



DUKE ENERGY CORPORATION

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Kristen Cocanougher  
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**VIA OVERNIGHT DELIVERY**

October 1, 2012

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

RECEIVED

OCT 02 2012

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of the Back-Up Power Supply Plan of Duke Energy Kentucky Inc.  
Case No. 2012-

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the *Back-Up Power Supply Plan of Duke Energy Kentucky, Inc* to be filed in the above captioned case. Also included is a Petition for Confidential Treatment in the white envelope containing the confidential material being filed under seal.

Please date-stamp the extra two copies of this letter, the Back-up Power Supply Plan and the Petition filing and return to me in the enclosed envelope.

Sincerely,

Kristen Cocanougher

cc: Dennis Howard II

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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OCT 02 2012

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE BACK-UP POWER SUPPLY PLAN ) Case No. 2012-\_\_\_\_\_  
OF DUKE ENERGY KENTUCKY, INC. )

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**BACK-UP POWER SUPPLY PLAN OF  
DUKE ENERGY KENTUCKY, INC.**

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Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company) submits the following back-up power supply plan, as required pursuant to Paragraph 3 of the December 22, 2009, Order filed in Case No. 2009-00429.

A back-up power supply plan is necessary in the event Duke Energy Kentucky experiences outages with its generating facilities. On November 2, 2009, Duke Energy Kentucky filed an application to approve its current supply plan. By Order dated December 22, 2009, in Case No. 2009-00429, the Kentucky Public Service Commission (Commission) approved the current back-up power supply plan through December 31, 2012.

The Commission's December 22, 2009, Order set forth a two-step procedural process regarding future back-up power supply plans. First, Duke Energy Kentucky is required to inform the Commission, in writing, of its intentions concerning future back-up power supply 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 back-up power supply plans for review and approval, no later than 90 days prior to the effective date of the new plan. By letter dated or about May 31,

2012, Duke Energy Kentucky notified the Commission of its intention to file a new back-up supply plan.

**I. Summary**

In connection with its realignment to PJM Interconnection LLC (PJM), effective January 1, 2012, Duke Energy Kentucky elected the Fixed Resource Requirement (FRR) option for purposes of meeting PJM's Resource Adequacy requirement. This election generally requires the Company to remain as an FRR entity for a minimum term of five consecutive Delivery Years<sup>1</sup>, which covers the entire term of the back-up supply plan as proposed herein. Under the FRR election, Duke Energy Kentucky avoids direct participation in the PJM capacity Reliability Pricing Model (RPM) auctions. Instead, the Company is required to submit a FRR capacity plan to satisfy the unforced capacity (UCAP) obligation for all loads in the Company's FRR Service Area, including all expected load growth in the FRR Service Area. Based on the Company's installed capacity position and historical forced outage rate, Duke Energy Kentucky has sufficient UCAP to comply with the PJM Resource Adequacy requirements under its FRR Plan for the 2013-2014 timeframe without having to purchase capacity. Even though PJM approved Duke Energy Kentucky's FRR Plan, PJM can still assess penalties to Duke Energy Kentucky if its resources, whether from generation or demand response, fail to comply with PJM's Resource Performance Assessments as outlined in Sections 8 and 9 of PJM Manual 18.

Duke Energy Kentucky used standard forecasting methods to calculate the --up supply needs for the 2013-2014 period.<sup>2</sup> Duke Energy Kentucky considered supply options available from: (1) the PJM daily energy markets; (2) Request for Proposals (RFP) issued by Duke Energy

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<sup>1</sup> The PJM "Delivery Year" is a twelve month period beginning June 1 through May 31<sup>st</sup>.

<sup>2</sup> Duke Energy Kentucky's Miami Fort Unit 6 is currently scheduled for retirement as early as first or second quarter 2015 as reflected in its most recent integrated resource plan filed in Case No 2011-235. Duke Energy Kentucky will need to reevaluate its back up supply needs once a determinative decision is made regarding the unit's retirement and environmental regulations become more firm.

Kentucky on or about June 25, 2012;<sup>3</sup> and (3) fixed forward contracts purchased through the Intercontinental Exchange (ICE) and/ or the over the counter (OTC) market.

In evaluating these supply options and selecting an appropriate back-up supply plan, Duke Energy Kentucky's primary goal was to balance cost and risk mitigation. For the 2013-2014 period, Duke Energy Kentucky projects that it will incur approximately [REDACTED] in costs for energy purchases for back-up supply during forced outages. For scheduled outages, the Company will make fixed-price financial swap purchases when market conditions appear economic, but the purchases will occur in advance of the scheduled outages.

Based upon its analysis, Duke Energy Kentucky has selected a back-up supply plan consisting of fixed priced financial swap or futures contracts purchased through the ICE and/or OTC broker market for scheduled outages and energy purchases through the PJM energy markets for forced outages. Duke Energy Kentucky will continue to evaluate its back-up supply plan during the 2013-2014 period and will make any adjustments necessary due to changing conditions.

## **II. Analysis Methodology**

### **A. Commercial Business Model**

Duke Energy Kentucky used its Commercial Business Model (CBM) along with other high level screening tools to analyze the different back-up supply alternatives and to select the optimal back-up supply plan. The CBM is a proprietary software program that the Company developed to project power production requirements and costs under a variety of expected system and market conditions. The CBM uses current load forecasts and unit operational parameters, extensive historical data related to production costs (available generating resources;

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<sup>3</sup> Attachment I.

generating unit availability; fuel costs; etc.), wholesale power prices, historical weather data, and statistical modeling techniques to project future power needs and costs.

### **B. Load Forecast**

The load forecasting group develops the load forecast by: (1) obtaining a service area economic forecast from Moody's Analytics; (2) preparing an energy forecast by applying statistical analysis to certain variables such as number of customers, economic measures, energy prices, weather conditions, etc.; and (3) developing monthly peak demand forecasts by statistically analyzing weather data. The Company uses the same load forecasting technique to prepare its back-up power supply plan used to prepare its integrated resource plans. The Company updates the load forecasts on a regular basis and the updated load forecasts are added to the CBM.

### **C. Generating Resources and Fuel Costs**

Duke Energy Kentucky's available generating assets consist of the following:

**Table 1 – General Description of Plants**

<b>Plant</b>	<b>Fuel</b>	<b>Type</b>	<b>Winter Rating<sup>4</sup> in MWs</b>	<b>Spring/ Fall Rating in MWs</b>	<b>Summer Rating in MWs</b>	<b>UCAP for Delivery Year 2013/2014 in MWs<sup>5</sup></b>	<b>Fuel Cost/ kWh<sup>6</sup> through Sept. 30<sup>th</sup></b>
East Bend 2	Coal	Base load	414	414	414	406.8	\$0.0215
Miami Fort 6	Coal	Intermediate	163	163	163	151	\$0.0217
Woodsdale 1-6	Gas	Peaking	564	510	462	447.9	\$0.0383
		<b>Total:</b>	1141	1087	1039	1,005.7	

<sup>4</sup> Duke Energy Kentucky owns 69% and The Dayton Power & Light Company owns 31% of East Bend.

<sup>5</sup> Duke Energy Kentucky UCAP resources as of 4/21/2012.

<sup>6</sup> Based upon 2012 fuel costs through September 21, 2012.

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Duke Energy Kentucky determined that it needs a back-up power supply for East Bend 2 and Miami Fort 6 (collectively, the Plants) because these are relatively low cost units to operate and the Company relies upon these Plants to serve customer load. For scheduled outages, the Company has determined that a back-up power supply is necessary for these low-cost units. Duke Energy Kentucky determined that no back-up power supply is necessary for the Woodsdale Generating Station because these are peaking units with higher operating costs, these units run much less frequently than East Bend 2 and Miami Fort 6; and the limited running time allows the Company to more economically plan scheduled outages during periods of favorable market or load demand conditions when the Company does not plan to run the peaking units.

**D. Scheduled and Forced Outages**

Duke Energy Kentucky estimated the number and expected timing of forced outages, using the definition of forced outages contained in the Commission’s Fuel Adjustment Clause (FAC) regulation, 807 KAR 5:056, as follows: non-scheduled losses of generation or transmission that (1) require substitute power for a continuous period in excess of six hours; and (2) result from faulty equipment, faulty manufacture, faulty design, faulty installations, faulty operation, or faulty maintenance.

The Company used the Plants’ current known scheduled outages for 2013-2014. Duke Energy Kentucky plans the following scheduled outages during 2013-2014:

**Table 2 -- Scheduled Outages for Plants**

<b>Plant</b>	<b>2013 (in weeks)</b>	<b>2014 (in weeks)</b>
East Bend 2	■	■
Miami Fort 6	■	■
Woodsdale 1	■	■
Woodsdale 2	■	■
Woodsdale 3	■	■

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Woodsdale 4		■		■
Woodsdale 5		■		■
Woodsdale 6		■		■

The Company estimated the forced outages using the five-year average Equivalent Forced Outage Rates (EFOR) for the Plants. The EFOR is a measurement that takes the number of forced outage hours and equivalent forced derate hours relative to the number of service hours and forced outage hours. The EFOR forecast data for the Plants is as follows:

**Table 3 -- EFOR for Plants 2013-2014**

Plant	Annual EFOR
East Bend 2	4.50%
Miami Fort 6	5.50%
Woodsdale	5.00%

**E. CBM Projection of Energy Needs**

The Company used the CBM software tool to project its annual energy needs for 2013:

**Table 4 -- Energy Needs for 2013**

(in MWH)	Jan	Feb	Mar	Apr	May	Jun
Avg. Demand	■	■	■	■	■	■
Avg. Available Economic Generation	■	■	■	■	■	■
Net Avg. Demand	■	■	■	■	■	■

(in MWH)	Jul	Aug	Sep	Oct	Nov	Dec
Avg. Demand	■	■	■	■	■	■
Avg. Available Economic Generation	■	■	■	■	■	■
Net Avg. Demand	■	■	■	■	■	■

**III. Request for Proposals**

Duke Energy Kentucky retained Burns & McDonnell to oversee a competitive and confidential bidding process for back-up power. Duke Energy Kentucky issued an RFP through Burns & McDonnell on June 25, 2012.<sup>7</sup> The Company sought bids for the following types of supply options: (1) Backstand Energy for East Bend and/or Miami Fort 6;<sup>8</sup> (2) Reliability Exchange for East Bend 2 and/or Miami Fort 6, beginning in 2013 for a two-term; and (3) intermediate and peaker daily call products. The RFP sought supply options to take effect on January 1, 2013 and continue through the end of 2014.

Duke Energy Kentucky received a total of nineteen bid alternatives from six different bidders. Burns & McDonnell performed an initial screening of the bids for completeness and submitted redacted proposals to Duke Energy Kentucky to evaluate the proposed supply options.

The following is a summary of the prices that the bidders submitted in July 2012:

<b>Table 6 - Bid Summary</b>					
<b><u>Bid</u></b>	<b><u>Product</u></b>	<b><u>Term</u></b>	<b><u>MW</u></b>	<b><u>Option Premium (\$)</u></b>	<b><u>Strike Price (2013) \$/mwh</u></b>
Bid 1A	Heat Rate Call, Firm LD	2013-2014	█	█	█
Bid 1B	Heat Rate Call, Firm LD	2013-2014	█	█	█
Bid 2A	Heat Rate Call, Firm LD	2013-2014	█	█	█
Bid 2B	Heat Rate Call, Firm LD	2013-2014	█	█	█
Bid 3	Fin Settled HR Call Option	2013-2014	█	█	█
Bid 4A & 4B	System Fixed for Float Swap	2013-2014	█	█	█

<sup>7</sup> Attachment 1.

<sup>8</sup> The Backstand Energy product (Backstand Product) is a day-ahead, financially-settled call option that will be used in the event of a forced outage at the East Bend 2 and/or Miami Fort 6 units starting January 1, 2013 for a two year term.



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Bid 5A	Intermediate Physical Daily HR Call	2013-2014	█	██████████	████
Bid 5B	Peak Physical Daily HR Call	2013-2014	█	██████████	████
Bid 6	Unit Contingent Call	2013-2014	█	██████████	████
Bid 7	Unit Contingent Call	2013-2014	█	██████████	████
Bid 8	Unit Contingent Call	2013-2014	█	██████████	████
Bid 9	Unit Contingent Call	2013-2014	█	██████████	████
Bid 10	Backstand Energy Call Option	2013-2014	█	██████████	████
Bid 11	Backstand Energy Call Option	2013-2014	█	██████████	████
Bid 12	Heat Rate Call, Firm LD	2013-2014	█	██████████	████
Bid 13	Insurance	2013	█	██████████	████
Bid 14	Insurance	2013	█	██████████	████
Bid 15	Insurance	2013	█	██████████	████
Bid 16	Insurance	2013	█	██████████	████

The above list includes proposals for insurance products that were not specifically requested in the initial RFP. Nonetheless, the Company did include this product as part of its evaluation of alternatives.

**IV. Non-RFP Supply Options Evaluated**

Duke Energy Kentucky evaluated a back-up power supply plan consisting of market energy purchases. One alternative considered energy purchases through the PJM energy markets for all outages. Another alternative considered fixed-priced financial swap contracts to lock-in the price of power during scheduled outages and PJM energy market purchases during forced outages. The Company has used this same type of strategy for procuring back-up power supply since 2006.

The Company considered the alternative that relies solely on the PJM daily energy markets for back-up power needs for both planned and forced outages. This plan has the potential to expose the Company to possible price spikes during scheduled outage periods. The Company determined that it would not be feasible to make fixed forward price purchases for forced outages because the Company would not know in advance when such outages would occur. These outages would not align with the standard monthly unit of fixed forward power products, and as it would not be economical to purchase power at fixed forward prices for the entire peak month period, these purchases would increase rather than decrease risk. After a forced outage occurs, the Company considers fixed forward price purchases or call options for the remaining duration of the outage.

Duke Energy Kentucky evaluated fixed-priced purchases during scheduled outages, to mitigate the risk of potential price spikes. Duke Energy Kentucky would use the ICE or the OTC broker market to make these fixed-priced financial swap or futures contract purchases. The ICE is a well-established electronic marketplace for trading energy-related products. Among other product types, ICE offers trading in bilateral contracts for energy at fixed forward prices. The

contract terms (such as hours of the day covered, the index price, credit, and liquidated damages provisions) are clearly defined, to enable trading in standardized products.

**V. Comparison of Supply Plans**

Duke Energy Kentucky performed a screening analysis on the redacted bids from Burns & McDonnell, running all bid permutations through a dispatch spreadsheet. The spreadsheet modeled a 4.5% random forced outage rate on East Bend 2 and a 5.5% random forced outage rate on Miami Fort 6. During the forced outages, each bid's "strike price" was compared to the market for the daily peak hours. Under this analysis, if the bid was more cost effective than the market, the bid was called upon. The total bid strike costs plus the bid premiums were added, ranked, and compared to market purchases for the forced outage periods. The screening analysis provided an overall assessment to select the top least cost bids for more detailed analysis in the CBM model.

Duke Energy Kentucky further analyzed the top least cost bid proposals that met the Plants forced outage needs with the CBM, as discussed in Section II. A above. These bids and the results are found in Table 7.

<b>Table 7: Comparison of 2013-2014 Plan Costs</b>		
<b>Supply Plan#</b>	<b>Supply Plan</b>	<b>Power Supply Cost</b>
A	Bid #3	[REDACTED]
B	Bid #8	[REDACTED]
C	Bid #10	[REDACTED]
D	Bid #11	[REDACTED]
E	Bid #15	[REDACTED]
F	Daily energy purchase from PJM market for all outages (forced and planned)	[REDACTED]
G	Daily energy purchase from PJM market for forced outages Fixed Forward price purchase for planned outages	[REDACTED]

Duke Energy Kentucky evaluated these top-ranked call and insurance option bids (A through E) using CBM runs. The CBM model uses a Monte-Carlo simulation-based hourly price shape to evaluate the hourly payout of these bids. For any hour within the term, if the market power price is higher than the strike price, Duke Energy Kentucky will receive the difference (option payout) between them. Analysis determined that the net payout, which is the total payout of all hours within the option term minus the option premiums, turns out to be negative for all the options evaluated. The premiums for the call options were tied to energy quantity or fixed payments. In other words, the option products result in additional cost to Duke Energy Kentucky. The Company therefore concluded that the option bids were not economic. Duke Energy Kentucky also evaluated the insurance product proposals submitted in response to the RFP. The insurance products were evaluated using the appropriate insured prices, term policy limits, deductibles, and insurance premiums to calculate potential insurance payoffs. Similarly, the Company concluded that the insurance products (including premiums) were also not economic.

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Plans F and G involve purchasing power through the PJM daily energy markets and are the least-cost supply plans based upon current projections for energy markets. Plan F is less costly for the two-year period than Plan G but presents greater risk. Plan F calls for the Company to obtain its full back-up power requirements (planned and forced outages) from the PJM daily energy markets; however, it provides no protection against possible price spikes. The Duke Energy Kentucky model forecasts future power prices based on observable forward wholesale market prices. If the forward power market curve is underrepresenting actual real time future prices, then this plan may prove more costly than the other plans.

Plan G provides that Duke Energy Kentucky will obtain back-up power through the PJM daily energy market during forced outages and use fixed forward contract purchases during scheduled outages. This mitigates the risk of price spikes during scheduled outages because the price for back-up power would be fixed. The cost for this risk mitigation is reasonable with the estimated cost difference between Plan G and Plan F at just over [REDACTED] the two-year period.

Plan G also mitigates the risk presented by the daily call products because it does not require the Company to lock in market price projections for a full two-year time period, and facilitates the flexibility to optimize the actual outage schedule under changing power market and unit availability conditions. Since the ICE and/or OTC markets are liquid, Duke Energy Kentucky can make its forward contract purchases a few months in advance of the scheduled outages, without paying a premium to lock in the prices now for a two-year time period. If prices appear to be increasing, Plan G provides the flexibility to make the forward contract purchases for long-term periods. If prices are flat or falling, the Company can postpone these purchases. If the Company changes the dates for its scheduled outages, Plan G provides

flexibility because, even if the Company has already purchased the fixed forward contract product, the liquidity of the ICE market allows the Company to easily unwind its position and make a new purchase to match the new scheduled outage dates.

Duke Energy Kentucky believes another long-term supply plan could involve exchanging some capacity at the existing Plants for capacity owned by other companies. Although requested as part of the RFP, no bids were received for such an exchange. The Company may continue to seek such a capacity exchange. If a capacity exchange occurs during the 2013-2014 period, this could also impact the value of the daily call product. This is another reason why Duke Energy Kentucky does not consider it prudent to lock-in the daily call product at this time.

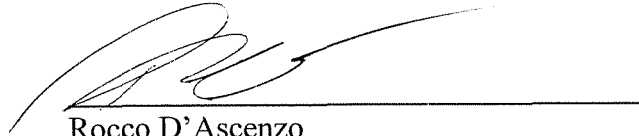
**VI. Conclusion**

Based upon its analysis, Duke Energy Kentucky has selected Plan G because it appears to be the most reasonable plan in achieving a reasonable balance between cost and risk mitigation. Additionally, Plan G allows Duke Energy Kentucky to procure back-up power from well-established, reliable supply sources. Duke Energy Kentucky has used this same strategy since the Commission approved the Company's back-up supply plans in Case Nos. 2007-00044 and 2009-00429. Duke Energy Kentucky has successfully implemented this strategy to achieve the goals of providing reliable and reasonably priced electric service and balancing cost and risk mitigation.

Based on the foregoing, Duke Energy Kentucky respectfully requests that the Commission approve this back-up supply plan.

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Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Ascenzo', is written over a horizontal line.

Rocco D'Ascenzo  
Associate General Counsel  
Amy B. Spiller  
State Regulatory General Counsel  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
1303-Main  
Cincinnati Ohio 45202  
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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served on the following parties of record by first class, U.S. mail; postage prepaid this 15 day of October, 2012.

  
\_\_\_\_\_  
Rocco D'Ascenzo

Hon. Dennis G. Howard  
Office of Attorney General  
Utility Intervention and Rate Division  
1024 Capital Center Drive  
Frankfort, Kentucky 40601





**Duke Energy Kentucky**  
**Request for Proposals for Backstand**  
**Energy for 2013-2014**

**Dated: June 25, 2012**

**Proposals Due: July 31, 2012**

**Complete information on this RFP can be found at:**

**<http://DEKBackstandRFP.com>**



## I. Purpose of Request for Proposals

Duke Energy Kentucky (DEK) offers this Request for Proposals (RFP) for the purpose of acquiring Backstand Energy for East Bend 2 (DEK ownership 414 MW of coal facility) and Miami Fort 6 (DEK ownership 163 MW of coal facility) for calendar years 2013 and 2014 during unplanned outages.

DEK desires to maximize the value of its supply of energy during outages of East Bend 2 and Miami Fort 6. DEK is looking for a variety of product offerings such as backstand energy, reliability exchanges and call options for forced outages. Duke Energy Kentucky seeks proposals that will provide the greatest value to DEK and its customers.

DEK has retained Burns & McDonnell (B&M) to act as an independent third party consultant to assist with this RFP. All respondents will directly interface with B&M for all communications including questions, RFP clarification issues and RFP bid submittal.

Duke Energy Corporation (Duke Energy or company), one of the largest electric power holding companies in the United States, supplies and delivers energy to approximately 4 million U.S. customers. The company has nearly 27,000 MWs of owned regulated electric generating capacity in the Midwest and the Carolinas. Duke Energy also has natural gas distribution services in Ohio and Kentucky.

Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK. More information about the company is available on the internet at [www.duke-energy.com](http://www.duke-energy.com).

## II. Product Definition & Eligibility

### A. Product Definition

Duke Energy Kentucky is requesting proposals for the purchase of the following products:

1. Backstand Energy: The Backstand Energy product is a day-ahead, financially settled call option that will be used in the event of a forced outage at East Bend 2 and/or Miami Fort 6 units starting January 1, 2013 for a minimum term of two years. The maximum rate of energy from the Bidder at the Delivery Point will be 577 MW per hour and the minimum will be 50 MW per hour.

When a forced outage occurs at East Bend 2 or Miami Fort 6, DEK will have the right but not the obligation to call on replacement energy for the amount of the outage from the Bidder on a day ahead scheduled basis. When the replacement energy is called by DEK, a financial settlement

will occur. The called energy will be financially settled at the Delivery Point at a fixed price throughout the term of the offer.

2. Reliability Energy Exchange Product: The reliability energy exchange product for East Bend 2 and/or Miami Fort 6 is an option in which DEK provides energy in exchange for like energy from other resources to further diversify its resource portfolio beginning January 1, 2013 for a minimum term of two years. Resources proposed for this option in exchange for East Bend 2 energy should have similar operating characteristics. Resources proposed for this option in exchange for Miami Fort 6 energy should have similar operating characteristics. DEK will consider proposals for up to 50% of the unit output (200 MW per hour for East Bend 2 and 80 MW per hour for Miami Fort 6). Proposed minimum blocks of energy are required to be in 50 MW per hour blocks for East Bend 2 and 40 MW per hour blocks for Miami Fort 6.
3. Intermediate and Peaker Daily Calls: Intermediate and peaker daily calls are energy products for up to 500 MW per hour beginning on January 1, 2013 for a minimum term of two years. These products may include Intermediate and Peaker daily calls. Minimum product will be for 50 MW per hour. Energy pricing may be fixed price, gas heat rate call, or calls settled against the PJM AD Hub. All gas costs should be settled against the Chicago City Gate.
4. Other Offers: Duke Energy Kentucky would also be open to receiving bids for other products or combinations of products that would fulfill this need.

B. Eligibility

The respondent must be a qualified market buyer and seller in good standing with PJM. Assets must meet the requirements of a Generation Capacity Resource (GCR) as defined in the PJM Reliability Assurance Agreement (RAA). The hourly energy output from the GCR must be able to be offered into the PJM Day Ahead Market (DAM).

### III. General Terms

1. Contract Energy Quantities

Backstand - Maximum rate of energy at the Delivery Point will be 577 MW per hour and minimum will be 50 MW per hour

Reliability Exchange – Maximum energy block of 200 MW per hour for East Bend 2 and 80 MW per hour for Miami Fort 6; Minimum blocks of energy are required to be in 50 MW per hour blocks for East Bend 2 and 40 MW per hour blocks for Miami Fort 6

Intermediate and Peaker Calls - Maximum rate of energy 500 MW per hour and minimum 50 MW per hour

2. Term

Contracts must be for the entire two year term with energy needed from January 1, 2013 through December 31, 2014. Contracts cannot begin before January 1, 2013 and cannot extend beyond December 31, 2014.

3. Contract Pricing

- a. Fixed Payments: For each contract year, bidder must provide any option premium or fixed demand charge payment, energy payments, any other variables to be used in the calculation of payments.
- b. Energy Pricing: Proposed energy rates should include all fuel, start up, losses, ancillary service and other charges associated with the delivery to the designated Delivery Point. The Bidder shall provide the initial energy rate and applicable fixed escalation rate. If a heat rate call product is proposed, then a contract heat rate shall be provided. If the energy rate is a function of coal supply, then coal pricing must be provided for each year. If the energy rate is a function of gas supply, gas pricing should use the Chicago City Gate as a basis.

4. Delivery Point

All energy must be deliverable to PJM DEOK load zone.

5. Other technical information

Respondents who submit proposals for the Reliability Exchange Product must provide the following information:

1. Name, location and commercial operating date of unit.
2. Five year operating history of the facility
3. Fuel source and fuel supply risk mitigation approach
4. Five year averages for availability and EFOR
5. Anticipated scheduled outages for routine maintenance and unit upgrades for environmental compliance modifications
6. Projected fixed (\$/kwyr) and variable (\$/mwh) costs for the term of the offer including environmental compliance costs
7. Start up costs, minimum up and down times, ramp rates and other factors for production cost modeling analysis

#### IV. Instructions to Respondents

1. Overview of Process

B&M has set-up an e-mail address at [DEKBackstandRFP@burnsmcd.com](mailto:DEKBackstandRFP@burnsmcd.com) to collect all communications and questions from potential respondents as well as a web site

<http://DEKBackstandRFP.com/> to provide uniform communications, including updates and specific detail as may be provided from time to time throughout this bidding process.

The bid process will include the activities and events as indicated in the schedule shown below. Proposal opening will be performed in private by B&M on a confidential basis. Proposals will be reviewed for completeness and offers that do not include the information requirements of this RFP will be notified and allowed five business days to conform. All conforming proposals will be sent to DEK for evaluation with the respondent's name and other identifying information redacted from the proposal. The evaluation of the bids will be performed by DEK with assistance provided by B&M. Respondents selected for the short list may or may not be invited to begin negotiations of final details of the offers.

#### Duke Energy Kentucky Backstand RFP Schedule

Event	Anticipated Date
Release of RFP	June 25, 2012
Notice of Intent to Bid	July 11, 2012
Proposal Submittal Deadline	July 31, 2012
Selection of Short List	September 10, 2012
Complete Negotiations	November 9, 2012

#### 2. Notice of Intent to Bid (Attachment A)

Each respondent is requested to advise B&M of its intent to submit a proposal by submitting a Notice of Intent to Bid (NOIB), attached hereto as **Attachment A: Notice of Intent to Bid**. The Notice of Intent to Bid form may be e-mailed, to the following address:

[DEKBackstandRFP@burnsmcd.com](mailto:DEKBackstandRFP@burnsmcd.com) .

Respondent's contact information, as supplied in the NOIB, will provide a vehicle for B&M to communicate any updates/revisions to the RFP in a timely manner. Therefore, we encourage respondents to submit a NOIB by July 11, 2012.

#### 3. Nondisclosure Agreement (Attachment B)

Respondents to this RFP are required to sign **Attachment B: Nondisclosure Agreement (NDA)** in its present form. Respondents who submit a NOIB and sign the NDA will receive supplementary information on East Bend 2 and Maimi Fort 6 that may help in developing their bids.

Phone inquiries regarding this RFP will not be entertained. Individual questions will be submitted by email to B&M and will be answered with responses sent back via email to the respondent. Responses to frequently asked questions may be placed on the RFP website for the benefit of all respondents with all identifying information removed.

4. Deadline and Method for Submitting Proposals

All proposals submitted in response to this RFP must be received by B&M no later than **5:00 PM EST on July 31, 2012**. DEK will not guarantee evaluation of proposals associated with this RFP if submitted after this time.

Respondents are required to submit three (3) hard copies of each proposal and a CD with the bid to the address below. It is further required that multiple proposals submitted by each respondent be identified separately. **Emailed proposals will not be accepted.** Financial statements, annual reports and other large documents may be referenced via a web site address.

Burns & McDonnell  
Attn: Jon Summerville  
9400 Ward Parkway  
Kansas City, MO 64114

**V. Proposal Organization**

1. Executive Summary

Please provide an overview of the proposal and project.

2. Proposal Limitations

Please describe in reasonable detail any economic, operational or system conditions that might affect the respondent's ability to deliver energy as offered.

3. Technical Proposal & Cost

Proposals should contain a detailed description of the pricing terms and conditions. Please refer to Section III.

4. Company Data

Please include information on the respondent's corporate structure (including identification of any parent companies), a copy of the respondent's most recent quarterly report containing unaudited consolidated financial statements that is signed and verified by an authorized officer of respondent attesting to its accuracy, a copy of respondent's most recent annual report containing audited consolidated financial statements and a summary of respondent's relevant experience. Financial statements, annual reports and other large documents may be referenced via a web site address.

**VI. Proposal Evaluation and Contract Negotiations**

1. Initial Proposal Review

After the proposal submittal deadline, B&M will privately open and review all responses for completeness and responsiveness. B&M may request that a respondent provide additional information or clarification to its original proposal. B&M will make such requests in writing via email and specify a deadline for compliance. Failure to provide the requested information or clarification by the deadline may result in disqualification of the proposal.

All conforming proposals will be sent to DEK for evaluation with the respondent's name and other identifying information redacted from the proposal.

2. Short List Development

DEK will then evaluate all proposals to meet energy needs. Proposals will be evaluated based on present value economics and other factors that may include, but will not be limited to location, credit, relevant experience, technology, availability, outage history, permitting, and deliverability.

During the evaluation process, DEK may or may not choose to initiate discussions with one or more respondents. Discussions with a respondent shall in no way be construed as commencing contract negotiations.

3. Contract Negotiations

DEK may contact the respondent in writing of its interest in commencing contract negotiations. DEK's commencement of and participation in negotiations shall not be construed as a commitment to execute a contract. If a contract is negotiated, it will not be effective unless and until it is fully executed with the receipt of all required regulatory approvals.

## **VII. Reservation of Rights**

Nothing contained in this RFP shall be construed to require or obligate DEK to select any proposals or limit the ability of DEK to reject all proposals in its sole and exclusive discretion. DEK further reserves the right to withdraw and terminate this RFP at any time prior to the proposal deadline, selection of a short list or execution of a contract.

All proposals submitted to DEK pursuant to this RFP shall become the exclusive property of DEK and may be used for any reasonable purpose by DEK. DEK and B&M shall consider materials provided by respondent in response to this RFP to be confidential only if such materials are clearly designated as "Confidential." Respondents should be aware that their proposal, even if marked "Confidential", may be subject to discovery and disclosure in regulatory or judicial proceedings that may or may not be

initiated by DEK. Respondents may be required to justify the requested confidential treatment under the provisions of a protective order issued in such proceedings. If required by an order of an agency or court of competent jurisdiction, DEK may produce the material in response to such order without prior consultation with the respondent.



RECEIVED

OCT 02 2012

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE BACK-UP POWER SUPPLY PLAN ) Case No. 2012-\_\_\_\_\_  
OF DUKE ENERGY KENTUCKY, INC. )

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**PETITION OF  
DUKE ENERGY KENTUCKY, INC.  
FOR CONFIDENTIAL TREATMENT OF INFORMATION**

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Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), pursuant to 807 KAR 5:001, Section 7, requests the Commission to protect as confidential certain information contained in the Back-Up Power Supply Plan of Duke Energy Kentucky, Inc. In support thereof, Duke Energy Kentucky states:

1. Duke Energy Kentucky has filed today its Back-Up Power Supply Plan as required pursuant Paragraph 3 of the Order filed in Case No. 2009-00429 on December 22, 2009. This filing contains projections of Duke Energy Kentucky's monthly energy needs during 2013, and the cost of various back-up power supply plans for 2013-2014. As required by 807 KAR 5:001, Section 7(2)(b), Duke Energy Kentucky is providing one copy of the information under seal.

2. 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.

3. If Duke Energy Kentucky is forced to disclose its monthly energy needs, this would unfairly advantage Duke Energy Kentucky's competitors and counterparties in the energy markets. These counterparties could demand higher prices from Duke Energy Kentucky than they otherwise might be able to charge in the absence of this information, because the counterparties would know how much energy Duke Energy Kentucky needs to purchase. Competing purchasers of energy would thus have access to the lower cost supplies.

Duke Energy Kentucky also seeks confidential treatment for the prices for bid summaries and costs of various back-up power supply plans because these prices resulted from a confidential competitive bidding process. If the prices contained in the bid summaries and are publicly disclosed this would deter bidders from submitting bids in response to future requests for proposals. Additionally, these prices could be used as a floor for future bids, resulting in higher prices than would be the case if the information is not publicly disclosed. Once again, this would cause competing purchasers of energy to have access to the lower cost supplies. The Commission has previously treated this type of information as confidential in Case No. 2009-000429.

Finally, Duke Energy Kentucky seeks confidential treatment of the Company's planned outage schedules, which depict the length of anticipated outages for its generating stations. This information would provide potential counter parties with information regarding Duke Energy Kentucky's upcoming capacity and energy needs that is not otherwise available. Such knowledge could be used to the disadvantage of the Company as it negotiates for resources with

potential counter parties as they would have insight into Duke Energy Kentucky's outage and maintenance plans of all generating units.

4. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Corporation.

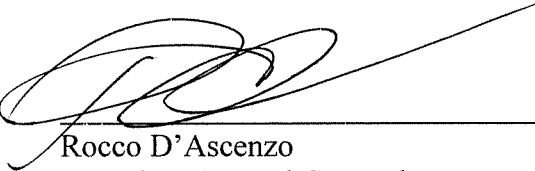
5. This information was, and remains, integral to Duke Energy Kentucky's effective execution of business decisions. And such information is generally regarded as confidential or proprietary. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority, Ky.*, 904 S.W.2d 766, 768.

6. 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  
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State Regulatory General Counsel  
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513-287-4385 (facsimile)  
Email: [rocco.d'ascenzo@duke-energy.com](mailto:rocco.d'ascenzo@duke-energy.com)

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served on the following parties of record by first class, U.S. mail; postage prepaid this 1<sup>st</sup> day of October, 2012.



Rocco D'Ascenzo

Hon. Dennis G. Howard  
Office of Attorney General  
Utility Intervention and Rate Division  
1024 Capital Center Drive  
Frankfort, Kentucky 40601