



DUKE ENERGY CORPORATION

139 East Fourth Street
1212 Main
Cincinnati, OH 45201-0960
Telephone: (513) 287-4315
Facsimile: (513) 287-4385

Kristen Cocanougher
Sr. Paralegal
E-mail: Kristen.cocanougher@duke-energy.com

VIA OVERNIGHT DELIVERY

March 18, 2011

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

RECEIVED
MAR 21 2011
PUBLIC SERVICE
COMMISSION

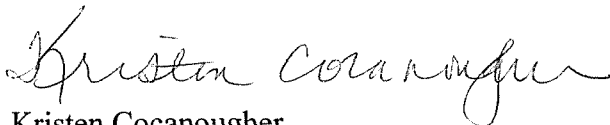
Re: Case No. 2010-00494

Dear Mr. Derouen:

Enclosed please find for filing a corrected version of the public and confidential STAFF-DR-01-029 Corrected Attachment in the above-referenced case. This is being filed due to a typographical error found in the labeling of the document. It was inadvertently labeled as STAFF-DR-01-025 Attachment. I have enclosed in the white envelope one set of the Corrected Confidential Staff-DR-01-029 Attachment being filed under seal, and the original and twelve of the Corrected Public Staff-DR-01-029 Attachment.

Please date-stamp the extra two copies of this letter and return to me in the enclosed envelope.

Sincerely,


Kristen Cocanougher

cc: Dennis Howard II (w/o enclosures)

Regulated Fuels Procurement Policy

Applicability: Duke Energy Corporation
Originator: Regulated Fuels
Approval: Senior Vice President of Strategy, Rates, Wholesale Customers,
Commodities and Analytics

Effective Date: 12/01/2010
Revision Date: 12/01/2010
Reissue Date:

Statement of Purpose

This policy defines the roles, responsibilities, and requirements of negotiation, execution and administration of contracts for the purchase and transportation of fuel (e.g., coal, fuel oil and biomass¹) and related commodities and services (e.g., lime, limestone, trona, freeze-proofing, railcar lease and maintenance, etc.) within the U.S. Franchised Electric and Gas organization of Duke Energy Corporation ("Duke Energy" or the "Corporation" or the "Company"). Specific topics addressed include required approvals, the sourcing process, documentation, segregation of duties, and standards of business conduct.

Accountability: Roles and Responsibilities

The **Senior Vice President of Strategy, Rates, Wholesale Customers, Commodities and Analytics** is responsible for approving this policy and any exceptions to the policy.

The **Vice President of Regulated Fuels** is the owner of this policy and is also responsible for communicating this policy throughout the Corporation and to all persons involved in the fuels procurement processes. Any exceptions to this policy should be documented and approved in advance by the Vice President of Regulated Fuels prior to obtaining approval by the **Senior Vice President of Strategy, Rates, Wholesale Customers, Commodities and Analytics. The Vice President of Regulated Fuels and anyone authorized to make purchases of material governed by this policy** are responsible for compliance with this policy within their areas of responsibility. This responsibility includes ensuring the business unit has adequate internal controls over the procurement process and that documentation communicating compliance with this policy on a transaction basis is maintained.

¹See Natural Gas Procurement Policy under separate cover.

Standards/Requirements

1. Consumption Requirements

Near-term coal requirements are estimated on a weekly and monthly basis by projecting usage for each fossil generating station by week and by month. Longer term needs are projected on a monthly basis for several years into the future. These requirements estimates are based upon:

- A. KWH load forecasts/requirements
- B. Unit generation capability reflecting:
 - 1. Forced outage rates
 - 2. Operating schedules
 - 3. Capacity levels
 - 4. Heat rate
 - 5. Nuclear re-fueling outages
 - 6. Maintenance schedules
 - 7. Environmental permits and limitations
- C. Coal quality
- D. Interchange sales and purchases

2. Inventory Requirements

In order for Duke to provide a reliable source of electricity, an adequate inventory must be maintained to protect against the uncertainties associated with fuel supply. Inventory target levels for each electric generating station are established by appropriate management and are based upon a forecast of fuel consumption requirements, an evaluation of the relative economics of various inventory levels and a review of operational concerns. Other factors that are considered when establishing target inventory levels:

- A. Changes in supply and demand for fossil fuels.
- B. Specific coal industry factors such as: coal mining conditions, availability of transportation service, labor interruptions for both mining and transportation industries, financial stability of suppliers, and environmental regulations impacting production and delivery of coal.
- C. Seasonal production and consumption cycles for Duke's power plants and mine sources.

The target level for coal inventories is noted in full load burn days (the amount of coal consumed by a plant operating at full load for 24 hours). The approved number of full load burn days on an annual basis for each utility is 40 days for Duke Energy Carolinas, 40 days for Duke Energy Kentucky and 45 days for Duke Energy Indiana. Seasonal factors may cause the target level to change over the course of the year but should average the approved target number of days over

the calendar year. Actual and projected inventory levels are monitored each week to provide the appropriate level of fuel supply.

3. Purchase Commitments

Regulated Fuels personnel are authorized to make purchase commitments to meet the consumption and inventory requirements consistent with their Delegation of Authority (DOA) limits. Officers can make contractual commitments consistent with the Approval of Business Transaction Policy and this policy. The standard Delegation of Authority Policy covering other expenditures and commitments explicitly does not apply to expenditures for fuel or related commodities or transportation services for U.S. Franchised Electric and Gas. Fuel purchases are governed by this policy, and by limits set forth in the Approval of Business Transaction Policy. Regulated Fuels personnel will be responsible for the selection of qualified bidders; managing the bidding process; negotiating terms and conditions; and ensuring compliance with this policy whenever fuel, fuel associated commodities, or contracts pertaining to the transportation of these commodities are concerned.

4. Sourcing

Whenever practical competitive bids are to be used for all purchases with a contract term equal to or greater than 12 months in duration. Written Requests For Proposals (RFP) are the preferred method, although telephone solicitations are permissible when execution and delivery requires prompt action. Purchases may not be split into multiple transactions or unreasonably truncated to periods less than 12 months to avoid use of competitive bidding. For spot purchases, those contracts with duration of less than 12 months, competitive bidding is not required where market information is readily available to determine that the contract price is competitive with existing market prices. Such market indicators may include published market indices and brokerage assessments. Regardless of the source of such market data, the economic rationale and quality of any competitive assessment must be accepted by the executor of the commitment as authorized by the Delegation of Authority Policy. All other exceptions must be documented and approved as required below.

Single Sourcing

A single source purchase occurs when a competitive bidding process is not undertaken and the decision is made to select a specific supplier based on technical, commercial, or other valid business reasons. Because single source procurement removes the advantages of the competitive bidding process, it should be used only on an exception basis. Contract extensions are considered to be single sourcing decisions unless supported by a documented solicitation of competitive bids. The business rationale for resorting to single sourcing must be documented and approved by an employee with authority granted under the Delegation of Authority Policy.

Premium Over Low Bid Sourcing

Another purchasing exception is a situation in which the selected opportunity is at a price greater than the low bid, due to technical, commercial, or other business considerations. The rationale for

such purchasing decisions shall be communicated to the executor of the commitment as authorized by the Delegation of Authority Policy.

Single, Sole, or Premium over Low Bid Sourcing Documentation and Approval Requirements

Any recommendation to single source or to pay a premium over lowest evaluated bid must be supported by documentation explaining the rationale for the recommendation. This recommendation requires approval by the Vice President of Regulated Fuels, even if the term and volume of the transaction delegates the authority to a role subordinate to the Vice President of Regulated Fuels.

5. Contract Formation

Without exception, any agreement to purchase fuel or transportation and/or related commodities and services must be memorialized in a written and fully executed contract. No transaction shall be captured as executed in a formal accounting or recordkeeping system, including but not limited to ComTrac, CXL, or other accounting, scheduling or planning documentation system prior to the execution of such agreements by both parties. Prior to execution:

- a. All contracts must be reviewed by the Legal Department.
- b. All Term Contracts, or contracts whose complete fulfillment from the date of execution exceeds 12 months, or contracts exceeding a volume commitment of 250,000 tons shall first be reviewed by the Credit Department and
- c. All associated credit risks, departures from standard contract language, or other concerns of the legal or credit department shall be documented and communicated to the executor determined by the Delegation of Authority policy.
- d. All contracts and associated commitments shall be entered into the system of record, currently ComTrac, as executed transactions no earlier than the execution day of the transaction and no later than two business days following the execution of the contract.
- e. Under no circumstances shall any fuels employee authorize receipt, either into Duke's transportation services or Duke's stations, fuel, associated commodities, or any associated services prior to the execution of a contract.

A contract contains the terms and conditions needed to cover risks, qualities, delivery schedule, duration, pricing and pricing adjustments, dispute and settlement mechanisms, payment terms, insurance requirements, suspension and termination rights, etc. Wherever possible, Regulated Fuels will attempt to use Duke Energy's standard contract forms for the associated commodity or associated service.

6. Purchasing Process Guidelines

The purchasing process and related documentation should reflect the complexity and materiality of the commodities or services being purchased. The steps identified below should be considered and included in the process as appropriate to support compliance with this policy or to meet specific operational requirements.

- a. Documentation of test burns or modeled estimates of boiler performance for new fuel supplies or supplies for which guaranteed qualities are inconsistent with guidelines for acceptable fuels.
- b. Documentation of the projected consumption that the purchase satisfies.
- c. Documentation of steps taken to mitigate any credit or legal risks identified by reviews by the Credit or Legal Departments.
- d. Compliance with a standard set of terms and conditions with any legal exceptions approved by Legal.
- e. Commercial and risk assessment including insurance and credit considerations and appropriate hedges against identified risks.
- f. Reviews by Accounting and Corporate Tax for any sales and/or tax implications (e.g., inventory tax, property tax) or accounting considerations (e.g., lease obligations).
- g. Other analyses and functional coordination as appropriate.

Documentation of the purchase process should support that the appropriate steps were taken and provide an audit trail. Documentation should be maintained in accordance with the Records Management Policy and the Duke Energy Records Retention Schedule (DERRS) and may be attached to the request in the purchasing system.

Purchasing Guidelines for Long-Term Contract Coverages

[BEGIN CONFIDENTIAL] [REDACTED]
 [REDACTED]
 [REDACTED]

Year	Prompt	+1	+2	+3	+4
DE Carolinas	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DE Kentucky	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DE Indiana	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [END CONFIDENTIAL]

7. Changes in any Contract Terms, Requirements, or Work Scope

Any Amendments to contracts shall be treated as separate transactions for the purpose of determining appropriate legal and credit reviews, documentation, and delegation of authority requirements.

8. Confidentiality

Supplier quotations should always be maintained as confidential information. Quotations of one supplier are not to be divulged to another. *This information should not be made available within the Company except to individuals with a business need to know.* The number of bidders, who is *bidding*, *how much is in the budget*, the past performance of bidders, and future business potential are topics that should **not** be discussed with suppliers unless appropriate Regulated Fuels management authorizes the discussion.

Confidential data is not made available to external persons/organizations without justification such as state regulations and require; 1) supplier authorization, and 2) an executed confidentiality agreement.

9. Segregation of Duties

The following functions should be segregated between at least two people:

- Requisitioning and/or specifying
- Vendor File Maintenance
- Procurement/contracting
- Contract administration
- Receipt of goods or services
- Invoice approval
- Check signing or disbursements

Weaker segregation structures should be accompanied by additional management review. If any employee performs both the *procurement and invoice approval processes*, an additional level of management must review the approval of the invoice.

10. Standard of Business Conduct and Ethics

Duke Energy complies with all applicable governmental laws, rules and regulations and maintains the highest standard of business ethics and conduct. Employees should refer to the Duke Energy Code of Business Ethics for an explanation of the Company's policies pertaining to topics such as gifts and entertainment; conflicts of interest; and bribery, kickbacks and other improper payments. Employees or contractors who are concerned about unethical behavior can anonymously report their

concerns on the EthicsLine by calling 1-800-525-3783 or visiting <http://www.dukeenergy-ethicsline.com/>. Employees should also consult and follow policies, procedures, and guidelines for complying with applicable Affiliate Codes of Conduct for any transactions between the regulated and non-regulated businesses.

11. Sourcing Requirements Summary

Category	Requirements
Purchases > 1 year in term	Competitive bid process will be required unless exceptions are documented and approved by the Vice President of Regulated Fuels.
Purchases <1 year in term	Approval at appropriate DOA limits.
Single source recommendation	Approval at appropriate DOA limits. Competitive bidding and/or documentation of contemporary index pricing should be used where practical. Vice President of Regulated Fuels shall confirm any such single source recommendations.
Premium over low bid	Documentation and approval by the Vice President of Regulated Fuels. Approval in accordance with DOA limits.

12. Other Pollution Control Chemicals

Other pollution control chemicals or reagent products such as ammonia, urea and organic acid (DBA) are purchased utilizing a like process initiated and authorized through the corporate purchasing department following DOA authorities appropriate to that group.