglas noted that Mr. Olson had not questioned the accuracy of the Company's rate calculations as presented in her testimony or exhibits; nor does he, Mr. Schlissel or Mr. Smith state that the rates proposed in her exhibits were not computed in accordance with the Commission's order in IGCC-1.

7. Commission Discussion and Findings.

A. The Commission's Order in the Subdocket. On April 30, 2012, Duke, the OUCC, the Duke Energy Indiana Industrial Group, and Nucor Steel-Indiana, a division of Nucor Corporation, presented a settlement agreement to the Commission in the Subdocket (the "Settlement Agreement"). The Joint Intervenors did not join in this Settlement Agreement, and in fact opposed the Settlement Agreement at the July 16-19, 2012, evidentiary hearing held on the Settlement Agreement.

With regard to this IGCC-8 proceeding, the Settlement Agreement contemplates that, if the Commission approves the Settlement Agreement, and if the Commission finds that the IGCC Project costs incurred and presented in the IGCC Rider proceedings – up to the Hard Cost Cap as defined therein - are reasonable and necessary, then the Commission should promptly "restart" the IGCC Riders, consistent with the Settlement Agreement.

Given the timing of the hearings in the Subdocket and this IGCC-8 proceeding, the parties to the Settlement Agreement have suggested that the simplest and most efficient approach for

restarting the IGCC Riders would be for the Commission to issue orders in the IGCC-5 through IGCC-8 Rider proceedings contemporaneously with approval of the Settlement Agreement. Under this proposal, as a practical matter, although orders would be issued in IGCC-5, IGCC-6 and IGCC-7, the proposed rates in those three rider proceedings would not be implemented. Rather, only the relatively more recent proposed rates in IGCC-8 would be implemented, as defined therein.

However, it should be noted that the IGCC Rider 8 proposed rates contain operating expense items, such as depreciation expenses related to the Edwardsport transmission line projects and other Operations and Maintenance (“O&M”) expenses, that the Company believes should be approved (and ultimately recovered through the Rider reconciliation process in future Rider proceedings). For example, in this IGCC-8 proceeding, the Company’s filing reflects the following depreciation and O&M expenses: \$111,180 in depreciation expenses (related to transmission investments) for the six months ended September 2011 (retail jurisdictional portion); \$79,053 in amortization of regulatory filing expenses (retail jurisdictional portion); and \$383,409 in Black & Veatch expenses (retail jurisdictional portion). We note that no party has opposed the reasonableness or ultimate recovery of these depreciation and O&M expenses.

Contemporaneous with the issuance of this Order, we are issuing an Order in the Subdocket approving the Settlement Agreement subject to some modifications, and IGCC-5, 6, and 7.

B. Ongoing Review Progress Report for IGCC-8. Mr. Womack was cross-examined concerning the IGCC Project monthly progress report and issues relating to start-up and testing activities. In particular, counsel for Joint Intervenors questioned Mr. Womack about the critical path and schedule delays resulting from the increase in bulk commodity quantities, an audit report examining the IGCC Project scheduling and costing, disagreements or disputes between the Company and GE and Bechtel, and the schedule for start-up and testing. The Company provided information to satisfy the information reporting requirements to the Commission as specified in our Orders in IGCC-1 and IGCC-2. Furthermore, Mr. Womack was cross-examined concerning start-up and testing.

In the IGCC-4S1 Order, we extensively explored the issues underlying the commodity increases that had impacted the IGCC Project up through the September 30, 2010, time period. During the Evidentiary Hearing in this proceeding, Mr. Womack testified how the increased commodity quantities had directly resulted in numerous schedule delays. Further, the increased commodity quantities required more labor to install, which lowered anticipated productivity. Additionally, certain of the commodities had to be installed first, which held up installation of other commodities. Thus, the facts explored in IGCC-4S1 that resulted in increased commodity quantities clearly continue to have an impact on the IGCC Project through the ongoing review period of this proceeding.

Joint Intervenors argue that Duke “is not entitled to recovery through rates of a current cash return on the costs of the additional construction work in progress investment made by the Company during the six-month ongoing review period covered by this proceeding unless and until the Commission affirmatively finds in Cause Number 43114 IGCC-4S1 that the project is needed and that the costs incurred were prudent and unaffected by fraud, concealment and gross mismanagement.” In the IGCC-4S1 Order, we found a continuing need for the IGCC Project, but that Duke had not met its burden of showing that the management of its contractors, GE and Bechtel, was prudent. Additionally, we found that Duke’s decision to continue with the deep well

injection option for grey water disposal after learning that the grey water would likely be hazardous was imprudent. One issue addressed in this ongoing review relates to the start-up and commissioning schedule for the IGCC Project. Joint Intervenors argue that a sharp divide exists between Duke and GE regarding the start-up and commissioning schedule. Duke admits to some disagreement with GE regarding the commissioning schedule. However, Duke also states that it accepted many of GE's changes, and that GE and Duke's schedules are less than a month apart from each other. Clearly, GE and Duke have made some progress on better understanding one another's position regarding the commissioning schedule.

The Commission's Order in Cause No. 43114 IGCC-4S1 concluded that the Settlement Agreement provided a reasonable outcome in light of a fact set that is not materially different than the fact set presented herein. We find that the information provided by the Company in its submitted testimony and the extensive cross-examination of Joint Intervenors satisfactorily presents the ongoing progress of the IGCC Project. In conjunction with the bargain implemented by the Settlement Agreement, we find it reasonable to approve the Ongoing Review Progress Report for IGCC-8.

C. Depreciation Rates (Including Cost of Removal) for the IGCC Project. The evidence in this case demonstrated that the Company's proposed depreciation rates, including costs of removal, for the IGCC Project were developed using generally accepted practices in the field of depreciation. No party presented testimony regarding the proposed depreciation rates for the IGCC Project, including the costs of removal. Accordingly, we find that such depreciation rates, including costs of removal, should be approved for the IGCC project.

D. Updated Depreciation Rates. Consistent with our approval of revised depreciation rates in the Subdocket (as a part of the Subdocket Settlement Agreement), the Company is directed to credit its retail electric customers with \$35 million annually for these depreciation rate changes through the IGCC Rider, beginning with the first full calendar month after the date of the Commission's Order in the Subdocket proceeding.

E. Ratemaking Issues. Joint Intervenors extensively cross-examined Ms. Douglas as to the implementation of the updated IGCC Rider and the associated calculations and assumptions contained in that Rider. However, Joint Intervenors did not present evidence of any miscalculations or propose any alternative calculations. The OUCC found the figures used in the calculation of the Rider to be supported by the exhibits of the Company. Based on our review of the evidence presented on this issue, we find that Duke's IGCC Rider, as sponsored by the testimony of Ms. Douglas, accurately reflects the net retail jurisdictional IGCC Project investment as of September 30, 2011 and the calculation of revenue requirements associated with such operating expenses. We further find that the Company's proposed IGCC-8 Rider as revised in Ms. Douglas' supplemental testimony and exhibits, accurately incorporates the provisions of the Subdocket Proceeding Settlement Agreement.

8. Petitioner's Request for Confidential Treatment. On December 19, 2011, Petitioner filed a Motion for Protection of Confidential and Proprietary Information ("Motion") in this Cause. In its Motion, Duke requested that certain details of various pricing and operating characteristic information for the IGCC Project (*e.g.* project cost estimates, details of forecasted operations and maintenance expenses of the IGCC Project, the detailed project schedules, operations staffing and training schedules, safety training, test and startup plans and procedures,

quality control information, commodity curves), confidential information provided to Duke by its two primary contractors, GE and Bechtel, and confidential information provided to Duke by other IGCC contractors and vendors, be treated as confidential and a trade secret and not subject to public disclosure (collectively referred to as "Confidential Information"). In support of its Motion, the Petitioner included sworn Affidavits supporting the Petitioner's request for confidential treatment from W. Michael Womack and GE and Bechtel representatives. Duke reaffirmed its position for treatment of Confidential Information in its June 5, 2012, and June 20, 2012 Motion[s] for Protection of Confidential and Proprietary Information.

In an April 18, 2012 Docket Entry, and again in June 8, 2012 and June 21, 2012 Docket Entries, the Presiding Officers made preliminary findings that the Confidential Information should be subject to confidential treatment. Pursuant to Indiana Code § 5-14-3-4(a)(4), we find that the Confidential Information submitted in this Cause is a "trade secret" and should continue to be held as confidential by the Commission.

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

1. The ongoing review progress report for the IGCC Project is hereby approved by the Commission based on the evidence of record.
2. The costs as reflected in the exhibits and testimony of Ms. Douglas and consistent with our findings above, including the actual IGCC Project costs incurred through September 30, 2011, are hereby approved as reasonable.
3. Petitioner's Confidential Exhibits and Joint Intervenors' Confidential Cross-Examination Exhibits presented in this proceeding are found to be confidential and a trade secret, excepted from public access, and will continue to be held as confidential by the Commission.
4. This Order shall be effective on an after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: DEC 27 2012

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



Brenda Howe
Secretary to the Commission