



DUKE ENERGY CORPORATION

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VIA OVERNIGHT DELIVERY

November 30, 2012

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

RECEIVED
DEC 03 2012
PUBLIC SERVICE
COMMISSION

**Re: Case No. 2012-220
In the Matter of the Back-Up Power Supply Plan of Duke Energy Kentucky, Inc.**

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of *Duke Energy Kentucky, Inc.'s Public Responses to Commission Staff's First 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 response to STAFF-DR-01-004 being filed under seal.

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

Sincerely,


Kristen Cocanougher

cc: Dennis Howard II.

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DEC 03 2012

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE BACK-UP POWER SUPPLY PLAN) Case No. 2012-00220
OF DUKE ENERGY KENTUCKY, INC.)

**PETITION OF DUKE ENERGY KENTUCKY, INC. FOR CONFIDENTIAL
TREATMENT OF INFORMATION CONTAINED IN ITS RESPONSES TO
COMMISSION STAFF'S 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 response to data request number 4, as requested by Commission Staff (Staff) in this case. The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) shows the Company's forecasted MW peak demands for 2013 and 2014.¹

In support of this Petition, Duke Energy Kentucky states:

1. The Commission's regulations, in 807 KAR 5:001, provide that any person requesting confidential treatment of any material file a petition setting forth the grounds, pursuant to KRS 61.870 *et seq.*, upon which the Commission should classify that material as confidential.

¹ Data Request No. 4.

2. Kentucky Revised Statute § 61.878(1)(c)(1) provides that records confidentially disclosed to an agency or required to be disclosed to the agency be exempt from Kentucky's open records statutes, KRS 61.870 *et seq.* where the records are generally recognized as confidential or proprietary, and which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records.

3. Duke Energy Kentucky submits that the information contained in the response to the Staff's data request number 4, namely the most recent demand forecasts for 2013 and 2014, if openly disclosed, could give its competitors and suppliers access to competitively sensitive, confidential information, which in turn could cause energy prices to consumers to be above competitive rates, and would permit competitors or suppliers of Duke Energy Kentucky to gain an unfair competitive advantage in the marketplace.

4. The above information, if openly disclosed, would enable competitors in the wholesale power market, and potential power suppliers to ascertain the manner in which the Company manages and operates their portfolio of generation assets as well as its future needs. A list of projected demand will provide power marketing competitors with knowledge that will allow them potentially to manipulate the marketplace so as to unnecessarily cause consumers to pay more for electricity than they otherwise would.

5. The Commission has treated the same information described herein as confidential in Duke Energy Kentucky's annual report filed with the Commission in Administrative Case No. 387.²

² Administrative Case 387, Letter granting Confidential treatment, April 26, 2012.

6. The information in No. 4 was developed internally by Duke Energy Corporation and Duke Energy Kentucky personnel, is not on file with any public agency, and is not available from any commercial or other source outside Duke Energy Kentucky. The aforementioned information in these responses is distributed within Duke Energy Kentucky only to those employees who must have access for business reasons, and is generally recognized as confidential and proprietary in the energy industry.

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

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

9. 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.

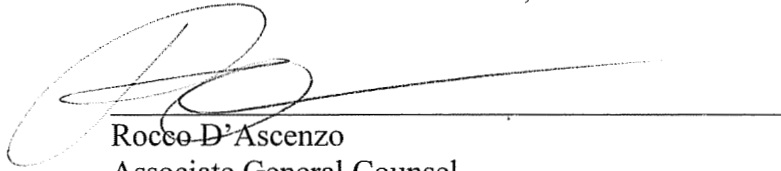
10. In accordance with the provisions of 807 KAR 5:001 Section 7, the Company is filing with the Commission one copy of the Confidential Material highlighted and ten (10) copies without the confidential information.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission:

1. Accept this Petition for filing;
2. Grant the information delineated herein confidential treatment in accordance with 807 KAR 5:001 Section 7 and KRS 61.870 *et seq.*

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

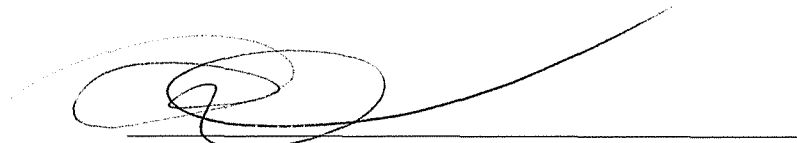


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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via ordinary mail, postage prepaid, this 30th day of November, 2012:

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



Rocco D'Ascenzo

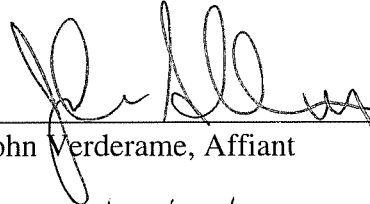
VERIFICATION

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State of North Carolina)
)
County of Mecklenburg) SS:

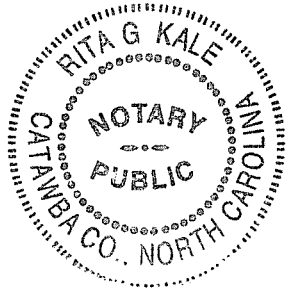
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COMMISSION


The undersigned, John Verderame, being duly sworn, deposes and says that he is the Director of Power Trading & Dispatch, and that the matters set forth in the foregoing testimony are true and accurate to the best of his knowledge, information and belief.



John Verderame, Affiant

Subscribed and sworn to before me by John Verderame on this 27 day of November 2012.





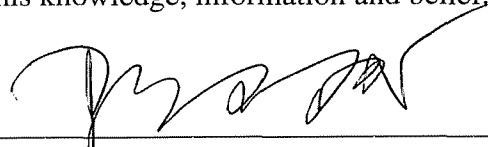
NOTARY PUBLIC

My Commission Expires: 6/17/17

VERIFICATION

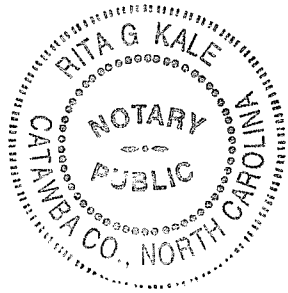
State of North Carolina)
)
County of Mecklenburg) SS:

The undersigned, Wenbin (Michael) Chen, being duly sworn, deposes and says that he is the Portfolio Optimization Manger, and that the matters set forth in the foregoing testimony are true and accurate to the best of his knowledge, information and belief.



Wenbin (Michael) Chen, Affiant

Subscribed and sworn to before me by Wenbin (Michael) Chen on this 27 day of November 2012.



Rita G. Kale
NOTARY PUBLIC

My Commission Expires: 6/17/17

VERIFICATION

State of North Carolina)
)
County of Mecklenburg) SS:

The undersigned, Jim Northrup, being duly sworn, deposes and says that he is the Director of Wholesale & Renewables Analytics, and that the matters set forth in the foregoing testimony are true and accurate to the best of his knowledge, information and belief.

Jim Northrup
Jim Northrup, Affiant

Subscribed and sworn to before me by Jim Northrup on this 26th day of November 2012.

Sandra S Baker
NOTARY PUBLIC

My Commission Expires: 02/04/17



VERIFICATION

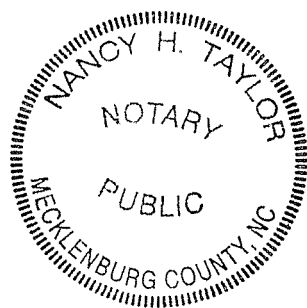
STATE OF NORTH CAROLINA)
) SS:
COUNTY OF MECKLENBURG)


The undersigned, Jose Merino, being duly sworn, deposes and says that he is employed by the Duke Energy Corporation affiliated companies as Director, Load Forecasting 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.



Jose Merino

Subscribed and sworn to before me by Jose Merino on this 28 day of November 2012.





NOTARY PUBLIC

My Commission Expires: January 26, 2017

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STAFF-DR-01-001

REQUEST:

Refer to pages 2 and 3 of the application.

- a. Given its status as a direct subsidiary of Duke Energy Ohio, Inc., explain whether Duke Kentucky is treated as a separate load-serving entity for purposes of complying with the PJM Resource Adequacy Requirements.
- b. Provide the planning reserve margin that is assigned to Duke Kentucky under PJM's tariff.

RESPONSE:

- a. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio, Inc. (Duke Energy Ohio), an indirect wholly owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio and Duke Energy Kentucky as well as several other load serving entities are within the PJM DEOK zone. As a legal entity, Duke Energy Kentucky maintains a separate affiliate membership in PJM, and is treated as a separate load serving entity from Duke Energy Ohio for purposes of complying with the PJM Resource Adequacy Requirements.
- b. PJM performs an annual Reserve Requirement Study as part of the Reliability Assurance Agreement. PJM utilizes the metric Installed Reserve Margin (IRM) for planning purposes as part of the Reliability Pricing Model capacity construct. IRM represents the level of capacity reserves needed to satisfy the PJM reliability criterion of a Loss of Load Expectation not exceeding one occurrence in ten years. The IRM represents the required installed capacity reserve as a percentage of the forecast peak load. In the 2012 PJM Reserve Requirement Study, issued on October 5, 2012, PJM recommended an installed Reserve Margin of 15.9% for the 2013/2014 planning year. The IRM is applied to all load in the RTO footprint.

Duke Energy Kentucky is not assigned a planning reserve margin by PJM. Duke Energy Kentucky satisfies its capacity obligation to PJM as a Fixed Resource Requirement

(FRR) entity. Duke Energy Kentucky files an FRR plan annually to meet the capacity obligation assigned specifically to the Duke Energy Kentucky load. Duke Energy Kentucky is obligated under the FRR to commit Unforced Capacity to meet the load in the FRR Plan. The total capacity obligation in the 2013-2014 FRR plan was 986.5 MWs.

PERSON RESPONSIBLE: John Verderame

STAFF-DR-01-002

REQUEST:

Refer to page 3 of the application.

- a. Duke Kentucky states that it will make fixed-price financial swap contracts for scheduled outages in the 2013-2014 period when market conditions appear economic. Describe the process Duke Kentucky will use to determine if such contracts are economic. Identify how far in advance of a scheduled outage Duke Kentucky expects to make such a determination.
- b. Duke Kentucky states that it will continue to evaluate its back-up power supply during the 2013-2014 period and will make any adjustments necessary due to changing conditions. Explain whether the evaluation is periodic, ongoing, or if it is triggered by certain conditions, such as the economy, weather, or other factors.

RESPONSE:

- a. Since scheduled outages typically happen in spring and fall shoulder months when load demand is not as strong as in winter and summer peak months, Duke Energy Kentucky expects to have enough generation capacity to meet its load during such time periods, even when East Bend 2, its biggest generation unit, is in scheduled outage. However, running own units, especially the Woodsdale peaking units, may not be the most economic way to serve its load. The company's approach is to purchase fixed-price hedges from the market to lock in power price for the customers when it's more economic to do so. Generally, economic financial hedges are purchased a few months in advance of a scheduled outage after the outage dates are finalized.
- b. The evaluation is an ongoing process. Though decision on a specific preferred back-up power supply plan was made at the time of this filing, Duke Energy Kentucky closely monitors changes in market and regulatory conditions and will make adjustments to the chosen plan when it's necessary.

PERSON RESPONSIBLE: Wenbin (Michael) Chen

STAFF-DR-01-003

REQUEST:

Refer to page 12 of the application. Duke Kentucky states: “If prices appear to be increasing, Plan G provides the flexibility to make forward contract purchases for long-term periods. If prices are flat or falling, the Company can postpone these purchases.”

- a. Explain the parameters that will be used to determine whether “prices appear to be increasing” so as to trigger the making of forward contract purchases for long-term periods.
- b. If the Commission approves Plan G, is Duke Kentucky willing to file the details of any forward contract purchases within 30 days of entering into the purchase?

RESPONSE:

- a. This statement was intended to show that Plan G affords the flexibility of putting on hedge purchases over a long period of time in advance of scheduled outages. As a company policy, any long-term purchases would go through Duke Energy internal approval process before they could be made. However, if macroeconomic and regulatory factors warranted, under Plan G, the Company could put on long-term hedges to mitigate customers’ exposure to price volatilities.

As mentioned in the same paragraph, right before the quoted statement, it says Duke Energy Kentucky’s general hedging approach is to make forward purchases for planned outages a few months in advance.

- b. It appears burdensome for Duke Energy Kentucky to file details of all forward contract purchases because most scheduled outages take 1 to 3 weeks and there might be quite a number of weekly and daily hedge transactions to cover those outages. However, Duke Energy Kentucky is willing to file purchase details within 30 days of entering the transactions for any scheduled outages expected to last 30 days or longer, subject to appropriate and applicable protection of confidential and trade secret information.

PERSON RESPONSIBLE: Wenbin (Michael) Chen

**Duke Energy Kentucky
Case No. 2012-220
Staff First Set Data Requests
Date Received: November 21, 2012**

**STAFF-DR-01-004
PUBLIC**

REQUEST:

Refer to Table 1 on page 4 of the application. For the 2013-2014 period, provide Duke Kentucky's forecasted summer and winter peak demands.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

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

PERSON RESPONSIBLE: Legal

Duke Energy Kentucky
Case No. 2012-220
Staff First Set Data Requests
Date Received: November 21, 2012

STAFF-DR-01-005

REQUEST:

Explain whether Duke Kentucky has performed any analysis of back-up power supply transactions that occurred during the period 2010-2012 comparing the cost-effectiveness of actual transactions to other back-up power supply options it considered in conjunction with Case No. 2009-00429. Include with the explanation a narrative description of the analysis and all correspondence and workpapers prepared relative to the analysis. If no analysis has been performed, explain why.

RESPONSE:

Duke Energy Kentucky has not performed an after-the-fact analysis on its current back-up power supply plan. Duke Energy Kentucky did perform a significant analysis in evaluating the alternative plans available at the time it presented the recommended plan to the Commission for its review and approval in Case No. 2009-00429. As mentioned in response to **STAFF-DR-01-002**, the Company evaluates the current plan on an ongoing basis and will make adjustments when it's necessary. Anecdotally, there have been no significant outages events or dramatic market shifts that have caused Duke Energy Kentucky to second guess or rethink its hedging strategy under the current plan, thus supporting the Company's position to continue with this strategy. Although Duke Energy Kentucky has experienced planned and unplanned outages, the Company has historically been able to manage its position through reasonably priced power via the MISO and PJM markets, respectively.

PERSON RESPONSIBLE:

Wenbin (Michael) Chen/ Jim Northrup

Duke Energy Kentucky
Case No. 2012-220
Staff First Set Data Requests
Date Received: November 21, 2012

STAFF-DR-01-006

REQUEST:

Refer to page 13 of the application.

- a. Duke Kentucky states it has used the same back-up power supply plan strategy since the Commission approved the company's plans in Case No. 2007-00044¹ and 2009-00429.² Explain whether there are any changes in its proposed backup plan that Duke Kentucky would consider a significant change from the plans approved in those cases.
- b. In Case No 2009-00429, Duke Kentucky proposed back-up supply plans for a three-year period. Explain why Duke Kentucky is proposing a back-up supply plan for a two-year period in the instant case.

RESPONSE:

- a. The Company's proposed strategy is essentially the same. The only significant change between the proposed plan and the prior plans are due to the differences in the constructs of the PJM and Midwest ISO markets.
- b. Please refer to footnote 2, page 2, of the Company's application in these proceedings. Duke Energy Kentucky is proposing a two-year period in this case (ending in 2014) because the Company must first make a determinative decision as to the potential retirement and replacement of its Miami Fort 6 generating unit. As was reflected in the Company's most recent integrated resource plan filed in Case No. 2011-2035 the unit could be retired as early as first or second quarter 2015. The timing of the Miami Fort 6 retirement and any replacement strategy could impact the Company's future back-up power supply strategy. As such, the Company is proposing a shorter plan now, knowing a new plan may be needed once a course of action for the Miami Fort 6 station is determined.

PERSON RESPONSIBLE:

Jim Northrup

¹ Case No. 2007-00044, *Back-Up Power Supply Plan of Duke Energy Kentucky, Inc.* (Ky PSC Mar. 29, 2007).

² Case No. 2009-00429, *Back-Up Power Supply Plan of Duke Energy Kentucky, Inc.* (Ky PSC Dec. 22, 2009).