

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

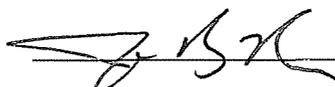
Duke Energy Kentucky, Inc.'s Application for
Approval to Transfer Functional Control of Certain
Transmission Assets from the Midwest Independent
Transmission System Operator to the PJM
Interconnection Regional Transmission Organization
and Request for Expedited Treatment

Case No. 2010-00203

**Initial Data Requests to Duke Energy Kentucky, Inc. from
Midwest Independent Transmission System Operator, Inc.**

Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"), pursuant to
the procedural schedule set forth in the Appendix to the Commission's Order dated June 24,
2010, hereby submits the attached initial data requests to Duke Energy Kentucky, Inc. ("DEK").

Respectfully submitted,

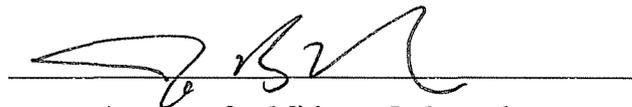


Katherine K. Yunker
John B. Park
YUNKER & PARK PLC
P.O. Box 21784
Lexington, KY 40522-1784
(859) 255-0629
(859) 255-0746 (fax)

COUNSEL FOR MIDWEST INDEPENDENT
TRANSMISSION SYSTEM OPERATOR

CERTIFICATE of FILING and SERVICE

I hereby certify that on this 20th day of July 2010, the original and ten copies of the
foregoing were hand delivered to the Commission for filing, and a copy was served, via U.S.
Mail, first-class, postage prepaid, on each person at the address shown on the attached Service
List.



Attorney for Midwest Independent
Transmission System Operator

SERVICE LIST

Ky. PSC Case No. 2010-00203

Amy B. Spiller
Anita M. Schafer
DUKE ENERGY KENTUCKY, INC.
139 East 4th Street, R. 25 at II
P. O. Box 960
Cincinnati, OH 45201-0960

Dennis Howard
OFFICE OF THE ATTORNEY GENERAL
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, KY 40601- 8204

1. In its Scheduling Order entered June 24, 2010 (p.2 item 2), the Commission requested that DEK's testimony address, *inter alia*: "Duke Kentucky's commitment that it will not seek to recover costs of transmission expansion plans of both the Midwest ISO RTO and the PJM RTO for the same periods, even though it may incur such costs due to the proposed transfer." In its testimony (*see, e.g.*, Gainer p.12 ll.1-3); Wathen p.9 ll.16-18), DEK phrases its commitment as that it will not attempt to recover a "double recovery of overlapping transmission costs (MTEP and RTEPP) for the same time period" or "seek to double recover."
 - a. Is DEK excluding from its commitment the recovery of costs of transmission expansion plans of both the Midwest ISO RTO and PJM RTO for the same period if such recovery is not "double recovery" or if the costs are not "overlapping"? Explain.
 - b. In his testimony (p.10 ll.20-22), Wathen provides the following illustration: "If the Company files a rate case with a test year that covers both a period prior to and after the RTO realignment, it may be appropriate for some level (but not all) of both RTEPP and MTEP" to be included in base rates. Is this an example of a situation in which DEK might seek to recover costs of transmission expansion plans of both the Midwest ISO RTO and the PJM RTO for the same periods?
2. In its Scheduling Order entered June 24, 2010 (p.2 item 3), the Commission requested that DEK's testimony address, *inter alia*, how it "intends to determine which RTO's transmission expansion plan costs it will seek to recover through rates."
 - a. Does DEK intend to seek the higher of the two (RTEPP / MTEP) transmission expansion plan allocations for the applicable test year? the lower? or a blend of the two plan allocations?
 - b. For a recent 12-month period for which the respective transmission expansion costs are known and measurable:
 - i. What is the MTEP cost allocation to DEK?

- ii. What is PJM’s total RTEPP cost to be allocated to its members and what would have been the allocation to DEK if it and Duke Energy Ohio had been PJM members during that period?
 - c. With the period and allocations from subpart (b) as the test year, explain
 - i. which costs DEK would seek to recover in rates, including what factors would influence the decision; and
 - ii. how DEK would propose to recover such transmission expansion plan costs over the next five-year period.
- 3. Gainer (p.11 ll.3-6) and Swez (p.13 ll.6-10, p.14 ll.7-10) describe one-time fees and charges integration costs and minor training and certification expenses relating to entry into PJM.
 - a. Is the estimated fee of \$3 million to cover PJM’s integration costs referenced by Gainer (p.11 ll.3-6) included in, or in addition to, the one-time charge of an estimated integration cost of \$27 million referenced by Swez (p.13 ll.6-10)?
 - b. Does DEK commit to holding its customers harmless for such entry/integration costs?
 - c. If not, what entry/integration costs does it plan to seek to recover and in what way?
- 4. Jennings (p.2 ll. 7-17) describes current and past participation in PJM by Duke Energy and on behalf of Duke Energy Ohio — including working to shape market policy and as a voting member in the stakeholder process. Swez (p.3 ll.15-17) states that with the addition of DEK and Duke Energy Ohio, “there will be five Duke Energy affiliates in PJM.”
 - a. What are the three Duke Energy affiliates that are presently “in PJM”? As to each, when did that affiliate join PJM and in what capacity or capacities has it thereafter participated in PJM?

- b. What has been the participation in PJM “on behalf of” Duke Energy Ohio? Has there been equivalent participation “on behalf of” DEK?
5. Jennings (p.2 l.17 – p.3 l.3; p.5 l.21 – p.6 l.8) describes an RPM capacity market opt-out alternative available to a PJM-member LSE — the Fixed Resource Requirement (FRR).
- a. Is it DEK’s intent and proposal to integrate its load into PJM’s RPM process and to commit its load into the May 2011 Base Residual Auction, and thus not to be an FRR LSE?
- b. Are the benefits alleged for participation in PJM’s capacity market (*see, e.g.,* Jennings p.6 ll.14-21) available to DEK if it elects the FRR option? Explain.
- c. Are all or part of the benefits alleged for capacity-market participation available to an LSE or generation owner who either (1) elects the FRR option or (2) is not a PJM member? If so, (1) describe the benefits available and (2) explain any difference in benefit availability as to PJM membership.
- d. Identify or explain the prohibition or impediment on participating in RPM on an FRR basis.
6. In its *Analysis of the 2013/2014 RPM Base Residual Auction*, released 7/14/10, the independent market monitor (IMM) for PJM finds (p.2) that “there are significant issues with the RPM market design which have significant consequences for market outcomes.” The IMM recommends (p.2): (a) immediate termination of the 2.5% demand adjustment (Short-Term Resource Procurement Target); (b) addressing the definition of demand side resources to ensure that those resources provide the same value in the capacity market as generation resources; and (c) using the most current Handy-Whitman Index be used to calculate the Avoidable Cost Rate (ACR) for the applicable year, and updating and using the 10-year annual Handy-Whitman Index value to recalculate the subsequent default ACR values.
- a. As to each individually, and all three collectively, does DEK think that adoption of the IMM’s recommendations would have a positive or negative effect on the benefits anticipated for DEK — planning and off-system sales revenues (*see*

Swez pp. 8-10)? Explain, and provide any estimate of the magnitude of any anticipated effect.

- b. Are the anticipated or estimated effects as to the three Duke Energy affiliates that are currently PJM members (*see Swez p.13 ll.15-17*), similarly positive or negative as for DEK?
 - c. In its participation within PJM (including as a voting member), described in the Jennings Testimony (p.2 ll.7-17), has DEK voted or taken a position on the issues raised by the IMM's recommendations in the 7/14/10 *Analysis*? If so, please state the date (or time period) and vote or position taken.
7. With respect to the RPM market, do the market rules require that loads purchase their share of the system capacity requirement? If so:
- a. At what price?
 - b. Does DEK commit to hold Kentucky ratepayers harmless from paying PJM capacity market costs, up to the capacity of generation assets that are in the DEK rate base?
 - c. If so, how? If not, why not?
8. With respect to capacity from DEK's generation capacity needed to serve DEK's native load, will DEK either (1) reduce its rate base by the amount of capacity in excess of that needed for DEK native load, or (2) credit to ratepayers 100% of the revenues received from the capacity auction? Given that the amount will change periodically or over time, would these adjustments be made through DEK's FAC or only through base rate changes?
9. Swez (p.8 l.22 – p.9 l.1) states that DEK “currently has sufficient capacity to satisfy its load, with surplus to provide the ability to engage in off-system sales for several years.”
- a. Where in DEK's 2008 Integrated Resource Plan (or provide a pinpoint citation to another long range planning and load forecast) does it indicate that DEK will have

generation capacity in excess of that needed to serve its native load for several years?

- b. At what future date does DEK anticipate that it will no longer have sufficient capacity to satisfy its native load and will need to purchase additional capacity?
10. Do DEK's customers pay separately stated capacity charges under Module E of the Midwest ISO tariff?
11. State, and provide all assumptions, calculations, and other workpapers used to derive:
- a. the amount of revenue DEK would have received if it had offered its capacity in the last RPM Base Rate Auction at the clearing prices for the 2011-12 and 2012-13 delivery years; and
 - b. the amount of capacity payments DEK load would pay if required to acquire capacity at the price established in that last RPM Base Rate Auction.
12. Wathen (p.5 l.17 – p.6 l.11) describes the inclusion of off-system sales profits in DEK's quarterly profit sharing mechanism rider (Rider PSM).
- a. Provide a copy of the currently-effective tariff for Rider PSM.
 - b. Will profits from the PJM capacity market be part of the overall off-system sales profits included in Rider PSM? Explain.
 - c. If off-system capacity-market sales are to be included, what (if any) costs would be deducted from capacity sales revenues? Provide data from the most recent time period available about the amount or relative magnitude of any such costs to be deducted.
 - d. For each quarter since Rider PSM was established, state:
 - i. the absolute dollar amount of profits from off-system sales of energy that were included; and
 - ii. the percentage of the overall off-system sales profits from each component (energy sales, ancillary services sales, etc.).

13. Swez (p.10 *ll.21-22*) states that DEK “customers would actually be better off in PJM, partially due to increased opportunity in the off-peak period.”
 - a. What is the basis for this statement?
 - b. For each increased opportunity, quantify the associated enhanced revenue stream or cost reduction and the participation of DEK’s native load in such revenue stream or cost-reduction.
14. The DEK Woodsdale plant “is qualified as a black start resource in the Midwest ISO.” (Swez p.7 *l.11*). Identify and explain any differences— financial or operational — between Midwest ISO PJM blackstart payments.
15. Wathen (p.3 *ll.11-15*) states that in Case No. 2006-00172, DEK included a total of “approximately \$1.5 million” of projected Midwest ISO administrative costs under Schedule 10, Schedule 10-FERC, Schedule 16, and Schedule 17 in its forecasted test year revenue requirement. Wathen (p.5 *ll.14-15*) further states: “Since the time electric rates were set in the last electric rate case, Duke Energy Kentucky’s charges from the Midwest ISO have increased from about \$1.5 million to more than \$1.8 million, annually.”
 - a. Break down by Midwest ISO Schedule the “approximately \$1.5 million” of Midwest ISO administrative costs DEK included in the forecasted test year.
 - b. Break down by Midwest ISO Schedule the claimed total of “more than \$1.8 million annually” of administrative costs.
 - c. As to each Midwest ISO Schedule, state the differential with the comparable PJM cost.
16. Swez (p.11 *l.4* – p.12 *ll.13*) describes a setup (involving “pseudo-tying” the load and generation to the Midwest ISO) by which it would be possible for DEK to keep load/generation resource under the dispatch control of the Midwest ISO despite a realignment of Duke Energy Ohio with PJM.

- a. Swez (p.10 ll.18-20) states that being “pseudo-tied” into the Midwest ISO “will add unnecessary complexity and cost to how Duke Energy Kentucky would operate on a day-to-day basis.” Explain.
- b. Under what arrangements for such a setup would there be a need “to allocate additional labor resources to monitor the nuances and potential conflicting signals between the two RTOs ... as well as to complete the additional scheduling functions” (Swez p.11 ll.21-22)?
- c. Identify each Duke Energy affiliate (1) already handling energy sales in both the Midwest ISO and PJM markets or (2) handling the services referenced in subpart (b) for the three regional Duke Energy operating utilities, and state whether that affiliate will cease doing so upon a realignment of Duke Energy Ohio with PJM.
- d. What resources does DEK now allocate and are borne by its ratepayers:
 - i. “to monitor the nuances and potential conflicting signals” between the Midwest ISO and other RTOs/ISOs?
 - ii. for scheduling functions?
- e. What additional personnel (or labor resources) would be needed to accomplish the services referenced in subpart (b) beyond those presently devoted to such tasks and what, specifically, would they do on a day-to-day basis that is not currently assigned to PJM or the Midwest ISO as the NERC-registered Balancing Authorities?
- f. Is the pseudo-tying setup described that proposed to be used for Duke Energy Indiana generation or load that is now connected to the Midwest ISO only through Duke Energy Ohio, *e.g.*, the Madison generating facility? If so:
 - i. Are there efficiencies of scale or scope in having the possible additional monitoring or scheduling functions performed on behalf of DEK as well as Duke Energy Indiana?

- ii. Are there any relevant differences between Duke Energy Indiana and DEK in the possible need for allocating additional resources?
 - iii. What is Duke Energy's assessment of the amount or magnitude of such possibly-needed additional labor resources? What is the basis for that assessment?
17. Swez (p.12 //3-8) states that DEK "is concerned that ... there is a greater potential for a differential between the price Duke Energy Kentucky is paid for the power it generates in one RTO and the price the load pays for the power it consumes in the other...."
- a. Why does DEK think the potential for price differential is greater if it stays in the Midwest ISO, Duke Energy Ohio realigns with PJM, and DEK's load and generation is pseudo-tied to the Midwest ISO? Please provide any analysis, calculations, or projections made.
 - b. Under DEK's current retail tariffs, how do ratepayers bear or benefit from such a price differential?
 - c. Does DEK have any basis for concern that any such greater potential would be for disadvantageous price differentials or for wider price differentials? If so, please provide that basis.
 - d. If DEK remains in the Midwest ISO, would DEK be forced to sell power it generates in one RTO and pay for consumed load in another RTO? Explain.
 - e. If a price differential arises that is disadvantageous to DEK, would it not be possible to have the load consume the power it generates? Conversely, if a price differential arises that is advantageous to DEK, would it not be possible to sell the generated power in the higher-priced market and supply the load with power from the lower-priced market? Explain.
 - f. If both DEK load and DEK generation were pseudo-tied to the Midwest ISO, would "a greater potential for a differential" be a concern? Explain.

- g. Assuming that generation in the Midwest ISO could be offered into the PJM capacity market:
 - i. Could DEK then offer its capacity (in excess of that needed for DEK native load) into the PJM auction without transferring its generation, load and transmission assets into PJM?
 - ii. Would this strategy avoid the potential exposure of DEK load to future capacity market charges under the PJM market rules?
- 18. Is it DEK's position that the Midwest ISO is generally well-suited to be the RTO for a vertically integrated utility (like DEK) that does not have retail access? Explain.
- 19. If DEK had a transmission connection to the Midwest ISO other than through Duke Energy Ohio would it be reasonable to remain in the Midwest ISO even though Duke Energy Ohio realigns with PJM? Explain.
- 20. The costs or risks anticipated for DEK's remaining in the Midwest ISO would be caused by Duke Energy Ohio's moving to PJM; if such costs or risks are incurred, is it DEK's position that they be borne by Duke Energy Ohio or the Duke Energy parent? Explain.
- 21. Gainer testifies (p.5 ll.11-13) that the request to realign DEK with PJM is due to "PJM becoming a better fit for Duke Energy Ohio and the need for Duke Energy Kentucky to follow Duke Energy Ohio to maintain operational efficiencies." (*See also* Gainer p.14 l.13 – p.15 l.4). Duke Energy Ohio perceives various benefits to itself and specific to Ohio from realignment. (Gainer p.6 ll.6-21). Thus the but-for cause of the change for DEK is anticipated to provide significant benefits to an affiliate and externalities inuring in Ohio, to regulators, competitive retail and wholesale markets, and utilities co-owning generating units with Duke Energy Ohio, among others. How does DEK propose to have its Kentucky ratepayers share in those benefits?
- 22. To the extent that Duke Energy in general or DEK in particular has considered the effects of moving the CIN trading hub from the Midwest ISO into PJM:
 - a. What are those effects?

- b. Were any internal studies performed? If so, (1) what did they show and (2) who performed them and when?
- c. If negative effects on DEK are anticipated, what mitigation measures were (or are being / will be) taken to protect DEK load or generation from the negative effects?