

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BACK-UP POWER SUPPLY PLAN OF DUKE	)	CASE NO.
ENERGY KENTUCKY, INC.	)	2015-00075

INTERIM ORDER

On March 2, 2015, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application seeking Commission approval of a back-up power supply plan. Pursuant to the Commission's Order in Case No. 2014-00334,<sup>1</sup> Duke Kentucky's current back-up supply plan is authorized to be in effect through May 31, 2015. In the instant matter, Duke Kentucky is proposing a new back-up supply plan ("2015 Plan") to extend through the next two PJM Interconnection LLC ("PJM") delivery years beginning June 1, 2015, through May 31, 2016, and June 1, 2016, through May 31, 2017.

Duke Kentucky noted that its primary goal in selecting an appropriate back-up power supply plan was to balance cost and risk mitigation. According to Duke Kentucky, the 2015 Plan consists of fixed-priced financial swap contracts to lock in the price of power during scheduled outages and PJM energy market purchases during forced outages. With the planned June 1, 2015, retirement of Miami Fort Unit 6 and its recent acquisition of the remaining 31 percent interest in East Bend Unit 2, Duke Kentucky's generating portfolio will consist of a 600-megawatt ("MW") coal-fired base-load unit located at the East Bend Generating Station and six natural gas-fired peaking

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<sup>1</sup> Case No. 2014-00334, *Application of Duke Energy Kentucky, Inc. to Extend the Filing Deadline for the Filing of Its Back-Up Supply Plan and to Continue Its Current Plan Through May 31, 2015, and Request for Expedited Ruling* (Ky. PSC Sept. 29, 2014).

units with a combined capacity of 492 MWs located at the Woodsdale Generating Station. Recognizing the concentration in its generating portfolio, Duke Kentucky stated that it is considering enhancing its 2015 Plan with a business interruption insurance product specifically tailored to mitigate exposure to market prices from an extended forced outage at East Bend Unit 2. Duke Kentucky is also evaluating other potential insurance products that could provide an additional level of protection.

Duke Kentucky received 16 bid alternatives from six different bidders in response to a Request for Proposals ("RFP") issued on July 8, 2014. The RFP sought bids for the following types of supply options: (1) back stand energy call options; (2) daily call options; and (3) insurance products. Back stand energy call options and insurance products are tied to unplanned outages at East Bend Unit 2. Daily call options are independent of any outages at East Bend Unit 2 and are directly compared to the market. The bid alternatives received were in the form of daily call options or insurance products.

As a result of its analysis of the conforming bids, Duke Kentucky found that an insurance product could provide an effective hedge, but that a more tailored product would likely be required to maximize the potential effectiveness of those products as a hedge against market exposure due to forced outages at East Bend Unit 2. Accordingly, Duke Kentucky requested that the insurance provider submit additional insurance proposals so that Duke Kentucky could more fully evaluate the insurance product opportunities. Duke Kentucky anticipates engaging in an iterative negotiation process that may include requests for similar products from other insurance

underwriters. Duke Kentucky is currently evaluating the various insurance products that have been offered as a result of its solicitations and could have a product in place near the beginning of the 2015/2016 PJM Delivery Year.


Having reviewed the record and being otherwise sufficiently advised, the Commission finds that a final decision on Duke Kentucky's back-up supply proposal is premature, given the uncertainty surrounding Duke Kentucky's procurement of an insurance product to act as an additional hedge against market price exposure. More significantly, the details of any potential insurance product are not currently known. The Commission at this time cannot make a decision on Duke Kentucky's proposed 2015 Plan without knowing with greater certainty whether the plan will include an insurance product and, if so, the terms, provisions, and conditions of that insurance product. The Commission recognizes that the authority for Duke Kentucky's current back-up power supply plan is effective through May 31, 2015. Accordingly, the Commission will extend, on an interim basis, Duke Kentucky's authority to implement its current back-up power supply plan until such time as a final Order has been rendered in the instant matter.

IT IS THEREFORE ORDERED that Duke Kentucky's current back-up power supply plan shall continue in force until such time as a final Order in the instant matter has been issued.

By the Commission

ENTERED  
MAY 27 2015  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST



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Executive Director

Case No. 2014-00339

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