

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)	CASE NO. 2004-00465
NOVEMBER 1, 2002 TO OCTOBER 31, 2004)	
)	

O R D E R

Pursuant to Administrative Regulation 807 KAR 5:056, Section 1(11) and (12), IT
IS HEREBY ORDERED that:

1. Kentucky Utilities Company ("KU") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on March 17, 2005 at 9:00 a.m., Eastern Standard Time, to submit itself to examination on the application of its fuel adjustment clause from November 1, 2002 to October 31, 2004.

2. KU shall notify its customers in writing of the date, time, place, and purpose of the hearing or shall publish the notice in accordance with Administrative Regulation 807 KAR 5:011, Section 8(5).

3. The Commission adopts the procedural schedule set forth in Appendix A to this Order.

4. KU shall, on or before January 21, 2005, file with the Commission an original and 6 copies of the information listed in Appendix B. Each copy shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed; for example, Item 1(a), Sheet 2 of 6. KU shall furnish with each response the name of the witness who will be available at the

public hearing to respond to questions concerning each area of information requested. Careful attention shall be given to copied material to ensure its legibility.

5. KU shall, on or before January 21, 2005, file with the Commission written direct testimony of its witnesses whom KU intends to call at the scheduled hearing in this matter. The written direct testimony of these witnesses shall address, inter alia, the following issues:

a. The reasonableness of KU's fuel procurement practices during the review period.

b. Coal suppliers' adherence to contract delivery schedules during the review period.

c. KU's efforts to ensure coal suppliers' adherence to contract delivery schedules during the review period.

d. KU's efforts to maintain the adequacy of its coal supplies in light of any coal supplier's inability or unwillingness to make contract coal deliveries.

e. Any changes in coal market conditions that occurred during the review period or that KU expects to occur within the next 2 years that have significantly affected or will significantly affect KU's coal procurement practices.

f. Any changes in the wholesale electric power market that occurred during the review period or that KU expects to occur within the next 2 years that have significantly affected or will significantly affect KU's electric power procurement practices.

6. At the scheduled hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

7. Any party that files testimony in this proceeding shall file an original and 8 copies of that testimony.

8. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

9. All documents that the Commission requires any party to file with the Commission shall also be served upon all parties of record at or before the time of filing.

10. All parties shall prepare interrogatories and requests for production of documents in accordance with the procedural schedule set forth in Appendix A.

11. All documents that KU filed with the Commission pursuant to Administrative Regulation 807 KAR 5:056, Section 1(7) and 1(9), for the period under review are incorporated by reference into the record of this proceeding.

12. The records of Cases No. 2003-00213,¹ 2003-00455,² and 2004-00213³ are incorporated by reference into this proceeding.

13. Any intervening party that wishes to file testimony in this matter shall advise the Commission in writing of its wishes and shall move for modification of the procedural schedule to permit the filing no later than January 31, 2005.

¹ Case No. 2003-00213, An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 2002 to April 30, 2003.

² Case No. 2003-00455, An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from May 1, 2003 to October 31, 2003.

³ Case No. 2004-00213, An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 2003 to April 30, 2004.

14. Motions for extensions of time with respect to the attached procedural schedule shall be made in writing and will be granted only upon a showing of good cause.

Done at Frankfort, Kentucky, this 13th day of December, 2004.

By the Commission

ATTEST:


Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2004-00465 DATED DECEMBER 13, 2004

KU shall file with the Commission the direct testimony of its witnesses in verified prepared form and the information set forth in Appendix B no later than	01/21/2005
Intervenors and Commission Staff may serve interrogatories and requests for production of documents upon KU no later than	02/10/2005
KU shall file with the Commission responses to interrogatories and requests for production of documents no later than	02/25/2005
Last day for KU to publish notice of hearing date	03/10/2005
Public Hearing is to begin at 9:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses	03/17/2005

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2004-00465 DATED DECEMBER 13, 2004

1. State the month to be used as the base period (b). Include a comprehensive, detailed explanation of the factors considered in the selection of this month as being representative of the net generating cost per KWH that KU will incur between November 1, 2004 and October 31, 2006 ("the next 2-year period").

2. Provide a calculation of the fossil fuel costs F(b) that KU proposes to use to calculate the base period fuel cost. This calculation shall show each component of f(b) as defined by Administrative Regulation 807 KAR 5:056. Explain why the fuel cost in the selected base period is representative of the level of fuel cost that KU will incur during the next 2-year period.

3. Provide a schedule showing each component of sales as defined by Administrative Regulation 807 KAR 5:056 in the selected base period (b). Explain why KU believes that the sales in the selected base period (b) are representative of the level of KWH sales that KU will derive from the level of fuel cost incurred during the selected base period (b).

4. Provide a schedule showing the calculation of KU's proposed increase or decrease in its base fuel cost per KWH to be incorporated into its base rate.

5. Provide KU's most recent projected fuel requirements for the years 2005 and 2006 in tons and dollars.

6. Provide KU's most recent sales projections for the years 2005 and 2006 in KWH and dollars.

7. Provide separately the amounts of power purchases used in the calculation of sales provided in response to Item 3.

8. Provide separately the amounts of inter-system power sales used in the calculation of sales provided in response to Item 3.

9. Provide the planned maintenance schedule for each of KU's generating units for the years 2005 and 2006.

10. For the years ending October 31, 2003 and October 31, 2004, provide:

- a. maximum annual system demand.
- b. average annual demand.

11. List all firm power commitments for KU for the years 2005 and 2006 for (a) purchases and (b) sales. This list shall identify the other party (buyer or seller), the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).

12. Provide a monthly billing summary for all sales other than native load sales for the period November 1, 2002 through October 31, 2004.

13. a. Provide a schedule of the calculation of the 12-month average line loss by month for November 2002 through October 2004.

b. Describe the actions that KU has taken to reduce line loss during this period.

14. List KU's scheduled, actual, and forced outages between May 1, 2004 and October 31, 2004.

15. For each existing fuel contract categorized as long-term (i.e., more than 1 year in length), provide:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percent of annual requirements received during the contract's term;
- i. Base price;
- j. Total amount of price escalations to date; and
- k. Current price paid for coal under the contract (i + j).

16. Provide a schedule of the present and proposed rates that KU seeks to change pursuant to Administrative Regulation 807 KAR 5:056, shown in comparative form.

17. Provide a statement showing by cross-outs and italicized inserts all proposed changes in rates. A copy of the current tariff may be used.

18. a. Does KU regularly compare the price of its coal purchases with those paid by other electric utilities?

b. If yes, state:

(1) How KU's prices compare with those of other utilities for the review period.

(2) The utilities that are included in this comparison and their location.

19. What percentage of KU's coal, as of the date of this Order, is delivered by:
 - a. barge?
 - b. rail?
 - c. truck?
20.
 - a. State KU's coal inventory level in tons and in number of days' supply as of November 1, 2004.
 - b. Describe the criteria used to determine number of days' supply.
 - c. Compare KU's coal inventory as of November 1, 2004 to its inventory target for that date.
 - d. If actual coal inventory exceeds inventory target by 10 days' supply, state the reasons for the additional inventory.
 - e.
 - (1) Does KU expect any significant changes in its current coal inventory target within the next 12 months?
 - (2) If yes, state the expected change and the reasons for this change.
21.
 - a. Has KU audited any of its coal contracts during the period from May 1, 2004 to October 31, 2004?
 - b. If yes, for each audited contract:
 - (1) Identify the contract.
 - (2) Identify the auditor.
 - (3) State the results of the audit.
 - (4) Describe the actions that KU took as a result of the audit.

22. a. Has KU received any complaints regarding its fuel adjustment clause during the period from May 1, 2004 to October 31, 2004?

b. If yes, for each complaint, state:

(1) The nature of the complaint.

(2) KU's response.

23. a. Is KU currently involved in any litigation with its current or former coal suppliers?

b. If yes, for each litigation:

(1) Identify the coal supplier.

(2) Identify the coal contract involved.

(3) State the potential liability or recovery to KU.

(4) List the issues presented.

(5) Provide a copy of the complaint or other legal pleading that initiated the litigation, if not previously filed with the Commission.

c. State the current status of all litigation with coal suppliers.

24. List each written coal supply solicitation issued during the period May 1, 2004 to October 31, 2004.

a. For each solicitation, provide the date of the solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating units(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor.

Provide the bid tabulation sheet or corresponding document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection.

25. List each oral coal supply solicitation issued during the period from May 1, 2004 to October 31, 2004.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the bid tabulation sheet or other document that ranks the proposals. (This document shall identify all vendors who made offers.) State the reasons for each selection.

26. For the period from May 1, 2004 to October 31, 2004, list each vendor from whom coal was purchased and the quantities and nature of each purchase (e.g., spot or contract).

27. For each generating station or unit for which a separate coal pile is maintained, state for the period from May 1, 2004 to October 31, 2004 the actual amount of coal burned in tons, actual amount of coal deliveries in tons, total KWH generated, and actual capacity factor at which the plant operated.

28. a. During the period from May 1, 2004 to October 31, 2004, have there been any changes to KU's written policies and procedures regarding its fuel procurement?

b. If yes,

- (1) What were these changes?
- (2) When were these changes made?
- (3) Why were they made?
- (4) Provide these written policies and procedures as changed.

c. If no, provide the date when KU's current fuel procurement policies and procedures were last changed and when they were last provided to the Commission.

29. a. Is KU aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from May 1, 2004 to October 31, 2004?

b. If yes, for each violation:

- (1) Describe the violation.
- (2) Describe the action(s) that KU took upon discovering the violation.
- (3) Identify the person(s) who committed the violation.

30. Identify all changes in the organizational structure and personnel of the departments or divisions that are responsible for KU's fuel procurement activities that occurred during the period from May 1, 2004 to October 31, 2004.

31. a. Identify all changes that KU made during the period from May 1, 2004 to October 31, 2004 to its maintenance and operation practices that affect fuel usage at KU's generation facilities.

- b. Describe the effect of these changes on KU's fuel usage.
- 32.
 - a. List all intersystem sales during the period from May 1, 2004 to October 31, 2004 in which KU used a third-party's transmission system.
 - b. For each sale listed above,
 - (1) Describe how KU addressed for fuel adjustment clause reporting purposes the cost of fuel expended to cover any line losses incurred to transmit its power across the third-party's transmission system.
 - (2) State the line loss factor used for each transaction and describe how such line loss factor was determined.
- 33. Describe any changes that occurred during the period from May 1, 2004 to October 31, 2004 that affected KU's determination of intersystem sales line losses.
- 34. In its most recent 2-year case, the roll-in of fuel costs into KU's base rates was approved using a "flash cut" approach, which resulted in an immediate change from its then-existing base fuel cost to its new base fuel cost. Previously, the Commission had approved these roll-ins using a 2-month "transitional" approach, in which the first month's base fuel cost was the average of the old and new base fuel costs. Provide KU's position on the merits of the different approaches, including an explanation for any preference it may have between them.
- 35. Pursuant to the Commission's Order of June 1, 2000 in Case No. 1998-00474,⁴ off-system power purchases identified as "reserve margin" purchases cannot be recovered through the FAC. For the period May 1, 2004 through October 31, 2004,

⁴ Case No. 1998-00474, Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

provide a schedule of all off-system power purchases that separately identify all “reserve margin” purchases. For each purchase, state whether the cost of that purchase was included in KU's cost of fuel for purposes of calculating KU's FAC charge.