



DUKE ENERGY CORPORATION

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Kristen Cocanougher
Sr. Paralegal
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VIA HAND DELIVERY

August 25, 2010

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

RECEIVED

AUG 25 2010

PUBLIC SERVICE
COMMISSION

Re: Case No. 2010-00203

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the *Responses of Duke Energy Kentucky, Inc. to Midwest Independent Transmission Systems Operator, Inc.'s Second Set of Data Requests and Responses of Duke Energy Kentucky, Inc. to Commission Staff's Second Set of Data Requests* in the above captioned case.

Please date-stamp the extra two copies of the filing and return to me in the enclosed envelope.

Sincerely,

Kristen Cocanougher

cc: Parties of record

RECEIVED

AUG 25 2010

PUBLIC SERVICE
COMMISSION

**BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION**

In The Matter of:

Duke Energy Kentucky, Inc.'s Application for Approval)	Case No. 2010-203
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)	

**PETITION OF DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION CONTAINED IN
ITS RESPONSES TO COMMISSION'S SECOND SET OF DATA REQUESTS**

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 7, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in response to data request No. 9 in the Commission's data requests, as requested by Staff in this case on August 13, 2010. The information for which Duke Energy Kentucky seeks confidential treatment (Confidential Information) pertains to the Company's proprietary analysis of potential generation capacity valuation in different Regional Transmission Organizations forecasted over a ten year period.

In support of this Petition, Duke Energy Kentucky states:

1. The Kentucky Open Records Act exempts from disclosure certain Commercial information. KRS 61.878(1)(c). Significantly, this rule applies to those records that are generally recognized as confidential or proprietary. And provided the records at issue satisfy this general characterization, they are subject to protection where the disclosure of such information would otherwise result in an unfair advantage to

competitors of the party seeking non-disclosure. Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. The information for which Duke Energy Kentucky seeks protection concerns its review and assessment of financial projections and forecasts related to future capacity markets. Furthermore, the Confidential Information at issue herein also relates to Duke Energy Kentucky's analysis of its generation portfolio. This information was, and remains, integral to Duke Energy Kentucky's effective execution of business decisions. And such information is generally regarded as confidential or proprietary. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is 'generally accepted as confidential or proprietary.'" *Hoy v. Kentucky Industrial Revitalization Authority*, Ky., 904 S.W.2d 766, 768.

3. Disclosure of the Confidential Information, which includes individual factors underlying Duke Energy Kentucky's analysis of its generation portfolio and forecasts related to future capacity value in PJM Interconnection, would damage Duke Energy Kentucky's position and business interests. This information reveals the results of the Company's proprietary analysis used to value its generation portfolio and prediction as to market prices for capacity for many years into the future. If the Commission grants public access to the Confidential Information contained in data request No. 9, potential parties to future bilateral capacity agreements could gain insight into Duke Energy Kentucky's valuation of its own capacity position as well as its view of the PJM Interconnection and Midwest ISO markets, thereby putting the Company at a disadvantage in negotiations.

4. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Kentucky.

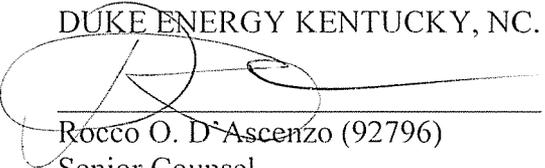
5. Duke Energy Kentucky does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement, to intervenors with a legitimate interest in reviewing the same for the purpose of participating in this case.

6. In accordance with the provisions of 807 KAR 5:001 Section 7, the Company is filing with the Commission one copy of the Confidential Material highlighted and ten (10) copies without the confidential information.

WHEREFORE, Duke Energy Kentucky, Inc. respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY, NC.



Rocco O. D'Ascenzo (92796)

Senior Counsel

Amy B. Spiller (85309)

Associate General Counsel

Duke Energy Business Services, LLC

139 East Fourth Street, Rm 25 AT II

Cincinnati, Ohio 45201-0960

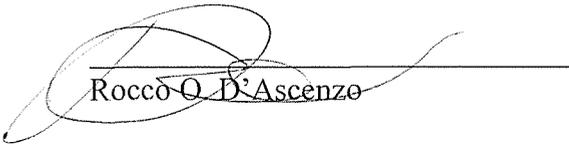
Phone: (513) 419-1852

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e-mail: rocco.d'ascenzo@duke-energy.com

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served via hand delivery to the following party on this 25 day of August 2010:



Rocco O. D'Ascenzo

Hon. Dennis Howard Office of the Attorney General Utility Intervention and Rate Division 1024 Capital Center Drive Frankfort, Kentucky 40601	Katherine K Yunker John B. Park Yunker & Park, PLC P.O. Box 21784 Lexington, KY 40522-1784
Keith Beall Esquire P.O. Box 4202 Carmel, Indiana 46082-4202	Honorable Jason R Bentley Attorney at Law McBrayer, McGinnis, Leslie & Kirkland PLLC 305 Ann Street Suite 308 Frankfort, KY 40601

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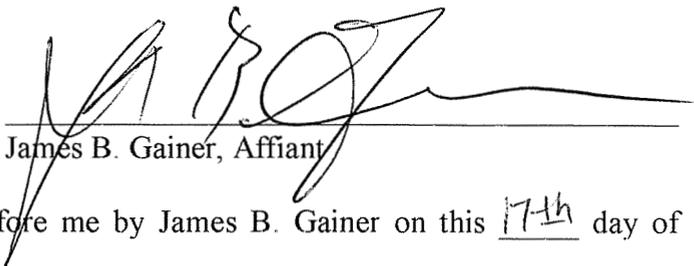
AUG 25 2010

PUBLIC SERVICE
COMMISSION

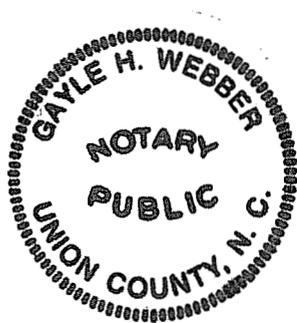
VERIFICATION

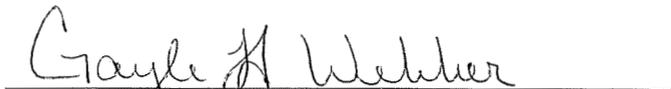
State of Ohio)
)
County of Hamilton)

The undersigned, James B. Gainer, being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as Vice President of Federal Government and Regulatory Affairs; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing response to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.


James B. Gainer, Affiant

Subscribed and sworn to before me by James B. Gainer on this 17th day of August, 2010.



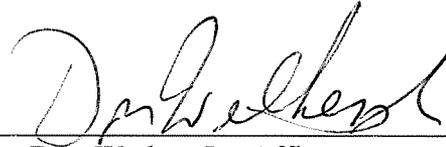

NOTARY PUBLIC

My Commission Expires: 09/13/11

VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, William Don Wathen Jr., being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as General Manager Duke Energy & Vice President Rates-Ohio & Kentucky; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing responses to information requests; and that the matters set forth in the foregoing response to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.



William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen, Jr. on this 18th day of August 2010.

ADELE M. DOCKERY
Notary Public, State of Ohio
My Commission Expires 01-05-2014



NOTARY PUBLIC

My Commission Expires: 1/5/2014

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Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-001

REQUEST:

Refer to the response to item 2.a. of the Commission Staff's First Request for Information ("Staff's First Request") which discusses the benefits of all Ohio electric utilities belonging to one Regional Transmission Organization ("RTO"). In the pending Federal Energy Regulatory Commission ("FERC") proceeding involving the proposed RTO realignment of Duke Kentucky and its parent, Duke Energy Ohio, Inc. ("Duke Ohio"), Docket ER-10-1562-000, the Public Utilities Commission of Ohio ("PUCO"), filed comments on July 26, 2010, which make no mention of the benefits of all Ohio electric utilities belonging to a single RTO that are identified in Duke Kentucky's response. Has the PUCO publicly expressed support for having all its jurisdictional electric utilities in one RTO? If yes, identify where, how and in what context.

RESPONSE:

The Response to 2.a of the Staff's First Request stated " *'Duke Energy believes'* that all Ohio utilities being in one RTO would reduce the regulatory burden placed on the Ohio Commission and Staff relative to following and participating in regulatory proceedings in one RTO versus two RTOs..." Duke Energy is not aware of the Public Utilities Commission of Ohio publicly stating a desire to have all its jurisdictional utilities in one RTO. However, the Company is aware of the Commission discussing the challenges with Ohio utilities in multiple RTOs. See Attachment STAFF-DR-02-001.

PERSON RESPONSIBLE: James B. Gainer



The Public Utilities Commission of Ohio

Monitoring marketplaces and enforcing rules to
assure safe, adequate, and reliable utility services

Bob Taft, Governor
Alan R. Schriber, Chairman

Commissioners

Ronda Hartman Fergus
Judy A. Jones
Donald L. Mason
Clarence D. Rogers, Jr.

2006 JAN 5
REGISTRATION SECTION

January 4, 2006

The Honorable Joseph T. Keliher, Chairman
The Honorable Nora Mead Brownell, Commissioner
The Honorable Suedeem G. Kelly, Commissioner
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

ORIGINAL

Re: MISO/ PJM Joint Board on Security Constrained
Economic Dispatch, FERC Docket AD05-13-000

Joe
Nora
Suedeem

Dear Chairman Keliher, Commissioner Brownell and Commissioner Kelly:

Whenever the Public Utilities Commission of Ohio has examined transmission issues relative to regional transmission organizations (RTO), questions and concerns about the duplicate RTO structures within Ohio and the lack of a common geographic "footprint" in the State for transmission matters as well as wholesale market transactions have arisen. These same concerns spring to mind as we examine the question of security constrained economic dispatch as defined by Section 1234 of the Energy Policy Act of 2005, and discussed by the Federal-State Joint Board organized to address this matter. In reviewing the lack of a common footprint the context of security constrained economic dispatch, these issues take on even more importance.

Let me first say that I agree with the U. S. Department of Energy *Report to Congress on Value of Economic Dispatch* and other commenters who assert that so-called "efficient" dispatch is most likely to *increase* consumers costs and that its benefits are uncertain. I fully support the concept that improvement of matters related to economic dispatch have the most merit for reducing consumer costs and improving wholesale competition. Most importantly, I believe the key to optimizing economic dispatch and ensuring a low cost reliable energy supply is a robust transmission network over which the low cost supply can be provided.

Public Utilities Commission of Ohio
January 4, 2006

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Lack of a Common RTO Footprint in Ohio

In the matter concerning the bifurcation of Ohio by the “uncommon” footprints of the PJM Interconnection L.L.C. (PJM) and the Midwest Independent Transmission System Operator (MISO), I believe Ohio’s companies should not be punished for the RTO choices they have made. The PUCO supported the RTO choices made by Ohio utilities, but has found those choices have resulted in a lack of geographic scope that produces artificial barriers to commerce with neighboring utilities, particularly if those neighbors are located in a different RTO. While one cause of these barriers can be attributed to the different history and development of PJM versus that of the MISO, a more fundamental cause is the artificial ‘Chinese’ walls set up by the separate RTO operational rules and business practices. These separate operational rules and business practices, established to meet only the circumstances within each RTO, actually work to prohibit or stifle cross-RTO border trading between them. I recommend that each RTO’s operational rules and practices must be reviewed and amended to recognize and accommodate cross RTO trading if truly effective security constrained economic dispatch is to facilitate an open and common market in the combined PJM/MISO region. Examples of the problem areas that need to be recognized and addressed include the following:

Joint and Common Planning – The Value of Independent Transcos, the Impact of Loop Flows, and the Importance of a Robust Transmission System to Security Constrained Economic Dispatch

The so-called planning mechanism that exists between the MISO and PJM exhibits several flaws. The current RTO “plans” appear to be a conglomerate of individual company “wish lists” taken from the shelf and dusted off to look “new.” While some trans-state construction plans in the mix actually provide a head start for more interstate commerce, these are few and far between. There is no “joint or common planning.” In addition, any joint effort at planning between the two RTOs fails to recognize the particular value that for-profit independent transmission companies (transcos) can bring to a planning regimen: on PJM’s part because they have no experience with transcos to help them understand their value, while those on MISO are

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kept out the joint process due what may be characterized as deference to the bias that appears to color PJM's pursuits. Likewise these RTO plans ignore appropriate recovery for potential merchant transmission projects, treating them as if they were "dispatchable" merchant generation. This makes no sense. If transmission additions to a "common carrier" system are made by non-incumbent merchant transmission owners, they should be allowed recovery of their costs in the RTO's tariff on the same non-discriminatory basis as that provided to generation-owning transmission companies. In addition, joint and common planning can go a long way toward addressing the "loop flows" the dispatch of one system can create on the other. When the energy produced in one system flows over any available transmission path to respond to the attraction of load, it can produce congestion on the neighboring system, requiring more uneconomic (out of merit order) dispatch to overcome the loop flow effects. Ohio has seen years of these effects with the infamous "Lake Erie Loop flow," and can attest to the inefficiencies and problems created by such phenomena.

I believe comprehensive and inclusive joint and common transmission planning between the two RTO's splitting the State of Ohio is an important first step to effective security constrained economic dispatch that brings the benefits of a competitive wholesale market to Ohio. Again, as AEP points out in its comments in the instant FERC docket, the key to optimizing economic dispatch and ensuring low cost reliable energy is a robust transmission network over which the low cost supply can be provided.

Efficient and Equitable Transmission Pricing – Recognizing the Nature of Energy and Removing the Artificial "Toll Booths"

A well-planned transmission system that facilitates security constrained economic dispatch deserves cost recovery under an efficient and equitable pricing regime. While some system users are content with the existing pricing scheme as long as it brings compensation for which they bear no responsibility, they urge that the current inefficiencies and inequities not be disturbed. Unfortunately, use of the traditional "local" license plate rates has created more than "seams" in the wholesale market footprint in Ohio, it has instead created inefficient pancaked rates. No joint or common market can be created or long exist where artificial RTO "toll booths"

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have been set up to impede commerce. No new or effective transmission development to encourage successful security constrained economic dispatch can be expected if only the ratepayers who happen to be located in the States where the facilities are constructed are expected to entirely subsidize the interstate commerce using those facilities. Pricing to recover the costs of the sorely needed development of the transmission grid should carefully be considered to recognize the speed and efficiency with which the energy itself flows to respond to load. The PUCO has often brought its ideas for flow-based pricing to the attention of the FERC, both in comments and in testimony responding to litigation. Realizing that this type of pricing may require considerable study and testing, I recommend that FERC consider some sort of "distance pricing" mechanism in the interim to replace license plate rates to more closely reflect the nature of the commerce being conducted on the interstate system.

Recognizing Historical Contributions to the Nation's Transmission Grid by Optimizing Existing Strengths and Expertise

In an attempt to create a common carrier system from existing transmission networks, the history of transmission development has been neglected. Generation-owning transmission developers constructed delivery networks to get their energy product to the market created by - consumers. Developing an enduring transmission system was in these companies' best commercial interests. Unlike other system around the world, the U.S. grid systems did not start life as state-owned or government-run socialized monopolies. Where other political entities are struggling to "privatize" their government utility monopolies, we seem intent on socializing ours. Calls for new transmission investment should recognize the self-interests that built the existing system in the first place. One approach might be for RTOs to recognize and optimize existing strengths and expertise brought about by the systems' development. With the assistance of State regulators acting on behalf of their own States, the FERC and the RTOs must look beyond the construction that is currently planned, financed or being sited, toward the development of the most efficient delivery routes to serve load and then allow existing transmission owners, merchant transmission developers, and for-profit transcos to bid on construction and ownership.

Public Utilities Commission of Ohio
January 4, 2006

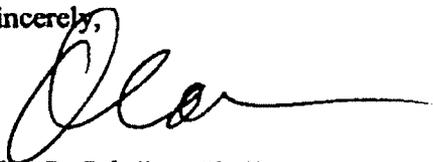
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Conclusion

In conclusion, I believe the key to optimizing economic dispatch and ensuring a low cost reliable energy supply is a robust transmission network over which the low cost supply can be provided. I fully support the efforts being made by FERC, PJM, MISO and the participants in the Federal-State Joint Board on Security Constrained Economic Dispatch. In that light, I personally ask you to consider the suggestions and recommendations made here to undertake certain improvements in related matters that will not only repair the lack of a common RTO footprint and efficient competitive wholesale market for Ohio, but more importantly contribute to effective and equitable security constrained economic dispatch. In summary these suggestions and recommendations include establishing joint and common RTO planning that recognizes the value of independent transcos, the impact of loop flows, and the importance of a robust transmission system to security constrained economic dispatch. In addition, making improvements for security constrained economic dispatch must consider cost recovery through *efficient and equitable transmission pricing while recognizing the nature of energy and the removal of artificial "toll booths" on the grid system.* Finally, improvements to security constrained economic dispatch will depend on utilizing the historical contributions to the nation's transmission grid by optimizing existing strengths and expertise.

If I can be of further assistance to you with regard to these suggestions and recommendations or any other matter, please do not hesitate to contact me.

Sincerely,



Alan R. Schriber, Ph. D.,
Chairman

**Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010**

STAFF-DR-02-002

REQUEST:

Refer to the response to item 4c. of Staff's First Request. Confirm that this should be interpreted as clarifying that Duke Kentucky will be allocated regional transmission expansion planning process costs by PJM Interconnection, L.L.C. ("PJM") only when it becomes a member of PJM.

RESPONSE:

This is correct. Duke Energy Kentucky will be allocated PJM Transmission expansion costs (RTEPP) as of the date the Company becomes a member.

PERSON RESPONSIBLE: Kenneth Jennings

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-003

REQUEST:

Refer to the response to item 5 of Staff's First Request. The response indicates Duke Kentucky's share of the combined transmission revenue requirement would decrease from 16.8 percent to 13.7 percent due to the change from a 12 Coincident Peak ("12 CP") to a 1 Coincident Peak ("1 CP") methodology.

- a. Explain whether there is an advantage or benefit to Duke Kentucky from using a 1 CP methodology versus a 12 CP methodology for transmission pricing.
- b. In general, what effect, if any is this change expected to have on Duke Kentucky's next retail rate case?

RESPONSE:

- a. To the extent one allocation method produces a lower allocation of a given level of costs to Duke Energy Kentucky, it would, of course, reduce Duke Energy Kentucky's share of transmission revenue requirement. Both methods have been found just and reasonable by FERC and relative impacts of one method versus another likely would vary from year to year as usage and other factors change.
- b. Assuming all else being equal, a lower allocation of a system transmission (*i.e.*, the Duke Energy Midwest or a Duke Energy Ohio/Duke Energy Kentucky combined transmission system), would reduce the transmission revenue requirement from retail ratepayers at the time retail rates are set in the next rate case.

PERSON RESPONSIBLE: William Don Wathen Jr.

**Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010**

STAFF-DR-02-004

REQUEST:

Refer to the response to item 8 of Staff's First Request. The response failed to identify Midwest ISO ASM tariff. Identify what the acronym ASM represents and provide a general description of the tariff.

RESPONSE:

ASM is an acronym for Ancillary Services Market. Identifying the tariff as the Midwest ISO ASM tariff was a merely a reference. The MISO Tariff is actually called the Midwest ISO Open Access Transmission, Energy and Operating Reserve Markets Tariff.

PERSON RESPONSIBLE: Kenneth Jennings

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-005

REQUEST:

Refer to the response to item 10 of Staff's First Request, which indicates that Duke Kentucky believes that there will be no significant impacts on other Kentucky transmission owners due to its move from the Midwest ISO to PJM. On page 34 of its July 26, 2010 comments filed in FERC Docket ER-10-1562-000, the Midwest ISO states that the Miami Fort substation provides the physical link between East Kentucky Power Cooperative, Inc. ("EKPC") and the Midwest ISO. It also states that EKPC is evaluating Midwest ISO membership and the move to PJM will effectively block a physical path to the Midwest ISO for EKPC, which will eliminate any voluntary choice by EKPC to join the Midwest ISO.

- a. Explain in detail how this outcome is not considered by Duke Kentucky to be a "significant impact" for EKPC, a Kentucky transmission owner.
- b. If the Duke companies were to move to PJM, the Midwest ISO goes on to identify what it describes as expensive and unattractive options for EKPC to be a Midwest ISO member, absent a direct physical path. Explain whether Duke agrees with the existence and the Midwest ISO's characterization of those options.

RESPONSE:

The Miami Fort Substation is owned and operated by Duke Energy Ohio, not Duke Energy Kentucky. The Miami Fort Substation does not directly connect to EKPC in any way. Duke Energy is not aware of EKPC having made an affirmative decision to join an RTO, let alone the Midwest ISO. Duke Energy Kentucky's decision to realign its RTO membership was made in the best interests of Duke Energy Kentucky and its ratepayers. The Company did not base its decision upon a speculative possible scenario whereby EKPC, (or any other utility for that matter), may choose to join an RTO, including the Midwest ISO. EKPC is not currently a member of the Midwest ISO and presumably, it would have to file an application before the Kentucky Public Service Commission to transfer control of assets and FERC to affect such a transfer. The Commission would review the prudence of that transfer at that time and determine if it is in the public interest. Nonetheless, should EKPC someday choose to voluntarily join an RTO, the Midwest ISO is one possible alternative. Although it is true that once Duke Energy Ohio

realigns with PJM, EKPC will not be tied to a transmission-owning entity that is a member of the Midwest ISO, EKPC would not be precluded from joining the Midwest ISO. EKPC would have to negotiate a transmission path through PJM, or LG&E, or TVA, to the Midwest ISO in accordance with FERC-approved tariffs and procedures. However, just as EKPC should not pay for any additional costs of pseudo-tying Duke Energy Kentucky to the Midwest ISO so that EKPC could have an option to one day choose to join the Midwest ISO at present day costs, Duke Energy Kentucky should not be required to remain in the Midwest ISO or to pay the costs of a transmission path to the Midwest ISO for another utility that is not currently even a member of the Midwest ISO.

PERSON RESPONSIBLE: James B. Gainer

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-006

REQUEST:

Refer to the response to item 5 of the Midwest Independent System Operator's ("Midwest ISO") first data request. Explain the financial costs and benefits that will likely result under Duke Kentucky's alternative options of integrating its load into the PJM Reliability Pricing Model ("RPM") process or electing the Fixed Resource Requirements status, and state when a decision on those options will be made.

RESPONSE:

The financial costs and benefits of Duke Energy Kentucky choosing either the RPM or Fixed Resource Requirements ("FRR") capacity alternative are understood to be as follows:

RPM – Duke Energy Kentucky would be obligated to offer its generating capacity into the annual three year forward auction. Duke Energy Kentucky would receive revenue in the delivery year equal to the RPM clearing price for the Duke Energy zone multiplied by the amount (MWs) of Duke Energy Kentucky capacity which cleared in the auction. For that capacity which cleared in the annual and interim auctions, Duke Energy Kentucky would have the obligation to offer the energy of those resources in the PJM daily energy market. It is Duke Energy Kentucky's intention that capacity charges from the PJM RPM auction to Duke Energy Kentucky load would be offset by revenues paid to Duke Energy Kentucky for capacity resources cleared in the RPM auction if Duke Energy Kentucky selects the RPM option.

FRR – Duke Energy Kentucky would not be obligated to offer its generating capacity into the annual three year forward auction and would not be paid for the capacity by PJM but rather would be obligated to provide sufficient capacity to satisfy its load obligation. Duke Energy Kentucky could satisfy this obligation either by its ownership of its own generating resources or through bilateral arrangements. Duke Energy Kentucky would have the obligation to offer the energy of those resources in its FRR plan in the PJM daily energy market. Duke Energy Kentucky would also have the obligation to continue in the FRR plan for the next five years.

The decision as to whether to select the RPM or FRR alternative will be made by the end of 2010 in order to satisfy PJM requirements for participation.

PERSON RESPONSIBLE: G. R. Burner

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-007

REQUEST:

The Indiana Utility Regulatory Commission (“IURC”), on pages 10 -11 of its July 26, 2010 comments filed in FERC Docket ER-10-1562-000, states that “[i]t is the IURC’s understanding that there are no market impediments to Duke’s ability to sell in the PJM’s RPM as members of the Midwest ISO.” State whether IURC’s understanding is correct and whether there are any benefits or detriments to selling into the PJM RPM as Midwest ISO member versus as a PJM member.

RESPONSE:

The PJM market does accommodate external generators. External generators must demonstrate deliverability. Presently there is no ATC. Upon realigning with PJM, Duke Energy Kentucky can use PJM’s transparent forward prices as a reliable benchmark for planning. If Duke Energy Kentucky were to remain in the Midwest ISO, the ability to sell into PJM, absent ATC, is not a usable resource planning tool. Duke Energy Kentucky has made its decision to realign with PJM along with Duke Energy Ohio to continue the operational efficiencies and eliminate the need to pseudo-tie, and avoid the costs of pseudo-tying the Company’s entire load and generation back to the Midwest ISO.

PERSON RESPONSIBLE: G.R. Burner

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-008

REQUEST:

In March 2010, the Midwest ISO filed two complaints(EL 10-45 and EL 10-46) asking FERC to intercede in disputes with PJM related to the management of congestion at the border between the two RTOs. PJM subsequently filed a complaint requesting that FERC order refunds of overpayments PJM allegedly made due to the Midwest ISO's improper use of the two RTO's market-to-market settlement process. On June 29, 2010, FERC consolidated the dockets and set them for an evidentiary hearing.

- a. Describe any potential impacts the outcome of this proceeding may have on Duke Kentucky, either in the near term or in the future, if it becomes a member of PJM.
- b. Will the pending FERC proceeding have any effect on the timeline that has been set for joining PJM? If yes, what are those effects?

RESPONSE:

- a. The outcome of this proceeding is uncertain. Currently the parties, including Duke Energy, are participating in FERC administered settlement discussions. Any potential settlement would likely be between PJM and the Midwest ISO, with subsequent payments or credits being determined by the two RTO tariffs or a future filing that is approved by the Federal Energy Regulatory Commission. We would anticipate that since Duke Energy Kentucky was a member of the Midwest ISO when the alleged overpayments were made, Duke Energy Kentucky would be allocated a portion of any refunds or payments the Midwest ISO receives from or pays to PJM. Further, since Duke Energy Kentucky was not a member of PJM when the alleged overpayments were made, Duke Energy Kentucky should not be allocated a portion of any refunds or payments PJM receives from or pays to the Midwest ISO.
- b. No, it is not anticipated that this proceeding would impact the timeline for Duke Energy Kentucky to join PJM.

PERSON RESPONSIBLE: James B. Gainer

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-009
PUBLIC

REQUEST:

The August 2, 2010 edition of Electric Utility Week, at page 14, reported that the Midwest ISO estimated that the generation capacity of Duke Kentucky and Duke Ohio could earn more than \$353 million annually in capacity payments in PJM. It also reported that the Midwest ISO estimated that, over the 10 years between 2014 and 2024, Duke could earn nearly \$8 billion for its combined Duke Ohio and Duke Kentucky assets in the RPM auctions.

- a. Explain whether the Duke companies have performed or reviewed any analyses to determine what Duke Kentucky and Duke Ohio could earn annually on capacity payments in PJM and, if yes, provide a summary of the analyses' results.
- b. Have the Duke companies performed or reviewed any analyses of what could be earned over the 10 years between 2014 and 2024 for the combined Ohio and Kentucky assets in the RPM auctions?
- c. If the answer part b. of this request is yes, provide the estimated amount that could be earned over 10 years between 2014 and 2024 for the combined Ohio and Kentucky assets in the RPM auctions and for the Kentucky assets separately.

RESPONSE:

- a. The Duke Companies – Duke Energy Kentucky and Duke Energy Ohio – did not perform or review a combined analysis of possible, future capacity earnings in PJM. Duke Energy Ohio is a non-regulated electric supplier in Ohio's competitive market and, as such, the FERC affiliate restrictions preclude Duke Energy Ohio and Duke Energy Kentucky from performing a combined analysis. Furthermore, Duke Energy Kentucky has not performed an analysis of Duke Energy Ohio's non-regulated portfolio and potential capacity payments to Duke Energy Ohio as such an analysis would not be relevant to Duke Energy Kentucky's decision to seek realignment into PJM.

Upon learning of Duke Energy Ohio's decision to realign its RTO membership, Duke Energy Kentucky did evaluate its generation portfolio to determine whether realigning with PJM was in the best interests of Duke Energy Kentucky and its rate payers. Duke Energy Kentucky's

decision to realign was based primarily upon maintaining operational efficiencies due to interconnectedness to Duke Energy Ohio's transmission. Duke Energy Kentucky did perform an analysis of its generation portfolio to determine potential capacity payments in PJM. Duke Energy Kentucky's analysis [REDACTED]

[REDACTED] As explained in the direct testimony of William Don Wathen Jr., excess capacity payments received by Duke Energy Kentucky (capacity sold that is not dedicated to serving Kentucky native load) would be shared with customers under the terms of Rider PSM.

- b. See response to part a above. Duke Energy Kentucky has attempted to review the numbers proposed by the Midwest ISO, which appear to be unsubstantiated and intentionally one sided. Indeed, in the FERC proceeding, the Midwest ISO made similar allegations but declined to introduce evidence in support of its "calculations" because "the exact amount is not material to this proceeding." Thus, for example, the Midwest ISO never explains whether it is using costs for the western portion of PJM in which Duke Energy Ohio and Duke Energy Kentucky will be situated, which trend significantly lower than those for the congested Eastern portion of PJM or some other number. Nor did the Midwest ISO compare its PJM projection with a projection for the Midwest ISO market. As such, Duke Energy Kentucky has not been able to recreate the Midwest ISO's estimates, which appear to have no foundation in reality.
- c. See responses to parts (a) and (b) above. As discussed therein, due to FERC affiliate restrictions, Duke Energy Kentucky and Duke Energy Ohio have not performed a combined analysis for the regulated (Kentucky) and the non-regulated Ohio portfolios. The forecast analysis for the Duke Energy Kentucky regulated portfolio shows a [REDACTED]
[REDACTED] As explained in the direct testimony of William Don Wathen Jr., net profits from such capacity payments would be shared with customers under the terms of Rider PSM. Answering further and in the spirit of discovery, Duke Energy Kentucky states that it cannot authorize the release of confidential and proprietary business information of another entity that operates in a competitive market in another state. Releasing information as to Duke Energy Ohio's business decisions and any assumptions related thereto would expose Duke Energy Ohio to a competitive disadvantage and potentially harm both that company and its customers

PERSON RESPONSIBLE: a.b. c. - James B. Gainer
c. - G.R. Burner

Duke Energy Kentucky
Case No. 2010-00203
Staff Second Set Data Requests
Date Received: August 13, 2010

STAFF-DR-02-010

REQUEST:

Explain whether the Duke Companies have performed any analyses of PJM's recent scarcity-pricing proposal. If approved as proposed, explain how Duke Kentucky intends to meet the requirements of the proposal and minimize the impact on its retail customers

RESPONSE:

Duke Energy presumes the Commission's question concerns PJM's filing, filed on June 18, 2010 in FERC Docket ER09-1063-004. In that filing, PJM proposed package of reforms to establish just and reasonable pricing for operating reserve shortages in the PJM Region. The Duke Companies have not preformed any analysis of nor commented to the Federal Energy Regulatory Commission on PJM's proposal.

Duke has not performed any analyses of the PJM shortage-pricing proposal. Since May 2005, there have been only 6.5 hours of a Primary Reserve shortage outside the Mid-Atlantic and Dominion zones and that occurred on August 2, 2006 when PJM hit its all-time peak. Outside the Mid-Atlantic and Dominion zones, there have not been any Synchronized reserve shortages. Duke Energy Kentucky's primary means to protect its retail customers and avoid shortage conditions is to maintain sufficient capacity and energy resources.

PJM, through its Tariff, Operating Agreement, and Reliability Assurance Agreement has sufficient tools to maintain reliability and service to load. By maintaining sufficient energy and capacity resources for Duke Kentucky customers, any impacts from a scarcity event should be minimal.

PERSON RESPONSIBLE: G.R. Burner

RECEIVED

AUG 25 2010

PUBLIC SERVICE
COMMISSION

VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, Ron Snead, being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as General Manager, System Planning and Operations; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing response to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.

Ron Snead
Ron Snead, Affiant

Subscribed and sworn to before me by Ron Snead on this 24TH day of August, 2010.

ADELE M. DOCKERY
Notary Public, State of Ohio
My Commission Expires 01-05-2014

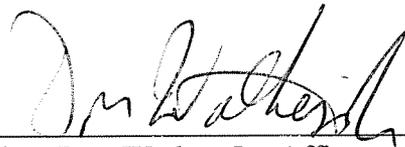
Adele M. Dockery
NOTARY PUBLIC

My Commission Expires: 01/05/2014

VERIFICATION

State of Ohio)
)
County of Hamilton)

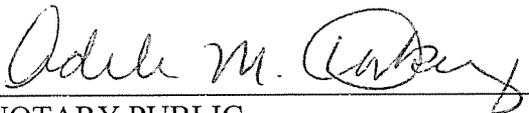
The undersigned, William Don Wathen Jr., being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as General Manager Duke Energy & Vice President Rates-Ohio & Kentucky; that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing responses to information requests; and that the matters set forth in the foregoing response to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.



William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen, Jr. on this 18th day of August 2010.

ADELE M. DOCKERY
Notary Public, State of Ohio
My Commission Expires 01-05-2014



NOTARY PUBLIC

My Commission Expires: 1/5/2014

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Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-001

REQUEST:

In its response designated as the “MISO-DR-01-012(d) attachment,” DEK provides a spreadsheet showing what are represented to be dollar values and percentages from application of DEK’s profit-sharing mechanism rider (Rider PSM).

- a. Are the amounts presented in the MISO-DR-01-012(d) attachment and described as “Absolute Dollar Amount of Profits from off-system sales of energy” (row “i”) the entirety of the off-system sales profits to be included in the calculation of the Rider PSM Factor (*i.e.*, equal the “P” in the formula provided in KY P.S.C. Electric No. 2, 14th Rev’d Sheet No. 82 p.1/2)? If not, provide the dollar amount of profits from all off-systems sales that were included for each quarter through and including 2010 Q2.
- b. Confirm that the 3rd quarter 2009 dollar amounts as to each component underlying the percentages provided in the MISO-DR-01-012(d) attachment are as follows:

Energy Sales	- \$715,385
Ancillary Services Sales	- \$45,749
Capacity Sales	\$710,047

If one or more of these is not correct, provide the dollar value for each discrete component by quarter for each quarter shown in the MISO-DR-01-012(d) attachment.

- c. With respect to the “capacity sales” for which data is given in the MISO-DR-01-012(d) attachment (2009 Q3 – 2010 Q2):
 - 1. What changed (or began) that caused amounts for capacity sales to be included in the overall off-system sales profits?
 - 2. Identify and describe what is the “capacity” that is being sold, to whom, and how.
 - 3. Show the derivation (and provide all workpapers) of the capacity sales “profit” to be included in the Rider PSM calculation, including gross revenues and each deduction therefrom.
- d. The dollar amounts provided for “Absolute Dollar Amount of Profits from off-system sales of energy” on the MISO-DR-01-012(d) attachment are of the same magnitude but do not match the amounts given as the “Off-System Sales Margin Allocated to Customers” for the respective quarter in the support documentation provided for the

initial Rider PSM tariff and each revision. *Compare, e.g.,* MISO-DR-01-012(d) attachment Q1 2010 (\$1,063,958) *with* TFS2010-00046, filed 1/28/10, Duke Energy Support Doc.pdf, Sch.2 line 23 (\$982,429). Explain the difference in amounts shown on the MISO-DR-01-012(d) attachment and on the support documentation.

RESPONSE:

a. The amounts presented in MISO-DR-01-012(d) are the total off-system sales profits before the reduction of the profits for the amount retained by shareholders. The P in the formula provided in KY.P.S.C Electric No.2 excludes the amounts retained by shareholders.

b. The 3rd quarter 2009 dollar amounts by component are :

Energy Sales	\$(715,384)
Ancillary Services	\$(45,749)
Capacity Sales	\$710,045

c. 1. In 2008-2009, MISO made the transition from requiring load serving utilities to prove resource adequacy after-the-fact to requiring resource adequacy from planning perspective. This change freed up Duke Energy Kentucky's surplus capacity, which was held as a buffer for compliance purposes before the transition, to become available for sale. This is the primary reason Duke Energy Kentucky became comfortable selling surplus capacity to increase off-system sales. Starting in June 2009, MISO implemented monthly Voluntary Capacity Auctions (VCA), where market participants can offer capacity for sale or bid to buy capacity.

2. See attachment MISO-DR-02-001(c)(2).

3. There are immaterial costs associated with the sale of capacity. The amounts provided on attachment MISO-DR-02-001(c)(2) in the total column were the amounts included in the Rider PSM calculation.

d. The amount of \$1,063,958 reported for the first quarter of 2010 on attachment MISO-DR-02-001(d) was based on the most current available MISO statements for the January thru March 2010 risk periods as of the date the schedule was prepared. The amount of \$982,449 reported on Duke Energy Kentucky's PSM filing dated January 28, 2010, was based on the amounts booked in the first quarter 2010 accounting period. To clarify further, the January 2010 number included in the \$1,063,958 was based on the MISO S105 statements and the January 2010 included in the \$982,449 was based on the MISO S14 statements. The difference between

the two amounts was included in Duke Energy Kentucky's PSM filing dated April 30, 2010.

PERSON RESPONSIBLE: William Don Wathen, Jr.

<u>Accounting Period</u>	<u>MW Quantity</u>	<u>Price</u>	<u>Total</u>	<u>Purchaser</u>
Jun-09	25	\$6,000	\$150,000	Cargill (Individual Contract)
Jun-09	1	\$10,015	\$10,015	MISO Voluntary Capacity Auction
Jun-09	200	\$2,750	\$550,000	Sempra Energy (Individual Contract)
Sep-09	60.4	\$0.50	\$30	MISO Voluntary Capacity Auction
Oct-09	260	\$0.75	\$195	MISO Voluntary Capacity Auction
Jan-10	361.4	\$0.41	\$149	MISO Voluntary Capacity Auction
Feb-10	250	\$0.35	\$88	MISO Voluntary Capacity Auction
Mar-10	200	\$0.35	\$70	MISO Voluntary Capacity Auction
Apr-10	156	\$5.00	\$780	MISO Voluntary Capacity Auction
May-10	101.9	\$10.00	\$1,019	MISO Voluntary Capacity Auction
Jun-10	99.8	\$10.00	\$998	MISO Voluntary Capacity Auction

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-002

REQUEST:

In the MISO-DR-01-012(a) attachment, DEK provides the Rider PSM pages from its tariff ("Rider PSM Tariff"), KY.P.S.C. Electric No. 2, 14th Rev'd Sheet No. 82, issued 4/30/10 and effective 6/2/10.

- a. How are negative profits (as reflected, for example, in the 3rd quarter 2006) treated in calculating "P" for the Rider PSM Factor?
- b. The Commission found that the "sharing" of off-system sales profits in the Rider PSM was reasonable and acceptable in the circumstances, in its 12/5/03 Order pp. 19-20, Case No. 2003-00252.

What is the revenue requirement impact of the profit-sharing arrangement (*see id.* p.20 n.34)?

- c. Does DEK still acknowledge that such profit-sharing from off-system sales between ratepayers and shareholders departs from typical rate-making treatment (*see id.* p.19)? If not, explain.
- d. Does DEK take the position that the Rider PSM applies to any off-system sales other than from the facilities transferred in the transactions considered in Case No. 2003-00252? If so, explain.
- e. Is it DEK's intention to share any capacity profits received under the PJM RPM with ratepayers?
- f. Does DEK take the position that shareholders' receiving a portion or all of capacity revenue is critical from an economic perspective to the "business decision" to realign with PJM? Explain.
- g. Confirm that ratepayers are credited with 100% of the net margins on sales of emission allowance (*see Rider PSM Tariff* (page 1/2)). If this is not correct, state how and with whom the ratepayers share the net margin on sales of emission allowances.
- h. In Case No. 2008-00489, DEK sought and obtained approval to modify Rider PSM to include as an "eligible profit" the net revenues related to its provision of ancillary services in the Midwest ISO Ancillary Services Market (ASM). *See* 1/30/09 Order.

Confirm that, as part of its request and the resulting calculations under Rider PSM, DEK agreed to absorb any net costs (when costs exceed revenues for ancillary market transactions in any given month) and hold ratepayers harmless.

- i. Explain the mechanics of how ASM net costs are reflected in the Rider PSM Tariff and then show how they are reflected in the calculation of the Rider PSM Factor.

RESPONSE:

- a. Negative profits can be included in calculating “P” for Rider PSM as long as the calendar year shows a net profit.
- b. The revenue requirement impact to customers is equal to the credits flowed through via Rider PSM as reflected in response to MISO-DR-01-012.
- c. Yes.
- d. Objection. This Document Request calls for speculation. Duke Energy Kentucky does not own any other generating facilities.
- e. Yes.
- f. No.
- g. Confirmed.
- h. Objection. The content of the Order referenced in this Document Request speaks for itself. Without waiving said objection, Duke Energy Kentucky made no explicit agreement to absorb incremental costs related to its participation in the ancillary services market.
- i. See Duke Energy Kentucky’s Rider PSM at http://www.duke-energy.com/pdfs/DE-KY-rider-psm_6.02.10.pdf for calculation of the Rider PSM factor.

Net “profits” from Duke Energy Kentucky’s participation in MISO’s Ancillary Services Market is flowed through “P” in the Rider PSM formula as an “eligible profit.”

PERSON RESPONSIBLE: William Don Wathen Jr.
Objection as to (d) – Legal
Objection as to (h) – Legal

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-003

REQUEST:

The support documentation provided with each Rider PSM Tariff revision lists categories of “Off-System Sales Revenue” and “Variable Costs Allocable to Off-System Sales.” *See, e.g.*, TFS2010-00417, filed 7/23/10, Duke Energy Support.pdf, Sch.2.

The support documentation lists categories of “Off-System Sales Revenue” other than the three components listed on the MISO-DR-01-012(d) attachment, namely: Bilateral Sales; Hedges; and MISO RSG Make Whole Payments. *See, e.g.*, TFS2010-00417, filed 7/23/10, Duke Energy Support.pdf, Sch.2 lines 4-6. As to each of these three identified categories:

- a. Describe what revenues are included in that category and any related costs included in the “Variable Costs Allocable to Off-System Sales.”
- b. State with which component it was included on the MISO-DR-01-012(d) attachment and why.
- c. State whether a negative value has ever occurred in a given month and, if so, how that occurred and whether that negative value reduces the overall “Off-System Sales Margin” (*see, e.g., id.* line 18).
- d. There are also “Capacity” revenues listed in the support documentation. *See, e.g.*, TFS2010-00417, filed 7/23/10, Duke Energy Support.pdf, Sch.2 line 7.
 - (i) Describe what revenues are included in that category.
 - (ii) Are the amounts listed for “Capacity” gross or net? If net, what has been excluded? Describe any related costs that are included in the “Variable Costs Allocable to Off-System Sales” (*see, e.g., id.* lines 10-17).
- e. The support documentation lists “MISO and Other Costs” as a category of “Variable Costs Allocable to Off-System Sales.” *See, e.g.*, TFS2010-00417, filed 7/23/10, Duke Energy Support.pdf, Sch.2 line 14.
 - (i) What are “Other Costs”? Are there any “Other Costs” associated with Bilateral Sales?

- (ii) For each month of the first two quarters of 2010, describe and state the amount of each "Other Cost" included among "Variable Costs Allocable to Off-System Sales" and with which category or categories of Off-System Sales Revenues it is associated.
- (f) What "MISO ... Costs" are included among "Variable Costs Allocable to Off-System Sales" (*see, e.g., id.* line 14)? As to each, state with which category or categories of Off-System Sales Revenues it is associated, and the PJM equivalent for that cost, if any. What other PJM costs will be included in this category if DEK realigns?

RESPONSE:

- (a) Bilateral sales are sales to any counterparty other than the Midwest ISO. These sales mainly consisted of emergency power sales, although after the start of the ancillary services market on January 6, 2009, emergency sales are now incorporated into the ancillary services market. The cost of generation for these sales is included in the fuel and emissions costs in the variable cost section of the report.

Duke Energy Kentucky may enter into contracts to hedge the costs of purchased power and natural gas. Depending on market conditions a gain or loss can be earned on these hedges. The broker fees for these hedges are included on the hedge line in the revenue section.

RSG make whole payments allocated to off system sales are included in the revenue section. The cost of generation of these sales is included in the fuel and emissions costs in the variable cost section of the report.

- (b) These sales were included in the Energy sales component on MISO-DR-01-012(d).
- (c) There have been occasions when the net result for the month is negative and it will reduce the net margin to be flowed through the Rider PSM for the year. However, Rider PSM cannot be below \$0 for the year. Among other things, losses can occur as a result of how costs are allocated between native and non-native in the fuel adjustment clause (i.e., stacking); from hedges depending on market conditions; from uneconomic dispatch when units are run out of the money to avoid the cost of shut-down and start-up; and from general dispatch methodology.
- (d) See response to MISO-DR-02-001(c).
- (e) (i) The MISO and other cost line in the filing only includes MISO costs.
(ii) There are only MISO costs in this line for the first two quarters of 2010.
- (f) Bilateral purchases for non-native have been \$0.

Non-native fuel cost is the fuel cost allocated to non-native sales in the after-the-fact dispatch costing used in the monthly fuel adjustment clause filings.

Variable O&M is a calculated amount non-fuel variable plant-related cost attributable to non-native sales.

SO₂ and NO_x costs are allocable emission allowance costs to non-native sales.

“MISO and Other costs” are Midwest ISO charges allocated between native and non-native. For a complete list of these charges, please refer to the Midwest ISO tariff. (i.e., off-system sales).

The only costs comparable in PJM are the “MISO and Other Costs.” As to which PJM costs would be applicable, the Company has not performed this analysis. See also response to MISO-DR-015(c).

PERSON RESPONSIBLE: William Don Wathen, Jr.

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-004

REQUEST:

- A. In MISO-DR-01-004, DEK provides more information about past and present Duke Energy participation in PJM.
1. What is the current annual Membership fee for PJM for the four Duke Energy entities presently in PJM? Would the fee be the same regardless of whether DEK becomes a member? Explain.
- B. With the requested realignment of Duke Energy Ohio and DEK into PJM and DEK's becoming a member:
1. In what sector(s) would DEK participate?
 2. What change, if any, would there be in the sector(s) in which Duke Energy Ohio participates or in which the other current-member Duke Energy affiliates participate?
 3. Who would be the primary voting member?
 4. In its participation within PJM, has a Duke Energy entity taken a position on the issued raised by the IMM's recommendations in the 7/14/10 *Analysis*? If so, state each vote or other position taken, by which Duke Energy entity (or entities), and the date (or time period).

RESPONSE:

- A. 1. The annual membership fee for PJM is \$5,000. Yes the fee would be the same regardless. The fee is paid for each mother company regardless of the number of affiliates.
- B. 1. Undetermined.
2. Unknown.
 3. Undetermined.

4. Objection. This question is vague and overly broad. Without waiving said objection, assuming that this refers to the July 14, 2010 IMM Report on the 2013/2014 RPM BRA results, See **MISO-DR-01-006**. There was no vote on the IMM Analysis.

PERSON RESPONSIBLE: Kenneth Jennings
Objection as to (4) – Legal

MISO-DR-02-005

REQUEST:

- A. Appendix A to the STAFF-DR-01-006 Attachment — an Interconnection Agreement between Duke Energy Business Services, LLC acting as agent for Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. and East Kentucky Power Cooperative, Inc. (Midwest ISO FERC Electric Tariff, 4th Rev'd Vol. No.1, Orig. Service Agmt No.2168) — contains facility schedules listing “Duke Energy-Owned Interconnection Facilities” for points of interconnection.

As to each such interconnection facility listed:

1. Which Duke Energy entity owns (or in the case of to-be-installed/constructed facilities, will own) the facility?
 2. Identify where (if at all) that facility is listed on Attachment 1 to the DEK Application in this case.
- B. Are any of the to-be-installed/constructed facilities included in the Midwest ISO’s MTEP or PJM’s RTEPP? If not, why? If so, identify each such facility and provide details regarding its inclusion in MTEP or RTEPP (or both).
- C. As to each listed interconnection point with EKP:
1. Which Duke Energy entity’s transmission or generation facilities are being (or will be) interconnected with EKP?
 2. Identify where (if at all) that interconnected facility is listed on Attachment 1 to the DEK Application in this case. Is a Duke Energy entity served (or to be served) through that interconnection point and, if so, which Duke Energy entity? To the extent not already done in response to subparts (a) or (c), identify which of the transmission facilities listed on Attachment 1 to the DEK application are DEK transmission assets.

RESPONSE:

A

1

- Mt. Zion – Boone – Duke Energy Ohio owns the Duke facilities associated with this interconnection point.

- Hebron Interconnection Point – Duke Energy Ohio owns the transmission facilities to which the new EKPC owned transmission substation will be connected.
- Webster Road Interconnection Point – Duke Energy Ohio owns the transmission facilities to which this new EKPC transmission substation will be connected.

2

- Mount Zion - Boone is listed on page 64 of Attachment 1 (Buffington – Boone). Webster Road and Hebron (EKPC) are not listed. They are not yet constructed.

B

- Objection. This Document Request seeks to elicit information regarding MTEP that is already within the possession of the Midwest ISO and thus must be construed as harassing in nature. Without waiving said objection, none of the facilities are in the PJM RTEPP. The Hebron and Webster Road facilities are listed in the MISO MTEP, as projects 2871, and 2867, respectively. These facilities are being paid for by EKPC.

C

1

- The Mount Zion – Boone Interconnection is between Duke’s Mt. Zion Station, and EKPC’s Boone Station.
- EKPC’s Hebron Transmission Station will be connected to Duke Energy Ohio’s Miami Fort to Crescent circuit.
- EKPC’s Webster Road Station will be connected to Duke Energy Ohio’s Silver Grove – Kenton – Hands- Buffington circuit.

2

- Mt Zion – Boone is listed on page 64 of Attachment 1. This interconnection is not for the purpose of serving Duke Energy Kentucky load.
- Miami Fort to Crescent is listed on page 64 of Attachment 1. Hebron is not for the purpose of serving Duke Energy Kentucky load.
- Silver Grove – Buffington is listed on page 64 of Attachment 1, and is not for the purpose of serving Duke Energy Kentucky load.

The following assets listed on Attachment 1 are Duke Energy Kentucky owned facilities:

From page 20 – Augustine, Belleview, Cold Spring, Constance, Crescent, Dayton

From Page 21 – Donaldson, Florence, Hands, Hebron, Kenton, Kentucky University, LaFarge, Longbranch, and Silver Grove

From page 22 – Wilder, York

From Page 34 (nontransferred facilities)– Alexandria South, Atlas, Beaver, Blackwell, Buffington, Claryville, Cold Spring, Constance

From page 35 (nontransferred facilities)– Covington, Crittendon, DeCoursey, Dixie, Dry Ridge, Empire, Grant, Johnson Controls, Kenton, Levi Strauss, Limaburg, Marshall, Newport Steel, Oakbrook, Richwood, Thomas Moore, Verona, Villa, White Tower, Wilder

PERSON RESPONSIBLE: Ron Snead

Objection as to (B) – Legal

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-006

REQUEST:

DEK describes in STAFF DR-01-004(e) the basis (daily; not one lump sum) on which it would be assessed RTEPP costs. Provide the information requested as to:

- a. an estimate of the number of years that payments will be made for the RTEPP costs of projects currently underway; and
- b. an estimate of the amount of the payment in each year.

RESPONSE:

- a. Assuming that the grid will always require upgrades and modifications, Duke Energy Kentucky will make payments for transmission expansion as long as they are a member of PJM. The significant difference is that PJM does not require exiting members to continue the payments going forward. PJM permits transmission expansion payments to terminate upon exiting, unlike with MISO where the payments will continue.
- b. Objection. This Document Request calls for speculation. Without waiving said objection, these numbers are not easily determined since the in service dates continue to be a moving target and the allocation for expansion costs are unknown at this time.

PERSON RESPONSIBLE: G.R. Burner
Objection as to (b) – Legal

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-007

REQUEST:

In its responses to the Midwest ISO and Commission Staff data requests, DEK (a) claims that it is DEK's choice or "business decision" to realign with PJM, *see, e.g.*, MISO-DR-01-020, -021; and (b) states that it "believes" or "anticipates" that moving to PJM (relative to remaining in the Midwest ISO) will or has the potential to be beneficial, *see, e.g.*, MISO-DR-01-013(a), STAFF-DR-01-009; but (c) has not performed various analyses or made determinations about the risks, costs, or other effects of that move, *see, e.g.*, MISO-DR-01-013(b), STAFF-DR-01-010.

- a. Did DEK make an independent decision to realign on its own analysis that realignment was in its best interest? If so, identify the person(s) within DEK whose decision it was. If not, who made the decision and on consideration of whose interests?
- b. There is a reference in MISO-DR-01-021 to "Duke Energy Kentucky's analysis of the situation." Provide any writing or document constituting, memorializing, or reflecting DEK's "analysis of the situation" — whether a study, calculations, memo, summary of results, or description of an analysis made. As to each unwritten or undocumented analysis, identify by whom and when performed and describe the analysis.
- c. Other than those provided in subpart (b), provide all written or documented analyses by or on behalf of DEK about realigning with PJM, not realigning if Duke Energy Ohio realigns, or the effects of either action.
- d. Other than those provided in subparts (b) and (c), provide all written or documented analyses that consider DEK's realigning with PJM, not realigning if Duke Energy Ohio realigns, or the effects of either action — even if the analysis is not specific to DEK.

RESPONSE:

- a. Duke Energy Kentucky's decision to realign its RTO affiliation was based on the interests of Duke Energy Kentucky. This decision was made by the Duke Energy executive management team.

- b. The reference in MISO-DR-01-021 regarding an “analysis of the situation” refers to Duke Energy Ohio’s decision to realign creating an opportunity for Duke Energy Kentucky to realign as well in order to maintain operational efficiencies. Duke Energy Kentucky’s reasons to realign with Duke Energy Ohio, *i.e.*, “analysis of the situation,” as referenced in MISO-DR-01-21, is described in the direct testimony of John D. Swez, James B. Gainer, and William Don Wathen Jr.
- c. Objection. This request is overbroad and unduly burdensome given the lack of time parameters for which the information is requested. The request further seeks confidential proprietary trade secret information that describes Duke Energy Kentucky’s assumptions of the market and its business strategy as well as privileged information protected by attorney client privilege and attorney work product. Without waiving said objections, please see response to Staff DR 02-09.
- d. Objection. This request is overbroad and unduly burdensome given the lack of time parameters for which the information is requested. To the extent it seeks information not specific to Duke Energy Kentucky, this Document Request seeks information that is irrelevant to this Kentucky proceeding and not likely to lead to the discovery of admissible evidence. The request is further objectionable in that it seeks confidential proprietary trade secret information that describe Duke Energy Kentucky’s assumptions of the market and its business strategy as well as privileged information protected by attorney client privilege and attorney work product.

PERSON RESPONSIBLE: (a, b) - James B. Gainer
As to Objection (c, d) – Legal

**Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010**

MISO-DR-02-008

REQUEST:

In MISO-DR-01-011(b), DEK states that its load would be fully hedged with DEK resources, such that there would be \$0 paid to acquire capacity. Describe how that result (full hedging; \$0 payment) would be accomplished.

RESPONSE:

It is Duke Energy Kentucky's intention that capacity charges from the PJM RPM auction to Duke Energy Kentucky load would be offset by revenues paid to Duke Energy Kentucky for capacity resources cleared in the RPM auction if Duke Energy Kentucky selects the RPM option.

PERSON RESPONSIBLE: G. R. Burner

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-009

REQUEST:

Refer to DEK response MISO-DR-01-017(g)(i). Confirm that “ATC” is an acronym for “available transfer capability.” How does the proposed realignment into PJM address or resolve the lack of firm ATC?

RESPONSE:

ATC means Available Transfer Capability. In the context of question/response MISO-DR-01-017(g)(i), Duke Energy Kentucky realignment in PJM makes moot the firm ATC impediment for *external* resources because Duke Energy Kentucky would be able to offer its generating resources into the PJM RPM auction as fully deliverable *internal* PJM capacity resources.

PERSON RESPONSIBLE: G.R. Burner

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010

MISO-DR-02-010

REQUEST:

Duke Energy Ohio's Vermillion plant (located in Indiana) will remain in the Midwest ISO (*see* MISO-DR-01-016(c)) even if Duke Energy Ohio realigns with PJM.

- a. How would that be accomplished?
- b. Identify what transmission facilities listed on Exhibit 1 to the DEK Application in this case are associated with the Vermillion plant and as to each, by whom it is owned and whether it will remain in the Midwest ISO with the Vermillion plant.
- c. Other than as identified in subpart (c), which of Duke Energy Ohio's transmission facilities listed on Exhibit 1 to the DEK Application will remain in the Midwest ISO?

RESPONSE:

- a. Duke Energy Ohio's Vermillion Generating Station is interconnected to the transmission system of Duke Energy Indiana. Duke Energy Indiana's transmission system is, and will remain, part of the MISO system. Duke Ohio will continue to be an asset owner in the Midwest ISO, as it relates to Vermillion Station.
- b. Vermillion Station is connected to the Bulk Transmission System via the Cayuga to Vermillion circuit. This circuit is owned by Duke Energy Indiana. It will remain in the Midwest ISO.
- c. Objection. This question is vague with respect to what is meant by subpart (c) as there is no subpart (c) to Duke Energy Kentucky's Exhibit 1. Without waiving said objection, the Vermillion plant is the only Duke Energy Ohio asset remaining in the Midwest ISO footprint.

PERSON RESPONSIBLE: Ron Snead
As to Objection (c) – Legal

Duke Energy Kentucky
Case No. 2010-00203
MISO Second Set Data Request
Date Received: August 13, 2010
MISO-DR-02-011

REQUEST:

In MISO-DR-01-016, DEK provides some information requested regarding use of the pseudo-tying setup described by Swez (p.11 *l.*4 – p.12 *l.*13).

- a. Is the pseudo-tying setup described the same as that proposed to be used for Duke Energy Indiana generation or load that is now connected to the Midwest ISO only through Duke Energy Ohio, *e.g.*, the Madison generating facility? If not, describe the difference(s) between the setups.
- b. Does DEK now allocate any resources “to monitor the nuances and potential conflicting signals” between the Midwest ISO and other RTOs/ISOs? If not, why? If so, what resources? Is this function handled for DEK by any Duke Energy affiliate and, if so, which one(s) and will that cease upon a realignment of Duke Energy Ohio with PJM?
- c. What is “Regulated Portfolio Optimization” (*see* MISO-DR-01-016(d)(ii)), is it provided to DEK by an affiliate (and, if so, which one), and what is the associated cost borne by DEK’s ratepayers?
- d. Which Duke Energy entity currently employs “the groups responsible for energy scheduling and transmission operations” (*see* MISO-DR-01-016(e)) for DEK?
- e. Identify each Duke Energy affiliate that is handling energy sales for DEK and whether it is doing so in the Midwest ISO market, the PJM market, or both; as to each, state whether the affiliate will cease to do so upon a realignment of Duke Energy Ohio with PJM.
- f. In MISO-DR-01-016(f)(ii), DEK states that with a pseudo-tying setup, it “would require resources to manage and operate all load, generation, transmission, energy scheduling, and system operations.” How does DEK currently manage and operate its load, generation, transmission, energy scheduling, and system operations? To the extent that a Duke Energy affiliate performs all or part of these functions for DEK, identify the affiliate, the functions performed, the cost to DEK, and whether (and how much) of that cost is borne by DEK ratepayers.

RESPONSE:

- a. Pseudo-tying the Duke Energy Kentucky generation and load into the MISO Balancing Area would be technically similar to pseudotyping Duke Energy Indiana's Madison generating facility. However, there is a stark difference between the two beyond the technical requirement. Madison is one plant delivering its capacity and energy into the MISO for the benefit of the Duke Energy Indiana load, which is already located in the MISO. Each of the Duke Energy Kentucky's injection and withdrawal points (i.e. each of Duke Energy Kentucky's loads and generators) would need to have metering and telemetry (at AGC scan rates) to move the Duke Energy Kentucky generation into the MISO and then back out of MISO to serve the Duke Energy Kentucky load. With this arrangement, Duke Energy Kentucky will incur additional expenses and risks when serving its load with its own generation that would not otherwise occur. These may include transmission service fees, congestion, loss and hedging costs, administrative fees, MISO uplift costs and credit risks. Duke Energy Kentucky are not familiar with any Duke Energy Indiana load being pseudo-tied back into MISO through the Duke Ohio transmission system, as referenced by MISO.
- b. Duke Energy Generation Dispatchers that are in the Regulated Portfolio Optimization Department monitor the dispatch signals sent to East Bend Station. The dispatch function will continue to exist after the transition to the PJM Interconnection.
- c. Regulated Portfolio Optimization is a service provided by Duke Energy Business Services, an affiliate of Duke Energy Kentucky. This group operates generation resources and trading activities for the regulated Duke Energy companies including Duke Energy Kentucky. The test year revenue requirement for the Company's most recent retail electric base rate case included approximately \$1.54 million of allocated operating and maintenance expenses for Regulated Portfolio Optimization.
- d. Energy scheduling and sales for Duke Energy Kentucky in MISO are performed by Regulated Portfolio Optimization and will provide the same function for Duke Energy Kentucky in PJM. Transmission operations for Duke Energy Kentucky is performed by Ohio/Kentucky Transmission and Distribution Operations (Duke Energy Business Services).
- e. For regulated operations, Regulated Portfolio Optimization manages purchases, sales, and dispatch for Duke Energy Kentucky in MISO and will continue to perform the same function in PJM when Duke Energy Kentucky joins PJM.
- f. Energy scheduling and sales for Duke Energy Kentucky in MISO are performed by Regulated Portfolio Optimization and will provide the same function for Duke Energy Kentucky in PJM. Transmission operations for Duke Energy Kentucky is performed by Ohio / Kentucky Transmission and Distribution Operations. Regulated Portfolio Optimization labor charges are allocated to all regulated affiliates including Duke Energy Carolinas, Duke Energy Indiana, Duke Energy Kentucky, by the ratio of utility sales, which includes non-requirements sales for resale.

PERSON RESPONSIBLE: a. Ron Snead b. – f. Bob Burner

REQUEST:

With respect to DEK's East Bend Generating Station, which Swez (p.9 //11-15) describes as currently "operated fully" by DEK, jointly-owned with PJM member Dayton Power and Light Company (DP&L), and receiving signals from both the Midwest ISO and PJM:

- a. Is East Bend presently attached to and dependent on transmission facilities jointly-owned by Duke Energy Ohio, DP&L, and AEP? If so, identify the relevant facilities on Attachment 1 to the DEK Application in this case. If not, list the transmission delivery facilities for East Bend and their ownership, and identify those facilities, if any, which are listed on Attachment 1 to the DEK Application.
- b. Is it optional for East Bend to now be "in" both PJM and the Midwest ISO, or is it required?
- c. On what does that option or requirement depend (*e.g.*, the split of its ownership between Midwest ISO and PJM members, the split membership of the owners of the attached transmission facilities, etc.)?
- d. How does that option or requirement change (if at all) if Duke Energy Ohio realigns with PJM? Explain.
- e. How does that option or requirement change (if at all) if DEK realigns with PJM? Explain.
- f. Is East Bend presently pseudo-tied to either PJM or the Midwest ISO? Explain.
- g. Is East Bend split between PJM and the Midwest ISO, or is it "in" each RTO to a variable and possibly overlapping amount?
- h. How is the load associated with East Bend now treated? Is it "in" PJM and the Midwest ISO in proportion to its ownership or some other fixed factor?

RESPONSE:

- a. East Bend Station is connected to the Tanner's Creek to East Bend Circuit, and the East Bend to Terminal Circuit. Both of these circuits are listed on page 61 of Attachment 1. Duke Energy Ohio is the sole owner of these circuits.
- b. Duke Energy Kentucky's ownership share of East Bend is a Designated Network Resource in MISO and Dayton Power & Light's (DPL) share of East Bend is a capacity resource in PJM. In order for the separate shares to fulfill the obligations of a DNR, they are required to be modeled in only one market (presently, the DPL share must remain in PJM, and the Duke Energy Kentucky share in MISO).
- c. As stated in item "b," the requirement for East Bend Unit 2 to be in both MISO and PJM is related to the designation of separate ownership shares as capacity resources in each RTO.
- d. The realignment of Duke Energy Ohio and Duke Energy Kentucky to PJM will result in East Bend Unit 2 being modeled as directly connected to PJM.
- e. See response to d.
- f. DPL's ownership share of East Bend is currently pseudo tied to PJM. This arrangement is required in order to facilitate operations, and comply with NERC Standards. Duke Energy Kentucky is the party that is responsible for the operation of these assets (i.e., East Bend is within the metered boundaries of Duke's system and by definition the Midwest ISO).
- g. Currently, East Bend is split between MISO and PJM markets. While the physical unit is located within the metered boundaries of the Midwest ISO, DPL's share of East Bend Unit 2 is modeled as a discreet generating unit in PJM. Duke Energy Kentucky's share is modeled as a discreet unit by MISO. Each of the RTOs can use only that part of the unit that is in their model. Overlapping, in this context, would seem analogous to double counting energy, or capacity. This would be a violation of NERC Standards. Duke Energy does not double count capacity or energy. We also are extremely confident that DPL, MISO and PJM do not double count. Duke Energy Kentucky believes each of these parties to have a strong culture of compliance.
- h. Auxiliary load associated with East Bend is allocated to each of the joint owners, on an ownership share basis. This means the auxillary load is in the RTOs on an ownership share basis as well.

PERSON RESPONSIBLE: Ron Snead (a, f, g)
G.R. Burner (b, c, d, e, h)