DUKE ENERGY.

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VIA OVERNIGHT MAIL DELIVERY

RECEIVED

MAY 06 2015

PUBLIC SERVICE
COMMISSION

May 5, 2015

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

Re: Case No. 2015-00120
In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Depreciation Expense of its East Bend Unit 2 Generating Station

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of Duke Energy Kentucky, Inc.'s responses to Commission Staff's First Set of Request for Information.

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

Respectfully submitted,

Rocco D'Ascenzo (92796)
Associate General Counsel
Amy B. Spiller (85309)
Deputy General Counsel
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Rocco.d'ascenzo@duke-energy.com
Counsel for Duke Energy Kentucky, Inc.

cc: Jennifer Hans

583016

VERIFICATION

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

The undersigned, Cynthia S. Lee, Director of Asset Accounting, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing data requests are true and correct to the best of her knowledge, information and belief.

Cynthia S Lee

Cynthia S. Lee, Affiant

Subscribed and sworn to before me by Cynthia S. Lee on this 4th day of May, 2015.

Kim V. Beal

NOTARY PUBLIC

KIM V BEAL
Notary Public
Catawba County
NORTH CAROLINA

My Commission Expires: October 24, 2019

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STAFF-DR-01-001

REQUEST:

Refer to Duke Kentucky's application, the last sentence of paragraph 6, and paragraphs 7 and 8.

a. Provide the depreciation rate currently applied to Duke Kentucky's original share of the East Bend Unit 2 Generating Station ("East Bend").

b. The last sentence in paragraph 6 refers to the expectation that the Federal Energy Regulatory Commission ("FERC") will require the depreciation rate referenced in Item 1.a. of this request to be applied to the $214 million original plant cost of the recently acquired interest in East Bend, not to the $12.4 million net purchase price. However, the discussion in paragraphs 7 and 8 appears to focus on the application of the referenced depreciation rate to the net purchase price. Clarify whether it is Duke Kentucky's expectation and/or concern that FERC's policy would require the depreciation rate in question to be applied to the $214 million or to the $12.4 million.

RESPONSE:

a. The weighted average composite depreciation rate that is currently applied to Duke Energy Kentucky's original share of East Bend is 1.79%.

b. Duke Energy Kentucky's expectation is that FERC's policy requires the depreciation rate to be applied to Electric Plant in Service in account 101, which is the $214 million. This results in the approximate $3.8 million in annual depreciation expense.

PERSON RESPONSIBLE: Cynthia S. Lee

STAFF-DR-01-002

REQUEST:

Refer to Duke Kentucky's application, paragraphs 7 and 8. Duke Kentucky states that it had intended to use $222,000 as the annual depreciation expense to depreciate the investment cost of $12.4 million over East Bend's expected remaining useful life of 27 years. Duke Kentucky states that the $222,000 results from applying the depreciation rate to the net purchase price of the East Bend interest and corresponds to the expected period in which East Bend will be used and useful. Multiplying 27 years by $222,000 calculates to $5,994,000. Explain how an annual depreciation expense of $222,000 would have depreciated the entire $12.4 million over 27 years.

RESPONSE:

It is correct that $222,000 straight-line depreciation expense annually over 27 years results in approximately $6.0 million in depreciation. Duke Energy Kentucky calculated the $222,000 by initially applying the currently approved East Bend weighted average composite depreciation rate of 1.79% multiplied by $12.4M to arrive at $222,000 annual depreciation. It is anticipated that this rate would change once the next depreciation study is filed.

PERSON RESPONSIBLE: Cynthia S. Lee

Duke Energy Kentucky
Case No. 2015-00120
Staff First Set Data Requests
Date Received: April 30, 2015

STAFF-DR-01-003

REQUEST:

Provide the journal entries to be made each year by Duke Kentucky under the proposal in its application.

RESPONSE:

The following journal entries will be made annually each year by Duke Energy Kentucky under our proposal in the application:

1) Record annual depreciation expense (EPIS balance * currently approved East Bend weighted average composite rate of 1.79%):

   Dr. Depreciation Expense Account 403 $3.8M

   Cr. Accumulated Depreciation Account 108 $3.8M

2) Record deferral of depreciation expense upon approval of Duke Energy Kentucky's proposal (current depreciation expense in journal entry #1 - $3.6M = $0.2M). This journal entry would be $3.6M for the first 3 years and change to $0.7M in the 4th year, when the $12.4 million is fully depreciated):

   Dr. Other Regulatory Assets Account 182.3 $3.6M

   Cr. Regulated amortization credits Account 407.4 $3.6M

3) Record amortization of depreciation deferral (year 5 until end of life or depreciation rate change)

Dr. Regulated amortization debits Account 407.3	$0.2M
Cr. Other Regulatory Assets Account 182.3	$0.2M

Note: The amounts shown in these journal entries are based upon current balances and are therefore subject to slight changes as construction projects at East Bend go into service.

PERSON RESPONSIBLE: Cynthia S. Lee