FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review and Adjustment of the Fuel and Purchased Power and the System Reliability Tracker Components of Duke Energy Ohio, Inc., and Related Matters.	))))))	Case No. 07-723-EL-UNC

DIRECT TESTIMONY OF

CHARLES R. WHITLOCK

ON BEHALF OF

DUKE ENERGY OHIO, INC.

August 31, 2007

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Charles R. Whitlock, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Shared Services as Senior Vice President, Commercial Asset Management ("CAM").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I am a graduate of the University of Alaska at Anchorage with a Bachelor of Business Studies Degree in Accounting. I am also a graduate of the Mahler School Advanced Management Skills Program and the Center for Creative Leadership Developing Strategic Leadership Program. I have also taken advanced course work in the area of business management at Harvard University. I joined Cinergy in May 2000 as a power trader for Cinergy Services. Prior to joining Cinergy, I was a Senior Power Trader with Statoil Energy. I also held various positions with Vitol Gas and Electric, which included responsibilities for energy trading, marketing and risk management. I was named to my current position in January 2006. Although my title has changed since 2006, my areas of responsibilities have not.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT, COMMERCIAL ASSET MANAGEMENT.

A. I am responsible for the commercial asset management. Specifically, I have responsibility to provide the safe, reliable and economic supply of fuel, power, emission allowances and capacity to Duke Energy Ohio's (DE-Ohio) Market Based Standard Service Offer ("MBSSO") consumers. I also have responsibility for the commercial risk management of all components of DE-Ohio's non-MBSSO generation which includes risk associated with power prices, fuel prices, emission allowance ("EA") prices, congestion and weather.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide an overview of the history of DE-Ohio's Fuel and Purchase Power Rider ("Rider FPP") and the System Reliability Tracker ("Rider SRT") under the MBSSO. I will also discuss some of the issues raised by the FPP Auditor and the Stipulation reached in the 2006 Audit of Rider FPP.

In the next section of my testimony, I will describe the Company's 2007 Rider SRT, including definitions for capacity and energy. I will also describe the capacity product we purchase for Rider SRT. I will then discuss the Stipulation reached and its implications. I will also discuss purchases made under Rider SRT for 2007 and the need to make purchases and recover those costs in the

future. Finally, I am sponsoring Attachment CRW-1, which is a summary of the 2007 SRT purchases to date and a projection for the remainder of 2007.

III. RIDER FPP DISCUSSION

Q. PLEASE BRIEFLY EXPLAIN THE HISTORY OF DE-OHIO'S RIDER FPP?

A. Rider FPP is the mechanism DE-Ohio uses to recover fuel costs needed to power its generation plants, the cost of energy bought on the open market, the cost of emission allowances and recovery of congestion and losses billed from MISO. DE-Ohio makes quarterly adjustments to the Rider, which is subject to an annual management and financial review by an independent auditor.

DE-Ohio's initial Rider FPP review occurred in 2005 in case No. 05-806-EL-UNC and covered the period of January 1, 2005, to June 30, 2005. In that proceeding, the Auditor made several recommendations, many of which were incorporated into a stipulation approved by the Commission in February 2006. DE-Ohio implemented the recommendations included in the Stipulation as part of its FPP management.

DE-Ohio's second Rider FPP review occurred in 2006 in case No. 05-725-EL-UNC and encompassed the period of July 1, 2005, through June 30, 2006. Once again, the Auditor made several recommendations in its audit report, many of which were adopted into a stipulation dated April 9, 2007. This Stipulation is awaiting Commission approval.

Q. PLEASE BRIEFLY DESCRIBE THE STIPULATION REACHED REGARDING THE 2006 FPP AUDITOR'S RECOMMENDATIONS.

A. Many, but not all of the Parties to the 2006 FPP case, reached a Stipulation resolving the matter. This Stipulation was the subject of a proceeding before the Commission in April 2007 involving a variety of issues related to the Company's MBSSO, including Riders FPP and SRT. As part of the Stipulation, the Company adopted nearly all of the Auditor's recommendations with respect to these two riders. The Company and the Parties reached a compromise regarding the Auditor's recommendations related to a [redacted], DE-Ohio's approach to portfolio management in recommendation number 2, and the inclusion of DE-Ohio's newly acquired gas-fired generation assets in the SRT.

Q. HOW DID THE STIPULATION ADDRESS THE AUDITOR'S FIRST RECOMMENDATION REGARDING THE [redacted]?

A. In the April 2007 Stipulation, DE-Ohio [redacted]

Q. HOW DID THE STIPULATION ADDRESS THE AUDITOR'S SECOND RECOMMENDATION REGARDING THE MANAGEMENT OF ITS

FUEL, PURCHASED POWER AND EMISSION ALLOWANCE PORTFOLIO?

A. In the Stipulation, the Parties agreed not to have DE-Ohio adopt the Auditor's recommendation. The Parties agreed that DE-Ohio would continue to follow its portfolio strategy in place prior to the Audit. The Stipulation also stated that the Parties will meet to discuss the terms under which DE-Ohio may recover costs for managing coal, emission allowances, and purchased power for the period after December 31, 2008. The Parties agreed to use best efforts to agree and make such a recommendation no later than the next audit period.

Q. HAS THERE BEEN ANY DISCUSSION AMONG THE PARTIES TO THE STIPULATION REGARDING THE PROCUREMENT STRATEGIES AFTER DECEMBER 31, 2008?

A. No. Since the Stipulation is currently awaiting approval, substantive discussions have not occurred as part of this proceeding. Assuming the Commission approves the Stipulation as filed, DE-Ohio will initiate those discussions shortly after the Order.

Q. WHAT IS THE STATUS OF THE COMPANY'S RESPONSE TO THE AUDITOR'S RECOMMENDATION REGARDING THE RESALE OF COAL AND THE ZIMMER INVENTORY CONTAINED IN THE 2006 AUDIT REPORT?

A. DE-Ohio does not require coal suppliers to permit the resale of their coal as a consideration of entering into a contract. However, DE-Ohio does include the

resale of coal provision as a component of its RFP process. DE-Ohio continues to believe that resale provisions are important.

With respect to recommendation the Zimmer inventory, DE-Ohio initiated a study of the coal inventory overstatement at its Zimmer Station. The results of this study are pending.

Q. IN RESPONSE TO THE AUDITOR'S RECOMMENDATION CONCERNING ZIMMER INVENTORY, DID THE COMPANY IDENTIFY ANY INITIAL CORRECTIVE ACTIONS?

A. Yes. The Company identified several actions that it anticipates will correct the inventory misstatement. These actions include: 1) checking the elevation control markers on the base maps to support more accurate survey results; 2) making improvements to the reclaim scales; and 3) reviewing any variance between the physical and "per books" inventory at the end of each month so that problems are identified, researched and resolved monthly.

Q. HAVE THOSE CHANGES BEEN IMPLEMENTED?

A. Yes. Surveyors have verified the markers. The reclaim scales were properly aligned, provided with new electronics and compared with the calibrated belt scales. DE-Ohio is now reviewing any "per book" and physical variance at the end of each month.

Q. HOW WILL DE-OHIO SETTLE ANY VARIANCE?

A. On July 31, 2007, a fly-over survey was completed. The survey results will be provided to DE-Ohio in October, at which time we will make the appropriate adjustments to the "per books" inventory so that all inventories match.

Q. WHAT IS YOUR RESPONSE TO THE FINAL AUDIT RECOMMENDATION, REGARDING ALTERNATIVE SENSITIVITY ANALYSES IN DE-OHIO'S TRANSACTION REVIEW AND APPROVAL PROCESS?

A. DE-Ohio already complies with this recommendation and includes several alternate sensitivity analyses of key variables including coal and emission allowance prices in its transaction review and approval process.

IV. RIDER SRT DISCUSSION

Q. PLEASE DESCRIBE RIDER SRT.

A. Rider SRT allows DE-Ohio to track and collect costs associated with meeting its MBSSO load obligation plus a fifteen percent (15%) planning reserve margin. The Company is *the* provider of last resort ("POLR") and, consequently, must have the generating capacity to stand ready to serve all retail load in its service territory. Rider SRT includes costs incurred by DE-Ohio to ensure that we can provide safe and reliable service to all consumers in our service territory. The expectation for safe and reliable service should be no different than if we were still under traditional regulation.

Q. PLEASE DEFINE GENERATING CAPACITY.

A. Generating capacity is the physical plant or "steel in the ground." It represents the maximum amount of electric power or energy that a generating plant or unit can produce at a specified time under certain conditions. It is measured in Megawatts (MW). Costs for capacity are included in Rider SRT.

Q. DOES DE-OHIO PURCHASE A SPECIFIC TYPE OF CAPACITY FOR RIDER SRT?

A. Yes. DE-Ohio only purchases capacity that is qualified by MISO as a Designated Network Resource ("DNR"). This means that the energy from the generating resource is deliverable to all load on a firm basis in the MISO footprint or to DE-Ohio load.

Q. PLEASE DEFINE THE TERM ENERGY.

A. Energy is the actual output from the generating plant or unit. The amount of energy produced from a specific plant or unit is dependent upon the amount demanded by consumers, up to the maximum capacity rating of the plant or unit. It is measured in Megawatt-hours (MWh). Costs for energy are included in Rider FPP.

Q. PLEASE EXPLAIN HOW THE 2007 STIPULATION ADDRESSED RIDER SRT.

A. The Stipulation focused on two aspects of Rider SRT. The Stipulation provided that DE-Ohio would update Rider SRT with the first billing cycle of the month following Commission approval of the Stipulation to recover DE-Ohio's projected 2007 planning reserve capacity purchases by year-end and update for any prior over/ under collection.

The Stipulation also provided for the inclusion of capacity purchases from DE-Ohio's own gas-fired generation (assets formerly owned by Duke Energy North America ["DENA"]) on a short-term emergency basis (seven days or less). A pricing methodology was agreed upon which consisted of one of the following:

1) the midpoint of broker quotes received; 2) the average price of third party purchases transacted; or 3) an alternative method which DE-Ohio and the Staff agree upon as a reasonable price. Assuming the Stipulation is approved as filed, DE-Ohio will abide by the Stipulation. DE-Ohio has not made any capacity purchases from these assets since the Stipulation was signed and, thus far, no alternative pricing methodologies have been agreed upon with Staff.

Q. HAS DE-OHIO COLLECTED ANY RIDER SRT REVENUE FOR 2007?

A. No. Although the Company made its Rider SRT filing to set 2007 Rider SRT market prices in a timely manner, the Commission issued an Order, in Case No. 03-93-EL-ATA, *et al.*, dated December 20, 2006, suspending Rider SRT beginning January 1, 2007, until it resolves all of the issues being litigated in the Supreme Court's Remand of Case No. 03-93-EL-ATA. The Commission's decision in the Remand Case is still pending as of this date; consequently, the Rider SRT market price has been $0 for service rendered to all rate classes since January 1, 2007.

One provision of the Stipulation settling the Remand Case is that the 2007 "*Rider SRT will be updated with the first billing cycle of the month following Commission approval of this Stipulation...*" (April 9, 2007, Stipulation, page 7). Assuming the Stipulation is approved by the Commission, we will make the appropriate filing for the 2007 Rider SRT in the manner agreed to in the Stipulation.

Q. DID DE-OHIO MAKE CAPACITY PURCHASES FOR RIDER SRT IN 2007?

A. Yes. Those purchases are detailed in attachment CRW-1. Attachment CRW-1 is a summary of the purchases we have made to date and projection of expected purchases for the remainder of the year to meet the 2007 requirements.

Q. WILL DE-OHIO PURCHASE ANY ADDITIONAL CAPACITY FOR 2007?

A. It is possible. We have secured sufficient capacity to meet our 15% planning reserve margin, which is equivalent to a 4% operating reserve on a projected basis. However, if we experience extreme temperatures or unexpected outages for the remainder of 2007, additional capacity purchases may be necessary to meet the 4% operating reserve as required by Module E of the MISO tariff.

Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD ENCOURAGE THE COMPANY TO MAKE PURCHASES FOR MORE THAN ONE YEAR?

A. Yes, for two reasons, reliability and economics. DE-Ohio believes that it is beneficial to purchase capacity for periods longer than a year. Market participants, especially load-serving entities, frequently purchase capacity and/or energy for longer than one year and for future periods to ensure reliability. For example, load-serving entities in regulated markets that employ integrated resource planning typically use a 10-year planning horizon to plan and construct the required capacity or "steel in the ground". In the deregulated markets, where capacity markets exist, a common characteristic is a three-year forward procurement element. This ensures that the requisite capacity has sufficient lead-time to be constructed. In fact, in May 2007, DE-Ohio became a participant of the Midwest Planning Reserve Sharing Agreement that establishes compliance

guidelines for maintaining adequate planning reserves for the upcoming planning year. For example, by March 2008, DE-Ohio must demonstrate that it has achieved the planning reserve target as established for the June 1, 2008, through May 31, 2009, planning year. Therefore, DE-Ohio must secure any necessary capacity purchases prior to the 2009 calendar year to satisfy its obligation by March 2008.

Furthermore, purchasing capacity for more than one year would enable DE-Ohio to take advantage of pricing opportunities in the market that would accrue to the benefit of MBSSO consumers. Purchasing products over various periods of time creates a hedge for MBSSO consumers. It permits MBSSO consumers to benefit from low prices in the market that may not be available at a later date. This is especially true in periods of declining region-wide reserve margins which is evident today in the MISO footprint. There is no economic reason to restrict capacity purchases to a single calendar year. What is missing however, is an ability for DE-Ohio to recover the costs of the purchases beyond the current MBSSO and Rider SRT period. DE-Ohio is asking the Commission to approve such recovery of capacity purchases.

V. CONCLUSION

Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING RIDER FPP OR RIDER SRT BEING ADDRESSED IN THIS FILING?

A. I believe that DE-Ohio is prudently obtaining and utilizing its resources to meet its MBSSO obligations for Rider FPP and Rider SRT. We have complied with all of the applicable directives included in the Order settling the Audit of Rider FPP

in Case No. 05-806-EL-UNC, and with the directives included in the Order approving the Stipulation reached in Case No. 05-724-EL-UNC. We use reasonable methods for allocating costs and have mechanisms in place to ensure that consumers are paying only for the Company's actual costs.

Q. WAS ATTACHMENT CRW-1 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

DUKE ENERGY OHIO

Summary of Projected 2007 Capacity and Purchased Power Costs Incurred to Serve 2007 Customers

Total Bypassed Capacity Costs and Jurisdictional Allocation

Line No.	Description	January	February	March	April	May	June	July	August	September	October	November	December	Total	Line No.
	Regulatory Capacity Purchase Total Applicable to Retail Customers	[redacted]													

DUKE ENERGY OHIO
Capacity Position for 2007

CRW-1
Case No 07-723-EL-UNC
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Native	2007 January	February	March	April	May	June	July	August	September	October	November	December
Supply												
Maintenance *												
Supply with Maintenance Considerations												
Native and Switched Peak Demand												
Call Option & RTP												
Purchases												
DEOHIO Native Load Capacity Position												
Margin												

(*) - represents the maintenance schedule based upon economics and resource constraints. Also this uses the highest weekly volume during the month. The schedule has some flexibility and might be adjustable for peak days.

Please note: All residential customers and non-residential customers who have not opted-out are included in this analysis.

FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Cincinnati Gas & Electric Company to Modify its Quarterly Fuel and Purchase Power Component of its Market Based Standard Service Offer.	))))	Case No. 05- 806 -EL-UNC

DIRECT TESTIMONY OF

DOUGLAS F. ESAMANN

ON BEHALF OF

THE CINCINNATI GAS & ELECTRIC COMPANY

September 26, 2005

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Douglas F Esamann, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Cinergy Services, Inc., an affiliate of The Cincinnati Gas & Electric Company (CG&E), as Senior Vice President, Energy Portfolio Strategy and Management, in Cinergy's Commercial Business Unit.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I am a graduate of Indiana University with a Bachelor of Science Degree in Accounting. I joined Public Service of Indiana (PSI) in 1979 and have held various positions in the Accounting, Tax, and Corporate Development areas, and various financial and executive positions within PSI and Cinergy. From March 1999 until October 2001, I was Vice President and Chief Financial Officer of Cinergy's Energy Merchant Business Unit. From October 2001 until December 2004, I served as President of PSI. I was named to my current position in December 2004.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT, ENERGY PORTFOLIO STRATEGY AND MANAGEMENT.

A. I am responsible for maximizing the value of Cinergy's generating asset portfolio while managing the inherent risks in the most cost effective manner. Specifically, I have responsibility for fuel and environmental risk management, generation

dispatch, power purchase and sales decisions, portfolio analytics, load forecasting, and generation asset, demand-side management and environmental compliance planning.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide an overview of the Fuel and Purchase Power Rider (FPP), discuss the types of costs recoverable via the FPP, provide an overview of the basis for recovery of costs pursuant to the FPP, and discuss the proposal of CG&E to include Environmental Reagents such as lime, limestone and ammonia in the FPP.

III. FPP DISCUSSION

Q. WHAT IS THE FPP?

A. The FPP is one of many components of the price-to-compare portion of CG&E's Market Based Standard Service Offer, or MBSSO. The purpose of the MBSSO is to establish CG&E's market price for competitive retail electric service, with both fixed and variable components, for CG&E consumers that do not switch to a competitive retail electric service (CRES) provider. On June 22, 1999, the Ohio General Assembly passed legislation that required the restructuring of the electric utility industry (SB3), providing for retail generation competition with respect to the generation component of electric service. Pursuant to SB3, on August 31, 2000, the Commission issued its opinion and order approving CG&E's electric transition plan, thereby allowing CG&E a market development period (MDP).

The Commission anticipated the MDP would facilitate the development of competition to the level described by the Ohio General Assembly in SB3. CG&E's MBSSO was established with Commission approval in Case number 03-93-EL-ATA, also referred to as CG&E's Rate Stabilization Plan or RSP case. Specifically, the Commission approved FPP is the mechanism that facilitates the direct pass through of the Company's costs of fuel needed to power its generation plants, the cost of energy bought on the open market, the cost of emission allowances and the cost of environmental reagents. These costs are recoverable via the FPP to the extent they are required to meet the energy needs of CG&E's consumers and to the extent they have not been included and recovered as a component of the Company's base rates.

Q. IS THE FPP A NEW CHARGE?

A. While the Rider FPP itself is a new charge, the concept of the Rider FPP and, more specifically, the costs that it is designed to recover are not. The Rider FPP is similar to, the Electric Fuel Component (EFC) that has historically been a component of the rates charged to CG&E's consumers. The EFC was the Company's previous mechanism used to recover its costs associated with fuel purchases, and long term and spot market power purchases. In fact, the Rider FPP is modeled after and based upon previous EFC statutes and filings.

Q. CAN YOU TALK MORE SPECIFICALLY ABOUT WHAT IS INCLUDED IN THE RIDER FPP?

A. The costs recoverable via the Rider FPP are based upon the Company's projected fuel and related expenses for the forthcoming quarter. The Rider FPP is made up

of five components: (1) The Fuel and Purchased Power cost expense (FC), (2) Reconciliation Adjustment (RA), (3) The System Loss Adjustment (SLA), (4) Emission Allowances (EA), and (5) Environmental Reagents (ER). The FC, RA, SLA, and EA costs are all costs previously recovered under the historical EFC filings. The definition and explanation of the FC, RA, SLA, and EA components and calculations is included in the testimony of CG&E witness Wathen.

Q. WHAT ARE ERs?

A. Environmental reagents (ERs) are the costs associated with purchases of chemicals such as lime and ammonia that are needed to operate environmental compliance equipment such as flue gas desulphurization systems (more commonly referred to as scrubbers) and SCRs, which require ammonia. This equipment along with environmental reagents decreases or eliminates emissions from our generating plants and therefore reduces the need for emission allowances.

Q. WHY ARE THE ER COSTS INCLUDED IN THE COMPANY'S FPP CALCULATION?

A. In response to increasingly stringent pollution regulations, coal-burning utilities are faced with the economic decision of choosing the optimal method of compliance. Compliance with the regulations can be accomplished through either the acquisition of emission allowances, or by reduction of the amount of pollutants emitted. Reduction of pollutants can occur through one or a combination of the following scenarios: (1) Changing the characteristics of the coal to be combusted, (2) Operating environmental compliance equipment, such

as a flue gas desulphurization system (FGD) which consumes lime, and/ or (3) Purchasing power from the competitive wholesale electric market. CG&E believes that the incremental cost of lime and other consumables that are required for the operation of environmental compliance equipment, and are not already captured in existing base rates, should be recovered through the FPP mechanism. The use of lime and other ERs are directly related to the costs incurred for fuel and purchased power, and emission allowances.

Q. HOW ARE THE ER COSTS RELATED TO OTHER COSTS INCLUDED IN THE FPP?

A. First, in economic terms, lime is a substitute for both emission allowance consumption and purchases. If a utility uses lime in its environmental compliance equipment, the emission of pollutants will be decreased or even eliminated, reducing the utility's consumption of, and need for EAs. Lime is also an economic complement to fuel. The use of lime in compliance equipment, allows for the combustion of lower cost fuels, such as high sulfur coal. Therefore, lime usage can have a substantial impact on at least two of the principal costs tracked and recovered in the FPP and directly influences the cost of fuel. Second, lime and other chemical reagents used in environmental compliance equipment exhibit characteristics that are similar to the costs already recovered through the FPP. Lime costs are volatile and are subject to market fluctuations similar to fuel, emission allowances, and purchased power. In addition, lime costs are seasonal in nature and like fuel, EAs and purchased power, vary greatly due to weather.

Q. **IS THE OPERATION OF THE COMPLIANCE EQUIPMENT AND PURCHASE OF ENVIRONMENTAL REAGENTS AN ECONOMICAL AND REASONABLE DECISION?**

A. Yes it is. During the past decade, especially in the early phases of pollution regulations, the market price for emission allowances was very low. As a result, the environmental compliance strategy of CG&E, as well as some other utilities, relied heavily on emission allowance purchases in the market, rather than installation and operation of compliance equipment. This provided the most cost-effective compliance option for both the company and its consumers and resulted in significant savings over the alternative of retrofitting our generating plants with pollution reduction equipment. However, in the past few years, environmental regulations have become more stringent, and the demand for emission allowances has increased substantially causing the market prices of emission allowances to rise dramatically. Due to these factors, the optimal economic decision with respect to compliance has shifted to the construction and operation of compliance equipment. The projected cost to build and operate a FGD is now substantially less than the projected cost to comply using emission allowances. As a result, CG&E is installing compliance equipment on its coal burning generation facilities. The quantity of emission allowances required to meet compliance obligations and the related expenses will decline, while the cost of the chemical reagents needed to operate the compliance equipment has and will continue to increase. Given the nature of the emission allowance market, we believe market prices are not likely to retreat significantly.

Q. IS THE RECOVERY OF THE ER COSTS THROUGH THE FPP OF BENEFIT TO CG&E'S CONSUMERS?

A. Yes, it is. Simple economics clearly makes the decision to utilize compliance equipment an optimal decision. The Rider FPP is adjusted quarterly. If these ER costs are not recovered through the Rider FPP, CG&E will be forced to recover the costs through its Annually Adjusted Component (AAC). This scenario creates a mismatch in the timing of recovery that will negatively impact either CG&E or its consumers. As explained earlier, lime costs and the costs traditionally included in a FPP type rider, are directly related and move inversely to each other. For instance, assume that lime expense is estimated to be high in the AAC, however, emission allowance prices drop dramatically. Rather than run the compliance equipment, the most economical decision is to purchase the emission allowances. The AAC rate will not change until the following year and the customer will continue to pay higher estimated costs. The Rider FPP, however, is adjusted sooner, accommodating the increased emission allowance purchases. This regulatory timing mismatch creates a situation where making the correct economic decision with respect to environmental compliance has the potential to hurt consumers.

Q. IS THE RIDER FPP A MARKET-BASED PRICE?

A. Yes, it is a market-based price. To the extent that the five components of the Rider FPP price fluctuate according to the various market conditions affecting costs for fuel such as coal, emission allowances, and environmental reagents, so will the Rider FPP price.

Q. IS THE RIDER FPP BYPASSABLE?

A. Yes, the Rider FPP is 100% bypassable. Since, the Rider FPP is a mechanism for the recovery of specific market costs associated with CG&E's provision of competitive retail electric service, the Rider FPP is an energy charge and as such, only charged to those who purchase that energy from CG&E. The Rider FPP is not charged to all non-residential consumers in CG&E's territory. In other words, those non-residential consumers who switch to CRES providers, also referred to as "shopping credit customers," do not pay the Rider FPP.

Q. WHAT IS MARKET-BASED DISPATCH?

A. Market based dispatch is the mechanism of deciding whether to dispatch generating units into the competitive market after taking into consideration the market price of the dispatch inputs (i.e. fuel, emission allowances, etc.) used in the actual generation of electricity. The dispatch inputs are priced according to current market conditions. When the market price of energy exceeds CG&E's generation cost, the generating units are dispatched into the market. When market price of energy is below CG&E's generation costs, the generating units are either shutdown or the dispatch level goes to a minimum level subject to the operational characteristics of the generating units such as ramp rates and minimum up and down times.

Q. WHY IS CG&E USING A MARKET BASED DISPATCH INSTEAD OF A COST BASED DISPATCH?

A. Market based dispatch provides a lower cost and more economical solution for managing fuel and purchased power costs.

Q. HOW HAVE MARKET BASED DISPATCH AND MISO AFFECTED THE FPP?

A. With the introduction of a market-based dispatch and the advent of MISO, CG&E is able to react to market changes and make better economic decisions. For instance, if the cost for purchasing power on the market is actually cheaper than it is for CG&E to burn coal for its own native load generation, CG&E is able to purchase this power in lieu of burning the coal. CG&E is then free to sell this coal on the open market. To the extent that there is revenue from the sale of this coal, the consumers will receive a credit representing the costs incurred in purchasing the coal initially. This is done through the FC component of the FPP. Under MISO, CG&E offers up all of its generation and then receives a portion of that generation back to serve its native load. To the extent CG&E's excess generation is sold on the open market at the locational marginal price (LMP), CG&E receives revenue. The portion of this revenue associated with fuel costs is then credited back to the consumers through the FC component of the FPP. CG&E uses good utility practice to make optimal resource decisions.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served via first class U.S. mail, postage prepaid, upon the following persons this 26th day of September, 2005.

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Duke Energy Kentucky
Case No. 2014-00078
Staff's Second Set of Data Requests
Date Received: May 23, 2014

STAFF-DR-02-002

REQUEST:

Refer to the response to Item 2 of Staff's First Request wherein it states that "the customer will benefit when a loss is shared with the Company and the Company will benefit if a gain is shared with the customer."

a. State whether any of Duke Kentucky's affiliates have ever recorded a gain on the sale of natural gas which was purchased to meet forecasted generation needs and subsequently sold in the spot market.
b. If the answer to Item 2.a. is affirmative, identify and explain the circumstances in which the natural gas was sold at a gain.

RESPONSE:

a. Yes, Duke Kentucky's affiliates have recorded a gain on the sale of natural gas which was purchased to meet forecasted generation needs and subsequently sold in the spot market.
b. Gas was sold at a higher price in the spot market than what it was purchased.

PERSON RESPONSIBLE: Joseph McCallister

STAFF-DR-02-003

REQUEST:

Refer to the response to Item 3 of Staff's First Request and page 3 of the Direct Testimony of John D. Swez wherein Mr. Swez states that the Woodsdale Generating Station ("Woodsdale") has black start capability.

a. State whether Duke Kentucky receives any compensation from PJM Interconnection, LLC ("PJM") for the black start capability at Woodsdale.

b. If the response to Item 3.a. is affirmative, explain the procedure for determining the compensation for the black start capability and provide any amounts received since 2006.

c. Explain what impact, if any, the black start capability at Woodsdale has in how the units are dispatched.

d. Explain how lost opportunity payments identified in the response to Item 3.a. of Staff's First Request are handled for Duke Kentucky's other affiliates in PJM. Explain any differences.

RESPONSE:

a. Yes, Duke Energy Kentucky does receive compensation from PJM for the black start capability at Woodsdale. Per Case No. 2008-00489, these revenues are shared through rider PSM as part of the Ancillary Service Market.

b. The PJM System Restoration Manual defines the minimum amount of black start capability by transmission zone. In addition, PJM is responsible for selecting Black Start resources for a system restoration plan. Determination of compensation to black start resources can be calculated from a variety of methods, including a bilateral contract, a FERC approved rate, or multiple methods defined under Schedule 6A of the PJM OATT. Woodsdale started receiving compensation for its black start capability when it moved to PJM from MISO in 2012. Woodsdale did not receive compensation for black start service while operating in MISO. See the table below for amounts received since 2006. Note that amounts received from January 2012 through July 2013 represent a single black start unit receiving compensation using a tariff rate. Beginning in August 2013, a second black start unit began receiving compensation under recovery of additional investments made at Woodsdale station.

	2006-2011	2012	2013	2014
Jan	$0	$9,546	$16,006	$88,990
Feb	$0	$9,546	$16,006	$88,990
Mar	$0	$9,546	$16,006	$88,990
Apr	$0	$9,546	$16,006	$88,990
May	$0	$9,546	$16,006	
Jun	$0	$16,006	$17,812	
Jul	$0	$16,006	$17,812	
Aug	$0	$16,006	$89,120	
Sep	$0	$16,006	$88,990	
Oct	$0	$16,006	$88,990	
Nov	$0	$16,006	$88,990	
Dec	$0	$16,006	$88,990	

c. Under normal, non-system restoration conditions, the fact that the Woodsdale units provide black start capability has no impact on how the units are committed

or dispatched. Of course, during an actual system restoration event, the fact that the units provide black start capability would mean that they could be utilized for system restoration, whereas a unit without black start capability could not be utilized until electric service has been restored to that particular site.

d. The only Duke Energy Kentucky affiliate that is currently considered a "generation owner" in PJM and receives lost opportunity credits is its unregulated merchant generating affiliate, Duke Energy Commercial Asset Management, Inc. (DECAM). If by handling, the Commission Staff is asking how any such lost opportunity credits that DECAM receives are treated, this is not relevant since DECAM is a merchant generator. Duke Energy Kentucky does not have access to DECAM's revenues in PJM.

PERSON RESPONSIBLE: John Swez/Lisa Steinkuhl

STAFF-DR-02-004

REQUEST:

Refer to the response to Item 1.b of the Attorney General's First Data Request ("AG's First Request") and footnote 5 on page 10 of Attachment 2 of the response regarding the Federal Energy Regulatory Commission's ("FERC") Order 787. Identify and explain the changes that Duke Kentucky is aware of in PJM's governing documents regarding Order 787 since the January 6-8, 2014 polar vortex.

RESPONSE:

On March 12, 2014 PJM filed revisions to its Amended and Restated Operating Agreement to amend PJM's confidentiality rules to allow PJM to share non-public, operational information with natural gas pipeline operators, consistent with the regulations adopted by Order No. 787. FERC conditionally approved the revisions (See Staff-DR-02-004 Attachment A). In summary, Duke Energy Kentucky's understanding is the revisions are aimed at improving communication and coordination among PJM and operating personnel of the interstate natural gas pipeline companies in the PJM region to ensure that PJM and interstate natural gas pipeline control room operators have better information on which to base operating decisions. The communications are aimed at helping both types of operators understand what gas-fired generation units may be called on and whether they may have access to fuel supplies.

PERSON RESPONSIBLE: Legal

147 FERC ¶ 61,105
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

May 9, 2014

In Reply Refer To:
PJM Interconnection, L.L.C.
Docket No. ER14-1469-000

PJM Interconnection, L.L.C.
Attn: Robert V. Eckenrod
Senior Counsel
2750 Monroe Blvd.
Audubon, Pennsylvania 19403-2496

Dear Mr. Eckenrod:

1. On March 12, 2014, PJM Interconnection, L.L.C. (PJM) filed a revised tariff record[1] under the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement) to modify the confidentiality rules to allow PJM to share non-public, operational information with natural gas pipeline operators, consistent with the Commission's regulations adopted in Order No. 787.[2] As discussed below, we accept the revised tariff record, subject to conditions, effective March 13, 2014, as requested.

2. In Order No. 787, the Commission revised its regulations to provide explicit authority to interstate natural gas pipelines and public utilities that own, operate, or control facilities used for the transmission of electric energy in interstate commerce to share non-public, operational information with each other for the purpose of promoting reliable service or operational planning on either the public utilities' or pipelines' systems. Order No. 787 also prohibited such recipients of non-public, operational information from subsequently disclosing that information to third parties or marketing

[1] PJM Interconnection, L.L.C., Intra-PJM Tariffs, 18.17, OA 18.17 Confidentiality, 5.0.0.

[2] *Communication of Operational Information Between Natural Gas Pipelines and Electric Transmission Operators*, Order No. 787, 78 Fed. Reg. 70,163 (Nov. 22, 2013), FERC Stats. & Regs. ¶ 31,350 (2013) (cross-referenced at 145 FERC ¶ 61,134 (2013)).

function employees as defined in section 358.3(d) of the Commission's regulations. However, the Commission stated that Order No. 787 does not supersede any existing tariff provisions. With respect to communications between transmission operators and local distribution companies (LDCs), the Commission stated that the rule does not affect the ability of an electric transmission operator to share its own information with an LDC, if otherwise permitted under its tariff. In addition, the rule does not prohibit electric transmission operators from sharing non-public, operational information received from a pipeline pursuant to this rule with LDCs, if otherwise provided for in tariff provisions approved by the Commission.[3] Thus, to the extent a transmission operator wants to take advantage of the explicit authority provided under Order No. 787, and that transmission operator has tariff provisions prohibiting the communications, it must first make a section 205 filing with the Commission to revise the relevant tariff provisions to permit such sharing of information.[4]

3. PJM states that section 18.17.1 of its Operating Agreement establishes PJM's rules relating to the receipt and release of confidential information. PJM states that, as drafted, section 18.17 prohibits PJM from disclosing, without prior authorization, to its members or third parties, any confidential, or market sensitive, documents, data or other information of a member. PJM states that this prohibition limits PJM's ability to review with pipeline operators the unit specific information and relevant pipeline conditions that could enhance PJM's ability to manage operational information. PJM states that, in early January 2014, after the issuance of Order No. 787, but before PJM could initiate its stakeholder process, PJM sought, and received, waiver of section 18.17.1. The waiver permitted PJM to utilize, during the extreme weather conditions present at the time of filing, and through the winter heating months, the additional communication tools provided for in Order No. 787.[5]

4. PJM states that since the approval of the waiver requests, PJM has broadly utilized the enhanced communications provisions to share operational information with gas pipeline operators, including generator specific reviews, which have helped to ensure transmission system reliability, especially in light of the extreme weather conditions that have beset the PJM Region in January and February.

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[3] Order No. 787, 145 FERC ¶ 61,134 at P 16 n.27, P 56.

[4] Order No. 787, 145 FERC ¶ 61,134 at P 135.

[5] PJM Filing at 2 (citing *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,003 (2014); *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,033 (2014)).

5. PJM states that, with the collaboration of its stakeholders, it has developed the broader, permanent changes to PJM's confidentiality rules which are offered for filing here. PJM states that it and its stakeholders have determined that because much of its member generation may be connected at the LDC or intrastate pipeline level, there is significant value to PJM and its members to extend the same information sharing protocols with those entities to ensure the highest level of cooperation and coordination to ensure the reliable operation of the transmission system. Specifically, PJM states that it is proposing the addition of a new subsection to section 18.17.1 of the Operating Agreement to explicitly permit PJM to share non-public, operational information with interstate natural gas pipeline operators for the purpose of promoting reliable service and operational planning as permitted by the Commission's regulations adopted in Order No. 787. In addition, PJM states that the proposed revisions allow non-public operational information to be shared with Local Distribution Companies (LDCs) and intrastate natural gas pipeline operators, provided that such party or parties have acknowledged, in writing, that they are prohibited from disclosing, or using anyone as a conduit for disclosure of, non-public, operational information received from PJM to a third party or to its "marketing function employees" (as that term is defined by section 358.3(d) of the Commission regulations). In turn, any non-public, operational information received by PJM from a LDC or intrastate natural gas pipeline operator will be subject to the confidentiality provisions set forth in section 18.17 of the PJM Operating Agreement.

6. Notice of PJM's filing was published in the *Federal Register*, 79 Fed. Reg. 15,328 (2014), with interventions and protests due on or before April 2, 2014. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,[6] the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. No protests or adverse comments were filed.

7. As discussed below, the Commission accepts the proposed tariff record, effective March 13, 2014, as requested, subject to conditions and PJM filing a revised tariff record within 15 days of the date of this order. We find that the first sentence that PJM proposes to add to section 18.17.1(f) of the Operating Agreement, which explicitly permits PJM to share non-public, operational information with interstate natural gas pipeline operators for the purpose of promoting reliable service and operational planning, is consistent with Order No. 787. We note that the proposed revision will improve communication and coordination among PJM and operating personnel of the interstate natural gas pipeline companies in the PJM region to ensure that PJM and interstate natural gas pipeline control room operators have better information on which to base operating decisions. We further note that, with this revision, PJM will no longer need to seek expedited

[6] 18 C.F.R. § 385.214 (2013).

waiver of section 18.17.1 in the event of extreme weather conditions, such as the conditions that occurred earlier this year.

8. We now address the remainder of PJM's proposed revisions, which permit the sharing of non-public, operational information with LDCs and intrastate natural gas pipeline operators. In Order No. 787, the Commission stated that the rule does not affect the ability of an electric transmission operator to share its own information with an LDC, if otherwise permitted under its tariff. The Commission, however, recognized that LDCs and other parties have a significant role to play in maintaining the reliability of both the interstate natural gas pipeline system and the electric transmission system, particularly since many electric generators take service from LDCs, rather than directly from interstate pipelines. Accordingly, the Commission preferred to proceed on a case-by-case basis with respect to electric transmission operators sharing non-public, operational information received from a pipeline pursuant to the rule with these entities. Electric transmission operators that saw the need for such communication were encouraged to offer tariff provisions that establish acceptable procedures for the handling and protection from inappropriate disclosure or use of such information.[7]

9. We find that PJM's proposal to extend the information sharing provisions to LDCs and intrastate natural gas pipeline operators will ensure the highest level of cooperation and coordination, thus contributing to the reliable operation of the transmission system. However, with respect to PJM's proposal that parties who receive such information must acknowledge, in writing, that they are prohibited from disclosing non-public, operational information to a third party or "to its marketing function employees as that term is defined by FERC regulations at 18 CFR 358.3 (d)," it is unclear what PJM's reference to the term marketing function employee means. The definition of marketing function employee in the Standards of Conduct is narrow and linked to the relationship between the transmission provider and its marketing function employee or to an interstate pipeline and its marketing function employees.[8] PJM's tariff therefore is not entirely clear as to how it will apply, particularly to LDCs without marketing function employees as defined by the Standards of Conduct. The potential sharing of non-public, operational information creates an opportunity that the information can be used in an unduly discriminatory or preferential manner by the recipient or to the detriment of the market. We find that PJM's proposed revisions are ambiguous as to how it will prevent such results. Therefore, PJM's filing is accepted subject to the condition that PJM file a revised tariff record within 15 days from the date of this order to clarify section 8.17.1(f)

[7] Order No. 787, 145 FERC ¶ 61,134 at PP 56-57.

[8] 18 C.F.R. § 358.3(d) (2013).

of the Operating Agreement, specifying which local distribution or intrastate pipeline employees will be prohibited from receiving non-public, operational information.

By direction of the Commission.

Kimberly D. Bose,
Secretary.

20140509-3016 FERC PDF (Unofficial) 05/09/2014

Document Content(s)

Duke Energy Kentucky
Case No. 2014-00078
Staff's Second Set of Data Requests
Date Received: May 23, 2014

STAFF-DR-02-005

REQUEST:

Refer to the response to Item 2.c. of the AG's First Request. The FERC's Notice of Proposed Rulemaking ("NOPR") in Docket No. RM14-2-000 seeks to address coordination challenges between the natural gas and electric industries with regard to the timing of the gas day, timing of nominations on interstate pipelines, and the number of nomination cycles available. State whether the changes contemplated by the NOPR would have enabled Duke Kentucky to avoid some of the excess cost of the gas purchased but unburned and subsequently sold.

RESPONSE:

Assuming Duke Energy Kentucky faces a similar set of circumstances in the future, it is unlikely that the changes contemplated by the FERC NOPR would provide for the avoidance of excess cost of the gas purchased and unburned and subsequently sold. Although the FERC NOPR seeks to improve coordination between the natural gas and electric industries, it does not address the specific circumstances that Duke Energy Kentucky encountered this past winter. Duke Energy Kentucky does not know and cannot predict if the contemplated changes by the NOPR in similar events that were experienced this past winter will have any effect on the pipeline operating conditions and the number of operational flow orders that could be issued. These conditions are

influenced by the actual operating conditions of the pipeline. In any event, given similar circumstances Duke Energy Kentucky would still procure gas to support the reliable operations of the Woodsdale facility in PJM. Although PJM rules permit gas purchases to be made in intra-day gas market, Duke Energy Kentucky did not consider such a strategy to be in the best interests of its customers. Due to the market conditions and the pipeline restrictions of which it was aware, Duke Energy Kentucky was concerned that waiting until the gas intra-day market to procure fuel for a possible real-time energy dispatch would expose the Company and its customers to additional risks of commodity availability and price that exceeded that which was available through the day-ahead gas market for purposes of offering into the Day-Ahead energy market. Accordingly, the Company determined that to manage these risks in a manner that was in the best interest of its customers, it had to procure gas in the day-ahead gas market.

PERSON RESPONSIBLE: Joseph McCallister/John Swez

STAFF-DR-02-006

REQUEST:

State whether Duke Kentucky believes its Rider PSM tariff, which currently references only sharing of profits on off-system power sales and net margins on sales of emission allowances, should be revised to explicitly provide for the sharing of losses and for the sale of natural gas purchased for generation purposes but unburned and subsequently sold.

RESPONSE:

The Company does not believe the tariff needs to be changed to explicitly provide for the sharing of losses and for the sale of natural gas purchased for generation purposes but unburned and subsequently sold. The Company believes the gains and losses on the sale of gas should be considered as a component of calculating the net profits of off-system sales because of the nexus between receiving the revenues from day-ahead awards net of the energy buy-back in the real-time, and the lost opportunity credits. If the Commission believes a textual change is necessary, the Company does not oppose.

PERSON RESPONSIBLE: Lisa Steinkuhl

STAFF-DR-02-007

REQUEST:

State whether Rider PSM has ever been used to share anything other than profits with customers.

RESPONSE:

The PSM has and could operate as a loss in any given month, but PSM has shared net profits from off-system sales on an annual basis. The monthly net profits and losses from off-system sales are netted together annually and only shared if it is a profit. The monthly net profits include costs attributable to generating the revenues such as hedging gains and losses, fuel expense and variable O&M. Certain revenues are included to offset the costs because of the nexus the revenues have to the costs such as balancing and day-ahead operating reserve credit. In the present situation involving the sale of gas, the procurement of gas was a cost incurred to participate in the PJM energy markets to allow the opportunity for an off-system sale. The sale of gas was necessary as the pipeline would not allow the Company to add more volume to the imbalance.

The PSM also shares profits from the Ancillary Service Market per Case No. 2008-00489. When monthly revenues received for supplying ancillary services are more than the monthly costs for buying ancillary services, the monthly net profit is shared in the PSM.

PERSON RESPONSIBLE: Lisa Steinkuhl