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February 22, 2006

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PUBLIC SERVICE  
COMMISSION

CASE 2006-00086

Ms. Elizabeth O'Donnell  
Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

Re: Kenergy Corp.  
TIER 3 Energy for Century Aluminum of  
Kentucky General Partnership  
Wholesale Supplier: LG&E Energy Marketing  
Inc.

Dear Ms. O'Donnell:

Kenergy Corp. ("Kenergy") requests the Commission's acceptance of a special retail contract regarding the above. The Kenergy contract with LG&E Energy Marketing Inc. ("LEM") for 25 MW of on-peak energy for the benefit of Century Aluminum of Kentucky General Partnership ("Century") represents a rate or tariff reduction to Century and should be accepted effective March 1, 2006 for the following reasons.

This contract commences on March 1, 2006 and extends through December 31, 2006 and is priced at the Midwest ISO real-time LMP published for the Midwest ISO/Big Rivers interface.

This contract must be considered in light of the December 21, 2005 contract between Kenergy and LEM for the benefit of Century (accepted by the Commission as of January 21, 2006 - TFS2006-00017) (the "December LEM Contract") and the February 7, 2006 contract between Kenergy and Constellation Energy Commodities Group, Inc. ("Constellation") which is now pending before the Commission.

The December LEM Contract was a System Firm product for 60 MW around-the-clock and an additional 25 MW during on-peak hours only. The pricing of the 25 MW on-peak piece was \$77.00/MWh. Because the 25 MW on-peak product was System Firm only, it would

be available only after LEM fulfilled its contractual commitments for sales back to Big Rivers, sales of Tier 1 and Tier 2 Energy to the smelters, and other sales, and therefore would not be available to Kenergy in the event of an outage of a Western Kentucky Energy generator that produces the power for LEM. Because Kenergy had the opportunity to lock in for Century a 60 MW Firm L.D. product from Constellation beginning March 1, 2006, the December LEM Contract has now been terminated and thus never went into effect. The new LEM contract that is the subject of this filing is to replace the 25 MW of on-peak power under the December LEM Contract. As stated above, the pricing for this product is the hourly LMP price.

Kenergy submits that the instant transaction presents a rate reduction under KRS Chapter 278 because if this contract were not accepted by the Commission, Kenergy would be required to purchase Tier 3 Backup Energy from LEM at a price equal to 110% of not only the market hourly energy price but 110% of the transmission charges, congestion charges, Revenue Deficiency Guarantees, MISO line losses and any other MISO change that could be imposed. This contract is similar in that it is priced at market but it avoids the 10% premium and thus presents a rate reduction. Kenergy believes this is the correct analysis.

In addition, if the instant contract is compared with the 25 MW it is replacing under the December LEM Contract, market prices so far in 2006 would indicate a cost less than \$77.00/MWh.

Finally, Kenergy believes that when the aggregate volume of 85 MW under the Constellation contract and the instant contract are compared with the 85 MW under the December LEM Contract, Kenergy and Century fully expect the Constellation and new LEM combination to carry a lesser cost than the December LEM Contract. The principle reason is that under the combined contracts for the balance of 2006, 60 MW of the total volume is Firm LD rather than System Firm and thus to that extent avoids the risk of being priced at 110% of market cost.

If the Commission staff has questions concerning this matter, Kenergy and Century would request an informal conference with the Staff to more fully explain why the Kenergy – LEM contract represents a rate reduction for Century

\* \* \*

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Enclosed please find the executed original and one copy of Request for Power, Transaction Agreement, and Consent. These three (3) documents comprise the special retail contract that Kenergy requests the Commission to accept.

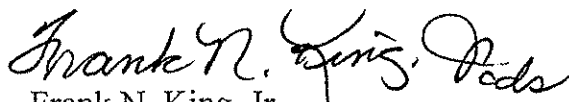
If the Commission were to determine for any reason that the notice period cannot be shortened as being requested, then we respectfully request that the notice period be shortened to 20 days and that the Commission accept the retail contract effective as of 20 days after receipt hereof.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By



Frank N. King, Jr.  
Counsel for Kenergy Corp.

FNKJr/cds

Encls.

COPY/w/encls.:

Mr. David Brown  
Mr. David Hamilton  
Mr. Steven D. Phillips

## TRANSACTION AGREEMENT

This Transaction Agreement (this "Transaction Agreement") is made and entered into by and between LG&E Energy Marketing Inc. ("LEM") and Kenergy Corp. ("Kenergy") on February 21, 2006 but effective on the "Effective Date" as defined below. This Transaction Agreement is entered into pursuant to, and shall be considered one agreement with, the Master Power Purchase and Sale Agreement (the "Master Agreement") between the Parties dated December 7, 2005.

In consideration of good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions. For purposes of this Transaction Agreement, the following definitions shall apply. Any other capitalized terms used but not defined in this Transaction Agreement shall have the meaning set forth in the Master Agreement.
  - a. LEM Century Obligation shall mean the obligation of LEM to sell and deliver Agreed Energy to Kenergy for resale by Kenergy to Century, subject to Permitted Curtailments, as set forth in this Transaction Agreement and the Master Agreement.
  - b. LEM Resources shall mean the net energy produced and delivered to LEM in each hour of the Transaction Term from the following generating units owned or controlled by Big Rivers and operated by affiliates of LEM (the "LEM Generation"): (a) the three (3) Coleman units, the Wilson unit, the two (2) Green units, and the Reid coal fired unit, but excluding the Reid combustion turbine; and (b) the two (2) Station Two units; provided, however, that the LEM Resources in each hour shall be subject to change from time to time based on the operational, maintenance, and business decisions of LEM and/or LEM's affiliates on the dispatch of the LEM Generation, including without limitation decisions by LEM and/or LEM's affiliates to not dispatch any unit based on the economics of operating such unit.
  - c. Net Generation Deficiency shall mean the circumstance whereby, in any hour of the Transaction Term, the amount of the LEM Resources less 1295 MWh is insufficient, in whole or in part, to satisfy the LEM Century Obligation.
  - d. On-Peak Hours shall mean the sixteen hour period beginning at 6:00 A.M. c.p.t. and ending at 10:00 P.M. c.p.t., on Mondays through Fridays of each week, but excluding NERC holidays, during the Transaction Term.
  - e. Permitted Curtailment shall mean the right of LEM, as defined in Section 5 of this Transaction Agreement, to curtail, or deem after the fact as curtailed, the delivery of Agreed Energy in any hour when a Net Generation Deficiency exists but only to the extent of that Net Generation Deficiency; provided, however, that LEM may in its sole discretion elect not to implement a Permitted Curtailment during a Net Generation Deficiency.

- f. Point of Delivery: The point(s) at which the LEM Generation is interconnected with the Big Rivers transmission system.
2. Energy Volumes. LEM shall sell and deliver to Kenergy, and Kenergy shall purchase and accept from LEM, the following volumes of System Firm Energy at the Point of Delivery during the term stated below (the "Agreed Energy"), provided however that LEM's obligation to sell and deliver, and Kenergy's corresponding obligation to purchase and accept, such Agreed Energy shall be relieved to the extent of a Permitted Curtailment as described in Section 5 below:
- a. 25 MWh per of System Firm Energy in all On-Peak Hours from the Effective Date to December 31, 2006
3. System Firm Energy. The Agreed Energy sold hereunder shall be System Firm Energy, which shall mean electric energy of the stated volumes in every hour to the extent that LEM does not utilize a Permitted Curtailment. System Firm Energy shall be firm energy, subject to the limitations and conditions of this Agreement, provided, however, that LEM shall be relieved of its obligation to deliver System Firm Energy hereunder during (a) implementation of a Permitted Curtailment by LEM (but only to the extent of the Net Generation Deficiency) or (b) any redispatch of the LEM Generation by the Big Rivers transmission operators and/or any relevant reliability coordinator or similar authority that results in a Net Generation Deficiency. The foregoing definition of System Firm Energy shall apply instead of any separate definition thereof in the Master Agreement. Kenergy will separately arrange and pay the applicable transmission provider for transmission services in transporting the Agreed Energy from the Point of Delivery to the point at which Kenergy delivers such Agreed Energy to Century. Kenergy shall also be responsible for all losses from the Point of Delivery and for all ancillary services.
- a. Pricing. The pricing for the Agreed Energy sold hereunder shall be at the Midwest ISO real-time LMP published for the Midwest ISO/Big Rivers ("BREC") interface for the hour in which LEM delivered such Agreed Energy hereunder.
4. Permitted Curtailments. Without limiting any other provision of this Agreement, the LEM Century Obligation shall be subject to the following conditions:
- a. Except with respect to hours when the LEM Generation has been redispatched by the Big Rivers transmission operators and/or the applicable reliability coordinator or similar authority and such redispatch has resulted in a Net Generation Deficiency (in which case LEM shall have no obligation to sell and deliver energy hereunder for those hours), LEM shall be obligated to sell and deliver Agreed Energy on a firm basis in every applicable hour during the Transaction Term except to the extent that LEM has implemented a Permitted Curtailment.


- b. With respect to any hour when a Net Generation Deficiency exists or existed, LEM may in its sole discretion (i) implement a full or partial Permitted Curtailment of Agreed Energy, or (ii) decline to implement a Permitted Curtailment.
  - c. LEM may after the fact determine that a Net Generation Deficiency existed in a prior hour or hours, and upon such determination, LEM may, in its sole discretion, after the fact implement a Permitted Curtailment of Agreed Energy. However, in the situation whereby a Permitted Curtailment is implemented by LEM after the fact with respect to any hour or hours, LEM shall be allowed to implement the Permitted Curtailment of Agreed Energy only to the extent of the number of MWh of the Net Generation Deficiency.
5. Transaction Term and Termination. The Transaction Term shall begin on the later of the following dates (the "Effective Date"): (i) the beginning of hour ending 0100 c.p.t. on March 1, 2006 or (ii) the beginning of hour ending at 0100 c.p.t of the day following acceptance by the Kentucky Public Service Commission ("KPSC") of the aforesaid terms and conditions with respect to Kenergy's resale of Agreed Energy to Century. Unless earlier terminated pursuant to this Transaction Agreement or the Master Agreement, the Transaction Term shall terminate at the end of the hour ending 2400 c.p.t on December 31, 2006. Notwithstanding the foregoing, the Transaction Term may terminate earlier as follows:

In the event that the transactions substantially in the form contemplated in that certain letter of intent, dated as of November 28, 2005, between Big Rivers Electric Corporation and E.ON U.S. LLC (f/k/a LG&E Energy LLC) (for itself and on behalf of LG&E Energy Marketing Inc., Western Kentucky Energy Corp., WKE Station Two Inc and WKE Corp.) are completed prior to the expiration or earlier termination of this Agreement, then at the option of LEM in its sole discretion, LEM shall be entitled to terminate this Agreement at any time concurrent with or following the completion of those transactions upon the delivery of 3 days prior written notice of termination to Kenergy. Upon any termination of this Agreement pursuant to the preceding sentence, the parties' respective rights and obligations under this Agreement shall thereafter become null and void and of no further force or effect, except that (a) Kenergy shall continue to be obligated thereafter for the payment to LEM of any amounts attributable to services provided by LEM under this Agreement through the date of such termination, and (b) each party shall continue to be obligated thereafter to the other party for its breach or default under this Agreement occurring at any time prior to the effectiveness of such termination, it being understood that the obligations contemplated in Subclauses (a) and (b) above shall survive the termination of this Agreement.

6. Master Agreement. The Master Agreement shall remain in full force and effect with no changes, provided that any conflict between this Transaction Agreement and the Master Agreement shall be resolved in favor of this Transaction Agreement. Notwithstanding the foregoing, effective fifteen (15) days following the Effective Date, the Master Agreement shall be deemed to be amended to reduce the "Party B Independent Amount" to \$1.5 million, subject to further amendment upon mutual agreement of the parties.

IN WITNESS WHEREOF, the Parties have entered into this Transaction Agreement on the date set forth above.

LG&E ENERGY MARKETING INC. *SOP*

By:   
Name:   Maria Murphy    
Title:   Trader  

KENERGY CORP.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

6. Master Agreement. The Master Agreement shall remain in full force and effect with no changes, provided that any conflict between this Transaction Agreement and the Master Agreement shall be resolved in favor of this Transaction Agreement. Notwithstanding the foregoing, effective fifteen (15) days following the Effective Date, the Master Agreement shall be deemed to be amended to reduce the "Party B Independent Amount" to \$1.5 million, subject to further amendment upon mutual agreement of the parties.

IN WITNESS WHEREOF, the Parties have entered into this Transaction Agreement on the date set forth above.

LG&E ENERGY MARKETING INC.

By: \_\_\_\_\_  
Martyn Gallus  
President

KENERGY CORP.

By Mark A. Bailey by Debra Hayden  
Name: Mark A. Bailey Assistant Secretary  
Title: President and CEO

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CONSENT

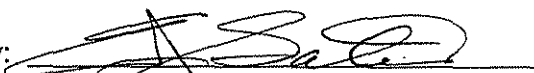
Century Aluminum of Kentucky General Partnership, a Kentucky general partnership, (“Century”) hereby agrees with Kenergy Corp. (“Kenergy”) and LG&E Energy Marketing Inc. (“LEM”) that Century has reviewed the Transaction Agreement and related documents for Tier 3 Energy dated February 21, 2006 (“Agreement”) and hereby consents to the execution, delivery and performance of the Agreement by Kenergy and LEM for all purposes.

Dated: February 21, 2006

CENTURY ALUMINUM OF KENTUCKY  
GENERAL PARTNERSHIP

By: METALSCO, LLC, General Partner

By:

  
E. Jack Gates  
President