

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	CASE NO.
CLAUSE OF DUKE ENERGY KENTUCKY, INC.)	2016-00234
FROM NOVEMBER 1, 2015 THROUGH APRIL)	
30, 2016)	

ORDER

Pursuant to 807 KAR 5:056, Section 1(11), IT IS HEREBY ORDERED that:

1. Duke Energy Kentucky, Inc. ("Duke Kentucky") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on November 9, 2016, at 9:00 a.m., Eastern Standard Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2015, through April 30, 2016. Neither opening statements nor summaries of pre-filed testimony will be permitted.
2. Not less than seven days and no more than 21 days prior to the scheduled hearing, Duke Kentucky shall publish in a newspaper of general circulation in each area in which it serves notice of the purpose, time, place, and date of the scheduled hearing. In addition, the notice of hearing shall include the following statement: "This hearing will be streamed live and may be viewed on the PSC website, psc.ky.gov."
3. Duke Kentucky shall file with the Commission no later than November 7, 2016, proof of publication of its notice for the hearing.
4. The official record of the proceeding shall be by video only.

5. a. The information requested in the Appendix to this Order is due no later than 14 days from the date of this Order. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Responses shall include the name of the witness responsible for responding to the questions related to the information provided, an original and six copies in paper medium and an electronic version to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. When filing a document containing personal information, a party shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

6. Any party who wishes to file testimony in this proceeding or to request information from Duke Kentucky may petition the Commission for a procedural schedule.

7. All documents that Duke Kentucky filed with the Commission during the period under review pursuant to 807 KAR 5:056, Sections 1(7) and 1(9), are incorporated by reference into the record of this proceeding.

8. Unless otherwise ordered by the Commission, the electronic filing procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

9. Pursuant to 807 KAR 5:001, Section 8, unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; the party shall file with the Commission, within seven days of the date of an Order of the Commission granting the intervention, a written statement that the party waives any right to service of Commission Orders by United States mail; and that the party, or the party's authorized agent, possesses the facilities to receive electronic transmissions.

10. Any request for intervention must be filed by September 9, 2016.

11. A person who submits a motion to intervene after September 9, 2016, and upon a showing of good cause is granted full intervention, shall accept and abide by the existing procedural schedule.

By the Commission

ENTERED
AUG 12 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00234 DATED **AUG 12 2016**

1. For the period from November 1, 2015, through April 30, 2016, list each vendor from whom coal was purchased and the quantities and the nature of each purchase (i.e., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract. For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

2. For the period from November 1, 2015, through April 30, 2016, list each vendor from whom natural gas was purchased for generation and the quantities and the nature of each purchase (i.e., spot or contract). For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

3. State whether Duke Kentucky engages in hedging activities for its coal or natural gas purchases used for generation. If yes, describe the hedging activities in detail.

4. For each generating station or unit for which a separate coal pile is maintained, state, for the period from November 1, 2015, through April 30, 2016, the actual amount of coal burned in tons, the actual amount of coal deliveries in tons, the total kWh generated, and the actual capacity factor at which the plant operated.

5. List all firm power commitments for Duke Kentucky from November 1, 2015, through April 30, 2016, for (a) purchases and (b) sales. This list shall identify the

electric utility, the amount of commitment in MW, and the purpose of the commitment (i.e., peaking, emergency).

6. Provide a monthly billing summary of sales to all electric utilities for the period November 1, 2015, through April 30, 2016.

7. List Duke Kentucky's scheduled, actual, and forced outages from November 1, 2015, through April 30, 2016.

8. List all existing fuel contracts categorized as long-term (i.e., one year or more in length). Provide the following information for each contract:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract was executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification, or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percentage of annual requirements received during the contract's term;
- i. Base price in dollars per ton;
- j. Total amount of price escalations to date in dollars per ton; and
- k. Current price paid for coal under the contract in dollars per ton (i + j).

9. a. State whether Duke Kentucky regularly compares the price of its coal purchases to those paid by other electric utilities.

b. If yes, state:

(1) How Duke Kentucky's prices compare with those of other utilities. If the comparison includes months outside of the review period, a comparison limited to the review period should be provided separately. Provide a copy of the source documents and calculations used to support the amounts used in the comparison and include all prices used in the comparison in cents per MMBtu.

(2) The utilities that are included in this comparison and their locations.

10. State the percentage of Duke Kentucky's coal, as of the date of this Order, that is delivered by:

- a. Rail;
- b. Truck; or
- c. Barge.

11. a. State Duke Kentucky's coal inventory level in tons and in number of days' supply as of April 30, 2016. Provide this information by generating station and in the aggregate.

b. Describe the criteria used to determine number of days' supply.

c. Compare Duke Kentucky's coal inventory as of April 30, 2016, to its inventory target for that date for each plant and for total inventory.

d. If actual coal inventory exceeds inventory target by ten days' supply, state the reasons for excessive inventory.

e. (1) State whether Duke Kentucky expects any significant changes in its current coal inventory target within the next 12 months.

(2) If yes, state the expected change and the reasons for this change.

12. a. State whether Duke Kentucky has audited any of its coal contracts during the period from November 1, 2015, through April 30, 2016.

b. If yes, for each audited contract:

(1) Identify the contract;

(2) Identify the auditor;

(3) State the results of the audit; and

(4) Describe the actions that Duke Kentucky took as a result of the audit.

13. a. State whether Duke Kentucky has received any customer complaints regarding its FAC during the period from November 1, 2015, through April 30, 2016.

b. If yes, for each complaint, state:

(1) The nature of the complaint; and

(2) Duke Kentucky's response.

14. a. State whether Duke Kentucky is currently involved in any litigation with its current or former coal suppliers.

b. If yes, for each litigation:

(1) Identify the coal supplier;

(2) Identify the coal contract involved;

(3) State the potential liability or recovery to Duke Kentucky;

(4) List the issues presented; and

(5) Provide a copy of the complaint or other legal pleading that initiated the litigation and any answers or counterclaims. If a copy has previously been filed with the Commission, provide the date on which it was filed and the case in which it was filed.

c. State the current status of all litigation with coal suppliers.

15. a. During the period from November 1, 2015, through April 30, 2016, have there been any changes to Duke Kentucky's written policies and procedures regarding its fuel procurement?

b. If yes:

(1) Describe the changes;

(2) Provide the written policies and procedures as changed;

(3) State the date(s) the changes were made; and

(4) Explain why the changes were made.

c. If no, provide the date Duke Kentucky's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

16. a. State whether Duke Kentucky is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from November 1, 2015, through April 30, 2016.

b. If yes, for each violation:

(1) Describe the violation;

(2) Describe the action(s) that Duke Kentucky took upon discovering the violation; and

(3) Identify the person(s) who committed the violation.

17. Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for Duke Kentucky's fuel procurement activities that occurred during the period from November 1, 2015, through April 30, 2016.

18. a. Identify all changes that Duke Kentucky has made during the period under review to its maintenance and operation practices that also affect fuel usage at Duke Kentucky's generation facilities.

b. Describe the impact of these changes on Duke Kentucky's fuel usage.

19. List each written coal-supply solicitation issued during the period from November 1, 2015, through April 30, 2016.

a. For each solicitation, provide the date of the solicitation, the type of solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranked the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

20. List each oral coal-supply solicitation issued during the period from November 1, 2015, through April 30, 2016.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the tabulation sheet or other document that ranks the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

21. a. List all intersystem sales during the period under review in which Duke Kentucky used a third party's transmission system.

b. For each sale listed above:

(1) Describe the effect on the FAC calculation of line losses related to intersystem sales when using a third party's transmission system; and

(2) State the line-loss factor used for each transaction and describe how that line-loss factor was determined.

22. a. Describe the effect on the FAC calculation of line losses related to intersystem sales when not using a third party's transmission system.

b. Describe each change that Duke Kentucky made to its methodology for calculating intersystem sales line losses during the period under review.

23. State whether, during the period under review, Duke Kentucky has solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal. If yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

24. Provide a detailed discussion of any specific generation efficiency improvements Duke Kentucky has undertaken during the period under review.

25. State whether all contracts related to commodity and/or transportation have been filed with the Commission. If any contracts have not been filed, explain why they have not been filed and provide a copy.

26. For the expense month of October 2015, provide the amount of power purchases in excess of Duke Kentucky's highest-cost generating unit available to be dispatched to serve native load during the reporting expense month that was included in Duke Kentucky's FAC calculation.

27. For the expense month of October 2015, provide Duke Kentucky's calculations and supporting data for determining the amount of power purchases in excess of its highest-cost unit available to be dispatched during the month.

28. Refer to 807 KAR 5:056, Sections 1(3)(a), 1(3)(b), and 1(4), relating to forced outages. State whether Duke Kentucky interprets these sections of the regulation to mean that, during a forced outage (as defined by the regulation), the amount recoverable through the FAC is the lesser of the assigned cost of power (the cost of fuel that would have been used in plants suffering a forced outage) and the

substitute cost of power. If yes, explain in detail how Duke Kentucky calculates the assigned cost of fuel during a forced outage. If no, explain in detail how Duke Kentucky interprets the regulation related to forced outages and how it calculates the assigned cost of fuel during a forced outage.

29. State whether Duke Kentucky has made, or plans to make, any capital investments in order to comply with PJM Interconnection, Inc. ("PJM") capacity performance standards. If yes, provide details. If no, explain why no capital investments are needed in order for Duke Kentucky to comply with the capacity performance standards.

30. Refer to the FAC filing and supplemental/back-up file submitted for the expense month of April 2016. The filings show that the East Bend unit did not operate during the month due to a planned outage. State whether Duke Kentucky entered into a fixed-price financial swap contract to lock in a power price for the outage as included in its back-up power supply plan.¹ If no, explain why it did not enter into such a contract. If yes, provide the following:

- a. Details of the terms of the contract.
- b. The amount of power purchased and the amount paid for the purchases pursuant to the contract.
- c. The amount that Duke Kentucky estimates it would have paid if it had not entered into the contract.
- d. The financial benefit or cost that resulted from entering into, and purchasing power under, the contract.

¹ Case No. 2015-00075, *Back-Up Power Supply Plan of Duke Energy Kentucky, Inc.* (Ky. PSC June 15, 2015).

31. State whether Duke Kentucky had any firm natural gas transportation service to any of its generating units during the period under review.

a. If yes, state which, if any, of the following fees and/or adjustments are included for recovery through the FAC: Reservations fees; Transportation Cost Rate Adjustment; Electric Power Costs Adjustment; Operational Transaction Rate Adjustment; and, Capital Cost Recovery Mechanism.

b. If any of the fees listed in subpart a. are included for recovery through the FAC, provide the following:

(1) Whether the amount of the fees/adjustments differ if the generating unit supplied with firm natural gas transportation service operates or does not operate during the month.

(2) Whether these fees/adjustments are allocated to both native load and off-system sales.

32. Refer to the e-mail conversation attached as an appendix to this order.

a. Provide full details of the PJM load miscalculation referred to in the e-mail.

b. Provide the date Duke Kentucky became aware of the load miscalculation.

c. State the amounts that were credited to customers through the FAC and the expense months in which the credits were recorded. Provide supporting documentation that the amounts were credited. If amounts were not credited through the FAC, explain.

Whelan, Chris (PSC)

From: Czupik, Ted Jr <Ted.Czupik@duke-energy.com>
Sent: Monday, January 04, 2016 8:06 AM
To: Whelan, Chris (PSC)
Cc: Steinkuhl, Lisa D; Baer, Matthew (PSC); D'Ascenzo, Rocco O
Subject: RE: FAC filing

Chris,
Rocco is correct. PJM is performing the resettlements related to the issue as time permits. We are hoping that all of the resettlements are complete by the end of the first quarter 2016.

From: D'Ascenzo, Rocco O
Sent: Wednesday, December 23, 2015 9:40 AM
To: Whelan, Chris (PSC)
Cc: Czupik, Ted Jr; Steinkuhl, Lisa D; Baer, Matthew (PSC)
Subject: Re: FAC filing

My understanding is that we have not yet received the restated prior period calculations for 2014 from PJM. We anticipate they will get that completed during 2016 and will flow it back as soon as possible. I will confirm with Lisa.

Sent from my iPhone

On Dec 23, 2015, at 9:17 AM, Whelan, Chris (PSC) <mcwhelan@ky.gov> wrote:

*** Exercise caution. This is an EXTERNAL email. DO NOT open attachments or click links from unknown senders or unexpected email. ***

Rocco,

In the 12/15/15 filing, I noticed that Duke KY reversed the adjustment of \$238,486.78 made the previous month for January 2014 and February 2014 as we discussed. Thanks.

Question. Wasn't Duke KY also going to make an adjustment for the PJM load miscalculation (that went back to June 2013) for the months of November 2014 and December 2014 (not going back further because the 2-year period ending 10/31/14 was closed and because 2015 has already been corrected)? My understanding was that there was a credit due to customers to correct for those 2 months.

I understand that you all may be off for the holidays until January 4th. I am off after today until January 4th. This can wait until then. But I wanted to send an e-mail as a reminder to discuss when everyone is back at work.

Thanks and Happy Holidays.

Chris

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