



April 7, 2020

*Via Email*

Indiana Utility Regulatory Commission  
Attn: Research, Policy, and Planning Division  
101 W. Washington Street, Suite 1500 E  
Indianapolis, IN 46204-3407  
bborum@urc.in.gov

**Re: Sierra Club Comments on the Director's Draft Report for Duke Energy Indiana's 2018-19 Integrated Resource Plan**

Dear Dr. Borum:

On behalf of Sierra Club and our over 10,000 Indiana members, including many who are Duke Energy Indiana electric customers, we submit these comments regarding the Director's Draft Report for Duke Energy Indiana's 2018-19 Integrated Resource Plan. As the Report observes, the 2018-19 IRP process is an opportunity for Duke to systematically assess its resource portfolio in light of existing and future risks—including the risks to Indiana residents *and* customers associated with the continued operation of Duke's inflexible, high-cost coal-burning units. Given these risks, we write to endorse and offer additional information related to two concerns raised by your Report.

First, we appreciate and agree with your recommendation that Duke should evaluate closing the gasification-related facilities at Edwardsport or retiring the plant in its entirety during this IRP period. Although Duke stated that its commitment to resource diversity motivated its decision not to study the economics of Edwardsport, this rationale makes little sense because Duke currently relies heavily on coal generation, with 3,800 MW combined capacity between Gibson and Cayuga, its other two large coal facilities. Duke's generation is 90% coal on an energy basis.<sup>1</sup>

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<sup>1</sup> Direct Testimony of Stan Pinegar on Behalf of Duke Energy Indiana, in Cause No. 45253 p. 21.

In fact, all evidence points to Edwardsport remaining an extremely high cost burden on Duke's customers if Duke continues to operate the gasifiers and other coal systems at Edwardsport. Syngas operation at Edwardsport continues to be comparatively expensive, with respect to both fixed and variable costs. In the pending Duke rate case, the Industrial Group's witness Gorman found that Edwardsport's fixed non-fuel O&M on a five-year basis has been around \$155/kW-year, where the most expensive of a proxy group of combined cycle units of similar size and vintage was around \$18.85/kW-year.<sup>2</sup> Testimony provided by Sierra Club's witness in the same rate case showed Edwardsport lost \$93 million in variable costs from 2016-2018 (MISO energy market revenues minus total variable costs, including fuel); in other words, customers would have saved close to \$100 million over these three years had Duke simply shut Edwardsport off and purchased energy from the MISO market instead.<sup>3</sup> Technical issues, including very high parasitic load, are no doubt part of the explanation for the IGCC facility's comparative expense. More fundamentally, the motivating assumption for Edwardsport's construction has proven wrong: Coal is no longer the most economical fuel and is unlikely to be at any point in the foreseeable future, as Duke's own forecasts confirm.<sup>4</sup>

Given Edwardsport's recent energy market losses and high ongoing fixed costs, it is imprudent for Duke not to study the possibility of retiring the facility in the near term or switching to solely natural gas operation.<sup>5</sup> Sierra Club echoes the Report in urging Duke to "fully and holistically evaluate" whether Edwardsport IGCC facilities can provide cost-effective energy to ratepayers in the future and, if not, how the gasifiers or the plant in its entirety can be retired.

Second, we note that the Report has adopted many of the CAC Joint Commenters' questions as to Duke's load forecast, and that the Director shares our concern with the lack of detail and explanation as to the underlying model and assumptions. As further evidence of the need for more fulsome discussion by Duke of its models and tools, we wish to highlight certain other forecasting errors which have recently come to light.

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<sup>2</sup> Gorman Rate Case Testimony at pp. 38-39.

<sup>3</sup> Direct Testimony of Tyler Comings on Behalf of Sierra Club in Cause No. 45253, at p. 10 (Oct. 30, 2019) ("Comings Rate Case Testimony").

<sup>4</sup> Gorman Rate Case Testimony at pp. 23-24 (citing Cause No. 43114, Joint Petitioners' Ex. No. 1 at 4:8-13 (Oct. 24, 2006) (In 2006, Duke argued that given limited supplies and high prices for gas, coal "will likely remain the most practical fuel choice" compared to gas, while being more cost-effective than then-available renewable energy options.); *see also id.* at Figure 1, p. 25 (showing Duke's natural gas forecast).

<sup>5</sup> Confidential evidence introduced in DEI's most recent rate case suggests that Edwardsport would have net positive revenue if operated solely on natural gas. *See Cross-Examination of John D. Swez at K-37* (Jan. 31, 2020).

Testimony in Duke’s pending rate case and its FAC 123 proceeding has shown that Duke overestimated its coal burn forecast for 2020 by almost double—Duke estimated it would need 11.6 million tons of coal as recently as October 2019 but has since revised that forecast down to 6.5 million tons of coal as of January 2020.<sup>6</sup> This mistake is not a fluke, but reflects a longstanding tendency of Duke to incorrectly forecast its coal needs. Duke relied on price decrements to mitigate coal oversupply between 2012 and 2016 and had to revise its burn forecasts downward in 2016, 2018, and 2019 (as well as 2020).<sup>7</sup> Duke’s repeated errors in modeling of its customers’ energy needs and the competitiveness of its coal plants further undergird the concerns raised by the CAC Joint Commenters and highlighted in your Report regarding the opacity of Duke’s load forecast models. Duke must provide sufficient information to allow the Commission and stakeholders to identify any errors or blind spots that—as with Duke’s coal burn forecasts—could lead to excessive costs for customers.

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If you have any questions or would otherwise like to discuss this comment letter, please do not hesitate to contact us. Thank you for your consideration.

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<sup>6</sup> Compare Cross-Examination of Brett J. Phipps at F-40 (Jan. 29, 2020) with Testimony of OUCC Witness Michael D. Eckert in Cause No. 38707 FAC 123 at pp. 6-7 (Mar. 6, 2020).

<sup>7</sup> Phipps Cross-Exam at F-54.