

TESTIMONY OF BRETT PHIPPS
MANAGING DIRECTOR, FUEL PROCUREMENT
DUKE ENERGY PROGRESS, LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707-FAC107 BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

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

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

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

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

9 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
10 **AND BUSINESS EXPERIENCE.**

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

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1 Procurement. I am a member of the American Coal Council, The Coal Institute
2 and the Lexington Coal Exchange.

3 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND**
4 **RESPONSIBILITIES AS MANAGING DIRECTOR, FUEL**
5 **PROCUREMENT.**

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

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

20 A. Coal is generally purchased under long-term contracts of one year or longer to
21 assure a reliable supply of large quantities of coal that meet consistent quality

1 characteristics needed for a particular generating station and at a competitive
2 price. Coal supply proposals are secured from producers and evaluated
3 thoroughly, taking into account coal quality, quantity, transportation alternatives
4 and price, among other factors. The producer (or producers) whose coal offers
5 the best value, particularly with regard to overall utilization costs, is selected for
6 further negotiations to produce a long-term contract or contracts. It is important
7 to note that many of our long-term contracts either contain provisions for periodic
8 price reopener negotiations, some type of price escalations, or a mechanism to
9 adjust prices based upon a published market price index. In addition, all of our
10 coal transportation contracts in Indiana contain fuel price surcharge provisions
11 that are based upon published fuel price indices.

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

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

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

20 A. For the twelve-month period ending November 30, 2015, the Company purchased
21 a total of approximately 12 million tons of coal (pursuant to both long and short-

1 term contract commitments) at an approximate average cost of \$2.36/MMBtu.

2 The delivered cost of coal purchased under long-term commitments averaged

3 \$2.37/ MMBtu and made up 98.69 % of total coal receipts. The delivered cost of

4 coal purchased under short-term commitments averaged \$2.07/MMBtu.

5 **Q. DESCRIBE HOW YOU BUY SPOT COAL.**

6 A. Duke Energy's Regulated Fuel Department stays continually informed as to the

7 current market for spot and contract coal and specific opportunities for the

8 purchase of such coal. Coal supply needs are determined by an ongoing review of

9 generating station stockpiles, consumption projections, and current coal supply

10 quantities already contracted. In addition, Duke Energy's Regulated Fuel

11 Department personnel visit each of the Company's contract producers and mining

12 operations regularly and any potential new spot producers as well, gathering

13 information that assists in our analysis of spot coal needs. This information,

14 coupled with constant monitoring of pricing information published in various

15 places (*e.g.* industry newsletters, trade publications, regulatory filings, etc.), as

16 well as a close review by the Regulated Fuel Department of the weekly spot

17 market pricing indices published by brokers and traders, provides a thorough

18 understanding of the various spot coal (and long-term) alternatives. At the time

19 the Company identifies a need to purchase spot coal, Regulated Fuels will seek

20 proposals from potential suppliers, and the resulting commitment or commitments

21 are based on the suppliers providing the best economic value to Duke Energy

1 Indiana, which is a combination of the lowest delivered cost, coal qualities, and
2 best overall utilization characteristics of a given unit or units. Usually, spot coal
3 commitments are made for small quantities of coal to cover peak periods of burn
4 over short durations, as compared to long-term contracts of one year or more.

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

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

16 **Q. PLEASE DESCRIBE THE LATEST TRENDS IN COAL MARKET**
17 **CONDITIONS.**

18 A. Published prices for U.S. coal markets have increased slightly since the last fuel
19 proceeding. The following are 2016 price indications for the different coal
20 producing regions: High-sulfur Illinois basin coal prices are in the mid to high
21 \$30's per ton; Central Appalachia coal prices are in the high \$30's to low \$40's;

1 Northern Appalachia coal prices are in the high \$30's ; and Powder River Basin
2 coal prices are approximately \$9.50 per ton. Coal demand has continued to be
3 weak mainly due to cheaper natural gas pricing, lower purchase power cost, and
4 lower power demand. As a result, over the next few months utility stockpiles are
5 forecasted to stay flat or slightly increase.

6 Coal markets continue to be over-supplied with the industry continuing to
7 be distressed and in the next year there is the potential for market volatility due to
8 a number of factors, including: (a) deterioration of the financial health of coal
9 suppliers; (b) recent U.S. Environmental Protection Agency ("EPA") regulations
10 for power plants that result in utilities retiring or modifying plants, which lower
11 total domestic steam coal demand, and can result in some plants shifting coal
12 sources to different basins; (c) continued soft demand in global markets for both
13 steam and metallurgical coal, causing export opportunities to decline for U.S. coal
14 producers; (d) increased volatility in gas prices, and continued increase in gas
15 supply combined with installation of new combine cycle ("CC") generation by
16 utilities, especially in the south, which may also lower overall coal demand; (e)
17 increasingly stringent safety regulations for mining operations, which result in
18 higher costs and lower productivity ; (f) volatile power prices; (g) mergers and
19 acquisitions in the different coal basins; and (h) mining employee layoffs and
20 production declines in an attempt to bring an oversupply of coal into balance with

1 current demand. However, despite the distress on the coal industry, the Company
2 has not experienced non-performance by suppliers on any of its coal contracts.

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

5 A. As noted in my FAC106 testimony, filed on October 29, 2015, Duke Energy
6 Indiana's coal inventories as of August 31, 2015, were approximately 4,519,075
7 tons (or 74 days of coal supply at a full load burn rate per day) across the system.
8 As of November 30, 2015, coal inventories increased to approximately 4,753,201
9 tons (or 77 days of coal supply). This increase in coal inventories can be
10 attributed to a number of factors that include: lower natural gas prices, lower
11 purchase power cost and lower power demand. Duke Energy Indiana expects
12 coal inventories to stay relatively flat or grow minimally over the next quarter.

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

16 A. As noted in the testimony of Mr. Swez the Company has implemented the coal
17 price decrement. Also, the Company continues to evaluate a host of options in
18 order to effectively manage the growing inventories. As inventory levels dictate,
19 the Company explores options to store or defer contract coal or resell surplus coal
20 into the market. Due to continued weak coal market conditions, resale
21 opportunities will continue to be extremely difficult in the near term. The

1 Company will continue to closely monitor its anticipated coal requirements and
2 inventories and take every action available to cost effectively control coal
3 inventories in the least cost-impact manner for customers.

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

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

12 **Q. HAS DUKE ENERGY INDIANA REOPENED THE PRICE IN ANY COAL**
13 **OR TRANSPORTATION CONTRACTS?**

14 A. No. The Company has not reopened the price in any coal or transportation
15 contracts during the period specified in this FAC proceeding.

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

19 A. No, I am not aware of any.

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

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

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

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

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

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

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

19 A. Duke Energy Indiana has contracts for the purchase of gas supply, pipeline
20 transportation, balancing and parking of natural gas for its generating stations. A
21 summary of the agreements is as follows: (1) a firm transportation agreement, an

1 interruptible transportation agreement, an enhanced interruptible transportation
2 agreement and a parking service agreement with Panhandle Eastern Pipeline
3 Company for natural gas transportation primarily from the mid-continent region
4 (Kansas and Oklahoma) to the pipeline interconnection with the Indiana Gas
5 Company system (part of Vectren Corporation and its subsidiaries – “Vectren”)
6 near Montezuma, Indiana for the Cayuga CT and Noblesville Stations (directly
7 off interconnection); (2) an interruptible transportation contract, a Lebanon lateral
8 interruptible transportation agreement and operational balancing agreement with
9 Texas Eastern Pipeline Co. for natural gas transportation and balancing for the
10 Madison Station; (3) one firm transportation agreement, a park and loan
11 agreement, and operational balancing agreements with Midwestern Pipeline Co.
12 for gas delivery and parking services for the Wheatland Generation Station,
13 Vermillion Station, and Edwardsport IGCC; (4) a gas transportation service
14 agreement with Vectren Energy Delivery of Indiana – South for Edwardsport
15 IGCC; and (5) an interruptible transportation agreement and a pooling
16 transportation service on ANR Pipeline Company for the Henry County Station.
17 The Company primarily utilizes Sequent Energy Management, L.P. to schedule
18 and procure natural gas consumed at Madison Generation Station and NJR
19 Energy Services for natural gas consumed at Wheatland, Cayuga CT, Noblesville,
20 Vermillion, Henry County, and Edwardsport IGCC. Duke Energy Indiana will
21 continue to evaluate options to purchase and schedule natural gas for use in its

1 generating facilities that will reduce overall fuel costs, as well as the possibility of
2 procuring additional firm transport to further enhance supply access and reliability
3 for the company's gas fired generating stations.

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

6 A. Spot natural gas prices are dynamic, volatile and can change significantly day to
7 day based on market fundamental drivers. As of mid-January 2016, the current
8 spot price for natural gas is in the range of approximately \$2.40 to \$2.75 per
9 MMBtu. For the period September through November 2015 the price the
10 Company paid for delivered natural gas at its gas burning stations was between a
11 low of \$1.79 MMBtu on November 2, 2015 to a high of \$4.20 on September 8,
12 2015. In comparison, during the previous period of June 2015 to August 2015,
13 the price the Company paid for delivered natural gas at its gas burning generation
14 stations during this period was in a range of delivered daily gas prices between a
15 low of \$1.75 MMBtu on August 21, 2015 to a high of \$3.65 per MMBtu on July
16 20, 2015.

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

19 A. During September through November 2015, natural gas prices were slightly lower
20 than the FAC 106 review period reflecting the current market supply and demand
21 picture for the region. The company continues to use its existing firm

1 transportation contracts to enhance supply reliability by reducing the risk of gas
2 pipeline capacity curtailments during periods of tighter supply and demand
3 conditions.

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

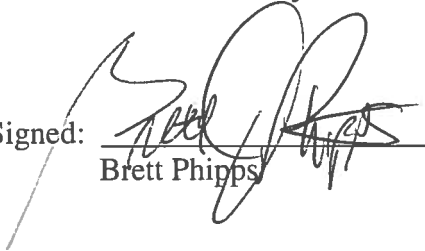
7 A. Yes. It is my opinion that the Company purchased natural gas at the lowest cost
8 reasonably possible.

9 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

10 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:  _____
Brett Phipps

Dated: 1-28-16