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Ms. Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
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P. O. Box 615
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PUBLIC SERVICE
COMMISSION

February 26, 2007

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RE: An Examination 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 ("the Company") supplemental responses for Item Nos. 2 and 3 of the First Set of Data Requests of Kentucky Industrial Utility Customer's, Inc. filed on February 8, 2007, in the above-referenced proceeding.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert M. Conroy', with a long horizontal line extending to the right.

Robert M. Conroy

Enclosures

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

KENTUCKY UTILITIES COMPANY

**February 26, 2007 Supplemental Response to First Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Filed on February 8, 2007**

Case No. 2006-00509

Question No. 2

Witness: Counsel / Robert M. Conroy

- Q-2. For each of the months during the two-year review period, please identify each instance (by month) in which MISO requested one of the Company's generators to be run out of economic order. For each such occurrence, provide the following:
- a. mWh output of the unit
 - b. the cost of fuel associated with the "out of merit order" generation
 - c. the cost of fuel associated with generation that was not run because of the must run order from MISO.
 - d. the amount of any "make whole" payment made to the Company by MISO pursuant to the order to run a unit out of economic order (include a copy of any calculations, invoices or other documents provided by MISO associated with the make whole payment).

- A-2. Please see the continuing objection to the terms and phrases contained in the KIUC discovery stated in response to Question No. 1. Without waiver of its objections, the Company provides the following response:

For the purposes of assessing RSG Make Whole Payments, MISO calculates the amount of RSG Make Whole Payment based on the commitment period of the unit.

- a. The mWh output, as included in AFB, of the units receiving a Day-Ahead RSG Make-Whole Payment Amount or Real-Time RSG Make Whole Payment Amount is shown in column (1) of Attachment 1 (Day-Ahead) and Attachment 2 (Real-Time) to this response.
- b. The requested information is not available. The Company does not record the actual cost of fuel on an hour by hour basis. The AFB system is utilized to allocate a calculated fuel cost for those units stacked to off-system sales in order for that cost to be excluded from the fuel cost recorded in the Company's books and records for FAC purposes.
- c. The requested information does not exist. There were no costs for generation that did not run. In addition, no records are maintained within AFB indicating

units that did not run or the reason why such units did not run. AFB simply stacks the units that were dispatched from least cost to highest cost.

- d. The requested information can be found in the MISO Invoices attached to the response to Question No. 10. These MISO Invoices, as requested, are only for the two-year period covered by this proceeding. However, resettlement of charge types by MISO for the period under review has continued and will continue beyond the end of the review period. This MISO resettlement can affect any of the settlement charge types including the five relating to RSG Make Whole Amounts.

Without waiver of or prejudice to its position in this case, the Company is providing an estimation of the fuel cost from AFB that is above the MISO Energy Market Revenue (based on the LMP for that unit) for those commitment periods when the Company received a Day-Ahead RSG Make Whole Payment amount or Real-Time RSG Make Whole Payment Amount because the LMP-based MISO Energy Market Revenue was less than the Company's offer. The Company has prepared this estimate based on available information from the two-year review period that is subject to the ongoing MISO settlement and resettlement processes. As discussed in response to KIUC's data request No. 1, the estimate does not include the other costs and revenues associated with MISO's Real Time and Day Ahead power markets.

The Company has linked the MISO settlement amounts for RSG Make Whole Payments maintained within the Company's nMarket software (nMarket links with the MISO Portal to download and maintain the various settlement charges) with the database for the AFB system in order to focus the estimation to those commitment periods when the unit receiving an RSG MWP sank to native load as opposed to off-system sales in accordance with the AFB system.

The amount of the AFB fuel cost above the Energy Market Revenue when the Company received RSG Make Whole Payments is shown in column (2) of Attachment 1 (Day-Ahead) and Attachment 2 (Real-Time) to this response. In addition, for those periods when the AFB fuel cost was above the Energy Market Revenue the Company allocated the appropriate amount of RSG Make Whole Payments to either native load or off-system sales based on the generating units allocation in AFB. The amount of the RSG Make Whole Payments allocated to native load is shown in column (3) and the amount allocated to off-system sales is shown in column (4) of Attachment 1 (Day-Ahead) and Attachment 2 (Real-Time) to this response.

During the periods where the Company received RSG Make Whole Payments, the Company was also paying RSG Distributions (i.e., the Day-Ahead RSG Distribution Amounts, Real-Time RSG First Pass Distribution Amounts and Real-Time RSG Make Whole Payments Second Pass Distribution Uplift charge types

fund the Day-Ahead and Real-Time RSG Make Whole Payment Amounts). During those periods when RSG Make Whole Payments were allocated to native load (column 3 of Attachment 1 and 2 discussed above) the Company allocated a portion of the RSG Distributions based on a ratio of the native load RSG Make Whole Payments to the total RSG Make Whole Payments.. The total amount of the three charge types that the Company paid to fund the two RSG Make Whole Payments allocated to native load are shown in column (1) of Attachment 3 (Day-Ahead RSG Distribution Amount), Attachment 4 (Real-Time RSG First Pass Distribution Amount) and Attachment 5 (Real-Time RSG MWP Second Pass Distribution Uplift) to this response.

A summary of the five RSG charge types or Make Whole Payment Amounts as they relate to native load for the MISO Day 2 period is shown in the Summary of Attachments to this response.

The provision of this estimate does not in any way imply or suggest a position by the Company that the Make Whole Payment Amounts should be reflected in the calculation of the FAC. For the reasons presented in these responses, inclusion of this amount is entirely inappropriate.

Enclosed is a CD containing the spreadsheets supporting the analysis for this response.

KENTUCKY UTILITIES COMPANY

**February 26, 2007 Supplemental Response to First Set of Data Requests of
Kentucky Industrial Utility Customers, Inc.
Filed on February 8, 2007**

Case No. 2006-00509

Question No. 3

Witness: Counsel / Robert M. Conroy

- Q-3. For each of the occurrences identified above, in which the Company was required to run a unit out of economic order and for which the Company received a make whole payment, please provide the following by month:
- a. the amount of fuel expense associated with the out of economic order dispatch that was included in the Company's per books fuel expense for the month.
 - b. the amount of fuel expense associated with the out of economic order dispatch that was included in the Company's fuel adjustment clause for the month.
 - c. the amount of fuel expense excluded or credited to the per books fuel expense in the Company's fuel adjustment clause for the month, if any, and the computational support used to quantify the adjustment.
 - d. the amount of make whole revenues credited to the Company's fuel adjustment clause for the month, if any.
- A-3. Please see the continuing objection to the terms and phrases contained in the KIUC discovery stated in response to Question No. 1. Without waiver of its objections, the Company provides the following response:
- a. The Company does not disaggregate the requested information on its books and records.
 - b. The requested information is not available for the reason stated in the response to Question No. 2, part b.
 - c. To the extent that the unit receiving a Day Ahead RSG Make-Whole Payment or Real-Time RSG Make Whole Payment was assigned to off-system sales through the AFB process, the fuel cost was excluded from recovery through the FAC. The fuel cost excluded from the FAC for those units assigned to off-system sales through AFB for the periods which the unit received a Day-Ahead RSG Make Whole Payment or Real-Time RSG Make Whole Payment is contained in Attachment 1 and 2 to this response.
 - d. Please see the response to Question No. 1.

Enclosed is a CD containing the spreadsheets supporting the analysis for this response.