

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY AND KENTUCKY)
UTILITIES COMPANY FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY,) CASE NO: 2004-_____
AND A SITE COMPATIBILITY CERTIFICATE,)
FOR THE EXPANSION OF THE TRIMBLE)
COUNTY GENERATING STATION)

DIRECT TESTIMONY OF
KENT W. BLAKE
DIRECTOR, STATE REGULATION AND RATES
LG&E ENERGY SERVICES INC.

Filed: December 9, 2004

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

2 A. My name is Kent W. Blake. I am Director of State Regulation and Rates for LG&E
3 Energy Services Inc. on behalf of Louisville Gas and Electric Company (“LG&E”) and
4 Kentucky Utilities Company (“KU”) (collectively the “Companies”). My business
5 address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my
6 qualifications is attached as Appendix A.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to discuss issues of cost, financing, joint participation,
9 and other regulatory approvals relating to the Companies’ plan to expand the Trimble
10 County Generating Station (“Trimble Station”) through the construction of their seventy-
11 five percent collective share of a 750 MW nominal net super-critical pulverized coal unit
12 (“TC2”). I will also describe the Companies’ position regarding rate recovery associated
13 with the construction of TC2 and will conclude by recommending that the Commission
14 approve the Companies’ Joint Application and authorize the construction of TC2 as
15 proposed.

16 **Q. How much will it cost to build TC2?**

17 A. As discussed in detail in the testimony of Mr. Voyles, the estimated cost of the project is
18 approximately \$1.1 billion, excluding the cost of transmission facilities. The Companies’
19 share of that cost, however, will be approximately \$800 million, or 75%. The other 25%
20 share of the project will be borne by the Illinois Municipal Electric Agency (“IMEA”)
21 and the Indiana Municipal Power Agency (“IMPA”), as discussed in detail later in my
22 testimony.

23 **Q. How do the Companies plan to finance their share of the cost to construct TC2?**

1 A. LG&E and KU expect to finance their share of the costs of TC2 with a combination of
2 new debt and equity. The debt is expected to be a combination of short-term debt, in the
3 form of commercial paper notes, loans from affiliates via the money pool, bank loans,
4 and/or long-term intercompany loans from E.ON affiliates, and/or new long-term tax-
5 exempt bonds. Tax exempt bonds would only be available to the extent of qualifying
6 costs and to the extent state volume cap is allocated to this project. LG&E and KU will
7 seek the Commission's approval of any debt instruments as necessary. The additional
8 equity will come in two forms: retaining current earnings and equity contributions from
9 LG&E Energy LLC. The mix of debt and equity used to finance the project will be
10 determined so as to allow both LG&E and KU to maintain their strong investment-grade
11 credit ratings. The Companies will continue to evaluate financing alternatives during
12 construction of the project and will seek the approval of the Commission before entering
13 into any alternative financing.

14 **Q. How will the costs of construction be allocated between KU and LG&E?**

15 A. Based on their capacity and energy needs, as detailed in the testimony of Mr. Malloy, KU
16 and LG&E will own 81% and 19%, respectively, of the Companies' share of TC2. KU
17 and LG&E will each pay its pro rata share of the construction costs, based on those
18 respective ownership percentages.

19 **Q. You previously made reference to the participation of IMEA and IMPA in the TC2
20 project. Please describe that participation.**

21 A. To understand the participation of IMEA and IMPA in the TC2 project, it is necessary to
22 start with the construction of the Trimble Station itself. In 1987, the Commission
23 initiated a review of the status of Unit 1 at the Trimble Station ("TC1") and stated that

1 “25 percent of the output of Trimble County is available for LG&E to use to generate
2 additional revenues from wholesale sale. ... LG&E retains control over the 25 percent of
3 Trimble County disallowed to use as its management sees fit.” *In the Matter of: A*
4 *Formal Review of the Current Status of Trimble County Unit No. 1*, Case No. 9934,
5 Order, p. 6 (April 20, 1989). Following that Order, LG&E sold 25% of TC1 to IMEA
6 and IMPA. Specifically, IMEA purchased 12.12% of TC1 by agreement dated
7 September 24, 1990, and IMPA purchased 12.88% of TC1 by agreement dated February
8 1, 1993. Under those respective agreements, copies of which were filed in the
9 proceeding involving the Companies’ 2002 Integrated Resource Plan (“IRP”) (Case No.
10 2002-00367), IMEA and IMPA also had a right of first refusal to participate in the
11 ownership of TC2 at the same level as their ownership interest in TC1. Both IMEA and
12 IMPA have since exercised their rights of first refusal to participate in TC2, subject to
13 receiving all applicable approvals. In the unlikely event that IMEA and/or IMPA are
14 unable to obtain those necessary approvals, the Companies will make a determination to
15 operate that incremental portion of TC2 as a merchant facility or will promptly advise the
16 Commission of its plans to seek an additional CCN for that additional portion of the
17 capacity. However, as discussed in the testimony of Mr. Thompson, the Companies have
18 had a good working relationship with IMEA and IMPA, and fully expect that relationship
19 to continue with the joint development and ownership of TC2.

20 **Q. Is there a formal agreement regarding the participation of IMEA and IMPA in the**
21 **TC2 project?**

22 A. Yes. IMEA and IMPA have entered into a Participation Agreement (“PA”) with the
23 Companies. Under the terms of that PA, entered into on February 9, 2004, IMEA and

1 IMPA will own 12.12% and 12.88%, respectively, of TC2, and will share in the
2 construction costs, subject to all applicable approvals as noted above. A copy of that PA
3 is attached as KWB-1.

4 **Q. Did the Companies obtain Commission approval of the PA before it was entered**
5 **into?**

6 A. No approval was sought or obtained, and the Companies do not believe that approval was
7 required as a matter of regulation. The PA with IMEA and IMPA was entered into
8 before the execution of any contracts for design, construction, material or equipment for
9 TC2 and, therefore, IMEA and IMPA will own 25% of TC2 from the outset. The
10 Companies will never have any ownership interest in that 25% of TC2 and thus no
11 jurisdictional transfer will occur.

12 **Q. Does the involvement of IMEA and IMPA in the TC2 project create the need for**
13 **any additional regulatory approvals?**

14 A. Yes. IMEA's and IMPA's share of TC2 will be considered a merchant electric
15 generating facility under KRS 278.700, *et seq.*, and those two parties will be required to
16 apply for and obtain a construction certificate from the Kentucky State Board on Electric
17 Generation and Transmission Siting ("Siting Board"). The Companies expect to
18 intervene and actively participate in that proceeding before the Siting Board.

19 **Q. Are there any other regulatory approvals or permits needed for the TC2 project?**

20 A. Yes. As discussed in the testimony of Ms. Dodson, the Companies will need certain
21 environmental permits. The Companies will also be required to seek a CCN for the
22 construction of certain transmission facilities, pursuant to applicable law

1 **Q. Why are the Companies not requesting a CCN for the transmission facilities as part**
2 **of this proceeding?**

3 A. The Companies are not seeking a CCN for any transmission facilities as part of this Joint
4 Application for two reasons. First, there are significant differences associated with the
5 timing of a decision on those two applications. Specifically, KRS 278.020 places no
6 specified timeline on when the Commission must render a decision on a CCN application
7 for a generating unit like TC2, but does require that the Commission rule on an
8 application for a CCN for transmission facilities within no more than 120 days from the
9 filing of that application. Second, the regulation governing the application for a
10 transmission CCN, 807 KAR 5:120, is not yet final. For those reasons, the Companies
11 are filing herewith a motion for an informal conference to discuss a procedural schedule
12 in this proceeding, and the timing for filing an application for the transmission CCN. The
13 Companies also propose to discuss the timing of the proceedings before the Siting Board
14 during that informal conference.

15 **Q. Are the Companies seeking to recover the costs associated with the construction of**
16 **TC2 from their ratepayers at this time?**

17 A. The Companies are not presently seeking cost recovery associated with the planned
18 construction of their share of TC2, as cost recovery is not within the scope of KRS
19 278.020. However, the Companies do expect to seek cost recovery in the future,
20 consistent with the Commission's long-standing policy of including construction work in
21 progress in base rates or pursuant to other applicable law.

22 **Q. Do you have a recommendation for the Commission in this case?**

1 A. Yes. It is my recommendation that the Commission grant the Companies' Joint
2 Application and approve the planned expansion of the Trimble Station through the
3 construction of the Companies' collective 75% share of TC2 which participation is to be
4 divided 19% and 81% between LG&E and KU, respectively, as proposed. The
5 Companies have established, through their Application and supporting documents,
6 including direct testimony, that there is a need for additional capacity, that the
7 construction of TC2 is the least-cost alternative to meet that need, and that the proposed
8 construction is compatible with the chosen site and surrounding area.

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says he is Director of State Regulation and Rates for LG&E Energy Services Inc., 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.

Kent W. Blake

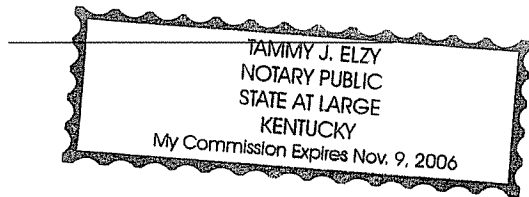
KENT W. BLAKE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of December 2004.

Tammy J. Elzy

Notary Public

My Commission Expires:



Appendix A

Kent W. Blake

Director, State Regulation and Rates
LG&E Energy Services Inc.
220 West Main Street
P. O. Box 32010
Louisville, Kentucky 40202
(502) 627-2573

Education

University of Kentucky, B.S. in Accounting, May 1988
Certified Public Accountant, Kentucky, January 1991

Previous Positions

LG&E Energy LLC, Louisville, Kentucky
2003 (Sept) – 2004 (Oct) – Director, Regulatory Initiatives
2003 (Feb) – 2003 (Sept) – Director, Business Development
2002 (Aug) – 2003 (Feb) – Director, Finance and Business Analysis

Mirant Corporation (f.k.a. Southern Company Energy Marketing)
2002 (Feb-Aug) – Senior Director, Applications Development
2000-2002 – Director, Systems Integration
1998-2000 – Trading Controller

LG&E Energy Corp.
1997-1998 – Director, Corporate Accounting and Trading Controls

Arthur Andersen LLP
1992-1997 – Manager, Audit and Business Advisory Services
1990-1992 – Senior Auditor
1988-1990 – Audit Staff