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January 14, 2011

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort KY 40602-0615

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**PUBLIC SERVICE
COMMISSION**

Dear Mr. Derouen:

We are writing in response to the directive contained in the January 6, 2011 Order in the Public Service Commission of the Commonwealth of Kentucky (“Kentucky Commission”) Case No. 2010-00203, that PJM Interconnection, L.L.C. (“PJM”) file with the Kentucky Commission a further clarification of its December 29, 2010 written acknowledgment of the condition regarding demand response participation by retail customers of Duke Energy Kentucky, Inc. (“Duke Kentucky”) together with assurances that PJM will publicize such requirement according to its demand response rules.¹ PJM acknowledges that under the Conditions set forth in the Commission’s Order, no retail customer of Duke Kentucky is allowed to participate in any PJM demand-response program until that customer has entered into a special contract with Duke Kentucky which has been filed with, and approved by, the Commission, or until Duke Kentucky has an approved tariff authorizing customer participation.

¹ Case No. 2010-00203, Application of Duke Energy Kentucky, Inc. for Approval to Transfer Functional Control of Its Transmission Assets from the Midwest Independent Transmission System Operator to the PJM Interconnection Regional Transmission Organization and Request for Expedited Treatment (Ky. PSC Jan. 6, 2011) (“January 6 Order”).

With respect to end-use customer participation in PJM's Economic and Emergency Load Response Programs, PJM is bound by the terms of Schedule 1 ("Schedule 1") of its Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. ("Operating Agreement"), and the parallel provisions of Attachment K – Appendix of the PJM Open Access Transmission Tariff ("PJM Tariff"), both of which have been approved by PJM's regulator, the Federal Energy Regulatory Commission.² Under the PJM Operating Agreement provisions, Duke Kentucky is the entity that has ultimate responsibility to approve or deny any such Kentucky end-use customer registrations to participate in PJM's Load Response Programs.³ Accordingly, PJM and Duke Kentucky file this joint letter to collectively acknowledge the Kentucky Commission's demand response participation requirements placed upon Duke Kentucky and to further elaborate on the PJM and Duke Kentucky administrative procedures that are or will be implemented to ensure that full force and effect are given to the Duke Kentucky demand response participation requirements as set forth in the Kentucky Commission's December 22 Order.

PJM and Duke Kentucky understand that the intent of the Kentucky Commission's December 22 Order is to prohibit Kentucky end-use customer participation in PJM's Load Response Programs unless prior approval is received from the Kentucky Commission. To that end, James E. Rogers, Duke Energy's Chairman, President and CEO, on December 27, 2010 submitted a letter to the Commission accepting all Conditions contained in the Commission's Order of December 22, 2010 in Case Number 2010 00203. Duke Kentucky reiterates its acceptance of the Commission's Condition that no retail customer of Duke Kentucky is allowed to participate in any PJM demand-response program until that customer has entered into a special contract with Duke Kentucky which has been filed with, and approved by, the Commission, or until Duke Kentucky has an approved tariff authorizing customer participation. Duke Kentucky will reject any PJM demand response program registrations that do not meet this condition.

Further, in accordance with the Emergency and Economic Load Response Program Operating Agreement provisions, PJM has already established and implemented administrative

² Schedule 1 of the Operating Agreement and Attachment K – Appendix of the PJM Tariff are identical. For convenience, where PJM refers in this letter only to the Operating Agreement, such references are intended to encompass the corresponding provisions of the PJM Tariff.

³ In accordance with various orders issued by the Federal Energy Regulatory Commission ("FERC") in Docket Nos. RM07-19 and ER09-701, PJM's Operating Agreement provides that when a Curtailment Service Provider registers a resource with PJM, PJM will notify the appropriate electric distribution company or Load Serving Entity of the registration and request verification as to whether the load that may be reduced is subject to another contractual obligation or to laws or regulations of the RERRA that prohibit, condition or permit the end-use customer's participation in PJM's DSR programs. The EDC or LSE will have ten business days to respond to PJM's notification. *See, e.g., Wholesale Competition in Regions with Organized Electric Markets, Order on Rehearing*, Order No. 719-A, Docket No. RM07-19-001, 74 FR 37,776 (Jul. 16, 2009); and *PJM Interconnection, L.L.C., Order Conditionally Accepting Proposed Tariff Revisions*, Docket Nos. ER09-701-000, -001, 128 FERC ¶ 61,238 (Sept. 14, 2009) ("September 14 Order"). All capitalized terms that are not otherwise defined herein shall have the same meaning herein as they are defined in the Operating Agreement, PJM Tariff or the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region ("Reliability Assurance Agreement"). The phrase "aggregator of retail customers," or ARC, is used by the FERC to refer to an entity that aggregates demand response bids; in PJM this entity is referred to as a CSP.

procedures requiring all CSPs to register any demand response resources located in any Relevant Electric Retail Regulatory Authority (“RERRA”) jurisdiction in the PJM electronic Load Response System (“eLRS”) system⁴; such registration automatically triggers a number of notifications to the relevant electric distribution company (“EDC”) and Load Serving Entity (“LSE”), which entities are then responsible for approving/denying such registrations. Under these established administrative procedures, end-use customers located in the Commonwealth of Kentucky cannot participate in the PJM Load Response Programs until the Kentucky end-use customer registration has been processed through the PJM eLRS system. As described in more detail in the attached Appendix A, Duke Kentucky designated eLRS Users will receive as many as three notices from PJM for each Duke Kentucky end-use customer registration submitted into the PJM eLRS system. Therefore Duke Kentucky shall have the opportunity to deny such registration or apply for the necessary Commission approvals.

Duke Kentucky commits to request from PJM that the PJM registration emails be sent to no less than 3 individuals who are each trained on how to respond to PJM demand response registration requests. Duke Kentucky will request eLRS system access for each of the 3 individuals. Further, PJM asks CSPs to contact the EDC (Duke Kentucky in this case) to obtain demand resource registration information. Upon such contact, Duke Kentucky will provide the CSP the current Kentucky Commission’s rules for direct participation in PJM programs.

For the reasons set forth herein, PJM and Duke Kentucky respectfully request that the Kentucky Commission find that this further clarification of PJM’s December 29 letter to the Kentucky Commission satisfies the final outstanding condition precedent to Duke Kentucky’s transfer of transmission assets to PJM.

Sincerely,

James B. Gainer /s/

James B. Gainer
Vice President
Federal Regulatory Policy



Terry Boston
CEO
PJM Interconnection, LLC

⁴ The eLRS system is a sophisticated PJM system that includes extensive workflow management to ensure all PJM Members can perform their specific administrative tasks associated with PJM Load Response Program participation.

Appendix A

The following is a brief outline of the mechanics of the PJM registration review process. This outline is for illustrative purposes and does not supersede provisions in the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (“Operating Agreement”), the PJM Open Access Transmission Tariff (“PJM Tariff”), or market rules and/or operational practices outlined in the PJM governing documents.

- 1) Electric Distribution Company (“EDC”) is set up in eLRS⁵ including the following:
 - a) Designation of whether the EDC is a large or small EDC (this designation determines the specific Opt in/Opt out Operating Agreement and Tariff registration requirements applicable, and related workflow procedures).
 - b) Designation of account number format
 - c) Designation of User roles – determine which user can do what type of activity in system
 - d) Designation of User notification – determine whether or not the User should receive emails and for what type of activity in the system
 - i) For example a User may decide to receive email notification for all registrations submitted in the system for the specific EDC. The EDC may set up as many Users as desired to receive email notification.
- 2) CSP submits a registration through eLRS
 - a) CSP must set up each location that will be registered and include the specific EDC account number, address and variety of other information on the registration and then submit.
 - b) A task is created in eLRS for both EDC and LSE to review the registration. The EDC and LSE associated with registrations are notified of the registration and the associated due date for the review (initially set to 8 business days).
 - c) If no action has been taken on 8th business day to approve or deny a registration then the appropriate EDC and or LSE will receive another notification that 2 business days remain before the registration is approved (if Opt out/large EDC territory) or denied (if Opt in/small EDC territory).
 - d) If no action is taken before the end of the 10th business day then the pending registration is automatically approved (if Opt out/large EDC territory) or denied (if Opt in/small EDC territory) and the appropriate EDC, LSE and ARC receive a final notification that the registration was approved or denied, as applicable, by the eLRS.
- 3) General
 - a) All registration and non-confidential information are available at will through eLRS by the CSP, EDC and LSE, if they are assigned to the registration. Further, this information can be downloaded as necessary by each PJM Member on the registration to ensure all non-confidential information is transparent to PJM Members with a role in the review process.
 - b) The registration review process is managed through a workflow engine which generates specific “tasks” to each PJM Member to ensure each PJM Member knows what specific

⁵ eLRS is a sophisticated PJM system that includes extensive workflow management to ensure all members can perform their specific administrative tasks associated with PJM Load Response Programs.

item needs to be done and when. This task list is available to all designated Users by the PJM Member so that multiple people can easily complete the associated task.

For more information, please see the PJM eLRS User Guide found at:

<http://www.pjm.com/markets-and-operations/etools/~media/etools/elrs/elrs-user-guide-v2.0.ashx>

PJM demand response Training material is located in the demand response section found at: [pjm.com|Training](http://www.pjm.com/Training).