

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA19-4-000
February 21, 2020

Louisville Gas and Electric Company
and Kentucky Utilities Company
Attention: Beth McFarland
Vice President-Transmission
220 West Main Street
Louisville, KY 40202

Dear Ms. McFarland:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E/KU). The audit covered the period from January 1, 2016, through October 31, 2019.

2. The audit evaluated whether LG&E/KU complied with: (1) the approved terms, conditions, and rates of their Open Access Transmission Tariff (OATT); and (2) the regulations regarding Open Access Same-Time Information Systems (OASIS) prescribed in 18 C.F.R. Part 37.¹ The enclosed audit report did not identify any findings of noncompliance that require LG&E/KU to take corrective action at this time.

3. On February 3, 2020, you notified DAA that LG&E/KU accepts the draft audit report. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

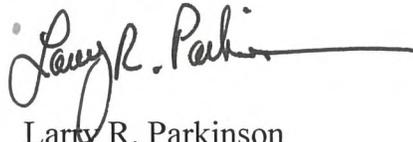
¹ Audit staff did not evaluate LG&E/KU's compliance with the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101, or the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. section 141.1, and hence does not express any opinion on LG&E/KU's financial reports.

4. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. LG&E/KU may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

5. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

6. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

A handwritten signature in black ink that reads "Larry R. Parkinson". The signature is written in a cursive style with a long horizontal line extending to the right.

Larry R. Parkinson
Director
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

AUDIT REPORT

**Audit of Louisville Gas and
Electric Company's and
Kentucky Utilities Company's
Compliance with:**

- The approved terms, conditions, and rates of their Open Access Transmission Tariff; and
- The regulations regarding Open Access Same-Time Information Systems prescribed in 18 C.F.R. Part 37.

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) within the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed an audit of Louisville Gas and Electric Company and Kentucky Utilities Company (LG&E/KU or the Companies). The audit evaluated whether LG&E/KU complied with: (1) the approved terms, conditions, and rates of their Open Access Transmission Tariff (OATT); and (2) the regulations regarding Open Access Same-Time Information Systems (OASIS) prescribed in 18 C.F.R. Part 37.¹ The audit covered the period from January 1, 2016, through October 31, 2019.

B. Louisville Gas and Electric Company and Kentucky Utilities Company

LG&E/KU are public utility companies and wholly owned subsidiaries of LG&E and KU Energy LLC, a public utility holding company. LG&E and KU Energy LLC is a wholly owned subsidiary of PPL Corporation (PPL). PPL, through its regulated utility subsidiaries, delivers electricity to customers in the United Kingdom, Pennsylvania, Kentucky, and Virginia; delivers natural gas to customers in Kentucky; and generates electricity from power plants in Kentucky. PPL is headquartered in Allentown, Pennsylvania. LG&E is an electric and natural gas utility company based in Louisville, Kentucky. LG&E serves customers in Louisville and 16 surrounding counties in Kentucky. KU is an electric utility company, based in Lexington, Kentucky, serving 77 Kentucky counties and five counties in Virginia.

C. Conclusion

The audit did not result in any findings or recommendations that require LG&E/KU to take corrective actions at this time. Audit staff reached this conclusion based on performance of audit steps outlined in the scope and methodology section of the audit report, an examination of material provided by LG&E/KU in response to data requests, and conducting audit site visits, interviews with LG&E/KU employees, and review of publicly available documents.

¹ Audit staff did not evaluate LG&E/KU's compliance with the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101, or the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. section 141.1, and hence does not express any opinion on LG&E/KU's financial reports.

II. Background

A. Open Access Transmission Tariff

LG&E/KU maintain a Commission-approved joint OATT that provides terms, conditions, and rates under which LG&E/KU provide transmission services for their combined transmission system. Under the OATT, LG&E/KU offer Point-To-Point (PTP) transmission service and Network Integration Transmission Service (NITS) to wholesale transmission customers. PTP transmission service allows LG&E/KU transmission customers to deliver capacity and energy at designated point(s) of receipt and transfer such capacity and energy to designated point(s) of delivery on either a firm or non-firm basis. NITS allows LG&E/KU network customers to deliver capacity and energy, either from designated network resources to serve designated network load on a firm basis or from nondesignated resources to serve designated network load on a non-firm basis. NITS deliveries from nondesignated resources is termed secondary network transmission service and has a higher curtailment priority than any non-firm PTP transmission service.

In 2010, LG&E/KU's OATT was accepted by the Commission via delegated order.² In 2015, LG&E/KU's re-collation of the documents organized under their Transmission eTariff Title was accepted by the Commission via delegated order.³ Between 2016 and 2019, LG&E/KU filed various changes to certain attachments, appendices, and schedules of the OATT, which the Commission also accepted.⁴

² See *Louisville Gas & Elec. Co.*, Docket Nos. ER10-1509-000 & ER19-1509-001, at 1 (Nov. 17, 2010) (delegated order) (accepting LG&E/KU's baseline eTariff filing of their OATT).

³ See *Louisville Gas & Elec. Co.*, Docket Nos. ER15-897-000 & ER15-898-000, at 2 (Mar. 24, 2015) (delegated order) (accepting LG&E/KU's re-collation of the baseline OATT). LG&E/KU's currently effective OATT is available on the Commission's eTariff website here: <https://etariff.ferc.gov/TariffBrowser.aspx?tid=794>.

⁴ LG&E/KU made changes to Attachments C, G, I, L, M, N, O, Q, and R, and to Schedules 1, 4, 5, 6, and 9, during the audit period. For example, in 2018, LG&E/KU made revisions to Attachment C, Methodology To Assess Available Transfer Capability, to clarify timing requirements and the division of responsibility between LG&E/KU, their Independent Transmission Operator (ITO), and Reliability Coordinator; enhance alignment with revisions to NERC TPL-001 & MOD-030 Reliability Standards; reflect changes in how load served by others is included in the calculation; and change the treatment of counterflows in a way that closely aligns with the methods used by adjacent transmission providers, more accurately reflects expected system conditions, and may

LG&E/KU operate their transmission systems as a single, integrated, and coordinated transmission system and provide transmission service under the terms of their joint OATT. LG&E/KU contract with the Tennessee Valley Authority (TVA) to act as their transmission Reliability Coordinator and with TranServ International, Inc. (TranServ) to act as their Independent Transmission Organization (ITO).

B. TranServ International, Inc.

TranServ is an independent corporation that provides transmission and energy market administrator functions to its transmission-owning customers. These functions include: populating and administering the transmission owner's OASIS; granting or denying requests for transmission services pursuant to the filed transmission service protocol of the transmission provider; and granting or denying requests for generation interconnection service pursuant to the filed generation interconnection procedures of the transmission provider.

On September 1, 2012, TranServ began to perform its obligations as the ITO for LG&E/KU pursuant to the terms of the ITO Agreement between LG&E/KU and TranServ (ITO Agreement), which is included in Attachment Q of the LG&E/KU OATT approved by the Commission.⁵ Under the ITO Agreement, TranServ is responsible for operating and maintaining LG&E/KU's OASIS website and keeping it up-to-date with the Commission and North American Energy Standards Board posting requirements,

potentially have a positive impact on Available Transfer Capability (ATC). *See Louisville Gas & Elec. Co.*, Docket No. ER18-610-000, at 1 (Mar. 6, 2018) (delegated order) (accepting revisions to LG&E/KU's OATT). A few months later, LG&E/KU submitted revised Attachment M (Large Generator Interconnection Procedures) and Attachment N (Small Generator Interconnection Procedures) to comply with the Commission's Order No. 842. *See Louisville Gas & Elec. Co.*, Docket No. ER18-1623-000, at 1 (Aug. 30, 2018) (delegated order) (accepting LG&E/K's compliance filing to Order No. 842, effective May 15, 2018); *Essential Reliability Servs. & the Evolving Bulk-Power Sys. —Primary Frequency Response*, Order No. 842, 162 FERC ¶ 61,128, *order on clarification & reh'g*, 164 FERC ¶ 61,135 (2018). In Docket No. ER17-850-000, LG&E/KU submitted a revised ITO Agreement, with a five-year term of September 1, 2017, through August 30, 2022, between LG&E/KU and TranServ International, Inc., which replaced the prior, expiring ITO Agreement.

⁵ *See Louisville Gas & Elec. Co.*, Transmission, pt. V, Attachment Q (13.0.0). Attachment Q also houses the Amended and Restated Reliability Coordinator Agreement Between LG&E/KU and TVA, which was most recently amended on September 1, 2019, in Docket No. ER19-2701-000.

including all Order No. 890 posting requirements (such as study performance metrics, ATC calculations, etc.). TranServ receives and processes all applications for PTP transmission service, NITS, and Generator Interconnection service. TranServ also calculates ATC as provided for in Attachment C to LG&E/KU's OATT.⁶

C. Available Transfer Capability (ATC)

Under the OATT, the ITO calculates ATC using the flowgate methodology and considers the Available Flowgate Capability (AFC) for the computation. The flowgate methodology assumes that certain elements on the transmission system will begin to reach their limits before other elements. Therefore, by monitoring the more sensitive areas on the transmission system, transfer capability calculations can be simplified regarding the number of contingencies and monitored elements examined during each study.⁷ TVA, acting as the Reliability Coordinator, and TranServ, acting as the ITO, perform LG&E/KU's flowgate methodology of computing ATC/AFC values. TVA builds models each day to calculate base flows and Transfer Distribution Factors (TDF) for various periods over an 18-month horizon.

The base flows capture the impacts of existing transmission commitments such as network resources serving network loads and long term PTP transactions on each flowgate. The TDF represents the percentage of flow impacted due to a specific Point of Receipt to a Point of Delivery transaction on a given flowgate. Using the TDF, new flow impacts are calculated for transmission service requests that were not included in the base flow calculation. TVA's computed base flow and TDF values are made available to the ITO for the computation of the ATC/AFC values to be posted on OASIS. The ITO calculates the final AFC and ultimately ATC values by incorporating the values computed by TVA (TVA-calculated base flows and TDF values) into the algorithms included in Attachment C of LG&E/KU's OATT. The ITO computes the final AFC values using the algorithms and converts those values to ATC using Open Access Technology International, Inc. (OATI) software. The ATC values computed by the OATI software are posted on LG&E/KU's OASIS by the ITO.

⁶ See Louisville Gas & Elec. Co., Transmission, pt. V, Attachment C (12.0.0); *Louisville Gas & Elec Co.*, Docket No. ER18-610-000, at 1 (Mar. 6, 2018) (delegated order).

⁷ See Louisville Gas & Elec. Co., Transmission, pt. V, Attachment C (12.0.0); *Louisville Gas & Elec Co.*, Docket No. ER18-610-000, at 1 (Mar. 6, 2018) (delegated order).

D. OASIS

LG&E/KU's OASIS is a web-based system providing information to transmission customers regarding the Companies' electric transmission system. Timely access to the information is necessary for transmission customers to procure and reserve transmission and ancillary services, as well as make prudent business decisions. TranServ administers LG&E/KU's OASIS and is responsible for making various OASIS postings, including ATC calculations. LG&E/KU require all customers, including LG&E/KU's own marketing functions, to make all transmission service requests, and the designation and undesignation of network resources, through LG&E/KU's OASIS system. In addition, TranServ uses predetermined validation criteria that allow the OASIS system to approve or deny certain transmission service requests, thereby reducing the potential for human error and for preferential treatment of LG&E/KU affiliated companies.

The Commission adopted rules governing OASIS in 1996 in Order No. 889 and its progeny.⁸ The Commission then codified its OASIS regulations in 18 C.F.R. Part 37. Since its issuance of Order No. 889, the Commission has amended its OASIS regulations with new posting requirements adopted in subsequent orders including, but not limited to: Order Nos. 605, 2004, 690, 890, and 890-A.⁹ Order No. 889 also established Standards of Conduct, which require a Transmission Service Provider to separate its affiliated

⁸ *Open Access Same-Time Info. Sys. & Standards of Conduct*, Order No. 889, FERC Stats. & Regs. ¶ 31,035 (1996) (cross-referenced at 75 FERC ¶ 61,078), *order on reh'g*, Order No. 889-A, FERC Stats. & Regs. ¶ 31,049 (cross-referenced at 78 FERC ¶ 61,221), *reh'g denied*, Order No. 889-B, 81 FERC ¶ 61,253 (1997).

⁹ *See Open Access Same-Time Info. Sys.*, Order No. 605, FERC Stats. & Regs. ¶ 31,075 (1999) (cross-referenced at 87 FERC ¶ 61,224) (mandating public access to curtailment information); *Standards of Conduct for Transmission Providers*, Order No. 2004, 105 FERC ¶ 61,248 (2003), *order on reh'g*, Order No. 2004-A, 107 FERC ¶ 61,032, *order on reh'g*, Order No. 2004-B, 108 FERC ¶ 61,118, *order on reh'g*, Order No. 2004-C, 109 FERC ¶ 61,325 (2004), *order on reh'g*, Order No. 2004-D, 110 FERC ¶ 61,320 (2005), *vacated & remanded as it applies to natural gas pipelines sub nom. Nat'l Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D.C. Cir. 2006); *see Standards of Conduct for Transmission Providers*, Order No. 690, 118 FERC ¶ 61,012, *order on reh'g*, Order No. 690-A, 118 FERC ¶ 61,229 (2007); *Preventing Undue Discrimination & Preference in Transmission Serv.*, Order No. 890, 118 FERC ¶ 61,119, *order on reh'g*, Order No. 890-A, 121 FERC ¶ 61,297 (2007), *order on reh'g*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh'g*, Order No. 890-C, 126 FERC ¶ 61,228, *order on clarification*, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

marketing function and its transmission function. The Commission codified the Standards of Conduct in 18 C.F.R. Part 358. Most recently, in Order No. 1000, the Commission required Transmission Service Providers to include regional transmission planning as part of their current transmission planning OASIS postings.¹⁰

LG&E/KU's OASIS is the mechanism by which the Companies offer, and their customers can reserve, transmission and procure any necessary ancillary services in compliance with LG&E/KU's OATT. The OASIS is the Commission-mandated control by which LG&E/KU ensure that all transmission customers have equal access to information about LG&E/KU's transmission system and available transmission services at the same time and in a nondiscriminatory manner.

E. Transmission Planning Process

LG&E/KU are required to perform transmission planning for the existing and future requirements of all transmission customers in a coordinated, open, comparable, nondiscriminatory, and transparent manner, both at the local and regional level. At the local level, LG&E/KU's transmission planning involves coordination between LG&E/KU's ITO, LG&E/KU's Stakeholder Planning Committee, LG&E/KU's Reliability Coordinator, which is TVA, and other interested stakeholders. LG&E/KU's coordination plan includes a combination of Stakeholder Planning Committee meetings and twice-yearly stakeholder meetings to discuss various topics. During the stakeholder meetings, LG&E/KU and the ITO provide the Transmission Expansion Plan for stakeholder review and comments. Stakeholders are encouraged to provide written comments to the ITO after the stakeholder meetings. The ITO reviews and comments on the Transmission Expansion Plan and provides such information to LG&E/KU. Based on the information received from the ITO and stakeholders, LG&E/KU finalize the Transmission Expansion Plan and provide it to the ITO for additional review. The ITO provides the final Transmission Expansion Plan and the draft ITO assessment of that Transmission Expansion Plan to stakeholders for their review during a thirty-day review period after the second stakeholder meeting. The ITO also provides the final Transmission Expansion Plan and the draft ITO assessment to the Reliability Coordinator for review.

¹⁰ *Transmission Planning & Cost Allocation by Transmission Owning & Operating Pub. Utils.*, Order No. 1000, 136 FERC ¶ 61,051 (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g & clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).

At the regional level, LG&E/KU actively participate in the Southeastern Regional Transmission Planning (SERTP) process. LG&E/KU's planning staff participates in the SERTP process by providing LG&E/KU's planning data based on their local transmission planning process to support the development of a regional planning study case. LG&E/KU also review regional study scopes and proposed projects to be considered in the regional study. SERTP holds stakeholder meetings open to interested parties as part of the regional transmission expansion planning process each year. LG&E/KU participate in these meetings and during these meetings discuss their portion of the SERTP regional plan with stakeholders.

F. Generator Interconnection Procedures

LG&E/KU's OATT, in Attachments M and N thereof, provides guidance and procedures for the management of the generator interconnection process.¹¹ Attachment M provides generator interconnection request procedures for facilities that are larger than 20 megawatts. Attachment N provides generator interconnection request procedures for facilities not larger than 20 megawatts. Per the ITO Agreement, TranServ manages the generator interconnection requests on behalf of LG&E/KU. Under the OATT, LG&E/KU are required to use reasonable efforts to complete each of the three study phases of the generator interconnection process, to the extent each is applicable, within specific timeframes. The three study phases are a feasibility study, which is to be completed within 45 days; a system impact study, which is to be completed within 90 days after execution of a contract; and a facility study, which is to be completed within 90 or 180 days, depending on cost estimates requested by the customer.

The LG&E/KU generator interconnection request process begins with a customer submitting an application and making a deposit for the processing of the interconnection request. The deposit is applied toward any interconnection studies performed by the ITO. Per the OATT, the ITO is required to acknowledge receipt of the generator interconnection request within five business days of the submission of the application by the customer. After the ITO's acknowledgement of the generator interconnection application, the ITO schedules and holds a scoping meeting with the interconnection customer and the transmission owner (LG&E/KU). The purpose of the scoping meeting is for the ITO, interconnection customer, and LG&E/KU to discuss alternative interconnection options, exchange information, including any transmission data that

¹¹ Louisville Gas & Elec. Co., Transmission, pt. V, Attachments M (14.0.0) & N (13.0.0); *see Louisville Gas & Elec. Co.*, Docket Nos. ER15-897-000 & ER15-898-000, at 2 (Mar. 24, 2005) (delegated order) (accepting LG&E/KU's re-collation of the baseline OATT).

would reasonably be expected to impact the interconnection options, analyze information, and determine the potential feasible points for the generator interconnection.

The ITO, on behalf of LG&E/KU, posts and maintains the status of all generator interconnection requests, and the associated studies, on LG&E/KU's OASIS. In addition to making the postings on OASIS, the ITO sends status updates regarding generator interconnection studies to customers, and updates OASIS with such information, so that all customers in the generator interconnection queue are aware of any delays in the processing of interconnection requests. During the audit period, LG&E/KU had approximately 44 generator interconnection requests in the queue. The ITO analyzes and acts on generator interconnection requests in queue order. This means that the ITO processes one interconnection request at a time and gives priority to the first generator interconnection request in the queue. Audit staff's review of the generator interconnection queue identified delays in the processing of customers' requests. Further review identified signs that a large portion of the delays was caused by customer actions or inactions that were beyond the control of the ITO. Specifically, most customers submitted multiple generator interconnection requests for the same project, apparently in order to hold their position in the generator interconnection queue. Most of these duplicate requests were withdrawn by customers when the most optimal interconnection point became apparent and was selected. In addition, the data provided by most customers for use in the various generator interconnection studies exhibited deficiencies, which required the ITO to follow-up with the customers to make corrections. Since the ITO performs its generator interconnection studies in queue order, the delays relating to correcting the deficiencies in data provided by customers automatically delayed the processing of the generator interconnection requests of customers further down in the queue. However, although there were delays in the processing of generator interconnection requests during the audit period, there were no complaints made by customers during the audit period.

G. Network Resource Designation/Undesignation Process

Under LG&E/KU's business practices, Network Resources may be designated to serve Network Load for a term of one day or greater. Network Customers are required to use the LG&E/KU OASIS to request designation of a new Network Resource, or to temporarily or permanently terminate (undesignate) the designation of an existing Network Resource. The processing of requests to designate Network Resources is managed by the ITO.

Network customers are also required to attest that the Network Resources qualify for designation. In order to make this attestation, a Network Customer must include a statement with each application that attests to the qualification of each Network Resource being designated. The attestation includes a statement that: (1) the Network Customer

owns the resource, has committed to purchase generation pursuant to an executed contract, or has committed to purchase generation where execution of a contract is contingent upon the availability of transmission service under the OATT; and (2) the resources being designated do not include any resources, or any portion thereof, that are committed for sale to non-designated third party load or that otherwise cannot be called upon to meet the Network Customer's Network Load on a non-interruptible basis. During the audit period, LG&E/KU Network Customers submitted and confirmed 170 designations and 19 undesignations of Network Resources.

III. Introduction

A. Objectives

The audit evaluated whether LG&E/KU complied with: (1) the approved terms, conditions, and rates of their OATT; and (2) the regulations regarding OASIS prescribed in 18 C.F.R. Part 37.¹² The audit covered the period from January 1, 2016, through October 31, 2019.

B. Scope and Methodology

Audit staff performed the following to facilitate testing and evaluation of LG&E/KU's compliance with Commission requirements relevant to the audit objectives:

- *Reviewed Public Information* – Conducted an extensive review of public information before commencing the audit. This review provided a high-level understanding of LG&E/KU's corporate structure, the services they provide, major events affecting operations and finances, significant contracts, prior audit issues, and other key regulatory and business activities. Examples of materials reviewed include LG&E/KU's annual reports and SEC Form 10-Ks, FERC Form No. 1s, prior FERC audit reports, Company-related web sites, and other relevant regulatory and media sources.
- *Identified Standards and Audit Criteria* – Identified the regulatory requirements and criteria for evaluating LG&E/KU's compliance with each audit objective. These include the Commission's Order Nos. 888 and 890, LG&E/KU's OATT, FERC Form No. 1 reporting requirements, and other Commission orders relevant to the audit.
- *Issued Data Requests* – Issued data requests to collect information not commonly available to the public. This information included internal policies, procedures and controls, business practices, risk management, corporate structure, contractual agreements, corporate compliance, regulatory filings, and

¹² Audit staff did not evaluate LG&E/KU's compliance with the accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101, or the reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report, under 18 C.F.R. section 141.1; hence, audit staff does not express any opinion on LG&E/KU's financial reports.

other pertinent information. These data were used to test and evaluate compliance with Commission requirements relevant to audit objectives.

- *Conducted Teleconference Interviews* – Conducted multiple teleconferences with LG&E/KU employees to discuss audit objectives, testing, data request responses, technical and administrative matters, and compliance concerns.
- *Conducted Site Visits* – Made two site visits to LG&E/KU’s offices to discuss and observe controls and procedures related to audit objectives. The site visits enabled audit staff to understand LG&E/KU’s structure, activities, functions, systems, and the processes used in their operations. While on-site, audit staff interviewed LG&E/KU personnel directly involved with activities in the audit scope areas and with direct knowledge about processes, procedures, and operations.
- *Conferred with Subject-Matter Experts* – Conferred with other Commission staff on compliance issues to ensure that audit findings were consistent with Commission precedent and policy.
- *Internal Controls* – Audit staff evaluated LG&E/KU’s Internal Audit function to understand the audit function’s place in LG&E/KU’s corporate structure and LG&E/KU’s Board of Directors’ access and ability to assess Internal Audits’ effectiveness and independence. Audit staff also reviewed Internal Audit reports to identify compliance issues relevant to the Commission’s regulatory oversight authority, and the corrective measures taken to resolve such compliance issues.

Audit staff evaluated LG&E/KU’s compliance with relevant requirements relating to the audit objectives through the following:

Compliance with OATT

Audit staff performed these actions to evaluate LG&E/KU’s compliance with the requirements of their OATT:

- *Transmission Service Requests* – Audit staff examined LG&E/KU’s transmission function activities to determine whether LG&E/KU provided transmission and ancillary services on a non-discriminatory basis. Audit staff accomplished this by reviewing LG&E/KU’s policies and procedures for the NITS and PTP transmission service application process, procedures for NITS and PTP transmission service reservations on OASIS, and the procedures for

assigning service priorities to NITS and PTP transmission service customers under LG&E/KU's OATT.

- *Network Integrated Transmission Service* – Audit staff reviewed LG&E/KU's marketing function activities to determine whether the marketing function properly used network service only to serve native load customers and not to support off-system sales.
- *Network Resource Designation/Undesignation Process* – Audit staff reviewed LG&E/KU's network resource designation/undesignation practices to determine whether LG&E/KU properly undesignated network resources when using those resources to make firm off-system sales. Audit staff also reviewed the transmission services related to these off-system sales.
- *ATC Calculation* – Audit staff reviewed inputs to LG&E/KU's ATC calculation, including, but not limited to, transmission capacity set-aside, release of transmission reliability margin, and release of capacity benefit margin data to determine whether LG&E/KU timely and accurately updated ATC values posted on their OASIS.
- *Generator Interconnection Requests* – Audit staff reviewed generator interconnection requests and the associated queue to determine whether LG&E/KU met their obligations to establish each queue position and timely communicated updates to customers relating to their interconnection requests, consistent with the generator interconnection procedures contained in Attachments M and N of LG&E/KU's OATT.
- *Transmission Planning Process* – Audit staff reviewed LG&E/KU's transmission planning process and cost allocation study cases to determine whether LG&E/KU followed the principles adopted in Order No. 1000 for new projects. Audit staff also reviewed LG&E/KU's compliance with requirements in Attachment K of their OATT.
- *Dynamic Schedules and Unreserved Transmission Service* – Audit staff reviewed LG&E/KU's transmission operations to determine whether after-the-fact tags were used at LG&E/KU and, if so, to determine whether there were any related compliance concerns around the possible misuse of transmission services.
- *Ancillary Services* – Audit staff reviewed LG&E/KU's compliance with the rates, terms, and conditions under their different Ancillary Service OATT Schedules. As part of this review, audit staff reviewed LG&E/KU's processes

and procedures for ancillary services to determine whether LG&E/KU allowed their customers to make comparable arrangements for themselves (self-supply) for certain ancillary services as provided for in the OATT.

- *Creditworthiness Procedures* – Audit staff obtained a sample of new transmission service requests to determine whether LG&E/KU followed the creditworthiness procedures in their OATT.
- *Curtailments of Firm Transmission Service* – Audit staff obtained and reviewed LG&E/KU’s Transmission Loading Relief (TLR) procedure used by the Companies during the audit period to determine whether LG&E/KU followed Commission requirements. In addition, audit staff evaluated the role LG&E/KU play in determining when to issue a TLR notice and LG&E/KU’s procedures for selecting transactions to curtail during a TLR.
- *Redirect of Transmission Service* – Audit staff evaluated redirected transmission service requests to ensure LG&E/KU appropriately approved customers’ redirect transmission requests when ATC was available. Audit staff also evaluated instances where redirected transmission service requests displaced any firm or non-firm service reserved or scheduled by third-parties, or by LG&E/KU on behalf of their native load customers.

Compliance with OASIS Postings

Audit staff reviewed information posted on LG&E/KU’s OASIS to determine compliance with Part 37 of the Commission’s regulations. Specifically, audit staff reviewed select items, including, but not limited to: transmission capacity information; designation/re-designation/termination of network resources; curtailments; transmission schedules; discretionary logs; and information on transmission planning and interconnections.

- *Posted Paths* – Audit staff verified whether LG&E/KU posted on OASIS every path that they should post on OASIS.
- *Practices for Capacity Benefit Margin Reevaluation* – Audit staff verified whether LG&E/KU posted on OASIS their practices for reevaluating their capacity benefit margin needs.
- *Daily Load Postings* – Audit staff verified whether LG&E/KU posted on OASIS, on a daily basis, their load forecast, including underlying assumptions, and actual daily peak load for the prior day.

- *Transmission Service Products and Prices* – Audit staff verified whether LG&E/KU posted on OASIS prices and the terms and conditions associated with all transmission products offered to transmission customers.
- *Ancillary Service Offerings and Prices* – Audit staff verified whether LG&E/KU posted on OASIS ancillary services provided or offered under the OATT with the price of that service.
- *Posting and Retention of Requests for the Designation/Termination of Network Resources* – Audit staff verified whether LG&E/KU posted on OASIS any request to designate or terminate a network resource, kept such information on their OASIS for at least 30 days, and retained such information for five years.
- *Justification for Denied Service Requests* – Audit staff verified whether LG&E/KU posted on OASIS the reason for any denied service request.
- *Notices of Transaction Curtailment* – Audit staff verified whether LG&E/KU posted on OASIS a notice of each transaction curtailment and stated on OASIS the reason why the transaction could not be continued or completed.
- *Transmission Service Schedules* – Audit staff verified whether LG&E/KU posted on OASIS transmission service schedules and did so no later than seven calendar days from the start of the service.
- *Notice of Transfers of Personnel between Transmission and Marketing Functions* – Audit staff verified whether LG&E/KU posted on OASIS notices of transfers of personnel between their transmission and marketing functions, as required by the Commission’s regulations.
- *Discretionary Action Log* – Audit staff verified whether LG&E/KU posted on OASIS a log detailing any circumstances in which LG&E/KU or their agents exercised discretion under any terms of the LG&E/KU OATT.
- *Transmission Study Performance Metric Reports* – Audit staff verified whether LG&E/KU provided accurate and complete information in their quarterly transmission study performance metrics reports.
- *Transmission Service Request Metric Reports* – Audit staff verified whether LG&E/KU provided accurate and complete information in their monthly transmission service request metrics reports.

- *Transmission Planning Information* – Audit staff verified whether LG&E/KU posted on OASIS their transmission planning practices, consistent with OATT requirements.
- *Transmission Planning Study List* — Audit staff verified whether LG&E/KU posted on OASIS a list of transmission system-planning studies, facilities studies, and specific network impact studies performed for customers or for LG&E/KU’s own network resources.
- *Generator Interconnection Queue* – Audit staff verified whether LG&E/KU posted on OASIS a list of all interconnection requests, consistent with OATT requirements, and kept the list up-to-date.

ITO Responsibility and Independence

Audit staff performed these actions to evaluate the ITO’s responsibilities and independence in performing its functions under the requirements of LG&E/KU’s OATT:

- *Conducted Interviews* – Interviewed employees of the ITO to understand their responsibilities and independence from LG&E/KU in the administration of LG&E/KU’s OASIS and OATT requirements.
- *Standards of Conduct* – Interviewed ITO employees and evaluated their independence from LG&E/KU’s transmission function and marketing function employees by understanding the separation of duties and communications between the parties. Audit staff examined the physical and non-physical barriers between the ITO and the marketing function of LG&E/KU. For physical barriers, audit staff reviewed access control procedures for entering and exiting restricted areas. For non-physical controls, audit staff examined system controls and procedures implemented to identify communications between LG&E/KU’s transmission function, LG&E/KU’s marketing function, and the ITO.
- *Transmission Planning Study* – Interviewed ITO employees and evaluated the ITO’s role and responsibilities in the transmission planning process. Specifically, audit staff examined the ITO’s responsibility for providing the draft or proposed Transmission Expansion Plan to stakeholders for their review and comments during stakeholder meetings. Audit staff also evaluated how stakeholder comments and questions relating to the Transmission Expansion Plan were addressed and incorporated into the final Transmission Expansion Plan.

- *Generator Interconnection* – Examined the ITO’s management of its responsibilities relating to the following actions under the generator interconnection procedures: (1) processing and managing the generator interconnection queue; (2) performing generator interconnection studies (feasibility, system impact, and overseeing the facility studies performed by LG&E/KU); (3) coordination with LG&E/KU in performing the generator interconnection procedures; and (4) updating stakeholders on the status of generator interconnection requests.
- *OASIS Administration* – Interviewed ITO employees and evaluated the ITO’s performance of its responsibilities for managing LG&E/KU’s OASIS website. Specifically, audit staff examined the ITO’s processes for managing LG&E/KU’s OASIS, including the personnel involved, employee training, and controls, to ensure compliance with the Commission’s OASIS requirements. In addition, audit staff evaluated OASIS settings, and the completeness and timeliness of OASIS postings, and performed walkthroughs with the ITO on OASIS processes including: public and non-public displays of OASIS website materials, manual and automatic functionalities, and posting procedures.

IV. Findings and Recommendations

Conclusion

The audit did not result in any findings or recommendations that require LG&E/KU to take corrective actions. Audit staff reached this conclusion based on performance of audit steps outlined in the scope and methodology section of the audit report, an examination of material provided by LG&E/KU in response to data requests and on-site visits, interviews with LG&E/KU employees, and review of publicly available documents.

V. LG&E/KU's Response to the Draft Audit Report



February 3, 2020

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**Re: Louisville Gas and Electric Company and Kentucky Utilities Company
Docket No. PA19-4-000
Response to Draft Audit Report**

Dear Mr. Hunt:

This letter sets forth the response of Louisville Gas and Electric Company and Kentucky Utilities Company (“LG&E/KU”) to the draft audit report (“Draft Audit Report”) issued by the Federal Energy Regulatory Commission’s Office of Enforcement, Division of Audits and Accounting on January 21, 2020, in the above-referenced docket.

As you noted, the Draft Audit Report evaluated LG&E/KU’s compliance, during the period of January 1, 2016, through October 31, 2019, with: (1) the approved terms, conditions, and rates of their Open Access Transmission Tariff (OATT); and (2) the regulations regarding Open Access Same-Time Information Systems (OASIS) prescribed in 18 C.F.R. Part 37. This letter is to confirm that LG&E/KU has reviewed the Draft Audit Report and agrees with the content and conclusions set forth therein.

On behalf of LG&E/KU, I would like to thank the FERC audit team for their professionalism and courtesy, and for the constructive and collaborative manner in which they conducted the audit. Please do not hesitate to contact me should you have any questions.

A handwritten signature in black ink that reads 'Beth McFarland'.

Beth McFarland, VP Transmission

cc: Nkosi Brooks
Justice Dagadu
Chris Balmer
Jennifer Keisling
Jay Warren