REQUEST FOR PROPOSALS


Dated: April 8, 2013
Proposals Due: May 15, 2013

Complete Information on this RFP can be found at: http://DukeEnergyKentuckyRFP.com
1.0 Introduction

Duke Energy Kentucky (DEK) has a need for capacity or capacity and energy resources during the PJM delivery years of 2014/2015 through 2016/2017 in order to meet its PJM Resource Adequacy obligation. DEK will pursue Power Purchase Agreements (PPA) to satisfy this need.

Specific requirements for this Request for Proposals (RFP) are as follows:

- Resource need up to 200 MWs of PJM Unforced Capacity (UCAP) in the applicable delivery years below:
  - June 1, 2014/May 31, 2015: 200 MW
  - June 1, 2015/May 31, 2016: 200 MW
  - June 1, 2016/May 31, 2017: 200 MW

- 1-3 Year Terms of 2014/2015, 2015/2016, or 2016/2017 or combinations thereof
- Resources must be delivered in the 2014/2015 through 2016/2017 timeframe, but DEK will consider contracting resources as early as June 1, 2014 through delivery year ending May 31, 2017 although Duke’s needs begin in early 2015
- Resources must be unit contingent and dispatchable by PJM
- Proposals and renewable proposals must be for a minimum block of 50 MWs
- Capacity and energy from generation resources must include firm deliverability to the PJM DEOK load zone

DEK has retained Burns & McDonnell (B&M) to act as an independent third party consultant to assist with this RFP. All respondents will directly interface with B&M for all communications including questions, RFP clarification issues and RFP bid submittal.

Duke Energy Corporation (Duke Energy), an energy company headquartered in Charlotte, NC, supplies and delivers energy to approximately 7.2 million U.S. customers in the Southeast and Midwest United States. The company has nearly 49,700 MWs of owned regulated electric generating capacity in the Midwest and the Southeast and natural gas distribution services in Ohio and Kentucky.


2.0 Product Definition & Eligibility

A. Product Definition

This RFP is for unit contingent capacity or capacity and energy from assets that meet the requirements of Generation Capacity Resources (GCRs) as defined in the PJM Reliability Assurance Agreement (RAA). The hourly energy output from the GCR must be offered into the PJM Day Ahead
Market (DAM). DEK will not accept proposals for projects on DEK property, purchases of new or existing energy facilities, energy efficiency, or demand side management (DSM).

B. **Eligibility**

In order to participate in this RFP, respondent must submit its PJM qualifications and FERC authorization. The respondent must be a qualified market buyer and seller in good standing with PJM. Assets must meet all PJM RAA terms. Capacity resources that cleared in any Reliability Pricing Model (RPM) Auction delivery year of the RFP may not bid in for that delivery year of the RFP. In addition, the unit cannot have been specified in a FRR (Fixed Resource Requirement) Capacity Plan for the delivery year of the RFP.

### 3.0 General Terms

DEK is requesting up to 200 MW of capacity or capacity and energy in connection with its Resource Adequacy obligations for the PJM delivery years of 2014/2015 through 2016/2017. DEK requires that resources be dispatchable (into the PJM DAM) and unit contingent.

A. **Delivery Point**

The delivery point shall be the PJM DEOK load zone. DEK’s preference is for supplier pricing at the DEOK load zone including applicable congestion and losses. Alternate pricing structures will be considered.

B. **Contract Capacity**

The contract capacity shall be stated in terms of PJM UCAP. Minimum blocks of 50 MW of UCAP capacity are required.

DEK does not desire to purchase any Renewable Energy Certificates at this time.

C. **Quantity & Delivery Date**

DEK will accept bids with a minimum UCAP of 50 MW. Intermittent resources must bid at least 50 MW as defined by the PJM Manual 21, Appendix B: Calculating Capacity Values for Intermittent Resources. For example, a solar facility would have to bid at least 144 MW of capacity to meet this obligation using a 38% effective class average capacity factor.

DEK is seeking up to the following cumulative UCAP capacity amounts to meet its reserve margin requirements during the following PJM delivery years:

- June 1, 2014/May 31, 2015: 200 MW
- June 1, 2015/May 31, 2016: 200 MW
Respondents must deliver capacity or capacity and energy for a minimum of one year on dates between June 1, 2014 and May 31, 2017. DEK’s capacity and energy needs begin in early 2015, but DEK is willing to consider contracts as early as June 1, 2014, in order to meet its FRR obligation.

D. Capacity and/or Energy Pricing

All pricing should be comprised of a capacity component on a $/kw-yr basis and, if applicable, an energy component consisting of a non-fuel variable O&M ($/MWh) component and a fuel cost ($/MMBtu) component. A heat rate must be given for conversion of fuel costs to $/MWh. Alternatively, a fixed “dispatch” cost may be provided on a $/MWh basis. The total variable pricing (non-fuel variable O&M + fuel) of the unit charged to DEK must be equal to the PJM DAM (or RTM) dispatch price. DEK prefers non-fuel variable pricing to be on a fixed price or fixed escalation rate basis (e.g. 2%, 3% escalation rate).

Proposals must provide a detailed description of the pricing terms and conditions. During any subsequent discussions and/or negotiations, DEK may request modifications to the proposed contract structure scheme in order to accommodate its own operational or administrative requirements.

Bidder is responsible for complying with all applicable state and federal environmental regulations and requirements, including SO2 allowances, NOx allowances and emission fees.

E. Contract Term

In order to accommodate DEK’s uncertain capacity needs in light of environmental legislation, DEK would request that bidders offer products in one or more of the increments described below. Capacity should be priced discretely in any multi-year contracts.

<table>
<thead>
<tr>
<th>Delivery Year</th>
<th>Incremental (MW)</th>
<th>Cumulative (MW)</th>
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<tbody>
<tr>
<td>June 1, 2014/May 31, 2015</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>June 1, 2015/May 31, 2016</td>
<td>0</td>
<td>200</td>
</tr>
<tr>
<td>June 1, 2016/May 31, 2017</td>
<td>0</td>
<td>200</td>
</tr>
</tbody>
</table>

- a. 2014/2015 (1 Year Term)
- b. 2015/2016 (1 Year Term)
- c. 2016/2017 (1 Year Term)
- d. 2014/2015 – 2015/2016 (2 Year Term)
e. 2015/2016 – 2016/2017 (2 Year Term)

f. 2014/2015 – 2016/2017 (3 Year Term)

Proposal term must be for at least one year and cannot extend past May 31, 2017.

F. Fuel Supply

The proposal must indicate the most applicable fuel pricing point and any applicable local distribution company (LDC) charges. Fuel supply proposals may include either a fuel index formula or fixed fuel price. For all indexed bids, a fuel pricing formula must be provided which must supply sufficient detail for DEK to understand the formula components for estimation of the cost of fuel, in $/MMBtu, for the proposal term. For evaluation purposes, DEK plans to use its own fundamental fuel price forecast for estimates of natural gas commodity pricing for each bid.

For natural gas pipeline capacity, the cost of any firm transportation should be specified, if appropriate. If firm gas transportation is to be provided by the respondent, provide the pertinent details on the firm gas transportation arrangement and total cost. Details should include Maximum Daily Transportation Quantity (MDTQ) and any transportation demand rate information expressed as a Daily Demand Rate per MMBtu (100% LF) necessary for DEK to understand the total cost of firm gas transportation on a monthly and annual basis. Please provide the upstream interstate and LDC provider so as to give an understanding of the transportation path. Also, state if this is firm or non-firm transportation.

G. Location

Proposals must contain unit contingent offers. Proposal must identify the generation resources that have been proposed and their location. Capacity and energy from the generation resources must have firm deliverability to the PJM DEOK load zone. There will be a preference for assets with the following declining order of preference:

1. Assets located in the PJM DEOK load zone
2. Assets located in PJM with firm deliverability to the DEOK load zone
3. Assets external to PJM with firm deliverability to the PJM DEOK load zone

H. Operations and Dispatch

The hourly energy output from the GCR must be offered into the PJM Day Ahead Market (DAM). The supplier will remain responsible for the operations and maintenance of the asset including the offering and scheduling of the asset in the (DAM) or the Real Time Market (RTM). Suppliers shall also offer applicable Ancillary Service products into the PJM markets.
I. Transmission

Existing and new generation located in the PJM region must be pre-certified by PJM as meeting the Generation Deliverability Test. Resources external to PJM must contain an indication of the intended ATC path to deliver the existing capacity into the PJM DEOK load zone. (Firm transmission service from the unit to the border of PJM and generation deliverability in PJM must be demonstrated by the start of the Delivery Year). Proposals must have firm deliverability to the PJM DEOK load zone. Suppliers will have the responsibility to secure and provide all transmission services necessary for firm delivery of capacity and energy. Seller is responsible for all delivery and loss charges to the delivery point (PJM DEOK).

4.0 Instructions to Respondents

A. Overview of Process

B&M has set-up an e-mail address DukeEnergyKentuckyRFP@burnsmcd.com to collect all communications and questions from potential respondents as well as a web site http://DukeEnergyKentuckyRFP.com/ to provide uniform communications, including updates and specific detail as may be provided from time to time through this bidding process.

The bid process will include the activities and events as indicated in the schedule shown below. Proposal opening will be performed in private by B&M on a confidential basis. Proposals will be reviewed for completeness and offers that do not include the information requirements of this RFP will be notified and allowed five business days to conform. All conforming proposals will be sent to DEK for evaluation with the respondent’s name and other identifying information redacted from the proposal. The evaluation of the bids will be performed by DEK with assistance provided by B&M. Respondents selected for the short list may or may not be invited to begin negotiations of final details of the offers.

Duke Energy Kentucky RFP Schedule

<table>
<thead>
<tr>
<th>Event</th>
<th>Anticipated Date</th>
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<tbody>
<tr>
<td>Release of RFP</td>
<td>April 8, 2013</td>
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<tr>
<td>Notice of Intent to Bid</td>
<td>April 22, 2013</td>
</tr>
<tr>
<td>Proposal Submittal Deadline</td>
<td>May 15, 2013</td>
</tr>
<tr>
<td>Selection of Short List</td>
<td>July 1, 2013</td>
</tr>
<tr>
<td>Complete Negotiations</td>
<td>End of Third Quarter 2013</td>
</tr>
</tbody>
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B. **Notice of Intent to Bid (Attachment A)**

Each respondent is requested to advise B&M of its intent to submit a proposal by submitting a Notice of Intent to Bid (NOIB), attached hereto as **Attachment A: Notice of Intent to Bid**. The Notice of Intent to Bid form may be e-mailed, to the following address: DukeEnergyKentuckyRFP@burnsmcd.com.

Respondent’s contact information, as supplied in the NOIB, will provide a vehicle for B&M to communicate any updates/revisions to the RFP in a timely manner. Therefore, we encourage respondents to submit a NOIB by April 22, 2013.

C. **Nondisclosure Agreement (Attachment B) and Response Package (Attachment C)**

Respondents to this RFP are required to sign **Attachment B: Nondisclosure Agreement (NDA)** in its present form. Respondents to this RFP area also required to complete the **Attachment C: Response Package** to be eligible to compete in the solicitation process. Respondents should organize their proposals as described in **Section 4.0: Proposal Organization**. All applicable information contained in the proposal must be addressed, including:

- Attachment B: Nondisclosure Agreement (NDA)
- Attachment C: Response Package

All correspondence concerning this RFP should be sent via e-mail to: DukeEnergyKentuckyRFP@burnsmcd.com.

Phone inquiries regarding this RFP will not be entertained. Individual questions submitted by a respondent to B&M will be answered with responses sent via email back to the respondent. Responses to frequently asked questions may be placed on the RFP Website for the benefit of all respondents, although care will be taken not to identify any specific respondent(s).

D. **Deadline and Method for Submitting Proposals**

All proposals submitted in response to this RFP must be received by B&M no later than 5:00 PM EST on May 15, 2013. DEK will not guarantee evaluation of proposals associated with this RFP if submitted after this time.

Respondents are required to submit three (3) hard copies of each proposal and a CD with the spreadsheets provided in **Attachment C: Response Package** to the address below. It is further required that multiple proposals submitted by each respondent be identified separately. **Emailed proposals will not be accepted**. Financial statements, annual reports and other large documents may be referenced via a web site address.
5.0 Proposal Organization

A. Executive Summary

Please provide an overview of the proposal and project. Include an overview of the technology, fuel type, project benefits and location. Please also complete Section A: General Information located in Attachment C: Response Package for all projects.

B. Proposal Limitations

Please describe in reasonable detail any economic, operational or system conditions that might affect the respondent’s ability to deliver capacity and energy as offered.

C. Technical Proposal & Cost

Please describe in reasonable detail the source of the capacity and energy. Operational information and pricing should be given as indicated in the Section B: Term Sheet section located in Attachment C: Response Package.

D. Company Data

Please include information on the respondent’s corporate structure (including identification of any parent companies), a copy of the respondent’s most recent quarterly report containing unaudited consolidated financial statements that is signed and verified by an authorized officer of respondent attesting to its accuracy, a copy of respondent’s most recent annual report containing audited consolidated financial statements and a summary of respondent’s relevant experience. Financial statements, annual reports and other large documents may be referenced via a web site address.

6.0 Proposal Evaluation and Contract Negotiations

A. Initial Proposal Review

After the proposal submittal deadline, B&M will privately open and review all responses for completeness and responsiveness. B&M may request that a respondent provide additional information or clarification to its original proposal. B&M will make such requests in writing via email and specify a deadline for compliance. Failure to provide the requested information or clarification by the deadline may result in disqualification of the proposal.
All conforming proposals will be sent to DEK for evaluation with the respondent’s name and other identifying information redacted from the proposal.

B. Short List Development

DEK will then evaluate all proposals to meet both capacity and energy needs. Proposals will be evaluated based on present value economics and other factors that may include, but will not be limited to location, credit, relevant experience, technology feasibility, permitting, and deliverability.

During the evaluation process, DEK may or may not choose to initiate discussions with one or more respondents. Discussions with a respondent shall in no way be construed as commencing contract negotiations.

C. Contract Negotiations

DEK will contact the respondent in writing of its interest in commencing contract negotiations. DEK’s commencement of and participation in negotiations shall not be construed as a commitment to execute a contract. If a contract is negotiated, it will not be effective unless and until it is fully executed with the receipt of all required regulatory approvals.

7.0 Reservation of Rights

Nothing contained in this RFP shall be construed to require or obligate DEK to select any proposals or limit the ability of DEK to reject all proposals in its sole and exclusive discretion. DEK further reserves the right to withdraw and terminate this RFP at any time prior to the proposal deadline, selection of a short list or execution of a contract.

All proposals submitted to DEK pursuant to this RFP shall become the exclusive property of DEK and may be used for any reasonable purpose by DEK. DEK and B&M shall consider materials provided by respondent in response to this RFP to be confidential only if such materials are clearly designated as "Confidential." Respondents should be aware that their proposal, even if marked “Confidential”, may be subject to discovery and disclosure in regulatory or judicial proceedings that may or may not be initiated by DEK. Respondents may be required to justify the requested confidential treatment under the provisions of a protective order issued in such proceedings. If required by an order of an agency or court of competent jurisdiction, DEK may produce the material in response to such order without prior consultation with the respondent.