OFFICIAL EXHIBITS

FILED
November 1, 2022
INDIANA UTILITY
REGULATORY COMMISSION

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, LLC, AN INDIANA LIMITED LIABILITY COMPANY, FOR AUTHORITY (I) TO ISSUE UP TO $1.4 BILLION PRINCIPAL AMOUNT OF DEBT SECURITIES TO BE COMPRISED OF PETITIONER'S SECURITIES TO BE COMPRISED OF PETITIONER'S SECURED FIRST MORTGAGE BONDS OR UNSECURED DEBT IN ANY COMBINATION THEREOF AND IN ONE OR MORE SERIES, PROVIDED, HOWEVER, THE AGGREGATE PRINCIPAL AMOUNT OF ALL SUCH SECURITIES SHALL NOT EXCEED $1.4 BILLION, (II) TO EXECUTE AND DELIVER LONG TERM LOAN AGREEMENTS TO BORROW UP $100.0 MILLION FROM THE INDIANA FINANCE AUTHORITY, (III) TO ENTER INTO CAPITAL LEASE OBLIGATIONS NOT TO EXCEED $100.0 MILLION PRINCIPAL IN THE AGGREGATE, (IV) TO ENTER INTO INTEREST RATE MANAGEMENT AGREEMENTS, AND (V) TO APPLY THE NET PROCEEDS OBTAINED FROM SUCH SECURITIES, LOAN AGREEMENTS, AND CAPITAL LEASE TRANSACTIONS TOWARD (A) THE DISCHARGE OR LAWFUL REFUNDING OF ITS OBLIGATIONS OUTSTANDING, OR THE REIMBURSEMENT OR ITS TREASURY FOR MONEY ACTUALLY EXPENDED FROM INCOME, OR FROM ANY OTHER MONEY IN THE TREASURY FOR SUCH PURPOSED, (B) PAYING PART OF THE COSTS OF PETITIONER'S CONSTRUCTION PROGRAM AND (C) PAYING THE COSTS OF ISSUING AND SELLING SAID SECURITIES, EXECUTING SAID LOAN AGREEMENTS, TRANSACTING SAID CAPITAL LEASE TRANSACTIONS	)	IURC PUBLIC'S EXHIBIT NO. 1 12-1-22 DATE AT REPORTER **CAUSE NO. 45766**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PUBLIC'S EXHIBIT NO. 1
TESTIMONY OF OUCC WITNESS JOHN W. HANKS

NOVEMBER 1, 2022

Respectfully submitted,

Jeffrey M. Reed
Attorney No. 11651-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS JOHN W. HANKS
CAUSE NO. 45766
DUKE ENERGY INDIANA, LLC

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is John W. Hanks, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.

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

A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer Counselor's ("OUCC") Electric Division. A summary of my educational background and experience is included in Appendix A attached to my testimony.

Q: What is the purpose of your testimony?

A: My testimony explains my analysis of Duke Energy Indiana's ("DEI" or "Petitioner") request for financing authority. I recommend the Indiana Utility Regulatory Commission ("Commission") approve DEI's financing request. DEI's financing request in this cause includes the following:

(1) Issue and sell up to $1.4 billion principal amount of debt securities consisting of first mortgage bonds ("First Mortgage Bonds" or "Bonds"), or senior and junior debentures ("Debentures"), or to issue other long term unsecured debt, including, but not limited to, bank loans ("Long Term Notes") in any combination thereof and in one or more series;

(2) Enter into one or more loan agreements ("Loan Agreement") to borrow up to $100.0 million;

(3) Enter into an additional $100.0 million of capital lease obligations ("Capital Leases");

(4) Continue to enter into interest rate management agreements to help manage interest costs and risks.

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

A: I reviewed DEI's petition, testimony, exhibits, and responses to formal discovery. I also reviewed Petitioner's prior financing case, Cause No. 45433.

II. AMOUNT AND USE OF DEBT PROCEEDS

Q: What is the total amount of financing authority requested?

A: Petitioner is requesting authority to: (1) issue and sell up to $1.4 billion principal amount of debt securities consisting of First Mortgage Bonds, Debentures, or Long-Term Notes; (2) borrow up to $100.0 million via tax-exempt revenue bond issues by the Indiana Finance Authority ("Authority"); and (3) enter into up to an additional $100.0 million of capital lease obligations.[1] The total aggregate financing authority requested is $1.6 billion.

Q: How does DEI propose to use the funds?

A: According to DEI witness Chris Bauer,

> The funds from the sales of these securities, the Loan Agreements, and the capital lease transactions will be utilized by Petitioner to provide funds for: (a) the acquisition of property, material or working capital; (b) the construction, completion, extension or improvement of its facilities, including, but not limited to, systems related to solid waste disposal; (c) the improvement of its service; (d) the discharge or lawful refunding of its obligations, including, but not limited to the possible redemption of debt; (e) the repayment or conversion of short term debt to long term debt; or (f) other general corporate purposes.[2]

[1] Petition, p. 3, Paragraph 3.
[2] Direct Testimony of Chris Bauer, p. 3, line 16 through p. 4, line 2.

Q: Did Petitioner provide a breakdown of how the $1.6 billion will be split between the uses of proceeds Mr. Bauer identified and in paragraph 7 of the petition?

A: Yes. In response to OUCC Data Request ("DR") 1.08 Petitioner said:

> The Company forecasts capital expenditures of approximately $2.1 billion over the two-year period that require balanced financing, as stated in Paragraph 6 of the Petition, for (i) grid-related infrastructure investments on the transmission and distribution systems and (ii) the construction, improvement and maintenance of its generation and other facilities. The primary use of proceeds from a future debt issuance over the two-year period would be used for these purposes and to refund debt maturities of approximately $300 million, with any remaining proceeds used to paydown short-term borrowings and for general corporate purposes.[3]

In addition, DEI provided the table below, which provides an approximation of the projects planned in 2023 and 2024:

Project Category	Percentage of 2023 & 2024 Forecasted Capital Expenditures
Electric Generation	15%
Electric Transmission	15%
Electric Distribution	25%
Environmental & Other	12%
Maintenance	33%
Total	**100%**

Q: Does Petitioner have plans to refinance any existing outstanding debt using the requested financing authority?

A: Yes. Petitioner plans to refinance debt in the amount of approximately $300 million during the two-year period.[4]

Q: Does Petitioner seek approval of specific construction projects in this proceeding?

A: No. The scope of this financing case is limited to the requested financing authority.

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[3] *See* OUCC Attachment JWH-1, DEI response to OUCC DR 1.08

[4] Direct Testimony of Chris Bauer, p. 4, lines 11-13.

The OUCC reserves its right to review and challenge the details of specific construction projects and their costs in appropriate proceedings.

Q: What is the expected term of the debt?

A: Borrowings relating to debt securities or long-term debt will be of terms up to 40 years,[5] borrowings from the Authority will be of terms not to exceed 40 years,[6] and capital lease obligations will be of terms not to exceed 40 years.[7]

III. INTEREST RATE

Q: Please describes Petitioner's Interest Rate Management Agreement.

A: Petitioner seeks authority to enter into Interest Rate Management Agreements, including interest rate hedging,[8] in order to manage interest costs and risk on its financial obligations.[9] The OUCC does not oppose such transactions, but recommends Petitioner prudently analyze such transactions before entering into an agreement. In the case of fixed interest rate debt, the rate should not exceed the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing by more than 5.0%. If Petitioner agrees to a variable rate of interest on the debt, the interest will reflect a credit spread to the London Interbank Offered Rate or the Secured Overnight Financing Rate that will be less than or equal to 500 basis points.[10]

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[5] Petitioner's Exhibit 1-A p. 21 of 133.
[6] *Id.,* p. 22.
[7] *Id.,* p. 23
[8] Direct Testimony of Chris Bauer, p. 20, lines 3-14
[9] Petition, p. 3, Paragraph 3.
[10] Petitioner's Exhibit 1-A, pp. 21-22 of 133.

Q: Does the OUCC oppose Petitioner's proposed interest rate maximums?

A: No. So long as Petitioner's interest rates do not exceed the stated maximums, the OUCC has no objection.

Q: How much fixed and variable interest rate debt does Petitioner plan to issue as a result of the requested financing authority?

A: In response to OUCC DR 1.05, Petitioner expects to issue $67,025,000 at a fixed rate, and $300,000,000 at a variable rate.[11]

Q: How much of Petitioner's current outstanding debt was issued with fixed interest rates versus variable interest rates?

A: As of August 31, 2022, approximately $3.62 billion, or 76%, of DEI's outstanding debt is fixed-rated debt[12] and approximately $1.15 billion, or 24%, of DEI's outstanding debt is variable-rate debt.[13]

IV. CREDIT RATING

Q: What are DEI's current credit ratings?

A: DEI's current credit rating are as follows:

	Moody's	S&P
Senior Secured Debt	Aa3	A
Senior Unsecured Debt	A2	BBB+
Ratings Outlook	Stable	Stable

According to Mr. Bauer, "[k]ey rating agency focus areas include, but are not necessarily limited to, managing our construction program, constructive regulatory

[11] *See* OUCC Attachment JWH-1, DEI response to OUCC DR 1.05.
[12] *Id.,* DEI response to OUCC DR 1.02
[13] *Id.,* DEI response to OUCC DR 1.03

outcomes, environmental compliance impacts, and maintaining sufficient liquidity and access to capital markets."[14]

V. REMAINING FINANCING AUTHORITY (CAUSE NO. 45433)

Q: When does the financing authority granted in Cause No. 45433 expire?

A: Petitioner's authority to issue debt under Cause No. 45433 expires on April 1, 2023.

Q: Does Petitioner have any remaining authority granted in Cause No. 45433?

A: Yes. The Commission granted DEI authority to issue up to $1.4 billion in total aggregate debt through April 1, 2023. As of this filing, DEI has issued approximately $367 million of that amount in debt.[15]

Q: Does Petitioner intend to use any of the remaining previously approved financing authority from Cause No. 45433 prior to its expiration?

A: No. Based on DEI's response to OUCC DR 1.01, it is the OUCC's understanding that DEI does not currently intend to use the remaining authority in Cause No. 45433. However, changing circumstances could alter this response.[16]

VI. EXPIRATION DATE OF PROPOSED FINANCING AUTHORITY

Q: Does the OUCC take issue with DEI's proposed financing authority expiration date?

A: The OUCC typically recommends a 24-month timeframe and is not in favor of an open-ended financing authority. In its Petition, DEI requests the financing authority be granted through April 1, 2025.[17] Therefore, the OUCC does not object to DEI's proposed financing timeframe.

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[14] Direct Testimony of Chris Bauer, p. 20, line 22 through p. 21, line 3; and *See* OUCC Attachment JWH-1, DEI Response to OUCC DR 1.07.

[15] *See* OUCC Attachment JWH-1, DEI response to OUCC DR 1.05.

[16] *See* OUCC Attachment JWH-1, DEI response to OUCC DR 1.01.

[17] Petition, p. 3, Paragraph 3.

VII. OUCC RECOMMENDATIONS

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

A: The OUCC recommends the Commission approve Petitioner's requested financing Authority, including the following conditions proposed by the OUCC:

a) Petitioner shall provide a written report to both the OUCC and Commission within thirty days of issuance of incurring the debt. The report should include all the terms of the debt, which includes: the amount and use of debt, maturity period, interest rate, premiums/discounts, issuance expenses, collateral details, repayments terms, and any other terms;

b) Petitioner's issuances pursuant to this authority shall be at competitive, market rates; and

c) An expiration date of April 1, 2025 shall be applied to the request authority.

Q: Does this conclude your testimony.

A: Yes.

APPENDIX A

QUALIFICATIONS OF JOHN W. HANKS

Q: Please describe your background and experience.

A: I graduated from Indiana University-Purdue University Indianapolis with a Bachelor of Arts in Quantitative Economics. I began my career with the OUCC in 2022 as a Utility Analyst, focusing on economics and finance, in the Electric Division. In the summer of 2022, I attended the Institute of Public Utilities' Annual Program on Regulatory Fundamentals. In fall of 2022, I participated in the Indiana Energy Conference organized by Indiana Industrial Energy Consumers.

AFFIRMATION

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

John W. Hanks
Utility Analyst II
Indiana Office of Utility Consumer Counsel
Cause No. 45766
DEI, LLC

Date: November 1, 2022

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.01

Request:

Does Petitioner intend to use any of the remaining financing authority granted in Cause No. 45433 before it expires?

a. If so, how much is expected to be issued at fixed interest rates and how much is expected to be issued at variable interest rates?

Response:

No, there are currently no plans to do so. However, Duke Energy Indiana desires to maintain continued access to the capital markets to complete a financing as needed in the event of changing circumstances.

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.02

Request:

How much of Petitioner's current outstanding debt was issued with fixed interest rates?

Response:

$3,614,191,780 (includes capital leases) as of 8/31/22.

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.03

Request:

How much of Petitioner's current outstanding debt was issued with variable interest rates?

Response:

$1,149,347,000 ($284,750,000 PCBs, $300,000,000 Term Loan, $564,597,000 Commercial Paper) as of 8/31/22.

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.05

Request:

How much a) fixed and b) variable interest rate debt was issued by Petitioner as a result of the financing authority granted in Cause No. 45433?

Response:

a) $67,025,000 Fixed (PCBs)
b) $300,000,000 Variable (Term Loan)

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.07

Request:

Please provide Petitioner's most recent credit rating reports (Moody's, Fitch, and/or S&P).

Response:

See Attachments OUCC 1.7-A, B, and C.

Office of Utility Consumer Counselor
IURC Cause No. 45766
Data Request Set No. 1
Received: September 14, 2022

OUCC 1.08

Request:

Paragraph 7 of the petition states the funds will be used for, "(a) the acquisition of property, material or working capital, (b) the construction, completion, extension or improvement of its facilities, including, but not limited to, systems related to solid waste disposal, (c) the improvement of its service, (d) the discharge or lawful refunding of its obligations, including, but not limited to, the possible redemption of debt, (e) the repayment or conversion of short-term indebtedness incurred by Petitioner, for such purposes, or (f) for other general corporate purposes."

a. Please provide a breakdown of how the requested financing authority will be split between the uses of proceeds identified in paragraph 7.
b. Please provide a list of the projects for each of the uses of proceeds identified in paragraph 7.

Response:

a. The Company forecasts capital expenditures of approximately $2.1 billion over the two-year period that require balanced financing, as stated in Paragraph 6 of the Petition, for (i) grid-related infrastructure investments on the transmission and distribution systems and (ii) the construction, improvement and maintenance of its generation and other facilities. The primary use of proceeds from a future debt issuance over the two-year period would be used for these purposes and to refund debt maturities of approximately $300 million, with any remaining proceeds used to paydown short-term borrowings and for general corporate purposes.

b. The table below shows an approximation for projects planned in 2023 and 2024.

Project Category	Percentage of 2023 & 2024 Forecasted Capital Expenditures
Electric Generation	15%
Electric Transmission	15%
Electric Distribution	25%
Environmental & Other	12%
Maintenance	33%
Total	**100%**

S&P Global
Ratings

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Research Update:

Duke Energy Indiana Inc. Ratings Affirmed Despite Adverse Indiana Supreme Court Decision, Outlook Stable

March 18, 2022

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Rating Action Overview

- The Indiana Supreme Court recently issued an opinion that reversed a portion of the Indiana Utility Regulatory Commission's (IURC) order for Duke Energy Indiana Inc. (DEI), which approved certain coal ash closure costs the utility incurred prior to its most recent rate case order in 2020. Therefore, DEI expects to recognize total estimated pre-tax charges of approximately $250 million-$275 million in the first quarter of 2022 due to this decision.
- We think this development raises the utility's regulatory risk because it potentially sets a precedent that similar or unrelated issues will be reevaluated even after the IURC renders its rate-making decisions.
- That said, DEI demonstrated a strong financial performance in 2021, including funds from operations (FFO) to debt of about 21%, which provides it with some cushion at the current financial risk profile category. Our base-case scenario assumes the utility maintains strong credit metrics over the next few years, which we view as partially offsetting the increase in its business risk.
- We affirmed all of our ratings on DEI, including our 'BBB+' issuer credit rating, 'BBB+' issue-level rating, and our 'A' rating on its first-mortgage bonds (FMBs). We also affirmed our 'A-2' short-term issuer credit rating.
- The stable outlook reflects our stable outlook on DEI's parent, Duke Energy Corp. It also reflects our expectation that the utility's stand-alone financial measures will generally remain appropriate for its current financial risk profile category, including FFO to debt of 20%-21%.

Rating Action Rationale

The court's opinion raises DEI's regulatory risk. We think this development raises the utility's regulatory risk because it potentially sets a precedent that similar or unrelated issues will be reevaluated even after the IURC renders its rate-making decisions. The unpredictable nature of the judicial process in the state could adversely affect our view of DEI's credit quality.

Our affirmation largely reflects the cushion in the utility's financial measures. DEI demonstrated a strong financial performance in 2021, including FFO to debt of about 21%, and we expect it to maintain strong credit metrics over the next few years, which--in our view--partially offset the increase in its business risk stemming from the recent Indiana Supreme Court opinion.

DEI faces a similar level of energy transition risk as its peers with legacy fossil fuel-based generation. In December 2021, the utility filed an integrated resource plan with its regulators in Indiana, which included proposals to reduce its carbon emissions by up to 63% by 2030 and to exit its use of coal by 2035. We think this suggests that DEI will need to effectively manage its risk related to the ongoing energy transition.

We assess DEI's business risk profile as excellent. Our assessment generally reflects the utility's lower-risk electric utility operations, size, and management of its regulatory risk, which are partially offset by its limited geographic and regulatory diversity and exposure to environmental risk.

We assess DEI's financial measures using our medial volatility financial benchmark tables. This reflects the utility's lower-risk regulated electric utility operations and management of its regulatory risk. Our base-case assumptions include capital spending averaging about $950 million in 2022 and about $1 billion annually through 2025. We also assume the implementation of the 2020 rate-case order; periodic rider recovery for the utility's transmission, distribution, and environmental investments; and average annual dividends to its parent in the $200 million-$300 million range through our forecast period. Under this scenario, we expect DEI's FFO to debt to average about 21% over the next few years. Overall, we view the utility's financial measures as being in the upper half of our range for its financial risk profile category.

Outlook

The stable outlook on DEI reflects our stable outlook on its parent, Duke Energy. It also reflects our expectation that the utility's stand-alone financial measures will generally remain appropriate for its current financial risk profile category, including FFO to debt of 20%-21%.

Downside scenario

We could lower our ratings on DEI over the next 12-24 months if:

- We downgrade Duke Energy; or
- The utility's stand-alone credit profile weakens, which could occur if its stand-alone business risk increases or its stand-alone financial measures decline such that its FFO to debt remains consistently below 13%.

Upside scenario

We could raise our ratings on DEI over the next 12-24 months if:

- We upgrade Duke Energy; and

- The utility maintains its stand-alone financial measures, including FFO to debt of consistently above 17%, without incurring further business risks.

Company Description

DEI is a regulated utility primarily engaged in the generation, transmission, distribution, and sale of electricity in portions of Indiana. It provides service to 870,000 residential, commercial, and industrial customers. DEI is a wholly owned subsidiary of Duke Energy and contributes about 12%-13% of its parent's consolidated regulated EBITDA.

Liquidity

We assess DEI's liquidity as adequate. We expect the utility's liquidity sources to be more than 1.1x uses and anticipate that it will also meet our other requirements for such a designation. DEI's liquidity benefits from its stable cash-flow generation, good standing in the credits markets, and prudent risk management practices.

Principal liquidity sources:

- Cash FFO of about $1.1 billion; and
- Credit facilities of $600 million.

Principal liquidity uses:

- Capital spending of about $950 million;
- Dividends of $200 - $300 million; and
- Long-term debt maturities of about $91 million.

Environmental, Social, And Governance

ESG credit indicators: E-4, S-2, G-2

Environmental factors are a negative consideration in our credit rating analysis of DEI. The utility is more exposed to environmental factors than its peers given its heavy reliance on coal-fired generation. DEI derives approximately 63% of its total electric generation fleet capacity of roughly 6,600 megawatts (MW) from coal, which exposes it to potentially more stringent environmental regulations in the U.S. This exposure is partially mitigated by its parent's intention to reach net-zero emissions by 2050.

Issue Ratings - Subordination Risk Analysis

Capital structure

- DEI has about $4.3 billion of total long-term debt, the vast majority of which are FMBs. Its capital structure also comprises about $400 million of senior unsecured debt.

Analytical conclusions

- We rate DEI's senior unsecured debt at the same level as our long-term issuer credit rating because it is the unsecured debt of a qualifying investment-grade regulated utility. The 'A-2' short-term rating reflects our long-term issuer credit rating on the utility.

Issue Ratings - Recovery Analysis

- DEI's FMBs benefit from a first-priority lien on substantially all of its real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue-level rating two notches above the long-term issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Strategically important (-1 notch from SACP)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Duke Energy Indiana Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Issue-Level Ratings Affirmed	
Duke Energy Indiana Inc.	
Senior Unsecured	BBB+/A-2
Senior Unsecured	BBB+
Issue-Level Ratings Affirmed; Recovery Ratings Unchanged	
Duke Energy Indiana Inc.	
Senior Secured	A
Recovery Rating	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

INFRASTRUCTURE AND PROJECT FINANCE

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
16 March 2022

Rate this Research

RATINGS

Duke Energy Indiana, LLC.

Domicile	Indiana, United States
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Source: Moody's Investors Service

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Duke Energy Indiana, LLC.

Indiana Supreme Court's disallowance of coal ash cost recovery is credit negative for Duke Energy Indiana

On 10 March, the Indiana Supreme Court issued an opinion disallowing Duke Energy Indiana, LLC's (DEI, A2 stable) recovery of approximately $212 million of coal ash closure costs previously approved by the Indiana Utility Regulatory Commission (IURC). Consequently, including accrued interest and other related costs, DEI expects to recognize pretax charges of approximately $250-$275 million in the first quarter of 2022.

The court's disallowance is credit negative because it risks weakening DEI's credit metrics depending on the IURC's determination of how already collected amounts should be treated. Additionally, the ruling highlights the social risk that stakeholder discontent could lead to adverse legal outcomes.

DEI requested recovery of the coal ash remediation costs in question as part of a general rate case filed in July 2019, its first since 2004. DEI incurred these costs, required to comply with state and federal law for treating waste from the generation of electricity using coal, from 2010 through 2018 and will continue to incur additional through the late 2020s.

In June 2020, the IURC's final order on DEI's rate case included approval to recover coal ash remediation spending incurred through 2018, with a full return, over 18 years. Several groups appealed aspects of the IURC rate case decision, including the treatment of coal ash remediation spending, to the Indiana Court of Appeals, which affirmed the IURC decision in May 2021. Subsequently, certain parties, including the Indiana Office of Utility Consumer Counselor, filed a joint appeal to transfer the rate case appeal to the Indiana Supreme Court.

The Indiana Supreme Court's 10 March decision concluded that the IURC's approval of the inclusion in customer rates of historical costs incurred by DEI before the June 2020 IURC order violated the statutory prohibition against retroactive ratemaking. According to the court's ruling, because the period in question was governed by the IURC's 2004 order, DEI should have sought preapproval of incremental coal ash costs arising from changes in federal regulation. The court remanded the case back to the IURC for resolution and DEI has 30 days from the date of the court's decision to request a rehearing.

Depending on the IURC's ruling on how amounts already collected should be treated, DEI's credit metrics could be negatively affected. For example, we estimate that if the company were required to refund already collected amounts to customers in 2022, its ratio of operating cash flow excluding working capital changes (CFO pre-WC) to debt could fall 100 basis points below our previous expectation of about 23% in 2022. Importantly, for DEI's future cash flow, the charge is nonrecurring and the Supreme Court's decision does not apply to forecasted coal ash expenditures beyond the date of the IURC order.

While the order highlights legal risks to cost recovery that exist beyond state regulatory commission purview, we continue to view both the legislative and regulatory oversight of DEI to be credit supportive, since the Supreme Court's decision was based more on procedure than the merit of cost recovery.

DEI is a rate regulated, vertically integrated utility serving approximately 870,000 customers in the state of Indiana. It is the largest utility in the state with 6,346 megawatts of power generating assets and is regulated primarily by the IURC. DEI is a subsidiary of Duke Energy Corporation (Duke, Baa2 stable), making up approximately 14% of Duke's consolidated rate base. An affiliate of GIC Private Limited, Singapore's sovereign wealth fund, owns an 11.05% minority interest in DEI.

Moody's related publications

Credit Opinion - Duke Energy Indiana, LLC. (19 November 2021)

Credit Opinion - Duke Energy Corporation (27 October 2021)

REPORT NUMBER 1322272

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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ISSUER COMMENT
16 March 2022

Rate this Research

RATINGS

Duke Energy Indiana, LLC.

Domicile	Indiana, United States
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Source: Moody's Investors Service

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Duke Energy Indiana, LLC.

Indiana Supreme Court's disallowance of coal ash cost recovery is credit negative for Duke Energy Indiana

On 10 March, the Indiana Supreme Court issued an opinion disallowing Duke Energy Indiana, LLC's (DEI, A2 stable) recovery of approximately $212 million of coal ash closure costs previously approved by the Indiana Utility Regulatory Commission (IURC). Consequently, including accrued interest and other related costs, DEI expects to recognize pretax charges of approximately $250-$275 million in the first quarter of 2022.

The court's disallowance is credit negative because it risks weakening DEI's credit metrics depending on the IURC's determination of how already collected amounts should be treated. Additionally, the ruling highlights the social risk that stakeholder discontent could lead to adverse legal outcomes.

DEI requested recovery of the coal ash remediation costs in question as part of a general rate case filed in July 2019, its first since 2004. DEI incurred these costs, required to comply with state and federal law for treating waste from the generation of electricity using coal, from 2010 through 2018 and will continue to incur additional through the late 2020s.

In June 2020, the IURC's final order on DEI's rate case included approval to recover coal ash remediation spending incurred through 2018, with a full return, over 18 years. Several groups appealed aspects of the IURC rate case decision, including the treatment of coal ash remediation spending, to the Indiana Court of Appeals, which affirmed the IURC decision in May 2021. Subsequently, certain parties, including the Indiana Office of Utility Consumer Counselor, filed a joint appeal to transfer the rate case appeal to the Indiana Supreme Court.

The Indiana Supreme Court's 10 March decision concluded that the IURC's approval of the inclusion in customer rates of historical costs incurred by DEI before the June 2020 IURC order violated the statutory prohibition against retroactive ratemaking. According to the court's ruling, because the period in question was governed by the IURC's 2004 order, DEI should have sought preapproval of incremental coal ash costs arising from changes in federal regulation. The court remanded the case back to the IURC for resolution and DEI has 30 days from the date of the court's decision to request a rehearing.

Depending on the IURC's ruling on how amounts already collected should be treated, DEI's credit metrics could be negatively affected. For example, we estimate that if the company were required to refund already collected amounts to customers in 2022, its ratio of operating cash flow excluding working capital changes (CFO pre-WC) to debt could fall 100 basis points below our previous expectation of about 23% in 2022. Importantly, for DEI's future cash flow, the charge is nonrecurring and the Supreme Court's decision does not apply to forecasted coal ash expenditures beyond the date of the IURC order.

While the order highlights legal risks to cost recovery that exist beyond state regulatory commission purview, we continue to view both the legislative and regulatory oversight of DEI to be credit supportive, since the Supreme Court's decision was based more on procedure than the merit of cost recovery.

DEI is a rate regulated, vertically integrated utility serving approximately 870,000 customers in the state of Indiana. It is the largest utility in the state with 6,346 megawatts of power generating assets and is regulated primarily by the IURC. DEI is a subsidiary of Duke Energy Corporation (Duke, Baa2 stable), making up approximately 14% of Duke's consolidated rate base. An affiliate of GIC Private Limited, Singapore's sovereign wealth fund, owns an 11.05% minority interest in DEI.

Moody's related publications

Credit Opinion - Duke Energy Indiana, LLC. (19 November 2021)

Credit Opinion - Duke Energy Corporation (27 October 2021)

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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CERTIFICATE OF SERVICE

This is to certify that a copy of ***OUCC Public's Exhibit No. 1 Testimony of OUCC Witness John W. Hanks*** has been served upon the following parties of record in the captioned proceeding by electronic serve on November 1, 2022.

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