

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER PURSUANT)	CASE NO. 2004-00395
TO KRS 278.300 AND FOR APPROVAL OF)	
LONG-TERM PURCHASE CONTRACT)	

FIRST DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY UTILITIES COMPANY

Kentucky Utilities Company (“KU”), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due within 10 days of the date of this request. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to Paragraph 6 on pages 3 and 4 of KU’s application. KU states that the amended Inter-Company Power Agreement (“ICPA”) contains a demand charge

which permits Ohio Valley Electric Corporation (“OVEC”) to recover its total cost of owning, financing, operating, and maintaining its generation and transmission facilities.

a. In an August 31, 2004 letter to the Commission, a copy of which is attached hereto, KU stated that the current ICPA allows sponsors to purchase a share of OVEC’s surplus power and pay demand and energy charges “except those costs that were paid by the DOE pursuant to the DOE Power Agreement.” Explain and quantify the extent to which KU has been able to purchase surplus OVEC power and pay less than OVEC’s full cost due to costs being paid by the DOE.

b. Explain and quantify the extent to which KU’s future cost to purchase OVEC power will increase due to the elimination of payments by DOE.

2. Refer to Paragraph 7 on page 4 of KU’s application. KU states that it uses the majority of the energy available to it from OVEC under the current ICPA.

a. Provide for each of the last 5 years the annual percentage of OVEC generation available to KU that was purchased by KU. Also provide the actual MWHs purchased by KU for each of the last 5 years.

b. Explain the benefits, if any, to KU when OVEC power is available, but KU has sufficient generation to meet its native load.

3. Concerning the OVEC generating facilities:

a. Describe how OVEC complies with sulfur dioxide (“SO₂”) and nitrogen oxide (“NO_x”) emission restrictions.

b. Describe any future fuel switching or additional SO₂ and NO_x emission control equipment to be installed at the OVEC generating facilities over the next 5 years.

c. Provide the estimated total investment and impact on OVEC operating expenses of any fuel switching or additional SO₂ and NO_x emission control equipment planned to be installed in the next 5 years. In addition, provide KU's share of the investment and operating expenses.

d. Provide KU's best estimate of the impact of fuel switching or the installation of additional SO₂ and NO_x emission control equipment on the cost of OVEC energy to KU during the next 5 years.

4. Provide a schedule showing for each of the last 5 years KU's average annual cost per kWh of power purchased from OVEC and its average annual cost per kWh of power generated in its own units.

5. Provide a narrative explanation of KU's current average cost per kWh to purchase OVEC power and KU's expected average cost per kWh under the amended ICPA. Include in the discussion the expected effect of the energy charge, demand charge, minimum loading charges, emergency energy charge, or any additional charges on the expected cost per kWh to KU.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED November 10, 2004

cc: All Parties

FA



Kent W. Blake
Director
Regulatory Initiatives

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502-627-2573
502-217-2442 FAX
kent.blake@lgeenergy.com

August 31, 2004

RECEIVED

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602

RECEIVED
SEP 1 2004
PSC
FINANCIAL ANALYSIS

SEP - 1 2004
PUBLIC SERVICE
COMMISSION

Re: Inter-Company Power Agreement with Ohio Valley Electric Corporation

Dear Ms. O'Donnell:

I am writing to request confirmation that the extension of the current Inter-Company Power Agreement ("Current ICPA") between Ohio Valley Electric Corporation ("OVEC"), on the one hand, and various utilities, including Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company ("KU"), on the other hand, will not require the approval of the Commission. Enclosed please find a copy of an Amended and Restated Inter-Company Power Agreement, dated as of March 13, 2006 (the "Amended ICPA"), which provides for the extension of the Current ICPA. The Amended ICPA is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under the Federal Power Act, and was filed with FERC on July 16, 2004. A copy of the FERC filing has been previously supplied to the Commission.

OVEC was formed in the early 1950s by LG&E, KU and several other holding companies and utilities located in the Ohio Valley region in response to the request of the United States Atomic Energy Commission ("AEC") to supply the electric power and energy needs of the AEC's planned uranium enrichment plant in Pike County, Ohio. Accordingly, OVEC built two coal-fired generating stations (with a total capacity of approximately 2,365 MW) and entered into a long-term power agreement ("DOE Power Agreement") with the United States of America, currently acting by and through the AEC's successor, the Secretary of Energy, the statutory head of the United States Department of Energy (the "DOE"). The DOE Power Agreement gave the DOE the right to essentially all of the capacity of OVEC's generating facilities.

To complement the DOE Power Agreement, OVEC and its owners or their affiliates, including LG&E and KU (together, called the "Sponsors") entered into the Current ICPA, a 50-year power supply agreement, dated as of July 10, 1953 and as amended from time to time thereafter. The Current ICPA grants the Sponsors the right to purchase "surplus" power and

energy not required by the DOE in proportion to the Sponsor's specified "Power Participation Ratio" or "PPR". In return, the Sponsors must pay their PPR share of demand charges, as well as energy charges for the energy they purchase, to permit OVEC to recover all costs resulting from the ownership, operation and maintenance of its generation and transmission facilities, except those costs that were paid by the DOE pursuant to the DOE Power Agreement.

The DOE, after agreeing to several releases of its entitlement to power and energy to the Sponsors, ultimately elected to terminate the DOE Power Agreement as of April 30, 2003. As a result, all of OVEC's generation capacity has become "surplus," and each of the Sponsors, including LG&E and KU, is entitled to its share of OVEC's relatively low cost generation.

The term of the Current ICPA will expire on March 12, 2006. To ensure the continued availability of OVEC's generation to the Sponsors, OVEC and its Sponsors have entered into the Amended ICPA, which extends the term of the Current ICPA for an additional 20 years through March 13, 2026. The effectiveness of the Amended ICPA as of March 13, 2006 is expressly contingent upon the receipt of all necessary regulatory consents or approvals.

In Administrative Case No. 350 (In the Matter of: The Consideration and Determination of the Appropriateness of Implementing a Rate Making Standard Pertaining to the Purchase of Long-Term Wholesale Power by Electric Utilities as Required in Section 712 of the Energy Policy Act of 1992), the Commission stated that:

[T]hese contracts [purchase power contracts] may well require prior approval under KRS 278.300 if they constitute evidences of indebtedness. In particular, the inclusion in such contracts of minimum payment obligations or take/pay provisions may necessitate prior approval.

Order of October 25, 1993.

As in the Current ICPA, the Amended ICPA contains a demand charge (set forth in Section 5.03 of the Amended ICPA). The monthly demand charge permits OVEC to recover its total costs of owning, financing, operating, and maintaining its generation and transmission facilities. Each Sponsor is required to pay its portion, based on its PPR share, of demand charges, regardless of the amount of energy such Sponsor purchases from OVEC during any given month. In addition, demand charges may be payable in the event of an early termination of the Amended ICPA. This arrangement is typical of negotiated power sales agreements, which often contain a demand charge or other component intended to permit recovery of a generator's fixed and variable costs.

In addition, the Amended ICPA adds "minimum loading" provisions, which require each Sponsor either to schedule the delivery of its portion of OVEC's "total minimum generating output" or reimburse the other Sponsors for any increased costs caused by a failure to schedule and take such minimum output. These provisions are intended to improve the economic dispatch

Elizabeth O'Donnell
August 31, 2004
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of OVEC's generation and to assign costs resulting from the failure of a Sponsor to schedule its minimum portion of such generation directly to such Sponsor, as opposed to spreading those costs among all Sponsors. These "minimum loading" provisions are similar to provisions found in many long-term agreements and other similar arrangements involving joint owners in order to improve dispatch and properly assign operating costs. Finally, we note that because of the relatively low cost of the OVEC generation, LG&E and KU have historically purchased (and expect to continue to purchase) the vast majority of their entitlements to OVEC's generation. For instance, LG&E's and KU's power sales use factor of their entitlements to OVEC's energy for 2002 and 2003 was 89.8% and 88.0%, respectively, with use factors of 100% for all on-peak periods. Thus, these "minimum loading" provisions likely would only be applicable, if at all, during limited off-peak periods.


The Amended ICPA will permit LG&E, KU and the other Sponsors to continue the existing, beneficial relationship with OVEC that has been in place for more than 50 years. LG&E and KU will continue to receive their share of OVEC's generation in exchange for the payment of OVEC's relatively low costs. LG&E and KU have not and will not act as guarantors for OVEC's debt or other securities.

For all of the foregoing reasons, we do not believe that an application pursuant to KRS 278.300 is required to continue this long-existing relationship under the Amended ICPA, and would appreciate written confirmation from the Commission.

Because numerous regulatory and other actions must be undertaken by OVEC and the Sponsors, including arranging for replacement of OVEC's existing long-term debt, which will mature in February 2006, we would appreciate the Commission's response no later than September 15, 2004 (which is the date by which OVEC has requested FERC to accept the Amended ICPA for filing).

Please do not hesitate to contact me if you require additional information.

Sincerely,



Kent Blake

KB

cc: Elizabeth E. Blackford, Esq.
