

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA,)
INC. FOR APPROVAL OF A CHANGE IN ITS)
FUEL COST ADJUSTMENT FOR ELECTRIC)
SERVICE, FOR APPROVAL OF A CHANGE)
IN ITS FUEL COST ADJUSTMENT FOR)
HIGH PRESSURE STEAM SERVICE, AND TO)
UPDATE MONTHLY BENCHMARKS FOR)
CALCULATION OF PURCHASED POWER)
COSTS IN ACCORDANCE WITH INDIANA)
CODE 8-1-2-42, INDIANA CODE 8-1-2-42.3)
AND VARIOUS ORDERS OF THE INDIANA)
UTILITY REGULATORY COMMISSION)

CAUSE NO. 38707 FAC 91

TESTIMONY OF

GREGORY T. GUERRETTAZ, CPA – PUBLIC’S EXHIBIT NO. 1

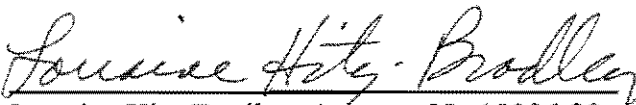
MICHAEL D. ECKERT– PUBLIC’S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MARCH 1, 2012

Respectfully Submitted,


Lorraine Hitz-Bradley, Attorney No.18006-29
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the **OUCC Amended Testimony of Gregory T. Guerrettaz** has been served upon the following parties of record in the captioned proceeding by electronic mail on December 16, 2011.

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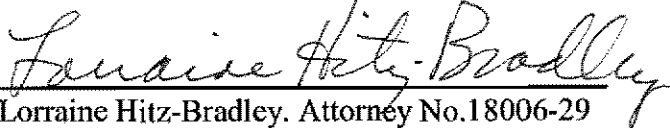
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DUKE ENERGY INDIANA, INC.

Report of the Indiana Office of
Utility Consumer Counselor

Application for Change in Fuel Cost Adjustment

Cause No. 38707-FAC91

March 1, 2012

Gregory T. Guennetaz, CPA

Wholly Owned by

Financial Solutions Group, Inc.

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PRE-FILED TESTIMONY
OF
GREGORY T. GUERRETTAZ, CPA

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT

DUKE ENERGY INDIANA, INC.

Cause No. 38707-FAC90

Pre-Filed Testimony of Gregory T. Guerrettaz, CPA

1. Q - Please state your name, title and business address.

A - My name is Gregory T. Guerrettaz. I am a CPA. My business address is 2680 East Main Street, Suite 223, Plainfield, Indiana 46168.

2. Q - By who are you employed and what is your position?

A - Gregory T. Guerrettaz, CPA is a wholly owned subsidiary of Financial Solutions Group, Inc. which is registered with the Security and Exchange Commission (SEC), effective January 1, 2011. I am employed as President of Financial Solutions Group, Inc. ("FSG Corp."), a public finance and utility rate consulting firm. FSG Corp. has been providing rate and financial services to various types of utility companies and governmental agencies since 1998.

3. Q - Please summarize your educational and professional qualifications.

A - I received a Bachelor's degree in Accounting from Indiana University. During my employment, I have attended and spoken at numerous seminars on governmental accounting and finance throughout the United States. I continue to maintain all requirements under Continuing Professional Education. This consists of over 40 hours of instruction, per year, in areas of finance and accounting.

4. Q - How long have you been employed by FSG Corp., and in what capacities?

A - I founded FSG Corp. in 1998 and am employed as the President of the company. FSG Corp.'s practice is split about 50% utility and 50% finance related. I have been responsible for numerous projects, including utility rate engagements, cost of capital analyses and rate of return, utility financial analyses, utility business valuations, other projects related to a variety of utility issues and preparation of electric trackers for utilities in the State of Indiana.

I have pre-filed written, and given oral, testimony to the Indiana Utility Regulatory Commission on a variety of issues over the years including, but not limited to, revenue requirement calculations, accounting methodology and related areas, utility historical and pro-forma financial information, cost of capital analysis, rate structure and cost of service issues, issuance of both long and short-term debt, utility operating information, utility trackers and a variety of other utility related issues.

I prepare activity-based budgets and assist communities in the preparation of both short and long-range plans for all types of entities. I have served as Financial Advisor for over Two Billion Dollars of tax-exempt and taxable securities and am currently registered with the SEC.

5. Q - Please state your experience prior to joining FSG Corp.

A - I was employed for 8 years with a national accounting firm in Indianapolis. I was a partner in that firm for 4 years and, for 4 years was a partner in a partnership between that firm and Municipal Consultants, Inc. Prior to that, Municipal Consultants, Inc. employed me for 7 years (4 of those as a shareholder) until the partnership and eventual merger with the national accounting firm. While at Municipal Consultants,

Inc., I reviewed, prepared and analyzed over 800 FAC filings by various electric utilities. I also testified numerous times, over the seven years, regarding the earnings and return tests. Preceding my time with Municipal Consultants, Inc., I worked for 3 years as a Staff Accountant for the Accounting Department of the Public Service Commission of Indiana, now known as the Indiana Utility Regulatory Commission. In this position, I prepared and presented testimony in major electric and water cases. I have performed utility reviews since 1981. I have also performed a variety of feasibility and cost-of-service studies, for cities and counties throughout Indiana. I have assisted many clients by developing and implementing a variety of financial alternatives for all types of bonds, such as creating a multi-jurisdictional, public holding corporation and performing analyses of revenue streams.

I am a Certified Public Accountant, licensed in the State of Indiana, and am a member of the American Institute of Certified Public Accountants and the Indiana CPA Society. I am an Associate Member of the Association of Indiana Counties and the Indiana Association of Cities and Towns. I have served as the Chairman of the Indiana CPA Utilities Committee.

6. Q - What is the purpose of your testimony in this Cause?

A - The purpose of my testimony in this Cause is to give an opinion concerning Duke Energy Indiana, Inc.'s (the "Utility") Petition for Approval of Fuel Cost Charge and testimony. Duke Energy Indiana, Inc.'s testimony was filed on January 26, 2012. My testimony will discuss:

(a) Whether the Utility has calculated the fuel cost element of the proposed fuel cost adjustment in conformity with the requirements of Indiana Code Section 8-1-2-42

and relevant Commission Orders;

- (b) Whether the Utility has calculated the fuel cost adjustment, applicable to its rendering of steam service, in conformity with the requirements of Indiana Code Section 8-1-2-42 and the Commission's Order in Cause No. 39483;
- (c) Whether the fuel cost paid by the Utility, when compared to fuel costs recovered by the Utility for the quarter ended November 30, 2011, resulted in a variance which was used to calculate the fuel cost adjustment for the quarter ending June 30, 2012, in conformity with the requirements of Indiana Code Section 8-1-2-42;
- (d) Whether the level of net operating income experienced by the Utility, for the twelve months ended November 30, 2011, was greater than that granted in the Utility's last general rate proceeding, as adjusted by relevant Orders; and
- (e) Whether the fuel cost adjustment factor, for the quarter ended November 30, 2011, has been properly applied.

7. Q - Please explain Schedule A.

A - Schedule A presents the various components that comprise the Utility's proposed fuel cost adjustment factor for electric service and shows how the components are used in the calculation. The fuel cost element of the proposed fuel cost adjustment has been calculated in conformity with Indiana Code Section 8-1-2-42 and the numerous Commission Orders affecting this filing. For example, this calculation includes certain costs of the Utility's power purchases and MISO related costs associated with the Commission's Order in Cause No. 42685.

Schedule A also demonstrates that the fuel cost paid by the Utility, when compared to the fuel costs recovered from the Utility's customers for the quarter ended

November 30, 2011, resulted in a variance which was used to calculate the fuel cost adjustment for the quarter ending June 30, 2012. Again, as in prior reports, we have presented Schedule J which sets forth the total amount of LMP, gas hedging, adjustment for WVPA and the Wholesale Formula Rates ASM. Like in other areas, we have the current period hedging amount and prior period reconciliation for hedging activities.

Furthermore, Schedule A shows the proposed fuel cost adjustment factor adjusted for Indiana Utility Receipts Tax ("IURT") as it applies to April, May and June 2012.

8. Q - How is the cost of fuel determined in this filing?

A - Effective with the combined dispatching, Duke Energy Indiana, Inc. uses a model known as PACE to determine the fuel cost for Duke Energy Indiana, Inc. Native Load (found on their Exhibit A, Schedule 8).

9. Q - Have you reviewed the model's output?

A - Yes. We have reviewed the output of the model and have queried the model in multiple ways for various cost and revenue items, for the months of September, October and November 2011, as well as the MISO Charges/Credits Allocated to Duke Energy Indiana, Inc. Native Load, which are included in this filing. Our audit in this FAC consisted of spot analyzing the prior period information. We would note that adjustments, both positive and negative, have occurred. In fact, we are currently using Schedule K to set forth the multiple prior period adjustments affecting this filing. For the current period, we selected random hours, reviewing each amount, either

purchased or generated, for the hour selected, for each month, for the months of September, October and November 2011.

10. Q - Please explain Schedule B.

A - Schedule B presents the various components that comprise the Utility's calculation of proposed fuel cost adjustment factor for steam service. The Utility provides steam service to one customer, Premier Boxboard Limited, LLC. In order to allocate the appropriate amount of fuel recovered through the provision of steam service, a factor of .1103 kWh per 1,000 pounds of steam generated is used to compute the equivalent number of kWh generated. The amount of equivalent kWh times the average fuel cost equals the fuel costs recovered through the sales of steam. That figure is used to reduce the cost allocated to the sale of electricity. In addition, a base cost of fuel for steam sales, similar to that for the sale of electricity, of \$1.6168595 per 1,000 pounds of steam, is used as approved by the Commission in Cause No. 39483, resulting in a final factor of 1.6201953 per 1,000 pounds of steam.

11. Q - Please explain Schedules C and C-1.

A - Schedule C compares the Utility's actual net electric operating income applicable to retail sales, for the twelve months ended November 30, 2011, with the Utility's authorized net operating income per Cause No. 42359 and other relevant Orders. Schedule C-1 depicts the Utility's cumulative over or under earnings for each fuel cost adjustment for the relevant period calculated.

12. Q - Has the Utility earned a level of net operating income greater than that granted in their last proceeding?

A - No. As shown on Schedule C, the Utility did not have net operating income, for the twelve months ended November 30, 2011, greater than that granted in their last general rate proceeding in Cause No. 42359 and other relevant Orders.

13. Q - Is the sum of the differentials included in your report?

A - Yes. This schedule is included on Page 14. Since Duke Energy Indiana, Inc. was not in an over-earning position, this schedule was only provided for informational purposes.

14. Q - Please explain Schedule D.

A - Schedule D compares the Utility's pro-forma operating expenses approved by the Commission in Cause No. 42359 and other relevant Orders with the actual operating expenses incurred by the Utility, for the twelve months ended November 30, 2011. The purpose of this calculation is to determine whether the Utility had actual decreases in other operating expenses which could be used to offset increases in the Utility's fuel cost. As can be seen on Schedule D, the Utility did not have decreases in other operating costs that could be used to offset fuel cost increase.

15. Q - Please explain Schedules E and F.

A - Schedule E sets forth the total fuel cost, in mills, for the period of January 2008 through November 2011. Schedule F graphically depicts the results of Schedule E, for the period January 2008 through November 2011.

16. Q - Has the fuel cost adjustment for the quarter ended November 30, 2011 been properly applied?

A - Yes.

17. Q - Did the Utility request recovery of purchased power costs that exceeded its monthly benchmarks?

A - No. The Utility did not have purchases in excess of the benchmarks found on Exhibit A, Schedule 8, as noted in Scott A. Burnside's testimony, Pages 6 and 7.

18. Q - Do you have an opinion regarding the figures used by the Utility in its application in this Cause?

A - Yes. The figures used in the application for change in fuel cost adjustment, including the actual and estimated fuel expense and sales data for the quarter ended November 30, 2011, were supported by the books and records, "PACE" and source documentation of the Utility for the period reviewed.

19. Q - Do you have an opinion regarding the reasonableness of the projections used by the Utility, for fuel costs and sales of power, for the quarter ending June 30, 2012?

A - Yes. Nothing came to my attention that would indicate that the projections used by the Utility for fuel costs and sales of power were unreasonable, considering a comparison of prior quarter actual and forecast fuel costs and sales figures, as shown on Schedule G.

20. Q - Please explain Schedule H.

A - Schedule H is a listing of the proposed fuel cost adjustment factors adjusted for Indiana Utility Receipts Tax for this FAC and the past twenty (20) FACs.

21. Q - Please explain Schedule I.

A - Schedule I is a schedule setting forth the MISO Charges/Credits Allocated to Duke Energy Indiana, Inc. Native Load through the PACE process.

22. Q - Is there any additional information you feel is important relating to certain costs contained within the filing?

A - Yes. Mr. Michael Eckert will be providing testimony on additional items such as (1) purchased power over the benchmark, (2) ASM Order, (3) Hedging Transactions, (4) Monthly Average Regulation, Spinning, and Supplemental Reserves, (5) Coal Inventory, (6) Bill Analysis, (7) Actual Cost of Fuel (Mills/kWh) Comparison; and (8) Duke Energy Indiana, Inc.'s acquisition of the merchant plant from Duke Energy Vermillion and retirement of Gallagher Units 1 and 3.

23. Q - How have you accounted for the issues arising with hedging?

A - We reviewed, on a summary basis, information associated with electric and/or gas hedging.

24. Q - What additional work do you do in regards to estimations?

A - Since early 2010, we have stepped up our review of data supporting the estimate. We receive the forecast (by station) report output, each filing, and input their data into our

model. We review and analyze each element of cost supporting Exhibit A, Schedule 1. In addition, we review MWhs of output, by plant, and their related costs by MWh. The next step we take is reviewing the estimated sales, to each customer class, and the associated losses. We will continue to review both megawatt hours and cost per megawatt hour by generating unit, in an effort to apprise the Commission of various factors impacting the projected costs.

25. Q - Are there any additional items you would like to point out to the Commission?

A - Yes. It should be noted that, on Line 25 of Exhibit A, Schedule 1, Duke Energy Indiana, Inc. has included the remaining FAC 90 Reconciliation Amount. This amount is the additional portion of the remaining amount. The amount ties back to the last Order.

26. Q - Have you reviewed the Supplemental Testimony and Exhibits of Elliott Batson, Jr. and John D. Swez?

A - Yes, we have, and we have numerous questions on the impact of the proposal. Our questions focus on the fact that the "price decrement" adjustment will impact a lot of items on a going forward basis. It is my understanding that the OUCC has not had adequate time to evaluate this proposal and that this type of change being proposed at the "last minute" of FAC91 is just not reviewable at this time. Preliminary questions were asked during the onsite audit process, but the impacts as to the MISO process and PACE process do not appear too addressable at this point. At this time, I would envision some additional work papers and audit steps being needed to verify the impact of the decrement. The concept appears to be straightforward, but the

integration of the adjustments and verification of impact is a significant aspect in our minds.

27. Q - Given the information you just presented, what are you proposing?

A - At this point, Mr. Michael Eckert will be making a recommendation on behalf of the agency in this matter. As the outside auditor regarding this issue, we believe the Commission should be aware of the significant issues that may develop as this adjustment evolves and that additional work papers and audit steps (in my opinion) will be necessary to ensure the integrate of the process.

28. Q - Is there any information outstanding?

A - No. We have received formal responses to all of our data requests.

29. Q - Does this conclude your pre-filed testimony?

A - Yes, it does.

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
Duke Energy Indiana, Inc.
Cause No. 38707-FAC91**

Calculation of Proposed Fuel Cost Adjustment Factor

	<u>Mills/KWH</u>
Average projected fuel cost for quarter including April, May and June 2012	<u>30.578</u>
Fuel cost variance for quarter including September, October and November 2011	<u>1.626</u>
Remaining FAC 90 Reconciliation Amount	<u>1.634</u>
Projected fuel cost adjusted for variances	<u>33.838</u>
Less: Base cost of fuel per Cause No. 42359	<u>14.484</u>
Proposed fuel cost adjustment factor	19.354
Provision for Indiana Utility Receipts Tax	<u>0.295</u>
Proposed fuel cost adjustment factor adjusted for Indiana Utility Receipts Tax	<u><u>19.649</u></u>

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

**Calculation of Proposed Fuel Cost Adjustment Factor
for Steam Service**

Average projected fuel cost for quarter including April, May and June 2012 (MILLS/KWH)	<u>29.1273970</u>
Equivalent costs per 1,000 lbs. steam	<u>\$ 3.2127519</u>
Less: Base cost of fuel per Cause No. 39483	<u>\$ 1.6168595</u>
Proposed fuel cost adjustment factor (per 1,000 lbs. steam)	<u>\$ 1.5958924</u>
Provision for Indiana Utility Receipts Tax	<u>\$ 0.0243029</u>
Proposed fuel cost adjustment factor adjusted for Indiana Utility Receipts Tax (per 1,000 lbs. steam)	<u><u>\$ 1.6201953</u></u>

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

**Comparison of Authorized Return
with Actual Net Operating Income
(000's Omitted)**

Actual Twelve Months Ending November 30, 2011

Jurisdictional Operating Revenue	\$ 2,241,109
Jurisdictional Operating Expense	<u>1,983,422</u>
Jurisdictional Net Operating Income	<u>\$ 257,687</u>

Per Cause No. 42359 and Applicable Adjustments for CWIP & IGCC Project Orders (1)

Jurisdictional Operating Revenue	\$ 1,607,472
Jurisdictional Operating Expense	<u>1,200,848</u>
Jurisdictional Net Operating Income	<u>\$ 406,624</u>

Over (Under)	<u><u>\$ (148,937)</u></u>
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(1) As adjusted by other relevant Orders

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.

Cause No. 38707-FAC91

**Excess (Under) Earnings for Relevant Period
(000's Omitted)**

Quarter	FAC No.	Reported Earnings Period	Determined Return	Authorized Return (2)	Differential
1	91	11/2011	\$ 257,687	\$ 406,624	\$ (148,937)
2	90	8/2011	287,143	407,338	(120,195)
3	89	5/2011	277,277	402,756	(125,479)
4	88	2/2011	286,507	395,103	(108,596)
5	87	11/2010	299,538	388,270	(88,732)
6	86	8/2010	283,914	378,386	(94,472)
7	85	5/2010	251,236	373,127	(121,891)
8	84	2/2010	242,345	367,939	(125,594)
9	83	11/2009	209,391	360,275	(150,884)
10	82	8/2009	214,088	353,525	(139,437)
11	81	5/2009	218,207	345,309	(127,102)
12	80	2/2009	230,262	339,006	(108,744)
13	79	11/2008	234,672	333,017	(98,345)
14	78	8/2008	242,632	328,100	(85,468)
15	77	5/2008	254,335	323,808	(69,473)
16	76	2/2008	253,683	318,486	(64,803)
17	75	11/2007	250,348	313,688	(63,340)
18	74	8/2007	239,888	307,283	(67,395)
19	73	5/2007	234,800	300,604	(65,804)
20	72	2/2007	220,826	293,452	(72,626)
21	71	11/2006	215,848	287,801	(71,953)
22	70	8/2006	221,395 (1)	283,646	(62,251)
23	69	5/2006	257,837 (1)	280,366	(22,529)
24	68	2/2006	278,662 (1)	279,057	(395)
25	67	11/2005	258,083 (1)	277,378	(19,295)
26	67	8/2005	276,891	275,838	1,053
27	66	5/2005	227,391	274,367	(46,976)
28	65	2/2005	238,223	262,551	(24,328)
29	64	11/2004	240,164	249,240	(9,076)
30	63	8/2004	223,198	236,662	(13,464)
Sum of Differential for Relevant Period					<u>\$ (2,316,531)</u>

(1) As adjusted by applicable CWIP and IGCC Project Orders

(2) Restated for the tax affected correction of \$10,596 due to the error found in the calculations of the expense and return tests

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

**Comparison of Pro-Forma Operating Expense
with Actual Operating Expense
(000's Omitted)**

Actual Twelve Months Ending November 30, 2011

Total Operating Expense	\$ 1,983,422
Less: Fuel Cost	
Native Load	\$ 831,114
Deferred Fuel	<u>(16,021)</u>
Operating Expense excluding Fuel Cost	<u>\$ 1,168,329</u>

Per Causes No. 42359 and Other Relevant Orders

Total Operating Expense	\$ 1,200,848
Less: Fuel Cost	
Native Load	\$ 385,527
Purchased Power Fuel	<u> </u>
Operating Expense excluding Fuel Cost	<u>\$ 815,321</u>

Over (Under)	<u><u>\$ 353,008</u></u>
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**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
Duke Energy Indiana, Inc.
Cause No. 38707-FAC91**

**Cost of Fuel to Generate Electricity and
the Cost of Fuel Included in the Cost of Purchased Power**

Line No.	Description	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
KWH Source (000's) :													
1.	Sales :	2,886,253	2,897,186	2,702,615	2,415,469	2,368,908	2,788,423	2,931,965	2,895,188	2,600,768	2,418,549	2,558,723	2,817,038
Fuel Cost \$:													
2.	Native load Fuel, Including Virtual Energy Arms	\$ 65,520,100	\$ 68,679,238	\$ 79,377,798	\$ 58,219,863	\$ 48,333,148	\$ 84,428,218	\$ 73,885,155	\$ 72,801,013	\$ 63,473,492	\$ 60,762,383	\$ 62,633,317	\$ 67,418,283
3.	Amortization of Coal Contract Buy-out Costs	-	-	-	-	-	-	-	-	-	-	-	-
4.	CG&E Generation for PSI Native Load	-	-	-	-	-	-	-	-	-	-	-	-
5.	Subtotal Generation Fuel Costs	\$ 65,520,100	\$ 68,679,238	\$ 79,377,798	\$ 58,219,863	\$ 48,333,148	\$ 84,428,218	\$ 73,885,155	\$ 72,801,013	\$ 63,473,492	\$ 60,762,383	\$ 62,633,317	\$ 67,418,283
6.	Purchased Power	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7.	Less: Costs not Subject to Recovery via the Fuel Adjustment Clause	-	-	-	-	-	-	-	-	-	-	-	-
8.	Purchased Power Costs Subject to Recovery via the Fuel Adjustment Charge	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)	\$ (1)
9.	Estimated Adjustment for Joint Dispatch	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10.	Gas Hedging Amounts	-	-	-	-	-	-	-	-	-	-	-	-
11.	LMP Hedging Amount	130,890	(231,488)	(198,292)	18,075	625	23,145	29,076	1,162,995	1,384,694	(81,627)	823,980	10,947
12.	Prior Period Hedging	-	-	-	-	-	-	-	-	-	108	-	-
13.	Above Benchmark Purchase Amounts	-	-	-	-	-	-	-	-	-	-	-	-
14.	Other Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
15.	Miscellaneous Fuel Adjustment	-	-	-	-	-	-	-	-	-	-	-	-
16.	Prior Period Cost Adjustment	(2,308,329)	(2,007,996)	1,086,315	(184,804)	(380,073)	-	253,385	529,818	68,466	(1,316,365)	(1,052,555)	-
17.	Total Fuel Costs	\$ 63,342,761	\$ 66,439,754	\$ 80,265,821	\$ 58,033,134	\$ 47,753,700	\$ 84,451,363	\$ 74,167,616	\$ 74,487,826	\$ 64,926,652	\$ 59,364,499	\$ 62,404,662	\$ 67,429,230
18.	Fuel Cost per KWH (Mills)	\$ 21.946	\$ 22.933	\$ 29.699	\$ 24.034	\$ 20.159	\$ 30.286	\$ 25.296	\$ 25.728	\$ 24.964	\$ 24.546	\$ 24.389	\$ 23.936

(1) Duke Energy Indiana, Inc. discontinued this in their filing.

OFFICE OF UTILITY CONSUMER COUNSELOR
 REVIEW OF FUEL COST ADJUSTMENT
 Duke Energy Indiana, Inc.
 Cause No. 38707-FAC91

Cost of Fuel to Generate Electricity and
 the Cost of Fuel Included in the Cost of Purchased Power

Line No.	Description	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
KWH Source (000's) :													
1.	Sales :	2,816,263	2,574,880	2,443,123	2,256,113	2,334,190	2,242,725	2,198,720	2,503,424	2,113,754	2,072,991	2,150,903	2,444,308
Fuel Cost \$:													
2.	Native load Fuel, Including Virtual Energy Amts	\$ 77,652,459	\$ 63,962,108	\$ 59,729,204	\$ 55,908,771	\$ 56,829,664	\$ 58,122,702	\$ 54,569,298	\$ 59,396,249	\$ 48,705,437	\$ 51,095,936	\$ 50,324,874	\$ 61,440,798
3.	Amortization of Coal Contract Buy-out Costs	-	-	-	-	-	-	-	-	-	-	-	-
4.	CG&E Generation for PSI Native Load	-	-	-	-	-	-	-	-	-	-	-	-
5.	Subtotal Generation Fuel Costs	\$ 77,652,459	\$ 63,962,108	\$ 59,729,204	\$ 55,908,771	\$ 56,829,664	\$ 58,122,702	\$ 54,569,298	\$ 59,396,249	\$ 48,705,437	\$ 51,095,936	\$ 50,324,874	\$ 61,440,798
6.	Purchased Power	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7.	Less: Costs not Subject to Recovery via the Fuel Adjustment Clause	-	-	-	-	-	-	-	-	-	-	-	-
8.	Purchased Power Costs Subject to Recovery via the Fuel Adjustment Charge	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
9.	Estimated Adjustment for Joint Dispatch	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10.	Gas Hedging Amounts	-	-	-	-	-	-	-	-	-	-	-	-
11.	LMP Hedging Amount	240,546	179,972	127,092	63,576	631,176	1,566,179	3,236,556	3,223,085	\$ 393,580	\$ 10,716	\$ (6,943)	\$ (202,598)
12.	Prior Period Hedging	-	-	-	-	-	3,073	-	-	-	-	-	2,367
13.	Above Benchmark Purchase Amounts	-	-	-	-	-	-	-	-	-	-	-	-
14.	Other Adjustments	-	-	-	50,915	-	250,523	-	-	-	-	-	(12,188,374)
15.	Miscellaneous Fuel Adjustment	-	-	-	-	-	(65,712)	(5,663)	(19,872)	2,592	(34,017)	2,598	(151,733)
16.	Prior Period Cost Adjustment	(593,615)	(382,873)	-	(164,791)	(4,943,222)	1,304,645	-	-	(572,450)	-	-	(295,402)
17.	Total Fuel Costs	\$ 77,299,390	\$ 63,559,207	\$ 59,856,296	\$ 55,858,471	\$ 52,517,618	\$ 61,181,410	\$ 57,802,190	\$ 62,599,462	\$ 48,529,159	\$ 51,072,635	\$ 50,320,529	\$ 48,605,038
18.	Fuel Cost per KWH (Mills)	\$ 27.448	\$ 24.684	\$ 24.500	\$ 24.759	\$ 22.499	\$ 27.280	\$ 26.289	\$ 25.006	\$ 22.959	\$ 24.637	\$ 23.395	\$ 19.885

(1) Duke Energy Indiana, Inc. discontinued this in their filing.

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

**Cost of Fuel to Generate Electricity and
the Cost of Fuel Included in the Cost of Purchased Power**

Line No.	Description	January 2010	February 2010	March 2010	April 2010	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010
KWH Source (000's) :													
1.	Sales :	2,587,435	2,249,872	2,360,823	1,973,747	2,220,592	2,490,473	2,740,797	2,761,527	2,274,322	2,062,515	2,125,162	2,647,916
Fuel Cost \$:													
2.	Native load Fuel, Including Virtual Energy Amts	\$ 67,205,541	\$ 57,869,469	\$ 58,475,407	\$ 51,050,527	\$ 55,843,444	\$ 68,712,150	\$ 72,596,267	\$ 75,472,974	\$ 56,479,171	\$ 54,255,407	\$ 56,940,462	\$ 73,675,799
3.	Amortization of Coal Contract Buy-out Costs	-	-	-	-	-	-	-	-	-	-	-	-
4.	CG&E Generation for PSI Native Load	-	-	-	-	-	-	-	-	-	-	-	-
5.	Subtotal Generation Fuel Costs	\$ 67,205,541	\$ 57,869,469	\$ 58,475,407	\$ 51,050,527	\$ 55,843,444	\$ 68,712,150	\$ 72,596,267	\$ 75,472,974	\$ 56,479,171	\$ 54,255,407	\$ 56,940,462	\$ 73,675,799
6.	Purchased Power	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7.	Less: Costs not Subject to Recovery via the Fuel Adjustment Clause	-	-	-	-	-	-	-	-	-	-	-	-
8.	Purchased Power Costs Subject to Recovery via the Fuel Adjustment Charge	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
9.	Estimated Adjustment for Joint Dispatch	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10.	Gas Hedging Amounts	-	-	-	-	-	-	-	-	-	-	-	-
11.	LMP Hedging Amount	(21,935)	12,099	(12,345)	70,756	(196,761)	(937,913)	(487,985)	(329,440)	206,418	188,660	(291,976)	(1,817,369)
12.	Prior Period Hedging	-	-	(7)	-	-	-	-	-	5,270	-	-	4,625
13.	Above Benchmark Purchase Amounts	-	-	-	-	-	-	-	-	-	-	-	-
14.	Other Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
15.	Miscellaneous Fuel Adjustment	348	347	(49,298)	(28,644)	407	20,564	20,703	20,724	20,755	21,148	20,493	18,452
16.	Prior Period Cost Adjustment	-	-	(287,439)	-	-	(929,463)	-	-	124,022	-	-	(329,424)
17.	Total Fuel Costs	\$ 67,183,954	\$ 57,881,915	\$ 58,126,318	\$ 51,092,639	\$ 55,647,090	\$ 66,865,338	\$ 72,128,985	\$ 75,164,258	\$ 56,835,636	\$ 54,465,215	\$ 56,668,979	\$ 71,552,083
18.	Fuel Cost per KWH (Mills)	\$ 25.965	\$ 25.727	\$ 24.621	\$ 25.886	\$ 25.060	\$ 26.848	\$ 26.317	\$ 27.218	\$ 24.990	\$ 26.407	\$ 26.666	\$ 27.022

(1) Duke Energy Indiana, Inc. discontinued this in their filing.

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
 Duke Energy Indiana, Inc.
 Cause No. 38707-FAC91

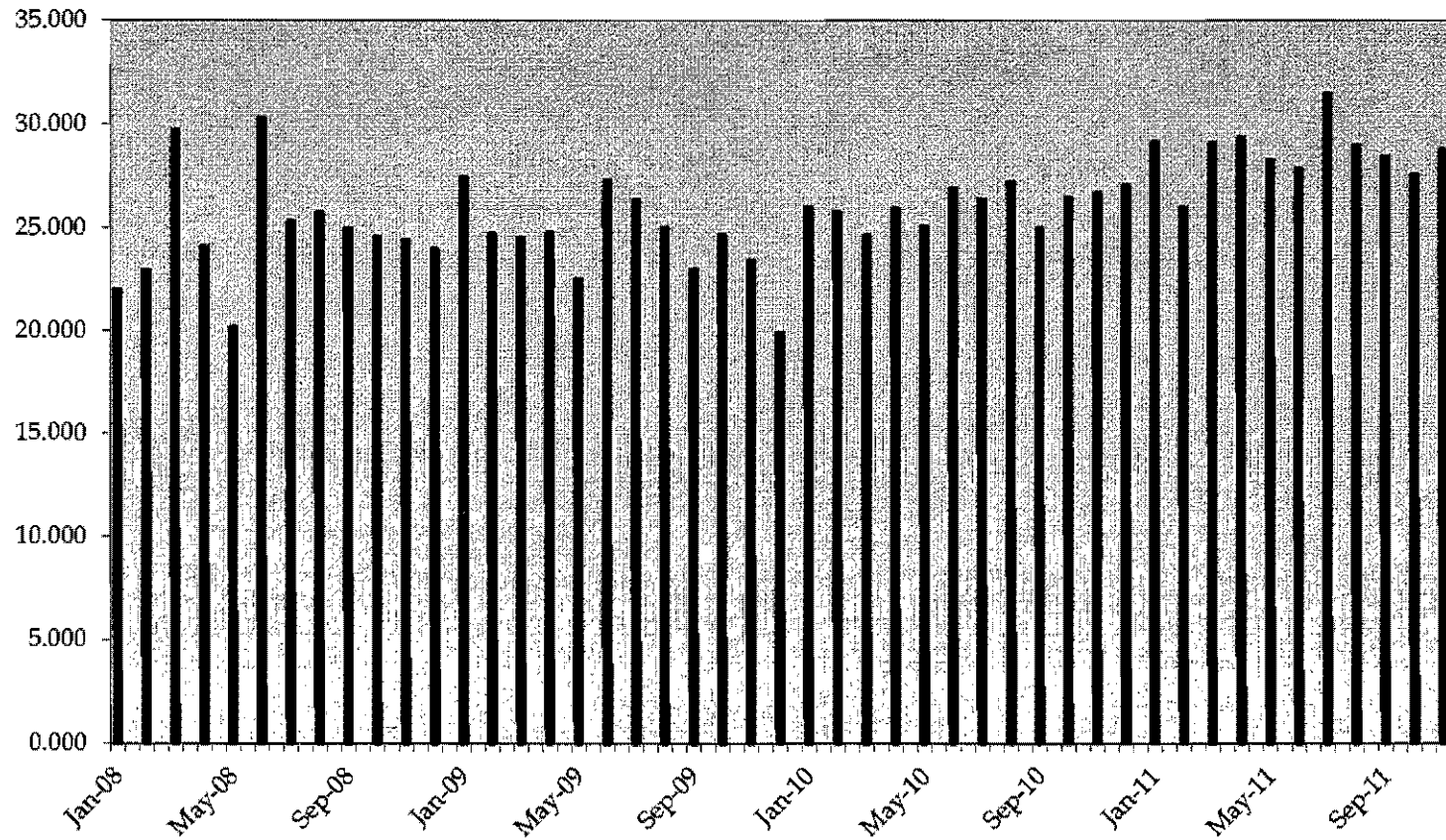
**Cost of Fuel to Generate Electricity and
 the Cost of Fuel Included in the Cost of Purchased Power**

Line No.	Description	January 2011	February 2011	March 2011	April 2011	May 2011	June 2011	July 2011	August 2011	September 2011	October 2011	November 2011
KWH Source (000's) :												
1.	Sales :	2,556,047	2,333,422	2,221,916	2,030,030	2,201,733	2,395,680	2,836,253	2,698,139	2,124,676	2,131,641	2,118,666
Fuel Cost \$:												
2.	Native load Fuel, Including Virtual Energy Amts	\$ 74,913,463	\$ 60,715,156	\$ 64,906,669	\$ 60,728,686	\$ 62,409,193	\$ 66,905,069	\$ 90,104,673	\$ 78,111,934	\$ 59,315,237	\$ 58,714,294	\$ 60,778,484
3.	Amortization of Coal Contract Buy-out Costs	-	-	-	-	-	-	-	-	-	-	-
4.	CG&E Generation for PSI Native Load	-	-	-	-	-	-	-	-	-	-	-
5.	Subtotal Generation Fuel Costs	\$ 74,913,463	\$ 60,715,156	\$ 64,906,669	\$ 60,728,686	\$ 62,409,193	\$ 66,905,069	\$ 90,104,673	\$ 78,111,934	\$ 59,315,237	\$ 58,714,294	\$ 60,778,484
6.	Purchased Power	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7.	Less: Costs not Subject to Recovery via the Fuel Adjustment Clause	-	-	-	-	-	-	-	-	-	-	-
8.	Purchased Power Costs Subject to Recovery via the Fuel Adjustment Charge	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
9.	Estimated Adjustment for Joint Dispatch	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-	-
10.	Gas Hedging Amounts	-	-	-	-	-	-	-	-	-	-	-
11.	LMP Hedging Amount	(465,094)	(167,869)	(313,930)	(1,135,040)	(164,073)	77,676	(939,673)	(37,687)	(19,539)	(1,548)	135,725
12.	Prior Period Hedging	-	-	4,196	-	-	89	-	-	1,743	-	-
13.	Above Benchmark Purchase Amounts	-	-	-	-	-	-	-	-	-	-	-
14.	Other Adjustments	-	-	-	-	-	-	-	-	-	-	-
15.	Miscellaneous Fuel Adjustment	23,489	23,672	19,881	(35,494)	(46,750)	36,583	37,907	33,688	31,210	30,919	30,940
16.	Prior Period Cost Adjustment	-	-	-	-	-	(343,205)	-	-	1,028,171	-	-
17.	Total Fuel Costs	\$ 74,471,858	\$ 60,570,959	\$ 64,616,816	\$ 59,558,152	\$ 62,198,370	\$ 66,676,212	\$ 89,202,907	\$ 78,107,935	\$ 60,356,822	\$ 58,743,665	\$ 60,945,149
18.	Fuel Cost per KWH (Mills)	\$ 29.136	\$ 25.958	\$ 29.082	\$ 29.339	\$ 28.250	\$ 27.832	\$ 31.451	\$ 28.949	\$ 28.408	\$ 27.558	\$ 28.766

(1) Duke Energy Indiana, Inc. discontinued this in their filing.

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
 Duke Energy Indiana, Inc.
 Cause No. 38707-FAC91
Fuel Cost (in mills) for
January 2008 through November 2011

-21-



SCHEDULE F

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

**Comparison of Actual and Estimated Cost of Fuel for Months of
September, October and November 2011**

Month	Actual Sales	Actual Fuel Cost	Average Actual Fuel Cost	Forecast Sales	Forecast Fuel Cost	Average Forecast Fuel Cost	Weighted Average Error (1)
September 2011	2,418,866	\$ 68,218,381		2,505,848	\$ 65,766,500		28.050
October 2011	2,446,474	67,071,469		2,460,469	65,616,000		26.561
November 2011	2,415,576	68,940,683		2,480,859	66,419,000		1.490
Total	<u>7,280,916</u>	<u>\$ 204,230,533</u>	<u>\$ 28.050</u>	<u>7,447,176</u>	<u>\$ 197,801,500</u>	<u>\$ 26.561</u>	<u>5.61%</u>

(1) Based on the percentage of actual over (under) estimated amount after prior period adjustments

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.

Cause No. 38707-FAC91

List of Proposed and Prior Trackers

<u>Cause No.</u>	<u>Proposed fuel cost adjustment factor adjusted for Indiana Utility Receipts Tax</u>
38707-FAC91	19.649 (Proposed Herein)
38707-FAC90	18.375
38707-FAC89	15.216
38707-FAC88	14.207
38707-FAC87	12.517
38707-FAC86	13.881
38707-FAC85	11.246
38707-FAC84	10.184
38707-FAC83	7.737
38707-FAC82	9.451
38707-FAC81	9.136
38707-FAC80	12.904
38707-FAC79	11.258
38707-FAC78	13.777
38707-FAC77	13.944
38707-FAC76	13.520
38707-FAC75	6.717
38707-FAC74	6.656
38707-FAC73	3.354
38707-FAC72	7.006
38707-FAC71	4.720

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT
Duke Energy Indiana, Inc.
Cause No. 38707-FAC91**

**MISO - COST FLOW THROUGH IN THIS FAC
April 2005 - December 2007**

<u>Month</u>	<u>Net MISO Other Charges due Duke Energy Indiana, Inc.</u>
April 2005	\$ (6,194,977)
May 2005	(4,686,440)
June 2005	(7,508,701)
July 2005	(6,983,167)
August 2005	(5,412,787)
September 2005	(7,998,565)
October 2005	(18,773,690)
November 2005	(10,795,642)
December 2005	(18,883,293)
January 2006	(6,027,230)
February 2006	(3,114,803)
March 2006	(3,260,023)
April 2006	(10,284,642)
May 2006	(1,967,106)
June 2006	(2,434,440)
July 2006	(5,460,828)
August 2006	(5,438,085)
September 2006	(1,533,906)
October 2006	(2,174,478)
November 2006	(2,730,654)
December 2006	(2,097,907)
January 2007	(2,076,824)
February 2007	(4,654,043)
March 2007	(4,355,528)
April 2007	(2,919,127)
May 2007	(5,811,654)
June 2007	(2,710,091)
July 2007	(6,245,729)
August 2007	(10,644,364)
September 2007	(2,400,754)
October 2007	(11,188,307)
November 2007	(6,388,271)
December 2007	(7,422,795)

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT

Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

MISO - COST FLOW THROUGH IN THIS FAC
January 2008 - May 2011

Month	Net MISO Other Charges due Duke Energy Indiana, Inc.
January 2008	\$ (2,451,780)
February 2008	(8,703,844)
March 2008	(1,868,268)
April 2008	(1,738,374)
May 2008	(4,927,959)
June 2008	(7,120,906)
July 2008	(4,656,696)
August 2008	(2,621,975)
September 2008	(1,188,241)
October 2008	(1,090,243)
November 2008	(3,234,674)
December 2008	(1,033,169)
January 2009	(2,688,025)
February 2009	(2,186,384)
March 2009	(2,242,266)
April 2009	(1,486,089)
May 2009	(2,131,999)
June 2009	(4,204,237)
July 2009	(3,586,280)
August 2009	(3,954,148)
September 2009	(2,218,415)
October 2009	(3,392,664)
November 2009	(4,021,647)
December 2009	(4,271,586)
January 2010	(3,417,346)
February 2010	(2,301,043)
March 2010	(3,288,948)
April 2010	(2,175,467)
May 2010	(4,399,473)
June 2010	(5,374,163)
July 2010	(5,081,639)
August 2010	(3,767,178)
September 2010	(2,888,993)
October 2010	(1,831,796)
November 2010	(2,600,264)
December 2010	(4,444,156)
January 2011	(3,151,085)
February 2011	(4,315,396)
March 2011	(2,660,499)
April 2011	(1,850,227)
May 2011	(4,928,739)

OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT

Duke Energy Indiana, Inc.
Cause No. 38707-FAC91

MISO - COST FLOW THROUGH IN THIS FAC
June 2011 - November 2011

<u>Month</u>	<u>Net MISO Other Charges due Duke Energy Indiana, Inc.</u>
June 2011	\$ (8,918,056)
July 2011	(5,011,566)
August 2011	(5,038,525)
September 2011	(4,044,850)
October 2011	(4,529,116)
November 2011	(5,303,368)

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.

Cause No. 38707-FAC91

Hedging for Current FAC

<u>Current Period</u>	<u>LMP</u>	<u>Gas</u>	<u>Adj. for WVPA</u>	<u>Wholesale Formula Rates ASM</u>	<u>Total</u>
September 2011	\$ (109,540)	\$ 87,296	\$ (369)	\$ (2,336)	\$ (19,539)
October 2011	(1,837)	61	(30)	(198)	(1,548)
November 2011	154,746	-	2,287	16,734	135,725

**OFFICE OF UTILITY CONSUMER COUNSELOR
REVIEW OF FUEL COST ADJUSTMENT**

Duke Energy Indiana, Inc.

Cause No. 38707-FAC91

Prior Period Adjustments

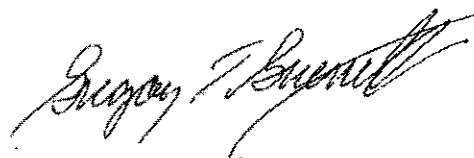
<u>Current Period</u>	<u>Prior Period</u>	<u>Prior Period Adj.</u>	<u>WVPA</u>	<u>Wholesale Formula Rates ASM</u>	<u>Adjusted Actual</u>
September 2011					
	June 11 S105	1,996,087	2,447	187,165	
	July 11 S105	(734,970)	(4,626)	(25,026)	
	Aug. 11 S105	(94,213)	390	(21,617)	
	Subtotal	<u>1,166,904</u>	<u>(1,789)</u>	<u>140,522</u>	<u>1,028,171</u>
October 2011					
	Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
November 2011					
	Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Grand Total	<u><u>1,166,904</u></u>	<u><u>(1,789)</u></u>	<u><u>140,522</u></u>	<u><u>1,028,171</u></u>

Note: No Prior Period Adjustments were found in October or November.

Source: Notes on Exhibit A, Schedule 7, Pages 1, 2 and 3 of 3, all months; also, supporting work papers

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

A handwritten signature in cursive script, appearing to read "Gregory T. Burnett".

By:
Indiana Office of
Utility Consumer Counselor

March 1, 2012
Date

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**APPLICATION OF DUKE ENERGY INDIANA,)
INC. FOR APPROVAL OF A CHANGE IN ITS)
FUEL COST ADJUSTMENT FOR ELECTRIC)
SERVICE, FOR APPROVAL OF A CHANGE)
IN ITS FUEL COST ADJUSTMENT FOR)
HIGH PRESSURE STEAM SERVICE, AND TO)
UPDATE MONTHLY BENCHMARKS FOR)
CALCULATION OF PURCHASED POWER)
COSTS IN ACCORDANCE WITH INDIANA)
CODE 8-1-2-42, INDIANA CODE 8-1-2-42.3)
AND VARIOUS ORDERS OF THE INDIANA)
UTILITY REGULATORY COMMISSION)**

CAUSE NO. 38707 FAC 91

TESTIMONY OF

MICHAEL D. ECKERT- PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF OUCC WITNESS MICHAEL D. ECKERT
CAUSE NO. 38707 FAC-91
DUKE ENERGY INDIANA

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Michael D. Eckert and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a
6 Senior Utility Analyst in the Electric Division.

7 **Q: Please describe your educational background and experience.**

8 A: I graduated from Purdue University in West Lafayette, Indiana in December
9 1986, with a Bachelor of Science degree, majoring in Accounting. I am licensed
10 in the State of Indiana as a Certified Public Accountant. Upon graduation, I
11 worked as a Field Auditor with the Audit Bureau of Circulation in Schaumburg,
12 Illinois until October 1987. In December 1987, I accepted a position as a Staff
13 Accountant with the OUCC. In May 1995, I was promoted to Principal
14 Accountant and in December 1997, I was promoted to Assistant Chief
15 Accountant. As part of the OUCC's reorganization, I accepted the position of
16 Assistant Director of its Telecommunications Division in July 1999. From
17 January 2000 through May 2000, I was the Acting Director of the

1 Telecommunication Division. As part of an OUCC reorganization, I accepted a
2 position as a Senior Utility Analyst. As part of my continuing education, I have
3 attended the National Association of Regulatory Utility Commissioner's
4 ("NARUC") two-week seminar in Lansing, Michigan. I attended NARUC's
5 Spring 1993 and 1996 seminar on system of accounts. In addition, I attended
6 several CPA sponsored courses and the Institute of Public Utilities Annual
7 Conference in December 1994 and December 2000.

8 **Q: What is the purpose of your testimony?**

9 A: I will address Applicant's: (1) purchased power over the benchmark; (2) ASM
10 Order; (3) Hedging Transactions; (4) monthly average Regulation, Spinning, and
11 Supplemental Reserves; (5) Coal Inventory; (6) Bill Analysis; (7) Actual Cost of
12 Fuel (Mills/kWh) Comparison; and (8) Duke's acquisition of the merchant plant
13 from Duke Energy Vermillion and retirements of Gallagher Units 1 and 3.

14 **Q: Have you previously testified before the Indiana Utility Regulatory**
15 **Commission?**

16 A: Yes.

17 **Q: Please describe the review and analysis you conducted in order to prepare**
18 **your testimony.**

19 A: I read Duke Energy Indiana's (hereafter "Applicant" or "Duke") prefiled
20 testimony and prefiled application in this proceeding, as well as relevant
21 Commission Orders. I reviewed Applicant's workpapers and participated in a
22 teleconference call. I also reviewed Applicant's responses to OUCC data requests
23 and pertinent sections of Title 8 of Indiana Code and Title 170 of the Indiana
24 Administrative Code. I participated in meetings with other OUCC staff members
25 and company personnel in developing issues identified in this Cause.

II. PURCHASED POWER OVER THE BENCHMARK

- 1 **Q: Did Applicant purchase any power that exceeded the benchmark?**
2 A: No. It did not.

III. ANCILLARY SERVICES MARKET (ASM)

- 3 **Q: Does Applicant's treatment of ASM charges follow the treatment ordered by**
4 **the Indiana Utility Regulatory Commission in its Phase II Order in Cause**
5 **No. 43426, dated June 30, 2009?**
6 A: Yes.

IV. GENERATING UNITS

- 7 **Q: Did Applicant update the Commission on the status of the New Source**
8 **Review related to Applicant's Gallagher Units 1 and 3 and Duke's purchase**
9 **of a portion of Duke Energy Vermillion II, LLC?**
10 A: Yes. Applicant's Witness Mr. John Swez provides testimony¹ on this issue.
11 **Q: Should Duke in its next FAC update the Commission as to how the shutdown**
12 **of two generating units 1 and 3 at Gallagher Station on January 12, 2012 and**
13 **the purchase of the merchant plant from Duke Energy Vermillion II, LLC,**
14 **will impact the Company actual costs and its forecasted costs?**
15 A: Yes.
16 **Q: Should Duke in its next FAC inform the Commission what it plans to do with**
17 **the two retired generating units at Gallagher Station (1 and 3)?**
18 A: Yes.

V. HEDGING TRANSACTIONS

- 19 **Q: Are there any issues related to Hedging Transactions in this FAC?**
20 A: There are no major issues relating to hedging in this cause. The OUCC issued a
21 data request regarding hedging and intends to discuss these responses with
22 representatives of Duke, as appropriate, between now and the next FAC.

¹ See Applicant's Witness Mr. John Swez's testimony, pages 16 through 17.

VI. REGULATION, SPINNING, AND SUPPLEMENTAL RESERVES CHARGES

1 **Q: Did Applicant report the monthly average ASM Cost Distribution Amounts**
2 **for Regulation, Spinning, and Supplemental Reserves paid by the utility for**
3 **each of the ancillary service products?**

4 **A: Yes. Per the Commission's Order,² Applicant has reported³ the average monthly**
5 **distribution costs of Regulation, Spinning, and Supplemental Reserves charge**
6 **types.**

VII. COAL INVENTORY

7 **Q: Are there any issues associated with Duke's Coal inventory since its last**
8 **application?**

9 **A: Yes. Duke filed supplemental testimony the afternoon of Wednesday, February**
10 **22, regarding its current and projected coal inventory. Duke's current inventory is**
11 **increasing at a time when inventories should be generally decreasing. Duke's**
12 **witnesses explained that the reason Duke's inventory is increasing is due to the**
13 **unseasonably mild weather in December 2011, January 2012, and February 2012.**
14 **In addition, low natural gas prices are making combined cycle ("CCT") natural**
15 **gas units more competitive with coal units to the extent that combined CCTs are**
16 **being dispatched a head of coal units. The company is also forecasting that its**
17 **annual burn for Indiana in 2012 will be as much as 40% lower than the coal burns**
18 **for the calendar year 2011.**

² See the Commission's Order in Cause No. 43426 Phase II, page 41.

³ See Applicant's Witness Scott Burnside's testimony page 7.

1 **Q: Did Duke meet with its suppliers to discuss the issues?**

2 A: Duke has met with its suppliers, determined maximum storage at its facilities, and
3 is exploring the option to resell surplus coal, potential coal contract buyouts, and
4 decrement coal pricing. Duke is obligated to purchase coal it has under contract.

5 **Q: What did Duke propose to help rectify the situation?**

6 A: Because of the mild weather and low natural gas prices, Duke's coal generating
7 facilities are experiencing lower dispatch levels as well as periods of economic
8 shutdown. Therefore, Duke is proposing to adjust its coal unit's dispatch and
9 commitment prices with a price decrement to help keep its coal inventory levels
10 manageable. Duke believes this pricing is allowable within MISO rules.

11 **Q: What does the OUCC recommend regarding Duke's proposal regarding
12 Coal Decrement Pricing?**

13 A: Due to the timing of Duke's supplemental filing, the OUCC has not had adequate
14 time to review Duke's request and the potential issues associated with that
15 request. Therefore, the OUCC recommends that the Commission defer a finding
16 on this issue until Duke's next FAC.

17 **Q: Should Applicant continue to update the Commission on its coal inventory?**

18 A: Yes.

VIII. BILL ANALYSIS

1 **Q: Have you calculated the bill impact on a typical Residential Customer's bill**
2 **using 500, 1,000, 1,500, and 2,000 kWhs at the proposed rate and compared**
3 **that to the same typical customer's bill using the currently approved rate?**

4 **A: Yes I did, as reflected in the table below.**

	Proposed	Current	Dollar	% Increase
	Bill at	Bill at	Inc/(Dec)	/(Decrease)
<u>Consumption</u>	<u>FAC</u>	<u>FAC</u>		
500	\$57.94	\$57.31	\$0.63	1.10%
1,000	\$94.85	\$93.58	\$1.27	1.36%
1,500	\$126.91	\$125.00	\$1.91	1.53%
2,000	\$158.97	\$156.42	\$2.55	1.63%

12 **Q: What assumptions did you make in this calculation?**

13 **A: In making this calculation, I did not include any amount for other trackers nor did**
14 **I include taxes. Therefore, this calculation reflects only the proposed change to**
15 **the FAC factor and Applicant's base rates.**

IX. ACTUAL COST OF FUEL (MILLS/KWH) COMPARISON

16 **Q: Did you do a comparison of the actual monthly cost of fuel (Mills/kWh) for**
17 **the five large investor owned utilities?**

18 **A: Yes. I did. Duke's actual monthly cost of fuel (mills/kWh) is among the lowest**
19 **in the State of Indiana (See Attachment MDE-1).**

X. COAL CONTRACT TIMELINE

1 **Q: Did you prepare a schedule that shows the timelines associated with each of**
2 **Duke's coal contracts?**

3 A: Yes. I did. However, I did not file the schedule in this FAC at this time. Even
4 though the OUCC does not agree with the position taken by Applicant's Witness
5 Mr. Batson, the OUCC has chosen not to file the Coal Contract Timeline Exhibit
6 in this FAC due to the issues raised by Witness Batson.

XI. OUCC RECOMMENDATIONS

7 **Q: Please summarize your recommendations to the Commission in this cause.**

8 A: The OUCC recommends the Commission require Duke to provide the following
9 information in its next FAC:

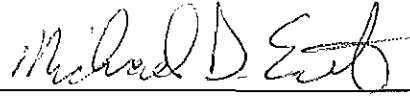
- 10 1) Update the Commission as to how the shutdown of two
11 generating units 1 and 3 at Gallagher Station on January 12,
12 2012 and the purchase of the merchant plant from Duke Energy
13 Vermillion II, LLC, will impact the Company's actual costs
14 and its forecasted costs;
15 2) Update the Commission on the Applicant's current Coal
16 Inventory situation; and
17 3) Defer a finding on Duke's request for Coal Decrement pricing
18 until its next FAC.

19 **Q: Does this conclude your testimony?**

20 A: Yes, it does.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.



By: Michael D. Eckert
Indiana Office of
Utility Consumer Counselor

March 1, 2012

Date

Cause No. 38707-FAC-91