

**SUPPLEMENTAL TESTIMONY OF ELLIOTT BATSON, JR.  
VICE PRESIDENT, REGULATED FUELS  
DUKE ENERGY BUSINESS SERVICES LLC  
ON BEHALF OF DUKE ENERGY INDIANA, INC.  
CAUSE NO. 38707-FAC91 BEFORE THE  
INDIANA UTILITY REGULATORY COMMISSION**

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Elliott Batson, Jr., and my business address is 526 South Church Street,  
3 Charlotte, North Carolina 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Vice President, Regulated Fuels by Duke Energy Business Services  
6 LLC, a service company subsidiary of Duke Energy Corporation (collectively with its  
7 subsidiaries, "Duke Energy") and a non-utility affiliate of Duke Energy Indiana, Inc.  
8 ("Duke Energy Indiana" or "Company").

9 **Q. ARE YOU THE SAME ELLIOTT BATSON THAT PREVIOUSLY PROVIDED**  
10 **TESTIMONY IN THIS PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

13 A. I will discuss the current and projected coal inventory situation for Duke Energy Indiana  
14 and explain alternatives being considered to mitigate surplus coal inventories.

15 **Q. WHAT IS DUKE ENERGY INDIANA'S CURRENT COAL INVENTORY**  
16 **STATUS?**

17 A. Since filing testimony in this proceeding on January 26, coal inventories continue to  
18 increase. As of February 15, 2012, Duke Energy Indiana's coal inventory had grown to  
19 approximately 3,800,000 tons (over 60 days of coal supply at a full load burn rate per

1 day) across the system, including more than 450,000 tons in storage at the existing  
2 Gibson Station Remote pile. From December 1, 2011, through February 15, 2012, our  
3 coal inventories have increased by approximately 800,000 tons, a period of time in which  
4 historically inventories have decreased across the system.

5 **Q. WHAT FACTORS CONTRIBUTED TO THIS COAL INVENTORY BUILD UP?**

6 A. As noted in the concurrently-filed supplemental testimony of John D. Swez, extremely  
7 low natural gas prices and unseasonably mild weather for the period of December 2011  
8 through mid-February 2012 have caused the power prices in MISO to drop. In turn, the  
9 Company's coal generating facilities have experienced much lower dispatch levels as  
10 well as periods of economic shutdown. This was an unexpected change in the market and  
11 has led to a significant increase in coal inventories from December 2011 through mid-  
12 February 2012. Based on forecasted natural gas prices and electric prices, the Company  
13 now has a reasonable expectation of significant coal inventory growth throughout the  
14 remainder of 2012 and likely into 2013.

15 **Q. PLEASE DESCRIBE HOW SPOT PRICES FOR NATURAL GAS AND MILD**  
16 **WEATHER HAVE AFFECTED THE DISPATCH OF DUKE ENERGY**  
17 **INDIANA'S GENERATION UNITS.**

18 A. Henry Hub natural gas prices dropped precipitously from the Fall of 2011 through the  
19 first two months of 2012. As late as August 2011, natural gas for delivery in the Winter  
20 of 2012 was trading at \$4.60/MMBtu. By February 8, 2012, Henry Hub Natural gas spot  
21 prices had dropped to \$2.49/MMBtu. This sharp decline in natural gas prices has allowed  
22 generation from combined cycle natural gas units to become increasingly competitive  
23 with coal units.

1           Furthermore, as noted in the supplemental testimony of Mr. Swez, the weather  
2 patterns in the Midwest from December through mid-February have been extremely mild  
3 as compared to historical weather patterns for the region. For the months of December  
4 2011 through mid-February 2012, the average temperatures in Indiana rank just shy of  
5 the 10<sup>th</sup> warmest winter in more than 117 years of tracking. Moreover, January 2012  
6 ranks as being the 4<sup>th</sup> warmest on record over the contiguous United States.

7           As a result of the declining gas prices and the mild winter weather, the Company  
8 experienced its lowest coal-fired generation levels for the winter period in more than a  
9 decade. For the months of December and January, the Indiana coal-fired generation  
10 stations consumed approximately 45% and 40% less coal than consumed during the same  
11 two-month period in 2009 and 2010, respectively. At the time of the filing of this  
12 testimony, this low consumption pattern has continued in February. The Company now  
13 forecasts that the annual coal burns for Indiana in 2012 will be as much as 40% lower  
14 than the coal burns for calendar year 2011.

15 **Q. HOW DOES THE COMPANY'S CURRENT COAL BURN PROJECTION**  
16 **DIFFER FROM ITS PAST COAL BURN PROJECTION?**

17 A. As has been stated in previous testimony, the Company purchases most of its anticipated  
18 coal requirements pursuant to long-term contracts. In 2011, the Company consumed  
19 more than 12.9 million tons of coal. As late as early November of 2011, the Company  
20 projected coal burns for 2012 to be in excess of 13.0 million tons, and the Company had  
21 placed a large majority of this coal under contract for delivery in 2012, as is typical. As  
22 the demand for coal-fired electricity has continued to decline, the Company's coal  
23 deliveries have exceeded the updated expected consumption. This has resulted in

1 significant increases in coal inventories at our coal-fired generating stations starting in  
2 early December through the date of this filing. Due to the lower burn projections for the  
3 remainder of 2012, the Company now projects that its inventories will continue to grow  
4 steadily and will exceed our maximum storage capacity for coal at our stations in the very  
5 near future.

6 **Q. WHAT STEPS IS THE COMPANY UNDERTAKING TO MITIGATE THE**  
7 **PROBLEM?**

8 A. The Company is undertaking and continues to evaluate a host of options in order to  
9 effectively manage the growing inventories. The Company has met with each of our  
10 long-term suppliers in Indiana to discuss deferral, cancellation and other commercial and  
11 operational options to decrease the shipments for 2012. In addition, we have  
12 commissioned and completed a survey to determine the maximum storage capabilities at  
13 all of our stations. As of the date of this supplemental filing, Duke Energy Indiana has  
14 begun to prepare the existing Gibson Remote Pile adjacent to Gibson station for  
15 additional storage of coal. Furthermore, we have explored options to increase the storage  
16 capabilities at both on-site and off-site facilities, including a possible second Gibson  
17 Remote pile. The Company has also been actively exploring the option to resell surplus  
18 coal into the market. In addition, as is discussed in more detail in Mr. Swez'  
19 Supplemental Testimony, we are implementing a decrement to coal pricing inputs used to  
20 formulate supply offers to MISO beginning in the near future. And finally, the Company  
21 is considering its options to buy-out of the existing contracts or to pursue other legal  
22 options. The Company will continue to closely monitor its anticipated coal requirements  
23 and inventories and take every action available to cost effectively control coal inventories

1 in the least cost-impact manner for customers.

2 **Q. WHY DOESN'T THE COMPANY SIMPLY STOP TAKING COAL FROM ITS**  
3 **SUPPLIERS ONCE ITS COAL STORAGE FACILITIES ARE FULL?**

4 A. Default is not an attractive alternative for several reasons. In the absence of a valid claim  
5 of force majeure or other contractual right to cancel or defer the tons, the Company is  
6 generally obligated to purchase coal it has under contract. If the Company were simply  
7 to default on its coal purchase obligations, the Company would be exposed to damage  
8 claims related to the Company not taking the contracted deliveries and these damage  
9 claims can be costly and difficult to quantify and defend. Aside from exposure to  
10 damages, default is never a good option in terms of the contractual relationship involved.  
11 With a limited pool of mines able to supply the coal required for Duke Energy Indiana's  
12 fleet, a contract default creates friction in the relationship that will likely be  
13 counterproductive to achieving mutually beneficial results in the future. Other reasons to  
14 avoid default include not causing a supplier to terminate the contract, avoiding the shut-  
15 down of a mine, and loss of jobs in Indiana. In an extreme example, the default could  
16 cause a financially weak supplier to go out of business, which could hurt competition and  
17 supply over the long term.

18 **Q. WILL THE COMPANY CONTINUE TO UPDATE ITS TESTIMONY**  
19 **REGARDING ITS COAL INVENTORY IN FUTURE FAC PROCEEDINGS?**

20 A. Yes.

21 **Q. DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL TESTIMONY?**

22 A. Yes.

**VERIFICATION**

I, Elliott Batson, Jr., affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

Dated this 22 day of February, 2012.

  
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Elliott Batson, Jr.