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Ms. Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
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PUBLIC SERVICE COMMISSION

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February 23, 2007

RE: ***An Exanimation of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company From November 1, 2004 to October 31, 2006*** **- Case No. 2006-00509**

Dear Ms. O'Donnell:

Enclosed please find an original and five (5) copies of Kentucky Utilities Company's Response to the Commission Staff's Interrogatories and Requests for Production for Documents dated February 8, 2007, in the above-referenced proceeding.

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

Sincerely,

Robert M. Conroy

Enclosures

cc: Michael L. Kurtz, Esq.
Elizabeth E. Blackford, Esq.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY FROM FROM NOVEMBER 1, 2004 THROUGH OCTOBER 31, 2006	)))))	CASE NO. 2006-00509

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S INTERROGATORIES AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
DATED FEBRUARY 8, 2007

FILED: FEBRUARY 23, 2007

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 1

Witness: Mike Dotson

Q-1. Refer to KU's December 2005 Analysis of Coal Purchased for Fuel Clause Backup Report filed with the Commission February 14, 2006. KU purchased 9,361 tons of coal from Nalley & Hamilton Enterprises at 314.56 cents per MMBtu under a long-term contract. The cost was considerably higher than the cost of similar quality coal purchased under long-term contract during the same period of time. Explain what factors, including market conditions, contributed to the higher cost of this purchase.

A-1. KU's Contract with Nally & Hamilton allows for coal to be delivered by truck to the River Eagle Dock on the Big Sandy River and loaded into barges or delivered by rail to TTI Terminal in Maysville, Kentucky and then loaded into barges. The delivered price to the Ghent Station for either transportation method is 235.32 cents/MMBTU plus or minus quality adjustments.

The December 2005 Analysis of Coal Purchased for Fuel Clause Backup Report for Nally & Hamilton included 9,361.00 tons loaded through River Eagle Dock and 16,020.99 tons loaded through TTI Terminal. The December 2005 filing also included a prior period adjustment for barges booked to the wrong loading location. The impact of this adjustment was to increase December 2005 dollar value for coal loaded through River Eagle Dock and decrease the dollar value for loadings through TTI Terminal. This resulted in a delivered price for the 9,361.00 tons loaded through River Eagle being recorded at 314.56 cents/MMBTU and the 16,020.99 tons loaded through TTI Terminal being recorded at 195.04 cents/MMBTU. The average price for the total December 2005 purchase from Nally & Hamilton was 239.52 cents/MMBTU. The average price for the tons received under the Contract for December 2005 was well within the price range of 154.57 cents/MMBTU - 281.42 cents/MMBTU paid for Eastern compliance coal received under contract during the period. The price for deliveries of spot coal for December 2005 ranged from 270.48 cents/MMBTU to 274.38 cents/MMBTU.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 3

Witness: Robert M. Conroy

Q-3. Refer to Item 13 of KU's response to the Commission's December 18, 2006 Order. Explain why, on a *month-to-month* comparison basis, line losses for 2005 exceed losses for 2006.

A-3. KU assumes the question should be referencing why losses for 2006 exceed losses for 2005.

Line losses fluctuate from period to period based on various factors such as weather, line material in use, and age of equipment. Prior to the two year period in review, rolling 12 month average line losses over a seven year period have produced a range of 4.074% to 5.341%. The current increase in 2006 line losses over 2005 is in proximity to the seven year range measurements and is typical of historic fluctuations caused by the factors stated above.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 2

Witness: John P. Malloy

Q-2 Refer to KU's response to Item 11 of the Commission's December 18, 2006 Order. Provide an update on the status of the Owensboro Municipal Utilities contract.

A-2. As noted in KU's response to Item 3 of the Commission's July 6, 2006 Order in Case No. 2006-00264, the purchase power contract with OMU continues to be in effect, but is subject to litigation. For some time, OMU's E. Smith generating units 1 and 2 have been experiencing poor reliability, resulting in less than forecasted energy from those units available to KU customers. In turn, this poor reliability has placed greater demand on KU's generating units to provide backup energy to OMU customers. On January 31, 2007, KU filed an amended complaint including, among other things a counterclaim seeking damages with respect to OMU's failure to operate and maintain its generating units in a good and workmanlike manner as required by the Contract.

Additionally, as noted in previous FAC proceedings, the Court has ruled upon the unilateral termination rights of the parties, finding that the City may terminate the OMU contract upon four years prior notice to KU. OMU issued a termination notice to KU dated May 16, 2006. This Court ruling is not final, and KU's present intention is to appeal.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 4

Witness: John P. Malloy

Q-4. Refer to Item 14, page 1 of KU's response to the Commission's December 18, 2006 Order. Explain whether KU has set any deadline for a decision concerning possible retirement of the mothballed Tyrone units.

A-4. Tyrone 1 and Tyrone 2 have been in service for 59 and 58 years, respectively. Prior to their dispatch in 2006, the last time that either of these units had operated was in 2001, when they ran for 143 and 133 service hours, respectively. Currently the Companies are performing a life assessment study on these units and a decision on retirement is expected by March 31, 2007. KU will supplement this response with the results of this study prior to the hearing.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 5

Witness: John P. Malloy

Q-5. Refer to Item 14, pages 17-19 of KU's response to the Commission's December 18, 2006 Order. Each of the 3 Haefling units have experienced prolonged outages during the review period. Explain KU's plans for the Haefling units for the foreseeable future.

A-5. Haefling Units 1 thru 3 each incurred reliability investments in 2006. Currently, all three Haefling units are available and reliable. As a result, there are currently no plans to retire these units in the near future.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 6

Witness: Mike Dotson

Q-6. Refer to Item 15, page 3 of KU's response to the Commission's December 18, 2006 Order. KU experienced a shortfall during 2006 in the percentage of annual tonnage received under its contract with Alpha Coal Sales (K06001). Explain whether KU expects the tonnage to be made up or whether additional shipments are expected under the contract.

A-6. KU is in the process of extending this contract through June 30, 2007 and will take delivery of approximately 54,000 tons.

During the later part of 2005 and the early part of 2006 the Brown Station experienced unit problems which resulted in a lower coal burn than forecasted. At the beginning of 2006 and through-out 2006 the Brown Station had a high inventory level and experienced hot spots in the coal pile. Therefore, throughout 2006 the Brown Station had to reduce the number of trains and amount of coal it was receiving. Since the Brown Station was not able to take the number of trains originally scheduled with Alpha under the contract, Alpha considered this a force majeure event on KU's part and the tons were lost. Near the end of 2006, Alpha notified KU that it would not be able to ship ratable deliveries to the Brown Station due to production problems, therefore KU agreed to the reduced delivery rate and moved the tonnage into 2007. As a result, 54,000 tons will be delivered in 2007.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Interrogatories and Requests for Production of Documents Dated February 8, 2007

Case No. 2006-00509

Question No. 7

Witness: Mike Dotson

Q-7. Refer to Item 26 of KU's response to the Commission's December 18, 2006 Order.

a. Explain whether the contract purchase of 3,132 tons of coal is related to Coal Supply Agreement KUF-06145, which is discussed on page 2 of KU's response to Item 23.

b. If the purchase from Bronco Hazelton Company shown in Item 26 is a new transaction, explain why additional purchases of coal have been made from a company that has already failed to deliver 445,910 tons under an existing contract.

A-7. a. The 3,132 tons received during May 2006 were the last tons received from Bronco Hazelton (Agreement KUF-06145) prior to Bronco Hazelton filing for Chapter 11 Bankruptcy protection on May 22, 2006.

b. The purchase from Bronco Hazelton Company was not a new transaction. KU entered into a Coal Supply Agreement dated August 8, 2003 with Lafayette Coal Company for coal from the Hazelton mine. On December 29, 2005 Bronco Hazelton Company purchased the Hazelton mine and the Agreement was assigned from Lafayette Coal Company to Bronco Hazelton Company. On May 22, 2006 Bronco Hazelton filed for Chapter 11 bankruptcy protection and for rejection of the Coal Supply Agreement.