



Kent W. Blake
Director
State Regulation and Rates

LG&E Energy LLC
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December 22, 2005

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

DEC 22 2005

PUBLIC SERVICE
COMMISSION

RE: The 2005 Joint Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company
Case No: 2005-00162

Dear Ms. O'Donnell:

As John Malloy and I discussed with Commission Staff on September 23, 2005, Kentucky Utilities Company's ("KU") Power Supply Agreement ("PSA") with Electric Energy Inc. ("EEI") is scheduled to expire at the end of 2005. EEI's position on renewing the PSA continues to be one based on market indices (defined generally as the applicable locational marginal pricing ("MISO LMP")) with a capacity payment, as opposed to the cost-based rate structure under which the contract has historically operated and which KU requested during the contract negotiations.

After extensive negotiations, we have received and reviewed EEI's final proposed new PSA for this 200 MWs from EEI's Joppa plant located in Joppa, Illinois. KU has evaluated EEI's proposed renewal of the PSA in the context of its Integrated Resource Plan ("IRP") based upon a least-cost reasonable resource analysis.

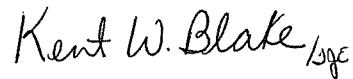
Based on the proposed PSA by EEI, KU has determined that continuation of the PSA would not be a least-cost option for KU's customers. The results from the evaluation of the proposed EEI contract were presented to the Company's Operating Committee established pursuant to the Power Supply System Agreement on December 16, 2005. After consideration of the supporting analysis, the Operating Committee approved the recommendation not to renew the PSA with EEI. We notified EEI of KU's decision on December 22, 2005. Enclosed is a copy of our notification letter to EEI.

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As such, the PSA will expire December 31, 2005, and KU will no longer purchase the 200 MW of capacity and energy from EEI. There is no near term (2006-2007) impact on KU's capacity plans. KU and Louisville Gas and Electric Company ("LG&E") will continue to review their capacity and energy needs in the context of their on-going IRP process.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Kent W. Blake" followed by a small flourish.

Kent W. Blake

Enclosure

cc: Elizabeth E. Blackford
Michael L. Kurtz



Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

December 22, 2005

SENT by email and overnight mail

Mr. Robert L. Powers
President
Electric Energy Incorporated
One Ameren Plaza
1901 Chouteau Avenue
MC-600
St. Louis, Missouri 63103
314-554-6101

Re: Draft Power Purchase Agreement (the "Draft PPA") between Electric Energy, Inc. ("EEI") and Kentucky Utilities Company ("KU")

Dear Bob:

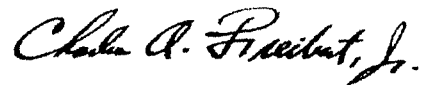
I send this letter in response to the draft PPA Jim Helm circulated to me on December 6, 2005. KU has understood that the Draft PPA, including the pricing provisions therein, constitutes EEI's best and final offer to KU of power from the Joppa plant after the end of calendar year 2005.

As you know, KU had hoped to negotiate a cost-based agreement to replace the present Power Supply Agreement that expires on December 31, 2005, and we had been working toward that goal for much of the past year. While the PPA draft that you forwarded may achieve EEI's goal of pursuing market-based sales, it unfortunately, as confirmed through KU's generation planning analysis, is not be a least cost resource for KU and its customers. Accordingly, KU is confirming by this letter that it must decline EEI's offer of power on these terms. If EEI should have power available on better terms in the future or at a later time, KU certainly remains interested in considering such availability, and does not intend by this letter to waive any right or claim that it may otherwise have to be notified and have an opportunity to acquire that power.

Please feel free to call me with any questions or concerns.

Sincerely,

KENTUCKY UTILITIES COMPANY



By: _____
Charles A. Freibert, Jr.
Director Energy Marketing
502-627-3673

cc: Ameren – Alan Kelly, Andy Serri
EEI – Jim Helm
LGEE – Paul Thompson, John Voyles, Kent Blake, Bob Brunner, Steve Phillips,
Beth Cocanougher