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June 20, 2007

## VIA ELECTRONIC FILING

Kimberly D. Bose

Secretary

Federal Energy Regulatory Commission

888 First Street, N.E.

Washington, DC 20426

**Re: Duke Energy Carolinas, LLC's Comments On Alcoa Power  
Generating, Inc.'s April 26, 2007 Response To March 27, 2007 AIR  
#1; Project No. 2197**

Dear Ms. Bose:

By letter dated April 26, 2007, Alcoa Power Generating, Inc. ("APGI") provided its responses to Commission staff's March 27, 2007 Additional Information Request ("AIR") regarding APGI's application for new license for the Yadkin Project No. 2197 ("Yadkin Project") and APGI's related Relicensing Settlement Agreement ("SA") for that project. Duke Energy Carolinas, LLC ("Duke"), an intervenor in these proceedings, has in previous filings expressed concerns that APGI's proposed operating guides and reservoir drawdown procedures for the High Rock Development of the Yadkin Project could adversely affect Duke's ability to operate its Buck Steam Station ("Buck"). Buck is located on that Development and uses water from it for condenser cooling and other purposes. As Duke has explained, maintaining lake levels on High Rock Lake that are sufficient for Buck cooling and other requirements is important to Duke for economic and reliability reasons. Also as Duke has explained previously, the drawdown limits for High Rock Lake proposed by APGI in the SA (maintain reservoir levels within four feet of full pond from April 1 to October 31 and within ten feet of full pond from November 1 to March 31) are not sufficient to safeguard Duke's interests during periods of low inflow.

Item 1 of staff's AIR ("AIR #1") requested that APGI provide an estimate of the generation and monetary value impacts of the 4' / 10' levels in the SA and of two alternative level scenarios of 4' / 6' and 3' / 6'. While APGI responded to AIR #1 in its April 26, 2007 submittal, Duke has concerns that the estimates provided by APGI in its response are inconsistent with assumptions established for stakeholder negotiations and appear to be questionable.

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Specifically, during stakeholder negotiations APGI used the OASIS model to simulate system operation under the various lake level scenarios. The model results presented in Table 1 of its response indicate a system net generation gain for all scenarios with energy transfer from on-peak (5.25-5.95% of total) to off-peak. For negotiation purposes, APGI used the Southern Into value measurements as representative of its system values and these averages are used as the basis for incremental value impacts. All negotiations proceeded under the assumption that the Yadkin Project generation values were \$48.40/MWH on-peak and \$29.63/MWH off-peak, including those that involved lake level constraints.

In its response to AIR #1, APGI claims that certain simplifying assumptions had to be made to accommodate the various runs made during the negotiation process. The AIR response considered impacts to premium energy products by using a weighted average of these premium prices. The effect of this pricing assumption was a drastic increase in the value of on-peak generation compared to what APGI presented as representative for negotiation purposes. For the 4'/10' levels, an on-peak loss of 36,200 MWH that was valued at \$1,752,080 during negotiations becomes a loss of \$3,611,000. APGI claims that this loss is due to a 50% reduction in forward energy sales. At the 4'/6' levels, an on-peak loss of 40,700 MWH that was valued at \$1,969,880 during negotiations becomes a loss of \$5,078,300. APGI claims that this loss is due to a 50% reduction in forward energy sales and a 100% reduction in opportunity energy sales. For the 3'/6' scenario, a loss of 41,000 MWH valued at \$1,984,400 during negotiations becomes a loss of \$7,281,200. APGI claims that this impact is due to the loss of all forward energy sales and opportunity energy sales. The average value APGI placed on these products can be estimated by comparing incremental impacts among the scenario results. At 4'/10', the impact of the loss of 50% of forward energy sales has an average value of \$99.75/MWH ( $\$3,611,000/36,200$ ). If moving from 4'/10' to 4'/6' results in an incremental loss of 100% of its opportunity energy sales, the average value of this product must be \$326.07/MWH ( $\$5,078,300 - \$3,611,000 / (40,700 - 36,200)$ ). Moving from 4'/6' to 3'/6' results in an incremental loss of its remaining forward energy sales. Using APGI's assumptions, the average value of this loss is \$7,343/MWH ( $\$7,281,200 - \$5,078,300 / (41,000 - 40,700)$ ). APGI, however, does not explain how the loss of the first half of forward energy sales has an impact of \$99.75/MWH and the second half has an impact of \$7,343/MWH.

These energy prices are drastically different from those that APGI found acceptable for relicensing negotiation purposes and are definitely not representative of markets in the Carolinas. There is no liquid and transparent market index for power prices in the Carolinas, but Duke is an active participant in such a market. A large portion of Duke's off-system spot sales are typically delivered to the Pennsylvania-New Jersey-Maryland ("PJM") markets. Since the Yadkin Project is within Duke's service territory, Duke's market analysts believe that documented PJM market data is representative of Carolina's markets and they therefore compared these to the APGI value claims. The PJM Locational Marginal Prices ("LMPs") at the PJM-Duke Southeast Interface should be a good proxy for spot sales opportunity. Hourly on-peak LMPs in day-ahead and real-time markets averaged approximately \$71/MWH and \$60/MWH in 2005 and 2006, respectively. In addition, the 95th and 99th percentile values ranged from \$94/MWH to \$180/MWH, significantly below the \$326.07/MWH that APGI

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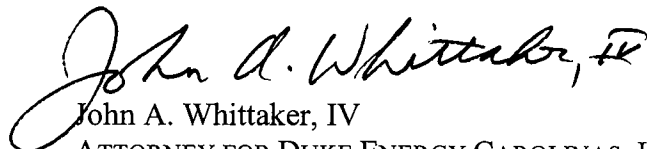
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apparently assumed. In fact, these real-time LMPs exceeded \$300/MWH in only 16 on-peak hours during the period October 1, 2004, through May 31, 2007. This is 16 hours out of roughly 10,900 hours. The PJM LMP data is a good illustration of just how fleeting extraordinarily high hourly prices are. On the days when the 20 highest price hours occurred, the 16-hour average real-time on-peak price averaged only 55% of the highest hourly price.

For a Forward Sale Opportunity comparison, Duke's analysts used daily historical prices for the NYMEX OTC Monthly On-Peak Forward Financially-settled contracts at the PJM West Hub, the closest location for liquidly traded forward market products with transparent pricing. They also consulted the June 4, 2007 PJM West Hub forward curve for on-peak power published in *Megawatt Daily*. For the period April 1, 2003, through June 30, 2007, the maximum monthly forward on-peak power price observed is \$142.50/MWH with a price average of \$79.54/MWH. With the addition of a capacity payment component, some of the APGI price assumptions for lost forward sales may be reasonable, but the apparent assumption that the small amounts of lost energy due to higher lake levels (300 MWH or less than two hours of system output) can be projected to eliminate capacity sales from the plants is not a reasonable assumption.

Duke believes that APGI should base lake level impact measurements on the rates that were established during the negotiation process or else provide a more detailed explanation of how the value impacts used in its AIR response were derived. Its explanation should include the generation amounts and prices assumed for each of the premium products with simulation results that support its assumption that the energy shifts eliminate its ability to participate in premium product energy sales.

Sincerely,



John A. Whittaker, IV

ATTORNEY FOR DUKE ENERGY CAROLINAS, LLC

cc: Service list