

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION)	
OF THE FUEL ADJUSTMENT CLAUSE OF)	
DUKE ENERGY KENTUCKY, INC. FROM)	CASE NO.
NOVEMBER 1, 2012 THROUGH OCTOBER)	2014-00454
31, 2014)	

COMMISSION STAFF'S SECOND 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. The information requested herein is due no later than March 25, 2015. 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. When filing a paper containing personal information, Duke Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to pages 6-7 of the Direct Testimony of John D. Swez ("Swez Testimony"). Beginning at the bottom of page 6, it states that Duke Kentucky participates in financial markets to hedge customers' exposure to day-ahead and real-time energy prices when its generation is unavailable due to a planned maintenance outage or when the generation is "not expected to clear the PJM Energy Market in volumes sufficient to serve native load demands." Explain whether this phrase refers solely to instances in which demand exceeds capacity. If not, explain.

2. Refer to page 7 of the Swez Testimony, lines 6-7, wherein it states that "[a]n RTO such as PJM performs a security constrained economic commitment and least-cost security constrained economic dispatch process. . . ." Explain what is meant

by “security constrained economic commitment” and how it differs from “security constrained economic dispatch.”

3. Refer to page 9 of the Swez Testimony.

a. Refer to lines 2-3, which mention the following designations: Must Run, Economic, Emergency, and Unavailable.

(1) Explain what is meant by each of the designations.

(2) State whether PJM Interconnection, Inc. (“PJM”) or Duke Kentucky makes the designation.

(3) Provide the criteria used to make the designation.

b. Refer to lines 3-7. Explain what is meant by “dispatched up” as used in the sentence.

c. Refer to lines 19-21. Explain what is meant by “[u]nit status” as used in the sentence.

4. Refer to page 11 of the Swez Testimony, lines 7-9, which states that “[t]he Company continued to make economic power purchases for both planned and forced outages during the audit period to mitigate exposure to market prices.”

a. Explain what is meant by “economic power purchases” as used in the sentence.

b. Explain how making these purchases mitigated exposure to market prices.

5. Refer to page 16 of the Swez Testimony, lines 16-20, which discusses the reasons for including PJM billing line items 2370 and 2375 in the calculation of the Fuel Adjustment Clause (“FAC”). The Commission approved a settlement in Duke

Kentucky's last electric base rate case¹ in which Duke Kentucky agreed to credit through its FAC make-whole revenues received from the Midwest Independent System Operators, Inc. ("MISO"), the regional transmission organization of which it was a member at that time.

a. Confirm that, since transferring its membership from MISO to PJM, Duke Kentucky has been crediting PJM billing line items 2370 and 2375 through its FAC because those billing line items are the PJM equivalent to the MISO make-whole payments. If this cannot be confirmed, explain.

b. Absent the settlement agreement in Case No. 2006-00172, explain whether Duke Kentucky believes PJM billing line items 2370 and 2375 should be included in the FAC calculation.

6. Refer to page 17 of the Swez Testimony, lines 19-22, which states that "other than the aforementioned operating reserve credits, the Company is only including charges and credits in its FAC during hours in which the Company is a net purchaser of power. This is a relatively simple approach when calculating and allocating PJM charges and credits." Provide the other approaches that could be used to allocate the PJM charges and credits.

7. Refer to page 9 of the Direct Testimony of John A. Verderame ("Verderame Testimony") regarding PJM's proposed Capacity Performance construct.

a. State how PJM is proposing to define the requirements of a "Capacity Performance" asset.

¹ Case No. 2006-00172, *An Adjustment of the Electric Rates of the Union Light, Heat and Power Company D/B/A Duke Energy Kentucky, Inc.* (Ky. PSC Dec. 21, 2006).

b. Explain the penalties that are being proposed by PJM under the Capacity Performance construct.

8. Refer to page 10 of the Verderame Testimony, lines 11-12, which state that “[t]he primary fuel at Woodsdale is natural gas delivered under a non-firm delivery contract.” Explain whether Duke Kentucky is able to enter into a firm delivery contract for natural gas at the Woodsdale station. If so, has Duke Kentucky conducted any economic evaluation as to the cost of entering into a firm delivery contract for the Woodsdale station?

9. Refer to page 11 of the Verderame Testimony, lines 16-23, which discuss the consequences to Duke Kentucky if the Federal Energy Regulatory Commission (“FERC”) approves PJM's Capacity Performance plan.

a. Provide specifics regarding the reference to “potential upgrades at generation stations” to mitigate exposure to significant penalties.

b. Provide specifics regarding Duke Kentucky's reference to “significant and ongoing expenses” in order to meet the “no excuses availability requirements of Capacity Performance” (outside of capital expenditures).

c. State whether FERC's approval of PJM's plan would affect Duke Kentucky's FAC. If so, explain in detail how the FAC would be affected.

10. In light of PJM's proposed Capacity Performance plan, has Duke Kentucky conducted any preliminary economic analysis comparing Duke Kentucky's continued election as a self-supply Fixed Resource Requirement entity against an election to participate in PJM's base residual auction? If so, provide a copy of any and all analysis conducted by Duke Kentucky.

11. Refer to Duke Kentucky's response to Item 2 of the Commission's February 5, 2015 Request for Information ("February 5, 2015 Request"). Duke Kentucky is proposing to use the expense month of July 2014 for the base fuel cost. The attachment to this response shows that the final fuel cost for July 2014 was \$10,269,020.39. In its FAC filing made on December 15, 2014, for the expense month of November 2014, Duke Kentucky further revised July 2014 fuel costs to \$10,441,539.66 (due to RTO resettlements). State why \$10,269,020.39 is being used rather than \$10,441,539.66.

12. Refer to Duke Kentucky's response to Item 38 of the February 5, 2015 Request.

a. Stating that the only PJM charges/credits taken directly from the invoice and included in the FAC calculations are the native portion of billing line items 2370 and 2375, Duke Kentucky did not provide the amounts by month included in the FAC for the other billing line items. Provide the amounts or explain in detail why it is not possible to provide by month PJM amounts included in the FAC calculation by billing line item.

b. Describe in detail PJM billing line item 2210 and explain why Duke Kentucky does not also include this billing line item in the calculation of the FAC, given its inclusion of PJM billing line item 1210.

c. Describe in detail PJM billing line item 2220 and explain why Duke Kentucky does not also include this billing line item in the calculation of the FAC, given its inclusion of PJM billing line item 1220.

d. Describe in detail the following PJM billing line items and explain why each is not includable in the calculation of the FAC: 2217, 1218, 2218, 1230, 1245, 2245, 1250, 1420, 2420, 1260, 2260, and 1375.

e. By month for each PJM billing line item listed in subparts b., c., and d. above, provide the amount charged or credited to Duke Kentucky by PJM from November 1, 2012, to the most current month available and, if different, the amount that would have been included in the calculation of the FAC if the items were found to be includable by the Commission.

f. State whether Duke Kentucky believes that the PJM billing line items included in the FAC should be the same across all Kentucky jurisdictional utilities that are members of PJM. If not, explain why the Commission should allow differences in those includable in the FAC.

13. For the months of January 2014 and August 2014, provide a copy of the PJM invoice/statement which supports the amounts recorded in the fuel adjustment clause for those expense months. If necessary, provide a reconciliation of the amounts in the invoice/statement to the amounts recorded in the FAC.

14. Refer to the response to Item 39 of the February 5, 2015 Request. State whether Duke Kentucky is compensated by PJM if PJM dispatches any of its units out of economic dispatch order. If so, explain whether this compensation is fuel-related and credited to customers through the FAC. If fuel-related compensation is received and not credited through the FAC, explain why it is not credited.

15. State whether there are times when PJM does not dispatch one or more of Duke Kentucky's generating units, but, in order to meet load, Duke Kentucky has to

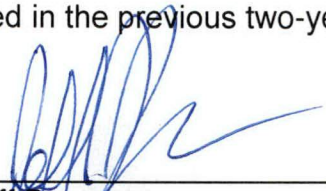
purchase power at a higher cost from PJM than if it had operated its unit(s). If so, state the number of times this occurred by month during the period under review and whether Duke Kentucky received any type of compensation from PJM.

16. Refer to the response to Item 40 of the February 5, 2015 Request.

a. Explain in detail why the \$ per MWh fuel cost for native load was higher than the \$ per MWh for off-system sales in more than half of the months in the 24 month review period.

b. Explain in detail why the \$ per MWh fuel cost for native load was significantly higher than the \$ per MWh for off-system sales in the months of April 2013, July 2013, March 2014, and June 2014. Include in the response details of Duke Kentucky's fuel cost allocation methodology that produces these results.

17. In its most recent two-year FAC review case, Case No. 2012-00554,² Duke Kentucky indicated its preference that any change in base rates be approved on a "bills rendered" basis rather than on a "service rendered" basis. If the current FAC review results in changes to its base rates, state whether Duke Kentucky continues to prefer the same "bills rendered" basis as authorized in the previous two-year case.



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

DATED MAR 11 2015

cc: Parties of Record

² Case No. 2012-00554, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2010 through October 31, 2012*, Duke Energy's Response to the Commission's February 13, 2013 Order, Appendix B, Item 40, filed Mar. 1, 2013.

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

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

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