



Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
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JUN 17 2008

PUBLIC SERVICE
COMMISSION

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June 16, 2008

RE: Joint Verified Application of E.ON AG, Powergen Ltd., and E.ON U.S. LLC for Waiver of Certain Merger Commitments
Case No. 2007-00466

Dear Ms. Stumbo:

Pursuant to the Commission's Order dated December 17, 2007 in the aforementioned proceeding, E.ON U.S. LLC hereby files an original and ten (10) copies of the report detailing the analysis, findings, and views as to potential synergies or other benefits consistent with the concept of E.ON Climate & Renewables North America Inc. (formerly Airtricity NA) being operated outside the United States by E.ON AG's Climate & Renewables market unit.

Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the extra copy.

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

Sincerely,

Rick E. Lovekamp

■ The Prime Group ■

June 13, 2008

Mr. Lonnie Bellar
Vice President, State Regulation and Rates
E.ON U.S. LLC
PO Box 32010
Louisville, KY 40232

Dear Mr. Bellar:

E.ON U.S. hired The Prime Group to prepare a report exploring the potential synergies that might exist between E.ON U.S. and E.ON Climate & Renewables North America, Inc. (formerly Airtricity NA) to fulfill a requirement imposed by the Kentucky Public Service Commission in Case No. 2007-00466. In this case, E.ON AG, Powergen Ltd., and E.ON U.S. filed a joint application requesting a limited waiver of certain commitments that had been agreed to by these companies in August 2001 as part of the transfer of ownership of Kentucky Utilities Company and Louisville Gas and Electric Company from Powergen Ltd. to E.ON AG.

The enclosed report meets the requirement for E.ON U.S. to prepare this report regarding potential synergies. In this report, we conclude that there are no significant synergies that could be identified that would accrue to E.ON U.S. and its customers that might result from E.ON Climate & Renewables NA reporting to E.ON U.S. There are significant synergies from having E.ON Climate & Renewables NA report to and be managed by the Climate and Renewables Division of E.ON AG based in Düsseldorf, Germany, and that this would appear to be a more beneficial reporting and management relationship.

Thank you for the opportunity to work with you on this project. If you find that the report does not meet the requirements imposed by the Commission in Case No. 2007-00466, please contact me and we will make the necessary revisions to make the report acceptable.

Sincerely,



Martin Blake
Principal

**Examination of the
Potential Synergies Resulting from
E.ON Climate & Renewables NA
Reporting to E.ON U.S.**

Prepared By

■ The Prime Group LLC ■

June 2008

Background

In Case No. 2007-00466, E.ON AG, Powergen Ltd., and E.ON U.S. LLC (“E.ON U.S.”) filed a joint application requesting a limited waiver of certain commitments that had been agreed to by these companies in August 2001 as part of the transfer of ownership of Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) from Powergen Ltd. to E.ON AG. In approving that transfer of ownership, the Kentucky Public Service Commission (“Commission”) adopted a number of merger commitments, including the requirements that E.ON AG’s United States headquarters be maintained in Louisville, Kentucky for 10 years and that the management of all future United States based acquisitions by E.ON AG would report to E.ON AG’s United States headquarters.

On October 4, 2007, E.ON AG announced it had entered into a stock purchase agreement with Airtricity Holdings, Limited (“Airtricity”) to purchase Airtricity’s North American wind farm development business (“Airtricity NA”) for approximately \$1.4 billion. Airtricity was in the business of developing or acquiring wind-power electric generation facilities. Airtricity NA’s assets included 210 MW of installed wind generation capacity in Texas, with additional wind farms that were under construction in Texas and New York, as well as wind farms that were being developed in nine U.S. states and Canada. Kentucky was not one of the states where Airtricity NA had existing wind farms or wind farms under development.

The limited waiver that was sought in case No. 2007-00466 was for Airtricity NA to report to E.ON AG’s new Climate and Renewables (“EC&R”) market unit based in Düsseldorf, Germany rather than to E.ON U.S. In that proceeding, E.ON AG and E.ON U.S. made additional commitments that, among other things: (1) the granting of the waiver would not impede KU’s and LG&E’s ability to acquire renewable energy resources in Kentucky; and (2) KU and LG&E would have the opportunity to consider participating in any potential renewable resource project in Kentucky that is under consideration by E.ON AG, its subsidiaries, or business units.

On December 17, 2007, the Commission issued an Order approving the request for limited waiver, subject to four commitments (Appendix A, December 17, 2007 Order). In the December 17, 2007 Order, the Commission noted that the assets and operations of Airtricity were relatively minor in nature and dispersed over a relatively wide geographic area, compared to the centralized assets and operations of LG&E and KU. Thus, the Commission found that there would be few, if any, efficiencies or synergies to KU and LG&E from having Airtricity managed in the United States. The Commission went on to find that due to the unique nature of renewable resources, centralized management of E.ON AG’s assets under its EC&R market unit was reasonable. To ensure that what it assumed about the lack of potential synergies to KU and LG&E were accurate, the Commission ordered that, within 6 months of the acquisition, E.ON file a report with the Commission detailing its analysis, findings, and views as to potential synergies or other benefits consistent with the concept of Airtricity being managed outside the United States by E.ON AG’s EC&R market unit. This report fulfills that requirement of the Commission’s December 17, 2007 Order.

E.ON AG

E.ON AG provides electric power and gas service in nearly 30 countries spanning from Russia to Central Europe to the Midwestern United States. It has annual sales of just under EUR69 billion and close to 88,000 employees. E.ON has an organizational structure with ten market units:

1. Central Europe
2. Climate and Renewables (bundled for all E.ON units)
3. Energy Trading
4. Italy
5. Nordic
6. Pan-European Gas
7. Russia
8. Spain
9. United Kingdom
10. U.S. Midwest

These market units were formed because they represent different areas of business that have a separate and distinct business focus than the other market units. E.ON AG, including via its Corporate Center staff, provides the strategic framework within which these market units operate and sets performance targets for the market units. Market units share best practices and transfer knowledge to other market units. Market units also may share services and occasionally may purchase services from other market units.

E.ON U.S. LLC

E.ON U.S. LLC¹ is lead company of the U.S. Midwest market unit of E.ON AG which includes subsidiaries Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E). KU and LG&E are investor-owned public utilities supplying electricity and natural gas to customers in Kentucky, Virginia and Tennessee. Its electric transmission and distribution network covers about 27,000 square miles. E.ON U.S. had a total of 3,502 employees as of March 31, 2008.

KU is based in Lexington, Kentucky and supplies electric service in an area that covers approximately 6,600 non-contiguous square miles and as of December 31, 2007, served 536,000 customers in 77 counties in Kentucky as well as in five counties in southwestern Virginia that are serviced by Old Dominion Power Company. KU also sells wholesale electricity for resale to 12 municipalities in Kentucky. LG&E, based in Louisville, Kentucky, as of December 31, 2007, served 326,000 natural gas and 401,000 electric customers in Louisville and 16 surrounding counties which cover approximately 700 square miles.

¹ E.ON U.S. LLC was formerly known as LG&E Energy LLC and is the successor, since December 2003, to LG&E Energy Corp. In December 2005, LG&E Energy LLC changed its name to E.ON U.S. LLC.

KU and LG&E have a joint net summer generation capacity of 7,521 megawatts (MW). Their power generating system consists of 18 coal-fired units operated at seven different steam generating stations: E. W. Brown, Cane Run, Ghent, Green River, Mill Creek, Trimble County and Tyrone. Twenty-one gas-fired and/or oil-fired combustion turbines supplement the system during peak periods. The system is further augmented by hydroelectric facilities at Dix Dam and Ohio Falls. The generating units for KU and LG&E are summarized below:

Coal Generating Units	Summer Net Capacity (MW)	Combustion Turbine Generating Units	Summer Net Capacity (MW)
Cane Run 4	155	Cane Run 11	14
Cane Run 5	168	E. W. Brown 5	139
Cane Run 6	240	E. W. Brown 6	154
E. W. Brown 1	101	E. W. Brown 7	154
E. W. Brown 2	167	E. W. Brown 8	125
E. W. Brown 3	429	E. W. Brown 9	125
Ghent 1	475	E. W. Brown 10	125
Ghent 2	484	E. W. Brown 11	125
Ghent 3	480	Haefling 1	12
Ghent 4	493	Haefling 2	12
Green River 3	68	Haefling 3	12
Green River 4	95	Paddy's Run 11	12
Mill Creek 1	303	Paddy's Run 12	23
Mill Creek 2	301	Paddy's Run 13	158
Mill Creek 3	391	Trimble County 5	160
Mill Creek 4	477	Trimble County 6	160
Tyrone	71	Trimble County 7	160
Trimble County 1	383	Trimble County 8	160
Total	5,281	Trimble County 9	160
		Trimble County 10	160
		Zorn	14
		Total	2,164
Hydroelectric Generating Units	Summer Net Capacity (MW)		
Dix Dam 1-3	24		
Ohio Falls 1-8	52		
Total	76		
Grand Total	7,521		

The only electric generating units that are powered by renewable resources at the present time are the Dix Dam and Ohio Falls hydroelectric generating units. Furthermore, in the Integrated Resource Plan (“IRP”) that E.ON U.S. recently filed at the Commission, there are no cost-effective options for E.ON U.S. to develop or construct renewable generation through the end of the planning period which extends through 2022. E.ON U.S. is in the process of considering bids received in response to a renewable RFP that was issued in July 2007, but this would represent a purchase in the market of energy produced using renewable generation. These market purchases of renewable energy would be arms-length transactions with third parties rather than transactions with an unregulated affiliate. This would avoid any issues regarding transactions with unregulated affiliates that might arise.

Thus, expertise in developing and constructing renewable generation resources, such as wind, is not something that E.ON U.S. needs during the fifteen year planning period covered by the IRP.

E.ON Climate and Renewables

On August 21, 2007, E.ON AG announced that it had established a new market unit subsequently known as Climate and Renewables (“EC&R”), based in Düsseldorf, Germany, to be responsible for managing the operation and future development of applicable activities regarding renewable energies within the E.ON Group, as well as coordinating international climate protection projects. EC&R is responsible for globally steering and developing renewables and managing projects for environmental protection. This market unit ensures that best practices in developing renewable projects would be shared among all of the E.ON renewable developers worldwide. It also provides a central team of experts in renewable technologies that would be available to all E.ON renewable development efforts. The development of this new business underscores the significant role that renewables play in E.ON’s strategy.

EC&R has ambitious investment plans to grow key renewable technologies in existing and new world-markets. Today, EC&R is the eighth largest renewable company in the world with regional offices in Munich, Germany; Malmö, Sweden; Madrid, Spain; Coventry, England; and Chicago, Illinois. EC&R also has offices in Potsdam, Germany; Warsaw, Poland; Kuala Lumpur, Malaysia; Lisbon, Portugal; Toronto, Canada; and Austin, Texas. EC&R was formed to achieve the most efficient control and coordination of E.ON’s renewable energy assets given this international scope of its renewable energy initiative.

EC&R manages companies developing renewable energy projects in countries worldwide and has more than 400 employees. EC&R’s objective is to be a leading player in the highly competitive and rapidly growing renewables market through both organic growth and acquisitions, as well as by driving innovation in new technologies. The main part of the current renewable generation capacity is comprised of on- and offshore wind, biomass and biogas/biomethane. The following is a summary of EC&R’s renewable generating capacity as of April 2008:

Country	Renewable Generating Capacity (MW)	Type
Denmark	18	Wind
Germany	228	Wind, Biomass, Biogas
Poland	6	Wind
Portugal	12	Wind
Spain	250	Wind, Biomass, Small Hydro
Sweden	11	Wind, Biomethane
United Kingdom	245	Wind, Biomass
United States	584	Wind
Total	1,354	

EC&R plans to increase its installed renewables capacity to more than 4 GW by 2010 and to about 10 GW by 2015, excluding large hydro. In addition to increasing the capacity of renewable generation capacity that it owns, EC&R is also focusing on CO₂ emission reduction projects. EC&R operates no fossil fired electric generating units.

E.ON Climate & Renewables NA

The former Airtricity NA operations, now renamed, E.ON Climate & Renewables North America, Inc. (“E.ON Climate & Renewables NA”), is in the business of developing, constructing and operating wind-powered electric generation facilities in the United States and Canada. Because E.ON Climate & Renewables NA’s principal business is wind power development across a number of states and regions, it is a relatively horizontal and decentralized business with a dispersed employee base. E.ON Climate & Renewables NA and all of its subsidiaries currently employ 111 people, spread over six locations. The two largest E.ON Climate & Renewables NA locations are in Texas and Illinois with 95 of E.ON Climate & Renewables NA’s employees located in these two states. Although E.ON Climate & Renewables NA anticipates growing its work force as it builds out its wind farm projects, due to the nature of wind farm development and construction, many of those additional employees will be spread across the U.S. and Canada, stationed at development, construction and operation sites.

E.ON Climate & Renewables NA is currently operating wind farms with 584 MW of installed capacity located at the following sites:

Location	Net Capacity (MW)	Year Commissioned
Forest Creek (Texas)	124	2007
Sand Bluff (Texas)	90	2008
Munnsville (New York)	34.5	2007
Roscoe 1 (Texas)	209	2008
Champion (Texas)	126.5	2008
Total	584	

Additional wind generating capacity of about 700 MW is forecasted to be operational by the end of 2008 or early 2009 located at the following sites:

Location	Net Capacity (MW)
Panther Creek (Texas)	258
Pyron (Texas)	249
Inadale 1 (Texas)	197
Total	704

More than 1,000 MW of additional projects are in an advanced development stage. These projects are going to require an investment volume of around \$3.5 billion through 2011. Other projects across the United States and Canada totaling more than 5,000 MW are in an early development stage.

Report Preparation Process

Information for this report was gathered from sources such as the E.ON AG Annual Report, press releases, presentations, filings with the Kentucky Public Service Commission and Orders of the Commission as well as from interviews with EC&R, E.ON U.S and E.ON Climate & Renewables NA personnel. The personnel who were interviewed as a part of the data collection process for preparing this report are:

E.ON U.S. Personnel

- Dan Arbough, Treasurer
- Kathy Butler, Director Information Technology Service Delivery
- Greg Meiman, Senior Counsel & Executive Plans Specialist
- Ron Miller, Director Corporate Tax
- Ken Mudd, Director Human Resource – Corporate
- Doug Schetzel, Director Business Development
- Valerie Scott, Controller

E.ON Climate & Renewables NA

- Gary Watkins, Chief Administrative Officer

E.ON Climate & Renewables

- Simone Rust, Head of Legal, Mergers and Acquisitions and Post Merger Integration

Synergies Between E.ON Climate & Renewables NA and E.ON U.S.

There was an attempt to explore the following areas for potential synergies between E.ON Climate & Renewables NA and E.ON U.S.:

1. Human resources
2. Information technology
3. Finance
4. Legal and regulatory support
5. Technical expertise
6. Tax
7. Back office support (invoicing and payment processing)
8. Operations and maintenance
9. Transmission service
10. Purchasing
11. Management

Synergies result from one entity having resources or expertise that benefits the other entity or from allowing an entity to increase the scale of an operation and being able to realize a reduced unit cost as a result of this increase in scale. For example, if E.ON U.S. were going to develop wind generation projects in its service territory, the expertise that E.ON Climate & Renewables NA has in this area would benefit E.ON U.S. and would represent a potential synergy. As another example, if E.ON Climate & Renewables NA's employees were combined with the current employee base of E.ON U.S., and this increased number of employees allowed E.ON U.S. to negotiate a better price for health insurance, a potential synergy would exist.

Human Resources

The 111 employees of E.ON Climate & Renewables NA, which if added to E.ON U.S.'s 3,502 employees, would not represent a sufficiently large increase to allow E.ON U.S. to negotiate a lower price on employee related benefits, although there would likely be a benefit to E.ON Climate & Renewables NA from such an arrangement. Furthermore, the employees of E.ON Climate & Renewables NA are spread over a wide geographic area which could increase the cost to E.ON U.S. for payroll and employee related benefits due to the additional jurisdictions with which E.ON U.S. would need to deal. Furthermore, the skill set needed by E.ON Climate & Renewables NA employees is different from the skill set for the regulated utility employees of

E.ON U.S. and there would be no benefit to E.ON U.S. in performing the hiring function for E.ON Climate & Renewables NA. Medical plans are usually geographically centered and there would be no benefit to jointly procuring health insurance. The human resources support available within E.ON Climate & Renewables NA would be duplicative and would have no value to E.ON U.S.

In performing this analysis, there are no synergies or efficiencies in the Human Resource area that would benefit E.ON U.S. or E.ON Climate & Renewables NA.

Information technology

Because of E.ON Climate & Renewables NA's relatively small size, there would be no synergies in purchasing computer and communications equipment from bidding the two entities as one. E.ON Climate & Renewables NA has no IT capabilities that E.ON U.S. does not already possess. Although E.ON U.S. could provide IT support for E.ON Climate & Renewables NA, the benefits would flow primarily to E.ON Climate & Renewables NA and not to E.ON U.S. and its customers.

In performing this analysis, no synergies in the IT area were identified that would benefit E.ON U.S. or E.ON Climate & Renewables NA.

Finance and Accounting

Wind projects are financed on a project specific basis. A significant portion of the financing for a wind project comes from monetizing the production tax credits that are currently available for wind projects by securing a tax equity investor that invests cash in the project in exchange for the tax credits. Tax equity financing is a specialty that is not commonly used in financing regulated utilities. The rest of the financing for a wind project comes from debt. Debt financing is available to E.ON Climate & Renewables NA and E.ON U.S. on the same terms from Fidelia Corporation, and there would be no advantage that E.ON U.S. would gain by securing debt for E.ON Climate & Renewables NA as well. With regard to accounting, there is no accounting expertise available in E.ON Climate & Renewables NA that is not already available in E.ON U.S. If E.ON U.S. were to perform the accounting function for E.ON Climate & Renewables NA, E.ON U.S. would have to add new systems and resources which would add to cost and would not be a benefit to E.ON U.S. and its customers.

In performing this analysis, no synergies in the finance and accounting area were identified that would benefit E.ON U.S. or E.ON Climate & Renewables NA.

Legal and Regulatory support

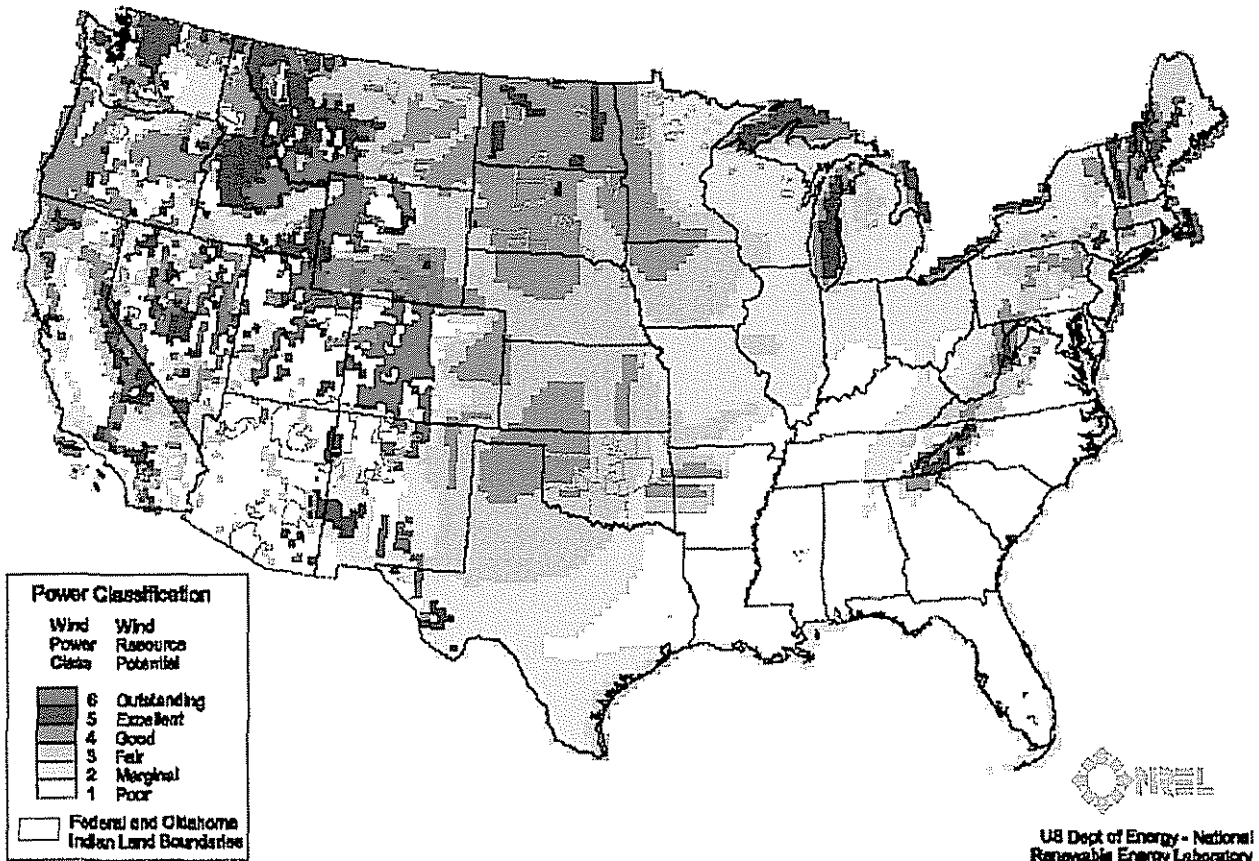
Nearly all of E.ON Climate & Renewables NA’s projects have exempt wholesale generator status at the Federal Energy Regulatory Commission (“FERC”) and are not regulated at the state level. The only exception is the small Munnsville NY wind farm for which FERC has granted the authority to utilize market based rates. E.ON U.S. is a FERC and state regulated public utility. The legal and regulatory issues that concern E.ON Climate & Renewables NA are very different than those of E.ON U.S. and there would be little or no benefit to E.ON U.S. and its customers from providing legal and regulatory support for E.ON Climate & Renewables NA.

Again, the limited benefits would flow primarily to E.ON Climate & Renewables NA.

Technical Expertise

If E.ON U.S. were going to develop wind generation projects in its service territory, the expertise that E.ON Climate & Renewables NA has in this area would benefit E.ON U.S. and would represent a potential synergy. However, the potential for wind generation in Kentucky is rated as poor to marginal as the following chart from the Department of Energy, National Renewable Energy Laboratory shows.

Figure 13. Wind Resource Potential



Since it is unlikely that E.ON U.S. will develop and construct wind generation resources in its service territory, as confirmed by its recent IRP filing, there are no current synergies in the technical expertise area of wind development that would benefit E.ON U.S. and its customers.

Tax

Production tax credits and tax losses, primarily resulting from interest expense and accelerated tax depreciation are available from wind generation projects, such as those developed by E.ON Climate & Renewables NA. However, the consolidated group with which E.ON U.S. is affiliated currently has a substantial amount of unused net operating loss and tax credit carry forwards so combining the production tax credits and other tax losses available from E.ON Climate & Renewables NA would result in minimal tax savings. Furthermore, tax benefits generated from a larger consolidated group would primarily benefit E.ON Climate & Renewables NA.

The tax staff at E.ON U.S. could assist in the tax compliance work for E.ON Climate & Renewables NA but the benefit would primarily be to E.ON Climate & Renewables NA with little or no benefit to E.ON U.S. and its customers.

Back office support (invoicing and payment processing)

E.ON Climate & Renewables NA currently performs all of its own back office functions except for IT support which it receives mostly from E.ON AG. The back office capabilities at E.ON Climate & Renewables NA are primarily focused on invoicing and receiving payment for wholesale transactions and would not be well suited to assist E.ON U.S. with its primarily retail focus.

Although E.ON U.S. could provide back office support for E.ON Climate & Renewables NA, the benefits would flow primarily to E.ON Climate & Renewables NA and not to E.ON U.S. and its customers.

Operations and maintenance

E.ON U.S. primarily operates electric generating facilities that burn fossil fuels and its expertise with regard to operations and maintenance is mainly in this area. E.ON Climate & Renewables NA operates wind generation and the expertise that it has in operations and maintenance of wind generators would be of limited use to E.ON U.S. The equipment needed to operate and maintain fossil fueled electric generators is very different than the equipment needed to operate and maintain wind generators, so there would be no benefit to joint purchasing. E.ON U.S. and E.ON

Climate & Renewables NA have different core competencies with regard to operations and maintenance.

In performing this analysis, no synergies in the operations and maintenance area were identified that would benefit E.ON U.S. or E.ON Climate & Renewables NA.

Transmission service

At the present time, E.ON Climate & Renewables NA operates generating units in the Electric Reliability Council of Texas (“ERCOT”) and in the New York Independent System Operator (“NYISO”). E.ON U.S. borders the Midwest ISO (“MISO”), the Tennessee Valley Authority (“TVA”) and the Southwest Power Pool (“SPP”). E.ON Climate & Renewables NA’s expertise in arranging for transmission service in ERCOT and NYISO would have little or no value to E.ON U.S. and its customers. Additionally, FERC Standards of Conduct and Affiliate Restriction rules governing transmission and marketing functions of related entities place certain appropriate legal and practical constraints on coordination or communication among such functions.

In performing this analysis, no synergies with regard to arranging for transmission service were identified that would benefit E.ON U.S. or E.ON Climate & Renewables NA.

Purchasing

The equipment needed for constructing, operating and maintaining wind generators is sufficiently different from the equipment used in constructing, operating and maintaining fossil fuel-fired generators and there would be no benefit to E.ON U.S. and its customers from performing the purchasing function for both companies.

Management

Having E.ON Climate & Renewables NA report to E.ON U.S. could dilute the time and resources available for E.ON U.S. senior management to oversee its core utility business/focus and would represent a significant commitment with no identifiable benefit to E.ON U.S. and its customers. With E.ON U.S. having its primary focus on regulated utility operations for meeting the needs of retail customers using primarily fossil fuel fired generation, there would also be few, if any, synergies for E.ON Climate & Renewables NA from this reporting arrangement. By contrast, EC&R has a primary business focus on the development, construction and operation of renewable generation, and its management’s expertise in this area would result in significant benefits for E.ON Climate & Renewables NA from reporting to EC&R.

Conclusion

E.ON Climate & Renewables NA has a different business focus and business model than E.ON U.S. The business operations of E.ON U.S. are primarily focused in Kentucky while the operations of E.ON Climate & Renewables NA are presently focused on Texas and New York, with the possibility of developing projects in other states with good wind potential. Because E.ON Climate & Renewables NA's principal business is wind power development across a number of states and regions, it is a relatively horizontal and decentralized business with a dispersed employee base. By contrast, E.ON U.S. is a more centralized business focused on providing retail gas and electric service in the state of Kentucky. Currently, there is no geographic overlap between these two entities. Because of the *poor potential for wind generation* development in Kentucky, there is little chance for geographic overlap between these two entities in the future. E.ON Climate & Renewables NA currently has no plans to develop, build, or acquire any assets in Kentucky.

E.ON U.S. has a primary retail focus and is in the process of withdrawing from its existing unregulated merchant power businesses to focus more on its regulated utilities. By contrast, nearly all of E.ON Climate & Renewables NA's projects are exempt wholesale generators with a sole focus on wholesale sales. There is no present shared business purpose or physical relationship between these two companies. The study of potential synergies between E.ON Climate & Renewables NA and E.ON U.S. showed that there were few, if any, synergies that would benefit E.ON U.S. and its customers. With an exclusive focus on renewable generation development, E.ON Climate & Renewables NA does not have expertise or resources that would likely benefit E.ON U.S. Furthermore, with only 111 employees, E.ON Climate & Renewables NA does not have an employee base that would significantly add to the scale with which E.ON U.S. procures products and services. The synergies from increasing scale would mainly benefit E.ON Climate & Renewables NA. If E.ON Climate & Renewables NA reported to and were managed by E.ON U.S., additional processes and resources would be required to monitor transactions between regulated and unregulated entities which could be avoided by having E.ON Climate & Renewables NA report to EC&R.

By contrast, EC&R is focused solely on the development of renewable generation resources and on coordinating climate protection projects and was organized to manage E.ON's global renewable energy efforts. Through EC&R, E.ON Climate & Renewables NA can tap into significant economies of scale, especially in the purchase of wind turbines. EC&R performs a number of centralized functions for all operational business units that it manages, including for E.ON Climate & Renewables NA. These business functions include:

- Strategy and business development
- Finance and business control
- Procurement
- Communications and IT support
- Technical expertise and in-house consulting
- Health and safety

The EC&R market unit ensures that best practices in developing renewable projects would be shared among all of the E.ON renewable developers worldwide. It also provides a central team of experts in renewable technologies that would be available to all E.ON renewable development efforts. EC&R has significant renewable energy technical and management expertise, and because it has a similar business focus and can provide support that results in significant synergies between EC&R and E.ON Climate & Renewables NA.

In summary, there are no significant synergies that could be identified that would accrue to E.ON U.S. and its customers that might result from E.ON Climate & Renewables NA reporting to E.ON U.S. There are significant synergies from having E.ON Climate & Renewables NA report to and be managed by EC&R and this would appear to be a more beneficial reporting and management relationship. E.ON U.S. may still benefit from the sharing of best practices and knowledge transfer that occurs between E.ON AG market units without incurring any of the costs that are likely to result from E.ON Climate & Renewables NA reporting to E.ON U.S.