

**Louisville Gas and Electric Company and Kentucky Utilities Company
Southeast Energy Exchange Market (“SEEM”) Quarterly Status Report No. 1
Case Nos. 2020-00349 and 2020-00350
September 30, 2021**

On June 30, 2021, the Kentucky Public Service Commission (“Commission”) issued Orders in the above-captioned proceedings regarding the rate applications of Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (jointly the “Companies”). Among other things, the Commission ordered that the Companies should file by September 30, 2021, and continuing quarterly, a report that sets forth the status of the Southeast Energy Exchange Market (“SEEM”) formation proposal currently pending at the Federal Energy Regulatory Commission (“FERC”), including any changes to the original organization proposed or approved by FERC; any matters in other jurisdictions that require other jurisdictions’ approval for activity related to the formation of SEEM; and any conditions imposed on SEEM participants by FERC or other jurisdictions and continuing until all SEEM-related regulatory approvals for the SEEM utilities are complete. The Companies submit this first quarterly status report that includes a summary of the initial FERC application.

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February 12, 2021 FERC Filing

On February 12, 2021, the Companies¹ filed the Southeast Energy Exchange Market (“SEEM”)² Agreement and related changes to their Open Access Transmission Tariff (“OATT”) for FERC acceptance.³ The SEEM Agreement sets forth the framework and rules for establishing and maintaining a new voluntary electronic trading platform designed to enhance the existing bilateral market in the Southeast using zero-charge transmission service, to be provided by participating transmission service providers in the SEEM footprint. The Companies’ OATT amendment filing set forth the proposed tariff changes to offer such zero-charge transmission service for SEEM transactions. Made part of the SEEM Agreement filing were details of the market rules applicable to the SEEM platform, which are set forth in the SEEM Market Rules. The February 12, 2021 filing requested FERC acceptance of the SEEM Agreement to be effective

¹ Southern Power Company Services, Inc., on behalf of Alabama Power Company and the other sponsoring Members of the SEEM (“SEEM Members”), made the lead FERC filing under FERC Docket No. ER21-1111-000. Other FERC jurisdictional SEEM Members, including LG&E and KU, filed concurrences to this lead filing in separate dockets. LG&E’s filing is under FERC Docket No. ER21-1114 and KU’s filing is under FERC Docket No. ER21-1120.

² The SEEM Members are: Alabama Power Company, Georgia Power Company, and Mississippi Power Company (collectively, “Southern Companies”); Associated Electric Cooperative, Inc. (“AECI”); Dalton Utilities (“Dalton”); Dominion Energy South Carolina, Inc. (“Dominion Energy SC”); Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (together with DEC, “Duke”); LG&E and KU (and LG&E and KU Services Company and LG&E and KU Energy LLC, when acting as the agent or representative of LG&E/KU) (collectively, “LG&E/KU”); North Carolina Municipal Power Agency Number 1 (“NCMPA Number 1”); PowerSouth Energy Cooperative (“PowerSouth”); North Carolina Electric Membership Corporation (“NCEMC”); and Tennessee Valley Authority (“TVA”) (each a “Member” and collectively, the “Members”). In addition, the following entities have participated in the creation of the Southeast EEM and are in the process of or are contemplating seeking the necessary approvals to execute the Southeast EEM Agreement and become Members: Georgia System Operations Corporation (“GSOC”); Georgia Transmission Corporation (An Electric Membership Corporation) (“GTC”); Municipal Electric Authority of Georgia (“MEAG Power”); Oglethorpe Power Corporation (An Electric Membership Corporation) (“Oglethorpe”); and South Carolina Public Service Authority (“Santee Cooper”).

³ The Companies’ related revisions to the OATT were filed in FERC Docket No. ER21-1118.

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May 13, 2021, which is 90 days after the filing. At the time, the “go live” date was expected to occur in the first quarter of 2022.

As explained to FERC in the February 12, 2021 filing, SEEM is a market enhancement that leverages automation and zero-cost transmission to facilitate beneficial sub-hourly bilateral transactions in the Southeast. It is a region-wide, automated, intra-hour market platform, which is based on a secure software system that relies on inputs (including bids and offers) applied to an algorithm. The algorithm matches bids and offers voluntarily submitted by participants for 15-minute intervals and price matched transactions on a “split-the-savings” basis, *i.e.*, where the transaction price will reflect the midpoint between the seller’s offer price and the buyer’s bid price, with an adjustment for losses.

The core principles underlying SEEM are:

- Each electric service provider/state maintains control of generation and transmission investment decisions;
- Each transmission provider remains independent with its own transmission tariff (or equivalent);
- Each Balancing Authority (“BA”) remains independent;
- Bureaucracy is minimized while benefits to customers are maximized;
- Participation is voluntary;
- Market benefits exceed costs, collectively and for each market participant; and
- Transparency in governance and operations is ensured while Member confidentiality is maintained.

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Key elements of the SEEM Agreement are those relating to the roles of a “Member” of SEEM, a “Participant” in the SEEM platform, the Membership Board, SEEM Market Auditor (“Auditor”), SEEM Administrator (“Administrator”), and SEEM Agent. Other significant provisions in the SEEM Agreement are those related to cost allocation among the SEEM members, as well as withdrawal rules and processes, various governance arrangements, and participant and external stakeholder involvement. Additionally, the SEEM Agreement and SEEM Market Rules contain provisions on the zero-charge transmission, called Non-Firm Energy Exchange Transmission Service (“NFEETS”) that is a key component of SEEM, and which LG&E/KU would also offer through its joint OATT.

The SEEM Market Rules set forth in detail important rules related to the market, such as market timing, the algorithm and inputs to the algorithm such as bids and offers, e-Tags for SEEM transactions, transparency and publicly available information, and the Auditor function, among other topics.

May 4, 2021 Deficiency Letter / June 7, 2021 Response

FERC Staff issued on May 4, 2021 a Deficiency Letter, which posed questions regarding the SEEM proposal on issues mostly related to market power, market manipulation, and market oversight.⁴ SEEM members collectively responded to the Deficiency Letter on June 7, 2021,

⁴ *Ala. Power Co.*, Deficiency Letter, Docket No. s ER21-1111-000, ER21-1112-000, ER21-1114-000, ER21-1115-000, ER21-1116-000, ER21-1117-000, ER21-1118-000, ER21-1119-000, ER21-1120-000, ER21-1121-000, ER21-1125-000, ER21-1128-000 (May 4, 2021).

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providing robust additional information and clarifications, to address FERC concerns about potential market power abuses.⁵

While FERC Staff posed extensive, specific questions in the Deficiency Letter, which led the SEEM members to propose certain changes to its proposal to better address specific concerns raised by intervenors and FERC staff, the fundamental nature and mechanics of the SEEM proposal remain unchanged. The core principles underlying SEEM as set forth above remain the same, as do the key elements of the SEEM Agreement such as the nature of constituent roles within SEEM, cost allocation, withdrawal rights, NFEETS, as well as fundamental elements of the SEEM Market Rules.

The changes that were proposed in the SEEM Members’ June 7, 2021 Response were designed to address specific concerns of certain intervenors, and more generally to provide FERC and others with further confidence that there are not and will not be market power abuses. The proposed changes, reflected in various changes to the SEEM Agreement and/or to the SEEM Market Rules, can be summarized as follows:

- Weekly, Confidential Submission of Market Data to the Commission: Under the proposed revisions, the Administrator would provide to FERC and the Auditor, on a confidential basis, the data enumerated in a newly added Appendix D to the SEEM Agreement. This information, to be sent every seven days for the immediately preceding seven-day period, would include data on the submitted bids and offers, Available Transfer Capacity (“ATC”), price caps, and matches of bids and offers, among other things. This newly proposed

⁵ See, e.g., LG&E Response to Deficiency in Docket No. ER21-1114-000 (June 7, 2021).

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weekly flow of electronic data directly from the Administrator to FERC and the Auditor would allow FERC Staff to monitor for anomalies or evidence of the exercise of market power, or market manipulation, and aid the Auditor in discharging its appointed task of ensuring that the market is functioning properly.

- Posting of Auditor Reports and Responses to Regulator Inquiries: The proposed revisions would clarify and increase the transparency of the Administrator’s and the Auditor’s functions and roles, establishing concrete rules for access to information by FERC and other regulators, setting rules requiring disclosure of regulators’ questions and answers to those questions, as well as Auditor reports, to market participants. These revisions are intended to facilitate informed decision-making by regulators and market participants, providing them with access to the Auditor’s evaluations and, thus, the means to determine for themselves if the market is operating according to the Market Rules and raise issues or concerns where and when appropriate.

- Protections for Neighboring Transmission Systems: The proposed revisions would clarify that the calculated ATC used for the SEEM transactions must be provided to the Administrator and must be used in the Algorithm for each leg of any contract path of the transaction, ensuring that there will be no exceedance of available transmission capability along the path. This should allay any concerns of intentional unauthorized use of the transmission facilities of any non-SEEM neighboring transmission system.

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- Revised *Mobile-Sierra* Protections: The proposed revisions modify the application of *Mobile-Sierra* protections such that the just and reasonable standard will be the default (rather than the *Mobile Sierra* standards) and the *Mobile-Sierra* public interest standard would now apply to a narrower set of enumerated provisions where contractual certainty is necessary and appropriate.

- Other Changes: A few additional clarifying changes were made to the SEEM Agreement and Market Rules, such as clarifying that randomization would be used if ties or ambiguities need to be resolved in the offer and bid matching process, fixing a scrivener’s error regarding reports available to market participants, and clarifying the Administrator’s authority regarding system configuration parameters.

August 6, 2021 Second Deficiency Letter and August 11, 2021 Response

FERC staff issued on August 6, 2021 a second Deficiency Letter containing three limited, additional questions regarding the application of FERC’s Standards of Conduct rules (regarding access to transmission function information) in the SEEM context, access to the dedicated confidential portion of the SEEM website, and independence of the Administrator and Auditor.⁶

⁶ *Ala. Power Co.*, Second Deficiency Letter, Docket No. s ER21-1111-000, ER21-1112-000, ER21-1114-000, ER21-1115-000, ER21-1116-000, ER21-1117-000, ER21-1118-000, ER21-1119-000, ER21-1120-000, ER21-1121-000, ER21-1125-000, ER21-1128-000 (August 6, 2021).

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SEEM members, including the Companies, responded to the Second Deficiency Letter on August 11, 2021.⁷ No changes to the SEEM proposal were requested by FERC staff; none were proposed by SEEM members in their responses, as none were necessary. In the August 11, 2021 response, the SEEM members requested a shortened comment period of 10 days and requested expedited FERC action on or before September 10, 2021, 30 days after the filing date. To date, FERC has not issued its order.

Other Jurisdictional Matters

Prior to filing the SEEM Agreement at FERC, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (together, “Duke Energy”) filed the unsigned draft of the SEEM Platform Agreement at the North Carolina Utilities Commission (NCUC) as an informational filing.⁸ A protest to the informational filing was made, asserting that the NCUC was required to approve the SEEM Platform Agreement. After review, the NCUC disagreed, but did indicate that if the SEEM Platform Agreement was amended, the amendment be filed with the NCUC before it became effective, so that the NCUC could determine if the amendment triggered its jurisdiction over affiliate transactions. On June 7, 2021, Duke Energy filed with the NCUC the revised SEEM Agreement as ordered. The NCUC has not determined that the amendment triggers its jurisdiction.

⁷ See, e.g., LG&E Response to Second Deficiency Letter in Docket No. ER21-1114-000 (August 11, 2021).

⁸ See NCUC Docket Nos. E-2, Sub 1268 and E-7, Sub 1245.