

**TESTIMONY OF BRETT PHIPPS  
MANAGING DIRECTOR, FUEL PROCUREMENT  
DUKE ENERGY PROGRESS, LLC  
ON BEHALF OF DUKE ENERGY INDIANA, LLC  
CAUSE NO. 38707-FAC109 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 the Lexington Coal Exchange, Southern Gas Association, American Gas  
3 Association and serve on the Board of Directors of the Coal Trade Association.

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

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

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

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

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

16 A. Wabash River was supplied by long-term agreements until its retirement on  
17 April 15, 2016. Gibson, Cayuga and Edwardsport IGCC Stations continue to be  
18 supplied by long-term agreements. Gallagher Station will continue to be supplied  
19 by spot purchases depending on how much the Gallagher Station units operate.

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

4 A. For the twelve-month period ending May 31, 2016, the Company purchased a  
5 total of approximately 11.5 million tons of coal (pursuant to both long and short-  
6 term contract commitments) at an approximate average cost of \$2.29/MMBtu.  
7 The delivered cost of coal purchased under long-term commitments averaged  
8 \$2.29/ MMBtu and made up 98.52% of total coal receipts. The delivered cost of  
9 coal purchased under short-term commitments averaged \$2.08/MMBtu.

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

11 A. Duke Energy's Regulated Fuel Department stays continually informed as to the  
12 current market for spot and contract coal and specific opportunities for the  
13 purchase of such coal. Coal supply needs are determined by an ongoing review of  
14 generating station stockpiles, consumption projections, and current coal supply  
15 quantities already contracted. In addition, Duke Energy's Regulated Fuel  
16 Department personnel visit each of the Company's contract producers and mining  
17 operations regularly and any potential new spot producers as well, gathering  
18 information that assists in our analysis of spot coal needs. This information,  
19 coupled with constant monitoring of pricing information published in various  
20 places (*e.g.* industry newsletters, trade publications, regulatory filings, etc.), as  
21 well as a close review by the Regulated Fuel Department of the weekly spot

1 market pricing indices published by brokers and traders, provides a thorough  
2 understanding of the various spot coal (and long-term) alternatives. At the time  
3 the Company identifies a need to purchase spot coal, Regulated Fuels will seek  
4 proposals from potential suppliers, and the resulting commitment or commitments  
5 are based on the suppliers providing the best overall economic value to Duke  
6 Energy Indiana, which is a combination of the lowest delivered cost, coal  
7 qualities, and best overall utilization characteristics of a given unit or units.  
8 Usually, spot coal commitments are made for small quantities of coal to cover  
9 peak periods of burn over short durations, as compared to long-term contracts  
10 greater than one year.

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

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

1 **Q. PLEASE DESCRIBE THE LATEST TRENDS IN COAL MARKET**  
2 **CONDITIONS.**

3 A. Published prices for U.S. coal markets have increased slightly since the last fuel  
4 proceeding. The following are 2016 price indications for the different coal  
5 producing regions: High-sulfur Illinois basin coal prices are in the low to mid  
6 \$30's per ton; Central Appalachia coal prices are in the mid to upper \$30's per  
7 ton; Northern Appalachia coal prices are in the low to mid \$30's per ton; and  
8 Powder River Basin coal prices are below \$10.00 per ton. Coal demand has  
9 continued to be weak mainly due to cheaper natural gas pricing, lower purchase  
10 power cost, and lower power demand. As a result, over the next few months  
11 utility stockpiles are forecasted to stay relatively flat or slightly decrease due to  
12 higher burns caused by higher than expected temperatures.

13 Coal markets continue to be over-supplied with the industry continuing to  
14 be distressed and in the next year there is the potential for market volatility due to  
15 a number of factors, including: (a) deteriorated financial health of coal suppliers;  
16 (b) proposed and imposed U.S. Environmental Protection Agency ("EPA")  
17 regulations for power plants that have resulted in utilities retiring or modifying  
18 plants, which lowers total domestic steam coal demand, and can result in plants  
19 shifting coal sources to different basins; (c) abundant natural gas supply and  
20 storage resulting in lower natural gas prices combined with installation of new  
21 combine cycle ("CC") generation by utilities, especially in the Southeast, which

1 has also lower overall coal demand; (d) continued soft demand in global markets  
2 for both steam and metallurgical coal; (e) increasingly stringent safety regulations  
3 for mining operations, which result in higher costs and lower productivity ; (f)  
4 volatile power prices; (g) mergers and acquisitions in the different coal basins;  
5 and (h) mining employee layoffs and production declines in an attempt to bring an  
6 oversupply of coal into balance with current demand. Despite the distress on the  
7 coal industry, the Company has not experienced non-performance by suppliers on  
8 any of its coal contracts.

9 As noted in FAC 108 the Company was aware of Peabody Energy's  
10 ("Peabody") filing for Chapter 11 bankruptcy protection and has had verbal  
11 conversations with Peabody since its bankruptcy filing. Peabody has notified the  
12 Company that they plan to continue supplying Duke Energy Indiana as  
13 contracted. The Company continues to receive verbal updates and the status has  
14 remained the same. The Company has not experienced any contractual  
15 nonperformance.

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

18 A. As noted in my FAC108 testimony, filed on April 28, 2016, Duke Energy  
19 Indiana's coal inventories as of February 29, 2016, were approximately 4,093,665  
20 tons (or 66 days of coal supply at a full load burn rate per day) across the system.  
21 As of May 31, 2016, coal inventories decreased to approximately 3,764,706 tons

1 (or 69 days of coal supply). This decrease in coal inventories can be attributed to  
2 a number of factors including, but not limited to, the following: drawing down  
3 the inventory at Wabash River in planned amounts in preparation for the  
4 retirement of units 2 through 5 on April 15, 2016 and suspension of the operation  
5 of unit 6 on that same date, and a reduction of inventory due to the utilization of  
6 the coal price decrement as explained in the direct testimony of John Swez. Duke  
7 Energy Indiana expects coal inventories to stay relatively flat or grow minimally  
8 over the next quarter. It should be noted the volume decreased by 328,960 tons  
9 but the number of days of inventory increased by 3 days due to the removal of  
10 Wabash River calculations.

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

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



1 inventories in the least cost-impact manner for customers.

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

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

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

12 A. Yes, the Company has provided the supplier (Solar Sources, Inc.) notice to reopen  
13 the contract price for two million tons of coal to be delivered during calendar year  
14 2017. The Company is in the process of negotiating the two million tons of coal.

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

18 A. No.

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

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

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

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

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

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

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

16 A. Duke Energy Indiana has contracts for the purchase of gas supply, pipeline  
17 transportation, balancing and parking of natural gas for its generating stations. A  
18 summary of the agreements is as follows: (1) a firm transportation agreement, an  
19 interruptible transportation agreement, an enhanced interruptible transportation  
20 agreement and a parking service agreement with Panhandle Eastern Pipeline  
21 Company for natural gas transportation primarily from the mid-continent region

1 (Kansas and Oklahoma) to the pipeline interconnection with the Indiana Gas  
2 Company system (part of Vectren Corporation and its subsidiaries – “Vectren”)  
3 near Montezuma, Indiana for the Cayuga CT and Noblesville Stations (directly  
4 off interconnection); (2) an interruptible transportation contract, a Lebanon lateral  
5 interruptible transportation agreement and operational balancing agreement with  
6 Texas Eastern Pipeline Co. for natural gas transportation and balancing for the  
7 Madison Station; (3) one firm transportation agreement, a park and loan  
8 agreement, and operational balancing agreements with Midwestern Pipeline Co.  
9 for gas delivery and parking services for the Wheatland Generation Station,  
10 Vermillion Station, and Edwardsport IGCC; (4) a gas transportation service  
11 agreement with Vectren Energy Delivery of Indiana – South for Edwardsport  
12 IGCC; and (5) an interruptible transportation agreement and a pooling  
13 transportation service on ANR Pipeline Company for the Henry County Station.  
14 The Company primarily utilizes Sequent Energy Management, L.P. to schedule  
15 and procure natural gas consumed at Madison Generation Station and NJR  
16 Energy Services for natural gas consumed at Wheatland, Cayuga CT, Noblesville,  
17 Vermillion, Henry County, and Edwardsport IGCC. Duke Energy Indiana will  
18 continue to evaluate options to purchase and schedule natural gas for use in its  
19 generating facilities that will reduce overall fuel costs, as well as the possibility of  
20 procuring additional firm transport to further enhance supply access and reliability  
21 for the company’s gas fired generating stations.

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

3 A. Spot natural gas prices are dynamic, volatile and can change significantly day to  
4 day based on market fundamental drivers. As of early July 2016, the current spot  
5 price for delivered natural gas is in the range of approximately \$2.70 to \$3.05 per  
6 MMBtu. For the period March through May 2016 the price the Company paid for  
7 delivered natural gas at its gas burning stations was between a low of \$1.44  
8 MMBtu on March 4, 2016 to a high of \$2.90 on April 29, 2016. In comparison,  
9 during the previous period of December 2015 to February 2016, the price the  
10 Company paid for delivered natural gas at its gas burning generation stations  
11 during this period was in a range of delivered daily gas prices between a low of  
12 \$1.48 MMBtu on December 23, 2015 to a high of \$4.00 per MMBtu on January  
13 20, 2016.

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

16 A. During March 2016 through May 2016, natural gas prices remained at relatively  
17 the same levels as the FAC 108 review period reflecting the current market supply  
18 and demand picture for the region. The Company continues to use its existing  
19 firm transportation contracts to enhance supply reliability by reducing the risk of  
20 gas pipeline capacity curtailments during periods of tighter supply and demand  
21 conditions.

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

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

6 Q. DID THE COMPANY BEGIN TO MOVE COAL FROM THE INTERIM  
7 STORAGE SITES TO A PARTICULAR STATION?

8 A. Yes, the Company has moved approximately 47,344 tons of coal during FAC 109.  
9 Through June 2016 the Company has moved a total of approximately 94,590 tons  
10 of coal from the Carlisle Mine interim storage site to Cayuga station.  
11 Approximately 205,000 tons of coal remains at the Carlisle Mine interim storage  
12 site and the Company plans on delivering the remaining volume to Cayuga station  
13 by the end of December 2016.

14 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

15 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:

7/27/2016