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Associate General Counsel

VIA OVERNIGHT DELIVERY

January 8, 2007

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JAN 09 2007

PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of an Adjustment of the Electric Rates of The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc.
Case No. 2006-00172

Dear Ms. O'Donnell:

I would like to request an informal conference at the Commission's offices on Thursday, January 11, 2007 at 2:00 p.m. The purpose of the informal conference is to discuss the format and content of the Fuel Adjustment Clause filings that the Company will begin next month. I have attached a proposed agenda for this meeting. I have conferred with the Commission's Staff and counsel for the other parties in this proceeding, and my understanding is that this date and time is convenient for all concerned.

Thank you for your consideration in this matter.

Very truly yours,

John J. Finnigan, Jr.
Associate General Counsel

JJF/dlg

cc: Hon Elizabeth E. Blackford (with enclosure)
Hon. Michael L. Kurtz (with enclosure)

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PUBLIC SERVICE
COMMISSION

DISCUSSION TOPICS FOR INFORMAL CONFERENCE

1. Stacking methodology

   - Resources (own generation and purchased power) are stacked from lowest to highest cost except for reliability and other constraints.

   - Firm native load is served first in the stacking order.

   - To the extent required to meet reliability requirements, DE-Kentucky will treat all or part of any unit designated as "must run" and force this generation to the bottom of the economic dispatch order.

2. MISO Make-Whole Revenue

   - If MISO dispatches a unit that would not otherwise dispatch on an economic basis, any resulting generation from this unit will be stacked in order of economic merit without adjustment. Neither the associated fuel costs nor the MISO make-whole revenue will be included in the FAC.

   - Alternatively, out-of-merit generation dispatched on by MISO will be deemed to be dispatched for reliability purposes, and will be forced to the bottom of the economic dispatch order. Any make-whole revenue will be used to offset the fuel costs associated with the forced generation.

   - The former alternative would reduce the off-system sales but would give customers the least costly generation. The latter alternative would make more generation available for sale into the market, of which customers receive a 50% share.

3. Allowed to estimate fuel for month (-1) if actuals are unavailable with subsequent true-up

   - Kentucky Power includes an estimate of month (-1) for its FAC and corrects that number for actuals in the next filing.

4. Expenses allowed for cost of goods sold in off-system sales margin calculation.

- The Order in the Asset Transfer case prescribes the margin calculation to be revenue net of:

  a. Fuel
  b. Emission Allowances
  c. Other variable costs