COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

VERIFIED APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER PURSUANT TO KRS 278.300 AND FOR APPROVAL OF LONG-TERM PURCHASE CONTRACT	)	CASE NO. 2011-00099
VERIFIED APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER PURSUANT TO KRS 278.300 AND FOR APPROVAL OF LONG-TERM PURCHASE CONTRACT	)	CASE NO. 2011-00100

O R D E R

On March 16, 2011, Louisville Gas and Electric Company and Kentucky Utilities Company ("LG&E and KU") filed applications seeking Commission approval of an amended wholesale power contract with the Ohio Valley Electric Corporation ("OVEC") pursuant to the provisions of KRS 278.300.

OVEC was formed in the early 1950s by LG&E and KU and several other utilities and holding companies located in the Ohio Valley region in response to the request of the United States Atomic Energy Commission ("AEC") to supply the electric power needs of the AEC's planned uranium enrichment plant in Pike County, Ohio. OVEC built two coal-fired generating stations and entered into a long-term power agreement with the United States Department of Energy ("DOE"). The agreement gave DOE the right to OVEC's generation capacity. OVEC and its owners or their affiliates, including LG&E and KU, entered into the original Inter-Company Power Agreement ("ICPA"), a 50-year power supply agreement that gave each OVEC owner the right to purchase surplus power not required by DOE in proportion to the owner's participation ratio.

Subsequent to the termination of the DOE power agreement on April 30, 2003, all of OVEC's capacity was considered to be surplus.

The current OVEC ICPA has a term that runs to March 13, 2026.[1] OVEC has recommended extending the ICPA to take advantage of reduced financing costs and to amortize its debt over a longer time period. The resulting savings would be passed on to the OVEC owners through a reduction in energy costs of approximately $1 per MWh from the extension's effective date through the currently scheduled 2026 termination date. It is estimated that LG&E and KU will save approximately $14.3 million on a combined basis over that period of time under the extended ICPA. OVEC and its owners have entered into an amended ICPA, which extends the term an additional 14 years, through June 30, 2040.

LG&E and KU state that, given the relatively low cost of the OVEC generation, they utilize the majority of the power available from OVEC, particularly during peak periods. A comparison of the cost of their own generation and the cost of their OVEC purchases show that the cost per KWh of OVEC's generation compares quite favorably to LG&E's and KU's generation costs.

At the time of the previous extension of the ICPA, OVEC commissioned an independent engineering assessment of the remaining lives and production capabilities, environmental remediation, and decommissioning of its generating facilities. At OVEC's

---

[1] The current ICPA received Commission approval in Case No. 2004-00395, Application of Kentucky Utilities Company for an Order Pursuant to KRS 278.300 and for Approval of Long-Term Purchase Contract (Ky. PSC Dec. 30, 2004); and Case No. 2004-00396, Application of Louisville Gas and Electric Company for an Order Pursuant to KRS 278.300 and for Approval of Long-Term Purchase Contract (Ky. PSC Dec. 30, 2004).

request, that assessment has been updated since the filing of LG&E's and KU's applications.[2] The results of the updated assessment indicate that, largely due to the generating units having been nearly always operated in a base load mode, with limited thermal cycles of the equipment, the units are expected to be operational at or near their historic operating levels through the term of the ICPA extension, until mid 2040.

The assessment update also indicates that the generating facilities are expected to be in compliance with existing and pending environmental requirements. Selective catalytic reduction devices have been installed on all units over the past decade and flue gas desulfurization equipment will be installed on all units during the 2011-2013 time frame. OVEC does not expect coal combustion by-products to be regulated as a hazardous waste and, therefore, does not anticipate significant future expenditures in this area.

The proposed extension will allow LG&E and KU to continue to receive their shares of OVEC's generation in exchange for payment of OVEC's relatively low costs. As in the past, LG&E and KU will not act as guarantors of OVEC's debts nor will they issue securities or other evidence of indebtedness for the purpose of financing their participation in the Amended ICPA. However, LG&E and KU will be obligated to pay monthly minimum demand charges over the life of the amended contract. The

---

[2] URS Corporation performed the original assessment in 2004 and completed an update during the pendency of this proceeding.

effectiveness of the amended ICPA is contingent upon all owners receiving the necessary regulatory approvals of the states in which they operate, if applicable.[3]

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the energy available from OVEC is a cost-effective source of energy to LG&E and KU, and it is reasonable for LG&E and KU to secure a portion of this available energy. We further find that LG&E's and KU's participation in the OVEC contract is for lawful objects within the corporate purposes of LG&E's and KU's utility operations, is necessary and appropriate for and consistent with the proper performance of their service to the public, will not impair their ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. LG&E and KU are authorized to enter into the Amended Inter-Company Power Agreement among OVEC and its owners as set forth in the provisions and terms in their applications.

2. After the Amended Inter-Company Power Agreement has received all necessary regulatory approvals, LG&E and KU shall, within 20 days of the finalization of the Amended Inter-Company Power Agreement, file a copy of the agreement with the Commission.

[3] In addition to other state commissions, the investor-owned OVEC owners must also receive consent, or approval, of the Federal Energy Regulatory Commission.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission

ENTERED

AUG 11 2011

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

Case No. 2011-00099
Case No. 2011-00100

Robert M Conroy
Director, Rates
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202