

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF DUKE)	CASE NO.
ENERGY KENTUCKY, INC. FROM NOVEMBER)	2014-00229
1, 2013 THROUGH APRIL 30, 2014)	

COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION
TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission an original paper copy and an electronic copy of the following information, with a copy to all parties of record. The information requested herein is due no later than November 5, 2014. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Duke Kentucky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Duke Kentucky's response to Item 2.a.(1) of Commission Staff's Third Request for Information ("Staff's Third Request").

a. The response states that Duke Kentucky is not aware of a Commission Order limiting recovery of its fuel costs to the highest-cost unit on its system. Refer also to Duke Kentucky's response to Item 2.d. of Commission Staff's Second Information Request. Duke Kentucky was asked whether it was familiar with the language from page 5 of the Commission's May 2, 2002 Order in Case No. 2000-00495-B¹ and May 2, 2002 Order in Case No. 2000-00496-B² which states:

We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy

¹ Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

² Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

Duke Kentucky responded that "Duke Energy Kentucky is familiar with the Commission's interpretation of 807 KAR 5:056." Does Duke Kentucky's response to Item 1.a.(1) that it is not aware of a Commission Order limiting recovery of its fuel costs to the highest-cost unit on its system indicate that Duke Kentucky believed that the Commission's interpretation of 807 KAR 5:056 set forth in Orders pertaining to East Kentucky Power Cooperative, Inc. and American Electric Power Company did not apply to Duke Kentucky?

b. The response on page 3 states as follows:

If Duke Energy Kentucky were required to ensure that its cost of purchase power never fluctuated above the price of its highest cost off-line generating unit to fully recover its costs, then Duke Energy Kentucky would need to self-commit its own Woodsdale peaking generating units every time its base load generation was insufficient to satisfy demand (e.g., due to an outage or being fully dispatched), irrespective of market prices and prior to PJM committing the Woodsdale resources through economic dispatch, even if, after the fact, due to volatility of LMP's in the PJM market, the units actually cost more than purchases would have cost from PJM.

Explain why making an accounting adjustment when calculating its fuel adjustment clause would require Duke Kentucky to self-commit its units.

c. The response on pages 4-5 states as follows:

There are other problems with limiting purchase power recovery within PJM (or any RTO) to the utilities highest cost generating unit. There are factors that may limit a unit dispatch decision by PJM that are beyond the utility's control, but nonetheless provide benefits to customers. For example there are times that PJM will not allow certain units to run, despite appearing to be economic, due to grid reliability reasons (e.g. congestion).

Does Duke Kentucky believe that the highest-cost unit must actually be dispatched in order for the limit to apply? If so, explain the basis for this belief.

d. The response on page 7 states as follows:

Finally, there should be no disallowance of recovery for economic purchased power at times when the Company has insufficient generation to meet load (excluding the capacity that may be offline due to forced outages) as there is no other owned generation 'available' to meet the load obligation. It is unlikely the Commission intended that utilities incur costs necessary to meet its load obligation without allowing recovery.


Refer to the Commission's language quoted in Item 1.a. above which states that "[c]osts for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered 'non-FAC expenses' and, if reasonably incurred, are otherwise eligible for recovery through base rates." Given that language, explain why Duke Kentucky believes that recovery would not be allowed.

2. Refer to Duke Kentucky's response to Item 2.b. and 2.c. of Staff's Third Request. In response to Item 2.b., Duke Kentucky provides four assumptions on page 7 used to perform the requested calculation. The response to Item 2.c. states the same assumptions used in Item 2.b. were used in the requested calculation for Item 2.c.

a. Assumption 3 is stated as "the full load average cost for a Woodsdale unit was used in addition to the aforementioned startup cost." Explain in detail what is meant by "full load average cost".

b. Depending on the response to part a. above, it appears that Assumptions 3 and 4 include fixed costs of operating a Woodsdale unit. Explain why the calculation would include any costs other than fuel costs.

c. Provide revised responses to Items 2.b. and 2.c. which calculate the cost of Duke Kentucky's highest-cost unit available based only on fuel costs.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40601

DATED OCT 28 2014

cc: Parties of Record

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Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
139 East Fourth Street
P. O. Box 960
Cincinnati, OH 45201

Kristen Ryan
Senior Paralegal
Duke Energy Kentucky, Inc.
139 East Fourth Street
P. O. Box 960
Cincinnati, OH 45201