

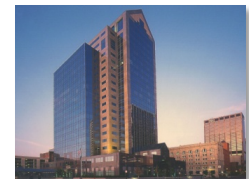
Attachment 2 to  
Question No. 1  
Case No. 2022-00190



PPL companies

# Natural Gas Contracts for Electric Generation

*August 11, 2016*



# Agenda

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- Background
- Overview of the Types of Contracts
- Execution of Fuel Procurement Strategy
- Accounting and Reporting Process

## Background

- Gas purchases for electric generation are procured on a day ahead basis for simple cycle combustion turbines.
- As discussed on January 28, 2016, the recent addition of the Cane Run 7 natural gas combined cycle unit to the LG&E and KU electric generation fleet changed the companies' fuel requirements.
- Starting in June some gas purchases for electric generation are now procured on a forward (monthly) basis for Cane Run 7.
- Gas procurement contracts for the commodity itself are not filed with the KPSC.
- Long-term gas transportation contracts are filed with the KPSC.
- LG&E and KU report gas purchases in aggregate in our Form Bs and in response to standard data requests.

## Natural Gas transactions for electric generation

- North American Energy Standards Board (NAESB) master agreement governs the transactions regardless of duration or term.
- Transactions typically are divided: spot/next day or forward/term.
  - *Spot or next day: delivery during the next gas day (beginning 9:00 AM) following the transaction. Friday transactions include Sat, Sun, & Mon (holiday weekends can cover four days).*
  - *Forward or term transactions: typically for delivery periods starting after the current month and extending into the future as specified.*
- Prior to Cane Run 7, LG&E/KU entered into an average of 147 transactions per month. With Cane Run 7, LG&E/KU enters into an average of 232 transactions per month.

## Fuel Procurement Meeting January 28, 2016 Review

- We discussed, the strategy to maintain a reliable fuel supply and reduce customer bill volatility
- All hedging is through physical purchases. No financial instruments are used to hedge.
- Natural Gas for Combined Cycle – The contract position for natural gas will be gradually built over time.

Delivery Year guideline (%)	2017	2018	2019
Utilization under contract of the minimum projected CR7 natural gas requirement (~15 BCF)	10 - 50%	0 - 30%	0 - 10%

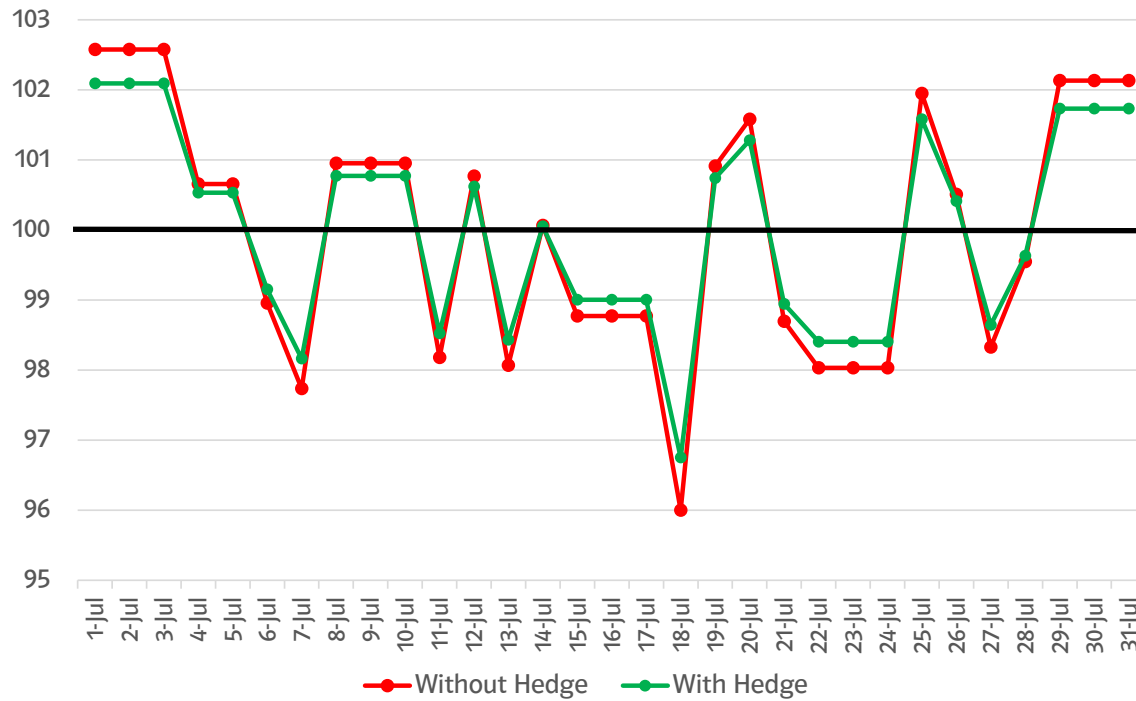
## LG&E and KU issued its first Natural Gas RFP for electric generation in June

- RFP issued June 1 with responses due June 13 3:00 PM.
  - *Offers evaluated and executed in 30 minutes.*
- Sent to 27 parties
  - *Received 6 offers from 4 different bidders.*
- Targeted ~20% of forecast Cane Run 7 combined cycle burn for July and August 2016.
- Price targets based on relationship to the market setting NYMEX price.
  - *Reviewed historical average daily price differentials at Mainline and SL points.*
- Purchased 20,000 mmbtu/day for July and August.

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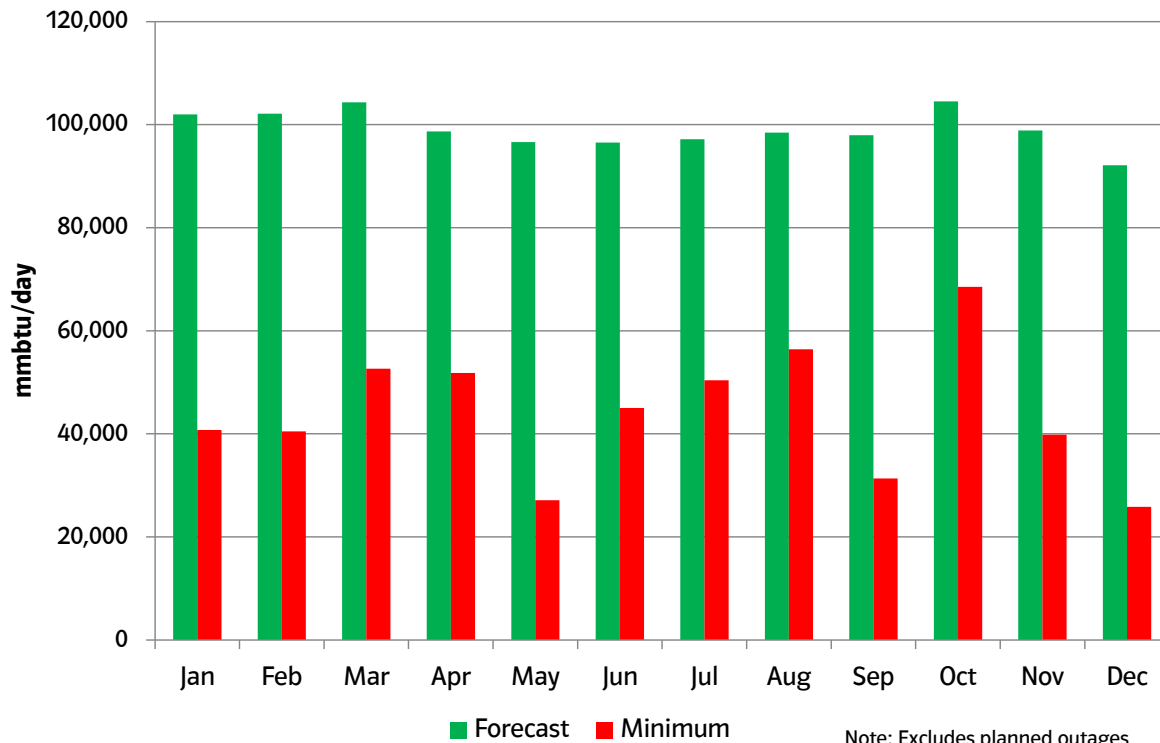
# July 2016 natural gas volatility





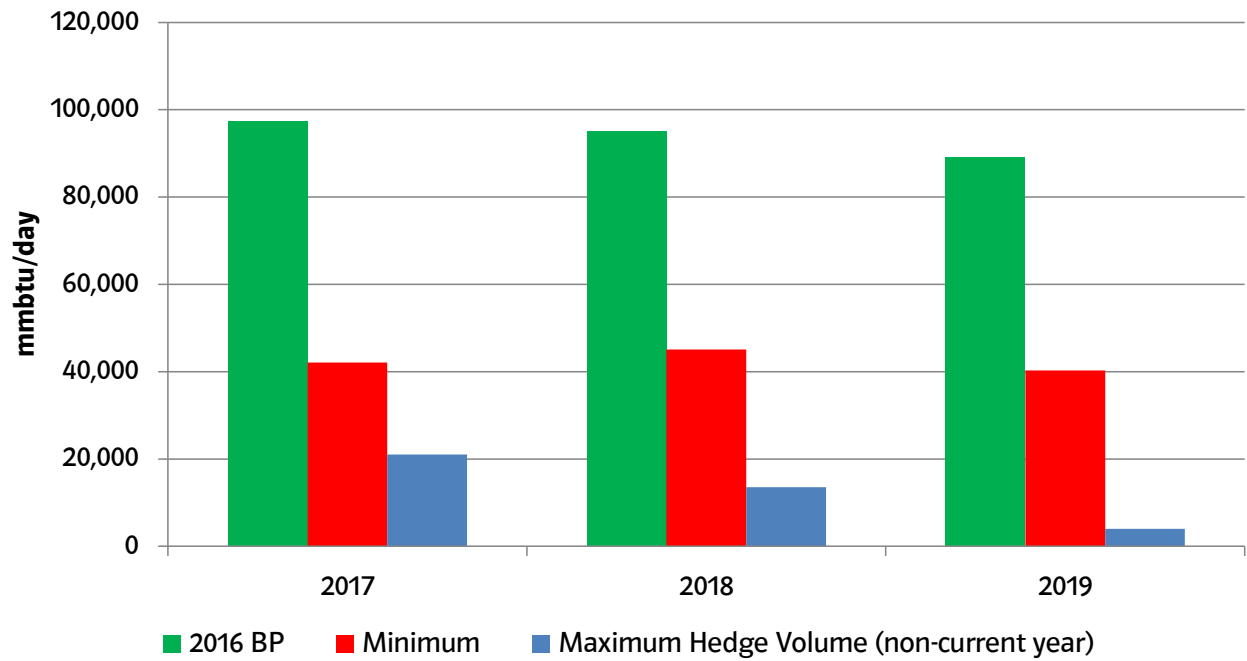
## Current RFP status and next steps

- A second RFP was issued on August 5.
  - *Targeting 20,000 mmbtu/day for September and October delivery.*
  - *Responses are due August 15.*
- LG&E/KU anticipates issuing additional RFPs to build a natural gas purchase portfolio of future delivery supplies consistent with the fuel procurement strategy.



Note: Excludes planned outages





## Accounting & Reporting Processes

- Gas purchases recorded to inventory based on plant site (e.g. Cane Run 7 – LG&E; Brown CT’s – KU).
- Fuel cost allocated based on ownership percentage of generation unit.
- No natural gas procurement confirmations are filed.
- Long-term gas transportation contracts are filed with the KPSC.
- Form B – LG&E and KU listed as vendor in gas inventory on “Analysis of Other Fuel Purchases” (Form B - Page 4) balance roll forward.
- FAC 6 mo. and 2 yr. reviews – monthly purchases by vendor disclosed in data responses.

