LG&E ENERGY

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February 23, 2006

RECEIVED
FEB 23 2006
PUBLIC SERVICE COMMISSION

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

RE: ***AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUST MENT CLAUSE OF KENTUCKY UTILITIES COMPANY FROM MAY 1, 2005 THROUGH OCTOBER 31, 2005 CASE NO. 2005-00496***

Dear Ms. O'Donnell:

Enclosed please find an original and five (5) copies of the Response of Kentucky Utilities Company to Commission Staff's Interrogatories and Requests for Production of Documents dated February 13, 2006, in the above-referenced proceeding.

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

In the Matter of:

AN EXAMINATION OF THE	)	
APPLICATION OF THE FUEL	)	
ADJUSTMENT CLAUSE OF KENTUCKY	)	**CASE NO. 2005-00496**
UTILITIES COMPANY FROM MAY 1,	)	
2005 THROUGH OCTOBER 31, 2005	)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S INTERROGATORIES AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
DATED FEBRUARY 13, 2006

FILED: February 23, 2006

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 13, 2006

Case No. 2005-00496

Question No. 1

Witness: B. Keith Yocum

Q-1. Refer to Item 2 of the response to the Commission's December 27, 2005 Order ("December 27 Order"). During the period under review, the E.W. Brown generating station operated at a capacity factor of 47 percent.

a. Does KU consider the 47 percent capacity factor low for the E.W. Brown station?

b. If the answer to 1(a) is yes, explain why the capacity factor was low during this period.

A-1. a. Yes; although the annual net capacity factor forecast for Brown steam units in 2005 was only 63.5% because of the planned major overhaul on Brown 3.

b. The capacity factor was low mostly due to scheduled outages and ensuing extensions on Brown 2 ("BR2") and Brown 3 ("BR3") in May and due to a forced outage on BR3 beginning in September. These three outages account for 3081.2 hours of the 3532.9 hours of the total outage times on Brown steam units during this period, or 87%. Specifics of each of these outages are outlined below:

During May, BR2 had a two-week scheduled outage in conjunction with the BR3 major overhaul so that the common flue could be inspected. The outage was extended over two weeks to accommodate the emergency inspection of the generator rotor caused by the field breaker trip of May 7, 2005.

Brown 3 had a major overhaul which began on April 8, 2005 and was scheduled for eight weeks. This overhaul was extended by a week for HP/IP inner cylinder leakage which caused the cylinder to have to be sent out for repairs, which had not been planned.

On September 9, 2005, BR3 had a lengthy forced outage which was caused by a fire in one of the unit auxiliary 4KV switchgear buses. The fire did extensive damage to switchgear cubicles, the unit control system, and instrument field wiring cables. Emergency restoration began the day of the fire and continued on an expedited basis until the unit went back on-line December 9, 2005.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 13, 2006

Case No. 2005-00496

Question No. 2

Witness: B. Keith Yocum

Q-2. Refer to Item 3 of the response to the December 27 Order.

a. Provide the current status of the firm power commitment between KU and Owensboro Municipal Utilities ("OMU").

b. Describe KU's plans for replacing the 200 MW of baseload power lost due to termination of the agreement with Electric Energy, Inc.

A-2. a. The Contract (the "Contract") dated September 30, 1960 among KU, the City of Owensboro (the "City"), and the Owensboro City Utility Commission (the "City Commission") (collectively, the City and the City Commission are hereinafter referred to as "OMU") continues to be in effect. The Contract expires in January 2020 absent an earlier termination.

The pending litigation in U.S. District Court in Owensboro remains in the discovery phase. In that litigation, OMU has alleged, among other things, that KU has materially breached the Contract and that OMU has the right to terminate based on those breaches. The Court has not ruled on those allegations. However, the Court has ruled upon the unilateral termination rights of the parties. In its ruling, the Court found that the City may terminate the Contract upon four years prior notice to KU. This ruling is not final and appealable at this time, and KU's present intention is to seek additional review of this ruling. In addition, OMU has not at this time issued a notice to KU in which OMU purports to exercise this voluntary right to terminate. Otherwise, KU in all respects continues to vigorously defend its rights in the litigation.

b. In the near term, KU has adequate reserves to meet the load demand. The power previously received from Electric Energy Inc. ("EEI") will be replaced with other generation from the Companies' fleet. There is not a projected capacity shortage using the 14% planning reserve margin target until the 2008-2009 timeframe. The Companies will continue to review their capacity and energy needs through their integrated resource planning process in order to determine the least cost alternatives for meeting projected needs.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 13, 2006

Case No. 2005-00496

Question No. 3

Witness: Robert M. Conroy / B. Keith Yocum

Q-3. Refer to Item 4 of the response to the December 27 Order. For the months of May, June and July of 2005, sales are shown to various other companies, in addition to OMU, Louisville Gas and Electric Company ("LG&E"), and the Midwest Independent System Operator ("MISO"). Beginning in August 2005, the only sales shown are to OMU, LG&E and MISO. Explain why there were no sales to companies other than OMU, LG&E and MISO after July of 2005.

A-3. MISO Day 2 Market began on April 1, 2005. The May volumes to counterparties other than MISO are for Automatic Reserve Sharing ("ARS") sales. After May, all ARS sales are included in MISO transactions rather than being reported as a direct transaction with the specific counterparties receiving the ARS power.

Transactions for counterparties other than MISO in June and July are actually adjustments to previous months' activities. The only exception is the transaction with East Kentucky Power Cooperative ("EKPC") in July. The EKPC transaction was the result of EKPC shifting load over to KU's transmission system in order to complete required maintenance on EKPC's transmission system.

Future filings are not anticipated to have any sales counterparties other than LG&E, OMU and MISO.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 13, 2006

Case No. 2005-00496

Question No. 4

Witness: Mike Dotson

Q-4. Refer to Item 6 of the response to the December 27 Order. Twenty contracts are shown as expiring on December 31, 2005. Explain how KU has replaced, or plans to replace, the coal delivered under the expiring contracts. Explain whether any contracts were extended, or if the expiring contracts have been replaced with new contracts or spot purchases. If contracts have been extended, identify the extended contracts and provide the length of the extension period.

A-4. Twelve (12) of the twenty (20) contracts that expired on December 31, 2005 were synfuel contracts. Synfuel contracts are coal conversion contracts whereby KU agrees to purchase synfuel at a price discount in lieu of coal. (Synfuel is crushed bituminous coal that has been chemically altered to comply with requirements of the Internal Revenue code; synfuel has the burn characteristics consistent with non-treated coal). These synfuel contracts allow KU to convert some of its coal deliveries under existing coal contracts into synfuel deliveries. Shipments under the synfuel contracts reduce the volume commitment under the corresponding coal contract. The expiration of one of these synfuel contracts only reduces the portion of the shipments that will be delivered as synfuel, it does not reduce the amount of the total shipments unless the underlying coal contract also expires. In summary, when synfuel contracts are involved, there must be the expiration of two contracts (the synfuel contract and the underlying coal contract) in order to affect the total number of tons.

The twelve (12) synfuel contracts that expired as of December 31, 2005 are as follows:

Black Hawk Synfuel	KUF05085
Marmet Synfuel as agent for Calla	KUF05088
Marmet Synfuel as agent for Imperia	KUF05089
KRT as agent for RC Synfuel	KUF05087
Ceredo Synfuel	KUF05086
Solid Energy	KUF03980
Pike Letcher Synfuel	KUF03954
Black Hawk as agent for River Synfuel	KUF05095

Marmet Synfuel as agent for Calla	KUF05098
Marmet Synfuel as agent for Imperial	KUF05099
Ceredo Synfuel	KUF05091
KRT as agent for RC Synfuel	KUF05092

The remaining eight (8) contracts that expired December 31, 2005 were coal contracts. As noted in response to Question No. 17 of Commission Staff's Request for Information dated December 27, 2005, KU issued three (3) solicitations during 2005 and selected six vendors in response to those solicitations.

Please see the Response to Question No. 5 for information on additional contracts signed by KU.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 13, 2006

Case No. 2005-00496

Question No. 5

Witness: Mike Dotson

Q-5. Refer to Item 17 of the response to the December 27 Order. For the selected vendors only, provide the following information:

a. Vendor name.
b. Starting date and length of contract.
c. Annual tonnage.
d. Base price.

A-5. For Solicitation #1 dated December 20, 2004

a. American Coal Sales Company (KUF05114)
b. August 15, 2005 – December 31, 2006 (16.5 Months)
c. Total quality 210,000 tons
   Green River Station
      2005 – 10,000 tons
      2006 – 100,000 minimum up to 200,000 tons maximum
   Ghent Station
      2006 – 0 up to 100,000
d. Green River Station $1.96552 per MMBTU FOB Green River Station
   Ghent Station $1.61638 per MMBTU FOB Barge at Cook Terminal (MP 947.5 Ohio River).

For Solicitation #2 dated March 16, 2005

a. Infinity Coal Sales, LLC (KUF06105)
b. January 1, 2006 – December 31, 2008 (3 years)
c. 400,000 tons per year
d. 2006 - $2.45902 per MMBTU FOB Barge (MP 74.6 Kanawha River)
   2007 - $2.33607 per MMBTU FOB Barge (MP 74.6 Kanawha River)
   2008 –$2.18648 per MMBTU FOB Barge (MP 74.6 Kanawha River)

a. Central Coal Company (KUF06106)
b. January 1, 2006 – December 31, 2007 (2 years)
c. 300,000 tons per year
d. $2.56097 per MMBTU FOB Barge (MP 71.8 Kanawha River)

a. Arch Coal Sales Company, Inc. (KUF06107)
b. January 1, 2006 – December 31, 2006 (1 year)
c. 1,000,000 tons
d. $0.60227 per MMBTU FOB Railcar

a. Little Elk Mining, LLC (KUF05109)
b. January 1, 2006 –June 30, 2009 (3.5 years)
c. 2006 – 270,000 tons
   2007 – 2008 – 500,000 tons per year
   2009 – 130,000 tons
d. $1.97292 per MMBTU FOB railcar
   $2.55625 per MMBTU FOB Brown Station

a. Little Elk Mining, LLC (KUF05110)
b. January 1, 2006 – December 31, 2008 (3 years)
c. 30,000 tons per year
d. $2.66666 per MMBTU FOB Tyrone Station

a. Perry County Coal Corporation (KUF06108)
b. January 1, 2006 – December 31, 2008 (3 years)
c. 120,000 tons per year
d. $2.67137 per MMBTU FOB Tyrone Station