COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL OF AN INTERCONNECTION AGREEMENT WITH KENTUCKY UTILITIES COMPANY	))))	CASE NO. 2007-00058

O R D E R

On February 2, 2007, Big Rivers Electric Corporation ("Big Rivers") filed an application requesting Commission approval of an interconnection agreement between Big Rivers and Kentucky Utilities Company ("KU") and a finding that no Certificate of Public Convenience and Necessity ("CPCN") is required for the proposed 345 kilovolt ("kV") interconnection.

Big Rivers and KU entered into an interconnection agreement in 1989 to govern the operation of the interconnection points on their systems and to provide for capacity and energy supply transactions between the parties. In 1995, the parties amended that agreement to provide for an additional interconnection between the two systems. Big Rivers and KU have now entered into a new interconnection agreement that supersedes and cancels the previous agreement and amendment, governs the overall operation and maintenance of the interconnection points, and provides for two additional interconnection points between the two systems. The new agreement does not contemplate transmission service or power supply between the parties.

Big Rivers and KU have agreed to two new interconnection points to interconnect an existing 345 kV transmission line owned by Big Rivers with an existing 345 kV

transmission line owned by KU in Daviess County, Kentucky. Big Rivers states that the extensions and modifications required for each system for the proposed interconnections are minimal. The only extension to the Big Rivers system that will be required for this interconnection is the addition of two parallel 345 kV electric transmission lines – one 2,467 feet in length and one 2,481 feet in length – that are located on an easement which is less than 2,500 feet in length. The KU system requires the addition of a switching station and the separation of an existing 606-foot span circuit into two separate spans – one of 268 feet and one of 338 feet. Additional construction and modifications of terminal equipment, relay equipment, communications facilities, and telemetry facilities will be required at various Big Rivers and KU substations.

Big Rivers states that it has received a 450 MW transmission service request from Big Rivers Power Supply[1] and that Big Rivers Power Supply currently only has a 100 MW export capability. In addition, Big Rivers serves two large industrial loads pursuant to contracts that will expire in 2010 and 2011. If it loses one or both of these large industrial loads without adding additional load, it will have excess generation, and the ability to export that excess will be critical, as its current transmission system is unable to support additional power exports. Big Rivers also states that, pursuant to its 1998 Power Purchase Agreement with LG&E Energy Marketing, Inc., it will receive an

[1]Big Rivers Power Supply is the internal division of Big Rivers that is responsible for providing electric power for Big Rivers' member systems and for arranging transmission services to export Big Rivers' surplus supply for sale in the wholesale market.

additional 120 MW of power in 2011 and an additional 83 MW in 2012, which will result in excess capacity if Big Rivers does not have the proposed export capability.

Big Rivers performed transmission studies to assess its ability to export excess generation during various system conditions and evaluated several projects. After its evaluation of the projects, Big Rivers determined that the interconnection proposed herein was the preferred near-term alternative to provide improved export capability.

The total cost of the proposed project is estimated to be $9.4 million and will be paid by Big Rivers from internally generated funds. Big Rivers and KU will each own the transmission facilities on their side of the interconnection, and KU will own the switching station.

Big Rivers states that the proposed construction does not involve the construction of a transmission line of more than a mile in length and asserts that the proposed interconnection project is a routine system improvement in the ordinary course of business that does not require a CPCN.

KRS 278.020(1) requires a utility to obtain a CPCN prior to constructing any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010. That section of the statute, however, also provides an exemption from the certificate requirement if the new facility is an ordinary extension of existing systems in the usual course of business. Commission regulation 807 KAR 5:001, Section 9(3), defines that exemption as follows:

> (3) Extensions in the ordinary course of business. No certificate of public convenience and necessity will be required for extensions that do not create wasteful duplication of plant, equipment, property or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction

> of the commission that are in the general area in which the utility renders service or contiguous thereto, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

KRS 278.020(2) does not permit this exemption if the construction involves an electric transmission line of 138 kV or more and of more than 5,280 feet in length.

Based on the application and being otherwise sufficiently advised, the Commission finds that the proposed line extension and interconnection do not require a CPCN under KRS 278.020(2) and satisfy the criteria set forth in KRS 278.020(1) and 807 KAR 5:001, Section 9(3), to be classified as an ordinary extension in the usual course of business. With an investment requirement of approximately $9.4 million, the cost to construct the interconnection will not materially affect Big Rivers' financial condition[2] or result in an increase in Big Rivers' wholesale power rates. In addition, the facility will not conflict with the existing certificates or service of other utilities under the Commission's jurisdiction. Therefore, the project will not create wasteful duplication of plant, equipment, property, or facilities. The Commission further finds that the proposed interconnection agreement is reasonable and should be approved. We note that the parties have agreed that the interconnection agreement will become effective only when accepted for filing, without change, by the Federal Energy Regulatory Commission ("FERC"). Big Rivers should file with this Commission a copy of any decision rendered by FERC on the proposed interconnection.

[2] According to its Annual Report for Calendar Year 2005, Big Rivers had a net utility plant of $928,871,745. The proposed construction, therefore, represents an overall increase of approximately one percent in Big Rivers' net utility plant.

IT IS THEREFORE ORDERED that:

1. The proposed interconnection agreement between Big Rivers and KU is approved.

2. Big Rivers' proposed interconnection with KU is properly classified as an ordinary extension of existing systems in the usual course of business, and a CPCN, pursuant to KRS 278.020, is not required.

3. Big Rivers shall file, within 10 days of receipt, a copy of any decision rendered by the FERC on this matter.

Done at Frankfort, Kentucky, this 16th day of April, 2007.

By the Commission

ATTEST:

Executive Director