



Mailing Address:
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RECEIVED

AUG 08 2014

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

August 8, 2014

Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RE: Case No. 2014-201

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of Duke Energy Kentucky's responses to the Commission Staff's First Set of Data Requests.

Also enclosed are an original and twelve copies of the Petition of Duke Energy Kentucky, Inc. for Confidential Treatment of Information Contained in its Responses to Commission Staff's First Set of Data Requests and one copy of the Confidential Version enclosed under sealed envelope.

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

Sincerely,

Rocco D'Ascenzo
Associate General Counsel

cc: Jennifer Hans (w/enclosures)

COMMONWEALTH OF KENTUCKY
BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Duke Energy Kentucky,)
Inc., For (1) A Certificate of Public)
Convenience And Necessity Authorizing)
the Acquisition of the Dayton Power &)
Light Company's 31% Interest in the East) Case No. 2014-00201
Bend Generating Station; (2) Approval of)
Duke Energy Kentucky, Inc.'s Assumption)
of Certain Liabilities in Connection with)
the Acquisition; (3) Deferral of Costs)
Incurred as Part of the Acquisition; and (4))
All Other Necessary Waivers, Approvals,)
and Relief.)

PETITION OF DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION CONTAINED
IN ITS RESPONSES TO COMMISSION STAFF'S FIRST SET OF
DATA REQUESTS

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 13, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in its responses and attachments to Data Request Nos. 3, 4, 10, 20, 23, 24, 25, 29, and 30 as requested by the Staff of the Kentucky Public Service Commission (Staff) in this case on July 28, 2014. The information that the Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) shows sensitive economic information regarding: 1) the confidential bids submitted in response to Duke Energy Kentucky's request for proposal (RFP); 2) analysis of those bids; 3) future operational costs of the East Bend generating

station (East Bend), including, but not limited to, estimates of future outage projects and timing, forecasted maintenance expense and environmental compliance; and 4) economic dispatch information; and 5) future estimated capacity revenues and costs. Specifically, Duke Energy Kentucky is requesting confidential treatment of the following:

- a) Staff-DR-01-03 Attachments A through D depicting the Company's analysis of the RFP bids;
- b) Staff-DR-01-04 Attachment detailing the economic dispatch of Duke Energy Kentucky's generating stations in PJM on an hourly basis;
- c) Staff-DR-01-10 Response depicting estimated/ forecasted costs for CO₂ regulation assumed;
- d) Staff-DR-01-20 Response depicting the Company's bid analysis of RFP proposals;
- e) Staff-DR-01-23 Response describing the timing, scope, and estimated duration of a future maintenance outage;
- f) Staff-DR-01-24 Attachment describing forecast of estimated future coal costs used in the Company's analysis;
- g) Staff-DR-01-25 Attachment future projected environmental compliance costs;
- h) Staff-DR-01-29 Response detailing the Company's FRR capacity strategy including estimated costs and revenues; and
- i) Staff-DR-01-30 Response includes replacement capacity cost forecasts for future delivery years.

This information described above would allow potential competitors and possible vendors to have access to the Company's analysis of costs related to several assets and proposals

submitted confidentially as part of the RFP process, projections of environmental compliance costs at East Bend, the hourly economic dispatch of the Company's current generating fleet, the timing and scope of future outages, and present and future capacity strategies and costs. This information is not otherwise publicly available. Releasing this information will place Duke Energy Kentucky at a competitive disadvantage in that its ability to negotiate and manage its costs will be compromised as other providers, vendors, and competitors will have access to the Company's forecasts of costs and business strategies. In support of this Petition, Duke Energy Kentucky states:

1. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878(1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of that party. Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. The responses to Staff-DR-01-03 (Attachments A-D), and Staff DR-01-20, contains the Company's analysis of a specific assets bid into the RFP and why they were not selected. The assets bid into the RFP are not publicly known and if the Company's analysis is disclosed publicly, it would give potential competitors information related to that specific asset and the Company's decision not to pursue that alternative. The information submitted in response to the RFP was done so with the expectation that the bids would remain confidential. Releasing the assets, and specifically the reasoning why a particular asset was not selected would undermine the confidential RFP process and may make the Company's

ability to conduct successful RFP's difficult in the future as potential participants may be unwilling to submit a proposal if there is a likelihood their information would become public.

3. The responses to Staff DR-01-04, Staff DR-01-29, and Staff DR-01-30 contain sensitive market information related Duke Energy Kentucky's generating fleet, including economic dispatch, anticipated capacity market costs, and strategies to meet reliability requirements in PJM. The hourly dispatch information contained in Staff DR-01-04, if publicly disclosed would allow potential competitors to determine how the Company's generating fleet performs in PJM and thus the likelihood of their dispatch in the future. This would put Duke Energy Kentucky at a competitive disadvantage and competitors could potentially use this information to make decisions regarding their own dispatch that could adversely impact prices for Duke Energy Kentucky's customers. The anticipated capacity market costs contained in Staff DR-01-29 and Staff DR-01-30 would provide potential competitors with the Company's forecasts of future revenues, anticipated costs, and price the Company has paid for capacity option rights to meet its reliability obligations in PJM. This information would place the Company in a competitive disadvantage if it needs to procure capacity through bilateral negotiations as counterparties would know what Duke Energy Kentucky has paid any might be willing to pay.

4. The responses to Staff-DR-01-10 and Staff-DR-01-24 (Attachment) depict the Company's proprietary analysis and results of modeling of costs of environmental compliance under various scenarios. This analysis and the modeling assumptions depicted therein, if publicly disclosed would give the Company's competitors and possible vendors keen insight into how the Company views its compliance strategy and forecasts that market. Releasing this information could place the company at a disadvantage is it negotiates for

materials, supplies, and equipment as potential vendors would know what the Company anticipates to spend on various projects under certain scenarios. Moreover, this information would give the Company's competitors in the energy markets insight into how the Company views the costs of potential regulation impacting its business and dispatch. This information could cause other market participants to make decisions they would not otherwise have made thereby potentially affecting energy and capacity prices in the various markets (*e.g.* day-ahead, real-time, bilateral, *etc.*)

5. The responses to Staff-DR-01-23 and Attachment to Staff-DR-01-25 includes Duke Energy Kentucky's anticipated scope of future maintenance projects, including the likelihood of timing for such outages and projected costs for future environmental compliance projects. Disclosure of this information will grant vendors and other market participants a distinct advantage in that they would be able to anticipate the Company's asset performance and dispatch of East Bend in the future. Duke Energy Kentucky submits that the information contained in Staff-DR-01-23 and Staff DR-01-25, if openly disclosed, would give its vendors and competitors (specifically other PJM participants), access to competitively sensitive, confidential information, which in turn could cause energy and capacity prices to consumers to be above competitive rates, and would permit competitors of Duke Energy Kentucky to gain an unfair competitive advantage in the marketplace. Competitors and vendors could use this information to anticipate the Company's future costs and equipment needs and even outage timing to make decisions regarding pricing that they may not otherwise make in the absence of this information.

6. The Confidential Information described herein was developed internally by Duke Energy Corporation and Duke Energy Kentucky personnel or on its behalf, is not on

file with any public agency, and is not available from any commercial or other source outside Duke Energy Kentucky. The aforementioned information in these responses is distributed within Duke Energy Kentucky only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry.

7. Duke Energy Kentucky does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement, the Attorney General or other intervenors with a legitimate interest in reviewing the same for the purpose of participating in this case.

8. This information was, and remains, integral to Duke Energy Kentucky's effective execution of business decisions. And such information is generally regarded as confidential or proprietary. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, Ky., 904 S.W.2d 766, 768 (Ky. 1995).

9. In accordance with the provisions of 807 KAR 5:001, Section 13(3), the Company is filing one copy of the Confidential Information separately under seal, and one copy without the confidential information included.

10. Duke Energy Kentucky respectfully requests that the Confidential Information be withheld from public disclosure for a period of *ten* years. This will assure that the Confidential Information – if disclosed after that time – will no longer be commercially sensitive so as to likely impair the interests of the Company or its customers if publicly disclosed.

11. To the extent the Confidential information becomes generally available to the

public, whether through filings required by other agencies or otherwise, Duke Energy Kentucky will notify the Commission and have its confidential status removed, pursuant to 807 KAR 5:001 Section 13(10)(a).

WHEREFORE, Duke Energy Kentucky, Inc., respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.



Rocco O. D'Ascenzo
Associate General Counsel
Amy B. Spiller
Deputy General Counsel
Duke Energy Business Services, LLC
139 East Fourth Street, 1303 Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4359
Fax: (513) 287-4385
e-mail: rocco.d'ascenzo@duke-energy.com
Counsel for Duke Energy Kentucky, Inc.


and

Mark David Goss
David S. Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KY 40504
(859) 368-7740
e-mail: mdgoss@gosssamfordlaw.com
e-mail: david@gosssamfordlaw.com

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via electronic mail, this 8 day of August 2014:

Jennifer Hans
The Office of the Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, Kentucky 40601
Jennifer.hans@ag.ky.gov


Rocco D'Ascenzo

VERIFICATION

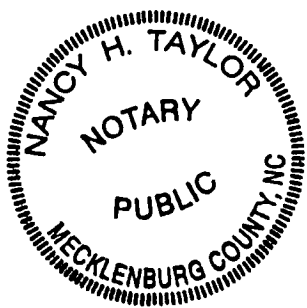
STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) SS:

The undersigned, Jack Sullivan, Director of Capital Structuring, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Jack Sullivan
Jack Sullivan, Affiant

Subscribed and sworn to before me by Jack Sullivan on this 30th day of July, 2014.

Nancy H. Taylor
NOTARY PUBLIC



My Commission Expires: January 26, 2017

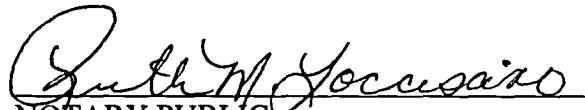
VERIFICATION

STATE OF OHIO)
) **SS:**
COUNTY OF HAMILTON)

The undersigned, J. Michael Geers, Manager EHS, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.


J. Michael Geers, Affiant

Subscribed and sworn to before me by J. Michael Geers on this 30th day of July, 2014.


NOTARY PUBLIC

My Commission Expires:

RUTH M. LOCCISANO
Notary Public, State of Ohio
My Commission Expires 06-18-2017

VERIFICATION

STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) SS:

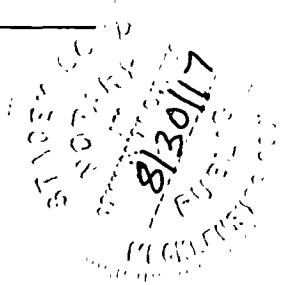
The undersigned, Jim Northrup, Director of Wholesale & Renewables Analytics, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Jim Northrup
Jim Northrup, Affiant

Subscribed and sworn to before me by Jim Northrup on this 29 day of July, 2014.

Sharyn Boyd
NOTARY PUBLIC

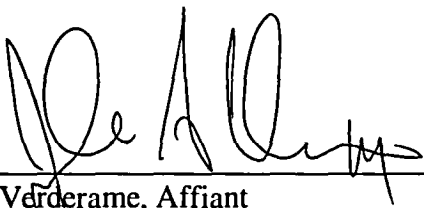
My Commission Expires: 8/30/17



VERIFICATION

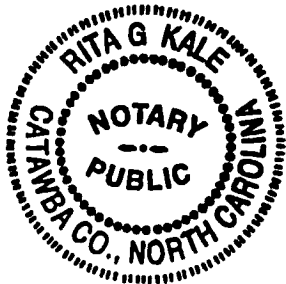
STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) **SS:**

The undersigned, John Verderame, Director of Power Trading & Dispatch, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



John Verderame, Affiant

Subscribed and sworn to before me by John Verderame on this 29 day of July, 2014.





NOTARY PUBLIC

My Commission Expires: 6/17/2017

VERIFICATION

STATE OF NORTH CAROLINA)
) SS:
COUNTY OF MECKLENBURG)

The undersigned, Will Garrett, Director of Accounting Research, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Will Garrett

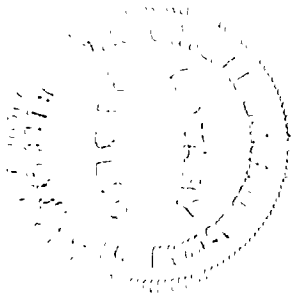
Will Garrett, Affiant

Subscribed and sworn to before me by Will Garrett on this 5 day of August, 2014.

Catherine Marshall McEwen

NOTARY PUBLIC


My Commission Expires:
7-6-2015



VERIFICATION


STATE OF INDIANA)
) SS:
COUNTY OF HENDRICKS)

The undersigned, Steve Immel, Vice President of Midwest Regulated Operations, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



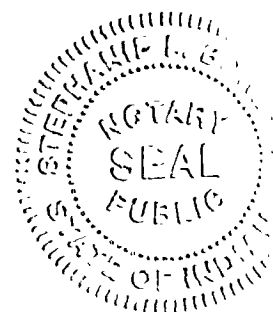
Steve Immel, Affiant

Subscribed and sworn to before me by Steve Immel on this 1st day of August, 2014.



NOTARY PUBLIC

My Commission Expires: 6/3/18

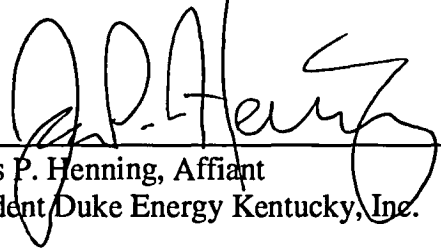


VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

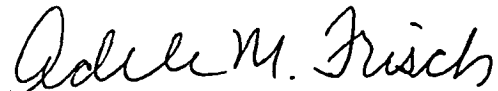
The undersigned, James P. Henning, being duly sworn, deposes and says that he is the President of Duke Energy Kentucky, Inc., that he has personal knowledge of the matters set forth in the foregoing data requests, and that the information contained therein is true and correct to the best of his knowledge, information and belief.

DUKE ENERGY KENTUCKY

By: 
James P. Henning, Affiant
President Duke Energy Kentucky, Inc.

Subscribed and sworn to before me by James P. Henning, President of Duke Energy Kentucky, Inc., on this 5TH day of August 2014.

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019


NOTARY PUBLIC

My Commission Expires: 1/5/2019

VERIFICATION

STATE OF OHIO

)

SS:

)

COUNTY OF HAMILTON

)

The undersigned, William Don Wathen Jr., Director of Rates & Regulatory Strategy-OH/KY, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

William Don Wathen Jr.

William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen Jr. on this 29th day of July, 2014.

Adele M. Frisch

NOTARY PUBLIC

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019

My Commission Expires: 1/5/2019

VERIFICATION

STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) SS:

The undersigned, Brett Phipps, Director of Fuel Procurement, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



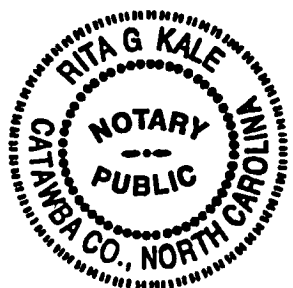
Brett Phipps, Affiant

Subscribed and sworn to before me by Brett Phipps on this 30 day of July, 2014.



NOTARY PUBLIC

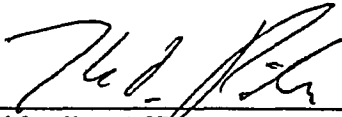
My Commission Expires: 6/17/2017



VERIFICATION

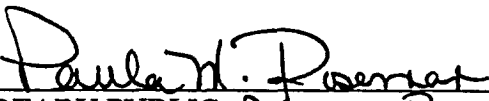
STATE OF INDIANA)
) SS:
COUNTY OF HENDRICKS)

The undersigned, Keith Pike, Director of Generation and Regulatory Strategy, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



Keith Pike, Affiant

Subscribed and sworn to before me by Keith Pike on this 6th day of August, 2014.



NOTARY PUBLIC Paula M. Roseman

My Commission Expires: 3/17/17
Resident: Hendricks County

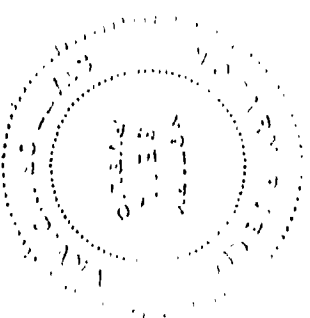


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**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-001

REQUEST:

Refer to pages 2 of the application, which indicates that the Purchase Agreement expires on December 31, 2014, and that Duke Kentucky requests a decision no later than November 1, 2014. Assuming the transaction is approved, provide the last date that an Order can be issued in order for the parties to close by December 31, 2014.

RESPONSE:

An Order received on or around December 1, 2014, should provide sufficient time for the Parties under the Purchase Agreement to satisfy all closing conditions necessary to close the transaction by December 31, 2014.

PERSON RESPONSIBLE: Jack Sullivan

STAFF-DR-01-002

REQUEST:

If Duke Kentucky were to decide to retrofit Miami Fort Unit 6 ("MF6") for the Mercury and Air Toxics Standard, state whether it would have sufficient time to obtain approvals and complete construction before the deadline of May 31, 2015, or whether an extension to April 16, 2016 would be needed. If there would not be sufficient time, confirm that Duke Kentucky's only remaining option related to MF6 is retirement. If this cannot be confirmed, explain.

RESPONSE:

Duke Energy Kentucky has two options for retrofitting Miami Fort Unit 6 to be MATS compliant, depending on the length of the time the unit would need to operate. If the unit would need to operate for only a short period of time under MATS, on the order of months, then temporary sorbent injection equipment could be rented and installed, and temporary emission monitoring could be used. This could be accomplished by the unit's existing extended MATS compliance date of May 31, 2015. If the unit would need to operate for a longer period of time, then permanent sorbent injection and monitoring equipment would need to be installed. This would require additional time for the up-front engineering design and procurement. Therefore, Duke Energy Kentucky would have to request additional time for compliance from Ohio EPA, up to one year (or to

April 16, 2016). Both of these options would however require an air permit modification before construction could begin. The company estimates that the process will take 4-5 months if there are no delays. Depending upon when the request was submitted, permitting could become critical path for the project and therefore necessitate an extension. An extension of time for compliance under MATS must be requested no later than 120 days before the April 16, 2015 compliance date. To make a request, Duke Energy Kentucky would have to request the additional time by December 17, 2014. In addition to installing the sorbent injection systems, Duke Energy Kentucky would also have to procure western coal that is lower in mercury and chlorine content, but higher in delivered price.

PERSON RESPONSIBLE: J. Michael Geers

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-003 PUBLIC

REQUEST:

Refer to page 8 of the application, paragraph 14, which discusses the long-term Request for Proposal (“RFP”) issued by Duke Kentucky. Provide the initial analysis of all the bids received in response to the RFP, as well the analyses performed on the “short list” of bids, in electronic spreadsheet format.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachments Only)

The initial analysis overview is contained in the Confidential Attachment STAFF-DR-01-003-A. The analysis spreadsheets are contained in the file Confidential Attachment STAFF-DR-01-003-B. The final analysis performed on the short list of bids is discussed in Confidential Attachment STAFF-DR-01-003-C, and the analysis spreadsheets are contained in the file Confidential Attachment STAFF-DR-01-003-D.

PERSON RESPONSIBLE: James S. Northrup

**CONFIDENTIAL
STAFF-DR-01-003
ATTACHMENTS
A THROUGH D
FILED UNDER
SEAL**

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STAFF-DR-01-004 PUBLIC

REQUEST:

Refer to page 9 of the application, footnote 19, which discusses the possibility that Duke Kentucky could have excess generating capacity for “a few months” after acquiring the 31 percent interest in East Bend Unit 2 (“East Bend Purchase”) and prior to the retirement of MF6.

- a. State whether it is expected that MF6 will operate during the period of excess capacity, since MF6 costs more to operate than the East Bend unit.
- b. For calendar year 2013 and 2014 to date, state how often each unit cleared in the PJM Interconnection, Inc. (“PJM”) market.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (as to Attachment only)

- a. The relative operating costs of Miami Fort 6 and East Bend 2 will impact how much they operate only in relation to the clearing price in PJM, not in relation to each other. In reality, both units are low cost units and generally clear the PJM market price. The offer price made to PJM fully prices marginal costs of operation. It is expected that both units will run during the period of excess, providing sales margin benefit to customers.

- b. As a result of the low operating costs of Miami Fort 6 and East Bend 2, both units are offered on a “must run” basis in both the PJM Day Ahead and Real Time markets. During individual hours, PJM may dispatch the units down for maximum load, but on a total revenue basis, the units clear the commitment market every day. Staff-DR-01-004 Confidential Attachment shows the offer status and Day Ahead energy award for both units since January 2013.

PERSON RESPONSIBLE: John Verderame

CONFIDENTIAL
STAFF-DR-01-004
ATTACHMENT
FILED UNDER
SEAL

STAFF-DR-01-005

REQUEST:

Refer to page 14 of the application, paragraph 19, which states that “[t]he Purchase Agreement allows Duke Energy Kentucky to make a financial adjustment for the unreimbursed outage costs associated with DP&L’s share in East Bend that the Company will have to cover against the purchase price paid to DP&L.” Provide the current estimated amount of this adjustment.

RESPONSE:

As of May 31, 2014, the cumulative amount of Outstanding Outage Costs was \$5,826,929.55. This represents the portion of the Outage Costs for which DPL has not reimbursed Duke Energy Kentucky for DPL’s proportional (31%) share. To the extent DPL does not reimburse Duke Energy Kentucky for DPL’s share of the Outage Costs prior to Closing, Duke Energy Kentucky will reduce the net settlement amount by the unreimbursed amount – currently at \$5,826,929.55 but capped at \$9,500,000. The \$9,500,000 represents a negotiated figure between the Parties.

PERSON RESPONSIBLE: Jack Sullivan

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-006

REQUEST:

Refer to page 15, paragraph 22, of the application. Confirm that Duke Kentucky would not incur any fixed resource requirement obligation ("FRR") costs until MF6 is retired. If this cannot be confirmed, explain.

RESPONSE:

PJM will not assess Duke Energy Kentucky any costs directly attributable to Miami Fort 6 if the unit is available to meet its Day Ahead energy must offer requirement in an amount commensurate with its commitment to the FRR Capacity Plan.

PERSON RESPONSIBLE: John Verderame

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Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014

STAFF-DR-01-007

REQUEST:

Refer to page 26 of the application, paragraph 36, which mentions that Dayton Power and Light ("DP&L") took a \$76 million impairment in 2013 related to its interest in East Bend. Explain in detail why DP&L took the impairment and why Duke Kentucky should not have taken a similar impairment.

RESPONSE:

The Company has no independent knowledge of and cannot comment on the basis for DPL to record a full impairment of its ownership interest in East Bend, except for the explanations as provided by DPL in public disclosures (see attached DPL FERC Form 1 file STAFF-DR-01-007 A.pdf).

Duke Kentucky did not take a similar impairment on its interest in East Bend as its investment in this plant is not impaired, remains used and useful in the provision of utility service to Duke Energy Kentucky's customers and it continues to earn a return on and recovery of its investment through its rate regulated service offerings in Kentucky.

PERSON RESPONSIBLE: Will Garrett

20140418-8047 FERC PDF (Unofficial) 04/17/2014

Name of Respondent The Dayton Power and Light Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/17/2014	Year/Period of Report 2013/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

Our debt is fair valued for disclosure purposes only and most of the fair values are determined using quoted market prices in inactive markets. These fair value inputs are considered Level 2 in the fair value hierarchy. Our long-term leases and the WPAFB note are not publicly traded. Fair value is assumed to equal carrying value. These fair value inputs are considered Level 3 in the fair value hierarchy as there are no observable inputs. Additional Level 3 disclosures were not presented since debt is not recorded at fair value.

Approximately 95% of the inputs to the fair value of our derivative instruments are from quoted market prices for DP&L.

Non-recurring Fair Value Measurements

We use the cost approach to determine the fair value of our AROs which are estimated by discounting expected cash outflows to their present value at the initial recording of the liability. Cash outflows are based on the approximate future disposal cost as determined by market information, historical information or other management estimates. These inputs to the fair value of the AROs would be considered Level 3 inputs under the fair value hierarchy. An ARO liability in the amount of \$0.1 million was established in 2012 associated with a gypsum landfill disposal site that is presently under construction. This increase in 2012 was offset by a \$0.1 million reduction in ARO for asbestos as a result of an acceleration of removal and remediation activities. There were no additions to our AROs during the year ended December 31, 2013.

When evaluating impairment of goodwill and long-lived assets, we measure fair value using the applicable fair value measurement guidance. Impairment expense is measured by comparing the fair value at the evaluation date to the carrying amount. The following table summarizes major categories of assets and liabilities measured at fair value on a nonrecurring basis during the period and their level within the fair value hierarchy:

\$ in millions	Year ended December 31, 2013				
	Carrying Amount	Fair Value			Gross Loss
		Level 1	Level 2	Level 3	
Assets					
Long-lived assets held and used (a)					
Conesville	\$ 30.0	\$ -	\$ -	\$ 20.0	\$ 10.0
East Bend	\$ 76.0	\$ -	\$ -	\$ -	\$ 76.0

\$ in millions	Year ended December 31, 2012				
	Carrying Amount	Fair Value			Gross Loss
		Level 1	Level 2	Level 3	
Assets					
Long-lived assets held and used (a)					
Conesville	\$ 97.5	\$ -	\$ -	\$ 25.0	\$ 72.5
Hutchings	\$ 8.3	\$ -	\$ -	\$ -	\$ 8.3

(a) See Note 15 for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement of long-lived assets during the year ended December 31, 2013:

\$ in millions	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Long-lived assets held and used:				
Conesville	\$ 20.0	Discounted cash flows	Annual revenue growth	-31% to 18% (0%)
			Annual pretax operating margin	-9% to 18% (10%)
East Bend	\$ -	Discounted cash flows	Annual revenue growth	-15% to 22% (4%)
			Annual pretax operating margin	-3% to 34% (15%)

20140418-8047 FERC PDF (Unofficial) 04/17/2014

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Dayton Power and Light Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	04/17/2014	2013/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

There has been increasing advocacy to regulate coal combustion byproducts under the Resource Conservation Recovery Act (RCRA). On June 21, 2010, the USEPA published a proposed rule seeking comments on two options under consideration for the regulation of coal combustion byproducts including regulating the material as a hazardous waste under RCRA Subtitle C or as a solid waste under RCRA Subtitle D. Litigation has been filed by several groups seeking a court-ordered deadline for the issuance of a final rule which the USEPA has opposed. On January 29, 2014, the parties to the litigation entered into a consent decree setting forth the USEPA's obligation to sign, by December 19, 2014, a notice for publication in the Federal Register taking action on the Agency's proposed Subtitle D option. The decree does not require Subtitle D regulation of coal combustion byproducts – it only requires the Agency to decide by that date whether or not to adopt the Subtitle D option. At present, the timing for a final rule regulating coal combustion byproducts cannot be determined. DP&L is unable to predict the financial effect of this regulation, but if coal combustion byproducts are regulated as hazardous waste, it is expected to have a material adverse effect on its operations.

Notice of Violation Involving Co-Owned Units

On September 9, 2011, DP&L received an NOV from the USEPA with respect to its co-owned Stuart generating station based on a compliance evaluation inspection conducted by the USEPA and Ohio EPA in 2009. The notice alleged non-compliance by DP&L with certain provisions of the RCRA, the Clean Water Act NPDES permit program and the station's storm water pollution prevention plan. The notice requested that DP&L respond with the actions it has subsequently taken or plans to take to remedy the USEPA's findings and ensure that further violations will not occur. Based on its review of the findings, although there can be no assurance, we believe that the notice will not result in any material effect on DP&L's results of operations, financial condition or cash flows.

Legal and Other Matters

In February 2007, DP&L filed a lawsuit against a coal supplier seeking damages incurred due to the supplier's failure to supply approximately 1.5 million tons of coal to two commonly-owned stations under a coal supply agreement, of which approximately 570 thousand tons was DP&L's share. DP&L obtained replacement coal to meet its needs. The supplier has denied liability, and is currently in federal bankruptcy proceedings in which DP&L is participating as an unsecured creditor. DP&L is unable to determine the ultimate resolution of this matter. DP&L has not recorded any assets relating to possible recovery of costs in this lawsuit.

In connection with DP&L and other utilities joining PJM, in 2006 the FERC ordered utilities to eliminate certain charges to implement transitional payments, known as SECA, effective December 1, 2004 through March 31, 2006, subject to refund. Through this proceeding, DP&L was obligated to pay SECA charges to other utilities, but received a net benefit from these transitional payments. A hearing was held and an initial decision was issued in August 2006. A final FERC order on this issue was issued on May 21, 2010 that substantially supports DP&L's and other utilities' position that SECA obligations should be paid by parties that used the transmission system during the timeframe stated above. Prior to this final order being issued, DP&L entered into a significant number of bilateral settlement agreements with certain parties to resolve the matter, which by design will be unaffected by the final decision. On July 5, 2012, a Stipulation was executed and filed with the FERC that resolves SECA claims against BP Energy Company ("BP") and DP&L, AEP (and its subsidiaries) and Exelon Corporation (and its subsidiaries). On October 1, 2012, DP&L received \$14.6 million (including interest income of \$1.8 million) from BP and recorded the settlement in the third quarter; at December 31, 2012, there is no remaining balance in other deferred credits related to SECA.

15. Fixed-asset Impairment

During the fourth quarter of 2013, the Company tested the recoverability of long-lived assets at Conesville, a 129 MW coal-fired station in Ohio, and East Bend, a 186 MW coal-fired station in Kentucky jointly-owned by DP&L. Gradual decreases in power prices, as well as lower estimates of future capacity prices in conjunction with the DP&L reporting unit of DPL failing step 1 of the annual goodwill impairment test were collectively determined to be an impairment indicator for the DP&L long-lived assets. The Company performed a long-lived asset impairment test and determined that the carrying amounts of the asset groups were not recoverable. The long-lived asset group subject to the impairment evaluation was determined to be each individual station of DP&L. This determination was based on the assessment of the stations' ability to generate independent cash flows. The Conesville and East Bend asset groups were each determined to have a zero

20140418-8047 FERC PDF (Unofficial) 04/17/2014

Name of Respondent <u>The Dayton Power and Light Company</u>	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/17/2014	Year/Period of Report 2013/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

fair value using discounted cash flows under the income approach. As a result, the Company recognized an asset impairment expense of \$10.0 million and \$76.0 million for Conesville and East Bend, respectively.

On October 5, 2012, DP&L filed for approval an ESP with the PUCO which reflects a shift in our outlook for the regulatory environment. Within the ESP filing, DP&L agreed to request a separation of its generation assets from its transmission and distribution assets in recognition that a restructuring of DP&L operations will be necessary, in compliance with Ohio law. Also, during 2012, North American natural gas prices fell significantly from the previous year, exerting downward pressure on wholesale electricity prices in the Ohio power market. Falling power prices have compressed wholesale margins at DP&L's generating stations. Furthermore, these lower power prices have led to increased customer switching from DP&L to CRES providers, who are offering retail prices lower than DP&L's standard service offer. Also, several municipalities in DP&L's service territory have passed ordinances allowing them to become government aggregators with some having already contracted with CRES providers, further contributing to the switching trend. In September 2012, management revised its cash flow forecasts based on these developments as part of its annual budgeting process and forecasted lower operating cash flows than in prior reporting periods. Collectively, in the third quarter of 2012, these events were considered to be an impairment indicator for the long-lived asset group as management believes that these developments represent a significant adverse change in the business climate that could affect the value of the long-lived asset group.

The long-lived asset group subject to the impairment evaluation was determined to be each individual station of DP&L. This determination was based on the assessment of the stations' ability to generate independent cash flows. When the recoverability test of the long-lived asset group was performed, management concluded that, on an undiscounted cash flow basis, the carrying amount of two stations, Conesville and Hutchings, were not recoverable. To measure the amount of impairment loss, management was required to determine the fair value of the two stations. Cash flow forecasts and the underlying assumptions for the valuation were developed by management. While there were numerous assumptions that impact the fair value, forward power prices, dark spreads and the transition to a merchant model were the most significant.

In determining the fair value of the Conesville station, the three valuation approaches prescribed by the fair value measurement accounting guidance were considered. The fair value under the income approach was considered the most appropriate and resulted in a \$25.0 million fair value. The carrying value of the Conesville station prior to the impairment was \$97.5 million. Accordingly, the Conesville station was considered impaired and \$72.5 million of impairment expense was recognized in the third quarter of 2012.

In determining the fair value of the Hutchings Station, the three valuation approaches prescribed by the fair value measurement accounting guidance were considered. The fair value under the income approach was considered the most appropriate and resulted in a zero fair value. The carrying value of the Hutchings Station prior to the impairment was \$8.3 million. Accordingly, the Hutchings Station was considered impaired and \$8.3 million of impairment expense was recognized in the third quarter of 2012.

16. Selected Quarterly Information (Unaudited)

From 2012 onwards, quarterly information is no longer required.

\$ in millions except per share amounts and common stock market price	For the 2011 quarters ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 449.8	\$ 397.0	\$ 452.5	\$ 378.4
Operating income	\$ 89.3	\$ 55.8	\$ 100.0	\$ 74.8
Net income	\$ 52.7	\$ 30.8	\$ 63.9	\$ 45.8
Earnings on common stock	\$ 52.5	\$ 30.6	\$ 63.7	\$ 45.5
Dividends paid on common stock to DPL	\$ 70.0	\$ 45.0	\$ 65.0	\$ 40.0

Name of Respondent 20140418-8047 FERC PDF (Unofficial) (2) <input checked="" type="checkbox"/> Original <input type="checkbox"/> A Resubmission The Dayton Power and Light Company	This Report Is: Date of Report (Mo, Da, Yr) 04/17/2014	Year/Period of Report End of 2013/Q4
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STEAM-ELECTRIC GENERATING PLANT STATISTICS (Large Plants) (Continued)

1. Report data for plant in Service only. 2. Large plants are steam plants with installed capacity (name plate rating) of 25,000 Kw or more. Report in this page gas-turbine and internal combustion plants of 10,000 Kw or more, and nuclear plants. 3. Indicate by a footnote any plant leased or operated as a joint facility. 4. If net peak demand for 60 minutes is not available, give data which is available, specifying period. 5. If any employees attend more than one plant, report on line 11 the approximate average number of employees assignable to each plant. 6. If gas is used and purchased on a term basis report the Btu content of the gas and the quantity of fuel burned converted to Mct. 7. Quantities of fuel burned (Line 38) and average cost per unit of fuel burned (Line 41) must be consistent with charges to expense accounts 501 and 547 (Line 42) as shown on Line 20. 8. If more than one fuel is burned in a plant furnish only the composite heat rate for all fuels burned.

Line No.	Item (a)	Plant Name: East Bend (b)	Plant Name: Miami Fort (c)
1	Kind of Plant (Internal Comb, Gas Turb, Nuclear)	Resp. Share - Note 8	Resp. Share - Note 9
2	Type of Constr (Conventional, Outdoor, Boiler, etc)	Conventional	Conventional
3	Year Originally Constructed	1981	1975
4	Year Last Unit was Installed	1981	1978
5	Total Installed Cap (Max Gen Name Plate Ratings-MW)	207.00	401.00
6	Net Peak Demand on Plant - MW (60 minutes)	187	371
7	Plant Hours Connected to Load	7111	8519
8	Net Continuous Plant Capability (Megawatts)	0	0
9	When Not Limited by Condenser Water	186	368
10	When Limited by Condenser Water	186	368
11	Average Number of Employees	0	0
12	Net Generation, Exclusive of Plant Use - KWh	1165733000	2788390000
13	Cost of Plant: Land and Land Rights	0	619144
14	Structures and Improvements	0	16441301
15	Equipment Costs	0	342483407
16	Asset Retirement Costs	0	65852
17	Total Cost	0	359609704
18	Cost per KW of Installed Capacity (line 17/5) Including	0.0000	896.7823
19	Production Expenses: Oper, Supv, & Engr	638145	578172
20	Fuel	32082180	64099028
21	Coolants and Water (Nuclear Plants Only)	0	0
22	Steam Expenses	4780879	4188470
23	Steam From Other Sources	0	0
24	Steam Transferred (Cr)	0	0
25	Electric Expenses	218809	6029
26	Misc Steam (or Nuclear) Power Expenses	1196196	1114559
27	Rents	0	0
28	Allowances	4467	8617
29	Maintenance Supervision and Engineering	722598	784761
30	Maintenance of Structures	650510	888508
31	Maintenance of Boiler (or reactor) Plant	3413117	2156613
32	Maintenance of Electric Plant	798444	911940
33	Maintenance of Misc Steam (or Nuclear) Plant	653955	1522788
34	Total Production Expenses	45159300	76259485
35	Expenses per Net KWh	0.0387	0.0273
36	Fuel: Kind (Coal, Gas, Oil, or Nuclear)	COAL	OIL
37	Unit (Coal-tons/Oil-barrel/Gas-mcf/Nuclear-indicate)	Tons	Barrels
38	Quantity (Units) of Fuel Burned	573916	6838
39	Avg Heat Cont - Fuel Burned (btu/indicate if nuclear)	11346	137178
40	Avg Cost of Fuel/unit, as Delvd f.o.b. during year	52.494	135315.000
41	Average Cost of Fuel per Unit Burned	52.585	136.886
42	Average Cost of Fuel Burned per Million BTU	2.317	23.759
43	Average Cost of Fuel Burned per KWh Net Gen	0.000	2.669
44	Average BTU per KWh Net Generation	0.000	11205.000

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-008

REQUEST:

Refer to page 28 of the application, paragraph 37.c., which states that costs attributed to MF6 will be “greatly reduced, if not eliminated” once MF6 is retired. Explain why MF6 costs may not be fully eliminated if the unit is retired.

RESPONSE:

Even after it is retired and no longer generating electricity, MF6 will still require some level of maintenance investment. For a short period of time, there will likely be some cost associated with taking equipment out of service and placing the unit in a safe storage state. Since the unit is situated in the main plant physically between Units 7 and 8, it is unlikely that the unit proper will be demolished in any significant degree for some time. Therefore, a future demolition cost will exist for the unit. Until then, the structure and equipment will still require some minimum level of maintenance to be kept in a safe condition, such as general housekeeping, asbestos abatement, maintenance of fire protection equipment, etc. Also, at some point we anticipate the on-site ash pond will be closed. Duke Energy Kentucky will likely share in some portion of the cost of closure.

PERSON RESPONSIBLE: Steve Immel

STAFF-DR-01-009

REQUEST:

Refer to page 15-17 of the Direct Testimony of James P. Henning (“Henning Testimony”).

- a. Provide an itemized listing of assets Duke Kentucky will receive under the East Bend Purchase, aside from the 31 percent interest in the generating unit, that are included in the purchase price of \$12.4 million.
- b. Provide an itemized listing of assets, along with the cost or estimated cost of each asset, to be acquired by Duke Kentucky in addition to those included in the purchase price of \$12.4 million and for which additional amounts will be paid to DP&L.
- c. Provide an itemized listing of the liabilities, along with the amount or estimated amount of each liability, to be assumed by Duke Kentucky under the East Bend Purchase.

RESPONSE:

- a. Pursuant to Section 2.1 of the Purchase and Sale Agreement, Duke Energy Kentucky will be purchasing from DPL all property and assets, real personal and mixed, tangible and intangible, of every kind and description primarily related to the Plant. Included in this are all real property, buildings, improvements, fixtures,

and leasehold interests relating to or constituting a part of the Plant, or used or to be used primarily in connection with the operation of the Plant, including the real property identified on Schedule 2.1(b). The only items excluded in the transaction are identified in Section 2.2 “Excluded Assets”.

- b. In addition to the \$12.4 million purchase price, at the closing, Duke Energy Kentucky shall also pay the following amounts for DP&L’s ownership share of the value at closing of the following inventories and other pre-paid assets associated with the East Bend Unit:

	<u>Inventory/Asset Category</u>	<u>Value as of 5/31/14†</u>
(a)	Coal	\$4,658,330.63
(b)	Fuel oil	\$242,959.06
(c)	Lime	\$355,869.08
(d)	Ammonia	\$13,840.96
(e)	Trona	\$2,931.90
(f)	Materials and Supplies	\$2,590,308.25
(g)	Other Pre-Paid Assets (incl Pension, Insur)	\$4,443,391.95

† Representative values as of 5/31/14; Actual values at closing will reflect values as of the closing date.

- c. Pursuant to Section 2.3 of the Purchase and Sale Agreement, Duke Energy Kentucky is assuming all past, present and future liabilities, including environmental liabilities, of DP&L to the extent arising from, or related to, the Purchased Assets, or the operation or retirement of the East Bend unit, including liabilities related to pre-Closing periods, other than the Retained Liabilities listed

in Section 2.4. Current liabilities would include current costs of operation such as accounts payable. The Company does not have a cost estimate of what all individual liabilities might be as it depends upon numerous scenarios, changes in law such as environmental compliance and remediation. And such future liabilities are not materially different than the types of potential liabilities associated with the ownership of 69 percent of the plant today. The estimated amount of the liabilities would be consistent with those contained in the Company's current financial statements filed with this Commission.

PERSON RESPONSIBLE: Jack Sullivan

STAFF-DR-01-010 PUBLIC

REQUEST:

Refer to page 20 of the Henning Testimony, lines 4-6, which state that "...East Bend will have a minimum life, conservatively, of at least ten years, and depending upon the final results of carbon legislation, perhaps even longer." [Emphasis added]. Explain what is meant by the underlined portion of the statement.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

Duke Energy Kentucky is not aware of any environmental requirements or pending environmental legislation that would make East Bend uneconomical to operate for at least the next ten years. The underlined portion of Mr. Henning's testimony indicates that the Company cannot predict the final impact of pending legislation and future legislation. For example, in the 111th Congress, the House passed H.R. 2454, the American Clean Energy and Security Act (also known as the Waxman-Markey bill) on June 26, 2009. Passage of this measure represented the one time either chamber had passed a comprehensive bill to reduce greenhouse gas emissions. The Senate however failed to act on the bill. While Duke Energy Kentucky believes it is unlikely that Congress will reconsider carbon legislation anytime soon, it realizes it is possible.

After Mr. Henning's testimony was filed, EPA proposed two phased GHG regulations for existing Electric Generating Units (EGUs) under Section 111(d) of the Clean Air Act. The first phase would take effect in 2020, and the second in 2030. The EPA proposed a "Best System of Emissions Reductions" or "BSER" which contains four building blocks. The EPA plans to finalize its rule in June 2015. The rule's requirements would be determined by and imposed by each state. The EPA would require each state to develop a "State Implementation Plan" by June, 2016. EPA also states that a one year extension would be possible, and two years if a state decides to join a multi-state compact. EPA would then approve the final SIP. Given the proposal, Duke Energy Kentucky believes there is a high probability that a final 111(d) rule will be litigated.

As a result, the Company cannot predict the outcome of, or final impact of either regulation or potential legislation. Nevertheless the Company considered the effects of carbon regulation in its IRP analysis. The analysis of the Reference Case with carbon regulation included the CO₂ allowance price forecast as a proxy for future carbon emission policy. The allowance price would be an added cost to electric generation from coal and gas units that emit CO₂. The base case assumption was [REDACTED] in 2020 increasing to [REDACTED] by 2028. The analysis of the no CO₂ Case assumed there would be no cost associated with future carbon emission policy. Based on these considerations, the Company believes that it is reasonable that even if legislation is approved and/or rules finalized, they be implemented on a time table that would allow East Bend to have a useful asset life of at least 10 years.

PERSON RESPONSIBLE: J. Michael Geers

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-011

REQUEST:

Refer to pages 21-22 of the Henning Testimony, which state that DP&L must get approval from the Public Utilities Commission of Ohio for the East Bend Purchase and that both Duke Kentucky and DP&L will obtain permission from the Federal Energy Regulatory Commission ("FERC"). Provide a status of the Ohio and FERC filings.

RESPONSE:

FERC approved the transaction by Order dated July 16, 2014. Please See Attachment Staff DR-01-011.

Duke Energy Kentucky is not a party to the Ohio proceeding involving DP&L's application to sell its share of East Bend. Based upon a review of the public record, DP&L filed its application with the Public Utilities Commission of Ohio to sell its interest in East Bend on June 13, 2014, in Case No. 14-1084-EL-UNC. The Application is pending with comments to be filed by August 18, 2014 and reply comments by September 1, 2014.

PERSON RESPONSIBLE: James P. Henning

148 FERC ¶ 62,049
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Duke Energy Kentucky, Inc.

Docket No. EC14-103-000

ORDER AUTHORIZING ACQUISITION OF
GENERATING FACILITIES

(Issued July 16, 2014)

On June 16, 2014, Duke Energy Kentucky, Inc. (Duke Kentucky or Applicant) filed an application pursuant to 203(a)(1)(D) of the Federal Power Act (FPA)¹ requesting Commission authorization for the acquisition by Duke Kentucky of the interest held by The Dayton Power and Light Company (Dayton) in the East Bend Unit 2 generating facility (East Bend Unit 2) (Transaction).

Applicant states that Duke Kentucky is a direct subsidiary of Duke Energy Ohio, Inc., and a wholly-owned, indirect subsidiary of Duke Energy Corporation (Duke Energy). Duke Kentucky is affiliated with five Duke Energy subsidiaries that are electric utility operating companies: Duke Energy Carolinas, LLC, Duke Energy Progress, Inc., Duke Energy Florida, Inc., Duke Energy Indiana, Inc., and Duke Energy Ohio, Inc. According to Applicant, Duke Kentucky also is affiliated with generating companies that own and operate gas-fired plants in Ohio, Pennsylvania, Illinois, and Indiana, and with subsidiaries of Duke Energy Renewables, Inc. that develop, own, and operate wind and solar projects throughout the country.

Applicant states that Duke Kentucky operates in northern Kentucky, and its principal lines of business include generation, transmission, distribution and sale of electricity, and the sale and transportation of natural gas. It serves approximately 140,000 retail electric customers, but has no wholesale requirements customers. Duke Kentucky operates approximately 1,039 megawatts (MW) of generating facilities, and about 107 circuit miles of transmission lines and 2,134 miles of distribution lines. Duke Kentucky's retail electric operations are subject to the jurisdiction of the Kentucky Public Service Commission, and Duke Kentucky's wholesale sales and transmission operations are subject to the Commission's jurisdiction. Duke Kentucky has Commission-granted authorization to sell wholesale power at market-based rates. Applicant submits that Duke Kentucky's transmission facilities are subject to the functional control of PJM

¹ 16 U.S.C. § 824b (2012).

Docket No. EC14-103-000

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Interconnection, L.L.C. (PJM). Duke Kentucky also provides natural gas services to approximately 100,000 retail customers in northern Kentucky.

Applicant states that Dayton, an Ohio corporation, is a subsidiary of DPL Inc., which in turn is a subsidiary of The AES Corporation. Dayton operates within the geographic footprint of PJM. Dayton provides electric distribution services to more than 500,000 retail customers in the Dayton, Ohio area in west central Ohio, subject to the jurisdiction of the Public Utilities Commission of Ohio. Dayton owns or controls approximately 3,304 MW of electric generating capacity, which includes about 2,586 MW of undivided ownership interests in co-owned generating facilities such as East Bend Unit 2. According to Applicant, Dayton has received Commission authorization to make wholesale sales of electric energy at market based rates, and does not have any captive or bundled wholesale customers.

Applicant states that East Bend Unit 2 is a 600 MW coal-fired generating unit. The unit, located in Kentucky, is owned 69 percent by Duke Kentucky and 31 percent by Dayton. Duke Kentucky serves as the operator of the unit pursuant to the East Bend Unit 2 Operation Agreement.

Applicant states that, on May 15, 2014, Duke Kentucky and Dayton entered into the Purchase and Sale Agreement (Agreement), pursuant to which they agreed that Dayton would sell, and Duke Kentucky would purchase, Dayton's 31 percent interest in East Bend Unit 2, which includes, among other things, Dayton's rights to and interests in (i) tangible assets located at the plant or primarily used in the operation of the plant (including equipment, motor vehicles, tools, parts and fuel and other inventory), (ii) real property, buildings, improvements, fixtures, and leasehold interests relating to the plant, (iii) emissions allowances, (iv) rights under various contracts related to the plant, permits, and (v) books and records associated with East Bend (collectively, East Bend Facilities). The Agreement also provides for Duke Kentucky to assume certain present and future liabilities, including environmental liabilities arising from or related to the operation or retirement of the East Bend Facilities. The Agreement further provides that, following closing, Duke Kentucky will acquire all rights or interests in the electricity generated at the plant, including any and all of PJM's Reliability Pricing Model capacity revenues with respect to such generation. Applicant submits that the Transaction includes a negotiated purchase price, subject to certain customary post-closing adjustments.

Applicant notes that the sale of East Bend Unit 2 does not include the transfer of any interconnection facilities, such as generator leads or step-up transformers, which the Commission classifies as transmission facilities for the purposes of its analysis under FPA section 203. Applicant states that Duke Kentucky has and will continue to own and operate East Bend Unit 2's interconnection facilities.

Applicant states that the Transaction is consistent with the public interest because

Docket No. EC14-103-000

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it will have no adverse impact on competition, rates, or regulation and will not result in cross-subsidization or the pledge or encumbrance of utility assets for the benefit of an associate company.

Applicant states that the Transaction will not have an adverse effect on horizontal competition in PJM. Applicants submit that PJM is the only market relevant to the Transaction because East Bend Unit 2 is located in PJM and there is no overlap in generation ownership between Duke Kentucky and its affiliates (Duke Energy PJM Companies) and Dayton and its affiliates in any other market that is affected by the Transaction. Applicants continue that the amount of capacity that Duke Kentucky will acquire under the Transaction represents 0.1 percent of the installed capacity in PJM, and the Duke Energy PJM Companies' post-Transaction share of the total installed capacity in PJM will equal approximately 4.57 percent. Applicant submits that the transfer of 0.1 percent of the installed capacity in PJM generates a *de minimis* Herfindahl-Hirschman Index change of roughly 0.45 points.²

Applicant states that Transaction will not have an adverse impact on vertical competition because the Transaction does not involve any electric transmission facilities, including the limited interconnection facilities that connect East Bend Unit 2 to the grid. In addition, Duke Kentucky has turned over operational control of its transmission facilities to PJM, and wholesale transmission service over such facilities will continue to be provided pursuant to the rates and terms of the PJM Open Access Transmission Tariff (PJM OATT) on file with the Commission, mitigating vertical market power concerns.

Applicant states that the Transaction will have no adverse effect on rates, because Duke Kentucky does not have any wholesale requirements customers that take service under formula rate arrangements. As to transmission rates, no transmission facilities that are part of the bulk transmission system or included in transmission ratebase will be transferred to Duke Kentucky. Therefore, Applicant submits that the Transaction will not cause Duke Kentucky to incur additional transmission costs that will flow through to customers under the PJM OATT.

In any event, Duke Kentucky commits to holding wholesale power and transmission customers harmless from any transaction costs related to the Transaction for a period of five years following the closing date of the Transaction. Applicant's

² Applicant uses capacity numbers for Duke Energy PJM Companies from Duke Energy's Northeast Region triennial update, filed on January 17, 2014, in Docket No. ER14-1076, which was accepted for filing on May 27, 2014. Likewise, Applicant uses capacity numbers from the AES Corporation's Northeast triennial update, filed on December 26, 2013, in Docket No. ER10-3145, which was accepted for filing on April 8, 2014.

Docket No. EC14-103-000

- 4 -

commitment is interpreted to include all transaction-related costs, not only costs related to consummating the transaction.³ The Commission will be able to monitor the Applicant's hold harmless provision under its authority under section 301(c) of the FPA and the books and records provision of PUHCA 2005, and the commitment is fully enforceable based on the Commission's authority under section 203 of the FPA.⁴

If Applicant seeks to recover transaction-related costs through their wholesale power or transmission rates they must submit a compliance filing that details how they are satisfying the hold harmless requirement. If Applicant seeks to recover transaction-related costs in an existing formula rate that allows for such recovery, then that compliance filing must be filed in the section 205 docket in which the formula rate was approved by the Commission, as well as in the instant 203 docket. In this case the filing would be a compliance filing in both the section 203 and section 205 dockets. If Applicant seeks to recover transaction-related costs in a filing whereby they are proposing a *new* rate (either a new formula rate or a new stated rate), then that filing must be made in a *new* section 205 docket as well as in the instant section 203 docket. In this case the filing would be a compliance filing in the section 203 docket, but a rate application in the section 205 docket. The Commission will notice such filings for public comment. In such filings, Applicant must: (1) specifically identify the transaction-related costs they are seeking to recover, and (2) demonstrate that those costs are exceeded by the savings produced by the Transaction, in addition to any requirements associated with filings made under section 205.⁵ Such a hold harmless commitment will protect customers' wholesale power and transmission rates from being adversely affected by the Transaction.

Applicant states that the Transaction will not have an adverse impact on regulation, at either the federal or state level. The Transaction will not diminish the Commission's regulatory authority. Duke Kentucky and Dayton each will remain a "public utility" as defined in FPA Section 201(e) and will continue to be subject to the Commission's jurisdiction under the FPA. Further, the Commission will continue to have jurisdiction over wholesale sales from East Bend Unit 2 after the Transaction closes. Accordingly, Applicant submits that the Transaction will have no adverse effect on federal regulation.

³ *PPL Corporation and E.ON U.S. LLC*, 133 FERC ¶ 61,083 (2010).

⁴ *PPL Corporation and E.ON U.S. LLC*, 133 FERC ¶ 61,083 (2010), *ITC Midwest LLC and Northern States Power Company*, 133 FERC ¶ 61,169 (2010), and *BHE Holdings Inc. and Main & Maritimes Corporation*, 133 FERC ¶ 61,231 (2010).

⁵ *Id.*

Docket No. EC14-103-000

- 5 -

Applicant states that the Transaction also will not adversely affect state regulation. After the Transaction closes, Duke Kentucky and Dayton will continue to be subject to regulation by their respective state public utility commissions. Accordingly, the Transaction will have no adverse effect on state regulation.

With respect to cross-subsidization, Applicant states that, based on facts and circumstances known to them or that are reasonably foreseeable, the Transaction will not result in, at the time of the Transaction or in the future, cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional facilities for the benefit of an associate company, including: (1) any transfer of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company; (2) any new issuance of securities by a traditional public utility associate company that has captive customers or that owns, or provides transmission service over, jurisdictional transmission facilities, for the benefit of an associate company; (3) any new pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or (4) any new affiliate contracts between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, other than non-power goods and service agreements subject to review under sections 205 and 206 of the FPA.

The filing was noticed on June 17, 2014, with comments, protests or interventions due on or before July 7, 2014. Dayton filed a timely motion to intervene with comments in support of the Transaction. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214)(2013)3 Any opposed or untimely filed motion to intervene is governed by the provision of Rule 214.

Order No. 652 requires that sellers with market-based rate authority timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority.⁶ The foregoing authorization may result in a change in status. Accordingly, Applicant is advised that it must comply with the requirements of Order No. 652. In addition, Applicant shall make appropriate filings under section 205 of the FPA, to implement the

⁶ *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175, order on reh'g, 111 FERC ¶ 61,413 (2005).

Docket No. EC14-103-000

- 6 -

Transaction.

Information and/or systems connected to the bulk system involved in this transaction may be subject to reliability and cybersecurity standards approved by the Commission pursuant to FPA section 215. Compliance with these standards is mandatory and enforceable regardless of the physical location of the affiliates or investors, information database, and operating systems. If affiliates, personnel or investors are not authorized for access to such information and/or systems connected to the bulk power system, a public utility is obligated to take the appropriate measures to deny access to the information and/or the equipment/software connected to the bulk power system. The mechanisms that deny access to information, procedures, software, equipment, etc. must comply with all applicable reliability and cybersecurity standards. The Commission, NERC or the relevant regional entity may audit compliance with reliability and cybersecurity standards.

After consideration, it is concluded that the Transaction is consistent with the public interest and is hereby authorized, subject to the following conditions:

- (1) The Transaction is authorized upon the terms and conditions described in this Order and for the purposes set forth in the application;
- (2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before the Commission;
- (3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;
- (4) The Commission retains authority under sections 203(b) and 309 of the FPA, to issue supplemental orders as appropriate;
- (5) If the Transaction results in changes in the status or the upstream ownership of Applicant's affiliated Qualifying Facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 (2013) shall be made;
- (6) Applicant shall make appropriate filings under section 205 of the FPA, as necessary, to implement the Transaction;
- (7) Duke Kentucky shall account for the Transaction in accordance with Electric Plant Instruction No. 5 and Account 102, Electric Plant Purchased or Sold, of the Uniform System of Accounts. Duke Kentucky shall submit

Docket No. EC14-103-000

- 7 -

its final accounting entries within six months of the date that the Transaction is consummated, and the accounting submissions shall provide all the accounting entries and amounts related to the transfer along with narrative explanations describing the basis for the entries.

- (8) Applicant must inform the Commission of any change in circumstances that would reflect a departure from the facts the Commission relied upon in authorizing the Transaction; and
- (9) Applicant shall notify the Commission within 10 days of the date that the Transaction has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Electric Power Regulation – West under 18 C.F.R. § 375.307(2013). This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order pursuant to 18 C.F.R. § 385.713(2013).

Steve P. Rodgers
Director
Division of Electric Power Regulation - West

Document Content(s)

EC14-103-000.DOC.....1-7

Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014

STAFF-DR-01-012

REQUEST:

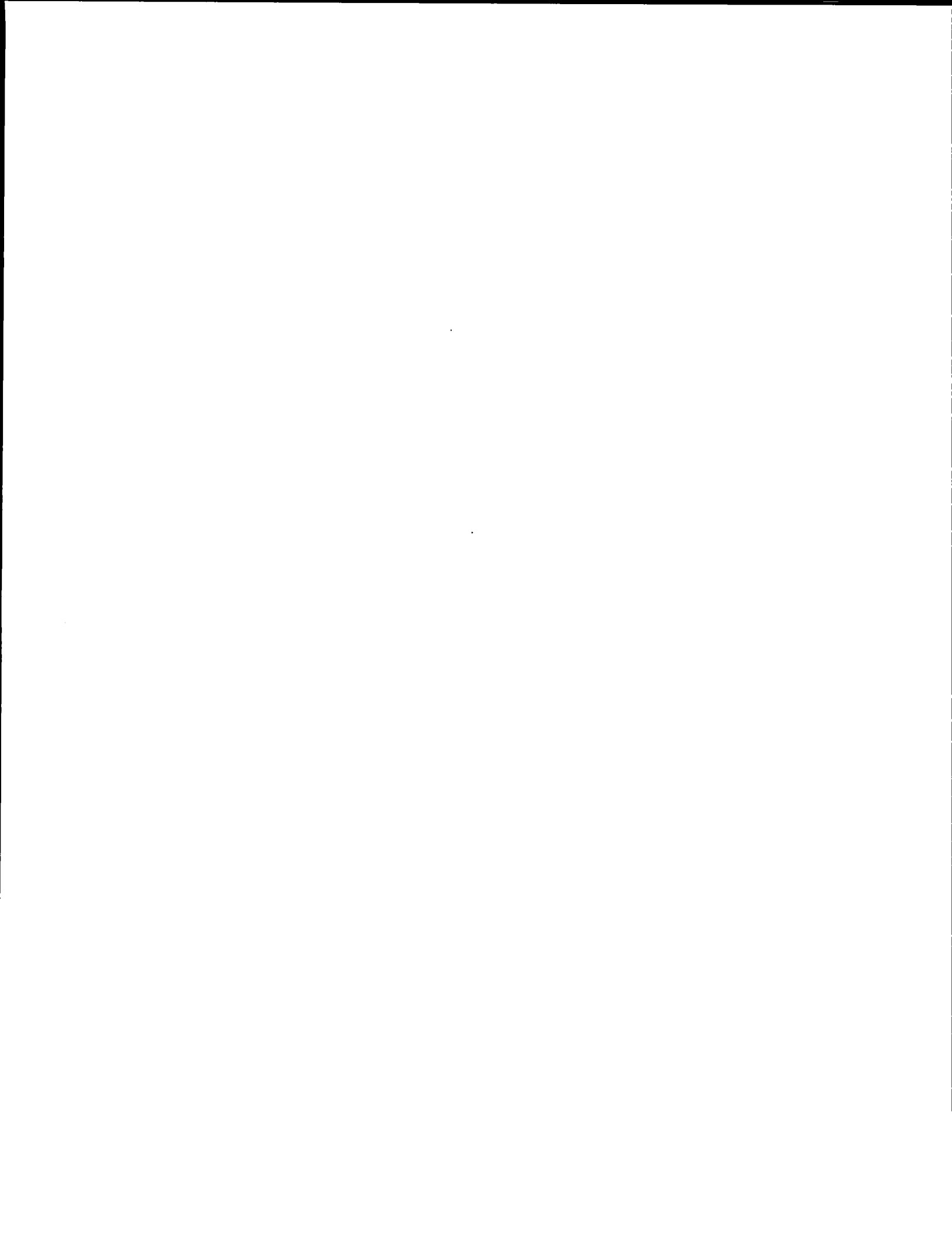
Refer to pages 7-8 of the Direct Testimony of William Don Wathen ("Wathen Testimony"). Beginning at the bottom of page 7, Mr. Wathen states that, with the East Bend Purchase, there is likely to be overlap in which Duke Kentucky is operating and incurring costs for MF6 while operating and incurring costs for 100 percent of the East Bend unit. Although an immediate change in base rates is not anticipated, as stated on page 11 of the Wathen Testimony, provide the estimated effect this will have on any of the components of Duke Kentucky's customer bills during the overlap period.

RESPONSE:

Upon acquiring 100% of East Bend Unit 2, it is expected that there will be a customer benefit in a lower Rider FAC. Although the Company is proposing to modify Rider PSM to accommodate potential gains/losses from certain capacity transactions, no estimate has been made of the amounts that would flow through that rider. No other rates for Duke Energy Kentucky's are expected to change until the time of the next base rate case.

Based on the fuel savings estimated in response to Staff-DR-01-013, and assuming Duke Energy Kentucky's retail sales are approximately 4 million MWh, customers should see Rider FAC reduced by approximately \$4 per MWh to \$6 per MWh (or 0.4 ¢/kWh to 0.6 ¢/kWh)

PERSON RESPONSIBLE: William Don Wathen Jr.



**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-013

REQUEST:

Refer to pages 9 of the Wathen Testimony, lines 16-17, which state that “[t]he higher O&M expense is expected to be offset, at least to some degree, by lower fuel costs.” Provide an estimate of the annual fuel cost savings (including supporting calculations) from owning 100 percent of the East Bend unit versus owning 69 percent of the East Bend unit and MF6.

RESPONSE:

The Company has estimated that substituting DP&L’s share of East Bend 2 for the capacity associated with Miami Fort 6, will result in fuel savings and purchase power savings ranging from \$16 million to \$24 million per year for the period 2015 through 2019.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-01-014

REQUEST:

Refer to page 10 of the Wathen Testimony, lines 3-6, wherein Mr. Wathen attributes the lower cost of fuel in 2013 for MF6 compared with East Bend to a shift to spot purchases rather than long-term contract purchases for MF6. Explain why spot purchases were cheaper than long-term contract purchases in 2013 and whether this is typical for the type of coal burned at MF6.

RESPONSE:

Due to the volatility in burn forecasts for MF6 as a result of lower natural gas and power prices a higher percentage of spot purchases were made to support operations. It is not necessarily the case that spot purchases are less expensive than long-term contract purchases. The fundamental drivers are when the transaction was made and the quality specifications of the coals purchased. Market prices shift over time; therefore, the long-term prices that were "locked in" at a prior time that were cost competitive at the time of the purchase may end up being more or less expensive than prevailing market prices at some other time.

PERSON RESPONSIBLE: Brett Phipps

STAFF-DR-01-015

REQUEST:

Refer to page 15 of the Wathen Testimony, lines 11-21, wherein Mr. Wathen discusses Duke Kentucky's proposal to net capacity revenues it will receive as a result of the East Bend Purchase with costs Duke Kentucky will incur to satisfy its FRR capacity obligation and to flow the net difference through its existing Profit Sharing Mechanism Rider ("Rider PSM").

- a. Given that Rider PSM specifies its use for "profits on off-system power sales and the net margins on sales of emission allowances," and that capacity revenues and FRR obligation costs would not fall into either category, explain why Duke Kentucky is not proposing a new, separate mechanism for the capacity revenues and FRR costs.
- b. Provide a revised Rider PSM tariff showing text changes that would be required if Duke Kentucky's proposal is approved.
- c. Confirm that Duke Kentucky's proposal to use Rider PSM as described in the application would be needed only through May 31, 2018. If this cannot be confirmed, explain.
- d. Provide an alternative recommended proposal for the treatment of the capacity revenues and FRR obligation costs if the Commission chooses not to approve Duke Kentucky's proposal to use Rider PSM.

RESPONSE:

- a. Although Rider PSM does explicitly address “profits on off-system power sales and the net margins on sales of emission allowances,” the Commission has previously allowed the Company to flow through margins on other transactions as well. Specifically, in Case No. 2008-00489, the Commission approved a request from the Company to include as an eligible profit net revenues related to its provision of ancillary services in the newly created “MISO ASM.” The Commission approved this change to the calculation of Rider PSM but did not require the Company to modify the tariff to reflect this change. The Company’s proposal is the simplest way to achieve the objective for flowing through margins on capacity sales, similar to the way the Commission handled the changes for the ancillary services in Case No. 2008-00489. The Company does not object to the creation of a separate rider for netting of capacity purchases and sales if the Commission would prefer.
- b. Please see Staff DR-01-015 Attachment. In the interest of ensuring that any updated tariff reflects all of the items included in Rider PSM, the updated tariff includes changes to reflect the inclusion of Ancillary Services as well.
- c. Only gains/losses related to transactions that occur on or before May 31, 2018, will be included in Rider PSM. Because Rider PSM is filed on a quarterly basis, actual gains/losses may impact customers’ rates for some period after the actual transactions occurred.
- d. If the Commission rejects the Company’s proposal related to flowing through gains/losses on the capacity transactions, the Company recommends that the

Commission allow the Company to defer the gains/losses with a carrying cost at the long-term debt rate until such time as the balance of the regulatory asset or regulatory liability can be flowed through to customers via base rates.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky, Inc.
 4580 Olympic Blvd
 Erlanger, KY 41018

KY.P.S.C. Electric No. 2
 _____ Revised Sheet No 82
 Cancels and Supersedes
 _____ Revised Sheet No 82
 Page 1 of 3

**RIDER PSM
 OFF-SYSTEM POWER SALES AND EMISSION ALLOWANCE SALES
 PROFIT SHARING MECHANISM**

APPLICABILITY

Applicable to all retail sales in the Company's electric service area, excluding interdepartmental sales, beginning with the billing month _____.

(T) Deleted: June 2014

PROFIT SHARING RIDER FACTORS

The Applicable energy charges for electric service shall be increased or decreased to the nearest \$0.000001 per kWh to reflect the sharing of profits on off-system power sales and ancillary services, the net profits on sales of emission allowances, and net margins on capacity transactions related to the acquisition of 100% of East Bend Unit 2.

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The Company will compute its profits on off-system power sales and ancillary services, profits on emission allowance sales, and net margins on capacity transactions related to the acquisition of 100% of East Bend Unit 2 in the following manner:

$$\text{Rider PSM Factor} = ((P + A) + E + C + R) / S$$

where:

P = Eligible profits from off-system power sales for applicable month subject to sharing provisions established by the Commission in its Order in Case No. 2003-00252, dated December 5, 2003.

A = All net profits related to its provision of ancillary services in markets administered by PJM per the Commission's Order in Case No. 2008-00489, dated January 30, 2009.

_____ The first \$1 million in annual profits from off-system sales and ancillary services will be allocated to ratepayers, with any profits in excess of \$1 million split 75:25, with ratepayers receiving 75 percent and shareholders receiving 25 percent per the Commission Order in Case No. 2010-00203, dated December 22, 2010. After December 31st of each year, the sharing mechanism will be reset for off-system power sales. Each month the sharing mechanism will be reset for the ancillary service profits.

E = All net profits on sales of emission allowances are credited to customers per the Commission's Order in Case No. 2006-00172, dated December 21, 2006.

C = Capacity revenue received from the Dayton Power & Light Company related to its participation in PJM's Base Residual Auction through May 31, 2018, less the cost incurred by Duke Energy Kentucky to procure sufficient capacity to meet its obligations as a Fixed Resource Requirement entity

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Issued by authority of an Order of the Kentucky Public Service Commission dated _____, 201____, in Case No. 20____.

Issued:

Effective:

Issued by: James P. Henning, President /s/ James P. Henning

Duke Energy Kentucky, Inc.
4580 Olympic Blvd
Erlanger, KY 41018

KY.P.S.C. Electric No. 2
____ Revised Sheet No 82
Cancels and Supersedes
____ Revised Sheet No 82
Page 2 of 3

under the Reliability Assurance Agreement with PJM per the Commission's
Order in Case No. 2014-00201, dated _____, 2014.

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- R = Reconciliation of prior period Rider PSM actual revenue to amount calculated for the period.
- S = Current month sales in kWh used in the current month Rider FAC calculation.

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Issued by authority of an Order of the Kentucky Public Service
Commission dated _____, 201____, in Case No. 20____.

Issued: _____
Effective: _____
Issued by: James P. Henning, President /s/ James P. Henning

Duke Energy Kentucky, Inc.
 4580 Olympic Blvd
 Erlanger, KY 41018

KY.P.S.C. Electric No. 2
 _____ Revised Sheet No 82
 Cancels and Supersedes
 _____ Revised Sheet No 82
 Page 3 of 3

<u>Rate Group</u>	<u>Rate</u> (\$/ kWh)		
Rate RS, Residential Service	0.00	(R)	Deleted: 2932
Rate DS, Service at Secondary Distribution Voltage	0.00	(R)	Deleted: 2932
Rate DP, Service at Primary Distribution Voltage	0.00	(R)	Deleted: 2932
Rate DT, Time-of-Day Rate for Service at Distribution Voltage	0.00	(R)	Deleted: 2932
Rate EH, Optional Rate for Electric Space Heating	0.00	(R)	Deleted: 2932
Rate GS-FL, General Service Rate for Small Fixed Loads	0.00	(R)	Deleted: 2932
Rate SP, Seasonal Sports Service	0.00	(R)	Deleted: 2932
Rate SL, Street Lighting Service	0.00	(R)	Deleted: 2932
Rate TL, Traffic Lighting Service	0.00	(R)	Deleted: 2932
Rate UOLS, Unmetered Outdoor Lighting	0.00	(R)	Deleted: 2932
Rate OL, Outdoor Lighting Service	0.00	(R)	Deleted: 2932
Rate NSU, Street Lighting Service for Non-Standard Units	0.00	(R)	Deleted: 2932
Rate NSP, Private Outdoor Lighting Service for Non-Standard Units	0.00	(R)	Deleted: 2932
Rate SC, Street Lighting Service – Customer Owned	0.00	(R)	Deleted: 2932
Rate SE, Street Lighting Service – Overhead Equivalent	0.00	(R)	Deleted: 2932
Rate TT, Time-of-Day Rate for Service at Transmission Voltage	0.00	(R)	Deleted: 2932
Other	0.00	(R)	Deleted: 2932

Rider PSM credits, reductions to bills, are shown as positive numbers without parentheses. Rider PSM charges, increases to bills, are shown in parentheses.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto are subject to the jurisdiction of the Kentucky Public Service Commission, and to the Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission as provided by law.

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Issued by authority of an Order of the Kentucky Public Service Commission dated _____, 201____, in Case No. 20_____.

Issued:
 Effective:
 Issued by: James P. Henning, President /s/ James P. Henning

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-016

REQUEST:

Refer to the Wathen Testimony, Exhibit WDW-4. Confirm that the differences between these schedules and the current schedules are: 1) the addition of Schedule 6; and 2) the addition of the last two line items on Schedule 2. If this cannot be confirmed, provide and explain all other changes.

RESPONSE:

Other than the changes referenced in the question, the only other change is to Schedule 1, Line 1, to adjust the reference from Line 24 of Schedule 2, to the new Line 26 of Schedule 2.

PERSON RESPONSIBLE: William Don Wathen Jr.

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-017

REQUEST:

Refer to the Direct Testimony of James S. Northrup ("Northrup Testimony"), page 5, line 20, through page 6, line 2. Provide the least-cost assessment of short listed proposals.

RESPONSE:

Please refer to Staff-DR-01-003 for the Confidential files associated with the least cost assessment of the short listed proposals. The Confidential files associated with the analysis are Confidential Attachments STAFF-DR-01-003B and C.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-01-018

REQUEST:

Refer to page 14 of the Northrup Testimony. Beginning at line 17, Mr. Northrup states that “[t]he East Bend Purchase was analyzed using the final negotiated purchase price of \$12.4 million. . . .” Reconcile this amount with the amount that appears in the column “Purchase Price or Capacity Fee” for the “DPL East Bend Generating Station” in Exhibit JSN-3.

RESPONSE:

The \$9.7 million that is listed as the Purchase Price of Bid 2 (East Bend) was the initial proposed bid price. The final price of \$12.4 million was agreed upon during negotiations.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-01-019

REQUEST:

Refer to the Northrup Testimony, Exhibit JSN-2, page 4 of 12, the last sentence on the page. Explain how the remaining expected life of ten years or longer for asset purchase was determined.

RESPONSE:

Duke Energy Kentucky established a minimum environmental specification that all proposed coal-fired assets would have to meet in order to be considered in the evaluation. This specification is on pages 11-12 of Exhibit JSN-2, and is based on known final and pending environmental regulations (with the exception of carbon which was addressed separately). In short, a proposed coal-fired unit would have to have existing, or have under construction, equipment for/to:

- Flue gas desulfurization with an SO₂ emission rate of 0.15#/mmBTU or less
- Selective catalytic reduction with a NO_x emission rate of 0.1#/mmBTU or less
- Demonstrate ability to comply with the MATS emission limits for mercury, filterable particulate matter, and HCl
- Dry flyash handling

- An on-site or adjacent permitted landfill, or long-term contracts for sales of ash and FGD products
- Closed cycle cooling

It was Duke Energy's Kentucky's determination that this minimum specification is needed and appropriate to ensure that a coal-fired unit would comply with the known final and pending environmental regulations, and thus be economic to continue to operate within the ten year horizon (due to minimum additional needed compliance expenditures, if any).

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-01-020 PUBLIC

REQUEST:

Refer to the Northrup Testimony, Exhibit JSN-3. Explain in what way bids 5A through 5F did not meet the minimum coal environmental specifications.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

The two coal-fired stations included in the bid 5 permutations did not meet the minimum environmental specifications as detailed in Exhibit JSN-2, pages 11-12. The first unit bid, in 5A through 5C, [REDACTED], failed to meet the required SO₂ specification. The unit, while equipped with flue gas desulfurization, was characterized as having an SO₂ emission rate of 0.51#/mmBTU. This far exceeds the required specification of 0.15#/mmBTU of SO₂. The second unit bid, in 5D through 5F, [REDACTED], failed to meet multiple of the required specifications. That station has no scrubber, no SCR, a particulate emission rate in excess of the MATS compliance rate, wet fly ash storage, and once-through cooling.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-01-021

REQUEST:

Refer to page 4 of the Direct Testimony of Steve Immel ("Immel Testimony"), lines 17-20. Mr. Immel states that the Woodsdale station is connected to two gas transmission companies, but that currently only one pipeline is in use. Explain why only the Texas Eastern Transmission Company pipeline is currently in use.

RESPONSE:

Historically, there has not been a need for deliveries from Texas Gas Transmission ("TGT") as Duke Energy Kentucky has not experienced issues with the Texas Eastern Transmission Company ("TETCO"). Duke Energy Kentucky has previously experienced pressure issues with respect to TGT delivery due to the Woodsdale Stations' geographic location along the Texas Gas Pipeline. The Texas Gas pipeline would hold Woodsdale to reduced gas flow rates due to drawing down pressure as a result of the unit's physical location on the north end of the Texas Gas pipeline. The TETCO pipeline is able to serve Woodsdale without those issues. In addition, Duke Energy Kentucky has multiple agreements with TETCO, such as Hourly Overrun Transportation (HOT), Park and Loan Agreement (PAL) and IT (Interruptible Service Agreement). TETCO has historically provided the needed flexibility in hourly and daily burns, and provides for daily and monthly operational balancing that was unavailable with TGT. Additionally, TETCO is

able to service Woodsdale without the pressure issues that have been experienced on the Texas Gas pipeline. In summary, TETCO has been a reliable and flexible supply source to serve Woodsdale without the pressure issues that were experienced with Texas Gas.

PERSON RESPONSIBLE: Steve Immel

STAFF-DR-01-022

REQUEST:

Refer to page 8 of the Immel Testimony, lines 6-10, which discuss boiler issues at the East Bend unit.

- a. Provide the cost of the spring 2014 outage and DP&L's share of the cost.
- b. State the date the East Bend unit was returned to service after the spring 2014 outage.
- c. If there have been any unplanned outages since the unit was returned to service after the planned spring maintenance outage, provide the duration of, and reason, for each outage.

RESPONSE:

- a. The projected Spring 2014 Outage cost (in whole dollars) is \$12,615,000 in O&M and \$38,510,220 in capital (actuals and invoices are still being processed). DP&L is required to pay 31% of these costs; capital costs have been invoiced to DP&L, but they are currently withholding payment on some of these projects.
- b. The unit was put on line coming out of the outage at 21:40 on May 31, 2014.
- c. On June 5, 2014 the unit tripped due to loss of a coal mill, which resulted in a feedwater transient that caused the unit to trip on high drum level. While offline, the station made some additional repairs to various valves and fans. The unit

came back online at 04:37 on June 9, 2014 and stayed online until June 14, 2014 when the unit was then removed from service due to a reheat tube leak. The Company scheduled a maintenance outage beginning on June 17th and the unit returned to service at 16:31 on June 27, 2014 and has remained online since then (as of the date of this response).

PERSON RESPONSIBLE: Steve Immel

STAFF-DR-01-023 PUBLIC

REQUEST:

Refer to page 8 of the Immel Testimony, lines 14-20, which discuss the East Bend maintenance schedule. Lines 19-20 state that a major outage of 8-12 weeks occurs approximately every ten years. Since East Bend experienced such an outage in the spring of 2014, state whether it is expected that an outage of this length would occur sooner than ten years from now. If an earlier major outage of 8-12 weeks is anticipated, provide the reasons for the anticipated outage.

RESPONSE:

CONFIDENTIAL PROPRIETRY TRADE SECRET

[REDACTED]

PERSON RESPONSIBLE: Steve Immel

STAFF-DR-01-024 PUBLIC

REQUEST:

Refer to page 12 of the Immel Testimony, lines 13-16, wherein Mr. Immel makes reference to "high-cost western coal." Provide the type of coal and pricing to which Mr. Immel is referring.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment Only)

The coal type referred to is a typical blend of western bituminous (typically from Colorado) and subbituminous (typically from the Powder River Basin ("PRB")) coals. The blend assumed for analysis purposes was a nominal 40% PRB/60% Colorado coal. Please see Confidential Attachment STAFF-DR-01-024 for a listing of the coal prices used in the analysis.

PERSON RESPONSIBLE: Steve Immel
James S. Northrup

COAL (\$/MMBtu)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

STAFF-DR-01-025 PUBLIC

REQUEST:

Refer to page 15 of the Immel Testimony, lines 17-19, wherein Mr. Immel states that “[t]he Company included placeholder cost estimates for these projects in its economic analysis of the unit for purchase.” Provide the estimated future environmental costs for the East Bend unit used in the analysis.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment only)

For clarification, the analysis Mr. Immel is describing in his referenced testimony was not a cost comparison of East Bend against all responses under the RFP. Duke Energy Kentucky did not have access to cost estimates for compliance scenarios for each of the short-listed coal bids. Thus, so as not to bias the comparison against DP&L’s East Bend 2 capacity versus the other bidders’ coal capacity, positive or negative, future environmental costs were not explicitly modeled in the analysis comparing all RFP responses. Rather Mr. Immel was referring to sensitivity analysis performed separately on East Bend and following the decision to further pursue the East Bend transaction. See Confidential Attachment Staff DR-01-25.

Future environmental regulations have a high degree of uncertainty, but based on our experience and expectation, from a qualitative standpoint, we believe that the East Bend unit is well controlled and situated to comply with future environmental regulations.

PERSON RESPONSIBLE: Keith Pike/Jim Northrup

CONFIDENTIAL
STAFF-DR-01-025
ATTACHMENT
FILED UNDER
SEAL

STAFF-DR-01-026

REQUEST:

Refer to page 23 of the Direct Testimony of J. Michael Geers, lines 15-17, which state that "...East Bend will need additional landfill space before the current landfill is full due to the manner in which the material being landfilled must be handled." Explain the manner in which material is handled at the site.

RESPONSE:

Landfills are normally built with sloping sides in a "stair step" fashion. These steps or "benches" give the landfill its pyramid shape. As the benches progress closer to the top, the available space for placing the Coal Combustion Residuals (CCR) and for truck traffic diminishes greatly. The trucks used are very large both in number and size. They require considerable room to maneuver. As a result there will be a point where the remaining space cannot be effectively utilized physically and economically. Construction of the cells in the new landfill cells take planning. It normally takes about two years to construct and certify new cells in order to prepare them for placement of the fixated scrubber sludge material.

PERSON RESPONSIBLE: J. Michael Geers

STAFF-DR-01-027

REQUEST:

Refer to pages 6-7 of the Direct Testimony of John A. Verderame (“Verderame Testimony”). Beginning at the bottom of page 6, Mr. Verderame states that the generating units are offered into PJM market with designations including “Must Run.” State how the “Must Run” designation is determined.

RESPONSE:

The Company uses a detailed daily planning and commitment process that incorporates a generating unit’s financial parameters (startup, no-load, and incremental cost) and physical parameters (minimum and maximum capacity, startup time, etc.) to simulate the expected operation of generating units in the PJM market. On a daily basis, the Company forecasts the expected individual unit LMP, resulting individual dispatch level, and resulting revenue received from committing each generator for a seven day period. The expected variable cost from running each generator for this same period is then subtracted from the revenue in order to produce an estimated net margin, by unit, by day. Miami Fort 6 and East Bend typically clearly pass this economic modeling exercise when available, meaning that revenues received are greater than variable costs over the minimum commitment period. Consequently, the Company typically offers these units with a commitment status of “must run” in the Day-Ahead market and Real-Time

market. The PJM unit commitment process is limited to a 24 hour window. Given the high fixed startup costs of units like East Bend and Miami Fort 6, if Duke Energy Kentucky did not offer these units as “must run”, they would not be committed by PJM from an offline state. This process helps ensure that generating units are committed in the lowest cost manner for the benefit of the customer; and are not cycled offline during short periods where the incremental cost of unit operation exceeds the PJM LMP price. Such periods are generally during the off-peak, but can extend into on-peak hours. The goal of the planning and commitment process is evaluate the costs or maintaining a unit online during low price periods against the shut down and startup costs of cycling the unit for short periods of time.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-028

REQUEST:

Refer to page 24 of the Verderame Testimony, the table that appears between lines 13 and 14, which provides estimated capacity revenues for the delivery years shown.

- a. State at what interval revenues are expected to be received (i.e., monthly, annually, etc.).
- b. As no replacement capacity costs will be incurred for delivery year 2014/2015, confirm that under Duke Kentucky's proposal regarding use of the Rider PSM, customers would receive the benefit of 75 percent of the revenue and shareholders would receive the benefit of 25 percent of the revenue included in the "DY 12/15" column. If this cannot be confirmed, explain how customers and investors would benefit.

RESPONSE:

- a. PJM capacity market revenues are received monthly.
- b. Duke Energy is proposing that all revenues and capacity related costs would flow through the Rider PSM. No replacement capacity costs will be associated with DY 2014/2015; thus customers would receive the benefit of 75 percent of the revenue and shareholders would receive the benefit of 25 percent of the revenue related to DY 2014/2015.

PERSON RESPONSIBLE: John Verderame



STAFF-DR-01-029 PUBLIC

REQUEST:

Refer to Verderame Testimony, page 24, line 14, through page 25, line 3. Although Duke Kentucky does not know where incremental auction capacity will clear for future delivery years, state whether it is able to reasonably estimate the cost of the replacement capacity. If it can do so, provide the estimate for each delivery year through 2017/2018.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

Predicting forward capacity market prices is very difficult. Auction clearing prices are driven by numerous fundamental and technical factors. The chart below shows historical Base Residual and Incremental Auction results since the introduction of the current PJM capacity market, Reliability Pricing Model (RPM).

Auction	Capacity Clearing Price
2007/2008 BRA	\$40.80
2008/2009 BRA	\$111.92
2008/2009 Third Incremental	\$10.00
2009/2010 BRA	\$102.04
2009/2010 Third Incremental	\$40.00
2010/2011 BRA	\$174.29
2010/2011 Third Incremental	\$50.00
2011/2012 BRA	\$110.00
2011/2012 First Incremental	\$55.00
2011/2012 Third Incremental	\$5.00
2012/2013 BRA	\$16.46
2012/2013 First Incremental	\$16.46
2012/2013 Second Incremental	\$13.01
2012/2013 Third Incremental	\$2.51
2013/2014 BRA	\$27.73
2013/2014 First Incremental	\$20.00
2013/2014 Second Incremental	\$7.01
2013/2014 Third Incremental	\$4.05
2014/2015 BRA	\$125.99
2014/2015 First Incremental	\$5.54
2014/2015 Second Incremental	\$25.00
2014/2015 Third Incremental	\$25.51
2015/2016 BRA	\$136.00
2015/2016 First Incremental	\$43.00
2015/2016 Second Incremental	\$136.00
2016/2017 BRA	\$59.37

Historically, almost all Incremental Auctions have cleared at significant discounts to Base Residual Auctions (BRA) with only 2 exceptions, which cleared at the same price as that of BRA for that year. It is expected that, absent structural market changes, Duke Energy Kentucky will have three Incremental Auction opportunities to purchase replacement capacity, as well as opportunities to purchase capacity in the bilateral market. The uncertainty of capacity prices also offers opportunity to structure transactions such as the capacity option executed for DY 2015/2016. It is important to note that counterparties with uncleared or uncommitted capacity have the same exposure to capacity markets as

those in need of capacity, and may be willing to accept lower capacity prices or capacity option premiums in exchange for some price certainty. While it would be imprudent to confidently predict future capacity prices, a reasonable estimate of replacement capacity prices would be the Base Residual Auction Clearing Price of respective Delivery Years. In fact, the most recent Incremental Auction, the second Incremental Auction for 2015/2016 cleared at that price, \$136/ MW Day. [REDACTED]

The actual replacement capacity required in each Delivery Year will be impacted by load obligation changes, effective forced outage rates, and other supply side factors; but assuming the need to replace all of the committed capacity, and utilizing the Base Residual clearing price as a proxy for Incremental Auctions would result in the following estimate of net revenues:

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-030 PUBLIC

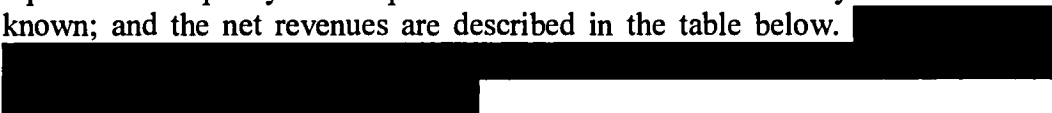
REQUEST:

Refer to page 26 of the Verderame Testimony, lines 1-12.

- a. State how the call-option premium purchased in September 2013 was recorded on Duke Kentucky's books.
- b. State whether Duke Kentucky exercised the capacity call option. If the option was exercised, provide the details and state whether the replacement capacity cost for delivery year 2015/2016 is now known. If it is known, provide the cost and state the net amount (using revenues found in the table on page 24 of the Verderame Testimony) that will be shared by customers and shareholders for delivery year 2015/2016 under Duke Kentucky's proposal to use Rider PSM.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

- a. The call-option premium purchased in September 2013 was recorded in general ledger account 0165513 – Prepaid Expense.
- b. Yes, Duke Energy Kentucky exercised the option in May of 2014. The replacement capacity costs specific to the 2015/2016 Delivery Year are now known; and the net revenues are described in the table below. 



PERSON RESPONSIBLE: John Verderame

**Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014**

STAFF-DR-01-031

REQUEST:

Refer to page 12 of the Direct Testimony of Will A. Garrett (“Garrett Testimony”), lines 15-20, in which Mr. Garrett discusses the net book value of DP&L’s share of East Bend as of March 31, 2014.

- a. Provide the net book value (“original cost less accumulated depreciation”) and show the original cost and accumulated depreciation for DP&L’s 31 percent of East Bend at December 31, 2011; December 31, 2012, December 31, 2013; and June 30, 2014.
- b. Provide the original cost and accumulated depreciation for MF6 at December 31, 2011; December 31, 2012, December 31, 2013; and June 30, 2014.

RESPONSE:

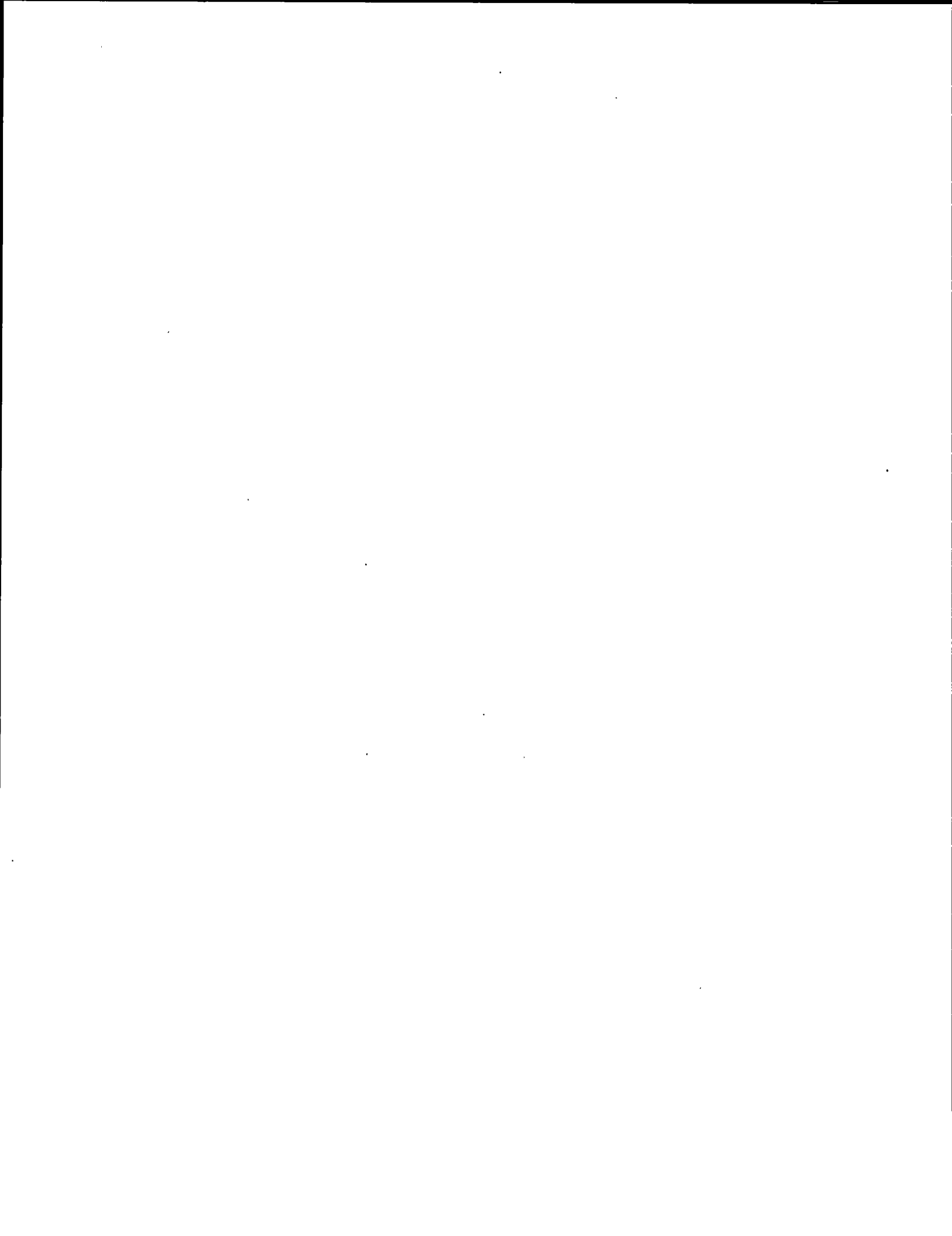
a.

	Net Book Value - East Bend Includes Impairment Entries (Co 06)					Net Book Value - East Bend Excludes Impairment Entries (Co 06)			
	December 2011	December 2012	December 2013	June 2014		December 2011	December 2012	December 2013	June 2014
Cost	201,587,695	208,370,447	-	2,985,170	Cost	201,587,695	208,370,447	215,297,794	215,989,488
Reserve	132,965,681	136,193,098	-	2,158,605	Reserve	132,965,681	136,193,098	139,380,007	140,308,800
Net Book Value	68,622,014	72,177,349	-	826,565	Net Book Value	68,622,014	72,177,349	75,917,787	75,680,688

b.

Miami Fort 6 Est. NBV		A		B		C		D		E=A-B+C		F=A-D	
Period	Station	Plant in Service	RWIP Reserve	Accumulated Depr	Accumulated COR	Total Accumulated	GAAP NBV	FERC NBV					
2011	MU06 - Miami Fort Unit 6	\$ 78,732,322.39	\$ (683,289.18)	\$ 65,766,119.31	\$ 2,331,318.65	\$ 67,414,148.78	\$ 13,649,492.26	\$ 11,318,173.61					
2012	MU06 - Miami Fort Unit 6	\$ 78,886,717.89	\$ (1,358,813.56)	\$ 67,983,833.48	\$ 2,861,958.86	\$ 69,486,978.78	\$ 12,261,697.97	\$ 9,399,739.11					
2013	MU06 - Miami Fort Unit 6	\$ 78,714,969.49	\$ (1,388,106.88)	\$ 70,269,277.11	\$ 3,399,980.33	\$ 72,281,150.56	\$ 9,833,799.26	\$ 6,433,818.93					
Q2 2014	MU06 - Miami Fort Unit 6	\$ 78,531,116.36	\$ (1,418,390.00)	\$ 69,469,936.00	\$ 3,643,007.00	\$ 73,112,943.00	\$ 9,061,180.36	\$ 5,418,173.36					

PERSON RESPONSIBLE: Will Garrett



STAFF-DR-01-032

REQUEST:

Refer to page 13 of the Garrett Testimony, lines 12-16, wherein Mr. Garrett states that “[i]f the adjusted historic carrying value is higher than the purchase price, the transaction results in a negative electric plant acquisition adjustment. This negative acquisition adjustment is then cleared by an increase to the accumulated depreciation resulting in a new net book value equaling the purchase price.” Provide the location in the Uniform System of Accounts which states that the negative acquisition adjustment is cleared to accumulated depreciation.

RESPONSE:

The Uniform System of Accounts does not have a location within it which states that the negative acquisition adjustment is cleared to accumulated depreciation. However, the FERC has previously required this treatment in these situations. Please see page 5 of Attachment WAG-1 which is a letter from FERC approving of Duke Energy’s proposed journal entries in a previous similar situation and states:

In addition, Duke Energy recorded a \$9.2 million negative acquisition adjustment in Account 114, Electric Plant Acquisition Adjustments, consistent with EPI No. 5 and appropriately cleared the negative acquisition adjustment to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.³

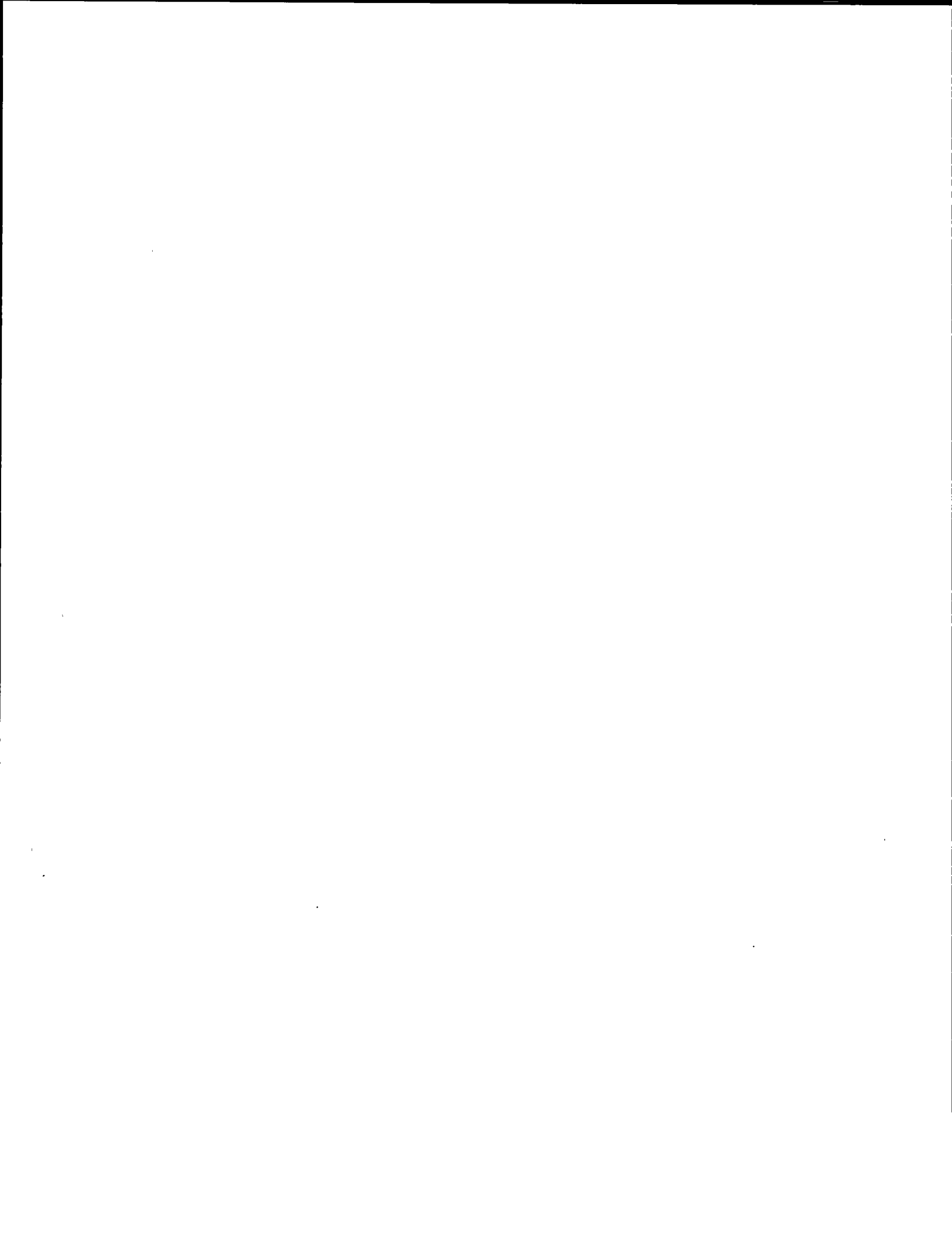
³ See *Locust Ridge Gas Company*, 29 FERC ¶ 61,052 at 61,114 (1984) and *Southwestern Public Service Company and New Mexico Electric Service Company*, 23 FERC ¶ 61,153(1983).

Also, please see pages 7-8 of Attachment WAG-1 which is another letter from FERC approving of Duke Energy's proposed journal entries in a previous similar situation and states:

In addition, Duke Energy proposes to record a \$61.2 million negative acquisition adjustment by crediting Account 114, Electric Plant Acquisition Adjustments, consistent with EPI No. 5. Duke proposes to clear the negative acquisition adjustment by debiting Account 114 and crediting Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.³

³ See *Locust Ridge Gas Company*, 29 FERC ¶ 61,052 at 61,114 (1984) and *Southwestern Public Service Company and New Mexico Electric Service Company*, 23 FERC ¶ 61,153(1983).

PERSON RESPONSIBLE: Will Garrett



STAFF-DR-01-033

REQUEST:

Refer to page 14 of the Garrett Testimony. Provide copies of the FERC decisions relating to asset impairments for Duke Energy Carolinas, LLC.

RESPONSE:

Please see attachment STAFF DR-01-33 A and B for the FERC decisions relating to asset impairments for Duke Energy Carolinas, LLC. As noted in the original filing, the Company's specific journal entries incorporating the asset impairment treatment were approved by the FERC. Specifically,

Rockingham (FERC Docket No. EC06-145-000)

The decision relating to asset impairment for the Rockingham purchase is on page 5 of Attachment WAG-1 where the FERC stated:

Duke Energy's proposed journal entries are approved.

Those proposed journal entries are on page 3 of Attachment WAG-1. Journal entry #4 indicated that its purpose (emphasis added) is:

To clear Electric Plant Purchased or Sold and charge Electric Plant in Service for the fixed assets and land at Dynegy original cost *with an adjustment to add back*

the impairment loss of \$9.3M Dynegy recorded; and to record the Accumulated Depreciation adding a negative acquisition adjustment of \$9.4M.

Catawba Nuclear Plant (FERC Docket No. EC08-94-000)

The decision relating to asset impairment for the Catawba purchase is on page 7 of Attachment WAG-1 where the FERC stated:

Duke's proposed journal entries are approved.

Those proposed journal entries are on page 11 of Attachment WAG-1. Journal entry #4 indicated that its purpose (emphasis added) is:

To clear Electric Plant Purchased or Sold and record the *Original Cost*,
Accumulated Depreciation and Acquisition Adjustments

Since the purchase price was below Saluda Rivers' original cost less accumulated depreciation, the Company is recording negative acquisition per FERC's prior guidelines to the Company in a prior acquisition.

The Original Cost referred to above would not include the asset impairment.

PERSON RESPONSIBLE: Will Garrett

UNITED STATES OF AMERICA 117 FERC ¶ 62,094
FEDERAL ENERGY REGULATORY COMMISSION

Duke Power Company, LLC
d/b/a Duke Energy Carolinas
Rockingham Power, L.L.C.
Dynergy Power Marketing, Inc.

Docket No. EC06-145-000
EC06-145-001

ORDER CONDITIONALLY AUTHORIZING DISPOSITION AND
ACQUISITION OF JURISDICTIONAL AND GENERATING FACILITIES

(Issued October 31, 2006)

On July 28, 2006, as amended on September 14, 2006, Rockingham Power, L.L.C. (Rockingham Power), Dynergy Power Marketing, Inc. (Dynergy Power Marketing) and Duke Power Company LLC d/b/a Duke Energy Carolinas (Duke Energy Carolinas) (collectively, Applicants) filed an application pursuant to section 203 of the Federal Power Act (FPA)¹ requesting authorization for a disposition and acquisition of jurisdictional and generating facilities in connection with a transaction (the Transaction) in which Duke Energy Carolinas will (1) purchase a combustion turbine generating facility (the Facility) from Rockingham Power; and (2) transfer to Duke Energy Carolinas Power Sales Agreements (PSAs) between Dynergy Power Marketing, as energy manager on behalf of Rockingham Power, and third parties for the sale of power from the Facility. The facilities that are the subject of our jurisdiction under the Transaction are the Rockingham generating facility, the related transmission interconnection facilities and the Power Sales Agreements.

Duke Energy Carolinas is a vertically-integrated utility that generates, transmits, distributes and sells electricity, and operates a franchise service territory in portions of North Carolina and South Carolina. There is no program of retail competition or retail access in any part of Duke Energy Carolinas' service territory. The company owns over 18,000 megawatts (MWs) of generation, and sells wholesale electric power to incorporated municipalities and electric cooperatives as well as to public and private utilities. It provides transmission service under its Open Access Transmission Tariff, which will be administered by an independent entity approved by the Commission in December 2005.

¹ 16 U.S.C. § 824b (2000), as amended by Energy Policy Act of 2005, Pub. L. No. 109-58, § 1289, 119 Stat. 594 (2005).

Duke Energy Carolinas is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy operates its businesses primarily through: (1) electric utility companies; (2) natural gas transmission companies; (3) field services companies; (4) entities that develop, operate, and manage merchant power generation facilities and engage in commodity sales and services related to natural gas and electric power; and (5) international entities.

Rockingham Power, a limited liability company, is an exempt wholesale generator, granted authorization by the Commission to make wholesale sales of power at market-based rates. Subsequent to the sale of the Facility, Rockingham Power will own no generation or transmission assets.

Rockingham Power's ultimate parent is Dynegy Inc. (Dynegy). Dynegy produces and sells electric energy, capacity, and ancillary services in United States markets. Dynegy's power generation portfolio consists of more than 12,800 MWs of baseload, intermediate and peaking power plants scattered across the United States.

Dynegy Power Marketing, a subsidiary of Dynegy, is a marketer of wholesale electric power authorized by the Commission to sell electricity at market-based rates. Dynegy Power Marketing markets energy, ancillary services and capacity from the Dynegy-affiliate power plants, including the Facility.

The Facility is a generating facility consisting of five combustion turbine generators located in Rockingham County, North Carolina. The Facility also includes related interconnection facilities owned by Rockingham Power, and pipeline interconnection facilities. The Facility is connected to Duke Energy Carolinas' 230 kV transmission system.

The Purchase Agreement among the Applicants and Dynegy provides for the sale of the Facility, not a sale of Rockingham Power, the entity that owns the Facility. The Facility's purchase price under the Purchase Agreement is \$195 million.

Dynegy Power Marketing, as energy manager for Rockingham Power, has entered into PSAs for sales of power from the Facility with Morgan Stanley Capital Group, Inc. (Morgan Stanley) and the North Carolina Municipal Power Agency Number 1 (North Carolina Municipal) pursuant to Dynegy Power Marketing's and Rockingham Power's market-based rate authority to do so. These PSAs are in the form of "transaction confirmations" executed under master agreements entered into between Dynegy Power Marketing and Morgan Stanley, and Dynegy Power Marketing and North Carolina Municipal, respectively. Pursuant to the master agreements, the parties thereto may enter into a variety of energy purchase and sale transactions.

Applicants propose that, at the time of the closing of the Transaction, Dynegy Power Marketing will assign the subject Morgan Stanley and North Carolina Municipal

transaction confirmations to Duke Energy Carolinas, but will not assign the underlying master agreements between Dynegy Power Marketing and Morgan Stanley and North Carolina Municipal, respectively. Upon receipt of the Commission's approval and the subsequent closing and assignment, the subject transaction confirmations will be governed by existing master agreements between Duke Energy Carolinas and Morgan Stanley, and Duke Energy Carolinas and North Carolina Municipal, respectively.

Applicants state that the proposed Transaction will not have an adverse effect on competition, rates or regulation, will not result in cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, and is consistent with the public interest. With respect to competition, Applicants argue that the Transaction does not raise a market power concern for Available Economic Capacity in the Duke Energy Carolinas Control Area. Applicants' analysis showed that there are no systematic screen violations indicative of a market power problem. With respect to vertical competition, Applicants claim that the Transaction does not increase any ability on their part to potentially abuse their ownership of transmission facilities to give themselves an advantage in energy markets. Further, they claim that no gas transportation assets or other inputs to gas generation facilities are being transferred as part of the Transaction.

Applicants contend that the Transaction will have no adverse effect on rates. They argue that the proposed Transaction will have no adverse effect on transmission rates because no transmission system facilities are being transferred from Rockingham Power to Duke Energy Carolinas, and thus the latter's transmission rates will be unaffected. Applicants contend that the Transaction will not adversely affect wholesale requirements rates because it represents the least-cost option to serve wholesale requirements customers.

Applicants further argue that the Commission should permit Duke Energy Carolinas to continue selling under the PSAs at the existing market-based rates set forth therein, even though Duke Energy Carolinas does not have market-based rate authority with respect to sales made in its control area. Applicants submit that the PSAs were negotiated at arms' length by Dynegy Power Marketing, as energy manager for Rockingham Power, neither of which had market power in the Duke Energy Carolinas Control Area at the time the contracts were entered into. Applicants claim that Duke Energy Carolinas cannot alter the contracts' prices after the transfer is approved, so that the transfer of the contracts to Duke Energy Carolinas should not invalidate the reasonableness of the prices charged under those contracts.

Applicants argue that the Transaction will not adversely affect the Commission's regulation. They state that Duke Energy Carolinas' status as a FPA-jurisdictional utility will not change as a result of the proposed Transaction. In addition, they claim that they obtained approval of the Transaction from the North Carolina Utilities Commission (NC Commission) on July 25, 2006. Therefore, Applicants maintain that, according to the

Merger Policy Statement,² the Commission need not consider the impact of the Transaction on state regulation.

Applicants claim that the proposed Transaction will not result in cross-subsidization or pledge or encumbrance of utility assets for the benefit of an associate company. They note that other than the transfer of the Facility to Duke Energy Carolinas, the Transaction does not call for transfers of any facilities, either at the time of the Transaction or in the future. Applicants maintain that no new securities will be issued by Duke Energy Carolinas in connection with the Transaction either at the time of the Transaction or in the future. Applicants commit that Duke Energy Carolinas will not enter into any new pledges or encumbrances in connection with the Transaction at the time of the Transaction, and has no plans to do so in the future. Finally, Applicants state that the existing PSAs associated with the Transaction are contracts with unaffiliated entities.

With respect to proposed accounting, Applicants state that the Facility's purchase price under the Purchase Agreement is \$195 million.³ The application includes a proposed accounting entry recording Duke Energy Carolinas' acquisition of Rockingham Power's production plants and related assets and liabilities. The proposed entry – debits Account 102, Electric Plant Purchased or Sold, for \$190,179,000 – debits Account 107, Construction Work in Progress-Electric (or Account 101, Electric Plant in Service) for \$3,500,000 for land; debits inventory asset accounts for \$1,321,000 totaling \$4,821,000; and credits Account 131, Cash, for \$195,000,000 (*i.e.*, purchase price of the Facility).⁴ Also, Duke Energy Carolinas provided a Note to its proposed accounting indicating that the entry is based on the assumption that the Facility was not previously devoted to public service.

It is not clear whether Duke Energy Carolinas' proposed accounting entry complies with the Commission's Uniform System of Accounts because Duke Energy Carolinas did not provide an accounting entry clearing the amounts recorded in Account 102 and showing the ultimate accounting distribution of these amounts. Also, Duke Energy Carolinas' proposed accounting entry records the acquisition of land directly to Account 107 or 101. Under the Commission's Uniform System of Accounts, the purchase of an operating unit or system must be accounted for consistent with the original cost rules and recorded through Account 102, including any amounts paid for land. The Facility being purchased by Duke Energy Carolinas is an operating unit or system. Finally, Duke Energy Carolinas' assertion that the Facility has not previously been devoted to public service is unsupported. Although it appears that Duke Energy

² Order No. 642, FERC Stats. & Regs. ¶ 31,111 at 31,914-15.

³ Application at p. 9.

⁴ *Id.*

Carolinas intends to record the portion of the purchase price attributed to the generating stations in Account 101, it has not explained why the Commission's original cost rules should not be apply to this Transaction.

This filing was noticed on August 4, 2006, with comments, protests or interventions due on or before August 18, 2006. The NC Commission filed a timely notice of intervention, and the Public Staff-NC Commission with the Attorney General of the State of North Carolina filed a timely motion to intervene and comments that were supportive of the application. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

Applicants have not shown that the transfer of the PSAs to Duke will not have an adverse effect on rates since certain rates (*e.g.*, for energy sales) under the PSAs are not specified but rather are negotiated between the buyer and seller. Moreover, Duke Energy Carolinas does not have authorization to enter into new agreements for sales at market-based rates in its home control area, and the sales covered under the PSAs would be made within that control area. Thus, greater specificity and cost support is needed for the rates that Duke Energy Carolinas would charge under the PSAs. This could take the form of a cost cap, supported by Duke Energy Carolinas' costs, that would apply to any rates charged by Duke under the PSAs.

After consideration, the proposed Transaction is authorized under section 203 subject to the following conditions:

- (1) Duke Energy Carolinas must commit to (a) file under section 205 of the FPA the specific rates to be charged under these PSAs, along with cost support for these rates that are based on Duke Energy Carolinas' costs of providing the applicable services, and (b) make the rates charged under the PSAs subject to refund retroactive to the date Duke Energy Carolinas commences making sales under these PSAs. Duke Energy Carolinas is directed to notify the Commission within one week of this order whether it will agree to these commitments;
- (2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of costs, or any other matter whatsoever now pending or which may come before the Commission;
- (3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted; and

- (4) The Commission retains authority under sections 203(b) and 309 of the FPA to issue supplemental orders as appropriate;
- (5) If the Transaction results in changes in the status or the upstream ownership of Applicants' affiliated Qualifying Facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 shall be made;
- (6) Duke Energy Carolinas shall account for the purchase of the combustion turbine generating facility from Rockingham Power LLC in accordance with Electric Plant Instruction No. 5 and Account 102, Electric Plant Purchased or Sold, of the Uniform System of Accounts. Duke Energy Carolinas must submit its final accounting, including support for its entry clearing Account 102, within six months of the date that the transfer is consummated, and the accounting submission shall provide all the accounting entries related to the transfer along with narrative explanations describing the basis for the entries.
- (7) Duke Energy Carolinas shall provide, as part of the accounting submission required above, an explanation and support for its assertion that the Rockingham facility was not previously devoted to public service.
- (8) Applicants shall make appropriate filings under section 205 of the FPA, as necessary, to implement the transactions; and
- (9) Applicants shall notify the Commission within 10 days of the date that the disposition and acquisition of jurisdictional and generating facilities has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Tariffs and Market Development – West, under 18 C.F.R. § 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Steve P. Rodgers
Director
Division of Tariffs and Market Development – West

124 FERC ¶ 62,223
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Duke Energy Carolinas, LLC

Docket No. EC08-94-000

ORDER AUTHORIZING ACQUISITION
OF JURISDICTIONAL FACILITIES

(Issued September 24, 2008)

On May 30, 2008, as supplemented on July 3, 2008, Duke Energy Carolinas, LLC (Duke Energy) filed an application pursuant to section 203 of the Federal Power Act (FPA)¹ requesting authorization for the acquisition of jurisdictional facilities resulting from an acquisition of an approximately 153 megawatt (MW) interest in Unit 1 and related facilities at the Catawba Nuclear Generating Station (Catawba Facilities) in South Carolina from Saluda River Electric Cooperative, Inc. (Saluda River). This acquisition is a result of a Debt Restructuring Agreement administered by the Rural Utilities Service.

Duke Energy is a wholly-owned subsidiary of Duke Energy Corporation. Duke Energy is a vertically-integrated electric utility that generates, transmits, distributes, and sells electricity under franchise agreements in North Carolina and South Carolina. Duke Energy owns 25 percent of the 1,125 MW Catawba Unit 1 generating facility and operates both Units 1 and 2 of the Catawba Nuclear Generating Station.

Saluda River is a generation and transmission cooperative that is a wholesale power provider to five distribution cooperatives. Saluda River owns an 18.75 percent interest in the Catawba Facilities (approximately 212 MW). Saluda River is a non-jurisdictional entity and does not serve retail customers.

In the transaction, Saluda River will transfer 71.96 percent (approximately 153 MW) of its interest in the Catawba Facilities to Duke Energy. Additionally, in conjunction with the transfer, Duke Energy has entered into a long-term power purchase agreement with the North Carolina Electric Membership Corporation pursuant to which it will provide 72 MWs of cost-based energy and capacity. Thus, Applicants state that the transaction will result in a net increase of 81 MW in Duke Energy's generation.

¹ 16 U.S.C. § 824b (2006).

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Duke Energy states that the transaction is consistent with the public interest and will not adversely affect competition, rates or regulation. With respect to competition, Duke Energy contends that the transaction raises no horizontal market power concerns. Duke Energy states that the relevant markets for the transaction are the Duke Energy balancing authority area and its first tier interconnected balancing authority areas. Duke Energy has prepared a delivered price test (DPT) for the relevant markets for both economic capacity and available economic capacity. Duke Energy contends that available economic capacity is the only relevant measure of capacity in the Duke Energy balancing authority area because there is no retail access and no prospect of retail access implementation in the foreseeable future. Duke Energy states that there exist limited non-systematic screen failures in the Duke Energy balancing authority area for the available economic capacity measure.

Duke Energy contends, however, that the transaction should not be viewed as causing any anticompetitive effects. Duke Energy states that it is acquiring only a relatively small amount of additional generation in the market and that the additional capacity is part of a nuclear generating facility, which would be difficult to strategically withhold due to its operating characteristics. Duke Energy also states that its regulated and contractual load obligations will “grow into” the additional 81 MWs from the Catawba Facilities in less than one year, and the increase in available economic capacity attributed to Duke Energy will disappear. Additionally, Duke Energy states that Saluda River is not an active seller in the wholesale marketplace due to the fact that its load exceeds its ownership share in the Catawba Facilities. Duke Energy states that it has no material incentive or ability to exercise horizontal market power in the Duke Energy balancing authority area. Duke Energy states that it does not have market-based rate authority in its home control area and can charge only cost-based rates. In addition, Duke Energy notes that there are no DPT screen failures outside the Duke Energy balancing authority area in either economic capacity or available economic capacity measures.

Duke Energy states that the transaction does not raise vertical market power concerns because Saluda River is not transferring any transmission facilities as part of this transaction. Moreover, the Duke Energy transmission facilities are operated pursuant to an Open Access Transmission Tariff on file with the Commission. Applicants state that the transaction will not result in other barriers to entry.

Duke Energy contends that the transaction will not have an adverse effect on rates. Duke Energy states that because no transmission facilities are being transferred transmission rates will be unchanged. Additionally, Duke Energy argues that with respect to its wholesale requirements customers the transaction represents a least-cost alternative and it will not affect them because they are served under cost-based agreements with formula rates. Duke Energy also states that all other wholesale

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customers are served under fixed rate or market-based rate agreements and thus the transaction will not affect wholesale power rates.

Duke Energy states that the transaction will not diminish the Commission's regulatory authority or create a gap or shift regulatory authority between the Commission and any state commission. Duke Energy argues that the transaction will not impair Commission regulation and likewise argues that state regulation will not decrease or be impaired.

Duke Energy states that the transaction will not result in the cross-subsidization of a non-utility associate company or pledge or encumbrance of utility assets for the benefit of an associate company. Duke Energy also attests that, based on facts and circumstances known to it, or that are reasonably foreseeable, the transaction will not result in, at the time of the transaction or in the future: (1) any transfers of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company; (2) the issuance of any securities by a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; (3) any pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or (4) any new affiliate contracts between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, other than non-power goods and services agreements subject to review under sections 205 and 206 of the FPA.

Duke Energy provided preliminary journal entries reflecting the purchase of 71.96 percent of Saluda River's undivided interest in the Catawba Facilities. Duke Energy's proposed accounting records the purchase of electric plant, nuclear fuel, and materials and supplies, and the transfer of the nuclear decommissioning trust fund and the applicable asset retirement obligation to Duke Energy's books. However, Duke Energy omitted certain journal entries which are required by Electric Plant Instruction (EPI) No. 5, Electric Plant Purchased or Sold, and Account 102, Electric Plant Purchased or Sold.²

The instructions to Account 102 require the account to be debited with the purchase cost of electric plant acquired from others pending distributions to the appropriate accounts in accordance with EPI No. 5. Further, EPI No. 5, paragraph B,

² 18 C.F.R. Part 101 (2008).

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requires the original cost and related accumulated depreciation to be recorded on the purchaser's books through Account 102. Then, the difference between (1) the net amount of debits and credits and (2) the consideration paid for the property are to be included in Account 114, Electric Plant Acquisition Adjustments. Duke Energy's proposed journal entries to record the purchase were not cleared through Account 102, consistent with EPI No. 5 and Account 102, and therefore, fail to meet the requirements set forth in the Uniform System of Accounts (USofA). Account 102 should be used as an interim control account to record all aspects of the purchase transaction. In addition, Duke Energy's proposed accounting does not recognize accumulated depreciation on the facilities acquired.

EPI No. 5 of the Commission's USofA requires that electric plant acquired as an operating unit or system be recorded at original cost, estimated if not known, in the appropriate electric plant in service account and that depreciation applicable to the original cost of the properties purchased should be recorded in the appropriate account for accumulated provision for depreciation. Consistent with these instructions, Duke Energy must record the purchase of the Catawba Facilities at original cost in Account 101, Electric Plant in Service, and concurrently record the related accumulated depreciation in Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. Duke Energy must record any difference between the purchase price and the depreciated original cost of the Catawba Facilities in Account 114.

Duke Energy must make its final accounting entries for the acquisition of Saluda River's undivided interest in the Catawba Facilities consistent with the discussion herein and as outlined in the ordering paragraph below.

Order No. 652 requires that sellers with market-based rate authority timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority.³ The foregoing authorization may result in a change in status. Accordingly, Duke Energy is advised it must comply with the requirements of Order No. 652. In addition, Duke Energy shall make appropriate filings under section 205 of the FPA, to implement the transaction.

This filing was noticed on June 11, 2008, with comments, protests or interventions due on or before June 20, 2008. On June 20, 2008, the North Carolina Electric Membership Corporation, filed a timely motion to intervene, raising no issues. Notices of intervention and unopposed timely filed motions to intervene are

³ *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175, *order on reh'g*, 111 FERC ¶ 61,413 (2005).

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granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

After consideration, it is concluded that the transaction is consistent with the public interest and is authorized, subject to the following conditions:

- (1) The transaction is authorized upon the terms and conditions and for the purposes set forth in the application;
- (2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates, or determinations of cost, or any other matter whatsoever now pending or which may become before the Commission;
- (3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;
- (4) The Commission retains authority under sections 203(b) and 309 of the FPA to issue supplemental orders as appropriate;
- (5) If the transaction results in changes in the status or the upstream ownership of Duke Energy affiliated qualifying facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 shall be made;
- (6) Duke Energy shall make appropriate filings under section 205 of the FPA, as necessary, to implement the proposed transaction;
- (7) Duke Energy shall account for the transaction in accordance with Electric Plant Instruction No. 5 and Account 102, Electric Plant Purchased or Sold, of the Uniform System of Accounts. Duke Energy shall submit its final accounting entries within six months of the date that the transaction is consummated, and the accounting submission shall provide all the accounting entries and amounts related to the transaction along with narrative explanations describing the basis for the entries;
- (8) Duke Energy must inform the Commission of any change in circumstances that would reflect a departure from the facts the Commission relied upon in authorizing the transaction; and

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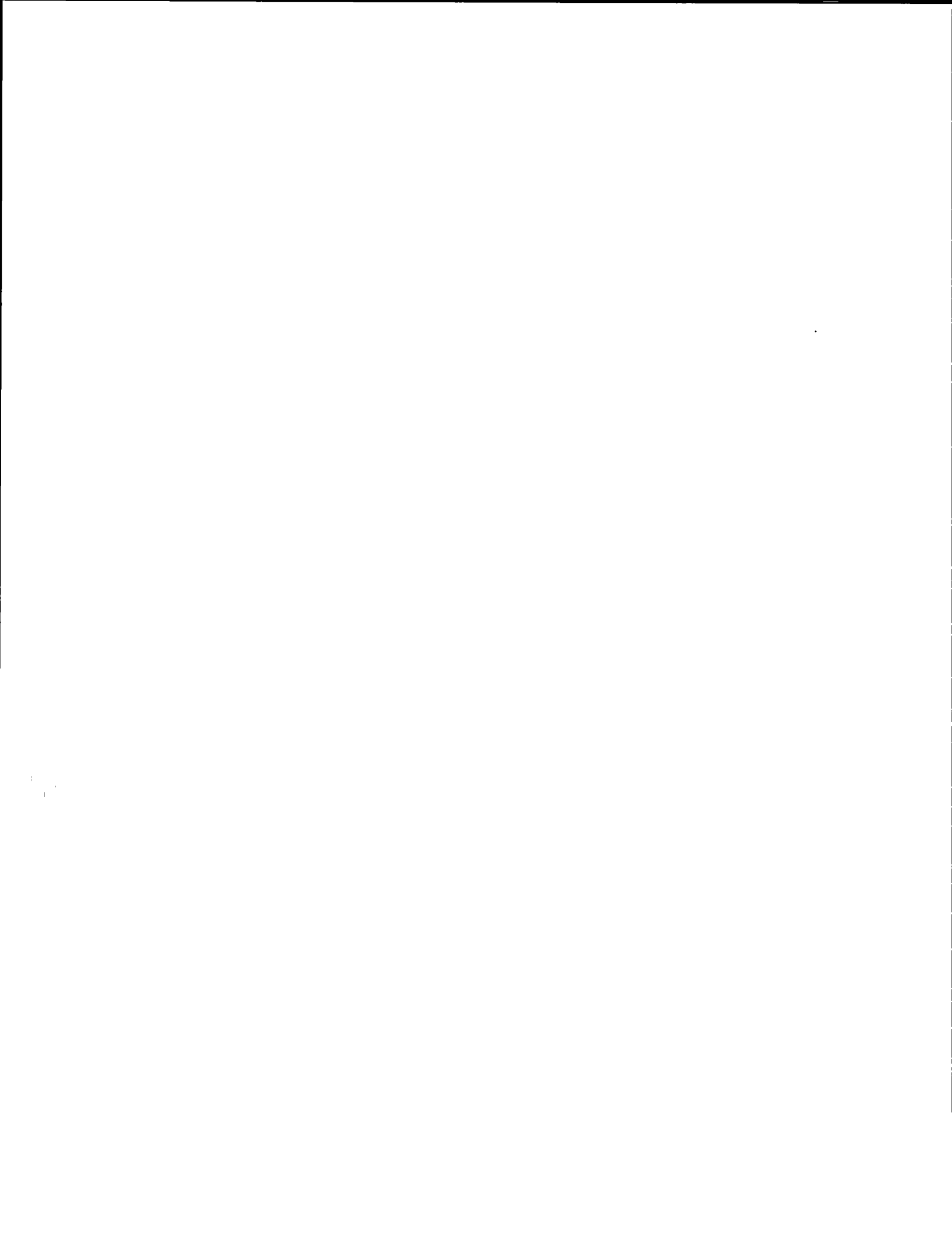
- (9) Duke Energy shall notify the Commission within 10 days of the date that the transaction has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Tariffs and Market Development – West, under 18 C.F.R. § 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

Steve P. Rodgers
Director
Division of Tariffs and Market Development - West

Document Content(s)

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Duke Energy Kentucky
Case No. 2014-00201
Staff's First Request for Information
Date Received: July 25, 2014

STAFF-DR-01-034

REQUEST:

Refer to Exhibit WAG-2.

- a. Refer to Entry No. 1. Explain why cash is credited for \$17.605 million instead of \$12.4 million.
- b. Refer to Entry No. 2. Provide a description of the items included in Account No. 107, Construction Work in Progress-Electric, and 105, Electric Plant Held for Future Use.

RESPONSE:

- a. The \$12.4 million represents the fixed purchase price for the plant while the \$17.605 million represents the cash settlement amount which includes the fixed purchase price of the plant but will vary depending upon final settlement balances at the time of closing.

b.

Account 107

Project Number	Description	CWIP
CEB1912	EBS-2 Misc Valves	(37,218.88)
CEB1922	EBS-2 General Equipment	(11,754.41)
EB021433X	Purchase Dredge for Emergency Pond Cleaning	(5,042.97)

EBS01344X	Repl ABS Pump Brkrs Phase II	(721.86)
EB021357X	Pulverizer Gbx Replace 1 of 6	125.35
EB021446X	Replace Lining in WSP Sludge Tan	165.62
EB021222X	Replace Stack Flow Monitor	1,990.61
EB02CTA13X	Cost to Achieve 2013 Gen Equipment	2,618.24
EBS01243X	New East Bend Landfill	7,193.24
EB021384X	2-2 Precip Inlet Exp Jnt Repl	9,567.09
EBS01266X	Repl Lime Conv Metal Detector	12,171.76
EB021461X	Landfill Haul Road Drainage System	13,737.40
EB021443X	LBU Hold & Close Drive Replacement	14,186.49
EB021351X	Replace Pug Mill Gear Box	16,863.04
EB021284X	Repl 3 IDBF Outlet Exp Jts	17,411.77
EBS01210X	Filtrate Storage Tank Replacement	22,558.06
EB021459X	Data Network Upgrade	22,861.33
EB021398X	2LHIM Transformer Replacement	25,021.91
EB021462X	125 DC Station Battery 2	25,785.88
EB021414X	Replace Filtered Water Tank	28,794.54
EB021299X	Replace Abs Module Outlet Duct	38,082.37
EB021312X	2-1 Pulv Roll Wheel Repl	40,076.17
EB021233X	Replace CBU Chains and Buckets	47,420.15
EB021250X	CBU Cable Reel and Drive	51,262.18
EB021317X	Replace Station Phone System	58,505.53
EB021238X	ID Fan VFD Control Board Rep	60,165.04
EB021335X	Drft Elimint and Header Repl	67,680.15

EB021417X	Station Cameras	108,731.21
EB021438X	Replace IP Turbine Blades	141,916.43
EB021448X	SSHO Partial Pendants - Mini Panels	187,421.38
EBS01340X	Replace Coal Handling Controls	242,321.74
EB021383X	Unit Control Simulator	356,868.91
EB021423X	Precipitator Upgrade 2014	807,672.04
EB201370X	Install Stack Lining	1,616,730.16
EB021332X	RHO Pendant Replacement	1,806,525.55
Various	CWIP Accruals	2,423,833.66

Total work Orders

8,221,526.88

Account 105

Account	Project Description	Amount
1050	627.369 Acres of Land in Boone, NC moved to account 1050 in 1990	588,277.44

PERSON RESPONSIBLE: Will Garrett

STAFF-DR-01-035

REQUEST:

Explain why the Commission should approve the East Bend Purchase without the certainty that MF6 will be retired.

RESPONSE:

Duke Energy Kentucky's economic evaluation showed that the East Bend Purchase is the lowest cost option for the Kentucky customers to meet Duke Energy Kentucky's future generation needs. Duke Energy Kentucky has not officially declared the MF6 retirement, and cannot until we have assurance of replacement resources - until the Commission approves the East Bend Purchase. Provided the East Bend Purchase is approved as requested, appropriate steps will be taken with respect to MF6.

PERSON RESPONSIBLE: Steve Immel