TESTIMONY OF BRETT PHIPPS
MANAGING DIRECTOR, FUEL PROCUREMENT
DUKE ENERGY PROGRESS, LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707-FAC133 BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

A. I am a 1992 graduate of Marshall University with a Bachelor of Science in Chemistry. I have worked in the energy industry for approximately 30 years. My career began in the mining industry in 1993 where I held various roles associated with surface mining operations. I was employed with Progress Energy since 1999 where I held roles in terminal operations and sales and marketing for the unregulated business. I transitioned to the regulated business in 2005 where I

worked in various fuels procurement functions and leadership roles. I joined Duke Energy in July 2012 and am currently Managing Director, Fuel Procurement. I am a member of American Coal Council, The Coal Institute, the Lexington Coal Exchange, and the National Coal Transportation Association.

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

A. As Managing Director, Fuel Procurement, I participate in all aspects of the overall strategic direction and commercial management of the purchase, delivery, and storage of fossil fuels that the Duke Energy regulated utilities use for the generation of electricity. As part of this activity, I monitor and provide guidance in the various areas of fuel markets, including feedback regarding supply and demand, price, quality, availability, economics, and deliverability. These fuel reviews cover both existing and potential future supply sources. I also supervise the Company's fuel procurement activity and associated transportation including the negotiation and administration of long-term and short-term-purchase contracts. In addition to coal, I also supervise procurement of reagents (products used by environmental control systems) and the overall fuel inventories for the regulated fossil generation fleet. Up until August 1, 2021, I also oversaw the procurement of natural gas, fuel oil, and optimization of emission allowances. The focus of my current role remains on managing the coal supply

chain to ensure reliability and cost effective supply. In my role as Managing Director, Fuel Procurement, I continue to provide testimony regarding Duke Energy Indiana's fossil fuel procurement practices.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will discuss the process that Duke Energy Indiana determines its fuel procurement needs. I will also discuss the status of the Company's fuel procurement for coal, natural gas, and fuel oil.

II. FORECASTING FUEL NEEDS

Q. WHAT WAS DUKE ENERGY INDIANA'S FUEL BURN FOR THE FAC PERIOD?

A. Duke Energy Indiana's coal burn was 1.7 million tons, compared to a coal burn of 1.8 million tons in the prior FAC period, representing a decrease of 10%. The Company's natural gas burn for the FAC period was 11,177,822 MMBtu, compared to a gas burn of 12,912,258 MMBtu in the prior FAC period, representing a decrease of approximately 13%. The change in coal and gas burns in the FAC period were driven by the Company's coal price adjustment, discussed in Mr. Daniel's testimony, as well as impacts of fluctuating natural gas and power prices in Midcontinent Independent System Operator (MISO), weather driven demand, and planned maintenance outages.

III. COAL

Q. PLEASE EXPLAIN THE PROCESS THE COMPANY UNDERTAKES TO MANAGE ITS COAL NEEDS.

A. The Company utilizes a comprehensive coal procurement strategy that has proven successful over the years in limiting average annual fuel price changes while actively managing the dynamic demands of its fossil fuel generation fleet in a reliable and cost-effective manner. Aspects of this procurement strategy include determining an appropriate amount of long-term purchases as well as any short-term purchases needed to fill any potential open position, evaluating contract expirations, and limiting exposure to market price changes, diversifying sourcing, and incorporating additional flexibility into the supply contracts. In addition, Duke Energy's Regulated Fuel Department personnel visit each of the Company's contracted producers and mining operations regularly, and any potential new producers, to gather information that assists in our analysis of coal needs. This information, coupled with constant monitoring of published pricing information (*e.g.* industry newsletters, trade publications, regulatory filings, etc.), as well as a close review of market pricing indices published by brokers and traders, provides a thorough understanding of the various coal markets.

Q. HOW DOES THE COMPANY DETERMINE WHETHER TO PURCHASE COAL UNDER A LONG-TERM VS. A SHORT-TERM CONTRACT?

A. In order for Duke Energy to provide a reliable source of electricity, an adequate inventory must be maintained to protect against changes in coal burn volatility. The fuel procurement team continuously monitors actual and projected inventory levels, projected coal burns, the amount of coal under contract and the quality characteristics needed for a particular generating station to determine its purchasing needs and to determine appropriate level of supply, including the need to respond to immediate supply needs through short term purchases.

Q. ONCE THE COMPANY DECIDES THAT IT NEEDS TO PURCHASE COAL UNDER A LONG-TERM CONTRACT, PLEASE DESCRIBE THE PROCESS.

A. Coal supply requirements are competitively bid and proposals are secured from producers and evaluated thoroughly, taking into account coal quality, quantity, volume flexibility, transportation alternatives and price, among other factors. The producer (or producers) whose coal offers the best value, particularly with regard to overall utilization costs and volume flexibility, is selected for further negotiations to produce a long-term contract or contracts. It is important to note that when negotiations allow the Company's long-term contracts contain provisions for periodic price reopener negotiations, some type of price escalations and de-escalations, or a mechanism to adjust prices based upon a published market price index. In addition, our coal transportation contracts in Indiana

contain fuel price surcharge provisions that are based upon published fuel price indices.

Q. ONCE THE COMPANY DECIDES THAT IT NEEDS TO PURCHASE COAL UNDER A SHORT-TERM CONTRACT, PLEASE DESCRIBE THE PROCESS.

A. The primary difference in the process is that for spot purchases, those contracts with a duration of 12 months or less, telephone solicitations are utilized to allow for prompt execution and delivery in order to support immediate supply needs resulting from changes in burn, inventory levels, or supply and transportation challenges.

Q. WHAT WAS THE COST OF COAL PURCHASED PURSUANT TO ALL CONTRACTS FOR THE TWELVE-MONTH PERIOD ENDING MAY 31, 2022?

A. For the twelve-month period ending May 31, 2022, the Company purchased a total of approximately 7.6 million tons of coal (pursuant to both long and short-term contract commitments) at an approximate average cost of $2.58/MMBtu.

Q. WHAT STEPS DOES DUKE ENERGY INDIANA UNDERTAKE TO ASSURE THAT IT IS PROCURING COAL AT THE LOWEST COST REASONABLY POSSIBLE?

A. The Company uses various methods and strategies to ensure reasonable costs, including the use of staggered terms on long-term contracts, maintaining a

diversified mix of suppliers, and using indices, at times, in the determination of adjustment of prices. Duke Energy Indiana diversifies its sourcing of suppliers and works with suppliers to incorporate additional flexibility into the supply contracts. In addition, my group conducts constant monitoring of published pricing information (*e.g.* industry newsletters, trade publications, regulatory filings, etc.), and closely reviews market pricing indices published by brokers and traders.

Q. PLEASE DESCRIBE THE LATEST PRICE TRENDS IN COAL.

A. Published prices for U.S. coal markets have begun to increase since the last fuel proceeding in response to rising power prices, natural gas prices and strong export demand. The coal market continues to remain tight, which is providing support for continued higher prices in this FAC period. The following are the market price indications for the balance of 2022 for the different coal producing regions as of July 12, 2022. High-sulfur Illinois basin coal prices are in the high $160s-mid $180s per ton; Central Appalachia coal prices are in the high $150s to mid $170s per ton; Northern Appalachia coal prices are in the low $150s -low $160 per ton; and Powder River Basin coal prices are approximately $16 per ton.

Q. PLEASE DESCRIBE THE LATEST COAL MARKET TRENDS.

A. Coal markets continue to be distressed and there has been market volatility due to a number of factors, including: (a) deteriorated financial health of coal suppliers following the past several years of steep declines in coal generation demand,

which has impacted the ability of producers to respond to changes in demand throughout 2021 and into the first half of 2022; (b) natural gas price volatility; (c) continued uncertainty regarding proposed and imposed U.S. Environmental Protection Agency ("EPA") regulations for power plants; (d) increased demand in global markets for both steam and metallurgical coal; (e) increasingly stringent safety regulations for mining operations, which result in higher costs and lower productivity; (f) volatile power prices; (g) mergers and acquisitions in the different coal basins; (h) tightening access to investor financing coupled with deteriorating credit quality is increasing the overall costs of financing for coal producers; (i) continued shifts in production between thermal and metallurgical coal; and (j) increasing labor and resource constraints further limiting suppliers' operational flexibility. In addition, the coal supply chain experienced increasing challenges throughout 2021 and the first half of 2022 as historically low utility stockpiles combined with rapidly increasing demand for coal, both domestically and internationally, made procuring additional coal supply increasingly challenging. Producers were unable to respond to this rapid rise in demand due to capacity constraints resulting from labor and resource shortages. These factors combined to drive both domestic and export coal prices in 2021 and the first half of 2022 to record levels. Going into summer 2022, coal commodity costs remain at historically high levels as high natural gas prices and strong domestic and foreign demand continue to put pressure on coal supplies. Despite current market

conditions, coal producers are seeing the inflationary impacts of rising costs associated with mining operations including, but not limited to, labor and equipment costs putting additional pressure on their ability to respond to market demand.

Q. PLEASE DESCRIBE THE LONG-TERM COAL TRANSPORTATION TRENDS.

A. Declining demand for coal in the utility sector has also driven rail transportation providers to modify their business models to be less dependent on coal related transportation revenues. Although rail transportation providers are required to provide rail service, the Company's rail transportation providers have limited resources to adapt to significant changes in scheduling demand resulting from the Company's burn volatility, specifically in higher than forecasted coal burn scenarios. In 2021 and the first half of 2022, the Company experienced increased delivery delays created by rail transportation labor and resource shortages. These delays have been compounded by the misalignment in timing between the availability of mined coal caused by mine production labor constraints discussed above and availability of rail resources.

The Company continues to experience the impacts from labor and resource shortages at coal mines and railroads which has created a distressed coal supply chain and expects the coal supply chain challenges to continue throughout 2022 and into 2023.

Q. HAVE ANY OF THE COMPANY'S SUPPLIERS EXPERIENCED SIGNIFICANT FINANCIAL OR OPERATIONAL CONSTRAINTS?

A. Yes, during this specific FAC period, the Company continued to see significant delivery constraints due to labor shortages from COVID-19 and other railroad resource constraints which moved the Company's impacted coal deliveries into the future. The Company remains concerned and continues to monitor the viability of future supply due to the financial and labor constraints facing its suppliers and rail transportation providers.

Q. HAVE THERE BEEN ANY DEVELOPMENTS IN THE WHITE STALLION ENERGY BANKRUPTCY YOU DISCUSSED IN PREVIOUS FAC DOCKETS?

A. No.

Q. PLEASE DESCRIBE THE COMPANY'S DELIVERED COST OF COAL DURING THE FAC PERIOD.

A. The Company's average delivered cost of coal per ton for this FAC period was $58.45 per ton, compared to $59.70 per ton in the prior FAC period, representing a decrease of approximately 2%.

Q. DID THE COMPANY ISSUE ANY REQUESTS FOR PROPOSALS ("RFPs") DURING THIS FAC PERIOD?

A. Yes, the Company did conduct a request for proposal during the FAC 133 time period. The Company is currently reviewing responses to the request for

proposal.

Q. DID THE COMPANY EXECUTE ANY CONTRACTS DURING THIS FAC PERIOD?

A. Yes. The Company executed two new contracts and two contract amendments during this FAC period.

Q. DID THE COMPANY EXECUTE ANY AMENDMENTS TO DEFER TONS DURING THIS FAC PERIOD?

A. No. The Company did not execute any Deferral Amendments of tons during this FAC period.

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

A. No. During this FAC, the Company did not reopen the price on any coal or transportation contracts.

Q. HAS THE COMPANY RENEWED OR AMENDED ANY COAL TRANSPORTATION CONTRACTS?

A. Yes, the Company has renewed or amended two trucking transportation contracts during this FAC period.

Q. HAS DUKE ENERGY INDIANA RETIRED ANY COAL UNITS DURING THIS FAC PERIOD?

A. No. The Company did not retire any coal units in this FAC period.

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

A. I do. In my opinion, the Company purchased coal at the lowest reasonable prices negotiable.

IV. COAL INVENTORY POSITION

Q. PURSUANT TO THE COMMISSION'S ORDER IN FAC 95, PLEASE EXPLAIN THE COMPANY'S COAL INVENTORY POSITION.

A. As noted in my FAC 132 testimony, filed on April 28, 2022, Duke Energy Indiana's coal inventories as of February 28, 2022, were approximately 1,561,002 tons (or 30 days of coal supply at a full load burn rate per day) across the system. As of May 31, 2022, coal inventories increased to approximately 1,961,923 tons (or 38 days of coal supply at a full load burn rate per day). The changes in inventory are primarily driven by two simultaneous factors, the price adjustment discussed in Mr. Daniel's testimony and weather driven demand throughout the FAC period. The Company is actively managing to maintain a minimum of **<CONFIDENTIAL>** [redacted] **<CONFIDENTIAL>** through the next FAC period.

Q. DID THE COMPANY PURSUE ADDITIONAL INVENTORY MITIGATION EFFORTS ASIDE FROM THE REFERENCED PRICE ADJUSTMENT?

A. Yes, the Company actively pursued additional inventory mitigation efforts including contracting for onsite third-party train operations to alleviate railroad labor constraints, contracted for additional term purchases from additional locations creating diversity and better routes, along with adding truck deliveries where logistically feasible, and adjusting shipping schedules to ensure coal is delivered to where it is most needed. Trucking deliveries are also constrained due to labor shortages, but the Company is utilizing coal truck deliveries at Cayuga and a logistically advantageous rail loop to Gibson Station in an effort to diversify its transportation logistics.

Q. DID THE COMPANY HAVE COAL STORED AT ANY INTERIM STORAGE SITES? IF SO, WHAT WAS THE AMOUNT IN STORAGE AND ARE THERE ANY PLANS TO INCREASE OR DECREASE THE AMOUNTS IN STORAGE?

A. At the end of the review period, the Company had one remaining interim storage location with a total of 166,546 tons. Duke Energy Indiana has experienced ongoing issues associated with the remaining stockpiled coal as stated in prior FAC proceedings because the coal was contaminated and did not meet contractual specifications that created operational challenges. As a result, the Company made the decision to suspend delivery of the remaining stockpile until the quality issues could be resolved. With the finalization of the bankruptcy proceeding, the

Company anticipates scheduling deliveries of the off-site storage through the balance of 2022.

Q. WHAT STEPS IS THE COMPANY UNDERTAKING TO ACTIVELY MANAGE ITS COAL INVENTORY LEVELS?

A. The Company continues to evaluate a host of options in order to effectively manage inventory levels. As mentioned previously, the Company actively manages its portfolio, which includes maintaining a reasonable open position that allows the Company to be more responsive to current actual burns and projected future burns that have become more volatile. However, in cases where actual burns unexpectedly drop below projections and the Company's inventory levels are above target, as inventory levels dictate, the Company explores options to store or defer contract coal or resell surplus coal into the market. In cases where actual burns unexpectedly increase above projections the Company accelerates purchases of supply and looks for operational efficiencies. Due to current coal market conditions, purchase opportunities will continue to be difficult in the near term. The Company will continue to closely monitor its anticipated coal requirements and inventories and take every action available to effectively control coal inventories in the least cost-impact manner for customers. Furthermore, as discussed in the direct testimony of Mr. Daniel, Duke Energy Indiana included a price adjustment to its MISO offer to better manage inventories.

V. NATURAL GAS

Q. PLEASE DESCRIBE THE LATEST PRICE TRENDS IN NATURAL GAS .

A. Spot natural gas prices are dynamic, volatile, and can change significantly day to day based on market fundamental drivers. During March 1, 2022 through May 31, 2022, natural gas prices were above those experienced in the FAC 132 review period. For the period of March 1, 2022 through May 31, 2022, the price the Company paid for delivered natural gas at its gas burning stations was between a low of $4.09 per MMBtu for gas delivered on March 1, 2022, to a high of $9.38 per MMBtu for gas delivered on May 26, 2022, 2022, a 129% increase during the FAC period. In comparison, during the previous 3-month period of December 1, 2021 to February 28, 2022, the price the Company paid for delivered natural gas at its gas burning generation stations was between a low of $3.30 per MMBtu for gas delivered on December 24, 2021, to a high of $6.80 per MMBtu on January 29, 2022, a 53% increase during FAC 133.

Natural gas prices are reflective of the dynamics between supply and demand factors, and in the short term, such dynamics in the FAC period are influenced primarily by changes to export demand, stable production, lower than average storage inventory balances and seasonal weather demand.

In addition, there continues to be growth in the need for natural gas pipeline infrastructure to serve increased market demand. However, pipeline infrastructure permitting and regulatory process approval efforts are taking longer due to increased

reviews and interventions, which can delay and change planned pipeline construction and commissioning timing. Over the longer term planning horizon, natural gas supply has the ability to respond to changing demand while the pipeline infrastructure needed to move the growing supply to meet demand related to power generation, liquefied natural gas exports, and pipeline exports to Mexico is highly uncertain.

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

A. Duke Energy Indiana has contracts for the purchase of gas supply, pipeline transportation, balancing and parking of natural gas needed for its generating stations. The Company primarily utilizes Sequent Energy Management, L.P. to schedule and procure natural gas consumed at Madison Generation Station, and Tenaska Marketing Ventures for natural gas consumed at Wheatland, Cayuga CT, Noblesville, Vermillion, Henry County, and Edwardsport IGCC. A summary of the Company's transportation agreements are as follows: (1) Panhandle Eastern Pipeline Company ("PEPL"), a firm transportation agreement, an interruptible transportation agreement, an enhanced interruptible transportation agreement, and a parking service agreement. The firm natural gas transportation agreement on PEPL has a primary receipt point at the Texas Eastern / Lebanon point with delivery path to the pipeline interconnection with the Indiana Gas Company system (part of Vectren Energy Delivery of Indiana ("Vectren") a subsidiary of

CenterPoint Energy) near Montezuma, Indiana and on a firm contract to the Cayuga CT and directly off the interconnection to Noblesville Station; (2) on Texas Eastern Pipeline Co. (TETCO), an interruptible transportation contract, a Lebanon lateral interruptible transportation agreement and operational balancing agreement with natural gas transportation and balancing for the Madison Station; (3) on Midwestern Pipeline a firm transportation agreement, a park and loan agreement, and an operational balancing agreement for gas delivery and parking services for the Wheatland Generation Station, Vermillion Station, and Edwardsport IGCC; (4) a gas transportation service agreement with Vectren Energy Delivery of Indiana – South for Edwardsport IGCC; and (5) an interruptible transportation agreement and a pooling transportation service on ANR Pipeline Company for the Henry County Station. The Company continues to use its existing firm transportation contracts to enhance supply reliability by reducing the risk of gas pipeline capacity curtailments during periods of tighter supply and demand conditions.

Q. HAS THE COMPANY RENEWED OR AMENDED ANY CONTRACTS FOR NATURAL GAS SUPPLY AND TRANSPORTATION CAPACITY?

A. No renewals or amendments were executed to the Firm Transportation Capacity contracts during the FAC period.

Q. PLEASE DESCRIBE THE COMPANY'S DELIVERED COST OF NATURAL GAS DURING THE FAC PERIOD.

A. The Company's average price of gas purchased for the FAC period was $6.47 per Million British Thermal Units ("MMBtu"), compared to $4.36 per MMBtu in the prior FAC period, representing an increase of approximately 48%. The average price increase for the current period was driven by price volatility in spot natural gas prices during this FAC period.

Q. DO YOU HAVE AN OPINION AS TO WHETHER THE COMPANY PURCHASED NATURAL GAS AT THE LOWEST MARKET PRICE?

A. Yes. It is my opinion that the Company purchased natural gas at the lowest market prices available. Duke Energy Indiana Asset Management Agreement (AMA) provides multiple benefits for customers including decreased costs via monthly premiums paid to Duke Energy Indiana by the Asset Manager, optimization sharing, increased fuel reliability and security as Duke Energy Indiana leverages the Asset Manager's assets, and access to best fuel prices via ability to engage third-party suppliers.

VI. FUEL OIL

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

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

Q. BASED UPON YOUR EXPERIENCE, DO YOU HAVE AN OPINION AS TO WHETHER THE COMPANY PURCHASED OIL AT THE MARKET PRICE?

A. Yes. It is my opinion that the Company purchased oil at the lowest market prices available.

VII. CONCLUSION

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

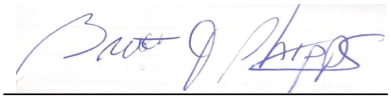
A. No, there were not any out of period adjustments during the FAC 133 period.

Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

A. Yes, it does.

VERIFICATION

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

Signed: 
Brett Phipps

Dated: July 28, 2022