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COMMONWEALTH OF KENTUCKY

JUN 13 2005

BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S  
ELECTRIC GENERATION, TRANSMISSION,  
AND DISTRIBUTION NEEDS

)  
) ADMINISTRATIVE  
) CASE NO. 2005-00090  
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**COMMENTS OF MIDWEST INDEPENDENT  
TRANSMISSION SYSTEM OPERATOR, INC.**

Pursuant to the Order issued by the Kentucky Public Service Commission ("Commission") on May 11, 2005, the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") hereby submits these Comments with respect to the Commission's request for information relative to the development of its Strategic Blueprint, including the top issues facing the electric power industry in Kentucky over the next 20 years and what barriers, if any, may exist to meeting future investment needs in electric power infrastructure in Kentucky.

The Midwest ISO appreciates the Commission's invitation to participate in this important endeavor and believes that it can bring a unique perspective to the process. By its charter, the Midwest ISO is required to assess infrastructure needs on a regional basis, and therefore may suggest state-based solutions or alternatives that may build upon initiatives being undertaken in other states within the Midwest. By encouraging a coordinated and cooperative effort, the Midwest ISO hopes to permit all of the states within its footprint to maximize the use of, and the return on, their electric power infrastructure.

The Midwest ISO Transmission System spans 15 states and 1.2 million square miles, and includes operations in the State of Kentucky. This large area encompasses an emerging electric market with diverse generation resources and over 100,000 miles of transmission facilities. The

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Midwest ISO's principal planning tool is the Midwest ISO Transmission Expansion Plan, known as the MTEP. The MTEP is a process mandated by the Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc., a Delaware Non-Stock Corporation" ("Transmission Owners Agreement") that created the Midwest ISO in 1998. It is a biennial undertaking designed to ensure reliability and to identify commercially beneficial expansions.

The primary goal of the MTEP is to ensure the reliability of the Transmission System that is under the operational and planning control of the Midwest ISO. In addition, the MTEP identifies transmission expansion that is critical to support the competitive supply of electric power by this system. The MTEP considers all market perspectives, including demand-side options, generation location and transmission expansion, and is developed by Midwest ISO Planning Staff based on input from stakeholders, including the Organization of MISO States, Inc. ("OMS"), individual states and Transmission Owning Members of the Midwest ISO ("TOs").

The development of the MTEP is a bottom-up process that begins with input from TOs and stakeholders who identify locally planned projects as well as new or emerging load requirements and infrastructure limitations. The staff of the Midwest ISO feeds local inputs into its regional model to identify potential conflicts between local plans and to determine opportunities when slight modifications of local plans may create win-win solutions between states. These modifications may involve suggested generator siting options and line enhancements in one state that will relieve constraints that may arise in a neighboring region. The Midwest ISO also looks for opportunities in which a modest transmission enhancement may contribute to substantial market savings or unlock resources to the region as a whole.

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The Midwest ISO is currently in the process of submitting a modified MTEP (“MTEP 05”) to its board of directors, which will be voted on later this month. If approved, the MTEP 05 contains transmission expansion plans for the period from 2007 to 2009. Approval of the MTEP 05 by the board of directors certifies it as the Midwest ISO’s plan for meeting the transmission needs of all stakeholders, subject to any required approvals by the Federal Energy Regulatory Commission (“FERC”) or state regulatory authorities. The Transmission Owners Agreement requires affected TOs to make a good faith effort to design, certify, and build designated facilities to fulfill the Plan. The Plan provides that TOs may optimize the final design of specific facilities and their in-service dates if necessary to accommodate changing system conditions with the approved Plan, provided that any such changes are accepted by the Midwest ISO. In addition, Midwest ISO Planning Staff will assist the affected TOs in justifying the need for, and obtaining certification of, any facilities required by the Plan.

The MTEP 05 includes three key areas of focus, including in-depth reliability analyses, review of operational constraints, and exploration of large scale expansions of potential regional benefit. With respect to reliability, the Plan identifies approximately 615 reliability projects, 61% of which are planned<sup>1</sup> or in-service and the remaining 39% are proposed<sup>2</sup> projects. System tests show that completion of the MTEP 05 planned projects in addition to putting in place proposed projects or other alternatives will result in achievement of reliability standards and

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<sup>1</sup> Planned projects are those for which a system condition has been found to violate applicable planning standards, and the Planned project has been determined to be the recommended project from among alternatives. Planned projects may be in various stages of corporate internal and external approval processes.

<sup>2</sup> Proposed projects are tentative solutions to identified needs and require additional planning before they are endorsed by the Transmission Owners or the Midwest ISO as the preferred solution.

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relief of nearly all of the constraints causing a majority of the transaction curtailments by the end of the 2009 planning horizon.

The MTEP 05 also addresses operational constraints by seeking to eliminate, by 2009, the incidence of curtailments via Transmission Loading Relief measures. The Plan addresses 21 of the top 24 historical constraints contained within the Midwest ISO's footprint, including three located within the State of Kentucky. Two of these chronic constraints are in the Blue Lick area of the LG&E system and the third is the Paddys - Summer 161 kV circuit. Each of these three chronic constraints to power transactions will be resolved when the upgrades associated with integration of new generation at the Trimble County Generating Station are completed in 2009. These upgrades were identified collaboratively by LG&E and the Midwest ISO through the generation interconnection process that is administered by the Midwest ISO to provide fair and non-discriminatory access to the transmission grid.

With respect to exploratory plans, the MTEP focuses on coal and wind power development, which could benefit stakeholders by providing greater access to electricity produced from low cost resources. Future MTEP development will provide even greater emphasis on resource-rich states such as Kentucky, Indiana, Illinois, Michigan and Ohio. As such, the Midwest ISO's planning process furthers Kentucky's goal of promoting clean coal technology and electric generation at Kentucky mine sites, as expressed in recommendations 19, 20 and 23 of Kentucky's Comprehensive Energy Plan.

In addition, the regional approach to transmission planning of the MTEP 05 also furthers recommendations 15 and 16 of Kentucky's Comprehensive Energy Plan, which focus on the identification and promotion of sufficient investment in Kentucky's electricity generation,

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transmission, and distribution infrastructure. In these respects, the Midwest ISO's regional planning process adds value to the Commonwealth in the implementation of its energy plan.

Finally, with respect to the improvement and development of future MTEPs, the Midwest ISO Planning Staff made several recommendations for future planning. The staff recommended that the Plan should be sure to address more than the reliability needs of stakeholders. In addition, the Plan should better demonstrate the efficiency of proposed solutions. The staff also recommended that the Plan further explore optimization on a regional basis and at RTO seams. Further recommendations suggest that future plans should include more evaluation of generation as well as demand-side solutions as alternatives to transmission expansion. The development of each of the above initiatives is based in large part on input from stakeholders, including OMS and TOs.

In the order inviting comments, the Commission posed three specific questions: (a) what additional information or data should the Commission consider in developing the Strategic Blueprint; (b) what are the top issues facing the electric power industry in Kentucky over the next 20 years; and (c) what is the principal barrier to meeting future investment needs in the electric power industry in Kentucky? Regarding the Commission's first question, the Midwest ISO respectfully submits that the Commission should consider the MTEP 05 in developing its Strategic Blueprint. The Commission may find that regional enhancement addressed therein may obviate certain limitations affecting Kentucky.

Regarding the Commission's second question, while the Midwest ISO is not in a position to address Kentucky-specific energy issues without applying a regional focus, it is in a position to evaluate important regional issues that bear on the Commonwealth. Continued loop flows from regional energy transactions that heavily impact the Kentucky transmission system are

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likely to increase. While the transactions causing these flows may not involve Kentucky utilities, they still have a significant impact on transmission facilities within Kentucky due to the interconnectivity of the Eastern Interconnection. The Midwest ISO is able to track these flows outside and around Kentucky, to take actions to mitigate or lessen their impacts in real time, and to address them in the planning horizon, as described in the previous answer. This action will address what the Midwest ISO believes to be one of the top issues facing the electric power industry in Kentucky in the near future.

Likewise, the issues identified by others in response to this question, while local in nature, may well have a regional solution. Generation capacity shortages brought on by unexpected load growth, excess capacity caused by the loss of local industries, the desire to diversify fuel sources, or the social policy to use alternative energy resources, can all be addressed through the presence of regional energy markets.

With respect to the Commission's third question, the Midwest ISO is not in a position to render an opinion regarding the investment criteria for energy companies in the Commonwealth of Kentucky. With regard to the construction of new transmission facilities, the principle barrier in every region and state is the uncertainty of regulatory authority to recover the costs of investment. As an RTO, Midwest ISO provides, through its MTEP process, a method by which state regulatory agencies are better assured that proposed facilities have been measured as part of a regional network, or to solve local congestion problems, and have been deemed necessary for that purpose.

In addition, there is the concern that investments paid for by one entity may be used by others, or that a transmission upgrade will benefit only a few, and that cost recovery for such projects must be made on an equitable basis. To address these concerns, the Midwest ISO has

been working since March of 2004 with its stakeholders to develop an equitable transmission pricing policy for the Midwest ISO region. The OMS has also been a significant part of these discussions, including representatives from the Kentucky Commission.

**WHEREFORE**, the Midwest Independent Transmission System Operator, Inc. respectfully requests that the Commission consider these Comments as it formulates its Strategic Blueprint.

Respectfully submitted,

*/s/ Stephen L. Teichler*

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Dated: June 8, 2005