



Ernie Fletcher
Governor

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Environmental and Public
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Mark David Goss
Chairman

John W. Clay
Commissioner

January 23, 2007

PARTIES OF RECORD:

RE: Case No. 2006-00172

AN ADJUSTMENT OF THE ELECTRIC RATES OF THE UNION LIGHT, HEAT
AND POWER COMPANY D/B/A DUKE ENERGY KENTUCKY, INC.

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Isaac Scott as (502) 564-3940, extension 444.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".


Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File – Case No. 2006-00172

FROM: Isaac Scott, Team Leader 

DATE: January 23, 2007

SUBJECT: January 11, 2007 Informal Conference

Pursuant to the January 9, 2007 Staff Notice, an informal conference was held on January 11, 2007. Attached to this memorandum as Attachment 1 is a list of the participants. The purpose of the conference was to discuss issues related to the Fuel Adjustment Clause ("FAC") filings by Duke Energy Kentucky ("Duke Kentucky").

Duke Kentucky provided an outline of the topics it wanted to discuss at the informal conference. A copy of that outline is attached to this memorandum as Attachment 2. Duke Kentucky will be making FAC filings in March 2007, and it wanted to discuss some of the components in the filings.

Duke Kentucky discussed how it believed its economic dispatch should be handled. This was important when determining the Midwest Independent System Operator ("MISO") Make-Whole Revenues sharing, which was a feature in the approved Settlement Agreement in this proceeding. Duke Kentucky asked about the use of estimated fuel information in its FAC when actual data is unavailable, with a true-up calculation in the following month. Lastly, Duke Kentucky discussed how the margins on off-system sales were to be determined and if reviews or audits would be necessary.

During the discussions, the Commission Staff noted that since Duke Kentucky was resuming its FAC filings, there could be some problems that would arise and those could be addressed at the time of the first review. Because of the timing of Duke Kentucky resuming its FAC, the first 6-month review will not cover 6 months of activity. Concerning the MISO-related discussion, Commission Staff suggested that the economic dispatch should be shown as it actually operated rather than being restated for MISO-required changes in the dispatch order. Commission Staff indicated that the use of estimated fuel data seemed to be acceptable, but suggested that Duke Kentucky state in the FAC filings when the data is estimated. Concerning the off-system sales, Commission Staff suggested that the parties discuss among themselves what reviews or audits might be needed and then file a request with the Commission concerning how to proceed.

Attachments

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT)
AND POWER COMPANY D/B/A DUKE) CASE NO. 2006-00172
ENERGY KENTUCKY FOR AN)
ADJUSTMENT OF ELECTRIC RATES)

=====
January 11, 2007 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

Isaac J. Lewis

PLC - Financial Analysis

Daryl Young

" " "

Betsy Blackford

OTG

Larry Cook

SAG

John Finnigan

Duke Energy Kentucky

Dou Warren

Duke Energy Kentucky

Scott Nicholas

Duke Energy Kentucky

Lisa Stembuhl

Duke Energy Kentucky

Peggy Laub

Duke Energy Kentucky

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT)
AND POWER COMPANY D/B/A DUKE) CASE NO. 2006-00172
ENERGY KENTUCKY FOR AN)
ADJUSTMENT OF ELECTRIC RATES)

=====
January 11, 2007 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

Robert Cowan

PSC

Kurt Boehm

Kroger

Scott Brunsick

Duke

Lisa Cullen

Duke

Mike Gribler

Duke

DISCUSSION TOPICS FOR INFORMAL CONFERENCE

1. Stacking methodology
 - Resources (own generation and purchased power) are stacked from lowest to highest cost except for reliability and other constraints.
 - Firm native load is served first in the stacking order.
 - To the extent required to meet reliability requirements, DE-Kentucky will treat all or part of any unit designated as "must run" and force this generation to the bottom of the economic dispatch order.
2. MISO Make-Whole Revenue
 - If MISO dispatches a unit that would not otherwise dispatch on an economic basis, any resulting generation from this unit will be stacked in order of economic merit without adjustment. Neither the associated fuel costs nor the MISO make-whole revenue will be included in the FAC.
 - Alternatively, out-of-merit generation dispatched on by MISO will be deemed to be dispatched for reliability purposes, and will be forced to the bottom of the economic dispatch order. Any make-whole revenue will be used to offset the fuel costs associated with the forced generation.
 - The former alternative would reduce the off-system sales but would give customers the least costly generation. The latter alternative would make more generation available for sale into the market, of which customers receive a 50% share.
3. Allowed to estimate fuel for month (-1) if actuals are unavailable with subsequent true-up
 - Kentucky Power includes an estimate of month (-1) for its FAC and corrects that number for actuals in the next filing.
4. Expenses allowed for cost of goods sold in off-system sales margin calculation.

- The Order in the Asset Transfer case prescribes the margin calculation to be revenue net of:

- a. Fuel
- b. Emission Allowances
- c. Other variable costs