

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE BACK-UP POWER SUPPLY PLAN) Case No. 2020-00089
OF DUKE ENERGY KENTUCKY, INC.)

**APPLICATION OF DUKE ENERGY KENTUCKY, INC. TO EXTEND THE
FILING DEADLINE FOR THE FILING OF ITS BACK-UP SUPPLY PLAN, AND
TO CONTINUE ITS CURRENT PLAN THROUGH MAY 31, 2021 AND REQUEST
FOR EXPEDITED RULING**

Comes now Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company) and respectfully requests the Public Service Commission (Commission) to extend the deadline for the filing of Duke Energy Kentucky's next back-up power supply plan (BPS Plan) to March 1, 2021 and for authority to continue its current plan through May 31, 2021. The Company respectfully states that additional time is necessary to evaluate potential changes to the PJM Interconnection LLC, (PJM) wholesale market that may occur as a result of PJM's upcoming compliance filing in response to the December 19, 2019 Order by the Federal Energy Regulatory Commission (FERC) in consolidated Case No. 16-49-000 (MOPR Order). In the MOPR Order, FERC has directed significant changes to PJM's capacity market, and has ordered PJM to make a compliance filing within ninety days of the date of FERC's order. PJM made the filing on March 18, 2020 and the Company is continuing to review the filing.¹ These changes could have significant impacts on the capacity mix in PJM and overall energy prices, which could

¹ Docket No. EL-16-49, Compliance Filing Concerning the Minimum Offer Price Rule, Request for Waiver of RPM Auction Deadlines, and Request for an Extended Comment Period of at Least 35 Days, (March 18, 2020).

impact the energy competitiveness of Duke Energy's generation assets. The Company desires to have sufficient time to evaluate PJM's compliance filing to determine if it would impact the Company's power procurement and energy hedging strategies in PJM's wholesale energy market as it relates to the Company's BPS Plan.

In addition, the Company desires to have clarity regarding the Commission's upcoming Order in the Company's currently pending base electric rate case, Case No. 2019-00271 (Electric Rate Case). In its Electric Rate Case, the Company requested, among other things, authorization to hedge for forced outages at its generating stations. If the Commission approves the Company's request, the Company would seek to include such authority in its BPS Plan. Duke Energy Kentucky respectfully requests expedited consideration of this request as the current BPS Plan is approved through May 31, 2020. Duke Energy Kentucky respectfully requests an extension of its current plan so that it can obtain clarity on these issues prior to submitting a new plan for Commission review. Duke Energy Kentucky would file a new BPS Plan as soon as practical, but no later than March 1, 2021. In support of this Application, Duke Energy Kentucky states as follows:

I. INTRODUCTION

1. Duke Energy Kentucky is a Kentucky corporation and an investor-owned utility engaged in the business of furnishing natural gas and electric services to various municipalities and unincorporated areas in Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton Counties in the Commonwealth of Kentucky.

2. Pursuant to 807 KAR 5:001, Section 14(1), Duke Energy Kentucky states that its business address is 139 East Fourth Street, Cincinnati, Ohio 45202, and that its local office in Kentucky is located at Duke Energy Erlanger Ops Center, 1262 Cox Road,

Erlanger, Kentucky 41018. The Company further states that its electronic mail address for purposes of this matter is KYfilings@duke-energy.com.

3. Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky states that it was originally incorporated in the Commonwealth of Kentucky on March 20, 1901 and attests that it is currently in good standing in said Commonwealth.

II. BACKGROUND

4. A BPS Plan is necessary in the event Duke Energy Kentucky experiences outages with its generating facilities. On March 3, 2017, Duke Energy Kentucky filed an application to approve its current BPS Plan. By Order dated May 31, 2017, in Case No. 2017-00117 (Order), the Commission approved the Company's current BPS Plan through May 31, 2020.

5. The Commission's Order set forth a two-step procedural process regarding future BPS Plan filings. First, Duke Energy Kentucky was required to inform the Commission, in writing, of its intentions concerning future BPS Plans no later than 6 months prior to the expiration of the then current plan. Second, Duke Energy Kentucky is required to submit any future BPS Plans for review and approval, no later than 90 days prior to the effective date of the new plan. Duke Energy Kentucky should have submitted its notice by December 2, 2019. Unfortunately, due to an inadvertent calendaring error, the Company failed to provide this notice. Given the pending changes related to PJM's market as a result of FERC's MOPR Order and the Commission's upcoming decision in the Company's pending Electric Rate Case, the Company's current plan should continue for the time being until clarity is achieved, but no later than May 31, 2021.

6. Duke Energy Kentucky's current BPS Plan consists of obtaining back-up power through the PJM daily energy market during forced outages and using fixed forward contract purchases during scheduled outages. The current BPS mitigates the risk of price spikes during scheduled outages because the price for back-up power would be fixed. The current BPS Plan was the result of a thorough analysis following a request for proposal (RFP) of various supply alternatives, and it appropriately addresses the forced outage risks of the existing portfolio of generators. While Duke Energy Kentucky does not believe that there are additional, more effective, supply alternatives that would come to light with an additional RFP, it has observed fuel and market price relationship changes in the wholesale market and believes that it is possible that an alternative BPS analysis could be beneficial depending upon the final approval of PJM's compliance filing, the Commission's decision in Duke Energy Kentucky's Electric Rate Case, or other long-term energy market changes. Specifically, Duke Energy Kentucky has recently observed periods of very low power prices. During such periods, the least cost solution to serve customer energy requirements can be to allow PJM to economically de-commit Company generation. It is unclear whether these conditions are temporary or indicate sustained future state. Extending the current BPS Plan would allow Duke Energy Kentucky time to evaluate the risks and benefits to customers during longer periods of reserve shutdown, and potentially seek adjustments in hedging strategies.

III. REQUESTS FOR EXTENSION

7. Duke Energy Kentucky is currently in the process of evaluating various strategies to determine the most cost-effective and reasonable BPS Plan. To assist in this evaluation, Duke Energy Kentucky intends to issue an RFP seeking various products

which the Company considered to be possible and viable procurement strategies. In order to obtain a meaningful response, clarity is necessary regarding potential changes to PJM's market stemming from its recent compliance filing. In addition, if the Commission approves the Company's request to hedge forced outages, the Company would include this product as part of its RFP.

8. As part of this initial evaluation, it has become apparent that the Company's current BPS Plan evaluation process is fundamentally different than that of the past due to uncertainty surrounding financial hedging of forced outages and PJM market changes. The Company's BPS Plan strategy going forward is dependent upon and could be impacted by these two events that have not yet reached resolution.

9. Duke Energy Kentucky filed its Application in its Electric Rate Case on September 3, 2019. The Electric Rate Case is currently under consideration by the Commission and the Company anticipates an Order as early as April 2020. If the Company's hedging request in the Electric Rate Case is approved, the Company would then be able to evaluate hedging strategies as part of its RFP process.

10. At present, Duke Energy Kentucky's ability to evaluate possible BPS Plan strategies is complicated because the Company does not have a resolution to those two events. Clarity is needed before the Company can effectively evaluate its BPS Plan needs and what the best strategy may be to satisfy those needs. The Company's analysis may be impacted by the timing of any market changes as a result of PJM's March 18, 2020 compliance filing. Similarly, if the Company's application for hedging authority for forced outages is approved by the Commission in the Electric Rate Case, the Company will include this possibility as part of its BPS Plan RFP to find the most cost-effective

alternative to mitigate this risk. The obvious impact of prematurely selecting a BPS Plan under conditions of uncertainty regarding the scope of hedging authority and PJM market changes would be on the ultimate effectiveness of the plan as a hedge vehicle against the overall portfolio outage risk.

11. To address this ambiguity and uncertainty, the Commission should extend the deadline for the filing of Duke Energy Kentucky's next BPS Plan to March 1, 2021 and allow the current BPS Plan strategy to continue through May 31, 2021. This extension should give the Company adequate time to evaluate its BPS Plan needs once a decision is made with respect to PJM's market changes and the scope of hedging authority. The extension will allow the Company to avoid having to analyze multiple BPS Plan strategies for multiple market scenarios.

VI. CONCLUSION

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission grant its request to extend the current BPS Plan through May 31, 2021 and extend the filing deadline for its new BPS Plan so to allow the Company sufficient time to evaluate its BPS Plan strategy once the Commission rules on the Company's application in Case No. 2019-00271.

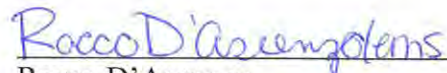
Respectfully submitted,



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CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on March 31, 2020; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium is being delivered within two business days.


Rocco D'Ascenzo

