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

Responses of
Midwest Independent Transmission System Operator, Inc.
to the Commission Staff's 12/07/04 Supplemental Data Requests

Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") hereby responds to the data requests propounded by the Commission Staff on December 7, 2004. The Midwest ISO's response consists of one bound volume of text responses and attachments and one CD-ROM disc containing 2 compressed (.zip) files and five other electronic files of attachments and data responsive to these requests. The Midwest ISO previously provided workpapers in this matter in response to certain requests made by LG&E/KU. Whether a particular document is provided as a hard copy attachment or as an electronic file on the CD-ROM disc is indicated in the relevant response.

Counsel for the Midwest ISO, rather than a witness, are responsible for any objection interposed to a data request. In most instances, in a spirit of cooperation and without waiving the objection(s), a response has nonetheless been provided. Any response provided does not indicate agreement with or acquiescence in the premises, interpretations, or comments that may be contained in the request.

Respectfully submitted,

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CERTIFICATE OF FILING AND SERVICE

I hereby certify that on this the 20th day of December, 2004, the original and five (5) copies of the foregoing Responses to the Commission Staff's 12/07/04 Supplemental Data Requests were hand-delivered to the Commission for filing, and a copy was sent, via first-class U.S. mail, postage prepaid, to:

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ATTORNEY FOR THE MIDWEST ISO

REQUEST:

1. Refer to Dr. McNamara's rebuttal testimony, page 17, lines 12-13, which states that, "Participation in the RTO's dispatch and the energy markets that derive from this dispatch is essentially voluntary." (Emphasis in original, footnote omitted).

    a. Does "voluntary" mean that Designated Network Resources ("DNRs") do not need to be offered in the Day Ahead Market?

    b. Does MISO have any reason to believe that Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") have any generating capacity that is not required to serve peak load and provide reserves?

    c. Is the requirement to specify DNRs based upon East Central Area Reliability Council operating reserve requirements, or must DNRs be specified to cover longer-term, planning reserves?

    d. Does "voluntary" mean that self-schedules are exempt from administrative charges associated with operating the energy market?

RESPONSE:

a. See the Stipulation between Kentucky Utilities Company, Louisville Gas & Electric Company and the Midwest Independent Transmission System Operator, Inc. (hereinafter the "Stipulation") filed in this proceeding on the 7th day of December, 2004, at ¶ 3.

b. Yes, the generating capacity in the LG&E/KU control area exceeds peak demand and reserve requirements for the control area. Additionally, LG&E/KU has rights to approximately 200 MW of generating capacity from the Joppa Plant in the EEI control area.

c. See Stipulation at ¶ 1.

Witness: 1a,c (Not Applicable)
1b,d Ronald McNamara

d. No. Pursuant to Schedule 17 of the Midwest ISO's Open Access Transmission and Energy Markets Tariff ("EMT") all MW injected into or withdrawn from the Midwest ISO Region are subject to Schedule 17 charges.

Witness: 1a,c (Not Applicable)
1b,d Ronald McNamara

REQUEST:

2. Refer to Dr. McNamara's rebuttal testimony, page 28, lines 1-4, which indicates that generating units can be withheld from the Day Ahead Market to meet unexpected occurrences in real time.

   a. Can generating units which are considered DNRs be withheld from the Day Ahead Market?

   b. If not, explain how generating units can be withheld from the Day Ahead Market.

RESPONSE:

See Stipulation at ¶¶ 3, 4, 6, and 10.

Witness: (Not Applicable)

REQUEST:

3. Refer to Dr. McNamara's rebuttal testimony, page 28, lines 22-26, which describes a process that "will optimize the unit commitment for each area and hold the utilities/owners harmless for commitment cost that are not recovered by payments in the energy markets." This process is further explained on the next page to include compensation for start-up and minimum generation costs.

   a. Provide a copy of the specific tariff language and explain in detail how these payments are funded.

   b. Are market participants who self-schedule and take their own risk of recovering start-up and minimum generation costs allocated any portion of the costs associated with MISO assuming the cost risk for other generators?

RESPONSE:

   a. See ¶ (b) of Section 39.3.2 (Payments for Day-Ahead Energy Market Sales) of the Midwest ISO Energy Markets Tariff for the specific tariff language. Paragraph (c) of Section 39.3.3 (Payments and Charges for bilateral Transaction Schedules) of the Midwest ISO Energy Markets Tariff explains the manner in which payments are funded.

   b. No. Paragraph (c) of Section 39.3.3 (Payments and Charges for bilateral Transaction Schedules) of the Midwest ISO Energy Markets Tariff identifies the market participants that will be allocated a portion of these costs in the Day-Ahead market.

Witness: Ronald McNamara

REQUEST:

4. LG&E and KU provide transmission service to East Kentucky Power Cooperative, Inc., a non-MISO member, and have full requirements contracts with several municipally operated utilities who are also non-MISO members. Explain in detail how LG&E's and KU's membership in MISO impacts these relationships, and in particular:

   a. Are these non-MISO member loads included when calculating LG&E's and KU's shares of MISO costs, including Schedule 10, 16, 17 and uplift charges associated with Grandfathered Agreements ("GFAs") and Narrowly Constrained Areas?

   b. Who receives the Financial Transmission Rights ("FTRs") associated with serving these non-MISO members?

   c. Is the generating capacity associated with serving full-requirements contracts to non-MISO members considered DNRs under Module E?

   d. Provide a copy of the latest version of Module E if it has been revised since the March 31, 2004 filing.

      (1) Paragraph 69.2 of the March 31, 2004 filing contained a provision that allowed MISO to curtail exports during a declared emergency. Is that provision still in the latest version of Module E?

      (2) If so, would this require LG&E and KU to curtail energy to their municipal customers, assuming they are non-MISO members, in order to make that energy available to MISO members?

      (3) Is there any other provision in the MISO tariff that would give MISO members a priority claim on LG&E's and KU's generating or transmission capacity over that of LG&E's and KU's contractual obligations to provide service to non-MISO members?

RESPONSE:

   a. *See* the Federal Energy Regulatory Commission ("FERC") Order Addressing Treatment of Grandfathered Agreements in the Midwest ISO Energy Markets, and Establishing Hearing and Settlement Judge Procedures, issued on September

16, 2004, in *Midwest Independent Transmission System Operator, Inc. and Public Utilities with Grandfathered Agreements in the Midwest ISO Region*, 108 FERC ¶61,236 (2004) ("GFA Order").

b. The recipient is the GFA Responsible Entity identified in Appendix B of the GFA Order, as determined by FERC. In the case in which these contracts are "carved out" under the GFA Order, no FTRs are allocated.

c. It is so considered only to the extent that LG&E/KU identify the generation as a DNR. See Stipulation at ¶¶ 1 and 2.

d. (1) Yes.

(2) No, not if LG&E/KU designate resources as DNRs to serve these loads, and do so accordingly.

(3) No.

Witness: Ronald McNamara

REQUEST:

5. Refer to Dr. McNamara's rebuttal testimony, page 30, lines 17-19, which states that, "[t]he Midwest ISO's EMT defines only a default reserve requirement (12 percent reserves) for load-serving entities." Is the 12 percent requirement a default or a minimum?

RESPONSE:

The 12 percent requirement is a default. See Stipulation at ¶ 1.

Witness: Ronald McNamara

REQUEST:

6. Refer to Dr. McNamara's rebuttal testimony, page 31, lines, 4-5, which indicates that, "The 12 percent default reserve requirement is a means to satisfy the NERC operating reserve standard." Provide a copy of this standard.

RESPONSE:

See North American Electric Reliability Council — Resource and Transmission adequacy recommendations at:
ftp://www.nerc.com/pub/sys/all_updl/pc/rtatf/RTATF_ReportBOTapprvd_061504.pdf

Witness: Ronald McNamara

REQUEST:

7. Refer to Dr. McNamara's rebuttal testimony, page 30, lines 22-24, which indicates that, "Except for this default requirement, the Midwest ISO does not tell individual states how high to set reserve requirements or what processes utilities or load-serving entities (LSEs) in each state may or may not use to acquire (or contract for) the necessary capacity." On November 30, 2004, MISO's Market Subcommittee passed the following resolution: "The Market Subcommittee directs the SAWG [MISO Supply Adequacy Working Group] to develop a Resource Adequacy Construct that does not conflict with the proposed PJM Resource Adequacy Construct (Reliability Case No. 2003-00266 Pricing Model). To this end, the SAWG shall start with the Reliability Pricing Model as a baseline construct and make modifications as necessary."

   a. Provide a description of the Reliability Pricing Model, including how reserve requirements are established.

   b. Explain in detail whether the Reliability Pricing Model involves establishing reserve margins differently than they are established today.

   c. Explain in detail whether the Reliability Pricing Model requires a centralized capacity market to obtain maximum efficiency.

   d. If PJM does adopt the Reliability Pricing Model, what changes would MISO have to make with respect to its current resource adequacy requirements in order to avoid conflicting with PJM's resource adequacy model? Explain in detail any changes needed.

   e. If PJM or MISO adopts the Reliability Pricing Model, would this change your testimony in any way? Explain in detail any changes that would be needed.

OBJECTION:

The Midwest ISO objects to subpart d of this data request to the extent that it calls for a detailed explanation of changes to its resource adequacy requirements based upon a future event that has not occurred and may not occur. Without waiving this objection, the Midwest ISO responds as follows:

Witness: Ronald McNamara

The Midwest ISO also objects to subpart e of this data request, since it calls for speculation as to the outcome of future events and their impacts on filed testimony. The Midwest ISO does not yet know if any such adoption of the Reliability Pricing Model, or any portion thereof, would require changes to Dr. McNamara's testimony filed in this proceeding.

RESPONSE:

a. A description of the Reliability Pricing Model can be found at: http://www.pjm.com/committees/working-groups/pjmramwg/pjmramwg.html.

b. See the Midwest ISO's response to Data Request No. 7(a) above. Please also note that PJM's RPM model is still under development; therefore, this question cannot be answered.

c. See the Midwest ISO's response to Data Request No. 7(b) above.

d. None are anticipated currently.

Witness: Ronald McNamara

REQUEST:

8. Refer to Dr. McNamara's rebuttal testimony on page 52, lines 18-25. PJM rates are stated as 39.7 cents per Mwh, while MISO rates are stated as 38.6 cents per Mwh. Are these two rates comparable? In particular, is this the rate that is paid on self-scheduled transactions and bilateral transactions, as well as day ahead and real time transactions in both RTOs?

RESPONSE:

This rate applies to all transactions under the Energy Markets Tariff and is inclusive of projected Schedule 16 costs, which would only be applicable to FTR Holders.

Witness: Ronald McNamara

REQUEST:

9. Refer to Dr. McNamara's rebuttal testimony, beginning at the bottom of page 60 and continuing through page 64. If the creation of an adjacent market alone is likely to lead to a decline in LG&E's and KU's off-system sales revenues of more than $27 million per year, why is this amount included only in the Transmission Owner - Reliability Coordinator ("TORC") option?

RESPONSE:

The statement that, "the creation of an adjacent market alone is likely to lead to a decline in LG&E/KU off-system sales revenues of more than $27 million" reflects a comparison between the forecasted off-system sales revenues results for a scenario that reflects the results of continued Day 1 Midwest ISO transmission operations and the TORC scenario. The $27 million figure is not a specific cost of the TORC option, but a comparison between off-system sales revenues in two scenarios analyzed. A more complete comparison of off-system sales revenues is presented in Dr. McNamara's rebuttal testimony at Table 4. Our analysis indicates that LG&E/KU off-system sales revenues will increase under the EMT when compared to continued Day 1 operations, based on increased off-system sales volumes and in some hours at some generators higher generation prices than would be available under continued Day 1 operations. Additionally, as indicated in Dr. McNamara's rebuttal testimony at p. 56, from the results for the TORC option, the Commission can conclude that withdrawing from the Midwest ISO to join SPP would be similarly more expensive.

Witness: Ronald McNamara

REQUEST:

10. Refer to Dr. McNamara's rebuttal testimony, page 59, lines 20-21.

   a. Provide work papers to support the statement that LG&E and KU would have an opportunity to nominate FTRs valued at $58 million per year. Include a list of the FTRs and the corresponding dollar amounts.

   b. What amount of the $58 million per year is associated with transmission owned by LG&E and KU?

   c. Why is it not appropriate to include in the TORC option only the cost of FTRs, or alternatively, congestion charges, for transmission associated with MISO member transmission?

   d. Is it correct that the $58 million does not represent the amount of FTRs that LG&E and KU would be required to purchase if they leave MISO, but rather an expense offset if they stay in MISO?

   e. Since the FTR and congestion costs (as well as all other amounts) are the same over the study period, does this analysis assume that no new transmission will be built during the study period?

RESPONSE:

a. The $58 million figure is the sum of the $56 million value of the Illustrative FTR Allocation with Maximum Counterflow Restoration and the expected $2 million of revenue from FTR auctions. Dr. McNamara has accepted Company witness Morey's estimate of $2 million per year in revenues for LG&E/KU from FTR auctions. The $56 million figure is a mid-range value for allocated FTRs. It assumes LG&E/KU would be required to accept the maximum "out of the money" counterflow FTRs permitted under the terms of the tariff to permit FTRs to be allocated to cover baseload generation of other Midwest ISO members. It is quite possible that it will be possible for fewer counterflow FTRs to be allocated

Witness: Ronald McNamara

to LG&E and the net value of FTRs allocated to the Companies could exceed $56 million. For the development of the $56 million figure for the Illustrative FTR allocation given maximum counterflow restoration, please see the workpapers provided to the parties, specifically the FTR worksheet in the "CONFIDENTIAL In MISO Total Cost.xls" Excel spreadsheet.

b. Each of the LG&E/KU allocated FTRs in the illustrative FTR allocation either source or sink in LG&E/KU control area and are thus associated with LG&E/KU transmission.

c. Congestion costs are costs that occur under the Midwest ISO Energy Markets Tariff as reflected in differences in locational marginal prices. FTRs are a source of revenue under the option of remaining in the Midwest ISO, that LG&E/KU would forego if the Companies selected the TORC option. No costs for purchasing additional FTRs between sources and sinks in the remaining Midwest ISO footprint and no congestion costs have been included the calculating cost of the TORC option.

d. Yes, the $58 million is a revenue stream to LG&E/KU if the Companies remain in the Midwest ISO. See Stipulation at ¶ 8.

e. No, the development of FTR allocations has taken into account actual transmission upgrades. To the extent, LG&E/KU invests in additional transmission capacity, it may be entitled to additional FTRs. Dr. McNamara's testimony presents a representative and conservative analysis for the study period.

Witness: Ronald McNamara

REQUEST:

11. Refer to Exhibit RRM, Table 1, the line item labeled "Uplift Charges – GFA Option B & Narrow Constrained Area."

    a. Define "Uplift Charges" as it is used here.

    b. Provide a description of the charges associated with GFA Option B.

    c. Provide a description of the charges associated with Narrow Constrained Areas.

RESPONSE:

a. Uplift charges as used in this item refers to the distribution of costs associated with compensation for congestion and loss costs available holders of Grandfathered Transmission Agreements who elected Option B under the Energy Markets Tariff and to additional hedges against congestion costs that the Midwest ISO was ordered by FERC to provide to market participants in certain Narrow Constrained Areas where there is a potential for market power to be exercised.

b. See *Midwest Independent Transmission System Operator, Inc. and Public Utilities with Grandfathered Agreements in the Midwest ISO Region*, 108 FERC ¶ 61,236 (September 16, 204); Midwest ISO Energy Markets Tariff, Module C, Section 38.3.

c. See *Midwest Independent Transmission System Operator, Inc. and Public Utilities with Grandfathered Agreements in the Midwest ISO Region*, 109 FERC ¶ 61,157 (November 9, 2004).

Witness: Ronald McNamara

REQUEST:

12. On November 18, 2004 and November 30, 2004, the Federal Energy Regulatory Commission ("FERC") issued orders in Docket No. EL02-111 reinstating Seams Elimination Cost Assignment ("SECA") charges.

    a. Are the impacts of these orders reflected in Exhibit RRM, Table 1?

    b. Identify the SECA revenues that LG&E and KU will receive, both as MISO members and non-MISO members.

    c. Identify the SECA obligation that LG&E and KU will be assessed, both as MISO members and non-MISO members.

    d. Explain in detail whether these FERC orders have any impact on assumed hurdled rates used in Dr. McNamara's analysis.

RESPONSE:

a. No.

b. The SECA revenue LG&E/KU will receive as members of Midwest ISO is unknown as it is dependent upon PJM rate design and billing receipts. The test year on which the initial SECA is designed calculates an annual target revenue to LG&E/KU of $3,128,324, prorated monthly for December 2004 through March 2005 as identified in the Midwest ISO/Midwest ISO Transmission Owner's compliance filing submitted to the FERC on November 24, 2004, in Docket No. EL02-111 *et al.* The amount for the next 12 months has not yet been determined. If LG&E/KU were no longer members of the Midwest ISO, their SECA revenue would end.

c. LG&E/KU are assessed a SECA charge of $70,776 per month for December 2004 though March 2005. The amount for the next 12 months has not yet been determined. If LG&E/KU were no longer members of the Midwest ISO, any imports from PJM would be subject to PJM OATT exit rates and the SECA

Witness: Ronald McNamara

obligation would be $0. See compliance filing of PJM submitted to FERC on November 24, 2004, in Docket No. EL02-111, *et al.*

d. No. The Midwest ISO assumed a $0 hurdle rate for transactions between the Midwest ISO and PJM.

Witness: Ronald McNamara

REQUEST:

13. Are non-MISO members allowed to sell and buy energy in MISO's energy market?

RESPONSE:

Any entity wishing to sell or buy energy under the EMT must be a Market Participant, as defined in § 1.184 of the EMT. A non-member of the Midwest ISO, as well as any Transmission Owner or non-Transmission Owner member, may be a Market Participant.

Witness: Ronald McNamara