



LG&E Energy LLC
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

October 6, 2005

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

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OCT 06 2005

PUBLIC SERVICE
COMMISSION

**RE: AN EXAMINATION OF THE APPLICATION OF THE FUEL
ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY
FROM NOVEMBER 1, 2004 THROUGH APRIL 30, 2005
CASE NO. 2005-00242**

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of the Response of Kentucky Utilities Company to Commission Staff's Post-Hearing Data Request dated September 22, 2005, in the above-referenced proceeding.

In addition, enclosed is the final revised Fuels Procurement Policies and Procedures that was discussed during the hearing. It is effective as of October 1, 2005.

Please contact me if you have any questions concerning this filing.

Sincerely,

Robert M. Conroy
Manager, Rates

Enclosures



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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OCT 06 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN EXAMINATION OF THE)
APPLICATION OF THE FUEL)
ADJUSTMENT CLAUSE OF KENTUCKY) CASE NO. 2005-00242
UTILITIES COMPANY FROM)
NOVEMBER 1, 2004 THROUGH APRIL)
30, 2005)

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
POST-HEARING DATA REQUEST
DATED SEPTEMBER 22, 2005

FILED: OCTOBER 6, 2005

KENTUCKY UTILITIES COMPANY

**Response to Post-Hearing Data Request
Dated September 22, 2005**

Case No. 2005-00242

Question No. 1

Witness: Mike Dotson

Q-1. With reference to KU's Response to Item No. 6 in the Commission's Order of July 7, 2005, please identify which coal contracts are considered to be synfuel agreements that will expire at the end of 2005.

A-1. KU has seven (7) synfuel contracts that will expire December 2005. Those contracts are identified below:

Black Hawk Synfuel, LLC	KUF-05085
Marmet Synfuel, LLC	KUF-05088
Marmet Synfuel, LLC	KUF-05089
KRT	KUF-05087
Pike Letcher Synfuel, LLC	KUF-03954
Black Hawk Synfuel, LLC	KUF-05095
Ceredo Synfuel, LLC	KUF-05091

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Dated September 22, 2005

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Question No. 2

Witness: Keith Yocum

- Q-2. With reference to KU's response to Item No. 1 in the Commission's Order of August 10, 2005, please state whether Green River Unit No. 4 has experienced further boiler tube outages since April 30, 2005.
- A-2. There have been no further outages at Green River 4 since April 30, 2005 due to boiler tube failures.

A. Definitions:

1. "Agreement" means a legally binding document, in which one party agrees to sell and the other agrees to buy Fuel or transportation services for Fuel, fully executed by both Buyer and Seller.
2. "Award Recommendation" means the Company's internal approval process for the review and approval by Management of a recommended Fuel purchase and/or transportation services agreement.
3. "Company" means Louisville Gas and Electric Company (LG&E) or Kentucky Utilities Company (KU) or both.
4. "Contract" is an Agreement for Fuel supply or transportation services with a fixed term typically in excess of one year.
5. "Contract Purchase" means any purchase of Fuel or transportation services by the Company where the terms and conditions are incorporated in the Contract, typically more than one year's duration.
6. "Director" means the Company's Director of Corporate Fuels.
7. "Department" means the Company's Corporate Fuels Department.
8. "Distressed Coal" means a limited amount of coal which may be purchased at a price below the current market price of similar quality coal.
9. "Emergency" means extraordinary conditions affecting Fuel production, transportation, or usage, including but not limited to strikes, lockouts or other labor problems, embargoes, mining impediments and other problems affecting the production or transportation of Fuel, existing and/or forecasted extreme weather conditions, or any other conditions or circumstances that can be reasonably foreseen as impairing the continued supply of Fuel to the Company.
10. "Environmental Standards" mean the legal requirements for compliance with emission levels or other environmental requirements applicable to one or more of the Company's generating Units.
11. "Formal Solicitation" means the process of soliciting sealed bids for the supply of Fuel and/or transportation services.
12. "Fuel" means combustibles (principally coal), purchased by the Company for one of its generating stations.

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13. "Informal Bid" means the process of considering unsolicited or solicited oral or written bids for Fuel purchases and/or transportation services.
14. "Joint Contract" is any contract that is written to supply Fuel and/or transportation services to both LG&E and KU. The allocation of fuel under a Joint Contract should be made pursuant to Section D8 below.
15. "Purchase Order" is an Agreement for the supply of Fuel and/or transportation services with a term of typically one year or less.
16. "Senior Vice President - Energy Services" means the Company's principal officer responsible for power generation.
17. "Senior Vice President – Energy Marketing" means the Company's principal officer to whom the Director of Corporate Fuels reports and who in turn reports to the Senior Vice President – Energy Services.
18. "Spot Purchase" means any purchase of Fuel and/or transportation services by the Company where the terms and conditions are incorporated in the Purchase Order or Contract and the term is typically of one year or less.
19. "Station" means one of the Company's generating stations.
20. "Supplier" means the seller who is a party to an Agreement and is obligated to comply with the Agreement's terms.
21. "Unit" means a generating unit at a Station.

B. Fuel Procurement Policies:

The Company's Fuel Procurement Policies and Procedures define the process to obtain an adequate and reliable supply of Fuel of sufficient quality at the lowest possible cost of electrical energy delivered to the Unit bus bar, consistent with the Company's obligation to provide adequate and reliable service to its customers, to meet operational and Environmental Standards, and to meet any other applicable legal requirements. The Company will use its best efforts to secure its Fuel supply at competitive prices through the use of the Formal Solicitation, Informal Bid, and negotiation process as described in this document. The awarding of Contracts and Purchase Orders will comply with internal business controls including Minimum Authority Limit Matrices, Sarbanes Oxley compliance and internal auditing recommendations.

Implementation of this policy is of highest priority to the Company. The Director of Corporate Fuels will review the Company's Fuel Procurement Policies and Procedures annually and update the policies as appropriate. The Corporate Fuels Department shall be organized and staffed, and Fuel procurement procedures and administration shall be conducted, in an efficient and practical manner consistent with this policy. Fuel shall be

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purchased at competitive prices considering all material factors, including, but not limited to, quantity needed to maintain an adequate inventory, quality required to meet operating characteristics and Environmental Standards, resulting bus bar energy costs, reliability of the Supplier, diversity of Suppliers, diversity of fuel transportation modes, and meeting Emergency or other unusual circumstances affecting market conditions.

C. Organization:

1. Department Structure. The Department shall be organized and staffed to effectively administer the Company's Fuel procurement function.

2. Organizational Responsibility. The Director is responsible for the operations of the Corporate Fuels Department and reports to the Senior Vice President – Energy Marketing who is responsible for the Energy Marketing and Fuel Procurement functions. The Senior Vice President - Energy Marketing reports to the Senior Vice President – Energy Services who has the final responsibility for Fuel procurement. Other Departments may be utilized by the Corporate Fuels Department to the extent the Director, Senior Vice President – Energy Marketing, and/or Senior Vice President - Energy Services consider advisable in the execution of the functions of the Department.

3. Approval Authority (Award Recommendation). An Award Recommendation will be prepared for all Agreements for the purchase of Fuel and transportation services. The Award Recommendation will be signed (as a minimum) by the Department's Fuel Administrator, Manager of Regulated Fuels, Director of Corporate Fuels, Plant Manager(s) of the Plant(s) that is (are) to receive the Fuel and/or transportation services, and the Vice President of Regulated Generation. Additional signatures may be required in accordance with the following Authority Limit Matrices:

Position	Maximum Term	Maximum Tenor	Maximum Notional \$ Amount
Manager, Regulated Fuels	1 year	2 years	\$10,000,000
Director, Fuels	1 year	2 years	\$10,000,000
Sr. Vice President, Energy Marketing	3 years	3 years	\$20,000,000
Sr. Vice President, Energy Services	5 years	5 years	\$25,000,000
LG&E Energy Corp. Chief Executive Officer	Over 5 years	Over 5 years	Over \$25,000,000

4. Reports. The Director will instruct the Department to prepare, maintain and distribute various reports to management and others as deemed necessary for business operations and regulatory requirements.

5. Records. The Department shall maintain the following records:

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- a. Open Files. The Department shall maintain within the Department's office area, the following files for at least one year or longer as the Contract term or other conditions warrant:
- (1) For each current Contract Supplier, Spot Purchase Supplier, or transportation services provider, the files will contain:
 - (a) Contract documents, amendments, Purchase Orders and escalation documentation;
 - (b) General correspondence;
 - (c) Invoices and invoice verification data;
 - (d) Delivery records and quality analyses data;
 - (e) Field inspection reports and other data.
 - (2) A record of transportation units (railroad cars, barges, etc.) owned or leased by the Company.
 - (3) A list containing current Suppliers and known potential Suppliers of Fuel.
- b. Closed Files. The Department shall maintain its closed files in accordance with the Company's record retention plan.

6. General Administrative Duties.

The Department shall subscribe to trade and industry publications and reports of governmental agencies concerning Fuel, transportation services, market information and prices. The Department shall use its best efforts to keep current on Fuel market conditions, prices and availability, and other developments relating to Fuel procurement.

D. Fuel Supply Procedures:

1. Projections. In conjunction with other departments of the Company, the Department shall prepare an annual projection of Fuel usage and delivered cost for each Station for the number of years required in the Company's planning process.
2. Contract/Spot Mix. Subject to the approvals as set forth herein, the Department shall recommend whether a Contract Purchase is advisable, considering the following factors: (a) the availability of adequate supplies from qualified Suppliers, (b) the need to have an adequate inventory committed for an existing Unit, changes to an existing Unit, or a planned new Unit, (c) the desire to maintain flexibility to market conditions and other factors affecting price and availability, (d) existing and anticipated Environmental Standards, and (e) such other factors as may reasonably affect the implementation of the Company's Fuel Procurement Policy.

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3. Current Requirements. The Department shall continually review and analyze the data available to the Department in order to purchase Fuel in a timely manner to meet the requirements of the Company.

4. Supplier Qualifications. The Company shall select potential suppliers on the basis of the current supplier list, performance on past and current Fuel Contracts, market intelligence from industry research, and general knowledge of the industry. No potential qualified supplier shall be preferred or discriminated against because of race, religion, color, sex, age or marital status of the supplier or any of its representatives.

The supplier list is periodically reviewed by the Department to eliminate any suppliers that are known to have gone out of business and to also add any new or existing suppliers that were previously not on the supplier list. The Department not only reviews the membership lists of several coal associations (for example the Lexington Coal Exchange, the North Carolina Coal Institute, the American Coal Council, etc.) for new suppliers to add to the supplier list, but also adds new suppliers based upon field inspection visits. If a supplier is identified that is not on the current supplier list, the Department will add the supplier to the list for the next RFQ. Suppliers can be added to the supplier list either by request of the supplier or by the Department.

A notice of a Request for Quotation (RFQ) is published in several Coal Industry Newsletters. The RFQ is initially sent to the suppliers on the current supplier list. If a supplier that has not received the RFQ calls and asks to be put on the Department's supplier list they are automatically added to that list and a copy of the RFQ is sent to that supplier. During the evaluation of the bids, if a new supplier has submitted a bid that is competitive, a new supplier evaluation will be performed to determine the capability of the supplier.

The supplier evaluation is done to determine if a supplier has the ability to deliver the quantity and quality of coal bid at the offered price. An actual site visit may be conducted. The information requested is based upon:

- The volume and term requested in the RFQ

- Past experience the Company has with the supplier

- The size and financial stability of the supplier

- Past experience the Company has with the type coal being offered

- Previous knowledge the Company has concerning the source operation (possibly under a different source name)

The data requested may include coal reserve data such as property maps and drill logs, mining plans, listing of all production equipment, coal preparation facilities such as coal preparation plants, sampling and analysis capabilities on site, mine staffing and organization, past production records, and status of permits. In addition, financial data

will be requested and a supplier credit assessment will be performed in accordance with company policy. If all operational information, financial data, and other results from the site visit evaluation are acceptable, the supplier is approved.

5. Solicitations.

- a. Formal Solicitations. The Company shall purchase its Fuel through sealed-bid solicitations. However, the Company reserves the right to request or accept Informal Bids for Fuel purchases as described in Section 5B, when in its judgment, market conditions or plant conditions provide an opportunity to obtain Fuel more advantageously or more quickly than through the formal sealed-bid procedures. When the Company foregoes the Formal Solicitation process in favor of the Informal Bid procedure (Section 5B below), documentation shall be included in the resulting Contract or Purchase Order file describing the conditions.

A Request for Quotation ("RFQ") number will be assigned to each quotation package. The quotation must be returned to the company address as indicated on or before the due date and time, noting on the mailing label the RFQ number. The RFQ number will identify the quotation and ensure the quotation is opened according to the Company's Fuel Procurement Policies and Procedures.

The RFQ package shall contain the following minimum requirements:

- Instructions to Suppliers on the submission of an RFQ, including time and date the bids are due, correct labeling of bid envelope, signatures required, etc.
- Scope of supply Agreement
- Listing of typical information required from Supplier
 - Quantity and quality of coal being offered
 - Cost structure
 - Length of purchase
 - Transportation capabilities
 - Mining capabilities
 - Other information as required in the RFQ.
- Company terms and conditions

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RFQ's shall be opened on or after the established due date and time within the presence of one or more witnesses from another Department. A numbered log shall be kept for logging in the receipt of each sealed envelope. This numbered log shall be signed by the witnesses noting the bids were all sealed prior to opening and were received prior to the due date and time. Those bids received after the designated time will be returned unopened to the bidder, unless the Director waives this provision.

Upon opening the sealed envelopes, each bid shall be given the log number assigned to it and initialed by the witnesses attending the bid opening.

All candidates shall be given the same opportunity and time frame to respond to the RFQ. Information clarifications shall be shared with all candidates. A copy of the RFQ and the original of the Suppliers' bid documents with evidence of the witness signatures shall be maintained within the Department.

The Department's Fuel Administrator is responsible for entering the bid data into the bid evaluation spreadsheet. The spreadsheet contains data fields such as:

Supplier's name (from bid)

Mine name and location (from bid)

Fuel loading point, river milepost or rail loadout (from bid)

Annual price in dollars per ton and cents/MMBtu (from bid)

Transportation cost (assigned by the Fuel Administrator)

Calculated total delivered cost (calculated by the Fuel Administrator)

Fuel technical specifications, such as:

BTU per pound

Sulfur content

Moisture content

Ash content

Chlorine content

Size

Arsenic content

Hardgrove Index

Other technical specifications as appropriate

The bids are kept in the Fuel Administrator's desk under lock and key when not in use.

The Department's Manager of Regulated Fuels will independently verify that all bid data is correctly entered into the bid evaluation spreadsheet. The completed bid evaluation spreadsheet is then forwarded to Generation Engineering for entering the bid data into VISTA (a software system that evaluates the impact of different coal qualities on Unit bus bar costs).

- b. Informal Bids. When, in the Company's judgment, Fuel can be obtained more advantageously or quickly for a particular plant through the Informal Bid procedures, the Department may solicit offers or accept unsolicited offers from Suppliers by telephone, electronic mail, facsimile or otherwise. Although these bids are typically used for Spot Purchases, circumstances may arise that would justify the recommendation of a long-term Contract from an Informal Bid process.
6. Contract Awards. The Department shall review and analyze each Contract offer. The evaluation will include, but not necessarily be limited to, the items required by the Company to satisfy operational, environmental and economic criteria. Based upon the bid evaluation spreadsheet and the ranking reports generated by VISTA, the Corporate Fuels Department will evaluate and rank all quotations received by total delivered cost and lowest evaluated cost of electrical energy delivered to the Unit busbar. Other factors will be considered, including but not limited to, supplier credit assessment, diversity of region of supply, diversity of transportation mode, and diversity of suppliers. From this ranking, a short list of bidders may be selected from which the Corporate Fuels Department intends to conduct further discussions and/or negotiations. The short list may include unsolicited offers. The size of the short list will be determined solely at the Department's discretion. The Department may engage in preliminary negotiations with Suppliers on the short list to determine which offers warrant further consideration. The objective of the negotiations shall be to reach Agreements with Suppliers that provide the Company with favorable terms and conditions, the lowest possible cost of electrical energy delivered to the Unit bus bar and reliable supply consistent with other qualifiers related to supplier reliability, environmental constraints, transportation options, etc. A team may be formed to conduct negotiations with bidders on the short list. Generally, this team will consist of two or more representatives from the Corporate Fuels Department. The terms and conditions outlined in the quotation submitted to the Corporate Fuels Department by the bidder shall be the basis for beginning negotiations with each potential Supplier. A representative from the Legal Department shall review documents regarding terms and conditions.

The Corporate Fuels Department may in some instances perform investigations of the bidders to determine their ability to supply Fuel under the terms and conditions outlined in their proposals. These investigations may include site visits, mine operation audits, audits of financial information, test shipments, or other similar actions intended to

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determine the bidder's qualification as a Supplier. The Department shall verify the adequacy of the proposed source of supply for coal quantity and quality.

The recommended Supplier(s) shall be selected by the negotiating team based upon the evaluation criteria and the results of the negotiations. The Department's Fuel Administrator will prepare the contract award recommendation for approval as detailed in Section C3. This recommendation will document the selection criteria and pertinent factors, and in circumstances where more than one company is selected, the recommendation shall describe the tonnage requirements and other responsibilities of each of the other recommended Suppliers.

7. Spot Purchases. Spot purchases may be made by the Company subject to the limit of authority stated in section C3. In instances where there exists an opportunity to purchase Distressed Coal or other coal from an Informal Bid, the Manager Regulated Fuels may recommend the purchase of such coal to the Director Corporate Fuels without soliciting proposals through the Formal Solicitation process.
8. Joint Contracts. Joint Contracts shall be made at the discretion of the Department in order to capture economic benefit from the combined purchasing power of LG&E and KU. Such discretion will be based upon the Company's operating requirements, inventory levels, and condition of the Company's power plants. The allocation of the Fuel supplied under a Joint Contract shall be designated in the Contract Award Recommendation. The Department will make all efforts to schedule delivery of the Fuel based upon this Fuel allocation.
9. Documentation. Contracts and Purchase Orders shall be signed by the Supplier and the Company.

The following documents must be maintained:

- The final list of bidders
 - A copy of the bid package
 - The bidders' responses with witnesses' signatures
 - The bid evaluation summary
10. Fuel Oil. Fuel oil is procured on an "as-needed" basis due to the infrequency of use of this Fuel and the nature of the oil market. The responsibility for fuel oil procurement varies. When the need for fuel oil arises, the Corporate Fuels Department and/or the Power Plants, System Dispatch or other appropriate Company responsible individual will solicit vendors for offers. Orders are assigned on the basis of lowest delivered cost and the ability to fill the order. Solicitation results are documented in the Corporate Fuels Department for purchases made by the Department.

E. Fuel Supply Agreement Administration:

1. Compliance. The Department shall review and analyze daily business and operational reports to properly administer all Fuel and transportation services Agreements. Coal

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weighing and sampling is conducted at each individual power plant site. Coal weights are measured in accordance with industry-accepted methods. Coal sampling and analysis is performed in accordance with Generation Services' System Laboratory procedures. These procedures have been developed in accordance with ASTM standards and cover coal sampling, coal sample preparation, coal sample identification, handling and shipping, and coal analysis on a parameter-by-parameter basis. Coal quantity and quality are reported to the Department through the Coal Supply Management System (CSMS).

2. Amendments. A Contract/Purchase Order shall not be materially amended except after analysis by the Department, recommendation of the Director, review by the Legal Department and in accordance with the Authority Matrices in C.3.
3. Contract Administration. The Department shall maintain the necessary data to administer the Contracts. Every Supplier's request for a change in terms, conditions, or prices must be written and supported by adequate data in conformity with the Contract. Each request shall be analyzed by the Department against the Contract provisions, and reported with recommendations to the Director. After review by the Director, the Supplier's request and Department's recommendations shall be reviewed by the Senior Vice President-Energy Marketing and others as deemed necessary. If any request is not approved, the Director shall advise the Supplier, specifying the Company's objections and requesting an adequate explanation. If the Supplier's response is not approved, negotiations between the Supplier and Company as dictated by Contract terms, shall be the primary method of resolving the issue.
4. Supplier's Relief. Any Supplier's request or claim for relief from compliance with any provision of the Contract's terms such as Force Majeure conditions, quality specifications, approval of alternate sources, etc, must be in writing with an adequate description of conditions warranting nonperformance. Each request or claim shall be reviewed by the Director and the Company's Legal Department.
5. Inspections. The Director shall cause inspections of mining and other facilities of a Contract coal Supplier or other Fuel supply facilities as part of Contract Administration.
6. Emission Allowance Management. All allowances offered in connection with supplying fuel for either LG&E or KU generating units will be managed in accordance with the Generation Services SO₂ Compliance Strategy, dated November 2004. The appropriate way to accommodate any additional allowances (offered in conjunction with supplying fuel) will be dependent on the quantity and vintage of the allowances offered.

F. Fuel Supply Agreement Enforcement:

1. General Enforcement Policy. Supplier obligations under Fuel supply Agreements shall be enforced by the Company to ensure Supplier compliance with the Company's overall procurement policy and to provide for the continuing supply of Fuel.
2. Department Responsibility. Whenever it is determined that a shipment does not meet the Fuel Supply Agreement terms or a Supplier is not complying with the Fuel Supply

Agreement terms, the Department shall inform the Supplier and direct that subsequent shipments be in compliance.

G. Legal Assistance:

The Department shall have access to, and may receive advice from, the Legal Department on all matters relating to Fuel procurement, administration and enforcement.

H. Inventory Levels:

The Company has an obligation to ensure the availability of continuous reliable service to its customers. Decisions affecting Fuel inventory shall be responsive to this obligation.

The Company shall maintain an adequate inventory to ensure service reliability while allowing for enough flexibility so inventory levels can be responsive to known and anticipated changes in conditions and avoid the risks due to unforeseen conditions. Inventory targets are established (based upon forecasted burn for each plant, deliverability and quality of the required fuel to each plant, the position of the plant in the dispatch order, risk of market supply-demand imbalance, and the ability to conduct quick spot market transactions) by the Department, and then reviewed by the Senior Management of Energy Services. The general level of inventory is adjusted to meet anticipated conditions (i.e. summer/winter peak load, river lock outages, Unit outages, fuel unloading system outages, etc).

Coal inventories are reported monthly in the Department's Monthly Fuels Management Report. The report contains graphs and other data noting the actual inventory level versus the inventory target for each Station. Inventory levels are also discussed and reported in the monthly Energy Services Trading Meeting and any variances from inventory targets are explained. The Manager of Regulated Fuels has primary responsibility for inventory monitoring and management.

I. Emergency Procurement:

Any one or more of the procedures described herein may be waived by the Senior Vice President-Energy Marketing, whenever, Fuel must be purchased due to extraordinary conditions such as strikes, lockouts or other labor problems affecting Fuel production or transportation, embargoes, mining or other problems affecting production or transportation, existing and/or forecast extreme weather conditions, or any other conditions or circumstances that can be reasonably foreseen as impairing the continued supply of Fuel to the Company. When such a purchase is made, documentation of circumstances will be included in the Contract or Purchase Order file.

J. Transportation Services Contracts:

Transportation services bids shall be requested and Contracts negotiated whenever appropriate. A tariff may be used in lieu of a Contract Agreement if conditions warrant. If a tariff is used for rates and terms and conditions, the Department will send a confirming letter indicating its acceptance of the tariff rates and outlining any exceptions

taken thereto. Transportation services under tariff rates and conditions may be terminated at any time by the Company. Consideration shall generally be given to the following factors when considering the need or desirability to make a transportation services Agreement:

- plant requirements;
- the locations of potential coal Suppliers;
- the most desirable transportation modes available;
- coal unloading and handling system constraints;
- existing transportation routes and transfer points between Suppliers and Company generating Stations;
- desirability of maintaining flexibility with different modes of transportation;
- economics;
- other factors which may affect the delivery of coal to the Company's generating Stations.

The process of selecting and contracting for transportation services will vary with the mode of transportation being sought. For barge and truck deliveries, the Department will generally use the Company's accepted competitive bidding procedures. In instances where only one rail carrier may serve a plant, direct negotiations with the rail carriers serving a particular coal source may be initiated. The selection of a transportation Supplier will generally be based upon, but not necessarily limited to, cost, reliability, coal unloading and handling system constraints, and other factors. All transportation service Agreements must be in writing and signed by all parties. The approval procedures set forth in Section C.3 shall be used for the approval of all transportation Contracts.

K. Affiliate Transactions:

Transactions and relationships between the Company and its unregulated affiliates are governed by four governmental agencies: the Kentucky Public Service Commission, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, and as regards Kentucky Utilities Company, the Virginia State Commission.

The Company may purchase coal from an affiliate at the lesser of cost or market, if such a transfer is reasonably required by the Company to meet an Emergency and the Company believes in good faith that, under the circumstances, the transaction will be to the advantage of the Company. At the time of the affiliate transaction, the Company will document through the award recommendation process, the pricing basis and the justification for the affiliate transaction. The Company shall report any such purchase in its next recurrent report due to the Commission (Form A or Form B filing, or their

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successor(s)). All such affiliate transactions must as a minimum, meet the requirements of the Affiliate Transaction Overview, dated May 26, 2003, including the requirements of Kentucky Revised Statutes Chapter 278, Kentucky Public Service Commission Sections 2201 through 2219; the Securities and Exchange Commission, Title 17 – Commodity and Security Rules, Part 250 – General Rules and Regulations; and Virginia State Corporation Commission, Code of Virginia Title 56 – Chapter 4 and any other applicable affiliate transaction rules.

L. Ethics and Conduct:

The Company recognizes the importance of following the Company's Code of Ethics to guide the conduct of the Corporate Fuels Department in the performance of its duties and responsibilities:

The Department shall endeavor to serve the best interests of the Company and its customers in the performance of the Department's duties and responsibilities.

Fuels staff shall adhere to the ethical standards and policies of the Company.

Each employee involved with the procurement of Fuel will be required to annually file a "Conflict of Interest" statement with the Company.

Originally issued at Louisville, Kentucky, the 10th day of February, 2003.

Revised effective October 1, 2005.

Louisville Gas and Electric Company

Kentucky Utilities Company

By 

Paul Thompson

Senior Vice President – Energy Services

By 

Martyn Gallus

Senior Vice President – Energy Marketing