Duke Energy

DUKE ENERGY CORPORATION

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VIA HAND DELIVERY

RECEIVED
OCT 25 2011
PUBLIC SERVICE COMMISSION

October 25, 2011

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

Re: Case No. 2011-235
Duke Energy Kentucky 2011 Integrated Resource Plan

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the Responses of Duke Energy Kentucky, Inc. to Commission Staff's Second Set of Data Requests and Petition for Confidential Treatment in the above captioned case. Also enclosed in the white envelope is one set of the confidential responses being filed under seal.

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

Sincerely,

Kristen Cocanougher

cc: Dennis Howard (w/enclosures)
Florence Tandy (w/enclosures)
Carl Melcher (w/enclosures)

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OCT 25 2011

PUBLIC SERVICE
COMMISSION

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of Duke Energy Kentucky, Inc.'s)
Integrated Resource Plan) Case No. 2011-00235

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

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 7, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in its responses to data request No. 3d, as requested by Commission Staff (Staff) in this case on October 4, 2011. Specifically, this request asks:

> 3. Refer to the response to Item 1 of Commission Staff's First Information Request ("Staff's First Request") which states that the retirement of Miami Fort Unit 6 would be considered "a normal retirement per our current philosophy."
>
> d. Provide Duke Kentucky's best estimate of the demolition costs and salvage value of Miami Fort 6.

The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) pertains to the Company's internal analysis and financial projections of costs that may be incurred in the future. The analysis contains sensitive data related to the costs associated with this transaction.

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). Significantly, this rule applies to those records that are generally recognized as confidential or proprietary. And provided the records at issue satisfy this general characterization, they are subject to protection where the disclosure of such information would otherwise result in an unfair advantage to competitors of the party seeking non-disclosure. Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. The information for which Duke Energy Kentucky seeks protection concerns its internal analysis and financial projections of costs. 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.

3. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Kentucky and is only available to those persons in the Company who have a legitimate business need to have access to the information.

4. The information shows the Company's detailed projections of costs for retirement obligations of plants currently in operation. If this information were made public, Duke Energy Kentucky would be placed at a competitive disadvantage as potential vendors providing services would have information regarding the Company's forecasts, thereby putting the Company at a disadvantage in negotiations to obtain better pricing for services. Such disclosure would hinder Duke Energy Kentucky's ability to negotiate to obtain

competitive pricing, thereby ultimately increasing the Company's costs, which in turn impacts customer's rates.

5. In accordance with the provisions of 807 KAR 5:001 Section 7, the Company is filing with the Commission one copy of the Confidential Material highlighted and ten (10) copies without the confidential information.

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 D'Ascenzo
Associate General Counsel
Amy B. Spiller
Deputy General Counsel
Duke Energy Kentucky, Inc.
139 East Fourth Street, 1313 Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4320
Fax: (513) 287-4385
Email: rocco.d'ascenzo@duke-energy.com

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of Duke Energy Kentucky, Inc.'s Petition for Confidential Treatment was served on the following by overnight mail, this ___ day of October 2011.

Rocco O. D'Ascenzo

Honorable Dennis G. Howard, II
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

Florence W. Tandy
Northern Kentucky Community Action Commission
P.O. Box 193
Covington, Kentucky 41012

Carl Melcher
Northern Kentucky Legal Aid, Inc.
302 Greenup
Covington, Kentucky 41011

VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, Thomas J. Wiles, being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as General Manager, Market Analytics; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing information requests; and that the matters set forth are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.

Thomas J. Wiles

Thomas J. Wiles, Affiant

Subscribed and sworn to before me by Thomas J. Wiles on this 17 day of October, 2011.

ADELE M. DOCKERY
Notary Public, State of Ohio
My Commission Expires 01-05-2014

Adele M. Dockery

NOTARY PUBLIC

My Commission Expires: 1/5/2014

<u>VERIFICATION</u>

State of Ohio)
)
County of Hamilton)

The undersigned, Richard G. Stevie, being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as Chief Economist, Corporate Strategy and Planning; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.

Richard G. Stevie

Richard G. Stevie, Affiant

Subscribed and sworn to before me by Richard G. Stevie on this 20th day of October, 2011.

Anita M. Schafer

NOTARY PUBLIC

My Commission Expires:

NOTARY PUBLIC STATE OF OHIO

ANITA M. SCHAFER
Notary Public, State of Ohio
My Commission Expires
November 4, 2014

396972

VERIFICATION

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

The undersigned, Lesa Perkins, being duly sworn, deposes and says that she is employed by the Duke Energy Corporation affiliated companies as Manager of Accounting for Duke Energy Business Services, LLC; that on behalf of Duke Energy Kentucky, Inc., she has supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of her knowledge, information and belief after reasonable inquiry.

Lesa D Perkins

Lesa Perkins

Subscribed and sworn to before me by Lesa Perkins on this 17th day of October, 2011.

Judith A. Reese

NOTARY PUBLIC

My Commission Expires: 02/26/2012

424265

VERIFICATION

State of Indiana)
)
County of Hendricks)

The undersigned, Jon Gomez being duly sworn, deposes and says that he is the Investment Engineer, for Duke Energy Business Services, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Jon Gomez, Affiant

Subscribed and sworn to before me by Jon Gomez on this ____ day of October 2011.

NOTARY PUBLIC LANA J HORNER

My Commission Expires: 04/19/2015

VERIFICATION

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

The undersigned, John P. Griffith, being duly sworn, deposes and says that he is employed by the Duke Energy Corporation affiliated companies as Director of Portfolio Management for Duke Energy Business Services, LLC; that on behalf of Duke Energy Kentucky, Inc., he has supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of his knowledge, information and belief after reasonable inquiry.

GAYLE H. WEBBER NOTARY PUBLIC UNION COUNTY, N.C.

John P. Griffith

Subscribed and sworn to before me by John P. Griffith on this 19th day of October, 2011.

Gayle H. Webber
NOTARY PUBLIC

My Commission Expires: 09/13/16

VERIFICATION

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

The undersigned, Rick Mifflin, being duly sworn, deposes and says that he is employed by the Duke Energy Corporation affiliated companies as Manager, Products and Services for Duke Energy Business Services, LLC; that on behalf of Duke Energy Kentucky, Inc., he has supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of his knowledge, information and belief after reasonable inquiry.

Rick Mifflin

Subscribed and sworn to before me by Rick Mifflin on this 17 day of October ~~September~~, 2011.

NOTARY PUBLIC

My Commission Expires: 11/9/2013

424113

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STAFF-DR-02-001

REQUEST:

Refer to Appendix C, page 164, of the Integrated Resource Plan ("IRP"). In the evaluation of cost effectiveness of energy efficiency programs, only the costs of environmental compliance with known regulatory requirements were included in avoided costs. Given that the IRP was filed before the Cross State Air Pollution Rule was finalized, explain what impacts this rule has on existing energy efficiency programs and other energy efficiency programs that were considered, but not implemented because they were not deemed to be cost effective.

RESPONSE:

Because the Cross State Air Pollution Rule could potentially increase the cost of environmental compliance, it follows that the value of Avoided Costs associated with Energy Efficiency could potentially increase as well. If the avoided costs increase, then the benefits associated with Energy Efficiency (Avoided Costs) also increase. Therefore, it is likely that the cost effectiveness test results listed in Table C-1, page 164, would increase. However, at this time, Duke Energy Kentucky has not evaluated the impact of the new rule on the Cost Effectiveness Test Results.

In addition, as part of the IRP analysis, there were no energy efficiency programs that were considered but not implemented because they were not deemed to be cost effective. Therefore, this rule had no impact on the energy efficiency programs selected for the IRP.

PERSON RESPONSIBLE: Thomas J. Wiles

STAFF-DR-02-002

REQUEST:

Refer to Appendix C, page 189, of the IRP.

a. Provide the percentage of the projected program costs relative to Duke Kentucky's projected annual electric sales revenues for each of the years ending 2011-2013.

b. Provide the percentage of projected annual energy-efficiency savings relative to projected annual sales for each of the years ending in 2011-2013.

c. Provide a breakdown of the projected program costs for each of the years ending 2011-2013.

RESPONSE:

a. The percentage of projected program costs for the Residential Smart Saver program relative to the projected total annual electric sales revenues for each of the years ending 2011-2013 are as follows:

Year	Percent
2011	0.144%
2012	0.235%
2013	0.222%

b. The percent of projected annual energy-efficiency savings for the Residential Smart Saver program relative to projected total annual sales for each of the years ending in 2011-2013 are as follows:

Year	Percent
2011	0.024%
2012	0.054%
2013	0.057%

c. This question is unclear as to what is meant by "breakdown of projected program costs for each year" with regard to the Residential Smart Saver program referenced in the question. The table on Page 189 of the IRP shows the expected program costs by year. If the question is requesting costs broken down by category for each year, the data derived from the Company's DSMore for Smart Saver is as follows:

Projected Program Costs	**2011**	**2012**	**2013**
Administration Costs	$63,720	$84,541	$73,223
Implementation / Participation Costs	$53,300	$105,814	$98,587
Incentives	$243,500	$529,675	$534,301
Other / Miscellaneous Costs	$128,000	$26,977	$25,498
Total	**$488,520**	**$747,007**	**$731,609**

PERSON RESPONSIBLE: a,c. Thomas J. Wiles
b. Richard G. Stevie

STAFF-DR-02-003 PUBLIC

REQUEST:

Refer to the response to Item 1 of Commission Staff's First Information Request ("Staff's First Request") which states that the retirement of Miami Fort Unit 6 would be considered "a normal retirement per our current philosophy."

a. Explain whether the retirement of the net book value of $13 million would be expected to have a significant effect on the generation plant depreciation rate in Duke Kentucky's next depreciation study.

b. Using the most currently available information, provide the percent of change a $13 million net book value retirement would have on the accumulated depreciation balance.

c. Describe the "current philosophy" mentioned in the response and explain what Duke Kentucky would consider an abnormal or unusual retirement.

d. Provide Duke Kentucky's best estimate of the demolition costs and salvage value of Miami Fort 6.

e. Describe Duke Kentucky's plans for the Miami Fort 6 site following the demolition of the unit.

RESPONSE:

a. It is difficult to determine whether the retirement of Miami Fort 6 will have a significant effect on current depreciation rates until a complete, up-to-date, depreciation study is performed. A very simplified analysis of the steam production group indicates the following: See Staff-DR-02-003(a) Attachment.

b. See Staff-DR-02-003(b) Attachment.

c. Under the group concept of depreciation, a depreciation reserve is not maintained for individual items of property. Each asset in a depreciable group is assumed to have the life of the group and to be fully depreciated at the time of retirement. In a "normal" retirement, the capital cost is removed from the property, plant and equipment account, and the same amount is removed from the depreciation reserve. No gains or losses are recognized, and no adjustment to the depreciation rate for the group is required – in theory the rate reflects, through time, the dispersion of lives around the average rate. When an "abnormal" or highly unusual retirement occurs, GAAP indicates any gain or loss should be recognized in income immediately. Unless a very large unknown and unanticipated retirement occurs, in practice it would be very unusual to have anything classified as "abnormal" under the group concept.

In determining whether the retirement is normal or abnormal, the quantitative and qualitative facts and circumstances of each situation need to be evaluated. The Company's general guidelines are as follows:

1. Under group depreciation, assets are assumed to be fully depreciated at retirement if the retirement is considered "normal." If not deemed a normal retirement, the remaining net book value is generally taken to income. An assessment concerning Regulatory deferral and recovery would be performed.

2. Actual retirement date compared to the date currently being used for depreciation purposes:

    a. "Normal": <= 5 years
    b. "Abnormal": >= 10 years
    c. Between 6 and 10 years will require a more in-depth analysis

3. Material net book values must also be considered in making the normal vs. abnormal assessment, regardless of the retirement date comparison.

4. Even with a "normal" retirement, an assessment will need to be made as to whether an adjustment in depreciation rates is required concurrent with the retirement.

Based on the information currently available, Duke Energy Kentucky believes the proposed retirement of Miami Fort 6 would be considered normal, as the proposed retirement date is approximately 5 years earlier than the date used in the determination of current depreciation rates and the current net book value is deemed immaterial in relation to the total steam production net book value in Kentucky.

d. This response has been filed with the Commission under a Petition for Confidential Treatment.

e. Duke Energy Kentucky has no plans for a large scale demolition of Miami Fort Unit 6. Due to the close proximity of other units that are still operating, Duke Energy Kentucky would dismantle only those components that would pose a safety and/or environmental hazard. All materials such as oils, gases, etc. would be drained or removed from equipment to prevent leakage into the environment. Duke Energy Kentucky would also assess the location and stability of equipment and remove if necessary to prevent any potential safety hazards.

PERSON RESPONSIBLE: (a-c) Lesa Perkins
(d,e) Jon Gomez

	Steam Production Group (millions)		
	Miami Fort 6	East Bend 2	Total
Pre-Retirement			
Gross Cost (1)	79.0	429.4	508.4
Total Reserve	(66.5)	(234.7)	(301.2)
NBV	12.5	194.7	207.2
Depreciation Rate (2)	3.46%	2.25%	
Annual Depreciation	2.7	9.7	12.4
Post-Retirement			
Gross Cost (1)	-	429.4	429.4
Total Reserve	-	(222.2)	(222.2)
NBV	-	207.2	207.2
Depreciation Rate (2)		2.25%	
Annual Depreciation		9.7	9.7

Change in Depreciation	Annual	Total
Pre-Retirement	12.4	207.2
Post-Retirement	9.7	207.2
Difference	(2.7)	-

(1) Assumes no interim additions or retirements through remainder of plant life.

(2) Station composite rate per most recent depreciation study. Rate subject to change as determined during the next complete depreciation study.

Duke Energy does not consider this difference as material to Duke Energy Kentucky, and believes the depreciation rates currently in place are materially correct.

Estimated Net Book Value at 6/30/2011 (millions)	Gross Cost	Total Reserve	Allocated Net Book Value
Miami Fort 6	79.0	(66.5)	12.5
East Bend 2	429.4	(234.7)	194.7
Total Steam Production	508.4	(301.2)	207.2

Assumed retirement journal entry		
Dr. 108 Accumulated Depreciation	79.0	
Cr. 101/106 Plant in Service		79.0

* As indicated in our prior response in the Commission Staff's First Information Request the entry would be to credit the plant account for original cost and debit accumulated depreciation for original cost.

Estimated Net Book Value after retirement (millions)*	Gross Cost	Total Reserve	Allocated Net Book Value
Miami Fort 6	-	-	-
East Bend 2	429.4	(222.2)	207.2
Total Steam Production	429.4	(222.2)	207.2

*Assumes no depreciation on East Bend 2 in the interim time period between 6/30/2011 and the Miami Fort 6 retirement date for simplicity.

Percentage Change	Gross Cost	Total Reserve	Allocated Net Book Value
Total as of 6/30/2011	508.4	(301.2)	207.2
Total Post-Retirement	429.4	(222.2)	207.2
Percent change	**-15.5%**	**-26.2%**	**0.0%**

STAFF-DR-02-004

REQUEST:

Refer to the response to Item 4 of Staff's First Request. Identify any changes to allowance pricing that have occurred since the filing of the IRP and describe their impacts on the assumptions and conclusions contained therein.

RESPONSE:

The long term fundamental NOx and SO2 allowance prices from 2013 to 2031 have not been updated since the filing of the Kentucky IRP July 1, 2011. The short term allowance prices for 2012 are based on the current market and are updated on a daily basis for internal business purposes. The short term market is being driven primarily by the Cross State Air Pollution Rule ("CSAPR") issued in July 2011 and for which EPA proposed revisions in October 2011. The CSAPR NOx and SO2 allowance markets have been thinly traded due to ongoing legal action challenging CSAPR and due to other issues that have created uncertainty about the intended implementation date of January 1, 2012. Compared to recent pricing for the CAIR program that is scheduled to end in 2011, CSAPR prices have been much higher and would act to reduce coal-fired generation and increase gas-fired generation. However, CSAPR allowance prices have been volatile and do not appear to be in equilibrium with 2012 forward power and fuel prices, making it difficult to project the eventual effect on 2012 operations.

PERSON RESPONSIBLE: John P. Griffith

STAFF-DR-02-005

REQUEST:

Refer to the response to Item 35 of Staff's First Request. Duke Kentucky states that if a measure investment is more than one and one-half times the total dollars spent by the measure over its life (SIR>1.5), then the measure can be included in the investment. Explain why any measure with a SIR>1.0 would not be cost effective.

RESPONSE:

Measures with an SIR of 1 or higher would be cost effective. When this program was filed, an SIR of 1.5 or higher was thought to better prioritize spending on the measures that offered the most value.

PERSON RESPONSIBLE: Rick Mifflin