

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BACK-UP POWER SUPPLY PLAN OF DUKE ) CASE NO.  
ENERGY KENTUCKY, INC. ) 2015-00075

ORDER

On March 2, 2015, Duke Energy Kentucky, Inc. (“Duke Kentucky”) filed an application seeking Commission approval of a back-up power supply plan. Pursuant to the Commission’s Order in Case No. 2014-00334,<sup>1</sup> Duke Kentucky’s current back-up supply plan was authorized to be in effect through May 31, 2015. Due to the then-pending expiration of the existing plan and the need for additional information before issuing a final Order in this matter, the Commission issued an interim Order on May 27, 2015, that authorized Duke Kentucky to continue its existing back-up power supply plan pending a final Order in this matter.<sup>2</sup> For the following reasons, the Commission will approve Duke Kentucky’s application.

Duke Kentucky is proposing a new back-up supply plan (“2015/2016 Plan” or “Alternative B Plan”) to extend through the next two PJM Interconnection LLC (“PJM”) delivery years running from June 1, 2015, through May 31, 2016, and from June 1, 2016, through May 31, 2017. Duke Kentucky considered and dismissed an Alternative A plan that relied solely on the PJM energy market for both planned and forced

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<sup>1</sup> Case No. 2014-00334, *Application of Duke Energy Kentucky, Inc. to Extend the Filing Deadline for the Filing of its Back-Up Supply Plan and to Continue Its Current Plan Through May 31, 2015 and Request for Expedited Ruling* (Ky. PSC Sept. 29, 2014).

<sup>2</sup> On May 29, 2015, Duke Kentucky filed additional information, subject to a pending petition for confidentiality, regarding its evaluation of potential insurance products.

outages. According to Duke Kentucky, the Alternative A plan exposed it to possible price spikes during scheduled outages. Duke Kentucky proposes a 2015/2016 Plan that is similar to its prior Commission-approved plans, including its current back-up supply plan. According to Duke Kentucky, the 2015/2016 Plan consists of fixed-priced financial swap contracts to lock in the price of power during scheduled outages and PJM energy market purchases during forced outages. With the planned June 1, 2015 retirement of Miami Fort Unit 6 and Duke Kentucky's recent acquisition of the remaining 31 percent interest in East Bend Unit 2, Duke Kentucky's generating portfolio consists of a 600-megawatt ("MW") coal-fired base-load unit located at the East Bend Generating Station and six natural gas-fired peaking units at the Woodsdale Generating Station with a combined summer capacity of 492 MW.

Duke Kentucky stated that its primary goal in selecting an appropriate back-up power supply plan is to balance cost and risk mitigation.<sup>3</sup> Recognizing the concentration of its generating portfolio, Duke Kentucky stated that it is considering enhancing its 2015/2016 Plan with business-interruption insurance tailored to mitigate exposure to market prices from an extended forced outage at East Bend Unit 2.<sup>4</sup> Duke Kentucky is also evaluating other insurance products that could provide additional levels of protection.

Duke Kentucky received a total of 16 bid alternatives from six different bidders to a Request for Proposals ("RFP") issued on July 8, 2014. The RFP sought bids for the following types of supply options: (1) back stand energy call options; (2) daily call

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<sup>3</sup> Application, Section I, Summary at 3.

<sup>4</sup> *Id.* at 4.

options; and (3) insurance products. Back stand energy call options and insurance products are tied to unplanned outages at East Bend Unit 2. Daily call options are independent of any outages at East Bend Unit 2 and are directly associated to the market. The bid alternatives received were in the style of daily call options or insurance products.

As a result of its analysis of the conforming bids, Duke Kentucky found that insurance could provide significant value under certain conditions, but that a more tailored policy would likely be required to make the most effective use of those products as a hedge against market exposure due to forced outages at East Bend Unit 2. Accordingly, Duke Kentucky requested that the insurance provider offer additional insurance proposals so that Duke Kentucky could more fully evaluate its options. Duke Kentucky has designed an analytical model to compare and evaluate insurance products, and it anticipates engaging in ongoing negotiation that might include requests for similar products from other insurance underwriters. Duke Kentucky has been evaluating the various insurance products offered as a result of its solicitations, and its goal is to have a product in place near the beginning of the 2015/2016 PJM Delivery Year.<sup>5</sup> Duke Kentucky states that negotiations for these types of insurance are fluid and dynamic in nature, and it therefore seeks authority to secure a product as part of its back-up power supply plan and to provide the details and its analysis of the specific insurance product for Commission review after entering into that transaction.<sup>6</sup>

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Duke Kentucky's Alternative B Plan, which provides backup

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<sup>5</sup> Application, Section IV.C., Subsequent Analysis of Additional Insurance Products at 14.

<sup>6</sup> Duke Kentucky's response to Commission Staff's Initial Request for Information, Item 15.b.

power through the PJM daily energy market during forced outages and uses fixed forward contract purchases during scheduled outages, achieves its goal to strike a balance between risk and cost. The Commission further finds that business-interruption insurance may be an additional cost-effective hedge against market price exposure, but only if satisfactory terms can be negotiated and the insurance product provides value. We recognize that the cost of this type of insurance is dynamic, based on changing conditions in the power market, and that time is of the essence in the negotiation and execution of an insurance contract. For these reasons, the Commission will allow business-interruption insurance to be included in the Alternative B Plan, subject to the requirement that within ten days of executing such a contract, Duke Kentucky files with the Commission the contract's terms, provisions, and conditions, along with an analysis of the expected value of that insurance product.

IT IS THEREFORE ORDERED THAT:

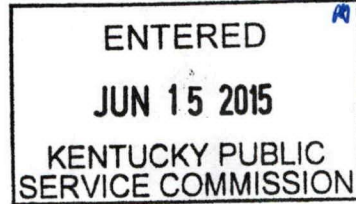
1. Duke Kentucky's back-up power supply plan, as described in its application and in the findings above as Alternative B Plan, is approved through the PJM 2016/2017 Delivery Year ending on May 31, 2017.

2. Within ten days of executing an agreement to secure any insurance product that becomes a part of the Alternative B Plan, Duke Kentucky shall file with Commission the terms, provisions, and conditions, along with an analysis of the expected value.

3. Six months prior to the expiration of the Alternative B Plan approved herein, Duke Kentucky shall inform the Commission of its intentions concerning its prospective back-up power supply plan.

4. Duke Kentucky shall submit any future back-up supply plans for review and approval no later than 90 days prior to the effective date of the new plan.

By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of several loops and a long tail, positioned above a horizontal line.

Executive Director

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