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John W. Clay
Commissioner

August 4, 2008

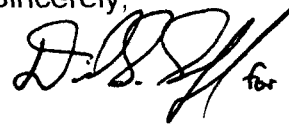
PARTIES OF RECORD:

Case No. 2008-00142

Russell D. Alred vs. Kentucky Utilities Company

Attached is a copy of the informal conference memorandum which is being filed in the record of the above-referenced case. If you wish to make any comments regarding the contents of the memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Quang Nguyen at 502/564-3940, Extension 256.

Sincerely,

 for Stephanie L. Stumbo
by permission

Stephanie Stumbo
Executive Director

QN:v

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File – Case No. 2008-00142
FROM: Quang D. Nguyen, Staff Attorney
DATE: August 4, 2008
RE: Russell D. Alred v. Kentucky Utilities Company

At the request of Kentucky Utilities Company (“KU”), an informal conference was held at the Commission’s offices on July 18, 2008. A list of the attendees is attached to this memo.

The purpose of the conference was to discuss any issues related to the complaint. KU presented and provided a handout outlining the history of its fuel adjustment clause, the formal review processes by the Commission to determine the reasonableness of KU’s purchasing policies and practices, and an overview of the coal market. A copy of the handout is attached to this memo. Judge Alred questioned whether there were other alternatives that KU could pursue to better protect itself and its ratepayers from volatile fuel prices, suggesting coal contracts with a longer term or recovering charges through the filing of rate cases. Judge Alred also questioned the legality of the fuel adjustment clause itself.

There being no further discussions, the conference was adjourned.

cc with attendance list: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RUSSELL D. ALRED

COMPLAINANT

V.

KENTUCKY UTILITIES COMPANY

DEFENDANT

CASE NO. 2008-00142

=====
July 18, 2008 Informal Conference
=====

Please sign in:
NAME

REPRESENTING

Quang D. Nguyen

PSC - Legal

John Shypp

PSC - Engineering

Linnie Bellar

E.ON US - KU

Allison Sturgeon

E.ON US - KU

Caryl Pfeiffer

E.ON U.S. - KU

Jeff Shaw

Myrtle

JEFF SHAW

PSC - FIN. ANALYSIS



an **e-on** company

**Informal Conference - Russell D.
Alfred v. Kentucky Utilities
Company Case No. 2008-00142**

July 18, 2008

KU FAC History

- Kentucky Law provides full recovery of actual fuel costs for retail electric sales
 - through base rate fuel component
 - fuel adjustment clause (FAC)
- The FAC collects or refunds the difference between the base fuel component and actual fuel cost
- Other Jurisdictions
 - Municipal Wholesale customers bills include a base fuel component approved by FERC and a monthly adjustment for difference between base and actual
 - Virginia Retail customers bills include a fuel component in base rates

KU FAC History

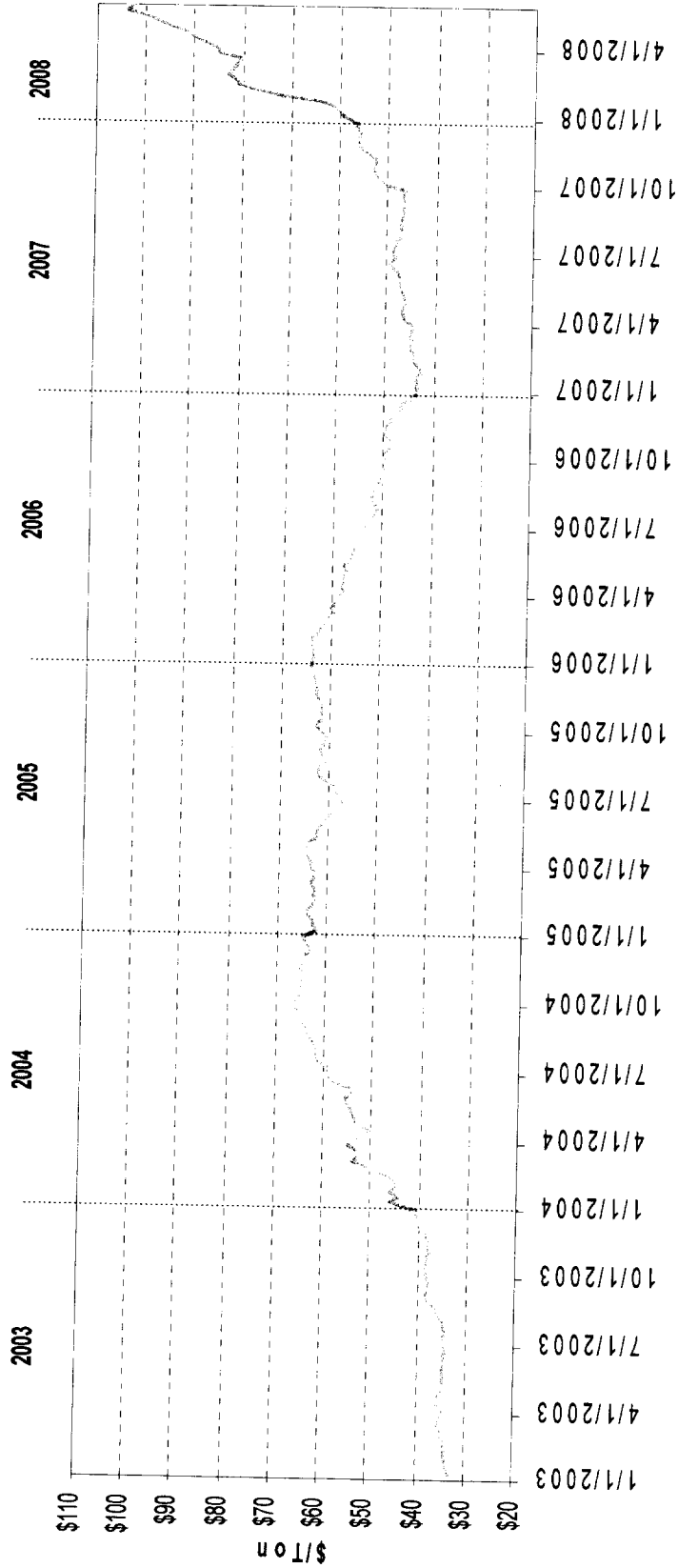
- Implemented a fuel clause as early as 1937
- Added fuel clauses to the Large Power tariffs in 1958
- All retail tariffs included a fuel clause in 1972
- Implemented the Uniform Fuel Adjustment Clause in November 1978
 - FERC Order No. 517 in 1974
 - KPSC Proceeding Administrative Case No. 6877
 - All utilities tariffs revised to conform to regulation

FAC Review Process

- Monthly filings of all computations related to the determination of the FAC factor
- PSC conducts six-month and two-year review, inclusive of discovery and public hearing
 - Allows PSC to review reasonableness of purchasing policies and practices

Fuel Market - Low Sulfur Coal

Compliance Coal Price - Big Sandy Barge
(Prompt month forward - FOB Barge)

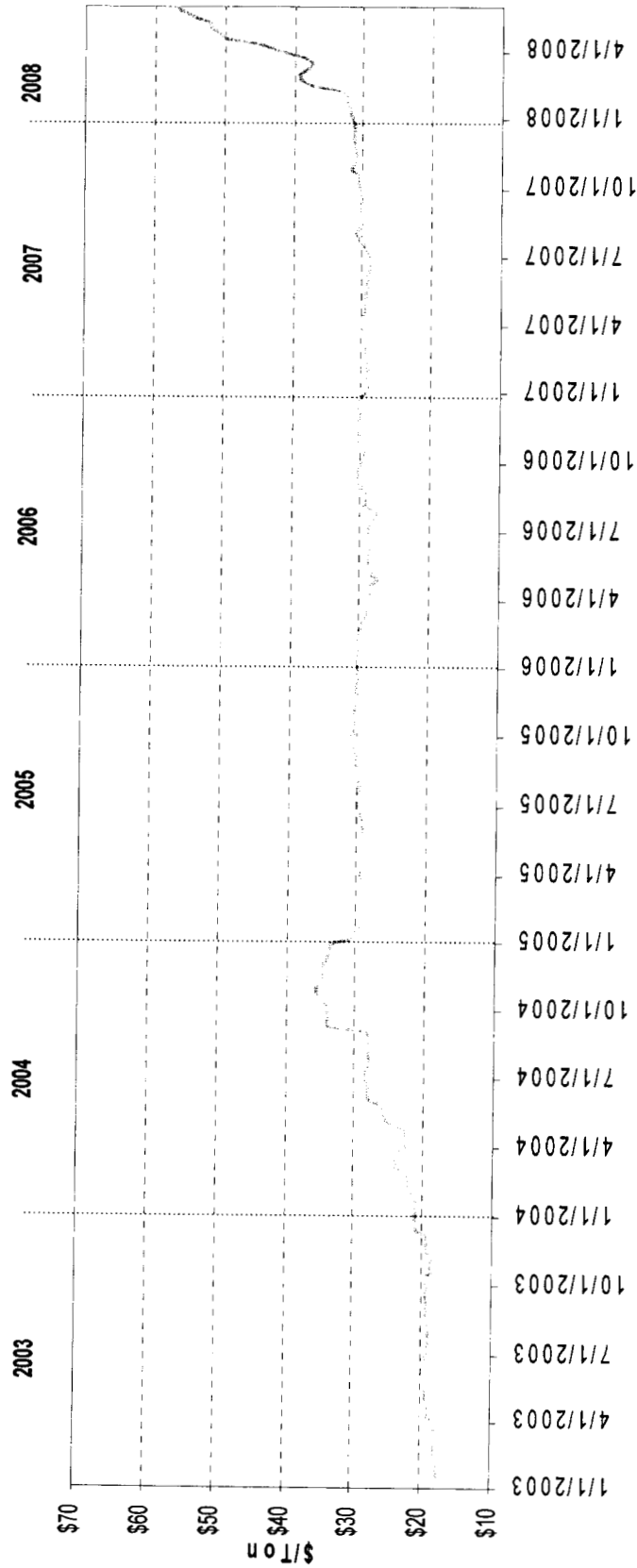


Source: COAL DAILY



Fuel Market - High Sulfur Coal

Illinois Basin High Sulfur Coal Price
(Prompt month forward - FOB Barge)



Source: COAL DAILY

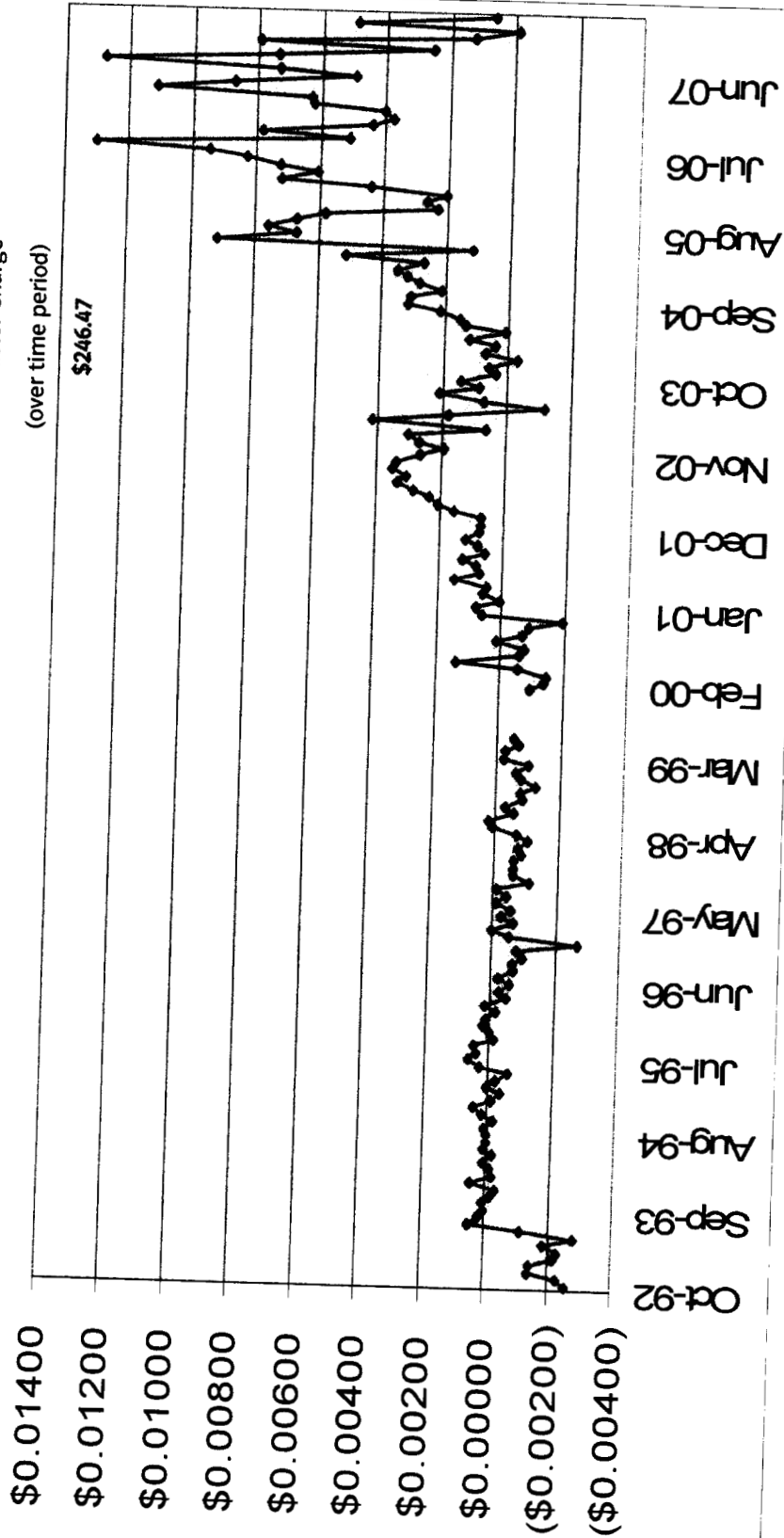
KU Fuel Purchasing Process

- Formal competitive bid solicitation (Request for Quotation) to vendors in all coal supply regions
- Returned bids opened, evaluated, and ranked
- Negotiations with short list of potential suppliers
- Internal Award Recommendation prepared for all tentative agreements
- Proceed to final contract
- File contracts with the KYPSC – open for public review

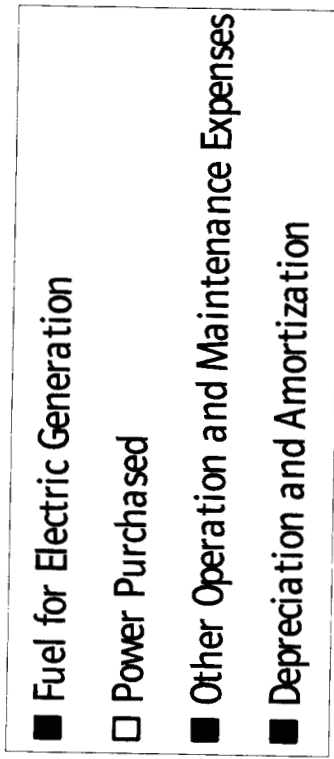
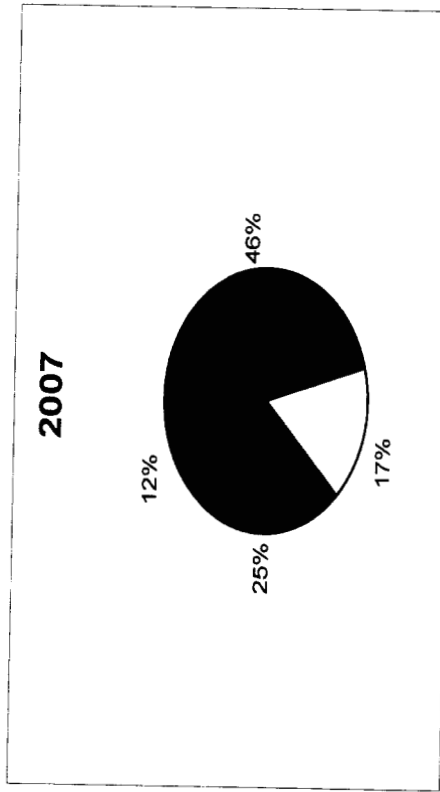
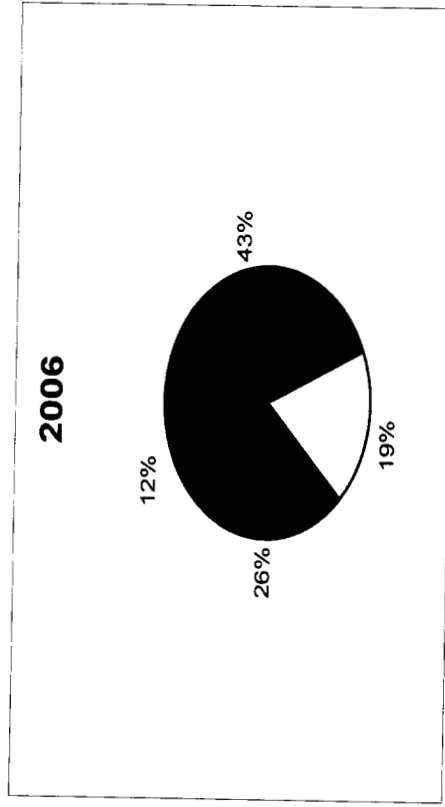
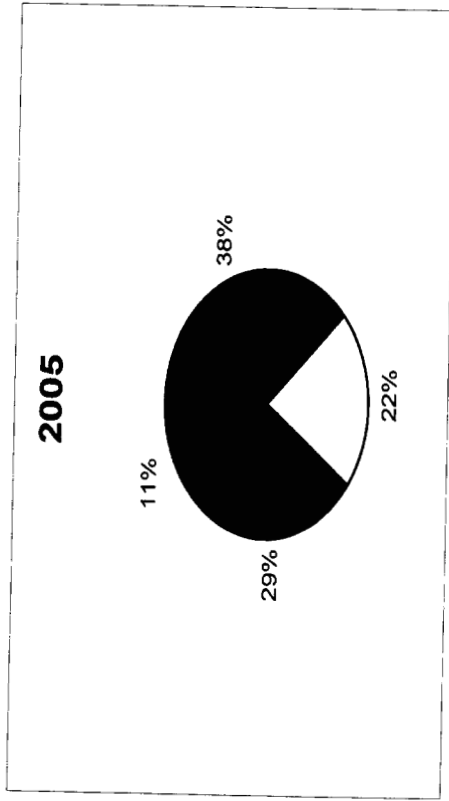
Fuel Market

KU FAC FACTOR

Typical Customer (1000 kWh)
FAC Factor Charge
(over time period)



KU Operating Expenses (2005-2007)



COAL DAILY SPOT COAL INDICES FOR PROMPT QUARTER

