TESTIMONY OF BRETT PHIPPS
MANAGING DIRECTOR, FUEL PROCUREMENT
DUKE ENERGY PROGRESS, LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707-FAC108 BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

Q. STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brett Phipps, and my business address is 526 South Church Street, Charlotte, NC 28202.

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

A. I am employed as Managing Director, Fuel Procurement, Duke Energy Progress, LLC, a utility affiliate of Duke Energy Indiana, LLC ("Duke Energy Indiana," "DEI" or "Company"). In that capacity, I also provide services for Duke Energy's other affiliate utility companies, including Duke Energy Indiana, LLC.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a 1992 graduate of Marshall University with a Bachelor of Science in Chemistry. I have worked in the energy industry for approximately 23 years. My career began in the mining industry in 1993 where I held various roles associated with surface mining operations. I was employed with Progress Energy since 1999 where I held roles in terminal operations and sales and marketing for the unregulated business. I transitioned to the regulated business in 2005 where I worked in various fuels procurement functions and leadership roles. I joined Duke Energy in July 2012 and am currently Managing Director, Fuel

Procurement. I am a member of the American Coal Council, The Coal Institute, the Lexington Coal Exchange, Southern Gas Association and American Gas Association.

Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS MANAGING DIRECTOR, FUEL PROCUREMENT.

A. As Managing Director, Fuel Procurement, I participate in all aspects of the overall strategic direction and commercial management of the purchase, delivery and storage of fossil fuels that the Duke Energy regulated utilities use for the generation of electricity. As part of this activity, I monitor and provide guidance in the various areas of fuel markets, including feedback regarding supply and demand, price, quality, availability, economics and deliverability. These fuel reviews cover both existing and potential future supply sources. I also supervise the Company's fuel procurement activity, including the negotiation and administration of long-term and spot-purchase contracts. In addition to fuels, I also supervise procurement of reagents (products used by environmental control systems), fuel oil and natural gas, optimization of emission allowances, and the overall fuel inventories for the regulated fossil generation fleet.

Q. PLEASE EXPLAIN HOW COAL CONTRACTS ARE ENTERED INTO BY THE COMPANY.

A. Coal is generally purchased under long-term contracts of one year or longer to assure a reliable supply of large quantities of coal that meet consistent quality characteristics needed for a particular generating station and at a competitive price. Coal supply proposals are secured from producers and evaluated thoroughly, taking into account coal quality, quantity, transportation alternatives and price, among other factors. The producer (or producers) whose coal offers the best value, particularly with regard to overall utilization costs, is selected for further negotiations to produce a long-term contract or contracts. It is important to note that many of our long-term contracts either contain provisions for periodic price reopener negotiations, some type of price escalations, or a mechanism to adjust prices based upon a published market price index. In addition, all of our coal transportation contracts in Indiana contain fuel price surcharge provisions that are based upon published fuel price indices.

Q. HOW MANY OF THE COMPANY'S GENERATING STATIONS RECEIVE COAL UNDER LONG-TERM CONTRACTS?

A. Gibson, Wabash River, Cayuga and Edwardsport IGCC Stations are supplied by long-term agreements. Gallagher Station will continue to be supplied by spot purchases depending on how much the Gallagher Station units operate.

Q. HOW DOES THE COST OF COAL PURCHASED PURSUANT TO LONG-TERM CONTRACTS COMPARE WITH THE SPOT COST OF COAL?

A. For the twelve-month period ending February 29, 2016, the Company purchased a total of approximately 12 million tons of coal (pursuant to both long and short-term contract commitments) at an approximate average cost of $2.29/MMBtu. The delivered cost of coal purchased under long-term commitments averaged $2.30/ MMBtu and made up 98.58 % of total coal receipts. The delivered cost of coal purchased under short-term commitments averaged $2.08/MMBtu.

Q. DESCRIBE HOW YOU BUY SPOT COAL.

A. Duke Energy's Regulated Fuel Department stays continually informed as to the current market for spot and contract coal and specific opportunities for the purchase of such coal. Coal supply needs are determined by an ongoing review of generating station stockpiles, consumption projections, and current coal supply quantities already contracted. In addition, Duke Energy's Regulated Fuel Department personnel visit each of the Company's contract producers and mining operations regularly and any potential new spot producers as well, gathering information that assists in our analysis of spot coal needs. This information, coupled with constant monitoring of pricing information published in various places (*e.g.* industry newsletters, trade publications, regulatory filings, etc.), as well as a close review by the Regulated Fuel Department of the weekly spot market pricing indices published by brokers and traders, provides a thorough understanding of the various spot coal (and long-term) alternatives. At the time the Company identifies a need to purchase spot coal, Regulated Fuels will seek

proposals from potential suppliers, and the resulting commitment or commitments are based on the suppliers providing the best economic value to Duke Energy Indiana, which is a combination of the lowest delivered cost, coal qualities, and best overall utilization characteristics of a given unit or units. Usually, spot coal commitments are made for small quantities of coal to cover peak periods of burn over short durations, as compared to long-term contracts of one year or more.

Q. WHAT OTHER STEPS DO YOU TAKE TO KEEP COAL PRICES DOWN?

A. We use various methods and strategies to keep prices down, including the use of staggered terms on long-term contracts, maintaining a diversified mix of suppliers and using indices, at times, in the determination of adjustment of prices. The Company also works with fuel and transportation suppliers to increase operating and supply flexibility in an effort to lower costs. In addition, we are vigilant about monitoring and enforcing the provisions of our coal contracts with respect to quantities and qualities of coal due the Company. Further, the coal quality provisions of the Company's coal supply agreements typically include penalties for non-conforming coal deliveries.

Q. PLEASE DESCRIBE THE LATEST TRENDS IN COAL MARKET CONDITIONS.

A. Published prices for U.S. coal markets have decreased slightly since the last fuel proceeding. The following are 2016 price indications for the different coal

producing regions: High-sulfur Illinois basin coal prices are in the low to mid $30's per ton; Central Appalachia coal prices are in the low to mid $30's per ton; Northern Appalachia coal prices are in the low to mid $30's per ton; and Powder River Basin coal prices are approximately $9.10 per ton. Coal demand has continued to be weak mainly due to cheaper natural gas pricing, lower purchase power cost, and lower power demand. As a result, over the next few months utility stockpiles are forecasted to stay flat or slightly increase.

Coal markets continue to be over-supplied with the industry continuing to be distressed and in the next year there is the potential for market volatility due to a number of factors, including: (a) deterioration of the financial health of coal suppliers; (b) proposed and imposed U.S. Environmental Protection Agency ("EPA") regulations for power plants that have resulted in utilities retiring or modifying plants, which lowers total domestic steam coal demand, and can result in plants shifting coal sources to different basins; (d) abundant natural gas supply and storage resulting in lower natural gas prices combined with installation of new combine cycle ("CC") generation by utilities, especially in the Southeast, which has also lower overall coal demand; (c) continued softening demand in global markets for both steam and metallurgical coal; (e) increasingly stringent safety regulations for mining operations, which result in higher costs and lower productivity ; (f) volatile power prices; (g) mergers and acquisitions in the different coal basins; and (h) mining employee layoffs and production declines in

an attempt to bring an oversupply of coal into balance with current demand. Despite the distress on the coal industry, the Company has not experienced non-performance by suppliers on any of its coal contracts.

The Company is aware of Peabody Energy's ("Peabody") filing for Chapter 11 bankruptcy protection and has had verbal conversations with Peabody since its bankruptcy filing. Peabody has notified the Company that they plan to continue supplying Duke Energy Indiana as contracted.

Q. PURSUANT TO THE COMMISSION'S ORDER IN FAC95, PLEASE EXPLAIN THE COMPANY'S COAL INVENTORY POSITION.

A. As noted in my FAC107 testimony, filed on January 28, 2016, Duke Energy Indiana's coal inventories as of November 30, 2015, were approximately 4,753,201 tons (or 77 days of coal supply at a full load burn rate per day) across the system. As of February 29, 2016, coal inventories decreased to approximately 4,093,665 tons (or 66 days of coal supply). This decrease in coal inventories can be attributed to a number of factors including, but not limited to, the following: drawing down the inventory at Wabash River in planned amounts in preparation for the retirement of units 2 through 5 on April 15, 2016 and suspension of the operation of unit 6 on that same date, and a reduction of inventory due to the utilization of the coal price decrement as explained in the direct testimony of John Swez. Duke Energy Indiana expects coal inventories to stay relatively flat or grow minimally over the next quarter.

Q. BESIDES IMPLEMENTING THE COAL PRICE DECREMENT, WHAT STEPS IS THE COMPANY UNDERTAKING TO MITIGATE THE INVENTORY PROBLEM?

A. As noted in the testimony of Mr. Swez the Company has implemented the coal price decrement. Also, the Company continues to evaluate a host of options in order to effectively manage the growing inventories. As inventory levels dictate, the Company explores options to store or defer contract coal or resell surplus coal into the market. Due to continued weak coal market conditions, resale opportunities will continue to be extremely difficult in the near term. The Company will continue to closely monitor its anticipated coal requirements and inventories and take every action available to cost effectively control coal inventories in the least cost-impact manner for customers.

Q. DO YOU CONTINUE TO BELIEVE THAT THE COMPANY'S COAL PURCHASES ARE REASONABLE AND PRUDENT?

A. Yes. The Company continues to utilize a mix of contract methods to keep coal prices down, including the use of staggered durations for contracts, a diversified mix of suppliers, diversified mine types (*e.g.*, surface versus underground mines), and diversified contract structures. In diversifying the contract structures, the Company routinely considers fixed pricing, fixed escalation pricing, and index-based pricing, as well as price reopeners.

Q. HAS DUKE ENERGY INDIANA REOPENED THE PRICE IN ANY COAL

OR TRANSPORTATION CONTRACTS?

A. No, the Company has not reopened the price in any coal or transportation contracts during the period specified in this FAC proceeding. However, the Company notified a supplier of its intent to renegotiate 2 million tons in 2017.

Q. ARE YOU AWARE OF ANY SIGNIFICANT OUT OF PERIOD ADJUSTMENTS TO FUEL INVENTORY OR FUEL EXPENSE BEING MADE IN THIS PROCEEDING?

A. Other than the adjustment resulting from the aerial coal inventory survey discussed in the testimony of Ms. Suzanne Sieferman, I am not aware of any.

Q. BASED UPON YOUR EXPERIENCE, DO YOU HAVE AN OPINION AS TO WHETHER THE COMPANY PURCHASED COAL AT THE LOWEST PRICES REASONABLY POSSIBLE?

A. I do. In my opinion, the Company purchased coal at prices as low as reasonably possible at the time the purchases were made.

Q. REFERRING NOW TO THE COMPANY'S PURCHASE OF OIL, WILL YOU DESCRIBE THOSE PURCHASES?

A. Oil for peaking and cycling units is purchased from one supplier at the lowest delivered price available under prearranged logistics. Our primary oil requirements are for #2 ultra-low sulfur fuel oil, which varies little in delivered quality.

Q. BASED UPON YOUR EXPERIENCE, DO YOU HAVE AN OPINION AS TO WHETHER THE COMPANY PURCHASED OIL AT THE LOWEST PRICES REASONABLY POSSIBLE?

A. Yes. It is my opinion that the Company purchased oil at the lowest cost reasonably possible.

Q. PLEASE DESCRIBE HOW THE COMPANY PURCHASES NATURAL GAS FOR ITS NATURAL GAS-FIRED GENERATING UNITS.

A. Duke Energy Indiana has contracts for the purchase of gas supply, pipeline transportation, balancing and parking of natural gas for its generating stations. A summary of the agreements is as follows: (1) a firm transportation agreement, an interruptible transportation agreement, an enhanced interruptible transportation agreement and a parking service agreement with Panhandle Eastern Pipeline Company for natural gas transportation primarily from the mid-continent region (Kansas and Oklahoma) to the pipeline interconnection with the Indiana Gas Company system (part of Vectren Corporation and its subsidiaries – "Vectren") near Montezuma, Indiana for the Cayuga CT and Noblesville Stations (directly off interconnection); (2) an interruptible transportation contract, a Lebanon lateral interruptible transportation agreement and operational balancing agreement with Texas Eastern Pipeline Co. for natural gas transportation and balancing for the Madison Station; (3) one firm transportation agreement, a park and loan agreement, and operational balancing agreements with Midwestern Pipeline Co.

for gas delivery and parking services for the Wheatland Generation Station, Vermillion Station, and Edwardsport IGCC; (4) a gas transportation service agreement with Vectren Energy Delivery of Indiana – South for Edwardsport IGCC; and (5) an interruptible transportation agreement and a pooling transportation service on ANR Pipeline Company for the Henry County Station. The Company primarily utilizes Sequent Energy Management, L.P. to schedule and procure natural gas consumed at Madison Generation Station and NJR Energy Services for natural gas consumed at Wheatland, Cayuga CT, Noblesville, Vermillion, Henry County, and Edwardsport IGCC. Duke Energy Indiana will continue to evaluate options to purchase and schedule natural gas for use in its generating facilities that will reduce overall fuel costs, as well as the possibility of procuring additional firm transport to further enhance supply access and reliability for the company's gas fired generating stations.

Q. PLEASE DESCRIBE HOW THE PRICE OF NATURAL GAS HAS CHANGED IN RECENT MONTHS.

A. Spot natural gas prices are dynamic, volatile and can change significantly day to day based on market fundamental drivers. As of early-April 2016, the current spot price for delivered natural gas is in the range of approximately $1.80 to $2.10 per MMBtu. For the period December 2015 through February 2016 the price the Company paid for delivered natural gas at its gas burning stations was between a low of $1.48 MMBtu on December 23, 2015 to a high of $4.00 on January 20,

2016. In comparison, during the previous period of September 2015 to November 2015, the price the Company paid for delivered natural gas at its gas burning generation stations during this period was in a range of delivered daily gas prices between a low of $1.79 MMBtu on November 2, 2015 to a high of $4.20 per MMBtu on September 8, 2015.

Q. HAVE THERE BEEN CHANGES IN MARKET CONDITIONS SINCE THE REVIEW PERIOD NOTED PREVIOUSLY?

A. During December 2015 through February 2016, natural gas prices were slightly lower than the FAC 107 review period reflecting the current market supply and demand picture for the region. The Company continues to use its existing firm transportation contracts to enhance supply reliability by reducing the risk of gas pipeline capacity curtailments during periods of tighter supply and demand conditions.

Q. DO YOU HAVE AN OPINION AS TO WHETHER THE COMPANY PURCHASED NATURAL GAS AT THE LOWEST PRICES REASONABLY POSSIBLE?

A. Yes. It is my opinion that the Company purchased natural gas at the lowest cost reasonably possible.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: _____ Dated: 4/28/16

Brett Phipps