

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of an Examination Of The)
Application Of The Fuel Adjustment Clause) Case No. 2012-00554
Of Duke Energy Kentucky From November)
1, 2010 Through October 31, 2012)

MAR 1 2013
PUBLIC SERVICE
COMMISSION

DIRECT TESTIMONY OF

ELLIOTT BATSON, JR.

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

March 1, 2013

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I. INTRODUCTION AND PURPOSE

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Elliot Batson Jr., and my business address is 526 Church Street,
3 Charlotte, North Carolina 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Manager, Coal, by Duke Energy Business Services, LLC, a
6 service company subsidiary of Duke Energy Corporation and a non-utility affiliate
7 of Duke Energy Kentucky, Inc. Duke Energy Kentucky, or Company.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
9 **AND BUSINESS EXPERIENCE.**

10 A. I am a 1985 graduate of the University of South Carolina with a Bachelor of
11 Science in Business Administration. I have been employed with Duke Energy
12 since 1986 and have worked in various fossil fuel procurement functions and
13 leadership roles since 1990. I am a member of the North Carolina Coal Institute.

14 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND**
15 **RESPONSIBILITIES AS MANAGER, COAL.**

16 A. As Manager, Coal, I participate in all aspects of the purchase and delivery of coal
17 that the Duke Energy regulated utilities use for the generation of electricity. As
18 part of this activity, I review forecasts of supply and demand, price, quality,
19 availability, and deliverability. These coal forecasts cover both existing supply
20 sources and potential supply sources that may be economically developed. I also

1 supervise the Company's coal procurement activity, including the negotiation and
2 delivery of coal purchase contracts.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to respond to the Commission's February 13,
5 2013 Order and discuss Duke Energy Kentucky's fuel procurement practices from
6 November 1, 2010 through October 31, 2012. I also sponsor certain of the
7 Company's responses to the Commission Data Requests.

8 **II. DISCUSSION**

9 **Q. PLEASE COMMENT GENERALLY ON THE REASONABLENESS OF**
10 **DUKE ENERGY KENTUCKY'S FUEL PROCUREMENT PRACTICES**
11 **DURING THE REVIEW PERIOD.**

12 A. Duke Energy Kentucky's coal procurement policy is designed to assure that we
13 procure a reliable and consistent supply of appropriate quality coal for our coal
14 generating stations at a competitive price. Coal is generally purchased under
15 long-term contracts of one to three years in length. The Company secures both its
16 spot (less than one year) and long-term coal supply from producers through a
17 competitive bid process, which are evaluated thoroughly, taking into account coal
18 quality, quantity, transportation alternatives and price, among other factors. The
19 producer (or producers) whose coal offers the best value, particularly with regard
20 to overall utilization costs, is selected for further negotiations to produce
21 contracts. The Company's long-term contracts may contain provisions for
22 periodic price adjustments or a mechanism to adjust prices based upon published
23 market price indices. The Company has established guidelines for the amounts of

1 coal to be placed under contract during a specific period of time, and the Coal
2 Procurement group follows these guidelines.

3 The Company's Coal Procurement group stays continually informed as to
4 the current market for spot and contract coal and specific opportunities for the
5 purchase of such coal. Coal supply needs are determined by an ongoing review of
6 generating station stockpiles, consumption projections, and current coal supply
7 quantities already contracted. In addition, Duke Energy's Coal Procurement
8 personnel visit each of the Company's contract producers and mining operations
9 regularly and any potential new spot producers as well, gathering information
10 which assists in our analysis of spot coal needs. This information, coupled with
11 constant monitoring of pricing information published in various places (e.g.
12 industry newsletters, trade publications, regulatory filings, etc.), as well as a close
13 review of the weekly spot market pricing indices published by brokers and traders
14 provides a thorough understanding of the various spot coal and long-term
15 alternatives. Usually, spot coal commitments are made for small quantities of
16 coal, over short durations, as compared to long-term contracts of one year or
17 more.

18 **Q. PLEASE DESCRIBE THE COAL SUPPLIER'S ADHERENCE TO**
19 **CONTRACT DELIVERY SCHEDULES DURING THE REVIEW**
20 **PERIOD?**

21 A. During the review period, the Company received approximately 96% of all
22 contracted coal during the agreed upon delivery schedule. The shortfall tons were
23 spread over several different suppliers and represented production issues relevant

1 to mining coal. The Company did not face any inventory problems during the
2 review period as a result of these contract delivery shortfalls. The shortfalls were
3 not of a sufficient amount to cause a significant increase in spot tons purchased by
4 the Company.

5 **Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S EFFORTS TO**
6 **ENSURE COAL SUPPLIERS ADHERENCE TO CONTRACT DELIVERY**
7 **SCHEDULES DURING THE REVIEW PERIOD.**

8 A. Duke Energy Kentucky constantly monitors and enforces the provisions of our
9 coal contracts with respect to quantities and qualities of coal due the Company.
10 The Company monitors supplier performance monthly and determines the causes
11 of any supplier under-performance for quantity or quality. If our review
12 determines that the supply shortages were not the result of a Force Majeure event,
13 we will either work with the particular supplier to determine a new alternate
14 delivery schedule or seek damage provisions per the terms of the contract. In
15 either case, we preserve as much of the market value as possible. All coal
16 contracts contain quality adjustment provisions to account for the differences
17 between the actual coal quality shipped and the contracted quality. Monthly
18 quality pricing adjustments are made per the terms of the contract which include
19 penalties for non-conforming shipments of coal. Contracts also contain terms
20 stating if shipments are not in compliance with contract specifications, the
21 Company has the ability to suspend deliveries and terminate the contract if quality
22 deficiencies cannot be corrected.

1 **Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S EFFORTS TO**
2 **MAINTAIN THE ADEQUACY OF ITS COAL SUPPLIES IN LIGHT OF**
3 **ANY SUPPLIER'S INABILITY OR UNWILLINGNESS TO MAKE**
4 **CONTRACT DELIVERIES.**

5 A. As mentioned earlier, the Company monitors supplier delivery performance
6 monthly as part of a strong adherence to contract administration. The Company
7 also closely monitors actual coal burns, actual coal inventories and projected coal
8 burns and inventories. If a supplier fails to make contracted deliveries per the
9 agreed upon schedule, the Company immediately notifies the supplier and
10 discusses the reasons and nature of the shortfall. Depending upon the nature of
11 the failure to perform, the parties either agree to reschedule the missed shipments
12 or the Company enforces the legal terms of the contracts for non-performance.
13 The Company then factors any shortfall or agreed upon make up schedule for
14 missed tons into the forward plans for projected inventories. If the missed
15 shipments will lead to a situation where the Company's coal inventories will fall
16 below established inventory guidelines, the Company will purchase replacement
17 coal through a competitive bid process.

18 **Q. WERE THERE ANY CHANGES IN COAL MARKET CONDITIONS**
19 **THAT OCCURRED DURING THE REVIEW PERIOD OR THAT DUKE**
20 **ENERGY KENTUCKY EXPECTS TO OCCUR IN THE NEXT TWO**
21 **YEARS THAT HAVE SIGNIFICANTLY AFFECTED OR WILL**
22 **SIGNIFICANTLY AFFECT DUKE ENERGY KENTUCKY'S COAL**
23 **PROCUREMENT PRACTICES?**

1 A. The Company currently sources a majority of its coal for Duke Energy Kentucky
2 from either the Illinois Basin or from the Upper Ohio River near
3 Pennsylvania/Ohio. Between late 2010 and late 2012, published coal market
4 prices have declined from approximately \$45 - \$50 per ton for high sulfur Illinois
5 Basin coal loaded on the Ohio River and high sulfur Ohio River coal loaded near
6 Pennsylvania/Ohio to approximately \$40-45 per ton currently. The biggest drivers
7 for these declining coal market prices are low natural gas prices that have
8 depressed coal generation, published reports of surplus amounts of coal
9 inventories in stockpile at most U.S. power plants and relatively weak economic
10 conditions impacting overall electric generation. Going forward, the Company
11 expects (a) the continued decline in U.S. steam coal supplies, (b) a slumping
12 global coal market, (c) low natural gas prices, (d) healthy utility coal inventories,
13 and (e) volatile power prices. Coal markets are likely to be relatively stable in the
14 near term; however, longer term, we see potential for market volatility as coal
15 suppliers continue to cut production and bring supply into balance with demand.

16 The Company expects to continue to employ many of the same
17 procurement practices over the next two years as it has in the past. Our practices
18 have maintained a reliable supply of coal at a very competitive cost for our
19 customers. Practices include the use of staggered terms on long term contracts,
20 seeking to maintain a diversified mix of suppliers and supply sources, ensuring
21 the right quality of coal depending on power market conditions, using a mixture of
22 fixed price contracts and variable price contracts tied to changes in certain indices
23 as appropriate, enforcement of all contract provisions and continuing compliance

1 with Company coal contracting coverage guidelines.

2 **Q. PLEASE IDENTIFY THE RESPONSES TO COMMISSION DATA**
3 **REQUESTS YOU ARE SPONSORING?**

4 A. I sponsor the Company's responses to Data Request Numbers 15, 18, 19, 20, 21,
5 22, 24, 25, 26, 27, 29, 30, 31 32, 33, 35, and 37. These responses were prepared
6 by me and under my direction and control and are true and accurate.

7 **III. CONCLUSION**

8 **Q. IN YOUR OPINION, WERE DUKE ENERGY KENTUCKY'S FUEL**
9 **COSTS AND PROCUREMENTS DURING THE REVIEW PERIOD**
10 **REASONABLE?**

11 A. Yes they were.

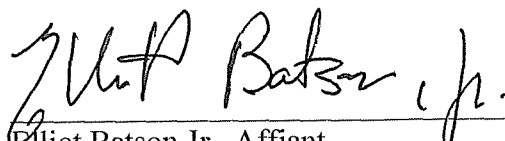
12 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

13 A. Yes, it does.

VERIFICATION

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

The undersigned, Elliot Batson Jr., being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

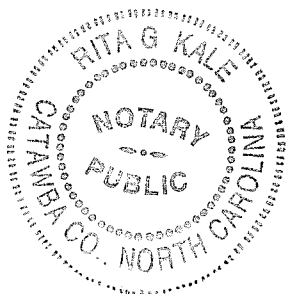


Elliot Batson Jr., Affiant

Subscribed and sworn to before me by Elliot Batson Jr., on this 28 day of February, 2013.



NOTARY PUBLIC



My Commission Expires: 6/17/2017

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of an Examination Of The)
Application Of The Fuel Adjustment Clause) Case No. 2012-00554
Of Duke Energy Kentucky From November)
1, 2010 Through October 31, 2012)

DIRECT TESTIMONY OF

JOHN D. SWEZ

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

February 28, 2013

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I. INTRODUCTION AND PURPOSE

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is John D. Swez, and my business address is 526 Church Street,
3 Charlotte, North Carolina 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Director, Fuels & Systems Optimization, by Duke Energy
6 Business Services, LLC, a service company subsidiary of Duke Energy
7 Corporation and a non-utility affiliate of Duke Energy Kentucky, Inc. (Duke
8 Energy Kentucky, or Company).

9 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
10 **AND BUSINESS EXPERIENCE.**

11 A. I received a Bachelor of Science degree in Mechanical Engineering from Purdue
12 University in 1992. I received a Masters of Business Administration degree from
13 the University of Indianapolis in 1995. I joined PSI Energy, Inc. in 1992 and have
14 held various engineering positions with the Company or its affiliates in the Power
15 Services and Power Trading departments. In 2003, I assumed the position of
16 Manager, Real-Time Operations. Though my title has changed on several
17 occasions, I assumed my current role on January 1, 2006.

18 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS DIRECTOR,**
19 **GENERATION DISPATCH & OPERATIONS.**

20 A. I am responsible for the Company's: (i) generating dispatch; (ii) unit
21 commitment; (iii) 24-hour real-time operations; and (iv) short-term generating
22 maintenance planning. I was also responsible for the submission of the

1 Company's supply offers to the Midwest Independent Transmission System
2 Operator, Inc. (MISO) for the MISO's Day-Ahead and Real-Time electric energy
3 markets in the MISO region prior to January 1, 2012 and am responsible for
4 similar supply offers to the PJM Interconnection, LLC (PJM) regional
5 transmission organization (RTO) since January 1, 2012, as well as managing the
6 Company's short term supply position to ensure that the Company has adequate
7 resources committed to serve its retail customers' electricity needs.

8 **Q. WHAT IS THE PURPOSE OF YOUR PREFILED TESTIMONY?**

9 A. The purpose of my testimony is to respond to the Commission's February 13,
10 2013 Order and address the changes in the wholesale electric power market and
11 how those changes have impacted or will impact Duke Energy Kentucky's power
12 procurement. I also sponsor certain of the Company's responses to the
13 Commission's Data Requests.

II. DISCUSSION

14 **Q. PLEASE GENERALLY DESCRIBE DUKE ENERGY KENTUCKY'S**
15 **POWER PROCUREMENT PRACTICES.**

16 A. Prior to January 1, 2012, Duke Energy Kentucky was a member of MISO and on
17 January 1, 2012, Duke Energy Kentucky became a member of PJM. In either
18 RTO, through the day-ahead market, market participants can mitigate their
19 exposure to price risk in the real-time markets. Demand bids and supply offers
20 are submitted by market participants, including both generator owners (as sellers)
21 and load serving entities (as buyers). Thus, the Company functions as both a
22 seller and buyer to serve its retail electric customers. In addition, Duke Energy

1 Kentucky has the ability to self-schedule certain resources to ensure that those
2 resources are committed and dispatched. Additionally, Duke Energy Kentucky
3 operates under a back-up power supply plan consisting of capacity purchases
4 through bilateral contracts and energy purchases through daily energy markets
5 with forward contracts purchased through Intercontinental Exchange (ICE) and
6 Over The Counter (OTC) brokers for scheduled outages. Duke Energy
7 Kentucky's current back-up supply plan, approved in Case No. 2012-220, expires
8 at the end of 2014.

9 In addition, Duke Energy Kentucky participated in ancillary services
10 markets in MISO prior to January 1, 2012, and participates in similar markets in
11 PJM today. In both markets, Duke Energy Kentucky's generators have followed
12 real-time dispatch signals without issue. Day-ahead and real-time prices for
13 ancillary services appear to be at reasonable price levels consistent with market
14 conditions. In addition, Duke Energy Kentucky's generating units are
15 appropriately receiving day-ahead and real-time awards for supply of reserves.

16 **Q. PLEASE DESCRIBE ANY CHANGES THAT OCCURRED IN THE**
17 **WHOLESALE ELECTRIC POWER MARKET BETWEEN NOVEMBER**
18 **1, 2010 THROUGH OCTOBER 31, 2012, AND THAT SIGNIFICANTLY**
19 **AFFECTED DUKE ENERGY KENTUCKY'S ELECTRIC POWER**
20 **PROCUREMENT PRACTICES.**

21 A. Duke Energy Kentucky continued to witness downward pressure on wholesale
22 power market prices during the review period. This was due to various reasons
23 including low natural gas prices, increased wind generation, recovery from the

1 economic recession, and other factors. For example, natural gas prices were
2 almost \$5 per million BTU at the end of 2010, declined steadily to between the \$4
3 per million BTU and \$5 per million BTU level for much of 2011, and dropped
4 into the \$3 per million BTU range for 2012 with even a short period where natural
5 gas was in the low \$2 per million BTU level. This downward pressure, however,
6 did not significantly impact Duke Energy Kentucky's power procurement
7 practices. The Company continued to make economic power purchases for both
8 planned and forced outages during the audit period to mitigate exposure to market
9 prices. In addition, Duke Energy Kentucky made economic purchases from the
10 applicable RTO, during the time of the Company's respective membership, when
11 the purchases were more economic than dispatching its own generation for the
12 benefit of the Company's native load.

13 **Q. WHAT OTHER CHANGES HAVE OCCURRED BETWEEN NOVEMBER**
14 **1, 2010 THROUGH OCTOBER 31, 2012 THAT SIGNIFICANTLY**
15 **AFFECTED DUKE ENERGY KENTUCKY'S ELECTRIC POWER**
16 **PROCUREMENT PRACTICES?**

17 A. As was approved in Case No 2010-00203, Duke Energy Kentucky realigned its
18 RTO membership from MISO to PJM on January 1, 2012. This realignment was
19 contingent upon the realignment of the bulk transmission system of Duke Energy
20 Ohio, Inc., (Duke Energy Ohio). Duke Energy Kentucky owns very little bulk
21 transmission facilities and is a transmission dependent utility, relying upon Duke
22 Energy Ohio transmission system to serve its Kentucky load. Because of the
23 nature of the connection of Duke Energy Kentucky's generation resources to the

1 bulk transmission facilities of Duke Energy Ohio, it was necessary for Duke
2 Energy Kentucky to be in the same RTO as Duke Energy Ohio.

3 Today, Duke Energy Kentucky operates in PJM in much the same manner
4 as it operated in MISO prior to January 1, 2012. The Company continues to offer
5 its generation into the market and bid its load. PJM operates both a day-ahead
6 market and real-time (balancing) market for energy. For the Duke Energy
7 Kentucky generating capacity, the Company offers its resources in a Fixed
8 Resource Requirement (FRR) capacity plan. The generating resources that are
9 committed in the FRR plan have a must-offer obligation for their energy in the
10 day-ahead energy market. PJM commits and dispatches these resources via their
11 security constrained unit commitment and economic dispatch software by
12 modeling the Duke Energy Kentucky generating resources with all other
13 generating resources in the PJM area. If not committed day-ahead, the units may
14 still be called upon in real-time. There are separate Locational Marginal Prices
15 (LMP)s calculated for day-ahead versus real-time that are paid to the generators or
16 charged to the load. PJM also operates an ancillary service market for regulation
17 and synchronized reserves, each of which is cleared separately with different
18 prices for each product. In addition, PJM reimburses service providers such as
19 Duke Energy Kentucky for blackstart and reactive services. The Duke Energy
20 Kentucky Woodsdale gas-fired combustion turbine plant is currently a blackstart
21 unit in the applicable Duke Energy blackstart plan and in addition, is reimbursed
22 for certain costs to provide blackstart service by PJM. Duke Energy Kentucky
23 continues to operate its generating resources to optimize revenues available in the

1 PJM capacity market, energy market, ancillary services, black start, and reactive
2 service in a reliable manner for the benefit of customers and shareholders.

3 **Q. IS DUKE ENERGY KENTUCKY CONTEMPLATING ANY CHANGES**
4 **TO ITS PARTICIPATION IN THE PJM CAPACITY PLANNING**
5 **PROCESS?**

6 A. Yes. The Company is in the process of evaluating a potential switch from the
7 Fixed Resource Requirement (FRR) capacity planning process to the Reliability
8 Pricing Model (RPM) capacity planning process for the 2017/2018 delivery year.
9 The Company has not made a decision in that regard and is mindful of its
10 commitment to seek approval from this Commission in advance of such a change.

11 **Q. WHAT CHANGES DOES DUKE ENERGY KENTUCKY EXPECT TO**
12 **OCCUR WITHIN THE NEXT TWO YEARS THAT MAY AFFECT DUKE**
13 **ENERGY KENTUCKY'S ELECTRIC POWER PROCUREMENT**
14 **PRACTICES?**

15 A. Duke Energy Kentucky is in the process of evaluating potential changes on its
16 Miami Fort 6 unit that range from operational changes to retirement in the 2015
17 time frame due to the Mercury and Air Toxics Rule (MATS).

18 **Q. PLEASE IDENTIFY THE RESPONSES TO COMMISSION DATA**
19 **REQUESTS YOU ARE SPONSORING?**

20 A. I sponsor the Company's responses to Data Request Numbers 9, 10, 11, 14, 15,
21 19, 22, , 24, 25, 29, 31, 32, 33, 34, 39, 41 and 42. These responses were
22 prepared by me and under my direction and control and are true and accurate.

JOHN D. SWEZ DIRECT

III. CONCLUSION

1 Q. IN YOUR OPINION, WERE DUKE ENERGY KENTUCKY'S POWER
2 PROCUREMENT PRACTICES REASONABLE DURING THE AUDIT
3 PERIOD?

4 A. Yes.

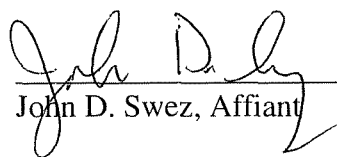
5 Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?

6 A. Yes, it does.

VERIFICATION

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

The undersigned, John D. Swez, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

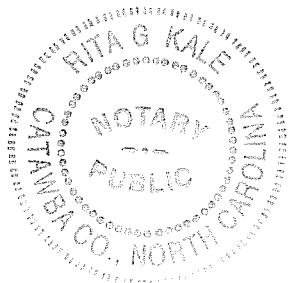


John D. Swez, Affiant

Subscribed and sworn to before me by John D. Swez on this 20 day of February, 2013.



NOTARY PUBLIC



My Commission Expires: 6/17/17

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of an Examination Of The)
Application Of The Fuel Adjustment Clause)
Of Duke Energy Kentucky From November)
1, 2010 Through October 31, 2012)
Case No. 2012-00554

DIRECT TESTIMONY OF
LISA STEINKUHL
ON BEHALF OF
DUKE ENERGY KENTUCKY, INC

February 28, 2013

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I. INTRODUCTION AND PURPOSE

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Lisa Steinkuhl, and my business address is 139 E. Fourth Street,
3 Cincinnati, Ohio 45201.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Lead Rates Analyst by Duke Energy Business Services, LLC, a
6 service company subsidiary of Duke Energy Corporation and a non-utility affiliate
7 of Duke Energy Kentucky, Inc. (Duke Energy Kentucky, or Company).

8 **Q. PLEASE DESCRIBE BRIEFLY YOUR EDUCATIONAL AND**
9 **PROFESSIONAL BACKGROUNDS.**

10 A. I received a Bachelor Degree in Mathematics from Western Kentucky University
11 in Bowling Green, Kentucky. After completing my Bachelor Degree, I received a
12 Post Baccalaureate Certificate in Professional Accountancy from the University of
13 Southern Indiana in Evansville, Indiana. I became a Certified Public Accountant
14 (CPA) in the State of Ohio in 1993. After receiving my Post Baccalaureate
15 Certificate in 1988, I was employed by small public accounting firms. I was hired
16 by Cinergy Services, Inc. in 1996 as a tax accountant. I held various positions
17 with Cinergy Services, Inc. including responsibilities in Regulated Business
18 Financial Operations, Commercial Business Asset Management, and Budgets and
19 Forecasts. I have held my current position as Lead Rates Analyst since April
20 2006.

1 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

2 A. I am a member of the American Institute of Certified Public Accountants and the
3 Ohio Society of Certified Public Accountants.

4 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC
5 SERVICE COMMISSION?**

6 A. Yes.

7 **Q. PLEASE SUMMARIZE YOUR DUTIES AS LEAD RATES ANALYST.**

8 A. As Lead Rates Analyst, I am responsible for the preparation of financial and
9 accounting data used in applications for changes in fuel and gas cost adjustment
10 factors and various other rates and recovery mechanisms for Duke Energy
11 Kentucky and Duke Energy Ohio, Inc.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to sponsor the calculation of Duke Energy
14 Kentucky's Fuel Adjustment Clause (FAC) including the adjustments during the
15 review period of November 1, 2010, through October 31, 2012. I also support the
16 calculation of the Company's proposed base FAC rate to be set in this proceeding.
17 Finally, I sponsor several of Duke Energy Kentucky's responses to the
18 Commission's Data Requests Contained in Appendix B of its February 13, 2013,
19 Order.

II. DISCUSSION

1 **Q. PLEASE COMMENT GENERALLY ON THE REASONABLENESS OF**
2 **DUKE ENERGY KENTUCKY'S CALCULATION OF ITS FAC RATE**
3 **DURING THE REVIEW PERIOD.**

4 A. In the Commission's May 31, 2011 Order in Case No., 2010-494, Duke Energy
5 Kentucky's base rate of recovery for fuel was set at 2.5747 ¢/kWh based upon the
6 Company's March 2010 fuel costs. The new rate was effective with the July 2011
7 billing cycle. Beginning in August 2011, Duke Energy Kentucky began filing
8 monthly adjustments to the FAC rate based upon its actual costs of fuel and power
9 procurement. The monthly adjustments were prepared by me or under my
10 direction and control and, to the best of my knowledge, information, and belief,
11 accurately reflected the Company's actual fuel and economy power costs.

12 **Q. IN YOUR OPINION WAS THE COMPANY'S BASE FUEL RATE**
13 **DURING THE REVIEW PERIOD ACCURATE AND REASONABLE?**

14 A. Yes.

15 **Q. WHAT RATE DOES THE COMPANY PROPOSE FOR THE BASE FUEL**
16 **COST IN THE UPCOMING TWO-YEAR PERIOD FOR THE FAC?**

17 A. The Company proposes to set its FAC at 2.7466 ¢/kWh. The calculation is
18 contained in Attachment DR-01-01 prepared in response to the Commission Data
19 Requests set forth in Appendix B of its February 13, 2013, Order.

1 Q. WHAT IS YOUR RATIONALE FOR DEEMING THIS TO BE A
2 REASONABLE LEVEL FOR THE BASE FUEL AMOUNT?

3 A. The rate I am proposing for the base fuel rate is the closest actual fuel rate in the
4 prior twelve months to the Company's projected fuel rate over the next two years.
5 This judgment is based upon a comparison of the average forecast fuel rate for the
6 calendar year 2013 and 2014 and the average forecast fuel rate for the 2 year
7 period of 2013 and 2014 with the actual fuel rates for the prior twelve months.
8 The projected fuel rate over the next two years is 2.5727 ¢/kWh which is slightly
9 lower than the actual fuel rate for June 2012 and very close to the current rate of
10 2.5747 ¢/kWh. Therefore, if the Commission determines not to consider a fuel
11 rate that is based upon an actual fuel rate in effect during the prior twelve months,
12 the Company is not opposed to leaving the base fuel rate at its current level.

13 Q. IN YOUR OPINION IS THE COMPANY'S PROPOSED BASE FUEL
14 COST REASONABLE?

15 A. Yes.

16 Q. PLEASE IDENTIFY THE RESPONSES TO COMMISSION DATA
17 REQUESTS YOU ARE SPONSORING?

18 A. I sponsor the Company's responses to Data Request Numbers 1, 2, 3, 4, 5, 6, 7, 8,
19 12, 13, 16, 17, 23, 28, 30, 35, 36, 38, 40, and 41. These responses were prepared
20 by me and under my direction and control and are true and accurate.

21 Q. IS DUKE ENERGY KENTUCKY PROVIDING COPIES OF ITS
22 PROPOSED TARIFFS REFLECTING THE CHANGE IN THE BASE
23 FUEL RATE DESCRIBED IN YOUR DIRECT TESTIMONY?

1 A. Yes. A copy of the Company's tariffs reflecting the proposed change in the base
2 fuel rate is included in attachment responding to Staff-issued Data Request 17.
3 That attachment was prepared at my request and under my direction and control.

III. CONCLUSION

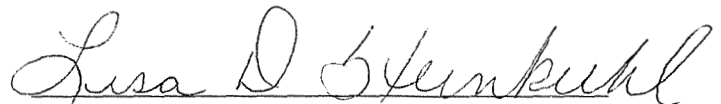
4 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

5 A. Yes, it does.

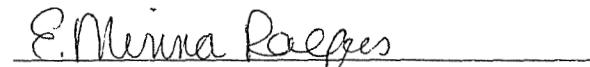
VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, Lisa Steinkuhl, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of her knowledge, information and belief.


Lisa Steinkuhl, Affiant

Subscribed and sworn to before me by Lisa Steinkuhl on this 26th day of February 2013.


NOTARY PUBLIC

My Commission Expires: 7/8/17



E. MINNA ROLFES
Notary Public, State of Ohio
My Commission Expires
July 8, 2017