STOLL · KEENON · OGDEN
PLLC

2000 PNC PLAZA
500 WEST JEFFERSON STREET
LOUISVILLE, KENTUCKY 40202-2874
502-333-6000
FAX: 502-333-6099
WWW.SKOFIRM.COM

KENDRICK R. RIGGS
DIRECT DIAL 502-560-4222
DIRECT FAX 502-627-8722
kendrick.riggs@skofirm.com

June 14, 2006

Drop Box
RECEIVED
JUN 15 2006
PUBLIC SERVICE COMMISSION

VIA HAND DELIVERY

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

RE: ***In the Matter of the Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Authority to Transfer Functional Control of Their Transmission System***
Case No. 2005-00471

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten copies each of the following documents in the above-referenced matter:

1. Third Amended Joint Application and supporting testimonies;

2. Joint Motion for Informal Conference; and

3. Joint Motion for Leave to File an Amended Application, Withdraw Previous Testimony and File Replacement Testimony.

Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

Kendrick R. Riggs

KRR/ec
Enclosures
cc: All persons of record requesting intervention
Kent W. Blake (w/encl)
Elizabeth L. Cocanougher (w/encl)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR AUTHORITY TO TRANSFER FUNCTIONAL CONTROL OF THEIR TRANSMISSION SYSTEM	)))))	**CASE NO. 2005-00471**

THIRD AMENDED JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively, the "Companies") respectfully petition by application the Kentucky Public Service Commission to issue an order either: (1) approving under KRS 278.218 the Companies' contracts with the Tennessee Valley Authority ("TVA") and the Southwest Power Pool, Inc. ("SPP") to act as the Companies' Reliability Coordinator and Independent Transmission Organization ("ITO"), respectively; or in the alternative, (2) determining that the Companies need not obtain such approval under KRS 278.218.

The Companies further respectfully petition by application the Commission to resolve the ratemaking treatment of the exit fee on the basis of the Stipulation reached in this proceeding between the Companies, the Kentucky Office of the Attorney General ("AG"), and the Kentucky Industrial Utilities Customers, Inc. ("KIUC"), which Stipulation the Companies, AG, and KIUC filed in this proceeding by letter dated June 2, 2006, and which establishes a rate treatment for the fee the Companies must pay the Midwest Independent Transmission System Operator, Inc. (MISO) upon withdrawal from membership therein ("exit fee").

In support of this Application, the Companies state as follows:

Applicants

1. The full name and mailing address of LG&E is: Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. The full name and mailing address of KU is: Kentucky Utilities Company c/o Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. Both LG&E and KU are Kentucky corporations authorized to do business in the Commonwealth of Kentucky.

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer and Trimble Counties. LG&E also purchases, stores and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble and Washington Counties.

3. KU is a utility engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail in the following counties in Central, Northern, Southeastern and Western Kentucky:

Adair	Edmonson	Jessamine	Ohio
Anderson	Estill	Knox	Oldham
Ballard	Fayette	Larue	Owen
Barren	Fleming	Laurel	Pendleton
Bath	Franklin	Lee	Pulaski
Bell	Fulton	Lincoln	Robertson
Bourbon	Gallatin	Livingston	Rockcastle
Boyle	Gerrard	Lyon	Rowan
Bracken	Grant	Madison	Russell
Bullitt	Grayson	Marion	Scott
Caldwell	Green	Mason	Shelby
Campbell	Hardin	McCracken	Spencer
Carlisle	Harlan	McCreary	Taylor
Carroll	Harrison	McLean	Trimble
Casey	Hart	Mercer	Union

Christian	Henderson	Montgomery	Washington
Clark	Henry	Muhlenberg	Webster
Clay	Hickman	Nelson	Whitley
Crittenden	Hopkins	Nicholas	Woodford
Daviess			

4. Certified copies of the Companies' Articles of Incorporation are already on file with the Commission in this case and are incorporated herein by reference pursuant to 807 KAR 5:001, Section 8(3).

5. The Southwest Power Pool was created in 1941 when eleven companies joined together to serve national defense needs during World War II. Currently, SPP is a FERC-approved RTO committed to maintaining the reliability of the bulk electric power system.[1] SPP has forty-five members and serves more than 4 million customers. SPP provides independent reliability coordination and tariff administration, regional engineering model development, planning and operating studies, reliability assessment studies, regional transaction scheduling and operating reserve sharing services to its members. In addition to its RTO operations, SPP has also served as the reliability coordinator and independent tariff administrator for American Electric Power East, which includes Kentucky Power Co.[2] SPP also serves as the Independent Coordinator of Transmission ("ICT") for Entergy, Inc., providing Entergy with reliability coordination, transmission service evaluation and approvals, a weekly procurement process, and transmission planning activities, including a stakeholder process. As ICT, SPP is also scheduled to begin transmission service processing for the Entergy in the fall of 2006.

6. The Tennessee Valley Authority is the nation's largest public power company. It supplies the electricity needs of 8.6 million people in an area spanning portions of seven states by providing wholesale power to 158 municipal and cooperative power distributors, and by

[1] Southwest Power Pool, Inc., 109 FERC ¶ 61,010 (2004), order on reh'g, 110 FERC ¶ 61,137 (2005).
[2] American Electric Power Company, Central and South West Corporation, 91 F.E.R.C. ¶ 61,208 (2001).

directly serving 62 large industries and government installations in the Tennessee Valley. TVA also provides transmission service on a nondiscriminatory, as available basis to other power providers requiring power transfers out of or through the TVA system. TVA, as a North American Electric Reliability Council ("NERC") certified Reliability Coordinator, monitors and ensures the reliable operation of the bulk transmission system in ten states including Tennessee, and portions of Alabama, Georgia, Illinois, Iowa, Kentucky, Mississippi, Missouri, North Carolina and Virginia. TVA currently serves as reliability coordinator for the East Kentucky Power Cooperative, Inc., serving 16 electric cooperatives and 500,000 customers, and Big Rivers Electric Corporation, serving 3 electric cooperatives and 107,000 customers.

Communications

7. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

Elizabeth L. Cocanougher
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202

Kent W. Blake
Director of State Regulation and Rates
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202

Kendrick R. Riggs
William Duncan Crosby III
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

The Transmission System

8. The Companies' respective transmission systems were built, owned and operated for the purposes of transferring power from their own generators to serve their native load. Over time, the transmission systems became increasingly interconnected with others in the state in an effort to enhance system reliability, engage in off-system sales transactions and reduce facility redundancy. Upon their merger in 1998, the Companies' transmission systems were combined. Currently, the Companies' combined transmission and distribution network covers 27,000 square miles.

9. On July 17, 2003, the Commission, by order, initiated an investigation of the Companies' membership in MISO.[3] In the order, the Commission indicated its willingness to explore the feasibility of the Companies' leaving MISO and joining a different RTO. In light of the evidence presented during the investigation, the Companies advised the Commission that they would seek to withdraw from MISO and pursue an alternative model that satisfies FERC's non-discriminatory, open access transmission service objectives and other relevant policy goals. When MISO filed its TEMT and Day 2 Market proposals with FERC, the Commission reopened its investigation because of concerns about the impact of Day 2 operations on the Companies and Kentucky ratepayers.

10. On October 7, 2005, in *LG&E Energy LLC, Louisville Gas & Electric Company et al*, Docket Nos. EC06-4-000 & EC06-20-000, the Companies petitioned FERC for an order authorizing the transfer of the functional control of their facilities from MISO back to themselves and authorizing the Companies to enter into agreements with SPP to serve as the Companies' OATT administrator and with TVA to serve as the Companies' NERC-certified

[3] *In the Matter of: Investigation into the Membership of the Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc.*, Case No. 2003-266, Order issued July 17, 2003.

reliability coordinator. The ITO and reliability coordinator proposal ensures that the Companies will maintain the requisite level of independence in the operation of their transmission system while maintaining a high level of system reliability. FERC approval of this transaction is required because such withdrawal constitutes a change in rates under the Federal Power Act ("FPA") Section 205.[4]

11. On January 10, 2006, the Companies filed with FERC revised Attachment M of their Open Access Transmission Tariff containing a final and executed ITO Agreement and a final Reliability Coordinator Agreement, as well as a final Withdrawal Agreement between Applicants and MISO, which sets out the obligations of each party in accommodating the Companies' withdrawal, including a Withdrawal Fee Methodology. Thus, the Companies and MISO have an agreed methodology for calculating the MISO exit fee. Complete electronic copies of the executed Reliability Coordinator and ITO Agreements, as well as the MISO Withdrawal Agreement, accompany this Third Amended Joint Application on the compact disc entitled, "Third Amended Application Exhibit 1."[5]

12. On March 17, 2006, FERC issued its Order Conditionally Approving Request to Withdraw from the Midwest ISO, 114 FERC ¶ 61,282. In that order, FERC conditionally approved the Companies' proposed withdrawal from MISO and directed the Companies to make a compliance filing. The conditions imposed by FERC are acceptable to the Companies. Overall, FERC found with respect to the Companies' proposal to withdraw from MISO:

1) That the Companies have complied with the terms of the Midwest ISO Transmission Owners' Agreement ("TOA");

[4] Although certain parties, including Big Rivers Electric Corp. ("BREC") and East Kentucky Power Cooperative, Inc. ("EKPC"), initially intervened without supporting (indeed, BREC protested) the Companies' application at FERC, now stakeholders in Kentucky, Tennessee, Indiana and Illinois -- including BREC and EKPC -- which are directly affected by the Companies' proposal have withdrawn their protests. These stakeholders either do not oppose, or support, the Companies' decision to withdraw from MISO.

[5] The TVA and SPP Agreements are the same as those the Companies submitted to the Commission by letter dated April 13, 2006, in this case. (The Agreements are part of the FERC compliance filing submitted with the letter.)

2) That their proposal, upon compliance with certain conditions, satisfies certain Merger Conditions that had previously been placed upon the Companies;

3) That the Companies' proposed open access transmission tariff ("OATT"), including certain changes proscribed by the Commission, is "consistent with or superior to" the pro forma OATT established by the Commission by Order No. 888; and

4) That the Section 205 tariff filing, also subject to certain conditions, is just reasonable, and not unduly discriminatory.

FERC required the Companies to make a compliance filing prior to completing their withdrawal from MISO.

13. On April 11, 2006, the Companies made the requisite compliance filing with FERC.[6] Included in the filing were revised and executed ITO and Reliability Coordinator Agreements, which more clearly delineated the responsibilities of the Companies, SPP, and TVA after the Companies exited MISO. Under the Reliability Coordinator Agreement, TVA's primary service will be to provide a wide-area view of the transmission grid on neighboring systems, as well as in MISO and PJM, in order to ensure reliable service to the Companies' customers. Under the ITO Agreement, SPP's primary service will be impartially to administer the Companies' Open Access Transmission Tariff.

The Companies have requested that FERC issue a final order approving the Companies' compliance filing and denying outstanding motions for rehearing by July 7, 2006.

14. On May 24, 2006, the Companies filed with FERC proposed amendments to their market-based rate tariffs to take effect once the Companies exit MISO.[7] The proposed amended tariffs would allow the Companies to retain market-based rate authority for all wholesale transactions except those with points of delivery inside LG&E/KU and BREC control areas (e.g.,

[6] The Companies filed in the record of this proceeding by letter dated April 13, 2006, a copy of their FERC compliance filing.

[7] *LG&E Energy Marketing Inc., Louisville Gas and Electric Company, Kentucky Utilities Company, Western Kentucky Energy Corporation* (Docket No. ER06-1046-000), Letter (May 24, 2006).

transactions at the LG&E/KU and BREC interfaces with other control areas would be at market-based rates).

The Companies have requested expedited treatment for their filing and that FERC issue an order thereon by July 6, 2006.

15. On May 31, 2006, the Commission issued a final order in Case No. 2003-00266, authorizing the Companies to exit MISO ("May 31 Order").

16. Because MISO's market modeling is extremely complex, the Companies cannot exit MISO before September 1, 2006, because they cannot effectively be removed from MISO's sooner. Moreover, due to the complexity of MISO's models the Companies must notify MISO by June 15, 2006, of their intent to exit MISO and be removed from MISO's modeling effective September 1, 2006, the first feasible date for the Companies to exit MISO. (These dates are set out in a joint letter by the Companies and MISO to FERC, an electronic copy of which accompanies this Third Amended Joint Application on the compact disc entitled, "Third Amended Application Exhibit 1.") The Companies may, however, rescind no later than July 7, 2006, their notice of exit, which will result in the Companies' being unable to exit MISO before December 1, 2006.

17. Because time is of the essence in order to comply with the abovementioned milestone dates, the Companies respectfully request that the Commission issue a final order in this proceeding by June 30, 2006. If the Companies do not receive the requisite regulatory approvals by July 7, 2006, they will of necessity rescind their notice of exit to MISO. This will require the Companies to remain MISO members for another three months; the Companies will then have to notify MISO by September 15, 2006, of their intent to exit MISO effective December 1, 2006.

Whether KRS 278.218 Applies to the ITO and Reliability Coordinator Agreements

18. Pursuant to KRS 278.218(1), Commission approval is required for the "transfer of ownership of or control, or the right to control," certain utility assets. Further, KRS 278.218(2) provides that approval is to be granted, "if the transaction is for a proper purpose and is consistent with the public interest."

19. The May 31 Order authorized the Companies to reacquire functional control of their transmission assets by exiting MISO. Under their proposal, when the Companies exit MISO, TVA will be their Reliability Coordinator serving primarily to provide the Companies a wide-area view of the surrounding transmission grid to ensure reliable service. Likewise, when the Companies exit MISO, SPP will act as the Companies' ITO, primarily administering the Companies' Open Access Transmission Tariff.

20. The Companies' counsel has been unable to locate any case in which the Commission has asserted jurisdiction over a utility's choice of a reliability coordinator or ITO-like service provider. Thus, because this appears to be a case of first impression, it is not clear whether obtaining reliability coordination or ITO services constitutes a transfer of control of utility assets of the kind governed by KRS 278.218. The Companies do not believe that such transactions should fall under the ambit of KRS 278.218 because, rather than transferring operational control to TVA and SPP, the Companies have merely arranged for TVA and SPP to provide certain services for set fees; the Companies will continue to operate and maintain all of their utility assets under the ITO/Reliability Coordinator arrangement, and are free to terminate SPP's or TVA's services with reasonable notice and without incurring an exit fee. The Companies emphasize that they are not seeking authority to join an RTO or otherwise enter into a membership arrangement with TVA or SPP; rather, the Companies' contracts with TVA and SPP are strictly fee-for-service contracts.

21. In the alternative, if the Commission concludes it does have jurisdiction to require the Companies to obtain approval under KRS 278.218, then the Companies request the Commission to grant them the authority to enter into the contracts. KRS 278.218(2) states, "The commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest." The TVA-SPP proposal is for a proper purpose: the reliable functioning of, and the independent administration of open access to, the Companies' transmission facilities, as required by, and in accordance with, NERC guidelines and FERC regulations and policies. The TVA-SPP proposal is also consistent with the public interest: compliance with NERC and FERC policies that result in the well-functioning and reliable performance of the Companies' transmission assets, including the ability for the Companies to make off-system sales through independently and impartially administered transmission assets, is in the public interest. Therefore, if the Commission determines that the statute applies, the Companies' obtaining TVA's and SPP's reliability coordination and ITO services, respectively, should be approved by the Commission pursuant to KRS 278.218.

Testimony in Support of the Application

20. The Companies support their request for authority to obtain TVA's and SPP's services with the following testimony:

- Mark S. Johnson, Director of Transmission, E.ON U.S. Services, Inc., describes the functions of the ITO and Reliability Coordinator and the Request For Proposal processes that led to the selection of SPP and TVA to serve in those roles, and updates the Commission on the relevant proceedings before FERC concerning the Companies' exit from MISO and their TVA/SPP proposal.

- Kent W. Blake, Director of State Regulation and Rates, E.ON U.S. Services, Inc., will explain why the Companies do not believe that the ITO and Reliability Coordinator proposal should be subject to KRS 278.218, and in the alternative why the proposal satisfies the requirements of 278.218. He also details the terms of the Stipulation between the Companies, AG, and KIUC, and explains why the Commission should approve the rate treatment of the MISO exit fee set out in the Stipulation.
- Martyn Gallus, Senior Vice President, Energy Marketing, E.ON U.S. Services, Inc., will describe the status of the Companies' market-based rate filings before FERC.

21. LG&E and KU also support their application with the following testimony submitted by the Tennessee Valley Authority and the Southwest Power Pool, as the prospective third-party vendors of reliability coordination and independent transmission operation, respectively, regarding their qualifications and interests:

- The testimony of Stuart L. Goza, Reliability Coordinator for TVA, provides background regarding how TVA acts as reliability coordinator for other electric systems and how TVA proposes to provide such service to the Companies.
- The testimony of Bruce A. Rew, Executive Director of Contract Services, Southwest Power Pool, will provide information on the capabilities of SPP to perform the functions of an ITO for the Companies.

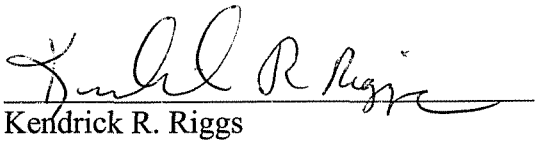
WHEREFORE, Louisville Gas and Electric Company and Kentucky Utilities Company respectfully request that the Commission issue an order by June 30, 2006:

1. Either, (1) pursuant to KRS 278.218, approving the Companies' contracts with the Tennessee Valley Authority and the Southwest Power Pool to act as the Companies' reliability coordinator and Independent Transmission Organization, respectively, or (2) determining that the Companies need not obtain such approval under KRS 278.218; and

2. Resolving the ratemaking treatment of the exit fee on the basis of the Stipulation reached in this proceeding between the Companies, AG), and KIUC, which Stipulation the Companies, AG, and KIUC filed in this proceeding by letter dated June 2, 2006, and which establishes a rate treatment for the MISO exit fee.

Dated: June 14, 2006

Respectfully submitted,



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

Elizabeth L. Cocanougher
Senior Regulatory Counsel
E.ON U.S. LLC
220 West Main Street
Post Office Box 32010
Louisville, Kentucky 40232
Telephone: (502) 627-4850

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

CERTIFICATE OF SERVICE

The undersigned hereby certifies that an original and ten copies of this Amended Application was hand delivered on the 14th day of June 2006 to Elizabeth O'Donnell, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601, and that a copy of this motion was mailed to:

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Elizabeth E. Blackford
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Office
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Katherine K. Yunker
Katherine S. Sanford
Yunker & Associates
Post Office Box 21784
Lexington, Kentucky 40522-1784

Stephen G. Kozey
Midwest Independent Transmission
System Operator, Inc.
701 City Center Drive
Carmel, Indiana 46032

Stephen L. Teichler
Duane Morris, LLP
1667 K Street, N.W., Suite 700
Washington, DC 20006-1608

Counsel for Louisville Gas and Electric
Company and Kentucky Utilities Company

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO TRANSFER FUNCTIONAL CONTROL OF THEIR TRANSMISSION SYSTEM	)))))	**CASE NO: 2005-00471**

DIRECT TESTIMONY OF KENT W. BLAKE DIRECTOR OF STATE REGULATIONS AND RATES E.ON U.S. SERVICES, INC.

Filed: June 14, 2006

Q. Please state your name, business address and position.

A. My name is Kent W. Blake. My business address is 220 West Main Street, Louisville, Kentucky 40202. I am Director of State Regulation and Rates for E.ON U.S. Services, Inc., on behalf of Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) (collectively "LG&E/KU" or "the Companies").

Q. Have you previously testified before the Commission?

A. Yes. I have previously testified before this Commission in multiple proceedings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain why the Companies believe it is not clear that KRS 278.218 applies to the Companies' contracts with the Tennessee Valley Authority (TVA) for reliability coordination services and with the Southwest Power Pool, Inc. (SPP) for Independent Transmission Organization (ITO) services. I will also discuss why the Commission should approve the Stipulation between the Companies, the Kentucky Office of the Attorney General (AG), and the Kentucky Industrial Utilities Customers, Inc. (KIUC), which clarifies, in light of the TVA and SPP contracts which generally provide for replacement services which have previously been referred to as "Day 1" services, the rate treatment for the exit fee the Companies will incur when they withdraw from membership in the Midwest Independent Transmission System Operator, Inc. (MISO)

Q. Do the Companies seek to challenge the Commission's jurisdiction over the Reliability Coordinator and ITO Agreements between the Companies and TVA and SPP, respectively?

A. No. The Companies unambiguously do not wish to challenge the Commission's assertion of jurisdiction over the Reliability Coordinator and ITO Agreements should the Commission determine that KRS 278.218 is applicable to the facts of this case and choose to assert it. Nonetheless, because the Commission has not exercised its authority over the approval of these kinds of contracts in the past, the Companies believe it is unclear whether the statute applies to contracting for reliability coordination and ITO services and would like to make the Commission aware of reasons why the Commission might not assert jurisdiction over such contracts. In the event the Commission decided not to assert jurisdiction under KRS 278.218, it would certainly maintain rights to review these contracts at any time under the broad powers provided to the Commission under KRS 278.030.

Q. Does clear precedent or the language of KRS 278.218 clearly indicate whether the statute should apply to the Companies' contracts with TVA and SPP for reliability coordination and ITO services, respectively?

A. No. Certainly the Commission has used its authority under KRS 278.218 to exercise jurisdiction over a utility's decision to become a member of a Regional Transmission Organization (RTO)[1] and to exercise jurisdiction over a utility's withdrawal from RTO membership.[2] But the Companies are unaware of any instance in which, under the authority of KRS 278.218 or any other statute, the Commission has asserted jurisdiction over a utility's choosing a reliability coordinator or ITO-like service provider. For example, we have searched but cannot find any Commission orders approving the current

[1] *See, e.g., In the Matter of: Application of Kentucky Power Company d/b/a American Electric Power for Approval, to the Extent Necessary, to Transfer Functional Control of Transmission Facilities Located in Kentucky to PJM Interconnection, L.L.C. Pursuant to KRS 278.218,* Case No. 2002-00475, Order at 4 (8/25/2003).

[2] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator*, Case No. 2003-00266, Order (May 31, 2006).

arrangements whereby certain other Kentucky utilities have contracted with TVA for reliability coordination services. Thus, this appears to be a case of first impression.

On its face, KRS 278.218 does not appear to resolve the issue. The statute provides the Commission jurisdiction over the Companies' contracts with TVA and SPP if the contracts constitute a "transfer [of] . . . control or the right to control" any of the Companies' jurisdictional assets. But because "control" is not a defined term in KRS Chapter 278 and the Commission has not interpreted "control" to apply to service contracts such as are involved in this case to our knowledge and belief, we do not have sufficient clarity to conclude that the Commission's approval is necessarily required.

Q. Is there any precedent that provides at least some indication whether the Companies' TVA and SPP contracts constitute a transfer of "control" that would bring the contracts under KRS 278.218?

Yes. Though there is no precedent directly on point, the Commission's May 31, 2006 Order in Case No. 2003-00266 ("May 31 Order") provides some guidance as to what constitutes "control" for KRS Chapter 278 purposes, which guidance suggests that KRS 278.218 should not apply to the Companies' contracts with TVA and SPP.[3] In the May 31 Order, the Commission discussed and construed KRS 278.020(5), which contains the same "control or the right to control" language as does KRS 278.218(1).[4] The Commission highlighted several consequences of the Companies' membership in the Midwest Independent Transmission System Operator, Inc. (MISO) as indicia that the Companies had effectively transferred "control" to MISO; importantly, though, none of these consequences will occur under the Companies' TVA-SPP proposal.

[3] *Id.* at 3-8.
[4] *Id.*

First, in the May 31 Order the Commission noted that the Companies have transferred to MISO the function of operating the Companies' transmission facilities, and that MISO "now controls those facilities and uses them to transmit electric energy in interstate commerce."[5] The Companies do not dispute these facts with respect to transmission assets of 100kV or greater under its current arrangements with MISO. However, under the proposed arrangement with TVA as reliability coordinator and SPP as ITO, the Companies will regain operational control of their transmission facilities and use them to transmit electric energy to both retail customers under its existing retail tariffs and in interstate commerce subject to the Companies' own Open-Access Transmission Tariff (OATT). For example, the Companies will define and perform all work associated with the maintenance of its transmission assets and will simply coordinate with TVA as to the timing in order to ensure grid reliability. In addition, SPP will review our transmission plans and can recommend other projects; however, the Company is not obligated to build any projects recommended by SPP. The Companies are simply outsourcing certain functions with regard to the transmission assets it controls in order to provide the appropriate level of independence required by FERC regulations.

Second, the May 31 Order stated that the Companies transferred operational control of their transmission assets to MISO, and, "[u]pon transfer, LG&E and KU ceased operating their transmission assets for the principal benefit of their native load customers, and MISO commenced operating those assets for the benefit of its Midwest transmission operations."[6] As Mark Johnson's testimony filed in this proceeding details, the Companies will not relinquish operational control of their transmission assets to TVA

[5] May 31 Order at 6.
[6] May 31 Order at 7.

or SPP. Rather, the Companies will regain operational control upon exiting MISO and operate those assets for the principal benefit of their retail customers. Neither TVA nor SPP will have the authority to operate the Companies' transmission assets for the principal benefit of any other region. Though it is true that TVA may direct the Companies to take certain actions with their transmission and generation assets to preserve reliability,[7] it is precisely this lesser amount of control that differentiates reliability coordination from MISO's Day 2 market; indeed, TVA will help ensure that the Companies' transmission assets remain reliable for the benefit of the Companies' customers.

Third, the Commission listed several points that indicated to it that the Companies' transfer of operational control of their transmission assets to MISO was "very significant":

- "[T]ransforms aspects of what is presently retail service into wholesale transactions."[8]
- "[S]ever[s] the historic connection between their respective generation and the electric service provided to retail customers."[9]
- "[G]eneration used to serve native load customers must now be scheduled or bid through the MISO energy market at wholesale rates that are not subject to the Commission's jurisdiction. . . . [W]hat had historically been a purely retail sale of power subject to our jurisdiction has been transformed into a wholesale sale of power that is beyond the scope of our jurisdiction."[10]

[7] *See* RC Agreement § 1.5.
[8] *Id.* at 7-8.
[9] *Id.* at 8.
[10] *Id.*

These points relate largely to the "Day 2" energy market in which the Companies were required to participate as members of MISO. However, under the proposed arrangements with SPP and TVA, the Companies are not "joining" either of these entities as members and will not be required to participate in any energy market that may be developed by either of these entities. Instead, the Agreements are strictly fee-for-service contracts under which TVA primarily will provide a wide-area view of the surrounding transmission grid to ensure the stable and reliable functioning of the Companies' transmission system, and under which SPP primarily will provide impartial administration of the Companies' OATT and Open Access Same-time Information System (OASIS). No part of the Agreements severs the connection between the Companies' generation and their customers; no part converts formerly retail transactions to wholesale transactions; the Commission's jurisdiction will remain intact and undiminished. Because there appears to be no significant way in which the Companies' contracts with TVA and SPP transfer control of, or the right to control, any utility assets to TVA or SPP, the Companies respectfully submit that KRS 278.218 ought not apply to the Reliability Coordinator and ITO Agreements.

Q. If the Commission concludes it does have jurisdiction to require the Companies to obtain approval under KRS 278.218, what is the position of the Companies?

A. If the Commission concludes it does have jurisdiction to require the Companies to obtain approval under KRS 278.218, then the Companies request the Commission to grant them the authority to enter into the contracts. KRS 278.218(2) states, "The commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest." The TVA-SPP proposal is for a proper purpose: the reliable functioning

of, and the independent administration of open access to, the Companies' transmission facilities, as required by, and in accordance with, NERC guidelines and FERC regulations and policies. Furthermore, the TVA-SPP proposal is consistent with the public interest: compliance with NERC and FERC policies that result in the well-functioning and reliable performance of the Companies' transmission assets, including the ability for the Companies to make off-system sales through independently and impartially administered transmission assets, is in the public interest. The Companies therefore believe the Commission should approve the TVA and SPP Agreements under KRS 278.218, if the Commission determines to exercise its jurisdiction thereunder.

STIPULATION

Q. Have the Companies, the AG, and the KIUC entered into a Stipulation which provides for the rate treatment for the exit fee the Companies will incur when they withdraw from membership in the MISO?

A. Yes. After extensive negotiations between the Companies, the AG and the KIUC, the parties were able to reach an agreement on the contents of the Stipulation. The Stipulation was filed with the Commission in this proceeding on June 2, 2006. In the Stipulation, the parties submit three recommendations to the Commission:

(1) approval of the transfer of the functional control of the Companies' facilities from MISO to the Companies, for the purpose of affecting the withdrawal of their membership from MISO and to Tennessee Valley Authority ("TVA") to the extent necessary for TVA to act as the Companies' Reliability Coordinator and to the Southwest Power Pool, Inc. ("SPP") to the extent necessary for SPP to perform its function as the Companies' Independent Transmission Organization; and, provided the Companies complete their exit from MISO membership;

(2) the favorable disposition of this case by June 30, 2006 without a hearing; and

(3) the ratemaking treatment of the MISO exit fee.

Q. Please describe the details of the proposed ratemaking treatment of the MISO exit fee.

A. The Stipulation recommends the Commission issue an order which:

a. allows LG&E and KU to establish Regulatory Assets equal to the total amount of the MISO Exit Fee but not to exceed $41 million, allocated between LG&E and KU on the same basis as expenses under MISO Schedules 10, 16 and 17;

b. determines that LG&E and KU prudently incurred the Exit Fee;

c. approves the establishment of Regulatory Liability Accounts for LG&E and KU, not to exceed the MISO Exit Fee, for the amounts by which annual costs incurred by the LG&E and KU for services provided by TVA as Reliability Coordinator and SPP as Independent Transmission Operator are less than the amounts included in the test period for LG&E in Case No. 2003-00433 ($3.3 million) and KU in Case No. 2003-00434 ($3.1 million[11]) during the period of time between the date when the Companies complete their exit from MISO and stop incurring MISO Schedule 10 expenses and the end of the test period which is the subject of the next electric base rate cases filed by LG&E and KU;

d. approves the establishment of five-year amortization periods for the recovery of the balances in the Regulatory Liability and Asset accounts at the time of LG&E's or KU's next electric base rate case; and

e. acknowledges that LG&E and KU may include, via a pro-forma adjustment to test period Net Operating Income in their next electric base rate cases, the amount of

[11] Though this is the amount set out in the Stipulation, it is erroneous, as I discuss below.

the annual amortization of the Regulatory Asset or Liability accounts based on the five-year amortization schedule; and

f. acknowledges that LG&E and KU will remove, via a pro-forma adjustment to test period Net Operating Income in their next electric base rate cases, any non-recurring expenses or revenues related to the Companies having been a member of MISO during any portion of the test periods except as noted above.

Q. Does the Stipulation provide a reasonable treatment of the Exit Fee?

A. Yes. The Stipulation's proposal recognizes the costs the Companies will incur in connection with their services agreements with TVA and SPP once LG&E and KU exit MISO by applying those costs against the costs for similar, but more expensive, MISO Day 1 services currently included in base rates. This approach creates an ongoing incremental reduction in the total amount of the Exit Fee the Companies will seek to recover in their next rate cases. Thus, the Companies' exit from MISO will create no immediate rate impact on customers, will reduce the amount the Companies will later seek to recover due to the Exit Fee, and will allow the Companies current recovery of like-kind services from TVA and SPP. This arrangement strikes a fair balance between the costs the Companies will incur and the costs the Companies will no longer incur, but are already included in base rates.

Q. Do any corrections need to be made to the Stipulation concerning the Exit Fee?

A. Yes. Paragraph 2(d) of the Stipulation states that KU's test year for its last base rate case, Case No. 2003-00434, contained $3.1 million in MISO Schedule 10 expenses. This inadvertently understates the amount for KU. The $3.1 million figure does not take into account approximately $800,000 in non-recurring MISO Schedule 10 credits KU

received that year which was an approved pro-forma adjustment in Case No. 2003-00434. The correct amount, therefore, is $3.9 million (taking into account the Commission-approved $800,000 pro forma adjustment).[12] The correction of this amount actually benefits the Companies' customers, since, under the Stipulation, the Exit Fee will be offset by the amount of MISO Schedule 10 expenses embedded in the test year on which base rates were set, less the cost of the TVA-SPP proposal; thus, the larger the amount of MISO Schedule 10 expenses in the test year, the larger the offset.

Q. The Commission's May 31, 2006 Order in the Commission's investigation into the Companies' MISO membership, Case No. 2003-00266, also contained MISO Schedule 10 figures for the Companies. Are the amounts set out in the Order correct?

A. They are the correct actual amounts the Companies expended in the test year, but they are not the amounts embedded in the test year on which base rates were set. Footnote 19 on page 24 of the Companies' May 31, 2006 Order states:

> The MISO Schedule 10 costs included in base rate are $2,632,369 for LG&E and $3,587,785 for KU. See Case No. 2003-00433, LG&E Response to PSC-2, Item 16(j)(1) and Case No. 2003-00434, KU Response to PSC-2, Item 16(j)(1).

However, once those actual amounts are jurisdictionalized and adjusted for non-recurring MISO Schedule 10 credits, the amounts embedded in base rates are $3.3 million for LG&E[13] and $3.9 million for KU.[14] As I noted in my previous answer, these corrections actually benefit the Companies' customers.

---

[12] *See In the Matter of: An Adjustment of the Electric Rates of Kentucky Utilities Company*, Case No. 2003-00434, Order at Appendix F, Item 15 (June 30, 2004).

[13] *In the Matter of: An Adjustment of the Gas and Electric Rates of Louisville Gas and Electric Company*, Case No. 2003-00433, Testimony of Michael S. Beer at 13 (December 29, 2003). *See also In the Matter of: An Adjustment of the Gas and Electric Rates of Louisville Gas and Electric Company*, Case No. 2003-00433, Order at Appendix F, Item 14 (June 30, 2004).

Q. Does this conclude your testimony?

A. Yes, it does.

[14] *In the Matter of: An Adjustment of the Electric Rates of Kentucky Utilities Company*, Case No. 2003-00434, Testimony of Michael S. Beer at 10 (December 29, 2003). *See also In the Matter of: An Adjustment of the Electric Rates of Kentucky Utilities Company*, Case No. 2003-00434, Order at Appendix F, Item 15 (June 30, 2004).

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says that he is the Director of State Regulations and Rates for E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W. Blake

KENT W. BLAKE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of June 2006.

Notary Public (SEAL)

My Commission Expires:
August 31, 2007

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO TRANSFER FUNCTIONAL CONTROL OF THEIR TRANSMISSION SYSTEM	)))))	**CASE NO: 2005-00471**

DIRECT TESTIMONY OF MARTYN GALLUS SENIOR VICE PRESIDENT, ENERGY MARKETING E.ON U.S. SERVICES, INC.

Filed: June 14, 2006

Q. Please state your name, position and business address.

A. My name is Martyn Gallus. I am the Senior Vice President of Energy Marketing for E.ON U.S. Services, Inc., on behalf of Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) (collectively "the Companies"). My business address is 220 West Main Street, P.O. Box 32020, Louisville, Kentucky 40202.

Q. Have you previously testified before the Commission?

A. Yes. I previously testified in the Commission's investigation into the Companies' membership in the Midwest Independent Transmission System Operator, Inc. (MISO) (Case No. 2003-00266).[1]

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to update the Commission on the Companies' recent market-based rates filings with the Federal Energy Regulatory Commission (FERC) and assure the Commission that the Companies are deeply aware how important that authority is to the Companies' financial vibrancy and to the maintenance of low-cost electricity for their customers. Also, if the Commission determines it will indeed exercise jurisdiction to approve the Companies' Reliability Coordinator and Independent Transmission Organization (ITO) Agreements with the Tennessee Valley Authority (TVA) and the Southwest Power Pool, Inc. (SPP), I propose that the Commission may want to consider issuing a final order in this proceeding conditioned upon the receipt of a statement from the Companies that the scope of any FERC-approved market-based rate authority for the Companies to be effective upon exit from MISO will not result in a material diminution

[1] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator*, Case No. 2003-00266.

of the market-based rate authority the Companies already possess or that which the Companies proposed in their May 24, 2006 FERC filing.[2]

Q. What is the current status of the Companies' market-based rate authority?

A. The Companies currently have market-based rate authority for all control areas into which they sell capacity and energy, including their own, with the exception of the Big Rivers Electric Cooperative (BREC) control area where the Companies failed FERC's wholesale generation market share screens for the BREC control area.[3] The Companies have argued that in the BREC control area, the generation that their affiliate Western Kentucky Energy (WKE) leases and operates is used to serve the requirements load of wholesale customers within the BREC control area pursuant to existing contracts and that there has been little excess generation available after consideration of WKE's contractual commitment to serve customers in the control area. Nonetheless, on March 8, 2006, in response to a FERC order directing them to do so, the Companies made a filing with FERC containing revised market-based rate tariff sheets, under which the Companies proposed to mitigate their alleged market power in the BREC control area by capping sales of (i) energy or (ii) capacity and associated energy that have a point of sink in the BREC control area at the MISO locational marginal price (LMP) established for the BREC control area interface with MISO.[4] The Companies stated that they interpreted such mitigation as applying only to sales by the Companies to a buyer located in and

---

[2] *LG&E Energy Marketing, Inc., et al.*, Docket No. ER06-1046-000.

[3] *See, e.g., LG&E Energy Marketing, Inc., et al.*, Docket Nos. EL05-99-000 *et al.*, Order on Updated Market Power Analysis, Instituting Section 206 Proceeding and Establishing Refund Effective Date (March 5, 2005). In this proceeding, the Companies, along with LG&E Energy Marketing (LEM), WKE Station Two, Inc. (WKE Two), and Western Kentucky Energy Corp. (WKEC) are jointly considered and mitigation based on analysis of one entity applies equally to them all.

[4] *LG&E Energy Marketing, Inc., et al.*, Docket Nos. EL05-99-000 *et al.*, Filing in Compliance with February 15, 2006 Letter Order (March 8, 2006) ("Letter Order").

expected to use the energy within the BREC control area, or where the Companies otherwise know that the energy sinks in the BREC control area.

To date, FERC has not issued an order on the Companies' March 8, 2006 compliance filing.

Q. What actions have the Companies taken with respect to the market-based rate authority they will have after they exit MISO?

A. On January 30, 2006, in response to a FERC order dated December 1, 2005, the Companies filed with FERC an updated market power analysis indicating that they would not pass the relevant generation market share screens for the LG&E/KU and BREC control areas.[5] The Companies offered to mitigate their alleged future market power in the LG&E/KU and BREC control areas. FERC has not yet issued an order concerning this proposed mitigation plan.

In an effort to clarify and accelerate the resolution of the market-based rate authority issues before FERC, on May 24, 2006 the Companies submitted to FERC (in a new docket) a new set of proposed market-based rate tariffs to become effective when the Companies exit MISO.[6] If approved, these tariffs would resolve all of the outstanding market-based rate authority issues discussed above. Under the May 24, 2006 proposed tariffs, the Companies would retain market-based rate authority for all wholesale transactions except those in the LG&E/KU and BREC control areas. The filing specifies that sales at the interfaces of the LG&E/KU and BREC control areas into control areas in which the Companies are not presumed to have market power would be authorized at

[5] *LG&E Energy Marketing, Inc., et al.*, Docket Nos. EL05-99-000 *et al.*, Filing in Compliance with December 1, 2005 Order (January 30, 2006).
[6] *LG&E Energy Marketing, Inc., et al.*, Docket No. ER06-1046-000.

market-based rates;[7] for example, sales at the LG&E/KU-MISO interface would be authorized at market-based rates. Again, if approved, these tariffs would be effective from the effective date of the Companies' exit from MISO and would resolve all outstanding market-based rate authority issues. The Companies stated that any sales in the LG&E/KU and BREC control areas would be made at cost-based rates, or pursuant to a mitigation plan filed with FERC.

Because the Companies seek to exit MISO effective September 1, 2006, they have requested expedited treatment for their May 24, 2006 filing, and specifically have asked FERC to issue a final order thereon by July 6, 2006.

Q. Is the Companies' market-based rate authority a matter of concern to the Companies?

A. Yes. The Companies' market-based rate authority directly impacts the Companies' off-system sales margins. As the Commission is aware, the Companies and their customers have traditionally benefited financially through lower base rates due to the Companies' ability to make margins from off-system sales at times when generation beyond that required to serve native load is available. This creates a strong incentive for the Companies to earn at least a comparable level of off-system sales margins to maintain their opportunity to earn a reasonable return. Thus, I can assure the Commission that the Companies will prudently protect their market-based rate authority for the benefit of the Companies and their customers.

Q. Does this conclude your testimony?

A. Yes, it does.

[7] Such interfaces are defined in the proposed tariffs not to be points in the LG&E/KU and BREC control areas.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO TRANSFER FUNCTIONAL CONTROL OF THEIR TRANSMISSION SYSTEM	)))))	CASE NO: 2005-00471

DIRECT TESTIMONY OF MARK S. JOHNSON DIRECTOR, TRANSMISSION E.ON U.S. SERVICES INC.

Filed: June 14, 2006

Q. Please state your name and business address.

A. My name is Mark S. Johnson. I am currently employed as Director, Transmission for E.ON U.S. Services, Inc., on behalf of Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) (collectively, the "Companies"), the applicants in this proceeding. My business address is 220 West Main Street, Louisville, Kentucky 40202.

Q. Can you expand upon your current employment duties?

A. I am responsible for the oversight of functions related to transmission reliability, planning and expansion for LG&E and KU. I oversee the development and analysis of base cases for the Companies' footprint used today by the Midwest Independent Transmission System Operator, Inc. (MISO) in power flow analyses and electricity models, stability analyses, Available Transfer Capability (ATC) calculations, and reliability criteria compliance. My responsibilities also include oversight review of studies and analyses for transmission service and generation interconnection requests in coordination with MISO as required. Also, I actively participated in the process for choosing the Companies' Independent Transmission Organization (ITO) and Reliability Coordinator (RC).

I am also directly involved in, and was closely involved in the organization and formation of, Reliablity*First* Council, the larger successor to three regional reliability councils: East Central Area Reliability Council, Midwest Reliability Organization, and Mid-America Interconnected Network, Inc. Reliability*First* began operations on January 1, 2006. Reliability*First*'s goal is to preserve and enhance electric service reliability and security for the interconnected electric systems within its region.

I have also been involved with NERC's efforts to implement the provision in the *Energy Policy Act of 2005* concerning the authorization of a self-regulatory Electric

Reliability Organization (ERO) and to gain recognition as the ERO. NERC filed its application to become the ERO on April 4, 2006.[1]

Q. Have you previously testified before this Commission?

A. Yes. I have testified in the Commission's investigation into the continuation of the Companies' membership in the Midwest Independent Transmission System Operator, Inc. (Case No. 2003-00266),[2] and in numerous cases involving the public convenience and necessity for transmission lines.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is twofold. First, I will explain the fundamental characteristics and functions of an RC and ITO as set out in the Companies' contracts with the Tennessee Valley Authority (TVA) and Southwest Power Pool, Inc. (SPP), for RC and ITO services, respectively. Second, because I have been closely involved in the Companies' MISO exit proceedings before the Federal Energy Regulatory Commission (FERC), I will briefly describe the status thereof.

Overview of Independent Transmission Organization and Reliability Coordinator

Q. Please briefly explain what a Reliability Coordinator (RC) will do to manage reliability functions for the Companies' transmission system.

A The RC will perform reliability coordination services consistent with North American Electric Reliability Council (NERC) guidelines, have authority to approve or deny maintenance schedules for the Companies' systems, and to recommend transmission system expansions and upgrades.

---

[1] *North American Electric Reliability Council et al.*, Docket No. RR06-1-000, Request of the North American Elec. Reliability Council and North American Elec. Reliability Corp. for Certification as the Electric Reliability Org. (April 4, 2006).

[2] *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator*, Case No. 2003-00266.

Q. Please summarize the functions an Independent Transmission Organization (ITO) will perform.

A. The ITO will conduct all transmission scheduling (including calculation of available transmission capacity and awarding of transmission service to customers), administer the Companies' Open Access Transmission Tariff (OATT) and Open Access Same-time Information System (OASIS), control generation interconnection determinations, and perform regional transmission planning and approval functions, among others. Representatives of TVA and SPP are also submitting testimony in this proceeding to describe their organizations' capabilities relevant to performing their functions as the Companies' RC and ITO, respectively.

Q. Is the ITO a good fit for a vertically integrated utility like LG&E or KU?

A. Yes. An ITO provides a mechanism for retaining the benefits of the vertically integrated utility model (rate stability and least-cost integrated planning of generation and transmission investments) while also providing the market with the benefits of open access wholesale competition (and the assurance to market participants that transmission will be run by an independent party). It allows low-cost vertically integrated utilities to continue the planning and operating activities that have made them low-cost; it provides the non-discriminatory transmission access that is mandated by FERC and essential to wholesale competition; and it keeps the costs of transmission and coordination services low.

Q. What are some of the specific functions of the ITO?

A. The ITO agreement provides that SPP will administer the terms and conditions of the Companies' FERC-approved OATT. (An electronic copy of the ITO Agreement

accompanies this filing on the compact disc entitled, "Third Amended Application Exhibit 1.") The ITO will have the authority and obligation to administer the Companies' OASIS, including the responsibility to update and post information to ensure compliance with all FERC OASIS-related regulations.

SPP as the ITO also will evaluate all transmission service requests, including requests for network service and existing point-to-point service agreements. The ITO will maintain all of the appropriate documentation associated with transmission determinations. As with all other functions managed by the ITO, transmission requests must be evaluated on a non-discriminatory basis. In addition, the ITO will be the clearinghouse for transmission customers' questions regarding transmission and scheduling. The ITO will act as the scheduling coordinator for all transmission transactions into, out of, or through the Companies' transmission system.

The ITO will also conduct all System Impact Studies (SIS) and Facilities Studies as may be required under the OATT when transmission service is requested. The ITO has the option of coordinating with the Companies or Reliability Coordinator personnel to the extent that it wishes assistance in performing such studies. The Companies have the right to review and provide comment on studies, but the ITO has ultimate authority to determine the impact of service requests on the system and required upgrades. The ITO will calculate ATC and Total Transfer Capability in accordance with the FERC-approved OATT. ATC will be calculated on a control area basis for the Companies' control area interfaces.

With regard to generator interconnection, the ITO will process all requests by generators and will perform such studies as warranted by the OATT and the

interconnection standards contained therein. This authority includes the ability to manage the interconnection queue and establish a system model to evaluate requests for interconnection.

Q. Please describe the Companies' RFP process to choose an ITO and RC.

A. On August 10, 2005 the Companies' issued an RFP for the Reliability Coordinator position to MISO, TVA, SPP and PJM. (An electronic copy of the RC RFP accompanies this filing on the compact disc entitled, "Third Amended Application Exhibit 1.") The Responses to the RFP were due on August 24, 2005. There were only two respondents to the RFP. MISO did not respond.

The Companies' ITO RFP was distributed on August 22, 2005. As with the RFP for the RC, the Companies issued the RFP to a number of potential entities that could provide the needed services: SPP, PJM, MISO, New York ISO, ISO New England, ERCOT, and the California ISO. Responses to the ITO RFP were due on September 8, 2005. (An electronic copy of the ITO RFP accompanies this filing on the compact disc entitled, "Third Amended Application Exhibit 1.") SPP was the only respondent.

SELECTION OF TVA AS RC

Q. What were the reasons the Companies selected TVA to be the Reliability Coordinator for their systems?

A. TVA already acts as the Reliability Coordinator for the Big Rivers Electric Corporation (BREC) and East Kentucky Power Cooperative, Inc. (EKPC), systems that adjoin the Companies' system. Once TVA becomes the RC for the Companies' system, TVA will manage a Reliability Area that encompasses most of Kentucky. TVA's expertise with the

BREC and EKPC systems, and the region generally, was seen as a substantial benefit that certainly influenced the Companies' decision to engage TVA as its Reliability Coordinator.

Also, TVA has in place an operational seams agreement with MISO and the Pennsylvania-Jersey-Maryland RTO (PJM), which agreement is called a Joint Reliability Coordination Agreement (JRCA). This is an important benefit: were the Companies to obtain reliability coordination services from an entity not a party to the JRCA, the Companies would have to develop individualized seams agreements with each adjacent control area. Although any of the three NERC-certified Reliability Coordinators who are parties to the JRCA could fold the Companies into the market to non-market seams arrangement set forth in the JRCA, TVA was the only one of the three to respond to the Companies' RC RFP.

In addition to demonstrating a core competency and a contractual arrangement to handle reliability coordination issues in the region, TVA meets all of the criteria regarding independent operation, and met all of the numerous other requirements outlined in the RFP.

Moreover, of the two responses received by the Companies to their RFP for RC services, TVA's proposal was the most reasonable, least cost-alternative to the current MISO membership. Under the Reliability Coordinator Agreement, the Companies will compensate TVA as follows: $1.3 million for Contract Year 1; $1.4 million for Contract Year 2; $1.5 million for Contract Year 3; and $1.6 million for Contract Year 4. (An electronic copy of the Reliability Coordinator Agreement accompanies this filing on the compact disc entitled, "Third Amended Application Exhibit 1.") In addition to being

lowest cost respondent, TVA has substantial operational experience in the power industry.

In sum, the Companies chose TVA as their reliability coordinator through an RFP process and are confident that TVA will be an excellent Reliability Coordinator. TVA currently provides reliability coordination service for public power customers in Kentucky with widely dispersed loads throughout the Companies' service territory. TVA is well suited to provide such service to the Companies.

Q. Is contracting for reliability coordination services typical in the electric utility industry?

A. Yes. Reliability Coordination services have been contracted out by public utilities for many years and continue to be obtained through contract. The Companies can enter into a contract with one of several NERC-certified Reliability Coordinators in proximity to the Companies' control area. The reliability of the transmission system will be maintained and the costs of doing so can be kept to a minimum. Prior to joining MISO, the Companies contracted with American Electric Power to provide reliability coordination services for many years.

SELECTION OF SPP AS THE ITO

Q. What factors led the Companies to select SPP as their ITO?

A. The Companies selected SPP as their ITO using essentially the same factors as the Companies used to select a Reliability Coordinator. Namely, the Companies wanted to ensure that the ITO can: (i) competently perform the functions required of it, as described in the RFP; (ii) meet all other requirements listed in the RFP, especially those related to

their independence from other market participants; and (iii) provide substantial value to the Companies' customers through a competitive rate for the service it provides. Under the ITO Agreement, the Companies will pay SPP $3.3 million per year for the first four years.

Although SPP was the only entity to respond to the ITO RFP, the Companies believe it is clear that SPP is competent to perform the duties required of the ITO, willing to perform all of those duties, and sees provision of these unbundled services as mutually beneficial for the Companies and SPP's existing membership. SPP already has in place the personnel and infrastructure needed to perform the transmission function duties and, most importantly, has substantial experience in transmission operations. Moreover, SPP will also act as the Independent Coordinator of Transmission (ICT) for another utility, Entergy, providing reliability coordination, transmission service evaluation and approvals, a weekly procurement process, and transmission planning activities, including a stakeholder process. As ICT, SPP is also scheduled to begin transmission service processing for Entergy in the fall of 2006. Thus, SPP is well qualified to serve as the Companies' ITO.

Q. Are the proposed agreements with TVA and SPP for a proper purpose and consistent with the public interest?

A. Yes, in my opinion, the agreements are clearly for a proper purpose and are consistent with the public interest. Collectively, they will allow the Companies to satisfy FERC's regulation of the operation of the transmission system and provide a reasonable and reliable method of operating the transmission system at a reasonable cost.

Q. Will the execution and performance of the Reliability Coordinator and ITO Agreements constitute a transfer of control of the Companies' utility assets, such as their transmission system, to TVA or SPP?

A. No. Under the Reliability Coordinator and ITO Agreements, the Companies will retain ownership of all their utility assets, as well as the right to operate and maintain those assets. The Agreements facilitate the Companies' ability to perform their utility functions and responsibilities under NERC and FERC policies, and facilitate the Companies' ability to provide FERC mandated nondiscriminatory access to the transmission systems, but functional and operational control of all the Companies' utility assets will remain with the Companies. Moreover, nothing in the Agreements, which are fee-for-service contracts, creates an RTO membership-like arrangement between the Companies and TVA or SPP.

Status of FERC Proceedings Concerning Companies' Exit from MISO

Q. What is the current status of the Companies' proceedings before FERC to exit MISO?

A. On March 17, 2006, FERC issued an order conditionally approving the Companies' exit from MISO in favor of the Reliability Coordinator and ITO proposal.[3] On April 11, 2006, the Companies filed the compliance filing required by the March 17, 2006 FERC order. The Companies have requested that FERC issue an order on their compliance filing and on intervenors' rehearing requests by July 7, 2006.

Q. What is the Companies' preferred timeline for completing MISO exit and beginning TVA's and SPP's services?

[3] *Louisville Gas and Electric Company, et al.*, Docket Nos. EC06-4-000 *et al.*, Order (March 17, 2006).

A. Because MISO's modeling is quite complex, MISO must know whether the Companies will exit well in advance of the effective date of exit; currently the earliest date that the Companies may effectively exit MISO is September 1, 2006. A September 1 exit will not be possible, however, if the Companies do not receive all the requisite regulatory approvals, including this Commission's approval of the TVA and SPP contracts (or a determination not to exercise jurisdiction over those contracts), by July 7, 2006. The next feasible effective exit date is December 1, 2006. Thus, the Companies respectfully request that the Commission grant the relief the Companies have requested in this proceeding by June 30, 2006.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

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

The undersigned, **Mark S. Johnson**, being duly sworn, deposes and says that he is Director, Transmission for LG&E Energy LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

MARK S. JOHNSON

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of June, 2006.

(SEAL)
Notary Public

My Commission Expires:
August 31, 2007

Q: Please state your name, business address, and current position.

A: My name is Stuart L. Goza. My business address is 1101 Market Street, PCC 2A, Chattanooga, Tennessee 37402-2801. I am employed by the Tennessee Valley Authority (TVA) in the position of Manager, Reliability Coordination Services.

Q: What is your educational and work experience background?

A: I am a registered Professional Engineer in the State of Tennessee. I received a Bachelor of Science degree in Engineering (Electrical Power option) from the University of Tennessee at Chattanooga in 1982. I also received a Master degree in Business Administration from the University of Tennessee at Chattanooga in 2000. I have over twenty-three years of work experience in the electric utility industry. I worked for fourteen years at Tampa Electric Company in Tampa, Florida, in various engineering and management positions in the areas of transmission planning, control area operations, generation planning, and power marketing. I began employment with TVA in 1997. At TVA I have worked in power marketing, control area operations, and reliability coordination. I currently have supervisory responsibility over two 7 x 24 real time operating desks.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide background regarding TVA, how TVA serves as a reliability coordinator for other electric systems (including other systems in Kentucky), and how TVA proposes to provide such services to Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU)(collectively, the Companies).

Q: Please summarize your testimony.

A. As discussed herein, TVA has the requisite experience to provide services to the Companies. Indeed, TVA provides similar services for entities in Kentucky today. Furthermore, based on the location of the Companies' loads, and certain operating conditions described herein, TVA is the logical entity to act as reliability coordinator for the Companies. The Companies' loads are dispersed within TVA's Kentucky reliability area already, and operations and planning will be facilitated if TVA acts as reliability coordinator for them.

Q: Please provide a brief description of TVA generally.

A: TVA is a corporate agency and instrumentality of the United States government created in 1933 by an act of Congress and charged with providing navigation, flood

control, and agricultural and industrial development, while providing electric power to the Tennessee Valley region.

TVA is the largest public power company in the United States and operates one of the largest electric power systems in North America. TVA is completely self-financing, and meets the needs of its power and non-power operations through internally generated cash flows. TVA raises capital for its power program primarily through public market financings. Other "quick facts" regarding TVA are as follows.

- Nation's largest public power system
- $7.8 billion total revenues
- 160 billion kWh total 2005 system generation
- 171 billion kWh total 2005 power sales
- 33,981 MW power system capacity (net winter dependable)
- 158 power distributors, 61 directly-served industries and government agencies
- 99.999 percent transmission system reliability
- 17,000 miles of transmission lines
- 80,000 square-mile service area, covering parts of seven states
- Steward of the nation's fifth-largest river system
- 800 miles of commercially navigable waterways
- 49 dams for integrated river management
- $365 million in tax-equivalent payments to states and counties

The TVA transmission system is one of the largest and most reliable in North America, having maintained 99.999 percent reliability over the past six years in delivering electricity to customers. TVA's system is comprised of almost 17,000 miles of transmission line, about 117,000 transmission line structures, and 1,025 individual interchange and interconnection points, occupying over 258,000 right-of-way acres.

During the 2005 summer, TVA surpassed its all-time peak demand of 29,966 MW with demand of 31,703 MW on July 25 and demand of 31,935 MW the following day. These demands were met with no customer interruptions while also handling power from other areas moving across the TVA system. TVA demand exceeded 29,000 MW for eight consecutive days beginning July 20, 2005 with no customer interruptions.

TVA, as a NERC Reliability Coordinator, is responsible for monitoring and ensuring the reliable operation of the bulk transmission system in a 11-state region that includes Tennessee, and portions of Alabama, Georgia, Illinois, Iowa, Kentucky, Mississippi, Missouri, North Carolina, Oklahoma, and Virginia.

Q: Does TVA currently provide reliability coordination service?

A: Yes. TVA is one of the original "security coordinators" and began when NERC first established this function. NERC later changed the name of security coordinator to

reliability coordinator. TVA is one of seven companies that provide reliability coordination services in the Southeastern Electric Reliability Council (SERC). The TVA Reliability Coordinator (TVA RC) office is located in Chattanooga, Tennessee. The reliability coordination function is performed 7 x 24, 365 days a year, at a facility referred to as the Regional Operations Center.

TVA has entered into Reliability Coordination Agreements with Associated Electric Membership Cooperative (AECI), Big Rivers Electric Corp. (BREC), East Kentucky Power Cooperative (EKPC), and Electric Energy, Inc. (EEI) (collectively "Members") and is the NERC-recognized Reliability Coordinator for each. The Members operate as Balancing Authorities (BA) and/or Transmission Operators (TO) with operations in the SERC region.

The Companies are members the NERC region named the ReliabilityFirst Corporation (RFC). SERC and RFC have approved a revised Reliability Plan for the TVA RC Area that reflects the addition of the Companies to the TVA RC footprint.

Each respective NERC region recognizes TVA as the Reliability Coordinator for the applicable Member, and TVA RC complies with each applicable Region's policies and standards. In addition to its own service territory, TVA currently provides reliability services to these four other Members under separate reliability services agreements.

The TVA RC comprises an area of 192,000 square miles with a population of nearly 10 million people.

Q. Structurally, how does TVA provide reliability coordination services to others?

A. As a general matter, TVA is a federal corporation that performs, among other things, integrated utility operations, consistent with its statutory mandate. TVA has not divested functions to various subsidiaries or other corporate entities. Rather, TVA is organized by the various substantive functions it performs. Reliability Coordination Services are provided by a dedicated staff of TVA Transmission Function Employees within TVA's Transmission and Reliability Organization (TRO). These TRO employees are separated from other TVA employees, consistent with FERC's Standards of Conduct (as I discuss below).

Q. Is a "Member" part of the TVA service area?

A. No. A Member is part of the TVA RC Area, i.e., the aggregate geographical area of those utilities for which TVA provides reliability coordination services. The Companies will not become part of the TVA service area as defined by federal law. All aspects of the relationship between TVA and the Companies, as Members, are established in the RC Agreement.

Q. Are the existing Members of the TVA RC Area satisfied with TVA's performance as their Reliability Coordinator?

A. Yes, they are. BREC and EKPC have both executed new agreements with TVA to provide for additional services in conjunction with reliability coordination services.

Q. What are the practicalities of changing Reliability Coordinators?

A. TVA, the Midwest Independent Transmission System Operator, Inc. (MISO), and the Companies will implement a transition plan to ensure that there would be no interruption in reliability coordination services to the Companies. In August 2004, the TVA RC worked successfully with the MAIN Reliability Coordinator to transition EEI into the TVA RC Area so that there were not any adverse impacts to reliability. In 2001, BREC and EKPC changed Reliability Coordinators from the ECAR Reliability Coordinator to TVA and AECI changed from the Entergy Reliability Coordinator to TVA.

Q. Has NERC approved the revised Reliability Plan for the TVA RC Area to include the Companies?

A. Yes. The NERC Operating Committee approved on June 7, 2006, the revised Reliability Plan for the TVA RC Area that reflects the footprint change to include the Companies (effective September 1, 2006). Approvals were received from RFC, SERC, and the NERC Operating Reliability Subcommittee prior to submittal to the NERC Operating Committee.

Q: Please describe how TVA is organized internally with respect to reliability coordination and transmission and generation scheduling and dispatch, *i.e.*, regarding the split and separation of functions.

A: TVA operates two geographically separated control centers, one for the Reliability Coordination functions and one for the Balancing Authority and Transmission Operator functions. The Regional Operations Center (ROC) is the main facility for the RC and TVA Transmission Provider and Interchange Authority functions. The System Operations Center (SOC) is the main facility for the TVA Balancing Authority (including generation dispatch) and Transmission Operations functions. To ensure continuity of both functions, the SOC backs-up the ROC and the ROC backs-up the SOC.

Both facilities are in a hot standby mode at all times. Each site utilizes the same type systems and has back-up power supplies, and fully redundant communications independent of each other. The transfer to the back-up center would be transparent to the outside world as a phone script rolls the Reliability Coordinator's numbers from the ROC to the SOC. Once the RC is in place at the SOC, a notice would be posted on the NERC

Reliability Coordinator Information System (RCIS) informing everyone that TVA RC had relocated to the back-up facility.

NERC has established an Interregional Security Network (ISN) to facilitate the exchange of information needed by transmission system operators for transmission reliability purposes. The TVA RC will assist the Companies in establishing the necessary telecommunications and other facilities required for the transfer of data in accordance with applicable NERC and Regional Reliability Organization policies and procedures. The TVA RC will coordinate all required data and information to and from the ISN.

The structure and administration of the TVA RC includes a Reliability Coordination Advisory Committee (RCAC), which is composed of representatives from each entity that has executed a reliability coordination agreement designating TVA as its Reliability Coordinator. The Companies would have representation on this committee. The RCAC assists the Reliability Coordinator in the development of new reliability coordination policies and operating procedures and the modification of existing reliability coordination policies and operating procedures. In connection with these activities, RCAC members have access to the necessary data and documents maintained by the Reliability Coordinator.

In addition, TVA has established adjacent reliability coordination agreements with neighboring Reliability Areas, RTOs, and ISOs. These agreements provide for the exchange of transmission-related data and establish various arrangements and protocols for transmission planning and congestion management to enhance the reliability of their interconnected transmission systems and to facilitate efficient market operations. The Companies have chosen to participate as part of the TVA RC Area in these agreements, procedures, and protocols.

Q. Please briefly describe the JRCA between TVA, MISO, and PJM regarding improvements in reliability for Kentucky. What is the status of implementation?

A. As part of TVA RC's efforts to strengthen reliability on the electric grid, TVA executed in April 2005 a Joint Reliability Coordination Agreement (JRCA) with MISO and PJM Interconnection, LLC (PJM). The JRCA provides for coordination of operating, planning, and congestion management protocols among the participants to ensure the reliable operation of their interconnected transmission systems.

The key components of the JRCA include:

1) The exchange of real-time and forward looking system operating and planning data to enable the parties to accurately model the systems and plan for and respond to power flows between the systems. This section of the JRCA incorporates a Data Exchange Agreement previously executed among the parties in May 2004.

2) Coordinated Congestion Management through the exchange of data on key transmission facilities (flowgates) which are impacted by the parties and proactive

agreement on the respective parties' use of the available capacity on these flowgates. This will give the parties a common basis for responding to transmission service requests and for reducing flows in the event of emergencies. The actual response to system emergencies will still be according to NERC Standards. The congestion management plan is designed to:

a) recognize the impact of parallel flows associated with the bulk transmission system;
b) coordinate the impact of one party's operations and transmission sales on another party's system;
c) proactively reduce the number of TLR 5s called on various flowgates by more granular management of congested flowgates; and
d) establish curtailment priority for market flows.

3) Coordinated System Planning through the exchange of system models, interconnection requests, transmission service requests, and transmission system plans, and periodic joint planning sessions to study the infrastructure needs of the interconnected systems. Nothing in the JRCA obligates the parties to undertake system improvements, and the agreement expressly recognizes that should such upgrades be undertaken jointly, they would be under separate agreements. The process does, however, facilitate the identification of facility needs to enhance reliability of the integrated systems.

The data exchange component of the JRCA was implemented for the TVA system in August 2005. The congestion management portion was implemented in October 2005. The coordinated planning effort is evolving, and does not yet have a specific implementation date. TVA is actively involved with the MISO-PJM planning efforts.

In addition, the JRCA provides the framework for regional partnerships through which neighboring entities can coordinate operations to enhance reliability for the combined areas.

Prior to the JRCA, TVA was a recognized Reliability Coordinator by NERC and had the necessary tools, abilities, and functionalities to perform that function. The JRCA enhances that strong foundation for reliability. TVA always has been and continues to be committed to a high standard of reliability.

Q: How does TVA comply with standards of conduct?

A: Because TVA is not a public utility under Section 201(e) of the Federal Power Act, it is not subject to the requirements of Order Nos. 888, 889, 2004, and other related FERC orders. TVA has elected, however, to comply voluntarily with these FERC orders and the associated regulations, to the extent they are consistent with TVA's responsibilities under the TVA Act and other applicable laws. Accordingly, TVA has functionally separated its Marketing/Energy Affiliate from its Transmission Function and is conducting its operations in accordance with the attached Standards of Conduct.

The Standards of Conduct are intended to ensure that TVA does not use its unique access to non-public information about its own transmission system to unfairly favor its own Marketing/Energy Affiliate over others. The Standards of Conduct, along with the availability of TVA's Open Access Same-time Information System (OASIS), give potential customers access to information that will facilitate their obtaining transmission service on a non-discriminatory basis.

TVA Transmission Function Employees are located in offices in Chattanooga and in various other locations across the Tennessee Valley. Marketing/Energy Affiliate employees are located in separate offices in Chattanooga. The SOC and the ROC are staffed by Transmission Function Employees, and admittance to these facilities is controlled through card-key access. Marketing/Energy Affiliate employees are not permitted access to the SOC or the ROC in any way that differs from the access available to other TVA Transmission Customers.

The Power Trading Floor, the center for TVA's Marketing functions, is also accessible only with a card key. Of Transmission Function Employees, only load coordination specialists and their management are permitted access to the Power Trading Floor. This access is necessary to coordinate the power supply to meet native load needs and to ensure system reliability.

Q: What is TVA's record regarding provision of reliability coordination services in and outside of the Tennessee Valley?

A: TVA carries out its duties as Reliability Coordinator in a manner consistent with NERC Standards, industry practices, and applicable business processes. The TVA RC has been audited by NERC and SERC. In its role as Reliability Coordinator, TVA has maintained regional reliability and consistently met all SERC and NERC compliance measures.

The NERC Final Audit Report (dated February 11, 2003) contains the following:

"Congratulations to TVA on the excellent results of their Reliability Coordinator audit."

"...the Audit Team assesses that TVA meets the intent of the Policies and attachments that are related to the Reliability Coordinator functions."

"The Reliability Coordinators and Control Area Operators have a good working relationship and the Reliability Coordinators have the authority through the agreements with the Control Areas, to direct operation if the reliability of the power grid is in jeopardy."

"TVA's backup control center plans and facilities are excellent."

TVA's Reliability Coordinator function was audited by NERC and SERC during the week of May 8, 2006. Final reports have not yet been issued. Preliminary results were

very favorable and TVA is in full compliance on all applicable NERC Reliability Standards.

Q: In acting as Reliability Coordinator, do you believe TVA will enhance reliability for the Companies' systems?

A: Yes. The Companies' systems are heavily interconnected with the TVA RC Area inter-ties with BREC, EKPC, and TVA. Incorporating the Companies into the reliability region would be a logical extension of the TVA RC Area, given the interconnected nature of the Companies' systems with the systems of the Members. Coordinated studies with neighboring areas indicate that adequate transmission transfer capability is available on all interfaces to support reliable operations.

Q: Are there any particular operating circumstances which may be improved by TVA acting as Reliability Coordinator for the Companies?

A: Yes. In real-time, TVA as the RC for the Companies will allow direct coordination of operational issues among the operating systems, as well as improved coordination and integration of planned maintenance activities for the BREC, EKPC, LG&E, and TVA systems.

Q. Heavy north-to-south transfers can burden the Companies' systems. Please describe TVA RC's ability to monitor and address this issue.

A. The existing TVA RC Area is subject to constraints due to transfer patterns on the Eastern Interconnection. Certain transfer patterns, such as heavy north-to-south flows, can burden the electrical systems in Kentucky and Tennessee. Because of the interconnections with BREC, EKPC, and TVA systems, the TVA RC has the tools and information necessary to monitor bulk power transfers and related flows on the Companies' systems. As necessary, TVA RC will utilize the NERC Transmission Loading Relief procedures and operating guides to control flows. TVA RC has experience in addressing these issues.

Q: How does TVA engage in planning today, and how does providing the service for the Companies dovetail with what TVA is doing now?

A: TVA currently models the Companies' systems and facilities in its reliability models in order to ensure reliability for the TVA RC Area. Incorporating the Companies into the reliability region would be a logical extension of the TVA RC Area, given the interconnected nature of the Companies' systems with the systems of the Members. Providing this service to the Companies will enhance reliability coordination for the TVA

RC area by facilitating more frequent communications between EKPC, BREC, TVA, and the Companies, as well as improved coordination of outages.

For the planning function, TVA will ensure a long-term (one year and beyond) plan is available for adequate resources and transmission within the region. TVA will integrate and assess the plans provided by the ITO with plans of other operating entities and assess the plans to ensure those plans meet the reliability standards. TVA will advise the ITO of potential revisions to plans that do not meet those standards. TVA will then coordinate the plan with those of neighboring reliability coordinators and Planning Coordinators to ensure wide-area grid reliability..

In particular, TVA will be responsible for:

- Integrating the transmission and resource (demand and capacity) system models provided by the ITO with those of other operating entities to ensure transmission system reliability and resource adequacy;
- Applying methodologies and tools for the analysis and simulation of the transmission systems in the assessment and development of transmission expansion plans;
- The analysis of resource adequacy plans;
- Collecting information required for planning purposes;
- Integrating the plan with neighboring Planning Coordinators/reliability coordinator's plans to provide a broad multi-regional bulk system plan.

In performing these functions, TVA will:

- Maintain accurate computer models of the current and future power system and external interconnected power system for internal bulk system planning;
- Evaluate the bulk transmission system's ability to deliver its member's generation resources to native load and maintain a prioritized list of transmission capacity problems;
- Perform breaker duty studies of the bulk system to ensure that all bulk system breakers are operated within their interrupting capability;
- Provide data, as required, for NERC and Regional Compliance Programs and manage the steady state planning criteria and planning standards;
- Study alternative plans for identified bulk system problems for technical and economic merit and recommend the best solutions;
- Maintain a chronological plan for the ten year planning horizon of the additional bulk system facilities required to deliver generation resources to the native load;
- Perform system-wide and regional dynamic and transient stability studies, reactive analyses, exciter and Power System Stabilizer (PSS) setting studies;
- Compile and integrate system data with TVA system data, convert (if necessary) to compatible format, and transmit data to appropriate parties subject to Regional Coordination Agreements; and

- Ensure that TVA maintains confidentiality of all confidential system information provided to it.

Q: Please describe TVA's use of Advanced Network Analysis (software applications) in its reliability operations.

A: TVA operates two completely separate Advanced Network Analysis (ANA) systems that perform state estimation and contingency analysis. Both systems are independently operated and have dual-redundant computer systems located in and immediately available at separate TVA control centers. Models used in both systems are updated weekly using equivalent external area models derived from VAST operating cases maintained intra-monthly for configuration and facility changes within the region.

The ANA used by TVA Transmission Operations is a Siemens product, version TG8000, Rev 7.3. It covers the region served over the TVA transmission system and includes parts of the neighboring utility systems adjacent to TVA that are directly impacted by or have significant influence on flows inside the TVA transmission system. Portions of the Companies' system are included in this analysis. It solves in real-time and performs contingency analysis.

The ANA used by the TVA RC is an AREVA product, e-terra*platform* 2.2 with e-terra*habitat* 5.4.0. The model used in this system covers a much broader area and currently includes all of TVA, AECI, BREC, EKPC, EEI, the Companies' facilities, and parts of other utility systems adjacent to these areas that impact transmission system operations for these utilities. ANA solves in real time and performs contingency analysis every 2 minutes.

Q: Overall, do you believe that TVA is a "good fit" to act as the Companies' Reliability Coordinator?

A: Yes, I do. As noted above, TVA has the requisite experience and provides similar services for entities in Kentucky today. Furthermore, based on the location of the Companies' loads and certain operating conditions, it makes logical sense for TVA to act as reliability coordinator for the Companies. The Companies' loads are dispersed within TVA's Kentucky reliability area already, and operations and planning will be facilitated with TVA as the Companies' Reliability Coordinator.

Q: Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)
) **SS:**
COUNTY OF Hamilton)

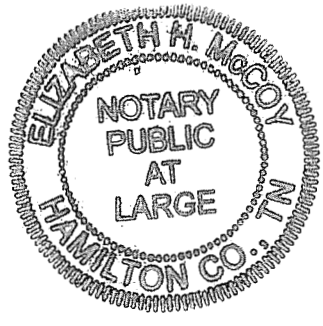
The undersigned, **Stuart L. Goza**, being duly sworn, deposes and says he is the Manager of Reliability Coordination Services for the Tennessee Valley Authority, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Stuart L. Goza
STUART L. GOZA

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 13th day of June, 2006.

Elizabeth H. McCoy
Notary Public

My Commission Expires:
11-10-07



TENNESSEE VALLEY AUTHORITY STANDARDS OF CONDUCT
for Transmission Providers
August 2005 Edition

1. Regulatory sources.

These Standards of Conduct are adapted from FERC Order No. 2004, Standards of Conduct for Transmission Providers, issued November 25, 2003; FERC Order No. 2004-A, issued April 16, 2004; FERC Order No. 2004-B, issued August 2, 2004; FERC Order No. 2004-C, issued December 21, 2004, and FERC Order No. 2004-D, issued March 23, 2005.

2. General principles.

(a) TVA's employees engaged in the Transmission Function must function independently from the employees of TVA's Marketing/Energy Affiliate.

(b) TVA shall treat all Transmission Customers, affiliated and non-affiliated, on a non-discriminatory basis, and, to the extent consistent with the TVA Act and other applicable law, shall not operate its transmission system to preferentially benefit its Marketing/Energy Affiliate.

3. Definitions.

(a) *Transmission Provider* means:

> (1) Any public utility that owns, operates, or controls facilities used for the transmission of electric energy in interstate commerce; or
>
> (2) Any interstate natural gas pipeline that transports gas for others pursuant to subpart A of 18 C.F.R. Part 157 or subparts B or G of 18 C.F.R. Part 284.
>
> (3) A Transmission Provider does not include a natural gas storage provider authorized to charge market-based rates that is not interconnected with the jurisdictional facilities of any affiliated interstate natural gas pipeline, has no exclusive franchise area, no captive rate payers, and no market power.

(b) *Affiliate* means a person which controls, is controlled by, or is under common control with, another person. An Affiliate includes a division that operates as a functional unit.

(c) *Control* (including the terms "*controlling*," "*controlled by*," and "*under common control with*") as used in 18 C.F.R. § 250.16 and in these Standards of Conduct, includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A voting interest of 10 percent or more creates a rebuttable presumption of control.

(d) *Energy Affiliate* means TVA's Bulk Power Trading unit. This functional unit meets the definition of an *Energy Affiliate*, which means an Affiliate of TVA that:

> (1) Engages in or is involved in transmission transactions in U.S. energy or transmission markets;
>
> > (i) The term "engages in" transmission transactions means the Affiliate holds (or is requesting) transmission capacity on a Transmission Provider as a customer or buys or sells transmission capacity in the secondary capacity market.
> > (ii) The term "involved in" transmission transactions means acting as agent, asset manager, broker, or in some other fashion managing, controlling, or aggregating capacity on behalf of Transmission Customers.

(iii) Other transmission-related interactions between a Transmission Provider and its interconnected Affiliate, such as exchanging operational data relating to interconnection points, and communications relating to maintenance of interconnected facilities, are not included in the definition of the terms "engaged in" or "involved in."

or

(2) Manages or controls transmission capacity of a Transmission Provider in U.S. energy or transmission markets; or

(3) Buys, sells, trades, or administers natural gas or electric energy in U.S. energy or transmission markets; or

(4) Engages in financial transactions relating to the sale or transmission of natural gas or electric energy in U.S. energy or transmission markets.

(5) An Energy Affiliate does not include an affiliate that purchases natural gas or energy solely for its own consumption. "Solely for its own consumption" does not include the purchase of natural gas or energy for the subsequent generation of electricity.

(e) *Marketing* means a sale for resale of natural gas in interstate commerce or the sale for resale of electric energy in interstate commerce to third parties outside the TVA area, including the purchase for such resale of electric energy from third parties. TVA's sales to TVA distributors and directly-served customers are not Marketing for purposes of these Standards of Conduct.

(f) *Transmission* means electric transmission service (network or point-to-point), reliability service, ancillary transmission services, or the interconnection with transmission facilities.

(g) *Transmission Customer* means any Eligible Customer under TVA's Transmission Service Guidelines or designated agent that can or does execute a transmission service agreement or can or does receive transmission service, including all persons who have pending requests for transmission service or for information regarding transmission.

(h) *Open Access Same-time Information System or OASIS* refers to the Internet location where a transmitting utility posts the information, by electronic means, required of public utilities by 18 C.F.R. Part 37.

(i) *Employee* means an employee, contractor, consultant, or agent.

(j) *Transmission Function* means transmission system operations or reliability functions, including, but not limited to, day-to-day duties and responsibilities for planning, directing, organizing, or executing transmission-related operations.

(1) There may be Transmission Function Employees who do not engage in "day-to-day" Transmission Function activities. When considering the responsibilities of a particular officer, consider whether he or she participated in directing, organizing, or executing transmission or wholesale merchant functions, including whether he or she had direct access to transmission or reliability information on the energy management system or other databases and whether he or she approved contracts or transactions.

(k) *Marketing Affiliate* means an Affiliate as that term is defined in § 3(b) or a unit that engages in Marketing activities as that term is defined at § 3(e), specifically TVA's Bulk Power Trading unit.

4. Independent functioning.

(a) Separation of functions.

(1) Except in emergency circumstances affecting system reliability, TVA's Transmission Function Employees must function independently of TVA's Marketing/Energy Affiliate employees.

(2) Notwithstanding any other provisions in this section, in emergency circumstances affecting system reliability, TVA may take whatever steps are necessary to keep the system in operation. TVA must report on the OASIS each emergency that resulted in any deviation from the Standards of Conduct, within 24 hours of such deviation.

(3) TVA is prohibited from permitting the employees of its Marketing/Energy Affiliate:

(i) To conduct Transmission Functions; and

(ii) To have access to the System Operations Center or Regional Operations Center that differs in any way from the access available to other Transmission Customers.

(4) The TVA Transmission Function is permitted to share support employees and field and maintenance employees with TVA's Marketing/Energy Affiliate.

(i) Among permitted shared support employees are personnel performing various non-operating functions such as legal, accounting, and information services.

(ii) Shared field and maintenance employees may include field supervisors who do not take part in advance planning for facility shut downs or are not involved in shutting down facilities based on economic reasons alone.

(iii) The field and maintenance personnel exception allows sharing of employees who would not be in a position to give undue preferences to the Marketing/Energy Affiliate either by sharing information or through physical control of facilities.

(iv) If an employee is directing, organizing, or executing either Transmission Functions or Marketing functions, the employee is not a "support" employee, but rather is either a Transmission Function Employee or a Marketing function employee.

(5) The TVA Transmission Function is permitted to share with its Marketing/Energy Affiliate senior officers and directors who are not "Transmission Function Employees" as that term is defined in §§ 3(i) and (j). TVA may share non-public transmission information covered by §§ 5(a) and (b) with its shared senior officers and directors provided that they do not participate in directing, organizing, or executing transmission system operations or marketing functions; or act as a conduit to share such information with the Marketing/Energy Affiliate.

(6) The TVA Transmission Function is permitted to share risk management employees that are not engaged in Transmission Functions or sales or commodity functions with its Marketing/Energy Affiliate.

(b) Identifying Affiliates on the public Internet.

(1) TVA shall post the name and address of its Marketing/Energy Affiliate on its OASIS.

(2) TVA shall post on its OASIS a complete list of the facilities shared by the TVA Transmission Function and TVA's Marketing/Energy Affiliate, including the types of facilities shared and their addresses.

(i) The types of facilities that are required to be posted are office buildings and computer systems, for example.

(ii) TVA need not post notice of shared physical field infrastructure such as substations or other transmission equipment that does not house any employees.

(3) TVA shall post comprehensive organizational charts showing:

(i) The organizational structure of TVA with the relative position in the corporate structure of the TVA Transmission Function and the Marketing/Energy Affiliate;

(ii) For the Transmission Function and Marketing/Energy Affiliate: the business units, job titles and descriptions, and chain of command for all positions, including officers and directors, with the exception of clerical, maintenance, and field positions. The job titles and descriptions must include the employee's title, the employee's duties, whether the employee is involved in the Transmission Function or Marketing, and the name of the supervisory employees who manage non-clerical employees involved in the Transmission Function or Marketing.

(A) Where the Transmission Function shares support, field, or maintenance employees with its Marketing/Energy Affiliate, the posting shall clearly identify the business units for the shared employees and provide a description of the shared services functions or responsibilities, but is not required to provide names or job descriptions for the shared employees.

(B) TVA is not required to post detailed organizational charts for the shared non-Transmission Function support units, but these units must be identified as shared in the organizational chart that identifies the corporate structure of the Transmission Function and its relative position to TVA as a whole and its Marketing/Energy Affiliate.

(iii) For any TVA employees who are engaged in both the Transmission Function and the Marketing functions or who are engaged in the Transmission Function for TVA and are employed in the Marketing/Energy Affiliate, TVA must post: the name of the business unit within the Marketing/Energy Affiliate, the organizational structure in which the employee is located, the employee's name, job title, and job description in the Marketing/Energy Affiliate, and the employee's position within the chain of command of the Marketing/Energy Affiliate.

(A) Section 4(b)(3)(iii) is intended to identify any shared employees of TVA who have received exemptions from the independent functioning requirements of these Standards of Conduct.

(iv) TVA shall update the information on its OASIS required by §§ 4(b)(1), (2), and (3) of these Standards of Conduct within 20 business days of any change and post the date on which the information was updated.

(c) Transfers. Employees of the TVA Transmission Function and Marketing/Energy Affiliate are not precluded from transferring among such functions as long as such transfer is not used as a means to circumvent the Standards of Conduct. Notices of any employee transfers between the Transmission Function, on the one hand, and the Marketing/Energy Affiliate, on the other, must

be posted on the OASIS. The information to be posted must include: the name of the transferring employee, the respective titles held while performing each function (i.e., on behalf of the TVA Transmission Function or Marketing/Energy Affiliate), and the effective date of the transfer. The information posted under this section must remain on the OASIS for 90 days.

(1) Employees transferring to the Marketing/Energy Affiliate may not use in their new jobs transmission information that is not publicly available.

(d) Books and records. Because its Marketing/Energy Affiliate is not a separate corporate entity, but rather a division that operates as a functional unit, TVA's Marketing/Energy Affiliate is not required to maintain separate books and records to comply with the Standards of Conduct. TVA shall maintain its books of account and records separately from those of any Energy Affiliates that are separate corporate entities.

(e) Written procedures.

(1) By April 1, 2005, TVA will post on the OASIS a plan and schedule for implementing the Standards of Conduct.

(2) These Standards of Conduct will be effective on April 1, 2005.

(3) TVA will post on the OASIS current written procedures implementing the Standards of Conduct in such detail as will enable customers and FERC to determine that TVA is in compliance with the requirements of these Standards of Conduct.

(4) TVA will distribute the written procedures to all TVA Transmission Function Employees and employees of the Marketing/Energy Affiliate.

(5) TVA shall train officers and directors as well as shared support employees with access to non-public transmission information or non-public information concerning gas or electric Marketing functions. TVA shall require each employee to sign a document or certify electronically signifying that he or she has participated in the training.

(6) TVA designates a Chief Compliance Officer for Transmission Standards of Conduct who is responsible for Standards of Conduct compliance. This designation is posted on TVA's OASIS.

5. Non-discrimination requirements.

(a) Information access.

(1) TVA shall ensure that any employee of its Marketing/Energy Affiliate may have access to only that information available to TVA's Transmission Customers (i.e., information posted on the OASIS), and shall not have access to any non-public information about TVA's transmission system that is not available to all users of the OASIS.

(2) TVA shall ensure that any employee of its Marketing/Energy Affiliate is prohibited from obtaining non-public information about TVA's transmission system (including, but not limited to, non-public information about available transmission capability, price, curtailments, storage, ancillary services, balancing, maintenance activity, capacity expansion plans, or similar non-public information) through access to non-public information not posted on the OASIS or that is not otherwise also available to the general public without restriction.

(b) Prohibited disclosure.

(1) A TVA Transmission Function Employee may not disclose to TVA's Marketing/Energy Affiliate any non-public information concerning the TVA transmission system or the transmission system of another (including, but not limited to, non-public information received from non-affiliates or non-public information about available transmission capability, price, curtailments, storage, ancillary services, balancing, maintenance activity, capacity expansion plans, or similar non-public information) through communications conducted off the OASIS or through access to non-public information, whether or not posted on the OASIS, that is not contemporaneously available to the public.

(2) TVA may not share any non-public information, acquired from non-affiliated Transmission Customers or potential non-affiliated Transmission Customers, or developed in the course of responding to requests for transmission or ancillary service on the OASIS, with employees of its Marketing/Energy Affiliate, except to the limited extent information is required to be posted on the OASIS in response to a request for transmission service or ancillary services.

(3) If a TVA employee discloses non-public information in a manner contrary to the requirements of §§ 5(b)(1) and (2) of these Standards of Conduct, TVA must immediately post such information on the OASIS.

(i) The Transmission Function may share certain information with its Marketing/Energy Affiliate covered under § 5(b)(8) without triggering the posting requirements under § 5(b)(3).

(4) A non-affiliated Transmission Customer may voluntarily consent, in writing, to allow TVA's Transmission Function to share that customer's information with TVA's Marketing/Energy Affiliate. TVA must post notice of that consent on the OASIS along with a statement that TVA did not provide any preferences, either operational or rate-related, in exchange for that voluntary consent.

(5) TVA is not required to contemporaneously disclose to all Transmission Customers or potential Transmission Customers information covered by § 5(b)(1) of these Standards of Conduct if it relates solely to TVA's Marketing/Energy Affiliate's specific request for transmission service.

(6) TVA may share any non-public generation information necessary to perform generation dispatch with its Marketing/Energy Affiliate that does not include specific information about individual third party transmission transactions or potential transmission arrangements.

(7) Neither TVA nor an employee of TVA is permitted to use anyone as a conduit for sharing non-public information covered by the prohibitions of § 5(b)(1) and (2) of these Standards of Conduct with its Marketing/Energy Affiliate. TVA may share non-public information covered by §§ 5(b)(1) and (2) with shared support employees, provided that such employees do not act as a conduit to share that information with the Marketing/Energy Affiliate.

(8) The TVA Transmission Function is permitted to share non-public operating information necessary to maintain the operations and reliability of the transmission system with its Marketing/Energy Affiliate.

(i) This exception allows sharing of that information necessary to operate and maintain the transmission system on a day-to-day basis to the extent consistent

with the TVA Act and other applicable law; it does not include transmission or marketing information that would give TVA's Marketing/Energy Affiliate undue preference over TVA's non-affiliated customers.

(ii) The functional separation requirement of § 4 does not limit the sharing of operational information permissible under § 5(b)(8). Sharing of information necessary to maintain the operations of the transmission system under § 5(b)(8) does not compromise the independent functioning required in § 4.

(9) TVA employees shall maintain the confidentiality of non-public interconnection information in accordance with TVA's interconnection process and the relevant contracts relating to the particular interconnection(s).

(c) Implementation of TVA's Transmission Service Guidelines.

(1) TVA shall strictly enforce all provisions of its Transmission Service Guidelines (Guidelines) relating to the sale or purchase of open access transmission service, if these Guidelines provisions do not permit the use of discretion.

(2) TVA shall apply all Guidelines provisions relating to the sale or purchase of open access transmission service in a fair and impartial manner that treats all Transmission Customers in a non-discriminatory manner (to the extent consistent with the TVA Act and other applicable law), if these Guidelines provisions permit the use of discretion.

(3) TVA shall process all similar requests for transmission in the same manner and within the same period of time.

(4) TVA shall maintain a written log detailing the circumstances and manner in which it exercised its discretion under any terms of the Guidelines. The information contained in this log is to be posted on the OASIS within 24 hours of when TVA exercises its discretion under any terms of the Guidelines.

(i) A posting need not reveal confidential customer information or sensitive business information. Rather, TVA shall post information regarding the date of its action and the type of discretion it exercised (*e.g.*, a creditworthiness determination) without revealing the name of the customer.

(5) To the extent consistent with the TVA Act and other applicable law, TVA shall not, through its Guidelines or otherwise, give preference to its Marketing/Energy Affiliate, over any other Transmission Customer in matters relating to the sale or purchase of transmission service (including, but not limited to, issues of price, curtailments, scheduling, priority, ancillary transmission services, or balancing).

(d) Discounts.

Any offer of a discount for any transmission service made by TVA must be posted on the OASIS contemporaneous with the time that the offer is contractually binding on both parties. TVA shall post all discounts, not just discounts to its Marketing/Energy Affiliate. The posting must include: the name of the Transmission Customer involved in the discount and whether it is a Marketing/Energy Affiliate or whether a Marketing/Energy Affiliate is involved in the transaction; the rate offered; the maximum rate; the time period for which the discount would apply; the quantity of power upon which the discount is based; the delivery points under the transaction; and any conditions or requirements applicable to the discount. The posting must remain on the OASIS for 60 days.

IMPLEMENTING THE STANDARDS OF CONDUCT

I. INTRODUCTION

TVA is not a public utility under Section 201(e) of the Federal Power Act (FPA) and, thus, is not directly subject to the requirements of Orders No. 888, 889, 2004, and other related FERC orders. TVA has elected, however, to comply voluntarily with these FERC orders and the associated regulations, to the extent they are consistent with TVA's responsibilities under the TVA Act and other applicable law. Accordingly, TVA has functionally separated its Marketing/Energy Affiliate from its Transmission Function and is conducting its operations according to the Standards of Conduct.

The Standards of Conduct are intended to make sure that TVA, as an owner of electric transmission facilities, does not use its unique access to non-public information about its own transmission system to unfairly favor its own Marketing/Energy Affiliate over others. The Standards of Conduct, along with the availability of TVA's Open Access Same-time Information System (OASIS), give potential customers access to information that will facilitate their obtaining transmission service on a non-discriminatory basis.

The Standards of Conduct are subject to modification or replacement by TVA from time to time to address changing regulatory requirements or the changing needs of the TVA transmission system. TVA's Standards of Conduct are available through TVA's OASIS site.

II. BACKGROUND

TVA is a federal corporation with responsibilities including flood control, navigation, power production and transmission, agriculture, and economic development. The area served with TVA power covers roughly 80,000 square miles (200,000 square kilometers) in the southeastern United States, including nearly all of Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia. TVA manages the Tennessee River, the nation's fifth-largest river system. TVA's transmission system includes approximately 17,000 miles (27,000 kilometers) of transmission lines. TVA operates 11 coal-fired plants, three nuclear plants, 29 hydroelectric plants, a pumped-storage plant, solar and wind energy sites, and numerous combustion turbines at various locations. Together they provide over 33,000 megawatts of generating capacity. TVA provides power to numerous municipal and cooperative power distributors and directly serves a number of federal and industrial customers in the Valley, supplying the electricity needs of approximately 8,500,000 people. In addition, TVA provides third-party transmission service and sells power and energy that are surplus to the needs of the area to certain neighboring utilities in accordance with the provisions of the TVA Act.

TVA's Board of Directors has decision-making authority and responsibility over the transmission and sale of power. The TVA Board is accountable to Congress and the President. This accountability dictates that the TVA Board have a direct decision-making role in some issues and be free to provide information to the Executive Branch and Congress consistent with its legal responsibilities. The TVA Board is not engaged in any Transmission Functions or Marketing.

TVA has voluntarily implemented open access transmission service (under TVA's Transmission Service Guidelines), an OASIS, and the Standards of Conduct. The following describes how the Standards of Conduct are being applied and implemented.

III. DESCRIPTION OF SEPARATION

A. Description of Functional Separation

TVA's organizational charts and employee job descriptions posted on the OASIS identify employees engaged in Transmission Functions and those working in Marketing/Energy Affiliates, as well as showing the chain of command. Employees engaged in these functions are located in two TVA organizations: Transmission/Power Supply and Bulk Power Trading.

Employees who are engaged in Transmission Functions are functionally separated from employees working in Marketing/Energy Affiliate.

TVA also has support employees who do not plan, direct, organize, or execute either Transmission Functions or Marketing functions. A support employee may support both the Transmission Function and Marketing functions. Support employees include attorneys and regulatory staff as well as information technology, finance, accounting, billing, and operational analysis employees. Support employees are identified as such on the organizational charts posted on the OASIS. If a support employee obtains non-public information about TVA's transmission system or non-public information acquired or developed in connection with requests for transmission service restricted by TVA's Standards of Conduct, he or she may not disclose such information to Marketing/Energy Affiliate employees. Support employees are prohibited from acting as conduits for improper communications between Transmission Function Employees and Marketing employees.

TVA requires officers and Directors as well as its employees performing a Transmission Function, a Marketing function, or a support role for those functions to participate in training and certify that they have been trained regarding the Standards of Conduct requirements if they have access to non-public transmission information or non-public information concerning gas or electric Marketing functions.

Regulatory staff employees monitor employee additions and transfers through an internal human resources database in order to update organizational charts and job descriptions and post transfer notices on the OASIS. Transmission Operations employees update transmission rates, discounts, and discretionary information as needed on the OASIS. Such information is available through OASIS for three years.

B. Description of Physical Separation

TVA Transmission Function Employees are located in offices in Chattanooga, Tennessee, and in various other locations across the Tennessee Valley. Marketing/Energy Affiliate employees are located in offices in Chattanooga.

The TVA System Operations Center and the Regional Operations Center are staffed by Transmission Function Employees in Chattanooga. Admittance to these facilities is controlled through card-key access. Marketing/Energy Affiliate employees are not permitted to have access to the System Operations Center or the Regional Operations Center that differs in any way from the access available to other Transmission Customers.

The Power Trading Floor, the center for TVA's Marketing, is also accessible only with a card key. Of Transmission Function Employees, only load coordination specialists and their management are permitted access to the Power Trading Floor. This access is necessary to coordinate the power supply to meet native load needs and to ensure system reliability. The Bulk Power Trading Vice President's office must clear anyone without card-key access before entry to the Power Trading Floor is permitted.

C. Description of Security for Transmission Function Information Access

This section describes TVA's computer and telecommunications systems used by employees engaged in Transmission Functions and those used by employees in the Marketing/Energy Affiliate. This section also addresses the security measures TVA has implemented to make sure that the Marketing/Energy Affiliate employees do not have access, in contravention of the Standards of Conduct, to non-public information about TVA's transmission system or non-public information acquired or developed in connection with requests for transmission service.

1. General

As part of their daily activities, information technology, billing, operational analysis, and telecommunications support employees access computer networks containing non-public information about TVA's transmission system and non-public information acquired or developed in connection with requests for transmission service. These employees shall not act on or share this information with Marketing/Energy Affiliate employees. The purpose for their access is solely to make sure that TVA computer systems, telecommunications, billing, and databases are operating effectively and to carry out billing, operational analysis, and related tasks. These employees, as well as other support employees, are bound by the Standards of Conduct prohibition against disclosing to Marketing/Energy Affiliate employees non-public information about TVA's transmission system or non-public information acquired or developed in connection with requests for transmission service.

2. Special Control Area Systems and Information

TVA uses many computer systems to carry out its operational responsibilities. These systems include the Supervisory Control and Data Acquisition (SCADA) System, the Energy Management System (EMS), the Block Pricing Compendium (BPC), the Operations Simulation (OPSYM), the Transmission Energy Scheduler (TES), as well as others. TVA provides security for the information in these systems, so that information about TVA's transmission system is made available to Marketing/Energy Affiliate employees only at the time and in the same form that it is made available to the public at large. This security is provided by computer system firewalls, by individual user account password access to the TVA wide-area network, and by card-key access to the System Operations Center and the Regional Operations Center.

3. OASIS System and Information

Transmission reservations are handled using the OASIS, which is found on the OATI OASIS service. Only the transmission operations employees (who are responsible for handling transmission reservations and scheduling for the TVA transmission system), the transmission system reliability employees (who are responsible for the Reliability Coordinator function), and billing employees have access to non-public information on the OASIS system that is not available to all Transmission Customers under normal access to OASIS. Consistent with industry practice, the billing group reviews transmission service reservations for the month using data from the OASIS to resolve billing issues. Marketing/Energy Affiliate employees have access to the OASIS system on the same basis as any other Transmission Customer.

4. Corporate Computer Networks

TVA's corporate computer systems contain data relating to customers, revenue, transmission system usage, transmission engineering data, transmission capacity planning studies, transmission contracts, energy contracts, and forecasting data. Organizational routing codes, user IDs, and password controls are used to limit access to the data. The TVA corporate network administrators and the corporate firewall administrators conduct periodic security audits to preclude unauthorized access to non-public information. Marketing/Energy Affiliate employees cannot access non-public information about TVA's transmission system or non-public information

acquired or developed in connection with requests for transmission service, including non-public transmission usage information (except information pertaining to their own transactions), other non-public Transmission Customer information, transmission engineering data, and transmission capacity planning studies.

TVA employees share common intra-office computer systems including LAN, e-mail, and an intranet. TVA employees engaged in Transmission Functions and those employed in the Marketing/Energy Affiliate are aware of the Standards of Conduct provisions and are prohibited from using these common systems as a way to circumvent these rules.

5. Special Telephone Systems and Recording

Telephone systems are segregated by different line access for Transmission Function Employees and Marketing/Energy Affiliate employees. TVA is recording telephone calls involving the system operators (transmission, scheduling, and generation), reliability engineers, reliability specialists, power traders, and power marketers. The Marketing function has a separate telephone system (and separate tapes for recording) from the System Operations Center and the other Transmission Function Employees. Employees working in the Marketing/Energy Affiliate cannot access the taped recordings of Transmission Function Employees.

003743825

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TO TRANSFER FUNCTIONAL CONTROL OF THEIR TRANSMISSION SYSTEM	)))))	CASE NO: 2005-00471

REVISED TESTIMONY OF BRUCE A. REW EXECUTIVE DIRECTOR, CONTRACT SERVICES SOUTHWEST POWER POOL

Filed: June 14, 2006

Q. Please state your name, business address and position.

A. My name is Bruce A. Rew, Executive Director, Contract Services, Southwest Power Pool Inc., 415 North McKinley, Suite 140, Little Rock, AR 72205-3020.

Q. What are your duties and responsibilities in your current position?

A. I am responsible for overall management of contract services provided by Southwest Power Pool, Inc. (SPP). These services include the performance of Independent Coordinator of Transmission (ICT) services for the Entergy system. The ICT functions include Reliability Coordination, transmission service evaluation and approvals, Weekly Procurement Process, and transmission planning activities including a stakeholder process. I have also provided the initial management oversight of the development of the Independent Transmission Operator (ITO) functions for Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) (hereinafter collectively, "LG&E/KU"). SPP has now appointed David McNeill as the permanent ITO project manager. His responsibilities include overall project administration, and he will be the primary contact between SPP and LG&E/KU regarding the ITO on the date that the ITO is operational.

Q. Please describe your educational and professional background.

A. I am a graduate of Louisiana Tech University holding a Bachelor's degree in Electrical Engineering and a Master's degree in Operations Management from the University of Arkansas. I have been employed at SPP since 1990 in several engineering and management positions, and I was promoted to Executive Director, Contract Services in 2005. Prior to joining SPP, I served in the United

States Air Force on a nuclear missile launch crew. Also, I am a registered professional engineer in the state of Arkansas.

Q. Have you previously testified before any regulatory agencies?

A. Yes. I have testified before the Federal Energy Regulatory Commission (FERC) on SPP Regional Transmission Organization matters. I have also testified before the Louisiana Public Service Commission on the proposed Entergy ICT activities.

Q. What is the purpose of your testimony?

A. I will first describe the SPP RTO and then provide information on the capabilities and qualifications of SPP to perform the functions of an ITO for LG&E/KU. The specific ITO roles and responsibilities that I will discuss are (1) independence; (2) the ITO's role in taking transmission service requests and in setting ATC and TTC; (3) oversight of generator interconnections; (4) transmission planning; and (5) oversight of the stakeholder process. This testimony will provide information and answer questions about SPP, its interests, capabilities, and resources.

Q. Please describe the Southwest Power Pool, Inc.

A. SPP is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP was formed in 1941 by a voluntary, inter-company agreement between eleven utilities, in response to critical national defense needs during World War II. In 1968, SPP became a regional reliability council, joining with several other such organizations, to form the predecessor to the North American Electric Reliability Council (NERC), and in 1997, became the security coordinator for the region.

SPP currently has 45 Members, serving more than four million customers in a 250,000 square-mile area covering all or part of the states of Arkansas, Kansas, Louisiana, Missouri, New Mexico, Oklahoma, and Texas. SPP's Members include thirteen investor-owned utilities, seven municipal systems, eight generation and transmission cooperatives, two state authorities, three independent power producers and twelve power marketers.

Since 1998, SPP has administered a regional Open Access Transmission Tariff for service (OATT) for its Member transmission owners. Under that FERC approved OATT, SPP currently provides firm and non-firm point-to-point transmission service and network transmission service.

SPP been recognized as a Regional Transmission Organization (RTO) by the FERC since 2004. SPP as an RTO has implemented a regional planning process, regional transmission cost allocation for transmission upgrades, and is currently developing an energy imbalance market scheduled for implementation in October of 2006.

Q Have LG&E/KU selected SPP to serve as the Independent Transmission Organization (ITO) for their transmission systems?

A. Yes. LG&E/KU selected SPP to serve as the ITO through a competitive bid process in which SPP submitted a proposal for the provision of ITO services.

Q. Does SPP have an agreement with LG&E/KU to serve as their ITO?

A. LG&E/KU initially filed a draft ITO agreement with the ITO proposal at the FERC. FERC issued an order on March 17, 2006 conditionally approving LG&E/KU's withdrawal from the Midwest-ISO (MISO), and SPP's appointment

as the ITO subject to LG&E/KU submitting additional revisions and clarifications to the Commission. *Louisville Gas and Electric Company, et al.,* 114 FERC ¶ 61,282 (2006). SPP and LG&E/KU renegotiated the draft ITO agreement and ITO proposal to bring it into compliance with FERC's orders, and signed a final agreement on April 7, 2006. LG&E/KU made their compliance filing at FERC on April 11, 2006. Both parties are awaiting final regulatory approval of the agreement, and anticipate a go-live date of September 1, 2006.

Q. Will LG&E/KU become members of the RTO?

A. No. LG&E/KU does not become a member of SPP under the ITO contract. The ITO contract is administered by the Contract Services division at SPP, a division specifically set up to separate the ITO and ICT functions from the RTO operations. LG&E/KU's agreement with SPP is purely contractual, and SPP will administer the LG&E/KU OATT and perform transmission planning functions under the term and conditions contained in the ITO contract. Any termination of the ITO contract with SPP is governed by the terms contained therein and is not subject to RTO-like withdrawal fees.

Q. What services will SPP provide as the ITO?

A. As the ITO for LGE/KU, SPP will provide transmission service processing consisting of OASIS administration, ATC calculations, and acceptance and denial of transmission reservations. In addition, the ITO will have authority to grant or deny generation interconnection requests made on the LG&E/KU systems, and to ensure transmission planning is performed in an independent, non-discriminatory manner. The ITO will also perform administration and oversight of a stakeholder

process. SPP will provide all of these ITO services in an independent manner to LG&E/KU and its customers.

INDEPENDENCE

Q. Will SPP be able to satisfy the independence requirements of the proposed ITO?

A. Yes. The hallmark of being an Independent Transmission Organization is, of course, independence. In this case, the ITO must be independent of LG&E/KU in particular, as well as all other market participants. The FERC, in Docket No. RT04-1, found SPP to be an independent entity free of any affiliation with any market participant, thus satisfying the FERC's independence requirements for RTOs. SPP has established an independent board of directors and independent governance structure, which the FERC has approved. *Southwest Power Pool, Inc.*, 108 FERC ¶ 61,003 at P 27 (2004) and *Southwest Power Pool, Inc.*, 110 FERC ¶ 61,046, at P 22 (2004). FERC has also found that SPP is independent in its provision of certain Contract Services. They specifically addressed SPP's independence in the Entergy ICT and the LG&E/KU ITO proposals by stating, "[i]n the *Entergy Guidance Order*, the Commission found that SPP is generally independent...[and] [w]ith the modifications to the Independent Transmission Organization proposal directed in this order, we find that SPP will be sufficiently independent from [LG&E/KU]. *Louisville Gas and Electric Company, et al.*, 114 FERC ¶ 61,282 at P 140 (2006).

TRANSMISSION SERVICE

Q. Does SPP have experience in administering and maintaining an OASIS system?

A. Yes. SPP has maintained and administered an OASIS system continuously since FERC's initial order requiring OASIS systems in 1997. The SPP regional tariff was approved in 1998, and SPP added regional tariff administration to its responsibilities and has performed this function since June 1, 1998, acting as agent for each of its Transmission Owners.

Q. Does SPP have the capability to perform the Available Transmission Capacity calculations for the ITO?

A. The SPP regional tariff provides for flowgate based determination of Available Flowgate Capacity (AFC). SPP has also performed Available Transmission Capacity (ATC) calculations for American Electric Power East (AEP East) during our administration of their tariff. This process is similar to the one that the ITO would administer. The ITO would develop inputs into the ATC calculation and based on this input data, the ITO would determine the ATC for the LG&E/KU region and ensure that ATC was properly posted on the OASIS site. SPP has approximately seven years experience administering a similar process on the systems of the eleven SPP transmission owners. SPP is also implementing an AFC process for the Entergy ICT. SPP is one of the most experienced organizations in the country that administers and determines transmission capability under a pro-forma transmission tariff.

Q. What experience does SPP have in acceptance and denial of transmission service reservations?

A. Since 1998, SPP has been acting as its transmission owner's agent in the processing of transmission service. SPP initially performed only short-term transmission service administration, but by February of 2000, SPP expanded the scope of services offered to include all transmission service provided under FERC's pro-forma tariff. SPP currently provides this service as part of its functions as a FERC-approved RTO. SPP also administers transmission service reservations for grandfathered service provided under some of its member's OATTs.

Furthermore, SPP has the experience of independently administering transmission service over the AEP East system for approximately four years. In this role, SPP independently accepted or denied transmission service requests received on AEP East's OASIS. SPP is also scheduled to begin transmission service processing for the Entergy ICT in the fall of 2006. SPP's experience in operating not only its own tariff but that of other transmission owner's simultaneously clearly demonstrates SPP's ability to perform the ITO function in an efficient and non-discriminatory manner.

Q. Does SPP have experience with the coordination and implementation of seams agreements similar to the Joint Reliability Coordinating Agreement (JRCA) with MISO and TVA?

A. Yes. SPP, as a signatory to the Joint Operating Agreement with MISO, participates in the same congestion management process that is currently employed by MISO, PJM, and TVA in the JRCA and will be used to manage congestion on the LG&E/KU system after the withdrawal from the MISO.

GENERATION INTERCONNECTION

Q. Does SPP have experience in processing generation interconnection requests under a FERC Tariff?

A. Yes. SPP has acted as agent for its eleven transmission owners in processing requests for generation interconnection. Recently, FERC issued Order 2003 and subsequent Orders prescribing generation interconnection procedures and a pro forma interconnection agreement. Both SPP, and SPP acting as the ITO, are subject to these Orders and are in compliance with these Orders. SPP and the ITO have essentially the same procedures for processing interconnection requests and essentially the same pro-forma interconnection agreement.

PLANNING

Q. Does SPP have experience in performing transmission planning functions similar to the functions it will provide to LGE/KU?

A. Yes. SPP has a long history of performing regional transmission planning activities. Since 1997, SPP has been recognized as the NERC Security Coordinator for the SPP region, and since 1998, SPP has been providing regional transmission service. Both of these functions required SPP to coordinate the transmission planning and expansion within its region. SPP has also worked with neighboring systems, such as Entergy and MISO, to coordinate inter-regional transmission planning issues. In its role as a RTO, SPP has the ultimate responsibility for transmission planning within the region. SPP has expanded its transmission planning role since its original RTO filing in 2001 in anticipation of this ultimate responsibility. SPP now administers a FERC-approved aggregate

study process as well as region-wide Transmission Planning Summits that are designed to allow stakeholders to interact with SPP and provide feedback on transmission planning issues.

STAKEHOLDER PROCESS

Q. What oversight of the stakeholder process will SPP as the ITO have?

A. SPP as the ITO will be responsible for administering a stakeholder process for LG&E/KU. SPP regularly facilitates a stakeholder process which requires presentation of current activities and collecting stakeholder feedback and recommendations. SPP also performed an audit of Entergy's AFC method through a stakeholder driven process during the fall of 2005. SPP coordinated meetings and accepted input and recommendations from all parties before issuing its final report to Entergy. The full report as well as other documentation from SPP's audit can be viewed at http://www.entergy.com/transmission/afc.aspx. Through its work as an RTO and its ongoing work in other contract service areas, SPP has shown that it has the essential experience and expertise to administer the stakeholder process as proposed for the ITO.

Q. Please summarize your testimony.

A. When the ITO agreement and ITO proposal get final regulatory approval, SPP will provide independent services to LG&E/KU and its customers. SPP already possesses both the knowledge and expertise requisite for the performance of the ITO functions. SPP has the independence, functionality and competence to handle any challenges to the implementation or performance of the ITO proposal.

SPP is the clear choice for providing the ITO services to LG&E/KU for the following reasons:

- SPP is independent as an RTO, and as a service provider under a third party's tariff;
- SPP has significant experience in all aspects of tariff administration including generation interconnection request processing, transmission service requests, AFC processes, OASIS administration and transmission planning;
- SPP currently maintains a stakeholder process in the administration of its RTO functions, and has proven its competence to perform this function in a variety of settings.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

STATE OF ARKANSAS)

) SS:

COUNTY OF PULASKI)

The undersigned, **Bruce A. Rew**, being duly sworn, deposes and says that he is the Executive Director of Contract Services for Southwest Power Pool, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Bruce A. Rew

Bruce A. Rew

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of June, 2006.

(SEAL)

Notary Public

OFFICIAL SEAL
LAURIE ANN GUINN
NOTARY PUBLIC-STATE OF ARKANSAS
PULASKI COUNTY
My Commission Expires 06-20-14

My Commission Expires:

June 20, 2014