

# Goss ■ Samford PLLC

 Attorneys at Law

**David S. Samford**  
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October 9, 2014

***Via Hand-Delivery***

Mr. Jeffrey Derouen  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602

**RECEIVED**  
OCT 09 2014  
PUBLIC SERVICE  
COMMISSION

Re: In the Matter of: 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  
PSC Case No. 2014-00201

Dear Mr. Derouen:

Enclosed please find for filing with the Commission in the above-referenced case an original and ten (10) copies of Duke Energy Kentucky, Inc.'s and the Attorney General's Joint Motion to Accept Stipulation and For Leave to Supplement the Record With Testimony in Support of Stipulation. Please return a file-stamped copy to me.

Do not hesitate to contact me if you have any questions.

Very truly yours,



David S. Samford

Enclosures

M:\Clients\2000 - Duke Energy\3250 - East Bend Transfer Project\  
Correspondence\Ltr to Jeff Derouen - 141009

RECEIVED

OCT 09 2014

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE 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

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**JOINT MOTION TO ACCEPT STIPULATION AND FOR LEAVE TO SUPPLEMENT  
THE RECORD WITH ADDITIONAL TESTIMONY IN SUPPORT OF STIPULATION**

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Come now Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), and the Office of the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (the AG) (Duke Energy Kentucky and the AG may be referred to collectively herein as the Parties), and move the Kentucky Public Service Commission (the Commission) for an Order accepting the Stipulation, Settlement Agreement and Recommendation entered into by and among the Parties on or about October 7, 2014 (the Stipulation), and for leave to supplement the record with additional testimony in support of said Stipulation. In support of this motion, the Parties state as follows:

1. Duke Energy Kentucky's Application requests the Commission to issue a Certificate of Public Convenience and Necessity (CPCN) for the acquisition of the 31% interest in the East Bend Unit 2 Generating Station (East Bend) currently owned by The Dayton Power &

Light Company (DP&L). The purchase of DP&L's 31% interest in East Bend (the East Bend Purchase) produces numerous benefits to Duke Energy Kentucky's customers, including, *inter alia*, favorable costs, operational flexibility, additional value, and greater efficiency. The Application also requests that the Commission approve Duke Energy Kentucky's assumption of certain liabilities and costs in connection with the East Bend Purchase to be considered in future rate proceedings, deferral of costs incurred as part of the acquisition, a sharing of the anticipated capacity revenues, net of costs to acquire capacity to comply with PJM Interconnection LLC (PJM) requirements for fixed resource requirement (FRR) entities, and all necessary waivers, approvals, adjustments and relief necessary to effectuate the transaction.

2. The AG has been granted intervention in this case and has thoroughly examined Duke Energy Kentucky's Application, testimony, and responses to data requests. Additionally, representatives of the Parties and Commission Staff participated in an informal conference held September 24, 2014, at the offices of the Commission. At the informal conference, a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in this proceeding that might be considered by both Parties to constitute reasonable means of addressing their requests and issues.

3. As a result of negotiation, Duke Energy Kentucky and the AG entered into the Stipulation. As part of the Stipulation, the Parties agree and recommend to the Commission that the Company's Application in this proceeding should be approved as filed; additionally, Duke Energy Kentucky agrees that it will not file any application that would increase its existing electric base rates prior to January 1, 2016. The Stipulation is attached hereto and incorporated herein as Exhibit A.

4. The Parties believe that the Stipulation represents a fair, just and reasonable resolution of all the issues in this proceeding, and the Parties recommend to the Commission that the Stipulation be accepted and fully incorporated into any Order approving Duke Energy Kentucky's Application in this proceeding.

5. So that the record of this case might contain adequate and sufficient evidence to support the Stipulation, the sworn supplemental testimony of William Don Wathen, Jr., is attached hereto and incorporated herein as Exhibit B. The Parties request that the Commission's Order specifically provide that the record be supplemented with Mr. Wathen's testimony.

WHEREFORE, on the basis of the foregoing, the Parties respectfully request that the Commission enter an Order accepting both the Stipulation and supplemental testimony filed as Exhibits herein.

Done this 9<sup>th</sup> day of October, 2014.

Respectfully submitted,



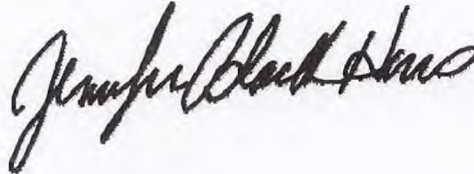
Rocco O. D'Ascenzo (92796)  
Associate General Counsel  
Amy B. Spiller (85309)  
Deputy General Counsel  
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139 East Fourth Street, 1303 Main  
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and

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*Counsel for Duke Energy Kentucky, Inc.*

and

A handwritten signature in black ink that reads "Jennifer Black Hans". The signature is written in a cursive, flowing style.

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Jennifer Black Hans  
Lawrence W. Cook  
Gregory T. Dutton  
Assistant Attorneys General  
1024 Capital Center Drive, Suite 200  
Frankfort, KY 40601-8204  
(502) 696-5453  
Jennifer.Hans@ag.ky.gov  
Larry.Cook@ag.ky.gov  
Gregory.Dutton@ag.ky.gov

*Counsel for the Attorney General's Office  
of Rate Intervention*

## **STIPULATION, SETTLEMENT AGREEMENT AND RECOMMENDATION**

This Stipulation, Settlement Agreement and Recommendation (“Stipulation”) is entered into and effective this 7th day of October, 2014 by and among Duke Energy Kentucky, Inc. (“Duke Energy Kentucky” or “Company”) and the Office of the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (“AG”) in the proceeding involving the above parties, which is the subject of this Stipulation, as set forth below. (Duke Energy Kentucky and the AG are referred to collectively herein as the “Parties”).

### **W I T N E S S E T H:**

**WHEREAS**, Duke Energy Kentucky filed on June 13, 2014, with the Kentucky Public Service Commission (“Commission”) its Application in *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*, and the Commission established Case No. 2014-00201; and

**WHEREAS**, the Application requests Commission approval for Duke Energy Kentucky to acquire the thirty-one percent (31%) ownership interest currently held by the Dayton Power & Light Company (“DP&L”) in the East Bend Generating Station located in Rabbit Hash, Kentucky (“East Bend”); and

**WHEREAS**, Duke Energy Kentucky’s acquisition proposal regarding East Bend Generating Station was the result of an evaluation of competitively bid and conforming proposals to a request for proposals (“RFP”) issued by Duke Energy Kentucky, against which the East Bend acquisition was the lowest cost option; and



**WHEREAS**, the AG was granted intervention by the Commission in this proceeding;  
and

**WHEREAS**, in this proceeding, the Commission Staff and AG have tendered numerous data requests which the Company has answered to the satisfaction of the AG; and

**WHEREAS**, the Parties understand and agree that the acquisition of DP&L's interest in East Bend will result in substantial tangible and intangible benefits to the ratepayers of Duke Energy Kentucky, including, but not necessarily limited to:

- The very favorable cost of \$12.4 million to acquire 186 MW of net installed capacity, which equals an upfront investment that is significantly below the next best option bid in response to the Company's independently administered RFP; and
- The operational flexibility to replace approximately 163 MW of net installed capacity at the Miami Fort Unit 6 ("MF6") that may be economically retired by June 1, 2015, due to the MATS rule; and
- The provision of additional reserves to meet the load obligations for Duke Energy Kentucky, as well as, enhancing the ratepayers' hedge against real time energy price exposure; and
- The benefit to ratepayers realized through additional capacity revenues derived from the approximately 186 MWs of net installed capacity attributed to the East Bend acquisition, already committed to PJM's base residual auction through May 31, 2018, because the Company has already fulfilled its capacity position through May 31, 2015 with MF6. Estimated to be approximately \$20,000 per day through the end of the 2014/2015 delivery year (or May 31, 2015), these proceeds would flow through the proposed Rider Profit Sharing Mechanism ("Rider PSM") tariff; and

- The ability to achieve operational efficiency with Duke Energy Kentucky as the sole owner of the East Bend station and no longer subject to a joint operation obligation; and

- The environmental benefits associated with having the ability to retain a comparable number of MWs of capacity through a scrubbed coal-fired base-load generator once the unscrubbed MF6 is retired, which is nearing the end of its useful life, while still reducing Duke Energy Kentucky's overall environmental footprint; and

- The avoidance of uncertainty and litigation over the terms and effect of the expired Operating Agreement previously entered into with DP&L; and

- The expected realization of lower fuel costs based upon historical fuel expenses for East Bend and MF6 coupled with the ability to avoid the increased cost of compliance and dispatch of MF6 should the Company continue to operate MF6 and bring the station into MATS compliance; and

- The Company's commitment to the Commonwealth by locating a greater percentage of its generation resources in Kentucky, thereby maintaining a skilled work force and a market for coal produced in Kentucky; and

**WHEREAS**, the Parties recognize and note that the proposed transaction has already received the approval of the Federal Energy Regulatory Commission and the Public Utilities Commission of Ohio, being the only other two regulatory agencies whose approval is necessary; and

**WHEREAS**, an informal conference was attended in person by representatives of the Parties and Commission Staff on September 24, 2014, at the offices of the Commission. At the informal conference, a number of procedural and substantive issues were discussed, including



terms and conditions related to the issues pending before the Commission in this proceeding that might be considered by both Parties to constitute reasonable means of addressing their requests and issues; and

**WHEREAS**, the Parties desire to recommend to the Commission that it enter its Order setting the terms and conditions that the Parties believe are reasonable as stated herein; and

**WHEREAS**, it is understood by all Parties that this Stipulation is an agreement among the Parties concerning all matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 9(6); and

**WHEREAS**, the Parties have spent many hours to reach the terms and conditions that form the basis of this Stipulation; and

**WHEREAS**, the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation, viewed in its entirety, is a fair, just and reasonable resolution of all the issues in this proceeding; and

**WHEREAS**, the Parties recognize that this Stipulation constitutes only an agreement among, and a recommendation by, themselves, and that all issues in this proceeding remain open for consideration by the Commission at the formal hearing in this proceeding; and

**NOW, THEREFORE**, in consideration of the premises, recitations and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

1. Duke Energy Kentucky's Application should be approved as filed:
  - a. Duke Energy Kentucky's request for a Certificate of Public Convenience and Necessity ("CPCN") should be approved and the filing deviations requested in its Application should be granted;

b. Duke Energy Kentucky should be allowed to acquire the 31% interest in East Bend from DP&L for a purchase price of \$12.4 million, as adjusted in accordance with the terms of the Purchase and Sale Agreement;

c. The purchase price of \$12.4 million should be used for establishing the net book value of the 31% interest in East Bend for rate making purposes;

d. Duke Energy Kentucky's assumption of liabilities should be approved as requested in the Application;

e. Duke Energy Kentucky will become responsible for all costs of operation of the entire East Bend generating station upon closing and such costs of full operation and environmental compliance, including those associated with any liabilities assumed, shall be considered in the ordinary course of utility rate making in future rate proceedings;

f. Duke Energy Kentucky's requests for accounting treatment, including deferrals, should be approved as filed:

i) Incremental operations and maintenance ("O&M") expenses above amounts currently reflected in base rates associated with the 31% interest in East Bend;

ii) Any and all retirement costs associated with MF6 identified in the Application;

iii) Carrying costs on the unrecovered balance of regulatory assets based upon cost of debt; and

iv) Any other incremental costs related to the assumed liabilities or otherwise necessary to effectuate the purchase;

g. Cost recovery for the foregoing accounting treatments shall be considered in the course of a future rate proceeding;

h. Duke Energy Kentucky's requests for accounting and ratemaking treatment related to sharing of capacity revenues and netting such revenues against costs to acquire additional capacity should be approved as requested;

i. The Company's request for modification of its Rider PSM tariff should be approved as requested, including the sharing of net revenues. A copy of the revised Rider PSM is attached hereto and incorporated herein as Exhibit 1; and

j. The retirement of MF6 shall be considered as a normal retirement for rate making purposes;

k. The journal entries relating to the East Bend Transaction, as requested in the Application, should be approved. A copy of the accounting entries to be made were set forth in Exhibit WAG-2 to the Application and are attached hereto and incorporated herein as Exhibit 2;

2. Duke Energy Kentucky agrees to refrain from filing any notice of intent to file an application for an increase in its base electric rates prior to December 1, 2015 and, therefore, will not file any application that would increase its existing electric base rates prior to January 1, 2016. Notwithstanding the foregoing, Duke Energy Kentucky shall retain the right to seek approval from the Commission of: (a) the deferral of extraordinary and uncontrollable costs (e.g., ice, wind storm, etc.); (b) emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to its credit or operations; (c) adjustments to the operation of any of Duke Energy Kentucky's cost recovery surcharge mechanisms (e.g., Fuel Adjustment Clause, Demand Side Management, etc.), including any base rate roll-ins, which are part of the normal operations of such mechanisms; (d) the establishment or implementation of an environmental surcharge

mechanism pursuant to KRS 278.183; or (e) any rate-related request with respect to its natural gas distribution business.

3. Except as specifically stated otherwise in this Stipulation, the Parties agree that making this Stipulation shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion, or contention made by any other Party in these proceedings is true or valid.

4. The Parties agree that the foregoing terms and conditions represent a fair, just, and reasonable resolution of the issues addressed herein.

5. The Parties agree that the foregoing terms will result in the lowest cost option of the competitively bid proposals as analyzed and assessed by Duke Energy Kentucky.

6. The Parties agree that, following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission, and Duke Energy Kentucky shall further file supplemental testimony in support of said Stipulation.

7. Each Party waives all rights of cross-examination of the other Parties' witnesses, unless the Commission disapproves this Stipulation. The AG stipulates that, after the date of this Stipulation, it will not otherwise contest Duke Energy Kentucky's Application in this proceeding, as modified by this Stipulation, during the hearing in this proceeding, and that it will refrain from cross-examination of all witnesses during the hearing, except insofar as such cross-examination supports the Stipulation or Duke Energy Kentucky's Application subject to the terms and conditions of this Stipulation.

8. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation be accepted and fully incorporated into any Order approving Duke Energy Kentucky's Application in this proceeding.

9. If the Commission issues an Order adopting all of the terms and conditions recommended herein, the Parties agree that neither of them shall file either a request for rehearing with the Commission or an appeal to the Franklin Circuit Court with respect to such Order.

10. The Parties agree that if the Commission does not implement all of the terms recommended herein in its final Order in this proceeding, or if the Commission in its final Order in this proceeding adds or imposes additional conditions or burdens upon any or all of the Parties that are unacceptable to any or all of the Parties for any reason, then, upon written notice by any Party: (a) this Stipulation shall be void and withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no Party is precluded from advocating any position contained in this Stipulation; and (b) neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Stipulation or be construed against any of the Parties.

11. The Parties agree that this Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

12. The Parties agree that this Stipulation shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

13. The Parties agree that this Stipulation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Stipulation.

14. The Parties agree that, for the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

15. The Parties agree that neither the Stipulation nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein. This Stipulation shall not have any precedential value in this or any other jurisdiction.

16. The signatories hereto warrant that they have informed, advised, and consulted with the Parties they represent in this proceeding in regard to the contents and significance of this Stipulation, and based upon the foregoing are authorized to execute this Stipulation on behalf of the Parties they represent.

17. The Parties agree that this Stipulation is a product of negotiation among all Parties, and that no provision of this Stipulation shall be strictly construed in favor of, or against, any Party.

18. The Parties agree that this Stipulation may be executed in multiple counterparts.

**IN WITNESS WHEREOF**, the Parties, by and through their duly authorized counsel, have hereunto affixed their signatures.

**Duke Energy Kentucky, Inc.**

HAVE SEEN AND AGREED:

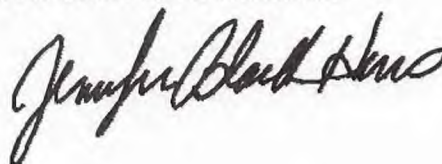


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Rocco D'Ascenzo, Counsel  
Amy B. Spiller, Counsel  
Mark David Goss, Counsel  
David S. Samford, Counsel

**Office of the Attorney General of the  
Commonwealth of Kentucky, by and through  
the Office of Rate Intervention**

HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Jennifer Black Hans". The signature is written in a cursive, flowing style.

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Jennifer Black Hans, Assistant Attorney General  
Lawrence W. Cook, Assistant Attorney General  
Gregory T. Dutton, Assistant Attorney General

**Case No. 2014-00201**

**Stipulation, Settlement Agreement and  
Recommendation**

**Exhibit 1  
(Revised Rider PSM)**



Duke Energy Kentucky, Inc.  
 4580 Olympic Blvd  
 Erlanger, KY 41018

KY.P.S.C. Electric No. 2  
~~\_\_\_\_\_~~ Revised Sheet No 82  
 Cancels and Supersedes  
~~\_\_\_\_\_~~ Revised Sheet No 82  
 Page 1 of 3

**RIDER PSM  
 OFF-SYSTEM POWER SALES AND EMISSION ALLOWANCE SALES  
 PROFIT SHARING MECHANISM**

**APPLICABILITY**

Applicable to all retail sales in the Company's electric service area, excluding interdepartmental sales, beginning with the billing month \_\_\_\_\_.

(T) Deleted: June 2014

**PROFIT SHARING RIDER FACTORS**

The Applicable energy charges for electric service shall be increased or decreased to the nearest \$0.000001 per kWh to reflect the sharing of profits on off-system power sales and ancillary services, the net profits on sales of emission allowances, and net margins on capacity transactions related to the acquisition of 100% of East Bend Unit 2.

The Company will compute its profits on off-system power sales and ancillary services, profits, on emission allowance sales, and net margins on capacity transactions related to the acquisition of 100% of East Bend Unit 2 in the following manner:

$$\text{Rider PSM Factor} = ((P + A) + E + C + R) / S$$

where:

P = Eligible profits from off-system power sales for applicable month subject to sharing provisions established by the Commission in its Order in Case No. 2003-00252, dated December 5, 2003.

A = All net profits related to its provision of ancillary services in markets administered by PJM per the Commission's Order in Case No. 2008-00489, dated January 30, 2009.

The first \$1 million in annual profits from off-system sales and ancillary services will be allocated to ratepayers, with any profits in excess of \$1 million split 75:25, with ratepayers receiving 75 percent and shareholders receiving 25 percent per the Commission Order in Case No. 2010-00203, dated December 22, 2010. After December 31<sup>st</sup> 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 service profits.

E = All net profits on sales of emission allowances are credited to customers per the Commission's Order in Case No. 2006-00172, dated December 21, 2006.

C = Capacity revenue received from the Dayton Power & Light Company related to its participation in PJM's Base Residual Auction through May 31, 2018, less the cost incurred by Duke Energy Kentucky to procure sufficient capacity to meet its obligations as a Fixed Resource Requirement entity

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 ¶

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 Deleted: May 28, 2014  
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Issued by authority of an Order of the Kentucky Public Service Commission dated \_\_\_\_\_, 201 \_\_\_\_\_, in Case No. 20 \_\_\_\_\_.

Issued:  
 Effective:  
 Issued by: James P. Henning, President /s/ James P. Henning

Duke Energy Kentucky, Inc.  
4580 Olympic Blvd  
Erlanger, KY 41018

KY.P.S.C. Electric No. 2  
Revised Sheet No 82  
Cancels and Supersedes  
Revised Sheet No 82  
Page 2 of 3

under the Reliability Assurance Agreement with PJM per the Commission's  
Order in Case No. 2014-00201, dated \_\_\_\_\_, 2014.

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- R = Reconciliation of prior period Rider PSM actual revenue to amount calculated for the period.
- S = Current month sales in kWh used in the current month Rider FAC calculation.

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Issued by authority of an Order of the Kentucky Public Service  
Commission dated \_\_\_\_\_, 201\_\_\_\_\_, in Case No. 20\_\_\_\_\_,

Issued by: \_\_\_\_\_  
Effective: \_\_\_\_\_  
Issued by: James P. Henning, President /s/ James P. Henning

Duke Energy Kentucky, Inc.  
 4580 Olympic Blvd  
 Erlanger, KY 41018

KY.P.S.C. Electric No. 2  
 Revised Sheet No 82  
 Cancels and Supersedes  
 Revised Sheet No 82  
 Page 3 of 3

[Redacted]

Rate Group	Rate (\$/ kWh)		
Rate RS, Residential Service	0.00	(R)	Deleted: 2932
Rate DS, Service at Secondary Distribution Voltage	0.00	(R)	Deleted: 2932
Rate DP, Service at Primary Distribution Voltage	0.00	(R)	Deleted: 2932
Rate DT, Time-of-Day Rate for Service at Distribution Voltage	0.00	(R)	Deleted: 2932
Rate EH, Optional Rate for Electric Space Heating	0.00	(R)	Deleted: 2932
Rate GS-FL, General Service Rate for Small Fixed Loads	0.00	(R)	Deleted: 2932
Rate SP, Seasonal Sports Service	0.00	(R)	Deleted: 2932
Rate SL, Street Lighting Service	0.00	(R)	Deleted: 2932
Rate TL, Traffic Lighting Service	0.00	(R)	Deleted: 2932
Rate UOLS, Unmetered Outdoor Lighting	0.00	(R)	Deleted: 2932
Rate OL, Outdoor Lighting Service	0.00	(R)	Deleted: 2932
Rate NSU, Street Lighting Service for Non-Standard Units	0.00	(R)	Deleted: 2932
Rate NSP, Private Outdoor Lighting Service for Non-Standard Units	0.00	(R)	Deleted: 2932
Rate SC, Street Lighting Service – Customer Owned	0.00	(R)	Deleted: 2932
Rate SE, Street Lighting Service – Overhead Equivalent	0.00	(R)	Deleted: 2932
Rate TT, Time-of-Day Rate for Service at Transmission Voltage	0.00	(R)	Deleted: 2932
Other	0.00	(R)	Deleted: 2932

Rider PSM credits, reductions to bills, are shown as positive numbers without parentheses. Rider PSM charges, increases to bills, are shown in parentheses.

**SERVICE REGULATIONS**

The supplying of, and billing for, service and all conditions applying thereto are subject to the jurisdiction of the Kentucky Public Service Commission, and to the Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission as provided by law.

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- Deleted: May 28, 2014
- Deleted: June 2, 2014

Issued by authority of an Order of the Kentucky Public Service Commission dated \_\_\_\_\_, 2011, in Case No. 20\_\_\_\_\_

Issued:  
 Effective:  
 Issued by: James P. Henning, President /s/ James P. Henning

**Case No. 2014-00201**

**Stipulation, Settlement Agreement and  
Recommendation**

**Exhibit 2  
(Exhibit WAG-2 to the Application)**

**Purchase of 31% of East Bend Assets by Duke Energy Kentucky**  
(Dollars in Thousands)

Duke Energy Kentucky's acquisition of the thirty-one percent (31%) interest in East Bend Unit 2 will be accounted for in accordance with the requirements of Electric Plant Instruction No. 5, as depicted below.

**1. Entry to record the acquisition of 31% East Bend from DP&L**

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
102	Electric Plant Purchased or Sold	12,400	
154	Plant materials and operating supplies	2,966	
151	Fuel Stock	4,228	
228	Accumulated Provision for pensions and benefits	2,785	
236	Taxes accrued		182
165	Prepayments		4,592
131	Cash		17,605
		<u>22,379</u>	<u>22,379</u>

Amounts are based on Schedule 3.2(a) in the purchase agreement as of March 31, 2014. Actual journal amounts will be based on balances as of the acquisition date.

**2. Proposed Entry to clear account 102 (to be booked 6 months from the acquisition date)**

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-106	Electric plant in service	208,483	
107	Construction Work in Progress-Electric	8,222	
105	Electric plant held for future use	588	
108	Accumulated provision for depreciation of electric utility plant		140,053
102	Electric Plant Purchased or Sold		12,400
114	Electric plant acquisition adjustments		64,840
		<u>217,293</u>	<u>217,293</u>

Amounts are based on the DP&L balance sheet as of March 31, 2014. Actual journal amounts will be based on balances as of the acquisition date. The entries reflect the original cost with an adjustment to disregard the impairment loss of \$76.0 million Dayton Power and Light recorded in 2012.

(\$-millions)

Net book value as of March 31, 2014	\$ 2.5
Impairment recognized by DPL in 2012	76.0
Less: Impairment related to Asset Retirement Obligation asset	(0.4)
Depreciation on assets for the three months ending March 31, 2014	(0.9)
Adjusted net book value	<u>\$ 77.2</u>
Purchase Price	12.4
Negative Acquisition Adjustment	<u>\$ 64.8</u>

**3. Proposed Entry to clear account 114 electric plant acquisition adjustment to account 108 Accumulated Depreciation of electric utility plant**

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
114	Electric plant acquisition adjustments	64,840	
108	Accumulated provision for depreciation of electric utility plant		64,840

To clear negative acquisition adjustment in account 114-Electric plant acquisition adjustments to account 108 accumulated depreciation of electric utility plant.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE 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 ) Case No. 2014-00201  
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 )

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**SUPPLEMENTAL TESTIMONY OF**  
**WILLIAM DON WATHEN, JR.,**  
**ON BEHALF OF**  
**DUKE ENERGY KENTUCKY, INC.**

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October 7, 2014



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**I. INTRODUCTION**

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

2 A. My name is William Don Wathen, Jr. My business address is 139 East Fourth  
3 Street, Cincinnati, Ohio 45202.

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

5 A. I am employed by Duke Energy Business Services, LLC, as Director of Rates &  
6 Regulatory Strategy – Ohio and Kentucky.

7 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. Yes. My Direct Testimony is attached as Exhibit D to the Application filed in this  
10 matter on or about June 13, 2014.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

12 A. The purpose of my supplemental testimony is twofold. First, I will generally  
13 describe this proceeding and the Stipulation, Settlement Agreement and  
14 Recommendation entered into on or about October 7, 2014 (the Stipulation), by  
15 and among Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company),  
16 and the Office of the Attorney General of the Commonwealth of Kentucky, by  
17 and through the Office of Rate Intervention (the AG) (Duke Energy Kentucky and  
18 the AG may be referred to collectively herein as the Parties). Second, I will  
19 explain why the Stipulation represents a fair, just and reasonable resolution of all  
20 the issues in this proceeding. The Stipulation is attached as Exhibit A to the Joint  
21 Motion to which this supplemental testimony is attached; I have personally



1 reviewed the Stipulation and affirm that it accurately reflects the agreement that  
2 the Company and the AG have reached.

## II. OVERVIEW OF THE PROCEEDING

3 **Q. PLEASE GENERALLY DESCRIBE THE RELIEF SOUGHT BY DUKE**  
4 **ENERGY KENTUCKY IN THIS PROCEEDING.**

5 A. Duke Energy Kentucky's Application in this proceeding requests the Kentucky  
6 Public Service Commission (Commission) to issue a Certificate of Public  
7 Convenience and Necessity (CPCN) for the acquisition of the 31% interest in the  
8 East Bend Unit 2 Generating Station (East Bend) currently owned by The Dayton  
9 Power & Light Company (DP&L). The Application also requests that the  
10 Commission approve Duke Energy Kentucky's assumption of certain liabilities  
11 and costs in connection with the East Bend purchase to be considered in future  
12 rate proceedings, deferral of costs incurred as part of the acquisition, a sharing of  
13 the anticipated capacity revenues, net of costs to acquire capacity to comply with  
14 PJM Interconnection, LLC (PJM), requirements for fixed resource requirement  
15 entities, and all necessary waivers, approvals, adjustments and relief necessary to  
16 effectuate the transaction.

17 **Q. WAS DUKE ENERGY KENTUCKY'S PROPOSED ACQUISITION OF**  
18 **THE 31% INTEREST IN EAST BEND CURRENTLY OWNED BY DP&L**  
19 **SELECTED AS RESULT OF A REQUEST FOR PROPOSALS PROCESS?**

20 A. Yes. Duke Energy Kentucky's acquisition proposal regarding East Bend was the  
21 result of an evaluation of competitively bid and conforming proposals to a request

1 for proposals (RFP) issued by Duke Energy Kentucky. From the proposals  
2 evaluated, the East Bend acquisition was the lowest cost option for ratepayers.

3 **Q. HAS DUKE ENERGY KENTUCKY'S PROPOSED ACQUISITION OF**  
4 **THE 31% INTEREST IN EAST BEND CURRENTLY OWNED BY DP&L**  
5 **BEEN APPROVED BY ANY OTHER REGULATORY AGENCIES?**

6 A. Yes. The only other regulatory agencies (besides the Commission) whose  
7 approval is necessary, namely the Federal Energy Regulatory Commission  
8 (FERC) and the Public Utilities Commission of Ohio (PUCO), approved of Duke  
9 Energy Kentucky's proposed transaction on July 16, 2014,<sup>1</sup> and September 17,  
10 2014,<sup>2</sup> respectively.

11 **Q. HAS THE AG INTERVENED IN THIS PROCEEDING?**

12 A. Yes. On July 9, 2014, the AG moved the Commission to grant him full intervenor  
13 status in this action pursuant to KRS 367.150(8) and 807 KAR 5:001 Section  
14 4(11). The Commission granted the AG's motion and made him a full party to  
15 this proceeding by Order entered July 25, 2014.

16 **Q. HAS THE AG PROPOUNDED ANY REQUESTS FOR INFORMATION**  
17 **UPON DUKE ENERGY KENTUCKY IN THIS PROCEEDING?**

18 A. Yes. The AG has propounded upon Duke Energy Kentucky two sets of data  
19 requests in this proceeding, dated July 28, 2014, and August 20, 2014,  
20 respectively. Additionally, Commission Staff propounded upon the Company

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<sup>1</sup> See Docket No. EC14-103-000, *Duke Energy Kentucky, Inc.*, 148 FERC ¶ 62,049 (Order entered July 16, 2014).

<sup>2</sup> See Case No. 14-1084-EL-UNC, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Sell its Interest in East Bend Unit 2* (Finding and Order entered September 17, 2014).

1 two sets of data requests in this proceeding, dated July 25, 2014, and August 19,  
2 2014, respectively. As stated in the Stipulation, the AG is satisfied with the  
3 responses provided by Duke Energy Kentucky to all data requests.

4 **Q. HAS DUKE ENERGY KENTUCKY PARTICIPATED IN AN INFORMAL  
5 CONFERENCE AS PART OF THIS PROCEEDING?**

6 A. Yes. On September 24, 2014, an informal conference was attended in person by  
7 representatives of the Parties and Commission Staff at the offices of the  
8 Commission. At the informal conference, a number of procedural and substantive  
9 issues were discussed, including terms and conditions related to the issues  
10 pending before the Commission in this proceeding that might be considered by  
11 both Parties to constitute reasonable means of addressing their requests and  
12 issues.

**III. OVERVIEW OF THE STIPULATION**

13 **Q. PLEASE BRIEFLY DESCRIBE HOW THE STIPULATION CAME  
14 ABOUT.**

15 A. The Stipulation is the product of much negotiation and compromise by the  
16 Company and the AG. Duke Energy Kentucky is appreciative of the AG's  
17 willingness to view this case on its own facts and to fashion an agreement  
18 accordingly. Duke Energy Kentucky is also appreciative of the Commission Staff  
19 accommodating the Parties by hosting an informal conference and providing  
20 helpful comment and insight into various issues in this proceeding.

1 **Q. AS PART OF THE STIPULATION, DOES THE AG AGREE THAT DUKE**  
2 **ENERGY KENTUCKY'S APPLICATION SHOULD BE APPROVED AS**  
3 **FILED?**

- 4 A. Yes. Specifically, the Parties agree and recommend to the Commission that:
- 5 a. Duke Energy Kentucky's request for a CPCN should be approved and the  
6 filing deviations requested in its Application should be granted;
  - 7 b. Duke Energy Kentucky should be allowed to acquire the 31% interest in  
8 East Bend from DP&L for a purchase price of \$12.4 million, as adjusted in  
9 accordance with the terms of the Purchase and Sale Agreement;
  - 10 c. The purchase price of \$12.4 million should be used for establishing the net  
11 book value as of the date of closing of the 31% interest in East Bend for  
12 rate making purposes;
  - 13 d. Duke Energy Kentucky's assumption of liabilities should be approved as  
14 requested in the Application;
  - 15 e. Duke Energy Kentucky will become responsible for all costs of operation  
16 of the entire East Bend generating station upon closing and such costs of  
17 full operation and environmental compliance, including those associated  
18 with any liabilities assumed, shall be considered in the ordinary course of  
19 utility rate making in future rate proceedings;
  - 20 f. Duke Energy Kentucky's requests for accounting treatment, including  
21 deferrals, should be approved as filed:

- 1                   i) Incremental operations and maintenance (O&M) expenses above  
2                   amounts currently reflected in base rates associated with the 31%  
3                   interest in East Bend;
- 4                   ii) Any and all retirement costs associated with the Miami Fort Unit 6  
5                   (MF6) identified in the Application;
- 6                   iii) Carrying costs on the unrecovered balance of regulatory assets  
7                   based upon the Company's cost of debt; and
- 8                   iv) Any other incremental costs related to the assumed liabilities or  
9                   otherwise necessary to effectuate the purchase;
- 10           g.    Cost recovery for the foregoing accounting treatments shall be considered  
11           in the course of a future rate proceeding;
- 12           h.    Duke Energy Kentucky's requests for accounting and ratemaking treatment  
13           related to sharing of capacity revenues and netting such revenues against  
14           costs to acquire additional capacity should be approved as requested;
- 15           i.    The Company's request for modification of its Rider Profit Sharing  
16           Mechanism (PSM) tariff should be approved as requested, including the  
17           sharing of net revenues;
- 18           j.    The retirement of MF6 shall be considered as a normal retirement for rate  
19           making purposes; and
- 20           k.    The journal entries relating to the East Bend Transaction, as requested in  
21           the Application, should be approved.

1 **Q. AS PART OF THE STIPULATION, DOES DUKE ENERGY KENTUCKY**  
2 **AGREE NOT TO SEEK TO INCREASE ITS BASE ELECTRIC RATES**  
3 **FOR A SPECIFIED PERIOD?**

4 A. Yes. As part of the Stipulation, Duke Energy Kentucky agrees to refrain from  
5 filing any notice of intent to file an application for an increase in its base electric  
6 rates prior to December 1, 2015, and, therefore, will not file any application that  
7 would increase its existing electric base rates prior to January 1, 2016.  
8 Notwithstanding the foregoing, Duke Energy Kentucky retains the right to seek  
9 approval from the Commission of: (a) the deferral of extraordinary and  
10 uncontrollable costs (*e.g.*, ice, wind storm, etc.); (b) emergency rate relief under  
11 KRS 278.190(2) to avoid a material impairment or damage to its credit or  
12 operations; (c) adjustments to the operation of any of Duke Energy Kentucky's  
13 cost recovery surcharge mechanisms (*e.g.*, Fuel Adjustment Clause, Demand Side  
14 Management, etc.), including any base rate roll-ins, which are part of the normal  
15 operations of such mechanisms; (d) the establishment or implementation of an  
16 environmental surcharge mechanism pursuant to KRS 278.183; or (e) any rate-  
17 related request with respect to its natural gas distribution business.

18 **Q. WHY DOES DUKE ENERGY KENTUCKY BELIEVE IT IS**  
19 **APPROPRIATE TO AGREE NOT TO SEEK TO INCREASE ITS BASE**  
20 **ELECTRIC RATES PRIOR TO 2016?**

21 A. Duke Energy Kentucky has aggressively managed its costs since its last electric  
22 rate case and will continue to do so, thereby allowing it to delay seeking an  
23 increase in electric base rates for the time set forth in the Stipulation. Moreover,

1 because the terms of the Stipulation explicitly permit Duke Energy Kentucky to  
2 seek rate relief in certain contexts (as discussed above), and permits the Company  
3 to defer certain incremental costs, not already reflected in the Company's base  
4 rates, of Operating the East Bend station, the Company believes that the  
5 Stipulation is consistent with the ratemaking principal of gradualism. In sum, the  
6 Company is confident that the Stipulation is particularly beneficial to the  
7 customers it serves, both in the near and extended term.

8 **Q. DOES THE STIPULATION CONTAIN OTHER TERMS AND**  
9 **CONDITIONS COMMON TO DOCUMENTS OF THIS KIND?**

10 A. Yes. Although I have already discussed the main, substantive portions of the  
11 Stipulation, the Parties also agree in the Stipulation to various terms and  
12 conditions commonly found in documents of this nature (*e.g.*, the AG waives all  
13 rights of cross-examination of the Company's witnesses unless the Commission  
14 disapproves the Stipulation; the Parties agree that the Stipulation shall in no way  
15 be deemed to divest the Commission of jurisdiction under Chapter 278 of the  
16 Kentucky Revised Statutes; the Parties agree that the Stipulation may be executed  
17 in multiple counterparts; etc.).

18 **Q. WHY HAVE DUKE ENERGY KENTUCKY AND THE AG ENTERED**  
19 **INTO THE STIPULATION?**

20 A. There are a number of reasons why Duke Energy Kentucky and the AG have  
21 entered into the Stipulation. In general terms, the Parties, who represent diverse  
22 interests and divergent viewpoints, agree that the Stipulation, viewed in its  
23 entirety, is a fair, just and reasonable resolution of all the issues in this

1 proceeding, and further agree that the terms of the Stipulation will result in the  
2 lowest cost option of the competitively bid proposals as analyzed and assessed by  
3 Duke Energy Kentucky. Additionally, both Duke Energy Kentucky and the AG  
4 understand and agree that the acquisition by the Company of DP&L's interest in  
5 East Bend will result in substantial tangible and intangible benefits to the  
6 ratepayers of Duke Energy Kentucky, including, but not necessarily limited to:

- 7 • The very favorable cost of \$12.4 million to acquire 186 MW of net  
8 installed capacity, which equals an upfront investment that is significantly  
9 below the next best option bid in response to the Company's independently  
10 administered RFP; and
- 11 • The operational flexibility to replace approximately 163 MW of net  
12 installed capacity at MF6 that may be economically retired by June 1,  
13 2015, due to the MATS rule; and
- 14 • The provision of additional reserves to meet the load obligations for Duke  
15 Energy Kentucky, as well as, enhancing the ratepayers' hedge against real  
16 time energy price exposure; and
- 17 • The benefit to ratepayers realized through additional capacity revenues  
18 derived from the approximately 186 MWs of net installed capacity  
19 attributed to the East Bend acquisition, already committed to PJM's base  
20 residual auction through May 31, 2018, because the Company has already  
21 fulfilled its capacity position through May 31, 2015, with MF6. Estimated  
22 to be approximately \$20,000 per day through the end of the 2014/2015  
23 delivery year (or May 31, 2015), these proceeds would flow through the



- 1 proposed Rider PSM tariff; and
- 2 • The ability to achieve operational efficiency with Duke Energy Kentucky
- 3 as the sole owner of the East Bend station and no longer subject to a joint
- 4 operation obligation; and
- 5 • The environmental benefits associated with having the ability to retain a
- 6 comparable number of MWs of capacity through a scrubbed coal-fired
- 7 base-load generator once the unscrubbed MF6 is retired, which is nearing
- 8 the end of its useful life, while still reducing Duke Energy Kentucky's
- 9 overall environmental footprint; and
- 10 • The avoidance of uncertainty and litigation over the terms and effect of the
- 11 expired Operating Agreement previously entered into with DP&L; and
- 12 • The expected realization of lower fuel costs based upon historical fuel
- 13 expenses for East Bend and MF6 coupled with the ability to avoid the
- 14 increased cost of compliance and dispatch of MF6 should the Company
- 15 continue to operate MF6 and bring the station into MATS compliance; and
- 16 • The Company's commitment to the Commonwealth by locating a greater
- 17 percentage of its generation resources in Kentucky, thereby maintaining a
- 18 skilled work force and a market for coal produced in Kentucky.

#### IV. SUMMARY

19 **Q. PLEASE SUMMARIZE YOUR SUPPLEMENTAL TESTIMONY.**

20 A. Duke Energy Kentucky and the AG entered into the Stipulation on or about

21 October 7, 2014. As part of the Stipulation, the Parties agree and recommend to

22 the Commission that the Company's Application in this proceeding should be

1 approved as filed; additionally, Duke Energy Kentucky agrees that it will not file  
2 any application that would increase its existing electric base rates prior to January  
3 1, 2016. The Stipulation represents a fair, just and reasonable resolution of all the  
4 issues in this proceeding, and the Parties recommend to the Commission that the  
5 Stipulation be accepted and fully incorporated into any Order approving Duke  
6 Energy Kentucky's Application in this proceeding.

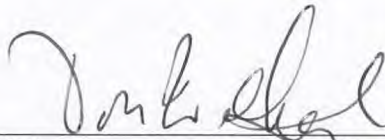
7 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

8 **A. Yes.**

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 Stipulation 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 7<sup>TH</sup> day of October, 2014.

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

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires: 1/5/2019