

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS)	
ELECTRIC CORPORATION,)	
LG&E ENERGY MARKETING, INC.,)	
WESTERN KENTUCKY ENERGY)	CASE NO. 2005-00532
CORP., WKE STATION TWO, INC.,)	
AND WKE CORP. FOR APPROVAL)	
OF AMENDMENTS TO)	
STATION TWO AGREEMENTS)	

O R D E R

On December 12, 2005, an application was filed jointly by Big Rivers Electric Corporation (“Big Rivers”), LG&E Energy Marketing, Inc. (“LEM”), Western Kentucky Energy Corp. (“WKEC”), WKE Station Two, Inc. (“Station Two Subsidiary”), and WKE Corp. (LEM, WKEC, Station Two Subsidiary and WKE Corp. are collectively referred to as “LG&E Affiliates”) requesting Commission approval of proposed amendments to certain agreements between or among two or more of Big Rivers, the LG&E Affiliates, City of Henderson, Kentucky and City of Henderson Utility Commission (“City of Henderson, Kentucky and City of Henderson Utility Commission are collectively referred to as “City”). The agreements to be amended establish the relationships between and among Big Rivers, the LG&E Affiliates, and the City regarding the ownership, operation, and maintenance of the City’s Station Two generating facility (“Station Two”) and the disposition of power produced by that facility. The proposed amendments are needed to resolve business and operational issues regarding Station Two that arise as a result

of the installation of selective catalytic reduction facilities (“SCR System”) at Station Two to control its emissions of nitrogen oxides (“NOx”).

BACKGROUND

As part of Big Rivers’ plan of reorganization under Chapter 11 of the United States Bankruptcy Code, Big Rivers agreed to lease its generating assets and certain other assets to the LG&E Affiliates. The preliminary lease transaction documents were approved by the Commission in Case No. 1997-00204.¹ The final lease transaction documents, as well as amendments to the then existing Station Two contracts between Big Rivers and the City, were subsequently approved by the Commission in Case No. 1998-00267.² The Commission has previously stated that any modifications or amendments to those documents will similarly need to be approved.³

The Joint Applicants are now requesting approval of amendments to four agreements. Three of the agreements to be amended are collectively referred to as the “Station Two Contracts” and only Big Rivers and the City are currently parties to these agreements. The Station Two Contracts individually consist of the Power Sales

¹ Case No. 1997-00204, The Application of Big Rivers Electric Corporation, Louisville Gas and Electric Company, Western Kentucky Energy Corp., Western Kentucky Leasing Corp., and LG&E Station Two, Inc. For Approval of Wholesale Rate Adjustment for Big Rivers Electric Corporation and For Approval of Transaction (final Order dated April 30, 1998).

² Case No. 1998-00267, The Application of Big Rivers Electric Corporation For Approval of the 1998 Amendments to Station Two Contracts Between Big Rivers Electric Corporation and the City of Henderson, Kentucky and the Utility Commission of the City of Henderson (final Order dated July 14, 1998).

³ Case No. 1999-00450, Big Rivers Electric Corporation’s Application For Approval of a Leveraged Lease of Three Generating Units (final Order dated Nov. 24, 1999) at 10.

Contract, the Power Plant Construction and Operation Agreement, and the Joint Facilities Agreement, and they collectively specify the obligations of Big Rivers to operate and purchase power from Station Two. The fourth agreement to be amended, known as the “Station Two Agreement,” is among Big Rivers, WKEC, LEM, Station Two Subsidiary, and the City. The Station Two Agreement provides for the performance by Station Two Subsidiary of certain obligations of Big Rivers under the Station Two Contracts, and for the purchase and sale by Station Two Subsidiary or LEM of Big Rivers’ surplus power entitlement from Station Two.

PROPOSED AMENDMENTS

The proposed amendments are set forth in two documents. One of the documents is titled “2005 Amendments to Contracts Among City of Henderson, Kentucky, City of Henderson Utility Commission, Big Rivers Electric Corporation, WKE Station Two, Inc., and LG&E Energy Marketing, Inc.” (“2005 Amendments”) and proposes amendments to the Station Two Contracts. The other document is titled “Amendatory Agreement to Agreement and Amendments to Agreements Dated As Of July 15, 1998, By And Among City of Henderson, Kentucky, City of Henderson Utility Commission, Big Rivers Electric Corporation, WKE Station Two, Inc., LG&E Energy Marketing, Inc., Western Kentucky Energy Corp. and WKE Corp.” (“Amendatory Agreement”) and proposes amendments to the Station Two Agreement.

To be in compliance with applicable air emission limitations, the City decided to install an SCR System at Station Two. Although the City determined that removing 75 percent of the NOx emissions from Station Two was optimal for the City-owned generation, the City installed an SCR System with 90 percent NOx removal capability at

the request of the LG&E affiliates and with the concurrence of Big Rivers. The NOx removal capabilities in excess of that needed by the City will be used by WKEC and Big Rivers to meet NOx removal requirements at power plants owned by Big Rivers and operated by WKEC. The 2005 Amendments and the Amendatory Agreement set forth terms and conditions for payment or reimbursement by Big Rivers and the LG&E affiliates to the City for the incremental capital costs incurred to install an SCR System with 90 percent NOx removal capabilities rather than with 75 percent removal capabilities. Big Rivers has also agreed in the proposed amendments to convey the necessary land and easements to the City to accommodate the SCR System at Station Two, which is adjacent to the Big Rivers Reid-Green Generating Station in Henderson County, Kentucky.

Complete copies of both the 2005 Amendments and the Amendatory Agreement, as well as detailed summaries of each, are set forth as exhibits to the joint application. In addition, a brief summary of the issues resolved by the proposed amendments is set forth in the joint application at pages 8-10. Concurrent with filing the joint application with the Commission, Big Rivers has requested its principal creditors to provide the consents necessary to implement the proposed amendments. If not fully implemented by April 30, 2006, the proposed amendments will automatically terminate. In addition to requesting approval of the proposed amendments, the LG&E Affiliates, which are not utilities subject to the jurisdiction of the Commission, request a deviation from any filing requirements that they have not satisfied and that might otherwise be applicable to them as Joint Applicants.

Based on the joint application and being otherwise sufficiently advised, the Commission finds that the record in this case contains sufficient information for the Commission to make an informed decision. Considering the evidence of record, the Commission finds that the terms of the proposed amendments as contained in the 2005 Amendments and the Amendatory Agreement are reasonable, will resolve the issues that arise from the installation by the City of an SCR System on Station Two, and should be approved.

The Commission further finds that the LG&E Affiliates are not regulated as utilities under KRS Chapter 278. Based on the sufficiency of the evidentiary record in this case, there is no need for these non-jurisdictional Joint Applicants to comply with any of the filing requirements that they have not already satisfied and that would otherwise be applicable if they were jurisdictional utilities.

IT IS THEREFORE ORDERED that:

1. The 2005 Amendments and the Amendatory Agreement as filed in this case are approved. Any revisions to these documents prior to their effective date shall be filed in this case. Any modifications or amendments to these documents after their effective date shall be filed and reviewed in a new case.

2. Big Rivers shall file a written notice with the Commission within 10 days of receiving all necessary creditor approvals and shall include in that notice, or a subsequent notice, the effective date of the 2005 Amendments and the Amendatory Agreement.

3. The non-jurisdictional LG&E Affiliates are granted a deviation pursuant to 807 KAR 5:001, Section 14, from complying in this case with any additional filing requirements that would otherwise be applicable to a jurisdictional utility.

Done at Frankfort, Kentucky, this 24th day of February, 2006.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director