COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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 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	)	CASE NO. 2014-00201

COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before August 8, 2014. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Big Rivers fails or refuses to furnish all or part of the requested information, Duke Kentucky shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to page 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. Refer to pages 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.

10. 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 <u>depending upon the final results of carbon legislation, perhaps even longer</u>." [Emphasis added]. Explain what is meant by the underlined portion of the statement.

11. 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.

12. 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.

13. Refer to page 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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 purchases was determined.

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

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. Refer to the 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.

30. 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.

31. 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.

32. 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.

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

34. 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 Nos. 107, Construction Work in Progress-Electric, and 105, Electric Plant Held for Future Use.

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

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DATED JUL 25 2014

cc: Parties of Record

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