

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE)
APPLICATION OF THE FUEL)
ADJUSTMENT CLAUSE OF DUKE) CASE NO. 2012-00322
ENERGY KENTUCKY, INC. FROM)
NOVEMBER 1, 2011 THROUGH APRIL)
30, 2012)

ORDER

Pursuant to 807 KAR 5:056, Section 1(11), IT IS HEREBY ORDERED that:

1. Duke Energy Kentucky, Inc. ("Duke Kentucky") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on October 11, 2012 at 10:00 a.m., Eastern Daylight Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2011 through April 30, 2012. Neither opening statements nor summaries of pre-filed testimony will be permitted.
2. Not less than 7 days and nor more than 21 days prior to the scheduled hearing, Duke Kentucky shall publish in a newspaper of general circulation in each area in which it serves, notice of the purpose, time, place and date of the scheduled hearing.
3. Duke Kentucky shall file with the Commission no later than October 8, 2012 proof of publication of its notice for the hearing.
4. The official record of the proceeding shall be by video only.
5. a. The information requested in the Appendix to this Order is due not later than 21 days from the date of this Order. Responses to requests for information

shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and an original and ten copies to the Commission.

b. 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 the 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.

c. A party 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.

d. For any request to which a party refuses to furnish all or part of the requested information that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Any party who wishes to file testimony in this proceeding or to request information from Duke Kentucky may petition the Commission for a procedural schedule.

7. All documents that Duke Kentucky filed with the Commission during the period under review pursuant to 807 KAR 5:056, Section 1(7) and (9) are incorporated by reference into the record of this proceeding.

By the Commission

ENTERED *ML*
AUG 22 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Cassia D. Greenwell for
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00322 DATED **AUG 22 2012**

1. For the period from November 1, 2011 through April 30, 2012, list each vendor from whom coal was purchased and the quantities and the nature of each purchase (e.g., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract. For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

2. For the period from November 1, 2011 through April 30, 2012, list each vendor from whom natural gas was purchased for generation and the quantities and the nature of each purchase (e.g., spot or contract). For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

3. State whether Duke Kentucky engages in hedging activities for its coal or natural gas purchases used for generation. If yes, describe the hedging activities in detail.

4. For each generating station or unit for which a separate coal pile is maintained, state, for the period from November 1, 2011 through April 30, 2012, the actual amount of coal burned in tons, the actual amount of coal deliveries in tons, the total kWh generated, and the actual capacity factor at which the plant operated.

5. List all firm power commitments for Duke Kentucky from November 1, 2011 through April 30, 2012 for (a) purchases and (b) sales. This list shall identify the

electric utility, the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).

6. Provide a monthly billing summary of sales to all electric utilities for the period November 1, 2011 through April 30, 2012.

7. List Duke Kentucky's scheduled, actual, and forced outages from November 1, 2011 through April 30, 2012.

8. List all existing fuel contracts categorized as long-term (i.e., one year or more in length). Provide the following information for each contract:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract was executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification, or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percent of annual requirements received during the contract's term;
- i. Base price in dollars per ton;
- j. Total amount of price escalations to date in dollars per ton; and
- k. Current price paid for coal under the contract in dollars per ton (i +

j).

9. a. State whether Duke Kentucky regularly compares the price of its coal purchases to those paid by other electric utilities.

b. If yes, state:

(1) How Duke Kentucky's prices compare with those of other utilities for the review period. Include all prices used in the comparison in cents per MMbtu.

(2) The utilities that are included in this comparison and their locations.

10. State the percentage of Duke Kentucky's coal, as of the date of this Order, that is delivered by:

- a. Rail;
- b. Truck; or
- c. Barge.

11. a. State Duke Kentucky's coal inventory level in tons and in number of days' supply as of April 30, 2012. Provide this information by generating station and in the aggregate.

b. Describe the criteria used to determine number of days' supply.

c. Compare Duke Kentucky's coal inventory as of April 30, 2012 to its inventory target for that date for each plant and for total inventory.

d. If actual coal inventory exceeds inventory target by 10 days' supply, state the reasons for excessive inventory.

e. (1) State whether Duke Kentucky expects any significant changes in its current coal inventory target within the next 12 months.

(2) If yes, state the expected change and the reasons for this change.

12. a. State whether Duke Kentucky has audited any of its coal contracts during the period from November 1, 2011 through April 30, 2012.

b. If yes, for each audited contract:

- (1) Identify the contract;
- (2) Identify the auditor;
- (3) State the results of the audit; and
- (4) Describe the actions that Duke Kentucky took as a result of

the audit.

13. a. State whether Duke Kentucky has received any customer complaints regarding its FAC during the period from November 1, 2011 through April 30, 2012.

b. If yes, for each complaint, state:

- (1) The nature of the complaint; and
- (2) Duke Kentucky's response.

14. a. State whether Duke Kentucky is currently involved in any litigation with its current or former coal suppliers.

b. If yes, for each litigation:

- (1) Identify the coal supplier;
- (2) Identify the coal contract involved;
- (3) State the potential liability or recovery to Duke Kentucky;
- (4) List the issues presented; and
- (5) Provide a copy of the complaint or other legal pleading that

initiated the litigation and any answers or counterclaims. If a copy has previously been

filed with the Commission, provide the date on which it was filed and the case in which it was filed.

c. State the current status of all litigation with coal suppliers.

15. a. During the period from November 1, 2011 through April 30, 2012, have there been any changes to Duke Kentucky's written policies and procedures regarding its fuel procurement?

b. If yes:

(1) Describe the changes;

(2) Provide the written policies and procedures as changed;

(3) State the date(s) the changes were made; and

(4) Explain why the changes were made.

c. If no, provide the date Duke Kentucky's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

16. a. State whether Duke Kentucky is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from November 1, 2011 through April 30, 2012.

b. If yes, for each violation:

(1) Describe the violation;

(2) Describe the action(s) that Duke Kentucky took upon discovering the violation; and

(3) Identify the person(s) who committed the violation.

17. Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for Duke Kentucky's fuel procurement activities that occurred during the period from November 1, 2011 through April 30, 2012.

18. a. Identify all changes that Duke Kentucky has made during the period under review to its maintenance and operation practices that also affect fuel usage at Duke Kentucky's generation facilities.

b. Describe the impact of these changes on Duke Kentucky's fuel usage.

19. List each written coal supply solicitation issued during the period from November 1, 2011 through April 30, 2012.

a. For each solicitation, provide the date of the solicitation, the type of solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranked the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

20. List each oral coal supply solicitation issued during the period from November 1, 2011 through April 30, 2012.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the tabulation sheet or other document that ranks the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

21. a. List all intersystem sales during the period under review in which Duke Kentucky used a third party's transmission system.

b. For each sale listed above:

(1) Describe how Duke Kentucky addressed, for FAC reporting purposes, the cost of fuel expended to cover any line losses incurred to transmit its power across the third party's transmission system; and

(2) State the line loss factor used for each transaction and describe how that line loss factor was determined.

22. Describe each change that Duke Kentucky made to its methodology for calculating intersystem sales line losses during the period under review.

23. State whether, during the period under review, Duke Kentucky has solicited bids for coal with the restriction that it was not mined through strip mining or mountain top removal. If yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this

solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

24. Provide a detailed discussion of any specific generation efficiency improvements Duke Kentucky has undertaken during the period under review.

25. Explain whether closures of coal mines due to decreased demand for coal could potentially lead to coal shortages that could affect reliability. Include in the explanation whether evidence of such a potential shortage exists today.

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