139 East Fourth Street
P.O. Box 960
1303-Main
Cincinnati, Ohio 45201-0960
o: 513-287-4320
f: 513-287-4385

Rocco.O.D'Ascenzo@duke-energy.com
Rocco O. D'Ascenzo
Associate General Counsel

VIA OVERNIGHT DELIVERY

May 1, 2015

RECEIVED
MAY 04 2015
PUBLIC SERVICE COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

Re: Case No. 2015-00075
In the Matter of the Back-Up Power Supply Plan of Duke Energy Kentucky Inc.

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the *Responses of Duke Energy Kentucky, Inc. to the Commission Staff's Initial Requests for Information*, for filing in the above referenced matter:

The Petition for Confidential Treatment is being filed in a white envelope, containing the confidential material to be filed under seal.

Please date-stamp the two copies of the letter and the filing and return to me in the enclosed envelope.

Sincerely,

Rocco D'Ascenzo
Associate General Counsel
rocco.d'ascenzo@duke-energy.com

cc: Hon. Jennifer Hans (w/enclosures)

582515

139 East Fourth Street
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Cincinnati, Ohio 45201-0960
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cc: Hon. Jennifer Hans (w/enclosures)

582515

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE BACK-UP POWER SUPPLY PLAN OF DUKE ENERGY KENTUCKY, INC.	))	Case No. 2015-00075

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

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 13, respectfully requests the Kentucky Public Service Commission (Commission) to classify and protect certain information provided by Duke Energy Kentucky in its responses to Data Requests Nos. 8, 9 and 10 including attachments, as requested by Commission Staff (Staff) in this case on April 20, 2015. The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information), shows Duke Energy Kentucky's analysis of various products submitted in response to a confidential request for proposal (RFP) for 2015-2016[1] and estimated costs and results of Duke Energy Kentucky's hedging strategies.[2] This information includes sensitive and business proprietary market analysis and estimated production costs for the Company under each of the scenarios evaluated.

In support of this Petition, Duke Energy Kentucky states:

[1] *See* Request Nos. 8 and 9.
[2] *See* Request No. 10.

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. If Duke Energy Kentucky is forced to disclose its future forecasted energy needs, and confidential and proprietary modeling of proposals submitted in response to a confidential RFP,[3] Duke Energy Kentucky's competitors and counterparties in the energy markets would be provided an unfair advantage. These counterparties would know the Company's energy positions, how it analyzes and determines the Company's needs and thus could demand higher prices from Duke Energy Kentucky than they otherwise might be able to charge in the absence of this information. Potential counterparties who respond to future RFPs would know how Duke Energy Kentucky values and analyzes such proposals and when those purchases would be made, as well as, what the Company is anticipating as costs thereof. Duke Energy Kentucky also seeks confidential treatment for the prices of various back-up power supply alternatives because these prices resulted from a confidential RFP. The proposals, summarized and compared in charts in the accompanying filing, show the value of these various products. If the prices are publicly disclosed, this would deter bidders from submitting bids in response to future RFPs. Additionally, these prices could be used as a floor for future bids, resulting in higher prices than would be the case if the information is not publicly disclosed. Once again, this would cause competing purchasers of energy to have access to the lower cost supplies. Finally, the Company is in the process of evaluating potential insurance products to determine whether such products

[3] *See* Request Nos. 8 and 9.

provide value to the Company or its customers. The Company has detailed the various products being evaluated including costs thereof. This information is confidential, and if released, would limit the Company's ability to negotiation with competing vendors and ultimately receive the best price. Competing insurance vendors would have access to what the Company is considering in terms of products and could use this information to tailor their own competing proposals at higher prices than what they otherwise would have offered.

3. The response to Staff-DR-01-010 discusses the results of Duke Energy Kentucky's implementation of its hedging strategies. Releasing this information would provide potential competitors and potential future suppliers with the proprietary information regarding the Company's risk evaluation and management of market risks through implementing its hedging strategies to mitigate forced outage risks. This information would place the Company in a competitive disadvantage as counterparties would know what Duke Energy Kentucky has paid and might be willing to pay for various risk mitigation products and how the Company quantifies such risks. Further, 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 or even serve to prevent the Company from being able to successfully manage its risks going forward.

4. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Corporation.

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

6. 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*, 904 S.W.2d 766, 768 (Ky. 1995).

7. In accordance with the provisions of 807 KAR 5:001, Section 13(3), the Company is filing one copy of the Confidential Information included in Staff-DR-01-008 and Staff-DR-01-009 attachments on a CD and its response to Staff-DR-01-010, separately under seal, and ten copies without the confidential information included.

8. 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.

9. 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 (92796)
Associate General Counsel
Amy B. Spiller (85309)
Deputy General Counsel
Duke Energy Business Services, LLC
139 East Fourth Street, 1303 Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4320
Fax: (513) 287-4385
e-mail: rocco.d'ascenzo@duke-energy.com

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, this 1st day of May 2015:

Jennifer Hans
The Office of the Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
Jennifer.hans@ag.ky.gov

Rocco D'Ascenzo

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 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 29 day of April, 2015.

KATIE JAMIESON
Notary Public
Mecklenburg County
NORTH CAROLINA

Katie Jamieson
NOTARY PUBLIC

My Commission Expires: June 14, 2016

VERIFICATION

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

The undersigned, James 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 are true and correct to the best of his knowledge, information and belief.

James Northrup

James Northrup, Affiant

Subscribed and sworn to before me by James Northrup on this 21 day of April, 2015.

RITA G KALE
NOTARY PUBLIC
CATAWBA CO., NORTH CAROLINA

Rita G Kale

NOTARY PUBLIC

My Commission Expires: 6/17/17

TABLE OF CONTENTS

STAFF-DR-01-001

REQUEST:

Provide the planning reserve margin that is assigned to Duke Kentucky under PJM's tariff.

RESPONSE:

Per PJM Manual 20: PJM Resource Adequacy Analysis, "The PJM Reserve Requirement is defined to be the level of installed reserves needed to maintain the desired reliability index of ten years, on average, per occurrence (loss of load expectation of one occurrence every ten years) after emergency procedures to invoke load management. The Probabilistic Reliability Index Study Model (PRISM) program is the principal tool used to calculate the PJM Reserve Requirement. The PJM Reserve Requirement is calculated using a PRISM two-area model. PJM is modeled in Area #1 and a composite World representation consisting of parts of SERC, RFC, MISO and NPCC is modeled in Area #2. The PJM Installed Reserve Margin value is used in the determination of the Forecast Pool Requirement and DR factor."

For Delivery Year 2015-2016, PJM Installed Reserve Margin is 15.6%.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-002

REQUEST:

Refer to the Application, p. 5, Table 1. For the 2015-2016 period, provide Duke Kentucky's forecasted summer and winter peak demands.

RESPONSE:

As of the date that the Back-Up Supply Plan Request for Proposals was issued, Duke Energy Kentucky's forecasted 2015/16 summer peak load demand was 899 MWs and the forecasted 2015/16 winter peak demand was 731 MWs.

PERSON RESPONSIBLE: John Verderame

Duke Energy Kentucky
Case No. 2015-00075
STAFF's First Set Data Requests
Date Received: April 20, 2015

STAFF-DR-01-003

REQUEST:

Refer to the Application, p. 4. Duke Kentucky states that is proposes to implement its 2015 Plan for the delivery years 2015/2016 and 2016/2017, and in the interim, will continue to evaluate its current plan and make any adjustments necessary due to changing conditions. Explain whether the evaluation is periodic, ongoing, or is triggered by certain conditions, such as the economy, weather, or other factors.

RESPONSE:

Duke Energy Kentucky continually evaluates the effectiveness of the plan in terms of mitigating the Company's exposure to replacement power expense.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-004

REQUEST:

Refer to the Application, p. 6, Table 4-1. Explain how the "Ave. Available Economic Generation" row was calculated. If it includes only the East Bend unit, explain why Woodsdale units were not included.

RESPONSE:

The Ave. Available Economic Generation was projected by GenTrader, an economic model the Company licenses. GenTrader model inputs include fuel prices, generation maintenance schedules, power market prices, and other unit dispatch cost inputs to project economic generation output in the next 5 years. Economic generation represents the expected PJM market dispatch. The GenTrader Model includes both the East Bend and Woodsdale units. At current forward power and natural gas market prices, the Woodsdale units are economic only during certain high demand periods, contributing a small percentage of economic generation output.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-005

REQUEST:

Refer to the Application, p. 7.

a. Provide a copy of the Request for Proposals ("RFP") that was issued on July 8, 2014.

b. Explain the process for issuing the RFP (i.e., was it advertised in a trade publication, sent directly, and if so how were recipients determined, etc.).

c. Define and describe a "Back Stand Energy Call Option."

d. Define and describe a "Daily Call Option."

RESPONSE:

a. Please refer to Staff-DR-01-005 Attachment A for a copy of the Duke Energy Kentucky Request for Proposals for Backstand Energy for 2015-2016.

b. The RFP was issued in a Megawatt Daily Ad and directly emailed to a comprehensive list of power marketers, utilities and developers who would possibly have an interest by our consultant, Burns and McDonnell.

c. As defined in the RFP, a Back Stand Energy Call Option product is a day-ahead, financially settled call option that can be used in the event of an unplanned outage at East Bend Generating Station beginning January 1, 2015 through December 31, 2016. Backstand Energy products can be proposed for a maximum rate of energy of 600 MW per hour and a minimum rate of 50 MW per hour.

Energy pricing may be a fixed price ($/MWH) or heat rate call option tied to natural gas or coal (Henry Hub and NYMEX Coal indices respectively).

This product will cover the financial difference in bidder proposed strike price (fixed price or index price) of the energy that would have been produced from East Bend Generating Station Unit 2 in the absence of an unplanned outage as compared to replacement energy from the PJM AD Hub (preferred) or PJM Western Hub settlement point.

d. As defined in the RFP, daily call options are financial energy products for up to 600 MW per hour beginning on January 1, 2015, that must be available for a minimum term of two years. Minimum financial product quantity will be 50 MW per hour.

Energy pricing may be a fixed price ($/MWh) or heat rate call option tied to natural gas or coal (Henry Hub and NYMEX Coal indices respectively) at the Settlement Point.

This product can be called upon anytime as a financially settled product on a day-ahead price basis at the Settlement Point (with a preference for the PJM AD Hub or alternatively the PJM Western Hub) throughout the term of the offer.

PERSON RESPONSIBLE: Jim Northrup

Duke Energy Kentucky

Request for Proposals for Backstand Energy for 2015-2016

Dated: June 30, 2014

Proposals Due: August 8, 2014

Complete information on this RFP can be found at:

http://DukeEnergyKentuckyRFP.com

I. Purpose of Request for Proposals

Duke Energy Kentucky (DEK) offers this Request for Proposals (RFP) for the purpose of acquiring financial products for up to 600 MW of energy for its East Bend Unit 2 coal unit during the period of January 1, 2015 through December 31, 2016.

DEK is looking for a variety of financial offerings such as backstand call options, daily call options, and insurance products. DEK seeks proposals that will provide the greatest value to DEK and its customers during unplanned outages at East Bend Unit 2, as well as products that can be called on anytime as a financially settled product.

DEK has retained Burns & McDonnell (B&M) to act as an independent third party consultant to assist with this RFP. All bidders will directly interface with B&M for all communications including questions, RFP clarification issues and RFP bid submittal.

Duke Energy Corporation's regulated operations serve 7.2 million electric retail customers located in six states in the Southeast and Midwest. Duke Energy is a Fortune 250 company traded on the New York Stock Exchange under the symbol DUK. More information about the company is available on the internet at www.duke-energy.com.

II. Product Definition & Eligibility

DEK is requesting proposals for the purchase of the following products:

1. Backstand Energy Call Option: The Backstand Energy Call Option product is a day-ahead, financially settled call option that can be used in the event of an unplanned outage at East Bend beginning January 1, 2015 through December 31, 2016. Backstand Energy products can be proposed for a maximum rate of energy of 600 MW per hour and a minimum rate of 50 MW per hour.

   When an unplanned outage occurs at East Bend Unit 2, DEK will have the right, but not the obligation, to call on a financially settled amount of replacement energy proposed by the Bidder on a day-ahead scheduled basis. The backstand energy call option will equal the amount of unplanned outage energy at the time of the strike. Energy pricing may be a fixed price ($/MWH) or heat rate call option tied to natural gas or coal (Henry Hub and NYMEX Coal indices respectively). The called energy will be financially settled on a day-ahead basis price at the Settlement Point (defined as the hub at which the financial settlement takes place) with a preference for the PJM AD Hub or alternatively the PJM Western Hub throughout the term of the offer. This product will cover the financial difference in bidder proposed strike price (fixed price or index price) of the energy that would have been produced from East Bend Unit 2 in the absence of an unplanned outage as compared to replacement energy from the PJM AD Hub (preferred) or PJM Western Hub settlement point. Different product options for the number of strike limitations per year and the time periods covered are shown below in the Product Parameters matrix in Section III.

2. Daily Call Options: Daily call options are financial energy products for up to 600 MW per hour beginning on January 1, 2015, that must be available for a minimum term of two years. Minimum financial product quantity will be 50 MW per hour. Energy pricing may be a fixed price ($/MWh) or heat rate call option tied to natural gas or coal (Henry Hub and NYMEX Coal indices respectively) at the Settlement Point. This product can be called upon anytime as a financially settled product on a day-ahead price basis at the Settlement Point (with a preference for the PJM AD Hub or alternatively the PJM Western Hub) throughout the term of the offer. Different product options for number of strike limitations per year and time periods covered are shown below in the Product Parameters matrix in Section III.

3. Insurance Products: Insurance products are financial products in which a premium is paid as financial insurance against the backstand energy during an unplanned outage at DEK's East Bend Unit 2. Insurance products may include premiums, deductibles, and insurance payment caps. This insurance product will cover the financial difference in bidder proposed strike price (fixed price in $/MWh) of the energy that would have been able to be produced from East Bend Unit 2 in the absence of an unplanned outage as compared to backstand energy for the unplanned outage from the PJM AD Hub (preferred) or PJM Western Hub Settlement Point.

III. Product Parameters

Backstand Energy Call Options

The table below outlines the product requirements for Backstand Energy Call Options. The bid contract duration terms must be for two years beginning January 1, 2015 with a minimum size of 50 MW per hour and a maximum size of 600 MW per hour. The Settlement Point will be on day-ahead price basis from the AD Hub (preferred) or PJM Western Hub.

Gas index call options must be priced on either a 7.0 MMBtu/MWh or 11.0 MMBtu/MWh heat rate using Henry Hub index gas prices. Coal index call options must be priced on a 10 MMBtu/MWh heat rate using NYMEX coal index prices. All options must be exercised by 10:30 AM Eastern Prevailing Time (EPT) on a day-ahead basis for the 16 weekday on-peak hours (including Sunday notifications for Monday) as called upon by the buyer. Options will be priced with annual strike limitations of 15, 25, 40, or unlimited. Calls can only be exercised during an unplanned outage at East Bend Unit 2.

Product Parameters – Backstand Energy Call Options	
Condition Precedent	Unplanned Outage at East Bend Unit 2
Term	January 1, 2015-December 31, 2016
Minimum Size Offering	50 MW per Hour
Maximum Size Offering	600 MW per Hour (50 MW Increments)
Power Price Index (Settlement Point)	PJM AD Hub (Preferred), PJM Western Hub
Gas Price Index	Henry Hub
Coal Price Index	NYMEX Coal
Gas Heat Rate Index	7.0 MMBtu/MWh
	11.0 MMBtu/MWh
Coal Heat Rate Index	10.0 MMBtu/MWh
Fixed Strike Price	$/MWh
Time Period Covered	16 hours weekday on-peak (HE 0800 EPT - 2300 EPT) or (07:00 am EPT through 11:00 PM EPT)
Exercise Notification	10:30 AM EPT Day Ahead (including Sunday notification for Monday)
Strike Limitations	15 Strikes/Year
	25 Strikes/Year
	40 Strikes/Year
	Unlimited Strikes

<u>Daily Call Options</u>

The table below outlines the requirements for daily call options. The bid contract duration terms must be for two years beginning January 1, 2015 with a minimum size of 50 MW per hour and a maximum size of 600 MW per hour. The Settlement Point will be on a day-ahead price basis from the AD Hub (preferred) or PJM Western Hub. Gas index call options must be priced on either a 7.0 MMBtu/MWh or 11.0 MMBtu/MWh heat rate with Henry Hub index gas prices. Coal index call options must be priced on a 10.0 MMBtu/MWh heat rate using NYMEX coal index prices. All options must be exercised by 10:30 AM EPT on a day-ahead basis for the 16 weekday on-peak hours (including Sunday notification for Monday) as called upon by the buyer. Options will be priced with annual strikes limitations of 15, 25, 40, or unlimited. Calls options can be exercised at any time with no bearing on the availability of the East Bend Unit 2.

Product Parameters – Daily Call Options	
Condition Precedent	None
Term	January 1, 2015-December 31, 2016
Minimum Size Offering	50 MW per Hour
Maximum Size Offering	600 MW per Hour (50 MW Increments)
Power Price Index (Settlement Point)	PJM AD Hub (Preferred), PJM Western Hub
Gas Price Index	Henry Hub
Coal Price Index	NYMEX Coal
Gas Heat Rate Index	7.0 MMBtu/MWh
	11.0 MMBtu/MWh
Coal Heat Rate Index	10 MMBtu/MWh
Fixed Strike Price	$/MWh
Time Period Covered	16 hours weekday on-peak (HE 0800 EPT - 2300 EPT) or (07:00 am EPT through 11:00 PM EPT)
Exercise Notification	10:30 AM EPT Day Ahead (including Sunday notification for Monday)
Strike Limitations	15 Strikes/Year
	25 Strikes/Year
	40 Strikes/Year
	Unlimited Strikes

Insurance Products

The table below outlines the requirements for the insurance product. The term must be for two years beginning January 1, 2015 with a minimum size of 50 MW per hour and a maximum size of 600 MW per hour. The bidders must provide a strike price that will be settled on a day-ahead basis against AD Hub (preferred) or PJM Western Hub. Bidders should also provide any premiums, deductibles or insurance payment caps as appropriate. The time period covered will be the PJM on-peak 16 weekday hours. Insurance products will only be applicable during unplanned outages at East Bend Unit 2.

Product Parameters – Insurance Products	
Condition Precedent	Unplanned Outage at East Bend Unit 2
Term	January 1, 2015-December 31, 2016
Minimum Size Offering	50 MW per Hour
Maximum Size Offering	600 MW per Hour (50 MW Increments)
Power Price Index (Settlement Point)	PJM AD Hub (Preferred), PJM Western Hub
Fixed Strike Price	$/MWh
Annual Deductible	Please Provide if Applicable
Annual Premiums	Please Provide
Time Period Covered	16 hours weekday on-peak (HE 0800 EPT - 2300 EPT) or (07:00 am EPT through 11:00 PM EPT)
Annual Insurance Payment Caps	Please Provide if Applicable

IV. Instructions to Bidders

1. Overview of Process

B&M has set-up an e-mail address at DukeEnergyKentuckyRFP@burnsmcd.com to collect all communications and questions from potential bidder as well as a web site at http://DukeEnergyKentuckyRFP.com to provide uniform communications, including updates and specific detail as may be provided from time to time throughout this bidding process.

The bid process will include the activities and events as indicated in the schedule shown below. Proposal opening will be performed in private by B&M on a confidential basis. Proposals will be reviewed for completeness and bidders whose offers do not include the information requirements of this RFP will be notified and allowed five business days to submit conforming proposals. All conforming proposals will be sent to DEK for evaluation. The evaluation of the bids will be performed by DEK with assistance provided by B&M. Bidders selected for the short list may or may not be invited to begin negotiations of final details of the offers.

Duke Energy Kentucky Backstand RFP Schedule

Event	Anticipated Date
Release of RFP	June 30, 2014
Notice of Intent to Bid	July 15, 2014 (Preferred)

Proposal Submittal Deadline	August 8, 2014
Selection of Short List	September 1, 2014

2. Notice of Intent to Bid (Attachment A)

Each bidder is requested to advise B&M of its intent to submit a proposal by submitting a Notice of Intent to Bid (NOIB), attached hereto as **Attachment A: Notice of Intent to Bid.** The Notice of Intent to Bid form may be e-mailed to the following address: DukeEnergyKentuckyRFP@burnsmcd.com.

Bidder's contact information, as supplied in the NOIB, will provide a vehicle for B&M to communicate any updates/revisions to the RFP in a timely manner and facilitate the process to complete the Nondisclosure Agreement (Attachment B) allowing prospective bidders to receive supplementary information regarding historical East Bend Unit 2 outage information and operations. Therefore, we encourage bidders to submit a NOIB by July 15, 2014.

3. Nondisclosure Agreement (Attachment B)

Bidders to this RFP are required to sign **Attachment B: Nondisclosure Agreement (NDA)** in its present form. Bidders who submit a NOIB and sign the NDA will receive supplementary information on East Bend Unit 2 that may help in developing their bids.

Phone inquiries regarding this RFP will not be entertained. Individual questions will be submitted by email to B&M and will be answered with responses sent back via email to the bidder. Responses to frequently asked questions may be placed on the RFP website for the benefit of all bidders with all identifying information removed.

4. Deadline and Method for Submitting Proposals

All proposals submitted in response to this RFP must be received by B&M no later than **5:00 PM EPT on August 8, 2014**. DEK will not guarantee evaluation of proposals associated with this RFP if submitted after this time.

Bidders are required to submit three (3) hard copies of each proposal and a CD with the proposal to the address below.

Burns & McDonnell
Attn: Jon Summerville
9400 Ward Parkway

Kansas City, MO 64114

It is further required that multiple proposals submitted by each bidder be identified separately. **Emailed proposals will not be accepted**. Financial statements, annual reports, and other large documents may be referenced via a web site address.

V. Proposal Organization

1. Executive Summary

Please provide a detailed overview of the proposal.

2. Technical Proposal & Cost

Proposals should contain a detailed description of the pricing terms and conditions. Please refer to Section III.

3. Company Data

Please include information on the bidder's corporate structure (including identification of any parent companies), a copy of the bidder's most recent quarterly report containing unaudited consolidated financial statements that is signed and verified by an authorized officer of bidder attesting to its accuracy, a copy of bidder's most recent annual report containing audited consolidated financial statements, and a summary of bidder's relevant experience. Financial statements, annual reports, and other large documents may be referenced via a web site address.

VI. Proposal Evaluation and Contract Negotiations

1. Initial Proposal Review

After the proposal submittal deadline, B&M will privately open and review all responses for completeness and responsiveness. B&M may request that a bidder provide additional information or clarification to its original proposal. B&M will make such requests in writing via email and specify a deadline for compliance. Failure to provide the requested information or clarification by the deadline may result in disqualification of the proposal.

2. Short List Development

DEK will then evaluate all proposals to meet energy needs. Proposals will be evaluated based on present value economics and other factors that may include, but will not be limited to location, credit, relevant experience, technology, availability, outage history, permitting, and deliverability.

During the evaluation process, DEK may or may not choose to initiate discussions with one or more bidders. Discussions with a bidder shall in no way be construed as commencing contract negotiations.

3. Contract Negotiations

DEK may contact the bidder in writing of its interest in commencing contract negotiations. DEK's commencement of and participation in negotiations shall not be construed as a commitment to execute a contract. If a contract is negotiated, it will not be effective unless and until it is fully executed with the receipt of all required regulatory approvals.

VII. Reservation of Rights

Nothing contained in this RFP shall be construed to require or obligate DEK to select any proposals or limit the ability of DEK to reject all proposals in its sole and exclusive discretion. DEK further reserves the right to withdraw and terminate this RFP at any time prior to the proposal deadline, selection of a short list, or execution of a contract.

All proposals submitted to DEK pursuant to this RFP shall become the exclusive property of DEK and may be used for any reasonable purpose by DEK. DEK and B&M shall consider materials provided by bidder in response to this RFP to be confidential only if such materials are clearly designated as "Confidential." Bidder should be aware that their proposal, even if marked "Confidential", may be subject to discovery and disclosure in regulatory or judicial proceedings that may or may not be initiated by DEK. Bidders may be required to justify the requested confidential treatment under the provisions of a protective order issued in such proceedings. If required by an order of an agency or court of competent jurisdiction, DEK may produce the material in response to such order without prior consultation with the bidder.

Duke Energy Kentucky
Case No. 2015-00075
STAFF's First Set Data Requests
Date Received: April 20, 2015

STAFF-DR-01-006

REQUEST:

Refer to the Application, p. 8, which states that the RFP sought supply options through the end of 2016. State whether Duke Kentucky did not seek options through May 31, 2017, because it had not yet decided to try to align its back-up power supply plan with the PJM Interconnection, Inc. ("PJM") delivery years at the time the RFP was issued. If not, explain why the RFP did not seek options through May 31, 2017.

RESPONSE:

Duke Energy Kentucky initially was seeking proposals to cover the time period for calendar years 2015 through 2016, consistent with past backstand RFP practices. During the RFP bid analysis, Duke Energy Kentucky received approval for the purchase of DP&L's East Bend Generating Station ownership. Duke Energy Kentucky later decided to align its back-up power plan time period with the PJM Interconnection Delivery years.

PERSON RESPONSIBLE: Jim Northrup

Duke Energy Kentucky
Case No. 2015-00075
STAFF's First Set Data Requests
Date Received: April 20, 2015

STAFF-DR-01-007

REQUEST:

Refer to the Application, p. 9. The middle of the page states, "Each year, the proceeds from the calls were summed and compared to the call premium costs." Explain how the "proceeds from the calls" were calculated.

RESPONSE:

Proceeds from the calls were calculated by comparing the strike prices from the call options to the market prices for the 16-hour peak strip. When the strike price from the call option was lower than the market price (in the money) for the average of the entire 16-hour strip, then the call option was executed. The price difference between the strike price and the market price were summed to derive the proceeds from the call as listed in the Application, page 10, Table 6.

PERSON RESPONSIBLE: Jim Northrup

Duke Energy Kentucky
Case No. 2015-00075
STAFF's First Set Data Requests
Date Received: April 20, 2015

STAFF-DR-01-008 PUBLIC

REQUEST:

Refer to the Application, p. 10, Table 6. Provide the supporting calculations for the amounts in the table.

RESPONSE:

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

Table 6 of the Application was calculated using Staff-DR-01-008 Confidential Attachment A and Attachment B. Staff-DR-01-008 Confidential Attachment B is the calculation engine that compares the call option strike price to the market prices and determines when the call is executed. The results from Staff-DR-01-008 Confidential Attachment B are pasted into Staff-DR-01-008 Confidential Attachment A to derive Table 6. Confidential Attachment A and Attachment B are filed with the Commission under a Petition for Confidential Treatment.

PERSON RESPONSIBLE: Jim Northrup

STAFF-DR-01-009 PUBLIC

REQUEST:

Refer to the Application, p. 12, Table 7. Provide the supporting calculations for the amounts in the table.

RESPONSE:

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

Table 7 was calculated using Staff-DR-01-009 Confidential Attachments A-F. Staff-DR-01-009 Confidential Attachment A is a summary of the results of the insurance value calculations. The insurance bid can only be exercised during a forced outage (FO) at East Bend Generating Station, so a random number generator is used to calculate the value at a 5% FO (Staff-DR-01-009 Confidential Attachment B), 10% FO (Staff-DR-01-009 Confidential Attachment C), 15% FO (Staff-DR-01-009 Confidential Attachment D), 20% FO (Staff-DR-01-009 Confidential Attachment E) and a 5% FO with no July (Staff-DR-01-009 Confidential Attachment F). Confidential Attachments A-F are filed with Commission under a Petition for Confidential Treatment.

PERSON RESPONSIBLE: Jim Northrup

STAFF-DR-01-010 PUBLIC

REQUEST:

Provide an analysis of the effectiveness of Duke Kentucky's back-up power supply for the period 2012-2014.

RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET</u>

As explained in the Company's submitted Back-Up Power Supply Plan, PJM daily energy market and fixed forward contract purchases were used to manage scheduled outages. For the period 2012-2014, this strategy produced a small gain for the customers.

As for forced outages, the Company primarily used PJM daily energy market to purchase energy for native load. It incurred costs of [redacted] in 2012, [redacted] in 2013, and [redacted] in 2014, and the 8-year average expense has been [redacted]. These are costs the Company paid in addition to the cost of generation units that were not available due to forced outages. The cost in 2014 was driven by high PJM energy market prices during strong Polar Vortex events in January and February 2014. While the extreme winter of 2014 was an outlier event, generally speaking, the plan has performed as expected. A risk of a plan based on purchasing short term energy hedges is exposure to longer term price excursions. For example, daily power hedge costs insulate the Company from real time price exposure; but the cost of these hedges will likely be influenced by unanticipated weather events such as the Polar Vortex that impact market prices for longer periods. Additionally, the plan is not designed to completely eliminate exposure to the price differential between the Company's generating units and market prices; but rather it is designed to mitigate temporal displacement risk in the energy market. Weekly hedges mitigate daily exposure, daily hedges mitigate hourly exposure. On the other hand the primary benefit of a short term hedge plan is the minimization of the extrinsic value payments embedded in products such as energy and financial call options. Sellers of long term optionality price in both volatility and time value premiums into these products. Duke Energy Kentucky believes that over the longer term, its strategy has been sound and cost effective.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-011

REQUEST:

In written testimony and at the hearing in Case No. 2014-00201,[1] Duke Kentucky witness John A. Verderame discussed concentration risk and the costs of insurance products related to mitigating that risk, which were provided in a post-hearing information request. In Duke Kentucky's pending fuel adjustment clause case, Case No. 2014-000454,[2] Mr. Verderame provided testimony which discussed increased risk because of proposed changes by PJM to the Capacity Performance requirements. Explain why the increased risk due to PJM's proposal was not discussed at the hearing in Case No. 2014-00201.

RESPONSE:

The fact that PJM's Performance Capacity proposal was not directly addressed during case number 2014-00201 is simply because the final Capacity Performance proposal was not filed with the FERC until December 12, 2014. PJM released its preliminary Capacity Performance whitepaper on August 20, 2014 for stakeholder comment. At the time of the October 30, 2014 hearing in Case No. 2014-00201, the PJM Capacity Performance proposal was inchoate, going through an intense process of

[1] Case No. 2014-00201, *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 Generates Station; (2) Approval of Duke 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 (*Ky.P.S.C. Dec. 4, 2014*).*

[2] Case No. 2014-00454, *The Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2012 through October 31, 2014* (February 25, 2015).

stakeholder vetting, and the nature of the potential impacts to Duke Energy Kentucky as a fixed resource requirement participant were unknown and speculative at best. The risk of portfolio concentration was discussed both in written and oral testimony in that case and was intended to address incremental risks to the portfolio under the then known PJM performance criteria. Those same risks are generally consistent with incremental risks under the Capacity Performance criteria. Duke Energy Kentucky believes that the incremental value to customers of the East Bend acquisition compared to the alternatives exceeds the increased portfolio concentration risk.

On or about December 4, 2014 the Commission held its Chairman's forum where a representative from PJM gave a presentation discussing the topic of PJM reliability. During that presentation, PJM's Performance Capacity proposal was one of the topics discussed. Even then, there remained uncertainty regarding the final form of the PJM filing. Duke Energy Kentucky sought out and had informal discussions with Commission staff counsel regarding potential implications for Kentucky utilities in PJM of the evolving Capacity Performance proposal. It remains today uncertain as to what extent Capacity Performance will be approved by the FERC, the materiality of potential penalties, and what exposure Duke Energy Kentucky will have to it. The Company remains in negotiation for potential insurance products to mitigate exposure to replacement power and may consider products to mitigate potential performance assessments under Capacity Performance.

PERSON RESPONSIBLE: John Verderame

Duke Energy Kentucky
Case No. 2015-00075
STAFF's First Set Data Requests
Date Received: April 20, 2015

STAFF-DR-01-012

REQUEST:

Although the proposed two-year back-up supply plan is for the PJM delivery years 2015/2016 and 2016/2017, which is prior to the planning year for PJM's proposed changes to the Capacity Performance requirements, state whether Duke Kentucky nonetheless obtained quotes for the additional exposure as a result of PJM's proposed changes.

RESPONSE:

In the initial PJM Capacity Performance filing, PJM exempted Fixed Resource Requirement (FRR) entities such as Duke Energy Kentucky from compliance with Capacity Performance through the 2017/2018 delivery year. The products solicited under the Back-Up Power Supply request for proposals focused on energy market exposure only. The Company intends to solicit quotes for potential hedges against any Capacity Performance penalty assessments when the final rule is in place and the potential exposures are clarified.

PERSON RESPONSIBLE: Jim Northrup/John Verderame

STAFF-DR-01-013

REQUEST:

In the Application, p. 14, the first full paragraph indicates that Duke Kentucky anticipates an iterative negotiation process regarding insurance products, but states that if satisfactory terms can be negotiated, its goal is to have such a "product in place for the beginning of the 2015/2016 Delivery Year."

a. Discuss the extent to which negotiations have moved toward since the filing of Duke Kentucky's Application.

b. Based on the response to part a. of this request, explain whether Duke Kentucky continues to believe that it may have an insurance product in place for the start of the 2015/2016 planning year.

RESPONSE:

a. Since the Application filing, Duke Energy Kentucky has spent considerable time evaluating the pricing and payout parameters of insurance products, and has defined several potential product parameter configurations for pricing comparison. It has also designed an analytical decision model in order to evaluate and fine tune potential products. Additionally, the Company has solicited insurance brokers and other counterparties active in this niche of the insurance industry for comparative analysis. The Company expects to have all offers available for comparison soon.

b. Yes. If the analysis indicates that one of the insurance products provides value, the Company believes it may be able to have a product in place at or near the beginning of the 2015/2016 Delivery Year.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-014

REQUEST:

In the Application's last paragraph, the second sentence concludes, "negotiating the most competitive transaction is essential and should take its natural course of time."

a. Explain whether this statement reflects an expectation on the part of Duke Kentucky that the amount of time needed for negotiations will preclude it from having an insurance product in place by the beginning of the 2015/2016 planning year.

b. If not contained in the response to part a. of this request, provide Duke Kentucky's current estimate of when negotiations should be concluded.

RESPONSE:

a. and b. Given the complexity inherent in business interruption products such as those currently being considered for inclusion in the Back-Up Power Supply Plan, the Company was concerned with making a significant investment decision under a self-imposed timeline. The statement was intended to convey a potentiality rather than an expectation. The Company now believes that it has the analytical tools in place to better solicit and evaluate these proposals. Due to the intricacy and specificity of these complex instruments, the negotiation timeline is longer than that of more standard products, but all potential suppliers are in the process of finalizing product offers. While it is not certain that the Company can secure a product that provides value in excess of cost, it believes negotiations could certainly be concluded prior to the beginning of the 2015/2016 Delivery Year.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-015

REQUEST:

In the Application's last paragraph, the last sentence concludes, "but in the interim, the Company will continue to use the Alternative B plan as its back-up plan as it has done since 2006." The first paragraph of the application refers to previous Commission approvals of Duke Kentucky's back-up power supply plan; however, there appears to be no request for Commission approval of the back-up power supply plan that Duke Kentucky proposes for the 2015/2016 and 2016/2017 delivery years

a. Confirm that Duke Kentucky understands that it must receive Commission approval of any back-up power supply plan before implementing the plan.

b. Confirm that Duke Kentucky understands that it must receive Commission approval of any revision, such as the addition of a custom insurance product, to an existing Commission-approved back-up power supply plan.

RESPONSE:

a. Duke Energy Kentucky understands that it must receive Commission approval of its back-up power supply plan before implementing the plan.

b. Duke Energy Kentucky's intent in its Application was to receive approval for the inclusion of a custom insurance product if that product were deemed to be a viable hedge against its potential replacement purchase power exposure. Duke Energy Kentucky believes that a potential insurance product was included in the plan and does not represent a revision to the plan. Such a custom insurance product is complex and requires significant negotiation and analysis by both the Company and the potential provider. The Company did not anticipate a need for independent Commission approval of such transaction. Duke Energy Kentucky does not view a potential insurance product as a revision to its back-up supply plan, but rather, as an adjustment necessary, based upon continued evaluation and due to changing conditions as stated on page 4 of its Application in this proceeding. Given the limited time remaining until the start of the 2015/2016 Delivery year, and the current state of negotiations, requiring Commission approval of an insurance product would most certainly jeopardize the Company's ability to have a product in place for the start of the Delivery Year. The Company requests instead, approval to enter into a transaction if one is deemed viable, and provide the details and analysis for Commission review after the fact.

PERSON RESPONSIBLE: John Verderame