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VIA OVERNIGHT DELIVERY

September 29, 2014

RECEIVED

SEP 30 2014

PUBLIC SERVICE
COMMISSION

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

Re: Case No. 2014-00287
In the Matter of The Application of Duke Energy Kentucky, Inc. for Approval of a Transaction with an Affiliate or, In the Alternative, Approval of Deviations From the Requirements of KRS 278.2207 and KRS 278.2213(6).

Dear Mr. Derouen:

Enclosed please find an original and twelve copies each of *the Responses to Commission STAFF's First Request for Information to Duke Energy Kentucky, Inc.* for the above mentioned case.

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

Sincerely,

Rocco D'Ascenzo


Enclosure

cc: Jennifer Hans (w/ enclosure)

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., Affiant

Subscribed and sworn to before me by William Don Wathen Jr. on this 19TH day of September, 2014.



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 INDIANA)
) SS:
COUNTY OF HENDRICKS)

The undersigned, Bryan Walsh, General Manager III Regulated Fleet, 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.

Bryan P. Walsh

Bryan Walsh, Affiant

Subscribed and sworn to before me by Bryan Walsh on this 18th day of September, 2014.

Lana J. Horner

NOTARY PUBLIC LANA J. HORNER

My Commission Expires: 04/19/2015

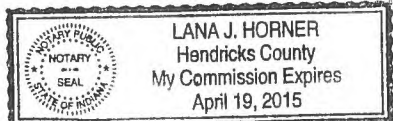


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**Duke Energy Kentucky
Case No. 2014-00287
Staff First Set Data Requests
Date Received: September 16, 2014**

STAFF-DR-01-001

REQUEST:

Refer to page 7 of the application, paragraph 16, which states that “during the period under which the proposed Amended and Restated Agreement is in effect and Duke Energy Miami Fort remains an affiliate of Duke Energy Kentucky, the pricing of the services provided by Duke Energy Miami Fort pursuant to the proposed Amended and Restated Agreement satisfies and complies with the provision of KRS 278.2207(1)(b).”

- a. State whether it is anticipated that Duke Energy Miami Fort could become unaffiliated with Duke Kentucky but still remain the operator of Miami Fort Unit 6 (“MF6”).
- b. Given that the existing Miami Fort Unit 6 Operation Agreement does not identify Duke Energy Miami Fort as the operator of MF6, confirm (1) that Duke Energy Miami Fort is the current operator of MF6 with evidence of its assignment to The Cincinnati Gas & Electric Company and (2) that there are no differences in pricing or services (outside of the Retirement Period Services included in the Amended and Restated Miami Fort Unit 6 Operation Agreement (“Amended Operation Agreement”)) between the current operating agreement and the Amended Operation Agreement. If this cannot be confirmed, provide details of the differences.

RESPONSE:

a. This scenario is possible. Upon closing of the sale transaction with Dynegy, no assignment or assumption of the Amended Operation Agreement would be necessary because Dynegy Resource would be the owner of Duke Energy Miami Fort LLC, which in turn would have obligations under the Amended Operation Agreement to run MF6.

b. The Amended Operation Agreement provides that pricing for the services provided are determined in a manner consistent with the “current operating agreement” practice while Duke Energy Miami Fort remains an affiliate of Duke Energy Kentucky. Once Duke Energy Miami Fort is sold to a 3rd party and is no longer an affiliate, pricing for services provided will still be performed in a manner consistent with current practice with the addition of a “fee” paid to the 3rd party as defined in the Amended Operation Agreement. The “fee” is intended to provide a reasonable incentive for the 3rd party to operate/maintain the unit on Duke Energy Kentucky’s behalf. Please See Attachment Staff DR-01-001 for the assignment to Duke Energy Miami Fort.

PERSON RESPONSIBLE: Bryan Walsh

BILL OF SALE, ASSIGNMENT AND ASSUMPTION AGREEMENT

This Bill of Sale, Assignment and Assumption Agreement ("Assignment and Assumption Agreement") is entered into effective as of May 1, 2014, by and between **Duke Energy Ohio, Inc.**, an Ohio corporation ("Transferor") and **Duke Energy Miami Fort, LLC**, a Delaware limited liability company ("Transferee"). All capitalized terms, unless otherwise specified herein, shall have the same meaning given to them in the Agreement (as defined below).

WHEREAS, Transferor desires to contribute to Transferee, its wholly owned subsidiary, all of Transferor's right, title and interest in certain assets and associated liabilities of a coal-fired generating facility in North Bend, Ohio; and

WHEREAS, Transferee and Transferor have entered into an Asset Contribution Agreement dated even date herewith (the "Agreement");

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor and Transferee agree as follows:

1. Transferor hereby transfers, conveys, assigns and contributes to Transferee all of Transferor's rights, title and interest in and to the Transferred Assets, to have and to hold the same unto Transferee and its successors and assigns forever, to its and their own use and benefit.

2. Without limiting in any way Transferee's obligations pursuant to the Agreement, Transferee hereby assumes and agrees to perform, pay, discharge and satisfy the Assumed Liabilities.

3. This Assignment and Assumption Agreement shall not be deemed to supersede or in any way modify any of the provisions of the Agreement. In the event of any conflict between the provisions of this Assignment and Assumption Agreement and the provisions of the Agreement, the provisions of the Agreement shall control.

4. All of the terms and provisions of this Assignment and Assumption Agreement shall be binding upon Transferor and Transferee and their respective successors and assigns and shall inure to the benefit of Transferor and Transferee, and their respective successors and assigns.

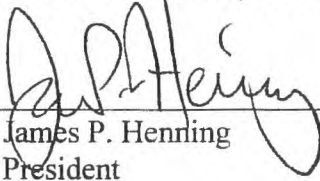
5. This Assignment and Assumption Agreement shall be governed by the laws of the State of Ohio.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, Transferor and Transferee have executed this Assignment and Assumption Agreement as of May 1, 2014.

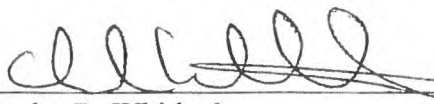
TRANSFEROR:

DUKE ENERGY OHIO, INC.

By:  _____
Name: James P. Henning
Title: President

TRANSFEE:

DUKE ENERGY MIAMI FORT, LLC

By:  _____
Name: Charles R. Whitlock
Title: President

REQUEST:

Refer to paragraph 11 on page 5 of the Application regarding the potential sale of Miami Fort Unit 7 (“MF7”) and Miami Fort Unit 8 (“MF8”) “to an unaffiliated third party or parties in the foreseeable future.

- a. Explain whether Duke Energy Commercial Asset Management has found a potential purchaser for MF7 and MF8.
- b. If the answer to 2.a. is yes, state whether an agreement has been reached whereby the purchaser would assume the proposed Amended Operation Agreement.
 1. If an agreement has been reached, provide a copy of that agreement
 2. If an agreement has not yet been reached, state when Duke Energy Commercial Asset Management anticipates an agreement will be reached regarding the operational responsibilities of MF6 and whether it is still anticipated that the proposed Amended Operation Agreement will be assumed by the purchaser.

RESPONSE:

- a. Yes. On August 21, 2014, two wholly-owned subsidiaries of Duke Energy Corporation (the “Duke Sellers”) entered into a purchase and sale agreement (the “PSA”) with Dynege Resource I, LLC (“Dynege Resource”), a wholly-owned subsidiary of Dynege, Inc., for the sale of Duke Energy Commercial Asset

Management, which owns, among other things, all of Duke Energy's ownership in MF7 and MF8.

- b. Under the PSA, the Duke Sellers are permitted to cause Duke Energy Miami Fort LLC to enter into the Amended Operation Agreement upon approval of the Commission. Upon closing of the sale transaction, no assignment or assumption of the Amended Operation Agreement would be necessary because Dynegy Resource would be the owner of Duke Energy Miami Fort LLC, which in turn would have obligations under the Amended Operation Agreement. In the event that Commission approval has not been obtained prior to closing of the sale transaction, Dynegy Resource is obligated under the PSA to cause Duke Energy Miami Fort LLC to apply the terms and conditions of the existing operation agreement for MF6 in a manner consistent with the past practices of Duke Energy Miami Fort LLC and its predecessor affiliates.

PERSON RESPONSIBLE: Matthew E. Palasek

Duke Energy Kentucky
Case No. 2014-00287
Staff First Set Data Requests
Date Received: September 16, 2014

STAFF-DR-01-003

REQUEST:

Paragraph 16 on page 7 on the application states, “The price to be paid by the Company for Duke Energy Miami Fort’s services match Duke Energy Miami Fort’s fully distributed cost, and there is no reason to believe that the price to be paid will be greater than market.” Explain the basis for the latter part of the statement.

RESPONSE:

The statement is referring to the period when the company owning and operating the Miami Fort station (except unit 6) is still an affiliate of Duke Energy Kentucky and providing services to Duke Energy Kentucky at its fully distributed cost consistent with current pricing parameters under the existing operation agreement. Duke Energy’s departments (e.g. service company, HR, etc.) periodically bench mark costs against the market to make sure its costs are comparable.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2014-00287
Staff First Set Data Requests
Date Received: September 16, 2014

STAFF-DR-01-004

REQUEST:

Refer to footnotes 28 and 29 on page 7 of the Application which reference the scenario of Duke Energy Miami Fort's being purchased by an unaffiliated third party. The footnotes state in such case, it is anticipated that the unaffiliated third party assuming the responsibilities of the Amended Operation Agreement would require an additional fee or return. State whether Section 7.5 of the Amended Operation Agreement was included to address this possibility and whether the term "Fee" as defined on page 4 of the Amended Operation Agreement is the fee referenced in footnotes 28 and 29. If so, explain the rationale for the establishment of such a fee when an unaffiliated third-party operator has not yet been identified.

RESPONSE:

The fee referenced in the footnotes is the same that is defined in the agreement. The fee was included in the agreement as an incentive for Duke Energy Miami Fort to provide services on behalf of Duke Energy Kentucky when it is no longer an affiliate and subject to affiliate pricing restrictions. Following closing of the sale of Duke Energy's Midwest commercial generation business, the contract will remain with Duke Energy Miami Fort, which will be owned by Dynegy. The fee was negotiated with the current management of Duke Energy Miami Fort, who it is anticipated, will be operating the station upon its sale to Dynegy. It was agreed upon by Duke Energy Kentucky, to be a reasonable fee for a

third party to provide labor services to Duke Energy Kentucky so that the Company could monitor their actual costs and acknowledge that a 3rd party providing such services will insist upon some profit.

PERSON RESPONSIBLE: Matthew E. Palasek