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JUN 24 2013

PUBLIC SERVICE
COMMISSION

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VIA OVERNIGHT DELIVERY

June 21, 2013

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

Re: A Review of the Adequacy of Kentucky's Generation Capacity and Transmission System, Administrative Case No. 387

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of Duke Energy Kentucky Inc.'s Public response to Staff's Supplemental Data Request and Petition for Confidential Treatment in the above captioned case. Also enclosed in the white envelope is one set of the confidential response to Staff-DR-01-006 being filed under seal.

Please date-stamp the two copies of the letter, the Data Request and the Petition and return to me in the enclosed envelope.

Sincerely,

Kristen Cocanougher

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**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

A Review of The Adequacy of)
Kentucky's Generation Capacity and) Administrative
Transmission System) Case No. 387

**DUKE ENERGY KENTUCKY, INC.'S
PETITION FOR THE CONFIDENTIAL TREATMENT OF SUPPLEMENTAL
INFORMATION FILED FOR CALENDAR YEAR 2012**

Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or "Company"), pursuant to 807 KAR 5:001, Section 13, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in its response to supplemental data request no. 6, as requested by Commission Staff ("Staff") in this case on May 31, 2013. The information that Staff seeks through discovery, and for which Duke Energy Kentucky now seeks confidential treatment ("Confidential Information"), includes the internal, proprietary policies, procedures and guidelines Duke Energy Kentucky has in place with regard to price elasticity estimates used as part of the Company's forecasting process.

The Response listed above contains sensitive information, the disclosure of which would injure Duke Energy Kentucky and its competitive position and business interest and would furthermore risk the inappropriate disclosure of information relating to price elasticity estimates.

In support of this Motion, Duke Energy Kentucky further states:

1. Kentucky Revised Statute § 61.878(1)(c)(1) provides that records confidentially disclosed to an agency or required to be disclosed to the agency be exempt from Kentucky's open records statutes, KRS 61.870 *et seq.* where the records are generally recognized as

confidential or proprietary, and which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records.

2. The public disclosure of the Company's internal price elasticity standards, protocols or policies would reveal the information that is, quite obviously, highly sensitive, commercially valuable and strictly proprietary. This information, if disclosed, will reveal Duke Energy Kentucky's underlying assumptions of the energy markets that are used as part of its internal resource planning and pricing estimation processes. The public disclosure of this information would potentially also harm Duke Energy Kentucky's competitive position in the marketplace, to the detriment of Duke Energy Kentucky and its customers in that potential counter parties would have access to Duke Energy Kentucky's underlying resource model and planning assumptions.

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

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

5. 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*, 907 S.W.2d 766, 768 (Ky. 1995).

6. In accordance with the provisions of 807 KAR 5:001, Section 13(2), the Company is filing one copy of the Confidential Material separately under seal, and the remaining response to the Staff's supplemental data request without the Confidential Material included. Duke Energy Kentucky respectfully requests that the Confidential Material be withheld from public disclosure for a period of ten years. This will assure that the 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.

7. If and 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.




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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, this 25th day of June, 2013:

Kentucky Public Staff
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky, 40601



Rocco D'Ascenzo

TABLE OF CONTENTS

DATA REQUEST

WITNESS

TAB NO.

**STAFF-DR-01-006
Supplemental**

**Jose Merino
/ Scott Park 1**

PUBLIC STAFF-DR-01-006
SUPPLEMENTAL

REQUEST:

Due to the increasing impact that price elasticity will have on electric utility sales and revenues, provide a detailed discussion of the consideration given to price elasticity in the forecasted demand, energy and reserve margin information provided with the annual Admin 387 resource assessments.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

Energy:

Duke Energy Kentucky's energy sales forecast models are prepared at the combined Ohio-Kentucky regional level. The projection for Duke Energy Kentucky is determined by using historical shares of actual regional sales. For example, if the historical share of Kentucky sales relative to Ohio plus Kentucky total is 0.17, then the forecast for Kentucky will be calculated by multiplying the Ohio-Kentucky sales projection by 0.17. This allocation is performed separately for the residential, commercial, industrial, governmental and street lighting customer segments.

The price for electricity is an input to the Ohio-Kentucky energy sales forecast models. From an economic theory perspective, the price of electricity should be included as a forecast input because it is one of the factors that determines the level of electricity consumption in the long run.

Price elasticity is the projected percentage change in energy sales given a 1 percentage increase in electricity prices. Holding all other variables constant, if the price of electricity increases, energy sales are expected to decline. The Kentucky energy sales and peak demand projections include the impact of future electricity prices. The reported price elasticity reflects a 50/50 probability or a value that has a 50% chance of being lower or higher. The price elasticities are calculated based on the historical relationship between sales, electricity prices and other variables such as weather, population, income, employment and industrial production. The historical period used in the energy sales model estimation ranges between 10 and 20 years and it varies by customer class.

Based on the Spring 2012 econometric models specification, the estimated price elasticities for Duke Energy Kentucky are: residential [REDACTED], commercial [REDACTED], industrial [REDACTED] and governmental [REDACTED].

Demand:

The peak demand projection is a function of weather variables and weather normal retail sales. The Duke Energy Kentucky peak demand forecast does not use the price of electricity as a direct forecast input.

Since the price of electricity is an input to the retail sales projection, it indirectly influences the peak demand growth projection in the long run. Based on Duke Energy's current forecast methodology, the price of electricity is not a material driver of peak demand in the short run.

The Duke Energy models predict that sales volumes would be between 1% and 2% higher than the reference case if prices were held constant in real terms. The reference case projection assumes an electricity price forecast that does not stay constant in real terms.

Duke Energy Kentucky - Native Electric Forecast

Year	Demand-MW		Energy-MWh	
	Base	Fixed Price ¹	Base	Fixed Price ²
2013	897	906	3,933,834	3,973,172
2014	913	922	3,960,252	3,999,855
2015	930	939	4,002,317	4,042,340
2016	943	952	4,057,877	4,098,456
2017	949	959	4,086,215	4,127,077

Notes:

1 - Forecast based on a retail sales projection which assumes a price forecast that stay constant in real terms.

2 - Forecast assuming electric prices stay constant in real terms or where prices only grow at the rate of inflation

The projected growth in electricity prices is obtained from internal company records. This information is consistent with the financial planning assumptions used by Duke Energy Kentucky.

Since the long-term growth rate for peak demand is expected to mirror that of energy sales, changes in sales growth associated with price moves will eventually impact the peak demand forecast. Therefore, the peak demand projection would also be 1% to 2% higher than the reference case if prices were assumed to stay constant in real terms.

Planning Reserve Margin:

Duke Energy Kentucky's 2013 *planning* reserve margin of 13.7% is based on the PJM Forecast Pool Requirement. This is determined from PJM and Duke Energy Kentucky equivalent forced outage rates and installed load capacities, and is independent of Duke Energy Kentucky's load forecast. The *forecasted* reserve margin is based on the base case load forecast. All else being equal, and given negative long term price elasticities, the forecasted reserve margin varies directly with the price of electricity. For example, assuming that the price of electricity increases, then load decreases due to the negative price elasticity. Since the reserve margin calculation

measures the difference between generation capacity and peak load, lower loads increase the reserve margin.

PERSON RESPONSIBLE: Energy/ Demand- Jose Merino
Reserve Margin- Scott Park