



139 East Fourth Street
Cincinnati, Ohio 45202

November 1, 2013

Director Scott J. Nally
Ohio Environmental Protection Agency
Lazarus Government Center
P.O. Box 1049
Columbus, OH 43216-1049

Subject: Duke Energy Kentucky Miami Fort Unit 6 MATS Extension of Time Request

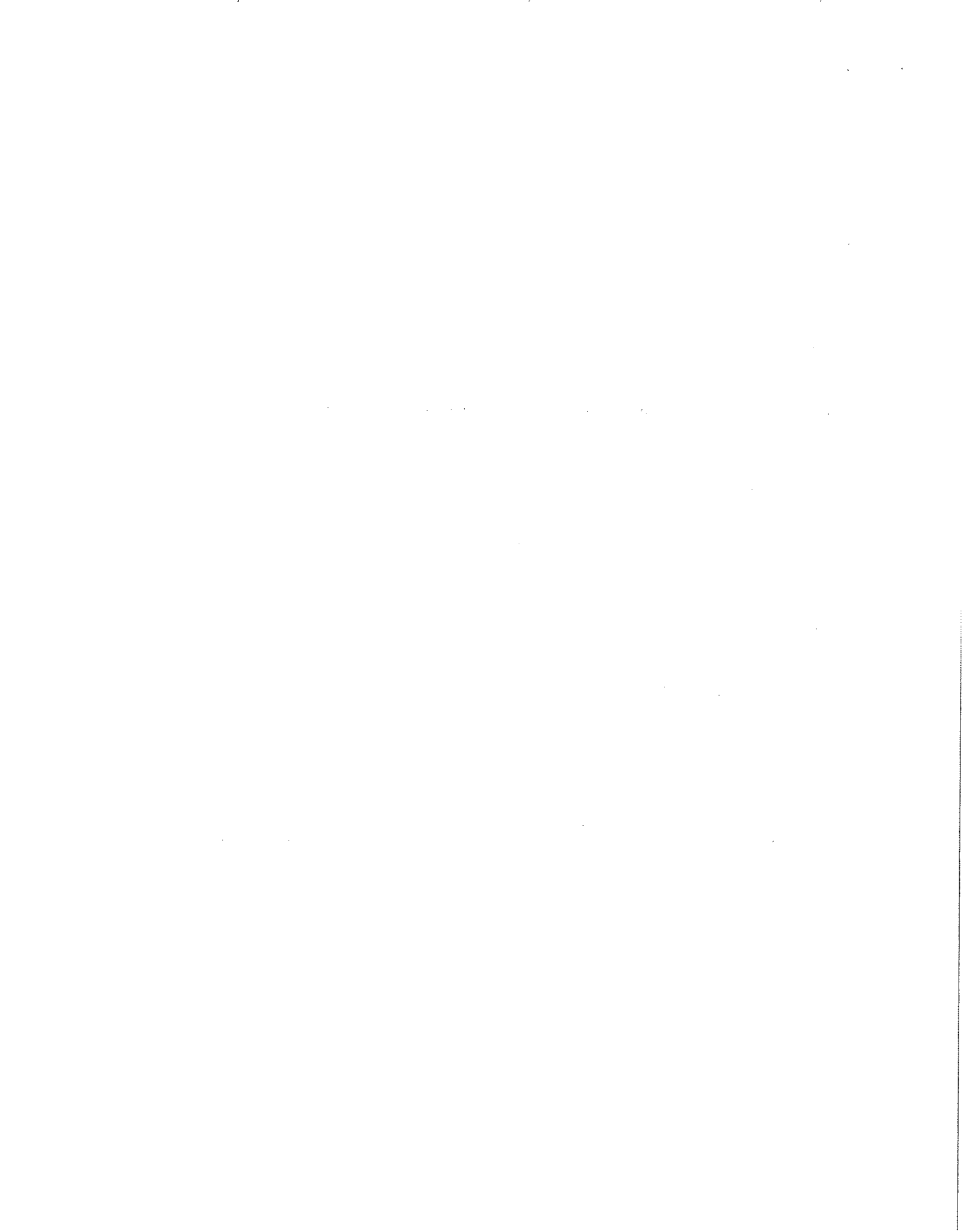
Dear Director Nally:

Pursuant to USEPA's Mercury & Air Toxics Standards ("MATS") regulations, 40 C.F.R. Section 63.6(i), with regard to granting one-year extensions of the deadline for compliance, with this letter Duke Energy Kentucky, Inc. ("DEK") respectfully requests a limited extension of forty-seven days from the April 16, 2015 deadline until June 1, 2015, for compliance with the MATS Rule¹ for DEK's Miami Fort Generating Station Unit 6 ("Miami Fort Unit 6"). DEK requests this extension for the MATS Emission Limits, reporting requirements, and Work Practice Standards contained in the MATS Rule. As discussed further below, this extension is needed because, prior to establishment of the MATS deadline, DEK committed Miami Fort Unit 6 in a generation reliability based capacity plan submitted to PJM Interconnection, L.L.C. ("PJM") on a three-year forward basis through the end of May 2015. As explained below, the purpose of the three-year forward commitment of Miami Fort Unit 6 was to meet a PJM requirement for forward commitments of sufficient resources to preserve reliability of the PJM system. Granting the extension would enable DEK to meet its reliability commitment to PJM.

DEK is a Kentucky corporation and, as a public utility as that term is defined in K.R.S. § 278.010(3), is subject to the Kentucky Public Service Commission's ("KYPSC") jurisdiction. DEK's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. DEK is engaged in the business of furnishing electric and natural gas services to various municipalities and unincorporated areas in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton Counties in the Commonwealth of Kentucky.

DEK also owns generating facilities, including two coal-fired generating units and six combustion turbine peaking units. Miami Fort Unit 6 is located in southwestern Ohio, and East Bend Station Unit 2 is located in northern Kentucky. The six combustion

¹ National Emission Standards for Hazardous Air Pollutants: Coal- and Oil-Fired Electric Utility Steam Generating Units, 40 C.F.R. § 63, Subpart UUUUU (2013) (the "MATS Rule").



turbines are located at the Woodsdale Station, also in Ohio. East Bend Unit 2 and Miami Fort Unit 6 are subject to the MATS Rule.

DEK is a member of PJM. PJM is the Federal Energy Regulatory Commission approved Regional Transmission Organization serving all or parts of the thirteen states of Illinois, Indiana, Michigan, Kentucky, Tennessee, Ohio, West Virginia, North Carolina, Virginia, Maryland, Delaware, Pennsylvania and New Jersey, plus the District of Columbia. PJM is responsible for both the planning and reliable operation of the bulk power electric grid within its footprint.

As explained by PJM in its September 13, 2012 letter to the Ohio Environmental Protection Agency ("Ohio EPA") on behalf of American Electric Power Company, Inc. ("AEP") ("PJM Letter"), attached hereto as Exhibit A, reliable operation of the bulk power electric grid requires ensuring that there are sufficient capacity resources to meet the PJM system's expected load requirements, plus reserve margins. Pursuant to its Reliability Assurance Agreement, PJM requires member load-serving entities ("LSEs") to plan for and make available sufficient capacity resources to meet this obligation. LSEs in PJM can meet their capacity obligations under the Reliability Assurance Agreement either by (1) participating in its Reliability Pricing Model ("RPM") auction or (2) electing the "FRR" alternative. FRR stands for "Fixed Resource Requirement." An "FRR Entity," rather than participate in the RPM auction, is required under the Reliability Assurance Agreement to meet its reliability requirement by self-supplying capacity. The self-supplied capacity is identified, on a unit-by-unit basis, in an FRR Capacity Plan submitted to PJM three years in advance of the Delivery Year in question. PJM Delivery Years run from June 1 through the following May 31. The PJM Letter submitted on behalf of AEP applies equally to DEK – both are FRR Entities subject to the same reliability requirements described in the letter.

DEK has elected to meet its capacity resource obligations in PJM through the FRR alternative, which means that it must, three years in advance of each Delivery Year, demonstrate through an FRR Capacity Plan that it has adequate capacity to meet its load obligations. DEK is required to remain an FRR entity until the KYPSC approves otherwise. Of key importance is that this capacity demonstration must be linked to specific generators. On April 1, 2011, before the MATS Rule was finalized or even proposed, DEK submitted its FRR Capacity Plan to PJM for the 2014/2015 Delivery Year, which ends May 31, 2015. DEK included Miami Fort Unit 6 in that Capacity Plan, which means that DEK committed Miami Fort Unit 6 to be used to meet its FRR capacity obligation for that Delivery Year.

Section 112(i)(3)(B) of the CAA allows a Title V permitting authority the ability to grant sources up to one additional year to comply with the requirements of the MATS Rule. As noted in the PJM Letter, the FRR Capacity Plan is used by PJM "to meet resource adequacy objectives and requirements." As noted in Ohio EPA's Guidance, "[m]aintaining the stability and reliability of the electric transmission grid will be given substantial weight in the granting of one-year extensions to the three-year compliance



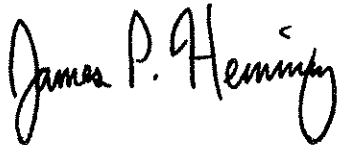
timeframe of the MATS rule.” DEK’s status as a PJM FRR Entity and the reliability obligations associated with such status should (we submit) carry even more weight in granting a shorter extension, such as the forty-seven-day extension that DEK requests here.

DEK faces a timing mismatch between its three-year forward commitment of Miami Fort Unit 6 until May 31, 2015, under the PJM Reliability Assurance Agreement and the MATS Rule’s April 16, 2015, compliance deadline. Therefore, DEK requests this extension of the MATS compliance date so that it can meet its commitment of Miami Fort Unit 6 to PJM under the PJM Reliability Assurance Agreement.

The MATS Rule is being litigated in federal court, and DEK cannot predict the outcome of that litigation. USEPA is also promulgating additional regulations that may impact DEK’s generating units, including Miami Fort Unit 6. DEK reserves the right to seek future modifications of this request and/or terminate this request based on changes to its compliance plans that may result from such events.

DEK requests Ohio EPA’s approval of this request so that it can implement its MATS Rule compliance plan in a timely and efficient manner. We look forward to working with you and your staff on this request. Should you need any additional information regarding this request, please contact Dick Brewer at 513-287-3604.

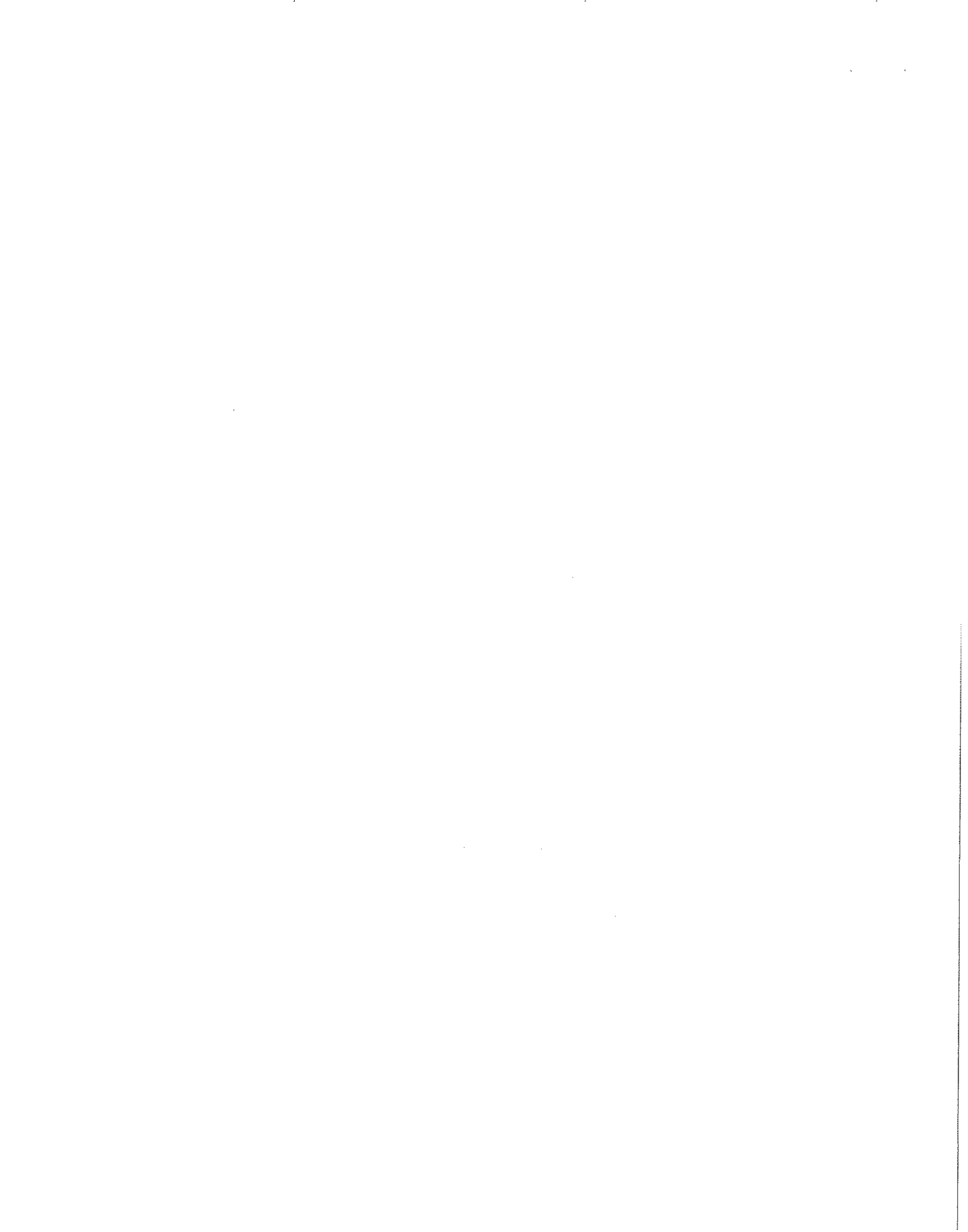
Sincerely,

A handwritten signature in black ink that reads "James P. Henning". The signature is written in a cursive, flowing style.

James P. Henning
President
Duke Energy Kentucky, Inc.

Enclosure

cc: Bob Hodanbosi, Ohio Environmental Protection Agency
Chris Beekman, Ohio Environmental Protection Agency
Jeff Derouen, Kentucky Public Service Commission
Stu Bresler, PJM Interconnection, L.L.C.





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Paul M. Sotkiewicz, PhD
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September 13, 2012

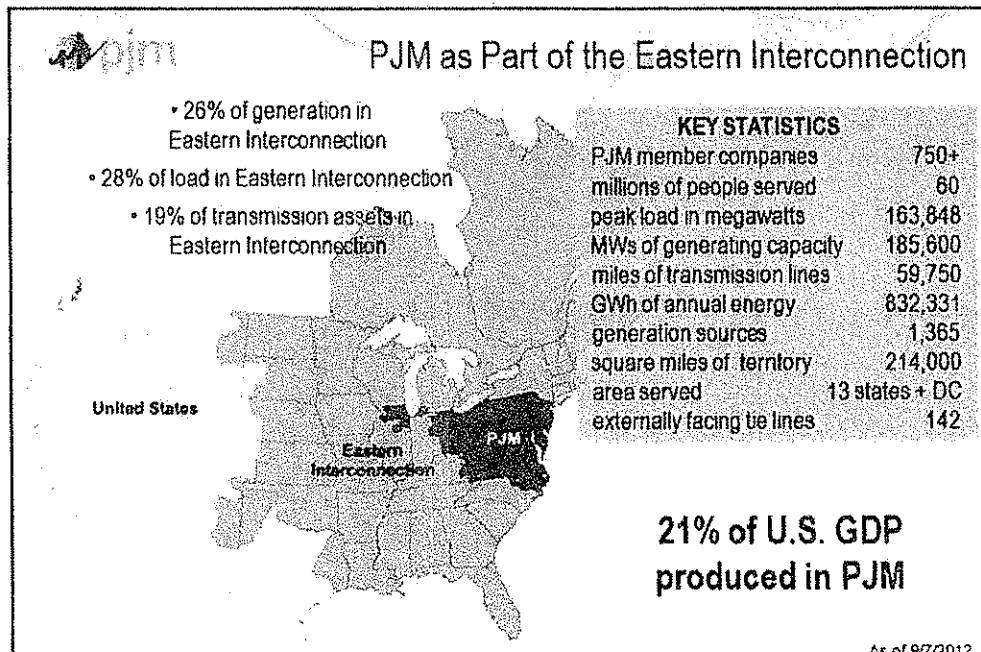
Mr. Bob Hodanbosi
 Chief, Air Pollution Control Office
 Ohio Environmental Protection Agency
 50 West Town Street, Suite 700
 Columbus, OH 43215

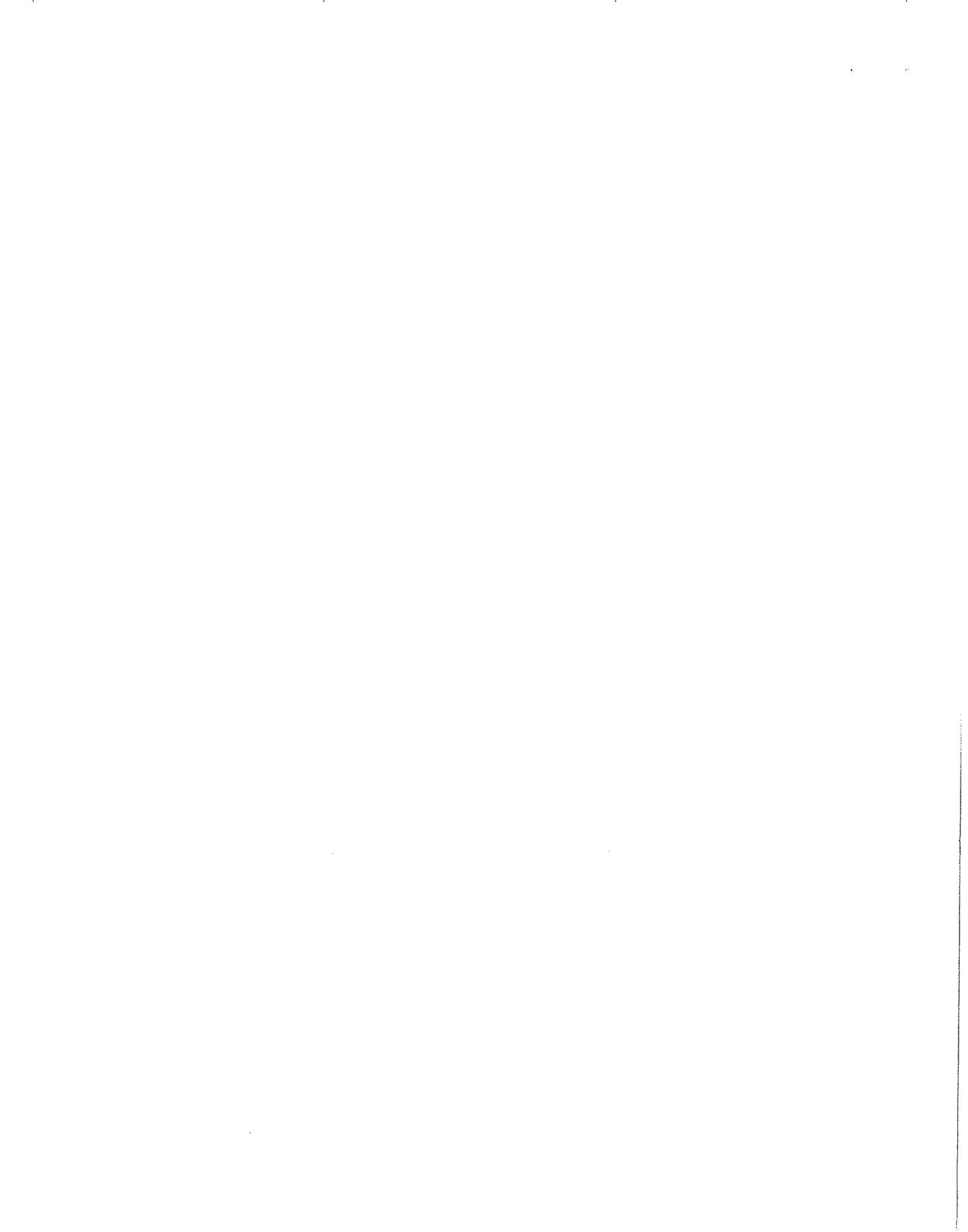
Via Electronic Mail and Federal Express

Dear Mr. Hodanbosi:

PJM Interconnection, L.L.C. ("PJM") is writing to the Ohio EPA to provide additional information regarding the Capacity Resource obligations of PJM members, and specifically American Electric Power ("AEP") as the compliance deadline for the United States Environmental Protection Agency's ("US EPA") Mercury and Air Toxics Standards ("MATS") approaches in April 2015. PJM hopes to enable further understanding of the importance of Capacity Resource obligations to the reliability of the high voltage electricity grid that PJM operates.

As background, PJM is the Federal Energy Regulatory Commission ("FERC") approved Regional Transmission Organization ("RTO") serving all or parts of the 13 states of Illinois, Indiana, Michigan, Kentucky, Tennessee, Ohio, West Virginia, North Carolina, Virginia, Maryland, Delaware, Pennsylvania and New Jersey, plus the District of Columbia. PJM operates the largest competitive wholesale market in the nation and is responsible for both the planning and reliable operation of the bulk power electric grid, as shown in the figure below.





Reliable operation of the bulk power electric grid requires ensuring that there will be sufficient resources to serve the peak needs of the system. PJM administers a Reliability Assurance Agreement (RAA) among the Load Serving Entities (LSEs) of PJM, which is intended to: 1) ensure that adequate resources will be planned and made available to provide reliable service to loads within PJM, 2) ensure LSEs will assist each other during emergencies, and 3) coordinate planning of capacity resources consistent with a defined set of reliability principles and standards. It is also intended that the RAA be implemented in a manner consistent with the development of a robust competitive marketplace.

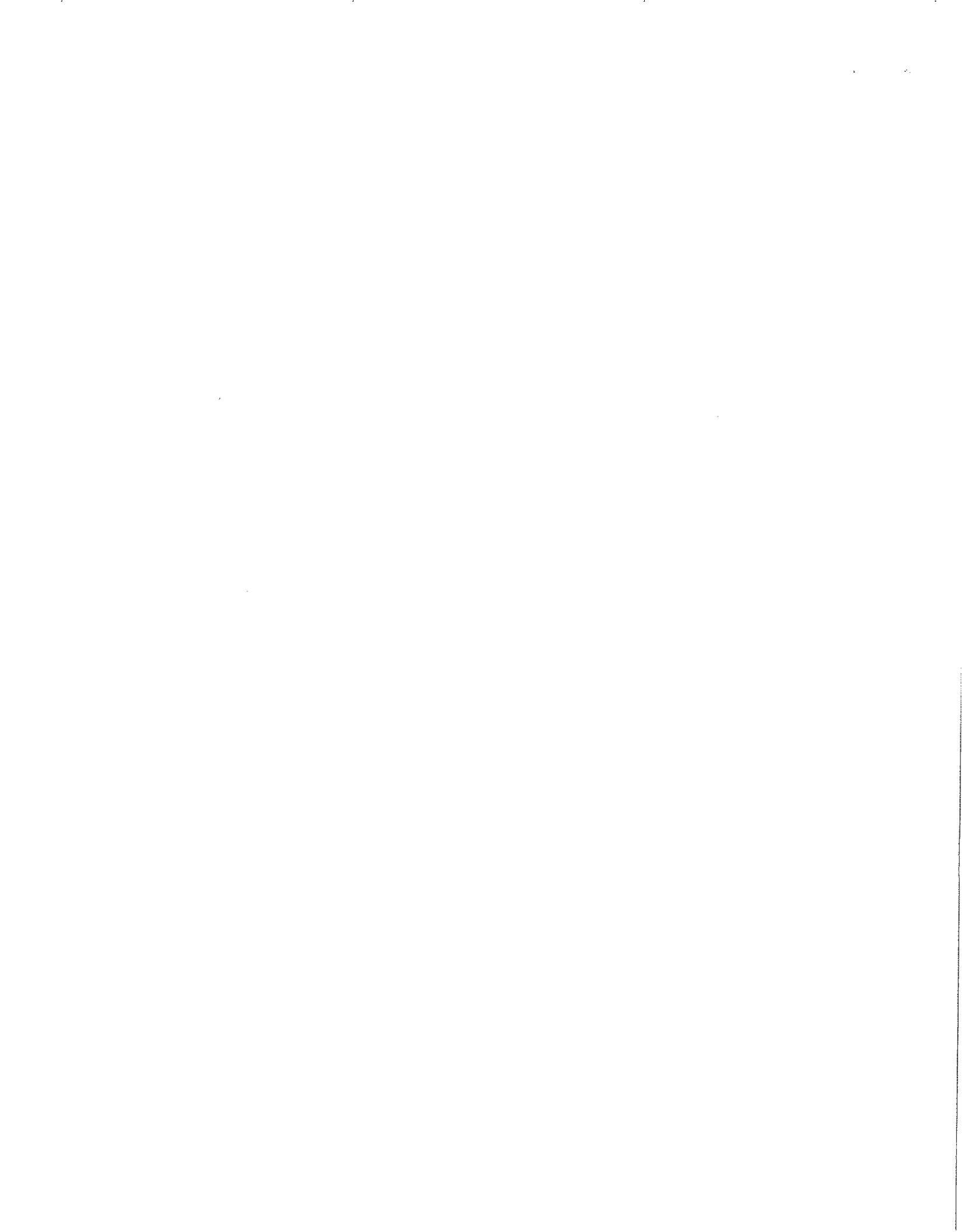
As such, in order to meet these resource adequacy objectives and requirements, PJM obtains commitments from generation and demand-side resources to be Capacity Resources three years prior to the period for which the obligation of the Capacity Resources is applicable. The obligation period for capacity resources in PJM is known as the Delivery Year and is the 12 month period commencing June 1 and ending May 31 of the following calendar year.

When generation resources are committed as Capacity Resources, they take on many obligations. Chief among these obligations is to make available every day during the Delivery Year energy from the generation resource in the Day-ahead Energy Market unless on a scheduled outage for maintenance or forced outage due to equipment failure. Additionally, in connection with the third intention of the RAA mentioned above, generator outages are coordinated in an attempt to avoid scheduling outages during summer and winter peak periods, and to ensure sufficient resource availability during spring and fall maintenance outage periods such as May or September when demand can be unusually high due to early or late season heat waves.

Load serving entities (LSEs) may satisfy their capacity obligation in one of two ways in PJM. The first is through a forward capacity market, known as the Reliability Pricing Model (RPM), in which existing and potential new resources compete to supply capacity to LSEs. The RPM capacity market awards capacity commitments to resources three years prior to the Delivery Year.

As an alternative to committing Capacity Resources via RPM, an LSE, as has been the case with all of AEP's load serving subsidiaries operating in PJM, may elect to meet its entire capacity obligation for the Delivery Year by submitting a plan that identifies and commits its own resources or resources secured under bilateral contracts. This is known as a Fixed Resource Requirement (FRR) alternative, and is accomplished through a FRR Capacity Plan (Plan) filed by the LSE three years prior to the delivery year. LSEs electing the FRR alternative may not satisfy any of their obligations in RPM and are in effect self-supplying their capacity obligations. This Plan details the committed Capacity Resources, which may include generation, demand response and energy efficiency.

Generation units that are committed through RPM, or are part of an FRR Capacity Plan for the 2014/2015 Delivery Year are obligated to be available from June 1, 2014 through May 31, 2015. The initial compliance date for the US EPA's MATS is April 16, 2015, just 45 days shy of the end of the 2014/2015 Delivery Year. This 45 day period between the MATS compliance deadline and the end of PJM's 2014/2015 Delivery Year happens to occur during the tail end of the spring maintenance period prior to the peak summer period, which may present resource coordination issues should additional generators be unavailable due to factors other than scheduled maintenance outages.



PJM hopes this provides a better understanding of the obligation of Capacity Resources, and in particular those resources committed to an FRR Capacity Plan, to maintaining reliable operations in PJM. Should you have any questions regarding the obligations of Capacity Resources in PJM's markets, please do not hesitate to contact me at any time.

Sincerely,

Paul M. Sotkiewicz, PhD
Chief Economist, Markets

Cc: Daniel L. Snider, AEP
Dana E. Horton, AEP
Andrew L. Ott, PJM
Michael J. Kormos, PJM
Craig Glazer, PJM
Gary Helm, PJM

