

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, INC. FOR)
CONTINUED APPROVAL OF ITS PARTICIPATION)
IN THE UTILITY MONEY POOL AGREEMENT BY)
AND BETWEEN CERTAIN OF ITS AFFILIATES)
AND INTERIM AUTHORITY, TO THE EXTENT)
DEEMED NECESSARY, TO CONTINUE)
PARTICIPATION IN THE UTILITY MONEY POOL)

CAUSE NO. 44212

APPROVED: SEP 05 2012

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On June 6, 2012, Duke Energy Indiana, Inc. ("Duke Energy Indiana" or "Petitioner") filed its Petition for Continued Approval to Participate in the Utility Money Pool Agreement ("MPA"), along with supporting testimony with the Indiana Utility Regulatory Commission ("Commission").

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 on August 15, 2012 at 1:30 p.m. in Room 222, of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Duke Energy Indiana and the Office of Utility Consumer Counselor ("OUCC") appeared, offered prefiled written testimony and stipulated to the approval of the requested relief subject to two conditions suggested by the OUCC. All evidence was offered and admitted into the evidentiary record of this proceeding by stipulation. No members of the general public appeared or sought to testify at the hearing.

Based upon applicable law and evidence of record, the Commission now finds:

1. Notice and Jurisdiction. Due legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Duke Energy Indiana generates and publicly distributes electricity, owns and operates a "public utility" as defined in Ind. Code § 8-1-2-1, and as such is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended.

2. Petitioner's Characteristics. Duke Energy Indiana is an Indiana Corporation with its principal office in the Town of Plainfield, Hendricks County, Indiana. Duke Energy Indiana is engaged in the business of generating and supplying electric utility service to approximately 780,000 customers located in 69 counties in the central, north central, and southern parts of Indiana.

3. Relief Requested. The MPA is an internal cash management agreement that since 1994 has allowed Duke Energy Corporation's utility subsidiaries to obtain least cost financing of their short-term working capital requirements. Duke Energy Indiana through the Money Pool Agreement is able to obtain short-term capital at lower rates than commercial short-term borrowing

rates, and without associated administrative costs. As detailed below, because of regulatory actions in Ohio, Duke Energy Indiana requests (1) immediate interim approval to continue to participate in the MPA during the pendency of this proceeding;¹ (2) continued approval for such participation until such time as Duke Energy Ohio transfers all of its generation assets, which will occur no later than December 31, 2014, and thereafter ongoing approval to participate in the MPA subsequent to Duke Energy Ohio's transfer of such assets.

4. **Background.** The MPA is an internal cash management agreement that allows Duke Energy's utility subsidiaries to obtain least cost financing of their interim capital requirements. In the Commission's March 15, 2006 Order in Cause No. 42873 ("Duke Merger Order"), the Commission approved several merger related agreements, including the MPA. Relevant to this proceeding, the Duke Merger Order provides:

PSI may borrow short-term funds in the financial markets or through the "Utility Money Pool Agreement" (Utility MPA), provided that the Utility MPA (a) is modified to exclude Tri-State Improvement Company; and (b) continues to provide that no loans through the Utility Money Pool will be made to, and no borrowings through the Utility Money Pool will be made by Duke Energy Corporation and Cinergy Corporation. *If, after December 31, 2008, certain of The Cincinnati Gas & Electric Company's generation assets are not dedicated to serving retail load in its service territory and are not subject to the rate stabilization plan (as approved in Case 03-93-AT A) or traditional regulation, then PSI shall obtain Commission approval to continue to participate in the Utility MPA.* PSI shall acquire its long-term debt funds through the financial markets, and shall neither borrow from nor lend to, on a long-term basis, Duke Energy Corporation or any of its other Affiliates. To the extent that PSI borrows on short-term or long-term bases in the financial markets and it is feasible to obtain a debt rating, its debt shall be rated under its own name.

Duke Merger Order, at 12 (emphasis added).

On June 20, 2011, Duke Energy Ohio submitted an application to the Public Utility Commission of Ohio ("PUCO") for authority to establish a standard service offer, in the form of a new electric security plan ("ESP"), pursuant to Ohio law. Thereafter a Stipulation was filed with the PUCO that provided for, *inter alia*, an ESP that includes provisions wherein Duke Energy Ohio will procure energy, capacity and market-based transmission service, and market-based transmission ancillary services requirement for its standard service load, for the three-year duration of the ESP (beginning January 1, 2012) through a competitive bid procurement plan. The Stipulation contained a commitment that Duke Energy Ohio would transfer title to all of its generation assets out of Duke Energy Ohio as soon as reasonably possible upon receipt of regulatory approvals, but in any event, no later than December 31, 2014. With Ohio regulatory approval of the Stipulation on November 22, 2011, effective January 1, 2012, Duke Energy Ohio's generation assets are no longer dedicated to serving retail load in its service territory and are no longer subject to traditional regulation, thus triggering the terms of the Merger Order highlighted above and giving rise to this proceeding. Once Duke Energy Ohio's generation assets are

¹ On July 27, 2012 the presiding officers through docket entry determined that there is no need for interim authority to participate in the MPA during the pendency of this proceeding because the original authority is still effective.

transferred out of Duke Energy Ohio, Duke Energy Ohio will be a fully and traditionally regulated transmission and distribution utility in Ohio. Thus, upon completing this transfer of generation assets, Duke Energy Ohio will be a party to the Money Pool Agreement as a traditionally regulated utility, without liability or financial responsibility for any non-regulated utility subsidiaries or affiliates owning generating assets. Therefore, for the limited “gap” period of time prior to such transfer, pursuant to the Duke Merger Order condition highlighted above, Duke Energy Indiana requests approval to continue to participate in the Money Pool Agreement. Consequently, after such transfer and closing of the gap period, no additional Commission approval should be required for continued participation by Duke Energy Indiana in the Money Pool Agreement per the terms of the Duke Merger Order.

5. Summary of Duke Energy Indiana’s Direct Evidence. Mr. Allen Carrick, Duke Energy Corporation (“Duke Energy”) Managing Director, Corporate Finance and Assistant Treasurer and Assistant Treasurer of Duke Energy Business Services, LLC, testified on behalf of Duke Energy Indiana. Mr. Carrick sponsored a copy of the MPA. He described the operations of the MPA and how this internal cash management agreement allows Duke Energy’s utility subsidiaries to obtain least-cost financing of their short-term interim capital requirements. Mr. Carrick stated that the MPA works by allowing Duke Energy affiliates that have surplus cash to make the surplus available to participants in the Money Pool. In turn, utility affiliates (including the Duke Energy Indiana) in need of short-term cash borrow from the Money Pool. He explained how this allows the elimination of duplicate administrative and operating costs that otherwise would be incurred. He testified that MPAs are common among utility holding companies and that this MPA has consistently provided Duke Energy Indiana with an efficient, low cost source of short-term working capital since 1994.

Mr. Carrick testified Duke Energy Indiana customers benefit from the MPA because it provides very low cost needed short-term capital, thus helping to minimize costs to serve customers. While the level of short-term borrowing varies from time to time, currently Duke Energy Indiana is a net borrower in the Money Pool, thus increasing the savings to Indiana customers. Conversely Duke Energy Ohio is a net lender.

Mr. Carrick also described the Ohio regulatory filings, and change of regulation in Ohio that created the “gap” period during which generation would be transferred out of Duke Energy Ohio. He described how this Ohio change, under the terms of the Merger Order, triggered the filing of this Petition in Indiana. He testified the gap period preceding completion of the Ohio generation transfers, would end by December 31, 2014, or perhaps sooner.

Mr. Carrick testified that Duke Energy Indiana customers will continue to benefit from continued participation in the MPA during the brief gap period and beyond. He had no reason to expect Duke Energy Indiana status as a net MPA borrower would change or that Duke Energy Ohio status as a net MPA lender would change.

Mr. Carrick described the recent savings that Duke Energy Indiana customers have enjoyed through the MPA. He fully supported the Commission approving Duke Energy Indiana’s continued participation in the MPA (1) during the pendency of this proceeding; (2) throughout the gap period preceding the completion of Duke Energy Ohio’s transfer of its generation assets; and (3) the ongoing participation in the MPA following the completion of Duke Energy Ohio’s transfer of its generation assets.

6. **Summary of OUCC Evidence.** Ms. Stacie Gruca, Senior Utility Analyst for the electric division testified on behalf of the OUCC. Ms. Gruca described her review of Duke Energy Indiana's filings, underlying documents from Cause No. 42873, and her participation in a collaborative meeting with Duke Energy Indiana regarding the facts and nature of the MPA and the requested relief.

Ms. Gruca testified the OUCC does not have concerns with Duke Energy Indiana's ongoing participation in the MPA following Duke Energy Ohio's transfer of generation assets. She noted that customers benefit from Duke Energy Indiana's participation in the MPA, that Duke Energy Indiana is a net borrower under the MPA and that the MPA has been and will remain a low cost source of needed short-term cash working capital regardless of the status of Ohio generation.

Ms. Gruca testified that the OUCC had two main concerns with respect to Duke Energy Indiana's participation in the MPA during the "gap" period when Duke Energy Ohio generation assets are being transferred. The OUCC questioned the possible risk to Duke Energy Indiana customers associated with Duke Energy Indiana's participation in the money pool when Duke Energy Ohio has access to the money pool while not a fully and traditionally regulated utility. The OUCC also questioned what would happen if the timetable for the transfer of assets were to get delayed or changed.

Ms. Gruca testified how she considered the information provided by Duke Energy Indiana and concluded that any risk to Duke Energy Indiana's customers during the "gap" period appears to be limited, if not non-existent, and that there is a greater risk to customers by preventing continued participation in the MPA during the gap period. She further noted the OUCC is supportive of financial tools that facilitate lower cost financing, that Duke Energy Indiana seeks to maintain its past compliance with the terms of the Duke Merger Order, and if there are any future changes to the MPA, Petitioner will file those changes with the Commission and provide copies to the OUCC.

Through Ms. Gruca, the OUCC recommended the Commission approve Duke Energy Indiana's requested relief in this proceeding and also approve the following two proposed conditions to be effective during the "gap" period pending the Ohio generation asset transfers:

(1) Require a safeguard or provision such that, should the December 31, 2014 asset transfer completion date change, Duke Energy Indiana's participation in the MPA be revisited by the Commission and the OUCC.

(2) Require Duke Energy Indiana to provide annual status updates with respect to Duke Energy Ohio's transfer of assets, including any changes should they occur.

7. **Stipulation Agreement.** On August 15, 2012, Duke Energy Indiana and the OUCC filed a Stipulation Agreement. Therein, the OUCC stipulated to the approval of Duke Energy Indiana's requested relief and Duke Energy Indiana stipulated to the approval of the OUCC's two proposed conditions enumerated in Section 6 above, with one clarification to the first condition that the "date change" would have to be a material delay (greater than six months). The Parties stipulated to the following two conditions:

(1) Require a safeguard or provision such that, should the December 31, 2014 asset transfer completion date be materially delayed (greater than six months), Duke Energy Indiana's participation in the MPA be revisited by the Commission and the OUCC.

(2) Require Duke Energy Indiana to provide annual status updates with respect to Duke Energy Ohio's transfer of assets, including any changes should they occur.

8. Commission Discussion and Findings. The evidence of record shows that since 1994, the MPA provided Duke Energy Indiana with a low cost, reliable source of short term working capital. This low cost source of short-term capital in turn has provided, and continues to provide, savings to Duke Energy Indiana's electric customers. In accordance with the Merger Order, Petitioner requests approval of its ongoing participation in the MPA as a result of regulatory changes in Ohio resulting in the pending transfer of Duke Energy Ohio generation assets. The Commission finds Duke Energy Indiana has satisfied the requirements of the Merger Order relating to the MPA. The two requirements recommended by the OUCC and as clarified and stipulated to by Duke Energy Indiana and the OUCC are reasonable. Accordingly, the Commission finds that Duke Energy Indiana's requested relief in this proceeding, as modified by stipulation, is hereby approved.

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

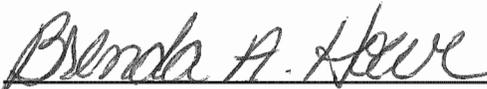
1. Petitioner is authorized to continue its participation in the Utility Money Pool Agreement as requested, subject to the two stipulated conditions described above.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: SEP 05 2012

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



Brenda A. Howe
Secretary to the Commission