COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of an Investigation of Duke Energy Kentucky, Inc.'s Accounting Sale of Natural Gas Not Used in its Combustion Turbines	))))	Case No. 2014-00078

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

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 responses to Data Request No. 5, as requested by Commission Staff (Staff) in this case on April 25, 2014. The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) shows the buyer of the gas from Duke Energy Kentucky.[1]

The sensitive information contained in response to Data Request No. 5 includes the identity of the buyer of the gas in question from Duke Energy Kentucky. Releasing this information would give potential future purchasers of gas and counterparties with Duke Energy Kentucky access to each other's transactions, which would act to the detriment of Duke Energy Kentucky and its customers in the future. Potential counterparties would likely be less inclined to engage in such transactions with the Company if their identity and nature of their transactions with the Company were publicly available.

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[1] Data Request No. 5.

In support of this Petition, Duke Energy Kentucky states:

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. Disclosure of the factors underlying Duke Energy Kentucky's gas contracts (No. 5) would damage Duke Energy Kentucky's competitive position and business interests. If the Commission grants public access to the information requested in No. 5, potential bidders could manipulate the bid solicitation process to the detriment of Duke Energy Kentucky and its ratepayers by tailoring bids and gain an advantage they would not otherwise have by knowing who may also be participating in any solicitations. Also, potential counterparties would likely be less inclined to engage in such transactions with the Company if their identity and nature of their transactions with the Company were publicly available.

3. The information in No. 5 was developed internally by Duke Energy Corporation and Duke Energy Kentucky personnel, is not on file with any public agency, and is not available from any commercial or other source outside Duke Energy Kentucky. The aforementioned information in these responses is distributed within Duke Energy Kentucky only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry.

4. Duke Energy Kentucky does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement,

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

6. In accordance with the provisions of 807 KAR 5:001, Section 13(3), the Company is filing one copy of the Confidential Information separately under seal, and one copy without the confidential information included.

7. 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.

8. 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
Associate General Counsel
Amy B. Spiller
Deputy General Counsel
Duke Energy Business Services, LLC
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Cincinnati, Ohio 45201-0960
Phone: (513) 287-4359
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e-mail: rocco.d'ascenzo@duke-energy.com
Counsel for Duke Energy Kentucky, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, this 9TH day of May 2014:

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

Rocco D'Ascenzo

VERIFICATION

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

The undersigned, John D. Swez, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

John D. Swez

John D. Swez, Affiant

Subscribed and sworn to before me by John D. Swez on this 1 day of May, 2014.

Rita G Kale

NOTARY PUBLIC

RITA G KALE NOTARY PUBLIC CATAWBA CO., NORTH CAROLINA

My Commission Expires: 6/17/2017

VERIFICATION

STATE OF OHIO)
) **SS:**
COUNTY OF HAMILTON)

The undersigned, Lisa Steinkuhl, Rates & Regulatory Strategy Manager, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief..

Lisa D Steinkuhl
Lisa Steinkuhl, Affiant

Subscribed and sworn to before me by Lisa Steinkuhl on this 5TH day of May, 2014.

Adele M. Frisch
NOTARY PUBLIC

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019

My Commission Expires: 1/5/2019

VERIFICATION

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

The undersigned, Joseph McCallister, Director of Natural Gas Oil & Emissions, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Joseph McCallister, Affiant

Subscribed and sworn to before me by Joseph McCallister on this 6 day of May, 2014.

RITA G KALE NOTARY PUBLIC CATAWBA CO., NORTH CAROLINA

Rita G Kale
NOTARY PUBLIC

My Commission Expires: 6/17/2017

The undersigned, Rocco D'Ascenzo, submits the objections set forth in the responses to Commission Staff's First Set of Data Requests, on behalf of Duke Energy Kentucky, Inc.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

Rocco O. D'Ascenzo
Associate General Counsel
Amy B. Spiller
Deputy General Counsel
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Counsel for Duke Energy Kentucky, Inc.

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STAFF-DR-01-001

REQUEST:

Refer to pages 2 through 4 of the Direct Testimony of Lisa Steinkuhl ("Steinkuhl Testimony) regarding the circumstances which caused Duke Energy Kentucky to sell natural gas that was purchased for use in the Woodsdale Generating Station ("Woodsdale") units.

a. Has Duke Kentucky or any of its affiliated companies ever had a situation in which it sold fuel that was purchased for use in the generating electricity? If so, identify and explain such circumstance(s).

b. If the answer to a. is affirmative, identify and explain the accounting entries for the fuel sold.

c. If the answer to a. is affirmative, identify and explain any changes made to the tariff in the subject jurisdiction(s).

RESPONSE:

a. Objection. This request is vague, overbroad and unduly burdensome in its reference to "ever." Without waiving said objection, yes, Duke Energy Kentucky's affiliates have experienced numerous circumstances where natural gas was purchased to meet forecasted generation needs and subsequently was sold in the spot market. This occurs during the normal course of business and has specific regulatory treatment in the jurisdictions in which those affiliates operate recovered through the various fuel adjustment clauses since at least 2006.

For example, Duke Energy Kentucky is aware that its parent Company, Duke Energy Ohio, regularly engaged in fuel resale (along with emission allowances and purchased power) as part of its "active/economic management" and "market-based dispatch" of Ohio generating fleet portfolio. Costs were tracked and reconciled through its Commission-approved fuel tracking mechanism, the fuel and purchase power (FPP) rider (renamed PTC-FPP in 2008) from approximately 2006 through 2011. The Public Utilities Commission of Ohio annually reviewed and audited Rider FPP. As of January 1, 2012, Duke Energy Ohio no longer has an FPP. See *e.g.* the following links to testimony describing this process:

- Direct Testimony of Douglas Esamann, pages 8-10, Case No. 05-806-El-UNC: http://dis.puc.state.oh.us/TiffToPDf/XMSYHCMOYLRY0WSL.pdf

- Direct Testimony of Charles W. Whitlock, Case No. 05-725-EL-UNC, et al., http://dis.puc.state.oh.us/TiffToPDf/ANIOGC3FARL5LTKP.pdf

- Direct Testimony of Charles W. Whitlock, Case No. 07-723-EL-UNC, pages 4-6: http://dis.puc.state.oh.us/TiffToPDf/A1001001A07L07B03437H96619.pdf

b. Upon information and belief, Duke Energy Kentucky's affiliates account for a sale of gas in gas expense on their general ledger which is recoverable through the fuel adjustment clause.

c. Upon information and belief, the only change to a tariff for Duke Energy's Kentucky's affiliates is the normal rate adjustments which include the impact of the sales of gas

PERSON RESPONSIBLE: As to Objection – Legal
Joseph McCallister
Lisa Steinkuhl

Duke Energy Kentucky
Case No. 2014-00078
Staff's First Request for Information
Date Received: April 25, 2014

STAFF-DR-01-002

REQUEST:

Refer to page 4 of the Steinkuhl Testimony regarding Duke Kentucky's proposed accounting treatment for the cost of gas purchased and subsequently sold, as well as page 5, where Ms. Steinkuhl states that passing the cost of unburned gas volumes and crediting the sale proceeds through the Fuel Adjustment Clause ("FAC") is an acceptable method to Duke Kentucky but that the existing regulation does not permit this accounting treatment absent a Commission waiver. Confirm that it is because of Duke Kentucky's Profit Sharing Mechanism ("Rider PSM") that Duke Kentucky's proposed accounting treatment will have less of a negative impact on customers than would allowing Duke Kentucky to account for the purchase and sale of the natural gas through the FAC. If this cannot be confirmed, explain.

RESPONSE:

The proposed accounting treatment may or may not have less of a negative impact on customers than would be the case if accounted for in the FAC. The impact is dependent on the level of net profit from the off-system sales of its generation assets and whether the sale of gas is a gain or a loss. If the net profits from off-system sales including any gain or loss of sale of gas is between $0 and $1 million, the overall impact to the ratepayer is the same whether included in the FAC or Rider PSM. Due to the sharing mechanism incorporated in Rider PSM, the customer will benefit when a loss is shared with the Company and the Company will benefit if a gain is shared with the customer.

PERSON RESPONSIBLE: Lisa Steinkuhl

STAFF-DR-01-003

REQUEST:

Refer to page 4 of the Steinkuhl Testimony regarding Duke Kentucky's proposed accounting treatment for the cost of gas purchased and subsequently sold, as well as page 6 regarding lost opportunity payments.

a. Provide the amount of any lost opportunity payment made or included as a component on the PJM Interconnection, Inc. ("PJM") Balancing Operating Reserve to Duke Kentucky as a result of reduced or suspended generation in the real-time market.

b. Explain whether any lost opportunity payments in the instant situation were included in the computation of the gain or loss resulting from the sale of gas purchased to generate electricity and subsequently sold. If such payments were included, provide the amount. If they were not included, explain why they were not.

c. Explain whether the lost opportunity payment is greater than, equal to, or less than the hourly real-time Locational Marginal Pricing.

RESPONSE:

a. The amount of lost opportunity payments included as a component on the PJM Interconnection, Inc. ("PJM") Balancing Operating Reserve to Duke Kentucky was $554,531.66 in January, $79,001.36 in February, and $0 in March.

b. The computation of the gain or loss does not include any of the lost opportunity payments above. The reason they were not included in the computation of the gain or loss is because lost opportunity payments went through the normal generation cost allocation process and included in the FAC if allocated native or Rider PSM if allocated non-native.

c. The purpose of lost opportunity payment is to ensure the Company receives its day-ahead hourly net profit for a generating unit if it received a day-ahead (DA) award, was available to run, and PJM decided to not run the unit in the real-time (RT) market. The day-ahead hourly net profit is the difference between the DA Locational Marginal Pricing (LMP) and the offer price of the unit. If the unit is available, not run by PJM in RT, and RT LMP is above the offer price, the Company will receive a lost opportunity payment to ensure the Company is not financially harmed and receives the day-ahead net profit.

PERSON RESPONSIBLE: John Swez/Lisa Steinkuhl

REQUEST:

Refer to pages 6-7 of the Steinkuhl Testimony. Beginning at line 22 on page 6, Ms. Steinkuhl states, "In the real-time stacking process, if a unit was committed in the day-ahead allocation process as non-native for an hour it remains a non-native unit in real time." Explain why the unit is required to remain a non-native unit in the real time.

RESPONSE:

The stacking process is designed to recognize that PJM day-ahead and real-time markets are separate and distinct. Offers to supply generation and bids to purchase energy that are cleared in the day-ahead market create financially binding obligations to sell or purchase energy at the day-ahead locational marginal prices. Native load customers receive first call on available generation in the day-ahead stack and native load customers share in the profits from generation that clears non-native in the day-ahead stack via the Profit Sharing Mechanism.

PERSON RESPONSIBLE: Lisa Steinkuhl

Duke Energy Kentucky
Case No. 2014-00078
Staff's First Request for Information
Date Received: April 25, 2014

STAFF-DR-01-005 PUBLIC

REQUEST:

Refer to page 8 of the Steinkuhl Testimony regarding the purchase and sale price of the gas in question.

a. Identify all costs included in the purchase price of the gas (i.e., gas, transportation, etc.).

b. Identify all components included in the sales price of the gas.

c. Identify the buyer of the gas from Duke Kentucky.

d. Explain what steps Duke Kentucky took to identify potential purchasers of the gas.

e. Provide all accounting entries made by Duke Kentucky to account for the purchase and sale of natural gas purchased for use at Woodsdale.

f. Describe the effect Duke Kentucky's proposed accounting treatment had on Rider PSM for January, February, and March of 2014.

g. Provide details on the financial impact to customers, using 2013 Rider Profit Sharing Mechanism actual information, considering the loss on sales of gas for the months of January to March 2014.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (as to part c only)

a. The price paid for the natural gas was a delivered price, meaning it included the cost of the gas supply and any transportation costs components to deliver the gas to the plant delivery point.

b. The sale price of the natural gas included the gas commodity only at the plant delivery point. The gas sale was made at the prevailing market price for gas and does not include any transportation that may be incurred by the buyer to move the gas to another location.

c. [redacted]

d. Duke Energy Kentucky contacted various market participants as part of the normal daily process and communications that occur when engaging in market transactions.

e. See Staff-DR-01-005e Attachment 1 for the journal entry of the sale of gas in January. See Staff-DR-01-005e Attachment 3 for the correction of journal entry of the sale of gas in January reclassifying the loss on sale from account 547125-Gas realized loss to 547150-Natural Gas Handling-CT. The reclassification was done so the amounts appeared in the correct section of the financial statements. See Staff-DR-01-005e Attachment 2 for the journal entry of the sale of gas in February. The gas consumed general ledger account is 547100-Natural Gas.

f. The sales decreased the net profits from off-system sales by $534,000. Since the net profits from off-system sales excluding the impact of the sales of gas was $3.8 million, the net profit over $1 million which includes the total impact of the sales of gas was shared between the customers and the Company under a 75/25 split, respectively.

g. The financial impact to the customers is apparent on the PSM Rider filings for 1st quarter 2013 filed with the Commission on April 30, 2013 in TFS2013-00332, compared to the PSM filing for 1st quarter 2014 filed with the Commission on May 1, 2014 in TFS2014-00258. See Staff-DR-01-005g Attachment for the comparison of the filings.

PERSON RESPONSIBLE: (a-d) Joseph McCallister
(e-g) Lisa Steinkuhl

Report ID: PPSFGL05	PeopleSoft Financials JOURNAL ENTRY DETAIL REPORT	Page No. 1 Run Date: 05/01/2014 Run Time: 12:00:44 PM

Unit:	75080	**Ledger Group:**	ACTUALS	**Foreign Currency:**	USD
Journal ID:	DEKNGLOSS	**Source:**	219	**Rate Type:**	CRRNT
Date:	1/31/2014	**Reversal:**	N	**Effective Date:**	1/31/2014
Description:	To record purchase/sale and estimated amount of loss on the sale of gas @ Woodsdale	**Reversal Date:**		**Exchange Rate:**	1.00

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

ACTUALS

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
1 1	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	1,000,000.00 USD	1,000,000.00 USD
	Description: Natural Gas Inventory					Reference:			Open Item Key:				
2 2	75080	0232181	99810	RRB3	S839					CRRNT	1.00000000	-1,000,000.00 USD	-1,000,000.00 USD
	Description: To record purchase @ Woodsdale					Reference:			Open Item Key:				
3 3	75080	0232181	99810	RRB3	S839					CRRNT	1.00000000	492,500.00 USD	492,500.00 USD
	Description: To record gas sale @ Woodsale					Reference:			Open Item Key:				
4 4	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	-492,500.00 USD	-492,500.00 USD
	Description: Natural Gas Inventory					Reference:			Open Item Key:				
5 5	75080	0547125	21099	EL02	S839					CRRNT	1.00000000	507,500.00 USD	507,500.00 USD
	Description: Gas realized loss					Reference:			Open Item Key:				
6 6	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	-507,500.00 USD	-507,500.00 USD
	Description: Natural Gas Inventory					Reference:			Open Item Key:				

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	2
	JOURNAL ENTRY DETAIL REPORT	Run Date:	05/01/2014
		Run Time:	12:00:44 PM

Unit:	75080	**Ledger Group:**	ACTUALS	**Foreign Currency:**	USD
Journal ID:	DEKNGLOSS	**Source:**	219	**Rate Type:**	CRRNT
Date:	1/31/2014	**Reversal:**	N	**Effective Date:**	1/31/2014
Description:	To record purchase/sale and estimated amount of loss on the sale of gas @ Woodsdale	**Reversal Date:**		**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	Affiliate							

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
75080	P	6	2,000,000.00	2,000,000.00

End of Report

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	1
	JOURNAL ENTRY DETAIL REPORT	Run Date:	05/01/2014
		Run Time:	02:19:29 PM

Unit:	75080	**Ledger Group:**	ACTUALS	**Foreign Currency:**	USD
Journal ID:	DEKNGLOSS2	**Source:**	219	**Rate Type:**	CRRNT
Date:	3/31/2014	**Reversal:**	N	**Effective Date:**	3/31/2014
Description:	To record purchase/sale and estimated amount of loss on the sale of gas @ Woodsdale	**Reversal Date:**		**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	Affiliate						

ACTUALS

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
1	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	75,000.00 USD	75,000.00 USD
1													
Description: Natural Gas Inventory						Reference:			Open Item Key:				
2	75080	0232181	99810	RRB3	S839					CRRNT	1.00000000	-75,000.00 USD	-75,000.00 USD
2													
Description: To record purchase @ Woodsdale						Reference:			Open Item Key:				
3	75080	0232181	99810	RRB3	S839					CRRNT	1.00000000	49,000.00 USD	49,000.00 USD
3													
Description: To record gas sale @ Woodsale						Reference:			Open Item Key:				
4	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	-49,000.00 USD	-49,000.00 USD
4													
Description: Natural Gas Inventory						Reference:			Open Item Key:				
5	75080	0547150	21099	RPHT	S839					CRRNT	1.00000000	26,500.00 USD	26,500.00 USD
5													
Description: Gas realized loss						Reference:			Open Item Key:				
6	75080	0151660	21099	EL02	S839					CRRNT	1.00000000	-26,500.00 USD	-26,500.00 USD
6													
Description: Natural Gas Inventory						Reference:			Open Item Key:				

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	2
	JOURNAL ENTRY DETAIL REPORT	Run Date:	05/01/2014
		Run Time:	02:19:29 PM

Unit:	75080	Ledger Group:	ACTUALS	Foreign Currency:	USD
Journal ID:	DEKNGLOSS2	Source:	219	Rate Type:	CRRNT
Date:	3/31/2014	Reversal:	N	Effective Date:	3/31/2014
Description:	To record purchase/sale and estimated amount of loss on the sale of gas @ Woodsdale	Reversal Date:		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	Affiliate							

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
75080	P	6	150,500.00	150,500.00

End of Report

Report ID: PPSFGL05	PeopleSoft Financials	Page No.	1
	JOURNAL ENTRY DETAIL REPORT	Run Date:	05/01/2014
		Run Time:	02:58:28 PM

Unit:	75080	**Ledger Group:**	ACTUALS	**Foreign Currency:**	USD
Journal ID:	DEKNGCORR	**Source:**	219	**Rate Type:**	CRRNT
Date:	2/28/2014	**Reversal:**	N	**Effective Date:**	2/28/2014
Description:	To reclass loss on sale of gas @ Woodsdale entry booked on Journal ID DEKNGLOSS in Jan 2014.	**Reversal Date:**		**Exchange Rate:**	1.00

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

ACTUALS

Line #	Unit	Account	Res Type	Operat Unit	Resp Ctr	Location	Alloc Pool	Stat	Statistics Amt	Rate Type	Rate	Foreign Amount	Base Amount
5	75080	0547125	21099	EL02	S839					CRRNT	1.00000000	-507,500.00 USD	-507,500.00 USD
5													
Description: Reclass Woodsdale entry-0114						Reference:				Open Item Key:			
6	75080	0547150	21099	RPHT	S839					CRRNT	1.00000000	507,500.00 USD	507,500.00 USD
6													
Description: Reclass Woodsdale entry-0114						Reference:				Open Item Key:			

Business Unit	Journal Status	Total Lines	Total Base Debits	Total Base Credits
75080	P	2	507,500.00	507,500.00

End of Report

DUKE ENERGY KENTUCKY
OFF-SYSTEM SALES SCHEDULE
SCHEDULE 2
PERIOD: 1st QUARTER 2014 vs. 1st QUARTER 2013

Line No.	Description		TFS 2014-00258 JAN - MAR 2014 Total	TFS 2013-00332 JAN - MAR 2013 Total
1	**Off-System Sales Revenue**			
2	Asset Energy	(+)	$3,227,038	$1,538,664
3	Non-Asset Energy	(+)	$0	$0
4	Bilateral Sales	(+)	$0	$0
5	Hedges	(+)	($64,037)	$8,206
6	PJM Bal & DA Oper Reserve Credits [a]	(+)	$160,901	$24,652
7	Capacity	(+)	$0	$0
8	Ancillary Services Market (Schedule 5, Line 15)	(+)	$2,110,521	$0
9	Sub-Total Revenues		$5,434,423	$1,571,522
10	**Variable Costs Allocable to Off-System Sales**			
11	Bilateral Purchases	(+)	$0	$0
12	Non-Native Fuel Cost [a]	(+)	$1,479,992	$1,593,148
13	Variable O&M Cost	(+)	$87,747	$125,398
14	SO_2 Cost	(+)	$76	$1,167
15	NO_x Cost	(+)	$45	$53
16	PJM and Other Costs	(+)	($11,701)	$4,112
17	(Gain)/Loss on Sale of Fuel	(+)	$534,000	$0
18	Sub-Total Expenses		$2,090,159	$1,723,878
19	Off-System Sales Margin (Line 9 - Line 18)		$3,344,264	($152,356)
20	Allocated to Customers (up to 100% of first $1.00 million) [b]		1,000,000	1,000,000
21	Sub-Total (Line 19 - Line 20, if negative = 0)		$2,344,264	$0
22	Percentage Allocated to Customers (75% of margins > $1.00 million) [b]		75.00%	75.00%
23	Remainder of Off-System Sales Margin Allocated to Customers (Line 21 x Line 22)		1,758,198	0
24	Off-System Sales Margin Allocated to Customers (If line 21 > 0 then Line 20 + Line 23, otherwise Line 19)		$2,758,198	($152,356)

Note: [a] Line 12 - Line 6 ties to the Duke Energy Kentucky's FAC Filing Schedule 4, Line C.
[b] Per the Commission's Order dated December 22, 2010, in Case No. 2010-00203.

Duke Energy Kentucky
Case No. 2014-00078
Staff's First Request for Information
Date Received: April 25, 2014

STAFF-DR-01-006

REQUEST:

On page 8 of the Steinkuhl Testimony, it states that, based on the Direct Testimony of John D. Swez ("Swez Testimony"), there is a likelihood of additional sales in the short term to relieve the current long natural gas imbalance position. Identify and explain what Duke Kentucky learned from the initial sale of gas and what changes Duke Kentucky plans to make, if any, to achieve the most favorable treatment for its customers for additional sales of natural gas.

RESPONSE:

Based upon lessons learned, from a strategy perspective, Duke Energy Kentucky would proactively make sales upon learning that the natural gas would not be consumed. This will allow the Company to manage the position in relation to market prices at the time. Flowing the margins from the sale of unburned gas as part of net off-system sales through Rider PSM provides a reasonable nexus because customers benefit from the sales of power which is able to occur from the Company purchasing of gas to power the generators.

PERSON RESPONSIBLE: John Swez/Joseph McCallister

STAFF-DR-01-007

REQUEST:

Refer to page 7 of the Swez Testimony. Beginning at line 10, Mr. Swez states that "[t]he extreme weather and on-going operational restrictions on the TETCO pipeline was further complicated by the limited gas availability for delivered interruptible supply. As such, waiting to procure gas in the intra-day gas market was not a viable procurement strategy."

a. State whether the statements indicate that procuring gas in the intra-day market was risky or if it was not possible.

b. If procuring gas in the intra-day market was possible but risky, explain the ramifications if Duke Kentucky had to run its Woodsdale units and chose to procure gas in the intra-day market, but no gas was available for purchase.

RESPONSE:

a. Given the pipeline restrictions and the sustained peak gas demand, waiting to procure natural gas in the intra-day market would have been risky. Even under normal conditions, there is a possibility that the natural gas will not be available for purchase on an intra-day basis. Under the extreme weather and demand circumstances that existed during January and February 2014, there was much greater risk that there would not be natural gas available for purchase on an intra-day basis. In addition, even if gas may have been available on an intra-day basis in some instances, given market conditions there was greater price risk associated with these types of purchases versus procuring on a day ahead basis.

b. There are multiple possible scenarios that could have occurred during times when the imbalance postings were in place if the Woodsdale units were cleared in the Day-Ahead market, natural gas was not procured Day-Ahead, and natural gas was not available to be procured in intra-day. At a minimum, under this scenario, due to the imbalance postings in place, the units would not have been able to run in Real-Time. As a result of not running, the units would be subject to any Real-Time LMP, even one that was substantially higher than the units offer or the Day-Ahead LMP. Thus, the energy sold in the Day-Ahead market would be purchased in the Real-Time market at any price, subjecting the unit to possible substantial price risk. If the natural gas had been purchased in the Day-Ahead market, in the event of high Real-Time LMP's, the option to turn on the generating units would have still been available in Real-Time. Furthermore, since the units would not have been available in the Real-Time energy market had natural gas not been purchased in the Day-Ahead gas market, the units would have been declared unavailable with PJM and thus would not have been eligible for any available lost opportunity credit and subject to other possible PJM charges. In addition, due to the units not being available in the Real-Time market after they were anticipated to be available in the Day-Ahead market, possible reliability issues may have resulted from the inability to run these units.

PERSON RESPONSIBLE: John Swez/Joseph McCallister

Duke Energy Kentucky
Case No. 2014-00078
Staff's First Request for Information
Date Received: April 25, 2014

STAFF-DR-01-008

REQUEST:

Refer to page 7 of the Swez Testimony, lines 20-23. Explain the circumstances that would cause PJM not to run a unit in the real-time energy market when PJM cleared the unit in the day-ahead market.

RESPONSE:

There are any number of circumstances that could cause PJM to not run a unit in the Real-Time energy market when cleared in the Day-Ahead market. These circumstances include, but are not limited to, where realized customer demand is lower in the Real-Time market than Day-Ahead customer demand, changes in congestion could occur that affect Real-Time commitment and dispatch of generating resources, generation resource outages or derates that were planned on in the Day-Ahead market that did not occur in the Real-Time market, and additional generation imports to PJM that were not modeled in the Day-Ahead energy market that occurred in the Real-Time market.

PERSON RESPONSIBLE: John Swez

REQUEST:

State whether Duke Kentucky has addressed, or plans to address, the issues it experienced as outlined in the Steinkuhl Testimony and Swez Testimony with PJM and/or FERC and whether Duke Kentucky believes changes can be made to mitigate the risk of the situation occurring in the future.

RESPONSE:

The Company does intend to continue to discuss these issues as part of the stakeholder process in PJM. Ultimately, PJM was following its tariffs. Similarly, the operational flow restrictions issued by the natural gas pipeline were consistent with its tariffs. Duke Energy Kentucky does not have any current plans to address the issue with FERC through a formal protest as it believes that under these circumstances, Duke Energy Kentucky customers overall were not harmed by PJM's actions in the energy markets. However, the Company would pursue with PJM, the natural gas pipeline, or natural gas providers any opportunities that arise to better optimize the generating units, fuel management, pipeline imbalances, or other issues.

Duke Energy Kentucky had discussions with PJM regarding instances where the Woodsdale generating units were clearing in the Day-Ahead market this winter but either not running in the Real-Time market, or running at a lower amount than cleared in the

Day-Ahead market, creating natural gas length. It should be noted that in some instances, the customer was actually financially advantaged in the PJM Energy market by not running in the Real-Time market, since at times realized Real-Time LMP's cleared below the offered price of the generator. For example, on January 28, Woodsdale station cleared full load for 4 hours in the PJM Day-Ahead market, didn't run in the Real-Time market, and received zero lost opportunity credit. These events resulted in overall positive cash flows even before any impact from selling excess gas. At other times, when the Real-Time LMP's cleared above the Day-Ahead LMP, the units received a lost opportunity credit from PJM so that the margin from the Day-Ahead market was maintained after the impact of the Real-Time market. The issue with clearing in the Day-Ahead energy market and running less in Real-Time does creates natural gas length, precipitating the need to sell the excess gas. It should be noted that on the two days, January 7 and 8, when PJM specifically instructed the Company to purchase natural gas, the units did in fact clear in the Day-Ahead market as well as run to a significant extent in the Real-Time market, burning a large amount of the natural gas that was purchased for these days.

PERSON RESPONSIBLE: John Swez/Joseph McCallister