

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE)
APPLICATION OF THE FUEL ADJUSTMENT)
CLAUSE OF DUKE ENERGY KENTUCKY,) CASE NO.
INC. FROM NOVEMBER 1, 2014 THROUGH) 2017-00005
OCTOBER 31, 2016)

ORDER

Pursuant to 807 KAR 5:056, Section 1(12), IT IS HEREBY ORDERED that:

1. Duke Energy Kentucky, Inc. ("Duke Kentucky") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on April 18, 2017, at 9:00 a.m., Eastern Daylight Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2014, to October 31, 2016.
2. Not less than seven days nor more than 21 days prior to the scheduled hearing, Duke Kentucky shall publish in a newspaper of general circulation in each area in which it provides service notice of the purpose, time, place, and date of the scheduled hearing.
3. Duke Kentucky shall file with the Commission no later than April 17, 2017, proof of publication of its notice for the hearing.
4. The Commission adopts the procedural schedule set forth in Appendix A to this Order, which is incorporated by reference herein.
5. a. Duke Kentucky shall file with the Commission, on or before February 20, 2017, its responses to all requests for information listed in Appendix B.

Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, an original and six copies in paper medium, and an electronic version to the Commission.

b. 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.

c. A party 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.

d. For any request to which a party refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

6. Duke Kentucky shall, on or before February 20, 2017, file with the Commission written direct testimony of the witnesses Duke Kentucky intends to call at the scheduled hearing in this matter. The written direct testimony of these witnesses shall address, *inter alia*, the following issues:

a. The reasonableness of Duke Kentucky's fuel procurement practices during the review period;

b. Coal and natural gas suppliers' adherence to contract delivery schedules during the review period;

c. Duke Kentucky's efforts to ensure coal and natural gas suppliers' adherence to contract delivery schedules during the review period;

d. Duke Kentucky's efforts to maintain the adequacy of its coal and natural gas supplies in light of any supplier's inability or unwillingness to make contract deliveries;

e. Any changes in coal and natural gas market conditions that occurred during the review period or that Duke Kentucky expects to occur within the next two years that have significantly affected or will significantly affect Duke Kentucky's coal and natural gas procurement practices; and

f. Any changes in the wholesale electric power market that occurred during the review period or that Duke Kentucky expects to occur within the next two years that have significantly affected or will significantly affect Duke Kentucky's electric power procurement practices.

7. At the scheduled hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

8. The official record of the proceeding shall be by video only.

9. Unless otherwise ordered by the Commission, the electronic filing procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

10. Pursuant to 807 KAR 5:001, Section 8, unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; the party shall file with the Commission, within seven days of the date of an Order of the Commission granting the intervention, a written statement certifying that the party waives any right to service of Commission Orders by United States mail, and that the party, or the party's authorized agent, possesses the facilities to receive electronic transmissions.

11. Intervenors may serve interrogatories and requests for production of documents upon Duke Kentucky in accordance with the procedural schedule set forth in Appendix A.

12. All documents that Duke Kentucky filed with the Commission pursuant to 807 KAR 5:056, Sections 1(7) and 1(9), for the period under review are incorporated by reference into the record of this proceeding.

13. The records of Case Nos. 2015-00236,¹ 2016-0005,² and 2016-00234³ are incorporated by reference into this proceeding.

¹ Case No. 2015-00236, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2014 through April 30, 2015* (Ky. PSC Dec. 4, 2015).

² Case No. 2016-00005, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from May 1, 2015 through October 31, 2015* (Ky. PSC July 7, 2016).

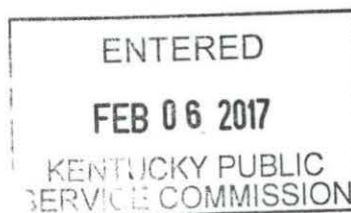
³ Case No. 2016-00234, *Electronic Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky, Inc. from November 1, 2015 through April 30, 2016* (Ky. PSC Jan. 11, 2017).

14. Any motion to intervene filed after February 27, 2017, shall show a basis for intervention and good cause for being untimely. If the untimely motion is granted, the movant shall accept and abide by the existing procedural schedule.

15. Any intervening party that intends to file testimony in this matter shall advise the Commission in writing of its intent to do so and shall, no later than March 23, 2017, move for modification of the procedural schedule, if necessary, to permit the filing of its testimony.

16. Motions for extensions of time shall be made in writing and will be granted only upon a showing of good cause.

By the Commission



ATTEST:

Cason D. Brunwell

Executive Director *for*

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00005 DATED **FEB 06 2017**

Duke Kentucky shall file with the Commission the direct testimony of its witnesses in verified prepared form and the responses to requests for information set forth in Appendix B no later than02/20/2017

All requests for intervention shall be filed by02/27/2017

Intervenors and Commission Staff may serve interrogatories and requests for production of documents upon Duke Kentucky no later than03/06/2017

Duke Kentucky shall file with the Commission responses to interrogatories and requests for production of documents no later than03/20/2017

Last day for Duke Kentucky to publish notice of hearing date04/11/2017

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses04/18/2017

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00005 DATED **FEB 06 2017**

1. If a change in the base fuel cost is proposed, state the month to be used as the base period (b). If the base period results in a fuel cost other than one representative of current costs as prescribed by 807 KAR 5:056, Section 1(2), explain why this base period was selected. If no change is proposed, include an explanation of the reason(s) Duke Kentucky believes the current base period fuel cost should remain unchanged.

2. Provide a calculation of the fossil fuel costs F(b) that Duke Kentucky proposes to use to calculate the base period fuel cost. This calculation shall show each component of F(b) as defined by 807 KAR 5:056. Explain why the fuel cost in the selected base period is representative of the level of fuel cost currently being experienced by Duke Kentucky.

3. Provide a schedule showing each component of sales as defined by 807 KAR 5:056 in the selected base period (b). Explain why Duke Kentucky believes that the sales in the selected base period (b) are representative of the level of kWh sales that Duke Kentucky will derive from the level of fuel cost incurred during the selected base period (b).

4. Provide a schedule showing the calculation of Duke Kentucky's proposed increase or decrease in its base fuel cost per kWh to be incorporated into its base rate.

5. Provide Duke Kentucky's most recent projected fuel requirements for the years 2017 and 2018 in tons for coal, MMBtu for natural gas, and dollars.

6. Provide Duke Kentucky's most recent sales projections for the years 2017 and 2018 in kWh and dollars.
7. Provide separately the amounts of power purchases used in the calculation of sales provided in response to Item 3.
8. Provide separately the amounts of intersystem power sales used in the calculation of sales provided in response to Item 3.
9. Provide the planned maintenance schedule for each of Duke Kentucky's generating units for the years 2017 and 2018.
10. For the years ending October 31, 2015, and October 31, 2016, provide:
 - a. Maximum annual system demand; and
 - b. Average annual demand.
11. List all firm power commitments for Duke Kentucky from May 1, 2016, through October 31, 2016, and for the years 2017 and 2018 for (a) purchases and (b) sales. This list shall identify the other party (buyer or seller), the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).
12. Provide a monthly billing summary for all sales to all electric utilities for the period May 1, 2016, through October 31, 2016.
13.
 - a. Provide a schedule of the calculation of the 12-month average line loss by month for November 2014 through October 2016.
 - b. Describe the actions that Duke Kentucky has taken to reduce line loss during this period.
14. List Duke Kentucky's scheduled, actual, and forced outages between May 1, 2016, and October 31, 2016.

15. For each existing fuel contract categorized as long-term (i.e., one year or more in length), provide:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract was executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification, or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percentage of annual requirements received during the contract's term;
- i. Base price in dollars per ton;
- j. Total amount of price escalations to date in dollars per ton; and
- k. Current price paid for coal under the contract in dollars per ton (i + j).

16. Provide a schedule of the present and proposed rates that Duke Kentucky seeks to change pursuant to 807 KAR 5:056, shown in comparative form.

17. Provide a copy of the current tariff showing by cross-outs and inserts all proposed changes in rates.

18. a. State whether Duke Kentucky regularly compares the price of its coal purchases with those paid by other electric utilities.

b. If yes, state:

(1) How Duke Kentucky's prices compare with those of other utilities. If the comparison includes months outside of the review period, a comparison limited to the review period should be provided separately. Provide a copy of the source documents and calculations used to support the amounts used in the comparison and include all prices used in the comparison in cents per MMBtu; and

(2) The utilities that are included in this comparison and their locations.

19. For the period under review by generating station, list the percentages of Duke Kentucky's coal delivered by:

- a. Rail;
- b. Truck;
- c. Barge; and
- d. Other (specify)

20. For each generating station, state the methods of coal delivery currently available.

21. a. State Duke Kentucky's coal inventory level in tons and in number of days' supply as of October 31, 2016. Provide this information by generating station and in the aggregate.

b. Describe the criteria used to determine the number of days' supply.

c. Compare Duke Kentucky's coal inventory as of October 31, 2016, to its inventory target for that date for each plant and for total inventory.

d. If actual coal inventory exceeds inventory target by ten days' supply, state the reasons for the excessive inventory.

e. (1) State whether Duke Kentucky expects any significant changes in its current coal inventory target within the next 12 months.

(2) If yes, state the expected change and the reasons for this change.

22. a. State whether Duke Kentucky has audited any of its coal contracts during the period from May 1, 2016, to October 31, 2016.

b. If the response is yes, for each audited contract:

(1) Identify the contract;

(2) Identify the auditor;

(3) State the results of the audit; and

(4) Describe the actions that Duke Kentucky took as a result of the audit.

23. a. State whether Duke Kentucky has received any customer complaints regarding its FAC during the period from May 1, 2016, to October 31, 2016.

b. If the response is yes, for each complaint, state:

(1) The nature of the complaint; and

(2) Duke Kentucky's response.

24. a. State whether Duke Kentucky is currently involved in any litigation with its current or former coal suppliers.

b. If the response is yes, for each litigation:

(1) Identify the coal supplier;

(2) Identify the coal contract involved;

(3) State the potential liability or recovery to Duke Kentucky;

(4) List the issues presented; and

(5) Provide a copy of the complaint or other legal pleading that initiated the litigation and any answers or counterclaims. If a copy has previously been filed with the Commission, provide the date on which it was filed and the case in which it was filed.

c. State the current status of all litigation with coal suppliers.

25. List each written coal supply solicitation issued during the period May 1, 2016, to October 31, 2016.

a. For each solicitation, provide the date of the solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor(s). Provide the bid tabulation sheet or corresponding document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

26. List each oral solicitation for coal supplies issued during the period from May 1, 2016, to October 31, 2016.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of

coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor(s) selected. Provide the bid tabulation sheet or other document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

27. For the period from May 1, 2016, to October 31, 2016, list each vendor from whom coal was purchased and the quantity and nature of each purchase (e.g., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract.

28. For the period from May 1, 2016, to October 31, 2016, list each vendor from whom natural gas was purchased for generation and the quantity and nature of each purchase (e.g., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract.

29. State whether Duke Kentucky engages in hedging activities for its coal or natural gas purchases used for generation. If the response is yes, describe the hedging activities in detail.

30. For each generating unit for which a separate coal pile is maintained, state for the period from May 1, 2016, to October 31, 2016, the actual amount of coal burned in tons, actual amount of coal deliveries in tons, total kWh generated, and actual capacity factor at which the plant operated.

31. For each natural gas generating unit, state for the period from May 1, 2016, to October 31, 2016, the actual amount of natural gas burned, total kWh generated, and actual capacity factor at which the plant operated.

32. a. During the period from May 1, 2016, to October 31, 2016, have there been any changes to Duke Kentucky's written policies and procedures regarding its fuel procurement?

b. If yes,

- (1) Describe the changes;
- (2) State the date(s) the changes were made;
- (3) Explain why the changes were made; and
- (4) Provide the written policies and procedures as changed.

c. If no, provide the date when Duke Kentucky's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

33. a. State whether Duke Kentucky is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from May 1, 2016, to October 31, 2016.

b. If the response is yes, for each violation:

- (1) Describe the violation;
- (2) Describe the action(s) that Duke Kentucky took upon discovering the violation; and
- (3) Identify the person(s) who committed the violation.

34. Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for Duke Kentucky's fuel procurement activities that occurred during the period from May 1, 2016, to October 31, 2016.

35. a. Identify all changes that Duke Kentucky made during the period from May 1, 2016, to October 31, 2016, to its maintenance and operation practices that affect fuel usage at Duke Kentucky's generation facilities.

b. Describe the impact of these changes on Duke Kentucky's fuel usage.

36. a. List all intersystem sales during the period from May 1, 2016, to October 31, 2016, in which Duke Kentucky used a third party's transmission system.

b. For each sale listed above:

(1) Describe the effect on the FAC calculation of line losses related to intersystem sales when using a third party's transmission system; and

(2) State the line-loss factor used for each transaction and describe how such line-loss factor was determined.

37. a. Describe the effect on the FAC calculation of line losses related to intersystem sales when not using a third party's transmission system.

b. Describe each change that Duke Kentucky made to its methodology for calculating intersystem sales line losses during the period from May 1, 2016, to October 31, 2016.

38. State whether Duke Kentucky has solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal. If the response is

yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

39. Provide a detailed discussion of any specific generation efficiency improvements Duke Kentucky has undertaken during the period from May 1, 2016, to October 31, 2016.

40. State whether all contracts related to commodity and/or transportation have been filed with the Commission. If any contracts have not been filed, explain why they have not been filed and provide a copy.

41. Identify any issues that could affect fuel costs for the two-year period that remain unresolved or unsettled. Include in the response any issues related to billings from a regional transmission operator. Consider this a continuing request to inform the Commission if Duke Kentucky becomes aware of any issues during the course of this proceeding.

42. Explain in detail how Duke Kentucky classifies a generation outage as forced or scheduled.

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