

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY	)	
KENTUCKY, INC. TO MODIFY RIDER	)	
PSM OFF-SYSTEM SALES PROFIT	)	CASE NO.
SHARING MECHANISM TO ACCOUNT	)	2008-00489
FOR CHANGES IN OFF-SYSTEM	)	
SALES DUE TO THE INITIATION OF	)	
THE MIDWEST INDEPENDENT	)	
SYSTEM OPERATOR ANCILLARY	)	
SERVICES MARKET	)	

O R D E R

On November 26, 2008, Duke Energy Kentucky, Inc. (“Duke Kentucky”) filed a request to modify its Rider PSM – Off System Power Sales and Emission Allowance Sales Profit Sharing Mechanism (“Rider PSM”). The proposed modification would reflect changes due to the initiation of the Midwest Independent System Operator, Inc., (“MISO”) Ancillary Services Market (“ASM”).

Duke Kentucky designed Rider PSM to share with its customers the revenues associated with off-system sales of power from its generation fleet, as well as sales of emission allowances. The existing Rider PSM, approved in Case No. 2006-00172,<sup>1</sup> requires Duke Kentucky’s customers to receive 100 percent of the first \$1 million of net margins from off–system sales. Duke Kentucky and its customers share net margins above \$1 million equally. Duke Kentucky’s customers also receive 100 percent of the net margins associated with the sale of emission allowances.

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<sup>1</sup> Application of the Union Light, Heat and Power Company d/b/a Duke Energy Kentucky for an Adjustment of Electric Rates, (Ky. PSC Dec. 21, 2006).

Ancillary services are services “necessary to support capacity and the transmission of energy from resources to loads while maintaining reliable operation of the transmission system.”<sup>2</sup> The MISO ASM will provide a vehicle to compensate market participants for making reserves available and providing overall system reliability. The ASM is to “provide incentives needed for short-term system reliability; complete wholesale short-term markets resulting in appropriate price signals; enable demand response resources to participate in the market; encourage investment in flexible generation resources which will reduce the need to take out-of-merit actions to maintain reliability; and reduce operating reserves costs with the goal of putting downward pressure on overall energy prices.”<sup>3</sup>

Duke Kentucky is a member of MISO and offers generation for unit commitment and economic dispatch and purchases energy on the market to satisfy its load. Duke Kentucky, as a MISO market participant, is required to participate in the ASM upon its implementation. Duke Kentucky may be required to provide or procure ancillary services, in the form of reserves, at any given time, depending upon market conditions within the MISO footprint.

Like all ASM participants, Duke Kentucky will be compensated for ancillary services it provides and could incur costs associated with market participation. When revenues from its ASM participation exceed the costs of ASM purchases in a given month, Duke Kentucky proposes that the net revenues be flowed through Rider PSM to

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<sup>2</sup> Application at 3.

<sup>3</sup> Id.

its customers. When costs exceed revenues for ancillary market transactions within a given month, Duke Kentucky proposes to absorb the net costs and hold its customers harmless. All other aspects of Rider PSM will remain the same. Duke Kentucky will not defer any ASM net incremental costs for future inclusion in rates. Duke Kentucky does not foresee its monthly costs associated with the ASM exceeding its monthly ASM revenues. Though not expected, if Duke Kentucky finds that it is incurring net costs, it will seek recovery thereof based on the net costs included in the test year proposed in its next rate case.

Duke Kentucky anticipates that there will be a net benefit to its customers. The ASM will provide more options for meeting load obligations so that the most economic strategy may be used. Customers will also benefit when services are sold into the market by Duke Kentucky.

Based upon the evidence of record, and being sufficiently advised, the Commission finds Duke Kentucky's request to modify Rider PSM to address changes in off-system sales due to the initiation of the MISO ASM is reasonable and that it should be approved.

IT IS THEREFORE ORDERED that:

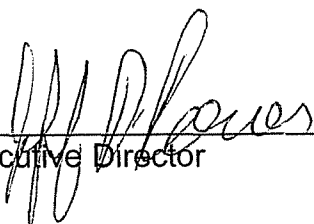
1. Duke Kentucky's request to modify Rider PSM to include as an eligible profit net revenues related to its provision of ancillary services in the newly created MISO ASM, is approved.

2. Within 10 days from the date of this Order, Duke Kentucky shall file a revised Rider PSM showing the date of issue and that it was issued by authority of this Order.

Done at Frankfort, Kentucky, this 30th day of January, 2009.

By the Commission

ATTEST:

  
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Executive Director

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