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JUN 25 2010

PUBLIC SERVICE
COMMISSION

Via Overnight Mail

June 24, 2010

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

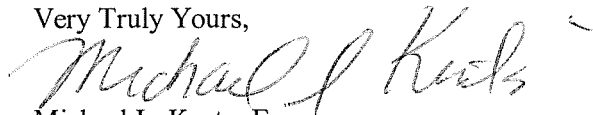
Re: Case No. 2010-00043

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of the **REVISED** KIUC's RESPONSES to MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR'S JUNE 10 FIRST DATA REQUEST previously filed in the above-referenced matter. Please note that the only change was in KIUC's response to Item MISO KIUC 1-10. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,



Michael L. Kurtz, Esq.

BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Richard Raff, Esq.
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail (when available) or by mailing a true and correct copy by regular ordinary U.S. mail, unless other noted, this 24th day of June, 2010 to the following:

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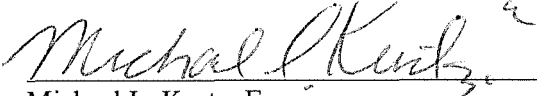
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Michael L. Kurtz, Esq.

REVISED

**KIUC's RESPONSE TO
MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR'S
JUNE 10 FIRST DATA REQUEST
PSC CASE NO. 2010-00043
June 21, 2010**

Item MISO KIUC 1-1

Q.1-1 Please reference the bottom of page 2, line 17 of Your direct testimony. Please explain the scope of Your engagement by KIUC including the specific contractual language that describes the work You are to provide to KIUC.

Response:

The scope of my engagement by KIUC was to: (1) review the testimony of the BREC and MISO witnesses in the case, to identify any other costs that could be associated with BREC's membership in MISO over the period from 2011 to 2025. The contract language is as follows:

“CA Energy will perform the following tasks:

1. Review the analysis conducted by Charles River Associates (CRA) for Big Rivers of the costs and benefits of Big Rivers joining MISO and identify the shortcomings, if any, in that study.
2. Review the testimony of MISO witness Moeller and identify problems, if any, with the claims made therein about the benefits to Big Rivers of joining MISO.
3. Gather additional information and data regarding costs and benefits of Big Rivers joining MISO that have not been addressed in the CRA study or Moeller testimony.”

Item MISO KIUC 1-2

Q.1-2 Please reference the bottom of page 2, line 19 of Your direct testimony. Please fully explain what is meant by the term “find” as it is used in Your answer, including a discussion of any and all studies, analyses or other information You relied upon in reaching the conclusion presented in Your answer.

Response:

I use the term “find” in accordance with the dictionary definition, “to ascertain by study or calculation.” In the context of my answer, this means that I identified costs that BREC might incur as a member of MISO over the period 2011 to 2025.

Item MISO KIUC 1-3

Q.1-3 Please reference lines 3 – 6 of page 3 of Your direct testimony. Please explain:

- a. the basis of the phrase contained on line 3 that claims that there are “...hundreds of millions of dollars that it will likely incur...”, including identifying any documents relied upon, studies or analyses done by You or others;
- b. which “MISO Transmission Expansion Plan (MTEP)” were You relying upon as support for this statement; and
- c. please identify, in the MTEP identified in subpart Q.1-3(b) above, the specific page or pages that provide the source of the hundreds of millions dollar amounts referenced in this response as well as the page or pages from which You draw the inference that the appropriate corresponding timeframe represented in the phrase “...over the next decade or so...”.

Response:

- a. I relied upon Mr. Moeller’s response to Data Request Item PSC 1-2, in which he indicates that MTEP Schedule 26 costs for Big Rivers in 2014 was estimated to be \$8.8 million (2009 \$) in the “0% GFA Case” and \$3.8 million (2009 \$) in the “36% GFA Case.” I also relied upon his response to Data Request Item KIUC 2-7, in which he indicates that MTEP Schedule 26 costs for Big Rivers in 2024 was estimated to be \$50.5 million (2009 \$) in the “0% GFA Case” and \$27.6 million (2009 \$) in the “36% GFA Case.” As indicated in my testimony, when Big Rivers’ estimated share of Schedule 26 costs is considered over the period from 2011 to 2025,, the present discounted value is \$126.8 million, as indicated in my “36% GFA Case” and \$241.5 million in the “0% GFA Case.”
- b. I was not relying on a specific MISO Transmission Expansion Plan (MTEP). The reference to the MTEP in the context of this statement was to the MTEP process by which transmission expansion projects are approved and become subject to the cost allocation rules applied under Schedule 26.
- c. See my response to Q.1-3.b.

Item MISO KIUC 1-4

Q.1-4 Please reference line 4 of page 4 of Your direct testimony where the term “status quo” is used in Your answer. Please explain and identify what this term means in this context and explain what You believe to be the status quo after September 2010. Have You, Your staff, or anyone affiliated with KIUC performed any analyses or conducted any studies which attempt to identify the “status quo”, as that term is used on line 4, page 4? If the answer is Yes, please provide the analyses, Documents and/or studies, including workpapers that support Your position of the status quo.

Response:

The term “status quo” refers to the state of BREC’s position in 2010 as it is involved in an interim agreement with MISO to provide reserve sharing. For my analysis of the costs and benefits of Big Rivers MISO membership option, the “status quo” was relative to the pre-interim agreement arrangement.

Neither I, my staff, nor anyone affiliated with KIUC has, to my knowledge, performed any analyses to identify the status quo.

Item MISO KIUC 1-5

Q.1-5 Please reference line 5 of page 5 of Your direct testimony. Please provide the basis, including any source document or study, for the figure of \$22 billion noted in the answer. If this figure was used as the starting point to estimate annual MISO Schedule 26 charges, please also include any discount or inflation rates used as part of any such calculations.

Response:

The source documents for the figure of \$22 billion noted in the answer are: (1) RECB Task Force, *Proposed Midwest ISO Cost Allocation Design Draft*, March 22, 2010, pages 7 and 8, and (2) RECB Task Force, *Modeling Results of Midwest ISO Straw Proposal*, April 8-9, 2010, page 3. The \$22 billion figure was not used as the starting point to estimate annual MISO Schedule 26 charges.

Item MISO KIUC 1-6

Q1-6 Refer to lines 5 through 9 of page 5 of Your direct testimony. Please identify whether You, Your staff, or anyone affiliated with KIUC has performed any analyses or conducted any studies which attempt to identify and quantify necessary high voltage overlay needs for the upper Midwest. If the answer is Yes, please provide any such analyses and/or studies, including workpapers and material assumptions made.

Response:

Neither I or my staff have performed any analyses or conducted any studies which attempt to identify and quantify necessary high voltage overlay needs for the upper Midwest. I am not aware of anyone affiliated with KIUC who has performed any such analyses. I have relied entirely on the analyses performed by the Midwest ISO.

Item MISO KIUC 1-7

Q1-7. Please reference line 7 of page 5 of Your direct testimony. Please identify the amount and provide the basis for Dr. Morey's understanding of BREC's "share" of transmission projects as that term is used in this answer.

Response:

My understanding is that BREC's "share" of transmission project costs is set according to rules of the Midwest ISO's Schedule 26 and any revisions to such changes that might be obtained following MISO's compliance filing at FERC in July 2010, which would assign to BREC its load ratio share of Schedule 26 costs. The amount of that share would be 1.78% in the "0% GFA Case," which value was taken from Charles River Associates, "Preliminary Economic Assessment of Big Rivers Contingency Reserve Options," December 17, 2009, p. 9. That document has been entered into the record of this proceeding in response to Data Request Item KIUC 1-1. The 1.14% share for the "36% GFA Case" is derived from the 1.78% share value by multiplying by 0.64, which is the Smelter proportion of Big Rivers' load. The 0.64 value was also obtained from the aforementioned Charles River Associates document.

Item MISO KIUC 1-8

Q1-8. Please reference lines 12-15 of page 5 of Your direct testimony where You reference a response to discovery provided by Mr. Moeller of MISO. Please specifically identify each and every discovery question and response Dr. Morey relies upon as support for this answer. Please state whether Dr. Morey did any independent analysis or study that

estimated BREC's load ratio share potential in 2024. If the answer to the immediately preceding question is Yes, please provide any such analyses and/or studies, including workpapers.

Response:

I believe that my reliance upon Mr. Moeller's discovery responses was limited to Data Request Items PSC 1-2 and KIUC 2-7. I did not conduct "any independent analysis of study that estimated BREC's load ratio share potential in 2024," but instead relied upon load ratio share information provided by Charles River Associates as explained in my response to Q.1-7.

Item MISO KIUC 1-9

Q1-9. Refer to page 7, lines 7-8 of Your direct testimony. In Your response You indicate that the MTEP costs for projects "...could be in the billions of dollars by the end of 2014." Please explain the basis of this statement and identify any independent analysis or study that Dr. Morey performed that identified and/or quantified the potential MTEP costs in 2014. If Dr. Morey performed any such analysis or studies, please provide copies, including workpapers and a list of any material assumptions used in his analysis.

Response:

The basis of this statement is the MISO document prepared by the RECB Task Force, *Proposed Midwest ISO Cost Allocation Design Draft*, March 22, 2010, pages 7 and 8.

Item MISO KIUC 1-10

Q1-10. Refer to page 8, lines 19 – 23 of Your direct testimony. Please provide the basis for the statement: "The MISO RNU over the period 2007 to 2009 averaged \$96.8 million per year." Additionally, is Dr. Morey aware of whether this \$96.8 million figure included any amounts of revenue sufficiency guaranty, or RSG, over the same time period? If yes, please identify what amounts represent RNU versus RSG.

Response:

The basis for the statement is the MISO spreadsheet 20100101__ms_mu.xlsx which I found and reviewed on the MISO web site. I am not aware of whether the \$96.8 million figure includes any amounts of revenue sufficiency guaranty over the same period.

Item MISO KIUC 1-11

Q1-11. Referring to page 8, lines 20-22, of Your testimony, Dr. Morey “assumes” a 1.78% load ratio share, presumably for Big Rivers. Please provide an explanation of and the basis for this load ratio share figure, along with any source documentation and workpapers for the derivation of the figure.

Response:

The 1.78% load ratio share for Big Rivers comes directly from Charles River Associates, “Preliminary Economic Assessment of Big Rivers Contingency Reserve Options,” December 17, 2009, p. 9. That document has been entered into the record of this proceeding in response to Data Request Item KIUC 1-1.

Item MISO KIUC 1-12

Q1-12. Referring to page 8, line 23, of Your testimony, Dr. Morey identifies BREC’s allocation may be about 1.14%. Please confirm that this estimation by Dr. Morey is likewise a load ratio share computation for Big Rivers. If Yes, please provide an explanation of and the basis for this load ratio share figure, along with any source documentation and workpapers for the derivation of the figure.

Response:

The 1.14% figure is likewise a load ratio share computation for Big Rivers. The 1.14% allocation to Big Rivers is the product of 1.78% load ratio share multiplied by 0.64 ($1.14\% = 1.78\% \text{ times } 0.64$), where 0.64 is the portion of Big Rivers’ load attributable to the Smelters as indicated in Charles River Associates, “Preliminary Economic Assessment of Big Rivers Contingency Reserve Options,” December 17, 2009, p. 9, in the boxed note that states: “Of BREC 2010 native load, 36% is for members (incl. HMP&L), and 64% is for smelters.”

Item MISO KIUC 1-13

Q1-13. Refer to page 9, lines 17-18 of Your direct testimony. Please provide an explanation of the derivation of the estimated \$0.1 million of annual legal expenses along with any source documentation for the \$0.1 million figure shown on line 18, as well as the source documentation for \$0.8 to \$1.0 million per year figures shown on line 17, including any workpapers created for the calculation of any of the estimates.

Response:

When Louisville Gas & Electric Company and Kentucky Utilities Company were members of MISO, they incurred such legal costs at the rate of \$0.8 to \$1.0 million per year. The source documentation for the \$0.8 to \$1.0 million per year figure was my analysis for LGE/KU in Case No. 2003-00266. See my expert testimony in Before the Kentucky Public Service Commission, on behalf of LGE Energy Corporation, Additional Supplemental Rebuttal Testimony 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, filed April 1, 2005.

Because of BREC’s smaller size, I scaled the \$0.8 to \$1.0 million per year figure down to \$0.1 million for BREC. There was no specific calculation associated with this scaling.

Item MISO KIUC 1-14

Q1-14. Refer to page 10, lines 4-6 of Your direct testimony. Please provide a copy of the “complete cost-benefit study of MISO membership compared to the status quo today” including workpapers and any material assumptions not otherwise listed on page 10, lines 8-13 of Dr. Morey’s testimony.

Response:

An electronic copy of the spreadsheet for the “cost-benefit study of MISO membership compared to the status quo today” is provided on the accompanying disc.

Item MISO KIUC 1-15

Q1-15. Please refer to line 8 of page 11 of Your direct testimony. Please provide a complete explanation and definition of the term “extrapolate” as that term is used therein. Please also indicate whether Dr. Morey performed any independent analysis or study to support his extrapolation of Mr. Luciani’s single cost saving values. If the answer to the immediately preceding question is Yes, please provide any such analyses and/or studies, including workpapers.

Response:

The term “extrapolate” generally refers to estimating the unknown values of a variable outside of a range from its known values within another range, or the unknown values of one variable from the known values of another variable. In the cited passage of my testimony, “extrapolate” refers to my estimating the value of one variable (production cost savings for 2011) from the values of that variable in another period (2012-2015) and the values of another variable (production costs to serve native load during 2011-2015). I did not perform any independent analysis of study to support the derivation of Mr. Luciani’s production cost saving values.

Item MISO KIUC 1-16

Q1-16. Referring to page 11, line 12, of Your testimony, Dr. Morey “assumes” a production cost saving increase figure of 7.70% per year for Big Rivers. Please provide an explanation of and the basis for this figure, along with any source documentation and workpapers for the derivation of the figure.

Response:

As I explained in my testimony on page 11, at lines 12 through 14, “7.70% per year... is the average annual rate of growth in production savings for the period 2011 to 2015” as estimated by Mr. Luciani. Refer to my response Q.1-14 for the spreadsheet containing my calculations.

Item MISO KIUC 1-17

Q1-17. Refer to page 13, lines 2 through 3 of Your direct testimony. Were the two (2) identified MISO data request responses the only information relied upon by Dr. Morey before he interpolated and extrapolated other annual figures projected out over the fifteen year future discussed on pages 13 and 14 of Dr. Morey’s direct testimony? If no, please identify and provide copies of any other documents and sources of information relied upon.

Response:

The two (2) identified MISO data request responses were the only information I relied upon to interpolate and extrapolate Schedule 26 charges for BREC over the fifteen year future.

Item MISO KIUC 1-18

Q1-18. Refer to page 14, lines 11 through 15 of Your direct testimony. Please explain how the present value calculations were made and what discount rate was used to calculate the quantified figures presented along with any source documentation and workpapers for the derivation of the figures.

Response:

The calculations of present value can be seen in the spreadsheet provided in response to Q.1-14. The discount rate applied was the same 5.83% that Mr. Luciani used in his testimony’s calculations of present value for the MISO Case versus the Stand-alone Case.

Item MISO KIUC 1-19

Q1-19. Refer to page 15, Tables 1 and 2 of Your direct testimony. Please explain how each of the figures presented in each identified category were derived, including how the present value calculations were made and what discount rate was used to calculate the quantified figures presented along with any source documentation and workpapers for the derivation of the figures.

Response:

Refer to my responses to Q.1-14 and Q.1-18.

Item MISO KIUC 1-20

Q1-20. Please refer to page 19, lines 3 through 5 of Your testimony. Did You consider and identify all the benefits of MISO membership including the items discussed by Witness Moeller under the broader heading Value Proposition beginning on page 19 and continuing through page 33 of his prefiled direct testimony? If Yes, did You incorporate any of the quantified values summarized and presented on pages 27 through 31, of Mr. Moeller's prefiled direct testimony?

Response:

I read Mr. Moeller's testimony wherein he discusses MISO's Value Proposition. I did consider all the benefits of MISO membership that I believe are plausible and that I myself could quantify. I regard Mr. Moeller's estimates of benefits for Big Rivers based on the Value Proposition as speculative and unsupported, and therefore not useful as a foundation for benefit-cost analysis.