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Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

SEP 07 2010
PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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September 7, 2010

Robert M. Conroy
Director - Rates
T 502-627-3324
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**RE: *AN EXAMINATION OF THE APPLICATION OF THE
FUEL ADJUSTMENT CLAUSE OF KENTUCKY
UTILITIES COMPANY FROM NOVEMBER 1, 2009
THROUGH APRIL 30, 2010 –
CASE NO. 2010-00266***

Dear Mr. DeRouen:

Enclosed please find an original and ten (10) copies of the Response of Kentucky Utilities Company to the Commission Staff's Supplemental Information Request dated August 25, 2010, in the above-referenced proceeding.

Also enclosed are an original and ten (10) copies of a Petition for Confidential Protection regarding certain information provided in response to Question No. 4(a).

Please contact me if you have any questions concerning this filing.

Sincerely,

Robert M. Conroy

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE)	
APPLICATION OF THE FUEL)	
ADJUSTMENT CLAUSE OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FROM)	2010-00266
NOVEMBER 1, 2009 THROUGH APRIL)	
30, 2010)	


RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
COMMISSION STAFF'S
SUPPLEMENTAL INFORMATION REQUEST
DATED AUGUST 25, 2010

FILED: September 7, 2010

VERIFICATION

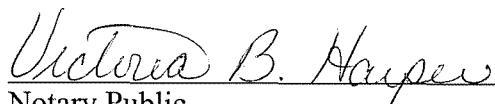
COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for E.ON U.S. Services, Inc., 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.



Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3rd day of September 2010.



Notary Public (SEAL)

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Mike Dotson**, being duly sworn, deposes and says that he is Manager – LG&E and KU Fuels for E.ON U.S. Services, Inc., 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.

Mike Dotson
Mike Dotson

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3rd day of September 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Utility Accounting and Reporting for E.ON U.S. Services, Inc., and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L. Charnas
Shannon L. Charnas

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3rd day of September 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Charles R. Schram**, being duly sworn, deposes and says that he is Director – Energy Planning, Analysis and Forecasting for E.ON U.S. Services, Inc., 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.

Charles R. Schram
Charles R. Schram

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7th day of September 2010.

Victoria B. Hause (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

KENTUCKY UTILITIES COMPANY

**Response to the Commission Staff's
Supplemental Information Request
Dated August 25, 2010**

Case No. 2010-00266

Question No. 1

Witness: Robert M. Conroy/Mike Dotson

- Q-1. Refer to page 1 of the letter filed by KU on August 17, 2010 regarding the transfer of the rail cars described as obsolete. KU explains that it plans to transfer 149 steel rail cars to Trinity Industries Leasing Company ("Trinity") as part of a lease transaction in which KU will lease 150 new aluminum rail cars from Trinity.
- a. KU states that it "will ultimately recover the full original purchase price of the cars through its Fuel Adjustment Clause ('FAC'), but the trade-in value of the cars will be used to reduce the lease payments that will be recovered through KU's fuel adjustment clause."
 - (1) Provide the full purchase price of the new rail cars.
 - (2) Provide what the lease payment for the new rail cars would be without the trade-in value of the steel cars.
 - (3) Provide what the lease payment for the new cars will be with the trade-in value of the steel cars.
 - (4) Confirm that the lease term for the new rail cars is five years.
 - (5) State the page and line of the monthly FAC filing on which the lease payments will be included.
 - b. Refer to footnote 1, which states that KU had originally purchased 150 steel cars but that one of the steel rail cars was lost; was later found, used, and maintained by KU; but will not transfer because KU does not own it. Explain why KU no longer owns this rail car and provide the name of the current owner.
 - c. Provide the dates of the lease term for the steel rail cars.

- A-1. a. (1) Had KU determined to purchase the rail cars from TrinityRail instead of leasing them, the full purchase price of the rail cars would have been \$11,400,000, or \$76,000 per rail car.
- (2) The lease payments for the new rail cars without the trade-in value of the steel rail cars would be \$67,650 per month (\$451 per rail car per month times 150 rail cars).
- (3) The lease payment for the new rail cars with the trade-in value of the steel rail cars will be \$54,750 per month (\$365 per rail car per month times 150 rail cars).
- (4) The lease term for the new rail cars is sixty (60) months. The term of the lease begins on the date that the rail cars are initially delivered to KU, which is anticipated to be by November 2010.
- (5) The lease payments will not be separately identified on the monthly FAC filings. Consistent with FERC accounting rules, lease payments are charged to Account 151 – Fuel Inventory, and included in the average cost of coal burned. Part 5 of the instructions for Account 151 state that “[l]ease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point” are included in the book cost of fuel on hand. Further, KAR 5:056, part 6 (Fuel Adjustment Clause regulations) state “[t]he cost of fossil fuel shall include no items other than the invoice price of fuel less any cash or other discounts. The invoice price of fuel includes the cost of the fuel itself and necessary charges for transportation of the fuel from the point of acquisition to the unloading point, as listed in Account 151 of FERC Uniform System of Accounts for Public Utilities and Licensees.” Therefore, the lease payments will be a part of the amount shown on Form A, Page 2, Section A -- Company Generation, Cost of Coal Burned. Lease payments will be shown on the Adjustments line on the monthly Form B, Page 1, Inventory Schedule for E.W. Brown. This process is consistent with the historical treatment of rail car leases by KU and LG&E.
- b. After the loss of the rail car, KU received a settlement payment from CSX in the amount of \$10,802 (equal to the rail car’s net book value at the time of settlement) and subsequently retired the rail car. CSX is the owner of the rail car. See response to Question No. 3(b).
- c. KU owns the steel rail cars; therefore there is no lease term for the existing steel rail cars.

KENTUCKY UTILITIES COMPANY

**Response to the Commission Staff's
Supplemental Information Request
Dated August 25, 2010**

Case No. 2010-00266

Question No. 2

Witness: Robert M. Conroy

- Q-2. Refer to page 2 of the letter, which states that the new cars should allow for labor savings in the coal yard and less maintenance expense. State whether these costs are costs that flow through the FAC.
- A-2. Labor costs incurred in unloading the rail cars are included in FERC Account 501, per the Uniform System of Accounts. These costs are excluded from total fuel costs in the FAC. The FERC Account 151 instructions, part 2, specify that charges of unloading fuel from the shipping medium are excluded from charges to Account 151. Maintenance costs on the rail cars are included in FERC Account 151 – Fuel Inventory, and as such are included in the average cost of fuel burned and included in costs that flow through the FAC, consistent with FERC Account 151 instructions part 4: “Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.”

KENTUCKY UTILITIES COMPANY

**Response to the Commission Staff's
Supplemental Information Request
Dated August 25, 2010**

Case No. 2010-00266

Question No. 3

Witness: Robert M. Conroy/Mike Dotson/Shannon L. Charnas

- Q-3. Refer to page 3 of the letter.
- a. KU states that it “will recover the full amount of its investment in the 149 steel rail cars through its FAC.” State whether the full amount of the investment has already been recovered through the FAC. If no, state the amount that has been recovered to date.
 - b. State whether the cost of the one rail car that was lost has been fully recovered through the FAC. If no, state the amount that has been recovered to date.
 - c. Explain why KU is proposing to recover the \$480,000 loss on the rail cars through the FAC in a single month rather than over a period of time.
 - d. This page states that “KU will recover the trade-in value of the rail cars (\$774,800) in equal monthly amounts.” Explain why KU would “recover” the trade-in value of the steel cars. Page 1 of the letter states that the trade-in value will be used to “reduce the lease payments” for the new rail cars.
 - e. State the most recent assessed value of the steel rail cars.
 - f. Describe the steel rail cars by type, year of make, gross tonnage, and carrying capacity.
 - g. State the depreciable useful life of the steel rail cars.
 - h. This page refers to approval by the Federal Energy Regulatory Commission. State when this approval is expected.
- A-3 a. No. KU has been recovering its initial investment in the steel rail cars through depreciation expense charged to FERC Account 151 – Fuel Inventory. As stated in the response to Question No. 2, depreciation expense on utility-

owned transportation equipment is included in Account 151 and therefore is recovered through the FAC. The steel cars have not been fully depreciated; therefore, KU has not recovered the full investment in the steel rail cars through the FAC. The original cost of the 149 steel rail cars was \$7,596,250. As of July 31, 2010, \$6,296,470 in depreciation had been booked to Account 151 and included in the cost of fuel burned and included in costs that flowed through the FAC.

- b. No, KU recovered \$40,180 of depreciation expense of the original cost of \$50,982 for the one lost rail car through the FAC. The difference between the original cost and the depreciation expense of \$10,802 was paid by CSX. See responses to Question No. 1(b) and part (a) above.
- c. In its Final Order in Case No. 92-493¹, dated January 2, 1997, the Commission addressed whether KU's ratepayers were entitled to receive the benefits of the gain KU realized on the sale of rail cars, the depreciation expense on which KU had included in the calculation of its FAC. On page 20 of its Order, the Commission "finds that KU's ratepayers are entitled to the gain on the sale of the railcars." The Commission's reasoning was based on KU's inclusion in its FAC of depreciation and maintenance expenses on the rail cars. Since the Commission had previously determined that gains on the sale of railcars were properly included in the FAC, in the "first monthly fuel adjustment after the entry of this Order" (Ordering Paragraph No. 3, page 21), KU is proposing to include the entire amount of the loss in the amount of fuel included in its first monthly fuel adjustment following the receipt of the FERC's approval of the proposed accounting entries.
- d. The trade-in value of the steel cars will be used to reduce the book loss that KU will record upon receipt of the FERC's approval of proposed accounting treatment (see response to part (h) below). The trade-in value will be booked to prepaid lease expense and amortized monthly over the five-year term of the lease. KU's cash payments to Trinity will be reduced to recognize the trade-in value, but KU's lease expense will not be reduced; instead, the loss realized on the transaction will be reduced. The treatment of the trade-in value is summarized in the table below and is based on accumulated depreciation and resulting loss as of July 31, 2010. (That is why the net book loss on the cars shown in the table below is not \$480,000, which would be the net book loss if the transaction occurred on October 31, 2010.) The final loss booked will depend on the date on which the lease transaction is finalized.

¹ In the Matter of: An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company From November 1, 1990 to October 31, 1992

Five Year Lease Expense Included in the FAC

	With Trade In	Without Trade In
Original Purchase Price of Steel Railcars	\$ 7,596,250	\$ 7,596,250
Accumulated Depreciation	<u>\$ 6,296,470</u>	<u>\$ 6,296,470</u>
Net Book Loss on Retirement	\$ 1,299,780	\$ 1,299,780
Trade-in Value of Railcars	<u>\$ 774,800</u>	<u>\$ -</u>
Net Book Loss	\$ 524,980	\$ 1,299,780
Lease Payment, annual	\$ 657,000	\$ 811,800
Amortization of Trade-in	<u>\$ 154,800</u>	<u>\$ -</u>
Total Annual Lease Expense	\$ 811,800	\$ 811,800
Total 5-year Lease Expense	\$ 4,059,000	\$ 4,059,000
Net Book Loss	<u>\$ 524,980</u>	<u>\$ 1,299,780</u>
Total Expense	\$ 4,583,980	\$ 5,358,780
Difference due to trade-in		\$ 774,800

- e. KU assumes the question is asking for the assessed value for ad valorem tax purposes; however, KU does not receive “assessments” on its physical assets. Instead, ad valorem taxes on the steel rail cars are paid based on the original cost and the age of the asset, using tax rate factors calculated by the Kentucky Revenue Cabinet. The current net book value (at July 31, 2010) of the steel rail cars is \$1,299,780; however, there is no market for 263,000 lbs. gross loading weight rail cars other than scrap metal, which approximates the trade-in value provided by TrinityRail.
- f. A description of the steel rail cars is below. Additional detailed information can be found in the Attachment to the Response to Question No. 4(a).

Type – Quadruple Hopper Cars
Year of Make – 1991
Gross Loading Capacity – 263,000 lbs./131.50 Tons
Net Loading Capacity – 99 Tons/3,610 cu. ft.

- g. The depreciable useful life of the steel rail cars is 41 years. This is based on the most recent depreciation study on file with the Commission, as of December 31, 2006.
- h. The reference to FERC approval is for the accounting treatment of the transaction alone, not approval for entering into the lease with TrinityRail because FERC approval is not required to enter into the lease. KU is required to file with the FERC the proposed entries for this transaction within six months from the date of the transfer of the rail cars. This is in accordance

with the Code of Federal Regulations part 101-Uniform System of Accounts Prescribed for Public Utilities, Balance Sheet Accounts-102 Electric Plant Purchased or Sold, Part B. After the entries have been filed by the Company, the FERC will issue approval at its own discretion.

KENTUCKY UTILITIES COMPANY

**Response to the Commission Staff's
Supplemental Information Request
Dated August 25, 2010**

Case No. 2010-00266

Question No. 4

Witness: Charles R. Schram/Mike Dotson

- Q-4. Explain whether KU performed a “lease/buy” analysis that resulted in the decision to lease the new rail cars rather than purchase them.
- a. If the analysis was performed, provide all calculations and workpapers involved in completing the analysis.
 - b. If no analysis was performed, explain how KU made the decision to lease rather than buy the new rail cars and why the decision is the most economical choice.
 - c. Explain whether KU obtained bids from any other rail car vendor before the decision was made to lease aluminum rail cars from Trinity.
 - d. If no bids were obtained from any other vendor, explain why.
- A-4.
- a. KU performed a “lease/buy” analysis which shows the lease option to be more favorable than the purchase option. KU also performed a “status-quo” analysis which shows the lease option to be more favorable than keeping the existing 149 steel rail cars. A copy of the Award Recommendation, which includes the “lease/buy” and “status-quo” analyses, is attached. Portions of the report have been redacted, and the report is being filed with the Commission under seal pursuant to a Petition for Confidential Treatment. Also attached is a CD containing work-papers related to the Award Recommendation, which CD is also being filed with the Commission under seal pursuant to a Petition for Confidential Treatment.
 - b. Not applicable.
 - c. KU sent out bids on July 23, 2009, to seventeen (17) potential suppliers, soliciting proposals for the lease of open hopper rapid discharge rail cars for the

transportation of coal from mines supplying KU's E.W. Brown Generating Station.

Date Sent: July 23, 2009

Number of Vendors receiving Bids: Seventeen (17)

Number of Bids Received: Nine (9) Vendors responded / 60 offers

Lease Term: Three (3) to ten (10) year

Specifications / Requirements: (1) 150 rapid discharge rail cars with a gross hauling capacity of 286,000 lbs.

(2) Lease rates to include (i) full maintenance and (ii) net lease terms.

(3) Alternate rates to include trade-in of KU owned steel rail cars.

(4) Pricing should include installation of quick disconnect system for connecting an air hose for operating car doors.

d. Not applicable.

CONFIDENTIAL INFORMATION REDACTED

TO: Mr. Mike Dotson - Manager KU / LG&E Fuels
Ms. Caryl Pfeiffer – Director Corporate Fuels & By-Products

FROM: Stephen Dufour

DATE: August 16, 2010

SUBJECT: Award Recommendation – Trinity Industries Lease No. K09037

It is the recommendation of the Fuels Management Department, as witnessed by the attached signatures, that the below referenced Contract be awarded in accordance with this award recommendation memorandum.

Summary:

Due to the obsolescence of the existing steel, manual dump railcars utilized by KU for moving coal to its various power plants and to the soft railcar lease market, the Fuels Department sent out a solicitation requesting proposals for the lease of 150 new, aluminum, rapid discharge railcars and the trade-in or sale of the existing 149 railcars owned by KU.

As a result of a proposal from TrinityRail and subsequent negotiations, the Fuels Department recommends entering into a 5-year lease agreement for 150 aluminum, rapid discharge railcars and the transfer of KU's 149 steel, manual dump railcars to Trinity Industries Leasing Company.

Analysis shows that the railcar lease option is more favorable for KU customers than the continued utilization of the KU-owned railcars.

The projected costs of the 5-year Lease option are approximately \$6.5M (PV) less than the Status Quo option.

1. \$1.4M lower maintenance costs



3. Lease option does have higher financing cost of \$3.0M versus continued current operations

Other factors that support the lease option are potential labor cost efficiencies of up to \$0.7M and health and safety improvements at the E.W. Brown coal yard. A more detailed explanation and analysis accompanies this award recommendation.

CONFIDENTIAL INFORMATION REDACTED

*Award Recommendation – TrinityRail***Rationale for Procurement of Leased Railcars and Disposal of Existing KUCX Railcars:**

- Cost Reduction:



- If KU leases the 150 aluminum railcars, KU anticipates potential projected maintenance costs savings of \$1.4M over the 5 year lease term period. Maintenance costs of the 19-year old KUCX steel railcars remain high: 2009 cost of \$227 per car per month, 2010 estimated cost of \$206 per car per month. Federal requirements obligate us to keep our cars railroad worthy and as our railroad cars age, increased maintenance is required. In addition, we are experiencing lower availability due to increased maintenance downtime.
 - Above estimates are subject to future performance of coal market, rail market and operational matters in accordance with current assumptions.
- Capability to increase tonnage delivered to E.W. Brown:

E.W. Brown is projected to begin to switching from low-sulfur coal to high-sulfur coal in 2012. This change in fuel supply will require increased tonnage to meet plant fuel needs because of the expected lower heating content of the high sulfur coal. Turnaround time to move fuel supply into E.W. Brown will also increase as a result of increased transportation mileage from new supply regions.

 - Increased payload of aluminum railcars versus steel railcars (118 tons vs. 99 tons per car) will facilitate increased tonnage into E.W. Brown.
 - TrinityRail aluminum railcars built in late 2008 will have lower maintenance downtime resulting in higher availability than the 1991 built KUCX railcars.
- Potential Labor Efficiencies or Savings
 - Opportunity for labor efficiencies or flexibility, including possible savings of \$0.7M plant O&M over the 5 year lease term period. Replacement of KUCX railcars with aluminum rapid discharge railcars could result in reduction of labor activity in the coal yard at the E.W. Brown Station, allowing redeployment to other plant locations or other efficiencies.
- Potential Health and Safety Improvements:
 - Rapid discharge cars do not require the use of shakers to dislodge coal in railcars and thus could lead to reduction in noise levels encountered in coal yard operations, potentially reducing the risk of hearing loss injuries.
 - KUCX steel railcars (manual doors) require two men, with sledge hammers, to knock open latches in order to open the doors, and then use pry bars to close them. Rapid discharge doors use compressed air (pneumatics) to open and close the doors, potentially reducing the risk of back and other upper body injuries.

Award Recommendation – TrinityRail

Supplier/Contract: Trinity Industries Leasing Company/K09037

Scope of Work: Five year “Net” lease of Railcars

Price: \$365.00 per Month per Railcar (includes cost of delivery to first loading)

Contract Term: November 1, 2010 – October 31, 2015

Contract Value: Approximately \$3,285,000 (150 cars @ \$365.00 per car monthly for 5 years)

Lease vs. Status Quo: Analysis performed by Energy Planning, Analysis and Forecasting supports the favorable Lease Option versus Status Quo scenario (see Table 4).

Lease vs. Purchase: Corporate Finance and Treasury has reviewed the proposed lease and agree that the lease option is favorable to the purchase of railcars. The analysis conducted by Energy Planning, Analysis and Forecasting also supports this conclusion (see Table 5).

Lease Term: The Fuels Department recommends executing a five-year lease based on a comparison of multiple lease terms offered from TrinityRail (see Table 6).

Sensitivity Analysis: Sensitivity analysis (see Table 7) shows that the Status Quo option is most sensitive to changes in the expected freight costs of the steel KUCX cars.

Regulatory Approval: KU does not believe KPSC approval is necessary for the proposed railcar transfer under KRS 278.218 because the cars are obsolete.

KRS 278.218 states: “No person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility as defined under KRS 278.010(3)(a) without prior approval of the commission, if the assets have an original book value of one million dollars (\$1,000,000) or more and: (a) The assets are to be transferred by the utility for reasons other than obsolescence; ...”

While the railcars’ original book value exceeds one million dollars, KU believes it is a valid regulatory interpretation that these cars are obsolete and fit under the statutory exemption. KU will send a letter to the KPSC explaining the proposed railcar transfer and seek concurrence that KPSC approval of the transfer is not necessary. Final consummation of this lease agreement will occur once relevant coordination with the KPSC or other regulatory analysis is completed.

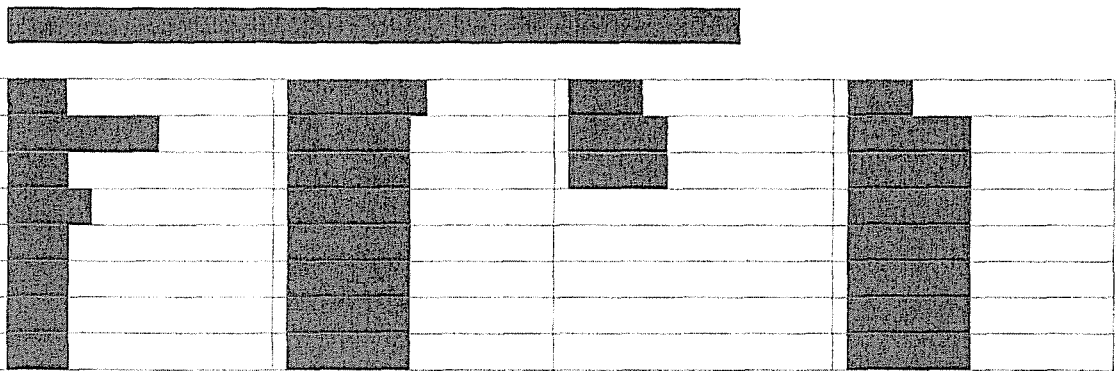
CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

BACKGROUND

KU currently owns one hundred and forty-nine (149) steel railcars stenciled KUCX and leases from JAIX Leasing one hundred and thirty (130) aluminum rapid discharge cars stenciled JAIX. The 149 KUCX steel quad hoppers were built in 1991 by Trinity Industries, Inc. with a capacity of 3610 cubic feet – 99 tons. Total investment was \$7,596,250 or \$50,982 per car. The 130 JAIX aluminum rapid discharge hoppers were built in 2008 by FreightCar America with a capacity of 4200 cubic feet – 118 tons. The JAIX cars are leased under a three-year agreement which expires on July 31, 2011. The annual lease cost for the JAIX cars is \$708,240.

KU is currently using three (3) unit trains of ninety (90) cars each to transport coal from CSXT origins in Eastern Kentucky to the E.W. Brown Station and to the CSX Terminal in Maysville, Ky. for transfer into barge for final delivery to the Ghent Station. The remaining 9 cars are used as spares to fill out the train sets when cars are pulled out for maintenance. In 2009, 1.6 million tons were moved in the KU private cars. In 2010, the volume expected to be move in private cars will be 1.5 million tons with a reduction in the years following, based on the 2011 MTP. E.W. Brown is expected to begin in 2012 switching from a traditional Eastern Kentucky, low-sulfur supply area to purchasing high-sulfur coal from Western Kentucky, Illinois, Indiana and Ohio. Because of the inherent lower heat content of the Illinois Basin Region (11,000-11,500 Btu/lb) vs. Central Appalachian Region (12,000-12,800 Btu/lb), eight (8) percent more tons will be needed out of the Illinois Basin to meet the plant fuel needs. Also the distance from mine to plant will increase, thereby increasing the cycle time on train loadings which equates to a reduced number of trips that each train set can make. One final note is that the KUCX railcars will only be able to attain a Gross Loading Weight of 263,000 pounds instead of the 286,000 pounds. This further makes it imperative to obtain railcars that can load to the maximum allowed gross weight of 286,000 pounds. Table 1 shows expected volumes to move with private equipment



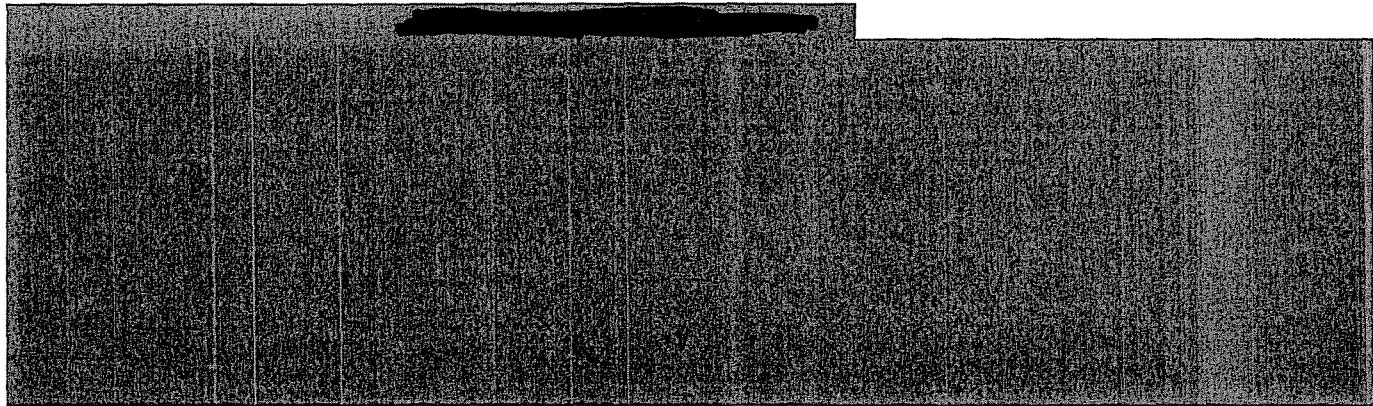
* 2011-2015 Tonnage per 2011 MTP

CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

BID SOLICITATION

KU sent out bid invitations on July 23, 2009 to 17 potential suppliers. KU requested proposals for the lease of 150 open hopper rapid discharge rail cars with the lease to begin April 1, 2010 or earlier and for a term of at least three (3) years or alternate term of five (5), seven (7), nine (9) years or longer. KU also requested bids based on the trade-in or sale of KU's existing owned steel hopper cars. Bids were opened on August 20, 2009 - Sixty (60) bids were received from nine (9) companies. In January 2010, revised offers were tendered from two bidders (TrinityRail and FreightCar America) because of the change in the Gross Loading Weight of the KUCX railcars. Both TrinityRail and FreightCar had submitted bids that included the trade-in of the KUCX railcars in exchange for reduced lease rates. Summary of the revised bids are shown in Table 2 and the initial bids that did not reflect the trade-in of the KUCX railcars are shown below in Table 3.



CONFIDENTIAL INFORMATION REDACTED

[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

[REDACTED]

[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

BID EVALUATION

Full Service Lease rates were not considered because the age of the equipment under consideration is less than 3 years old, hence less maintenance costs; therefore the higher rates paid under a Full Service Lease were deemed not to add any value.

- **Net Service Lease:** Lessee is responsible for all costs and expenses relating to the railcars, but not limited to, maintenance, taxes and insurance.
- **Full Service Lease:** Lessor is responsible for all taxes and Lessor Maintenance items. Lessee is responsible for insurance and the costs and expenses of any maintenance or repairs to the Cars' top chords, ends, sides, floors, hopper and hopper chutes, gates as well as any damage to the Cars. Lease rates are typically higher for full services leases than net service leases.

A selection was made of the most attractive offers based on age, type of car, lease type and lease rate. Bids from three (3) companies; **TrinityRail, CIT Rail and FreightCar America** were selected for further review.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

[REDACTED]

[REDACTED]

[REDACTED]

Selection of TrinityRail:

1. Least cost offer that included trade-in of existing KUCX steel cars. Limited resale opportunities exist for used railcars due to an oversupply of railcars in the current market.
2. No charge for delivery to first loading.
3. Way-side air added to cars prior to delivery and will have car marks changed per KU specifications at no cost.
4. Trinity is the manufacturer of the RDVI coal cars and offers on- site training and service once the cars are placed.
5. Since August 2007, LG&E has leased 120 Trinity RDVI cars. No problems have been encountered with this type of car.
6. Financial rating of BB+/Ba1 from S&P and Moody's for Trinity Industries, Inc. (parent company of TrinityRail).

CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

LEASE vs. STATUS QUO:

Analysis performed by Energy Planning, Analysis and Forecasting shows that the 5-year Lease option is favorable in comparison to the Status Quo option. The cost analysis for the Status Quo option takes into account interest expense on debt (debt calculated as a % of capital employed), equity return, depreciation expense, maintenance costs, and rail freight expense on rail contract to E.W. Brown, property taxes and after-tax gain from sale of KUCX cars. The cost analysis for the 5-year Lease option takes into account lease costs, maintenance costs, property taxes, rail freight expense on rail contract to E.W. Brown, labor cost reduction at E.W. Brown and after tax loss on trade-in of existing KUCX cars.

[REDACTED]

[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

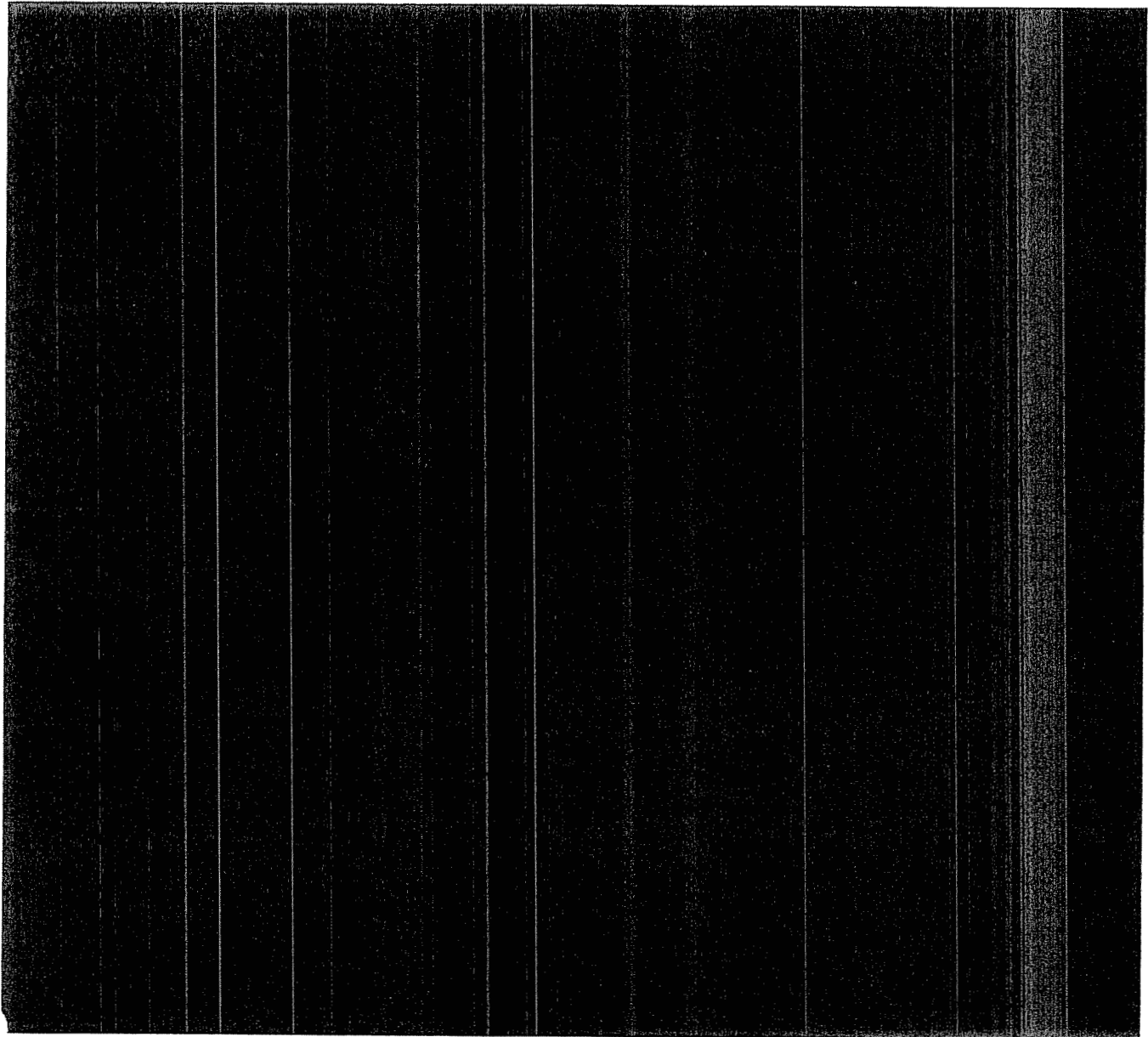
Award Recommendation – TrinityRail

LEASE vs. PURCHASE OPTION:

Analysis performed by Corporate Finance and Treasury shows that the 5-year lease option is favorable versus the Purchase option (see Table 5). [REDACTED]

[REDACTED] The analysis conducted by Energy Planning, Analysis and Forecasting conducted also supports this conclusion.

[REDACTED]



CONFIDENTIAL INFORMATION REDACTED

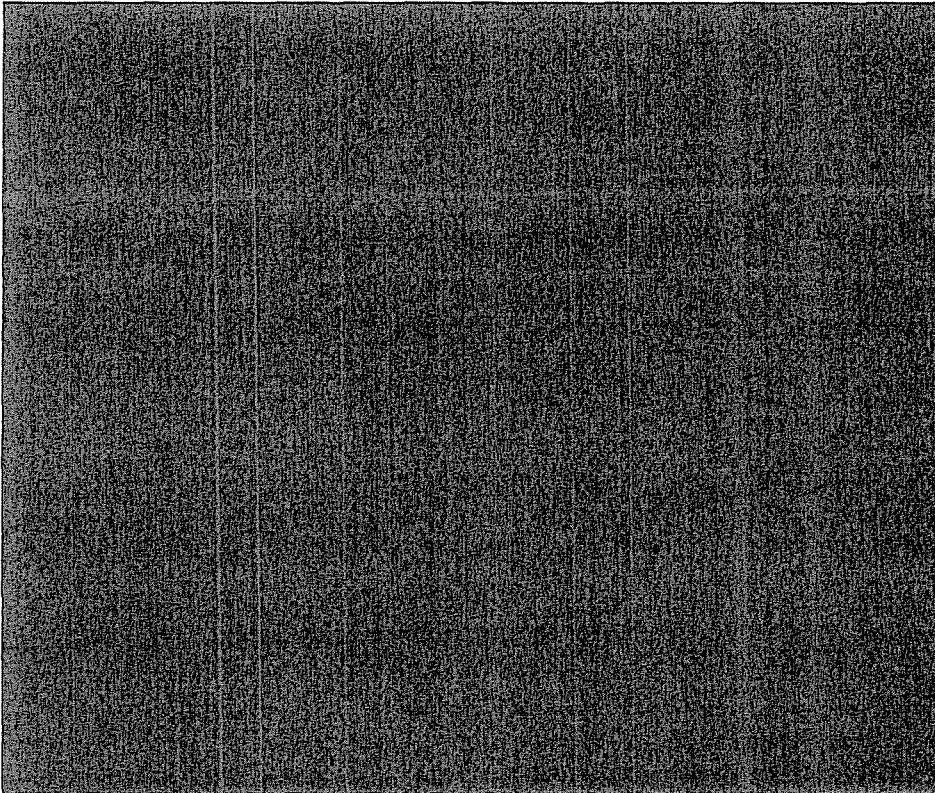
Award Recommendation – TrinityRail

LEASE TERM SELECTION:

Utilities nationally have parked existing sets of equipment because of reduced coal burn and as coal generation decreases due to retirement of aging plants and changes in environmental regulations. Therefore, we expect future railcar lease rates to remain soft. The Fuels Department has negotiated several competitive railcar leases (see below) and believes that it can achieve rates lower than the breakeven rate of \$488 for any needed follow-on lease. The Fuels Department therefore recommends selection of the 5-year term.

Current KU and LG&E Railcar Leases:

- K08038 JAIX Leasing (FreightCar America) / June 2008 – 3 year Net Lease @ \$430 per car (new 2008 equipment)
- L07036 JAIX Leasing (FreightCar America) / February 2008 – 8 year Net Lease @ \$395 per car (new 2008 equipment)
- L07024 Trinity Industries Leasing (TrinityRail) / August 2007 – 5 year Net Lease @ \$395 per car (new 2007 equipment)



CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

Sensitivity Analysis:

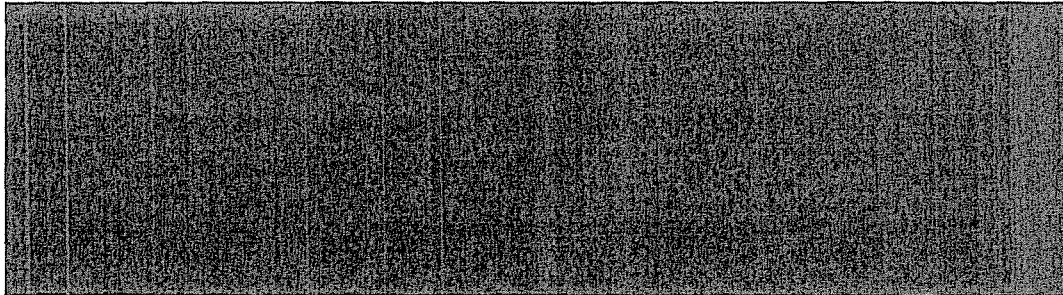
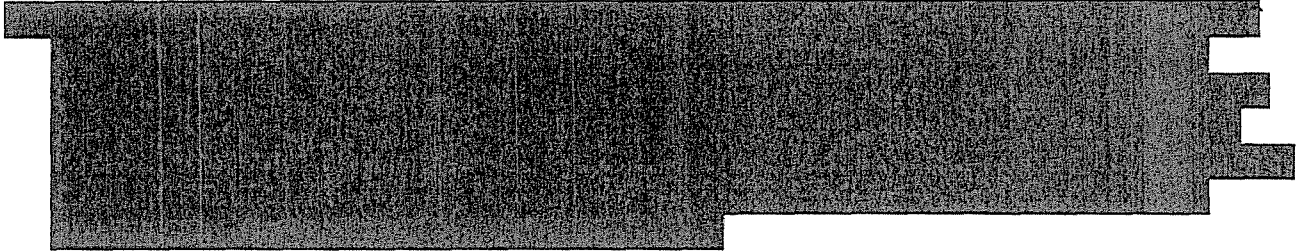
[REDACTED]

[REDACTED]

CONFIDENTIAL INFORMATION REDACTED

Award Recommendation – TrinityRail

Lease Savings:



- Railcar Maintenance Cost:** If KU leases the 150 aluminum railcars, KU anticipated potential projected maintenance cost savings of \$1.4M over the 5 year lease term period. In projecting future maintenance cost for the KUCX railcars, both historic maintenance costs were looked at along with estimates of future maintenance costs provided by Ron Lawler – Director of Fleet Management for TrinityRail. Ron has over 21 years experience in the Railcar maintenance industry and the last 14 years managing the Trinity lease fleet and is currently managing in excess of 100,000 cars. Based on the current expenditure level of repairs to the KUCX cars (\$206 per car per month), Trinity’s estimate of future costs (\$210-\$230 per car per month) appears to be in line with our experience, therefore Trinity’s estimates were used in the Status Quo, Lease and Purchase options. Trinity’s estimate of the maintenance cost is as follows:

KUCX steel cars (1991 Trinity built): \$210-\$230 per car per month / \$378,000 - \$414,000 annually (mid-point \$396,000). Aluminum rapid-discharge cars (2008 Trinity built): \$50-\$70 per car per month / \$90,000 - \$126,000 annually (mid-point \$108,000).

Historic Repair Costs – KUCX cars:

2010 (through July) - \$215,844 (\$206 per car per month)

2009 - \$409,000 (\$227 per car per month)

2008 - \$256,000

2007 - \$225,000

2006 - \$143,000

Award Recommendation – TrinityRail

- **Railcar Maintenance Cost (cont):**

Projected 2010-2015 Maintenance Costs *

Year	1991 KUCX Steel railcars	Monthly Per Car Maintenance Cost	2008 Trinity Aluminum Railcars	Monthly Per Car Maintenance Cost
Year 1 (Nov 10-Oct 11)	\$370,018	\$206	\$108,000	\$60
Year 2 (Nov 11-Oct 12)	\$377,419	\$210	\$110,160	\$61
Year 3 (Nov 12-Oct 13)	\$384,967	\$214	\$112,363	\$62
Year 4 (Nov 13-Oct 14)	\$392,666	\$218	\$114,610	\$64
Year 5 (Nov 14-Oct 15)	\$400,520	\$223	\$116,903	\$65
	\$1,925,590		\$562,036	

* escalation @ 2.0% 2011-2015

- **Potential Labor Efficiencies – E.W. Brown:** Potential workforce flexibility, efficiencies or savings of up to \$0.7M plant O&M over the 5 year lease term period. Rapid discharge cars require less work opening the car doors. The existing steel railcars have manual doors which require coal yard personnel to use sledge hammers to knock open latches in order to open the doors, and then use pry bars to close them. Rapid discharge doors use compressed air (pneumatics) to open and close the doors. The addition of the additional 150 aluminum rapid discharge cars could allow for plant redeployment, reassignment or other efficiencies of the man-hour equivalents of up to two (2) coal yard laborers.

Projected 2010-2015 Lower Labor Costs *

Period	Labor Cost Reduction
Year 1 (Nov 10-Oct 11)	\$130,000
Year 2 (Nov 11-Oct 12)	\$132,600
Year 3 (Nov 12-Oct 13)	\$135,252
Year 4 (Nov 13-Oct 14)	\$137,957
Year 5 (Nov 14-Oct 15)	\$140,716
	\$676,525

* escalation @ 2.0% 2011-2015

Award Recommendation – TrinityRail

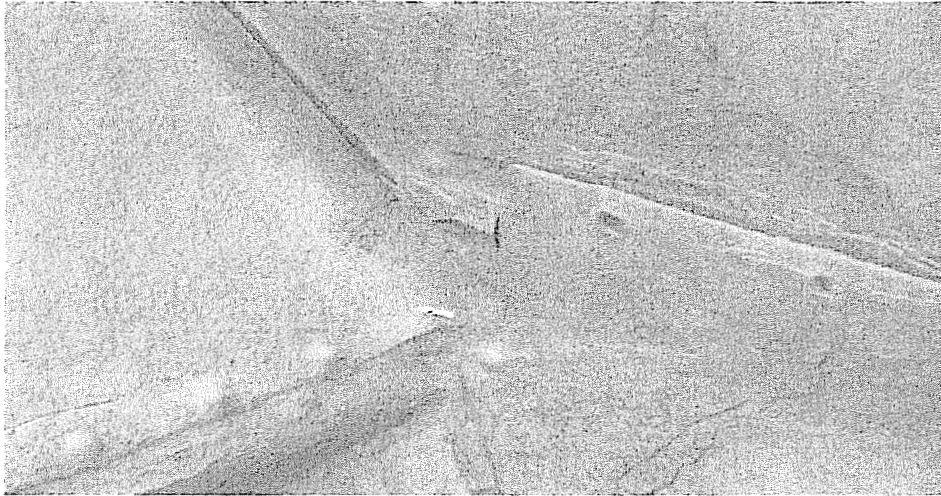
KUCX Car Inspection:

Prior to submitting their bid, an inspection of the KUCX railcars was performed by TrinityRail in August 2009. The inspection found that all cars have a significant amount of corrosion, consistent with their age and use. In some cases, corrosion was severe enough to affect the car body. A lot of money can be put into cars of this condition and still face continuing, periodic repair requirements. While within current operating and safety guidelines, corrosion will continue to be a maintenance issue until cars are scrapped or rebodied. Trucks are also showing wear and a major rebuild is anticipated in the next 5 years in order to maintain compliance with Federal safety standards.

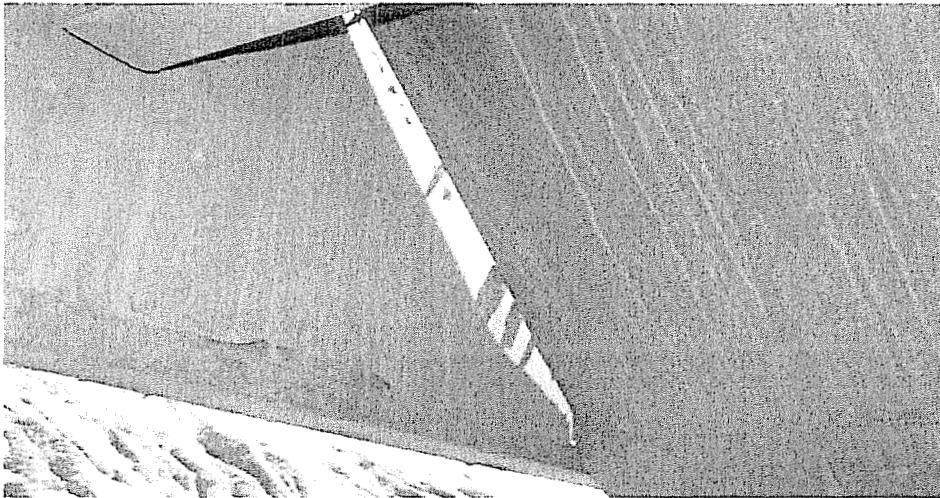
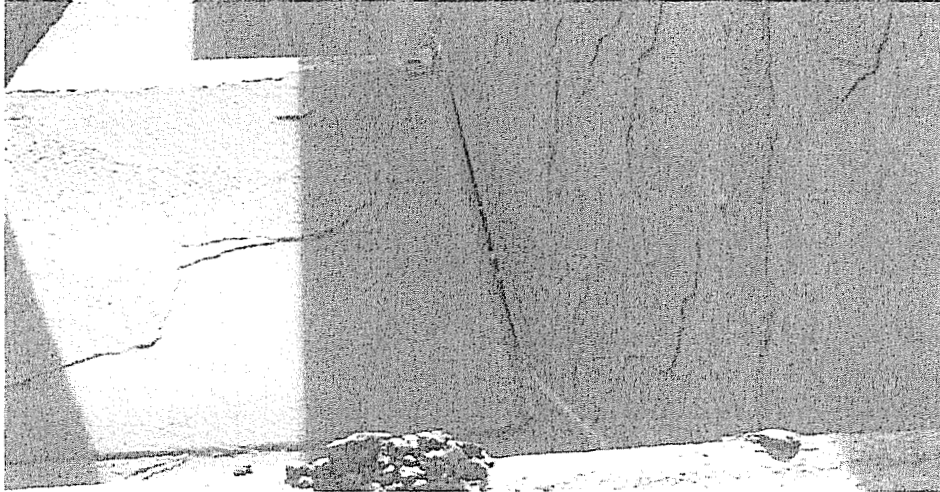
Details: The corrosion has affected the slopes and intermediate slopes connected to the sides and gates. The corrosion is completely through or the corrosion has created cracks in the material. The center sill hoods non-structural showed signs of corrosion, along with fasteners corroded and 10 to 40 rivets missing in different locations. Most of the bearing adapters need to be replaced. Applicable safety appliances are in good condition with a few corner posts bent, but within tolerances. The paint is 70% to 80% coverage on 116 cars and 90% to 95% of coverage on the remaining cars that have been repaired.



Award Recommendation – TrinityRail

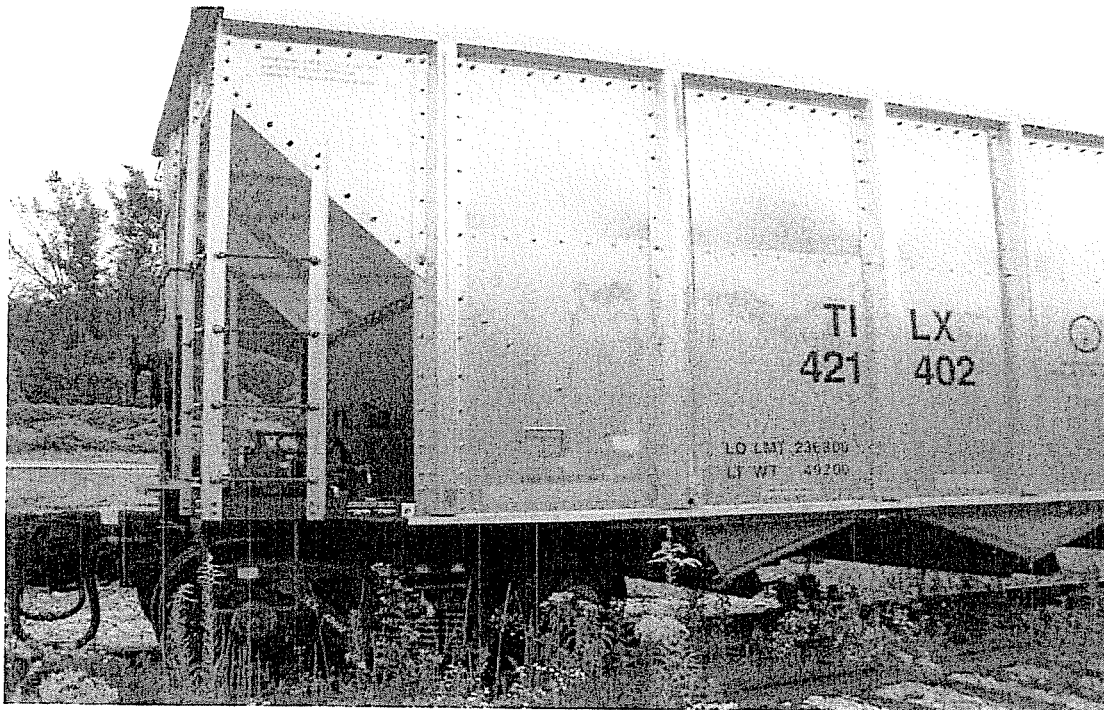
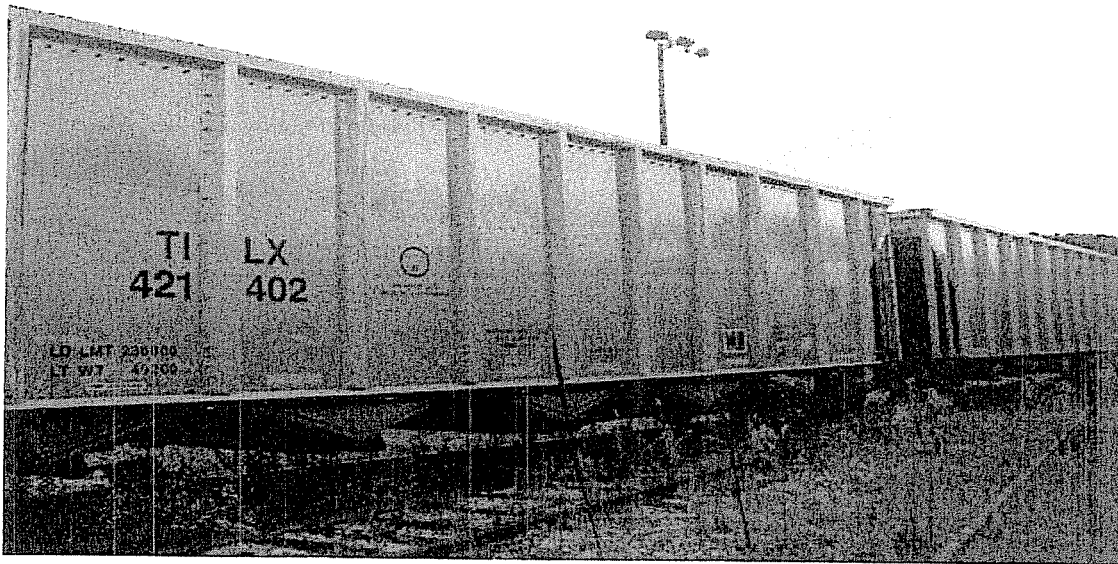


Award Recommendation – TrinityRail

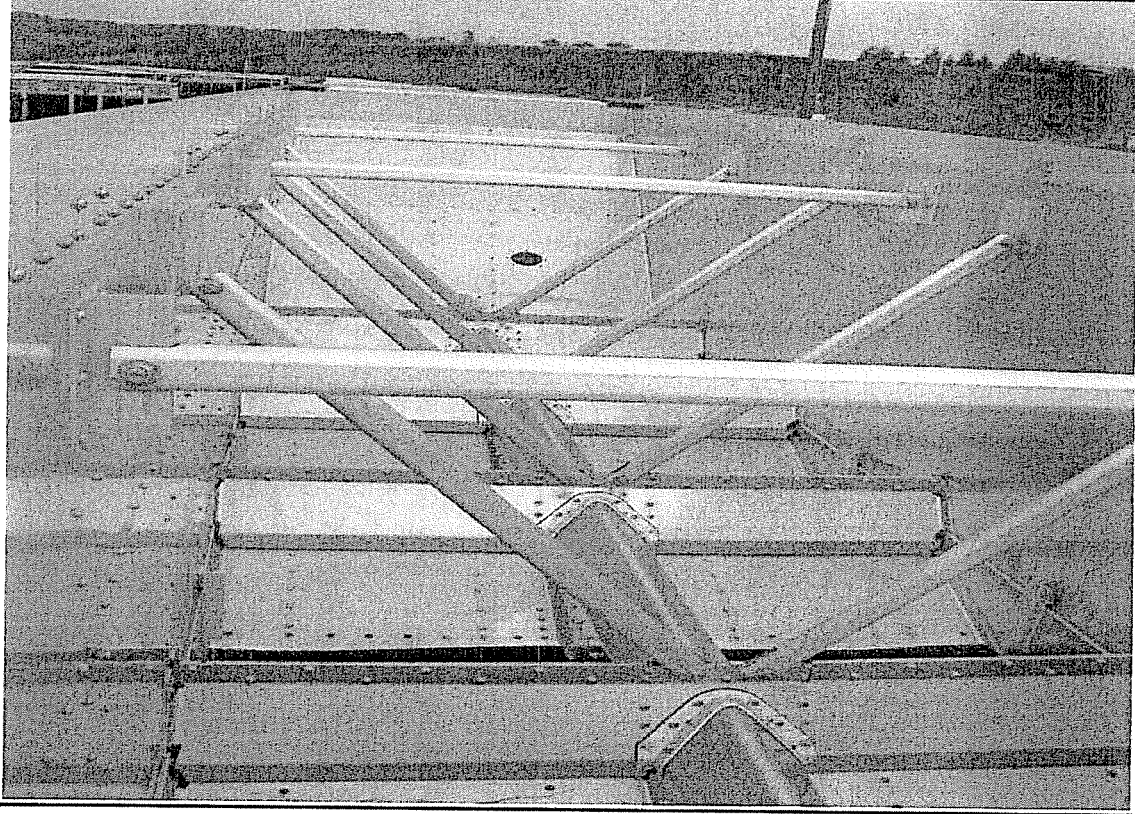
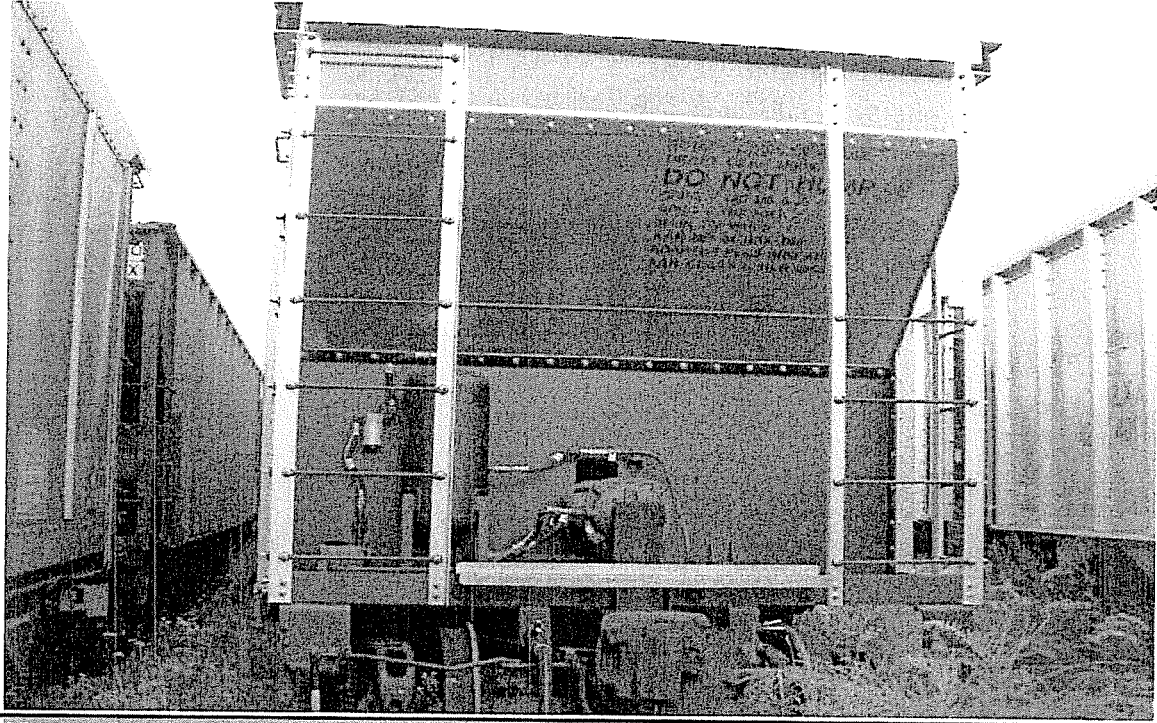


Award Recommendation – TrinityRail

TrinityRail Railcar Inspection: On September 24, 2009 an inspection of the TrinityRail cars offered under their proposal was performed by Charlie Crow of Independent Repair, Inc., Tom Axtell-Mining Engineer and myself. The inspection took place at Copperhill, TN, where 104 of the 150 railcars had been stored since January 2009. The cars were found to be in like-new condition.



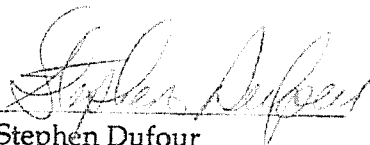
Award Recommendation – TrinityRail




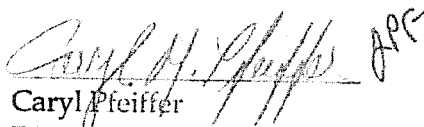
Award Recommendation - TrinityRail

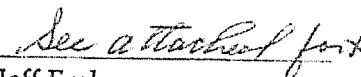
Please indicate your concurrence with this award recommendation by signature in the space provided below.

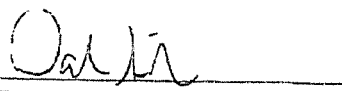
Recommended for Contract Action and Approved by:



Stephen Dufour
Senior Fuels Administrator



Mike Dotson
Manager - LG&E / KU Fuels


Caryl Pfeiffer
Director Corporate Fuels


Jeff Fraley
General Manager - EW Brown Station


David Sinclair
VP Energy Marketing


Ralph Bowling
VP Power Production


Paul Thompson
SVP - Energy Services

Award Recommendation - TrinityRail

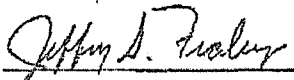
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Recommended for Contract Action and Approved by:

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Senior Fuels Administrator

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Manager - LG&E / KU Fuels

Caryl Pfeiffer
Director Corporate Fuels



Jeff Fraley
General Manager - EW Brown Station

David Sinclair
VP Energy Marketing

Ralph Bowling
VP Power Production

Paul Thompson
SVP - Energy Services

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
SEP 07 2010
PUBLIC SERVICE
COMMISSION

In the Matter of:

AN EXAMINATION OF THE)	
APPLICATION OF THE FUEL)	
ADJUSTMENT CLAUSE OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FROM)	2010-00266
NOVEMBER 1, 2009 THROUGH APRIL)	
30, 2010)	

PETITION OF KENTUCKY UTILITIES COMPANY
FOR CONFIDENTIAL PROTECTION

Kentucky Utilities Company (“KU”) respectfully petitions the Commission pursuant to 807 KAR 5:001 § 7 to classify as confidential and protect from public disclosure certain information provided by KU in response to Question Nos. 12, 19, and 20 of the Commission’s data requests, as contained in Appendix A of the Commission’s Order dated August 13, 2010. Specifically, KU requests confidential protection for settlement and release agreements with certain of KU’s coal providers, which agreements KU is providing in response to Question No. 12, and for coal bid analysis information provided in response to Question Nos. 19 and 20. KU further requests confidential protection for rail car bid analysis information provided in response to Question No. 4(a) of the Commission Staff’s Supplemental Information Request to KU, dated August 25, 2010. In support of this Motion, KU notes that the Commission treated the same kind of coal bid information as confidential in KU’s two most recent six-month fuel adjustment clause review proceedings. (*See* Letter from Executive Director Jeff Derouen re KU’s Petition for Confidential Protection, Case No. 2009-00507 (March 18, 2010); Letter from Executive

Director Jeff Derouen re KU's Petition for Confidential Protection, Case No. 2009-00287 (December 11, 2009); both attached hereto as Attachment 1.)

1. Under the Kentucky Open Records Act, the Commission is entitled to withhold from public disclosure information confidentially disclosed to it to the extent that open disclosure would permit an unfair commercial advantage to competitors of the entity disclosing the information to the Commission. *See* KRS 61.878(1)(c). Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. Disclosure of the terms and conditions of the settlement and release agreements KU has reached with several of its coal providers would damage KU's competitive position and business interests. Granting public access to the information KU is providing in response to Question No. 12 (i.e., revealing what KU has accepted in settlements with other coal providers) could prove to be detrimental to KU's bargaining positions vis-à-vis other of KU's coal providers with whom KU is currently in litigation. KU's customers would bear the financial consequences of KU's weakened bargaining positions. This sort of bargaining information is not materially different than the coal bid analysis the Commission has protected as confidential multiple times in the past.¹

3. Disclosure of the factors underlying KU's coal or rail car bid analysis and selection process would damage KU's competitive position and business interests. This information reveals the business model the Company uses—the procedure it follows and the factors/inputs it considers—to evaluate bids for coal supply and rail cars to transport that coal. If the Commission grants public access to the information requested in Question Nos. 19 and 20

and in Supplemental Question No. 4(a), potential bidders could manipulate the bid solicitation process to the detriment of KU and its ratepayers by tailoring bids to correspond to and comport with KU's bidding criteria and process. As noted above, the Commission has treated such information as confidential in the past.²

4. The information for which KU is seeking confidential treatment is not known outside of KU, is not disseminated within KU except to those employees with a legitimate business need to know and act upon the information, and is generally recognized as confidential and proprietary information in the energy industry.

5. If the Commission disagrees with any of these requests for confidential protection, it must hold an evidentiary hearing (a) to protect KU's due process rights and (b) to supply the Commission with a complete record to enable it to reach a decision with regard to this matter. Utility Regulatory Commission v. Kentucky Water Service Company, Inc., 642 S.W.2d 591, 592-94 (Ky. App. 1982).

6. KU does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement, to intervenors with legitimate interests in reviewing the same for the purpose of participating in this case.

7. In accordance with the provisions of 807 KAR 5:001 § 7, KU is filing with the Commission one copy of the Confidential Information highlighted and ten (10) copies without the Confidential Information, with the exception of the CD of work-papers being provided in

¹ See Attachment 1, Letter from Executive Director Jeff Derouen re KU's Petition for Confidential Protection, Case No. 2009-00507 (March 18, 2010); Letter from Executive Director Jeff Derouen re KU's Petition for Confidential Protection, Case No. 2009-00287 (December 11, 2009).

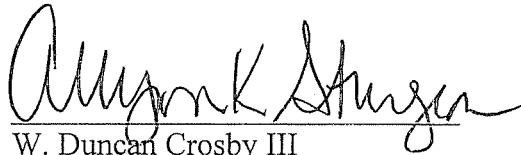
² See Attachment 1, Letter from Executive Director Jeff Derouen re KU's Petition for Confidential Protection, Case No. 2009-00507 (March 18, 2010); Letter from Executive Director Jeff Derouen re KU's Petition for Confidential Protection, Case No. 2009-00287 (December 11, 2009).

response to Supplemental DR 4(a), the entirety of which is confidential. One copy of the CD is being provided to the Commission.

WHEREFORE, Kentucky Utilities Company respectfully requests that the Commission grant confidential protection to the information designated as confidential for a period of five years from the date of filing the same.

Dated: September 7, 2010

Respectfully submitted,



W. Duncan Crosby III
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000

Allyson K. Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2088

Counsel for Kentucky Utilities Company

Attachment 1



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

March 18, 2010

E.ON U.S. LLC
Attention: Allyson K. Sturgeon
220 West Main Street
Louisville, Kentucky 40202

Re: Kentucky Utilities Company
Petition for Confidential Protection received 2/17/10
PSC Reference – Case No. 2009-00507

Dear Ms. Sturgeon:

The Public Service Commission has received the Petition for Confidential Protection you filed on February 17, 2010 on behalf of Kentucky Utilities Company ("KU") to protect certain information filed with the Commission as confidential pursuant to Section 7 of 807 KAR 5:001 and KRS 61.878. The information you seek to have treated as confidential is identified as information contained in KU's Responses to Commission Data Request Nos. 19 and 20 as in Appendix of the Commission's Order dated January 27, 2010. The information is more particularly described as containing coal bid analysis information: procedure for evaluating bids for coal supply.

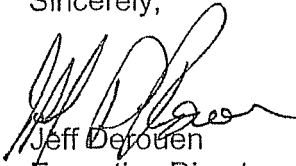
Your justification for having the Commission handle this material as confidential is that the public disclosure of the information would compromise KU's competitive position in the industry and result in an unfair commercial advantage to their competitors.

Based on a review of the information and pursuant to KRS 61.878 and 807 KAR 5:001, Section 7, the Commission has determined that the information you seek to keep confidential is of a proprietary nature, which if publicly disclosed would permit an unfair commercial advantage to KU's competitors. Therefore, the information requested to be treated as confidential **meets the criteria for confidential protection** and will be maintained as a nonpublic part of the Commission's file in this case. The procedure for usage of confidential materials during formal proceedings may be found at Section 7(8) of 807 KAR 5:001.

Ms. Sturgeon
March 18, 2010
Page 2

If the information becomes publicly available or no longer warrants confidential treatment, Kentucky Utilities Company is required by Section 8(9)(a) of 807 KAR 5:001 to inform the Commission so that the information may be placed in the public record.

Sincerely,



Jeff DeGouen
Executive Director

kg/

cc: Parties of Record



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

December 11, 2009

E.ON U.S. LLC
Attention: Allyson K. Sturgeon
220 West Main Street
Louisville, Kentucky 40202

Re: Kentucky Utilities Company
Petition for Confidential Protection received 9/10/09
PSC Reference – Case No. 2009-00287

Dear Ms. Sturgeon:

The Public Service Commission has received the Petition for Confidential Protection you filed on September 10, 2009 on behalf of Kentucky Utilities Company ("KU") to protect certain information filed with the Commission as confidential pursuant to Section 7 of 807 KAR 5:001 and KRS 61.870. The information you seek to have treated as confidential is identified as information contained in KU's Responses to Commission Data Request Nos. 12(a) and 19 contained in Appendix A of the Commission's Order dated August 20, 2009. The information is more specifically described as the "Weir Report" which contains coal suppliers costs for complying with the "Miner Act", and coal bid analysis procedure used for evaluating bids for coal supply.

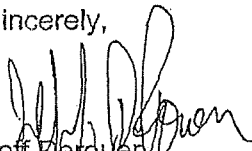
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Based on a review of the information and pursuant to KRS 61.878 and 807 KAR 5:001, Section 7, the Commission has determined that the information you seek to keep confidential is of a confidential or proprietary nature, which if publicly disclosed would permit an unfair commercial advantage to KU's competitors. Therefore, the information requested to be treated as confidential **meets the criteria for confidential protection** and will be maintained as a nonpublic part of the Commission's file in this case. The procedure for usage of confidential materials during formal proceedings may be found at Section 7(8) of 807 KAR 5:001.

Ms. Sturgeon
December 11, 2009
Page 2

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Sincerely,



Jeff Berquen
Executive Director

kg/

cc: Parties of Record