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

COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST TO MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC.

Pursuant to 807 KAR 5:001, Commission Staff requests that Midwest Independent Transmission System Operator, Inc. ("MISO") file the original and 5 copies of the following information with the Commission on or before December 20, 2004, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this 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?

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.

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?

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?

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?

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.

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

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.

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 RTO's?

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?

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?

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.

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.

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

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DATED: December 7, 2004

cc: Parties of Record