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December 14, 2007

TO: PARTIES OF RECORD

RE: Case No. 2007-00466
E.ON AG, et al.

Enclosed are two memos that have been filed in the record of the above-referenced case. Any comments regarding the content of these memos should be submitted to the Commission within five days of receipt of this letter. Questions regarding this matter should be directed to Richard Raff at 502/564-3940, Extension 263.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

vh/
Enclosures

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00466
FROM: Richard Raff, Staff Attorney *RR*
DATE: December 14, 2007
SUBJECT: Joint Verified Application of
E.ON AG, Powergen Ltd., and
E.ON U.S. LLC for Waiver of
Certain Merger Commitments

Pursuant to the request of the Joint Applicants, an informal conference was held at the Commission's offices on November 9, 2007. A list of the attendees is attached hereto.

The Joint Applicants discussed their recently announced intent to acquire a United States based renewable wind energy business known as Airtricity. The Joint Applicants stated that they have formed a new business unit, located in Germany, for managing the operations of their renewable energy projects. Joint Applicants discussed their request for a limited waiver of certain merger requirements in order to allow Airtricity to be managed from the new business unit in Germany, rather than in Louisville, Kentucky.

Joint Applicants also discussed their recently announced goal of acquiring additional renewable energy resources and provided a three-page handout discussing those efforts.

cc: Parties of Record
Attachments (2)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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November 9, 2007 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

RICHARD RAFF

BC-LEGAL

Quang D. Uyng

PSC

Chris Whelan

PSC

Karl R. Ryz

SKO E.ON US -

Duncan Crosby

SKO for E.ON US

Allyson K. Sturgeon

E.ON US

Lonnie Bellar

E.ON US

Fereydoon Gorjian

PSC - Electric Branch

James Scott

PSC - Financial Analyst

Environment

Around the world, nature and people are being forced to adapt to the effects of climate change. The fourth world climate report, published in early 2007, removed any lingering doubts that humans are largely responsible for global warming. Carbon dioxide (CO₂) emissions, about one fifth of which come from the generation of electricity and heat, play a substantial role. For this reason, climate protection is becoming an important issue for energy utilities along with security of supply and economic efficiency. The European Union has sent a strong signal, setting three targets for 2020: to reduce CO₂ emissions by 20 percent from 1990 levels, to increase energy efficiency by 20 percent, and to raise renewables' share of total energy consumption to 20 percent. It is predictable that this will cause a significant change in the European energy supply.

Before the EU announced its plans, E.ON had already taken action: we earmarked €8 billion for investment in renewables and enhancing energy efficiency through 2012. Without building facilities ourselves, we expect these investments to help spur the development of key technologies of the future. We systematically leverage the strengths of our international organization. Our company has the necessary financial resources. And our employees have the necessary know-how which we tap by creating project teams bringing together subject experts from across the Group. This enables us to develop innova-

tive technologies for enhancing the efficiency of coal-fired and gas-fired power plants, for carbon capture and storage, and for renewables, making us a pacesetter in our industry.

Climate Protection

The fourth world climate report of the Intergovernmental Panel on Climate Change (IPCC) has served to heighten public awareness of global warming. The IPCC estimates that by the end of this century temperatures will increase by 1.1 to 6.4 degrees Celsius compared with temperatures during the last two decades of the twentieth century.

E.ON is responsible for about 0.6 percent of the world's man-made CO₂ emissions. We're intensifying our efforts to make a significant contribution to climate protection. We're already making good progress in reducing our carbon intensity (the amount of CO₂ emitted per megawatt-hour of electricity produced). Between 1990 and 2006 we cut our carbon intensity by 32 percent to 0.49 metric tons per megawatt-hour. →

E.ON has recognized the need to reduce its own CO₂ emissions and discussed the attendant opportunities and risks such as those resulting from a change in our investment focus. These discussions enabled us to make good progress in 2006 in developing a groupwide carbon strategy. Never-

Carbon intensity reduced by
32 percent
between 1990 and 2006

Carbon Intensity of E.ON Group							2006 energy mix in percent		
metric tons per MWh of electricity	1990	2002	2003	2004	2005	2006	Fossil, other	Nuclear	Renewables
Central Europe	0.45	0.39	0.41	0.41	0.41	0.41	45.4	47.8	6.8
U.K.	0.94	0.67	0.72	0.79	0.75	0.71	98.7	-	1.3
Nordic	0.02	0.12	0.14	0.01	0.01	0.02	5.6	56.4	38.0
U.S. Midwest	0.99	1.01	1.00	0.93	0.92	0.93	99.2	-	0.8
Total	0.72	0.54	0.55	0.49	0.49	0.49	57.0	34.1	8.9

50 percent

thermal efficiency at a hard-coal fired power plant by 2014

theless, we've chosen, at this stage, not to release specific emission-reduction targets due to regulatory uncertainty, particularly the uncertainty surrounding the design of the EU's emissions-trading scheme beyond 2012 and the evaluation and use of nuclear energy (see page 31). In 2005 E.ON UK set an ambitious target of reducing its carbon intensity by 10 percent by 2012.

Our climate protection effort isn't limited to our power generation business. A pilot project is also under way to identify ways to reduce the carbon footprint of our administrative functions and business travel. → Our energy consulting services, which help many customers lower their energy consumption, also make an important contribution to climate protection (see page 23).

Technologies of the Future We coordinate our research and development activities groupwide and share the insights and advances we achieve throughout our organization. Our research, development, and demonstration (RD&D) projects have four main components: our new technology initiative called innovate.on, our international research initiative, the E.ON Energy Research Center and the RD&D activities of our market units. →

Launched in 2006, innovate.on is designed to leverage our energy and technological expertise in order to spur the development of key technologies to make energy supply more environmentally friendly. We will expend several hundred million euros in the implementation phase of major projects in the years ahead. The initiative concentrates on four areas:

- boosting the efficiency of hard-coal-fired power stations
- carbon capture and storage (CSS)
- offshore wind power (see page 30)
- biogas (see page 30).

In a project called 50plus, we intend to build the world's first hard-coal-fired power plant with a thermal efficiency of more than 50 percent. Plans call for the unit, which will have a capacity of at least 400 megawatts (MW), to enter service in 2014 at a site in Germany. If built with a capacity of 800 MW, the unit would emit 1.4 million metric tons less CO₂ than a typical coal-fired power plant in Germany.

Enhancing the efficiency of coal-fired generating units is also an important step towards developing CCS technology, which reduces the thermal efficiency of power generation by about 10 percent.

We're studying all CCS technologies intensively and have already initiated a number of projects. →

- Post-combustion carbon capture is an important option because it offers the potential of retrofitting existing power plants. Examples: E.ON Energie (CATO), E.ON Nordic (Karlshamn).
- Pre-combustion carbon capture involves mixing coal with air and water, reducing it to hydrogen and CO₂, and capturing the latter prior to combustion. Examples: E.ON U.S. (FutureGen), E.ON UK (Killingholme).
- Oxyfuel involves burning coal in a mixture of pure oxygen and flu gas, essentially limiting emissions to CO₂ which can be captured and stored. Example: E.ON UK (Power Technology).

The successful use of CCS will not only require technical refinements and the development of new materials, but also experience with storage options for captured CO₂. That's why E.ON Energie is currently working with geologists to screen its coal-fired generation sites for their suitability for carbon storage. We expect a pilot storage facility to become operational in 2014. In terms of planning and regulatory approvals process, there is extensive expertise in underground natural gas storage existing at E.ON Ruhrgas.

Renewable Energies

The EU has proposed that renewables cover 20 percent of the Europe's primary energy consumption by 2020. We believe this is a realistic goal if the EU succeeds in harmonizing the member states' divergent subsidy programs and if electricity storage solutions are developed.

In 2006 we had 6,612 MW of renewable-source generating capacity, with renewables accounting for 8.9 percent, or 20.5 TWh, of our total generation. →

We plan to invest more than €5 billion in renewables over the next ten years, of which about €1 billion is earmarked for specific projects through 2009.

Wind Power E.ON's goal is to add 1,700 MW of new offshore wind capacity by 2011 and become Europe's leader in this technology. We plan to build an aggregate 3,200 MW of additional onshore and offshore capacity during this period. Offshore wind farms offer greater potential because they benefit from stronger, more reliable wind conditions compared with onshore wind farms. Moreover, there is greater public support for offshore facilities.

We face special challenges in Germany where nature-conservancy laws require that offshore wind farms be sited farther from land in water depths of up to 40 meters. We're therefore testing new 5 MW offshore turbines on land and setting up

small-scale test facilities offshore before we begin constructing large offshore wind farms. →

As we move forward with wind power projects in Germany, there is some experience existing in other parts of our organization. E.ON UK operates Scroby Sands, a 60-MW wind farm. The company is also part of a consortium that will build London Array, the world's largest offshore wind farm. This facility is sited off the mouth of the River Thames and will have a capacity of 1,000 MW. In addition, E.ON Nordic is Sweden's largest supplier of wind power.

Biogas In addition to using biomass to generate electricity, we've also launched a biogas offensive to expand the use of biomass in Germany. For example, E.ON edis and E.ON Bayern have built four new biogas plants. →

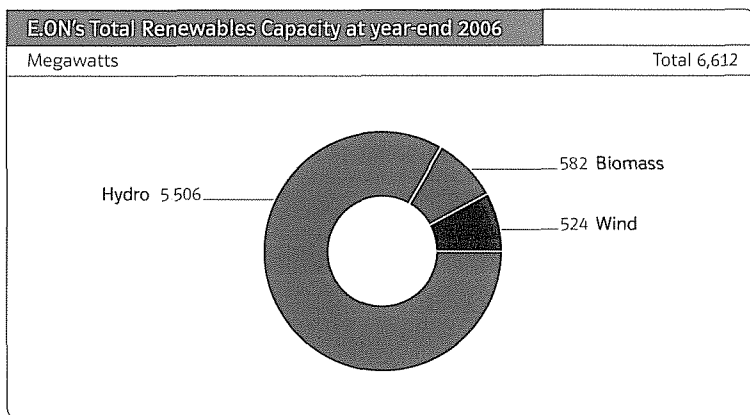
In Sweden we also plan to increase our energy-production capacity from biogas: we aim to grow our biogas heat generation capacity by almost 200 percent to 3,150 MW and our biogas electric generating capacity by 160 percent to 400 MW by 2015.

We also think that upgrading biogas to pipeline-quality gas has considerable potential. Pipeline-quality biogas offers greater flexibility, since it can be injected into the natural gas pipeline system and transported to consumption centers. E.ON Nordic has years of experience operating plants for injecting upgraded biogas into natural gas pipelines. In early 2007 E.ON Ruhrgas created a new company called E.ON Bioerdgas GmbH, which will build its own biogas production and processing facilities and also trade pipeline-quality biogas. Its first step will be to construct Germany's largest biogas processing facility, to be located in Dorsten. The facility, which is expected to enter service in 2007, will produce about 9 million cubic meters of pipeline-quality biogas each year. E.ON Bioerdgas is working closely with E.ON's regional distribution companies in Germany.

Foundation of
E.ON Bioerdgas GmbH

8.9 percent

of E.ON's owned generation came from renewables in 2006



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E.ON AG, Powergen Ltd., and
E.ON U.S. LLC for Waiver of
Certain Merger Commitments

Pursuant to the request of the Joint Applicants, an informal conference was held at the Commission's offices on December 7, 2007. A list of the attendees is attached hereto.

The Joint Applicants discussed a number of proposed amendments to their originally filed application and agreed to file an amended application on the following business day.

cc: Parties of Record

E.ON AG et al. Case No. 2009-466 Informal Conference

12/07/07

Richard Koff

James Sisco

Fereshtoon Gorjian

Dennis Howard II

Larry Cook

Lonnie Bellar

Allyson Sturgeon

Duncan Crosby

Amel Arpa

Quang D. Nguyen

PSC-legal

PSC - Financial Analysis

PSC/Electric Branch

OAG

OAG

LG&E + KU

LG&E / KU

SKO for LG&E / KU

SLU for LG&E / KU

PSC