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Associate General Counsel

VIA OVERNIGHT DELIVERY

September 1, 2015

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RECEIVED

SEP 02 2015

PUBLIC SERVICE
COMMISSION

Re: **Case No. 2015-00120**

In the Matter of the Application of Duke Energy Kentucky, Inc., for an Order Approving the Establishment of a Regulatory Asset for the Depreciation Expense of its East Bend Unit 2 Generating Station

Dear Mr. Derouen:

Enclosed please find the accounting entries made by Duke Energy Kentucky, Inc. to effectuate the creation of a regulatory asset, per order by the Commission in the above-referenced case.

Please also find the updated exhibit that was filed in Case No. 2014-00201, to reflect the final amounts recorded and filed with FERC for the transaction. The final amounts show the actual composite rate for the specific FERC Accounts impacted by the transaction. Previously, the Company included the average depreciation rate for all accounts. In addition, the Company discovered that its response to Staff DR-01-003 had a typographical error in listing the FERC Account journal entry. The deferral and amortization will actually be recorded to Account 403 in accordance with FERC guidance around Account 182.3 instead of FERC Account 407.4 as was previously indicated.

Please file stamp the two copies of this letter enclosed herein and return in the enclosed return-addressed envelope.

Very truly yours,

Rocco O. D'Ascenzo
Associate General Counsel

Enclosure

cc: Jennifer B. Hans

588481

Unit: 75081
 Journal ID: EBDEPRDEF
 Date: 8/31/2015
 Description: Entry to defer depreciation on assets from East Bend Acquisition

Ledger Group: ACTUALS
 Source: 204
 Reversal: N
 Reversal Date:

Foreign Currency: USD
 Rate Type: CRRNT
 Effective Date: 8/31/2015
 Exchange Rate: 1.00

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
Line #	Process	Product	Project	Analysis Type	Activity	Activity	Affiliate						

ACTUALS

1	75081	0403002	99899	EB02	9928					CRRNT	1.00000000	-2,911,422.41 USD	-2,911,422.41 USD
1				ACT									
Description:		To defer depr on EB Acquisition			Reference:		Open Item Key:						
2	75081	0182493	99899	EB02	9928					CRRNT	1.00000000	2,911,422.41 USD	2,911,422.41 USD
2				ACT									
Description:		To defer depr on EB Acquisition			Reference:		Open Item Key:						

<u>Business Unit</u>	<u>Journal Status</u>	<u>Total Lines</u>	<u>Total Base Debits</u>	<u>Total Base Credits</u>
75081	V	2	2,911,422.41	2,911,422.41

End of Report

Duke Energy
East Bend Depreciation Deferral

Assumptions:

	(000's)		
	Plant	Depr.	
	Balance	Rate	Depr. Exp.
1 Original plant cost	214,359	2.16%	4,630
2 Accumulated depreciation	(138,392)		
3 Negative acquisition adj	(63,567)		
4 Net purchase price	<u>12,400</u>	2.16%	268
5 Composite depreciation rate - using current approved rates	2.16%		
6 End of useful life (Year)	2041		

Journal Entries:

6	1). Record annual depreciation expense - rate * plant cost	
7	Dr. Depreciation expense (403)	4,630
8	Cr. Accumulated depreciation (108)	(4,630)
9	2). Record deferral of depreciation expense based on intent of KY regulators (Years 1-3)	
10	Dr. Other regulatory asset (182.3)	4,362
11	Cr. Depreciation expense (403)	(4,362)
12	3). Record amortization of depreciation deferral (Years 4 until end of life of plant)	
13	Dr. Depreciation Expense (403)	483
14	Cr. Other regulatory asset (182.3)	(483)

15 Illustrative table example of above entries

	(000's)			
	Depr Exp	Deferral	Amort	Total
	403	182.3	403	
Year 1	4,630	(4,362)	-	268
Year 2	4,630	(4,362)	-	268
Year 3	3,140	(2,872)	-	268
Year 4	-	-	483	483
Year 5	-	-	483	483
Year 6	-	-	483	483
Year 7	-	-	483	483
Year 8	-	-	483	483
Year 9	-	-	483	483
Year 10	-	-	483	483
Year 11	-	-	483	483
Year 12	-	-	483	483
Year 13	-	-	483	483
Year 14	-	-	483	483
Year 15	-	-	483	483
Year 16	-	-	483	483
Year 17	-	-	483	483
Year 18	-	-	483	483
Year 19	-	-	483	483
Year 20	-	-	483	483
Year 21	-	-	483	483
Year 22	-	-	483	483
Year 23	-	-	483	483
Year 24	-	-	483	483
Year 25	-	-	483	483
Year 26	-	-	483	483
Year 27	-	-	483	483
	<u>12,400</u>	<u>(11,596)</u>	<u>11,596</u>	<u>12,400</u>

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

1. Entry to record the acquisition of 31% East Bend from DP&L (Booked December 2014)
JE EASTBNDACQ

<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	2,798	-
151	Fuel Stock - Coal Inventory	3,980	-
151	Fuel Stock - Fuel Oil Inventory	352	-
154	Fuel Stock - Limestone Inventory	280	-
502	Fuel Stock - Ammonia	14	-
502	Fuel Stock - Trona	1	-
253	Pension Assets	3,047	-
253	OPEB (Life/Health)	(418)	-
186	Prepaid Insurance Premium	4	-
186*	Prepayments	-	(11,862)
186**	Deferred Debit	-	(10,596)
		22,458	(22,458)

* AP booked the cash transaction to 0186 (Debit 0186, Credit 131)

** DEO Accounting cleared AR/AP to 0186

*** Amounts are based on Schedule 3.2A in the purchase agreement as of November 30, 2014.
Final adjustment amounts will be done within 90 days of the acquisition date

Entries to be filed with FERC six months from the Acquisition Date and booked after FERC approval.

2. Entry to clear account 102

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-106	EPIS	206,681	-
107	CWIP	6,840	-
105	Plant held for future use	588	-
108	Accumulated Depreciation	-	(138,392)
102	Electric Plant Purchased or Sold	-	(12,400)
114	Acquisition Adjustments	-	(63,317)
		214,109	(214,109)

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	Acquisition Adjustments	63,317	-
108	Accumulated Depreciation	-	(63,317)

Amounts are based on East Bend Balance Sheet as of November 30, 2014. Numbers will be updated as of December 30, 2014 (acquisition date).

--Amended--
Duke Energy Kentucky, Inc.
Purchase of 31% of East Bend Assets from Dayton Power and Light Company
Summary of Actual Accounting Entries
(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.

<u>Entry</u>	<u>Account</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
1	102	Electric Plant Purchased or Sold	12,400	
	154	Plant Materials and Operating Supplies	2,981	
	151	Fuel Stock Inventory	4,472	
	502	Fuel Stock - Ammonia and Trona (represents amount billed on usage)	21	
	253	Pension Assets/OPEB	2,609	
	143	Other A/R		11,708
	131	Cash		10,775
			22,483	22,483

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

2	101	ARO Asset	317	
	230	ARO Liability		317

Entry to update Miami Fort 6 ARO for 6/2015 retirement date

Note: The East Bend acquisition agreement stipulated that Miami Fort 6 would be retired by June 2015. Prior to the acquisition, Duke Energy Kentucky's Asset Retirement Obligation (ARO) related to asbestos at Miami Fort 6 assumed a retirement date of June 2020. Therefore, the entry above is necessary to revalue the ARO-related balances for the change in timing required by the acquisition.

3	101	ARO Asset	166	
	230	ARO Liability		166

Entry to update East Bend ARO to reflect 100% ownership

Note: Prior to the acquisition, Duke Energy Kentucky's Asset Retirement Obligation (ARO) related to asbestos at East Bend reflected Duke Energy Kentucky's 69% ownership in East Bend. Therefore, the entry above is necessary to reflect the ARO-related balances for the change in ownership and associated obligation related to asbestos removal.

4	101	Electric Plant in Service	199,623	
	106	Completed Construction Not Classified - Electric	7,058	
	105	Electric Plant Held for Future Use	588	
	107	Construction Work in Progress-Electric	7,090	
	108	Accumulated Provision for Depreciation of Electric Utility Plant		137,764
	111	Accumulated Provision for Amortization of Electric Utility Plant		628
	102	Electric Plant Purchased or Sold		12,400
	114	Electric Plant Acquisition Adjustments		63,567
			214,359	214,359

Entry to clear account 102

5	114	Electric Plant Acquisition Adjustments	63,567	
	108	Accumulated Provision for Depreciation of Electric Utility Plant		63,567

Entry to clear account 114 electric plant acquisition adjustment to account 108 Accumulated Depreciation of electric utility plant