DUKE ENERGY.

Mailing Address:
139 East Fourth Street
1303 Main / P.O. Box 960
Cincinnati, Ohio 45202

o: 513-287-4320
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RECEIVED

AUG 29 2014

PUBLIC SERVICE COMMISSION

VIA HAND DELIVERY

August 29, 2014

Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RE: Case No. 2014-201

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of Duke Energy Kentucky's responses to the Commission Staff's Second Set of Data Requests.

Also enclosed are an original and twelve copies of the Petition of Duke Energy Kentucky, Inc. for Confidential Treatment of Information Contained in its Responses to Commission Staff's Second Set of Data Requests and one copy of the Confidential Version enclosed under sealed envelope.

Please date-stamp the two extra copies of the Responses and the extra two copies of the Petition and return to me in the enclosed return envelope.

Sincerely,

Rocco D'Ascenzo/AMF

Rocco D'Ascenzo
Associate General Counsel

cc: Jennifer Hans (w/enclosures)

574621

COMMONWEALTH OF KENTUCKY

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

The 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

PETITION OF DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION CONTAINED
IN ITS RESPONSES TO COMMISSION STAFF'S SECOND SET OF
DATA REQUESTS

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 13, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in its responses and attachments to Data Request Nos. 3, 10, 14, 15, 17, and 22 as requested by the Staff of the Kentucky Public Service Commission (Staff) in this case on August 19, 2014. The information that the Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) shows sensitive economic information regarding: 1) detailed plant econcomic dispatch information; 2) projected calculations of estimated future costs/savings in fuel and purchased power that may be achieved through the transaction; 3) detailed calaculations for replacement power costs for a particular time period at the Company's station; 4) estimated costs and timing for a future planned station outage; and 5) pricing structures for various capacity hedges and 6) details and cost comparison of the Company's hedging strategies. Specifically, Duke Energy Kentucky is requesting confidential treatment of the following:

a) Staff-DR-02-03 Attachments detailing the economic dispatch of Duke Energy Kentucky's Woodsdale generating station in PJM on an hourly basis and relating back to a previous response provided to the Commission under seal;
b) Staff-DR-02-10 Response detailing the Company's costs and modeling assumptions for fuel and purchase power costs/savings under different operational conditions in future years;
c) Staff-DR-02-14 Response depicting detailed calculations for replacement power costs as it relates to specific time period and outage(s), the detailed of which is not otherwise provided in public monthly fuel filings;
d) Staff-DR-02-15 Response discussing the cost and timing of a future planned outage at one of the Company's generating stations and relating back to a previous response submitted under seal;
e) Staff-DR-02-17 Response describing the Company's FRR capacity and cost hedging strategy and relating back to a previous response submitted under seal; and
f) Staff-DR-02-22 Response describing the Company's hedging strategy and cost impacts for planned and forced outages as it pertains to a specific and extended maintenance outage;

This information described above would allow potential competitors and possible vendors to have access to the Company's analysis of sensitive operational and financial information including the hourly economic dispatch of the Company's current generating fleet, replacement power costs for a specific outage, the timing and scope of future outages, and present and future capacity strategies and costs. This information is not otherwise publicly available. Releasing this information will place Duke Energy Kentucky at a competitive disadvantage in that its ability to negotiate and manage its costs will be compromised as other providers, vendors, and competitors will have access to the Company's forecasts of costs and business strategies. In support of this Petition, Duke Energy Kentucky states:

1. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878(1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of that party. Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. The response to Staff-DR-02-03 (Attachment) contains sensitive market information related Duke Energy Kentucky's generating fleet, including details about its hourly economic dispatch. The hourly dispatch information contained in Staff DR-02-03, if publicly disclosed, would allow potential competitors to determine how the Company's generating fleet performs in PJM and, thus, the likelihood of their dispatch in the future. This information could allow other PJM participants to make decisions regarding offering their own stations into PJM that they may not otherwise make potentially resulting in higher capacity prices for customers.

3. The response to Staff-DR-02-10 provides the Company's modeling assumptions for future fuel and purchased power costs/savings under different operational conditions for its generation fleet. This information, if made publicly available, would provide the Company's competitors in PJM and potential future coal and power suppliers with insight as to what the Company anticipates its costs may be in future periods. This would put Duke Energy Kentucky at a competitive disadvantage both in the market place and in negotiations and its competitors could potentially use this information to make decisions regarding their own dispatch that could adversely impact prices for Duke Energy Kentucky's customers. This information would provide potential competitors with the Company's forecasts of future revenues, anticipated costs of fuel and purchased power. This information would place the Company in a competitive disadvantage if it needs to procure either commodity through bilateral negotiations as counterparties would know what Duke Energy Kentucky has paid any might be willing to pay future costs will be in the energy market.

4. Staff-DR-02-14 includes Duke Energy Kentucky's detailed calculations and estimations for replacement power costs as it relates to specific time period and outage(s), the detail of which is not otherwise provided in monthly fuel filings. This information is not publicly filed before the Commission in the form or to the detail contained in this response. This information, if publicly disclosed will provide potential future suppliers with the Company's operational costs and information regarding prices the Company has paid and may be willing to pay for in the future thereby placing the Company at a disadvantage in future negotiations.

5. Staff-DR-02-15 includes Duke Energy Kentucky's anticipated scope of future outages and maintenance projects, including the likelihood of timing for such outages and

projected costs for future environmental compliance projects. Disclosure of this information will grant vendors and other market participants a distinct advantage in that they would be able to anticipate the Company's asset performance and dispatch of East Bend in the future. Duke Energy Kentucky submits that the information contained in Staff-DR-02-15 if openly disclosed, would give its vendors and competitors (specifically, other PJM participants), access to competitively sensitive, confidential information, which in turn could cause energy and capacity prices to consumers to be above competitive rates, and would permit competitors of Duke Energy Kentucky to gain an unfair competitive advantage in the marketplace. Competitors and vendors could use this information to anticipate the Company's future costs and equipment needs and even outage timing to make decisions regarding pricing that they may not otherwise make in the absence of this information. This response relates to a previous response to a data request that was also submitted under seal and pursuant to a motion for protection.

6. The responses to Staff-DR-02-17 and Staff-DR-02-22 discuss the Company's strategies for hedging capacity market risks, including pricing for replacement capacity for future delivery years and how it has managed it evaluated and managed market risks during a recent outage, respectively. Staff-DR-02-17 describes a capacity option product the Company negotiated to satisfy its reliability requirements in PJM. Similarly, Staff-DR-02-22 describes in detail the Company's hedging strategy during a lengthy planned outage that may be used in the future. Releasing this information would provide potential competitors and potential future suppliers with the Company's forecasts of anticipated costs and prices the Company has paid and may be willing to pay in the future for capacity option rights to meet its reliability obligations in PJM. This information would place the Company in a competitive

disadvantage if it needs to procure capacity through bilateral negotiations as counterparties would know what Duke Energy Kentucky has paid any might be willing to pay. Further, with respect to the Company's hedging strategy as depicted in Staff-DR-02-22, during planned outages, suppliers and potential counter parties could gain insight into how the Company manages and evaluates its risks in the market as well as its overall capacity positions. This information could be used by potential competitors or suppliers to manipulate prices and make decisions they would not otherwise make thereby increasing prices paid by Duke Energy Kentucky and ultimately its customers.

7. The Confidential Information described herein was developed internally by Duke Energy Corporation and Duke Energy Kentucky personnel or on its behalf, is not on file with any public agency, and is not available from any commercial or other source outside Duke Energy Kentucky. The aforementioned information in these responses is distributed within Duke Energy Kentucky only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry.

8. Duke Energy Kentucky does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement, to the Attorney General or other intervenors with a legitimate interest in reviewing the same for the purpose of participating in this case.

9. This information was, and remains, integral to Duke Energy Kentucky's effective execution of business decisions. And such information is generally regarded as confidential or proprietary. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or

proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, Ky., 904 S.W.2d 766, 768 (Ky. 1995).

10. In accordance with the provisions of 807 KAR 5:001, Section 13(3), the Company is filing one copy of the Confidential Information separately under seal, and one copy without the confidential information included.

11. Duke Energy Kentucky respectfully requests that the Confidential Information be withheld from public disclosure for a period of *ten* years. This will assure that the Confidential Information – if disclosed after that time – will no longer be commercially sensitive so as to likely impair the interests of the Company or its customers if publicly disclosed.

12. To the extent the Confidential information becomes generally available to the public, whether through filings required by other agencies or otherwise, Duke Energy Kentucky will notify the Commission and have its confidential status removed, pursuant to 807 KAR 5:001 Section 13(10)(a).

WHEREFORE, Duke Energy Kentucky, Inc., respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

Rocco O. D'Ascenzo
Associate General Counsel
Amy B. Spiller
Deputy General Counsel
Duke Energy Business Services, LLC
139 East Fourth Street, 1303 Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4359
Fax: (513) 287-4385
e-mail: rocco.d'ascenzo@duke-energy.com
Counsel for Duke Energy Kentucky, Inc.

and

Mark David Goss
David S. Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KY 40504
(859) 368-7740
e-mail:mdgoss@gosssamfordlaw.com
e-mail:david@gosssamfordlaw.com

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, this 27th day of August 2014:

Jennifer Hans
The Office of the Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, Kentucky 40601
Jennifer.hans@ag.ky.gov

Rocco D'Ascenzo

VERIFICATION

STATE OF OHIO)
) **SS:**
COUNTY OF HAMILTON)

The undersigned, William Don Wathen Jr., Director of Rates & Regulatory Strategy-OH/KY, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen Jr. on this 21st day of August, 2014.

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019

Adele M. Frisch
NOTARY PUBLIC

My Commission Expires: 1/5/2019

VERIFICATION

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

The undersigned, James S. Northrup, Director of Wholesale & Renewables Analytics, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

James S. Northrup, Affiant

Subscribed and sworn to before me by James S. Northrup on this 30 day of August, 2014.

Stacey Boyd
NOTARY PUBLIC

My Commission Expires:

8/30/17

VERIFICATION

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

The undersigned, John Verderame, Director of Power Trading & Dispatch, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

John Verderame, Affiant

Subscribed and sworn to before me by John Verderame on this [illegible] day of August, 2014.

RITA G KALE
NOTARY
PUBLIC
CATAWBA CO., NORTH CAROLINA

Rita G. Kale
NOTARY PUBLIC

My Commission Expires: [illegible]

VERIFICATION

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

The undersigned, Jack Sullivan, Director of Capital Structuring, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Jack Sullivan, Affiant

Subscribed and sworn to before me by Jack Sullivan on this ___ day of August, 2014.

NANCY H. TAYLOR
NOTARY
PUBLIC
MECKLENBURG COUNTY, NC

NOTARY PUBLIC

My Commission Expires:

VERIFICATION

STATE OF INDIANA)
) **SS:**
COUNTY OF HENDRICKS

The undersigned, Steve Immel, Vice President of Midwest Regulated Operations, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Steve Immel, Affiant

Subscribed and sworn to before me by Steve Immel on this 20th day of August, 2014.

Bonnie J. Govert
NOTARY PUBLIC

My Commission Expires:

NOTARY PUBLIC NOTARY SEAL STATE OF INDIANA
BONNIE J. GOVERT
Vigo County
My Commission Expires
January 7, 2016

VERIFICATION

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

The undersigned, Michael Covington, Director, Midwest Accounting, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Michael Covington

Michael Covington, Affiant

Subscribed and sworn to before me by Michael Covington on this ___ day of August, 2014.

RITA M SIMMONS
Notary Public
Mecklenburg County
North Carolina
My Commission Expires Feb 26, 2018

NOTARY PUBLIC

My Commission Expires:

VERIFICATION

STATE OF OHIO)
) **SS:**
COUNTY OF HAMILTON)

The undersigned, J. Michael Geers, Manager EHS, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

J. Michael Geers, Affiant

Subscribed and sworn to before me by J. Michael Geers on this 27th day of August, 2014.

NOTARY PUBLIC

My Commission Expires:

RUTH M. LOCCISANO
Notary Public, State of Ohio
My Commission Expires 06-18-2017

VERIFICATION

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

The undersigned, Will Garrett, Director of Accounting Research, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Will Garrett

Will Garrett, Affiant

Subscribed and sworn to before me by Will Garrett on this 21 day of August, 2014.

Katie Jamieson

NOTARY PUBLIC

My Commission Expires: June 14, 2016

TABLE OF CONTENTS

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-001

REQUEST:

Refer to the application, the Direct Testimony of William Don Wathen Jr. ("Wathen Testimony"), Exhibit WDW-4, page 6 of 6, Schedule 6. Explain the reason for the case reference included in the note on this page.

RESPONSE:

The addition of the note is a clerical error and should be removed.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-002

REQUEST:

Refer to the response to Item 3, Attachment A, of Commission Staff's Initial Request for Information ("Staff's First Request")

a. Explain the penalty referred to in the first small bullet point on page 2 of 19.
b. Given the effective date of the Mercury and Air Toxics Standard, explain the assumption shown in the third bullet point on page 6 of 19.
c. Explain the reason for the differences between the capacity factors shown for bids 5D, 5E, and 5F on page 19 of 19.

RESPONSE:

a. Short Term RFP activities refer to potential options to consider when replacing the capacity from the expected Miami Fort 6 retirement on April 16, 2015 due to the MATS compliance date of April 16, 2015. The Mercury and Air Toxics Standard rule regulated hazardous air pollutant emissions from existing coal greater than 25 MW in size. The PJM penalty of $1M was an estimated cost of non-compliance with the Kentucky Fixed Resource Requirement plan during the 6 week period from the compliance date of April 16, 2015 through May 31, 2015 identifying the end of the PJM Capacity delivery year of 2014/2015. The 45 day penalty was estimated according to the PJM Reliability Assurance Agreement Schedule 8.1 Section F.
b. The reference assumption describes the possible continued operation of Miami Fort 6 through 2019 beyond the compliance date with the addition of

environmental equipment allowing the unit to comply with the Mercury and Air Toxics Standard. By comparing this compliance alternative to other received proposals, Duke Energy Kentucky would have a complete view of the economics of all possible options. Evaluation results shown later in the presentation indicate that this was not a cost effective alternative to pursue compared to other RFP alternatives.

c. Proposals 5D and 5E should have had identical capacity factors in a similar fashion as 5A and 5B due to the only differences in the bids being a lease option as compared to a purchase option for the same generating unit. However, since these bids were not found to be non-compliant with the RFP and not considered to be viable options, limited focus was placed on these bids.

PERSON RESPONSIBLE: James S. Northrup

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-003 PUBLIC
(As to Attachment Only)

REQUEST:

Refer to the response to Item 4 of Staff's First Request, which shows how often East Bend Unit 2 and Miami Fort 6 cleared in the PJM Interconnection, Inc. ("PJM") market since January 2013. Provide the same information for the same time period for Duke Kentucky's Woodsdale units. Explain also whether it is generally cheaper or more expensive to operate the Woodsdale units compared to purchasing power from the market.

RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment Only)</u>

See CONFIDENTIAL Attachment *STAFF-DR-02-003 submitted under seal and with a Motion for confidential protection.* The Woodsdale units are generally dispatched by PJM only during period of peak energy demand. As such, it is generally more expensive to operate the units than run other Duke Energy Kentucky resources or purchase power from the market to meet native load demands.

PERSON RESPONSIBLE: John Verderame

CONFIDENTIAL ATTACHMENT

FILED UNDER SEAL

STAFF-DR-02-004

REQUEST:

Refer to the response to Item 5 of Staff's First Request. Confirm that the "net settlement" mentioned in the third sentence of the response refers to the settlement of the proposed East Bend transaction.

RESPONSE:

The "net settlement amount" refers to the "Net Settlement Amount" as defined in the Purchase and Sale Agreement in Section 3.1 ("Purchase Price"). It is essentially the sum of the $12.4 million Purchase Price plus or minus the Final Adjustment Amount.

PERSON RESPONSIBLE: Jack Sullivan

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-005

REQUEST:

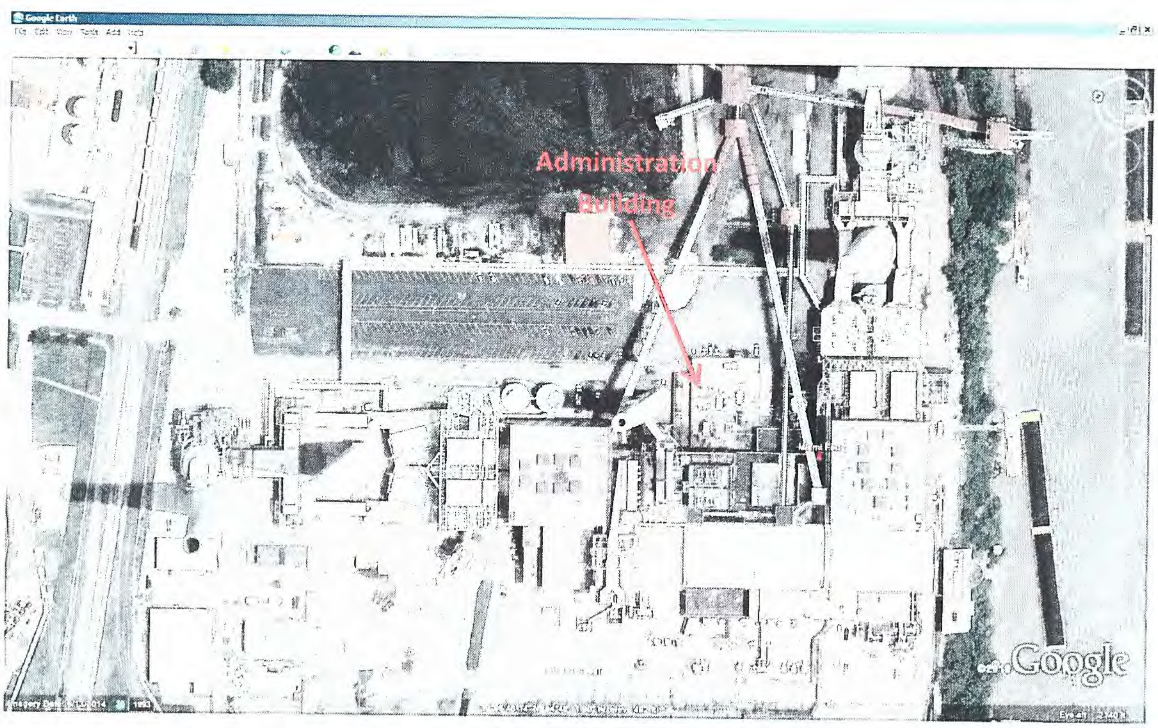
Refer to the response to Item 8 of Staff's First Request.

a. Explain why its location, between Units 7 and 8, makes it unlikely that Miami Fort 6 "will be demolished in any significant degree for some time."

b. The response from Witness Steve Immel goes on to state that "a future demolition cost will exist for the unit." Explain whether Mr. Immel is aware, as discussed on page 14 of the Wathen Testimony, that demolition/removal costs are included in the depreciation expense currently being recorded by Duke Kentucky.

RESPONSE:

a. Please reference the public aerial images of Miami Fort Station below. I have added labeling identifying Units 6, 7 and 8. Unit 6 is integral to the overall structure of the building, including structural steel, roofing, and the turbine room. Within the building, piping and wiring span the lenghth of the building providing water and other services across the plant. The Unit 6 stack is situated between two active coal conveyors, adjacent to the plant administration building. It is simply not safe, economic, or practical to attempt to demolish Unit 6 while leaving Units 7 and 8 behind in operable condition.



b. Yes. Mr. Immel was referencing when the company would be likely to incur the demolition expense, not how or when such cost is or would be recovered from customers.

PERSON RESPONSIBLE: Steve Immel

STAFF-DR-02-006

REQUEST:

Refer to the response to Item 9.b. of Staff's First Request, page 2. The amount of additional assets to be acquired by Duke Kentucky listed on this page total approximately $12.3 million, which is in addition to the cost of the 31 percent ownership of East Bend Unit 2 ("East Bend Purchase").

a. Explain whether this additional cost was included in Duke Kentucky's bid analysis.
b. In the event there are no adjustments to the $12.4 million to be paid by Duke Kentucky for Dayton Power and Light's ("DP&L") share of East Bend, if the 5/31/14 values for the items in the response turn out to also be the 12/31/14 values, confirm that Duke Kentucky's total cash outlay would be approximately $24.7 million.

RESPONSE:

a. Additional Inventory/Asset Category costs listed in 9 b of Staff's First Request were not included in the analysis. To maintain comparability among other asset purchase proposals, detailed inventory values at a certain point in time resulting from extensive negotiations were not included as comparable inventory values for other asset proposals had not been identified. Additionally, ongoing operating costs for variable production cost items such as coal and reagents were already considered in going forward operational production costs.

b. If there were no other adjustments to the $12.4 million Purchase Price except for the $12.3 million, then the Net Settlement Amount (representing total cash outlay to DP&L) would be approximately $24.7 million. However, as of May 31, 2014, DP&L also had approximately $11.1 million in outstandings due to Duke Energy Kentucky for both outage and non-outage related costs. In this example and holding all other variables constant, as of May 31, 2014, if these payments from DP&L are not received by Duke Energy Kentucky by closing, it would result in a Net Settlement Amount of approximately $13.6 million ($12.4 million Purcahse Price plus $12.3 million total pre-paids, minus $11.1 million total outstandings). The Adjustment Methodology in calculating the Net Settlement Amount is detailed in Schedule 3.2(a) to the Purchase and Sale Agreement.

PERSON RESPONSIBLE:

James S. Northrup (a)
Jack Sullivan (b)

STAFF-DR-02-007

REQUEST:

Refer to the response to Item 9.c. of Staff's First Request, page 3 which, among other things, states that "[t]he Company does not have a cost estimate of what all individual liabilities might be as it depends upon numberous scenarios, changes in law such as environmental compliance and remdiation." Provide a listing, including the amount, of each liability that can be estimated, such as those related to the current costs of operations.

RESPONSE:

Following the acquisition of DP&L's 31% ownership in East Bend Unit 2, Duke Energy Kentucky will assume 100% of the ongoing operating costs of the facility. An estimate of DP&L's portion of average monthly operating costs is summarized below:

- Monthly Fuel expense: DP&L's portion averages approximately $2.3 million per month but can fluctuate due to operating conditions and seasonality (extreme weather);
- Monthly O&M: DP&L's portion averages approximately $1.3 million per month but can also fluctuate due to operating conditions; and
- Monthly capital costs (excl planned outages): DP&L's portion averages approximately $400,000 per month.

Other annual liabilities associated with East Bend Unit 2 that will be assumed by Duke Energy Kentucy following the transaction include:

- Annual property tax obligation: DPL portion is approximately $730,000 based on 31% of 2013 total property tax bill;
- Annual insurance premium: DPL portion is approximately $50,000 ;
- Pension and Other Post-Employment Benefits: The Pension/OPEB is currently in a net asset position. DP&L's portion of the net asset value is approximately $2.7 million. Duke Energy will continue to manage the Pension/OPEB obligations in a manner consistent with past practice; and
- Asset Retirement Obligation: Based on Duke Energy Kentucky's ARO liability as of 12/31/13 for East Bend asbestos remediation and landfill closure of approximately $1.7 million, the ARO liability would increase to approximately $2.5 million assuming a 31% increase in ownership.

PERSON RESPONSIBLE:
Michael Covington

STAFF-DR-02-008

REQUEST:

Refer to the last paragraph in the response to Item 10 of Staff's First Request. Explain how the base case CO_2 price for 2020 was developed and provide the basis for the escalated CO_2 price shown for 2028.

RESPONSE:

Please see response to Staff-DR-01-10 for the Company's basis. Answering further, while Duke Energy Kentucky does not believe Congress will enact climate change legislation in the near term, we recognize that it is possible, but not a certainty, that a future Congress could pass a bill resulting in a price being placed on CO_2 emissions. This is why Duke Energy Kentucky has considered such an outcome in its modeling for this proceeding. Duke Energy Kentucky's current assumption regarding the timing of federal climate change legislation for the purpose of reflecting that potential risk in our analyses is that federal climate change legislation could be enacted in 2017 that would set a price on CO_2 emissions beginning in 2020. This timing was selected based on our belief that it will be several more years before the economy recovers to the point where Congress might be willing to seriously consider climate change legislation. Duke Energy Kentucky is not predicting what form any such legislation may take.

Duke Energy Kentucky evaluated CO_2 prices starting at \$17.47 per ton (nominal dollars) in 2020, increasing at a rate of 8.44% per year through 2028. The \$17.47 price is the nominal equivalent of \$15 per metric ton expressed in 2009 dollars, which is how Duke Energy Kentucky initially defined its current CO_2 price trajectory several years ago. The \$15 per metric ton price was escalated at roughly 6% per year, and when converting to nominal dollars and adding an inflation factor produced the 8.44% escalation rate. Duke Energy Kentucky considers this to be a reasonable trajectory to represent the risk of federal climate change legislation that sets a price on CO_2 emissions, given the political and practical realities and challenges of passing such legislation.

Duke Energy Kentucky believes a primary reason for the failure of climate change legislation in 2009 was concern that the legislation would lead to higher energy prices that would have had an adverse impact on the economy. It is reasonable to assume that this same concern will be present during any future debate over federal climate change legislation. In addition, regional differences, more than those between the political parties, could have a great bearing on the outcome of any future debate in Congress over climate change legislation. Reaching consensus on this issue will require compromise. At the end of the day, however, Duke Energy Kentucky believes that if Congress does enact legislation that sets a price on CO_2 emissions, it will do so cautiously so as not to create a program that will have adverse economic impacts. Therefore, Duke Energy Kentucky believes that if or when Congress does enact climate change legislation establishing a price on CO_2 emissions, it is far more likely that the program will result in prices toward the lower end of the range of prices associated with the Waxman-Markey legislation, which is why Duke Energy Kentucky set its price trajectory as it did.

The EPA issued its Clean Power Plan proposal to regulate CO_2 emissions from existing fossil fuel-fired power plants on June 2, 2014, which was less than two weeks before Duke Energy Kentucky's testimony was filed. Duke Energy Kentucky is currently evaluating whether it should update its carbon forecast in response to the EPA's proposal, and if so, how it should update the forecast. No decision has been made at this time. The issuance of EPA's Clean Power Plan proposal does not eliminate the uncertainty surrounding future U.S. carbon policy. For example, assuming the EPA finalizes the Clean Power Plan essentially as it has been proposed, there are still multiple potential forms that state regulations implementing the requirements of the emission guidelines could take, and each would likely have a different associated cost. For example, regulations could take the form of a command-and-control type program, or they could take the form of some sort of emissions or emission rate averaging or trading program. The Commonwealth of Kentucky could choose to implement its program only within its borders, or it could choose to join with other states in implementing the requirements of the EPA emission guidelines. The fact that there are still multiple potential pathways for implementation of carbon regulation in Kentucky in response to EPA's proposal makes determining the appropriate carbon cost forecast challenging. More will be known when EPA finalizes its proposal in June of 2015, but until Kentucky develops its implementation plan, there will still be uncertainty. There is also the uncertainty that results from expected legal challenges to EPA's final emission guidelines and whether the courts will require changes to whatever EPA finalizes. Finally, there is the possibility that EPA's final emission guidelines could be substantially different from what has been proposed, which creates additional uncertainty.

PERSON RESPONSIBLE: J. Michael Geers

STAFF-DR-02-009

REQUEST:

Refer to the attachment to the response to Item 11 of Staff's First Request, the order of the Federal Energy Regulatory Commission in Docket No. EC14-103-100 approving the East Bend Purchase.

a. Condition 7 of the order dictates the accounting treatment for Duke Kentucky's acquisition of DP&L's interest in East Bend. The last paragraph of the order states that rehearing requests must be filed within 30 days from the issuance of the order. Explain whether Duke Kentucky sought rehearing on Condition 7.

b. If the response to part a. of this request is negative, state whether Duke Kentucky's interpretation of Condition 7 is that the impairment recorded by DP&L should or should not be recognized.

c. State whether Duke Kentucky's interpretation of Condition 7 is that any resulting amount in Account 114, Electric Plant Acquisition Adjustments, should not be cleared to accumulated depreciation, as this step is not included in the Uniform System of Accounts, as noted in the response to Item 32 of Staff's First Request.

RESPONSE:

a. Duke Kentucky did not seek rehearing on Condition 7.

b. Duke Kentucky's interpretation of Condition 7 is that the impairment recorded by DP&L should not be recognized.

c. Duke Kentucky's interpretation of Condition 7 is that any resulting amount in Account 114, Electric Plant Acquisition Adjustments, should be cleared to accumulated depreciation, as this step has historically been required and approved by the Federal Energy Regulatory Commission in similar situations as noted in the response to Item 32 of Staff's First Request as follows (<u>emphasis added</u>):

> However, the FERC has previously required this treatment in these situations. Please see page 5 of Attachment WAG-1 which is a letter from FERC approving of Duke Energy's proposed journal entries in a previous similar situation and states:
>
> In addition, Duke Energy recorded a $9.2 million <u>negative acquisition adjustment in Account 114, Electric Plant Acquisition Adjustments, consistent with EPI No. 5 and appropriately cleared the negative acquisition adjustment to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant</u>.[3]
>
> [3] *See Locust Ridge Gas Company*, 29 FERC ¶ 61,052 at 61,114 (1984) and *Southwestern Public Service Company and New Mexico Electric Service Company*, 23 FERC paragraph 61,153(1983).
>
> Also, please see pages 7-8 of Attachment WAG-1 which is another letter from FERC approving of Duke Energy's proposed journal entries in a previous similar situation and states:
>
> In addition, Duke Energy proposes to record a $61.2 million negative acquisition adjustment by crediting Account 114, Electric Plant Acquisition Adjustments, consistent with EPI No. 5. Duke proposes to clear the negative acquisition adjustment by debiting Account 114 and crediting Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.[3]
>
> [3] *See Locust Ridge Gas Company*, 29 FERC ¶ 61,052 at 61,114 (1984) and *Southwestern Public Service Company and New Mexico Electric Service Company*, 23 FERC paragraph 61,153(1983).

PERSON RESPONSIBLE: Will Garrett

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-010 PUBLIC

REQUEST:

Refer to response to Item 13 of Staff's First Request.

a. The supporting calculations requested in Item 13 were not included in the response. Provide the supporting calculations as originally requested.

b. The response indicates that Duke Kentucky estimates savings over the next five years in fuel and purchase power costs ranging between $16 million and $24 million annually due to substituting DP&L's share of East Bend for the Miami Fort 6 capacity. However, the response to Item 28.e. of the Attorney General's First Request for Information ("AG DR1") states that current fuel prices for the two unites "are nearly the same, so substituting East Bend for Miami Fort 6 should have very little impact on fuel cost. . . ." Explain the apparent discrepancy in the content of the two responses.

RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET</u>

a. The table below shows the results of detailed production simulations using a proprietary model, the Planning and Risk (PAR) model, that Duke Energy Kentucky relies upon for future generating cost modeling. Similar to other production cost models, key inputs include generating unit, fuel, load, transaction, DSM, emissions, allowance cost, and system operating data. To estimate the future costs of alternative plans, a generation plan including the anticipated DP&L share of East Bend 2 as well as not including the planned retired Miami Fort 6 was compared to an alternative plan in which Miami Fort 6 was modified to meet MATs compliance and no DP&L East Bend 2 addition was compared on a total system production cost basis. The results of the estimated fuel and purchase power costs of substituting DP&L share of East Bend 2 (186 MWs labeled East Bend Purchase Case in the table below) for capacity associated with Miami Fort 6 MATs compliant (163 MWs labeled Miami Fort 6 Continue Operations Case in the table below), will result in an estimated total system fuel and purchase power savings for 2015 – 2019:

System Fuel Costs with Market Purchases

	East Bend Purchase Case	MF6 Continue Operations Case	Difference in East Bend Case - MF6 Case
2013	$ [redacted]	$ [redacted]	$ [redacted]
2014	$ [redacted]	$ [redacted]	$ [redacted]
2015	$ [redacted]	$ [redacted]	$ [redacted]
2016	$ [redacted]	$ [redacted]	$ [redacted]
2017	$ [redacted]	$ [redacted]	$ [redacted]
2018	$ [redacted]	$ [redacted]	$ [redacted]
2019	$ [redacted]	$ [redacted]	$ [redacted]

b. The response to Item 28.e. of the Attorney General's First Request for Information ("AG DR1") states that current fuel prices for the two units "are nearly the same, so substituting East Bend for Miami Fort 6 should have very little impact on fuel cost." is referring to past operational cost. Going forward, the fuel pricing as well as variable costs between East Bend and Miami Fort 6 will be very different due to MATS compliance requirements. Currently, both East Bend and Miami Fort 6 are burning medium sulfur Illinois basin coal whereas going forward to be MATS compliant, Miami Fort 6 will have to burn much higher cost low sulfur western bituminous/subbituminous blend. In addition, higher variable O&M costs would be seen for Miami Fort 6 due to the cost of activated carbon injection.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-02-011

REQUEST:

Refer to the attachment to the response to Item 15 of Staff's First Request, page 1 of 3.

a. Explain why there are parentheses around P + A in the Rider PSM Factor formula.

b. Explain why there is a need for the following proposed text in the third paragraph under the Rider PSM Factor formula: "After December 31st of each year, the sharing mechanism will be reset for off-system power sales. Each month the sharing mechanism will be reset for the ancillary services profits.

RESPONSE:

a. The "P" and the "A" in the formula represent the components which the first $1 million will be allocated to the ratepayer, with any profits in excess of $1 mllion split 75:25, with ratepayers receiving 75 percent and shareholders receiving 25 percent. The ratepayer receives 100% of "E." "C" is allocated 75:25, with ratepayers receiving 75 percent and shareholders receiving 25 percent. Mathematically, the parantheses have no impact on the formula and could be removed should the Commission choose to do so.

b. Per prior Commission orders, customers are entitled to 100% of the first $1 million in "annual" profits on off-system sales and 75% of all profits above that amount. The annual "reset" for off-system power sales is necessary to ensure that customers receive the full benefit, each year, from the margins on off-system sales under the formula approved by the Commission.

The monthly "reset" for ancillary service margins was pursuant to a prior Commission decision and is necessary to meet the criteria approved in that decision that only "monthly" net profits are flowed through Rider PSM and "monthly" losses are not. The formula for calculating margins on ancillary services differs from the formula for profits from off-system sales in that the "netting" process is monthly and customers only share in the profit and not the loss. For the profits from off-system sales, the "netting" process is done annually; so, for individual months, there could be losses flowing through Rider PSM but not for an entire annual period.

PERSON RESPONSIBLE: William Don Wathen Jr.

STAFF-DR-02-012

REQUEST:

Refer to the response to Item 18 of Staff's First Request which indicates that $9.7 million was the initial proposed bid price for DP&L's share of East Bend.

a. Given that negotiations typically result in a price that is less than a seller's initial "asking price," explain, generally, why the final negotiated price is greater than DP&L's initial bid price of $9.7 million.
b. Without divulging specific details of negotiations, provide a general description of what Duke Kentucky believes it gained in exchange for agreeing to a final price that is greater than DP&L's initial big price.
c. Explain whether the conclusion reached after the bid analysis was completed would have been different if the final price of the East Bend Purchase had been included.

RESPONSE:

a. The final $12.4 million was the final negotiated price having resolved and figured in all aspects of the transaction and issues regarding operation of the station as reflected in the purchase price. These issues included timing of transaction, the additional DP&L interest in the property held for future use surrounding the plant, treatment of DP&L's PJM future capacity revenues, and the final allocation of various obligations, responsibilities and liabilities related to the station.

b. The final Purchase Price reflects the financial obligations that DP&L agreed to during the pre-closing period. It also reflects the agreement among the parties to continue operating under the joint operation agreement and the resolution of certain disputes during the pre-closing period. The initial bid was in response to the RFP, and it was only after we began to negotiate definitive deal terms that we were able to agree upon and resolve such details.

c. The difference between the initial and final price would not have changed the conclusion Duke Energy Kentucky reached when performing the bid analysis. The next best bid under the RFP was still substantially more in terms of upfront capital costs than the final price of the East Bend purchase. See Direct Testimony of James S. Northrup at page 15.

PERSON RESPONSIBLE:
Jack Sullivan (a-b)
James S. Northrup (c)

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-013

REQUEST:

Refer to response to Item 20 of Staff's First Request.

a. Explain the basis for Duke Kentucky's having set the required specification for the rate of SO_2 emissions at 0.15 lb/mmBTU on a 30-day rolling average.

b. Explain the basis for Duke Kentucky's having set the required specification for the rate of NO_x emissions at 0.10 lb/mmBTU on a 30-day rolling average.

RESPONSE:

a. Duke Energy Kentucky's philosophical position is that in order for it to consider acquiring new coal-fired capacity, that capacity must demonstrate the environmental performance of a "premier" unit. Minimizing the potential exposure to current and potential future environmental regulations, such as the Mercury and Air Toxics Standards Rule (MATS), Cross-State Air Pollution Rule (CSAPR) (or its replacement), and the 1-hour SO2 National Ambient Air Quality Standard (NAAQS) is critical in establishing the likely longevity of an asset. For example, having an existing flue gas desulfurization (FGD) system with an SO2 emission rate less than 0.2#/mmBTU on a 30-day rolling average is meaningful for demonstrating compliance with the MATS rule acid gas limits. A low SO2 emission rate also translates into lower emission allowance exposure, and possibly even the opportunity to make sales of excess allowances. A low SO2 emission rate is also important for reducing the risk of being designated as non-attainment under the 1-hour SO2 NAAQS, for which most of the country has yet to be designated by the EPA. A 1-hour standard would translate into a much lower emission rate expectation on a 30-day rolling average basis. So, Duke Energy Kentucky's basis for establishing its 0.15#/mmBTU SO2 emission rate criteria is based on minimizing exposure to such risks. Minimizing such risk exposure minimizes the potential for future additional investment to the unit for further reducing the SO2 emissions; such investment may or may not be economic, and thus may or may not affect asset longevity.

b. Duke Energy Kentucky's philosophical position is that in order for it to consider acquiring new coal-fired capacity, that capacity must demonstrate the environmental performance of a "premier" unit. Minimizing the potential exposure to current and potential future environmental regulations, such as the CSAPR (or its replacement), and the 8-hour ozone NAAQS is critical in establishing the likely longevity of an asset. For example, under CSAPR, EPA used a NOx rate of 0.06#/mmBTU for units with selective catalytic reduction (SCR) systems as part of its basis for determining NOx emission allocations. CSAPR was also based on the old 84 ppb ozone NAAQS; EPA is currently drafting a new transport rule that would implement additional NOx reductions based on the new 75ppb ozone NAAQS. Further, EPA is likely to propose tightening the ozone NAAQS even further, resulting in even further NOx reduction requirements. Therefore, having an existing SCR with good demonstrated NOx performance represents a minimum starting point for responding to such potential future requirements. So, Duke Energy Kentucky's basis for establishing its 0.10#/mmBTU NOx emission rate criteria is based on minimizing exposure to such risks. Minimizing such risk exposure minimizes the potential for future additional investment to the unit for further reducing the NOx emissions; such investment may or may not be economic, and thus may or may not affect asset longevity.

PERSON RESPONSIBLE: J. Michael Geers/ James S. Northrup

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-014 PUBLIC

REQUEST:

Refer to the response to Item 22, pars b. and c. of Staff's First Request. Provide the following:

a. The cost Duke Kentucky incurred for alternate power during the spring 2014 outage and the June outages over and above the cost it would have incurred if East Bend had not experienced the outages.

b. The effect the purchase of alternate power had on a typical residential customer's bill for those outages.

RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET</u>

a. The outage costs below are calculated as the difference between the cost of replacement power and the monthly average fuel cost of East Bend 2 from the prior month. This methodology is the same one utilized to calculate alternate energy costs during forced outages for recovery purposes.

	Incremental Outage Cost
<u>Planned Outage: March 7, 2014, through May 31, 2014</u>	
March 7, 2014, through March 31, 2014	[redacted]
April 1, 2014, through April 30, 2014	[redacted]
May 1, 2014, through May 31, 2014	[redacted]
Planned Outage: June 17, 2014, through June 27, 2014	[redacted]
Forced Outage: June 5, 2014 through June 9, 2014	[redacted]
Forced Outage: June 14, 2014 through June 16, 2014	[redacted]

b. Please see the table below for the effect of the incremental cost of the alternate purchase power over the cost that would have been incurred had East Bend not experienced the planned outages.

	Incremental Outage Cost (a)	kWh per FAC filing (b)	$/kWh (c) = (a)/(b)	Increase in a typical Residential bill [1] (d) = (c)*1000
<u>Planned Outage: March 7, 2014, through May 31, 2014</u>				
March 7, 2014, through March 31, 2014	[redacted]	[redacted]	[redacted]	[redacted]
April 1, 2014, through April 30, 2014	[redacted]	[redacted]	[redacted]	[redacted]
May 1, 2014, through May 31, 2014	[redacted]	[redacted]	[redacted]	[redacted]
<u>Planned Outage: June 17, 2014, through June 27, 2014</u>				
June 17, 2014, through June 27, 2014	[redacted]	[redacted]	[redacted]	[redacted]

[1] typical usage for a residential customer is 1,000 kWh.

Pursuant to the 807 KAR 5:056, the replacement power for forced outages is not passed through the Rider FAC; consequently, there was no impact to customers' rates associated with the forced outages on June 5 through June 9 and June 14 through June 16.

PERSON RESPONSIBLE: (a) John Verderame
(b) William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-015 PUBLIC

REQUEST:

Refer to the response to Item 23 of Staff's First Request.

a. Explain whether a cost estimate has been developed for the outage described in the response.

b. If a cost estimate has been developed, describe how it was treated in Duke Kentucky's analysis of the potential acquisition of DP&L's share of East Bend.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

a. Yes, Duke Energy Kentucky preliminarily estimates the [redacted] will cost approximately [redacted].

b. Please see Duke Energy Kentucky's responses to STAFF-DR-02-020 and -021. Just like the environmental related potential future costs, Duke Energy Kentucky did not have comparative future outage related capital and O&M costs for the other bids. Therefore, so as to not bias the comparative bid analysis one way or the other, no future planned outage costs were explicitly included in bid comparison analysis.

PERSON RESPONSIBLE: Steve Immel / James S. Northrup

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-016

REQUEST:

Refer to the response to Item 28.b. of Staff's First Request. Given that the acquisition of capacity under the East Bend Purchase is for the purpose of serving native load, explain why Duke Kentucky did not propose that native load customers benefit 100 percent from the capacity revenues and bear 100 percent of the replacement capacity costs.

RESPONSE:

Duke Energy Kentucky proposed a sharing of both the opportunity and the risk of this transaction because it believed the proposal to be an equitable recognition of the potential net capacity revenue outcomes. Sharing potential net capacity revenue margins or deficits during the transition period of the previous owners capacity commitments aligns interests between shareholders and ratepayers; and recognizes the risks inherent in a significant aspect of this transaction.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-02-017 PUBLIC

REQUEST:

Refer to the responses to Items 29 and 30.b. of Staff's First Request. Confirm that the replacement capacity costs in the capacity price column shown in the table provided in response to 30.b. are the actual costs incurred for the year 2015/2016, rather than the replacement capacity expense at the Base Residual Auction price shown for the same period in the table on page 3 of the response to Item 29. If this cannot be confirmed, explain.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

The replacement capacity cost for Delivery Year 2015/2016 is the actual cost that will be incurred. The actual price per MWday is not the same as the Base Residual Price. It is the same [redacted] because the strike price of the capacity option executed for that year was contractually defined as the [redacted]

The option gave Duke Energy Kentucky the right, but not the obligation, to purchase capacity at the strike price.

PERSON RESPONSIBLE: John Verderame

Duke Energy Kentucky
Case No. 2014-00201
Staff's Second Request for Information
Date Received: August 19, 2014

STAFF-DR-02-018

REQUEST:

Refer to the response to Item 31 of Staff's First Request, page 2. It appears that the amounts in the RWIP Reserve column are not reflected in the net book value amounts on this page. Explain the relevance of this column.

RESPONSE: The RWIP (Retirement Work In Process) Reserve column amounts are appropriately reflected in the FERC net book value amounts on that page. The RWIP Reserve amount is a component of item D Total Accumulated which is a summation of items B (Accumulated Depreciation), C (Accumulated COR) and the RWIP Reserve.

PERSON RESPONSIBLE: Will Garrett

STAFF-DR-02-019

REQUEST:

Refer to the response to Item 34 of Staff's First Request, page 3. Explain why Duke Kentucky is purchasing 627.369 acres located in North Carolina from DP&L.

RESPONSE:

The description of the location of the 627.369 acres was incorrect. The description should have read:

627.369 Acres of Land in Boone County, KY moved to account 1050 in 1990

PERSON RESPONSIBLE: Will Garrett

STAFF-DR-02-020

REQUEST:

Refer to the response to Item 12.a. of AG DR1. Explain how the estimated costs shown in the response were reflected in Duke Kentucky's analysis of the East Bend Purchase.

RESPONSE:

Please see Duke Energy Kentucky's response to Staff DR-01-25. Duke Energy Kentucky did not explicity include the potential cost of dry bottom ash conversion or ash pond closure in its comparative analysis of the bids. That is because Duke Enegy Kentucky did not want to unduely bias the analysis, as we did not have comparative costs representing the same risk exposure to include in all of the other coal-fired units bid as well. With respect to comparison to the gas-fired units bid, which have a different (but not zero) risk exposure to future environmental regulations, again Duke Energy Kentucky did not have comparative costs representing such risks on the gas units to include in the analysis. Duke Energy Kentucky did perform sensitivity analysis with respect to such costs applicable to East Bend separate and apart from the initial bid analysis.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-02-021

REQUEST:

Refer to the response to Item 13 of AG DR1. Explain how the estimated cost of the East Bend waste water treatment system was reflected in the analysis of the East Bend Purchase.

RESPONSE:

Please see Duke Energy Kentucky's response to Staff DR-01-25. Duke Energy Kentucky did not explicity include the potential cost of waste water treatment in its comparative analysis of the bids. That is because Duke Enegy Kentucky did not want to unduely bias the analysis, as we did not have comparative costs representing the same risk exposure to include in all of the other coal-fired units bid as well. With respect to comparison to the gas-fired units bid, which have a different (but not zero) risk exposure to future environmental regulations, again Duke Energy Kentucky did not have comparative costs representing such risks on the gas units to include in the analysis. Duke Energy Kentucky did perform sensitivity analysis with respect to such costs applicable to East Bend separate and apart from the initial bid analysis.

PERSON RESPONSIBLE: James S. Northrup

STAFF-DR-02-022 PUBLIC

REQUEST:

Refer to the response to Item 27 of AG DR1.

a. The second sentence of the response states, "Specifically, in the energy market, forced outages create exposure to short term power prices." Explain whether this is also true for planned outages.

b. The first full sentence on page 2 of the response states that "Duke Energy Kentucky assesses and manages these exposures through its Back-up Power Supply Plan." Explain how Duke Kentucky's Back-up Power Supply Plan mitigated the impact on customers' bills of power purchases made during the spring 2014 planned outage and the June 2014 outages at East Bend.

RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET</u>

a. Yes. Any time a resource is unavailable; there is increased exposure regardless of the underlying condition.

b. As was addressed in Duke Energy Kentucky's previous Back-Up Supply Plan, Case No. 2012-220, Duke Energy Kentucky's financial hedging strategy is designed to provide some protection against unanticipated short term power price moves during generation outages. Duke Energy Kentucky layers in hedges through a six month exposure window, and utilizes a blend of monthly, weekly and daily hedges. Layering maintains the opportunity to initiate hedges at lower power prices if prices should drop through time. Rarely is the entire expected burn hedged.

With respect to the spring 2014 maintenance outage at East Bend, the outage was originally scheduled to take place from March 8, 2014 to May 4, 2014. Duke Energy Kentucky's hedging plan was to use forward monthly power future contracts to cover a portion of customer exposure in April and use short-term spot market hedges for intra-month short positions in March, April, and May. For April 2014, [redacted] While East Bend 2 is an efficient unit, it was not expected to economically meet native load demands for the entirety of any given month. On April 21, 2014, East Bend's outage was extended to May 11, 2014, which was followed by several extensions to end of May. [redacted] On May 31, 2014, the unit came on line in [redacted].

Hedging results are provided in the Exhibit 1 below.

Exhibit 1: Duke Energy Kentucky Native Hedge Results

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

PERSON RESPONSIBLE: John Verderame