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June 15, 2006

VIA FEDERAL EXPRESS

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

JUN 16 2006

PUBLIC SERVICE
COMMISSION

**RE: In the Matter of the Application of Louisville Gas and Electric Company and
Kentucky Utilities Company for Authority to Transfer Functional Control of
Their Transmission System**
Case No. 2005-00471

Dear Ms. O'Donnell:

On June 7, 2006, the Commission Staff held an informal conference in the above-captioned proceeding. During the course of the conference, Staff requested that LG&E and KU (the "Companies") file in this proceeding a copy of their May 24, 2006 filing with the Federal Energy Regulatory Commission ("FERC") concerning the Companies' market-based rates tariffs.¹ In that filing, the Companies tendered to FERC amendments to their market-based rate tariffs that would apply to the Companies after they withdraw from membership in the Midwest Independent Transmission System Operator, Inc. ("MISO").

In response to the Commission Staff's request, ten copies of this letter and of the May 24, 2006 FERC filing are enclosed for filing with the Commission.

¹ FERC Docket No. ER06-1046-000. The final date for intervention in the FERC docket was June 14, 2006. To date, the Companies' FERC counsel not been served with any interventions, and none have appeared on the FERC website.

Elizabeth O'Donnell
June 15, 2006
Page 2

If the Commission has any questions or needs any additional information in connection with this filing or any other matter concerning this proceeding, please contact me at your earliest convenience.

Very truly yours,



Kendrick R. Riggs

KRR/ec

Enclosures

cc: All persons of record as having filed Motions for Intervention (w/encl.)
Kent W. Blake
Elizabeth L. Cocanougher

Request for Expedited Treatment

ORIGINAL

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May 24, 2006

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

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REGULATORY
COMMISSION

RE: Docket No. ER06-~~1046~~000
*LG&E Energy Marketing Inc., Louisville Gas and Electric Company,
Kentucky Utilities Company, Western Kentucky Energy Corporation*

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act and Part 35 of the Commission's regulations,¹ LG&E Energy Marketing Inc. ("LEM"), Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU"), and Western Kentucky Energy Corporation ("WKEC") (collectively, the "E.ON Parties") hereby tender for filing amendments to their respective market-based rate tariffs ("Amended Tariff Sheets"). As explained fully in Part III below, the E.ON Parties propose to amend their respective market-based rate tariffs so that these tariffs, effective on the date LG&E and KU exit the Midwest Independent System Operator, Inc. ("Midwest ISO"), no longer authorize the E.ON Parties to make any market-based sales of capacity and/or energy in the LG&E/KU control area or in the Big Rivers Electric Corp. ("BREC") control area. Post-Midwest ISO exit, any sales in these areas will be made pursuant to existing or new cost-based rate authorities, or pursuant to any mitigation mechanism filed in the future which is approved by the Commission.

As explained more fully below, as a result of the Midwest ISO market modeling process, the E.ON Parties request that the Commission act on this filing no later than July 6, 2006 in order to effectuate the E.ON Parties' withdrawal from the Midwest ISO by September 1, 2006.

The E.ON Parties respectfully request that the Commission accept the Amended Tariff Sheets for filing, without suspension, hearing or modification. E.ON Parties request an effective date as of the date LG&E and KU regain operational control of their respective transmission systems from the Midwest ISO, and transfer such control to

¹ 16 U.S.C. § 824d (2000); 18 C.F.R. Part 35 (2005).

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Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 2

certain independent third parties.² E.ON Parties request waiver of the Commission's notice requirements³ to the extent necessary so that the Amended Tariff Sheets may be accepted in order to effectuate such an exit date.

E.ON Parties note that the limitations on their market-based rate authorities proposed here are for the purpose of clarifying the scope of such authorities for applicability when LG&E and KU exit the Midwest ISO. This is because certain Commission orders have raised questions regarding the appropriate scope of such authorities for similarly-situated public utilities.⁴ E.ON Parties also understand that the Commission very recently issued a Notice of Proposed Rulemaking ("NOPR") on market-based rates. *Market-Based Rates for Wholesale Sales of Electric Energy, Capacity and Ancillary Services by Public Utilities*, Docket No. RM04-7-000 (May 19, 2006). Accordingly, E.ON Parties clarify that any limitation on market-based rates sales authority proposed here is not intended to waive any rights which the E.ON Parties may have to expanded market-rate authorities as a result of any final rule issued in Docket No. RM04-7-000. The E.ON Parties thus fully intend that this filing will be effective on an interim basis until the E.ON Parties file any changes necessary to comply with any final rule in Docket No. RM04-7-000.

Similarly, the E.ON Parties clarify that they intend for any authority requested herein to be applicable prospective-only as of the effective date requested herein (*i.e.*, the date of Midwest ISO exit). This filing is not intended to amend or change the proceeding which is currently pending before this Commission on compliance in Docket No. EL05-99, nor affect any transactions entered into thereunder.⁵

² On March 17, 2006, the Commission issued an order conditionally accepting a proposal filed by certain of the E.ON Parties to withdraw from the Midwest ISO, and to delegate certain transmission-related duties to third parties. *Louisville Gas and Electric Co., et al.*, 114 FERC ¶ 61,282 (2006) ("Withdrawal Order").

³ 18 C.F.R. § 35.3(a) (2005).

⁴ See, e.g., *MidAmerican Energy Company*, 114 FERC 61,208 (2006).

⁵ In an order issued December 1, 2005, in Docket No. EL05-99, the Commission directed the E.ON Parties to modify their respective market based-rate tariffs to, among other things, mitigate sales of power in the BREC control area. *LG&E Energy Mktg. Inc.*, 113 FERC ¶ 61,229 (2005) ("December 1 Order"). The E.ON Parties submitted tariff sheets in compliance with this order on January 3, 2006, as amended January 12, 2006 and March 8, 2006. The March 8, 2006 filing responded to a February 15, 2006 letter order issued in Docket No. EL05-99-001. The March 8, 2006 filing remains pending before the Commission.

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Hon. Magalie R. Salas, Secretary

May 24, 2006

Page 3

As noted, the E.ON Parties respectfully request expedited treatment for this filing so that an order may be issued no later than July 6, 2006. This expedited treatment is important. LG&E and KU must provide notice to the Midwest ISO no later than June 15, 2006 in order to effectuate a withdrawal from the Midwest ISO on September 1, 2006. This advance notice is necessary because the Midwest ISO's market modeling process requires such lead time. Under the modeling process, E.ON Parties may withdraw their notice by July 7, 2006. Upon the withdrawal of such a notice, Midwest ISO may re-run its models in a timely fashion. Thus, if the Commission decides to reject or substantially modify the instant request, the E.ON Parties must know by July 6, 2006 in order that they may determine in a timely fashion whether it may be appropriate to withdraw their notice to the Midwest ISO. If a Commission decision on this matter is not obtained as of July 6, 2006, the E.ON Parties could be forced to wait for another "modeling window" to open before exiting Midwest ISO. The next withdrawal date would be December 1, 2006. Accordingly, an order is needed on this filing by July 6, 2006, so as to permit the E.ON Parties to make an informed decision regarding how they should be accounted for in Midwest ISO's June-July 2006 modeling process.

1. Description of the E.ON Parties and Relevant Affiliates

The E.ON Parties, each of which are described below, are all wholly-owned subsidiaries of E.ON U.S. LLC ("E.ON U.S."), a Kentucky corporation and public-utility holding company.⁶ E.ON U.S. is a wholly-owned subsidiary of E.ON AG ("E.ON"), a stock corporation formed under the laws of the Federal Republic of Germany.⁷ Other than through E.ON U.S. and its subsidiaries, E.ON neither owns nor controls electric generation in the United States.

Relevant subsidiaries of E.ON U.S. are described in Exhibit A hereto.

a. LG&E and KU

LG&E is a public utility that owns and operates electric generation, transmission, and distribution facilities, and also natural gas distribution and storage facilities, in Kentucky. KU is a public utility that owns and operates electric generation, transmission, and distribution facilities in Kentucky, with limited operations in Tennessee and Virginia. Combined, LG&E and KU control approximately 8,110 MW of generation capacity and

⁶ E.ON U.S. was previously named LG&E Energy LLC.

⁷ See *E.ON AG*, 97 FERC ¶ 61,049 (2001) (approving E.ON acquisition of LG&E Energy) ("E.ON").

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Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 4

serve approximately 840,000 electricity customers.⁸ LG&E and KU are the only domestic entities affiliated with any of the E.ON Parties that have franchised service territories and/or ownership interests in transmission facilities.

LG&E and KU have received Commission authority to engage in wholesale sales of capacity and energy at market-based rates.⁹ As discussed below, however, certain sales under these market-based rate tariffs are being collected subject to refund and the outcome of the proceeding in Docket No. EL05-99.

LG&E and KU operate a joint control area and currently are both members of the Midwest ISO. On March 17, 2006, LG&E and KU received Commission authorization to withdraw from the Midwest ISO and, accordingly, have operational control of their transmission lines transferred from the Midwest ISO back to LG&E and KU.¹⁰ LG&E and KU are in the process of effectuating this withdrawal and expect to finalize their exit from the Midwest ISO on or before September 1, 2006.

b. LEM and WKEC

LEM is a power marketer which does not own any generating facilities. WKEC is the lessor and operator of certain generating facilities owned by Big Rivers Electric Corporation ("BREC"), a generation and transmission cooperative located in Henderson, Kentucky,¹¹ and (ii) the Station Two facility owned by the City of Henderson, Kentucky ("Henderson"), located in Henderson, Kentucky.

⁸ In addition, LG&E and KU have a right to energy from Smith Units 1 and 2 owned by Owensboro Municipal Utilities ("OMU") and located in the LG&E/KU control area. E.ON U.S. also holds an indirect ownership interest in Ohio Valley Electric Corporation ("OVEC"), and an 8.13-percent power participation share, equivalent to approximately 227 MW, as described in Exhibit A.

⁹ *Louisville Gas & Elec. Co.*, 85 FERC ¶ 61,215 (1998) (accepting for filing joint market-based rate tariff of LG&E and KU, FERC Electric Tariff, Original Volume No. 2); *LG&E Operating Cos.*, Docket No. ER99-1623-000, Letter Order, Jun. 4, 1999 (accepting revised tariff – FERC Electric Tariff, Original Volume No. 3 – for LG&E and KU permitting limited sales to certain affiliates).

¹⁰ *Louisville Gas & Elec. Co.*, 114 FERC ¶ 61,282 (2006) ("Midwest ISO Exit Order").

¹¹ These BREC generating facilities include the following coal-fired facilities: the Kenneth C. Coleman facility, the R.D. Green facility, the D. B. Wilson facility, and the Robert A. Reid facility.

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Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 5

At present, WKEC¹² sells the vast majority of this power to BREC and Kenergy, a distribution cooperative of BREC.¹³ Any excess power is sold by WKEC to LEM, who makes certain sales of this and other purchased power to third-parties.

Both LEM and WKEC have on file with the Commission tariffs for the sales of wholesale capacity and energy at market-based rates.¹⁴ As is the case with LG&E and KU, certain sales under these market-based rate tariffs are being collected subject to refund and the outcome of the proceeding in Docket No. EL05-99.

2. Background

a. E.ON Parties' Authorizations for Market-Based Rates

As noted above, the E.ON Parties all have on file with the Commission market-based tariffs.¹⁵ In an order issued December 1, 2005, in Docket No. EL05-99, the Commission directed the E.ON Parties to modify their respective market-based rate tariffs to, among other things, mitigate the pricing on sales of power in the BREC control area.¹⁶ The E.ON Parties submitted tariff sheets in compliance with this order on January 3, 2006, as amended January 12, 2006 and March 8, 2006. The March 8, 2006 filing responded to a February 15, 2006 letter order issued in Docket No. EL05-99-001. The March 8, 2006 filing remains pending before the Commission.

In addition, on January 30, 2006, the E.ON Parties submitted revised tariff sheets as part of a filing submitted in compliance with the December 1 Order. That order required the E.ON Parties to submit an updated market power analysis to reflect the fact that LG&E and KU had (then recently) filed to withdraw from the Midwest ISO.¹⁷ As

¹² This reflects a change based on a recent corporate restructuring that moved service of these contracts to WKEC. *See W. Ky. Energy Corp.*, 114 FERC ¶ 62,228 (2006).

¹³ These arrangements are described more fully in the November 19, 2004 and July 5, 2005 filings by LEM and its affiliates in Docket Nos. ER94-1188, *et al.*

¹⁴ *LG&E Power Mktg., Inc.*, 68 FERC ¶ 61,247, *modified on other grounds*, 69 FERC ¶ 61,153 (1994). LEM was formerly known as LG&E Power Marketing Inc. *See Notice of Name Change*, Docket No. ER97-3418-000, Jun. 24, 1997. *WKE Station Two Inc.*, 82 FERC ¶ 61,178 (1998) (accepting for filing market-based rate tariffs of WKE Two and WKEC).

¹⁵ LG&E and KU have on file two joint market-based rate tariffs.

¹⁶ *LG&E Energy Mktg., Inc.*, 113 FERC ¶ 61,229 (2005) ("December 1 Order").

¹⁷ *Id.* at P 13.

TROUTMAN SANDERS LLP
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A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary

May 24, 2006

Page 6

part of that filing, the E.ON Parties submitted revised tariff sheets that they requested to be accepted for filing effective on the date LG&E and KU exit the Midwest ISO. The present filing replaces those tariff sheets submitted January 30, 2006.

b. Midwest ISO Exit

On October 7, 2005, E.ON U.S., together with and on behalf of LG&E and KU, filed under FPA Sections 203 and 205 for authorization to withdraw from the Midwest ISO. On March 17, 2006, the Commission granted the authorizations requested by LG&E and KU, subject to certain conditions and compliance obligations. LG&E and KU have filed with the Commission to meet their compliance obligations.¹⁸

In their application to withdraw from the Midwest ISO, LG&E and KU committed to submit a "change in status" report with the Commission within 30 days of their withdrawal from the Midwest ISO addressing the effects of their withdrawal on the market-based rate authority granted to them and their affiliates. The Commission noted this commitment in granting LG&E and KU's withdrawal application.¹⁹ LG&E and KU reaffirm this commitment to submit such a filing within 30 days of their withdrawal.

3. Market-Based Tariff Amendments

The E.ON Parties submit the attached Amended Tariff Sheets at this time in order to clarify the scope of their market-based rate authorizations post-exit from the Midwest ISO. As noted above, LG&E and KU expect to exit the Midwest ISO effective September 1, 2006. The E.ON Parties respectfully request that the Commission accept the Amended Tariff Sheets for filing, without suspension or modification, to be effective on the date of the LG&E/KU withdrawal from the Midwest ISO, whether September 1, 2006 or another date.²⁰

¹⁸ *Louisville Gas & Elec. Co.*, 114 FERC ¶ 61,282 (2006) ("Midwest ISO Exit Order"); see also *LG&E Energy LLC et al.*, Docket Nos. EC06-4-002 and ER06-20-002, Compliance Filing of LG&E Energy, LLC (April 11, 2006).

¹⁹ *Id.* P 199.

²⁰ As set forth in Section IV, *infra*, the E.ON Parties respectfully request waiver of the Commission's notice requirements to the extent necessary to permit the Revised Tariff Sheets to become effective on the date LG&E and KU consummate withdrawal from the Midwest ISO.

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Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 7

a. Basis for and Overview of the Amended Tariff Sheets

On April 14, 2004, in *AEP Power Marketing, Inc. ("AEP")*,²¹ the Commission replaced its prior test for assessing whether an entity may enjoy blanket market-based rate authority test with two "indicative" screens. These two screens – an uncommitted pivotal supplier analysis ("Pivotal Supplier Screen") and an uncommitted market share analysis ("Market Share Screen") – are designed to provide a rebuttable presumption of an absence of market power for those entities that pass the screens. The Commission stated in *AEP* that the default geographic markets for which this analysis should be conducted are the control areas in which the applicant is located, plus the control areas directly adjacent (the "first-tier" control areas).²²

Once LG&E and KU exit the Midwest ISO, one of the appropriate geographic markets for analysis of the E.ON Parties generation market power will be the LG&E/KU control area.²³ After initial analysis, the E.ON Parties believe that they will be unable to pass one or both the Commission's screens for the LG&E/KU control area. Rather than attempt to rebut the presumption of market power in the LG&E/KU control area created by this screen failure,²⁴ the E.ON Parties have chosen to give up their market-based rate authority for sales with a point of delivery within the LG&E/KU control area, effective on the date LG&E and KU exit the Midwest ISO. E.ON Parties clarify that any sales made in the LG&E/KU control area will be made pursuant to existing or new cost-based rate authorities, or pursuant to another mitigation mechanism filed with and approved by the Commission.

In addition, the E.ON Parties propose to give up their market-based rate authority for sales with a point of delivery within the BREC control area, effective on the date LG&E and KU exit the Midwest ISO. As noted above, the E.ON Parties failed the Commission's market share screen for the BREC control area and, to date, have been unable to rebut successfully the presumption of generation market power created by this screen failure. Currently pending before the Commission on compliance in Docket No. EL05-99, as filed March 8, 2006, are market-based rate tariff sheets for the E.ON Parties

²¹ 107 FERC ¶ 61,018 (2004).

²² *Id.* at P 73 ("Accordingly, our default relevant geographic markets under both screens will be first, the control area market where the applicant is physically located, and second, the markets directly interconnected to the applicant's control area market (first-tier control area markets)") (footnotes omitted).

²³ Prior to the withdrawal of LG&E and KU from the Midwest ISO, the Midwest ISO footprint is the appropriate geographic market. *LG&E Energy Mktg. Inc.*, 111 FERC ¶ 61,153 at P 20, 26 (2005).

²⁴ See *AEP* at P 37 (failure of either screen creates a rebuttable presumption of generation market power).

TROUTMAN SANDERS LLP
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A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 8

that would permit the E.ON Parties to sell power at points of delivery in the BREC control area at prices mitigated to the Midwest ISO border locational marginal price.

The E.ON Parties continue to believe that such tariff provisions are just and reasonable, and should be accepted for filing by the Commission.²⁵ In order to facilitate the Commission's expedited review of the present filing, however, the E.ON Parties have agreed to forgo this request for the period beginning when LG&E and KU exit the Midwest ISO. The E.ON Parties continue to seek acceptance of the tariff sheets filed March 8, 2006 for the period prior to the LG&E/KU exit date.

The Amended Tariff Sheets reflecting these changes are attached hereto as Exhibit B. A redline of these sheets, showing changes from the tariff sheets filed in Docket No. EL05-99 on March 8, 2006, as noted above, are enclosed as Exhibit C.

b. Description of the Amended Tariff Sheets

The Amended Tariff Sheets should be accepted by the Commission without suspension, hearing or modification insofar as they will result in just and reasonable rates, and adequately address any concerns the Commission may have regarding the E.ON Parties' generation market power in the LG&E/KU control area.

i. The E.ON Parties Agree to Forego Market-Based Sales in the LG&E/KU Control Area

As noted above, the E.ON Parties believe they would not pass one or both of the Commission's indicative screens for generation market power in the LG&E/KU control area, as is typical for a traditional utility with a large concentration of generating assets in its home control area. Rather than attempt to rebut the presumption of market power resulting from such failures,²⁶ the E.ON Parties agree to forego any market-based rate sales in the LG&E/KU control area. Therefore, the Amended Tariff Sheets do not permit market-based rate sales in the LG&E/KU control area. Also, as noted above, in order facilitate the Commission's expeditious review of this filing, the E.ON Parties have carved out from their tariffs sales within the BREC control area.

²⁵ Indeed, the E.ON Parties believe that their proposed LMP-based mitigation is distinguishable from the situation in *MidAmerican Energy Company*, 114 FERC ¶ 61,208 (2006). In *MidAmerican*, at issue was mitigation for sales within a selling entity's "home" control area. In the filing submitted by the E.ON Parties on March 8, 2006, the issue is whether LMP-based mitigation is appropriate for sales in a control area where the selling entities own no transmission facilities (other than limited interconnection facilities).

²⁶ See *AEP* at P 37 (applicants can concede that they will not pass the indicative screens).

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Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 9

ii. The Amended Tariff Sheets Expressly Permit the E.ON Parties to Sell at Market-Based Rates at Transmission Line Interfaces Between the LG&E/KU Control Area or BREC Control Area and Any Control Area in Which the E.ON Parties Lack Market Power

In several recent orders, the Commission clarified that when an applicant proposes mitigation to address generation market power concerns, such mitigation must apply to any sales in the control area in which the applicant was found to have market power, rather than just to sales that sink in that control area.²⁷ In light of this clarification, the Amended Tariff Sheets do not permit market-based rate sales in the LG&E/KU control area, regardless of whether the buyer serves load inside or outside the control area. However, the Amended Tariff Sheets do permit sales for which the legal title to power transfers at the interface between the LG&E/KU control area or BREC Control Area and any control area in which the E.ON Parties do not have market power. This treatment of interface sales is appropriate and should not give rise to any market power concerns.

(a) Sales at a Control Area Interface Location Are Not Sales "In" a Control Area

First and foremost, the statement in the Amended Tariff Sheets that the E.ON Parties may continue to make market-based sales of power at the LG&E/KU or BREC border with another control area in which the E.ON Parties do not have market power is nothing more than a clarification of the most reasonable interpretation of what is meant by the phrase "sales ... in" a control area, as used in recent Commission orders.²⁸ As used in the electric industry, a location in a control area is one wholly within such control area and does not include interface locations where one control area abuts another. As noted in the attached Amended Tariff Sheets, interface points are not "in" a control area, but are effectively at an exact border location. This reason alone is sufficient grounds for the Commission to accept the Amended Tariff Sheets because E.ON Parties do not have market power at points which are not "in" any control area in which they have been found to have market power.

Indeed, in the bulk power market, control area interface locations are considered fundamentally differently than locations truly in a control area. For example, a customer

²⁷ See, e.g., *Carolina Power & Light*, 114 FERC ¶ 61,294 at P 9 (2006) *MidAmerican Energy Co.*, 114 FERC ¶ 61,280 at P 30-31 (2006); *Aquila Inc.*, 114 FERC ¶ 61,281 at P 14 (2006).

²⁸ See *id.*

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 10

who buys from a generator located in Control Area A at the interface/border between Control Area A and Control Area B need not purchase transmission service in Control Area A to make such an interface/border purchase. The nature of this transaction (and what rights the customer must acquire to effectuate the transaction), is fundamentally different than a transaction in which such a buyer purchases from the same generator in Control Area A. Thus, in the bulk power marketplace, sales at interfaces are viewed as fundamentally different from sales that are made into, in or sink in, a control area. Quite simply, in the example provided, since no transmission service in Control Area A is needed by the interface-buyer, the border transaction described simply cannot be considered as taking place in Control Area A. The Commission should thus view interface/border transactions as fundamentally different from sales in, or sinking in, a control area for purposes of assessing generation market power.

(b) E.ON Parties' Lack of Market Power at Certain Interface Locations

The E.ON Parties lack market power for sales at interface/border locations between: (1) the LG&E/KU control area or BREC control area; and (2) any control area in which the E.ON Parties lack market power.

First, the Commission's current tests for generation market power, which indicate that the E.ON Parties have market power in the LG&E/KU and BREC control areas, do not test for market power at interface locations. Rather, the fundamental design of the tests provides indications of market power only for locations wholly within a control area.

As set forth in *AEP*, in conducting the indicative screen analyses, applicants are permitted to consider the impact on their market share (and whether they are pivotal) of sources of power from outside the geographic area being studied (generally, a control area).²⁹ Such competing imports of power are to be limited, however, by the simultaneous import capability ("SIC") of power over transmission lines into the control area being studied.³⁰ This SIC analysis, by its very nature, looks at the amount of power than can be reliability transmitted to a point wholly within a control area. It does not measure the amount of power than can simultaneously get to the interface of that control area. This latter number will tend to be much greater, as it need not consider the capability of transmission interfaces where the control area being studied meets adjacent control areas. Thus, the Commission's market power screens, by their very design, do

²⁹ *AEP* at P 94.

³⁰ *Id.*

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary

May 24, 2006

Page 11

not measure the potential market power of the E.ON Parties at locations on the interfaces of the LG&E/KU and BREC control areas.

Second, no additional quantitative analyses are necessary to demonstrate that E.ON Parties indeed lack generation market power at interface locations between: (1) the LG&E/KU control area or the BREC control area; and (2) a control area in which the E.ON Parties lack market power.

The foundation of any geographic marketplace analysis is the number and quality of choices that are available to a buyer of a product. As the Supreme Court has noted, "The central issue [in determining geographic market] is where does a potential buyer look for potential suppliers of the service – what is the geographical area in which the buyer has ... or would have, a real choice as to price and alternative [suppliers]?"³¹ The Commission also noted in *AEP* that the foundation of the market power analysis under the Delivered Price Test is the "destination market."³² Thus, what matters is where the product is presented to potential buyers, not where it originated.

To this effect, the E.ON Parties lack generation market power for sales at the LG&E/KU or BREC interface with other control areas noted above because buyers taking title to power at such locations face a market in which they have a bounty of competitive choices. Indeed, such buyers have not only the E.ON Parties competing for their business but also any entity that can transmit power from the neighboring control area to that border location. Indeed, buyers seeking to take title to power at such a border location have the same competitive options available to them in the neighboring control area plus the options available in the LG&E/KU or BREC control areas. Insofar as the E.ON Parties lack generation market power in the control area bordering where the sale is made, they, by definition, cannot exercise market power over such a buyer.

iii. Restricting Interface Sales Would Have a Chilling Effect on Traditional Patterns of Sale

If the Commission rejects the E.ON Parties' Amended Tariff Sheets, it will send a chilling effect through the electric industry by interfering with traditional patterns of power sales. For decades, electric utilities have engaged in bilateral transactions at the borders between their control areas. These utilities have long recognized that transactions at such locations are easy to facilitate and – prior to the advent of open-access transmission service – avoided any transmission market power concerns

³¹ *U.S. v. Grinnell Corp.*, 384 U.S. 563, 588-89 (1966).

³² *AEP* at P 108.

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 12

associated with the need to get power inside a control area or from inside a control area to the next.

Restricting the E.ON Parties' ability to engage in (unmitigated) market-based sales at their interfaces (with control areas in which they lack market power) would have a chilling effect on not only the E.ON Parties' commercial activities, but also the electric industry as a whole, by sending a signal to the industry that utilities cannot necessarily engage in these traditional trans-border sales at market-based rates.

Many vertically-integrated utilities have failed the Commission's indicative market power screens in their "home" control areas and, thus, have given up market-based authority for sales in their control area, or agreed to other mitigation measures. If these same utilities were not permitted to engage in market-based sales at the border of their control area with another control area, the long-standing trading patterns between utilities would plummet. Such trans-border trading – of both long and short durations – is necessary, however, to maintain market liquidity.

iv. No Reciprocal Dealing

The E.ON Parties reiterate their commitment not to engage in reciprocal dealing and respectfully submit that this commitment should suffice to alleviate any concerns the Commission may have.³³ Out of an abundance of caution, however, the E.ON Parties have included language in their proposed tariff sheets that expressly states that the E.ON Parties will not conspire or collude with any third party to make sales under their market-based rate tariffs to any other third party for purposes of circumventing the prohibitions on market-based rate sales in the LG&E/KU and BREC control areas. In addition, the E.ON Parties have included tariff language which restricts the re-sale of power sold by E.ON Parties back into any control area in which E.ON Parties have been found to have market power. The E.ON Parties respectfully submit that the above commitments more than adequately protect against any reciprocal dealing.

4. Effective Date and Request for Waivers

The E.ON Parties respectfully request that the Commission accept for filing the Amended Tariff Sheets, without suspension, hearing or modification, to be effective on the date LG&E and KU exit the Midwest ISO. In addition, the E.ON Parties respectfully

³³ AEP at P 9 (in order to obtain or maintain market-based rate authority, entities must commit to not engage in reciprocal dealing). See also *LG&E Energy Mkt'g Inc.*, Docket Nos. ER94-1188, et al., Market Power Update Filing, Nov. 19, 2004, at 13 (E.ON Parties reaffirmed commitment not to engage in reciprocal dealing).

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ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 13

request waiver of the Commission's notice requirements³⁴ so as to permit the Amended Tariff Sheets to become effective on the exit date. Further, to the extent any requirement of the Commission's regulations or policies is not met by this filing, the E.ON Parties respectfully request waiver thereof.

5. Communications

The E.ON Parties request that all notices and correspondence regarding this filing be sent to the following.

Mike Beer
Steven Phillips*
E.ON U.S. LLC
P.O. Box 32010
220 West Main Street
Louisville, KY 40232
(502) 627-3547
(502) 627-3367 (facsimile)

Clifford S. Sikora
Jeffrey M. Jakubiak*
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TROUTMAN SANDERS LLP
401 9th Street, N.W., Suite 1000
Washington, DC 20004
(202) 274-2950
(202) 274-2994 (facsimile)

*Designated to receive service.

6. List of Materials

This filing contains the following materials in addition to this submittal letter and notice of filing:

Exhibit A *Relevant E.ON U.S. Affiliates*
Exhibit B *Clean Amended Market-Based Rate Tariff Sheets*
Exhibit C *Redline Amended Market-Based Rate Tariff Sheets*

³⁴ 18 C.F.R. § 35.3(a) (2005).

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ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

Hon. Magalie R. Salas, Secretary
May 24, 2006
Page 14

7. Conclusion

Based upon the foregoing, the E.ON Parties respectfully request that the Commission accept for filing the Amended Tariff Sheets, without suspension, hearing or modification, as of the date LG&E and KU exit the Midwest ISO.

Respectfully submitted,



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Attorneys for
LG&E Energy Marketing Inc.,
Louisville Gas & Electric Company,
Kentucky Utilities Company, and
Western Kentucky Energy Corporation

Exhibit A

Relevant Affiliates of the E.ON Parties

E.ON U.S. owns, either directly or indirectly, interests in various energy and energy-services companies in the United States and abroad. Those domestic affiliates that either own or control generation are described below.

E.ON U.S. holds an indirect 8.13-percent ownership interest in Ohio Valley Electric Corporation ("OVEC"), and an 8.13-percent power participation share, equivalent to approximately 227 MW. OVEC and its wholly-owned subsidiary, Indiana Kentucky Electric Corporation, own two generating facilities with a combined capacity of approximately 2,389 MW, located in Gallipolis, Ohio, and Madison, Indiana. E.ON U.S. utilizes its share of the output of the OVEC facilities to serve the native load of LG&E and KU.

E.ON U.S. holds, through KU, an indirect 20-percent interest in Electric Energy, Inc. ("EEI"), which owns and operates a 1,100 MW Joppa, Illinois generating facility. KU presently takes none of the output of the Joppa facility. The Joppa facility is under the operation and control of Ameren Corporation, the majority owner of EEI, and an affiliate of Ameren Corporation is the sole purchaser of this power.

In addition, E.ON US holds an indirect 50-percent interest in Westmoreland-LG&E Partners, which owns the 209 MW Roanoke Valley Energy Facility, a two-unit coal-fired cogeneration facility, located in Weldon, North Carolina. All of the output of this facility is sold to Virginia Power (or a Virginia Power affiliate) pursuant to a long-term contract. The Roanoke Valley facility is a Qualifying Facility ("QF"), as that term is defined by 18 C.F.R. § 292.101(b)(1) (2005).¹

¹ *Westmoreland-LG&E Partners*, 60 FERC ¶ 62,215 (1992); *Westmoreland-LG&E Partners*, 64 FERC ¶ 62,215 (1993). See also *Westmoreland-LG&E Partners*, 94 FERC ¶ 61,211 (2001).

Exhibit B

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 1

**WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS**

I. DEFINITIONS

The following words and terms used herein shall be understood to have the following meanings:

1. **Affiliate**: means, with respect to any entity, any other entity (other than an individual person) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity. For this purpose, "control" means the direct or indirect ownership of ten percent (10%) or more of the outstanding capital stock or other equity interests having ordinary voting power.
2. **Buyer**: means a purchaser of electric capacity, energy and/or ancillary services or resold transmission rights under this Tariff.
3. **Commission**: means the Federal Energy Regulatory Commission ("FERC") or such successor Federal regulatory agency as may have jurisdiction over this Tariff.
4. **Parties**: means Seller and Buyer that have entered into a Service Agreement for service pursuant to this Tariff.
5. **Seller**: means Louisville Gas and Electric Company and Kentucky Utilities Company, each a Kentucky corporation organized under the laws of the Commonwealth of Kentucky, but operating as Louisville Gas and Electric Company/Kentucky Utilities Company, a jointly dispatched utility.
6. **Service Agreement**: means the agreement entered into by Seller and Buyer for service pursuant to this Tariff, as it may be amended from time to time.
7. **Tariff**: means this wholesale market-based rate tariff, as amended from time to time.
8. **Transaction**: means a particular transaction agreed to by the Parties pursuant to a Service Agreement under this Tariff.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company First Rev. Sheet No. 2
FERC Electric Tariff, First Revised Volume No. 3 Supersedes Original Sheet No. 2

9. **Transmission Tariff:** means the transmission tariff filed by Louisville Gas and Electric Company/Kentucky Utilities Company in compliance with Order No. 888, as it may be amended from time to time.

II. SALES OF ELECTRIC CAPACITY, ENERGY AND/OR ANCILLARY SERVICES

1. **Electric Capacity and Energy:** This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where Seller has been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which Seller has been deemed to have market power and any neighboring control area where Seller is authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which Seller has been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which Seller and/or any of its affiliates has been deemed to have market power where such re-sale is made by: (a) Seller, and/or any of its affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than Seller.
2. **Ancillary Services:** Seller may sell the following ancillary services to Buyer under this Tariff from time to time at rates, terms and conditions established by the agreement of the Parties, provided that the ancillary services are not sold in conjunction with transmission service provided under Seller's Transmission Tariff. All such Transactions shall be voluntary with respect to both Parties.

Sales of ancillary services may include regulation and frequency response service, energy imbalance service, operating reserve-spinning service, and/or operating reserve-supplemental service. The Seller maintains an Internet-based OASIS-like site that provides information about the Seller and provides for ancillary services Transactions, consistent with the Commission's requirements. Ancillary services are not available under this Tariff in connection with (1) sales to a regional transmission organization ("RTO") such as an Independent System Operator ("ISO") or Transco, i.e., where the RTO has no ability to self-supply ancillary services but instead depends on third parties; (2) sales to a traditional, franchised public utility affiliated with the Seller, or sales where the underlying transmission service is on the system of a public utility affiliated with Seller; or (3) sales to a public utility who is purchasing ancillary services to satisfy its own open access transmission tariff requirements to offer ancillary services to its own customers.

3. **Provision of Unbundled Transmission Service:** Except as provided under Sections II.2 and III, this Tariff does not provide for the sale of transmission service or ancillary services. Either

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 2A

Seller or Buyer may arrange for transmission service and ancillary services in conjunction with the sale of capacity and energy.

III. RESALE OF TRANSMISSION RIGHTS

1. **Character of Service:** Seller may resell to a Buyer all or a portion of Seller's rights to the use of the transmission system of a transmission provider that Seller has reserved for its own use under a service agreement with the transmission provider, or has acquired from another customer of the

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company First Revised Sheet No. 3
FERC Electric Tariff, First Revised Volume No. 3 Supersedes Original Sheet No. 3

transmission provider, including capacity that Seller has reserved or acquired for its own use on its own transmission system under its Transmission Tariff. In order to be eligible for this service, the Buyer must be an eligible customer under the transmission tariff of the transmission provider from whom the transmission service rights to be transferred were originally obtained. When Seller resells transmission capacity that Seller has reserved or acquired for its own use on its own transmission system, Seller will continue to comply with all of the non-rate terms and conditions of its Transmission Tariff. Notwithstanding the foregoing, the Seller may resell service that it has obtained from any transmission provider for a shorter duration than it has purchased and may resell as non-firm point-to-point service transmission that it has purchased as firm point-to-point service.

2. **Limitation on Sales Prices:** The price at which Seller resells transmission rights to the Buyer shall not exceed the highest of (a) the original rate paid by Seller; (b) the applicable transmission provider's maximum rate on file at the time of the sale to the Buyer for service of the same duration; or (c) Seller's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the Seller's sale to the Buyer. Seller shall not recover opportunity costs on an incremental basis in connection with such sale without first receiving Commission approval pursuant to a filing under Section 205 of the Federal Power Act or any superceding provision thereto.
3. **Records:** Seller shall keep such records as may be needed to afford a clear history of all resales of transmission capacity that Seller has reserved or acquired for its own use on its own transmission system or on the transmission systems of other transmission providers under Section III of this Tariff. To the extent practicable, Seller shall retain the original of all such records.

IV. RATES

All sales shall be made at rates established by agreement between Seller and Buyer.

V. OTHER TERMS AND CONDITIONS

All other terms and conditions shall be established by agreement between Seller and Buyer.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 4

VI. EFFECTIVE DATE

This Tariff shall be effective on such date set by the Commission.

VII. REVISIONS TO THE TARIFF

Seller may file revisions to this Tariff by notifying Buyer in writing and by unilaterally making the appropriate filing with the Commission pursuant to the provisions of Section 205 of the Federal Power Act or any superceding provision thereto, provided, however, that such revision shall not affect the rates, terms and condition of Transactions entered into prior to the date of such revision unless otherwise agreed by the Parties.

VIII. FILING AND REPORTING REQUIREMENTS

Seller will comply with the current Commission policies and regulations for the filing and/or reporting of Service Agreements and Transactions pursuant to the Tariff.

IX. AFFILIATE POWER SALES

When Seller offers to make any sale of capacity, energy and/or ancillary services to an affiliated entity, it shall make the same offer, at the same time, to all non-affiliated entities by simultaneously posting such offer of sale on an electronic bulletin board.

The rates for sales under this Section IX shall be as negotiated by the parties but in no event will Seller sell capacity, energy and/or ancillary services to an affiliated entity under this Section at a rate lower than the rate at which Seller sells power to any non-affiliated entity.

When Seller makes a sale of capacity, energy and/or ancillary services to an affiliated entity it will simultaneously post the price charged to such affiliate on an electronic bulletin board. The quarterly reports that Seller files with the Commission pursuant to Section VIII of this Tariff will include sales to affiliated entities at above-cost rates.

X. REPORTING CHANGES IN STATUS

Seller must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 4A

XI. CERTAIN SALES PROHIBITED

Seller shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between Seller and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 8 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 5

STATEMENT OF POLICY AND CODE OF CONDUCT

As used throughout this Statement of Policy and Code of Conduct, the term "Operating Company" means Louisville Gas and Electric Company/Kentucky Utilities Company. The term "Marketing Affiliate" means any affiliate of the Operating Company, which is authorized to engage in sales for resale.

Marketing of Power

1. To the maximum extent practical, the employees of a Marketing Affiliate who perform power marketing activities of such Marketing Affiliate will operate separately from the employees of the Operating Company.
2. All market information shared between the Operating Company and a marketing Affiliate will be disclosed simultaneously to the public. This includes all market information, including but not limited to any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.
3. Sales of any non-power goods or services by the Operating Company to a Marketing Affiliate, including sales made through the Operating Company's affiliated Exempt Wholesale Generators or Qualified Facilities, will be at the higher of cost or market price.
4. Sales of any non-power goods or services by a Marketing Affiliate to the Operating Company will not be at a price above market.

Affiliate Power Sales

When Operating offers to make any sale of capacity, energy and/or ancillary services to a Marketing Affiliate, it shall make the same offer, at the same time, to all non-affiliated entities by simultaneously posting such offer of sale on an electronic bulletin board.

The rates for sales of power shall be as negotiated by the parties, but in no event will Operating Company sell capacity, energy and/or ancillary services to a Marketing Affiliates at a rate lower than the rate at which Operating Company sells power to any non-affiliated entity.

When Operating Company makes a sale of capacity, energy and/or ancillary services to a marketing Affiliate, it will simultaneously post the price charged to such Marketing Affiliate on an electronic bulletin board.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

**Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3**

Original Sheet No. 6

**The quarterly reports that Operating Company files with the Commission pursuant to its
Market-Based Rate Tariff will include sales to Marketing Affiliates at above-cost rates.**

**Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 7

Form of
SERVICE AGREEMENT
UNDER WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 8

**SERVICE AGREEMENT
UNDER WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS**

- 1.0 This Service Agreement, dated as of _____, in entered into by and between Louisville Gas and Electric Company/Kentucky Utilities Company ("Seller") and _____ ("Buyer").
- 2.0 Seller may provide and Buyer may purchase service under Seller's tariff.
- 3.0 Terms and conditions for service shall be set forth in a Master Power Purchase and Sale Agreement ("Master Agreement") and the Master Agreement shall be executed by Seller and Buyer.
- 4.0 Any notice or request made to or by a Party (Seller or Buyer) regarding this Service Agreement shall be made to the representative of the other Party as indicated below:

Seller:

Buyer:

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

Louisville Gas and Electric Company/Kentucky Utilities Company

By: _____ Title: _____ Date: _____
Name

[INSERT BUYER COMPANY HERE]

By: _____ Title: _____ Date: _____
Name

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

First Rev. Sheet No. 9
Superseding Original Sheet No. 9

[Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

First Rev. Sheet No. 10
Superseding Original Sheet No. 10

[Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

First Rev. Sheet No. 1
Supersedes Original Sheet No. 1

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

1.0 Availability

1.1 This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where Louisville Gas and Electric Company and/or Kentucky Utilities Company (hereinafter the "Companies") have been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which the Companies have been deemed to have market power and any neighboring control area where the Companies are authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which the Companies have been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which the Companies and/or any of their affiliates have been deemed to have market power where such re-sale is made by: (a) the Companies, and/or any of their affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than the Companies.

1.2 This Rate Schedule provides a vehicle under which the Companies may make electric power and energy available to purchasers for resale. The determination of whether to enter into agreements under this Rate Schedule shall be made at the Companies' sole discretion.

1.3 No entity affiliated with the Companies shall be eligible for service under this Rate Schedule, except that the Companies' affiliates LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. shall be eligible for service under this Rate Schedule subject to the Joint Code of Conduct (Supplement No. 1 hereto) that is intended to guide the relationship between the Companies and those affiliates.

2.0 Character of Service

2.1 The Companies may provide (1) firm capacity and associated energy or (2) non-firm capacity and associated energy. Said capacity and energy shall be provided from generating capacity contained within the Companies' systems and/or power purchased by the Companies that may from time to time be sold to the Customer for the purpose of providing either firm or non-firm capacity and energy.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 1A

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

2.2 "Firm" means, with respect to a transaction, that the only excuse for non-delivery or non-receipt of the power subject to the transaction shall be the existence of an event of Force Majeure, as defined in Article 9.0. "Non-firm" means, with respect to any transaction, any transaction under which delivery or receipt of the power subject to the transaction may be interrupted by either Party for any reason or no reason at any time or at such times as the Parties may otherwise specify. Interruption of a non-firm transaction shall not constitute a default hereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company First Revised Sheet No. 2
FERC Electric Tariff, First Revised Volume No. 2 Supersedes Original Sheet No. 2

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

2.3 Service will be provided at 60 Hertz, alternating current, three phase and at mutually agreed to voltage levels.

3.0 Interconnection and Interchange

3.1 Unless otherwise provided in the individual Service Agreement, it shall be the responsibility of the Customer to make any necessary arrangements for delivery of power and energy beyond the points of interconnection of the Companies' system facilities with those of other electric systems (the "Delivery Point").

3.2 As a general practice, the receiving Party shall schedule energy deliveries on an hourly basis in a mutually agreed-upon manner with the supplying Party on the day before such energy is to be delivered; provided, however, that the Parties may make changes in existing energy schedules as both Parties may agree to take into account unexpected or unforeseen conditions or occurrences.

4.0 Rates

4.1 The rates for transactions made under this Rate Schedule shall be agreed upon by the Companies and the Customer. The rights of the Companies and the Customer to modify the rates shall be governed by either the unexecuted or the executed Service Agreement.

4.2 When selling power from Companies' generation pursuant to this Rate Schedule, the Companies will take transmission service pursuant to their Joint Open Access Transmission Tariff, or its successor tariff(s). As such, they will separately identify the prices charged to customers for wholesale generation, transmission service, and ancillary services in their quarterly transaction summary report for sales of a short-term nature. For transactions of one year or more in duration, the Companies will provide the Commission an Agreement which states the prices for wholesale generation, transmission service and ancillary services(s).

Issued by: Mike Beer

Effective: July 19, 2005

Vice President, Federal Regulation and Policy, E.ON U.S. LLC

Issued on: March 8, 2006

Filed to comply with *LG&E Energy Marketing Inc.*, Letter Order, Docket Nos. ER94-1188-037, *et al.* (Feb. 15, 2006)

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 3

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

5.0 Service Agreements

5.1 The Companies and the Customer shall execute a Service Agreement that includes, without limitation, all necessary service specifications. The Companies shall reserve the right to enter into transactions under this Rate Schedule by filing an unexecuted Service Agreement.

5.2 The amount of capacity or energy either sold or purchased hereunder, the rates, the service specifications, and other terms and conditions shall be negotiated by the Companies and the Customer. The Companies may refuse, at their sole discretion, to enter into an individual Service Agreement under this Rate Schedule. The Companies are under no obligation to execute a Service Agreement to provide service hereunder.

5.3 Acceptance of service by a Customer pursuant to either an unexecuted or fully executed Service Agreement filed under this Rate Schedule commits the Customer both to the provisions of this Rate Schedule and to the terms of the individual Service Agreement.

5.4 The Companies will provide the Commission with a copy of either the unexecuted or the fully executed Service Agreement.

5.5 Transactions may be confirmed by the Companies and the Customer in writing sent to the other Party (each a "Confirmation") containing the specific terms and conditions of the transaction. Absence manifest error, terms contained in a Confirmation shall be deemed correct, unless objected to in writing within two (2) business days of receipt thereof. However, failure to issue a Confirmation shall not invalidate any transaction actually entered into. Each Party consents to the recording of all telephone conversations between its employees and the employees of the other Party. Any such recordings and any other evidence may be introduced as evidence in any legal proceeding to establish proof of any matter relating to the Service Agreement or any transaction pursuant to this Rate Schedule.

5.6 In computing any period of time prescribed or allowed by the Service Agreement, the day of the act, event, or default from which the designated period of time begins to run shall

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 4

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

be excluded but the last day of such period shall be included, unless it is a Saturday, Sunday, or legal holiday, in which event the period shall run until the end of the next business day which is not a Saturday, Sunday, or legal holiday.

5.7 The Parties shall discharge all obligations under the Service Agreement accordance with prudent utility practices.

5.8 In the event any of the terms, covenants, or conditions of the Service Agreement, or any amendment thereto, or the application of any such terms, covenants, or conditions shall be held invalid as to either Party or circumstance by a court or regulatory authority having jurisdiction, all other terms, covenants, and conditions of the Service Agreement, or any amendment hereto, and their application, shall not be affected thereby and shall remain in full force and effect.

6.0 Billing, Defaults, and Records

6.1 The Customer shall be invoiced each month for services provided hereunder. Unless otherwise agreed upon, billing shall be delivered monthly and shall cover transactions which shall have occurred during the previous calendar month. All bills shall be due and payable on the tenth calendar day following receipt of bill. Interest on the unpaid amounts shall accrue at the interest rate authorized by the FERC for refunds, pursuant to 18CFR 35.19a.

6.2 In the event a Party wishes to contest a portion of a billed amount, such Party shall pay the portion not contested, and interest shall accrue on the unpaid portion while resolution of contested amounts is pending.

6.3 In the event the Customer fails to make timely payment in accordance with this Rate Schedule, and such failure is not corrected within two (2) calendar days after notification to cure such failure, a default shall be deemed to exist. Subject to any regulatory requirements, and upon the occurrence of a default, (a) the Companies may immediately cease -scheduling, or otherwise supplying services provided under the Rate Schedule until the default is cured by payment, (b) Customer shall not contest or object to the suspension of its right to schedule energy, and (c) the Companies' obligation under the Rate Schedule may be terminated, and the Companies may initiate any regulatory or legal proceeding to terminate d and/or enforce the Rate Schedule.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 5

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

6.4 The Parties shall keep complete records as may be needed to substantiate a clear history of the various deliveries of electric energy made, and of the clock-hour integrated demands delivered by one Party to the other. A Party's records shall be available at all reasonable times for inspection by the other Party's representative, and may be copied at such other Party's expense.

7.0 Creditworthiness

7.1 For the purpose of determining the ability of the Customer to meet its obligations related to service hereunder, the Companies may require reasonable credit review procedures which may include but shall not be limited to, verification that the Customer is not operating under any state or federal bankruptcy laws, is not subject to the uncertainty of pending liquidation or regulatory proceedings in state or federal courts, and no significant collection lawsuits or judgments are outstanding which would seriously affect the Customer's ability, in the Companies' determination, to remain solvent. As part of this process, the Customer may be required to furnish the Companies with its financial reports and/or its reports to shareowners.

7.2 Customers that do not meet the Moody's ratings of Baa or better, or that do not meet an S&P rating of BBB or better, must show proof of creditworthiness including their most recent annual report/financial statement. If a service agreement is executed, the Customer must update its financials annually.

8.0 Term

8.1 The term for transactions under this Rate Schedule shall be set forth in the Service Agreement. Transactions made prior to the filing of a fully executed Service Agreement shall be governed by an unexecuted Service Agreement; said unexecuted Agreement shall remain in effect until either the fully executed Agreement is filed or the unexecuted Agreement is terminated.

9.0 Force Majeure

9.1 Force Majeure. The term "Force Majeure" shall be deemed for the purpose of this Rate Schedule to mean earthquake, storm, lightning, flood, backwater caused by flood, fire,

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 6

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

explosion, act of the public enemy, epidemic, accident, failure of facilities, equipment or fuel supply, acts of God, war, riot, civil disturbances, strike, labor disturbances, labor or material shortage, national emergency, restraint by court order or other public authority or governmental agency, or other similar or dissimilar causes beyond the control of the Party affected which causes such Party could not have avoided by exercise of due diligence and reasonable care. Nothing contained herein shall be construed to require a Party to settle any strike, lockout, work stoppage or other industrial disturbance or dispute in which it may be involved or to take an appeal from any judicial, regulatory or administrative action. Any Party rendered unable to fulfill any of its obligations under this Rate Schedule by reason of Force Majeure shall exercise due diligence to remove such inability with all reasonable dispatch and shall fully inform the other Party of its progress. In the event either Party is unable, in whole or in part, to perform any of its obligations by reason of Force Majeure the obligations of the Party relying thereon, insofar as such obligations are affected by such Force Majeure, shall be suspended during the continuance thereof but no longer. The Party invoking the Force Majeure shall specifically state the full particulars of the Force Majeure and the time and date when the Force Majeure occurred. Notices given by telephone under the provision of this Paragraph 9.1 shall be confirmed in writing as soon as reasonably possible. When the Force Majeure ceases, the Party relying thereon shall give immediate notice thereof to the other Party. The Service Agreement shall not be terminated by reason of Force Majeure but shall remain in full force and effect.

10.0 Indemnification and Limitation of Liability

10.1 Limitation of Liability. In no event shall one Party be liable to the other Party for any indirect, special, incidental or consequential damages with respect to any claim arising out of this Rate Schedule.

10.2 Indemnification Clause. Each Party shall indemnify, defend and hold harmless the other Party from and against any liability, loss, cost, damage and expense (including, but not limited to, reasonable attorney's fees) because of injury or damage to persons or property resulting from, or arising out of the use of its own facilities or the production or flow of electric energy by and through its own facilities, except when such injury or damage results from the negligence or willful misconduct of the other Party, its agents, servants, or employees.

10.3 Responsibility for Compliance. Each Party shall be responsible for its own compliance with all applicable laws and regulations, including those relating to the environment,

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 7

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

and each Party shall hold the other Party harmless from any liability, loss, cost, damage or expense (including, but not limited to reasonable attorney's fees) arising out of its failure to comply with such laws and regulations.

11.0 Tax Reimbursement

11.1 It is expressly agreed by the Parties that, as part of the compensation to be paid under the Rate Schedule, and under any confirmations or other agreements annexed to and made part of the Rate Schedule, if at any time during the term hereof there should be levied and/or assessed against the Companies, any direct tax, including, but not limited to environmental (carbon content or otherwise) or similar taxes (other than taxes based on or measured by net income), by any taxing authority on the power and/or energy manufactured, generated, produced, converted, sold, purchased, transmitted, interchanged, exchanged, exported or imported by the Companies on behalf of the Customer, the Companies shall be entitled to full compensation by the Customer for such taxes.

11.2 The Parties also agree that prior approval of any regulatory body having jurisdiction in such matter, if required, shall be obtained as a prerequisite to collection of such direct tax.

12.0 Waivers

12.1 Waivers. Any waiver by either Party of its rights under this Rate Schedule or with respect to any matter arising in connection with this Rate Schedule, shall not be deemed a waiver with respect to any rights that subsequently accrue. Any delay for less than the statutory period of limitations in asserting or enforcing any rights under this Rate Schedule shall not be deemed a waiver of such rights.

13.0 Revisions to Rate Schedule

13.1 The Companies may file revisions to this Rate Schedule with the FERC. Nothing contained in this Rate Schedule shall be construed as affecting or limiting in any way the right of the Companies to unilaterally file with the FERC for a change in any aspect of this Rate Schedule under Section 205 or 206 of the Federal Power Act pursuant to the FERC's Rules and Regulations promulgated thereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 8

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

14.0 Reassignment of Transmission Capacity

14.1 The Companies may reassign transmission capacity that they have reserved for their own use at a price not to exceed the highest of: (1) the original transmission rate paid by the Companies; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) the Companies' own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. The Companies will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. The Companies will report the name of the assignee in their quarterly reports.

15.0 Reporting Changes in Status

The Companies must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 8A

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

16.0 Certain Sales Prohibited

The Companies shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between the Companies and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 16.0 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

Issued by: **Mike Beer**
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: **LG&E/KU MISO Exit**

Issued on: **May 24, 2006**

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 9

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

"Form of Service Agreement"

**PURCHASE AND SALES AGREEMENT
Market-Based Sales Service**

This Service Agreement, made and entered into this _____ day of _____, is by and between the Louisville Gas and Electric Company and the Kentucky Utilities Company (hereinafter "Companies"), and _____ ("Customer").

Beginning _____, and remaining in effect until terminated by either party upon thirty (30) days' written notice to the other party; provided, however, that no such termination notice shall be effective until the completion of an ongoing transaction agreed to by the parties:

The Companies will make available to Customer the services identified in the Companies' Rate Schedule Market-Based Sales Service (Rate MBSS) subject to the Companies' reaching mutual agreement with the Customer for each transaction under Rate MBSS. The Companies and Customer agree to all terms and conditions set forth in Rate MBSS.

The terms and conditions of Rate MBSS, as they may be modified from time to time by the Companies upon approval of the FERC, are incorporated in this Agreement by reference. Nothing herein shall prevent the Companies from modifying Rate MBSS in the future, although such modified Rate MBSS shall not apply to transactions commencing prior to the effective date of any such modification.

Customer will provide capacity and energy to the Companies under <Customer Specifics>

The Service Agreement, including the Rate Schedule referenced within, and the specific terms and conditions to be agreed upon for each transaction hereunder, contains the entire agreement between the Parties hereto in respect of the subject matter hereof, and there are no other understandings or agreements between the Parties hereto in respect thereof.

Each transaction shall be governed by (i) Rate MBSS, (ii) the specific terms and conditions agreed to by the Parties for such transaction, and (iii) the terms and conditions set

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 10

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

forth herein. In the event of a conflict in the provisions of the aforementioned documents, the order of prevalence will be the order in which the documents are set forth in the immediately preceding sentence.

This Agreement is not intended to and shall not create rights of any character whatsoever in favor of any person or entity other than the Parties, and the obligations stated herein are solely for the benefit of Louisville Gas and Electric Company and Kentucky Utilities Company.

This Agreement shall be binding upon and shall inure to the benefit of the successors and permitted assigns of the Parties. Neither the Service Agreement, nor any right or obligation thereunder, shall be assigned to a third person by a Party without the written consent of the other Party, which consent shall not be unreasonably withheld. Any assignment made without the required consent shall be void and of no effect against the non-consenting Party.

Any notice or request made to or by the Companies or the Customer regarding this Service Agreement or of an operating nature shall be made in writing, and shall be telecommunicated or delivered either in person or by prepaid mail to the representative of the other party as indicated below. Such representative and address for notices or requests may be changed from time to time by notice by one party to the other.

TO the Companies:

Attn: _____
The LG&E Operating Companies
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

TO Customer:

OTHER SPECIFIC TERMS AND CONDITIONS

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 11

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officials as of the date first above written.

WITNESSETH:

THE LG&E OPERATING COMPANIES

By _____

By _____

Name: _____

Title: _____

WITNESSETH:

CUSTOMER

By _____

By _____

Name: _____

Title: _____

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 12

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

"Form of Service Agreement"

**SALES AGREEMENT
Market-Based Sales Service**

This Service Agreement, made and entered into this ____ day of _____, is by and between the Louisville Gas and Electric Company and the Kentucky Utilities Company (hereinafter "Companies"), and _____ ("Customer").

Beginning _____, and remaining in effect until terminated by either party upon thirty (30) days' written notice to the other party; provided, however, that no such termination notice shall be effective until the completion of an ongoing transaction agreed to by the parties:

The Companies will make available to Customer the services identified in the Companies' Rate Schedule Market-Based Sales Service (Rate MBSS) subject to the Companies' reaching mutual agreement with the Customer for each transaction under Rate MBSS. The Companies and Customer agree to all terms and conditions set forth in Rate MBSS.

The terms and conditions of Rate MBSS, as they may be modified from time to time by the companies upon approval of the FERC, are incorporated in this Agreement by reference. Nothing herein shall prevent the Companies from modifying Rate MBSS in the future, although such modified Rate MBSS shall not apply to transactions commencing prior to the effective date of any such modification.

The Service Agreement, including the Rate Schedule referenced within, and the specific terms and conditions to be agreed upon for each transaction hereunder, contains the entire agreement between the Parties hereto in respect of the subject matter hereof, and there are no other understandings or agreements between the Parties hereto in respect thereof.

Each transaction shall be governed by (i) Rate MBSS, (ii) the specific terms and conditions agreed to by the Parties for such transaction, and (iii) the terms and conditions set forth herein. In the event of a conflict in the provisions of the aforementioned documents, the order of prevalence will be the order in which the documents are set forth in the immediately preceding sentence.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 13

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

This Agreement is not intended to and shall not create rights of any character whatsoever in favor of any person or entity other than the Parties, and the obligations stated herein are solely for the benefit of Louisville Gas and Electric Company and Kentucky Utilities Company.

The Service Agreement shall be binding upon and shall inure to the benefit of the successors and permitted assigns of the Parties. Neither the Service Agreement, nor any right or obligation thereunder, shall be assigned to a third person by a Party without the written consent of the other Party, which consent shall not be unreasonably withheld. Any assignment made without the required consent shall be void and of no effect against the non-consenting Party.

Any notice or request made to or by the Companies or the Customer regarding this Service Agreement or of an operating nature shall be made in writing, and shall be telecommunicated or delivered either in person or by prepaid mail to the representative of the other party as indicated below. Such representative and address for notices or requests may be changed from time to time by notice by one party to the other.

TO the Companies:

Attn: _____
The LG&E Operating Companies
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

TO Customer:

OTHER SPECIFIC TERMS AND CONDITIONS

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 14

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officials as of the date first above written.

WITNESSETH:

THE LG&E OPERATING COMPANIES

By _____

By _____

Name: _____
Title: _____

WITNESSETH:

CUSTOMER

By _____

By _____

Name: _____
Title: _____

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 15

**LG&E ENERGY CORPORATION
CODE OF CONDUCT
BETWEEN LOUISVILLE GAS & ELECTRIC COMPANY,
KENTUCKY UTILITIES COMPANY, WESTERN KENTUCKY ENERGY, CORP.
AND LG&E ENERGY MARKETING INC.**

LG&E Energy Corp. has established this Code of Conduct to guide the relationship between LG&E Energy Marketing Inc. ("LEM"), Western Kentucky Energy Corp. (collectively, the "Marketers") and their franchised utility affiliates, Louisville Gas and Electric Company and Kentucky Utilities Company (the "Utilities"), with respect to the Marketers' wholesale power marketing activities.

1. Transmission and ancillary services provided by the Utilities to the Marketers will be provided under the Utilities' open access transmission tariff on file in compliance with Order No. 888.
2. Non-power goods and non-power services provided by the Utilities to the Marketers will be priced at the higher of the Utilities' cost or market. The Marketers will not sell non-power goods or non-power services to the Utilities at above-market prices.
3. To the maximum extent practical, employees of the Utilities who operate the Utilities' systems or engage in power purchasing or selling on behalf of the Utilities will be physically, operationally, and functionally separate from employees of the Marketers performing power marketing activities.
4. No employee of the Utilities will share market information with any employee of the Marketers unless all such information is simultaneously made available to the public. This policy will not apply to market information known to be publicly available, or to market information disclosed to employees of the Marketers or the Utilities who are engaged in support functions, including human resources, information resources, data processing, finance, legal, accounting, and other support personnel who do not participate in directing, organizing and executing the day-to-day business decisions of the wholesale merchant or generation functions of the Utilities or the Marketers, provided that such employees are prohibited from acting as conduits to pass market information obtained from the Utilities to the Marketers.
5. With respect to brokering by LEM of purchases and sales on behalf of the Utilities:
 - a. The Utilities will make the same market information provided to LEM simultaneously available to non-affiliated marketers and brokers, except that this policy will not apply to market information known to be publicly available, or to market information disclosed to employees of LEM or the Utilities pursuant to paragraph 4 of this Code of Conduct;

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

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**Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2**

Original Sheet No. 16

- b. **LEM will not have exclusive rights to broker for the Utilities;**
 - c. **LEM will broker sales of the Utilities' power before marketing its own power to a utility that could be served by the Utilities (meaning that if the Utilities request LEM to broker power, LEM will provide the Utilities with a right of first refusal on any LEM transaction that fits the Utilities' parameters until the Utilities make the sale or withdraw their request); and**
 - d. **LEM will not charge the Utilities a fee for brokering services.**
- 6. The Utilities will sell power to the Marketers at a rate that is no lower than the rate the Utilities charge to non-affiliates.**
- 7. Simultaneously with making an offer to sell power to the Marketers, the Utilities will make the same offer to non-affiliates through a posting on their electronic bulletin board ("EBB").**
- 8. Simultaneously with the striking of a power sales transaction with the Marketers, the Utilities will post the actual price paid on their EBB.**
- 9. Deviation from this Code of Conduct may occur only in the case of emergency circumstances affecting system reliability.**

**Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: July 19, 2005

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Louisville Gas and Electric Company/Kentucky Utilities Company First Rev. Sheet No. 17
FERC Electric Tariff, First Revised Volume No. 2 Superseding Original Sheet No. 17

[Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

Louisville Gas and Electric Company/Kentucky Utilities Company First Rev. Sheet No. 18
FERC Electric Tariff, First Revised Volume No. 2 Superseding Original Sheet No. 18

[Reserved]

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Effective: February 27, 2006

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Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1

Third Revised Sheet No. 1
Superseding Repl. Sub. Second Revised Sheet No. 1

**POWER SALES BY
LG&E ENERGY MARKETING INC. (LEM)**

1. **Availability:** LG&E Energy Marketing Inc. ("LEM") makes non-firm energy and firm capacity and energy available under this Rate Schedule for wholesale sales to purchasers with whom it has entered into a contract.
2. **Applicability:** This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where LEM has been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which LEM has been deemed to have market power and any neighboring control area where LEM is authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which LEM has been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which LEM and/or any of its affiliates has been deemed to have market power where such re-sale is made by: (a) LEM, and/or any of its affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than LEM.
3. **Rates:** All sales shall be made at rates established by letter agreement between the purchaser and LEM.
- 3A. [Reserved]
- 3B. **Existing Agreements:** Notwithstanding any other provision in this Rate Schedule, this Rate Schedule shall not affect any agreement entered into before the effective date of this Tariff Sheet.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1

First Revised Sheet No. 1A
Superseding Substitute Original Sheet No. 1A

4. Other Terms and Conditions: All other terms and conditions shall be established by agreement between the purchaser and LEM.
5. Affiliate Sales Prohibited: No sale may be made pursuant to this Rate Schedule to Louisville Gas and Electric Company or to Kentucky Utilities Company.
6. Reporting Changes in Status: LEM must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.
7. Reassignment of Transmission Capacity: LEM may reassign transmission capacity that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by LEM; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) LEM's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. LEM will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. LEM will report the name of the assignee in its quarterly reports.
8. Certain Sales Prohibited: LEM shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between LEM and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 8 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

**LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1**

**Second Revised Sheet No. 2
Superseding First Revised Sheet No. 2**

[Reserved]

**Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

**LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1**

**First Revised Sheet No. 3
Superseding Original Sheet No. 3**

[Reserved]

**Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

Western Kentucky Energy Corporation
Rate Schedule FERC No. 1

Third Revised Sheet No. 1
Superseding Substitute Second Revised Sheet No. 1

WESTERN KENTUCKY ENERGY CORP.

1. **Availability.** Western Kentucky Energy Corp. ("WKEC") makes electric energy and capacity available under this Rate Schedule No. 1 for wholesale sales to purchasers with whom WKEC has contracted.
2. **Applicability.** This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where WKEC has been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which WKEC has been deemed to have market power and any neighboring control area where WKEC is authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which WKEC has been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which WKEC and/or any of its affiliates has been deemed to have market power where such re-sale is made by: (a) WKEC, and/or any of its affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than WKEC.
3. **Rates.** All sales shall be made at rates established by agreement between the purchaser and WKEC.
- 3A. [Reserved]
- 3B. **Exemption for Certain Existing Agreements:** Notwithstanding any other provision in this Rate Schedule, this Rate Schedule shall not affect any agreement entered into before the effective date of this Tariff Sheet.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Western Kentucky Energy Corporation
Rate Schedule FERC No. 1

First Revised Sheet No. 1A
Supersedes Original Sheet No. 1A

4. **Prohibited Transactions.** No sale may be made pursuant to this Rate Schedule to Louisville Gas & Electric Company or Kentucky Utilities Company.
5. **Transmission Capacity Reassignments.** WKEC may reassign transmission capacity that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by the power marketer; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) WKEC's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. WKEC will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. WKEC will report the name of the assignee in its quarterly reports.
6. **Other Terms and Conditions.** All other terms and conditions of sale shall be established by agreement between purchaser and WKEC.
7. **Effective Date.** This Rate Schedule is effective on the date on which sales pursuant to this Rate Schedule commence.
8. **Reporting Changes in Status.** Seller must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.
9. **Certain Sales Prohibited.** WKEC shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between WKEC and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 9 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: LG&E/KU MISO Exit

Issued on: May 24, 2006

Western Kentucky Energy Corporation
Rate Schedule FERC No. 1

Original Sheet No. 2

WESTERN KENTUCKY ENERGY CORP.

CODE OF CONDUCT

Western Kentucky Energy Corp. ("WKEC") has established this Code of Conduct to guide the relationship between WKEC and its affiliates, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), with respect to WKEC's wholesale power marketing activities.

1. Transmission and ancillary services provided by LG&E or KU to WKEC will be provided under LG&E's or KU's open access tariff on file in compliance with Order No. 888.
2. Non-power goods and non-power services provided by LG&E or KU to WKEC will be priced at the higher of LG&E's or KU's fully-loaded cost or market. WKEC will not sell non-power goods or non-power services to LG&E or KU at above-market prices.
3. To the maximum extent practical, LG&E and KU employees who operate LG&E's or KU's system or engage in power purchasing or selling on behalf of LG&E or KU will be physically, operationally, and functionally separate from WKEC's employees performing power marketing activities.
4. No employee of LG&E or KU will share market information with any employee of WKEC unless all such information is comparably and simultaneously made available to the public. This policy will not apply to market information known to be publicly available.

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**Western Kentucky Energy Corporation
Rate Schedule FERC No. 1**

**Second Revised Sheet No. 3
Superseding First Revised Sheet No. 3**

[Reserved]

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**Western Kentucky Energy Corporation
Rate Schedule FERC No. 1**

**First Revised Sheet No. 4
Superseding Original Sheet No. 4**

[Reserved]

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Exhibit C

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 1

**WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS**

I. DEFINITIONS

The following words and terms used herein shall be understood to have the following meanings:

1. **Affiliate**: means, with respect to any entity, any other entity (other than an individual person) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity. For this purpose, "control" means the direct or indirect ownership of ten percent (10%) or more of the outstanding capital stock or other equity interests having ordinary voting power.
2. **Buyer**: means a purchaser of electric capacity, energy and/or ancillary services or resold transmission rights under this Tariff.
3. **Commission**: means the Federal Energy Regulatory Commission ("FERC") or such successor Federal regulatory agency as may have jurisdiction over this Tariff.
4. **Parties**: means Seller and Buyer that have entered into a Service Agreement for service pursuant to this Tariff.
5. **Seller**: means Louisville Gas and Electric Company and Kentucky Utilities Company, each a Kentucky corporation organized under the laws of the Commonwealth of Kentucky, but operating as Louisville Gas and Electric Company/Kentucky Utilities Company, a jointly dispatched utility.
6. **Service Agreement**: means the agreement entered into by Seller and Buyer for service pursuant to this Tariff, as it may be amended from time to time.
7. **Tariff**: means this wholesale market-based rate tariff, as amended from time to time.
8. **Transaction**: means a particular transaction agreed to by the Parties pursuant to a Service Agreement under this Tariff.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Louisville Gas and Electric Company/Kentucky Utilities Company ~~Original~~ First Rev. Sheet No. 2
FERC Electric Tariff, First Revised Volume No. 3 Supersedes Original Sheet No. 2

9. Transmission Tariff: means the transmission tariff filed by Louisville Gas and Electric Company/Kentucky Utilities Company in compliance with Order No. 888, as it may be amended from time to time.

II. SALES OF ELECTRIC CAPACITY, ENERGY AND/OR ANCILLARY SERVICES

- ~~1. Electric Capacity and Energy: Seller may sell electric capacity and/or energy to Buyer under this Tariff from time to time at rates, terms and conditions established by the agreement of the Parties; provided, however, that this Tariff does not apply to sales to non-affiliates of capacity (without associated energy) with a point of delivery wholly within the Big Rivers Electric Corporation ("BREC") control area (not a border location). All such Transactions shall be voluntary with respect to both Parties.~~

1. **Electric Capacity and Energy**: This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where Seller has been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which Seller has been deemed to have market power and any neighboring control area where Seller is authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which Seller has been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which Seller and/or any of its affiliates has been deemed to have market power where such re-sale is made by: (a) Seller, and/or any of its affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than Seller.

2. Ancillary Services: Seller may sell the following ancillary services to Buyer under this Tariff from time to time at rates, terms and conditions established by the agreement of the Parties, provided that the ancillary services are not sold in conjunction with transmission service provided under Seller's Transmission Tariff. All such Transactions shall be voluntary with respect to both Parties.

Sales of ancillary services may include regulation and frequency response service, energy imbalance service, operating reserve-spinning service, and/or operating reserve-supplemental service. The Seller maintains an Internet-based OASIS-like site that provides information about the Seller and provides for ancillary services Transactions, consistent with the Commission's requirements. Ancillary services are not available under this Tariff in connection with (1) sales to a regional transmission organization ("RTO") such as an Independent System Operator ("ISO") or Transco, i.e., where the RTO has no ability to self-supply ancillary services but instead depends on third parties; (2) sales to a traditional, franchised public utility affiliated with the Seller, or sales where the underlying transmission service is on the system of a public utility affiliated with Seller; or (3) sales to a public utility

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Louisville Gas and Electric Company/Kentucky Utilities Company ~~Original~~ First Rev. Sheet No. 2
FERC Electric Tariff, First Revised Volume No. 3 ~~Supersedes Original Sheet No. 2~~

who is purchasing ancillary services to satisfy its own open access transmission tariff requirements to offer ancillary services to its own customers.

3. Provision of Unbundled Transmission Service: Except as provided under Sections II.2 and III, this Tariff does not provide for the sale of transmission service or ancillary services. Either

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company Original Sheet No. 2A
FERC Electric Tariff, First Revised Volume No. 3

Seller or Buyer may arrange for transmission service and ancillary services in conjunction with the sale of capacity and energy.

III. RESALE OF TRANSMISSION RIGHTS

1. **Character of Service:** Seller may resell to a Buyer all or a portion of Seller's rights to the use of the transmission system of a transmission provider that Seller has reserved for its own use under a service agreement with the transmission provider, or has acquired from another customer of the

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company First Revised Sheet No. 3
FERC Electric Tariff, First Revised Volume No. 3 Supersedes Original Sheet No. 3

transmission provider, including capacity that Seller has reserved or acquired for its own use on its own transmission system under its Transmission Tariff. In order to be eligible for this service, the Buyer must be an eligible customer under the transmission tariff of the transmission provider from whom the transmission service rights to be transferred were originally obtained. When Seller resells transmission capacity that Seller has reserved or acquired for its own use on its own transmission system, Seller will continue to comply with all of the non-rate terms and conditions of its Transmission Tariff. Notwithstanding the foregoing, the Seller may resell service that it has obtained from any transmission provider for a shorter duration than it has purchased and may resell as non-firm point-to-point service transmission that it has purchased as firm point-to-point service.

2. Limitation on Sales Prices: The price at which Seller resells transmission rights to the Buyer shall not exceed the highest of (a) the original rate paid by Seller; (b) the applicable transmission provider's maximum rate on file at the time of the sale to the Buyer for service of the same duration; or (c) Seller's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the Seller's sale to the Buyer. Seller shall not recover opportunity costs on an incremental basis in connection with such sale without first receiving Commission approval pursuant to a filing under Section 205 of the Federal Power Act or any superceding provision thereto.
3. Records: Seller shall keep such records as may be needed to afford a clear history of all resales of transmission capacity that Seller has reserved or acquired for its own use on its own transmission system or on the transmission systems of other transmission providers under Section III of this Tariff. To the extent practicable, Seller shall retain the original of all such records.

IV. RATES

~~Subject to the limitations stated below, all~~ All sales shall be made at rates established by agreement between Seller and Buyer. ~~The rate charged by Seller for sales to non-affiliates under this Tariff of (i) energy and (ii) capacity and associated energy with a point of sink wholly within the BREC control area (not a border location) shall be capped as follows: (a) for single hour transactions, at the higher of the Midwest Independent Transmission System Operator, Inc.'s day-ahead or real-time locational marginal price (LMP) for energy at the BREC interface for such hour, (b) for multi-hour transactions, at the higher of the average day-ahead or average real-time LMP over the course of the transaction as weighted by transaction quantities delivered by Seller in each hour of the transaction.~~

V. OTHER TERMS AND CONDITIONS

All other terms and conditions shall be established by agreement between Seller and Buyer.

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Issued on: ~~May 23~~ March 8, 2006

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 4

VI. EFFECTIVE DATE

This Tariff shall be effective on such date set by the Commission.

VII. REVISIONS TO THE TARIFF

Seller may file revisions to this Tariff by notifying Buyer in writing and by unilaterally making the appropriate filing with the Commission pursuant to the provisions of Section 205 of the Federal Power Act or any superceding provision thereto, provided, however, that such revision shall not affect the rates, terms and condition of Transactions entered into prior to the date of such revision unless otherwise agreed by the Parties.

VIII. FILING AND REPORTING REQUIREMENTS

Seller will comply with the current Commission policies and regulations for the filing and/or reporting of Service Agreements and Transactions pursuant to the Tariff.

IX. AFFILIATE POWER SALES

When Seller offers to make any sale of capacity, energy and/or ancillary services to an affiliated entity, it shall make the same offer, at the same time, to all non-affiliated entities by simultaneously posting such offer of sale on an electronic bulletin board.

The rates for sales under this Section IX shall be as negotiated by the parties but in no event will Seller sell capacity, energy and/or ancillary services to an affiliated entity under this Section at a rate lower than the rate at which Seller sells power to any non-affiliated entity.

When Seller makes a sale of capacity, energy and/or ancillary services to an affiliated entity it will simultaneously post the price charged to such affiliate on an electronic bulletin board. The quarterly reports that Seller files with the Commission pursuant to Section VIII of this Tariff will include sales to affiliated entities at above-cost rates.

X. REPORTING CHANGES IN STATUS

Seller must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company Original Sheet No. 4A
FERC Electric Tariff, First Revised Volume No. 3

XI. CERTAIN SALES PROHIBITED

Seller shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between Seller and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 8 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 5

STATEMENT OF POLICY AND CODE OF CONDUCT

As used throughout this Statement of Policy and Code of Conduct, the term "Operating Company" means Louisville Gas and Electric Company/Kentucky Utilities Company. The term "Marketing Affiliate" means any affiliate of the Operating Company, which is authorized to engage in sales for resale.

Marketing of Power

1. To the maximum extent practical, the employees of a Marketing Affiliate who perform power marketing activities of such Marketing Affiliate will operate separately from the employees of the Operating Company.
2. All market information shared between the Operating Company and a marketing Affiliate will be disclosed simultaneously to the public. This includes all market information, including but not limited to any communication concerning power or transmission business, present or future, positive or negative, concrete or potential. Shared employees in a support role are not bound by this provision, but they may not serve as an improper conduit of information to non-support personnel.
3. Sales of any non-power goods or services by the Operating Company to a Marketing Affiliate, including sales made through the Operating Company's affiliated Exempt Wholesale Generators or Qualified Facilities, will be at the higher of cost or market price.
4. Sales of any non-power goods or services by a Marketing Affiliate to the Operating Company will not be at a price above market.

Affiliate Power Sales

When Operating offers to make any sale of capacity, energy and/or ancillary services to a Marketing Affiliate, it shall make the same offer, at the same time, to all non-affiliated entities by simultaneously posting such offer of sale on an electronic bulletin board.

The rates for sales of power shall be as negotiated by the parties, but in no event will Operating Company sell capacity, energy and/or ancillary services to a Marketing Affiliates at a rate lower than the rate at which Operating Company sells power to any non-affiliated entity.

When Operating Company makes a sale of capacity, energy and/or ancillary services to a marketing Affiliate, it will simultaneously post the price charged to such Marketing Affiliate on an electronic bulletin board.

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**Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3**

Original Sheet No. 6

**The quarterly reports that Operating Company files with the Commission pursuant to its
Market-Based Rate Tariff will include sales to Marketing Affiliates at above-cost rates.**

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 7

Form of
SERVICE AGREEMENT
UNDER WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS

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E.ON U.S. LLC

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 3

Original Sheet No. 8

**SERVICE AGREEMENT
UNDER WHOLESALE MARKET-BASED RATE TARIFF TWO
OF
LOUISVILLE GAS AND ELECTRIC COMPANY/
KENTUCKY UTILITIES COMPANY
PROVIDING FOR
SALES OF CAPACITY, ENERGY AND/OR ANCILLARY SERVICES
AND RESALE OF TRANSMISSION RIGHTS**

- 1.0 This Service Agreement, dated as of _____, is entered into by and between Louisville Gas and Electric Company/Kentucky Utilities Company ("Seller") and _____ ("Buyer").
- 2.0 Seller may provide and Buyer may purchase service under Seller's tariff.
- 3.0 Terms and conditions for service shall be set forth in a Master Power Purchase and Sale Agreement ("Master Agreement") and the Master Agreement shall be executed by Seller and Buyer.
- 4.0 Any notice or request made to or by a Party (Seller or Buyer) regarding this Service Agreement shall be made to the representative of the other Party as indicated below:

Seller:

Buyer:

IN WITNESS WHEREOF, the Parties have caused this Service Agreement to be executed by their respective authorized officials.

Louisville Gas and Electric Company/Kentucky Utilities Company

By: _____ Title: _____ Date: _____
Name

[INSERT BUYER COMPANY HERE]

By: _____ Title: _____ Date: _____
Name

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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FERC Electric Tariff, First Revised Volume No. 3

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Louisville Gas and Electric Company/Kentucky Utilities Company ~~Original~~ First Rev. Sheet No. 1
FERC Electric Tariff, First Revised Volume No. 2 ~~Supersedes Original Sheet No. 1~~

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

1.0 Availability

~~1.1 This Rate Schedule is available for purchases of firm and non-firm capacity and associated energy on a short or long term basis from Louisville Gas and Electric Company and/or Kentucky Utilities Company (hereinafter "Companies"); provided, however, that this Rate Schedule does not apply to sales to non-affiliates of capacity (without associated energy) with a point of delivery wholly within the Big Rivers Electric Corporation ("BREC") control area (not a border location).~~

1.1 This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where Louisville Gas and Electric Company and/or Kentucky Utilities Company (hereinafter the "Companies") have been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which the Companies have been deemed to have market power and any neighboring control area where the Companies are authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which the Companies have been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which the Companies and/or any of their affiliates have been deemed to have market power where such re-sale is made by: (a) the Companies, and/or any of their affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than the Companies.

1.2 This Rate Schedule provides a vehicle under which the Companies may make electric power and energy available to purchasers for resale. The determination of whether to enter into agreements under this Rate Schedule shall be made at the Companies' sole discretion.

1.3 No entity affiliated with the Companies shall be eligible for service under this Rate Schedule, except that the Companies' affiliates LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. shall be eligible for service under this Rate Schedule subject to the Joint Code of Conduct (Supplement No. 1 hereto) that is intended to guide the relationship between the Companies and those affiliates.

2.0 Character of Service

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005 LG&E/KU MISO Exit

Issued on: ~~January 3,~~ May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company ~~Original~~ First Rev. Sheet No. 1
FERC Electric Tariff, First Revised Volume No. 2 Supersedes Original Sheet No. 1

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

2.1 The Companies may provide (1) firm capacity and associated energy or (2) non-firm capacity and associated energy. Said capacity and energy shall be provided from generating capacity contained within the Companies' systems and/or power purchased by the Companies that may from time to time be sold to the Customer for the purpose of providing either firm or non-firm capacity and energy.

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Vice President, Federal Regulation and Policy
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FERC Electric Tariff, First Revised Volume No. 2

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

2.2 "Firm" means, with respect to a transaction, that the only excuse for non-delivery or non-receipt of the power subject to the transaction shall be the existence of an event of Force Majeure, as defined in Article 9.0. "Non-firm" means, with respect to any transaction, any transaction under which delivery or receipt of the power subject to the transaction may be interrupted by either Party for any reason or no reason at any time or at such times as the Parties may otherwise specify. Interruption of a non-firm transaction shall not constitute a default hereunder.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Louisville Gas and Electric Company/Kentucky Utilities Company First Revised Sheet No. 2
FERC Electric Tariff, First Revised Volume No. 2 Supersedes Original Sheet No. 2

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

2.3 Service will be provided at 60 Hertz, alternating current, three phase and at mutually agreed to voltage levels.

3.0 Interconnection and Interchange

3.1 Unless otherwise provided in the individual Service Agreement, it shall be the responsibility of the Customer to make any necessary arrangements for delivery of power and energy beyond the points of interconnection of the Companies' system facilities with those of other electric systems (the "Delivery Point").

3.2 As a general practice, the receiving Party shall schedule energy deliveries on an hourly basis in a mutually agreed-upon manner with the supplying Party on the day before such energy is to be delivered; provided, however, that the Parties may make changes in existing energy schedules as both Parties may agree to take into account unexpected or unforeseen conditions or occurrences.

4.0 Rates

4.1 The rates for transactions made under this Rate Schedule shall be agreed upon by the Companies and the Customer. The rights of the Companies and the Customer to modify the rates shall be governed by either the unexecuted or the executed Service Agreement.

4.2 When selling power from Companies' generation pursuant to this Rate Schedule, the Companies will take transmission service pursuant to their Joint Open Access Transmission Tariff, or its successor tariff(s). As such, they will separately identify the prices charged to customers for wholesale generation, transmission service, and ancillary services in their quarterly transaction summary report for sales of a short-term nature. For transactions of one year or more in duration, the Companies will provide the Commission an Agreement which states the prices for wholesale generation, transmission service and ancillary services(s).

~~4.3 The rate charged by Companies for sales to non-affiliates under this Rate Schedule of (i) energy and (ii) capacity and associated energy with a point of sink wholly within the BREC control area (not a border location) shall be capped as follows: (a) for single hour transactions, at the higher of the Midwest Independent Transmission System Operator, Inc.'s day ahead or real-time locational marginal price (LMP) for~~

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 3

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

~~energy at the BREC interface for such hour, (b) for multi-hour transactions, at the higher of the average day ahead or average real time LMP over the course of the transaction as weighted by transaction quantities delivered by Companies in each hour of the transaction.~~ 5.0 Service Agreements

5.1 The Companies and the Customer shall execute a Service Agreement that includes, without limitation, all necessary service specifications. The Companies shall reserve the right to enter into transactions under this Rate Schedule by filing an unexecuted Service Agreement.

5.2 The amount of capacity or energy either sold or purchased hereunder, the rates, the service specifications, and other terms and conditions shall be negotiated by the Companies and the Customer. The Companies may refuse, at their sole discretion, to enter into an individual Service Agreement under this Rate Schedule. The Companies are under no obligation to execute a Service Agreement to provide service hereunder.

5.3 Acceptance of service by a Customer pursuant to either an unexecuted or fully executed Service Agreement filed under this Rate Schedule commits the Customer both to the provisions of this Rate Schedule and to the terms of the individual Service Agreement.

5.4 The Companies will provide the Commission with a copy of either the unexecuted or the fully executed Service Agreement.

5.5 Transactions may be confirmed by the Companies and the Customer in writing sent to the other Party (each a "Confirmation") containing the specific terms and conditions of the transaction. Absence manifest error, terms contained in a Confirmation shall be deemed correct, unless objected to in writing within two (2) business days of receipt thereof. However, failure to issue a Confirmation shall not invalidate any transaction actually entered into. Each Party consents to the recording of all telephone conversations between its employees and the employees of the other Party. Any such recordings and any other evidence may be introduced as evidence in any legal proceeding to establish proof of any matter relating to the Service Agreement or any transaction pursuant to this Rate Schedule.

5.6 In computing any period of time prescribed or allowed by the Service Agreement, the day of the act, event, or default from which the designated period of time begins to run shall

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 4

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

be excluded but the last day of such period shall be included, unless it is a Saturday, Sunday, or legal holiday, in which event the period shall run until the end of the next business day which is not a Saturday, Sunday, or legal holiday.

5.7 The Parties shall discharge all obligations under the Service Agreement accordance with prudent utility practices.

5.8 In the event any of the terms, covenants, or conditions of the Service Agreement, or any amendment thereto, or the application of any such terms, covenants, or conditions shall be held invalid as to either Party or circumstance by a court or regulatory authority having jurisdiction, all other terms, covenants, and conditions of the Service Agreement, or any amendment hereto, and their application, shall not be affected thereby and shall remain in full force and effect.

6.0 Billing, Defaults, and Records

6.1 The Customer shall be invoiced each month for services provided hereunder. Unless otherwise agreed upon, billing shall be delivered monthly and shall cover transactions which shall have occurred during the previous calendar month. All bills shall be due and payable on the tenth calendar day following receipt of bill. Interest on the unpaid amounts shall accrue at the interest rate authorized by the FERC for refunds, pursuant to 18CFR 35.19a.

6.2 In the event a Party wishes to contest a portion of a billed amount, such Party shall pay the portion not contested, and interest shall accrue on the unpaid portion while resolution of contested amounts is pending.

6.3 In the event the Customer fails to make timely payment in accordance with this Rate Schedule, and such failure is not corrected within two (2) calendar days after notification to cure such failure, a default shall be deemed to exist. Subject to any regulatory requirements, and upon the occurrence of a default, (a) the Companies may immediately cease -scheduling, or otherwise supplying services provided under the Rate Schedule until the default is cured by payment, (b) Customer shall not contest or object to the suspension of its right to schedule energy, and (c) the Companies' obligation under the Rate Schedule may be terminated, and the Companies may initiate any regulatory or legal proceeding to terminate d and/or enforce the Rate Schedule.

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 5

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

6.4 The Parties shall keep complete records as may be needed to substantiate a clear history of the various deliveries of electric energy made, and of the clock-hour integrated demands delivered by one Party to the other. A Party's records shall be available at all reasonable times for inspection by the other Party's representative, and may be copied at such other Party's expense.

7.0 Creditworthiness

7.1 For the purpose of determining the ability of the Customer to meet its obligations related to service hereunder, the Companies may require reasonable credit review procedures which may include but shall not be limited to, verification that the Customer is not operating under any state or federal bankruptcy laws, is not subject to the uncertainty of pending liquidation or regulatory proceedings in state or federal courts, and no significant collection lawsuits or judgments are outstanding which would seriously affect the Customer's ability, in the Companies' determination, to remain solvent. As part of this process, the Customer may be required to furnish the Companies with its financial reports and/or its reports to shareowners.

7.2 Customers that do not meet the Moody's ratings of Baa or better, or that do not meet an S&P rating of BBB or better, must show proof of creditworthiness including their most recent annual report/financial statement. If a service agreement is executed, the Customer must update its financials annually.

8.0 Term

8.1 The term for transactions under this Rate Schedule shall be set forth in the Service Agreement. Transactions made prior to the filing of a fully executed Service Agreement shall be governed by an unexecuted Service Agreement; said unexecuted Agreement shall remain in effect until either the fully executed Agreement is filed or the unexecuted Agreement is terminated.

9.0 Force Majeure

9.1 Force Majeure. The term "Force Majeure" shall be deemed for the purpose of this Rate Schedule to mean earthquake, storm, lightning, flood, backwater caused by flood, fire,

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 6

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

explosion, act of the public enemy, epidemic, accident, failure of facilities, equipment or fuel supply, acts of God, war, riot, civil disturbances, strike, labor disturbances, labor or material shortage, national emergency, restraint by court order or other public authority or governmental agency, or other similar or dissimilar causes beyond the control of the Party affected which causes such Party could not have avoided by exercise of due diligence and reasonable care. Nothing contained herein shall be construed to require a Party to settle any strike, lockout, work stoppage or other industrial disturbance or dispute in which it may be involved or to take an appeal from any judicial, regulatory or administrative action. Any Party rendered unable to fulfill any of its obligations under this Rate Schedule by reason of Force Majeure shall exercise due diligence to remove such inability with all reasonable dispatch and shall fully inform the other Party of its progress. In the event either Party is unable, in whole or in part, to perform any of its obligations by reason of Force Majeure the obligations of the Party relying thereon, insofar as such obligations are affected by such Force Majeure, shall be suspended during the continuance thereof but no longer. The Party invoking the Force Majeure shall specifically state the full particulars of the Force Majeure and the time and date when the Force Majeure occurred. Notices given by telephone under the provision of this Paragraph 9.1 shall be confirmed in writing as soon as reasonably possible. When the Force Majeure ceases, the Party relying thereon shall give immediate notice thereof to the other Party. The Service Agreement shall not be terminated by reason of Force Majeure but shall remain in full force and effect.

10.0 Indemnification and Limitation of Liability

10.1 Limitation of Liability. In no event shall one Party be liable to the other Party for any indirect, special, incidental or consequential damages with respect to any claim arising out of this Rate Schedule.

10.2 Indemnification Clause. Each Party shall indemnify, defend and hold harmless the other Party from and against any liability, loss, cost, damage and expense (including, but not limited to, reasonable attorney's fees) because of injury or damage to persons or property resulting from, or arising out of the use of its own facilities or the production or flow of electric energy by and through its own facilities, except when such injury or damage results from the negligence or willful misconduct of the other Party, its agents, servants, or employees.

10.3 Responsibility for Compliance. Each Party shall be responsible for its own compliance with all applicable laws and regulations, including those relating to the environment,

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 7

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

and each Party shall hold the other Party harmless from any liability, loss, cost, damage or expense (including, but not limited to reasonable attorney's fees) arising out of its failure to comply with such laws and regulations.

11.0 Tax Reimbursement

11.1 It is expressly agreed by the Parties that, as part of the compensation to be paid under the Rate Schedule, and under any confirmations or other agreements annexed to and made part of the Rate Schedule, if at any time during the term hereof there should be levied and/or assessed against the Companies, any direct tax, including, but not limited to environmental (carbon content or otherwise) or similar taxes (other than taxes based on or measured by net income), by any taxing authority on the power and/or energy manufactured, generated, produced, converted, sold, purchased, transmitted, interchanged, exchanged, exported or imported by the Companies on behalf of the Customer, the Companies shall be entitled to full compensation by the Customer for such taxes.

11.2 The Parties also agree that prior approval of any regulatory body having jurisdiction in such matter, if required, shall be obtained as a prerequisite to collection of such direct tax.

12.0 Waivers

12.1 Waivers. Any waiver by either Party of its rights under this Rate Schedule or with respect to any matter arising in connection with this Rate Schedule, shall not be deemed a waiver with respect to any rights that subsequently accrue. Any delay for less than the statutory period of limitations in asserting or enforcing any rights under this Rate Schedule shall not be deemed a waiver of such rights.

13.0 Revisions to Rate Schedule

13.1 The Companies may file revisions to this Rate Schedule with the FERC. Nothing contained in this Rate Schedule shall be construed as affecting or limiting in any way the right of the Companies to unilaterally file with the FERC for a change in any aspect of this Rate Schedule under Section 205 or 206 of the Federal Power Act pursuant to the FERC's Rules and Regulations promulgated thereunder.

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 8

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

14.0 Reassignment of Transmission Capacity

14.1 The Companies may reassign transmission capacity that they have reserved for their own use at a price not to exceed the highest of: (1) the original transmission rate paid by the Companies; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) the Companies' own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. The Companies will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. The Companies will report the name of the assignee in their quarterly reports.

15.0 Reporting Changes in Status

The Companies must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 8A

THE LG&E OPERATING COMPANIES

FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service

16.0 Certain Sales Prohibited

The Companies shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between the Companies and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 16.0 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: ~~July 19, 2005~~ LG&E/KU MISO Exit

Issued on: ~~January 3,~~ May 24, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 9

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

"Form of Service Agreement"

**PURCHASE AND SALES AGREEMENT
Market-Based Sales Service**

This Service Agreement, made and entered into this _____ day of _____, is by and between the Louisville Gas and Electric Company and the Kentucky Utilities Company (hereinafter "Companies"), and _____ ("Customer").

Beginning _____, and remaining in effect until terminated by either party upon thirty (30) days' written notice to the other party; provided, however, that no such termination notice shall be effective until the completion of an ongoing transaction agreed to by the parties:

The Companies will make available to Customer the services identified in the Companies' Rate Schedule Market-Based Sales Service (Rate MBSS) subject to the Companies' reaching mutual agreement with the Customer for each transaction under Rate MBSS. The Companies and Customer agree to all terms and conditions set forth in Rate MBSS.

The terms and conditions of Rate MBSS, as they may be modified from time to time by the Companies upon approval of the FERC, are incorporated in this Agreement by reference. Nothing herein shall prevent the Companies from modifying Rate MBSS in the future, although such modified Rate MBSS shall not apply to transactions commencing prior to the effective date of any such modification.

Customer will provide capacity and energy to the Companies under <Customer Specifics>

The Service Agreement, including the Rate Schedule referenced within, and the specific terms and conditions to be agreed upon for each transaction hereunder, contains the entire agreement between the Parties hereto in respect of the subject matter hereof, and there are no other understandings or agreements between the Parties hereto in respect thereof.

Each transaction shall be governed by (i) Rate MBSS, (ii) the specific terms and conditions agreed to by the Parties for such transaction, and (iii) the terms and conditions set

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Vice President, Federal Regulation and Policy
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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 10

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

forth herein. In the event of a conflict in the provisions of the aforementioned documents, the order of prevalence will be the order in which the documents are set forth in the immediately preceding sentence.

This Agreement is not intended to and shall not create rights of any character whatsoever in favor of any person or entity other than the Parties, and the obligations stated herein are solely for the benefit of Louisville Gas and Electric Company and Kentucky Utilities Company.

This Agreement shall be binding upon and shall inure to the benefit of the successors and permitted assigns of the Parties. Neither the Service Agreement, nor any right or obligation thereunder, shall be assigned to a third person by a Party without the written consent of the other Party, which consent shall not be unreasonably withheld. Any assignment made without the required consent shall be void and of no effect against the non-consenting Party.

Any notice or request made to or by the Companies or the Customer regarding this Service Agreement or of an operating nature shall be made in writing, and shall be telecommunicated or delivered either in person or by prepaid mail to the representative of the other party as indicated below. Such representative and address for notices or requests may be changed from time to time by notice by one party to the other.

TO the Companies:

Attn: _____
The LG&E Operating Companies
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

TO Customer:

OTHER SPECIFIC TERMS AND CONDITIONS

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 11

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officials as of the date first above written.

WITNESSETH:

THE LG&E OPERATING COMPANIES

By _____

By _____
Name: _____
Title: _____

WITNESSETH:

CUSTOMER

By _____

By _____
Name: _____
Title: _____

Issued by: **Mike Beer**
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 12

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

"Form of Service Agreement"

**SALES AGREEMENT
Market-Based Sales Service**

This Service Agreement, made and entered into this ____ day of _____, is by and between the Louisville Gas and Electric Company and the Kentucky Utilities Company (hereinafter "Companies"), and _____ ("Customer").

Beginning _____, and remaining in effect until terminated by either party upon thirty (30) days' written notice to the other party; provided, however, that no such termination notice shall be effective until the completion of an ongoing transaction agreed to by the parties:

The Companies will make available to Customer the services identified in the Companies' Rate Schedule Market-Based Sales Service (Rate MBSS) subject to the Companies' reaching mutual agreement with the Customer for each transaction under Rate MBSS. The Companies and Customer agree to all terms and conditions set forth in Rate MBSS.

The terms and conditions of Rate MBSS, as they may be modified from time to time by the companies upon approval of the FERC, are incorporated in this Agreement by reference. Nothing herein shall prevent the Companies from modifying Rate MBSS in the future, although such modified Rate MBSS shall not apply to transactions commencing prior to the effective date of any such modification.

The Service Agreement, including the Rate Schedule referenced within, and the specific terms and conditions to be agreed upon for each transaction hereunder, contains the entire agreement between the Parties hereto in respect of the subject matter hereof, and there are no other understandings or agreements between the Parties hereto in respect thereof.

Each transaction shall be governed by (i) Rate MBSS, (ii) the specific terms and conditions agreed to by the Parties for such transaction, and (iii) the terms and conditions set forth herein. In the event of a conflict in the provisions of the aforementioned documents, the order of prevalence will be the order in which the documents are set forth in the immediately preceding sentence.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 13

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

This Agreement is not intended to and shall not create rights of any character whatsoever in favor of any person or entity other than the Parties, and the obligations stated herein are solely for the benefit of Louisville Gas and Electric Company and Kentucky Utilities Company.

The Service Agreement shall be binding upon and shall inure to the benefit of the successors and permitted assigns of the Parties. Neither the Service Agreement, nor any right or obligation thereunder, shall be assigned to a third person by a Party without the written consent of the other Party, which consent shall not be unreasonably withheld. Any assignment made without the required consent shall be void and of no effect against the non-consenting Party.

Any notice or request made to or by the Companies or the Customer regarding this Service Agreement or of an operating nature shall be made in writing, and shall be telecommunicated or delivered either in person or by prepaid mail to the representative of the other party as indicated below. Such representative and address for notices or requests may be changed from time to time by notice by one party to the other.

TO the Companies:

Attn: _____
The LG&E Operating Companies
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

TO Customer:

OTHER SPECIFIC TERMS AND CONDITIONS

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

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Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 14

THE LG&E OPERATING COMPANIES

**FERC Standard Rate Schedule
Rate MBSS
Market-Based Sales Service**

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officials as of the date first above written.

WITNESSETH:

THE LG&E OPERATING COMPANIES

By _____

By _____

Name: _____
Title: _____

WITNESSETH:

CUSTOMER

By _____

By _____

Name: _____
Title: _____

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company
FERC Electric Tariff, First Revised Volume No. 2

Original Sheet No. 15

**LG&E ENERGY CORPORATION
CODE OF CONDUCT
BETWEEN LOUISVILLE GAS & ELECTRIC COMPANY,
KENTUCKY UTILITIES COMPANY, WESTERN KENTUCKY ENERGY CORP.
AND LG&E ENERGY MARKETING INC.**

LG&E Energy Corp. has established this Code of Conduct to guide the relationship between LG&E Energy Marketing Inc. ("LEM"), Western Kentucky Energy Corp. (collectively, the "Marketers") and their franchised utility affiliates, Louisville Gas and Electric Company and Kentucky Utilities Company (the "Utilities"), with respect to the Marketers' wholesale power marketing activities.

1. Transmission and ancillary services provided by the Utilities to the Marketers will be provided under the Utilities' open access transmission tariff on file in compliance with Order No. 888.

2. Non-power goods and non-power services provided by the Utilities to the Marketers will be priced at the higher of the Utilities' cost or market. The Marketers will not sell non-power goods or non-power services to the Utilities at above-market prices.

3. To the maximum extent practical, employees of the Utilities who operate the Utilities' systems or engage in power purchasing or selling on behalf of the Utilities will be physically, operationally, and functionally separate from employees of the Marketers performing power marketing activities.

4. No employee of the Utilities will share market information with any employee of the Marketers unless all such information is simultaneously made available to the public. This policy will not apply to market information known to be publicly available, or to market information disclosed to employees of the Marketers or the Utilities who are engaged in support functions, including human resources, information resources, data processing, finance, legal, accounting, and other support personnel who do not participate in directing, organizing and executing the day-to-day business decisions of the wholesale merchant or generation functions of the Utilities or the Marketers, provided that such employees are prohibited from acting as conduits to pass market information obtained from the Utilities to the Marketers.

5. With respect to brokering by LEM of purchases and sales on behalf of the Utilities:

- a. The Utilities will make the same market information provided to LEM simultaneously available to non-affiliated marketers and brokers, except that this policy will not apply to market information known to be publicly available, or to market information disclosed to employees of LEM or the Utilities pursuant to paragraph 4 of this Code of Conduct;

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Louisville Gas and Electric Company/Kentucky Utilities Company Original Sheet No. 16
FERC Electric Tariff, First Revised Volume No. 2

- b. LEM will not have exclusive rights to broker for the Utilities;
 - c. LEM will broker sales of the Utilities' power before marketing its own power to a utility that could be served by the Utilities (meaning that if the Utilities request LEM to broker power, LEM will provide the Utilities with a right of first refusal on any LEM transaction that fits the Utilities' parameters until the Utilities make the sale or withdraw their request); and
 - d. LEM will not charge the Utilities a fee for brokering services.
6. The Utilities will sell power to the Marketers at a rate that is no lower than the rate the Utilities charge to non-affiliates.
7. Simultaneously with making an offer to sell power to the Marketers, the Utilities will make the same offer to non-affiliates through a posting on their electronic bulletin board ("EBB").
8. Simultaneously with the striking of a power sales transaction with the Marketers, the Utilities will post the actual price paid on their EBB.
9. Deviation from this Code of Conduct may occur only in the case of emergency circumstances affecting system reliability.

Issued by: Mike Beer Effective: July 19, 2005
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Issued on: January 3, 2006

Louisville Gas and Electric Company/Kentucky Utilities Company First Rev. Sheet No. 17
FERC Electric Tariff, First Revised Volume No. 2 Superseding Original Sheet No. 17

[Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

Louisville Gas and Electric Company/Kentucky Utilities Company First Rev. Sheet No. 18
FERC Electric Tariff, First Revised Volume No. 2 Superseding Original Sheet No. 18

[Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: February 27, 2006

Issued on: March 8, 2006

Filed to comply with *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 114 FERC ¶ 61,165 at n. 6 (2006)

LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1

Replacement Substitute ~~Second~~ Third Revised Sheet No. 1
Superseding Substitute ~~Repl. Sub.~~ Repl. Sub. Second Revised Sheet No. 1

**POWER SALES BY
LG&E ENERGY MARKETING INC. (LEM)**

1. Availability: LG&E Energy Marketing Inc. ("LEM") makes non-firm energy and firm capacity and associated energy available under this Rate Schedule for wholesale sales to purchasers with whom it has entered into a contract.
- ~~2. Applicability: This schedule is applicable to all sales of non-firm energy and firm capacity and associated energy by LEM not otherwise subject to a particular rate schedule; provided, however, that this Rate Schedule does not apply to sales to non-affiliates of capacity (without associated energy) with a point of delivery wholly within the Big Rivers Electric Corporation ("BREC") control area (not a border location).~~
2. Applicability: This market based rates schedule applies to: (1) sales of capacity and/or energy into control areas where LEM has been authorized to sell at market based rates; and (2) sales of capacity and/or energy at the border/interface between a control area in which LEM has been deemed to have market power and any neighboring control area where LEM is authorized to sell at market based rates. Any sales of capacity and/or energy as provided for in (2) shall be considered as sales outside of a control area in which LEM has been deemed to have market power. Any capacity and/or energy sold hereunder may not be re-sold to a Customer in any control area in which LEM and/or any of its affiliates has been deemed to have market power where such re-sale is made by: (a) LEM, and/or any of its affiliates; and/or (b) any other party in contravention of the section of this rate schedule entitled "Certain Sales Prohibited." For purposes of this section, the term "Customer" shall mean a party other than LEM.
3. Rates: All sales shall be made at rates established by letter agreement between the purchaser and LEM.
- ~~3A. Rate Cap on Certain Sales: The rate charged by LEM for sales to non-affiliates under this Rate Schedule of (i) energy and (ii) capacity and associated energy with a point of sink wholly within the BREC control area (not a border location) shall be capped as follows: (a) for single hour transactions, at the higher of the Midwest Independent Transmission System Operator, Inc.'s day-ahead or real-time locational marginal price (LMP) for energy at the BREC interface for such hour, (b) for multi-hour transactions, at the higher of the average day-ahead or average real-time LMP over the course of the transaction as weighted by transaction quantities delivered by LEM in each hour of the transaction.~~

3A. [Reserved]

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: July 19, 2005 LG&E/KU MISO Exit

Issued on: ~~March 8,~~ May 24, 2006

Filed to comply with LG&E Energy Marketing Inc., Letter Order, Docket Nos. ER04-1188-037, et al. (Feb. 15, 2006)

LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1

Replacement Substitute ~~Second~~Third Revised Sheet No. 1
Superseding Substitute Repl. Sub. Second Revised Sheet No. 1

- 3B. ~~Exemption from Rate Cap for Certain Existing Agreements: Notwithstanding the provisions of Section 3A, this Rate Schedule shall not establish any limit on the rate that may be charged for sales of energy and/or capacity under the following agreements: (i) the "Power Purchase Agreement Between Big Rivers Electric Corporation and LG&E Energy Marketing Inc." dated July 15, 1998, (ii) the "Agreement for Electric Service Between Henderson Union Electric Cooperative Corp. and LG&E Energy Marketing Inc." dated July 15, 1998, and (iii) the "Agreement for Electric Service Between Green River Electric Corporation and LG&E Energy Marketing Inc." dated July 15, 1998.~~ Existing Agreements: Notwithstanding any other provision in this Rate Schedule, this Rate Schedule shall not affect any agreement entered into before the effective date of this Tariff Sheet.

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

Effective: ~~July 19, 2005~~ LG&E/KU MISO Exit

Issued on: ~~March 8,~~ May 24, 2006

Filed to comply with LG&E Energy Marketing Inc., Letter Order, Docket Nos. ER94-1188-037, *et al.* (Feb. 15, 2006)

LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1

~~Substitute Original~~ First Revised Sheet No. 1A
Superseding ~~Substitute~~ Original Sheet No. 1A

4. Other Terms and Conditions: All other terms and conditions shall be established by agreement between the purchaser and LEM.
5. Affiliate Sales Prohibited: No sale may be made pursuant to this Rate Schedule to Louisville Gas and Electric Company or to Kentucky Utilities Company.
6. Reporting Changes in Status: LEM must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.
7. Reassignment of Transmission Capacity: LEM may reassign transmission capacity that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by LEM; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) LEM's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. LEM will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. LEM will report the name of the assignee in its quarterly reports.
8. Certain Sales Prohibited: ~~LEM shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between LEM and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 8 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.~~

Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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**LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1**

**Second Revised Sheet No. 2
Superseding First Revised Sheet No. 2**

[Reserved]

**Issued by: Mike Beer
Vice President, Federal Regulation and Policy
E.ON U.S. LLC**

Effective: February 27, 2006

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**LG&E Energy Marketing Inc.
Rate Schedule FERC No. 1**

**First Revised Sheet No. 3
Superseding Original Sheet No. 3**

[Reserved]

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Western Kentucky Energy Corporation
Rate Schedule FERC No. 1

Substitute ~~Second~~Third Revised Sheet No. 1
Superseding Substitute Second Revised Sheet No. 1

~~shall not establish any limit on the rate that may be charged for sales of energy and/or capacity under the following agreements: (i) the "Power Purchase Agreement Between Big Rivers Electric Corporation and LG&E Energy Marketing Inc." dated July 15, 1998, (ii) the "Agreement for Electric Service Between Henderson Union Electric Cooperative Corp. and LG&E Energy Marketing Inc." dated July 15, 1998, and (iii) the "Agreement for Electric Service Between Green River Electric Corporation and LG&E Energy Marketing Inc." dated July 15, 1998. affect any agreement entered into before the effective date of this Tariff Sheet.~~

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Western Kentucky Energy Corporation

Original ~~First Revised~~ Sheet No. 1A

Rate Schedule FERC No. 1 Supersedes Original Sheet No. 1A

4. Prohibited Transactions. No sale may be made pursuant to this Rate Schedule to Louisville Gas & Electric Company or Kentucky Utilities Company.
5. Transmission Capacity Reassignments. WKEC may reassign transmission capacity that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by the power marketer; (2) the applicable transmission provider's maximum stated firm transmission rate on file at the time of the transmission reassignment; or (3) WKEC's own opportunity costs, capped at the applicable transmission provider's cost of expansion at the time of the sale to the eligible customer. WKEC will not recover opportunity costs in connection with reassignments without making a separate filing under Section 205. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider's open access transmission tariff or other transmission rate schedules. WKEC will report the name of the assignee in its quarterly reports.
6. Other Terms and Conditions. All other terms and conditions of sale shall be established by agreement between purchaser and WKEC.
7. Effective Date. This Rate Schedule is effective on the date on which sales pursuant to this Rate Schedule commence.
8. Reporting Changes in Status. Seller must timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority. A change in status includes, but is not limited to, each of the following: (i) ownership or control of generation or transmission facilities or inputs to electric power production other than fuel supplies, or (ii) affiliation with any entity not disclosed in the application for market-based rate authority that owns or controls generation or transmission facilities or inputs to electric power production, or affiliation with any entity that has a franchised service area. Any change in status must be filed no later than 30 days after the change in status occurs.
9. Certain Sales Prohibited. WKEC shall not conspire or collude with a third party to make sale(s) under this Rate Schedule to such third party for purposes of such third party reselling such power in a transaction which, if between WKEC and the purchaser from such third party, would not be permitted by this Rate Schedule (unless such transaction is otherwise expressly permitted by the Commission). Any sales determined (after adequate notice and process, consistent with Commission requirements) to be made in violation of this Section 9 shall be considered a violation of the Federal Power Act, and shall be subject to enforcement and penalties provided for thereunder.

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Vice President, Federal Regulation and Policy
E.ON U.S. LLC

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Issued on: ~~January 3,~~ May 24, 2006

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Western Kentucky Energy Corporation
Rate Schedule FERC No. 1

Original Sheet No. 2

WESTERN KENTUCKY ENERGY CORP.

CODE OF CONDUCT

Western Kentucky Energy Corp. ("WKEC") has established this Code of Conduct to guide the relationship between WKEC and its affiliates, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), with respect to WKEC's wholesale power marketing activities.

1. Transmission and ancillary services provided by LG&E or KU to WKEC will be provided under LG&E's or KU's open access tariff on file in compliance with Order No. 888.

2. Non-power goods and non-power services provided by LG&E or KU to WKEC will be priced at the higher of LG&E's or KU's fully-loaded cost or market. WKEC will not sell non-power goods or non-power services to LG&E or KU at above-market prices.

3. To the maximum extent practical, LG&E and KU employees who operate LG&E's or KU's system or engage in power purchasing or selling on behalf of LG&E or KU will be physically, operationally, and functionally separate from WKEC's employees performing power marketing activities.

4. No employee of LG&E or KU will share market information with any employee of WKEC unless all such information is comparably and simultaneously made available to the public. This policy will not apply to market information known to be publicly available.

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E.ON U.S. LLC

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**Western Kentucky Energy Corporation
Rate Schedule FERC No. 1**

**Second Revised Sheet No. 3
Superseding First Revised Sheet No. 3**

[Reserved]

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**Western Kentucky Energy Corporation
Rate Schedule FERC No. 1**

**First Revised Sheet No. 4
Superseding Original Sheet No. 4**

[Reserved]

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E.ON U.S. LLC**

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