FILED
December 04, 2019
INDIANA UTILITY
REGULATORY COMMISSION

REBUTTAL TESTIMONY OF JEFFREY R. SETSER
DIRECTOR, ALLOCATIONS AND REPORTING
DUKE ENERGY BUSINESS SERVICES LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 45253
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeffrey R. Setser, and my business address is 550 South Tyron Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Business Services LLC ("DEBS"), as Director of Allocations and Reporting. DEBS provides various administrative and other services to Duke Energy Indiana, LLC., ("Duke Energy Indiana" or "Company") and other affiliated companies of Duke Energy Corporation ("Duke Energy").

Q. ARE YOU THE SAME JEFFREY SETSER THAT PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am responding to the testimony of Indiana Office of Utility Consumer Counselor ("OUCC") witness Lane Kollen, who recommends that DEBS allocate Excess Accumulated Deferred Income Tax ("EADIT") to Duke Energy Indiana in the same manner that DEBS depreciation expense is allocated and then refunded to the Company's customers as a one-time credit through the Credit Rider No. 67. I am also responding to

Mr. Lane Kollen's opposition to the Company's pension settlement accounting recommendation. Finally, I will respond to Mr. Kollen and Duke Energy Industrial Group's witness Michael P. Gorman challenging Duke Energy Indiana's inclusion of its prepaid pension costs in rate base.

II. ALLOCATION OF DEBS EADIT

Q. PLEASE EXPLAIN HOW DEBS ALLOCATES INCOME TAX EXPENSE.

A. DEBS does not allocate out income tax expense, current or deferred.

Q. IS MR. KOLLEN'S TESTIMONY PROPOSING TO REFUND THE EDIT TO THE COMPANY AND OTHER AFFILIATE COMPANIES JUSTIFIED? (*DIRECT TESTIMONY OF LANE KOLLEN, PAGE 61, LINE 14*).

A. No. The current income taxes expense is a result of the return on DEBS' assets for which the jurisdictions have a corresponding current deduction. Deferred income tax assets or liabilities are considered temporary differences and have always been maintained at DEBS. Therefore, any adjustments to deferred income taxes through the income statement should remain on DEBS. The depreciation for DEBS assets that is charged out to the utilities is based on straight-line book depreciation. Bonus and MACRS depreciation is a tax adjustment resulting in deferred tax liabilities that are not allocated out to the jurisdictions.

Prior to the Duke Energy Shared Services ("DESS") (Duke Energy entity for the former, Cinergy Services, Inc. service company that supported the Duke Energy Indiana predecessor company, PSI Energy, Inc., and other Cinergy companies) being merged with DEBS on July 1, 2008, the DESS service company (and Cinergy Services, Inc.

service company before it) did allocate out income tax expense. At the point that DESS merged into DEBS, the DESS company had a deferred tax asset of $109 million. The jurisdictions received the benefit of this, but the reversal of this asset stayed on DEBS. The jurisdictions have not been charged for this tax expense and we currently are not seeking reimbursement.

The return on rate base Mr. Kollen refers to is a calculation based on an apportionment of DEBS assets to Duke Energy Indiana and the equity return is grossed up for taxes to arrive at a pre-tax amount. This calculation results in a monthly journal entry that creates current taxable income on DEBS and a current deductible expense for the jurisdiction. In 2018 the gross-up was adjusted for the federal change in tax rates from 36% to 21%. Therefore, there is no deferred taxes that need to be adjusted or distributed as part of this process.

III. PENSION SETTLEMENT ACCOUNTING

Q. PLEASE EXPLAIN DUKE ENERGY INDIANA'S PENSION SETTLEMENT ACCOUNTING PROPOSAL.

A. Settlement charges incurred by Duke Energy Indiana because of the triggering of settlement accounting will be deferred as a regulatory asset and amortization expense of the settlement charge will be recognized over the average remaining service life of Duke Energy Retirement Cash Balance Plan participants, currently 9.75 years.

Q. WHY DOES MR. KOLLEN OPPOSE DEFERRAL OF SETTLEMENT ACCOUNTING?

A. He argues that a deferral will harm customers and will allow the Company to record a windfall to income in 2020 in exchange for harming customers in the form of increased customer rates when base rates are reset in the next base rate proceeding.

Q. EXPLAIN WHY YOU DISAGREE WITH MR. KOLLEN.

A. These costs are already deferred costs following the guidance of SFAS 158, codified in ASC715. Under ASC Topic 715, Duke Energy is required to recognize as a component of other comprehensive income, the net actuarial gains or losses and prior service costs or credits that arise during the year but are not recognized as components of net periodic benefit cost of the period ("Unrecognized Gains or Losses"). Unrecognized Gains or Losses related to the Company's regulated operations are recorded pursuant to ASC Topic 980 and are reflected in regulatory assets or regulatory liabilities, subject to the regulatory treatment of such costs for the regulated jurisdiction. Unrecognized Losses are recorded to FERC account 182.3 (Other regulatory assets) while Unrecognized Gains are recorded to FERC account 254 (Other regulatory liabilities). The Unrecognized Losses recorded to FERC account 182.3 are commonly referred to as the "SFAS 158 Regulatory Assets".

The recognition of the SFAS 158 Regulatory Asset complies with FERC guidance per Docket No. AI07-1-000 (March 29, 2007), which states, "*Under the Commission's accounting requirements, regulatory assets or liabilities are to be established for amounts that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform Systems of Accounts but for it being probable that such*

items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services". GAAP accounting rules for pensions require us to accelerate the recognition of these expenses when a settlement event occurs. Our proposal is simply to continue to defer these costs and recognize them in a manner consistent with how these costs would otherwise be recognized. The Company is being proactive in identifying that these settlement events will reoccur in future years and will result in "lumpy" expense recognition if the requested deferral is not approved.

IV. PREPAID PENSION

Q. DOES DUKE ENERGY INDIANA PROPOSE TO INCLUDE PREPAID PENSION ACCOUNTING IN ITS REVENUE REQUIREMENTS IN THIS PROCEEDING?

A. Yes, as discussed in Ms. Diana Douglas' direct testimony Duke Energy Indiana is proposing to include $142.8 million in rate base in this proceeding.

Q. WHY DO MESSRS. KOLLEN AND GORMAN OBJECT TO INCLUDING THESE COSTS?

A. Mr. Kollen argues that Duke Energy Indiana has never sought to recover prepaid pension assets in the past and that the prepaid pension asset is a non-cash regulatory asset, similar to other non-cash regulatory assets and liabilities that are not included in rate base or as a zero cost component of capitalization because the Company has not incurred and will not incur the cash cost until some future date. Both Messrs. Kollen and Gorman argue that the Company has failed to demonstrate that the prepaid pension asset was funded by

investor capital and that the Company should only be permitted to include the amount that is funded by investor capital.

Q. HOW DO YOU RESPOND TO THESE ARGUMENTS?

A. Although I don't disagree that the prepaid pension costs should only be included in rate base to the extent they are funded by investors and not retail customers, Messrs. Kollen and Gorman are misinformed about the nature of the funding of these assets. The Prepaid Pension balance has been funded by investors.

Q. PLEASE EXPLAIN THE RELEVANT ACCOUNTING GUIDANCE THAT DUKE ENERGY FOLLOWS FOR ITS PREPAID PENSION PLANS.

A. The Corporation accounts for its pension plans in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"). The primary authoritative GAAP guidance for pension plans is codified as part of the Accounting Standards Codification ("ASC") that relates to Compensation – Retirement Benefits is ASC Topic 715, which codifies previously issued GAAP under Statement of Financial Accounting Standards ("SFAS") No. 158 (*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*).

Q. PLEASE EXPLAIN HOW DUKE ENERGY ADHERES TO ASC 715.

A. Under ASC Topic 715, Duke Energy is required to recognize the funded status of a benefit plan, which is measured as the difference between the fair value of external trust fund plan assets ("Plan Assets") and the benefit obligation, in its statement of financial

position. For a pension plan, the benefit obligation is the Projected Benefit Obligation ("PBO").

Q. WHERE IS DUKE ENERGY INDIANA'S FUNDED STATUS RECORDED?

A. Duke Energy Indiana's Funded Status is recorded to FERC account 128 (Other special funds) when the amount of Plan Assets is greater than the benefit obligation or FERC account 228.3 (Accumulated provision for pensions and benefits) when the amount of Plan Assets is less than the benefit obligation. The application of SFAS No. 158 for FERC accounting and reporting purposes, and usage of these FERC accounts complies with FERC guidance per Docket No. AI07-1-000 (March 29, 2007), which states, "*FERC jurisdictional entities should adopt SFAS No. 158 for reporting to the Commission and it should do so in the same manner as the Statement is adopted for stockholder reporting.*"

Q. ARE THERE REQUIREMENTS THAT DUKE ENERGY RECOGNIZE ANY PENSION AMOUNTS AS REGULATORY ASSETS OR LIABILITIES?

A Yes, under ASC Topic 715, the Company is also required to recognize as a component of other comprehensive income, the net actuarial gains or losses and prior service costs or credits that arise during the year but are not recognized as components of net periodic benefit cost of the period (Unrecognized Gains or Losses).

Unrecognized Gains and Losses arise as the result of the annual measurement of Pension Plan Assets and benefit obligations under the measurement date requirements of ASC Topic 715. Duke Energy elects, under ASC Topic 715-30-35-24, to amortize net actuarial gain or loss amounts that are in excess of 10 percent of the greater of the market-related value of plan assets or the plan's projected benefit obligation, into net

pension expense over the average remaining service period of active participants expected to benefit under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants is used instead of average remaining service period.

Unrecognized Gains and Losses related to the Company's regulated operations are recorded pursuant to ASC Topic 980 and are reflected in regulatory assets or regulatory liabilities, subject to the regulatory treatment of such costs for the regulated jurisdiction. Unrecognized Losses are recorded to FERC account 182.3 (Other regulatory assets) while Unrecognized Gains are recorded to FERC account 254 (Other regulatory liabilities). The Unrecognized Losses recorded to FERC account 182.3 are commonly referred to as the "SFAS 158 Regulatory Assets".

The recognition of the SFAS 158 Regulatory Asset complies with FERC guidance per Docket No. AI07-1-000 (March 29, 2007) which states, "*Under the Commission's accounting requirements, regulatory assets or liabilities are to be established for amounts that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform Systems of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.*"

Q. PLEASE EXPLAIN ACCOUNTING GUIDANCE FOR PREPAID PENSION ASSETS.

A. Guidance under SFAS No. 87, *Employers' Accounting for Pensions* (superseded by SFAS No. 158) required employers to record the sum of the Funded Status and Unrecognized Gains and Losses of a benefit plan on the statement of financial position. A Prepaid Pension Asset is recognized when the cash contributions made to the plan by the employer exceed the amount of Net Periodic Pension Cost. Cash contributions are reflected as a debit to Prepaid Pension Assets (offsetting credit is to Cash) while Net Period Pension Cost is a credit to Prepaid Pension Assets (offsetting debit is to FERC Account 926). This net debit represents shareholder advances to the external pension trust fund on behalf of Duke Energy Indiana's customers.

Q. WHAT IS THE CURRENT POSITION OF DUKE ENERGY INDIANA'S PENSION TRUST?

A. The total amount of cash Duke Energy Indiana contributed to the external pension trust fund now exceeds the amount of money that customers have paid for Duke Energy Indiana's pension costs. This includes cash contributions in 2009, 2007 and 2006 of $100 million, $92 million and $24 million, respectively. See Petitioner's Exhibit 46-A (JRS), 2008 Duke Energy Indiana 10-K QUALIFIED PENSION, where these amounts are referenced in the Employee Benefit Plan footnote. These contribution amounts, offset by GAAP pension expense and the previous accrued balance, represent the $129 million prepaid balance reflected in Petitioner's Confidential Exhibit 46-B for the year 2009.[1] At the end of 2018, the prepaid balance was $175 million. This net debit represents

[1] Note that this exhibit was prepared to respond to data request IG 16.5, which was attached as Confidential Exhibit MPG-1, page 38 to Mr. Gorman's direct testimony

shareholder advances to the external pension trust fund on behalf of Duke Energy Indiana's customers.

This was not always the case. Prior to the Duke Energy/Cinergy Merger in April of 2006, the amount contributed by Duke Energy Indiana's customers for the Company's pension costs exceeded the amount of Duke Energy Indiana's cash contributions. This net credit represented customer advances to the Company for its pension expense. As a result of Duke Energy Indiana's additional cash contributions to its external pension trust fund subsequent to 2005, the total amount of cash contributed to the external pension trust fund now exceeds the amount of money that customers have paid for Duke Energy Indiana's pension costs.

Q. ARE THERE ADDITIONAL BENEFITS FOR CONTRIBUTIONS TO THE PENSION TRUST FUND?

A. Yes. Shareholder advances to the external pension trust fund produce additional expected earnings in the trust fund. These expected earnings are used to reduce Account 926 pension expense that is charged to Duke Energy Indiana's customers by increasing the amount of assets in the following equation used by the actuary in calculating the Expected Return on Plan Assets, which is one component of Net Periodic Pension Cost, per ASC Topic 715:

> Expected Rate of Return on Plan Assets = Market Related Value of Assets x Expected Rate of Return.

Therefore, the additional cash contributions made by Duke Energy Indiana have reduced pension expense over the years. In fact, the amount of pension expense included in this

rate case is less than half of the GAAP pension expense of the prior proceeding. A large driver of that reduced expense is the contributions that have been made to the trust on behalf of Duke Energy Indiana's customers.

Q. WHY IS DUKE ENERGY INDIANA PROPOSING TO INCLUDE BOTH THE FUNDED STATUS AND THE REGULATORY ASSET IN THIS PROCEEDING?

A. Because it is necessary to sum a benefit plan's Funded Status and SFAS 158 Regulatory Assets in determining the amount of net cash contributed by customers and shareholders, it is necessary to include both items for ratemaking purposes, one cannot be included or excluded, without the other.

The following table provides accounting journal entries recorded in 2018 impacting Duke Energy Indiana's Prepaid Pension Asset balance, which agrees to the financial statement footnote disclosures provided in its 2018 SEC Form 10-K:

Duke Energy Indiana
Prepaid Pension Asset - 2018
(in millions)

	1/1/2018 Balance	Cash Contributions	Benefit Cost	SFAS 158 Annual Remeasurement	12/31/2018 Balance
FERC account 128					
Funded status	$ 15	$ 8	$ 8	$ (38)	$ (7)
FERC account 182.3					
SFAS 158 Regulatory asset	$ 152	-	(8)	38	$ 182
Prepaid Pension Asset	$ 167	$ 8	$ -	$ -	$ 175

	Journal Entries	Debit	Credit
1)	FERC Account 128	$ 8	
	Cash		$ (8)
	To record cash contribution		
2)	FERC Account 926 (Employee pensions and benefits)	$ -	
	FERC Account 128	8	
	FERC Account 182.3		(8)
	To accrue benefit expense and amortize unrecognized amounts		
3)	FERC Account 182.3	38	
	FERC Account 128		$ (38)
	To record unrecognized loss on annual Funded Status remeasurement		

Q. IS THERE ANYTHING NOTABLE ABOUT THIS TABLE?

A. Yes. Duke Energy Indiana's Prepaid Pension Asset increased $8 million in 2018, from $167 million as of 1/1/2018 to $175 million as of 12/31/2018. The increase was the result of Duke Energy Indiana cash contributions of $8 million, which were offset by $0 of net benefit cost. The return on assets offset service and interest costs and the amortization of unrecognized losses of $8 million to effectively take expense to zero in 2018. Had there been net benefit costs recognized in 2018 it would have reduced the Prepaid Pension Asset by the amount of expense recognized.

Note that Duke Energy Indiana 's cash contributions only increase the plan's Funded Status (the SFAS 158 Regulatory Asset is not affected by cash contributions).

This Table also shows the SFAS 158 annual remeasurement adjustment, which resulted in an actuarial loss of $38 million, does not impact the balance of the Prepaid Pension Asset, nor should it, because the reduction in the Funded Status that reflects the actuarial loss, is offset by an increase in the SFAS 158 Regulatory Asset. The net debit to the Prepaid Pension Asset of $8 million recorded in 2018 represents shareholder advances to the external pension trust fund on behalf of Duke Energy Indiana 's customers. The approach in the table is the same approach followed in Confidential Exhibit 46-B, which now shows the prepaid balance is $175 million at the end of 2018.

Q. MR. KOLLEN SAYS THE COMPANY'S PROPOSED PREPAID PENSION ASSET IS "A NON-CASH REGULATORY ASSET AND ACCOUNTING PLACEHOLDER." (KOLLEN, P. 19, LINE 20) HOW DO YOU RESPOND?

A. Mr. Kollen is incorrect. As I've explained above, a Prepaid Pension Asset is recognized when the cash contributions made to the plan by the employer exceed the amount of Net Periodic Pension Cost.

Q. HOW OFTEN DOES THE COMPANY MEASURE THE PENSION PLAN ASSETS AND THE BENEFIT OBLIGATION?

A. Under the measurement date requirements of ASC Topic 715, the Company is required to measure Pension Plan Assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position, which is December 31 of each year for Duke Energy. Duke Energy is responsible for the selection of actuarial assumptions for GAAP reporting. The Company's third-party actuary provides the methodology and rationale used by it to support its concurrence with the assumptions. The most critical

assumptions for pension plans are the expected long-term rate of return on plan assets and the discount rate.

Q. WHAT IS DUKE ENERGY'S FUNDING POLICY FOR ITS PENSION ASSETS?

A. Duke Energy's funding policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. The Company makes cash contributions sufficient to avoid Pension Benefit Guarantee Corporate variable rate premiums, but not less than the minimum required contribution nor more than the maximum deductible contribution for the plan year under the requirements of the Employment Retirement Income Security Act of 1974 ("ERISA"). Minimum required contribution and maximum deductible contributions are determined and calculated on a Total Plan basis by the Company's actuary and included in annual Pension Protection Act (funding reports prepared by Duke Energy's actuary).

As part of its funding policy, Duke Energy ensures its plans maintain a 90% funded position, and then funds amounts periodically thereafter that approximate annual service cost. Duke Energy Indiana began making significant cash contributions to its external pension trust fund after the Duke Energy/Cinergy merger in order to comply with the 90% funded position policy, and then made cash contributions periodically thereafter that approximated annual service cost.

Q. IF DUKE ENERGY INDIANA PARTICIPATES IN THE DUKE ENERGY CORPORATE PENSION PLAN, WHY DOES DUKE ENERGY INDIANA REFLECT PENSION PLAN COSTS ON ITS BOOKS?

A. Duke Energy accounts for its pension plans as multiple-employer benefit plans in which each of the Duke Energy's subsidiaries, including Duke Energy Indiana, account for its interest in plan assets, plan obligations, and records benefit costs in accordance with ASC Topic 715-30 (*i.e.* similar to a single-employer plan). Each subsidiary's plan obligation, plan assets, and plan costs are based on actuarial calculations, reflecting the subsidiaries specific plan participant (employees and retirees) demographic characteristics.

The primary consideration by Duke Energy in utilizing the multiple-employer accounting approach is the regulated nature of its subsidiaries. Duke Energy believes multiple-employer accounting provides the most directly allocable costs for customers and related rate base effects for differences between expense recorded (collected from customers) and contributions made by the subsidiary (i.e., while the assets are not segregated pursuant to ERISA regulations, we believe that cost-based regulations effectively dictate the segregation since the separate regulatory commissions would not want another subsidiary's historical experience in contributions, plan designs, asset returns, etc. to adversely affect the retail customers of their jurisdiction).

As part of its annual SEC Form 10-K filing, Duke Energy Indiana discloses its participation as a subsidiary of Duke Energy in benefit plans maintained by Duke Energy, and provides full disclosures as a single-employer plan, which include; reconciliations of the beginning and ending balances of its benefit obligations, reconciliations of the beginning and ending balances of its fair value of plan assets, Funded Status and amounts recognized in the balance sheets, including regulatory assets and liabilities, and cash contributions made during the year.

Q. PLEASE EXPLAIN HOW DUKE ENERGY ALLOCATES PENSION FUND COSTS TO DUKE ENERGY INDIANA.

A. The following costs are included in pension fund costs and are allocated as explained below:

Employer Contributions - Plan sponsor contributions are allocated based on the sum of service cost, administrative expense load, and a 7-year amortization of unfunded PBO. The most recent actuarial valuation report available is used for this purpose.

- Service Cost - Calculated by summing the service company cost of each plan participant assigned to the subsidiary.
- Administrative Expense - Allocated to each subsidiary in proportion to its portion of the plan assets at fair value.
- Projected Benefit Obligation - Calculated by summing the projected benefit obligation of each plan participant assigned to the subsidiary.
- Plan Assets at Fair Value - Cumulative amount of contributions, benefit payments, administrative expenses, and returns that have been assigned to the subsidiary. Return is allocated so that each subsidiary has the same return on the beginning of year assets adjusted for cash flow.
- Benefit Payments – Benefit payments are explicitly provided by subsidiary.
- Expected Return on Assets - Based on the market related value of assets, expected benefit payments, and expected contributions allocated to the subsidiary.

- Prior Service Cost - Calculated for each subsidiary when an amendment is passed that changes the projected benefit obligation. The amount shown for each subsidiary is the remaining amount to be recognized in the future as a component of expense.

Q. MR. KOLLEN ALSO RECOMMENDS ON PAGE 20 OF HIS TESTIMONY THAT IF THE COMMISSION APPROVES THE INCLUSION OF THE PREPAID PENSION ASSET, IT SHOULD REMOVE THE PORTION OF THE PREPAID PENSION ASSET RELATED TO CONTRIBUTIONS AND COSTS THAT HAVE BEEN CAPITALIZED TO PLANT AND NOT EXPENSED. HOW DO YOU RESPOND?

A. The prepaid pension asset being reflected is cash contributions in excess of actuarially determined GAAP pension costs. Although some pension costs are capitalized, the prepaid pension asset is reduced over time by recognition of GAAP pension costs, regardless of whether those costs flow through expense or are ultimately capitalized to plant. Therefore, no adjustment for capitalized pension costs is required.

Q. MR. GORMAN DESCRIBES THE IPL ORDER IN CAUSE NOS. 44576/44602 WHEREIN THE COMMISSION USED THE ERISA MINIMUM FUNDING AS THE REPRESENTATIVE AMOUNT OF CUSTOMER FUNDING FOR DETERMINING THE AMOUNT OF FUNDING PROVIDED BY INVESTORS (*DIRECT TESTIMONY OF MICHAEL P. GORMAN, PAGE 72)*. PLEASE CONFIRM THE AMOUNT OF ERISA MINIMUM FUNDING THE COMPANY HAS BEEN REQUIRED TO CONTRIBUTE.

A. No minimum ERISA contributions have been required on the Duke Energy plans since 2010 when the contributions shown on Petitioner's Exhibit 46-B (JRS) were made. Although research was not performed on one union plan, that plan represented less than 1% when compared to total Duke Energy plans.

Q. IN YOUR OPINION, IS DUKE ENERGY INDIANA'S PROPOSED PREPAID PENSION ACCOUNTING IN ACCORDANCE WITH RELEVANT GUIDANCE AND REASONABLE?

A. Yes. The accounting for pension both in expense recognition and contributions is done in accordance with GAAP. The pension accounting is heavily scrutinized each year by the Company's external auditor, Deloitte, both at the Duke Energy Corp. level and at the jurisdictional level for Duke Energy Indiana. The accounting for Prepaid Pension for Duke Energy Indiana is done in a systematic approach. The prepaid pension asset recorded on the books is clearly the result of Duke Energy Indiana's discretionary cash contributions made in excess of pension expense recognized. Duke Energy made a discretionary management decision to make use of available cash to secure its pension funds and reduce the liquidity risk of future payments. The prepayment benefits customers in the form of lower pension benefits cost included in the test period than would otherwise have been the case without the discretionary cash contributions.

V. CONCLUSION

Q. DO YOU HAVE PERSONAL KNOWLEDGE OF THE INFORMATION INCLUDED IN PETITIONER'S EXHIBIT 46-A (JRS) AND CONFIDENTIAL EXHIBIT 46-B (JRS)?

A. Yes.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-3543

DUKE ENERGY INDIANA, INC.

(Exact name of registrant as specified in its charter)

Indiana	35-0594457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 East Main Street, Plainfield, Indiana	46168
(Address of principal executive offices)	(Zip Code)

704-594-6200
(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

The registrant meets the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format. Part II Items 4 and 6 and Part III Items 10, 11, 12 and 13 have been omitted in accordance with Instruction I(2)(a) and (c).

All of the registrant's common stock is indirectly owned by Duke Energy Corporation (File No. 1-32853), which files reports and proxy material pursuant to the Securities Exchange Act of 1934, as amended.

18. Employee Benefit Obligations

Cinergy Retirement Plans. Duke Energy Indiana participates in qualified and non-qualified defined benefit pension plans as well as other post-retirement benefit plans sponsored by Cinergy. Cinergy allocates pension and other post-retirement obligations and costs related to these plans to Duke Energy Indiana.

Upon consummation of the merger with Duke Energy, Cinergy's benefit plan obligations were remeasured. While push-down accounting did not apply to Duke Energy Indiana, GAAP requires the most recent measurement of plan obligations be used if remeasurement has occurred. Accordingly, Cinergy updated the assumptions used to determine their accrued benefit obligations and prospective net periodic benefit/post-retirement costs to be allocated to Duke Energy Indiana. As a result, the discount rate used to determine net periodic benefit cost to be allocated to Duke Energy Indiana by Cinergy changed from 5.50% to 6.00% in 2006.

Cinergy adopted the funded status recognition and disclosure provisions of SFAS No. 158 effective December 31, 2006. Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. Previously, Cinergy used a September 30 measurement date for its defined benefit and other post-retirement plans. The adoption of SFAS No. 158 did not have a material impact on Duke Energy Indiana's consolidated results of operations or cash flows. See Note 1 for additional information related to the adoption of SFAS No. 158.

Net periodic benefit cost disclosed in the tables below for the qualified, non-qualified and other post-retirement benefit plans represent the cost of the respective plan for the periods presented. However, portions of the net periodic benefit cost disclosed in the tables have been capitalized as a component of property, plant and equipment.

Qualified Pension Plans

Cinergy's qualified defined benefit pension plans cover substantially all employees meeting certain minimum age and service requirements. The plans cover most employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits that are based upon a percentage (which varies with age and years of service) of current eligible earnings and current interest credits. Certain legacy Cinergy employees are covered under plans that use a final average earnings formula. Under a final average earnings formula, a plan participant accumulates a retirement benefit equal to a percentage of their highest 3-year average earnings, plus a percentage of their highest 3-year average earnings in excess of covered compensation per year of participation (maximum of 35 years), plus a percentage of their highest 3-year average earnings times years of participation in excess of 35 years.

Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities.

Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the retirement plan is 11 years. Cinergy determines the market-related value of plan assets using a calculated value that recognizes changes in fair value of the plan assets over five years.

Duke Energy Indiana's qualified pension plan pre-tax net periodic pension benefit costs as allocated by Cinergy were as follows:

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions)		
Qualified Pension Benefits	$17	$20	$23

The fair value of Cinergy's plan assets was approximately $1,110 million and $1,701 million as of December 31, 2008 and 2007, respectively. The projected benefit obligation for the plans was approximately $1,992 million and $1,941 million as of December 31, 2008 and 2007, respectively. The accumulated benefit obligation for the plans was approximately $1,729 million and $1,753 million as of December 31, 2008 and 2007, respectively. The accrued qualified pension liability allocated by Cinergy to Duke Energy Indiana, which represents Duke Energy Indiana's proportionate share of the unfunded status of the Cinergy qualified pension plan, was approximately $244 million and $73 million as of December 31, 2008 and 2007, respectively, and is recognized in Accrued pension and other post-retirement benefit costs within the Consolidated Balance Sheets. Regulatory assets, as allocated by Cinergy to Duke Energy Indiana, were approximately $244 million and $90 million as of December 31, 2008 and 2007, respectively, and are recognized in Regulatory Assets and Deferred Debits within the Consolidated Balance Sheets.

PART II

DUKE ENERGY INDIANA, INC.

Notes To Consolidated Financial Statements—(Continued)

Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. Duke Energy did not make any contributions to its defined benefit retirement plans in 2008. Duke Energy made qualified pension benefit contributions of approximately $350 million and $124 million to the legacy Cinergy qualified pension benefit plans in 2007 and 2006, respectively, of which approximately $92 million and $24 million represents contributions made by Duke Energy Indiana for the years ended December 31, 2007 and 2006, respectively. In February 2009, Duke Energy Indiana made a cash contribution of approximately $100 million, which represented its proportionate share of an approximate $500 million total contribution to Cinergy's and Duke Energy's qualified pension plans.

Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting

	2008	2007	2006
	(percentages)		
Benefit Obligations			
Discount rate	6.50	6.00	5.75
Salary increase	4.50	5.00	5.00
Net Periodic Benefit Cost			
Discount rate[a]	6.00	5.75	5.50-6.00
Salary increase	5.00	5.00	5.00
Expected long-term rate of return on plan assets	8.50	8.50	8.50

(a) Upon consummation of the merger with Duke Energy, all other pension obligations were remeasured. Cinergy updated the assumptions used to determine their pension obligations and prospective net periodic benefit cost to be allocated to Duke Energy Indiana. As a result, the discount rate used to determine net periodic benefit cost to be allocated to Duke Energy Indiana by Cinergy changed from 5.50% to 6.00% in 2006.

Duke Energy Indiana
IG #16
Question 16-5, part a)

Response: Part a)

Prepaid pension asset development (Total Company):

Year	Cash Contributions	Net Periodic Benefit Cost	Other	Ending Balance
2009	$ -	$ -	$ -	$ 129,081,709
2010	45,520,526	(14,478,741)	74,803	160,198,297
2011	52,265,014	(13,946,120)	(75,152)	198,442,039
2012	-	(9,463,299)	-	188,978,740
2013	-	(18,956,111)	(157,198)	169,865,431
2014	-	(10,662,819)	-	159,202,612
2015	19,226,473	(10,482,418)	-	167,946,667
2016	9,271,841	(6,400,136)	-	170,818,371
2017	63,279	(4,173,625)	-	166,708,025
2018	8,462,789	453,820	-	175,624,634
2019	$ -	[redacted]	$ -	[redacted]
2020	$ -		$ -	

Ending balance - qualified pension:	[redacted]
Add nonqualified balances (2018):	
Prepaid pension asset (Total Company) - December 31, 2020	[redacted]

Prepaid pension asset development (Retail allocation):

Prepaid pension asset (Total Company) - December 31, 2020	[redacted]
Retail jurisdictional allocation %	94.73%
Prepaid pension asset (Retail allocation) - December 31, 2020	[redacted]

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: Jeffrey R. Setser

Dated: 12-4-2019