

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF DUKE ENERGY) KENTUCKY, INC.'S ACCOUNTING SALE) OF NATURAL GAS NOT USED IN ITS) COMBUSTION TURBINES)	CASE NO. 2014-00078
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COMMISSION STAFF'S FIRST 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 in paper medium and an electronic copy of the following information, with a copy to all parties of record. The information requested herein is due on or before May 9, 2014. Responses to requests for information shall be filed in accordance with the electronic filing procedures set forth in 807 KAR 5:001, Section 8, and shall be appropriately indexed and bookmarked. Each response shall include the name of the witness responsible for responding to 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 Duke Kentucky 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 pages 2 through 4 of the Direct Testimony of Lisa Steinkuhl ("Steinkuhl Testimony") regarding the circumstances which caused Duke Kentucky to sell natural gas that was purchased for use in the Woodsdale Generating Station ("Woodsdale") units.

a. Has Duke Kentucky or any of its affiliated companies ever had a situation in which it sold fuel that was purchased for use in generating electricity? If so, identify and explain such circumstance(s).

b. If the answer to a. is affirmative, identify and explain the accounting entries for the fuel sold.

c. If the answer to a. is affirmative, identify and explain any changes made to the tariff in the subject jurisdiction(s).

2. Refer to page 4 of the Steinkuhl Testimony regarding Duke Kentucky's proposed accounting treatment for the cost of gas purchased and subsequently sold, as well as page 5, where Ms. Steinkuhl states that passing the cost of unburned gas

volumes and crediting the sale proceeds through the Fuel Adjustment Clause ("FAC") is an acceptable method to Duke Kentucky but that the existing regulation does not permit this accounting treatment absent a Commission waiver. Confirm that it is because of Duke Kentucky's Profit Sharing Mechanism ("Rider PSM") that Duke Kentucky's proposed accounting treatment will have less of a negative impact on customers than would allowing Duke Kentucky to account for the purchase and sale of the natural gas through the FAC. If this cannot be confirmed, explain.

3. Refer to page 4 of the Steinkuhl Testimony regarding Duke Kentucky's proposed accounting treatment for the cost of gas purchased and subsequently sold, as well as page 6 regarding lost opportunity payments.

a. Provide the amount of any lost opportunity payment made or included as a component on the PJM Interconnection, Inc. ("PJM") Balancing Operating Reserve to Duke Kentucky as a result of reduced or suspended generation in the real-time market.

b. Explain whether any lost opportunity payments in the instant situation were included in the computation of the gain or loss resulting from the sale of gas purchased to generate electricity and subsequently sold. If such payments were included, provide the amount. If they were not included, explain why they were not.

c. Explain whether the lost opportunity payment is greater than, equal to, or less than the hourly real-time Locational Marginal Pricing.

4. Refer to pages 6-7 of the Steinkuhl Testimony. Beginning at line 22 on page 6, Ms. Steinkuhl states, "In the real-time stacking process, if a unit was committed in the day-ahead allocation process as non-native for an hour it remains a non-native

unit in the real time.” Explain why the unit is required to remain a non-native unit in the real time.

5. Refer to page 8 of the Steinkuhl Testimony regarding the purchase and sale price of the gas in question.

a. Identify all costs included in the purchase price of the gas (i.e., gas, transportation, etc.).

b. Identify all components included in the sales price of the gas.

c. Identify the buyer of the gas from Duke Kentucky.

d. Explain what steps Duke Kentucky took to identify potential purchasers of the gas.

e. Provide all accounting entries made by Duke Kentucky to account for the purchase and sale of natural gas purchased for use at Woodsdale.

f. Describe the effect Duke Kentucky’s proposed accounting treatment had on Rider PSM for January, February, and March of 2014.

g. Provide details on the financial impact to customers, using 2013 Rider Profit Sharing Mechanism actual information, considering the loss on sales of gas for the months of January to March 2014.

6. On page 8 of the Steinkuhl Testimony, it states that, based on the Direct Testimony of John D. Swez (“Swez Testimony”), there is a likelihood of additional sales in the short term to relieve the current long natural gas imbalance position. Identify and explain what Duke Kentucky learned from the initial sale of gas and what changes Duke

Kentucky plans to make, if any, to achieve the most favorable treatment for its customers for additional sales of natural gas.

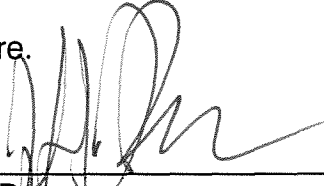
7. Refer to page 7 of the Swez Testimony. Beginning at line 10, Mr. Swez states that “[t]he extreme weather and on-going operational restrictions on the TETCO pipeline was further complicated by the limited gas availability for delivered interruptible supply. As such, waiting to procure gas in the intra-day gas market was not a viable procurement strategy.”

a. State whether the statements indicate that procuring gas in the intra-day market was risky or if it was not possible.

b. If procuring gas in the intra-day market was possible but risky, explain the ramifications if Duke Kentucky had to run its Woodsdale units and chose to procure gas in the intra-day market, but no gas was available for purchase.

8. Refer to page 7 of the Swez Testimony, lines 20-23. Explain the circumstances that would cause PJM not to run a unit in the real-time energy market when PJM cleared the unit in the day-ahead market.

9. State whether Duke Kentucky has addressed, or plans to address, the issues it experienced as outlined in the Steinkuhl Testimony and Swez Testimony with PJM and/or FERC and whether Duke Kentucky believes changes can be made to mitigate the risk of the situation occurring in the future.



Jeff Derouen
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cc: Parties of Record

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