

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of an Examination of the)
Application of the Fuel Adjustment Clause of) Case No. 2016-00234
Duke Energy Kentucky, Inc. From)
November 1, 2015 Through April 30, 2016)

PETITION OF DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION
CONTAINED IN ITS RESPONSES TO COMMISSION STAFF'S
SECOND SET OF DATA REQUESTS ISSUED SEPTEMBER 21, 2016

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 attachments to responses to Data Request Nos. 1 and 3, Second Set, as requested by Commission Staff (Staff) in this case on September 21, 2016. The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) includes Duke Energy Kentucky's Confidential Fuel Procurement Policies, bid tabulation information that was done in response to coal solicitations, and analysis of purchased power cost vs. the Company's highest cost generation.

More specifically, the responses contained in the Confidential Attachments to Data Request Nos. 1 and 3 contain sensitive information, the disclosure of which would injure Duke Energy Kentucky and its competitive position and business interest. The sensitive information contained in attachments to Data Request No. 1 includes detailed information regarding individual transactions for fuel oil and natural gas that occur pursuant to master agreements. While the master agreements have been filed, the

individual invoices have not previously been submitted. Duke Energy Corporation's Regulated Fuels Group is responsible for the procurement of fuel and obtaining competitive pricing. The public disclosure of the information described above would place Duke Energy Kentucky at a commercial disadvantage as it negotiates contracts with other suppliers and vendors and potentially harm Duke Energy Kentucky's competitive position in the marketplace, to the detriment of Duke Energy Kentucky and its customers. While aggregate data is regularly reported, if details for individual transactions and invoices are made public, potential suppliers would know what their competitors are charging, the volumes of fuel used by Duke Energy Kentucky on a monthly basis thereby limiting the Company's ability to negotiate to obtain pricing that is beneficial to customers.

The sensitive information contained in response to Data Request No. 3 includes financial hedging data and calculations. Releasing this information would give potential competitors and hedging counterparties of Duke Energy Kentucky in the wholesale energy markets and financial institutions inside information about Duke Energy Kentucky's risk mitigation actions, tolerances and strategies. Releasing this information would harm the Company and its customers in the future as competitors and counterparties would know how Duke Energy Kentucky evaluates its financial risks in the energy markets and hedges such risks. If publicly available, competitors could use this information to manipulate the market and financially harm Duke Energy Kentucky and its competitive position.

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. The public disclosure of the information described in No. 1 would detailed individual transactions public and provide competitors and potential vendors proprietary information regarding the fuel procurement strategies and costs for Duke Energy Kentucky, placing it at a commercial disadvantage as it bids into the energy markets or negotiates with various suppliers and vendors. Both situations would potentially harm Duke Energy Kentucky's competitive position in the marketplace, to the detriment of Duke Energy Kentucky and its customers undermining its ability to bid on contracts against parties who do not otherwise have to disclose such information and who could use that information to their competitive advantage and winning contracts that they otherwise couldn't absent such information

3. The public disclosure of the information in Data Request No. 3 would provide key and detailed financial risk mitigation information that is not otherwise publicly available. Duke Energy Kentucky engages in financial hedging activities in accordance with a back-up supply plan that manages the risks of relying upon a single base load coal fired station to serve the majority of the Company's load. This unique portfolio arrangement presents financial risks for both Duke Energy Kentucky and its

customers. The Company endeavors to manage such risks through financial hedges to mitigate the potential impact of an unplanned outage. Releasing the details of these transactions would provide potential counter parties with key information in how the Company values and manages its risks and how it seeks to manage those risks and with which counterparties. If this information is made public, potential future partners and counterparties could manipulate pricing to their own commercial advantage and to the disadvantage of Duke Energy Kentucky and its customers thereby increasing prices or making offers that they would not otherwise have made.

4. Disclosure the aforementioned (Confidential Information) would damage Duke Energy Kentucky's competitive position and business interests as well as create the risk of increased costs to its customers. If the Commission grants public access to the information requested in Data Request Nos. 1, and 3 Confidential Attachments, potential counterparties could manipulate markets, costs, and prices to the detriment of Duke Energy Kentucky and its ratepayers by tailoring bids to correspond to and comport with Duke Energy Kentucky's prior actions and risk tolerances. Moreover, competitors to potential power sale agreements would have access to Duke Energy Kentucky's pricing information thereby placing the Company at a commercial disadvantage in winning such bids.

5. The information in responses to Data Request Nos. 1 and 3 were developed internally by Duke Energy Corporation and Duke Energy Kentucky personnel, is not on file with any public agency in the manner and detail as is provided in response to these Commission-issued data requests. This information is not available from any commercial or other source outside Duke Energy Kentucky. The aforementioned

information 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.

6. The Commission has treated the similar information described herein as confidential in other proceedings, such as Louisville Gas and Electric Company Case No. 2008-521,¹ Kentucky Utilities Case 2008-520², Duke Energy Kentucky in Case No. 2008-00522³ and 2011-00249, and specifically for financial hedging activities, Atmos Energy Corporation Case No. 2007-00171.⁴

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

8. 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).

¹ Case No. 2008-521, Letter granting Confidential treatment, March 20, 2009.

² Case No. 2008-520, Letter granting Confidential treatment, March 20, 2009.

³ Case No. 2008-522, Letter granting Confidential treatment, March 20, 2009.

⁴ In the Matter of: The Final Report of Atmos Energy Corporation on its Hedging Program for the 2006-2007 Heating Season and Motion to Conduct a Hedging Program for the 2007-2008 Heating Season, Case No. 2007-00171, Ky. PSC. June 5, 2007.

9. 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.

10. 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.

11. 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

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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 5TH day of October, 2016:

Rebecca W. Goodman
Executive Director
Office of Rate Intervention
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204



A handwritten signature in blue ink, appearing to read 'Rocco D'Ascenzo', is written over a horizontal line.

Rocco D'Ascenzo

VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, Tim Abbott, being duly sworn, deposes and says that he is the Director of System Operations Services, and 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.

Timothy A. Abbott
Tim Abbott, Affiant

Subscribed and sworn to before me by Tim Abbott, on this 26th day of SEP,
2016.

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 OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, Theodore H. Czupik, Jr., being duly sworn, deposes and says that he is the Rates & Regulatory Strategy Manager and 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.

Theodore H. Czupik Jr.
Theodore H. Czupik, Jr., Affiant

Subscribed and sworn to before me by Theodore H. Czupik, Jr., on this 22 day of September, 2016.

Adele M. Frisch
NOTARY PUBLIC

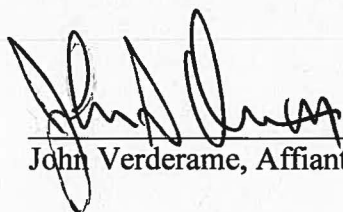
ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019

My Commission Expires: 1/5/2019

VERIFICATION

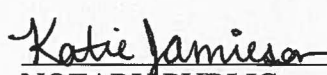
STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) **SS:**

The undersigned, John Verderame, Managing Director of Power Trading & Dispatch, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests are true and correct to the best of his knowledge, information and belief.



John Verderame, Affiant

Subscribed and sworn to before me by John Verderame on this 23rd day of September 2016.



NOTARY PUBLIC

KATIE JAMIESON
Notary Public, North Carolina
Gaston County
My Commission Expires

My Commission Expires: June 14, 2021

VERIFICATION

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

The undersigned, Scott Burnside, Manager Post Analyst & Regulatory Support, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests are true and correct to the best of his knowledge, information and belief.

Handwritten signature of Scott Burnside
Scott Burnside, Affiant

Subscribed and sworn to before me by Scott Burnside on this 23rd day of September, 2016.

KATIE JAMIESON
Notary Public, North Carolina
Gaston County
My Commission Expires

Handwritten signature of Katie Jamieson
NOTARY PUBLIC

My Commission Expires: June 14, 2021

VERIFICATION

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

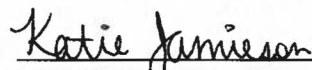
The undersigned, Brett Phipps, Manager Director Fuel Procurement, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests are true and correct to the best of his knowledge, information and belief.



Brett Phipps, Affiant

Subscribed and sworn to before me by Brett Phipps on this 23 day of September, 2016.

KATIE JAMIESON
Notary Public, North Carolina
Gaston County
My Commission Expires



NOTARY PUBLIC

My Commission Expires: June 14, 2021

KYPSC CASE NO. 2016-00234
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**Duke Energy Kentucky
Case No. 2016-00234
Staff Second Set Data Requests
Date Received: September 21, 2016**

**PUBLIC STAFF-DR-02-001
(As to Attachment only)**

REQUEST:

Refer to Duke Kentucky's response to the Commission's August 12, 2016 Request for Information ("August 12, 2016 Request"), Item 25. Confirm that, for the review period, copies of the following have been filed with the Commission. If an item has not been filed, explain why it has not been filed and provide a copy.

- a. Long-term purchase contracts for coal, natural gas, or fuel oil;
- b. Spot or short-term purchase contracts for coal, natural gas, or fuel oil;
- c. Master agreements for coal, natural gas, or fuel oil;
- d. Purchase confirmations relating to the master agreements for coal, natural gas, or fuel oil. (For voluminous natural gas purchases, if the utility filed documentation such as monthly invoices or a listing of transactions showing date, quantity purchased, and price in lieu of filing the purchase confirmations, confirm that such documentation was filed.);
- e. Copies of all natural gas transportation agreements;
- f. Copies of all transportation agreements relating to barging, trucking, rail, etc.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment only)

a. Contractual documentation for all long-term purchases for coal, natural gas, or fuel oil during the review period has been previously provided.

b. Contractual documentation for all spot or short-term purchases for coal, natural gas, or fuel oil during the review period has been previously provided.

c. Contractual documentation regarding Master Agreements for coal, natural gas, or fuel oil in effect during the review period has been previously provided.

d. Purchase Confirmations relating to all Master Agreements for coal during the review period have been previously provided. Since the Master Agreements for natural gas and fuel oil do not require purchase Confirmations, please see STAFF-DR-02-001 Confidential Attachment for a listing of invoices showing date, quantity purchased and price. This document was submitted under seal with a Petition for Confidential Treatment.

e. Contractual documentation for all natural gas transportation agreements during the review period has been previously provided.

f. Contractual documentation for all transportation agreements relating to barging, trucking and rail agreements in effect during the review period for coal, natural gas and fuel oil has been previously provided.

PERSON RESPONSIBLE: Brett Phipps

**STAFF-DR-02-001
CONFIDENTIAL
ATTACHMENT -
FILED UNDER
PETITION FOR
CONFIDENTIAL
TREATMENT**

REQUEST:

Refer to Duke Kentucky's response to the Commission's August 12, 2016 Request for Information ("August 12, 2016 Request"), Item 28.

a. Confirm that if the replacement power purchase during a forced outage is less than the cost of fuel that would have been burned at the plant suffering a forced outage ("assigned cost"), the lower replacement power purchase cost is the amount that is recovered through the fuel adjustment clause ("FAC") and not the higher assigned cost.

b. The response discusses an hourly calculation performed in cases of forced outages. Provide the hourly analysis that was performed for an actual forced outage that occurred during the review period.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment only)

a. Yes. If the replacement power purchase during a forced outage is less than the cost of fuel that would have been burned at the plant suffering a forced outage ("assigned cost"), then the lower replacement power purchase cost is the amount that is recovered through the fuel adjustment clause and not the higher assigned cost.

b. Please see STAFF-DR-02-002(b) Attachment.

PERSON RESPONSIBLE: Scott Burnside

Example of an hourly analysis for a forced outage at East Bend.
 East Bend suffered a short forced outage on 11/4/15 due to a fire in the breaker room.

	[A]	[B]	[C]=[A]*[B]	[D]	[E]	[F]=[D]*[E]	[G]=[A]+[D]	[H]=[C]+[F]	[I]	[J] = [G]*[I]	[K]=[H]-[J]	[L]=[H]-[K]	
Hour Beginning	Derate (MW)	Replacement Power Purchased From PJM (MWh)	Replacement Power Purchased From PJM (\$/MWh)	Cost of Replacement Power Purchased From PJM	Replacement Power from Woodsdale Station (MWh)	Fuel Cost of Woodsdale Net of PJM Make Whole Payments	Cost of Replacement Power from Woodsdale Station	Total MWhs of Replacement Power	Total Cost of Replacement Power	East Bend Average Fuel Cost (\$/MWh)	Cost of Fuel That Would Have Been Burned at East Bend If Not For The Forced Outage (i.e. Assigned Cost)	Replacement Fuel Cost Disallowed from FAC recovery	Replacement Fuel Cost Recovered in FAC
8	600	436.28	\$ 32.99	\$ 14,394.71	0	\$ -	\$ -	436.28	\$ 14,394.71	\$ 23.29	\$ 10,160.96	\$ 4,233.75	\$ 10,160.96
9	600	454.06	\$ 32.97	\$ 14,968.54	0	\$ -	\$ -	454.06	\$ 14,968.54	\$ 23.29	\$ 10,575.06	\$ 4,393.48	\$ 10,575.06
10	600	462.84	\$ 33.94	\$ 15,708.47	0	\$ -	\$ -	462.84	\$ 15,708.47	\$ 23.29	\$ 10,779.54	\$ 4,928.92	\$ 10,779.54
11	600	467.78	\$ 33.67	\$ 15,749.17	0	\$ -	\$ -	467.78	\$ 15,749.17	\$ 23.29	\$ 10,894.60	\$ 4,854.57	\$ 10,894.60
12	600	474.62	\$ 34.23	\$ 16,244.34	0	\$ -	\$ -	474.62	\$ 16,244.34	\$ 23.29	\$ 11,053.90	\$ 5,190.44	\$ 11,053.90
13	600	483.39	\$ 34.70	\$ 16,772.62	0	\$ -	\$ -	483.39	\$ 16,772.62	\$ 23.29	\$ 11,258.15	\$ 5,514.46	\$ 11,258.15
14	600	180.58	\$ 34.89	\$ 6,300.80	313	\$ 18.92	\$ 5,921.96	493.58	\$ 12,222.76	\$ 23.29	\$ 11,495.48	\$ 727.28	\$ 11,495.48
15	600	190.8	\$ 30.13	\$ 5,748.40	301	\$ 19.11	\$ 5,752.11	491.8	\$ 11,500.51	\$ 23.29	\$ 11,454.02	\$ 46.49	\$ 11,454.02
16	600	307.92	\$ 31.04	\$ 9,557.07	183	\$ 22.54	\$ 4,124.82	490.92	\$ 13,681.89	\$ 23.29	\$ 11,433.53	\$ 2,248.36	\$ 11,433.53
17	600	134.63	\$ 55.85	\$ 7,519.31	361	\$ 18.05	\$ 6,516.05	495.63	\$ 14,035.36	\$ 23.29	\$ 11,543.22	\$ 2,492.14	\$ 11,543.22
18	600	155.2	\$ 43.75	\$ 6,790.47	359	\$ 18.14	\$ 6,512.26	514.2	\$ 13,302.73	\$ 23.29	\$ 11,975.72	\$ 1,327.01	\$ 11,975.72
		<u>3748.1</u>		<u>\$ 129,753.90</u>	<u>1517</u>		<u>\$ 28,827.20</u>	<u>5265.1</u>	<u>\$ 158,581.10</u>		<u>\$ 122,624.18</u>	<u>\$ 35,956.92</u>	<u>\$ 122,624.18</u>

**Duke Energy Kentucky
Case No. 2016-00234
Staff Second Set Data Requests
Date Received: September 21, 2016**

**PUBLIC STAFF-DR-02-003
(As to Attachment only)**

REQUEST:

Refer to Duke Kentucky's response to the August 12, 2016 Request, Item 30.d. The response states that the financial hedges realized a gain of \$106,323 for April 2016. Provide the calculations supporting this amount in Excel spreadsheet format with the formulas intact and unprotected.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment only)

Please see STAFF-DR-02-003 Confidential Attachment for the hedging amount details. This document was submitted under seal with a Petition for Confidential Treatment.

PERSON RESPONSIBLE: John Verderame

**STAFF-DR-02-003
CONFIDENTIAL
ATTACHMENT -
FILED UNDER
PETITION FOR
CONFIDENTIAL
TREATMENT**

REQUEST:

Refer to Duke Kentucky's response to the August 12, 2016 Request, Item 32.

a. State whether the load miscalculation resulted from an error on the part of PJM Interconnection, LLC ("PJM"), Duke Kentucky, or another entity.

b. Refer to the response to part b., which states that Duke Kentucky became aware of the issue in March 2015. Explain in detail why Duke Kentucky did not inform the Commission of the issue in Case No. 2014-00454, the Commission's review of the two-year period ending October 31, 2014, so that the proceeding could have remained open until the resettlement amounts were known.

c. State the date Duke Kentucky became aware that correcting for the load miscalculation would result in credits to fuel costs through the FAC.

d. Refer to the response in part c. on page 4, which states that the Final Order in Case No. 2014-00454 was issued before PJM agreed to the resettlement calculations.

(1) State whether Duke Kentucky or PJM performed the resettlement calculations.

(2) If the resettlement calculations were performed by Duke Kentucky and submitted to PJM, provide the date the resettlement calculations were submitted to PJM.

(3) Provide the date PJM agreed to the resettlement calculations.

e. By month, provide the amount of the credits that would have been made to the FAC if not for the closure of the two-year review period ending October 31, 2014.

RESPONSE:

- a. In June 2013, PJM altered the reporting methodologies for a metered network load in the Duke Energy Ohio-Kentucky transmission system (DEOK System) load zone. Thereafter, between June 2013 and March 2015, Duke Energy Kentucky inadvertently and incorrectly submitted Long Branch billing determinant data to PJM. However, correcting the error ultimately required consent of all affected users of the DEOK System. Duke Energy Kentucky was able to immediately correct the billing data submitted in calendar year 2015 (January 2015 through March 2015 data). However, PJM's voluntary resettlement protocols required unanimous consent from all impacted users of the DEOK System before PJM would resettle the June 2013 through December 2014 (pre-2015) periods. Although the aggregate DEOK System data was accurate, Duke Energy Kentucky's inadvertent error caused the allocations between and among certain DEOK System users to be incorrect (*i.e.*, separately metered municipal wholesale loads were not impacted). Duke Energy Kentucky's error resulted in the Company paying PJM more than its share of load costs, and certain other DEOK System users paying PJM less than their share. Once unanimous consent was obtained to resettle the pre-2015 periods, corrected load data and billing determinants had to be sent to PJM for PJM to perform the resettlement calculations.

b. Duke Energy Kentucky always intended to credit any resettlement costs and credits to its customers. That is why the Company began to seek resettlement with PJM. The Company did not immediately notify the Commission because, at the time, the Company didn't appreciate that a Commission Order in a two-year FAC review proceeding would preclude future adjustments for those FAC periods (costs or credits), especially since, the adjustments at issue were for periods that were less than two-years old. The Company mistakenly assumed that billing corrections could be made to prior FAC periods so long as such corrections were consistent with the two-year time limitation of billings set forth under KRS 278.225. Additionally, the likelihood of resettlement and the final amount of any resettlement was unknown, and there was disagreement with PJM as to the process to resettle.

Initially, PJM provided conflicting advice regarding how the pre-2015 periods could be resettled under its voluntary resettlement process. This conflicting advice created confusion and a disagreement with PJM. PJM's position change regarding the resettlement process created uncertainty as to whether or not the prior periods could actually be resettled.

In late April 2015, PJM's initial position was that the pre-2015 period adjustments could be made immediately with only Duke Energy Kentucky's consent and notice to all other impacted users. Then, in late May 2015, PJM revised its position and stated that resettling the pre-2015 period billings required actual consent from all impacted users. This change in position by PJM created a disagreement between Duke Energy and PJM. In June 2015, a Duke Energy Corp

Senior Executive discussed the issue with PJM's CEO in attempt to resolve the dispute and expedite resettlement. PJM held its position that unanimous consent of all impacted users was required and on July 2, 2015 the process to obtain necessary resettlement consent from all impacted users was initiated.

Although the Commission issued its Order in the Company's two-year FAC review (Nov. 1, 2012 - Oct. 31, 2014) on August 11, 2015, the final necessary consent to resettlement was not obtained until on or about September 30, 2015. Until that final consent was obtained, it was uncertain whether the Company would be able to resettle the pre-2015 periods. PJM then began performing resettlement calculations, as time permitted, for the pre-2015 periods starting with the month of June 2013 and working forward in time until it was able to complete all calculations through December 2014. The Company received the first such billing resettlement in November 2015, as part of its October 2015 PJM invoice.

In its FAC filing made on November 20, 2015, for the expense month of October 2015, the Company included adjustments to the months of July 2013, January 2014 and February 2014, for items on its PJM invoices related to Lost Opportunity Costs. However, the Company was reminded by the Commission Staff on November 25, 2015 that KRS 278.225 prohibited any billing adjustments that were more than two years old, positive or negative. The Company corrected its FAC filing to remove the July 2013 PJM adjustment on December 1, 2015 because it was outside of the two-year period.

The Company then had a follow-up conversation with the Commission Staff regarding the January 2014 and February 2014 Lost Opportunity Costs and was told that notwithstanding the two-year limitation under KRS 278.225, the Company was further unable to make any adjustments (positive or negative) to its FAC for any expense months that fell within a period covered by a Commission Order closing a two-year FAC review. At that same time, the Company discussed the PJM load recalculation issue with Staff and informed them that in addition to the Lost Opportunity Costs, that resettlement credits were beginning to be received related to the PJM billing resettlement for the period of June 2013 through December 2014. Staff reaffirmed its position that FAC adjustments, positive or negative, could not be made to any FAC periods that had been effectively closed by the Commission's two-year FAC review. Because the two-year FAC review precluded any FAC adjustments that occurred on or before October 31, 2014, no such costs (Lost Opportunity) or resettlement credits (PJM resettlement) could be flowed through the FAC. In its December 15, 2015 FAC filing the Company then removed the prior period adjustments for the months of January 2014 and February 2014 related to Lost Opportunity Cost.

Despite the fact that the Company fully intended to pass the resettlement proceeds it received from PJM related to the load miscalculation resettlements (both charges and credits) back to its customers through its FAC (and PSM), after discussion between the Company and the Commission Staff, it became apparent that this was not going to be possible. It was determined that the only prior period FAC adjustments related to the Long Branch load miscalculation that could flow

to customers through the FAC would be for the resettlement periods of November 2014 and December 2014, which afforded customers with net resettlement credits of \$212,123.51 and \$250,965.52 respectively. No PJM resettlements (Lost Opportunity, load miscalculation adjustments, etc.) that impacted periods prior to November 1, 2014 could flow through the FAC.

Additionally, as part of those same discussions with the Commission Staff, the Company also discussed the fact that some of the prior period adjustments had an impact on Rider PSM. Staff told the Company that it was possible to adjust Rider PSM for corrected off-system sales margins attributed to the non-native portion of the voluntary resettlements going back the entire period to 2013 in accordance with KRS 278.225, which was not limited by a PSC order. The impact to the PSM, for the months of June 2013 through December 2014, was to increase off-system sales revenues for asset energy and ancillary services. However, no adjustment was made to the PSM to increase the non-native fuel costs associated with the increased MWh available for off-system sales since the fuel had already been collected through the FAC, and the FAC could not be adjusted. This gave the customers back more off-system sales margin in the PSM than what would otherwise be due if both the FAC and PSM were adjusted for the entire period. The Company committed to Staff that it would make such adjustments to the PSM following the receipt of the resettlement from PJM. Duke Energy Kentucky has since made the Rider PSM adjustments to flow approximately \$860,815 of net resettlement credits to its customers through the PSM and stemming from the PJM resettlement adjustments in February, May and July of 2016.

Staff has advised the Company that in the future, if such a situation arises where the Company becomes aware of the potential for prior period FAC adjustments to be made, that the Company should inform the Commission so that the two-year FAC could remain open.

- c. In approximately early May 2015, the Company estimated that given the billing determinant miscalculation was caused by an overstatement of the Long Branch load for Duke Energy Kentucky, that the total net resettlement (costs and credits) if achieved, would result in an overall net resettlement credit. However, the Company did not know the precise amount of the potential net resettlement credit or if such credit would ultimately be realized. Duke Energy Kentucky's correction of the billing determinants for the June 2013 through December 2014 term consisted of restating usage data to PJM only. PJM needed to perform the resettlement calculations of load and to determine the dollar impacts and magnitude to Duke Energy Kentucky. Duke Energy Kentucky then needed to model the impacts to the PSM and FAC based upon hour-by-hour dispatch.
- d. (1) PJM performed the resettlement calculations for each month, after receiving corrected Duke Energy Kentucky billing determinant data. The resettlement required PJM to determine the re-allocation of load and costs and credits among all impacted DEOK transmission system users, including Duke Energy Kentucky.
(2) On or about October 5, 2015, following receipt of all required consent by impacted parties, Duke Energy Kentucky's corrected monthly load data was provided to PJM. PJM then began to perform the resettlement calculations.

(3) PJM agreed at the outset to perform the load resettlement calculations provided that all necessary consent was first obtained. This is in accordance with PJM's voluntary resettlement procedures. However, an issue that required resolution was whether or not the consent of all impacted DEOK System users was required, or if only Duke Energy Kentucky's consent was necessary with notice to other such users. Once it was determined that unanimous consent of all impacted DEOK system users was necessary, such consent was required before PJM would perform any calculations.

e. The Company estimates that the following resettlement adjustments would have been made to the FAC if not for the closure of the two-year review period ending October 31, 2014. This calculation does not include the corresponding adjustments that would be made to the PSM. If the \$904,000 of fossil fuel expense had been a reduction to the FAC then the same amount would have been a cost to the PSM. Also, if the FAC adjustments were made, then the aggregate cost of \$256,737 for Lost Opportunity Cost should have been made to the FAC.

	Estimated FAC Credits		
	Purchased Power	Fossil Fuel	Total
Jun-13	\$ 197,000	\$ 29,000	\$ 226,000
Jul-13	\$ 276,000	\$ 48,000	\$ 324,000
Aug-13	\$ 226,000	\$ 43,000	\$ 269,000
Sep-13	\$ 148,000	\$ 78,000	\$ 226,000
Oct-13	\$ 24,000	\$ 127,000	\$ 151,000
Nov-13	\$ 79,000	\$ 93,000	\$ 172,000
Dec-13	\$ 148,000	\$ 79,000	\$ 227,000
Jan-14	\$ 724,000	\$ 83,000	\$ 807,000
Feb-14	\$ 318,000	\$ 77,000	\$ 395,000
Mar-14	\$ 392,000	\$ 2,000	\$ 394,000
Apr-14	\$ 253,000	\$ -	\$ 253,000
May-14	\$ 312,000	\$ -	\$ 312,000
Jun-14	\$ 334,000	\$ 1,000	\$ 335,000
Jul-14	\$ 235,000	\$ 42,000	\$ 277,000
Aug-14	\$ 271,000	\$ 24,000	\$ 295,000
Sep-14	\$ 169,000	\$ 52,000	\$ 221,000
Oct-14	\$ 28,000	\$ 126,000	\$ 154,000
	\$ 4,134,000	\$ 904,000	\$ 5,038,000

PERSON RESPONSIBLE:

- a. Tim Abbott
- b. Theodore H. Czupik Jr. / Legal
- c. Scott Burnside
- d. Tim Abbott (3)/ Scott Burnside (1), (2)
- e. Scott Burnside / Theodore H. Czupik Jr.