UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Duke Energy Ohio, Inc., *et al.* **)** **Docket No. ER10-1562-000**

ANSWER OF PJM INTERCONNECTION, L.L.C. TO COMMENTS OF THE MIDWEST ISO'S INDEPENDENT MARKET MONITOR

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.213, PJM Interconnection, L.L.C. ("PJM") hereby answers the comments submitted in this proceeding on August 19, 2010 (the "August 19 Comments"), by the Independent Market Monitor ("Potomac Economics") for the Midwest Independent Transmission System Operator, Inc. ("MISO").

I. INTRODUCTION

Potomac Economics makes several incorrect factual assertions and/or assumptions in response to the June 25, 2010 initial filing in this docket by Duke Energy Ohio, Inc. ("DEO") and Duke Energy Kentucky, Inc. ("DEK") (together referred as "Duke Energy"). These inaccurate factual assertions and/or assumptions fall into two categories: (i) assumptions regarding future capacity prices in both PJM and MISO and Duke Energy's estimated capacity revenues under PJM's Reliability Pricing Model ("RPM"); and (ii) claims of "inefficiencies" triggered by Duke Energy's migration from MISO to PJM and associated system configuration changes. PJM will not weigh into the policy and legal debates raised by the various MISO pleadings in this proceeding. Rather, PJM is limiting this answer to ensure that the Commission has a correct factual record before it as it deliberates these matters.

PJM also answers, both procedurally and substantively, Potomac Economics' attempt in this proceeding to pursue an unauthorized collateral attack on the Joint Operating Agreement between PJM and MISO[1] and the Commission's orders approving the joint and common market under the JOA.

II. ANSWER TO COMMENTS

(i) Assumptions regarding capacity prices and Duke Energy's estimated capacity revenues under PJM's RPM

A factual examination of capacity pricing trends in the MISO region versus the PJM region reveals a far different result than the unsupported conclusions set forth by Potomac Economics in the August 19 Comments. Specifically, Potomac Economics' claims MISO's Voluntary Capacity Auction "remains at prices close to zero … while RPM capacity market revenues for DEO and DEK in PJM are estimated to be $352 million annually."[2] As explained below, capacity pricing trends in the MISO's auctions and PJM's RPM prices belie these claims.

Potomac Economics' unsupported claim that Duke Energy's RPM capacity market revenues are estimated to be "$352 million" is inaccurate on its face for two reasons. First, this estimate could only be valid if PJM's capacity price were at least $200/MW-day. The $200/MW-day revenue value, however, is almost 10 times the price which resulted from the last RPM auction that would be applicable to the DEO and DEK zones following their integration into PJM. Second, the $200/MW-day price on which Potomac Economics' estimated annual revenue value of $352 million is based is about $25/MW-day higher than the highest RPM auction capacity price ***ever*** derived in the area of the PJM region which would be applicable to

[1] PJM Interconnection Second Revised Rate Schedule No. 38 (the "JOA").
[2] August 19 Comments at 5.

the DEO and DEK zones following their integration into PJM.[3] Thus, Potomac Economics' conclusion is simply not supported by an analysis of the facts when compared to both the highest ever and the most recent actual RPM capacity values.

In addition, Potomac Economics' use of the MISO's Voluntary Capacity Auction as a basis to value capacity in MISO does not provide an accurate representation of capacity prices in MISO. MISO's monthly capacity auctions are residual in nature and, therefore, do not provide a meaningful gauge of the real value of the vast majority of the capacity in MISO. Contrary to the erroneous and unsupported "snapshot" recited by Potomac Economics' in its summary pleading, an examination of future capacity price trends is far more instructive and reveals a rapid convergence of PJM and MISO capacity costs. This convergence in prices reflects the tightening reserve margins both in PJM and MISO in future years. [4]

It is far more appropriate to look at forward capacity prices in MISO as compared to PJM because PJM's RPM is a three year forward capacity auction. A comparison of indicators of forward prices for capacity in MISO versus PJM ensures a proper "apples to apples" comparison. One indicator of forward capacity prices in MISO is found in the most recent weighted average annual capacity prices resulting from the Ameren-Illinois auctions conducted by the Illinois Power Agency the results of which attached hereto (together referred to as the "Illinois-Ameren Auctions"). The Illinois-Ameren Auctions serves as a transparent indicator of future MISO capacity values because they represent prices resulting from future commitments by resources to fulfill future capacity obligations and thus are more comparable to PJM's three year forward RPM auction prices. While the Illinois-Ameren Auctions procured capacity for a relatively small

[3] That highest RPM capacity price ever derived for this area was $174.25/MW-day for the 2011-2012 Deliver Year.
[4] *See NERC/ North American Electric Reliability Corporation, 2009 Long-Term Reliability Assessment 2009-2018,* at 2; at 102; at 103; at 106; at 107; and at 108.

portion of the MISO footprint, because the Illinois-Ameren Auctions were conducted to fulfill a request for proposal aimed at satisfying the needs of the entire Ameren load, the results provide a better indication of the value of capacity used to satisfy full requirements than do the MISO monthly Voluntary Capacity Auctions which are residual in nature.[5] The forward capacity prices for the Ameren region are as follows (all values are in $ per MW-day):

2009 Auction:

Delivery Year:	09/2010	10/2011	11/2012
Clearing Price:	$31.51	$40.35	$60.25

2010 Auction:

Delivery Year:	10/2011	11/2012	12/2013
Clearing Price:	$7.43	$25.40	$67.66

This information demonstrates that Potomac Economics' blanket conclusion that MISO's capacity prices have and will remain "close to zero" is simply not correct. Rather, capacity prices as exemplified by the transparent Illinois-Ameren Auctions show consistent and significantly increasing prices over the last two years. While MISO's capacity prices appear to be increasing, the PJM RPM capacity prices in the areas of the PJM region applicable to Duke Energy have been decreasing in recent years as follows:

Delivery Year:	10/2011	11/2012	12/2013	12/2014
Clearing Price:	$174.29	$110.00	$16.46	$27.73[6]

This comparison of forward prices demonstrates that, if anything, capacity values in PJM and MISO are trending toward convergence. When compared to the tightening reserve margins

[5] *See; 2009 State of the Market Report for the Midwest ISO*, Prepared by Potomac Economics, Executive Summary at i (posted at http://www.midwestmarket.org/publish/Document/55f670_12a43afcc88_-7f610a48324a?rev=1) ; and *2009 State of the Market Presentation* dated June 2010, Prepared by Potomac Economics (posted at http://www.midwestmarket.org/publish/Document/55f670_12a43afcc88_-7f630a48324a?rev=1).

[6] *See;* the PJM 2013/2014 RPM Base Residual Auction report posted at the following link: http://www.pjm.com/markets-and-operations/rpm/~/media/markets-ops/rpm/rpm-auction-info/2013-2014-base-residual-auction-report.ashx

in both regions, the delta between capacity prices in PJM and MISO (and the alleged windfall to Duke Energy as a result) is simply not supported by an analysis of the facts.

(ii) Alleged inefficiencies

Potomac Economics claims that Duke Energy's migration would "degrade the configuration of (MISO's) and PJM's systems" and generate economic inefficiencies.[7] Potomac Economics' conclusion however, is unsupported and contradicted by the facts. First, Potomac Economics' claim that Duke Energy's integration into PJM would produce inefficiencies in the day-ahead commitment and scheduling of resources is simply wrong.

In fact both DEO and DEK have closer electrical ties with PJM than with MISO. Following its integration into PJM, there will be only 1 interconnection between DEO and DEK and MISO compared with 12 interconnections with PJM. Moreover, today over 1,400 MW of Duke Energy's generation is from the co-owned units owned jointly with and operated by American Electric Power ("AEP") and Dayton Power and Light ("Dayton") (the "CCD units"), both members of PJM.

Given the closer electrical ties between Duke Energy and PJM, there is certainly no basis for Potomac Economics' conclusion. In fact, consistent with the analysis PJM conducted in the *First Energy Services Company* integration proceeding in Docket No. ER09-1589-000, inclusion of the DEO and DEK zones generation resources in the PJM unit commitment process should result in a more efficient commitment of generation. This conclusion is supported by the physical characteristics of the transmission system. As a result, Duke Energy is situated such that a more optimal overall day-ahead commitment can be achieved across both PJM and MISO by including the DEO and DEK zones in the PJM day-ahead market.

[7] August 19 Comments at 6.

As explained by PJM in the above-referenced *First Energy Services Company* integration proceeding, the Day-ahead Energy Market commitment optimality that can be achieved via Duke Energy's realignment, however, cannot be achieved under the existing provisions of the JOA. This is because the Day-Ahead Energy Market Coordination provisions of the JOA do not and cannot provide a comparable operational efficiency with the availability of Duke Energy's generation units for day-ahead unit commitment in PJM.[8]

The stronger ties between Duke Energy and PJM will allow for greater optimality in the day-ahead commitments of both RTOs and therefore increase the efficiency of the real time markets as well. This is because generation and load in the DEO and DEK zones are closer electrically to the PJM transmission system constraints than the MISO transmission system constraints, a physical fact that cannot be overcome through market-to-market coordination under the JOA. Thus, the unsupported assertion that Duke Energy's proposed move to PJM will "increase inefficiencies" is simply belied by the relative level of interconnection between PJM, DEO and DEK.[9]

Second, Duke Energy's integration into PJM will make the interfaces between PJM and MISO less complex due to the existence of the jointly owned or CCD units. Duke Energy owns over 1,400 MW of the 3,754 MW capability of the jointly owned units operated by AEP and Dayton in PJM, and Duke Energy's shares of these units are currently pseudo-tied out to MISO. In addition, Duke Energy owns over 1,800 MW of several jointly owned units operated by Duke Energy that are currently in MISO, for a total share of all the jointly owned units of around 3,250

[8] *See; Comments of PJM Interconnection, L.L.C.*, filed September 25, 2009, in Docket No. ER09-1589-000.
[9] To be clear, however, PJM's conclusions are driven by the stronger electrical ties between DEO and DEK and PJM rather than any differences between PJM's day-ahead commitment process and MISO's day-ahead commitment process. PJM's and MISO's day-ahead commitment processes are virtually identical.

MW. The total capability of the Duke Energy operated units is 3,320 MW, resulting in a total capability of all the units in question of 7,074 MW.

Therefore, over 3,200 MW of capacity currently pseudo-tied from MISO to PJM or vice versa will be eliminated as a result of Duke Energy's integration into PJM which will be more efficient than the current configuration.

PJM does not raise these points to engender a rhetorical debate. Such a debate is neither helpful nor called for by the Commission's *LG&E* standards.[10] Rather, PJM notes these points simply to correct Potomac Economics' sweeping and unsupported claims concerning the impact on the relative efficiency of operation of the PJM/MISO border before and after Duke Energy's move from MISO to PJM.

(iii) Allegation of seams issues under the JOA

In a larger sense, Potomac Economics appears to be using this proceeding as a platform to pursue an unauthorized collateral attack on the JOA and the Commission's orders approving the joint and common market under the JOA.[11] Potomac Economics claims there are seams issues resulting from the differences between the PJM RPM capacity market and MISO's capacity construct which must be resolved with or without Duke Energy's integration into PJM.[12] Since Potomac Economics believes that the issue arises even "without" Duke Energy's move to PJM, it is not appropriately raised in this proceeding. In any event, as MISO points out, the Commission has previously found that the market operations of MISO and PJM are

[10] *Louisville Gas and Electric Company, et at.,* 114 FERC ¶ 61,282, *order on reh'g,* 116 FERC ¶ 61,020 (2006) ("LG&E Withdrawal Order").
[11] *See; Wisconsin Public Service Corporation,* 114 FERC ¶ 61,277 (2006) (the "2006 Dismissal Order"); and *Wisconsin Public Service Corporation,* 120 FERC ¶ 61,269 (2007) (the "WPS Order Denying Rehearing")
[12] August 19 Comments at 5.

sufficiently similar as to constitute a joint and common market.[13] Consequently, while MISO expresses a similar concern as Potomac Economics' characterization of a purported seam issue caused by the different capacity market constructs between the two RTOs,[14] not even MISO goes as far as to suggest the Commission reverse in this proceeding its prior orders approving the JOA and the joint and common market.

Accordingly, the Commission should not utilize Duke Energy's exercise of its rights under section 205 of the Federal Power Act to re-litigate the implementation of the JOA which itself remains the subject of a number of Commission prior orders and open proceedings.[15] The Commission has clearly honored the doctrine of *res judicata* and, as a policy matter, restricts collateral attacks on final orders by parties that were active in the earlier case as doing so would thwart the finality and repose that are essential to administrative, and judicial, efficiency.[16]

The Commission has endorsed the different market designs of the two RTOs under the joint and common market in other proceedings.[17] Duke Energy's withdrawal from MISO and integration into PJM will not change anything in that regard.

The JOA and associated market-to-market congestion management process result in the most open, transparent seam in the country due to its underlying mechanism for managing

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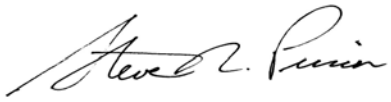
[13] MISO Comments at 24; *citing Wisconsin Public Service Corporation,* 114 FERC ¶ 61,277 (2006).
[14] August 19 Comments at 5.
[15] *See, National Commission for the New River, Inc. v. Federal Energy Regulatory Commission*, 433 F.3d 830, 834, 369 U.S. App. D.C. 63 (D.C. Cir. 2005) (quoting *Apotex, Inc. v. FDA*, 393 F.3d 210, 217 (D.C. Cir. 2004).
[16] *San Diego Gas and Electric Company v. Public Service Commission of New Mexico*, 86 FERC 61,253 (1999), *see also, Pacific Gas & Electric Company*, 121 FERC 61,065 at P.38 (2007); *Alamito Company,* 41 FERC 61,312 at 61,829 (1987), *order on reh'g*, 43 FERC 61,274 (1988), *citing, Central Kansas Power Company, Inc.* 5 FERC 61,291 at 61,621 (1978) ("[I]n the absence of new or changed circumstances requiring a different result, 'it is contrary to sound administrative practice and a waste of resources to relitigate issues in succeeding cases once those issues have finally been determined.'")
[17] *See; WPS Order Denying Rehearing Order* ("As the Commission found in the 2006 Dismissal Order and the February 2007 Order, and as we continue to find, the Commission's previous orders did not require the RTOs to establish a single market with single system dispatch.")

congestion via efficient market-to-market redispatch. Those mechanisms provided by the JOA will remain in place following Duke Energy's integration into PJM. The differences between PJM's and MISO's capacity constructs are consistent with Commission precedent and do not render the JOA unjust or unreasonable.

III. CONCLUSION

PJM respectfully requests the Commission consider the foregoing Answer of PJM in Duke Energy's filings to withdraw from MISO and join PJM.

Respectfully submitted,



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Date: September 1, 2010

ICC Public Notice of Winning Bidders and Average Prices
Illinois Power Agency 2009 Procurement for the Ameren Illinois Utilities
April 13, 2009, Capacity RFP Procurement

On April 13, 2009, Levitan & Associates, Inc. ("LAI"), the Procurement Administrator retained by the Illinois Power Agency ("IPA") for the 2009 procurements for Central Illinois Light Company (AmerenCILCO), Central Illinois Public Service Company (AmerenCIPS), and Illinois Power Company (AmerenIP) (collectively, the "Ameren Illinois Utilities"), received bids for the Ameren Illinois Utilities' Capacity RFP Procurement pursuant to the IPA's Procurement Plan approved by the Illinois Commerce Commission ("Commission") in Docket No. 08-0519. On April 15, 2009, the Commission voted to approve the bids recommended for approval by the Procurement Administrator. Section 16-111.5(h) of the Public Utilities Act provides that "[t]he names of the successful bidders and the load weighted average of the winning bid prices for each contract type and for each contract term shall be made available to the public at the time of Commission approval of a procurement event." 220 ILCS 5/16-111.5(h). In Docket No. 08-0519 the Commission also determined (1) that the number of megawatts awarded for each contract type and for each contract term will be publicly disclosed after a Commission vote accepting a procurement administrator recommendation to accept certain bids, provided there are at least three winning bidders in the entire procurement event, and (2) that the winning quantities and average prices for all products, and not just the 24 basic building block products, will be publicly released.

The names of the successful bidders for the above-described April 13, 2009, procurement event are as follows:

Allete, Inc. d/b/a Minnesota Power

Ameren Energy Marketing Company

Consumers Energy Company

Dynegy Marketing & Trade, LLC

FirstEnergy Solutions Corporation

Fortis Energy Marketing & Trading GP

JP Morgan Ventures Energy Corporation

Reliant Energy Services, Inc.

Sempra Energy Trading, LLC

Union Electric Company d/b/a AmerenUE

Wisconsin Electric Power Company

Wisconsin Public Service Corporation

The load weighted average of the winning bid prices and the number of megawatts awarded for for each contract type and for each contract term for the above-described April 13, 2009, procurement event are as follows:

	2009/2010		2010/2011		2011/2012	
Month	**MWs**	**Average per MW-month**	**MWs**	**Average per MW-month**	**MWs**	**Average per MW-month**
June	2,950	$197.08	2,110	$241.30	1,370	$318.66
July	3,500	$4,316.31	2,530	$4,867.59	1,630	$7,405.26
Aug	3,470	$3,367.60	2,500	$4,797.00	1,650	$7,253.47
Sept	2,780	$132.03	1,980	$204.83	1,300	$273.56
Oct	2,080	$49.93	1,480	$66.43	960	$93.83
Nov	1,980	$47.72	1,430	$61.88	910	$88.65
Dec	2,360	$55.58	1,690	$70.30	1,100	$102.32
Jan	2,340	$78.34	1,670	$91.01	1,100	$125.25
Feb	2,170	$65.69	1,560	$86.94	1,020	$114.67
Mar	1,910	$50.81	1,370	$83.49	900	$110.38
April	1,690	$48.69	1,240	$80.94	800	$106.41
May	2,200	$54.42	1,590	$90.67	1,040	$138.34

The target quantities were acquired for all 36 products (no deficiencies). Since the results of last year's Ameren Capacity RFP were reported in dollars per MW-day, this year's results are also provided below in dollars per MW-day:

	2009/2010		2010/2011		2011/2012	
Month	**MWs**	**Average per MW-day**	**MWs**	**Average per MW-day**	**MWs**	**Average per MW-day**
June	2,950	$6.57	2,110	$8.04	1,370	$10.62
July	3,500	$139.24	2,530	$157.02	1,630	$238.88
Aug	3,470	$108.63	2,500	$154.74	1,650	$233.98
Sept	2,780	$4.40	1,980	$6.83	1,300	$9.12
Oct	2,080	$1.61	1,480	$2.14	960	$3.03
Nov	1,980	$1.59	1,430	$2.06	910	$2.96
Dec	2,360	$1.79	1,690	$2.27	1,100	$3.30
Jan	2,340	$2.53	1,670	$2.94	1,100	$4.04
Feb	2,170	$2.35	1,560	$3.11	1,020	$3.95
Mar	1,910	$1.64	1,370	$2.69	900	$3.56
April	1,690	$1.62	1,240	$2.70	800	$3.55
May	2,200	$1.76	1,590	$2.92	1,040	$4.46

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The names of the successful bidders for the above-described April 5, 2010, procurement event are as follows:

Ameren Energy Marketing Company

DTE Energy Trading, Inc.

Duke Energy Ohio, Inc.

Dynegy Power Marketing, Inc.

EDF Trading North America

FirstEnergy Solutions Corp.

JP Morgan Ventures Energy Corp.

Macquarie Energy, LLC

Renaissance Power, LLC

RRI Energy Services, Inc.

Union Electric Company d/b/a AmerenUE

Wisconsin Public Service Corporation

The load weighted average of the winning bid prices and the number of Planning Resource Credits ("PRCs")[1] awarded for for each contract type and for each contract term for the above-described April 5, 2010, procurement event are as follows:

[1] Each PRC represents 1 MW of capacity which qualifies to satisfy the Ameren Illinois Utilities' Resource Adequacy Requirements under the rules of the Midwest Independent Transmission System for the applicable month of delivery.

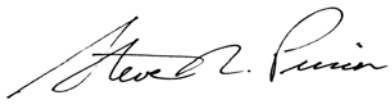
	2010/2011		2011/2012		2012/2013	
Month	**PRCs**	**Average per MW-month**	**PRCs**	**Average per MW-month**	**PRCs**	**Average per MW-month**
June	2,150	$16.91	1,570	$38.18	1,440	$100.10
July	2,120	$312.46	1,570	$871.42	1,570	$2,346.03
Aug	2,060	$232.44	1,480	$866.07	1,530	$2,290.13
Sept	2,190	$12.03	1,580	$14.60	1,410	$66.42
Oct	1,240	$11.25	910	$14.29	920	$36.06
Nov	1,250	$11.25	930	$14.36	900	$34.63
Dec	1,870	$11.70	1,340	$14.44	1,200	$41.33
Jan	1,850	$11.72	1,310	$18.76	1,180	$48.68
Feb	1,650	$11.59	1,150	$17.98	1,080	$47.16
Mar	1,480	$11.46	1,050	$17.23	950	$43.45
April	1,160	$11.22	840	$16.48	810	$40.96
May	1,200	$11.26	870	$18.40	940	$43.88

The target quantities were acquired for all 36 products (no deficiencies).

CERTIFICATE OF SERVICE

I hereby certify that I this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Norristown, PA this 1st day of September 2010.



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