LG&E ENERGY

Kent W. Blake
Director
State Regulation and Rates

LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202
502-627-2573
502-217-2442 FAX
kent.blake@lgeenergy.com

July 7, 2005

VIA HAND DELIVERY
Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***In the Matter of the Investigation Into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator***
Case No. 2003-00266

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies of Louisville Gas and Electric Company's and Kentucky Utilities Company's Additional Supplemental Direct Testimonies of Mark S. Johnson and Martyn Gallus in the above-referenced matter. Please note that the verification page for Mark S. Johnson is not attached to his testimony and that it will be filed next week when he returns from vacation. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies.

Should you have any questions or need any additional information, please contact me at your convenience.

Sincerely,

Kent W. Blake

Kent W. Blake

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE MEMBERSHIP	)	
OF LOUISVILLE GAS AND ELECTRIC	)	
COMPANY AND KENTUCKY UTILITIES	)	CASE NO. 2003-00266
COMPANY IN THE MIDWEST INDEPENDENT	)	
TRANSMISSION SYSTEM OPERATOR, INC.	)	

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY OF
MARK S. JOHNSON
DIRECTOR, TRANSMISSION
LG&E ENERGY LLC

Filed: July 7, 2005

Q. Please state your name, position and business address.

A. My name is Mark S. Johnson. I hold the position of Director of Transmission for LG&E Energy LLC ("LG&E Energy"), the parent company of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"). My business address is 119 N. Third Street, P.O. Box 32020, Louisville, Kentucky 40202.

Q. Please describe your educational and professional background.

A. I received my Bachelor of Science degree in Civil Engineering Technology from Murray State University in 1980. I have 23 years of experience in the utility industry. From May 1980 to January 1985, I was employed by the Tennessee Valley Authority at the Watts Bar Nuclear Generating Station, where I held the position of Manager, Document Control and Configuration Management. From January 1985 to February 1987, I was employed by Entergy at the Grand Gulf Nuclear Generation Station as Manager, Engineering Support. From February 1987 to November 1997, I was again employed by the Tennessee Valley Authority, where I held a number of senior level positions in power generation, transmission, customer service and marketing. Most notably, I was Area Vice President, Transmission, Customer Service and Marketing for three and one-half years. Then, in November 1997, I joined LG&E Energy as Director, Distribution Operations. I remained in that position until January 2001, when I assumed my current position.

Q. Have you previously testified before this Commission?

A. Yes. I filed rebuttal testimony in this proceeding on February 9, 2004, and supplemental rebuttal testimony on January 10, 2005. I also filed testimony on November 12, 2003 in *In the Matter of: An Investigation of the Proposed*

Construction of 138 kV Transmission Facilities in Mason and Fleming Counties by East Kentucky Power Cooperative, Inc., Case No. 2003-00380.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss briefly the reliability impact that MISO Day 2 operation has had on the Companies' transmission system, as well as to report the transmission revenues that the Companies have received in April and May 2005 under the Day 2 markets.

Q. Has MISO Day 2 operation had any impact on the Companies' transmission system's reliability?

A. No. In contrast to Dr. McNamara's testimony in this proceeding that "there will indeed be significant ... reliability benefits to Kentucky if the utilities remain within the [MISO] RTO ...,"[1] to my knowledge MISO Day 2 operation has had no observable impact on the reliability of the Companies' transmission system.

Q. Has MISO in fact been able to "[d]isplace uncertain, disruptive and time-consuming transmission loading relief ("TLR") curtailments with regional five-minute dispatch to ensure flows remain within operating security limits,"[2] as Dr. McNamara testified MISO would in Day 2?

A. No. In the month of May 2005 alone, MISO posted 147 TLR logs to the NERC website concerning the Companies' transmission system. Notwithstanding Dr. McNamara's assertion that TLRs are "inadequate," it is clear that MISO has not

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[1] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc.*, Case No. 2003-00266, Rebuttal Testimony of Robert R. McNamara (Nov. 19, 2004) at 2 ln. 10-12.
[2] *Id.* at 8 ln. 18-20.

"replac[ed] TLR curtailments with regional dispatch,"[3] and still has occasion to resort to TLR calls and "pre-emergency" manual redispatch in Day 2.

Q. Does this conclude your testimony?

A. Yes, it does.

[3] *Id.* at 9 ln. 14.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE MEMBERSHIP OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY IN THE MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC.	)))))	**CASE NO. 2003-00266**

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY OF
MARTYN GALLUS
SENIOR VICE PRESIDENT, ENERGY MARKETING
LG&E ENERGY LLC

Filed: July 7, 2005

Q. Please state your name, position and business address.

A. My name is Martyn Gallus. I am the Senior Vice President of Energy Marketing for LG&E Energy LLC ("LG&E Energy"), the parent company of Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, "LG&E/KU" or "the Companies"). My business address is 220 West Main Street, P.O. Box 32020, Louisville, Kentucky 40202.

Q. Have you previously testified in this proceeding?

A. Yes. I previously testified in this investigation at the hearing on February 25, 2004. In this second phase of the Commission's investigation, I submitted supplemental direct testimony on September 29, 2004, and supplemental rebuttal testimony on January 10, 2005.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to update the Commission on the actual results and experience of the Companies' operations to date in the Midwest Independent Transmission System Operator, Inc.'s ("MISO") Day 2 markets, which are the day-ahead and real-time markets that MISO's Transmission and Energy Markets Tariff ("TEMT") created. My testimony presents the operational and financial results of the Companies' participation in the MISO Day 2 markets from the commencement of the markets on April 1, 2005 through the end of May 2005 (I discuss some data for the month of June 2005, as well). My testimony also sets out and explains several concerns the Companies have with respect to the way in which the Day 2 markets have performed during most of the first three months of operation, particularly with respect to the financial impacts the Companies have experienced. Ultimately, because the paramount question before the Commission in this case is whether the Companies' continued MISO membership provides benefits that exceed the costs and risks thereof, I conclude that the financial and operational results for the months of April and May 2005 (and June 2005 where those data are available) do not support the Companies' continued membership in MISO.[1]

Q. Have the results of the Day 2 markets altered in any way the Companies' recommendation to the Commission concerning the Companies' continued MISO membership?

A. No, they have not. If anything, the results of the Day 2 markets have strengthened the Companies' belief that an exit from MISO is in the best interests of the Companies and their customers. The Companies' witnesses stated clearly throughout their testimony that MISO's Day 2 markets would produce significant costs and risks that would outweigh any counterbalancing benefits, and the first two months of Day 2 operation bear that premise out. In fact, as shown in the tables below, most of the Companies' actual results for Day 2 operation during April and May 2005 are more adverse than the projections set out in the Companies' cost-benefit analysis, which in turn was more adverse than the projections made by MISO. Thus, the Companies confidently continue to recommend that the Commission order the Companies to seek FERC approval for withdrawal from MISO.

Q. What have been the financial results of the Companies' operations in the Day 2 markets?

A. Table 1 below summarizes several important results of the Companies' participation in the Day 2 markets for April and May 2005 and compares them to the Companies'

[1] As of the date of this filing, the financial results for full month of June 2005 are not available.

results from the same months one year ago.[2] The table shows that generally costs are higher and revenues are lower, except for off-system sales (OSS). Moreover, the Companies have concluded that the increase in OSS margins and volumes in April and May 2005 (as compared to the same months one year ago) is not a direct consequence of Day 2 operation, but is the result of several non-Day 2 variables. For example, the Companies have been able to make a greater volume of off-system sales in April and May 2005 due to a decrease in native load volume of 206 GWh (again, as compared to the same months one year ago), which more than offsets the 95 GWh higher off-system sales volume the Companies made in April and May 2005. Also, increased electricity prices (as I discuss further below), caused in large part by increased fuel prices, have benefited the Companies' off-system sales margins (the Companies have been somewhat insulated from higher fuel prices due to long-term, low-cost fuel contracts and the performance of these vendors).

[2] The Commission should note that none of the actual results are completely final at this time, as they are subject to possible adjustment in later MISO settlement statements; however, the results are likely to become more adverse to the Companies, not better, should they be adjusted.

Table 1: Comparison of the Companies' Actual April-May 2005 Day 2 Results with the Companies' Actual April-May 2004 Results		
	April through May 2005 Actual Results	April through May 2004 Actual Results
Uplift Costs ($000)	(4,814)	N/A
Net Congestion Revenue (Cost)[3] ($000)	(733)	N/A[4]
MISO Administrative Costs ($000)	(2,218)[5]	(1,081)[6]
Transmission Revenue[7] ($000)	927	2,935
Off-System Sales Margins ($000)	10,166	6,251
Off-System Sales Volumes (MWh)	583,055	487,618

Q. How do these actual results compare with the projections made by the Compainies and MISO in their respective cost-benefit analysis?

A. The results of the Companies' operations in the Day 2 markets have demonstrated that the Day 2 markets have been more adverse than the Companies projected in their cost-benefit study. This adverse impact is largely a consequence of the fact that certain risks the Companies identified as unquantifiable have begun to materialize. To illustrate the adverse impact of early Day 2 market performance, Table 2 below compares the monthly averages of the Companies' and MISO's projections for 2005 with the monthly average of the Companies' actual Day 2 results for April and May 2005:

[3] Net congestion revenue is FTR revenue minus congestion costs. Note that the FTR revenues that are embedded in these figures and in all other FTR revenue figures contained herein remain contingent on possible adjustment in later FTR settlement processes.
[4] The Companies' redispatch costs for January 1, 2004 through October 14, 2004 were $694,000.
[5] Schedules 10, 16 and 17.
[6] Schedule 10.
[7] Revenues from Schedules 1, 7, 8 and 14.

Table 2:
Comparison of the Monthly Averages of the Companies' Actual April-May 2005 Day 2 Results with Monthly Averages of MISO's and the Companies' Cost-Benefit Analyses' Projections for the In-MISO Case

	MISO's March 2005 Cost-Benefit Study (Monthly Average)[8]	Companies' September 2004 Cost-Benefit Study (Monthly Average)[9]	Companies' April to May 2005 Actual Results (Monthly Average)[10]
Uplift Costs ($000)	(172)	(109)	(2,407)[11]
Net Congestion Revenue (Cost)[12] ($000)	1,876	(70)	(367)
Transmission Revenues ($000)	2,139	1,008	464[13]

Q. Does the uplift cost result support the conclusion in the Companies' earlier testimony that there are unquantifiable risks associated with the Day 2 market that are beginning to materialize?

A. Yes, and it strongly suggests that MISO's Day 2 markets will likely be more costly to the Companies than either MISO or the Companies anticipated. MISO projected in

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[8] Exhibit RRM -Table 2C, Summary of Near Term Annual Recurring Benefits and Costs - Companies' Resources - March 3, 2005. All of the monthly averages in this column were obtained by dividing the study's annual predictions by 12.

[9] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission Operator, Inc.*, Case No. 2003-00266, Additional Supplemental Rebuttal Testimony of Mathew J. Morey (April 1, 2005) at Exh. MJM-1. All of the monthly averages in this column were obtained by dividing the study's annual predictions by 12.

[10] All of the monthly averages in this column were obtained by dividing by 2 the Companies' total actual results for April and May 2005.

[11] This includes only Revenue Neutrality Uplift and Day Ahead and Real-Time Revenue Sufficiency Guarantee distributions. Revenue Sufficiency Guarantee ("RSG") distributions have made the Companies whole for times that they have run their generating units under MISO's instruction, even though the LMPs did not justify running the units at the times. Although RSG distributions have made the Companies whole, they contribute to elevated uplift costs for the Companies and all other market participants, and indicate that MISO routinely dispatches units in ways that are not economic.

[12] Net congestion revenue is FTR revenue minus congestion costs. Note that the FTR revenues that are embedded in these figures and in all other FTR revenue figures contained herein remain contingent on possible adjustment in later FTR settlement processes.

[13] Revenues from Schedules 1, 7, 8 and 14.

its March 2005 cost-benefit analysis that the Companies would pay approximately $172,000 in an average month for uplift costs, for a total of $2.1 million per year.[14] The Companies, in an effort to be conservative (i.e., to treat the In-MISO scenario in as neutral or favorable a fashion as possible), projected that the Companies would pay only about $109,000 per month in uplift costs, for a total of $1.3 million per year.[15] In fact, both MISO and the Companies dramatically underestimated these uplift costs, which have averaged ***$2.4 million per month***, which sum is substantially higher than either MISO or the Companies anticipated that the Companies would pay in a year. If the Companies continue to pay uplift costs at this monthly rate for ten more months, they will pay a total of ***$28,887,000*** in uplift costs in a year (the first 12 months of MISO's operation). Thus, the Companies' prediction that the costs and unquantifiable risks associated with MISO would result in net costs to the Companies and their customers was and is correct.

Q. How does the net congestion cost result support your conclusion that the Companies predictions have been correct?

A. Here again, the actual operation of the Day 2 market indicates that its impact will be more unfavorable than either the Companies or MISO anticipated. In its March 2005 cost-benefit analysis, MISO projected that $22.5 million of the $46.3 million in annually recurring net benefits would come from net congestion revenue. In other words, MISO projected that the Companies would receive $22.5 million more in FTR revenues than they would pay to MISO in congestion costs. In fact, as Table 2

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[14] Exhibit RRM -Table 2C, Summary of Near Term Annual Recurring Benefits and Costs - Companies' Resources - March 3, 2005.

shows, in April and May 2005 the Companies paid MISO $733,000 more in congestion costs than the Companies received in FTR revenue, resulting in an average net congestion cost of $366,500 per month. If this trend continues for the balance of the first twelve-month period, the Companies will pay MISO a total of ***$4.4 million*** in net congestion costs, which is significantly more adverse than the $22.5 million in net congestion *revenues* MISO projected in its study, and more adverse than the Companies' estimate that net congestion costs would total $840,000 per year.[16]

Q. How does the transmission revenue result support your conclusion that the Companies' predictions have been correct?

A. Once more, the actual operation of the Day 2 market indicates that its impact will be more unfavorable than either the Companies or MISO anticipated. MISO projected that the Companies would enjoy $25.7 million per year in transmission revenues in the In-MISO case, which revenue contributed significantly toward the $46.3 million in annually recurring net benefits MISO claimed in its March 2005 cost-benefit analysis.[17] For the Companies to enjoy such a large amount of annual transmission revenue, the Companies would have to receive $2.1 million in transmission revenue per month, as MISO predicted and is shown in Table 2. The Companies more conservatively estimated that they would receive in an average month only $1 million

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[15] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission Operator, Inc.*, Case No. 2003-00266, Additional Supplemental Rebuttal Testimony of Mathew J. Morey (April 1, 2005) at Exh. MJM-1.

[16] The Companies assumed in their study that FTR values would equal congestion costs, but that there would be a 5% underpayment on FTRs, resulting in a small amount of net congestion costs per year ($840,000 for 2005). The Companies' assumption concerning FTR underpayment appears to be supported by MISO's performance thus far. Although MISO had 100% FTR payout in April 2005, that percentage fell to 88.6% in May 2005.

[17] Exhibit RRM -Table 2C, Summary of Near Term Annual Recurring Benefits and Costs - Companies' Resources - March 3, 2005.

in transmission revenue.[18] In fact, the Companies have received a total of only $927,005 for the months of April and May 2005, an average of only $463,503 per month, and an amount that is only ***21.7%*** of what MISO projected. If the Companies continue to receive this amount of actual transmission revenue for another ten months (for a year total), the Companies will receive only $5.6 million annually. Besides showing yet again that the results of Day 2 have been more adverse to the Companies than either the Companies or MISO anticipated, they show that the Companies' study has been more predictive of actual results than has been MISO's.

Q. How does the off-system sales result support your conclusion that the Companies' predictions were correct?

A. As shown in Table 3 below, the off-system sales margin results show that the Companies' study has been more indicative of reality than has MISO's. Although the Companies overestimated the average monthly volume of off-system sales and the margin accompanying those sales, the Companies study produced a $/MWh margin figure that is closer to the actual monthly average than MISO's. MISO's study predicts an average margin of only $3.66/MWh for the Companies ($1,281,000/349,825 MWh). The Companies' study projected an average margin of $13.03/MWh ($6,777,000/520,000 MWh). In fact, the Companies have outperformed their own estimate by achieving an average margin of $17.45/MWh during April and May 2005 ($5,083,000/291,528 MWh). This result shows yet again that the Companies' study has proven to be more accurate in projecting the

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[18] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission Operator, Inc.*, Case No. 2003-00266, Additional Supplemental Rebuttal Testimony of Mathew J. Morey (April 1, 2005) at Exh. MJM-1.

Companies' actual results in the Day 2 markets, and thus that the Commission should give the Companies' study greater weight in this proceeding.

Table 3:
Comparison of the Monthly Averages of the Companies' Actual April-May 2005 Day 2 Results with Monthly Averages of MISO's and the Companies' Cost-Benefit Analyses' Projections for the In-MISO Case

	MISO's March 2005 Cost-Benefit Study (Monthly Average)[19]	Companies' September 2004 Cost-Benefit Study (Monthly Average)[20]	Companies' April to May 2005 Actual Results(Monthly Average)[21]	Companies' April to May 2004 Actual Results (Monthly Average)[22]
MISO Administrative Costs ($000)	(1,180)	(1,262)	(1,109)	(541)[23]
Off-System Sales Margins ($000)	1,281	6,777	5,083	3126
Off-System Sales Volumes (MWh)	349,825	520,000	291,528	243,809

Q. MISO predicted in its cost-benefit study that electric prices would be well below the forward market. Has there been any indication to date that Day 2's security-constrained economic dispatch ("SCED") has led to lower prices?

[19] Exhibit RRM -Table 2C, Summary of Near Term Annual Recurring Benefits and Costs - Companies' Resources - March 3, 2005. All of the monthly averages in this column were obtained by dividing the study's annual predictions by 12.

[20] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission Operator, Inc.*, Case No. 2003-00266, Additional Supplemental Rebuttal Testimony of Mathew J. Morey (April 1, 2005) at Exh. MJM-1. All of the monthly averages in this column were obtained by dividing the study's annual predictions by 12.

[21] All of the monthly averages in this column were obtained by dividing by 2 the Companies' total actual results for April and May 2005.

[22] All of the monthly averages in this column were obtained by dividing by 2 the Companies' total actual results for April and May 2004.

[23] Schedule 10.

A. No, there has not. For the period April 1 - June 26, 2005, energy prices have been almost uniformly and significantly higher than MISO forecasted, and far closer to the Companies' study's forecast, as shown in Table 4 below:

Table 4:
Comparison of MISO's and the Companies' Projections of Average Monthly 7x24 Electricity Prices with Day-Ahead and Real-Time Actual Results for April 1 - June 26, 2005 ($/MWh)

	April 2005	May 2005	June 2005
MISO's 3/2005 Study[24]	28.42	21.57	25.72
Companies' 9/2004 Study[25]	36.75	37.05	38.93
Day-Ahead Actual[26]	41.36	31.46	44.51
Companies' Study's Variance from Day-Ahead Actual	4.61 **(11.1%)**	5.59 **(17.8%)**	5.58 **(12.5%)**
MISO's Study Variance from Day-Ahead Actual	12.94 **(31.3%)**	9.89 **(31.4%)**	18.79 **(42.2%)**
Real-Time Actual[27]	41.74	31.04	40.67
Companies' Study's Variance from Day-Ahead Actual	4.99 **(12.0%)**	6.01 **(19.4%)**	1.74 **(4.3%)**
MISO's Study Variance from Day-Ahead Actual	13.32 **(31.9%)**	9.47 **(30.5%)**	14.95 **(36.8%)**

MISO's predictions of electricity prices have been from ten to over thirty percent further from the actual results than have the Companies over the period April 1 - June 26, 2005, again demonstrating that the Companies' study is more credible and has more probative value. Although the Companies believe that the actual electricity prices shown in Table 4 are the product of several non-Day 2 variables, such as

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[24] MG Supplemental Testimony, Appx. B.
[25] RRM 3/3/05 Testimony (Cinergy Hub).
[26] Actual MISO Market Settled Cinergy Hub LMP (April 1 - June 26, 2005).
[27] Actual MISO Market Settled Cinergy Hub LMP (April 1 - June 26, 2005).

higher fuel prices, the fact that MISO's projections are so far from the actual results lends yet more support to David Sinclair's testimony in this proceeding that experienced modelers, such as the Companies, who carefully check their assumptions for reasonableness (such as comparing their electricity price projections with forward market prices) produce more reliable and accurately predictive cost-benefit analyses.[28]

Q. **Are there any qualifications that the Commission should take into account in considering the data you discuss above?**

A. Yes. In reviewing these concerns and the financial and operational results that have given rise to them, the Commission should bear in mind that MISO has only operated these markets for a few months. Thus, given the short period for which we have data, the Commission should not take the results presented herein as necessarily and dispositively indicative of future results. Nevertheless, the data for April and May 2005 show that the impact of the market on the Companies has thus far been more negative than either MISO or the Companies predicted. Therefore, the Companies' continued MISO membership is not in the best interests of the Companies or their customers.

Q. **What are the Companies' operational concerns with respect to the Day 2 markets thus far?**

A. The Companies' primary operational concern is that MISO's LMP-based security-constrained economic dispatch ("SCED") appears not to be driving market behavior at all times. Two particular issues lead me to this conclusion. First, MISO has on

[28] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission Operator, Inc.*, Case No. 2003-00266, Rebuttal

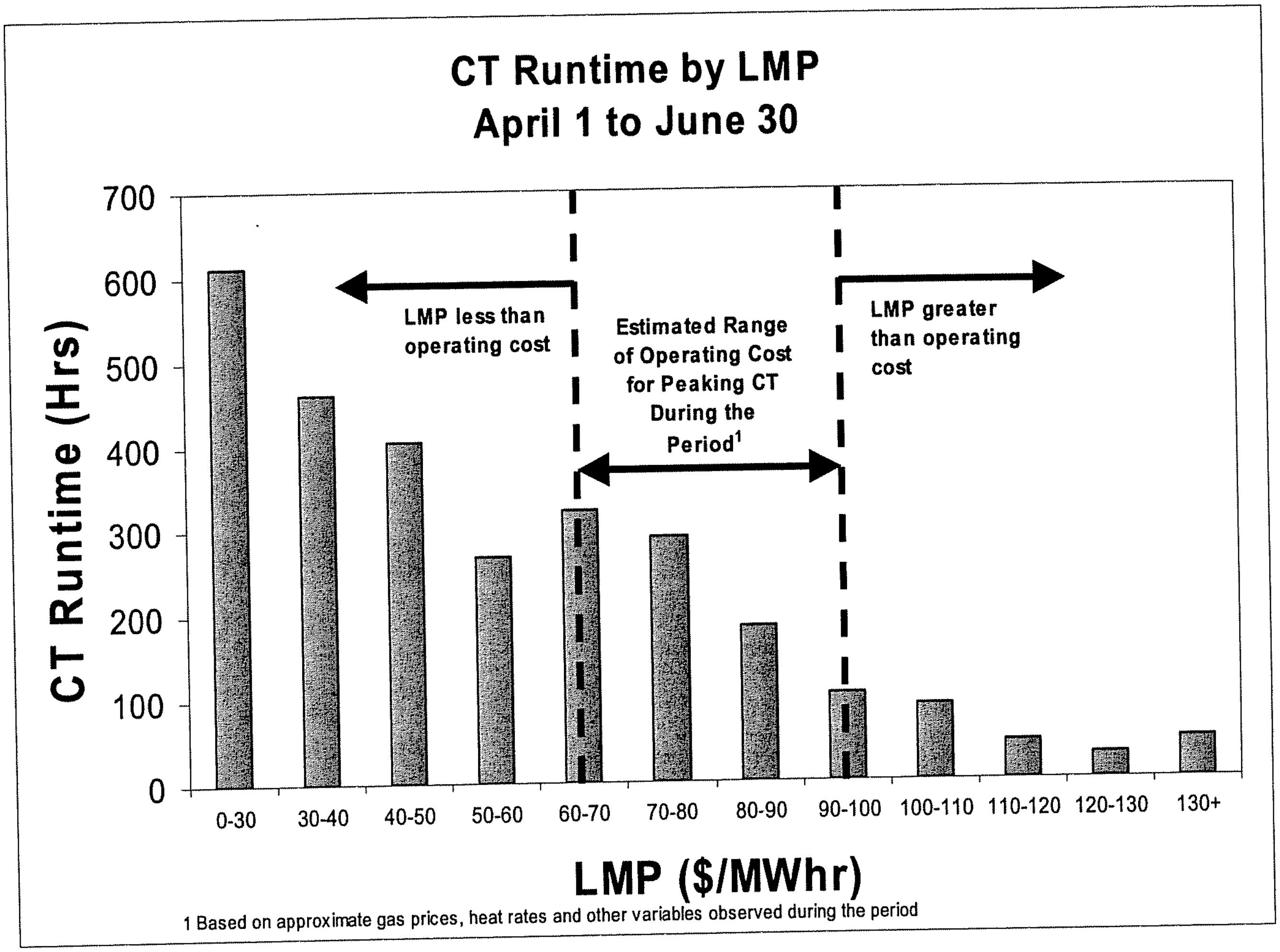
numerous occasions resorted to either TLR-based redispatch or "manual" redispatch of the Companies' units (i.e., the MISO reliability coordinator verbally orders the Companies to redispatch their units, even though LMP does not support such redispatch and the MISO reliability coordinator has not indicated an emergency TLR level). This phenomenon is puzzling to the Companies in light of the fact that the premise behind the Day 2 market was to dramatically reduce the need for TLR-based redispatch through LMPs that were designed to manage congestion more effectively and efficiently. Presumably, if LMPs were working properly, there should be few occasions necessitating TLRs and manual redispatch should never occur.[29]

Second, MISO has often dispatched the Companies' combustion turbines ("CTs") at times when LMPs suggest they should not run. Figure 1 below shows that from April 1, 2005 through June 30, 2005, MISO dispatched the Companies' CTs predominantly at times when the LMPs were quite low:

Testimony of David S. Sinclair (January 10, 2005) at 1 ln. 21 - 2 ln. 4.

[29] Dr. McNamara has testified that TLRs are "inadequate," and that MISO would "replac[e] TLR curtailments with regional dispatch." *Id.* at 9 ln. 14.

Figure 1: CT Runtime by LMP, April 1 to June 30, 2005



The leftmost section of Figure 1 (labeled "LMP less than operating cost") represents the total CT runtime during which MISO instructed the Companies to run their CTs even though LMPs at those times were clearly less than the Companies' production costs (LMPs ranged from $0 to $65 during such times). This uneconomic runtime -- 1895 runtime hours -- constitutes the great bulk of the time that MISO dispatched the Companies' CTs (over 66% of the total CT runtime). The second, center section of Figure 1 (labeled "Estimated Range of Operating Cost for Peaking CT During the Period") represents the total CT runtime during which MISO instructed the Companies to run their CTs even though LMPs were approximately equal to production cost (LMPs ranging from $65 to $100). This at-cost runtime -- 751 runtime hours -- constitutes the second greatest part of the Companies' total CT runtime from April 1 to June 30, 2005 (over 26% of total CT runtime). The third, rightmost section of Figure 1 represents the total runtime that the MISO dispatched the Companies' CTs when it was clearly economic to do so -- 215 runtime hours -- *a mere 7.5% of the Companies' total CT runtime* from April 1 to June 30, 2005.

This odd situation is compounded by the fact that MISO has on many occasions *exported* energy during times when it is running the Companies' and other market participants' CTs instead of importing power from outside the MISO footprint to avoid the need to run CTs in the MISO footprint.[30]

Q. Other than the fact that redispatch has occurred against LMP signals and outside the appropriate TLR process, do the Companies have any other concerns with respect to MISO's manual redispatch?

A. Yes. The Companies' concern with respect to MISO's non-TLR manual redispatch orders arises for three principal reasons: (1) MISO issued written procedures for non-TLR manual redispatch to the Companies and other stakeholders on June 3, 2005, without assuring that such procedures had received stakeholder input and the approval of the Federal Energy Regulatory Commission or NERC;[31] (2) MISO has provided no mechanism by which the Companies may recover the costs they incur to follow MISO's non-TLR manual redispatch orders; and (3) there is concern regarding the lack of transparency regarding the reasons for using this method of effecting

[30] Midwest ISO, Market Issues Discussion Part Two, Slide 15 (April 21, 2005 DRAFT).

transmission congestion relief (because there is no reporting process currently in place for non-TLR manual redispatch).

Q. What impact does the non-TLR manual redispatch procedure have on the Companies?

A. The Companies are concerned about the economic consequences that arise from the non-TLR manual redispatch procedure. The following incident exemplifies these concerns.

On May 11, 2005, MISO contacted the Companies' generation dispatchers and requested that the Companies ramp down the Ghent 1 Facility from 490 MW to 250 MW. At the time, LMP prices did not justify redispatch of the facility and the MISO reliability coordinator, who had been following NERC TLR procedures, had only declared a TLR Level 4. The Companies informed MISO that this redispatch directive was inconsistent with the LMP price signal. The Companies also noted that MISO had not yet declared, nor had it indicated it would declare, a TLR Level 5 (pursuant to which a reliability coordinator such as MISO may call for redispatch pursuant to NERC TLR procedures). The Companies inquired as to whether MISO would issue a TLR Level 5 and proceed with redispatch under the NERC TLR procedures. MISO stated that it was proceeding under manual redispatch procedures in order to preserve reliability of the system. The Companies complied with MISO's directive by reducing output of the Ghent 1 facility from 490 MW to the unit's offered emergency minimum, which was established in order to meet environmental emissions limits. The Companies suggested that, if redispatch was necessary, MISO

[31] In accordance with NERC Version 0 Reliability Standards, such localized transmission relief procedures are only appropriate substitutes for NERC-approved non-emergency transmission relief procedures after having

should indicate it would declare a TLR Level 5 and direct further redispatch consistent with NERC TLR procedures. Shortly thereafter, MISO declared a TLR Level 5. The Companies responded by ramping down the Ghent 1 unit below the unit's previously established emergency minimum.

Because manual redispatches occur outside the LMP market and TLR framework, the Companies and their customers experience higher costs without receiving justification or compensation. The higher costs arise from ramping down a lower-cost unit in favor of ramping up a higher cost unit. Additionally, as the above incident illustrates, the redispatch may require emission limits that have been placed on certain units to be exceeded and penalties to be paid. Because non-TLR manual redispatch was not contemplated by the TEMT, there is no mechanism in place for receiving restitution for the costs associated with the procedure and there is no assurance that such a process is warranted. The use of such processes demonstrates MISO's lack of confidence in the tariff-established congestion-management processes and a reluctance to ensure that transparency is part of the Day 2 marketplace.

Q. Have the results of the Day 2 markets to date altered in any way the Companies' recommendation to the Commission concerning the Companies' continued MISO membership?

A. No, they have not. As the actual results show, the Companies' cost-benefit study has been a far better projection of the actual results that eventuated in April and May 2005 than has MISO's. Second, most of the actual results are more economically adverse than the Companies projected (e.g., higher uplift and net congestion costs), meaning that there is even more cause for the Companies withdraw from MISO as

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first been reviewed and approved by the NERC Operating Committee.

soon as practicable. Third, because the actual results show that the Companies' is the more reasonable cost-benefit study, and because the actual results have been more adverse than the Companies projected, there is no need to further delay this proceeding to collect further data; indeed, the actual results clearly show that extending this proceeding would serve only to harm the Companies and their customers. This potential harm could well grow the longer the Companies remain in MISO; for example, FERC has ordered MISO and PJM to create a common market by September 1, 2007, which development could result in higher administrative and uplift costs. Thus, the Commission should order the Companies to seek FERC approval for withdrawal from MISO.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Martyn Gallus**, being duly sworn, deposes and says he is Senior Vice President of Energy Marketing for LG&E Energy LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

MARTYN GALLUS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7th day of July 2005.

Notary Public

My Commission Expires:
January 12, 2006

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