

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY AND KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR A DECLARATORY)	2014-00321
ORDER AND APPROVAL PURSUANT TO)	
KRS 278.300 FOR A CAPACITY PURCHASE AND)	
TOLLING AGREEMENT)	

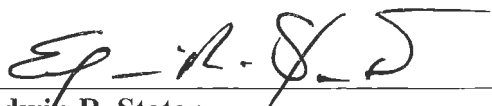
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION
DATED OCTOBER 10, 2014

FILED: OCTOBER 17, 2014

VERIFICATION

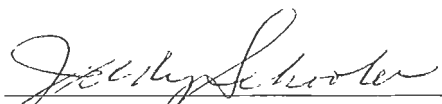
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Edwin R. Staton**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Edwin R. Staton

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of October 2014.



Notary Public (SEAL)


My Commission Expires:

July 11, 2018

VERIFICATION

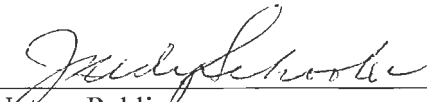
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **David S. Sinclair**, being duly sworn, deposes and says that he is Vice President, Energy Supply and Analysis for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



David S. Sinclair

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of October 2014.



Notary Public (SEAL)

My Commission Expires:

July 11, 2018

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to
Commission Staff's Initial Request for Information
Dated October 10, 2014**

Case No. 2014-00321

Question No. 1

Witness: Edwin R. Staton

- Q-1. Refer to page 3 of the Application, paragraph 6, which states that the Companies will deliver the energy from the designated Bluegrass Generation Company, LLC ("Bluegrass") Unit No. 3 ("Bluegrass Unit 3") to their native load customers using firm network transmission service and that the Companies have submitted a transmission service request for the contracted capacity of the unit. To whom have the Companies submitted the request and when is a response expected?
- A-1. The Companies have submitted a transmission service request to TranServ International ("TSI"), the Independent Transmission Organization ("ITO") which administers the Open Access Transmission Tariff ("OATT") for the LGE/KU transmission system. The request was submitted on August 28, 2014 and TSI responded on September 22, 2014 indicating they have determined that a System Impact Study ("SIS") is required for further consideration of the requested service. A System Impact Study Agreement was signed with TSI on September 26, 2014. The ITO has 60 days to complete the SIS and respond.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to
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Case No. 2014-00321

Question No. 2

Witness: David S. Sinclair

Q-2. Refer to page 4 of the Application, paragraph 7. Provide the supporting calculations for the amounts in the table included in this paragraph.

A-2. The calculation of the Capacity Charge is:

Year	Capacity in kw per month	Times Capacity Price in \$/kw-mo	Times months in year	Equals Annual Capacity Charge
2015	165000	\$4.15	8	\$ 5,478,000.00
2016	165000	\$4.15	12	\$ 8,217,000.00
2017	165000	\$4.15	12	\$ 8,217,000.00
2018	165000	\$4.15	12	\$ 8,217,000.00
2019	165000	\$4.15	4	\$ 2,739,000.00

The calculation of the Fixed O&M is:

Year	Capacity in kw per month	Times Fixed O&M Payment in \$/kw-mo	Times months in year	Equals Annual Fixed O&M Charge
2015	165000	\$0.70	8	\$ 924,000.00
2016	165000	\$0.72	12	\$ 1,420,650.00
2017	165000	\$0.74	12	\$ 1,456,166.25
2018	165000	\$0.75	12	\$ 1,492,570.41
2019	165000	\$0.77	4	\$ 509,961.56

The Annual Total Fixed Charges are:

Year	Annual Capacity Charge	Plus Annual Fixed O&M Charge	Equals Annual Total Fixed Charges
2015	\$5,478,000.00	\$924,000.00	\$6,402,000.00
2016	\$8,217,000.00	\$1,420,650.00	\$9,637,650.00
2017	\$8,217,000.00	\$1,456,166.25	\$9,673,166.25
2018	\$8,217,000.00	\$1,492,570.41	\$9,709,570.41
2019	\$2,739,000.00	\$509,961.56	\$3,248,961.56

**LOUISVILLE GAS AND ELECTRIC COMPANY
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Case No. 2014-00321

Question No. 3

Witness: Edwin R. Staton

- Q-3. Refer to pages 5 and 6 of the Application, paragraphs 9 and 10, wherein the Companies discuss their request to recover the cost of fuel and fuel transportation costs through the fuel adjustment clause, subject to six-month and two-year reviews conducted pursuant to 807 KAR 5:056. State whether the Companies intend to treat Bluegrass Unit 3 as owned by the Companies when responding to information requests issued in the fuel adjustment clause review cases. If no, explain.
- A-3. As stated in paragraph 6, 8 and 9 of the Application, the Companies believe it is appropriate to recover the cost of natural gas purchased by the Companies and the cost of transporting that gas from Texas Gas Transmission. The Companies will be purchasing and causing to be delivered to the Bluegrass Unit 3 all the natural gas to be used at that facility by Bluegrass Generation Company LLC ("Bluegrass") to generate energy for delivery to the Companies.

Under these commercial arrangements, the Companies believe there may be a limited amount of information they will need from Bluegrass to respond to information requests issued in fuel adjustment clause cases, and to the extent such information is needed, Section 8.5(c) of the Capacity Purchase and Tolling Agreement provides the Companies the clear contractual right "to examine the records and data relating to this Agreement, including all historical test records relating to the Facility...." Section 8.5 (d) contractually obligates Bluegrass Generation Company LLC to provide the Companies "pubic and non-pubic financial and business information reasonably necessary for [the Companies] to make accounting determinations." Please also see the Response to Question No. 5(h).

As noted in paragraph 9 of the Application, the Companies plan to designate Bluegrass Unit No. 3 as a network resource and dispatch the unit as if they owned the unit, and to otherwise account for the fuel and transportation costs used to operate the unit in a manner that is exactly how these costs are accounted for units owned by the Companies and accounted for similar units owned by the Companies. Because Bluegrass will own

and operate the unit, the Companies cannot treat Bluegrass Unit 3 as if the unit is owned and operated by the Companies when responding to information requests issued in the fuel adjustment clause review cases. As stated in paragraph 9 of the Application, the Companies believe recovery of this fuel through the fuel clause is appropriate because the arrangement is *like* a lease of plant under Section 1(3)(a) of 807 KAR 5:056 or is otherwise recoverable under Section 1(3)(b) of the regulation.

The Companies will provide fuel purchased and burn information as part of the monthly Form B support filing. An illustrative example of the FAC Form B is attached showing how the Companies would report the fuel cost associated with the Bluegrass Unit 3. In addition, the amount of energy received from Bluegrass Unit 3 will be reported along with other purchases on the Power Transaction Schedule of the Form B.

Company: Louisville Gas and Electric Company

Plant: LS Power Bluegrass Unit 3

Month Ended: May 31, 2015

Fuel: Natural Gas

<u>Bluegrass Unit 3</u>		<u>Amount</u>	<u>Units (MCF)</u>	<u>Per Unit</u>	
Beginning Inventory	4/30/2015	\$ -	-	-	¢
Purchases		\$ -	-	#DIV/0!	¢
Adjustments		<u>\$ -</u>	<u>-</u>	-	¢
Total Purchasing		\$ -	-	#DIV/0!	¢
Sub-Total		\$ -	-	#DIV/0!	¢
Less Fuel Burned		\$ -	-	#DIV/0!	¢
Ending Inventory	5/31/2015	<u>\$ -</u>	<u>-</u>	-	¢

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to
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Case No. 2014-00321

Question No. 4

Witness: David S. Sinclair

- Q-4. Refer to page 6 of the Application, paragraph 12. Provide the amount of the minimum payment the Companies will be obligated to pay during each calendar year pursuant to the Capacity Purchase and Tolling Agreement.
- A-4. The minimum payments the Companies are obligated to pay per year to the Seller based on 30 hours of production (4950 MWHs) over one 30 hour period per year under this Agreement are calculated in the tables below.

The Annual Minimum Variable O&M costs per year are:

Year	Minimum MWHs per year	Times Variable O&M per MWH	Equals Minimum Variable O&M cost per year
2015	4950	\$0.55	\$2,722.50
2016	4950	\$0.56	\$2,790.56
2017	4950	\$0.58	\$2,860.33
2018	4950	\$0.59	\$2,931.83
2019	4950	\$0.61	\$3,005.13

The Annual Minimum Start-up costs per year are:

Year	Minimum starts per year	Times Start-up Amount per start	Equals Minimum Start-up cost per year
2015	1	\$8,500.00	\$8,500.00
2016	1	\$8,712.50	\$8,712.50
2017	1	\$8,930.31	\$8,930.31
2018	1	\$9,153.57	\$9,153.57
2019	1	\$9,382.41	\$9,382.41

The Annual Minimum payments per year are:

Year	Minimum Variable O&M cost per year	Plus Minimum Start-up cost per year	Plus Annual Total Fixed Charges	Equals Annual Minimum payment per year
2015	\$2,722.50	\$8,500.00	\$6,402,000.00	\$6,413,222.50
2016	\$2,790.56	\$8,712.50	\$9,637,650.00	\$9,649,153.06
2017	\$2,860.33	\$8,930.31	\$9,673,166.25	\$9,684,956.89
2018	\$2,931.83	\$9,153.57	\$9,709,570.41	\$9,721,655.81
2019	\$3,005.13	\$9,382.41	\$3,248,961.56	\$3,261,349.10

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to
Commission Staff's Initial Request for Information
Dated October 10, 2014

Case No. 2014-00321

Question No. 5

Witness: David S. Sinclair / Edwin R. Staton

- Q-5. Refer to Exhibit 5 of the Application, The Capacity Purchase and Tolling Agreement.
- a. Confirm that the Delivery Commencement Date in Article 1 on page 3 is May 1, 2015. That being the case, explain why the Companies have requested an Order in this proceeding by November 18, 2014.
 - b. Refer to Article 3.3(a)(iii) on page 11. State whether approval of the agreement is needed from the Virginia State Corporation Commission. If so, provide details of that proceeding and the status of that approval process.
 - c. Refer to Article 3.3(a)(v) on page 11. Explain how the firm transportation service amount shown here was determined.
 - d. Refer to Article 4.2 on pages 12 and 13. Explain whether the use of an Alternate Source as discussed in this section will have any impact on the gas supply the Companies are providing for the generation of electricity.
 - e. Refer to Article 4.7 on page 14. Explain whether the 50 percent monthly availability factor for two months over a rolling twelve month period is an industry standard for these types of agreements or is specific to the Agreement based on the parties' negotiations.
 - f. Refer to Article 5.1 on page 14 which states that "Buyers will also arrange for Natural Gas for each Turbine Start in the amount of three hundred fifty (350) MMBtu." State whether this is required for all three of the units at the Bluegrass station. If yes, explain why it is required for all three units.
 - g. Refer to Article 5.3(b) on page 15. Explain whether the Companies intend to install additional meters at their own cost beyond their share of the cost of the Natural Gas Pseudo Meter discussed in Article 5.3(c) and in Exhibit G. If so, provide the estimated cost of additional natural gas metering.

CONFIDENTIAL INFORMATION REDACTED

- h. Refer to Article 8.5(a) on page 20. Explain whether the Companies anticipate that Seller's records, being subject to the two year record retention provision of this section, may be needed by the Companies' in conjunction with a Commission-initiated two-year FAC review. If so, explain whether the Companies believe there is need for an amendment to this section of the Agreement.
- i. Refer to Article 9.1(a) on page 20. Explain the necessity for the first sentence in this section, and how it applies to the remainder of the section
- j. Refer to Article 12.5 on page 26. Explain, from the Companies' perspective, the rationale for this specific arrangement regarding carbon dioxide taxes. The explanation should include how the \$1/MWh was determined.

A-5.

- a. The Delivery Commencement Date is May 1, 2015. The requested November 18, 2014 date for the Order is the end of the sixty-day period in KRS 278.300. In the afternoon following the October 10, 2014 Informal Conference, the Companies indicated by electronic mail to the parties and Counsel to the Staff that issuance of an Order by November 26, 2014 would not interfere with their plans. A relatively long lead time is necessary both to allow the Companies to enter into the various arrangements necessary in connection with the agreement, such as arranging for firm fuel transportation, or to consider alternatives if the Commission denies the Companies' request. In addition, fairness to the Seller requires that Seller be given as much notice as possible if it must seek other contracts for the Unit.
- b. Under the Capacity and Tolling Agreement, 100% of the output, costs and obligations are allocated to LG&E. The Agreement places no obligations and liability on KU, and there are therefore no obligations for the Virginia Commission to approve.
- c. The firm Natural Gas transportation service amount of [REDACTED] was determined by calculating the amount of natural gas transportation needed to operate the unit at 165 MW [REDACTED] as follows: $165 \text{ MW} \times [REDACTED]$. The redacted information provided in this response is considered to be confidential information the disclosure of which would harm the Companies. This information is submitted pursuant to the Companies' September 19, 2014 Petition for Confidential Treatment filed in this case which seeks confidential protection of the same information filed with the original Application in the case. A confidential version of this data response is being submitted in a sealed envelope marked "Confidential" to the Commission concurrent with the filing of these Responses to the Commission Staff's Initial Request for Information dated October 10, 2014.

- d. Since Unit 1 and 2 at the Bluegrass Generation site are equal in capacity to Unit 3, the use of either Unit as an Alternate Source will not have an impact on the gas supply the Companies are providing for the generation of electricity.
- e. The reference in Article 4.7 of the Agreement to the Seller's Monthly Availability Factor falling below fifty percent for two months over a rolling twelve month period was based on the Parties' negotiations.
- f. No. The Companies are only required to arrange for Natural Gas in the amount of three hundred fifty (350) MMBtu for each start of the unit being utilized by the Companies under the Agreement.
- g. The Companies currently do not intend to install additional meters beyond their share of the cost of the Natural Gas Pseudo Meter discussed in Article 5.3(c) and in Exhibit G.
- h. The Companies are not aware of any of Seller's records that would be needed by the Commission in a two-year fuel adjustment clause review case that would contain information not otherwise available from the Companies. As discussed in response to Question No. 3, the Companies will be purchasing and causing to be delivered to the Bluegrass Unit 3 all the natural gas to be used at that facility by Bluegrass to generate energy for delivery to the Companies.

Under these commercial arrangements, the Companies believe there may be only a limited amount of information they may need from Bluegrass to respond to information requests issued in fuel adjustment clause cases, and to the extent such information is needed, Section 8.5(c) of the Capacity Purchase and Tolling Agreement provide the Companies the clear contractual right "to examine the records and data relating to this Agreement, including all historical test records relating to the Facility..." Section 8.5 (d) contractually obligates Bluegrass to provide the Companies "pubic and non-pubic financial and business information reasonably necessary for [the Companies] to make accounting determinations." The inclusion of Section 8.5(a) ensures that any information that might be relevant will be available. The Companies interpret the defined term "Legal Requirements" as referenced in Section 8.5(a) to encompass the fuel adjustment clause reviews and as such Bluegrass is required to keep such records "for as long as necessary to complete any audit ... as required by Legal Requirements."

- i. The first sentence in Article 9.1(a) of the Agreement provides for the Companies to supply information on the status of the Companies' Trimble County combustion turbines being on-line during times when Bluegrass Unit 3 has been in a Forced Outage for the billing month. If the Companies have at least two Trimble County combustion turbines on line during hours when Unit 3 has a forced outage, then the contract capacity is deemed to be Scheduled Energy for such hours for calculating the Monthly Availability Factor. The amount of Scheduled Energy not delivered during

a forced outage will lower the Monthly Availability Factor calculation and thus may lower the Monthly Capacity Payment.

- j. During the negotiation of the Agreement, the Seller insisted the Agreement address potential carbon dioxide costs that may occur in the future. Even though the Companies do not anticipate carbon dioxide costs during the term of the Agreement, the Companies thought it prudent to require a limit on the potential exposure. The \$1/MWh was settled during negotiations. Based upon the expected 500 to 700 hours of scheduled energy annually, and in the event a new carbon dioxide tax is promulgated during the term of the Agreement, the maximum charges the Companies would expect to pay for carbon dioxide taxes would be limited to \$115,500 per year derived from 165 MWs times 700 hours per year times \$1/MWh for CO₂ tax.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to
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Case No. 2014-00321

Question No. 6

Witness: Edwin R. Staton

- Q-6. Provide a one-line diagram showing the LG&E transmission interconnection with Bluegrass.
- A-6. See attached. The information requested is confidential, and is being provided under seal pursuant to a petition for confidential treatment.