STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, LLC PURSUANT TO IND. CODE §§ 8-1-2-42.7 AND 8-1-2-61, FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A MULTI-STEP RATE IMPLEMENTATION OF NEW RATES AND CHARGES USING A FORECASTED TEST PERIOD; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (3) APPROVAL OF REVISED ELECTRIC DEPRECIATION RATES APPLICABLE TO ITS ELECTRIC PLANT IN SERVICE, AND APPROVAL OF REGULATORY ASSET TREATMENT UPON RETIREMENT OF THE COMPANY'S LAST COAL-FIRED STEAM GENERATION PLANT; (4) APPROVAL OF AN ADJUSTMENT TO THE COMPANY'S FAC RIDER TO TRACK COAL INVENTORY BALANCES; AND (5) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF, INCLUDING AUTHORITY TO: (A) DEFER TO A REGULATORY ASSET EXPENSES ASSOCIATED WITH THE EDWARDSPORT CARBON CAPTURE AND SEQUESTRATION STUDY, (B) DEFER TO A REGULATORY ASSET COSTS INCURRED TO ACHIEVE ORGANIZATIONAL SAVINGS, AND (C) DEFER TO A REGULATORY ASSET OR LIABILITY, AS APPLICABLE, ALL CALCULATED INCOME TAX DIFFERENCES RESULTING FROM FUTURE CHANGES IN INCOME TAX RATES.	)	**CAUSE NO. 46038**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PUBLIC'S EXHIBIT NO. 1
REDACTED TESTIMONY OF OUCC WITNESS
MICHAEL D. ECKERT

July 11, 2024

Respectfully submitted,

Thomas R. Harper
Atty. No. 16735-53
Deputy Consumer Counselor

Confidential Information indicated by [redacted]

TESTIMONY OF OUCC WITNESS MICHAEL D. ECKERT
CAUSE NO. 46038
DUKE ENERGY INDIANA, LLC

I. INTRODUCTION

Q: Please state your name, business address, and employment capacity.

A: My name is Michael D. Eckert, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, Indiana, 46204. I am the Director of the Electric Division for the Indiana Office of Utility Consumer Counselor ("OUCC"). My qualifications are set forth in Appendix A of this document.

II. PURPOSE OF TESTIMONY

Q: What is the purpose of your testimony?

A: I testify regarding the OUCC's evaluation and analyses of the revenue requirement requests in Duke Energy Indiana's ("Petitioner" or "Duke") case-in-chief. I identify and address the OUCC's concerns related to affordability, risk assessment, and storm response. I address the "Five Pillars of Electric Utility Service"[1] as prescribed by Indiana statute and explain how cost trackers continue to shift the risk of operating expense increases and capital expenditures from Duke to its ratepayers. Additionally, I introduce the OUCC's witnesses and provide an overview of their testimony. My testimony also addresses the OUCC's concerns related to risk assessment and storm response and explains and supports specific adjustments and recommendations regarding certain Duke requests, including its proposals for fuel

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[1] Reliability, Affordability, Resiliency, Stability, and Environmental Sustainability.

cost, fuel inventory, amortization expense, and $7.6 million of un-monetized inventory.

The OUCC recommends the Indiana Utility Regulatory Commission ("Commission"):

1) Reject Duke's requested annual rate increase of $491.5 million (16.20%). As explained by OUCC witness Mark Garrett, the OUCC's analysis shows Petitioner's request should be limited to an increase of no more than $184.7 million. This is largely due to capital projects that have received Commission preapproval, as allowed by state law;

2) Reject Petitioner's requested 10.5% authorized return on equity ("ROE"), and approve a 9.00% ROE as set forth by OUCC witness David Garrett;

3) Deny Petitioner's proposed increases to its monthly customer charges for residential and small business customers, as explained by OUCC witness David Dismukes;

4) Continue the current agreement that allows the OUCC and intervenors to file Fuel Adjustment Charge ("FAC") testimony 35 days after Duke files its petition and testimony;

5) Reject Petitioner's request to track fuel inventory through its Fuel Adjustment Clause ("FAC") proceeding;

6) Approve modifications to certain depreciation rates as recommended by Mr. David Garrett; and

7) Approve the recommendations and proposals of the OUCC's additional witnesses.

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

A: I reviewed Duke's petition and prefiled testimony in this proceeding. I also read relevant Commission Orders, reviewed Petitioner's workpapers, and reviewed its Minimum Standard Filing Requirements. I submitted data requests ("DR") and reviewed Petitioner's responses to the OUCC's and Intervenors' DRs. I examined pertinent sections of Title 8 of the Indiana Code and Title 170 of the Indiana

Administrative Code. In addition, I reviewed consumer comments submitted in this Cause and participated in meetings with OUCC staff.

Q: If you do not address a specific topic, issue, or item in your testimony, should it be construed to mean you agree with Duke's proposal?

A: No. My silence on any issue should not be construed as an endorsement. Also, my silence in response to any actions or adjustments stated or implied by Petitioner should not be construed as an endorsement.

III. OUCC WITNESSES

Q: Please introduce the OUCC's witnesses in this Cause.

A: The following OUCC witnesses provide testimony on the following issues:

Mr. Mark Garrett sponsors the OUCC's overall revenue requirement recommendation and testifies regarding revenue requirement adjustments. Mr. Garrett incorporates the impact of the other OUCC witnesses' recommendations in his revenue requirement calculations. Mr. Garrett presents the OUCC's capital structure analysis and recommends a 5.87% weighted average cost of capital ("WACC"), based on Mr. David Garrett's cost of debt and cost of equity recommendations. In addition, he calculates the OUCC's depreciation expense and recommended accumulated depreciation using Mr. David Garrett's proposed depreciation rates. **(Public's Exhibit No. 2)**

Mr. Kaleb Lantrip addresses Duke's rate case requests regarding the Summer Reliability Adjustment ("SRA") Rider and the Transmission, Distribution, Storage System Improvement Charge ("TDSIC") Rider. In addition, Mr. Lantrip recommends a 75%/25% allocation split for short term non-native bundled sales margins above $5 million. (**Public's Exhibit No. 3**)

Mr. Brian Latham addresses Duke's request to track the effect of tax rate changes using regulatory assets and liabilities, proposed card convenience fee ("card fee") elimination, and its proposed recovery of its restructuring cost. **(Public's Exhibit No. 4)**

Ms. Cynthia Armstrong addresses environmental compliance costs Duke is seeking approval to recover in this proceeding, including, past and future Coal Combustion Residuals ("CCR") closure costs, proposed recovery of previously disallowed CCR closure costs in Cause No. 45253 S1 through traditional depreciation accounting, and Duke's estimate of future closure costs and its inclusion of those costs in estimated decommissioning costs for its generating plants. In addition, Ms. Armstrong addresses Duke's proposal to credit ratepayers with proceeds from recent insurance settlements and Duke's ongoing capital and operations & maintenance ("O&M") costs related to environmental compliance. Finally, she discusses Duke's proposed changes in the source and treatment of Renewable Energy Credits ("RECs") for its GoGreen program. **(Public's Exhibit No. 5)**

Mr. Brian Wright discusses Duke's proposed front end engineering design ("FEED") study on the feasibility of CCS at the Edwardsport Generating Station ("Edwardsport") and associated request for recovery. Mr. Wright discusses whether the Edwardsport CCS system is necessary under the Environmental Protection Agency's ("EPA") new greenhouse gas guidelines for fossil fuel-fired power plants. Mr. Wright recommends the Commission reject Duke's request to defer and recover its share of the costs for the FEED study due to the speculative nature of the feasibility and affordability of a CCS system. **(Public's Exhibit No. 6)**

Ms. Roopali Sanka analyzes Duke's reliability metrics and Duke's proposed transmission and distribution ("T&D") expense related to Major Event Day ("MED") storms and recommends a $6.4 million reduction to pro-forma proposed T&D expense related to MEDs. **(Public's Exhibit No. 7)**

Mr. David Garrett presents his analysis of Duke's requested return on equity of 10.5% and recommends an authorized return on equity of 9.00% based on his cost of equity analysis of Duke. Mr. Garrett also presents his analysis of the Company's depreciation study, and he proposes reasonable adjustments to the Company's depreciation rates based on his analysis. Mr. Garrett incorporates the impact of other OUCC witnesses' recommendations in his analysis and recommendations. **(Public's Exhibits Nos. 8 and 9)**

Mr. John Hanks addresses Duke's migration adjustment relating to Time of Use ("TOU") rate customers, discusses why the Payment Navigator program should be denied, and why sunsetting the EZ Read program should not be approved. **(Public's Exhibit No. 10)**

Dr. David Dismukes addresses Petitioner's proposed allocated cost of service study, revenue distribution, rate design, and rate adjustment proposals. He recommends Duke's current residential and small commercial customer charges remain unchanged. **(Public's Exhibit No. 11)**

Customer Comments. The OUCC is submitting nearly 3,000 written customer comments and petition signatures that were received in this proceeding as **Public's Exhibit No. 12**. These include letters from multiple elected officials and local governmental entities within Petitioner's electric service territory.

IV. FIVE PILLARS

Q: What are the "Five Pillars" as they relate to electric utility service?

A: The Five Pillars of Electric Utility Service were identified by the Indiana 21st Century Energy Policy Development Task Force and codified at Ind. Code § 8-1-2-0.6. The statute lists the Five Pillars as reliability, affordability, resiliency, stability, and environmental sustainability. The statute does not distinguish or prioritize any particular pillar over another. Therefore, utilities and the Commission should weigh each pillar independently and equally in their decision-making processes.

Q: How does Indiana state policy on the "Five Pillars" apply to Duke's request?

A: The Indiana General Assembly has enacted two separate policy statements regarding utility service in Indiana in recent years. The first policy was passed in 2016, recognizing affordability and encouraging investment in necessary infrastructure "while protecting the affordability of utility services for present and future generations of Indiana citizens."[2] This was codified as Ind. Code § 8-1-2-0.5. The Indiana General Assembly passed an additional policy statement in 2023. Ind. Code § 8-1-2-0.6 requires that decisions concerning Indiana's electric

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[2] Ind. Code § 8-1-2-0.5: The general assembly declares that it is the continuing policy of the state, in cooperation with local governments and other concerned public and private organizations, to use all practicable means and measures, including financial and technical assistance, in a manner calculated to create and maintain conditions under which utilities plan for and invest in infrastructure necessary for operation and maintenance **while protecting the affordability of utility services for present and future generations of Indiana citizens. (emphasis added)**

generation resource mix, energy infrastructure, and electric service ratemaking construction consider reliability, affordability, resiliency, stability, and environmental sustainability, referred to as the "Five Pillars of Electric Utility Service."

Q: Did Duke address the "Five Pillars" in its testimony?

A: Yes. Duke witness Stan Pinegar discusses the Five Pillars and asserts:

> The more complete answer, however, is that this case and the relief the Company seeks is driven and guided by what has come to be known as the "Five Pillars."[3]

> The Five Pillars are not merely something that Duke Energy Indiana has "considered" in filing this case; rather, the Five Pillars are the very heart of this case.[4]

Q: Does Mr. Pinegar indicate in his testimony that the three Pillars of reliability, resiliency, and stability, are at the core of what a utility is expected to do?

A: Yes. He states that "[t]hese three pillars are the core of what an electric utility is expected to do, which is to plan for and invest so that service interruptions are kept to a minimum both in duration and number."[5]

Q. Does Mr. Pinegar's testimony seem to indicate that Affordability is a secondary Pillar?

A: Yes. Mr. Pinegar states "Affordability, however, is a relative analysis."[6]

Q: Should the Commission consider affordability a secondary Pillar to all other Pillars?

A. No. The Pillars are each independent and equally important and not mutually inconsistent. Recognizing this, the General Assembly directed the Commission to

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[3] Petitioner's Exhibit No. 1, Direct Testimony of Stan C. Pinegar, p. 11, ll. 8-10.

[4] *Id*., p. 11, ll. 13-15.

[5] *Id*., p. 12, ll. 19-22.

[6] *Id*., p. 14, ll. 20-21.

balance them in its decisions. By referring to affordability as a relative analysis, Mr. Pinegar's testimony implies affordability should be viewed in a subordinate manner to the other Pillars. This is contrary to the plain language of the statute. Meaningful consideration of each Pillar, including affordability, is crucial in all utility proceedings to ensure and promote reasonable limits on spending and proper levels of prudency by utilities, as the Commission deliberates and adjudicates the generation resource mix, energy infrastructure, and electric service ratemaking constructs as proposed by the utility.

The entire customer bill must be considered throughout the ratemaking process so that the necessary balancing of the Pillars considers all charges in relation to each of the applicable Pillars, including affordability. While preapproved investments may be recoverable as priorities, what Petitioner seeks in this rate case remains subject to adjustments that consider the cumulative impact of all components of revenue (including trackers), pre-approved or not, so the Commission's final order complies with all Five Pillars.

V. <u>AFFORDABILITY</u>

Q: Does the OUCC have concerns about the affordability of Duke's rate request?

A: Yes. These concerns are consistent with the Indiana General Assembly's declared policy.

Q: How must affordability be considered?

A: In Ind. Code § 8-1-2-0.5, the Indiana General Assembly declared it to be the State's policy to recognize the importance of utility service affordability for present and future generations.[7] Consistent with this statute, affordability should be protected as utilities invest in the infrastructure necessary for system operations, maintenance, and reliability. While federal environmental regulations have increased certain generation, or generation-related, costs in the last decade, and independent system operator requirements have been added, affordability is an issue that must be considered in balancing all investment decisions to assure approved spending parameters are, and remain, affordable. This makes it all the more important for the Commission to require utilities to demonstrate prudence and responsibility.

In recognizing affordability, the Commission is charged with using its expertise to examine all of the numerous technical and legal aspects of ratemaking related to cost recovery, revenue requirements, and accounting treatments, without losing sight of the financial impact on ratepayers, and continuing to provide safe, compliant, and reliable utility systems. The Commission has been given statutory discretion that may be exercised to alleviate financial burdens on ratepayers without affecting the utility's ability to maintain safe and compliant systems and earn a reasonable profit.

[7] I.C. § 8-1-2-0.5 Operation and maintenance; affordability of utility services (Indiana state policy to promote utility investment in infrastructure while protecting affordability of utility service).

Sec. 0.5. The general assembly declares that it is the continuing policy of the state, in cooperation with local governments and other concerned public and private organizations, to use all practicable means and measures, including financial and technical assistance, in a manner calculated to create and maintain conditions under which utilities plan for and invest in infrastructure necessary for operation and maintenance while protecting the affordability of utility services for present and future generations of Indiana citizens. *As added by P.L.104-2016, SEC.1.*

Consistent with the General Assembly's stated policy, the Commission should only approve necessary and reasonable requests for Duke to provide service at prudent cost and reasonable prices, and the Commission should take steps to moderate the imposition of higher rates, including rates that may unreasonably escalate over time. In recognizing the importance of affordability, measures such as examining cost allocation, prioritizing investment, and spreading cost recovery over longer periods of time can help address the financial impacts upon customers.

Q: Do increasing utility costs and investments continue to place upward pressure on customer bills?

A: Yes. Therefore, it is imperative the Commission carefully scrutinize utility requests to approve only what is justified as reasonably necessary, at a prudent cost, and at a level of service quality providing reasonable value to the customer. It is also critical to factor customer affordability into the accounting treatment a utility seeks, the timing of rate increases and project requests, and prioritization of projects and expenses.

Q: Has the Commission addressed affordability in recent orders?

A: Yes. The Commission's most recent order in a contested major rate case was issued on February 14, 2024, approving new base rates and charges for Indiana American Water Company. The Order states:

> Affordability is always an important consideration for the Commission when establishing just and reasonable rates. Affordability is an ongoing concern for all consumers in the State of Indiana. However, our role in addressing this concern is not to reach a conclusion as to whether the rates approved herein are 'affordable' for each and every customer, particularly given the difficulty in

> defining affordability in general and for the many diverse customers and communities Indiana American serves.[8]

Q: Does Duke's proposal to mitigate its ROE request adequately address Affordability, as discussed by Mr. Pinegar?

A: Not sufficiently. The 10.80% ROE proposal Duke reduced by 30 basis points for affordability shows Duke's initial ROE proposal does not factor in affordability. In fact, the 10.8% ROE[9] Duke suggests it could justify is far higher than what any Indiana electric utility has requested in the last three years. I address this issue later in my testimony.

Q: How is Duke's requested ROE of 10.5% misaligned with Commission orders?

A: In recent electric investor-owned utility ("IOU") cases the Commission, in contested cases and settlement agreements, has either authorized, or approved settlement terms permitting, electric IOUs to utilize ROE rates in the range of 9.70% to 9.90%.

Q: How does the issue of affordability tie into Duke's current rate request?

A: Duke is requesting an annual revenue increase of $491.5 million after both phases are implemented.[10] After rates are increased following the Commission's order in this Cause, Duke will continue to implement rider rates that may or may not change rates quarterly, bi-annually, and annually through the FAC Rider, Environmental Compliance Adjustment Rider, Transmission, Distribution, TDSIC Rider, Energy Efficiency Adjustment Rider, Credits Adjustment Rider, Regional Transmission

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[8] *In re Indiana American Water Company*. Cause No. 45870, Final Order p. 105 (Ind. Util. Regul. Comm'n Feb. 14, 2024).

[9] Pinegar Direct, p. 15, l. 11 – p. 17, l. 11.

[10] Duke Exhibit 26, Schedule RR1, l. 10.

Operator Non-Fuel Costs and Revenue Adjustment Rider, Reliability Adjustment Rider, Federally Mandated Cost Adjustment Rider, and Renewable Energy Project Adjustment Rider. I further discuss the effect of the current riders below in Section IX, "Current Rider Impact."

Q: Does the OUCC have specific overarching concerns about this particular rate request?

A: Yes. Individual OUCC witnesses make recommendations regarding specific issues and specific Duke requests. OUCC witnesses and comments received from nearly 3,000 ratepayers raise serious concerns about the immediate financial impact of these requests.

The Commission is charged with the task of balancing the interests of the utilities with the interests of ratepayers. The OUCC understands the critical need for Indiana to have financially sound utilities that can provide reliable and resilient services at reasonable prices. It is also crucial for the Commission to balance the Five Pillars. Rates have always been set with these core principles in mind and, in the last decade, state policy has been updated to ensure these principles continue. However, the Indiana General Assembly has now also set parameters demonstrating it did not intend for regulated utilities to receive blank checks. The OUCC has presented testimony outlining ways the utilities' requests can be tempered without compromising the Five Pillars.

The requested relief in this docket would undoubtedly reduce risks for Petitioner and its shareholders, yet there is no recognition of this reduced risk in a lower proposed ROE.[11] The Commission has an opportunity to review Duke's requests in whole, to say "no" to some, and to limit others while making clear the standards Duke should meet.

VI. RELIABILITY, RESILIENCY, AND STABILITY

Q: Has Duke made investments in its infrastructure in an attempt to improve and ensure its reliability, resiliency, and stability?

A: Yes. Reliability, resiliency, and stability are three of the Five Pillars which must be considered. Duke Witnesses Timothy A. Abbott and Harley McCorkle address these issues in their testimony and discuss Duke's two TDSIC plans and how these investments have addressed reliability, resiliency, and stability.[12]

Q: Has Duke implemented two TDSIC plans?

A: Yes. The Commission approved Duke's first TDSIC plan in Cause Number 44720. It was a seven-year plan (2016-2022) at a projected cost of $1.408 billion.[13] The Commission approved Duke's second TDSIC plan in Cause Number 45647, and it is a six-year plan (2023–2028) at a projected cost of $2.14 billion.[14] It is important to note that the TDSIC statute (Ind. Code ch. 8-1-39) allows tracker recovery for

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[11] *See PSI Energy, Inc.*, 2004 Ind. PUC LEXIS 150, at *145. *See also In re S. Ind. Gas & Elec. Co.,* Cause No. 43839, 289 P.U.R.4th 9 (Apr. 27, 2011), where the Commission denied Vectren's proposed increased ROE. "We do consider the effect tracking mechanisms have in reducing risk in order to ensure that these reduced risks are properly reflected in Vectren South's cost of equity."

[12] Petitioner's Exhibit Nos. 22 and 23, Direct Testimony of Timothy A. Abbott and Harley McCorkle, respectively.

[13] *In re: Duke Energy Indiana, LLC,* Cause No. 44720 (Ind. Util. Regul. Comm'n June 29, 2016) Order, Attachment: 7-Year Plan and Transmission, Distribution and Storage Improvement Charge ("TDSIC") Settlement Agreement, p. 1.

[14] Cause No. 45647 Direct Testimony of Jeremy K. Lewis, p. 18, ll. 16-19.

80% of these costs and expenses, while allowing the remaining 20% to be deferred and recovered through base rates in the utility's next base rate case.

Q: Has Duke's reliability improved over the last five years?

A: As discussed by OUCC witness Sanka, Duke's SAIFI and SAIDI measures have showed steady improvement during the five-year period 2019 through 2023, except for 2022. Duke's CAIDI measures improved significantly in 2023. Mr. McCorkle provides a Table (Table 3.a)[15] in his testimony showing Reliability Indices (SAIFI, SAIDI, and CAIDI[16]) for the period 2019 through 2023. The Table shows consistent improvement in the SAIDI and SAIFI metrics from 2019 to 2023 except for 2022, where it regressed to its highest level.

Table 3.a

Duke Energy Indiana
T&D Reliability Improvement
2024 Rate Case Filing

	2019	2020	2021	2022	2023
SAIFI	1.07	0.95	0.94	1.16	0.89
SAIDI	140.4	121.0	127.1	160.4	98.0
SAIDI (Vegetation Related)	44.1	34.2	36.0	40.4	23.0
CAIDI	131.7	127.0	135.9	138.5	109.9
CI	903,088	833,043	806,617	1,013,797	790,285
CMI	119,013,169	105,994,868	109,684,636	140,315,343	86,841,290

*Information in the table above excludes MEDs

VII. ENVIRONMENTAL SUSTAINABILITY

Q: What is environmental sustainability?

A: In general, environmental sustainability of electric utility services refers to efforts

[15] McCorkle Direct, p. 10.

[16] SAIFI: System Average Interruption Frequency Index.
SAIDI: System Average Interruption Duration Index.
CAIDI: Customer Average Interruption Duration Index.

to reduce environmental effects of energy production, distribution, transportation, and utilization on air quality, and water quality. Environmental sustainability includes the effect of environmental regulations on the cost of providing electric utility service and the demand from customers for environmentally sustainable sources of electric generation.[17] Energy systems and resources can maintain current operations and facilitate the transition to renewable energy or other carbon-neutral energy without jeopardizing the energy needs or environment for future generations. Environmental sustainability is included in the Five Pillars.[18]

Q: Has Duke retired any coal-fired assets while receiving Commission approval for renewable energy projects?

A: Yes. Duke has recently retired Gallagher Units 2 and 4, which were coal-fired generating units. Duke intends to retire its remaining coal-fired generating units as follows:[19]

Table MDE-1: Generating Units Projected Retirement Dates

Generating Station	Anticipated Retirement Date
Cayuga Unit 1	May 2028
Cayuga Unit 2	May 2029
Gibson Unit 1	2035
Gibson Unit 2	2035
Gibson Unit 3	2031
Gibson Unit 4	2031
Gibson Unit 5	2030
Edwardsport Unit 1	May 2045
Edwardsport Unit 2	May 2045
Edwardsport Steam	May 2045

[17] I.C. § 8-1-2-0.6(5)(A) and (B).

[18] I.C. § 8-1-2-0.6(5).

[19] Petitioner's Exhibit No. 17, Direct Testimony of William C. Luke, Attachment 17-B (WCL), p. 1.

VIII. CUSTOMER SATISFACTION

Q: Have you reviewed public and confidential data regarding Duke's customers' satisfaction levels?

A: Yes. I reviewed public and confidential J.D. Power Customer Satisfaction surveys regarding Duke. Public J.D. Power information on Overall Residential Customer Satisfaction shows Duke has ranked anywhere from above the segment average (5th) to below the segment average (11th) out of the 16 utilities in the "Midwest Region," "Large Segment" during the last five years (2019-2023).[20]

Q: What was the focus of the attendees at the Commission's first three public field hearings in this Cause?

A: Approximately 350 people attended the three public field hearings (Terre Haute, Bloomington, and Fishers) that were held before the OUCC's prefiling date, with 74 people testifying. A variety of issues were shared and discussed, but consumer comments focused heavily on 1) environmental issues, 2) solar power rates, and 3) the hardships Duke's consumers would face as a result of the Company increasing its rates.

Q: Are you aware of opposition to Petitioner's request from elected officials?

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[20] 2019: https://www.jdpower.com/business/press-releases/2019-electric-utility-residential-customer-satisfaction-study

2020: https://www.jdpower.com/business/press-releases/2020-electric-utility-residential-customer-satisfaction-study

2021: https://www.jdpower.com/business/press-releases/2021-electric-utility-residential-customer-satisfaction-study

2022: https://www.jdpower.com/business/press-releases/2022-electric-utility-residential-customer-satisfaction-study

2023: https://www.jdpower.com/business/press-releases/2023-electric-utility-residential-customer-satisfaction-study

A: Yes. State Senator Shelli Yoder and State Representative Matt Pierce spoke against the proposal and were the first speakers at the Commission's June 20, 2024, public field hearing in Bloomington, Indiana. Elected local government officials also attended and spoke at this field hearing. The OUCC has received written comments from additional elected officials throughout Duke's service territory opposing Petitioner's request and is including these with the consumer comments in Public's Exhibit No. 12.

IX. ADDITIONAL CONCERNS

Q: Does the OUCC have additional concerns about Duke's operations and how those concerns should be taken into account in this case?

A: Yes. These concerns include or relate to 1) Duke's proposed ROE; 2) customer satisfaction; 3) excess returns which do not take into account risk mitigation mechanisms and the shifting of risks from utilities to ratepayers, without additional relief or compensatory benefit; and 4) the preapproval process for transmission, distribution, and generation projects.

Q: Earlier, you noted the recent Commission order concerning Indiana American Water Company's rates in Cause No. 45870. What did the Commission consider in finding a 9.65% ROE was appropriate in that case?

A: The Commission considered the following items in arriving at its ROE finding:

a) Observable market data reflected in the record;
b) General assessment of the investment risk;
c) Understanding the Indiana jurisdiction and its risk mitigation ratemaking mechanisms; and
d) The ROE awarded to Indiana's vertically integrated electric utilities outside of settled cases has been trending lower.[21]

[21] *In re Indiana American Water Company*. Cause No. 45870, Final Order p. 44 (Ind. Util. Regul. Comm'n Feb. 14, 2024).

Q: What did the Commission find in determining the 9.65% ROE it awarded Indiana American Water?

A: Besides considering the overall downward trend in ROEs and general economic factors, the Commission determined it is appropriate to consider the following:

> Petitioner's specific risk characteristics, such as the mitigation of risk associated with Petitioner's use of regulatory mechanisms, including a forecasted test year in this proceeding and the INAWC approved trackers. In addition to the DSIC and SEI trackers, the Commission also approved in Cause No. 45043, a lead service line replacement program under Ind. Code ch. 8-1-31.6. The effect of these tracking mechanisms is to reduce the uncertainty of the earnings that an investor can expect. [22]

Q: Did the Commission make a similar finding in its previous Indiana Michigan Power Company rate case Order (Cause No. 44075) dated February 13, 2013?

A: Yes. In its Order in Cause No. 44075, the Commission stated:

> The general effect of these trackers is to reduce the uncertainty of the earnings that an investor can expect. Petitioner has a number of trackers in place currently, and we have generally continued such trackers in this Cause. We have also considered and approved certain new or revised mechanisms, each of which has the effect of reducing I&M's earnings risk exposure. For example, we have redesigned the OSS Margin Sharing Mechanism to allow I&M to share OSS Margins both above and below the imbedded amount. We have recognized the changing capacity sharing dynamic of the AEP East System by authorizing annual adjustments in the Capacity Tracker. We have addressed the uncertainty of major storm damage restoration expenses through the creation of a reserve account. These steps should reasonably be expected to reduce the uncertainty of earnings available to investors and should enhance Petitioner's ability to earn its authorized ROE. In light of this discussion, we conclude that a slight decrease in Petitioner's ROE from that authorized in its last rate case is appropriate.[23]

Q: Do cost trackers and preapprovals shift risk from the utility to its ratepayers?

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[22] *Id*.

[23] *In re Indiana Michigan Power Company*. Cause No. 44075, Final Order p. 43 (Ind. Util. Regul. Comm'n Feb. 13, 2013).

A: Yes. Cost trackers shift the risk of increased operating expenses and capital expenditures from utilities to their ratepayers. Cost trackers and preapprovals reduce the effects of regulatory lag which would otherwise incentivize utilities to control costs and evaluate expenditures to assure costs are reasonable and prudent. In traditional ratemaking, base rate cases motivate utilities to control costs between rate cases because the utility bears the risk of higher costs. Overall, cost trackers provide real benefits to utilities and their shareholders by reducing revenue recovery risk and investors' earning uncertainties.

Q: How do utilities benefits from cost trackers and preapprovals?

A: Cost trackers and preapprovals generally reduce a utility's business risk and should result in a lower ROE. These mechanisms remove the incentive for a utility to prudently manage its costs, by minimizing expenses and maximizing revenues, between base rate proceedings. In addition, utilities are incented to move more costs to trackers to seek quicker recovery of other costs.

Q: Can Indiana electric utilities recover costs associated with the TDSIC projects and federally mandated costs between rate cases?

A: Yes. Indiana electric utilities with Commission-approved infrastructure plans may recover 80% of the return on other investments through the TDSIC and Federally Mandated Cost Adjustment ("FMCA") trackers, including associated incremental expenses. The remaining 20% of infrastructure investments not collected through the TDSIC and FMCA mechanisms are statutorily required to be deferred for recovery until a utility's next base rate case.[24] The utility is allowed carrying costs

[24] I.C. § 8-1-39-9(c)

on the deferred 20% of the TDSIC and FMCA investments, compensating the utility for the time value of its investments. The TDSIC and FMCA cost recovery mechanisms are designed to encourage significant investment, reduce regulatory lag, and contribute to a utility's overall reduction in risk for which it would otherwise need to be compensated.

Q: Does Table MDE-2 show revenue increases and authorized ROEs for Indiana electric utilities that were either agreed to in settlement or ordered by the Commission?

A: Yes. Table MDE-2 shows the revenue increase and authorized ROE for Indiana electric utilities agreed to in settlement or ordered by the Commission.

Table MDE-2: Recent and Current Electric Base Rate Cases

Utility Name	Cause #	Petition Date	Order Date	Revenue Increase/(Decrease)	Approved Ordered ROE
AES Indiana	44576	Dec. 29, 2014	Mar. 16, 2016	$29.6 Million	9.85%
AES Indiana	45029	Dec. 21, 2017	Oct. 31, 2018	$43.9 Million	9.99%
AES Indiana	45911	June 28, 2023	Apr. 17, 2024	$72.9 Million	9.90%
CenterPoint Energy	45990	Dec. 5, 2023	Pending	Initial utility request: $118.8 Million	Initial Request: 10.40 %
Duke Energy	45253	July 2, 2019	June 29, 2020	$145.9 Million	9.70%
Indiana Michigan	44075	Sept. 23, 2011	Feb. 13, 2013	$85.0 Million	10.2%
Indiana Michigan	45235	May 14, 2019	Mar. 11, 2020	$84.1 Million	9.70%
Indiana Michigan	45576	July 1, 2021	Feb. 22, 2022	($4.7 Million)	9.70%
Indiana Michigan	45933	Aug. 9, 2023	May 8, 2024	$56.9 Million	9.85%
NIPSCO	45159	Oct. 31, 2018	Dec. 4, 2019	$43.6 Million	9.75%
NIPSCO	45772	Sept. 19,	Aug. 2,	$291.8 Million	9.80%

		2022	2023		

X. OVERVIEW OF DUKE'S CASE-IN-CHIEF AND OUCC REVENUE REQUIREMENTS

Q: Please summarize the OUCC's findings regarding Petitioner's revenue requirement.

A: As stated above, Duke requests a $491.5 million rate increase. By comparison, the OUCC's analysis shows that an increase of $184.6 million[25] is supported by the evidence in this case.

Q: Please summarize your recommendations regarding a return on rate base.

A: The OUCC's revenue requirements are based on an original cost rate base of $12,600,376[26]. However, the rate base will ultimately be updated to reflect actual rate base on December 31, 2025, subject to a cap not to exceed the lesser of the rate base forecast in Petitioner's case-in-chief or the forecasted rate base amount approved in the Commission's Order. The OUCC recommends the Commission grant the parties in this Cause at least sixty (60) days to review Petitioner's updated rate base and capital structure presented in a compliance filing containing all pertinent documentation supporting the updated rate base. The OUCC's recommended WACC is 5.87,[27] with a 9.00% ROE.

XI. OUCC REVENUE REQUIREMENT ANALYSIS

Q: Please provide an overview of the OUCC's process to evaluate Duke's revenue requirements.

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[25] Direct Testimony of Mark Garrett, Exhibit MEG-2.

[26] Direct Testimony of Mark Garrett, Exhibit MEG-2.3.

[27] Direct Testimony of Mark Garrett, Schedule MG-2.1.

A: As an IOU, Duke's rates and charges are regulated under Ind. Code § 8-1-2-1, *et seq*. The OUCC reviewed the operating revenues, operating expenses, rate base figures, capital structure, and net operating income from Duke's historic base period year ending August 31, 2023, against the same from its forecasted Test Year (2025). Adjustments to the forecasted test year revenue and expense data were generally made to reflect changes that will be and are projected to occur by the end of the forecasted 2025 Test Year. The OUCC also adjusted Petitioner's forecasted rate base and proposed rate of return used in calculating return on rate base.

In developing its recommendations, the OUCC analyzed Duke's case-in-chief, including its testimony, exhibits, accounting schedules, attachments, and workpapers. OUCC staff and expert witnesses issued data requests and gathered financial information about Duke through discovery. OUCC staff members participated in conference calls with Duke staff to discuss technical issues. The OUCC facilitated consumer participation in the public field hearings in this Cause and reviewed the written public comments included as Public's Exhibit No. 12.

XII. <u>RIDER REQUESTS</u>

Q: Does Duke propose changing any of its current riders and/or adding a new rider?

A: Yes. Currently, Duke has nine established riders and is proposing the following for each of its riders, respectively:

<u>Fuel Cost Adjustment Rider ("FAC") (Rider 60)</u>

Q: How is Duke proposing to change its FAC?

A: Duke is proposing to update the base cost of fuel that will be established in this base rate case. In addition, Duke is proposing to build into base rates a representative balance of coal inventory and track the actual inventory balance in the Company's quarterly FAC filings. I discuss both items later in my testimony.

Q: Does the OUCC have any recommendations regarding the FAC?

A: Yes. The current agreement allowing the OUCC and intervenors to file FAC testimony 35 days after Duke files its petition and testimony should be continued. In addition, the Commission should reject Duke's proposal to track fuel inventory through FAC proceedings.

<u>Environmental Compliance Adjustment Rider ("ECR") (Rider 62)</u>

Q: How is Duke proposing to changes its Environmental Cost Rider ("ECR")?

A: Duke is proposing several updates to the ECR regarding the amounts embedded in base rates which are identified in Duke witness Kathryn C. Lilly's testimony.

Q: Does the OUCC address these changes?

A: Yes. Ms. Armstrong provides testimony on these issues.

<u>Energy Efficiency ("EE") Adjustment Rider (Rider 66)</u>

Q: How is Duke proposing to change its EE Rider?

A: Duke is proposing to reset current rates to remove the lost revenue amounts and adjust the revenue conversion factors.

<u>TDSIC Rider (Rider 65)</u>

Q: How is Duke proposing to change its TDSIC Rider?

A: Duke is proposing to update the amount embedded in base rates. Mr. Lantrip discusses the amounts that should be included in base rates.

Credits Adjustment Rider ("CA") (Rider 67)

Q: How is Duke proposing to change its CA Rider?

A: Duke is proposing to update the embedded amount in base rates.

Regional Transmission Operator ("RTO") Non-Fuel Costs and Revenue Adjustment Rider (Rider 68)

Q: How is Duke proposing to change its RTO Rider?

A: Duke is updating the amounts embedded in base rates for the RTO non-fuel costs and transmission revenues to reflect forecasted levels for 2025 but is not proposing any changes to the operation of the RTO Tracker in this proceeding.

Reliability Adjustment Rider ("RA") (Rider 70)

Q: How is Duke proposing to change its RA Rider?

A: Duke is retaining the sharing mechanism for net margins realized on short-term bundled non-native sales but is proposing to reset the base amount to zero and to share 100% of net margins, up to a $5 million threshold, with customers. Any positive net margins above that level would be shared 50/50 between customers and shareholders. In addition, Duke is updating the proposed annual base amount for Power Share® bill credits in base rates to zero and proposing to recover actual costs for this program entirely through the RA Rider.

Q: Does the OUCC address these changes?

A: Yes. Mr. Lantrip provides testimony on these issues.

FMCA (Rider 72)

Q: Is Duke proposing any changes to its FMCA Rider?

A: No. While Duke does not have any active FMCA plans or projects within its FMCA Rider, it proposes to keep the Rider open to maintain a mechanism in the event of additional federally mandated compliance requirements, including potential requirements with respect to cybersecurity. The OUCC does not oppose this request.

Renewable Energy Rider ("RE") (Rider 73)

Q: How is Duke proposing to change its RE Rider?

A: Duke is proposing several updates to the RE rider regarding the amounts embedded in base rates, which are identified in Duke witness Suzanne Sieferman' s testimony.

Q: Does the OUCC oppose these updates?

A: No.

XIII. STORM DAMAGE AND RESTORATION

Q: Did severe thunderstorms move through Indiana during June 29 through July 2, 2023 and, if so, did these impact Duke's service territory?

A: Yes. Duke "monitored weather forecasting services prior to the June 29 storm and issued proactive messages to its customers prior to the storm impacts."[28]

Q: Did the "severe" portions of the thunderstorms hit Duke's service territory?

A: Yes.

Q: Did Duke mobilize a workforce from several different entities to restore service or to assist in restoration efforts?

A: Yes. Duke utilized resources from the Great Lakes Mutual Assistance partners, other utilities, and private contractors, as well as its own crews to assist in storm restoration efforts.[29]

Q: Did Duke and the state's additional electric investor-owned utilities brief the Commission and OUCC regarding the June 29, 2023, storm?

A: Yes. The Commission convened a technical conference with AES Indiana on

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[28] Attachment MDE-1, Duke Energy Indiana Storm Technical Conference Presentation as requested by the Indiana Utility Regulatory Commission, September 22, 2023.

[29] Attachment MDE-1.

October 2, 2023. Separately, the Commission held a Storm Response Meeting on September 22, 2023, with the four other Indiana electric IOUs, including Duke. Attachment MDE-1 is a copy of Duke's presentation to the Commission.

Q: Did you observe all five IOU presentations in person?

A: Yes.

Q: What were you expecting to learn from the five utilities' presentations on storm response?

A: I focused on whether the utilities:

1) Requested additional assistance from other storm restoration services;
2) Properly notified customers during and after the storm on a timely basis through appropriate communication methods; and
3) Provided sufficient and accurate information to the Commission and the OUCC regarding the storm impact.

Q. Based on all the utilities' presentations, do you have any recommendations about customer notifications and Commission reporting?

A. Yes. I recommend all the utilities review their practices for warning customers of potential weather events and the outages that may result. If these reviews provide evidence of a need for more notice and/or more specific notices, its customer communications plans should be updated accordingly. As to Commission reporting on major storm events, I recommend lowering the 5,000-customer outage threshold level to a 1,000-customer outage threshold level, as AES Indiana suggested at its October 2, 2023, technical conference. I also recommend the Commission require reporting until the last affected customer is reconnected. This will facilitate more accurate and comprehensive evaluation of future storm events by the Commission and the OUCC. In addition, if there are multiple storms within an event, the reports from all five IOUs should include information about all these storms within the reporting period/event. The OUCC recommends a separate continuing report for each event so the Commission and the OUCC can accurately determine the duration of each outage. Also, the utilities should state in their reports whether they requested and/or received mutual assistance and explain the reasons why they did or did not receive assistance.

XIV. RATE IMPLEMENTATION

Q: Did the Commission recently issue an order addressing the effective date of approved rate changes?

A: Yes. In Cause No. 45772, the most recent electric rate case for Northern Indiana Public Service Company, LLC ("NIPSCO"), the NIPSCO Industrial Group and the OUCC filed a motion requesting the Commission require NIPSCO to apply its new rates and charges on a prospective basis for service rendered from the effective date of the new rates, rather than to bills it issued from and after the effective date. The Commission granted the motion on October 11, 2023, finding that "neither the Settlement Agreement nor the August Order approving that Settlement Agreement authorized NIPSCO to implement the new rates on a bills-rendered basis, as opposed to on a consumption basis." (Cause No. 45772, Order of the Commission on Motion to Enforce at 2 (Oct. 11, 2023).)

Q: Should Duke also implement the rates approved in this Cause on a prospective basis to service rendered after the rates become effective?

A: Yes. Duke's Petition is silent on this specific issue.[30] The OUCC requests the

[30] Duke witness Christa L. Graft testifies regarding the mechanics of the proposed rate implementation, but the Petition does not set forth those mechanisms, including that rates approved through the Order in this Cause are implemented on a services rendered basis, or other mechanism achieving that result. Petitioner's Exhibit No. 3, Direct Testimony of Christa L. Graft, p 15, l. 9 – p. 16, l. 5.

Commission find that any rate change approved for a jurisdictional utility only apply on the basis of service rendered on or after the effective date of the rate change, and not to bills issued after the effective date because these may include service provided before the effective date.

XV. COAL INVENTORY LEVEL (TONS)

Q: Does the OUCC agree with Duke's proposed coal inventory level of 45 days?

A: Yes. A reasonable amount of coal supply inventory must be maintained and reflected in base rates. Duke is allowed to earn a return on its coal inventory, which is different than the fuel costs recovered through the FAC. Duke's coal inventory has increased since January 2022. Petitioner's coal inventory at the beginning of the test year (September 1, 2022) was 1,981,034 tons[31] and at the end of the test year (August 31, 2023) its coal inventory had increased to 3,165,695.[32]

Q: Was the average monthly coal inventory (days) for 2023 higher than the average monthly levels in 2021 and 2022?

A: Yes. These monthly averages were as follows:[33]

TABLE – MDE-3

Month	2021	2022	2023	2024
January	3,324,146	1,856,258	2,595,199	3,182,318
February	2,740,955	1,727,549	2,699,168	3,425,700
March	2,732,008	1,932,194	2,978,994	
April	2,736,182	2,073,592	3,189,395	
May	2,655,615	2,128,469	3,261,151	
June	2,294,261	2,038,627	3,253,900	

[31] Cause No.38707 FAC 140, Direct Testimony of Michael Eckert, p. 5.

[32] *Id.*

[33] *Id.*

July	1,324,997	1,863,357	3,201,845	
August	970,858	1,829,810	3,165,695	
September	1,208,424	1,981,034	3,328,847	
October	1,496,386	2,193,158	3,283,868	
November	1,665,175	2,276,095	3,415.773	
December	1,946,528	2,266,510	3,493,064	
Total	25,095,535	24,166,653	37,866,899	6,608,018
Average	2,091,295	2,013,888	3,155,575	3,304,009

Q: Has Duke struggled to maintain its coal inventory level effectively and efficiently with respect to the quantity it has on hand?

A: Yes. As the table above shows, Duke has struggled to maintain its coal inventory effectively or efficiently at an appropriate level, as approved in Petitioner's last rate case. The table shows Duke had excessive coal inventory during most of 2023, which imposes an additional and unnecessary cost on ratepayers.

XVI. FUEL COST

Q: Does the OUCC accept Duke's requested base cost of fuel?

A: No. Duke is requesting a base cost of fuel that is too high given current market conditions. Petitioner is proposing a $0.034378 per kWh base cost of fuel as compared to the $0.026955 per kWh currently approved base cost of fuel.

Q: Why are Duke's cost of natural gas and MISO market prices too high?

A: Petitioner used the forecasted cost of natural gas and MISO On-Peak and Off-Peak market prices for 2025 as of October 2, 2023.[34] As of June 28, 2024, the forecasted cost of natural gas and MISO On-peak and Off-peak market prices[35] for 2025 had

[34] Confidential Attachment MDE-2.

[35] Confidential Attachment MDE-3.

decreased by approximately [redacted], and [redacted], respectively.

Q: Did you apply these percentage decrease to Petitioner's proposed natural gas cost and purchased power costs?

A: Yes. I applied the [redacted] decrease to Petitioner's proposed natural gas costs, and I applied the [redacted] decrease to Purchased power (both on-peak and off-peak). I did not use the off-peak percentage decrease as the Petitioner did not provide the off-peak and on-peak costs separately. Therefore, I applied the on-peak price to both the on-peak and off-peak costs which is more conservative in nature.

Q: Would a fuel adjustment affect Petitioner's earnings?

A: No. While the changes in fuel costs do influence Petitioner's requested $491.5 million revenue increase, they do not influence Duke's earnings level. Fuel costs do not affect earnings because, by law, electric utilities are required to seek recovery of only actual wholesale natural gas costs from customers on a dollar-for-dollar basis, without markup.

Q: What is the current cost of natural gas?

A: According to the July 9, 2024, U.S. Energy Information Administration's Short-Term Energy Outlook, the forecasted costs of natural gas for 2024 and 2025 are $3.09 ($ per million Btu) and $3.42 ($ per million Btu), respectively.[36]

Q: What do you recommend regarding Duke's fuel cost?

A: Duke should review its forecasted fuel costs in the rate case and, if there has been a significant change in the cost of the fuel inputs, Duke should recalculate its fuel costs for the new rates. The OUCC's adjustment lowers fuel costs by $43,249,000.

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[36] *STEO Current/Previous Forecast Comparisons: U.S. Energy Production and Consumption Summary*, U.S. Energy Association, /https://www.eia.gov/outlooks/steo/pdf/compare.pdf, retrieved March 11, 2024.

XVII. FUEL INVENTORY TRACKING REQUEST

Q: Is Duke proposing to track changes in its coal inventory?

A: Yes. Duke is proposing to track changes (increases and decreases) in its coal inventory balances through its quarterly FAC filings. Duke proposes to do so because its coal inventory levels have experienced significant changes as a result of volatility in the energy commodity market pricing environment and due to the inelasticity of the coal supply chain.[37]

Q: How does Duke propose to do this?

A: Duke's witness Christa Graft testifies this tracking process would calculate the difference between the coal inventory balance at the end of the FAC reconciliation period and the amount of fuel inventory included in base rates in this proceeding. Duke would calculate the revenue requirement associated with the difference by applying the most recently approved rate of return and revenue conversion factor to arrive at the over/under recovery amount. This amount would be divided by the forecasted billed kWh for the forecasted period.[38] This calculation is similar in method to the current over/under collection variance calculation performed during every FAC.

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[37] Petitioner's Exhibit No. 21, Direct Testimony of John A. Verderame, p. 20, ll. 3-13.

[38] Direct Testimony of Christa L. Graft, p. 39, ll. 12-20.

Q: Does the OUCC agree with Duke's proposal to track return on fuel inventory?

A: No. Return on fuel inventory is not a cost required or incurred to acquire, maintain, and prudently manage Duke's inventory.

Q: Is the return component a trackable cost through the FAC?

A: No. Duke follows the Commission's accounting rules, which incorporate the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USoA"). Fuel costs are recorded in FERC account 501. As far back as 1976, the Commission explained that costs allowed by account 151 (which includes those recorded to account 501) constitute fuel costs that are proper for recovery through FAC proceedings.

Q: Does Ind. Code § 8-1-2-42 discussing a return on equity for fuel costs provide for a return on fuel inventory?

A: Ind. Code § 8-1-2-42 only discusses fuel costs. Return on fuel inventory is not a fuel cost and does not result in the generation of electricity. Therefore, these costs do not meet the requirements of Ind. Code § 8-1-2-42, which states:

> When such application is filed the petitioning utility shall show to the commission its cost of fuel to generate electricity and the cost of fuel included in the cost of purchased electricity, for the period between its last order from the commission approving fuel costs in its basic rates and the latest month for which actual fuel costs are available.

Q: Does Account 151 (Fuel Stock) identify a return on fuel inventory as an allowable fuel cost?

A: No. The Code of Federal Regulations states that account 151, Fuel Stock, includes the following:

1. The invoice price of fuel less any cash or other discounts.
2. Freight switching, demurrage and other transportation charges.

3. Excise taxes, purchasing agents' commissions, insurance and other expenses directly assignable to the cost of fuel.

4. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.

5. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

Q: Why is Duke proposing to track its coal inventory balance in its FAC filings?

A: Duke states its proposal attempts to manage its coal resupply risk and ensures Duke has adequate on-site coal inventories during periods of supply disruption to maintain reliable and economic generation for its customers.[39] Since the last rate case proceeding, Duke's coal inventory has ranged from a low of 885,433 tons (17 days of coal supply at a full load burn rate of 51,490 tons per day) in August of 2021 to a high of 3,255,514 tons (63 days of coal supply at a full load burn rate of 51,490 tons per day) in December of 2023. Duke witness John Verderame testifies these changes in inventory were not the result of any change in Duke's coal procurement practices.

Q: Does the OUCC agree that the inventory issue is not a result of Duke's coal procurement practices?

A: No. The Table below demonstrates that Duke has over-forecasted its coal burns for six straight years. In fact, Duke switched production cost modeling methodologies (deterministic to stochastic) in April 2023 as a way to achieve a better forecast.

TABLE MDE-4

Year	Approximate Actual Burns	Forecasted and Approximate Forecast Burns

[39] Petitioner's Exhibit No. 21, Direct Testimony of John A. Verderame, p. 19, l. 20 – p. -20, l. 2.

2019	9,000,000	12,972,453
2020	9,000,000	10,423,786
2021	8,000,000	9,308,9009
2022	8,000,000	9,929,866
2023	7,000,000	9,194,993
2024	9,239,592	10,000,000
2025		10,000,000
2026		9,000,000
2027		8,500,000
2028		6,750,000

Q: Does Duke's proposed inventory balancing mechanism shift the risk of managing its coal inventory pile from shareholders to ratepayers?

A: Yes. Duke's proposed coal inventory tracking method will shift risks from shareholders to ratepayers.

Q: What does the OUCC recommend regarding Duke's request to recover a return on fuel inventory as fuel costs?

A: The OUCC recommends the Commission deny Duke's request to recover a return on fuel inventory through its FAC proceedings. A return on fuel inventory is not a fuel cost that Duke incurs to generate electricity. In an FAC application, "the petitioning utility shall show to the commission its cost of fuel to generate electricity and the cost included in the cost of purchased electricity[.]" I.C. § 8-1-2-42(d). The return on fuel inventory is not a cost incurred to purchase fuel or to generate electricity, and these costs do not meet the requirements of I.C. § 8-1-2-42.

Q: Does the OUCC object to the amount of fuel inventory (coal) Duke is proposing to build into its base rates?

A: No. Duke is proposing to build into its base rates a coal inventory balance of approximately 2,333,474 tons or 45 days full load burn at a rate of 51,490 tons per day.

XVIII. <u>COVID-19 EXPENSES</u>

Q: What is Duke requesting regarding recovery of COVID-19 expenses?

A: Duke requests recovery of costs the Commission authorized in its June 29, 2020, order in Cause No. 45380. The order permits utilities to use regulatory accounting for O&M expenses, convenience fees, late fees, utility disconnections, and uncollectable and incremental bad debt expense relating to the COVID-19 pandemic. Duke deferred $4.844 million of COVID-19 expense and amortized it over three years, which is shown on Petitioner's Exhibit-26: Attachment 26-C: Revenue Requirements, Depreciation Expense, Workpaper DA3 Line 5, Column A. The total of Duke's deferred COVID-19 costs were calculated from March 2020 through March 2022, shown on Petitioner's Response to OUCC DR 25-2.

Q: Do you agree with Duke's Covid 19 amortization period?

A: No. Duke requested to amortize the deferred expense over three years, for a $1,615,000 increase in amortization expense. As I discuss below, I do not agree with Duke's proposed amortization period.

Q: Do you agree with the Duke's calculation of deferred COVID-19 costs?

A: No. The Commission's June 29, 2020, Phase I and Interim Emergency Order provided Indiana jurisdictional utilities with the following authority:

> All jurisdictional Indiana utilities are authorized to use regulatory accounting for COVID-19 related impacts directly associated with

> any prohibition on utility disconnections, collection of certain utility fees (i.e., late fees, convenience fees, deposits, and reconnection fees) and the use of expanded payment arrangement, as well as COVID-19 related uncollectable and incremental bad debt expense.[40]

The utility disconnection moratorium, which was not renewed by the Commission's August 12, 2020, Second Interim Emergency Order, lapsed on August 14, 2020. The Commission's August 12, 2020, Order extended the waiver of certain utility fees and charges for another 60 days while also permitting continued regulatory accounting treatment of these deferred costs "consistent with our findings in the Emergency Order."[41]

Based on a 60-day extension from the date of the Commission's Second Interim Emergency Order on August 12, 2020, Indiana's jurisdictional utilities were granted regulatory accounting treatment for eligible COVID-19 related costs until October 12, 2020.

Q: Did Duke cease deferring incremental bad debt expense on October 12, 2020?

A: No. The regulatory accounting authority the Commission provided expired on October 12, 2020, and Duke continued deferring COVID-19 expenses through March 2022.

Q: Do you agree with Duke's deferred COVID-19 cost amortization period?

A: No, I do not agree with Duke's proposed three-year amortization period. Looking at the date of Petitioner's most recent rate order, the Commission issued its Cause No. 45253 order on June 29, 2020, which means there will be at least four years

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[40] *In re Commission Investigation into COVID-19 Impacts*. Cause No. 45380, Interim Emergency Order pp. 9-10 (Ind. Util. Regul. Comm'n June 29, 2020).

[41] *In re Commission Investigation into COVID-19 Impacts*. Cause No. 45380, Second Interim Emergency Order pp. 3-4 (Ind. Util. Regul. Comm'n Aug. 12, 2020).

between Duke's most recent order and the order in this case. I discuss the amortization period(s) in section XIX, below. The final order in this Cause No. 46038 should be approved during the first quarter of 2025.

Q: How should Duke's incremental COVID-19 expenses be calculated for purposes of recovery in rates?

A: Duke's deferred incremental COVID-19 expense calculation should conform with the precise period of the Commission's accounting authority from Cause No. 45380. This period began on March 19, 2020, when Governor Holcomb issued Executive Order 20-05 declaring utility service an essential service that could not be disconnected during the COVID-19 public health emergency, until 60 days from the date of the Commission's August 12, 2020, Second Interim Emergency Order; October 11, 2020. My calculation results in $2,162,765 incremental COVID-19 expenses for the moratorium period. Amortizing this amount over four years will result in $540,691 in annual recovery of COVID-19 expense versus the $1,615,000, annual amortization expense Duke calculated. This results in a $1,074,308 decrease in the annual amortization of COVID-19 expense in this Cause.

XIX. <u>REGULATORY ASSETS AND AMORTIZATION RATES</u>

Q: Do you have any other concerns regarding the regulatory assets listed on Petitioner's Exhibit 26, WP DA3 – Prop RA Amort Exp?

A: Yes. WP DA3 – Prop RA Amort Exp details numerous regulatory assets and Petitioner's requested amortization periods. The total of all regulatory assets at the end of the test year December 31, 2025, is approximately $572.196 million. There are different amortization periods for each individual regulatory asset. The regulatory asset amortization periods vary, as some are: 1) over the life of the actual asset; 2) approved through settlements or Commission Order; or 3) requested in this proceeding. I will address those regulatory assets that are being requested in this proceeding.

Q: What is the requested amortization period for these items?

A: Petitioner proposes to amortize these regulatory assets over three years. As I explained above, the period between Petitioner's previous base rate order and the order in this proceeding will be over four years. For this reason, I recommend each regulatory asset listed in Table MDE-5 below be changed from a three-year amortization period to a four-year amortization period:

Table MDE-5: Duke WP DA3 – Prop RA Amort Exp - Regulatory Assets

Expense Related Regulatory Asset	Pro-Forma Balance	Amortization Period (Years)	Annual Amortization
182589-COVID-19 Deferral	$2,162,765	4	$540,691
182964-Retired Plant (Gallagher M&S)	7,612,000	4	1,903,000
182614-Plan Dev Def Costs 316b-20%	573,000	4	143,000
182616-Purdue CHP plant Deferred O&M	3,735,000	4	934,000
182369-DEI 2025 Rate Case	145,000	4	36,000
Total	$14,227,765		$3,556,691
Petitioner Proposal			5,636,000
Adjustment			$2,079,309

With this adjustment, Duke's amortization expense is reduced from $5.63 million to $3.56 million.

XX. O&M INVENTORY

Q: What concerns have you identified with Duke's inventory?

A: I have identified costs of inventory that should be removed from Duke's proposed rates. Duke is proposing ratepayers pay a return on $7.6 million for "unmonetized," or obsolete, inventory remaining after the closing of Gallagher Station. Duke is requesting this amount be established as a regulatory asset in rates.[42]

Q: Why do you consider "unmonetized" value obsolete inventory?

A: Inventory is managed based on costs, lead-times and usage. When usage is expected to decline, inventory management techniques prescribe that safety stock should be decreased. Obsolete inventory often results from excess inventory that eventually cannot be used. When inventory is very obsolete, it can no longer be sold or monetized - it must be written off and disposed of.

Q: What is your recommendation regarding the $7.6 million in "unmonetized" inventory?

A: I recommend the Commission deny Duke's request to place this amount into a regulatory asset. The $7.6 million in "unmonetized" inventory was included in rate base in Petitioner's last rate case. Petitioner has been earning a return on this amount since its last rate Order and continued to collect this amount from ratepayers after the retirement of Gallagher. Duke has not provided evidence that reasonable inventory management routines were in place prior to it becoming obsolete.[43]

XXI. AMORTIZATION EXPENSE

Q: What does the OUCC recommend the Commission require Duke to do when the amortization period ends?

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[42] Luke Direct, p. 39, ll. 14-20.

[43] Luke Direct, p. 39. ll. 14-17.

A: The OUCC recommends the Commission require Duke to reduce its base rates for the amortization of regulatory assets upon the amortization period expiring. Duke has proposed this reduction be done through its credit rider which the OUCC does not oppose.

XXII. <u>RECOMMENDATIONS</u>

Q: What do you recommend in this proceeding?

A: I recommend the Commission:

1) Reject Petitioner's requested $491.5 million annual rate increase, and instead limit the increase to $184.7 million as supported by the OUCC's revenue requirement adjustments and recommendations;

2) Extend the current agreement allowing the OUCC and intervenors to file FAC testimony 35 days after Duke files its petition and testimony;

3) Deny Duke's request to place $7.6 million in "unmonetized" or obsolete inventory into a regulatory asset;

4) Deny Duke's request to recover a return on fuel inventory through its FAC proceedings; and

5) Approve the recommendations detailed in the testimony of additional OUCC witnesses.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from Purdue University in West Lafayette, Indiana, in December 1986, with a Bachelor of Science Degree, majoring in accounting. I have passed the Certified Public Accountant Exam. Upon graduation, I worked as a Field Auditor with the Audit Bureau of Circulation in Schaumburg, Illinois, until October 1987. In December 1987, I accepted a position as a Staff Accountant with the OUCC. In May 1995, I was promoted to Principal Accountant and in December 1997, I was promoted to Assistant Chief Accountant. As part of the OUCC's reorganization, I accepted the position of Assistant Director of its Telecommunications Division in July 1999. From January 2000 through May 2000, I was the Acting Director of the Telecommunications Division. During an OUCC reorganization, I accepted a position as a Senior Utility Analyst and in September 2017, I was promoted to Assistant Director of the Electric Division. In February 2022, I was promoted to the Director of the Electric Division. As part of my continuing education, I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") two-week seminar in East Lansing, Michigan. I also attended NARUC's Spring 1993 and 1996 seminar on the system of accounts. In addition, I attended several CPA sponsored courses and the Institute of Public Utilities Annual Conference in December 1994 and December 2000.

AFFIRMATION

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

Michael D. Eckert
Director-Electric Division

Cause No. 46038
DEI, LLC

Date: July 11, 2024

DUKE ENERGY INDIANA

Duke Energy Indiana
Storm Response

Presented to the

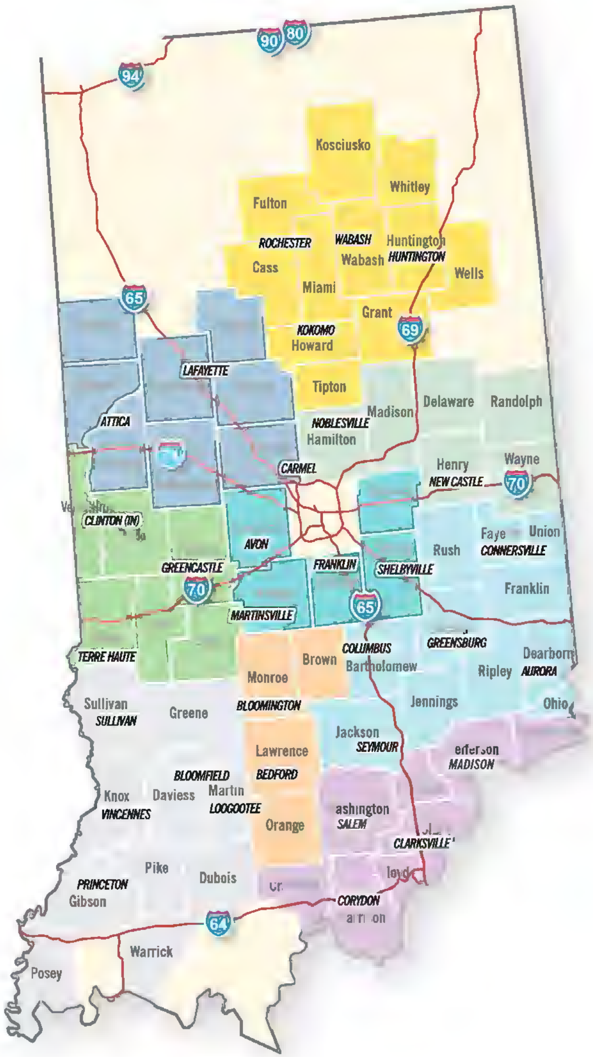
Indiana Utility Regulatory Commission

September 22, 2023

Stan Pinegar - State President Duke Energy Indiana

Donald Broadhurst – Regional Senior Vice-President Customer Delivery

Duke Energy Indiana at a Glance



Locations: T&D Operation Centers
Colors: Community Relation Manager Areas

Largest electric utility in Indiana

23,000 square-mile service area, covering 69 of 92 counties

890,000 customers

36,800 miles of transmission and distribution lines

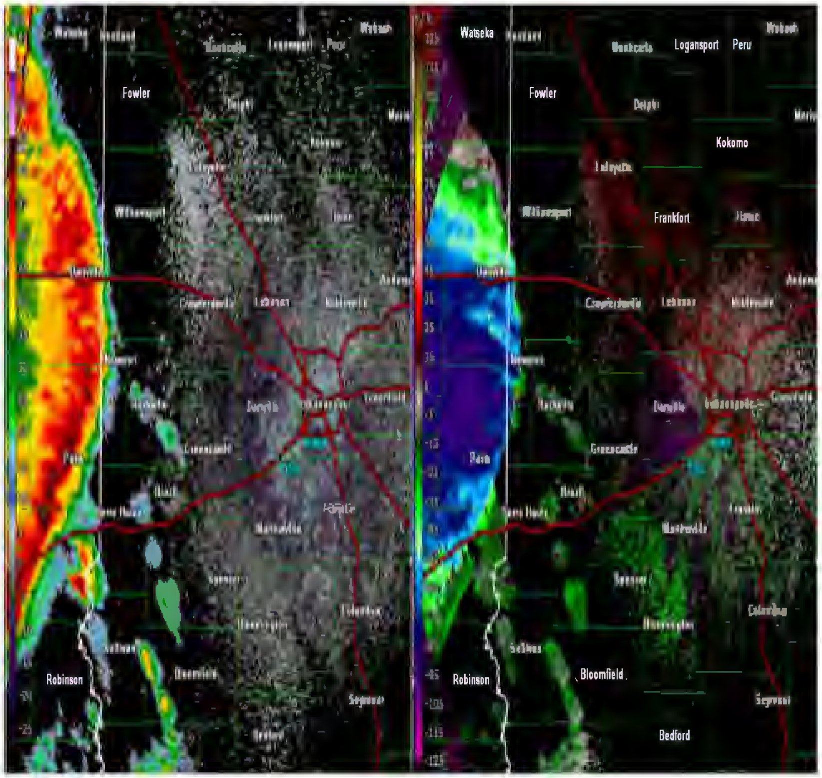
32 operation centers and **9 community relations managers**

2,500 Duke Energy Employees in Indiana

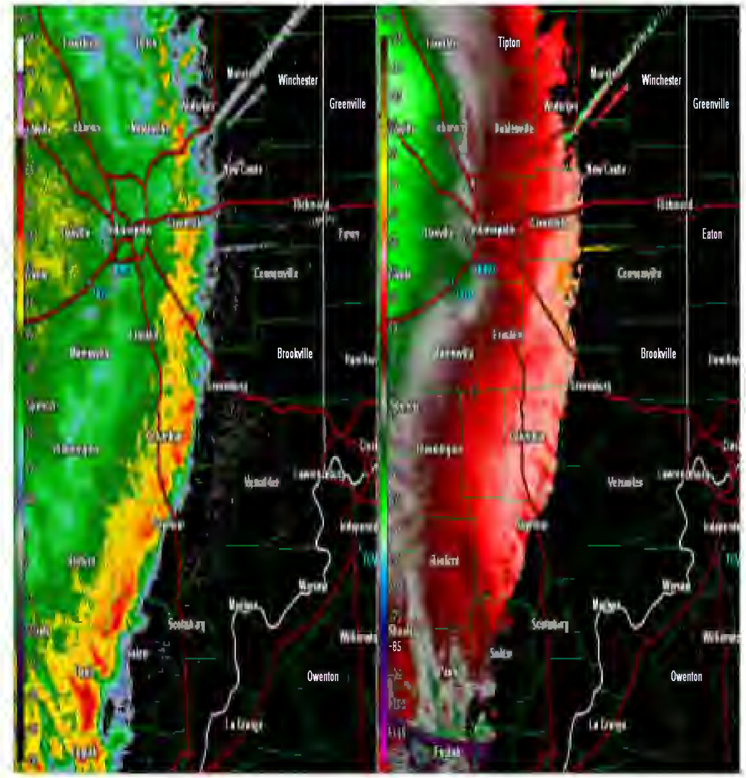
Summary of Event

Meteorology Images

Radar/Base Velocity June 29, 2023 2:46 PM EDT



Radar/Base Velocity June 29, 2023 4:20 PM EDT



What is a derecho? A derecho is a widespread, long-lived windstorm that is associated with a band of rapidly moving thunderstorms. If wind damage extends more than 400 miles in length and 60 miles in width, includes wind gusts of at least 58 mph or greater along most of its length (along with several well-separated 75 mph wind gusts reports) then the event is classified as a derecho.

Derecho Storm

- On June 29, 2023, a Bow Echo Derecho passed across the State of Indiana.
- Estimated wind gusts of 80 – 90 mph caused widespread power outages across the state

Historical Storms

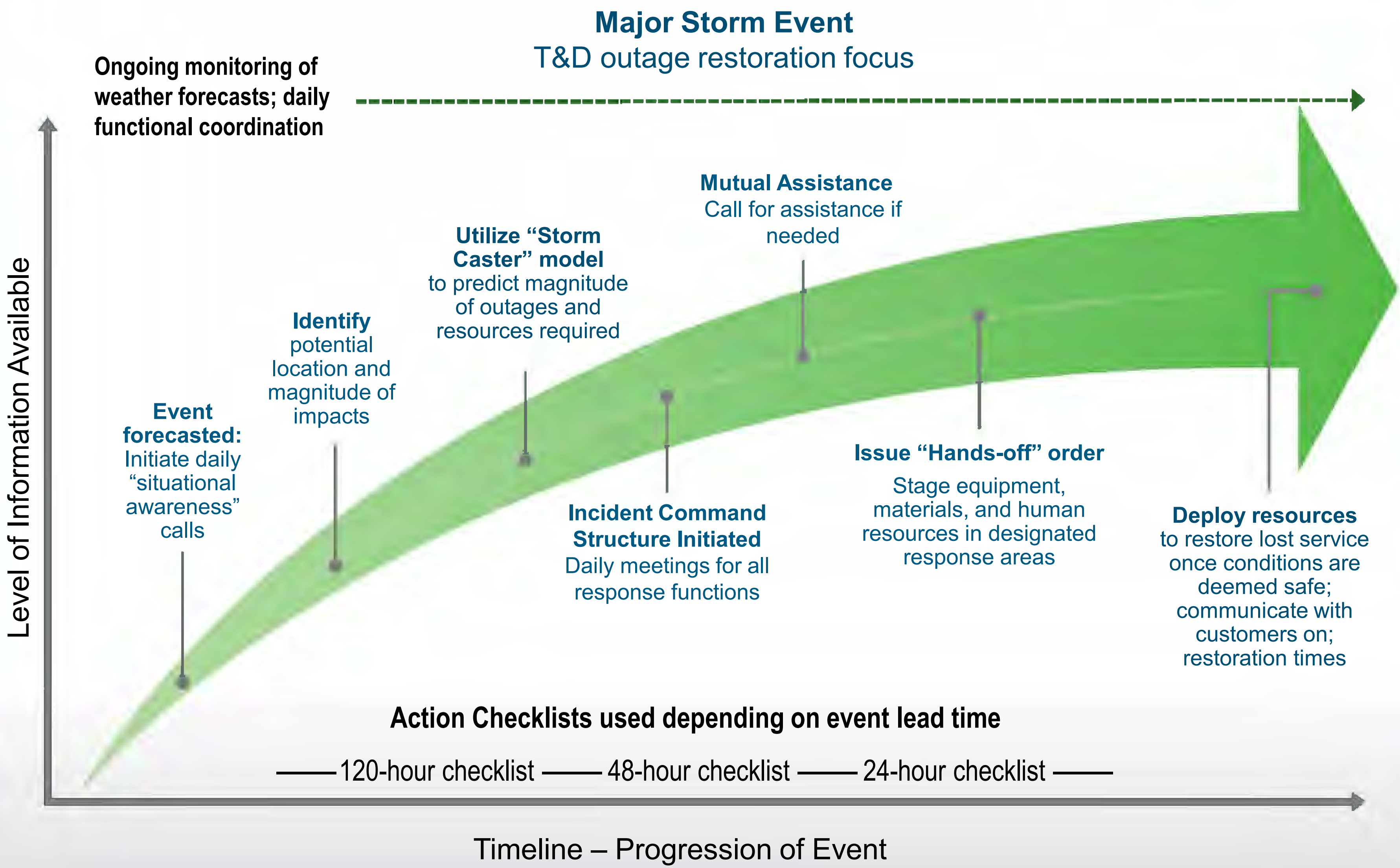
DUKE ENERGY.

Historical Ranking of Midwest Storms Since 2003 (based on Customers impacted)								
		IN North		IN South		Indiana Totals		
Ranking	Storm Date	Events*	Customers	Events*	Customers	Events*	Customers	Comments
1	9/14/2008	376	28,587	4,164	300,036	4,540	328,623	Hurricane Ike
2	**6/29/2023**	**4,477**	**160,709**	**3,606**	**164,029**	**8,083**	**324,738**	
3	2/13/2007	139	6,537	508	38,437	647	44,974	
4	11/15/2018	48	4,284	931	84,334	979	88,618	
5	2/11/2009	455	50,551	501	58,747	956	109,298	

***Events** – The number of instances where outages are reported via automated technology from field assets and direct reports from customers.

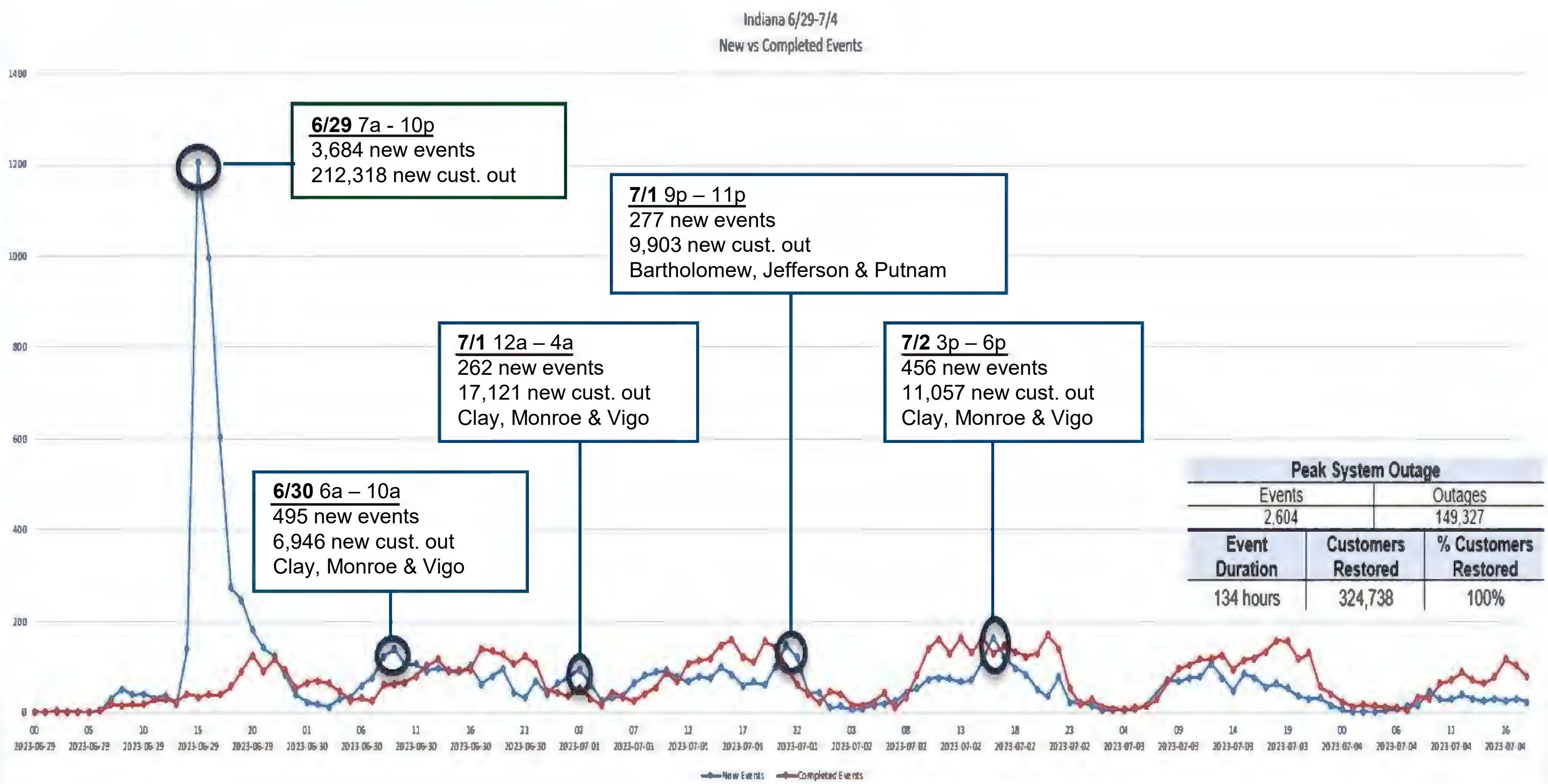
Proactive Preparation

System Readiness: Event Identification and Response



Response to Outages and Impacts

New vs Completed events



The event duration was approximately 6 days with 5 days being categorized as Major Event Days (MED)

Storm Impact and Response

Widespread damage:

- The widespread nature of this storm, which affected nearly all the 32 Indiana operations centers we serve, as well as a series of new storms moving through the service territory daily made power restoration especially challenging.

Incident Response:

- Incident Management Team activated at the level 3 on 6/29/23 and remained activated throughout the duration of this extensive event

Mobilization:

- Mobilized a workforce of approximately 1,900 distribution resources and 215 transmission resources:
  - Duke Energy Carolinas and Ohio/Kentucky
  - Great Lakes Mutual Assistance partners (ARC American (NIPSCO contractor), ComEd, Danella, Henkels & McCoy, Hydaker Wheatlake, Louisville Gas & Electric/Kentucky Utilities, MJ Electric and The Robert Henry Corporation)

Storm Impact and Response, continued

Safely Executed:

- Safety was top priority throughout restoration
- 0 recordable injuries and 2 minor first aids events

Advanced Technology Assistance:

- Pinged ~17,000 smart meters to validate if power was restored. Through this process, more than 3,000 outage tickets were closed or avoided without rolling a truck.
- Successful self-healing operations related to the event with ~13,000 customer interruptions (CI) saved with ~5 million customer minutes of interruption (CMI) saved as a result of our grid investments

Storm Challenges

Storm Challenges

What challenges did your utility face in the storm restoration process? Did you have concerns with staffing or supply chain limitations?

- The primary challenge for this storm was that fact that we continued to experience additional storms
- There were no staffing or supply chain limitations
- There were challenges with the shear number of outage tickets
- Estimated Time of Restoration (ETRs) communicated to customers were reset due to multiple days of weather

DUKE ENERGY

Communication with Customers

Direct-to-Customer Communications I Overview

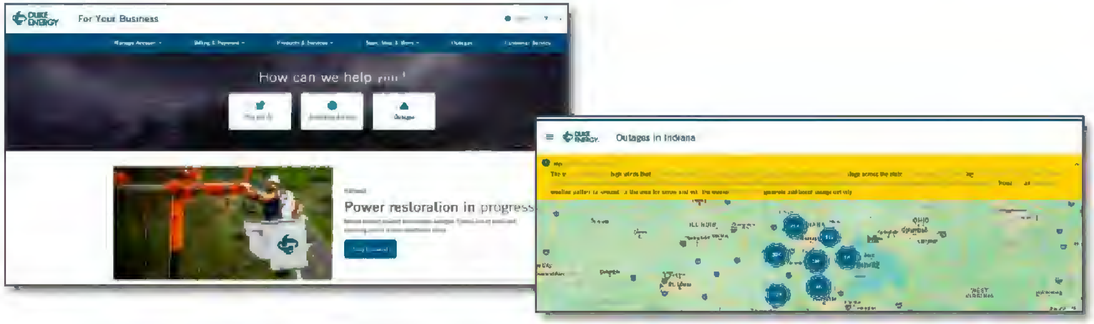
Communications began on 6/29 immediately following the derecho impacts & did not conclude until 7/5. Communication Channels include:

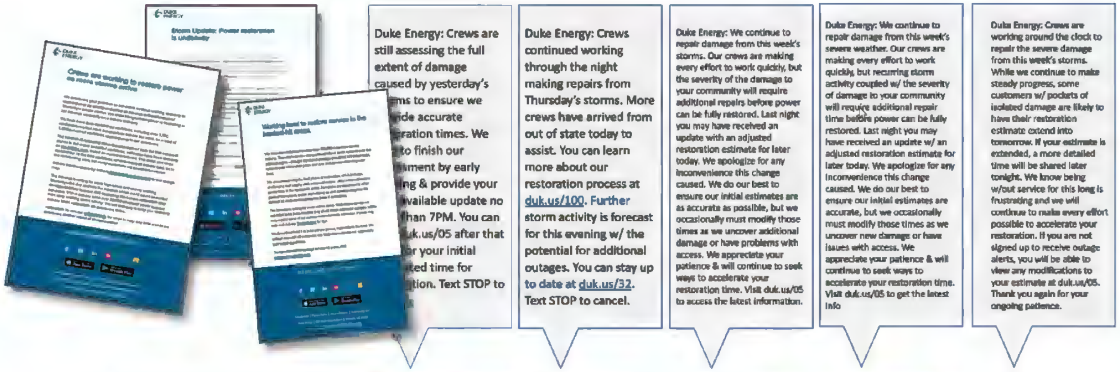
Duke Energy Website
- Dedicate storm page at DukeEnergyUpdates.com
- Residential and Business Home Pages
- Outage Map Banner Alerts

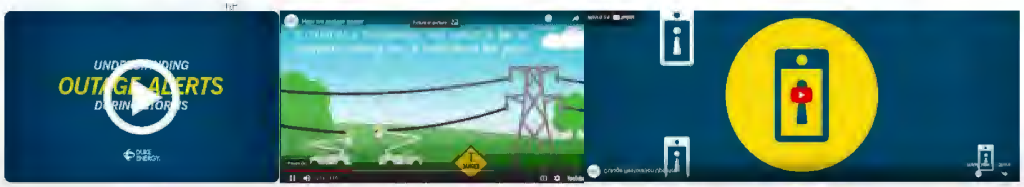
Email
- Series of Restoration Updates
- Thank You

Text & Outbound Calls
- Steady text, call cadence re: restoration progress
- Standard Restoration Updates (Outage Alerts)
- Notifications of Service Order delays

Videos
- How We Restore Power
- Outage Alerts Explained
- Nested Outages (explanation of why power might still be OFF, when notifications suggest work is complete)







Duke Energy Customer Reach

Outbound Emails

- 4 emails sent to ~350,000 customers

Outage Map Views

- 194,000 users of the Duke Energy outage map

Proactive Texts & Calls

- 300,000+ proactive text messages
- 86,000+ outbound calls

Outage Alerts

- 439,000 outage alerts

Inbound Social Media

- ~130 responses to inbound social media messages from customers

Advertising Impressions (2 weeks)

- TV: 257,466
- Radio: 100,284
- Digital: 5,151,755
- Streaming Audio: 50,765
- Print (13 insertions): 73,181

Media & Community Outreach I Overview

Duke Energy's nine community relations managers joined regional Indiana spokespersons for statewide media outreach. Managers were also a critical link with community leaders and local emergency responders.

Media Outreach

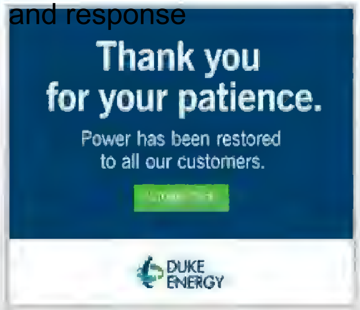
- 6 news releases/media advisories
- 10 Letters to the Editor
- 100 statewide interviews

Post Storm Advertising

- 30-second radio ad campaign
- 30-second TV ad campaign
- 13 post-storm newspaper ads
- Digital "thank you" campaign in 12 impacted counties
- $170,000 in grants awarded to 7 nonprofit organizations

Social Media

- 52 tweets about storm preparedness and response



Outage Reporting Requirements

Outage Reporting to the IURC

- Reporting begins with the Distribution Control Center and a reporting team takes over when a Level 3 storm is declared
- Once the customer outage total drops below the statutory outage levels IURC outage reporting stops
- A final report is issued after the number of customers out of service drops below 5,000 and remains that way
- Duke Energy Indiana does not have any comments or suggestions on the reporting requirements

Questions


RAPIDS
DEKALB
CHICAGO
SOUTH
DAVENPORT
OTTAWA
GALESBURG
BLOOMINGTON
LAFAYETTE
ILLINOIS
URBANA
NCY
INDIANA
SPRINGFIELD
EFFINGHAM
VINCENNES
ST. LOUIS
EVANSVILLE


404
2K
950
5K
43
Terre Haute
4K
1K
70
40
46
739
4K

CONFIDENTIAL

OUCC ATTACHMENT MDE-2

CAUSE NO. 46038

CONFIDENTIAL

OUCC ATTACHMENT MDE-3

CAUSE NO. 46038

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1 Redacted Testimony of OUCC Witness Michael D. Eckert*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 11, 2024.

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