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October 24, 2012

RECEIVED

OCT 24 2012

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: The Application of East Kentucky Power Cooperative, Inc. to Transfer Functional Control of Certain Transmission Facilities to PJM Interconnection, LLC
Case No. 2012-00169

Dear Mr. DeRouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Utilities Company and Louisville Gas and Electric Company's Response to East Kentucky Power Cooperative, Inc.'s Information Request Dated October 10, 2012 in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me via our office courier.

Should you have any questions please contact me at your convenience.

Sincerely,

W. Duncan Crosby III

WDC:ec
Enclosures
cc: Parties of Record

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. TO)	
TRANSFER FUNCTIONAL CONTROL OF)	CASE NO. 2012-00169
CERTAIN TRANSMISSION FACILITIES)	
TO PJM INTERCONNECTION, L.L.C.)	

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PUBLIC SERVICE
COMMISSION

RESPONSE OF
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY
TO EAST KENTUCKY POWER COOPERATIVE, INC.'S
INFORMATION REQUESTS
DATED OCTOBER 10, 2012

Filed: October 24, 2012

VERIFICATION

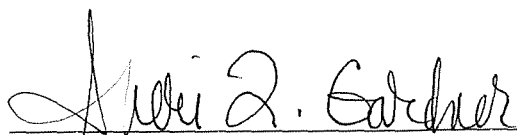
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Lonnie E. Bellar

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 24th day of October 2012.



Notary Public (SEAL)

My Commission Expires:

SHERI L. GARDNER
Notary Public, State at Large, KY
~~My commission expires Dec. 24, 2015~~

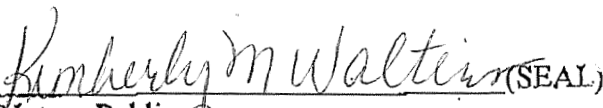
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, Edwin R. Staton, being duly sworn, deposes and says that he is Vice President, Transmission for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.


Edwin R. Staton

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23rd day of October 2012.


Notary Public (SEAL)

My Commission Expires:

9/11/2016

**KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY**

Case No. 2012-00169

**Response to East Kentucky Power Cooperative, Inc.'s
Information Requests
Dated October 10, 2012**

Question No. 1

Responding Witness: Lonnie E. Bellar

- Q-1. Please refer to the Bellar Testimony, page 2, lines 15 through 17. Mr. Bellar notes that the transmission service costs are included in the cost of providing service to the Companies' native load customers, which also includes retail electric customers in Kentucky.
- a. Does Mr. Bellar agree that the Companies' Kentucky retail electric customers pay rates which are bundled, where generation, transmission, and distribution costs are not shown as separate components in the rate structure?
 - b. Does Mr. Bellar agree that the Companies' Kentucky retail electric rates change only as a result of filing a base rate application with the Commission seeking a change in those rates? For purposes of this question, retail electric rates mean the base rates rather than charges and credits resulting from adjustment mechanisms like the fuel adjustment clause and environmental surcharge.
 - c. Does Mr. Bellar agree that when the Commission establishes the Companies' Kentucky retail electric rates, it considers all the costs of providing service to the customers and that some of those costs may have increased and some may have decreased since the current retail electric rates were established?
 - d. Assume that the transmission rates increased after EKPC joined PJM. Would Mr. Bellar agree that this increase in transmission service costs:
 - 1) Would not be immediately reflected on Kentucky retail electric customers' bills?
 - 2) Would be considered along with all other costs when the Companies filed their next base rate application?
 - 3) Would not necessarily result in an increase in the Kentucky retail electric rates because other cost reductions could offset the transmission service costs increase?

A-1.

- a. Generally speaking, yes, though all the Companies' retail rates include a fixed customer charge and a separate energy rate, and most retail rate schedules include a separate demand charge.
- b. Yes.
- c. Yes.
- d.
 - 1) Yes.
 - 2) Yes.
 - 3) It is possible that the Companies' retail rates could remain unchanged or decrease even if transmission rates to serve the Companies' customers increase. But that misses the point: higher transmission costs would result in higher base rates than would have resulted from unchanged or lower transmission rates. Customers would have to pay those relatively higher rates; that is what the Companies seek to avoid in this proceeding.

**KENTUCKY UTILITIES COMPANY AND
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Case No. 2012-00169

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Question No. 2

Responding Witnesses: Lonnie E. Bellar and Edwin R. "Ed" Staton

Q-2. Please refer to the Bellar Testimony, page 3, lines 7 through 10.

- a. Please explain in detail how the Companies paying the FERC approved PJM transmission rates constitutes a subsidization of EKPC's full membership in PJM.
- b. Please provide the final results of any and all financial and operational analyses, including, but not limited to, any and all workpapers, data inputs, and all assumptions used to support such analyses, that the Companies have prepared which detail the impact of EKPC's integration into PJM on the Companies.

A-2.

- a. The status quo is that the Companies pay EKPC certain transmission rates to allow the Companies to serve their retail and municipal customers using EKPC's transmission system. EKPC seeks to change the status quo by joining PJM as a full member, claiming that such membership would reduce EKPC's cost of service; however, as the Companies' witnesses have testified, the cost and transactional complexity of the Companies' serving their customers using EKPC's transmission system will likely, if not certainly, increase if EKPC becomes a full PJM member. That is a cost of EKPC's proposal, one that EKPC does not propose to bear, but rather to impose on the Companies; it is a subsidy from the Companies to EKPC. The Companies propose to eliminate that subsidy.
- b. The Companies have already provided their analysis to EKPC.

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Question No. 3

Responding Witness: Lonnie E. Bellar

- Q-3. Please refer to the Bellar Testimony, page 3, lines 11 through 15. Mr. Bellar recommends that the Commission require EKPC and PJM charge to the Companies transmission rates and charges calculated in the same manner they are today for transmission service necessary to serve the Companies' native load customers.
- a. Does Mr. Bellar agree that the referenced transmission rates and charges are subject to the exclusive jurisdiction of the FERC and not the Commission? If he does not, please explain the response.
 - b. Assuming that the referenced transmission rates and charges are subject to the exclusive jurisdiction of the FERC, please explain in detail how the Commission can issue an Order with the requirement Mr. Bellar recommends.
 - c. Does Mr. Bellar agree that one of the goals of FERC Order No. 888 and one of the purposes of Regional Transmission Organizations is to ensure that all users of a utility's transmission system are treated fairly and have equal access to such system?
 - d. It would appear that a possible result of Mr. Bellar's recommendation is that the Companies would be charged the currently determined rates and charges for transmission service while entities like Duke Energy Kentucky and Kentucky Power Company could be charged the PJM rates and charges for identical transmission service. Does Mr. Bellar agree that this could be a possible result? Please explain the response and specifically address how such an arrangement would be permitted by FERC.

A-3.

- a. This Commission has the authority—indeed, the obligation—under KRS 278.218(2) to determine if EKPC’s proposed transfer of functional control of its transmission assets to PJM “is consistent with the public interest.” The Companies’ customers constitute a large part of the public in the Commonwealth. Therefore, though it is true that FERC has jurisdiction over transmission rates per se, it is well within the Commission’s authority to determine that EKPC’s proposed transaction would be inconsistent with the public interest if it would result in uncompensated costs to the Companies’ customers. It would be equally within the Commission’s authority to issue an order conditioning approval of EKPC’s proposed transaction upon FERC’s approval of a rate mechanism or structure ensuring the Companies’ customers are not harmed. It would also be within the Commission’s authority to issue an order conditioning approval of EKPC’s proposed transfer of control upon a commitment by EKPC and PJM not to assert that FERC’s jurisdiction legally preempts EKPC from holding KU and LG&E harmless from the change of control.
- b. Please see the response to a. above.
- c. The opening two sentences of FERC Order No. 888 clearly state that the purpose of the order is to facilitate the interstate wholesale power market:

Today the Commission issues three final, interrelated rules designed to remove impediments to competition in the wholesale bulk power marketplace and to bring more efficient, lower cost power to the Nation’s electricity consumers. The legal and policy cornerstone of these rules is to remedy undue discrimination in access to the monopoly owned transmission wires that control whether and to whom electricity can be transported in interstate commerce.¹

The Companies’ desire to protect their purely intrastate retail and municipal customers from costs created by EKPC’s full membership in PJM is consistent with the stated intent of FERC Order No. 888.

- d. The Companies cannot comment on how Duke Energy Kentucky or Kentucky Power Company utilizes EKPC’s transmission system. If Duke Energy Kentucky and Kentucky Power Company serve retail customers using EKPC’s transmission system, the Companies believe it would be

¹ FERC Order No. 888, 75 FERC 61,080 (April 24, 1996). Available at: <http://www.ferc.gov/legal/maj-ord-reg/land-docs/rm95-8-00w.txt>.

appropriate for them to serve those customers under an arrangement similar to what the Companies propose. For purposes other than serving retail or municipal customers, the Companies propose to pay whatever PJM's rates ultimately are to use EKPC's transmission system, placing them on identical footing as other entities seeking to use EKPC's transmission system.

**KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY**

Case No. 2012-00169

**Response to East Kentucky Power Cooperative, Inc.'s
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Dated October 10, 2012**

Question No. 4

Responding Witnesses: Lonnie E. Bellar and Edwin R. "Ed" Staton

- Q-4. Please refer to the Bellar Testimony, page 3, line 19 through page 4, line 9.
- a. Please explain in detail the basis for Mr. Bellar's statement that EKPC's remaining a member of the Contingency Reserve Sharing Group would not be sufficient to ensure no harm comes to the Companies' customers from EKPC's full PJM membership.
 - b. In discussions between EKPC, the Companies, and the Tennessee Valley Authority ("TVA") concerning EKPC becoming a member of PJM, have the Companies at any time specifically communicated to EKPC any concerns regarding harm that may be suffered by its customers by a failure of EKPC or PJM to respond to a call on reserves in the event of an emergency on the Companies' system? Please explain the response.
 - c. If the response to 4b. above is "yes," specifically identify the time, place and nature of the Companies' communication, and, if in writing, provide copies of same.
 - d. State whether, if the status quo were to be maintained and EKPC were to remain a standalone utility and not become a member of PJM, the Companies believe that the likelihood of its customers being harmed would be more or less than if EKPC joined PJM.
 - e. If the Companies' response to 4d. above is that the likelihood of its customers being harmed would be "more" if EKPC were to join PJM, please discuss and provide detailed reasons for this position.
- A-4.
- a. Please see the testimony of Messrs. Bellar and Staton, which explain at length how the Companies could be harmed by potentially higher transmission costs or transmission-system-operation matters. These potential harms are additional to the Contingency Reserve Sharing Group issue.

- b. Regardless of any discussions the Companies may have had previously, EKPC's failure to respond to a call on reserves from the Companies during a system emergency would harm the Companies, who would have to obtain replacement resources in real time, likely at greater cost. The purpose of the CRSG is to ensure needed resources are immediately available, including a transmission path to deliver such resources, without having the time lag and potentially high cost associated with seeking market energy in real time. That is one of the reasons having a CRSG is a NERC Reliability Requirement.
- c. Please see the response to b. above.
- d. The Companies cannot answer this question until it is fully determined how EKPC will fulfill its obligations to the CRSG as a member of PJM.
- e. N/A

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Question No. 5

Responding Witness: Lonnie E. Bellar

- Q-5. Please refer to the Bellar Testimony, page 4, lines 1 through 14. Mr. Bellar states that the Companies' customers must be protected from higher transmission charges that could arise from EKPC's full PJM membership.
- a. Please explain in detail why the Companies' customers must be afforded protection from higher transmission charges that might result from EKPC joining a FERC-approved Regional Transmission Operator?
 - b. Please explain whether similar protections were provided by the Companies to the ultimate retail ratepayers of EKPC when the Companies joined the Midwest Independent System Operator.
 - c. Please provide any Commission precedent or authority upon which the Companies rely for the belief that their customers must be protected from higher transmission charges that could arise from EKPC's full PJM membership.
- A-5.
- a. Please see the Companies' response to Question No. 3(a).
 - b. EKPC did not request any such protection when the Companies joined the Midwest Independent Transmission System Operator, Inc. ("MISO"). Moreover, the Companies sought to exit MISO before it began Day 2 operations, which the Companies projected would have been detrimental to their customers in part because of the market risk and complexity associated with locational marginal prices and the hedging mechanisms required to mitigate the risks the market created. EKPC is proposing to force such risks and costs upon the Companies to serve the same retail and municipal customers the Companies are serving today. The Companies prudently seek to protect their customers from such risk, just as the Companies did when they exited MISO.
 - c. Please see KRS 278.218(2): "The commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public

interest.” Concerning the requirement that a transfer of the kind the EKPC proposes be “for a proper purpose and ... consistent with the public interest,” the Commission has said:

The Commission finds that any party seeking approval of a transfer of control must show that the proposed transfer will not adversely affect the existing level of utility service or rates or that any potential adverse effects can be avoided through the Commission’s imposition of reasonable conditions on the acquiring party. The acquiring party should also demonstrate that the proposed transfer is likely to benefit the public through improved service quality, and service reliability, the availability of additional services, lower rates, or a reduction in utility expenses to provide present services. Such benefits, however, need not be immediate or readily quantifiable.²

The Commission subsequently summarized this test: “[F]irst, there must be a showing of no adverse effect on service or rates; and, second, there must be a demonstration that there will be some benefits.”³ When the Commission applied the KRS 278.218(2) standard the Companies’ application to transfer functional control of its transmission system to TVA (as their RC) and SPP (as their ITO), the Commission stated that the public interest “encompasses both network reliability and the cost of electric service.”⁴ The Commission has therefore been quite clear that adverse rate impacts are not in the public interest. As noted in response to Question 3(a), the Companies’ customers are a large part of the public in the Commonwealth, and adverse rate impacts to them must be considered.

²*In the Matter of: Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH*, Case No. 2002-00018, Order at 7-8 (May 30, 2002) (emphasis in original).

³*In the Matter of: Application of Kentucky Power Company d/b/a American Electric Power for Approval, to the Extent Necessary, to Transfer Functional Control of Transmission Facilities Located in Kentucky to PJM Interconnection, L.L.C. Pursuant to KRS 278.218*, Case No. 2002-00475, Order at 4 (Aug. 25, 2003).

⁴*In the Matter of: the Application of Louisville Gas and Electric Company and Kentucky Utilities Company to Transfer Functional Control of their Transmission Facilities*, Case No. 2005-00471, Order at 5 (July 6, 2006).

**KENTUCKY UTILITIES COMPANY AND
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Case No. 2012-00169

**Response to East Kentucky Power Cooperative, Inc.'s
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Question No. 6

Responding Witness: Edwin R. "Ed" Staton

Q-6. Please refer to the Staton Testimony, page 9, lines 11 through 16.

- a. Is Mr. Staton aware of a document entitled "Joint Reliability Coordination Agreement Among and Between Midwest Independent Transmission System Operator, Inc., PJM Interconnection, L.L.C., and Tennessee Valley Authority," which prescribes the equitable and economical management of congestion on flowgates affected by flows of TVA (and those companies under the TVA Reliability Coordinator umbrella), PJM, and/or the Midwest ISO?
- b. If aware of this document, does Mr. Staton believe that following the protocols contained in this Agreement will ensure that PJM, on behalf of EKPC, will honor the flowgates identified by the Companies in the granting of transmission service and in real-time congestion management processes? Please explain in detail why or why not.

A-6.

- a. Yes; however, it is Mr. Staton's understanding that the Midwest ISO is no longer a party to the Joint Reliability Coordination Agreement, making the agreement a solely RC-to-RC agreement between TVA and PJM.
- b. Please see the response to a. above. Although the current RC-to-RC agreement between TVA and PJM may address the Companies' flowgate concerns, the current agreement likely will end at some point. The Companies seek an open-ended commitment from PJM to recognize and honor flowgates the Companies identify to their RC, TVA.