STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY INDIANA, INC. FOR; (1) APPROVAL OF PETITIONER'S 7-YEAR PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION AND STORAGE SYSTEM IMPROVEMENTS, PURSUANT TO IND. CODE § 8-1-39-10; (2) APPROVAL OF A TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE IMPROVEMENT COST RATE ADJUSTMENT AND DEFERRALS, PURSUANT TO IND. CODE § 8-1-39-9; (3) APPROVAL OF CERTAIN REGULATORY ASSETS; (4) APPROVAL OF VOLUNTARY DYNAMIC PRICING RIDERS; AND (5) APPROVAL OF A NEW DEPRECIATION RATE FOR ADVANCED METERS	)	CAUSE NO. 44720

<u>INDUSTRIAL GROUP'S SUBMISSION OF SETTLEMENT TESTIMONY</u>

The Duke Industrial Group, by counsel, hereby submits its Settlement Testimony of Nicholas Phillips, Jr.

Respectfully submitted,

LEWIS & KAPPES, P.C.

/s/ Timothy L. Stewart
Timothy L. Stewart, Atty No. 2189-49
Tabitha L. Balzer, Atty No. 29350-53

LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, IN 46282-0003
Telephone: (317) 639-1210
Facsimile: (317) 639-4882
Email: TStewart@Lewis-Kappes.com
TBalzer@Lewis-Kappes.com

CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that a copy of the foregoing document was served via electronic mail, hard copies available upon request, this 17th day of March, 2016, upon the following:

Kelley A. Karn
Casey M. Holsapple
DUKE ENERGY BUSINESS SERVICES LLC
1000 East Main Street
Plainfield, IN 46168
Kelley.karn@duke-energy.com
Casey.holsapple@duke-energy.com

Jennifer A. Washburn
CITIZENS ACTION COALITION OF INDIANA, INC.
603 East Washington Street, Suite 502
Indianapolis, IN 46204
jwashburn@citact.org

Anne E. Becker
LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, IN 46282-0003
abecker@lewis-kappes.com

Robert K. Johnson
2454 Waldon Drive
Greenwood, IN 46143
rjohnson@utilitylaw.us

John Watson
122-3 South Meridian Street
PO Box 430
Sunman, IN 47041
Jhw8831701@gmail.com

John Finnigan
128 Winding Brook Lane
Terrace Park, OH 45174
jfinnigan@edf.org

Randall Helmen
Jeffrey Reed
OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street, Suite 1500 South
Indianapolis, IN 46204
rhelmen@oucc.in.gov
jreed@oucc.in.gov
infomgt@oucc.in.gov

Randolph G. Holt
PARR RICHEY OBREMSKEY FRANDSEN & PATTERSON LLP
℅ Wabash Valley Power Association, Inc.
722 North High School Road
Indianapolis, IN 46214
R_holt@wvpa.com

Jeremy L. Fetty
Aleasha J. Boling
Liane K. Steffes
PARR RICHEY OBREMSKEY FRANDSEN & PATTERSON LLP
201 North Illinois Street, Suite 300
Indianapolis, IN 46204
jfetty@parrlaw.com
aboling@parrlaw.com
lsteffes@parrlaw.com

Nikki G. Shoultz
BOSE MCKINNEY & EVANS, LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204
nshoultz@boselaw.com

Peter J. Pretty man
INDIANA MUNICIPAL POWER AGENCY
11610 N. College Avenue
Carmel, IN 46032
pprettyman@impa.com

Emily Atwood
INDIANA MUNICIPAL POWER AGENCY
11610 N. College Avenue
Carmel, IN 46032
emilya@impa.com

Christopher M. Goffinet
HUBER GOFFINET & HAGEDORN
727 Main Street
Tell City, IN 47586
cgoffinet@hepn.com

Mike Mooney
Manager, Corporate Planning
HOOSIER ENERGY RURAL ELECTRIC
COOPERATIVE, INC.
PO Box 908
Bloomington, IN 47402-0908
mmooney@hepn.com

/s/ Timothy L. Stewart
Timothy L. Stewart

LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, IN 46282-0003
Telephone: (317) 639-1210
Facsimile: (317) 639-4882

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Settlement Testimony of

Nicholas Phillips, Jr.

On behalf of

Duke Energy Industrial Group

March 17, 2016

Brubaker & Associates, Inc.

Project 10195

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Settlement Testimony of Nicholas Phillips, Jr.

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Nicholas Phillips, Jr. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants. Our firm and its predecessor firms have been in this field since 1937 and have participated in more than 1,000 proceedings in forty states and in various provinces in Canada. We have experience with more than 350 utilities including many electric utilities, gas pipelines and local distribution companies ("LDCs"). I have testified in many electric and gas rate proceedings on virtually all aspects of ratemaking. More details are provided in Appendix A attached to this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A The Duke Industrial Group ("Industrial Group"). Industrial Group members purchase substantial quantities of electric energy from Duke Energy Indiana, Inc. ("Duke" or "Company").

Q HAVE YOU BEEN INVOLVED WITH PRIOR PROCEEDINGS BEFORE THE INDIANA UTILITY REGULATORY COMMISSION ("IURC" OR "COMMISSION")?

A Yes. I have been involved in prior proceedings before this Commission and have presented testimony in many of those proceedings. I have either presented testimony or been involved in numerous Duke (formerly PSI) electric cases before this Commission over the last 30 years.

Q WHAT IS THE SUBJECT MATTER OF YOUR SETTLEMENT TESTIMONY?

A My testimony is directed toward the ratemaking and policy issues involved with the Settlement Agreement ("Settlement" or "TDSIC Agreement") between Duke Energy Indiana, LLC, the Office of Utility Consumer Counselor ("OUCC"), the Duke Energy Indiana Industrial Group, Companhia Siderurgica Nacional, LLC a/k/a CSN, LLC, Steel Dynamics, Inc., Wabash Valley Power Association, Inc., Indiana Municipal Power Agency, Hoosier Energy Rural Electric Cooperative, Inc. and the

Environmental Defense Fund (collectively the "Settling Parties") filed on March 7, 2016.

Q DO YOU RECOMMEND APPROVAL OF THE SETTLEMENT?

A Yes. I recommend approval of the Settlement, which is based on appropriate regulatory policy and sound ratemaking principles. The Settlement reflects a comprehensive agreement that resulted from arms-length negotiations between the Settling Parties.

In summary, the Settlement should be approved for the following reasons:

1. The Settlement is fair, reasonable and in the public interest.
2. The Settlement mitigates the increase to all classes of customers from Duke's filed position.
3. The Settlement minimizes the risk of cost increases and contested issues in future TDSIC filings.
4. The Settlement uses the customer class allocation factors approved in the last Duke rate case order (Cause No. 42359, Order issued on May 18, 2004, the "2004 Order"), resulting in appropriate cost based allocations among and within Duke's rate classes.

Q HOW DOES THE SETTLEMENT ADDRESS REVENUE REQUIREMENT ISSUES?

A Duke filed a petition requesting approval of a seven year TDSIC plan and tracking mechanism based on capital expenditures of approximately $1.805 billion. Duke's revenue requirement was calculated using its current authorized return on equity of 10.5%. The Settlement reduces Duke's requested capital expenditures to $1.408 billion over the TDSIC period or by $397 million. Equally important from a ratemaking standpoint, the Settlement caps the total amount of capital project costs that may be included in a Duke TDSIC rider at 80% of $1.408 billion. These caps will remain in place for seven years regardless of whether Duke files a rate case prior to the end of the seven year plan. The cost cap is an important feature because it reduces the risk of construction cost increases to ratepayers over the seven year plan. The Settlement also spreads the reductions over the seven years of the plan to protect ratepayer savings.

Duke has agreed to remove the AMI project from this case. If Duke proceeds with the AMI outside of this case, Duke will be able to defer up to $60 million in depreciation, to be recovered in Duke's next rate case over ten years without carrying costs. In addition, Duke's recovery of post-in-service carrying costs associated with AMI will be capped at $15 million, also to be recovered over ten years without carrying costs. Duke will calculate the carrying costs on the AMI project using debt only post-in-service carrying costs rate of 4.72%.

Duke has also agreed to drop its request for a regulatory asset associated with the current meters and has agreed that if it proceeds with AMI, it will not request recovery of or on the undepreciated value of the meters at the time of a subsequent retail base rate case, or at any other time or in any manner.

Another important element of the Settlement is that the return on equity used in the determination of revenue requirements for the TDSIC rider is reduced from the currently authorized 10.5% to 10.0%.

Q WHAT COST ALLOCATION METHOD IS USED IN THE SETTLEMENT?

A The Settlement uses the cost based revenue allocation factors developed by Duke and approved by the Commission in the 2004 Order to allocate TDSIC costs to all classes. This includes using the revenue allocation factors within Rates LLF and HLF approved in the 2004 Order. Using these revenue allocation factors appropriately apportions the TDSIC costs among and within Duke's rate classes.

Q PLEASE EXPLAIN THE LLF AND HLF INTRA-CLASS FACTORS.

A Rate HLF has five separate charges for different voltage levels of service, each with its own allocation factor. Duke's currently approved industrial rates reflect different levels of cost in the provision of electric service, based on the cost of service and revenue allocation factors approved in the 2004 Order. For example, much less equipment is required to serve a high voltage transmission voltage customer as compared to a secondary service customer. Duke's allocation of TDSIC costs by voltage level of service within Rate HLF and Rate LLF is consistent with the current rates, the cost of service, and the revenue allocation factors approved in Duke's last rate case order. Other rate classes are unaffected by this appropriate revenue allocation to voltage levels within Rate HLF and Rate LLF.

Q IN YOUR OPINION IS THE SETTLEMENT AGREEMENT REASONABLE AND IN THE PUBLIC INTEREST?

A Yes. The Settlement Agreement, when taken as a complete package, reasonably resolves the Industrial Group's issues in this rate case and results in a fair and reasonable resolution for all of Duke's customers. The Settlement Agreement reasonably mitigates the rate increase for all classes including the residential class, provides Duke's large industrial customers a better chance to be competitive in the national and global markets they compete in, allows Duke to receive sufficient revenues to efficiently and economically provide service within its service area, and helps maintain the economic stability of Duke's large industrial customers and the economic viability of the entire area. The Settlement Agreement is a comprehensive agreement and each term within the Settlement is essential to the overall reasonableness of the agreement. Therefore, I recommend the Commission approve the Settlement Agreement without any material changes.

Q DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?

A Yes, it does.

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Qualifications of Nicholas Phillips, Jr.

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Nicholas Phillips, Jr. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Lawrence Institute of Technology in 1968 with a Bachelor of Science Degree in Electrical Engineering. I received a Master's of Business Administration Degree from Wayne State University in 1972. Since that time I have taken many Masters and Ph.D. level courses in the field of Economics at Wayne State University and the University of Missouri.

I was employed by The Detroit Edison Company in June of 1968 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included the overhead and underground design, construction, operation and specifications for transmission and distribution equipment; budgeting and cost control for operations and capital expenditures; equipment performance under field and laboratory conditions; and emergency service restoration. I also worked in various districts, planning system expansion and construction based on increased and changing loads.

Since 1973, I have been engaged in the preparation of studies involving revenue requirements based on the cost to serve electric, steam, water and other portions of utility operations.

Other responsibilities have included power plant studies; profitability of various segments of utility operations; administration and recovery of fuel and purchased power costs; sale of utility plant; rate investigations; depreciation accrual rates; economic investigations; the determination of rate base, operating income, rate of return; contract analysis; rate design and revenue requirements in general.

I held various positions at Detroit Edison, including Supervisor of Cost of Service, Supervisor of Economic studies and Depreciation, Assistant Director of Load Research, and was designated as Manager of various rate cases before the Michigan Public Service Commission and the Federal Energy Regulatory Commission. I was acting as Director of Revenue Requirements when I left Detroit Edison to accept a position at Drazen-Brubaker & Associates, Inc., in May of 1979.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and has assumed the utility rate and economic consulting activities of Drazen Associates, Inc., active since 1937. In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff.

Our firm has prepared many studies involving original cost and annual depreciation accrual rates relating to electric, steam, gas and water properties, as well as cost of service studies in connection with rate cases and negotiation of contracts for substantial quantities of gas and electricity for industrial use. In these cases, it was necessary to analyze property records, depreciation accrual rates and reserves, rate base determinations, operating revenues, operating expenses, cost of capital and all other elements relating to cost of service.

In general, we are engaged in valuation and depreciation studies, rate work, feasibility, economic and cost of service studies and the design of rates for utility services. In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q WHAT ADDITIONAL EDUCATIONAL, PROFESSIONAL EXPERIENCE AND AFFILIATIONS HAVE YOU HAD?

A I have completed various courses and attended many seminars concerned with rate design, load research, capital recovery, depreciation, and financial evaluation. I have served as an instructor of mathematics of finance at the Detroit College of Business located in Dearborn, Michigan. I have also lectured on rate and revenue requirement topics.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have appeared before the public utility regulatory commissions of Arkansas, Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, Montana, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Virginia, West Virginia, and Wisconsin, the Lansing Board of Water and Light, the District of Columbia, and the Council of the City of New Orleans in numerous proceedings concerning cost of service, rate base, unit costs, pro forma operating income, appropriate class rates of return, adjustments to the income statement, revenue requirements, rate design, integrated resource planning, power plant operations, fuel cost recovery, regulatory issues, rate-making issues, environmental compliance, avoided costs, cogeneration, cost recovery, economic dispatch, rate of return, demand-side management, regulatory accounting and various other items.

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VERIFICATION

I, Nicholas Phillips, Jr., a Consultant and Managing Principal of Brubaker & Associates, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Nicholas Phillips, Jr.

Nicholas Phillips, Jr.
March 17, 2016