

TESTIMONY OF BRETT PHIPPS
MANAGING DIRECTOR, FUEL PROCUREMENT
DUKE ENERGY PROGRESS, LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707-FAC110 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 greater than one year or
2 longer to assure a reliable supply of large quantities of coal that meet consistent
3 quality characteristics needed for a particular generating station and at a
4 competitive price. Coal supply proposals are secured from producers and
5 evaluated thoroughly, taking into account coal quality, quantity, transportation
6 alternatives and price, among other factors. The producer (or producers) whose
7 coal offers the best value, particularly with regard to overall utilization costs, is
8 selected for further negotiations to produce a long-term contract or contracts. It is
9 important to note that many of our long-term contracts either contain provisions
10 for periodic price reopener negotiations, some type of price escalations, or a
11 mechanism to adjust prices based upon a published market price index. In
12 addition, all of our coal transportation contracts in Indiana contain fuel price
13 surcharge provisions 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. Gibson, Cayuga and Edwardsport IGCC Stations continue to be supplied by long-
17 term agreements. Gallagher Station will continue to be supplied by spot
18 purchases depending on how much the Gallagher Station units operate.

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

1 A. For the twelve-month period ending August 31, 2016, the Company purchased a
2 total of approximately 11.3 million tons of coal (pursuant to both long and short-
3 term contract commitments) at an approximate average cost of \$2.28/MMBtu.
4 The delivered cost of coal purchased under long-term commitments averaged
5 \$2.28/ MMBtu and made up 98.5% of total coal receipts. The delivered cost of
6 coal purchased under short-term commitments averaged \$2.08/MMBtu.

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

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

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

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

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

19 **Q. PLEASE DESCRIBE THE LATEST TRENDS IN COAL MARKET**
20 **CONDITIONS.**

1 A. Published prices for U.S. coal markets have increased slightly since the last fuel
2 proceeding. The following are 2016 price indications for the different coal
3 producing regions: High-sulfur Illinois basin coal prices are in the mid to upper
4 \$30's per ton; Central Appalachia coal prices are in the low to mid \$50's per ton;
5 Northern Appalachia coal prices are in the low to mid \$40's per ton; and Powder
6 River Basin coal prices are above \$11 per ton. Coal demand has increased during
7 the summer months due to warmer than expected temperatures, increased demand
8 for coal-fired generation and higher than expected power prices. As a result,
9 utility stockpiles across the U.S. decreased.

10 Coal markets continue to be over-supplied with the industry continuing to
11 be distressed and there has been market volatility due to a number of factors,
12 including: (a) deteriorated financial health of coal suppliers; (b) proposed and
13 imposed U.S. Environmental Protection Agency ("EPA") regulations for power
14 plants that have resulted in utilities retiring or modifying plants, which lowers
15 total domestic steam coal demand, and can result in plants shifting coal sources to
16 different basins; (c) abundant natural gas supply and storage resulting in lower
17 natural gas prices combined with installation of new combine cycle ("CC")
18 generation by utilities, especially in the Southeast, which has also lower overall
19 coal demand; (d) changing demand in global markets for both steam and
20 metallurgical coal; (e) increasingly stringent safety regulations for mining
21 operations, which result in higher costs and lower productivity ; (f) volatile power

1 prices; (g) mergers and acquisitions in the different coal basins; and (h) mining
2 employee layoffs and production declines in an attempt to bring an oversupply of
3 coal into balance with current demand. Despite the distress on the coal industry,
4 the Company has not experienced non-performance by suppliers on any of its coal
5 contracts.

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

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

15 A. As noted in my FAC109 testimony, filed on July 27, 2016, Duke Energy
16 Indiana's coal inventories as of May 31, 2016, were approximately 3,764,706 tons
17 (or 69 days of coal supply at a full load burn rate per day) across the system. As
18 of August 31, 2016, coal inventories decreased to approximately 3,535,730 tons
19 (or 65 days of coal supply). This decrease in coal inventories can be attributed to
20 a number of factors including, but not limited to, the following: warmer than
21 expected temperatures and associated higher than expected coal burns, and brief

1 use of the coal price decrement in June. Duke Energy Indiana expects coal
2 inventories to stay relatively flat or grow minimally over the next quarter.

3 **Q. DID THE COMPANY MOVE COAL FROM THE INTERIM STORAGE**
4 **SITES TO A PARTICULAR STATION?**

5 A. Yes, the Company has moved approximately 247,962 tons of coal as of
6 September 30, 2016 from the Carlisle Mine interim storage site to Cayuga station.
7 Approximately 52,192 tons of coal remains at the Carlisle Mine interim storage
8 site and the Company plans on delivering the remaining volume to Cayuga station
9 by the end of December 2016.

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

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

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

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

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

11 A. Yes, the Company had provided the supplier (Solar Sources, Inc.) notice to
12 reopen the market price for two million tons of coal to be delivered during
13 calendar year 2017. The Company signed the amendment on September 28,
14 2016; the amendment becomes effective January 1, 2017.

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 and on a firm contract to the Cayuga CT and directly
4 off the interconnection to Noblesville Station; (2) an interruptible transportation
5 contract, a Lebanon lateral interruptible transportation agreement and operational
6 balancing agreement with Texas Eastern Pipeline Co. for natural gas
7 transportation and balancing for the Madison Station; (3) one firm transportation
8 agreement, a park and loan agreement, and operational balancing agreements with
9 Midwestern Pipeline Co. for gas delivery and parking services for the Wheatland
10 Generation Station, Vermillion Station, and Edwardsport IGCC; (4) a gas
11 transportation service agreement with Vectren Energy Delivery of Indiana –
12 South for Edwardsport IGCC; and (5) an interruptible transportation agreement
13 and a pooling transportation service on ANR Pipeline Company for the Henry
14 County Station. The Company primarily utilizes Sequent Energy Management,
15 L.P. to schedule and procure natural gas consumed at Madison Generation Station
16 and NJR Energy Services for natural gas consumed at Wheatland, Cayuga CT,
17 Noblesville, Vermillion, Henry County, and Edwardsport IGCC. Duke Energy
18 Indiana will continue to evaluate options to purchase and schedule natural gas for
19 use in its generating facilities that will reduce overall fuel costs, as well as the
20 possibility of procuring additional firm transport to further enhance supply access
21 and reliability 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 October 2016, the current
5 spot price for delivered natural gas is in the range of approximately \$3.00 to \$3.35
6 per MMBtu. For the period June through August 2016 the price the Company
7 paid for delivered natural gas at its gas burning stations was between a low of
8 \$2.075 MMBtu for gas delivered on June 1, 2016 to a high of \$3.25 MMBtu for
9 gas delivered on June 30, 2016 In comparison, during the previous period of
10 March to May 2016, the price the Company paid for delivered natural gas at its
11 gas burning generation stations during this period was in a range of delivered
12 daily gas prices between a low of \$1.44 MMBtu on March 4, 2016 to a high of
13 \$2.90 per MMBtu on April 29, 2016.

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

16 A. During June through August 2016, natural gas prices have trended higher from
17 the lower levels of the FAC 109 review period reflecting the current market
18 supply and demand picture for the region. The Company continues to use its
19 existing firm transportation contracts to enhance supply reliability by reducing the
20 risk of gas pipeline capacity curtailments during periods of tighter supply and
21 demand conditions.

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

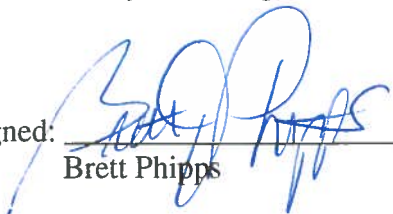
4 A. Yes. It is my opinion that the Company purchased natural gas at the lowest cost
5 reasonably possible.

6 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

7 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: 10/28/16