

a PPL company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

March 28, 2013

**RE: *AN EXAMINATION OF THE APPLICATION OF THE FUEL
ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY
FROM NOVEMBER 1, 2010 THROUGH OCTOBER 31, 2012 -
CASE NO. 2012-00552***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and eight (8) copies of the Response of Kentucky Utilities Company to the Commission's Supplemental Request for Information dated March 15, 2013, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. M. Conroy'.

Robert M. Conroy

Enclosures

RECEIVED

MAR 28 2013

PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@lge-ku.com

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	CASE NO.
KENTUCKY UTILITIES COMPANY FROM)	2012-00552
NOVEMBER 1, 2010 THROUGH OCTOBER 31, 2012)	

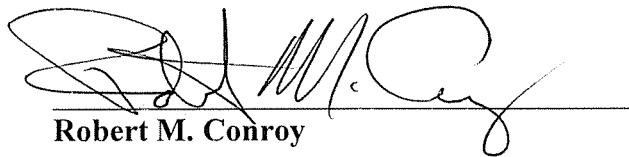
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S SUPPLEMENTAL REQUEST
FOR INFORMATION
DATED MARCH 15, 2013

FILED: March 28, 2013

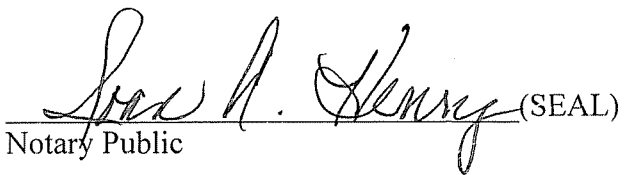
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for 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.


Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th day of March 2013.

 (SEAL)
Notary Public

My Commission Expires:

7/21/2015

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's Supplemental Request for Information
Dated March 15, 2013**

Case No. 2012-00552

Question No. 1

Witness: Robert M. Conroy

- Q-1. Refer to KU's response to Item 1 of the Commission's February 13, 2013 Request for Information ("February 13, 2013 Request"). State whether the proposed per-unit fuel cost of \$.02892 is representative of current fuel costs.
- A-1. Yes. As the table below indicates, the proposed per-unit fuel cost is within the range KU has experienced over the past year and is a reasonable representation of both current and projected fuel costs as discussed in the response to Question No. 1 of the Commission's February 13, 2013 Request for Information.

Expense Month	Unit Fuel Cost, \$/kWh
Mar-12	0.02719
Apr-12	0.02713
May-12	0.03010
Jun-12	0.02783
Jul-12	0.02816
Aug-12	0.02764
Sep-12	0.02818
Oct-12	0.02491
Nov-12	0.02492
Dec-12	0.02689
Jan-13	0.02756
Feb-13	0.02839
Average	0.02741
Maximum	0.03010
Minimum	0.02491

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's Supplemental Request for Information Dated March 15, 2013

Case No. 2012-00552

Question No. 2

Witness: Robert M. Conroy

- Q-2. Refer to KU's response to Item 40 of the February 13, 2013 Request. The response states that "KU has identified an issue with the reported energy in the monthly FAC filings for the expense months of April 2012 through January 2013 that will need to be corrected in a future monthly FAC filing." Explain fully the issue referred to in this response, its effect on the period under review, and how it will be corrected.
- A-2. Kentucky Utilities Company ("KU") included an adjustment to fuel expense in its February expense month Form A filing. The adjustment to fuel expense is necessary to correct the inadvertent omission of reported energy flow in Kentucky and to accurately reflect the treatment of energy delivered to the Old Dominion Power ("ODP") service territory that is serving KU or TVA loads instead of ODP loads. The total amount of the adjustment to fuel expense is \$4.1 million, as provided with the February 2013 expense month filing, Attachment 2, page 7. To minimize the impact of the adjustment to its customers, KU is spreading its recovery over a three month period to include the billing months of April, May, and June 2013. The adjustment to the current month fuel expense is included on Page 5 of Form A, Line 17.

KU has interconnection points on its transmission system where energy flows in and out of its transmission system. In March 2012, KU modified the reporting of energy flowing into and out of its system at the point where the Kentucky Municipal Power Agency ("KMPA" or "the Agency") interconnects with the KU transmission system. KMPA is a joint public agency organized under provisions of Kentucky law for the purpose of providing Paducah Power System and Princeton Electric Plant Board, former full requirements customers of the Tennessee Valley Authority, with an on-going source and supply of electric power to meet the demands for growth of power consumption. The Agency obtains the power necessary to meet those needs through its participation and ownership in the Prairie State Energy Campus and power purchases through Midwest Independent Transmission System Operator ("Midwest ISO"). KMPA uses KU's transmission system to deliver the power purchased from the Midwest ISO or generated from its own resource to its two members. Both the members and KMPA's generation resource are located within KU's Balancing Authority Area. The KMPA interconnection thus is unique for these reasons and is not a typical interconnection with utilities such as TVA and East Kentucky Power Cooperative Corporation which use the KU transmission system to serve their own retail loads, making the energy flow in one direction. Prior to

March 2012, KU reported the energy flow into and out of the KU system at KMPA on a *net* basis. The energy flows measured on this net basis produce the necessary data for use in business and regulatory filings and reports. In order to monitor and measure energy flow with KMPA KU began reporting energy flow into the KMPA system separate from energy flow out of the KMPA system. Due to an inadvertent oversight, the calculations used to report the total energy flow amount were not correctly performed and only the energy flow into the KU system was included in the determination of Inadvertent Energy In (a component of Purchases on Form A, Page 3); the energy flow out of the KU system, while accurately recorded, was not included in reported data. As a result, total net energy sources were overstated for the period from March 28, 2012 through December 31, 2012. The data reporting process was corrected in early February 2013; and January 2013 energy flows were reported correctly.

The restatement of the data to reflect all energy flowing into and out of the KU system resulted in a decrease to total energy sources for KU as reported in the monthly FAC filings as S(m). The decrease in S(m) (the denominator in the unit fuel cost calculation in the Form A) increases the unit cost for fuel.

Subsequently, in February 2013 after a thorough review of reported energy flow, KU identified the inadvertent reporting omission of energy flow out of the Virginia system associated with three interconnection points which affected the reported kWh deliveries to ODP at the transmission level. The data that was inadvertently omitted from the reports is associated with the following interconnection points: (1) the Arnold-Dorchester 161 kV transmission line, (2) Keokee substation providing energy to TVA load in the ODP service territory, and (3) Black Mountain substation providing energy deliveries to KU customers located in Kentucky.

The energy flow associated with the three interconnection points does not serve ODP load and therefore should have been deducted from the reported energy delivered to ODP at the transmission level. Correcting the reported energy delivered to ODP results in an increase in the losses incurred on the KU system, causing the need to recalculate fuel expense to Kentucky retail customers. KU is excluding from its corrected FAC filings the months of the test year in Case No. 2012-00221. Any errors in FAC fuel expense that occurred during the test year are offset in current rates, and therefore an adjustment for those months is not necessary.